

ANGLIAN WATER SERVICES LIMITED
ANNUAL REPORT AND ACCOUNTS

For the year ended 31 March 2017

(Registered number 02366656)

THURSDAY



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03/08/2017

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COMPANIES HOUSE

EXTERNAL RECOGNITION

BUSINESS IN THE
COMMUNITY RESPONSIBLE
BUSINESS OF THE YEAR

BUSINESS IN THE
COMMUNITY ENVIRONMENTAL
LEADERSHIP FINALIST

ROSPA GOLD – ANGLIAN
WATER, AND ALLIANCE

QUEEN'S AWARD FOR
ENTERPRISE: SUSTAINABLE
DEVELOPMENT

GREEN FLAG AWARD – SPECIAL
AWARD FOR INNOVATION

ALL-PARTY PARLIAMENTARY
CORPORATE RESPONSIBILITY
GROUP – NATIONAL RESPONSIBLE
BUSINESS CHAMPION
(HIGHLY COMMENDED)

CORPCOMMS AWARDS – BEST
INTERNAL COMMUNICATIONS
AND GRAND PRIX AWARD
FOR CYBER SECURITY
CAMPAIGN, CYBER SAFE
– DON'T LET THEM IN

ENABLING SUSTAINABLE GROWTH

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AS OUR REGION FLOURISHES IT IS OUR PRIORITY TO SUPPORT OUR ECONOMY, CUSTOMERS AND COMMUNITIES TO ENABLE SUSTAINABLE GROWTH AND BUILD RESILIENCE.

CREATING VALUE FOR OUR CUSTOMERS

In the five years to 2020

£5bn

COMBINED OPERATIONAL
AND CAPITAL INVESTMENT

172Ml/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 2016/17

£0.83bn

COMBINED OPERATIONAL
AND CAPITAL INVESTMENT

186Ml/d

LEAKAGE CLOSE TO HISTORICALLY
LOW LEVELS

↓55%

REDUCTION IN CAPITAL CARBON
FROM A 2010 BASELINE

Anglian Water is the largest water and wastewater company in England and Wales by geographic area. We employ 4,462 people and supply water and water recycling services to more than six million customers in the **EAST OF ENGLAND** and **HARTLEPOOL**.

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 wellbeing 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.

RESILIENT
WATER AND WATER
RECYCLING SERVICES

3

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

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.

2

WE TREAT THAT WATER AND PUT IT INTO SUPPLY.

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.

WE ENABLE A RESILIENT ECONOMY

Water and water recycling services are vital for growth and we have a statutory duty to provide them for new homes and businesses. Our new Strategic Planning team will work collaboratively with local authorities, developers and other stakeholders to ensure that the timing of growth across the region is manageable and sustainable. One of our Executive Directors, Jean Spencer, has been appointed to the newly created post of Strategic Growth and Resilience Director.

WE ENABLE RESILIENT COMMUNITIES

We are in the final stages of delivering a major resilience scheme to support Grafham Water Treatment Works in Cambridgeshire. This will make supplies for customers in the west of our region more secure and better able to cope with our region's continuing growth. This project has been delivered using techniques that significantly reduce the carbon footprint both in construction and future operation.

WE ENABLE A RESILIENT ENVIRONMENT

We are investing in a number of major schemes to ensure our abstraction of water from rivers and aquifers does not harm the environment. Work is due to start on a £38 million scheme to relocate our river intake at Costessey near Norwich, which supplies the Heigham Water Treatment Works. This will protect a section of the chalk river designated as a Special Area of Conservation (SAC). Elsewhere in Norfolk, a new borehole will reduce our impact on the Coston Fen SAC, while a planned reduction in abstraction at Ludham will help safeguard a Site of Special Scientific Interest (SSSI) in the Broads. This year was also one of our best ever for the quality of water returned to the environment from our water recycling centres.

HOW WE ADD VALUE

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

THE RESOURCES WE RELY ON

OUR PEOPLE

Our employees, suppliers and their know-how

We employ **4,462** people.

FINANCIAL

Capital, revenue and profits invested in our business

£1,207 MILLION

The revenue we received from our customers in the year based on regulatory tariffs.

WATER

Taken from rivers and aquifers for treatment and supply

We supply more than **ONE BILLION LITRES** of water a day to our customers.

USED WATER

Collected, treated and returned to the water cycle

600 BILLION LITRES of used water was treated at our water recycling centres in 2016.

OUR LAND

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

40 PER CENT of the land we own and manage is designated as an SSSI.

MANUFACTURED RESOURCES

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

We invested **£830 MILLION** this year, building and maintaining assets, and providing water and water recycling services to our customers.

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

WHAT WE CREATE

92 PER CENT of the apprentices and **91 PER CENT** of graduates employed since 2012 are still with the Company.

The average bill is **£1.15 A DAY**, of which just 5p is profit.

Leakage is at a three-year average of **186Ml/d**, against a target of 192Ml/d.

Our sewage treatment process generated **99 GWh** of renewable energy **FROM BIOGAS** this year and will produce about **396,000 TONNES** of biosolids for agriculture.

98.8 PER CENT of our SSSI land is in favourable condition, compared to an average for England of 38.6 per cent.

Every £100 million we invest creates or secures an estimated **2,000 JOBS** across our company and our supply chain.

£1.15
PER HOUSEHOLD
PER DAY

OUR 10 OUTCOMES



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



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

WHAT MATTERS MOST TO OUR STAKEHOLDERS?

SUSTAINABLE, LONG-TERM RETURNS

“Delivering sensible and sustainable returns to our investors is very important to us. Most of our investors are pension funds and they use the returns to support the ongoing pensions of their tens of thousands of members. However, returns must be delivered in the context of a sustainable business with excellent customer service, class-leading environmental protection and recycling, the highest possible standards of drinking water and of course, amazing employees.”

Niall Mills, Anglian Water Services Non-Executive Director and Partner with First State Investment Management (UK) Limited

FUTURE RESILIENCE

“Anglian Water has shown itself to be highly effective at engaging a wide range of external stakeholders and encouraging them to discuss and debate the Company’s approach to long-term challenges. As Chair of the Sustainability and Resilience Panel on the Customer Engagement Forum, I’ve worked with Anglian Water to convene representatives from organisations as wide ranging as British Sugar, Adnams, the RSPB and the National Farmers Union, among many others, to scrutinise how it is improving its impact on the environment and addressing climate change. We’ve not just sat around a table looking at PowerPoints; we’ve got our boots on and visited sites and asked difficult questions. Hopefully, this engagement will serve to further improve Anglian Water’s plans for the future, and ensure buy in from customers and other stakeholders across the region.”

Craig Bennett, CEO of Friends of the Earth and Hon. Professor in Sustainability and Innovation, Alliance Manchester Business School

TRAINING AND DEVELOPMENT

“While it was challenging to work and study at the same time, I had great support from Anglian Water and the people I work with. Balancing my job with my studies made me look at how I prioritise tasks. It meant I was able to put into practice the things I was learning at college, so it was a win-win for me.”

Gary Thorpe, Anglian Water Lab Technician and College of West Anglia’s Apprentice of the Year

THE MOST MATERIAL ISSUES FOR OUR CUSTOMERS

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

SUPPORTING BIODIVERSITY

"We all benefit from a healthy water environment and so it is important for Anglian Water to support approaches that deliver wider environmental outcomes such as biodiversity, alongside the supply of sufficient clean drinking water to society. We are very pleased to partner with Anglian Water on various catchment initiatives, aiming to achieve this by recognising the importance of partnerships and natural capital."

Barry Bendall, Director Water and Land, The Rivers Trust

INNOVATION

"We see the chance to work with Anglian Water as a massive opportunity for Gutermann to innovate. For example, we're using Anglian Water employees' feedback and expertise to better understand what our customers want and need from a leak detection system. Anglian Water is leading the way as an innovator in the water industry through their Shop Window."

Paul Chandler, UK Customer Support and Sales Manager, Gutermann

AFFORDABILITY

Responses from our recent customer consultations.

- "I know what I'm doing with my money. I don't do any unnecessary extravagances unless I feel like it. If I am going to spend money, I ask do I want it, do I need it, can I justify it, am I going to use it?"
- "We live week to week regarding finances."
- "I'm keeping afloat at the minute but if anybody puts prices up, I'll be juggling."
- "I've been surviving off £20 a week after paying rent; there's just not enough help out there."

WHAT AFFECTS US?

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



AFFORDABILITY AND CUSTOMER EXPECTATIONS

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

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



MARKETS, STRUCTURE AND FINANCING OF THE INDUSTRY

Structural changes currently under way in the water industry will present new challenges and significant opportunities. In April 2017, the market opened for non-household customers, allowing them to choose who they buy their water and water recycling services from.

Anglian Water Services now supplies wholesale services to the retailers serving non-household customers in our region while continuing to supply services to our domestic customers. The Government and Ofwat have also indicated that further reform is likely in the future, including in upstream markets, sludge treatment and the provision of new water resources. We are working to secure long-term, stable investment and embrace the opening of markets and other changes as an opportunity to increase efficiency and add value.



PLANNING FOR THE LONG TERM

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

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

**COMMON
TO THE
WHOLE WATER
INDUSTRY**

REGULATION



POPULATION AND ECONOMIC GROWTH

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

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



ENVIRONMENTAL PROTECTION

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

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



CLIMATE CHANGE

Our region is particularly vulnerable to climate change - low lying, with a long coastline and low rainfall. Hotter, drier weather can cause water scarcity and drought.

We expect climate change to mean more intense rainfall and rising sea levels, meaning a bigger risk of flooding. We continue to invest in new water resources and to improve the efficiency and connectivity of our network. We are also investing in flood defences at vulnerable sites, working to reduce our carbon footprint and increase the amount of renewable energy we generate.

**ESPECIALLY
ACUTE IN
THE EAST
OF ENGLAND**

CHAIRMAN'S WELCOME

We have had another good year continuing to deliver the quality service our customers deserve.

We have performed strongly against our Outcome Delivery Incentives (ODIs), which means our customers have received our services in a way that meets their requirements and priorities.

We have continued to push the boundaries of quality service delivery. This is important because water is a scarce resource and ours is a long-term business. We must deliver excellent services for today's customers and do all we can to ensure that tomorrow's customers can continue to benefit from them in a sustainable and resilient manner.

Our region is forecast to continue to see high levels of population growth and increases in our number of customers. Our updated Strategic Direction Statement, published for consultation earlier this year, includes a long-term goal to drive a digital transformation of our business, allowing us to keep pace with an increased number of customers and their service expectations and to deliver our services in a sustainable and efficient way.

This year's performance has many examples of our business delivering at a higher standard. In customer service, new teams and technology are making it easier for people to contact us at a time and in a manner that suits them. This has been married with a more proactive approach to customer communication, flagging potential issues with customers before they are aware of them. We are expanding the number of people we can help through our new social tariff and the number of households with a water meter as we work to keep down bills for today's customers and to husband resources for future generations.

Improving service now and in the future is at the heart of the three initiatives outlined in the case studies in this Annual Report. Two look at our cutting-edge work to promote innovation and research, both on the ground in our Innovation Shop Window, and in academia through the new Anglian Centre for Water Studies, in partnership with the University of East Anglia. The third looks at how we are deepening our customer engagement and exploring new ways to take the pulse of our region through dialogue with the customers we serve.

We are pleased when our work on behalf of customers and local communities is rewarded with national recognition. We continue to be the proud holders of the Queen's Award for Enterprise for Sustainable Development. We have been shortlisted for a number of other awards this year, including being named as finalists for Business in the Community's Responsible Business of the Year award and for its Community Environmental Leadership award.

To continue performing at high levels, we must be an efficient and sustainable business. We can share the fruits of that efficiency with customers through control of bill levels and improved customer service.

There have been big strides in efficiency this year and it remains a focus for our management team and for our colleagues throughout the business and its alliances. This year, the savings made have enabled us to limit the increase in our operating costs to just 0.8 per cent, despite increasing inflationary pressures. We have achieved a six per cent reduction in our customer bad debt charge, the cost of not collecting the money owed to us by customers who can, but refuse to pay. In the long run this helps us reduce bills for everyone.

These results and the excellent customer service we deliver are only possible as a result of the hard work of the people who work for us and our alliance partners and I extend my thanks and that of the Board to all of them. In this report you will see the quality of the results they have delivered for our customers and shareholders.



Stephen Billingham, Chairman

CHIEF EXECUTIVE'S STATEMENT

The second year of the AMP has seen us deliver another strong set of results against our Outcome Delivery Incentives (ODIs), while continuing to keep customers' bills lower than they were four years ago.

The AMP began with a fall in revenue after efficiencies were passed on to customers as lower bills, a reduction of around seven per cent in real terms in 2015/16. That, together with a challenging determination at PR14 and the need to absorb unfunded costs, made our exceptional performance in 2015/16 particularly pleasing.

2016/17 proved to be a tougher year, not least because of an exceptionally dry autumn, which led to an increase in burst mains going into what was then a frosty winter. Nevertheless, we have delivered another strong performance and once again finished the year in reward.

Thanks must go to the hard work of our employees and our continued focus on efficiency and customer service. Much of our success is also due to preparation, driven by past investment.

“ We have taken a leading role in tackling diverse long-term challenges. ”

PETER SIMPSON,
CHIEF EXECUTIVE

Our ethos in action

Our preparation, commitment and focus on customer service were clearly demonstrated by our response to a burst main beneath a river in the Lincolnshire Wolds. This had the potential to affect several thousand customers, and to have a serious impact on both customer satisfaction and on our interruptions to supply ODIs.

In the event – and thanks largely to the preparations we have made to deal with such incidents – we were able to minimise customer disruption. We were able to call on the expertise and equipment of our Restoration teams – which have seen significant investment in recent years – tankers and overland pipes, successfully maintaining supplies to many of those affected. We worked tirelessly to communicate with our customers, face-to-face and online, offering information and support so they would have confidence in our actions. While repairing the burst, we also took the opportunity to improve the resilience of the local network, reducing the likelihood of a similar incident.

As a result, we had overwhelmingly positive customer feedback and there was a much smaller impact on our ODIs than might otherwise have been the case. Although just one example, this clearly shows how preparation, together with a focus on efficiency and service, really delivers for customers and the business.

Other highlights

The year ended with the opening of the market to supply retail services to non-household customers in England and Wales. This was the single biggest change to the water industry since privatisation and had the potential to be highly disruptive.

Again, years of preparation, which began with our entry into the Scottish retail market in 2008 and ended with the creation of a dedicated Wholesale Service Centre last year, meant a smooth transition for us and for our new retailer customers.

CHIEF EXECUTIVE'S STATEMENT

Our SIM score increased this year, thanks to a very strong performance against the quantitative measure which looks at the number of unwanted customer contacts. This is a significant achievement in an area where the frontier of customer expectation continues to advance, driving improvements across the industry. Once more, the hard work of our employees has been helped by large-scale and continuing investment in systems, training and processes.

Other performance highlights from the last year include making good progress on cutting pollutions and an outstanding performance on compliance. We had our best-ever year for water recycling compliance and were once again among the top-performing companies for water quality.

We are in the final stages of delivering a major resilience scheme to support Grafham Water Treatment Works in Cambridgeshire. As a result, supplies to customers in the west of our region will be more secure in the future and will be better able to cope with the region's continuing growth.

Delivery of the scheme was enhanced by the focus on efficiency and innovation we share with our alliance partners, which brought it in £32 million cheaper and at half the embodied carbon of the original design.

Driving efficiency

Relative efficiency is an important part of how the industry is judged, and this year has seen us make significant efficiencies in both our opex and capex programmes.

The opex savings have been brought about through a combination of top-down and bottom-up initiatives, many of them suggested by frontline employees from across the business. These are often the people best placed to spot potential savings and to challenge accepted ways of doing things.

Our capex efficiencies once again highlight the benefits of our long-term alliancing model, delivering our maintenance and capital programme in a truly collaborative way, with shared goals, rewards and penalties.

Crucially, these efficiencies are sustainable, long-term savings, not short-term cuts. We are determined that our customers should see an improved service as a result, not a diminished one.

The road ahead

Collaboration and innovation are both pillars of our business culture and vital to tackling many of the challenges we face, of which growth and resilience to drought and flooding are two of the most pressing.

Both are identified in our revised Strategic Direction Statement (SDS), a draft of which is now out for consultation. This sets out our plans and priorities for the next 25 years, together with some ambitious, long-term aspirations. The document identifies the intimate links between the challenges of a growing population and economy, the possible effects of climate change, and the need to protect our region's natural environment.

Our region generates more than £30 billion in economic output each year and is a national leader in science, research and academia. It is the breadbasket of the UK and contains three of the UK's five fastest-growing cities.

Yet, without access to safe, affordable water supplies and sanitation there can be no growth. Providing these services is our job and our duty, but we believe our duty goes further than that. The sheer necessity of water gives us a platform from which to influence others and to help shape sustainable, resilient communities.

So we consider it a duty to enable sustainable growth and to help future-proof our region against challenges like population growth and climate change. This allows communities to flourish and businesses, including ours, to thrive.

This vision was central to our response to the consultation on the Government's Industrial Strategy. Growth and prosperity are impossible without a resilient water infrastructure, and the Government's strategy needs to put resilience, sustainable development and skills at the heart of the country's thinking and planning.

Planning has also begun in earnest for the next Price Review in 2019. We are determined to produce a business plan which accurately reflects customers' concerns and priorities and which has their full support. A comprehensive programme of consultation and opinion gathering has already begun and will gather pace through the remainder of the AMP.

We have continued to drive innovation throughout the year. Our unique Innovation Shop Window, in and around Newmarket in Suffolk, is now host to almost 100 organisations, working on more than 60 projects. The aim is to concentrate innovation across the entire *man-made water cycle in one place, allowing new technologies and different ways of working to combine in new and exciting ways.*

This year also saw the launch of the Anglian Centre for Water Studies, a ground-breaking partnership between Anglian Water and the University of East Anglia. It will marry the UEA's cutting-edge research with our industry expertise to inform policy and underpin innovation.

People first

Whatever else happens, our company's success depends on the people who work for us. That's why I am pleased to report our accident frequency rate continues to be ahead of target. However, it is not enough simply to protect the people that work for us from illness or injury – that should be a given.

Our health and safety and wellbeing policies are geared to make working for Anglian Water a positive experience that enhances our employees' lives and actually makes them fitter and healthier, both physically and mentally. The costs of doing so are far outweighed by the benefits in terms of productivity, efficiency and an improved service for our customers.

This year has also seen us continue to champion safety in the wider industry, leading a renewed focus on process safety to improve the management of hazardous plant and processes.

A company fit for the future

We are operating in uncertain times with change the only constant. The Brexit vote is one obvious example from the past 12 months. Work is under way to look at the implications of the UK's decision to leave the European Union: on the labour market and employment law; on the *environment, and the highly entwined nature of UK and EU law in this area; and on procurement, much of which is regulated by EU rules.* We will carefully examine the risks and opportunities

Brexit could bring for us and the wider industry, and stay in close touch with the Government and our regulators as the two-year negotiating period on our departure begins.

More immediately, this report is being written against the backdrop of a period of dry weather that has lasted through the autumn, winter and spring, prompting speculation about the resilience of water supplies and the possibility of service restrictions.

While there is no risk of any service restrictions in our region this summer, I would again stress how seriously we take the issue of long-term resilience. We led work to create the national *Water Resources Long-Term Planning Framework*, which was published by Water UK in September 2016 and set out options for maintaining resilient and affordable water supplies in the face of the growing drought risk in England and Wales. In the few months since publication, the report has played a major role in shaping national debate around the issue.

The pace of change is unlikely to slow; next year will be a busy one for our capital programme and there are big challenges ahead, as identified in our SDS. Nevertheless, I remain confident in our ability to meet those challenges and to seize the opportunities they bring. Our robust performance in a challenging year, the strides we continue to make in innovation and efficiency, and our agenda-setting work in areas as diverse as resilience, capital delivery and employee wellbeing, are all evidence of that.



Peter Simpson, Chief Executive

A STRATEGY FOR TODAY AND TOMORROW

Our Business Plan 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.

Here is how they fit into our Love Every Drop strategy.



OUR CULTURE

Innovation, collaboration and transformation 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.

Looking to the long term

We recently put our updated Strategic Direction Statement (SDS) out for consultation. This sets out our plans and priorities for the next 25 years, together with four ambitious, long-term goals we want to achieve. We are looking at the feedback from the consultation, with the final statement published in the autumn.

OUR LOVE EVERY DROP GOALS

These far-reaching and audacious goals have been set internally to guide us in the delivery of our outcomes. They focus our strategy and our business and we hold ourselves accountable against them. They underpin the Love Every Drop strategy, which aims to put water at the heart of a whole new way of living.

The outcomes we have agreed with customers

These are the 10 outcomes we have developed with customers, our Board and our independent Customer Engagement Forum. They support customers, the environment, local communities and the economy. Our Outcome Delivery Incentives (ODIs) are 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.

PUTTING WATER AT
THE HEART OF
A WHOLE NEW WAY
OF LIVING

We want to achieve the following long-term goals...

ENABLE SUSTAINABLE
ECONOMIC AND
HOUSING GROWTH HERE
IN THE UK'S FASTEST-
GROWING REGION

MAKE THE EAST OF
ENGLAND RESILIENT
TO THE RISKS OF
DROUGHT AND
FLOODING

BE A CARBON
NEUTRAL
BUSINESS
BY 2050

DRIVE DIGITAL
TRANSFORMATION ACROSS
OUR BUSINESS; BETTER
CONNECTING OUR
CUSTOMERS, PEOPLE,
ASSETS AND INFORMATION.

For more information about our Strategic Direction Statement, see the *About us* section of our website www.anglianwater.co.uk

DEFINING OUR ROLE IN WIDER SOCIETY

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

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

Our work to develop Water Resource East will *strengthen resilience and adaptive capacity to climate-related hazards and natural disasters* (target 13.1)

See pages 47 and 48

Building closer relationships with the agricultural community in our region through our catchment and coastal management programme is *helping to reduce pollution from land-based activities* (target 14.1)

See pages 39 and 52



The positive management of our Sites of Special Scientific Interest (SSSIs) and our wider biodiversity programme is helping to *reduce the degradation of natural habitats, halt the loss of biodiversity and prevent the extinction of threatened species* (target 15.5)

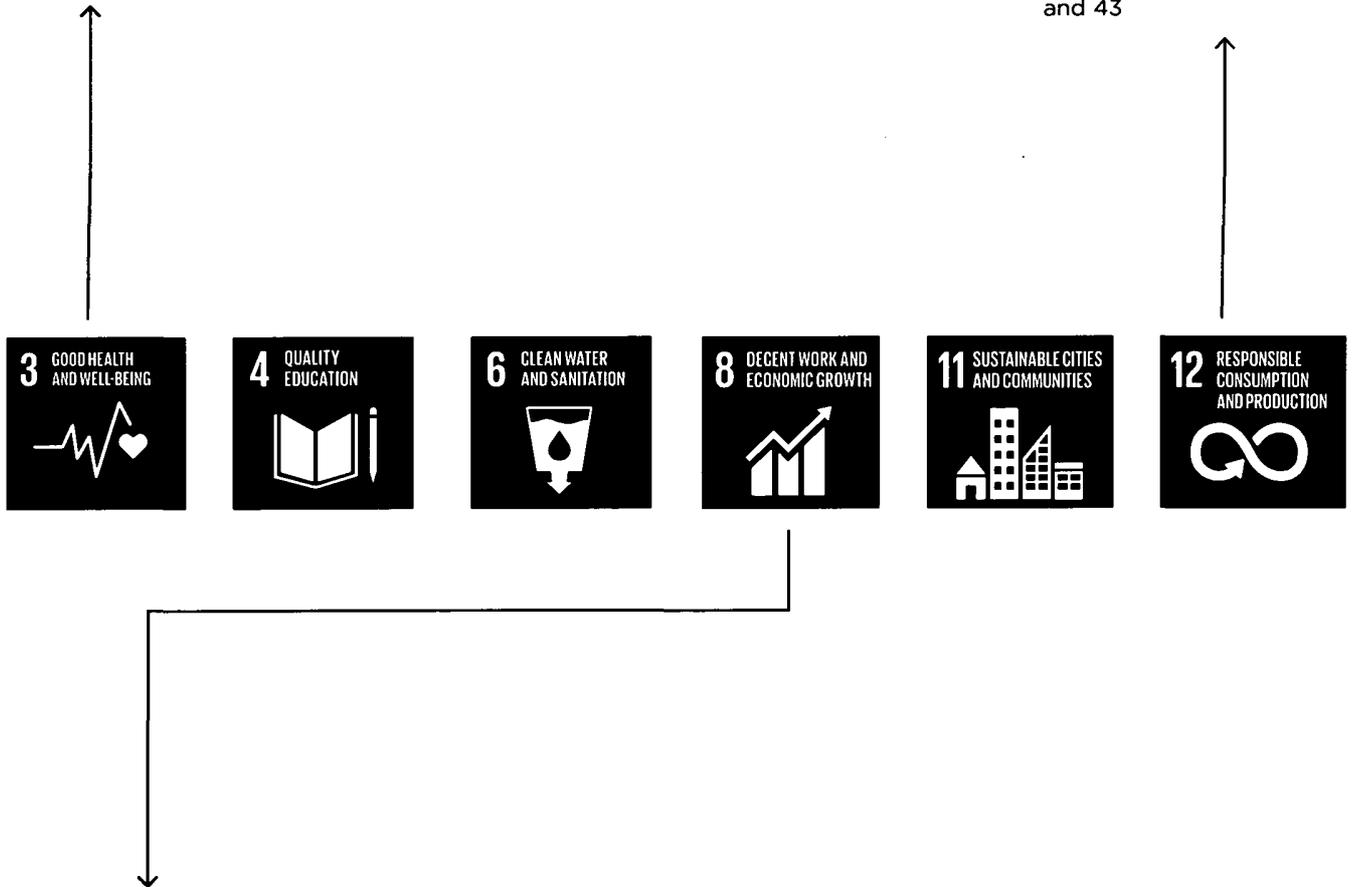
See page 51

Peter Simpson, our CEO, chairs the Business in the Community Wellbeing Leadership team, which promotes *mental health and wellbeing* (target 3.4)

See page 64

In our Shop Window, we are collaborating with our supply chain to focus our effort on projects that will *achieve the sustainable management and efficient use of natural resources* (target 12.2)

See pages 28, 35 and 43



With training programmes such as those we have sponsored at the College of West Anglia in Wisbech, we hope to *substantially reduce the proportion of youth not in employment, education or training* (target 8.6)

See page 60

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

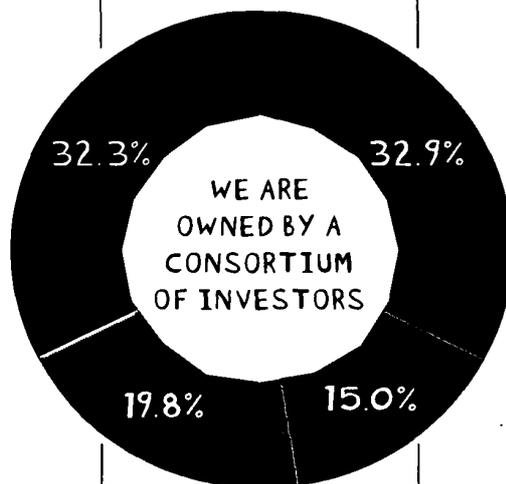
Our corporate structure

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**



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**

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

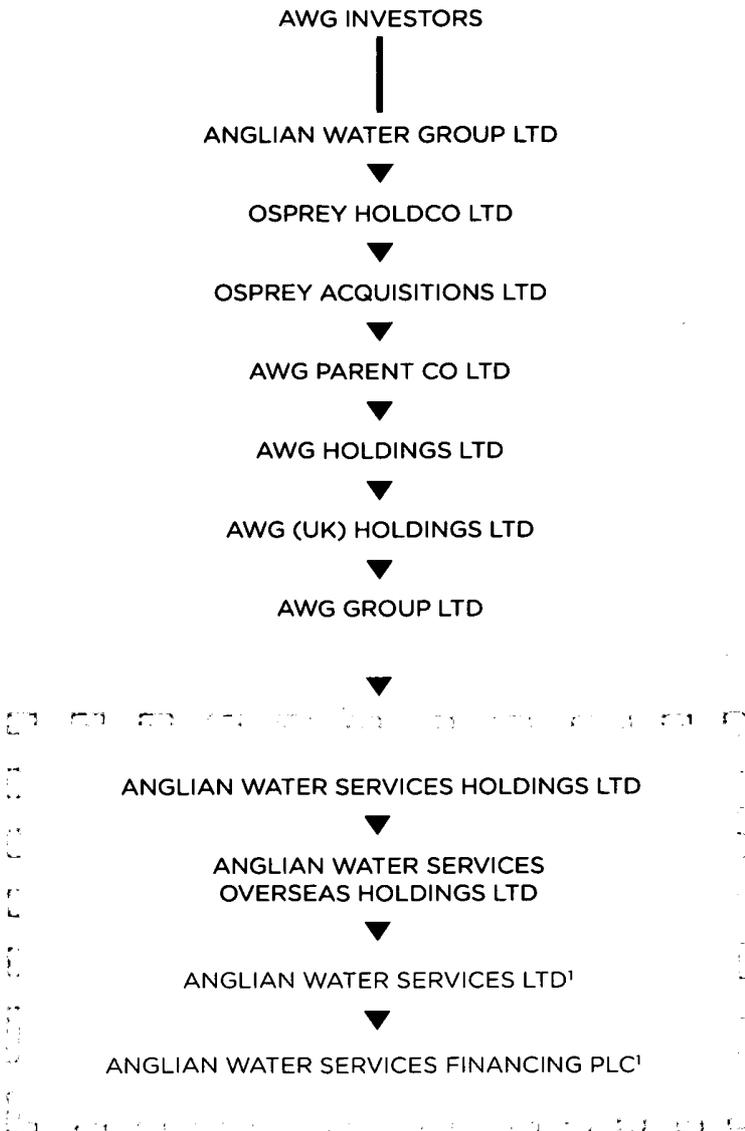
Origin: **Australia**

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 would not 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 is the part of the business that most people think of as 'Anglian Water'. Anglian Water Services Financing Plc is the financing company that raises money on behalf of Anglian Water Services Limited. We need a Plc company to raise debt in the UK public bond market. Funds raised by this company underpin our investment in the region's water and water recycling services.

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

WHO LEADS US?

Anglian Water Services Board of Directors

EXECUTIVE DIRECTORS (1-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

Strategic Growth and Resilience Director

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

Chris Newsome, OBE

Director of Asset Management
Appointed in September 2004.

INDEPENDENT NON-EXECUTIVE DIRECTORS (1-r)

Paul Whittaker

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

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

Dame Polly Courtice, DBE, LVO

Appointed in April 2015.

N 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

NON-EXECUTIVE DIRECTORS (1-7)

Niall Mills

Appointed in April 2014.

N **R**

Duncan Symonds

Appointed in November 2016.

James Bryce

Appointed in December 2014.

N **R**

➔ **P98** See full biographies in the Corporate Governance section

KEY

- A** Audit Committee
- N** Nomination Committee
- R** Remuneration Committee

ANGLIAN WATER SERVICES MANAGEMENT BOARD

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

Peter Simpson Chief Executive Officer

Scott Longhurst Managing Director, Finance and Non-Regulated Business

Jean Spencer Strategic Growth and Resilience Director

Chris Newsome, OBE, Director of Asset Management

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

Fiona Guthrie Group HR Director

Ian Rule Director of Wholesale Services and Customer Services

Alex Plant Regulation Director

Jason Tucker Director of Alliances & ISC

Iain Fry Director of Information Services

PERFORMANCE 2016/17

We measure our performance against 32 Outcome Delivery Incentives (ODIs). Here 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 pages 216 to 218.

INTERRUPTIONS TO SUPPLY

This measures time lost due to water supply interruptions.



BATHING WATERS

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



INTERNAL FLOODING

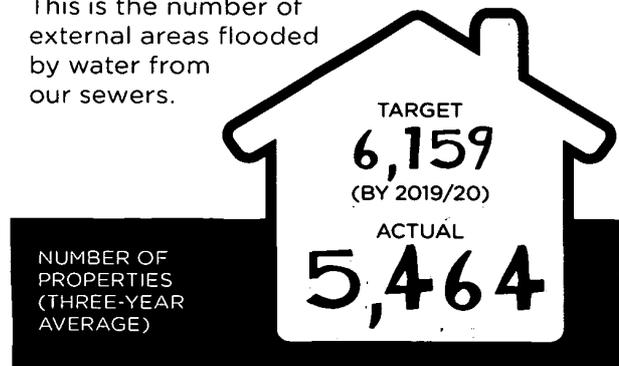
This is the number of properties flooded internally by water from our sewers.



NUMBER OF PROPERTIES (THREE-YEAR AVERAGE)

EXTERNAL FLOODING

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



NUMBER OF PROPERTIES (THREE-YEAR AVERAGE)

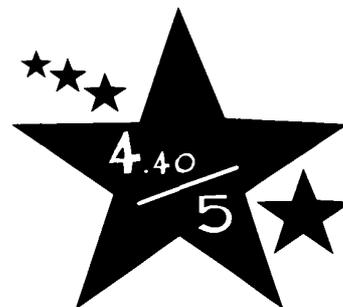


SERVICE INCENTIVE MECHANISM (SIM)

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



TOTAL
OVERALL SIM SCORE



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 2016/17)

186

POLLUTION INCIDENTS

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

335 TARGET
(FOR 2016/17)



WATER QUALITY CONTACTS

TASTE, ODOUR, APPEARANCE PER THOUSAND CUSTOMERS

TARGET
(FOR 2016/17)

1.32

ACTUAL

1.38



SERVICEABILITY

ABOVE GROUND/NON-INFRASTRUCTURE

WATER

GREEN TURBIDITY
(CLOUDY WATER)

GREEN COLIFORMS
(AT RESERVOIRS)

GREEN 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

AMBER INTERRUPTIONS
(> 12 HOURS)

AMBER 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

NUMBER OF PROPERTIES

361

TARGET
(BY 2017/18)

460
ACTUAL

HOW WE ARE DELIVERING FOR CUSTOMERS AND THE ENVIRONMENT

LEAKAGE

This year has seen us continue our industry-leading performance on leakage. We've cut leakage by more than a third since privatisation in 1989 and it is now at record low levels – around half the national average based on the amount of water lost per kilometre of main.

Our three-year average has continued to fall from 191MI/d at the start of the AMP.

- 2015/16: 189MI/d
- 2016/17: 186MI/d

This is ahead of our target level of 192MI/d. We don't believe it is good enough to stop at the targets set by our regulator; not when reducing leakage is so important to customers and so vital for us in this dry part of the country. We are determined to reach 172MI/d by 2020 and are on track to achieve it.

Over this AMP we will invest £124 million in people and in state-of-the-art technology to drive it even lower, and now have a 300-strong team focused purely on leakage.

The main planks of our strategy are:

- Optimised Water Networks, in which bursts are prevented through better pressure management
- Intensive Leakage Detection teams that track down hard-to-find leaks and target areas with ageing pipes
- an Integrated Leakage and Pressure Management system to bring together network information, making it easier to control leakage and target work.

INTERRUPTIONS TO SUPPLY

We have achieved a step change in our performance on interruptions to supply, through a relentless focus on:

- restoration of customer supplies as the priority
- detailed investigation into root causes
- a proactive approach to prevent interruptions.

Most significant has been the emphasis on putting restoration of supplies first. Dedicated Restoration teams have been formed, trained to use a variety of equipment and techniques. This year we have increased:

- the number of restoration technicians to 18
- our fleet of clean water tankers from nine to 17.

This culture change, backed by significant investment in people and equipment, has produced impressive results.

At the start of AMP6 our average time was 19 minutes and 10 seconds. Last year, mild weather combined with our efforts to reduce the average to just 8 minutes and 12 seconds.

Despite more challenging conditions in the last 12 months, we achieved 11 minutes and 43 seconds, beating the Committed Performance Levels agreed with Ofwat for this year and for next, when we need to reach an average time of 12 minutes.

We have now set ourselves the target to reduce the average time to below 10 minutes.

CUSTOMER SERVICE

We continue to deliver ever-improving customer service against a backdrop of rising customer expectations.

This has allowed us to maintain a leading position in our industry, increasing our score on the Service Incentive Mechanism (SIM), used by Ofwat to compare water companies' customer service.

Our SIM score of 86 puts us in the top three nationally, a major achievement in a very competitive year. This success was helped by a very strong performance against SIM's quantitative measure, where we achieved an increase of 18 per cent on an already industry-leading score.

This year, improvements have included:

- a new team to contact customers whose bills rise unexpectedly
- making it easier for customers to contact us through digital channels
- changes to our telephone system that improve call routing and allow customers to avoid queuing.

As well as investment in people and systems, we also promote a culture where everyone understands their role in providing excellent customer service. Our people are encouraged and empowered to take ownership of customer issues and to do the right thing for them, knowing they will be supported.

This approach has also allowed us to improve our score on the Institute of Customer Service's annual Customer Satisfaction Index (UKCSI), which increased from 72.3 to 75.4. We are determined to keep improving until we are ranked in the upper quartile within the utility sector. We are on track, with a January 2017 score of 77.

WATER RECYCLING COMPLIANCE

This year was one of the best on record for Water Recycling compliance. For the second year in a row we achieved our lowest ever number of failing works. Since the start of the AMP that number has fallen steadily.

- 2014/15: nine
- 2015/16: six
- 2016/17: three

The Environment Agency assesses our performance using samples of recycled water from 723 sites. Our strong performance is a result of close monitoring and proactive management of our water recycling centres, which has allowed us to respond rapidly to risks, improve compliance and reduce costs.

We have also enhanced our Licence to Operate schemes by building a further technical module for operational teams, and have developed a Scientific Licence to Operate scheme. We are encouraging our scientists to work towards Chartered Scientist status with the Chartered Institution of Water and Environmental Management (CIWEM) and the Institute of Water.

Across Water Recycling all serviceability measures were comfortably within control limits this year, both for water recycling centres and for our sewerage network.

PR19 CUSTOMER ENGAGEMENT

Our current Business Plan is built around the concerns and priorities of our customers, with our performance measured against the outcomes they want to see. We are determined to increase and deepen that engagement with customers as we begin the process of planning for the next Price Review in 2019.

Our customer engagement strategy – Make Sure It Matters – is already under way, with workshops and interviews taking place with customers, employees and others.

We have adopted a co-creation model – shaping the strategy with customers so that we engage with them in ways and at times that are most relevant to them. The aim is to reach as many of our six million customers as possible, not just up to 2019 but beyond – keeping a finger on the pulse of our region.

This approach moves our engagement from simply consulting on business plans at set intervals towards an ongoing conversation that allows us to respond quickly to changing customer priorities, and tap into a live evidence base as required by our regulatory process.

The first step has been to group customers according to their different needs, preferences and circumstances. One such group is vulnerable customers, which includes those who are elderly, in ill health or who may have to make sacrifices in order to pay their bills. To reach them, we are looking to collaborate with organisations like charities and local councils with which they may already have a strong relationship.

Other groups include customers who are very busy with work, family and other commitments. These groups have little time to give, so we will approach them through their bills, when jobs are carried out at their homes, and at other times when talking to the Company is already part of their daily routine. One idea to come out of the co-creation work was to use a bus to take our consultation to people around the region. This is now on the road.

Anglian Water volunteers manning the bus at the Royal Norfolk Show.

ANGLIAN CENTRE FOR WATER STUDIES

This year saw the launch of the Anglian Centre for Water Studies, a ground-breaking partnership between Anglian Water and the University of East Anglia (UEA).

This major new initiative is among the first of its type between the water industry and academia. It will work with Anglian Water's Innovation team to bring the UEA's cutting-edge research together with our company's industry expertise.

Together, we will work to inform policy and underpin innovation in four core areas:

- The impact of climate change on water resources – how we can build long-term resilience to changes in weather leading to drought or flooding, and adapt to the increasing demands of a growing population.

- Circular economy and environmental sustainability – how we can prevent pollution and raw water deterioration, making sure we recycle water to the environment effectively and with no waste.
- Customer behaviour – understanding how research in areas such as behaviour change and economics helps reduce the amount of water we use.
- Competition policy – predicting long-term market changes and informing policy.

In doing so, the Centre will take an interdisciplinary approach, drawing on expertise from across the social and natural sciences.

It will build on the work Anglian Water and UEA have already done together, and on the UEA's involvement with Water Resources East – the collaboration between water companies, farmers, conservationists and regulators to develop a long-term plan for water stewardship in the east of England.

Head of the Anglian Centre for Water Studies,
Vittoria Danino, with Head of the UEA's School of
Environmental Sciences, Professor Kevin Hiscock.

INNOVATION SHOP WINDOW

Innovation is vital if we are to meet the challenges and seize the opportunities facing our business. It has already helped reduce our costs, environmental impacts and operational risk.

For the last year, Newmarket in Suffolk has been the location for our Innovation Shop Window. Within this area we showcase the combined effect of existing and future innovation, to show in microcosm what a 21st century water company could look like.

Concentrating innovation across the entire man-made water cycle in one place will unlock synergies between new technologies and different ways of working, allowing them to become more than the sum of their parts. This will accelerate our learning and allow us to improve customer service, environmental stewardship and the efficiency of our business at a much faster pace.

To guide us, we have set ourselves seven goals within the Shop Window: zero leakage and bursts; 100 per cent customer satisfaction; water consumption of 80 litres per person per day; zero pollution and flooding; 100 per cent compliant and chemical-free drinking water; carbon neutrality; and building a circular economy, eliminating the very concept of waste from the man-made water cycle.

As of March 2017, there were already 98 organisations working on 62 projects, with more coming on board all the time. These projects are designed to solve the most challenging questions facing our industry. The sheer number of partners engaged and the number of projects running simultaneously make it a test bed for entrepreneurs to showcase and develop their ideas, which in turn aids economic growth and employment in the area.

This opening up of collaboration and innovation is possible because of the strong alliances we have built with our supply chain, with our Water Innovation Network and with SMEs. We are also experimenting with new ways of engaging with customers around the key challenges facing our industry.

THE YEAR IN REVIEW

On the following pages we report on how our performance is 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.

P67

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.

P46

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.

P30

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.



ENSURING THAT CUSTOMERS ARE VERY SATISFIED WITH THEIR SERVICE

YOUR SERVICE

SATISFIED CUSTOMERS

PERFORMANCE HIGHLIGHTS

Smooth start to competition in the non-household market

SIM score increased to 86

New, proactive team formed to contact customers whose bills rise unexpectedly

Improved telephone system to reduce queuing

SERVICE INCENTIVE MECHANISM (SIM)

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



OVERALL SIM SCORE



QUALITATIVE - AVERAGE OF OFWAT SURVEYS

Listening to customers

We continue to evolve our customer service to keep pace with people's changing needs and rising expectations. Changes over the last year include:

- a new, proactive team to contact customers whose bills rise by more than we would expect. This has allowed us to alert people to leaks on their pipework much faster and save them money
- a web chat system that lets us serve many more customers through this increasingly popular channel
- improvements to our telephone system that allow people to avoid queuing by alerting us that they want a call back, and intelligent call routing that recognises people's phone numbers when they ring and helps them to reach the right person faster.

In addition, we continue to ensure ongoing training is available to people working in our customer care centres, and are rolling out a new, improved training programme to all our field and office-based customer care staff.

Our Customer Relations team has been looking into the root cause of complaints and working with the relevant parts of the business to improve service in the future.

Measuring customer satisfaction

This year has seen the lowest number of written complaints for many years and customers' rating of our service has continued to improve.

This includes the Service Incentive Mechanism (SIM), used by Ofwat to compare the customer service offered by water companies. In what has been a competitive year, we finished sixth in Ofwat's qualitative survey, which is based on ratings from customers we have contacted throughout the year. However, our quantitative performance, which looks at the number of unwanted customer contacts, has been strong, 18 per cent improved on last year's industry-leading performance.

Taken together, these scores give us an overall SIM score of 86 out of 100. We will learn where this places us in relation to other water and sewerage companies later in 2017.

Our own, internal survey of customer satisfaction gathered opinions from more than 100,000 people who contacted us with an account query. More than 95 per cent said they were satisfied or better with the service they received.

We also measure our performance through our membership 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. We have set ourselves the target of being in the upper quartile within the utility sector.

This year we achieved an average UKCSI score of 75.4. While this is an improvement on last year's score, the utility sector as a whole also improved its performance. As a result, we were placed ninth out of the 23 companies surveyed, just outside of the upper quartile. We will continue to learn from the experiences of other pioneering industries to ensure we can comfortably and consistently achieve upper quartile performance in the future.

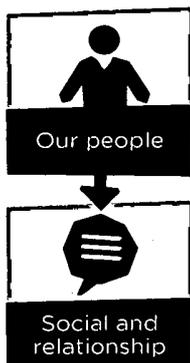
Retailers - our newest customers

On 1 April 2017, the market opened for non-household customers in England and Wales, allowing them to choose who they buy their water and water recycling services from.

This includes not just businesses, but charities and public sector organisations like schools, prisons and hospitals.

We are the wholesaler for our region. We provide water, water recycling and trade effluent services to a number of retailers. They own the relationship with the non-household customers and are responsible for billing, meter reading and for dealing with any queries.

It is these retailers that are now our customers.



CASE STUDY

CALF MEASURES

Customer Service Representative Rebecca Lunnon had a newborn calf named after her by a grateful customer after she helped arrange an emergency water connection for his herd of cows.

Richard Bunning was due to have a water connection installed on his farm at the end of January, but because the work would have involved a road closure, the county council needed three months' notice.

That left Richard delivering water to his 50 cows by pulling a 1,000-litre container on his tractor. The three-mile journey from the nearest water connection point took three hours a day.

Rebecca worked with the Scheduling team to put forward the case for an emergency water connection on animal welfare grounds and permission was granted the following week.

An excellent, fair and equivalent service

We are committed to offering all retailers an excellent service that is easy to access, efficient to use and fair. Our vision is to be the leading provider of wholesale services across the UK water industry.

Our Wholesale Service Centre will be the single point of contact for all retailers. It will be the gateway through which they buy services from Anglian Water, and will ensure they are all treated fairly and consistently and all receive the same excellent service.

A new online portal allows retailers to raise service requests, track enquiries and keep their customers informed.

We have set out service standards which we will measure ourselves against. We will review these standards regularly, to make sure they continue to be fit for purpose, in line with market requirements and contractual commitments.

Preparation

We have undertaken a three-year programme of work to prepare for this change, working with regulators to help design new market codes, putting new processes and systems in place, and providing training and guidance for all our employees. This level playing field training helps to ensure we treat all retailers equivalently and reduces the risk to the Company of inadvertently breaching competition law.

BILLS BALANCE
FAIRNESS,
AFFORDABILITY AND
VALUE FOR MONEY

YOUR SERVICE

FAIR CHARGES

PERFORMANCE HIGHLIGHTS

Secured agreement to extend our social tariff to help more customers

Started a new smart metering trial in our Innovation Shop Window in Newmarket

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

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

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

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

THE YEAR IN REVIEW

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

The results for 2016/17 were not available until June, after this report had been signed off. For this reason they have been included in an addendum at the back of the document.

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 – the biggest reduction of any major water company in the UK – then rise slightly by 1.4 per cent in 2016/17.

For 2017/18, we have been able to keep increases to the level of inflation – 2.2 per cent – bringing bills up to £420 on average, or £1.15 a day. That means prices are still lower than four years ago, and in that time we have invested c.£1.5 billion to maintain and improve our overall service to customers. In the next year we will invest a further c.£500 million.

More help for those in need

This year saw the number of customers on our social tariff – LITE (Low Income Tariff for Eligible Households) – increase to 6,200.

LITE was introduced in 2015, after a consultation showed strong support among customers for paying £1 a year extra to fund discounts of 20, 40, 60 and 80 per cent for those in need, depending on their financial circumstances.

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

With most of those on the tariff receiving the full 80 per cent discount, we have reached the limit of those we are able to help with the funds available. We went back out to customer consultation in 2016 and received support to increase funding from customers to £2 in 2017/18 and £3 in 2018/19.

On this basis, we expect to treble the number of customers accepted onto LITE over the next two years.

We are also introducing the tariff to the Hartlepool Water area in 2017/18, as the latest consultation supported a £1 cross-subsidy from Hartlepool customers.

We operate a number of other tariff schemes for vulnerable customers, including the AquaCare Plus and WaterSure tariffs. Altogether, these schemes are providing assistance to more than 110,000 customers.

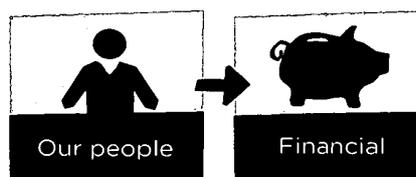
Metering and water efficiency

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. Eighty per cent of our customers already receive a metered bill.

During the next five years, teams from our 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.

These areas of work have been combined in our Wave programme, which offers all elements of metering and water efficiency in defined geographical areas that we visit in turn.

This year we have made good progress, installing 13,000 new meters and proactively replacing 70,000 more across Norfolk and Milton Keynes.



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.

Getting smarter

Alongside our day-to-day operations we've also started a new smart metering trial in our Innovation Shop Window in Newmarket.

We have fitted smart meters at 7,500 properties in the town centre and are now remotely collecting hourly consumption data, totalling about 145,000 meter readings every day.

The data will help customers understand their water use, and help us to better understand how our water network operates. It has also alerted some customers to large leaks on their private supply pipes.

We have developed an online customer portal that lets people view their own consumption data, helping them to understand their water use and see where they can save water. We will gauge its effectiveness over the coming months to help develop future plans.

In addition, we have held a number of events in Newmarket to explain to customers what we're doing and how it will help them. These events will continue next year as we increase our customer engagement.

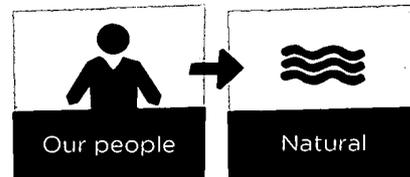
CASE STUDY

GETTING THE RIGHT START

Since November 2016 we have been supporting Your Own Place, a social enterprise based in central Norwich to help young adults prepare for living independently.

The young adults come from a range of different backgrounds: they may be leaving care, school, prison, supported accommodation or just leaving home for the first time. They spend three days in a training flat, learning about bills, budgeting, benefits, debt and everything they need to be prepared for in their own tenancy. We attend one session each month to talk about water efficiency, bills, tariffs, leaks, meters and everything in between.

Luke Payne, Customer Manager for the Integrated Metering and Developer Services alliance, is one of those helping out. He said: "Not only is it a great opportunity to spread our message, but it is fantastic to see how engaged the young adults are and to know interventions like this can go a long way in setting them up for success in the future."



Spreading the water-saving message

The Water Efficiency team spent the summer attending a number of events around the region to help spread the water-saving message. These included the Royal Norfolk Show, where we used one of the Company's new Customer Support Unit vehicles as a base from which to engage more than 2,000 families and school-children across two days with various activities and games.

We assess our success in encouraging water-efficient behaviour by measuring average water consumption per-household. This is one of our Outcome Delivery Incentives (ODIs). Our target is to reduce average per-household consumption to 305l/d between 2014/15 and 2019/20, by continuing to transfer customers to meters and helping customers to use water more efficiently. Average consumption for the last year was 314l/d.

DRINKING WATER
IS SAFE, CLEAN
AND ACCEPTABLE

YOUR SERVICE

SAFE, CLEAN WATER

PERFORMANCE HIGHLIGHTS

Mean Zonal Compliance remains at high of 99.97%

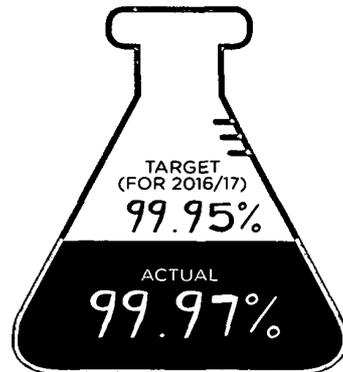
Water quality contacts at all-time low for a second year

Extended the reach of our Slug it Out campaign, encouraging farmers to use alternatives to metaldehyde for slug control

Installed weather stations on farms to help reduce pesticide use in unsuitable conditions

MEAN ZONAL COMPLIANCE

This is a measure of compliance with water quality parameters.



WATER QUALITY CONTACTS

TASTE, ODOUR, APPEARANCE PER THOUSAND CUSTOMERS

TARGET (FOR 2016/17)

1.32

ACTUAL

1.38

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

Our supply sites

The Drinking Water Inspectorate (DWI) measures performance at our treatment works, where we have delivered an excellent performance, with just three coliform failures compared to eight in 2016. The same is true of our storage reservoirs, which store treated water at points around the network and where we achieved 99.99% compliance this year.

Both these results are due to a successful programme of work to improve the inspection process of treated water tanks and storage reservoirs. We have now adopted a risk-based approach to the frequency of these inspections and this year carried out our highest ever number. As a result, we were among the highest performing water and sewerage companies in the industry for the DWI measures of Disinfection Control and Reservoir Integrity.

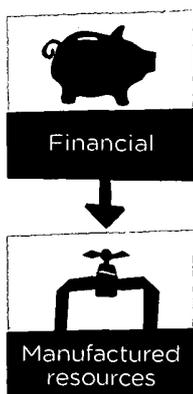
In 2016, the DWI audited our water treatment works at Grafham, Great Wratting and Mousehold as part of a wider industry audit of disinfection and UV treatment processes. All three audits were satisfactory and the Inspectorate cited our good practice in their Quarterly Chief Inspector's Report.

Our network

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

Mean Zonal Compliance is the key measure used by the DWI to determine compliance with the stringent regulatory drinking water standards for England and Wales. It is also one of our ODIs, with a target for this year of 99.95%. For the second year in a row, we achieved 99.97%, the highest level for nine years.

We are continually investing to maintain and improve water quality. This year saw us complete an upgrade to Semer Water Treatment Works in Suffolk and the boreholes that supply it, to mitigate the risk of nickel in drinking water.



Water quality contacts

The number of contacts we receive from customers about the appearance, taste and odour of their water has stayed at a record low of 1.38 per thousand people for the second year running. Our success was due to a continued focus on supporting customers through social media and reacting to every cluster (two or more complaints) in order to solve any issues quickly. This is also one of our ODIs, with an even tougher target of 1.23 contacts per thousand customers next year.

Flouride dosing

In parts of Lincolnshire, Bedfordshire and Nottinghamshire, Public Health England requires us to dose fluoride into the water supply to improve dental health.

At one site we accidentally dosed a slightly higher level of fluoride than normal. In August an investigation found this had been caused by poor chemical composition of the fluoride being used and dosing was stopped. These sites are now being returned to supply in line with strict procedures and our learning is being shared with the rest of the water industry.

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.

There are still places in our region where lead pipes are relatively common due to the high number of older homes. Communication pipes join our water mains network to customers' private pipes. Work has again focused on Bedford, Peterborough and Norwich, three of our highest priority areas for lead.

As well as this planned work, we have also replaced more than 300 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 will continue with our strategy to reduce lead in drinking water and protect water quality in buildings, working with councils to collect lead samples from local authority-owned public buildings.

THE YEAR IN REVIEW

The main source of lead in drinking water remains the pipes that connect kitchen taps to the water mains, with properties built before 1970 most likely to have lead pipework.

We work 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.

Our lead video is played on a loop at antenatal clinics in three of our highest priority areas. 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. We carried out nearly 500 such tests in 2016.

In recent years we have invested in new equipment at our water treatment works to help reduce lead levels in drinking water. In 2016, we worked to further optimise this treatment and reduce the number of lead sample failures at customer taps.

CASE STUDY

WATER FITTINGS

In addition to inspecting our own sites, Anglian Water's team of Water Regulations Inspectors visit thousands of commercial properties every year to check their plumbing meets the right standards. This year, the team carried out more than 9,000 inspections, including power stations and a petrochemical site, as well as schools, hospitals and care homes.

More than half of the properties we inspect fail, with people's lack of awareness about sub-standard plumbing and its risks being the biggest challenge. This year the Water Regulations team launched a new campaign to educate customers and communities on how to safeguard their drinking water supply.

Part of the campaign is a collaboration with colleges to deliver training and education on the regulations and make sure newly qualified plumbers carry out their work properly and understand the implications of getting it wrong.

We continue to support WaterSafe, the approved plumbers scheme, and carry out regular audits of members' work to ensure continued high standards.

BETTER WORKING IN BEDFORD

In Bedford, our work to replace lead pipes has led to close collaboration and a hugely improved working relationship with Bedfordshire Highways.

Regular meetings and a flexible approach have allowed us to replace hundreds of pipes in more than 20 streets in the last six months alone, while minimising disruption to people in the town.



Bedfordshire Highways and Anglian Water have been working closely together to ensure that the Lead Pipe Replacement Programme (LPRP) runs as smoothly as possible. This collaborative approach and close working relations mean that we are both striving to achieve the same goals: a safe working environment for pedestrians and road users, minimised inconvenience for all customers and the replacement of lead pipes in the most efficient and effective way. ”

**REGGIE WILLS,
BEDFORDSHIRE HIGHWAYS**

Meeting the metaldehyde challenge

A major plank of our efforts to protect water quality is work to reduce the amount of metaldehyde entering rivers and reservoirs.

Commonly used as slug control by farmers, it is very difficult to remove from water, requiring a process known as advanced oxidation. A small advanced oxidation plant was installed at Hall Water Treatment Works near Lincoln and remains the only one of its kind in the UK. To install similar equipment at our major treatment works would cost £600 million. That would represent a 21 per cent increase in customer bills and is clearly unsustainable.

Slug control is essential for farmers to be able to grow crops in East Anglia, so our team of catchment advisors have been encouraging them to shift to an alternative product – ferric phosphate. This can be removed by conventional treatment but it is more expensive and some farmers are concerned about its effectiveness. We are now in the second year of a voluntary trial called Slug it Out that supports farmers around our key reservoirs to switch products and see for themselves.

This year we added Rutland Water to the trial area, which now includes the natural catchments around the reservoirs at Pitsford, Rutland, Ravensthorpe, Hollowell, Alton and Ardleigh. There are 89 farmers in the trial, including all those farming the high-risk land around these reservoirs.

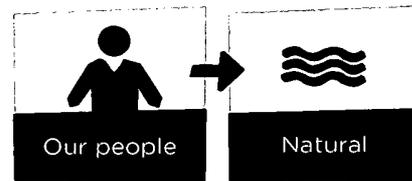
Metaldehyde levels in the trial catchments have fallen dramatically, despite remaining high in surrounding areas, while ferric phosphate has coped well in a year that saw high slug numbers.

GROUND-BREAKING RESEARCH

Data from the Slug it Out trial suggests metaldehyde may persist in the environment for a lot longer than believed. By preventing any new metaldehyde from being used, the trial has revealed this 'legacy metaldehyde', which could be bound in sediment or in raw waters.

We are working with the new Anglian Centre for Water Studies at the University of East Anglia on a way to see how well bacteria break down metaldehyde in different soils. This would let us work out how long metaldehyde may linger around high-risk sites and help promote land uses that encourage the soil bacteria most effective at breaking it down.

A voluntary approach will not be enough to replicate this success across the region and we are talking to regulators and policy makers over next steps. Data from the trial will help to shape future decision making and research. It shows a complete ban on metaldehyde is not necessary, but that alternatives are needed in some areas.



Pesticides

Pesticides other than metaldehyde can also find their way into rivers, washed off farmland by heavy rain or blown there by high winds during spraying.

Once in the water, they can only be removed by costly treatment processes.

While use of many pesticides that cause us problems is restricted ahead of rain, winds or high temperature, farmers tell us it can be difficult to get accurate, detailed local weather information.

In response we have installed 10 precision weather stations on farms across the region. The data is available to farmers through an app, giving them detailed local weather predictions for the next 10 days, including rainfall, wind speed and direction, as well as subsoil factors like temperature and moisture.

The stations also provide a real-time forecast of spraying conditions for the next six days – helping farmers reduce the likelihood of pesticide applications before or during unsuitable conditions.

Although most pesticides found on farms are perfectly legal, changes in cropping or legislation can result in unused products accumulating in pesticide stores, which pose a potential pollution risk should a spill or accident happen.

Following a successful event in Lincolnshire in 2015, we ran a pesticide amnesty in Norfolk during 2016 – inviting farmers to anonymously register any unused or unwanted pesticide they had on their farms for collection and disposal by a specialist company.

In total, 26 farmers participated and we collected a staggering 1.2 tonnes of farm chemicals, including some that were last available for sale in 2004.

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

YOUR SERVICE

RESILIENT SERVICES

PERFORMANCE HIGHLIGHTS

Performance on leakage and interruptions to supply ahead of ODI targets

Clean water tanker fleet increased from nine to 17 tankers

Agreement from leading retailers to place 'do not flush' logos on the front of packaging for wipes and other products

LEAKAGE

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



LOW PRESSURE

Number of properties not receiving reference level pressure.

WE ARE ON TRACK TO MEET OUR 2017/18 TARGET

NUMBER OF PROPERTIES



INTERRUPTIONS TO SUPPLY

This measures time lost due to water supply interruptions.

TARGET (FOR 2016/17)

14 mins 30 secs

ACTUAL

11 mins 43 secs

MINUTES PER HOUSEHOLD

Ready for anything

The importance of providing a resilient service is embedded into all our activities. We have a comprehensive set of emergency plans to ensure we are prepared for, can respond to and recover from an incident.

To ensure our staff are ready to respond, we continue to develop our training and exercising as part of a comprehensive in-house programme for those likely to be involved in an emergency. More than 500 people from across the business have been involved with training this year.

The two new Customer Support Units we bought last year have made it easier for our Incident Support Managers to engage and support customers. They have been deployed more than 20 times over the last year to support everyday events and education as well as for incident management.

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

We are now two years 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 and have seen a reduction in fuel and generator theft.

Better together

Faced with the growing risk of flooding in the UK, we have purchased flood barriers to give added protection to our sites and to assist with a wider, multi-agency response. We have trained key teams in deployment of these barriers and have exercised with several Local Resilience Forums (LRFs) this year.

This is just one example of our focus on multi-agency collaboration to train, exercise and test plans. We continue to collaborate across LRFs and the Multi Agency Support Group for the east of England.

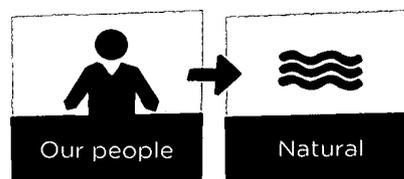
That multi-agency planning was put to the test in January 2017, when high winds and tides combined to create a storm surge along the east coast.

Anglian Water was a key tactical and strategic organisation covering several counties. We aided several counties with their response to the surge and supported them by delivering bottled water supplies to rest centres. The Multi Agency Support Group led regional information sharing during the event so all affected agencies had a view of the planning and support that each required.

Stopping the leaks

We are determined to reduce leakage as part of our drive to improve the region's resilience to drought and climate change. As we ask customers to reduce their consumption, it is only right that we do all we can to stop water being lost on its way to homes and businesses.

We have set ourselves the ambitious target of bringing down leakage by 10.4 per cent, or 20MI/d to 172MI/d between 2015 and 2020. This year, we achieved 185MI/d, slightly up on last year's total. This makes our three-year rolling average 186MI/d. Our ODI measures performance using this three-year rolling average, which needs to stay below 192MI/d.



Battling the elements

Weather was our major enemy during the year, creating conditions that on occasion recalled the extremes of the recent past.

A warm, dry spell from late summer into early autumn dried the soil to an extent not seen since the drought of 2011/12. This caused increased soil movement, leading to a rise in burst pipes.

This was followed by a frosty winter. At one point there were eight nights of continuous sub-zero temperatures, which again led to a spike in bursts, especially in the east of the region. During this period we reached a peak of 63 burst mains per day, compared to an average of 15, the highest number of bursts in one week since the severe winter of 2010/11. A recovery plan was put in place and succeeded in bringing leakage levels to within 2MI/d of last year's total.

The right strategy

Despite the weather, we remain on track to hit our 172MI/d target by 2020 and our strategy continues to see significant savings. The main planks of this strategy are:

- Optimised Water Networks (OWN)

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

In the first two years of this AMP, OWN has been responsible for a reduction of just over 6.27MI/d in leakage across the region, saving 3.08MI/d in the first year and 3.27MI/d in the second.

Work has been going on in Peterborough since 2013, with large pressure-reducing valves and major cross connections allowing us to manage the pressure of water supplied to 92 per cent of properties. Similar schemes are now under way in Bury St Edmunds and Bedford, with three more planned for Milton Keynes, Lincoln and Ely in 2017/18.

- Intensive Leakage Detection teams

Three teams have been formed with the mandate, training and equipment to track down hard-to-find leaks and to proactively target areas where we believe pipes may be coming to the end of their useful life. 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. This year, the teams saved a total of 3.75MI/d.

The East Intensive Investigation team used a new ultrasonic meter and old-fashioned investigatory skills to track down a major leak in North Norfolk. The leak had been running for two years, losing 0.43MI/d. It was finally found at a point under the River Stiffkey near Little Walsingham and the main was replaced using directional drilling equipment to bore under the river.

- Integrated Leakage and Pressure Management (ILPM)

Our Integrated Leakage and Pressure Management system brings together information about the network, making it easier to spot and control leakage and to better target our work. This year we implemented phase two of the system, with new

and enhanced tools that further improve our ability to target work at areas of the network with rising leakage and to plan our detection teams' activities.

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 2016/17, a further two properties have been removed from the register and more will be removed in the coming year as part of our planned investment programme.

Always on the lookout

Our proactive leakage detection work aims to identify issues before customers are aware of them. An example of this work is the mass deployment of noise loggers to identify leaks before they become visible. We deploy up to 8,000 noise loggers every day around our network, using them in partnership with dedicated follow-up repair teams.

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. We have formed a dedicated team to manage this process as well as diagnosing, designing and delivering best value solutions to issues that arise when the network doesn't respond as we expect it to. This team also coordinates investment needs from an operational perspective.

Our Integrated Maintenance and Repair (IMR) alliance partners, Kier and Clancy Docwra, have 89 two-man teams around the region. This year they fixed more than 4,400 burst mains, an increase of 737 on last year, reflecting the effect of the weather on our network.

Interruptions to supply

The increase in bursts caused by this year's bad weather also meant an increased number of interruptions to customers' supplies.

Such interruptions are 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.

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 allow for the possible effects of a major interruption.

The average for this year was 11 minutes 43 seconds, a rise on the 8 minutes 12 seconds we achieved last year. That total was achieved thanks to a mild winter, coupled with a change in our approach that saw priority given to the

restoration of supplies, rather than to fixing the cause of an interruption.

While the weather was less kind to us this year, our average time was also affected by major bursts, including one in March, which saw supplies interrupted to more than 2,000 properties in the Lincolnshire Wolds.

Despite these problems, we kept our focus on restoration of supplies, which held us in good stead and complements the focus on network optimisation and other proactive work to prevent failures occurring in the first place.

Restore, repair, recharge

Our dedicated Restoration team has continued to spearhead this work and has grown to include 18 Restoration Technicians, based at three locations around the region.

All have been trained to drive the water tankers in our newly expanded fleet and to use a variety of equipment and techniques, including temporary overland pipes to keep people supplied. The technicians also carry lengths of chlorinated pipe and all the fittings necessary to build temporary, above-ground, small-scale water supply networks. These can keep a number of homes supplied indefinitely during an incident.

Importantly though, restoration services are now part of business-as-usual activities. As a result of this capacity, and of our increased resources and workload, we have kept water flowing to 319,000 properties that might otherwise have seen their water cut off due to a burst or other problem. That compares to 160,000 in 2015/16.

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

CASE STUDY

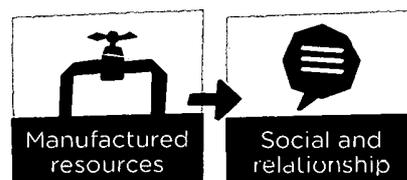
EYE IN THE SKY

Anglian Water has become the first water company to trial thermal imaging drones to detect leaking water pipes.

The technique could help reduce the cost and time taken to find leaks and pinpoint their location more precisely by using sensors and a camera to spot changes in soil temperature which could be caused by water escaping from the pipe.

The drones can cover large distances in a short space of time, with anything picked up by the survey investigated further by a leakage technician on site. That should mean any repairs can be carried out quicker and more precisely - meaning less digging, less money, less water lost and less disruption to customers.

Trials are set to continue over the coming months, focusing on leaks in and around Newmarket where our innovation hub, the Shop Window, is based.



A GROWING FLEET

Over the last year Anglian Water’s Restoration team, supported by the Business Resilience team, has increased its clean water tanker fleet from nine to 17 tankers: 10 carrying 9,000 litres, six carrying 20,000 litres and one carrying 29,000 litres.

The tankers are dispersed across the region at strategic locations, from where they can provide a clean water supply to our customers when the water is turned off during burst main repairs. They have been used in a number of large events across the region.

Increasing the number of tankers has improved our response time and gives a wider coverage of the whole region. Having the ability to provide people with an alternative supply of water also improves our customer service and can reduce the likelihood of water quality complaints following a burst. Keeping the unaffected part of a water main filled from a tanker means pressure can be maintained in the pipe. This reduces the chances of air or sediment entering supplies, as can happen when pressures drop or pipes empty and have to be refilled.

Keep it Clear

Launched in 2010, our Keep it Clear programme aims to change the way people dispose of fats, oils, grease and unflushable items such as wipes and sanitary waste, to reduce sewer blockages and protect customers and the environment from the sewer flooding and pollution they can cause.

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.

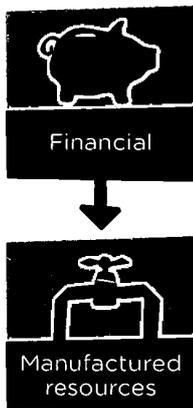
For the last two years we have also been working with interactive learning company, Mad Science. Together we have reached more than 35,000 children and adults with our Keep it Clear messages through roadshows, school assemblies and the popular Keep it Clear Christmas panto.

At a national level, we have been working with retailers to change the labelling on products that are likely to be flushed down toilets. As a result, many leading retailers have now agreed to place prominent, front-of-pack ‘do not flush’ logos and messages on the packaging of their own-brand products. Sainsbury’s alone is labelling 350 lines, including wipes, kitchen rolls and cotton buds. The changes should be in place by the end of March 2018.

Similar success has come through our decision to co-fund City to Sea’s Switch the Stick campaign, which asked retailers to switch from selling cotton buds with plastic stems to ones made from biodegradable cardboard. A number of major UK retailers have now pledged to make the switch by the end of 2017.

In the coming years we will be targeting our efforts at more than 40,000 restaurants, cafés, pubs and other eating places in our region. Fat and grease from food outlets can lead to serious sewer blockages, putting the businesses responsible at risk of prosecution under the Water Industry Act.

Keep it Clear will be carrying out inspections of grease management in kitchens, talking to both independent establishments and the head offices of some of the UK’s leading food chains, to raise awareness and stop blockages.



Every second counts

Despite these efforts, the way calculations are made means a single major event could set us back. The burst and associated problems in the Lincolnshire Wolds in March (see next page) are a prime example of this.

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 proactive activity to minimise supply interruptions occurring and to respond quickly when they do.

RESTORING SUPPLIES IN THE LINCOLNSHIRE WOLDS

In March 2017, a burst main threatened water supplies to more than 2,000 properties in 21 villages across 50 square miles of the Lincolnshire Wolds.

Re-routing water around our network reduced that number to around 1,200 properties - a mixture of homes, businesses, farms, schools, doctors' surgeries and nursing homes spread across a wide area.

The burst was located beneath the River Bain, which was in flood due to heavy rain. Fixing the burst while keeping people supplied presented a significant challenge.

The solution was to drill under the stream and install two new mains: one to replace the burst section with a new pipe, the other to increase resilience by providing a back-up in case of future problems.

At the same time, our Restoration team, supported by network technicians and tanker drivers from Recycling Environmental Services, was deployed to keep people supplied. More than a kilometre of overland pipe was used to divert water around the burst and 10 tankers were brought in to ferry water from the Raithby

Water Treatment Works to various points on the network. A tanker was also used to deliver water to farms to alleviate worries about livestock and in particular the need to get extra water to pregnant ewes.

Raithby was also used as a bottled water deployment centre, with manned bottled water hubs set up in five villages for people to collect water. Thousands of packs of bottled water were also delivered to people's doorsteps by our Operations team.

Bottled water was also available from the new Customer Support Unit (CSU), which was stationed in the car park of Tetford Village Hall, offering a place where customers could come for news and advice. The CSU was manned by incident support managers - volunteers drawn from across the business.

Customers were also kept informed through social media and the efforts of our Communications team, who carried out dozens of TV and radio interviews during the incident.

The effort was coordinated from the Company's incident room, which was open 24 hours a day for six days. In all, more than 200 employees were involved, with 50 people a day supporting customers from the incident room or on the ground.

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

OUR WORLD

SUPPLY MEETS DEMAND

PERFORMANCE HIGHLIGHTS

In the final stages of delivering a £28 million resilience scheme for Grafham Water Treatment Works

Formed a new Strategic Planning team to collaborate with planners, regulators and others to meet future demand and ensure that growth is manageable and sustainable

Held our first growth forum for local planning authorities

SINGLE SUPPLY SYSTEM

Percentage of population supplied by a single supply system

TARGET FOR 2019/20
24.7%



SECURITY OF SUPPLY INDEX (SOSI)

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

DRY YEAR ANNUAL AVERAGE
TARGET (BY 2019/20)

100
ACTUAL

CRITICAL PERIOD (PEAK) DEMAND
TARGET (BY 2019/20)

100
ACTUAL



SERVICE LEVEL RESTRICTIONS

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

ACTUAL
ONCE
IN LAST 10 YEARS

TARGET FOR 2019/20

ONCE IN LAST 10 YEARS

Our services play a key role in enabling the growth of our region and we need to meet the increasing demand for water and water recycling that growth brings. We 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

Our investment programme includes large, strategic schemes, as well as those that improve water quality and the connectivity and resilience of our network.

We are in the final stages of delivering a £28 million resilience scheme for our Grafham Water Treatment Works, including a 40-million-litre storage reservoir to provide extra security of supply to customers in the west of our region.

We continue to improve the resilience of supplies to ensure the majority of people can be supplied from more than one source. Our ODI target is to reduce the number of customers with a single source of supply from 46.9 per cent to 24.7 per cent between 2015 and 2020. We are currently at 46.3 per cent and are making good progress.

We are currently preparing our draft 2019 Water Resource Management Plan (WRMP) and the related Strategic Environmental Assessment (SEA).

The draft 2019 WRMP will describe our plans for maintaining the supply-demand balance over the next 25 years, including the measures needed to secure reliable, sustainable and affordable supplies for customers and business. In the short to medium term we will need to invest to mitigate risk from severe drought and to meet the needs of the environment; in the medium to long term we expect that investment will be driven by climate change and growth. Overall, our aim is to develop a flexible plan which can be adapted to changing conditions, if required.

Preparation of our draft 2019 WRMP is being supported by work with the Water Resources East project (WRE). The WRE is a multi-sector collaboration, which is developing a long-term water resource strategy for the region. Our draft 2019 WRMP will align to outputs from the WRE project.

We wanted to see the collaborative, multi-sector approach exemplified by WRE adopted on a national scale. This led us to take the leading role

in a major project, undertaking research into the resilience of water supplies over the next 50 years.

The resulting document – the *Water Resources Long-Term Planning Framework* – was published in September 2016 and set out options for maintaining resilient and affordable water supplies in the face of the growing risk of drought in England and Wales.

It has been well received, with its findings widely used and referred to in a number of high-profile documents, including:

- the Institution of Civil Engineers' *National Needs Assessment*
- Defra's resilience road map and the discussion paper on its Strategic Policy Statement to Ofwat
- the *UK Climate Change Risk Assessment 2017 Synthesis Report*, which increased its assessment of the risk of shortages in the public water supply to urgent as a result.

Perhaps most significantly, the report was referenced in detail in Defra's Strategic Priorities Statement, published in April 2017.

For water recycling, our supply-demand investment programme includes work with partners to deliver water quality improvements and reduce flood risk. To keep pace with growth in the medium term, we are increasing capacity at our water recycling centres and expanding our sewerage system.

At the same time, we are developing a Water Recycling Long-Term Plan, to better understand the investment that will be needed to mitigate the risks posed by climate change, severe flooding and strategic growth.

Dealing with drought

Our region is one of the driest in the country and experiences periodic episodes of drought. We maintain supplies thanks to resilience schemes put in place after previous droughts, the use of drought legislation to abstract from rivers under low flows and, occasionally, restrictions on the use of hosepipes.

Customers have told us that they do not expect to face severe restrictions. Our draft 2019 WRMP will promote investment to remove the threat of rota cuts and standpipes and increase the resilience of our supply system to the impact of severe drought.

THE YEAR IN REVIEW

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

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

Protecting the environment

A number of schemes are either planned or under way to reduce the effect of our operations on the environment, including the impact of water abstraction from rivers and groundwaters.

BLACK SLUICE: COLLABORATIVE CATCHMENT MANAGEMENT IN SOUTH LINCOLNSHIRE

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

Set up by Anglian Water, it brings representatives from these sectors together with conservationists and regulators to develop a long-term, joined-up plan for water stewardship. In South Lincolnshire, the WRE is working with local partners to find affordable, reliable and sustainable ways to:

- secure resources for agriculture and the food-processing industries, fenland habitat restoration, public water supply and for improved navigation across fenland waterways
- enhance levels of flood protection in the South Lincolnshire Fens and adjacent upland areas.

Efforts are focused on the Black Sluice catchment, where most of these issues intersect. An Integrated Water Resource Management (IWRM) Plan is being developed. This includes reservoir and wetland storage, modification of the heavily engineered South Forty Foot Drain and a management system for controlling the quality and quantity of water that flows through the catchment.

We continue to make progress with work to improve the condition of the River Wensum, Coston Fen and a series of coastal marshes that are fed by water from the North Norfolk Chalk aquifer. We are also moving ahead with restoration schemes on the River Nar, Laceby Beck and Skitter Beck, as well as schemes to protect eels by modifying our surface water intakes.

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

We have also started discussions with the Environment Agency to evaluate the risk posed by invasive non-native species (INNS). This includes the risk of inadvertently spreading water-borne INNS when transferring water from one part of the region or country to another. Such raw water transfers are one way to increase the resilience of supplies to drought and other problems. A project is under way to understand the potential impact on existing and planned transfers, and will be completed later this year.

Building resilience

Our £28 million resilience scheme to support Grafham Water Treatment Works will increase the security of water supplies to people in the west of our region.

The scheme includes a new, state-of-the-art storage reservoir and pumping station adjacent to the Works. Innovative trials proved that in an emergency it would be possible to reverse the direction of flow through the water main linking Grafham Water Treatment Works to Wellingborough in Northamptonshire.

This means that if Grafham Water Treatment Works was ever out of action, the same pipe could be used to fill the new reservoir with treated water from Wing Water Treatment Works in Rutland.

The scheme has made use of two huge pumps originally installed to send extra water from Grafham to drought-hit areas in the west of the region. If necessary, they would help send water in the other direction, back towards Grafham and the new storage reservoir.

A string of new pumping stations have also been built to make sure customers' water pressure is maintained if flows are reversed. New pipework and valves have been installed and electrical modifications made at existing sites to ensure the network runs smoothly, regardless of which way the water is flowing.

This innovative approach enabled a cheaper, lower carbon solution to be proposed and the final scheme came in £32 million cheaper than the initial design and with 61 per cent less embodied carbon. The scheme will also accommodate growth. By 2036, it is estimated that more than a quarter of a million new homes will be built and more than 380,000 jobs created across Cambridgeshire, Bedfordshire and Northamptonshire.

With a working capacity of 40 megalitres – the equivalent of 16 Olympic-sized swimming pools – the new reservoir is the largest pre-cast service reservoir in Europe. It was officially opened by The Duke of Edinburgh in May 2016, 50 years after his original royal visit to open Grafham Water Reservoir in 1966.

The scheme – reservoir, network changes and the focus on innovation, collaboration and challenge to business as usual that drove it – is the latest example of how we continue to build ever-more resilient systems to meet the challenges of population growth, the impact of climate

change and the need to protect the environment. It's part of a bigger jigsaw, providing the essential infrastructure for sustainable growth and underpinning the regional economy.

Supporting sustainable growth

Our region is already the fastest growing outside of London, with three of the UK's five fastest-growing cities. The Government remains focused on growth and the delivery of more houses and infrastructure.

We have a statutory duty to provide water and water recycling services to new homes and businesses. To better meet this challenge, we have formed a new Strategic Planning team, bringing together legal and planning expertise.

The team will work closely with local planning authorities, developers, the Environment Agency and others to make sure we can meet future demand and ensure that growth is both manageable and sustainable. It will take the lead in forging a truly collaborative approach that allows us to influence the distribution and timing of growth, including housing and major infrastructure projects.

In this way it will help realise the opportunities from growth and mitigate the risks to our business, while actively supporting sustainable development and protecting existing and future customers.

The team has already established good working relationships with Local Enterprise Partnerships and has set up the Norfolk Growth Forum.

Tasks for the coming year include:

- influencing the preparation of the new Strategic Policy Statement for Ofwat
- working with others to deliver the Company's next Water Resource Management Plan
- continuing to influence the distribution and timing of growth by responding to Local Plans and Development Consent Orders.

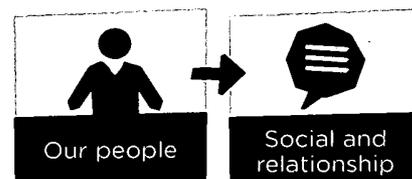
THE NORFOLK GROWTH FORUM

Held in Norwich this January, the Norfolk Growth Forum was driven by the considerable growth proposed for the county. This would be at a rate not seen for decades and in catchments where many local authorities do not have up-to-date local plans. Utilities, including water and sewerage, are a key part of the infrastructure that will be needed.

Every local authority in Norfolk was represented and there was almost universal agreement that there should be more collaboration and communication between utilities, developers and local authorities.

The event explored new ways of thinking and working together to meet these challenges and facilitate sustainable growth that makes best use of space and finite resources, and creates communities, not just homes.

There are now plans to host other forums in Suffolk, Lincolnshire, Cambridgeshire and Essex.



A FLOURISHING ENVIRONMENT, FOR NATURE AND FOR EVERYONE

OUR WORLD

FLOURISHING ENVIRONMENT

PERFORMANCE HIGHLIGHTS

98.8% of our Sites of Special Scientific Interest (SSSIs) remain in favourable condition, compared to a national average of 38.6%

32 of our bathing waters classed as excellent

Launch of a new wetland improvement grant scheme

Agreement with Norfolk Wildlife Trust to manage Dereham Rush Meadow on our behalf

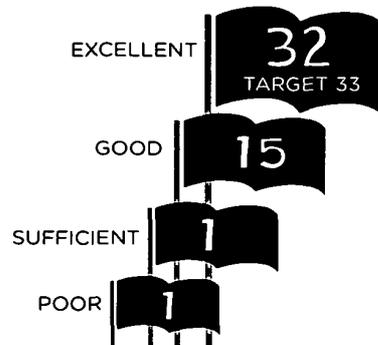
PERCENTAGE OF SSSIs WITH FAVOURABLE STATUS

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



BATHING WATERS

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



Protecting and improving land for wildlife

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 SSSIs, covering nearly 3,000 hectares. Of these, 98.8 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 38.6 per cent of SSSIs were in favourable condition at March 2017.

This year we agreed a partnership agreement with Norfolk Wildlife Trust, which will manage Dereham Rush Meadow SSSI on our behalf. Such partnership working ensures we get best value for customers, who support our environmental work provided it does not have a big impact on bills.

A helping hand

Our new Flourishing Environment grant scheme is another way to make the money go further. Launched this year, the scheme supports local communities in protecting wetland wildlife. We picked wetland wildlife as this is where our stakeholders said we should focus our efforts during the consultation on our new biodiversity strategy in 2015.

A range of organisations received funding for exciting projects in Norfolk, Suffolk and Cambridgeshire. These projects will do more than just help wildlife. For example, a chalk stream restoration project we funded will also help improve water quality, make the area more attractive to visitors and expand opportunities for angling.

CASE STUDY

DEREHAM RUSH MEADOW

Dereham Rush Meadow is a 13-acre area of SSSI wetland in Norfolk. It is classed as 'unfavourable recovering' by Natural England, making it one of the last SSSIs owned by Anglian Water not in favourable condition.

To change this we have entered into an agreement with Norfolk Wildlife Trust, which will manage the site together with an area of adjacent land it owns. Work will be funded jointly, making the agreement a cost-effective one for us and our customers, while the site will be cared for by the county's conservation experts.

The nature of the site has made it difficult to access and to manage. To improve it, ditches need to be cleared, water level management structures installed, scrub removed and grazing introduced.

So the Trust can take livestock and machinery on and off, we extended a track that runs through our next-door water recycling centre so that it reaches to the back of the site.

Tackling invasive species

Several species introduced to our region from other parts of the world are having a negative impact on native wildlife, people and the economy. They can impact us too. For example, zebra mussels can clog the pipes that bring water into our treatment works. We produced a guidebook and online learning course to help staff understand what they need to do to help stop the spread of these invasive species.

Catchment if you can

Catchment management means managing rivers, and the land they drain, in a joined-up way for multiple benefits. Together with The Rivers Trust, we host the catchment partnership that oversees work in the Cam and Ely Ouse catchment. A highlight this year was advice delivered to farmers through the partnership's WaterLIFE project, helping them understand what they can do to protect water quality by changing the way they manage their land.

CASE STUDY

SOUTHEND – PROTECTING THE ECONOMY AND THE ENVIRONMENT

Southend's economy relies on its appeal as a seaside resort and has eight of our region's 49 designated bathing waters.

The town's Victorian sewers were struggling to cope with its present-day population, and in some places were overflowing into the surface water drains during periods of heavy rainfall. This meant sewage could bypass the water recycling process and enter the sea untreated.

The situation needed to be addressed, particularly in the face of a growing population and the likelihood that climate change would bring more frequent extremes of weather in the future.

We invested £3 million in a joint project with our @one Alliance partners Barhale, to increase the capacity of the town's sewer network at three places where spills were frequent.

Underground tanks were built in two of the locations to trap and store excess rainwater during storms. Once the storm has passed, the water can be pumped to the town's water recycling centre for treatment.

At a third location, miners were used to dig a 22-metre-deep shaft to funnel excess storm water into the existing underground sewer main. This also channels urban pollution like dirt, car oils and chemicals into the sewer system, allowing it to be kept out of the sea.

We worked closely with the Environment Agency to deliver the scheme, which began in August 2016 and was completed in March 2017. The Agency played a key role in helping the Company draw up its plans across the three sites.

One of the challenges the team faced was the lack of space. Narrow streets and lots of on-street parking presented a challenge above ground, while below ground workers had to be careful to avoid gas mains and electricity cables. Any difficulties were lessened by the strong relationship we have built up with the local council and residents.

Bathing waters

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

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

This year, our results were:

EXCELLENT: 32

GOOD: 15

SUFFICIENT: 1

POOR: 1

This is a slight fall from last year, when 34 waters were classed as excellent. The figures also include a new bathing water at West Runton in Norfolk.

Clacton Groyne 41 remains the only bathing water in the region to be classed as poor and has a long-running issue with water quality. Recent investigations show the source of bacterial pollution may be a combination of private sewerage systems and roosting birds. We are working with the Environment Agency and the local authority to reduce all potential pollution risks.

We know that in the majority of cases, declining results have not been as a result of our assets, so our focus is working closely with others to tackle third-party pollution. Nevertheless, we continue to invest where we have seen potential impact from our network. This includes £3 million to increase sewer capacity in Southend (see case study).

Gathering the evidence

We have working groups covering all 49 of our bathing waters, including us, local authorities and the Environment Agency. We work together to identify sources of pollution.

Our investigations are based on data from thorough and large-scale sampling. This is done by the Centre for Research into Environment and Health Ltd (CREH), who are world leaders in pinpointing the source of bacteria in bathing waters. This gives us clear evidence, allowing us to appropriately invest customers' money or help others to rectify problems.

We are also trialling a hand-held unit that uses fluorescence levels to indicate the presence or absence of bacteria in water. If successful, it would remove the need for many samples to be cultivated in the laboratory, which is time-consuming and expensive. Having an on-the-spot result would help us pinpoint pollution sources more quickly and accurately, saving money, making us more efficient and leading to faster improvements in water quality.

Other innovations include the use of planes to search for misconnected drains and trialling drones to monitor boat and wild bird numbers.

People power

We also continue to expand our work with local communities, including our BeachCare scheme in partnership with Keep Britain Tidy. Local volunteers clear litter from beaches, which connects people to their local environment; reduces vermin, which can be a source of bacterial pollution; and provides clues to other sources through examination of the litter.

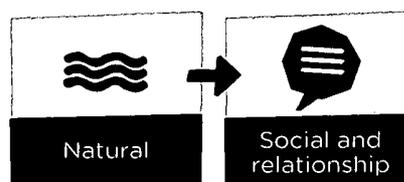
Love our Seaside - an extension of the Keep it Clear campaign to reduce sewer blockages - also made an impact. This year the focus was on caravan and holiday parks with fun events to make holidaymakers aware of the blockages caused by pouring and flushing the wrong things into sewers. Several park owners have since reported a fall in blockages in their own pipes.

Progress in partnership

The ever-greater collaboration encouraged by our approach has led to real advances in locating and shutting down sources of bacterial pollution. As a result, we are getting closer to solving some long-standing water quality issues in our region, which remains home to many of England's cleanest beaches.

“Clean beaches are great for communities and local businesses and extremely important for marine life too. As well as protecting our environment and avoiding large penalties from Ofwat and the Environment Agency, clean beaches are big contributors to the local economy and we want our customers to be proud to visit them. That's why we've invested strongly in this.”

**KATHERINE WRIGHT, TECHNICAL
MANAGER AT THE @ONE ALLIANCE**



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

OUR WORLD

A SMALLER FOOTPRINT

PERFORMANCE HIGHLIGHTS

On target to meet ODI targets on both capital and operational carbon

Generation of energy from our Combined Heat and Power engines at an all-time high of 99 GWh

Expanded our in-house team of specialist engineers and technicians to improve the resilience and cost-effectiveness of our CHP fleet

Our Energy Initiative has reduced costs by nearly £2.5 million this year

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

55%

OPERATIONAL CARBON

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

REDUCTION FROM 2015 BASELINE
TARGET (BY 2019/20)

7%

ACTUAL

11%

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

In providing our services we are confronted by 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.

This year, the World Economic Forum highlighted extreme weather events, water crises and the failure of climate change mitigation and adaptation as significant risks. In November 2016, the UK Government ratified the Paris Agreement, agreeing further efforts to combat climate change.

At Anglian Water, we are determined to play our part in tackling these global problems. We are cutting our carbon emissions; reducing the energy and materials used to maintain our infrastructure; generating our own, renewable energy; increasing the efficiency of our equipment; driving out waste and finding uses for the by-products of our treatment processes in pursuit of a truly circular economy.

By doing so we also continue to reduce costs, drive innovation and set a powerful example for others to follow.

We have already made great progress in cutting carbon and want to push ourselves further still. Our longer-term goal is to be a carbon neutral business by 2050. Over the next 12 months, this goal will be communicated to our people, partners and suppliers, raising awareness about the changes needed in how we operate, build and maintain our infrastructure.

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.

Measuring

Annual gross operational carbon emissions have decreased by 11.5 per cent in 2016/17 in comparison to the 2014/15 baseline, reducing from 455,335 t/CO₂e to 403,099 t/CO₂e. The main influencing factors include grid electricity demand reduced by 2.3 per cent, an increase in renewable energy generated to 113 GWh (includes biogas, wind and solar, appointed and non-appointed) and 13.01 GWh saved through the energy initiative. Other, external factors included a 16.4 per cent reduction in grid electricity emission factor and an increase in the methane global warming potential.

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 12 per cent in 2016/17 in comparison to the 2014/15 baseline, reducing from 446,834 t/CO₂e to 393,089 t/CO₂e. Our design engineers and capital delivery teams have delivered a 55 per cent reduction in capital carbon against our 2010 baseline, through focus on design, materials used and installation and commissioning techniques in construction.

In September 2016, Anglian Water became the first organisation in the world to be verified against PAS 2080 Carbon Management in Infrastructure, showing that we have the right leadership and governance for effective carbon management. Collaboration across the supply chain is a critical element in delivering carbon and cost reductions. PAS 2080 provides a consistent framework for organisations to use in measuring, managing and reducing carbon.

Increasing efficiency to cut carbon and cost

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

Our Energy Initiative began more than 10 years ago to reduce emissions and remove unnecessary costs from our water and water recycling operation. In that time, we have developed new and better ways of analysing data to check the efficiency of treatment works and pumps.

This year, thanks to our Energy Initiative, we reduced our energy costs by nearly £2.5 million. These savings will help us control our costs and our customers' bills.

Since last year we have also been helped by our new Energy Efficiency Monitoring System, which is helping us run our assets even more efficiently. The information it provides is changing the way in which we operate and maintain our sites. For example, new and detailed information about the pumps at Grafham Water Treatment Works has led us to make operational changes that save more than £70,000 per year.

Renewable energy

An increasing amount of renewable energy is generated on our sites. This year, 113 GWh of renewable power was produced from biogas, wind and solar. This represents 16 per cent of our electricity use. Of this, we generated 99 GWh using our fleet of Combined Heat and Power (CHP) engines, which are fuelled by the biogas produced at our sludge treatment centres. This is an increase on the 96 GWh generated last year. To increase the engines' efficiency and performance, we have expanded our in-house team of specialist engineers and technicians to take over their running from external contractors.

Another site is due to come on line at Chelmsford during 2017. Here, we have been able to refurbish and relocate two disused engines from Pyewipe in Grimsby, saving us about £200,000 on the cost of a single, new engine. The second engine will act as a back-up, increasing resilience on the site.

The back-up engines installed at Whitlingham and Great Billing last year have both now seen use, allowing us to carry out essential maintenance work without interrupting power generation. Collaboration between the CHP and sludge centre teams has also proved crucial in highlighting and tackling issues early on, resulting in reduced downtime.

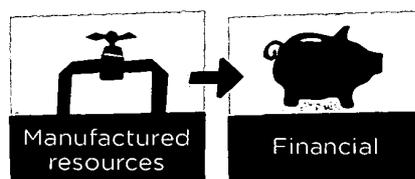
The power generated by the CHP engines was supplemented by our wind turbines and the new solar arrays installed by our partners, who are now working on a roll-out of solar panels across our estate.

Supply and demand

Anglian Water carefully manages its supply and demand of energy to minimise costs and deliver wider benefits. We have a fleet of generators to ensure supply security and which earn income by providing services to the National Grid. They also help to reduce possible interruptions to supply and other problems caused by power outages. We keep a close eye on such outages and on any variances in voltage from the grid, following them up with the distribution network operators.

We carefully manage the power we generate and the power we import. This allows us to maximise our income from exporting power and minimise the amount we are charged for importing it during periods of peak demand, when tariffs are much higher than at other times.

This year that demand management has provided a benefit of more than £3 million to the Company. The future of some of these benefits is uncertain due to proposed regulatory changes, and we are investigating ways to mitigate the impact these could have.



Controlling costs

We have almost 7,000 energy suppliers, so it is important we carefully manage our contracts to avoid unnecessary costs. We work closely with our suppliers, validating and checking every bill, managing changes to our supplies, hedging the price of electricity years in advance to keep costs affordable, and anticipating the effects of any changes to the industry.

Zero waste

Our goal is to become 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. Properly managed, almost everything can have a use and a value, which would help to power a circular economy based on reuse and recycling.

A project is under way to look at making better use of the by-products from our water treatment works. Viewing these materials as resources rather than waste has had a big impact on discussions and is driving innovative solutions.

We continue to work on improving the quality of the data we collect to get the clearest possible picture of what happens to those materials. This year, the performance reports from across the business show 93 per cent of our waste being put to a beneficial use.

Influencing policy

This year has seen us leading the industry in its response to a variety of proposed new regulations around emissions and the storage of biosolids.

These could have a significant financial impact on our business, requiring large-scale modification and replacement of pipework and equipment at many of our sites, and the construction of purpose-built storage facilities. The bill for this work could be around £1 billion.

We are working hard to make the implications clear, to remove uncertainty around future investment and to ensure the best outcomes for our business and the environment.

Biosolids

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 has total confidence in our product. For this reason, Anglian Water led and funded the development of a national Biosolids Assurance Scheme (BAS). All UK Water and Sewerage Companies (WaSCs) are implementing the scheme, opening their sludge treatment and biosolids recycling operations to an independent audit against the new BAS standard.

By February 2017, around 83 per cent of biosolids were certified, with a target of 100 per cent by the end of this year. Certification provides reassurance to the food industry and the public that biosolids are safely and sustainably recycled to agricultural land. There has been a positive response from the food industry, where such assurance schemes are normal practice.

The WaSCs are joint owners of Assured Biosolids Ltd (ABL), a new company which administers the scheme on their behalf. ABL is in discussion with Defra and the Environment Agency to see what role the scheme could play when the market for sludge trading opens to competition after 2020.



OUR WORLD

CARING FOR COMMUNITIES

PERFORMANCE HIGHLIGHTS

Successful opening of the Greater Peterborough University Technical College

Tenth year of our community education programme

HRH The Duke of Edinburgh joins the 50th anniversary celebrations for Grafham Water in Cambridgeshire

Rutland Water Park becomes the first water company-owned site to be accredited under Visit England's Visitor Attraction Quality Assurance Scheme

COMMUNITY PERCEPTION

Based on survey of community perception

PERCENTAGE OF SATISFIED HOUSEHOLDS



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 2016/17, a survey of customers found 52 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.

Recreation

Our water parks and nature reserves provide recreation for many thousands of people, conserve and enhance our region's natural riches and help us make 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.

The first of our water parks was at Grafham Water in Cambridgeshire, which was 50 years old in June 2016. The anniversary celebrations began with a visit from HRH The Duke of Edinburgh, who officially opened the reservoir back in 1966. Local schoolchildren and members of the community joined us in welcoming him and celebrating half a century of water supply, recreation and conservation.

This year was also the 20th anniversary of the Rutland Osprey Project. To celebrate, the park played host to the Rutland Osprey Festival in April 2016, when the migrating ospreys returned to their breeding sites. More than 100 schoolchildren submitted creative writing, art, poetry and science entries for the Osprey Festival competition.

It was a good year for Rutland Water Park, which played host to a hugely popular inflatable aqua park and added a new play area to its list of attractions. The park became the first water company-owned site to be accredited under Visit England's Visitor Attraction Quality Assurance Scheme (VAQAS), which focuses on customer service and visitor experience. Rutland was also awarded the Green Flag Award for Innovation for promoting safe, open-water swimming through its inland bathing beach, weekly open-water swimming training sessions and open-water swimming events.

In Norfolk, Taverham Mill Nature Reserve and Fishery was awarded the prestigious Green Flag standard for park management for the first time this year, with Rutland, Grafham, Pitsford and Alton Water all retaining theirs.

A message for future generations

As well as supplying safe, clean water to a growing population, Grafham Water provides a valuable community resource in the shape of Grafham Water Park. Set in 2,400 acres of countryside, it boasts world-class fishing, sailing and cycling facilities.

Leisure activities were written into the plans of Grafham from the very start. In the 50 years since, it has become a huge part of local life, and seen wildlife flourish on its 370-acre nature reserve,

thanks to a long-term partnership with the Wildlife Trust for Bedfordshire, Cambridgeshire and Northamptonshire.

The Duke of Edinburgh reflected on these achievements in a message of praise and hope for Grafham, which he placed inside a time capsule filled with photos and memorabilia from his visits in 1966 and 2016. This was buried on the site of the new storage reservoir to be unearthed by future generations.

“ His message read:

I opened Grafham Water - inaugurated might be a better way of describing it - when this new and massive reservoir had just filled. I described it as 'the most practical, enlightened, and far-sighted enterprise ever undertaken by a group of local authorities'.

Since then the site has been further transformed and extended to meet the needs of a growing population with its rising demand for good clean water. All this has been achieved in the driest part of the United Kingdom.

Grafham's primary purpose in 1966 was to provide a source of this water, but it also created a 'natural' wetland which has gradually built-up its own thriving population of wild plant and animal life. In addition it has provided facilities for sailing, fishing, cycling and walking for visitors from all over the Kingdom.

These 50th anniversary celebrations recognise what has been achieved by enlightened and sympathetic management, which we all hope will inspire future generations to maintain this tradition for many years into the future.

THE YEAR IN REVIEW

Nurturing the next generation

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.

We are the lead sponsor of the Greater Peterborough University Technical College (GPUTC), which opened in September 2016 and 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.

There are currently 141 students, with 121 applicants for the September 2017 intake by the end of February.

Anglian Water and its civil engineering alliance partners are also sponsoring two 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. The courses currently have 45 students.

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

Recruiting and developing new talent

We run both graduate and apprentice programmes to build technical competence and to nurture the business leaders of the future. We have a strong track record of retaining employees recruited in this way, with 92 per cent of apprentices and 91 per cent of graduates employed since 2012 still with the Company.

There are currently 81 apprentices on our programme, and our intake for 2017 will be the largest to date, with 65 new apprentices being taken on across Maintenance, Networks, Telemetry, Automotive, Optimisation, Leakage, Collection, Ground Water Engineering and Quantity Surveying.

Efficient and customer focused

We have begun a major programme to train people across the business in LEAN ways of working. First developed in the motor industry, LEAN methods aim to eliminate waste and increase efficiency. The idea is to focus on the customer, to ask what parts of your operation they would be willing to pay for and so weed out those actions and processes that do not add value for them.

Giving people a knowledge of LEAN methods and how they can be applied empowers them to help increase the efficiency and long-term sustainability of our business. More than 20 per cent of our workforce has been trained in LEAN methodologies, giving us practitioners and mentors across our business and our capital delivery alliances.

We also have a programme of behavioural customer service training, tailored to individual roles and covering topics that include building trust, making better connections with customers and having confident conversations. In recent months we have trained more than 350 people,

CASE STUDY

JOSEPH

“At my old school I was predicted Ds and Es at GCSE and told that I should look for a different school to study my A Levels as I would not achieve the entry requirements.

I found out about GPUTC at my school careers fair and knew I had to have a look as I want to be an architect. My GCSE results were As and Bs (much higher than my predictions) and I now study the Built Environment with A Levels in Physics and Business Studies. My old school did not offer me the opportunity to study the Built Environment in a grown-up environment where I get to work with sponsors and learn from people in industry.”

with more planned for the summer and autumn of 2017.

Providing customers and regulators with confidence in our technical and professional abilities is also a key strand of our training and development strategy.

Our Licence to Operate programme plays an important role, setting benchmarks for competency in specialist and management skills. It also ensures a link between individual expertise, compliance improvement, risk reduction and customer service.

We work with a number of professional bodies to ensure that Continuing Professional Development is embedded in our organisation. This is exemplified by our work with the Institute of Water, with whom we now have 34 chartered scientists, 22 chartered environmentalists, seven registered scientists and 18 employees registered at technician level. Another 169 are working towards registration. We also have professional development programmes in place with CIWEM,

the Institution of Mechanical Engineers (IMechE) and the Institution of Engineering and Technology (IET).

The IET has awarded a certificate of approval to our Maintenance Apprentice programme, which means all apprentices progressing through the scheme can register directly for IET registered engineer status as part of their route towards chartered engineer.

Transforming our leadership

Strong leaders play a vital part in creating a company in which people can succeed. We have just completed a two-year Transforming our Leadership programme for 180 of our senior managers, focused on the leadership capability needed to build high-performing teams. Topics covered included change, personal resilience, innovation and collaboration.

The programme has been so successful we are now rolling it out to a further 110 people, together with a similar 18-month programme for 750 front-line managers from across Anglian Water and our alliance partners.

WATER INNOVATORS

For the second year running, a team from Anglian Water won the industry-wide Water Innovators challenge, set by the charity WaterAid. A number of our graduate management trainees took part, solving a water supply challenge in Cambodia, which is one of the countries where WaterAid works.

The task was to overcome the reluctance of staff, patients and visitors at Cambodian hospitals to use the mains water supply. Their solution was a drinking water station that was hard-wearing and easy to install, use and maintain. It was also shaped to allow people to fill the bottles and cans they had previously used to bring water into hospital.

Easy and quick-to-read manuals were given to hospital staff, who pledged to lead by example and use the stations. Directional prompts such as footprints on the floor and arrows on walls are also used to encourage take-up.

Taking part in the challenge also helped the team to develop their presenting, collaborative and commercial skills. Project Manager, Nick Sexton, was part of the team. He said: "It was a great opportunity to give something to WaterAid other than money that they can use to benefit communities."

Gender diversity

Despite the Company being a highly engineering-biased organisation, women are represented at all levels. As part of our focus on gender diversity, delivered through the implementation of our diversity plan, we are seeing an overall increase in female employees, representing 31 per cent of the total workforce and 32 per cent of our people managers. With a low attrition rate, the profile will not change radically over the next few years, but we are seeing a year-on-year increase in the number of female applicants to traditionally male roles, and many of our successors to more senior roles are now identified as female. Currently 25 per cent of our Executive Directors are women, and female Directors represent 17 per cent of the Anglian Water Services Board.

THE YEAR IN REVIEW

Modern slavery

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

CASE STUDY

JOANNE

Joanne Theobald is Performance Director for Public Sewer Services Ltd, part of our IMR Water Recycling alliance. This year she was awarded the Anglian Water Supplier Award for Personal Contribution.

She said: "I feel extremely privileged to have been part of the Transforming our Leadership Programme and to have been accepted as part of the Anglian Water family.

"Along with testing new ways of leading, the forward-thinking programme took a refreshing look at our own leadership styles and its influence on others. After every session, I felt energised and motivated with a lasting desire to share this knowledge and inspire the leaders of the future."

Sustainability in action - our long-term commitment to communities

We aim to make a long-term difference to the communities in which we work. This can be seen in our education programme, our employee volunteering programme and our work on projects such as Wisbech Beyond 2020, which has helped that community create their vision of the future.

Ten years of working with local schools

Our education centres at Chelmsford and Leighton Linlode opened in 2007 to engage current and future customers on issues such as water conservation and responsible use of the sewer network. We are also improving the prospects of many more young people through long-term partnerships with schools in our region; widening students' horizons, extending their aspirations and equipping them with valuable skills for later life.

Our Community Education team has seen 355,693 people since it formed, including more than 28,000 children in 2016/17. The team carried out 270 school visits last year, delivering free sessions in more than 170 different schools. The programme continues to evolve in response to changes in the curriculum and to business needs. In 2016/17, there was a focus on science, technology, engineering and maths (STEM) related activities, linked to employability skills and expanding students' knowledge of careers within Anglian Water.

We support National Women in Engineering Day and this year we invited more than 200 students from seven Huntingdonshire secondary schools to take part in science and engineering challenges, meeting engineers from Anglian Water and our alliance partner companies. The children completed a range of challenges and were encouraged to consider engineering as a career. As a result, 99 per cent of the girls who attended said they learnt something about engineering and 94 per cent were more positive about it.

Creating a lasting legacy in Wisbech

For the last four years we have worked in collaboration with the local community to identify and confront some of the biggest challenges facing the town of Wisbech.

Our first step was to establish a weekly jobs café and an annual jobs and skills fair. In 2016, the jobs café alone enabled 147 people to find a job and supported 928 towards employment. It has also identified the impact poor transport links have on aspiration and attainment in the community. We brought together our supply chain companies with local community and educational leaders, the local council and MP to launch a campaign to reconnect the town to the rail network. This was integrated into council travel plans, won funding through devolution deals and progressed into Network Rail's investment appraisals process.

We have also supported the council and the local community in exploring what sustainable, resilient development could look like. This has resulted in a proposal for a new, climate-resilient Garden Town development, which will shortly be submitted to the Government.

Love to Help

Love to Help, our employee volunteering scheme, is another way we make a positive contribution to local communities. The majority of our employees live in the region and are part of the communities we serve.

We had a 77 per cent increase in Love to Help registrations this year. Volunteers supported a number of different organisations and charities, including WaterAid, organising our Annual Ball for the charity. In 2016, the event raised £501,000 to help bring clean water, sanitation and hygiene education to people around the world.

London Benchmarking Group

Along with more than 200 other businesses, Anglian Water is a member of the London Benchmarking Group – an evaluation framework for measuring and understanding our contribution to local communities.

Using this framework, we can see how volunteering also improves employees' wellbeing and furthers their personal development. In a survey, 92 per cent of the Love to Help volunteers who responded reported an increased sense of wellbeing, 96 per cent developed new skills, 100 per cent said they were more likely to recommend volunteering to a friend and 92 per cent felt they made a positive difference to their local community.

Our RiverCare and BeachCare programmes bring benefits to the environment and to the local people who volunteer for them. In a survey, 94 per cent felt there had been visible improvements to their local environment, 89 per cent felt there was an increased sense of community and 93 per cent felt they had increased their knowledge and learnt new skills.

Being a responsible business in the community

For many years we have been active in the Prince of Wales' Responsible Business Network, Business in the Community (BITC). We have been particularly active on wellbeing, with Peter Simpson chairing their leadership team; on their Water Taskforce; and on the new Circular Economy Taskforce.

Every year BITC celebrates leadership in responsible business. This year we are honoured to be a finalist in the Environmental Leadership category, in recognition of our approach to sustainable growth, low carbon design, energy efficiency and renewables. We are also in the running for Responsible Business of the Year, thanks to our work embedding sustainability throughout our company, increasing resilience, engaging communities and championing collaborative innovation.

Health and wellbeing

The health and wellbeing of our people is vital to the success of Anglian Water and we have a coordinated strategy to look after their physical, mental and financial wellbeing.

This is informed by our work to engage employees, including surveys to better understand what different groups of people need. We have also run a number of roadshows and provided skills-based development to help our managers better support their teams.

Mental wellbeing

We are determined to take the lead in promoting the importance of mental wellbeing at work and support a number of initiatives aimed at removing the stigma and culture of silence around mental health.

Our Chief Executive, Peter Simpson, is Chair of Business in the Community's Wellbeing Taskforce and this year we were a sponsor of the charity's first National Employee Mental Wellbeing survey. This heard from nearly 20,000 people across the UK about mental health at work and will be repeated for the next three years.

The survey found 77 per cent of employees have experienced symptoms of poor mental health in their lives, with 62 per cent saying work has been a contributing factor. Despite this, 56 per cent of employees who disclosed symptoms of poor mental health said that their employer took no mitigating actions and only 22 per cent of managers have had relevant mental health training.

At Anglian Water we believe there is both a moral urgency to act on mental health and a clear business case for doing so. As well as improving people's lives, better mental health means a more productive, competitive and progressive business in the long term.

We have supported a variety of mental health initiatives, including the Time to Talk campaign, which reminds people they don't have to be an expert to talk about mental health with colleagues.

Financial wellbeing

We know that financial stress can affect people's wellbeing and we provide a number of services to help our employees.

This year we have teamed up with Neyber, which works with companies to offer affordable borrowing to employees, with repayments taken directly from monthly salaries. Loans might cover a large purchase, such as a car, or be used to consolidate existing debts into something more manageable. Terms are based on how much people can afford to repay each month and the arrangements are completely confidential. Anglian Water simply sets up the monthly deduction from an employee's salary.

The Company also offers interest-free borrowing to help employees with learning and career development.

Staying 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.

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

Living in an Injury-Free Environment (LIFE)

Over the last year, many Anglian Water employees have taken part in LIFE, a cultural change programme run across our capital delivery alliances with the aim of making health and safety personal, relevant and important.

Individuals are asked to look at their attitude to health and safety, at the choices they make, and to take responsibility for the wellbeing of themselves and their colleagues. It is based on building relationships with the people you work with, making it easier to look out for each other, encourage healthy behaviour and challenge things that are unsafe.

What began as a behavioural safety initiative among our alliance partners has now evolved into something long term that will underpin the way both we and our partners do business, encompassing all our employees and offering them help, support and advice around the choices they make.

Process safety

Anglian Water has championed process safety in the water industry, leading a renewed focus on improving the management of hazardous plant and processes.

In 2016, we organised a 'Back to Basics' conference, which attracted 180 delegates. Keynote speakers included our own Chief Executive and President of the Institute of Water, Peter Simpson, and leading experts from outside of the water industry, all sharing their valuable experience and knowledge.

The event included a meeting of senior water industry leaders, who pledged to work together "to protect people and the environment through a continued focus on integrity, reliability and safety of hazardous plant and processes."

Another conference is planned for 2020 to review progress and share new learning.

We also organised workshops for the water industry on key elements of good process safety, and set up the industry's first ever process safety network.

There is a lot to learn from sharing with other sectors, so in 2016 we began to talk about our experience at regional and national events.

We are committed to the principle of continuous improvement and to embedding a leading process safety management framework and culture across our business.

Among the best in the business

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

For the 13th consecutive year our health and safety performance has been recognised by the Royal Society for the Prevention of Accidents (RoSPA). This year we are delighted to have been awarded a Gold medal. This places our health and safety performance among the very best in the industry.

Safety in numbers

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

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

The number of actual accidents was three, compared to none last year. There was also an increase in the number of near misses, which brought the number of such Category 1 incidents to 13, up from seven last year.

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

THE YEAR IN REVIEW

Our Occupational Health and Safety teams have been restructured to bring a clearer focus on high-risk areas alongside a continued emphasis on health and wellbeing.

Our time lost to sick absence was an average of 4.39 days per employee, which is the lowest in the industry. Reasons for this include the

provision of a medical scheme for all employees, alongside a range of other services available through our Employee Assistance Programme. There is also close working between our HR and Occupational Health teams to support employees returning to the workplace.

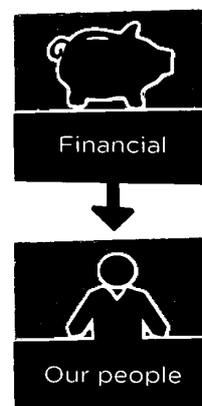
MEASURE AND TARGET	2016/17	2015/16	2014/15
Category 1 incidents - ≤10	13	7	4
The number of accidents and very serious near misses that resulted or could have resulted in death, major multiple fractures, amputation or permanent disability. This year, we had three Category 1 injuries.			
Accident frequency rate - 0.18	0.12	0.11	0.16
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	4.39	4.26	4.79
The average number of working days lost per employee due to sickness.			

CASE STUDY

THINK FIRST

This year saw the launch of the Think First campaign to reduce injuries at water recycling centres. The campaign will see employees spray exclamation marks next to heavy or awkward assets like manhole covers and valves that could present a manual handling issue.

All site employees are trained in manual handling and risk assessment, but this is a simple and effective extra step, pointing out where people might need to take extra care or get support from a teammate.



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

**GETTING IT RIGHT
FOR YOU**

**INVESTING
FOR TOMORROW**

PERFORMANCE HIGHLIGHTS

Second record-breaking year for water recycling centre compliance

Sharp fall in coliform failures at water treatment works

Formed new technology alliances with some of our major IT partners in an industry first

PERCENTAGE OF SEWERAGE CAPACITY SCHEMES USING SUSTAINABLE SOLUTIONS

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

TARGET
(BY 2019/20)
25%

ACTUAL
25%

POLLUTION INCIDENTS

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



INTERNAL FLOODING

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



NUMBER OF PROPERTIES (THREE-YEAR AVERAGE)

EXTERNAL FLOODING

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



NUMBER OF PROPERTIES (THREE-YEAR AVERAGE)

THE YEAR IN REVIEW

Our capital expenditure programme is focused on maintaining and improving our assets and services, on ensuring we can deal with growth, and on meeting water quality and environmental standards. This AMP, we have committed to a £2 billion programme of investment to deliver our Business Plan.

To deliver the outcomes our customers want demands the closest possible collaboration between us, our suppliers and our contractors. The majority of the investment programme will be carried out by our delivery alliances, which will help provide our services until 2020. These differ from alliances elsewhere in the industry, with an unparalleled degree of integration and alignment, and the opportunity for longer-term collaboration to 2030.

Our alliances have been tasked with finding further efficiency savings, going beyond those delivered in AMP5, and we are constantly working to become ever-more efficient, challenging ourselves and setting stretching goals. The emphasis is on the low carbon, low whole-life cost and on-time delivery of schemes while ensuring we meet quality standards.

IT alliance

Following the success of the alliancing approach to capital delivery, we have now formed new technology alliances with some of our major IT partners, including Cognizant, Aimi, Capgemini, DXC and Atos.

It's the first agreement of its kind in the IT industry, with senior leaders from each organisation forming cross-partner teams to collaborate on programmes to deliver digital transformation, end user computing and customer engagement - pooling their strengths and specialities.

This collaborative approach is a move away from the traditional, project-by-project approach, and aims to ensure the right person is chosen to develop the right IT solution for Anglian Water, regardless of their home organisation.

Future-proofing our services

For the remainder of AMP6, we will continue to invest heavily to increase the resilience of our services and protect customers' supplies in the face of growth and climate change.

This includes work to:

- reduce the number of customers who can only be served from a single treated water source
- 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.

Looking forward to the rest of this five-year period, we will continue to invest to safeguard customers' supply in vulnerable areas of our region, both alone and in partnership with other water companies.

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 approach, which 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.

Gross capital expenditure for the year was £381.2 million, compared to £265.6 million in the first year of AMP6. This is broadly in line with management expectations and reflects a solid performance in the delivery of efficiency.

Significant projects during the year included the Grafham resilience scheme, the design of a major scheme to protect water supply at our Norwich Water Treatment Works, and work to meet our regulatory obligations to prevent the deterioration of water quality in our environment.

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.

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 198.

SERVICEABILITY

ABOVE GROUND/NON-INFRASTRUCTURE

WATER

GREEN

TURBIDITY
(CLOUDY WATER)

GREEN

COLIFORMS
(AT RESERVOIRS)

GREEN

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

AMBER

INTERRUPTIONS
(> 12 HOURS)

AMBER

BURST MAINS

GREEN

CONTACTS:
DISCOLOURATION

GREEN

DISTRIBUTION
MAINTENANCE
INDEX

WATER RECYCLING

GREEN

SEWER COLLAPSES

GREEN

SEWER BLOCKAGES

GREEN

POLLUTION
INCIDENTS

GREEN

INTERNAL
FLOODING

Water

Throughout the year, we have delivered good performance at our water treatment works and across our networks. This included the number of works coliform failures, which fell from eight last year to just three, following improvements to our treated water tank inspections. More details can be found on page 37.

However, the increase in burst mains caused by the dry autumn and cold winter saw us exceed the upper control limit for this measure and for the measure on interruptions to supply of longer than 12 hours. This means we will incur a penalty on our water infrastructure serviceability ODI.

FULL STEAM AHEAD

Since the start of 2008, we have used steam boilers, rather than thermal dryers, to treat sludge at our water recycling centres. The boilers are more sustainable, effective and cheaper to run.

This year we began to roll out a Boiler Operative Accreditation Scheme, which allows our boiler attendants to train to become boiler operators. Four have already qualified, meaning they can perform a much wider range of tasks on site.

This removes the need for trained operators to travel from site to site, increasing the efficiency and safety of our operation. We aim to have a boiler operator at every site and on every shift by the end of AMP6.

Water recycling

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

This year was one of the best for compliance for the quality of water discharged from our water recycling centres. We sample the quality of the recycled water at 723 sites and the results are used as a measure by the Environment Agency to assess our performance. In 2016, we recorded the lowest ever number of failing works – three, compared to six in 2015 and nine the year before.

This strong performance is a result of proactive management of our water recycling centres. Data from samples taken on site is combined with that from telemetry and lab samples to produce regular reports that let us see how 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.

Due to the importance of this work, we have developed Scientific Licence to Operate schemes. Our scientists are encouraged to work towards Chartered Scientist status with CIWEM and the Institute of Water.

Improving the efficiency of our water recycling centres has been a key focus this year. Operational teams have found and delivered efficiencies that have reduced chemical costs, improved operational performance and maintained compliance.

To help them, we put 181 key team members through our Love Every Minute training, which is based on LEAN ways of working, which eliminate waste and increase efficiency by weeding out actions and processes that do not add value for customers.

The training gives the people on the ground the skills to make incremental changes that improve efficiency and performance of our sites and equipment. It also helps to foster a culture of continuous improvement and focus on efficiency. Making operational teams central to this optimisation programme ensures any changes are rooted in operational experience and are owned and maintained by the technicians running the sites.

As a result, we delivered £2 million of efficiencies across water recycling this year, capturing more than 270 examples in a central system so that best practice can be shared across the Company.

We also have a large number of schemes under way 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.

Preventing pollution

After last year's dramatic fall in Category 3 incidents, performance remains ahead of our ODI target, which is to have no more than 298 such incidents by 2017/18.

Extreme weather events in March and June 2016 led to a number of network and pumping station issues that helped to push numbers up from 144 to 217 – well below the 390 we saw in 2014. It also means we have beaten our target for the year of 335.

Performance is encouraging and our priorities remain the same: a continued focus on predictive analytics, which allow us to use information on past pollutions to predict where we may have problems in the future, and on proactive mitigation.

The number of Category 2 incidents dropped slightly from nine to eight, although there was one Category 1 incident during the year. A failure at a pumping station on the inlet to one of our water recycling centres led to untreated sewage escaping through an emergency overflow and into a brook.

Following a successful joint audit with the Environment Agency, all operational teams in Water Recycling have received a detailed briefing on and guide to identifying, escalating and capturing evidence relating to pollutions.

Our Pollution Watch campaign continues to raise public awareness about the causes of sewage pollution, the impact it has and the signs to look out for. The phone line for people to call if they spot any of these warning signs has been used to great success. One call alerted us to a discharge from Glooston Water Recycling Centre in Leicestershire. We were able to quickly repair the fault responsible, preventing an environmental impact.

This year continued to see record-breaking penalties following prosecutions brought by the Environment Agency. The courts have made it clear that failure to bring improvements will lead to fines large enough to have a significant impact on water company finances. We had a third successive year without any prosecutions.

Enforcement undertakings

Enforcement undertakings are donations to local environmental organisations, which we make to compensate for damage caused by pollution. Donations like this make a real difference locally rather than going into central government coffers. These donations are agreed with the Environment Agency. This year we donated £320,000 through enforcement undertakings.

We will continue to drive towards our goal of no pollution.

Sewer flooding

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

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

Investment has been targeted in areas where properties are vulnerable to flooding caused by storms, and by the failure of assets such as local sewage pumping stations. Households are also being provided with Keep it Clear information packs, explaining the problems that can be caused by sewer blockages and the steps people can take to reduce them and protect themselves from flooding.

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

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

Two years into the AMP, we are beating our target for both internal and external flooding. The current three-year rolling average for internal flooding events is 430 against a target of 448 for the end of 2019/20, while the figure for external flooding stands at 5,464 against a target of 6,159 for the end of 2019/20. This is very encouraging, especially given the exceptionally high rainfall throughout late May and June 2016. Nevertheless, such extreme weather remains a threat.

Private pumping stations

In October 2016, Anglian Water became responsible for many sewage pumping stations which had until then been privately owned. 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 did not result in a sudden, dramatic increase in workload, we worked hard to find and adopt as many as we could before the transfer date.

This was a big task, which first involved finding and seeking permission from the former owners. Often this meant requesting data from the companies that maintained the pumping stations for them. In other cases, the owners were unaware their property was served by a private pumping station or that they were responsible for it.

We ran 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.

To date, we have identified just over 1,600 pumping stations, 1,254 of which are eligible to transfer. This has increased the number of stations we operate and maintain to more than 6,200.

By March 2017, all of these stations had been surveyed and more than 500 had been upgraded. The specifications and condition of these stations varied widely and we need to get them all into a safe and serviceable condition. Our priority for the coming year is to complete work at the remaining sites and connect them to our telemetry system, which provides around-the-clock monitoring. In the meantime, we are working hard to keep them operational, and to ensure customers are not affected during the works or if there are problems with any of the stations.

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.

Fighting the floods

Flooding from surface water and sewers is a complex problem. It requires close cooperation with other organisations to reduce the threat of disruption to our services. We collaborate with the Environment Agency, Internal Drainage Boards and the 22 Lead Local Flood Authorities in our region to support flood prevention projects with benefits for our customers.

In the last 18 months, flooding has rapidly risen up the Government's agenda, with two national reports calling for changes in the way flood risk management is undertaken in England.

The National Flood Resilience Review (NFRR)

The Government published the NFRR in response to the winter floods of 2015/16. It looks at the level of protection for critical infrastructure and the use of temporary flood defences.

It does not, however, deal with homes or businesses and also ignores the risks from pluvial flooding, which is caused when drainage systems are unable to remove surface water fast enough during extremely heavy rainfall. This is the type of flooding most likely to affect our customers. Indeed, more properties are at risk from this kind of flooding nationally than from river and coastal flooding combined.

Since 2010 we have significantly increased the resilience of our assets to flooding, and will continue to do so. However, with planned improvements not due to be completed until 2018, many of our sites remain at risk. To protect them, we have bought 300 metres of temporary flood barrier, which was deployed for the first time at King's Lynn Water Recycling Centre during a tidal surge in January.

The NFRR will influence our plans for AMP7. We are currently discussing how we will manage the resilience of our assets in future years and will be seconding someone to work with Defra on the outcomes of the review.



Future flood prevention

November 2016 saw the publication of the *Future Flood Prevention* report. This was the result of the Environment, Food and Rural Affairs Select Committee's enquiry into how England can better prevent serious flooding and improve the resilience of communities at risk from floods.

It includes three recommendations that we had called for as part of our oral evidence to the enquiry. These were:

- making water and sewerage companies statutory consultees to the planning process
- removing the automatic right of developers to connect surface water to the public sewerage system
- providing clarity about the adoption of sustainable drainage systems (SuDS) on new developments.

Instead of traditional concrete storage tanks and bigger pipes to increase the capacity of sewerage systems, SuDS involves low carbon alternatives like rain gardens, and uses the landscape to improve surface water drainage by channelling excess water away from homes and businesses.

SuDS and so-called super SuDS that serve a number of developments allow a much more strategic approach to drainage. They can also help to unlock building and growth. Too often the building and adoption of SuDS is hampered because it is not clear who is responsible for their delivery, adoption and maintenance.

Action at a national level to clarify responsibilities around SuDS would encourage their use, as would removing the automatic right for developers to connect to the public sewer system. This – and the lack of full involvement in the planning process – can mean houses are built without enough consideration for surface water flooding. In fact, they can make flooding more likely, especially during extreme weather.

In order to manage run-off from existing urban areas, we have set ourselves a target for AMP6 to deliver 25 per cent of our sewerage capacity schemes using sustainable solutions. This is a challenge, as such an approach has never been tried before. We have delivered five schemes using sustainable solutions so far this AMP.

LEARNING FROM THE NETHERLANDS

In November 2016, we led a study tour to the Netherlands to learn from their experiences of flood risk management.

Representatives from more than 20 different organisations were able to see how the Dutch have dealt with flood risk in coastal, urban and rural environments, on new developments and in retrofit schemes. The experience is influencing our thinking and work across the region.

One visit took us to the Eendragtspolder, which is an international-standard rowing lake, a flood storage reservoir that protects Rotterdam and an important bird habitat. The polder also has the ability to provide water resources in times of drought. We are interested to see if such a multifunctional approach could be applied to our work in the Black Sluice catchment in South Lincolnshire (see page 48).

Meanwhile, in Wisbech, state-of-the-art modelling developed in the Netherlands will inform the design of a possible new community in what would be a flood-prone area.

A FINANCIALLY RESPONSIBLE, EFFICIENT BUSINESS EARNING FAIR PROFITS

FAIR PROFITS

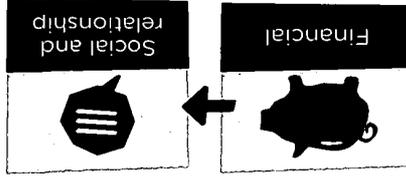
GETTING IT RIGHT FOR YOU

PERFORMANCE HIGHLIGHTS

Bills at £1.15 a day on average for 2017/18

Total direct and indirect tax contribution of £210 million

Efficiency savings keep operating costs broadly level with last year, despite increasing inflationary pressures



Any rewards from ODs come as a direct result of delivering an improved performance or service levels, all of which are beneficial to customers, the environment or both. Our capital delivery alliances have been tasked with finding further efficiency savings, going beyond those delivered in AMP5, while our search for sustainable efficiencies throughout the business has also seen us hold our operating costs broadly at last year's level.

- improve our customers' experience when interacting with us
- strengthen the management of our networks and the assets that underpin our service to customers
- enhance resilience.

Efficiencies are either reinvested to improve service for customers or shared 50:50 with customers at the start of the next AMP, helping to keep bills down. In addition, our focus on sustainable savings that can be maintained over the long term will help reduce our cost base in 2020-2025. Our focus on innovation and our ground-breaking approach to our capital delivery alliances have already delivered significant efficiencies in the first two years of this AMP. In line with the approach taken in previous AMPs, and reflecting what customers are telling us during the ongoing customer engagement process, the Board has decided to invest an additional £100 million over the rest of the AMP to:

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

The money we can raise from bills, along with how much we are allowed to invest in our service, is decided every five years through our economic regulator Ofwat's price-setting process and set out in our Final Determination. Any regulated wholesale revenue raised over and above the agreed amount is returned to customers through something called the revenue correction mechanism. Any profits, and returns to investors, that we make in excess of those derived from allowed pricing come from:

Sharing the rewards

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.

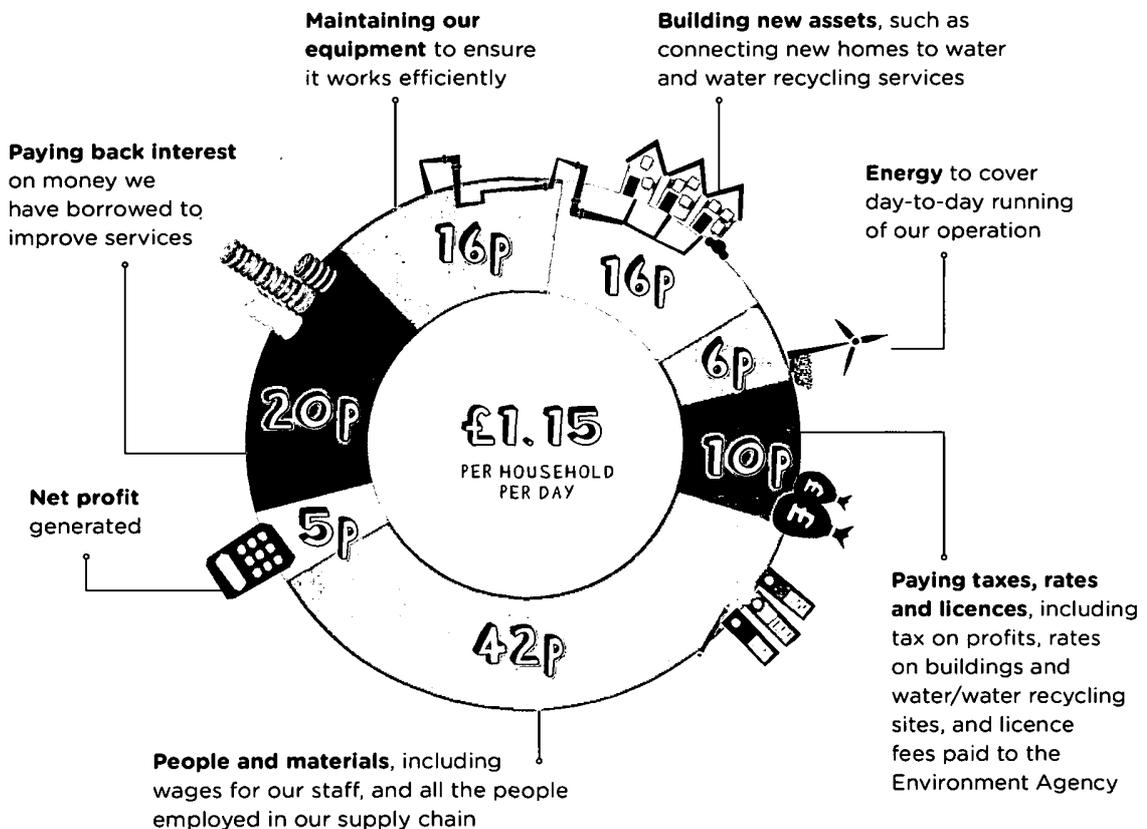
When the industry was privatised in 1989, Anglian Water had one of the highest average bills in the industry. By 2020, our average bill will be lower than the industry average. For 2017/18, bills will be £420 on average, or £1.15 a day, of which just 5p is net profit.

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.

Based on the average household bill in 2017/18, water and sewerage charges will cost £1.15 per day. This is how we spend that money:



THE YEAR IN REVIEW

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

Private investment also effectively spreads the cost of extending and improving our assets over their operational life. In this way, tomorrow's customers pay for tomorrow's use of the asset rather than today's customer having to pay for the building of an asset.

We currently have a strategy to reduce the percentage of debt compared to our Enterprise Value, which is known as Regulatory Capital Value. This means shareholders forego potential dividends and allow that money to be used to reduce the amount of the new borrowing required to fund our capital investment programme. We are doing this to ensure we remain highly regarded by debt lenders and that we can access debt at the cheapest possible price.

We actually spent less on capex than we originally intended in 2016/17. This was partly due to the delivery of efficiencies, but also the result of a deliberate move to flatten a peak in year two of our five-year programme. This will allow better management of resources, meaning we can deliver the work more efficiently.

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. Our customers directly benefit from the deferral as it helps to keep bills lower.

Anglian Water is committed to complying with tax laws in a responsible manner and to having open and constructive relationships with tax authorities. We support the principle behind multilateral moves towards greater transparency that increase understanding of tax systems and build public trust. Further details of our tax strategy can be found on our website.

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.

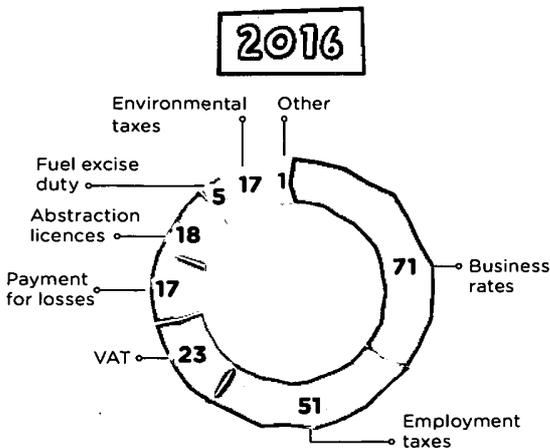
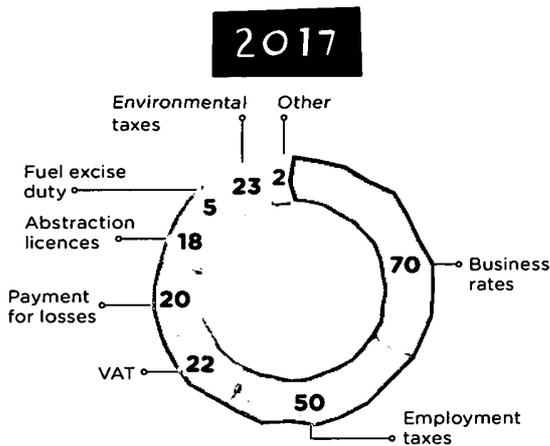
Total tax paid or collected in the year to 31 March 2017 amounted to £210 million (2016: £203 million), of which £57 million was collected on behalf of the authorities for value added tax (£22 million) and employee payroll taxes (£35 million).

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

- business rates of £70 million paid to local authorities. This is a direct cost to the Company and reduces profit before tax.
- employment taxes of £50 million, including £35 million of employees' Pay As You Earn (PAYE) and National Insurance Contributions (NIC) collected from salaries paid. In addition, Employer NICs of £15 million were charged approximately 72 per cent to operating costs, reducing profit before tax, with 28 per cent capitalised to fixed assets.
- VAT of £22 million collected and paid to HMRC. VAT has no material impact on profit before tax
- payments of £20 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
- abstraction licences and direct discharges of £18 million. This is a direct cost to the Company and reduces profit before tax
- Fuel Excise Duty (FED) of £5 million related to transport costs and charged to operating costs, reducing profit before tax
- environmental taxes of £23 million were charged to operating costs, reducing profit before tax.

AWS total tax contribution

Figures in £ million



RISK MANAGEMENT AND BUSINESS VIABILITY STATEMENT

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 or principal risks are escalated from the business unit risk registers to be recorded in our top-tier risk register, which is reviewed in detail twice a year by the Anglian Water Services Board.

To provide the Management Board with an overview of the risk landscape, we have mapped the top-tier risks onto a Strategic Business Risk Map. The Risk Map also includes business-wide risks which, although not so significant as to be top-tier risks, the Management Board wishes to keep on the 'radar'. This overview is reviewed on a monthly basis by management to ensure we have identified and created coverage of all

significant risks in the business, and can readily identify new risks, see any changes in risks, review our progress in delivering mitigation actions and maintain relevant business controls. This Map will remain dynamic as new risks emerge or there are significant changes to our mitigation actions or controls.

Risk appetite

Anglian Water is exposed to a variety of uncertainties that could have a material adverse effect 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.

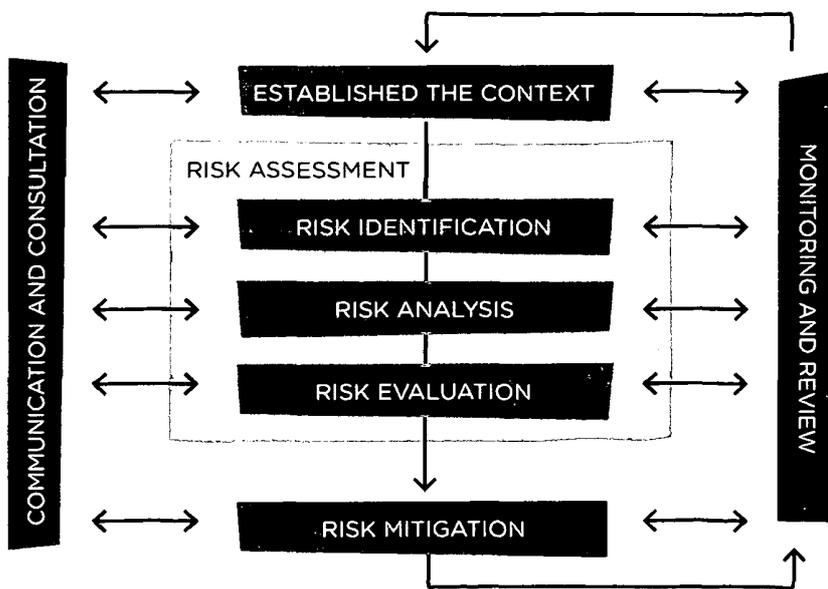
For each risk, we review our current level of risk and how our controls provide assurance around our management of that risk. Where a gap exists between our current position and our mitigated target, we instigate actions to close any risk gap. The discussion relating to any risk gaps informs the basis on which we establish our risk appetite.

Principal risks are identified and specific risk tolerance levels set for each risk. These principal risks are discussed in a subsequent section. There may be occasions when a level of risk is acceptable, 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 to support its decision making.

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:



RISK MANAGEMENT AND BUSINESS VIABILITY STATEMENT

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 2015 Code.

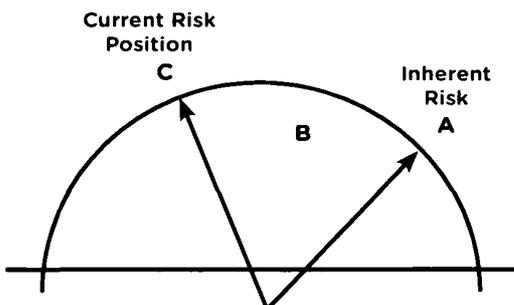
The Board has met regularly during the year and has assessed the level of risk that it is willing to accept in respect of our 10 strategic outcomes for customers and the environment. For each strategic outcome, we have identified the principal threats that might put the achievement of those outcomes 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.

Principal risks

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

- water sector reform and other legislation
- financing our business
- long-term supply and demand resilience
- regional growth
- pollutions
- failure to deliver our AMP6 plan
- reputation
- health and safety
- talent and succession
- water quality
- cyber security.



Key:

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

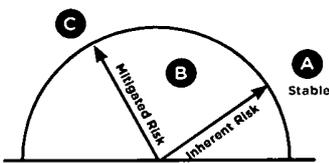
- A** An indication of the direction of the inherent risk - i.e. worsening/improving over the past year
- B** Status of the actions to controlling the risks
- C** Status of current risk position

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

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

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

WATER SECTOR REFORM AND OTHER LEGISLATION



Outcomes affected by this risk:



(A) INHERENT RISK DESCRIPTION (AMBER)

We keep abreast of all new legislation passed by Parliament and ensure we comply with existing laws that affect all businesses, including the Competition Act, the Data Protection Act and the Bribery Act. In addition, the Water Act 2014 enables further competition within the water sector. For example, all business customers have the ability to choose their retail supplier from April 2017. The 2014 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. While the unmitigated impact of this risk has not changed over the past year, there remains a level of uncertainty around the risk, particularly with market reform and hence an amber status.

(B) CONTROLS AND MITIGATION (GREEN)

We carefully manage compliance with current legislation and continue to monitor new legislation. Where possible, we seek to influence forthcoming legislation, 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.

During the year, we circulated a compliance manual to all employees entitled *Making the Right Choices*. All senior managers have been required to confirm that employees within their business unit have taken appropriate steps to comply with the policies that are referenced in the manual.

We have a clear governance strategy to ensure compliance with the Data Protection Act. 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). The legal director chairs 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.

We continue to be actively involved in the development of market reform across our industry. For example, we have been extensively involved at all levels of the Non-Household Market programme to support the design and development of the retail market. We took the strategic decision to legally separate our Non-Household Business and to create a Wholesale Service Centre (WSC) within our Wholesale Services business unit that provides a single point of contact for all non-household retailers into Anglian Water Services.

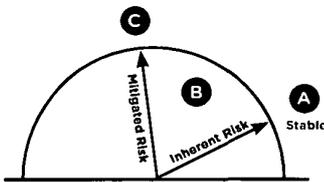
The WSC will ensure that all retailers are treated fairly, and make sure that we comply with the new market codes.

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

(C) CURRENT RISK ASSESSMENT (GREEN)

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

FINANCING OUR BUSINESS



Outcomes affected by this risk:



(A) INHERENT RISK DESCRIPTION (AMBER)

We are funding a totex programme of £5 billion in AMP6 and have a gross debt of £6.5 billion to manage and service. We consider that our risk in financing our business has not increased over the past year, however the volatility in the financial markets and the Brexit vote has led us to maintain a strong focus on this risk (hence an amber status).

(B) CONTROLS AND MITIGATION (GREEN)

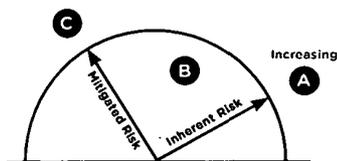
It is critical that we have robust financing and liquidity management arrangements in place. Revenue from our customers, together with the proceeds of new debt raised, will finance the totex programme. We are funded predominantly by debt in the form of long-term bonds and other debt instruments, with equity (shares) making up the balance of our Regulatory Capital Value. We ensure access to a diversified source of debt across a range of maturities to minimise the refinancing risk, and interest rates are predominantly fixed, either to RPI or fixed notional levels. Net debt accounts for approximately 79 per cent of our Regulatory Capital Value as at 31 March 2017 as measured in our financial

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

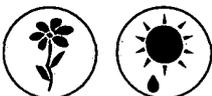
(C) CURRENT RISK ASSESSMENT (GREEN)

We are satisfied with our current risk position and with the necessary actions and controls we have in place. We will continue to monitor external factors that may impact the business; we will test and audit compliance with legislation to maintain a strong level of assurance; and we will highlight any areas requiring action.

LONG-TERM SUPPLY AND DEMAND RESILIENCE



Outcomes affected by this risk:



(A) INHERENT RISK DESCRIPTION (AMBER)

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

(B) CONTROLS AND MITIGATION (AMBER)

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

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.

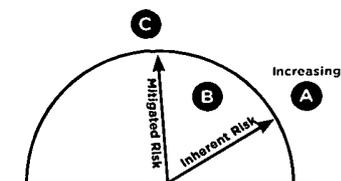
It is still vital that we prepare for severe weather, both today and in the future. Our Resilience Steering Group takes an overview of activities to manage resilience risks while our Flood Emergency Response Plans are in place and are regularly reviewed for both Water and Water Recycling higher-risk 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 20MI/d to 172MI/d by the end of AMP6, which helps mitigate the impact of extended dry periods. However, the current level of risk of drought is material (hence an amber status).

(C) CURRENT RISK ASSESSMENT (AMBER)

While we are seeing changing weather patterns affecting day-to-day operations, this risk has not significantly changed over the past year.

REGIONAL GROWTH



Outcomes affected by this risk:



(A) INHERENT RISK DESCRIPTION (AMBER)

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

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

(B) CONTROLS AND MITIGATION (GREEN)

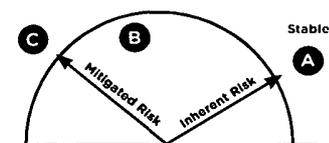
We invest considerable effort in forecasting our supply and demand requirements at a local and a regional level for the next 25 years. We continually assess our investment options to identify the most

cost-effective combination of new water resources, network enhancements and demand management measures to meet this challenge. We are also championing the use of sustainable drainage techniques in place of piped systems, as a more environmentally sound way of managing surface water in our growing region. We are also working as part of the Water Resources East initiative and National Water Resources Long-Term Planning Framework to develop long-term solutions to water resources.

(C) CURRENT RISK ASSESSMENT (GREEN)

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, although the longer term is more uncertain.

POLLUTIONS



Outcomes affected by this risk:



(A) INHERENT RISK DESCRIPTION (AMBER)

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

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

(B) CONTROLS AND MITIGATION (GREEN)

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

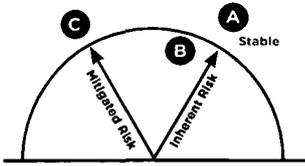
- spending of around £6 million in the last financial year on planned preventative maintenance to reduce blockages and consequent pollutions
- a priority, 'blue light' or fast response for areas with historical pollution risk and/or significant environmental sensitivity

- investment in new technology for remote monitoring of discharges. This has been installed at key points on the network, both inland and coastal. More than 800 locations are now monitored around the clock
- continuing to develop our systems to achieve real-time monitoring and reporting of pollution incidents and to provide a one-stop shop for pollution information, including a reporting app to improve the quality and consistency of information from the field
- aligning our internal processes and procedures to meet changes to Environment Agency guidance
- a 'pollution watch' campaign targeted at the public and river users to encourage earlier engagement with resolution of any potential incident
- making a step change in pollution management by attempting to predict where incidents could occur in our network, with proactive inspections of high-risk assets.

(C) CURRENT RISK ASSESSMENT (GREEN)

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

FAILURE TO DELIVER OUR AMP6 PLAN



Outcomes affected by this risk:



(A) INHERENT RISK DESCRIPTION (GREEN)

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 Outcome Delivery Incentives (ODIs). This represents a significant financial risk to the business if we fail to meet the required standard in a number of areas. 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.

(B) CONTROLS AND MITIGATION (GREEN)

Delivery of our outcomes (and delivery of the ODIs) has required us to adapt our business strategies. We have a detailed programme of investment and improvements to processes, assets and infrastructure. 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.

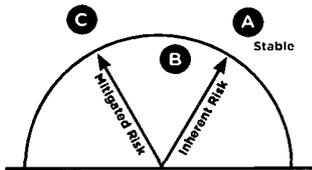
Examples of projects we have implemented include the following:

- 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.

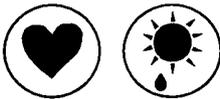
(C) CURRENT RISK ASSESSMENT (GREEN)

We continue to make good progress, and 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:



(A) INHERENT RISK DESCRIPTION (GREEN)

Our success depends on customers and stakeholders thinking well of us, so the credibility and reputation with them is all important. Our Keep it Clear campaign and water efficiency goals are just two of the areas in which we rely on the help and goodwill of customers to succeed. Unwanted media attention, be it from print, broadcast or social media, has the potential to damage our reputation and erode that trust. We have not seen a change in the unmitigated risk during the year.

(B) CONTROLS AND MITIGATION (GREEN)

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

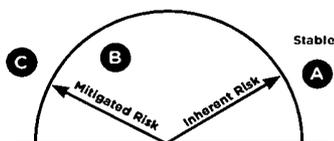
It is important that our senior managers and others in key roles around the business are confident and well informed when speaking to the media and in getting our messages across. We have a media training programme in place for Executive Directors and others responsible for the day-to-day operation of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

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

(C) CURRENT RISK ASSESSMENT (GREEN)

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

HEALTH AND SAFETY



Outcomes affected by this risk:



(A) INHERENT RISK DESCRIPTION (GREEN)

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

(B) CONTROLS AND MITIGATION (GREEN)

Health and safety of our workforce, partners and the general public is a key priority. The Management Board reviews health and safety performance and associated actions monthly, immediately reporting any significant incidents to the Board. Performance is also monitored through our ISO 18001 accredited Safe and Well Management System, with six-monthly external reviews by LRQA.

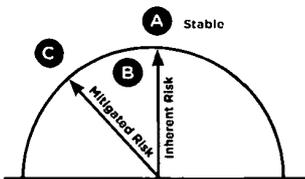
Our management systems track near misses and actions from audits as well as providing access to current policies and procedures. Throughout the business we have a series of health and safety committees that report into the director-led Company Health and Safety Committee, so that issues and concerns 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.

(C) CURRENT RISK ASSESSMENT (GREEN)

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

TALENT AND SUCCESSION



Outcomes affected by this risk:



(A) INHERENT RISK DESCRIPTION (GREEN)

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

(B) CONTROLS AND MITIGATION (GREEN)

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

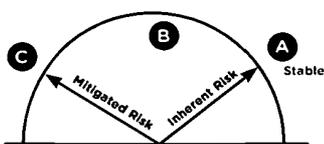
Extensive development programmes are in place, building future talent at graduate, middle and senior management levels, and we continue to invest in career development support for graduates and apprentices to maximise retention and progression. There is also a Diversity Action Plan in place to keep the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

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

(C) CURRENT RISK ASSESSMENT (GREEN)

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

WATER QUALITY



Outcomes affected by this risk:



(A) INHERENT RISK DESCRIPTION (GREEN)

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

(B) CONTROLS AND MITIGATION (GREEN)

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

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

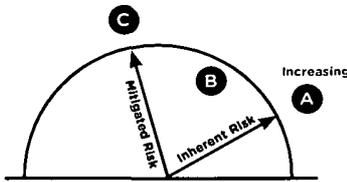
Numerous sub-groups track progress with key water quality programmes of work, for example monthly Storage Point Delivery Group and weekly senior manager-led conference calls track the progress of external and internal water storage point inspection programmes, an area where we have seen significant improvement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

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

(C) CURRENT RISK ASSESSMENT (GREEN)

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

CYBER SECURITY



Outcomes affected by this risk:



(A) INHERENT RISK DESCRIPTION (AMBER)

Cyber risk is a high priority for the business. We are under threat from cyber crime, data theft and IT system failure. We are increasingly dependent on effective IT systems and this risk has the potential to impact all areas of our business including the service we provide to customers. 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 (hence this risk is amber).

(B) CONTROLS AND MITIGATION (GREEN)

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.

As further mitigation, we have disaster recovery plans in place and we regularly test these for effectiveness.

Responsibility for cyber security rests with the Director of Information Services, who is a member of the AWS Management Board. A specialist team is led by the Head of Cyber Security, who reports to the Director of Information Services.

(C) CURRENT RISK ASSESSMENT (AMBER)

As cyber risk is increasing, we have decided to keep the current risk at amber, despite our mitigation. We continue with further training along with cultural and system changes within the business.

SIGNIFICANT FAILINGS, WEAKNESSES AND AREAS OF CONCERN

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

Only risks with a 'red' indicator (see page 80) will be reported as being representative of significant failings and areas of concern, and as at 31 March 2017 no red risks were reported.

RISK MANAGEMENT AND BUSINESS VIABILITY STATEMENT

Business viability

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

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

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

The Directors have assessed Anglian Water's financial viability over the next five years from April 2017 to March 2022, two years beyond the end of the current AMP period in March 2020. This period compares with our assessment over four years for the 2016 viability statement. Extending the look-forward period by one year is considered to be appropriate for the following reasons.

- Ofwat has indicated that a five-year assessment period is appropriate for the water industry, even where this spans two AMP periods.
- For the first three years there is reasonable certainty and clarity, allowing realistic assessments of our principal risks to be made.
- The last two years of the five-year period are outside the current AMP and therefore subject to the outcome of the next price review, which remains uncertain. However, 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 and to meet their financeability gearing ratios. We also have robust business forecasts which cover this period.
- The Board considered whether there are specific, foreseeable risk events relating to the principal risks that are likely to materialise within a five-year period, and which might be substantial enough to affect the Company's viability and therefore should be taken into account when setting the assessment period. No risks of this sort were identified.
- The Board considers the maturity profiles of debt and the availability of new finance over five years and beyond as part of its review of financial modelling and forecasting.

We have set out the details of the principal risks facing our Company on pages 81 to 87, described in relation to our ability to deliver our 10 outcomes. We identify our principal risks through a robust assessment that includes a continuous cycle of bottom-up reporting and review, and top-down feedback and horizon scanning. Through this assessment, priorities are elevated appropriately and transparently. This process is described in more detail on pages 78 to 80.

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

In reviewing its financial viability, Anglian Water considers the stringent covenant tests required under its securitised structure to provide comfort to our bond holders that our business is viable to the end of the current AMP period and beyond, and to ensure the availability of debt to finance the Company's investment programme. At each Regulatory Price Review and throughout the AMP, the Board satisfies itself that the agreed five-year Business Plans ensure adequate covenant headroom throughout the AMP period and beyond. This includes extensive stress testing 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 on pages 81 to 87, including cost shocks, and the likely effectiveness of available mitigating actions
- regulatory risks arising in the next price review and potential cost impacts of Brexit
- cost of debt changes
- significant inflation fluctuations.

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 Directors have satisfied themselves that the business has a reasonable expectation of remaining viable at least to March 2022, 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. The assessment also assumes that our financial forecasts for the two years to March 2022 will be aligned with the final outcome of the next periodic price review.

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.

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

Financial results

The underlying financial results are summarised in the table¹ below:

	2017 Total £m	2016 Total £m
Revenue	1,227.0	1,185.4
Other operating income	14.8	13.5
Operating costs	(565.3)	(560.6)
Depreciation	(311.2)	(297.9)
Operating profit	365.3	340.4
Finance income (adjusted) ²	2.0	3.6
Finance costs ¹	(283.2)	(254.9)
Underlying profit before tax	84.1	89.1

The table below sets out the reconciliation between the statutory income statement (on page 147) and the underlying financial performance as shown above.

	2017 Total £m	2016 Total £m
Profit before tax on an underlying basis	84.1	89.1
Finance costs - fair value losses on financial and energy derivatives	(116.0)	(89.7)
Finance income - intra-group interest receivable	192.3	192.8
Profit before tax as reported in the statutory income statement	160.4	192.2

Revenue for the year was £1,227.0 million, an increase of £41.6 million (3.5 per cent) on last year. This primarily reflects the regulatory increase in customer bills which came into effect on 1 April 2016 together with an increase in the customer base, partially offset by reduced average consumption.

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.

¹ In order to show performance on an underlying basis the fair value gains and losses on 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 18), finance income is shown excluding internal interest receivable by the Group from Anglian Water Services Holdings Ltd of £192.3 million (2016: £192.8 million).

Despite increasing inflationary pressures on costs, operating costs for the year increased by just £4.7 million (0.8 per cent) to £565.3 million. This modest increase is explained in the table below:

Increases/(decreases) in operating costs	£m
One-off credits in 2015/16 not repeating - principally land sales and rate rebates	3.8
General inflationary increases	12.8
One-off market reform costs	4.6
Operating costs of newly commissioned plant	3.0
Private sewers - adoption of private pumping stations	2.3
Power - predominantly price increases	1.8
Insurance - reduced level of claims due primarily to fewer extreme weather events	(5.1)
Annual fluctuation in minor repair activities to maintain water and wastewater below-ground infrastructure ¹	(3.3)
Reduction in bad debt charge	(1.9)
Efficiency savings achieved	(13.3)
Net increase in operating costs	4.7

The bad debt charge for the year was £30.0 million, a reduction of 6.0 per cent compared with last year's charge of £31.9 million. This reflects the strong cash collection performance in the year. Expressed as a proportion of total revenue, the bad debt charge has been reduced from 2.7 per cent in the prior year to 2.4 per cent.

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

Depreciation is up 4.5 per cent compared with last year, consistent with the impact of newly commissioned assets in the year.

Operating profit has increased by 7.3 per cent to £365.3 million, which is consistent with the effect of the regulatory price increase, partially offset by the increases in operating costs and depreciation.

Net finance costs - excluding the intra-group interest receivable of £192.3 million (2016: £192.8 million) and before fair value gains and losses on derivative financial instruments - increased from £251.3 million in 2016 to £281.2 million in 2017. This was primarily the result of the non-cash impact of higher inflation on index-linked debt where year-on-year Retail Price Index (RPI) inflation increased from 1.6 per cent to 3.1 per cent.

There was a non-cash fair value loss of £116.0 million on derivative financial instruments in 2017, compared with a loss of £89.7 million in 2016, 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 driving factors for the higher loss in 2017 compared to 2016 was an increase in forward inflation expectations together with a fall in forward interest rates. During the year, forward inflation rates increased by circa 38 basis points (2016: 4 basis point decrease) and forward interest rates fell by 23 basis points (2016: 28 basis point decrease).

Profit before tax for the year on an underlying basis (i.e. excluding fair value losses/gains on derivative financial instruments and the intra-group interest receivable) was £84.1 million, compared with £89.1 million in the prior year. This reduction reflects the increase in operating profit, more than offset by the increase in finance costs (excluding fair value losses/gains on derivatives) due principally to higher RPI.

¹ IFRSs has increased opex volatility from minor repair costs which, in the past, would have been treated as capex under the old UK GAAP infrastructure renewals accounting rules.

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Taxation

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

Total tax paid or collected in the year to 31 March 2017, other than corporation tax, amounted to £210 million (2016: £203 million), of which £57 million was collected on behalf of the authorities for value added tax (VAT) and employee payroll taxes. All of our taxes are paid as they become due.

Current tax

The current tax charge for the year was £101.5 million (2016: £12.8 million). The increase was mainly caused by disclaiming capital allowances in both the current and prior year in order to utilise the surplus ACT asset held on the balance sheet.

Deferred tax

The deferred tax credit has reduced from £151.6 million to £139.4 million. The prior year included the impact of the reduction in future tax rates used to calculate deferred tax from 20 per cent to 18 per cent, which gave rise to a credit of £122.9 million. The current year includes the impact of the Government decision to amend the 18 per cent to 17 per cent and this gives a credit in the current year of £54.3 million. Without the effect of these tax rate changes the deferred tax

credit has increased from £28.7 million to £85.1 million. The main reasons for this increase were the deferred tax effect of the capital allowance disclaimers made in the current and prior period in order to utilise surplus ACT as well as an increase in the fair value losses on financial derivatives.

Successful second year of AMP6 investment programme

AMP6 gross capex expenditure¹ in the appointed business for the year was £381.2 million (£207.1 million on capital maintenance, £174.1 million on capital enhancement), compared to £265.6 million in the first year of AMP6. This level of expenditure is broadly in line with management expectations and reflects a solid performance in the delivery of efficiency, along with some smoothing of delivery programmes to balance peaks and troughs in workload on our supply chain.

Significant projects worked on during the year include the design of a major scheme at our Norwich Water Treatment Works to protect our water supply and a programme of regulatory obligations to ensure no deterioration in our environment.

We also completed construction of a new storage reservoir to provide resilience for Grafham Water Treatment Works which, once the installation of inline booster pumping stations has been completed in Summer 2017, will make the water supply to customers in the west of our region more secure by allowing the transfer of treated water from our works at Rutland Water to Grafham, should we need it in a resilience scenario.

Over the 2015–2020 five-year period we will be investing over £2 billion through our investment programme, delivering our business plan in terms of both regulatory outputs and in support of our ODIs. As part of that we will be investing over £800 million to support protection of customer supply.

¹ Stated on an IFRSs basis, but excluding capitalised interest and adopted assets.

Market reform

On 1 April 2017 the operations and net assets of the non-household retail business were transferred to Anglian Water Business (National) Limited. This transfer will be reflected in the Annual Report for the year ending 31 March 2018. The assets and liabilities relating to the disposal group are disclosed in the balance sheet.

Financial needs and resources

In the year to 31 March 2017, Anglian Water sourced £414 million of funds in term debt and made long-term debt repayments of £399.1 million. The new funds received 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 US Private Placement funding and a £200 million fixed rate Class B sterling public issuance at 2.625 per cent. The US Private Placement debt was raised in the prior year with a delayed drawdown date of 27 April 2016, which means funds were not received until the current year and, therefore, the proceeds did not appear on the 31 March 2016 balance sheet. Debt repayments comprised: a £5.1 million finance lease repayment and the repayment of the €500 million 6.25 per cent Class A bond maturing in June 2016. In addition, Anglian Water drew down £155 million of its £500 million revolving credit facility and repaid £100 million in the year, leaving a net £55 million drawn as at 31 March 2017.

At 31 March 2017, Anglian Water had net borrowings of £6,811.9 million (£6,045.1 million excluding derivatives), an increase of £272.7 million (£211.5 million excluding derivatives) over the prior year. Net borrowings comprised a mixture of fixed, index-linked and variable-rate debt of £6,474.9 million, derivative financial instruments of £766.8 million (excluding energy derivatives of £24.6 million), and cash and deposits of £429.8 million. The increased net borrowings reflect an increase of £222.3 million in loans and associated costs, primarily relating to new debt raised and the impact of inflation on index-linked debt, partially offset by debt repaid; an increase in the derivatives valuation

of £61.2 million; and an increase of £10.8 million in cash and deposits (which causes net debt to decrease).

The business generated a net cash inflow from operating activities of £632.0 million in the year ended 31 March 2017 (2016: £644.4 million). The reduction primarily reflects the normal fluctuations in revenue working capital where there is a delayed cash-flow impact resulting from tariff increases and decreases. A significant proportion of the tariff increase in 2016/17 is not realised in cash terms until 2017/18, and part of the tariff reduction in 2015/16 was felt in 2016/17.

Distributions

Dividends paid out of the Group for the year ended 31 March 2017 were £128.0 million (2016: £152.2 million), which equates to £12.80 per share (2016: £15.22 per share). In addition, an intra-group dividend of £192.3 million (2016: £192.8 million) was paid and committed to Anglian Water Services Holdings Limited (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 £320.3 million (2016: £345.0 million) have been paid and committed at £32.03 per share (2015: £34.50 per share).

The Directors have proposed a final dividend for the year ended 31 March 2017 of £6.11 per share, which is a total of £61.1 million. This distribution has not been accounted for within the 2016/17 financial statements as it was approved after the year end. In addition, on 3 April 2017 the Company paid a special dividend of £62.2 million to partially fund the transfer of the non-household retail business to Anglian Water Business (National) Limited.

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

FINANCIAL PERFORMANCE

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 requirements of the business are met fully. The overall amount of the Company's ordinary dividends will not exceed the free cash flow (defined as operating cash flow less interest and capital maintenance payments) generated by Anglian Water, and in practice will be limited by its financial covenants. Special dividends may also be paid in addition to ordinary dividends, but these 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.

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 2017, the Anglian Water Services Group held cash, deposits and current asset investments of £429.8 million (2016: £419.0 million). The increase in cash held compared to the prior year reflects the cash generated by the issuance of the £200.0 million 2.625 per cent fixed rate note in March 2017 in anticipation of refinancing maturities in the coming financial year. The reduction in cash held once this is considered is the result of the Company seeking to lower its level of cash in order to reduce its cost of carry. These resources are maintained to ensure appropriate liquidity and the continuation of the Company's ongoing capital investment programme. The maturity profile of the Company's borrowings is set out in note 17 on pages 169 to 170 of the accounts.

The Company has access to £600.0 million of facilities (2016: £600.0 million), of which £55.0 million was drawn at 31 March 2017, to finance capital expenditure and working capital requirements. In addition, the Company has access to a further £375.0 million of liquidity facilities (2016: £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, 58.4 per cent (2016: 58.5 per cent) of the Company's borrowings were at rates indexed to RPI, 35.9 per cent (2016: 36.0 per cent) were at fixed rates and 5.7 per cent (2016: 5.5 per cent) were at floating rates.

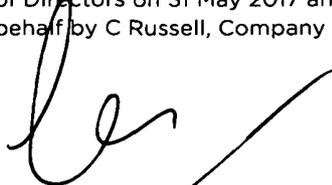
Pension funding

The IAS 19 pension deficit (before deferred tax) at 31 March 2017 stood at £75.6 million for all schemes, compared to a surplus of £12.1 million at 31 March 2016. This increase in deficit is due largely to a fall in the yields on AA-rated corporate bonds used to discount the deficit from 3.5 per cent at 31 March 2016 to 2.6 per cent at 31 March 2017, and to a lesser extent the increase in inflation over the year. Partially offsetting this are the deficit reduction payments in the year of £10.6 million, and a better than expected return on scheme assets.

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 198 to 240.

This Strategic Report was approved by the Board of Directors on 31 May 2017 and signed on its behalf by C Russell, Company Secretary.



Claire Russell
Company Secretary
31 May 2017

GOVERNANCE

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The Company and the Group are committed to high standards of corporate governance. The Company continues to report against the Anglian Water Services Corporate Governance Code (2015 Revision). During the year, we complied fully with the 2015 Code.

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CHAIRMAN'S INTRODUCTION

Dear Stakeholder

I am pleased to present the Corporate Governance Report for the year ended 31 March 2017. Information on the Company's performance during the year can be found in the Strategic Report on pages 1 to 95 and the Group's financial statements commence on page 146.

Anglian Water Services Corporate Governance Code (2015 Revision)

The Company continues to report against the Anglian Water Services Corporate Governance Code (2015 Revision) ('the 2015 Code'). The most recent raft of changes made to the UK Corporate Governance Code, to the extent that they affect the Company, will not apply to the Company until next year's report for the year ending 31 March 2018. The Corporate Governance Statement can be found on page 108. I am pleased to report that during the year, we complied fully with the 2015 Code.

Risk

Management of risk remains a key priority for the Board, which, in conjunction with the Company's internal auditors, has reviewed the risk management process and top-tier risk register in detail. The Directors continue to consider and approve changes in the Company's approach to the management of risk where necessary or desirable, particularly where such risks are evolving apace, such as the Company's vulnerability to cyber attacks and the UK's exit from the European Union.

Detailed disclosures in relation to our risk management process are included in the Strategic Report on pages 78 to 89.

Resilience

Drought risk, climate change and finite water resources present significant risk to the business. Anglian Water covers one of the fastest-growing regions in the country and therefore resilience is a constant theme on the Board's agenda. Managing this risk is at the heart of our operations and future strategy, as is evident throughout this report. Recognising that the issue of water resources is a concern for the wider industry, the Company has been closely involved in the development of a high-level strategy and framework for the long-term planning of water resources for public water supply in England and Wales. The resultant report (entitled *Water resources long-term planning framework*) was published in July 2016 by Water UK. The report was cited by Defra in its draft strategic priorities and objectives for Ofwat.

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 98 to 100), the Corporate Governance Report (pages 101 to 108) and the reports of the Audit, Nomination and Remuneration Committees. Information on our Board evaluation can be found on page 107 and information on the Company's approach to diversity on page 114.



Stephen Billingham
31 May 2017

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 and Chairman of the Audit Committee of Balfour Beatty plc.

Stephen has been Group Finance Director (CFO) of the FTSE 100 power generator British Energy Group plc 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 in November 2004. In January 2010, Scott was also appointed Managing Director of the Group's commercial businesses in addition to his financial responsibilities. Prior to joining Anglian Water Group, he spent most of his career with Shell and TXU Corporation.

Scott moved from Shell in 2000 to TXU and, from early 2001, was based in Dallas, USA, undertaking the role of CFO for the Oncor Group (a subsidiary of TXU). Oncor comprised the regulated electric delivery and gas businesses of TXU and Utility Solutions – a non-regulated utility services company. In February 2004, he was appointed Group Controller and Chief Accounting Officer of TXU Corporation.

Between 1991 and 2000, Scott held a number of financial and commercial roles with Shell encompassing corporate, operating company and joint venture activities across Europe, the Far East and the Middle East.

Scott is a Fellow of the Institute of Chartered Accountants in England and Wales and a founding member of HRH The Prince of Wales's Accounting for Sustainability CFO Leadership Network. He is also a Non-Executive Director and Audit Committee Chairman of Candover Investments Plc, and was appointed as a Non-Executive Director of Infinis Energy Management Limited on 10 May 2017.

Chris Newsome, OBE

Director of Asset Management

Chris Newsome is Director of Asset Management at Anglian Water and was appointed in September 2004.

Chris is a civil engineer by profession and has spent the vast majority of his career within the water industry, planning for, designing and delivering capital programmes of work and managing the asset base.

Chris is Chairman of both @one Alliance and UK Water Industry Research Ltd. He is also a Director and Deputy President (and President Elect) of The Institute of Asset Management ('IAM'), of which he will become President upon conclusion of the IAM's Annual General Meeting on 27 June 2017. 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 Institution of Water and Environmental Management. In 2017, Chris received the Order of the British Empire in the Queen's New Year's Honours list in recognition of his services to civil engineering and carbon reduction.

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 Anglian Water Group 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 Anglian Water Group, 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. In 2016, he was made an Honorary Fellow of the Society for the Environment and a Companion of the Chartered Management Institute. He also holds a Master of Business Administration from Warwick Business School.

Jean Spencer

Director of Strategic Growth and Resilience

Jean Spencer was appointed as Strategic Growth and Resilience Director on 1 April 2017, having previously held the role of Regulation Director since May 2004.

Prior to joining Anglian Water, Jean held a number of positions with Yorkshire Water and Kelda. Jean is a Trustee on the Council of the British Trust for Ornithology. She is a qualified Chartered Accountant by training.

Independent Non-Executive Directors**Dame Polly Courtice, DBE, LVO**

Member of the Nomination Committee
Member of the Remuneration Committee

Dame Polly Courtice was appointed to the Board in April 2015.

Polly is Director of the University of Cambridge Institute for Sustainability Leadership and a Director of Cambridge Sustainability Limited. 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 a number of leading companies.

In 2016, Polly was made a Dame Commander of the Order of the British Empire (DBE) for services to sustainability leadership, and in 2008 was made a Lieutenant of the Victorian Order (LVO), both announced in the Queen's Birthday Honours list. Polly was awarded the 2015 Bright Award for Environmental Sustainability from Stanford Law School.

Steve Good

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

Steve Good was appointed to the Board in April 2015.

Steve is also currently Chairman of Zotefoams plc and a Non-Executive Director and Chairman of the Remuneration Committees of both Cape plc and 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

Senior Independent Director
Chairman of the Audit Committee
Member of the Nomination Committee
Member of the Remuneration Committee

John Hirst was appointed to the Board and as Chairman of the Audit Committee in April 2015. He was appointed as Senior Independent Non-Executive Director in January 2016.

John is a Non-Executive Director of Ultra Electronics Holdings plc (for which he is also Chairman of the Audit Committee and a member of the Remuneration and Nomination Committees), Marsh UK plc (for which he is also a member of the Risk Committee) and Non-Executive Chairman of Hammerson plc Pension Fund. He is also a Non-Executive Director and Chairman of the Risk Committee for each of Jelf Insurance Brokers Limited, Jelf Wellbeing Limited, Bluefin Insurance Services Limited and SMEI Group Limited. John is a director of SUDEP Action, Orsus Medical Limited, SME Insurance Services Limited, BBPS Limited and Chairman of IMIS Global Limited and White Square Chemical Inc. John is a Trustee of Epilepsy Research UK.

John was Chief Executive of the Met Office from 2007 to 2014 and was Group Chief Executive of Premier Farnell plc between 1998 and 2005. He joined Imperial Chemical Industries plc in 1979 where he held a number of roles over a 19-year period, including Group Treasurer and Chief Executive Officer, 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.

BOARD OF DIRECTORS

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.

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

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. He was appointed an alternate Non-Executive Director of Anglian Water Group in December 2014.

Prior to joining CPPIB in 2012, James was a managing director at Royal Bank Equity Finance (the private equity arm of RBS) where he spent 10 years focused on private equity and infrastructure transactions. Prior to RBS, James worked at JP Morgan Capital and Hambros Bank. James holds an MA from Oxford University.

Niall Mills

Member of the Nomination Committee
Member of the Remuneration Committee

Niall Mills was appointed as a Non-Executive Director in April 2014. Niall is employed by First State Investment Management (UK) Limited where he is a Partner in the Direct Infrastructure Investment business. Niall has extensive infrastructure experience gained in senior industry roles across a variety of sectors, including utility companies, rail and airports.

Niall is also a director of the Homes and Communities Agency, Electricity North West and of several other Fund Investments across Europe. He has been a Non-Executive Director of Anglian Water Group since September 2008. He is a Fellow of the Institution of Civil Engineers and holds a Master of Business Administration from the London Business School and an Institute of Directors Diploma in Company Directorship.

Duncan Symonds

Duncan Symonds was appointed as a Non-Executive Director on 1 November 2016. Duncan is the Director of Asset Management for the IFM Investors European Infrastructure team. He also represents IFM Investors as a Director on the Board of Global Infracore S.a.r.l., Airports Group Europe S.a.r.l., Luxpoort S.a.r.l. and was appointed as an alternate Non-Executive Director of Anglian Water Group Limited in July 2016.

Duncan is a chartered member of the Institution of Civil Engineers with over 20 years' experience of the construction industry and holds a Master of Business Administration from the Cranfield School of Management.

CORPORATE GOVERNANCE REPORT

FOR THE YEAR ENDED 31 MARCH 2017

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 therefore updated our 2014 Code to reflect certain changes in the UK Code (relating primarily to Remuneration Policy and Risk Management and Internal Control). The Anglian Water Services Corporate Governance Code (2015 Revision) came into effect on 1 April 2015 ('2015 Code').

A copy of both our 2014 Code and the revised 2015 Code can be found on the Company's website. The Company Secretary keeps compliance with the 2015 Code under review and any changes recommended are subject to approval by the Board.

In April 2016, the FRC published the latest version of the UK Code, which applies to listed companies with accounting periods beginning on or after 17 June 2016. Any changes to the 2015 Code required as a result of the latest version of the UK Code will be considered by the Board in the coming year. Therefore, the revised UK Code has not been applied by the Company for the year under review.

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 million of the issued ordinary £1 shares in the capital of the Company.

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.

CORPORATE GOVERNANCE REPORT

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 Outcome Delivery Incentive (ODI) performance.
4. Securing long-term water resources and resilience.
5. Managing quality and environment risks.
6. Developing our organisation and culture.

A clearly defined framework of roles, responsibilities and delegated authorities is in place, which is designed to facilitate the achievement of our strategic priorities. The Board has a formal governance matrix, which sets out the matters that are specifically reserved for its decision, thus ensuring that it exercises control over appropriate strategic, financial, operational and regulatory issues. A list of matters reserved to the Board appears on the Company's website. This document also shows which decisions are reserved to the Board of Anglian Water Group Limited, 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
- approval of remuneration policy
- approval of the total pay received by each Director
- approval of the appointment of the Company's auditors
- agreeing to refer any matter (including any proposed Licence modification or Final Determination) to the Competition and Markets Authority.

One of Ofwat's principles (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 Board of Anglian Water Group Limited for approval. In formulating their recommendation, the Directors of the Company are mindful of their duty under the Companies Act 2006 to act in the way that is likely to promote the success of the Company (which requires Directors to have regard to the likely consequences of any decision in the long term).

Matters delegated to management are set out in a Scheme of Delegation. Typically, these matters comprise financial approvals at levels that are not considered by the Board to be material as well as routine operational decisions and minor regulatory approvals.

Board membership

The Directors who held office during the year and up to the date of signing the financial statements, unless otherwise stated, were as follows:

Stephen Billingham

(Non-Executive Chairman)

Peter Simpson

(Chief Executive Officer)

Scott Longhurst

(Managing Director, Finance and Non-Regulated Business)

Chris Newsome

(Director of Asset Management)

Jean Spencer

(Director of Strategic Growth and Resilience)

Dame Polly Courtice

(Independent Non-Executive Director)

Steve Good

(Independent Non-Executive Director)

John Hirst

(Senior Independent Non-Executive Director)

Paul Whittaker

(Independent Non-Executive Director)

James Bryce

(Non-Executive Director)

Duncan Symonds

(Non-Executive Director, appointed 1 November 2016)

Niall Mills

(Non-Executive Director)

The following Directors resigned from the Board during the year:

Andrew Cox

(Non-Executive Director, resigned 14 June 2016)

Werner Kerschl

(Non-Executive Director, resigned 1 November 2016)

At 31 March 2017, in addition to the Chairman, Stephen Billingham, there were four Executive Directors, four Independent Non-Executive Directors and three 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 98.

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 2017. The Board concluded that all the Independent Non-Executive Directors remain independent of management and not party to any business or other relationship that could materially interfere with the exercise of their independent judgement in accordance with the 2015 Code.

CORPORATE GOVERNANCE REPORT

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 letters can be found on the Company's website.

Where Directors have concerns that cannot be resolved about the running of the Company or a proposed action, these would be recorded in the Board minutes, but no such concerns have been raised.

Roles and responsibilities

It is the Company's policy that the roles of the Chairman and Chief Executive Officer are separate, with their roles and responsibilities clearly divided. A document that clearly sets out the respective responsibilities of the Chairman and the Chief Executive Officer (which was approved by the Board) appears on the Company's website. The Chairman's commitment to the Company and to

its ultimate parent company is usually six to eight days per month. His other significant commitments are disclosed in his biography on page 98. The Board considers that these commitments do not hinder his ability to discharge his responsibilities to the Company effectively.

A document setting out the role and duties of the Senior Independent Non-Executive Director was agreed by the Board and appears on the Company's website.

Recommendations for appointments to the Board are made by the Nomination Committee. Appointments are made on merit and against objective criteria with due regard to diversity (including skills, experience and gender). Non-Executive appointees are also required to demonstrate that they have sufficient time to devote to the role. The Directors' key responsibilities are set out in the table below:

Board composition and roles

Chairman	Stephen Billingham	Responsible for leading and managing the Board, its effectiveness and governance. Ensuring Board members are aware of, and understand, the views of key stakeholders. Helps set the tone from the top in terms of the purpose, goal, vision and values for the whole organisation.
Chief Executive Officer	Peter Simpson	Responsible for the leadership and day-to-day functioning of the Company, with a scope covering operations, finance, regulation, asset management, customer services, information services, human resources, corporate communications and legal.
Managing Director, Finance and Non-Regulated Business	Scott Longhurst	Supports the Chief Executive in developing and implementing strategy, and in relation to the financial and operational performance of the Company. Responsible for the Group's non-regulated business.
Independent Non-Executive Directors	Dame 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 Niall Mills Duncan Symonds	Responsible for providing constructive challenge to the Board's decision-making processes.

Board meetings

The Board holds regular scheduled meetings throughout the year, and during the year ended 31 March 2017, there were 14 scheduled meetings of the Board. Of these meetings, four took place by conference call and were arranged after the Board calendar for the year had been finalised. As such, it was not always possible to find mutually convenient dates for every Board member to attend. In addition, the Board held two scheduled meetings between 31 March 2017 and the date of signing this report. The Board received regular reports on business and financial performance, regulatory issues, health and safety performance, employee issues and the management of key business risks. The Chairmen of the Audit, Nomination and Remuneration Committees also provided reports on matters discussed by 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 109 to 112.

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 113 to 114.

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 115 to 141.

Board and Committee attendance

The attendance by individual Directors at scheduled meetings of the Board and Committees during the year ended 31 March 2017 is shown in the table below:

Director	Board	Audit Committee	Nomination Committee	Remuneration Committee
Stephen Billingham	14/14	3/3	1/1	4/4
James Bryce	14/14	-	1/1	4/4
Dame Polly Courtice	11/14	-	1/1	3/4
Steve Good	11/14	3/3	1/1	4/4
John Hirst	11/14	3/3	1/1	3/4
Scott Longhurst*	14/14	3/3	1/1	4/4
Niall Mills	10/14	-	1/1	4/4
Chris Newsome	13/14	-	-	-
Peter Simpson*	14/14	3/3	1/1	4/4
Jean Spencer	14/14	-	-	-
Duncan Symonds	5/6	-	-	-
Paul Whittaker	14/14	-	1/1	4/4
Manoj Mehta (M)	-	-	1/1	2/3

Former Directors who served during the year:

Director	Board	Audit Committee	Nomination Committee	Remuneration Committee
Andrew Cox	2/2	-	-	1/1
Werner Kerschl	5/8	-	-	-
Christian Seymour (M)	-	-	-	0/1

*Not a member of the Committees but attended by invitation.

(M) Member of the Nomination and Remuneration Committees but not appointed to the Board of the Company.

CORPORATE GOVERNANCE REPORT

During the year, 14 other Board meetings were held, some at short notice. Of those meetings: four dealt with delegated authority to the Treasury function, the liquidity facility and a Class B bond issue by AWSF; four arose from routine quarterly interim dividends linked to the AWSF Group's finance structure; two dealt with the provision of a statutory certificate to Ofcom, pursuant to which the Company is permitted to install electronic equipment in the public highway; and four related to the approval of the statutory transfer scheme for the sale of the Company's non-household business to Anglian Water Business (National) Limited and delegated authority for senior management to represent the Company by signing the Market Arrangement Code Framework Agreement on 8 March 2017.

Since 31 March 2017, two further scheduled Board meetings have been held, which all Directors attended save Paul Whittaker, who was unable to attend the Board meeting on 25 May 2017.

A further meeting of the Audit Committee was held on 24 May 2017 and a further meeting of the Remuneration Committee was held on 25 May 2017. All members attended these meetings other than Paul Whittaker, who was unable to attend the Remuneration Committee meeting on 25 May 2017.

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 Heigham Water Treatment Works to see operations in action and meet with staff.

The Chairman is responsible for ensuring that Directors receive accurate, timely and clear information. To ensure that adequate time is available for Board discussion and to enable informed decision making, briefing papers are prepared and circulated to Directors in the week prior to scheduled Board meetings. All Non-

Executive Directors are encouraged to make further enquiries as they feel appropriate of the Executive Directors and senior 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, the Annual Report and Accounts, a briefing note and Board paper on Directors' duties, conflicts and declarations of interest, Articles of Association, a Group structure chart and the Love Every Drop Manifesto. Prior to his appointment on 1 November 2016, Duncan Symonds attended a pre-appointment meeting with representatives of Ofwat to discuss: what he envisaged his role being on the board of a regulated company; his understanding of Ofwat's strategy and board leadership, transparency and governance principles; issues affecting the Company past, present and future and his expectations for his induction programme. In addition, Duncan has visited operational sites, including a water treatment works, water recycling centre and held a meeting with the Company's Innovations team to discuss the Company's various innovation initiatives. He also received detailed briefings from Executive Directors and a number of senior managers covering, among other matters:

- the business of the Company
- his legal and regulatory responsibilities as a Director of the Company
- briefings and presentations from Executive Directors and senior executives.

Further training is also provided to all Directors, including updates on regulatory matters. A number of relevant topics were covered during the year, including PR19, the regulatory framework and direct procurement. The Chairman periodically reviews the training needs of all Directors and in the course of the year the Board agreed that all training for the coming year should: generally be sector relevant; include broader topics which require employee awareness

across the business (such as data protection and bribery); be run in house (unless it is appropriate to bring in an external expert); and run in tandem with scheduled Board meetings.

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.

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 30 March 2017 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 (and addressing the actions arising from the previous evaluation), which included:

- reinstating strategy sessions to allow sufficient time to be allocated for debating strategic matters affecting the Company and wider Group outside of the main Board meeting
- ensuring that the Nomination Committee keeps the Diversity Action Plan under review and that Board diversity remains a key area of focus.

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 the Chairman, and feedback was given to him by the Senior Independent Non-Executive Director.

Relations with shareholders

In fulfilling their responsibilities, the Directors believe that they govern the Company in the best interests of shareholders, while having due regard to the interests of other stakeholders, including (but not limited to) customers, employees and suppliers.

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 78 to 89 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.

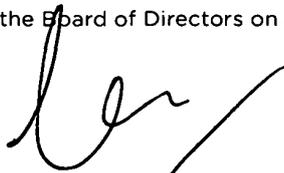
CORPORATE GOVERNANCE REPORT

For the 2016/17 financial year, the Company's internal and financial controls included the following:

- an internal audit programme, outsourced to KPMG until 31 July 2016 and then to PricewaterhouseCoopers LLP from 1 August 2016. The internal auditor carries out a comprehensive review of internal controls and formally reports its findings and recommendations to the Audit Committee
- an annual process where business heads confirm the adequacy of the internal controls for their area of responsibility through a formal Statement of Responsibility. The responses are reviewed by the Audit Committee
- a formal controls questionnaire completed by the business twice each year and reviewed by the internal auditor, with the conclusions being highlighted to the Audit Committee
- a regular review by the Board of the top-tier risk register
- an annual review of certain financial controls, which was conducted by the Company's external auditor, as part of the annual audit. The findings of the most recent review were reported to the Audit Committee in March 2017. 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. 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 31 May 2017.



Claire Russell
Company Secretary
31 May 2017

AUDIT COMMITTEE REPORT

CHAIRMAN

John Hirst

OTHER MEMBERS

Stephen Billingham
Steve Good

MEETINGS

Three

MEETINGS ALSO REGULARLY ATTENDED BY

Scott Longhurst, Managing Director of Finance and Non-Regulated Business; Peter Simpson, Chief Executive Officer; members of Anglian Water Group Limited Audit Committee; representatives of the internal and external auditors; and Claire Russell, Company Secretary.

DIRECTORS' BIOGRAPHIES ARE
AVAILABLE ON PAGES 98 TO 100.

Appointment of new internal and external auditors

During the year under review, both the Company's internal and external audit services were put out to competitive tender. PricewaterhouseCoopers LLP (PwC) was awarded the internal audit contract and was therefore ineligible for the role of external auditor. The external audit contract was subsequently awarded to Deloitte LLP (Deloitte). PwC tendered its resignation as external auditor on 29 July 2016 and replaced KPMG as internal auditor from 1 August 2016. Deloitte took up the post of external auditor with effect from 1 September 2016. Accordingly, any reference to the external auditor will mean either PwC or Deloitte, while references to the internal auditor will mean either KPMG or PwC.

Role of the Committee

The Audit Committee's principal role is to examine any matters relating to the financial affairs of the Company and to provide effective oversight and governance of the Company's internal control and risk management processes, which exist to identify, assess, mitigate and manage risk. Internal Audit supports the Audit Committee in evaluating the design and effectiveness of internal controls and risk mitigation strategies implemented by management.

The Committee's primary functions are to:

- monitor the integrity of the financial statements, including significant financial reporting issues and judgements they contain
- review financial statements and significant financial returns to regulators

- review the integrity of the Company's systems of internal control
- consider the effectiveness of the risk management systems and whether they provide reasonable levels of mitigation against material misstatement and losses
- monitor and review the effectiveness of the Internal Audit function
- oversee the relationship with the external auditor; monitor the independence and objectivity of the external auditor and consider the effectiveness of the audit process
- review and approve the annual audit plan
- monitor the provision of non-audit services by the external auditor.

Membership and attendance

John Hirst is a Fellow of the Institute of Chartered Accountants in England and Wales and a Member of the Association of Corporate Treasurers. He was formerly Group Treasurer of ICI plc and Chairman of the Audit Committee at Hammerson plc, and is therefore considered by the Board to have relevant financial experience.

Representatives from the external auditor and internal auditor also attended all or part of the Committee's meetings. Members of the Committee also met separately with representatives of the external auditor and internal auditor without management being present. The Company Secretary is Secretary to the Audit Committee. From time to time, Business Unit representatives are invited to give presentations to the Audit Committee on top-tier risk items that fall under their remit.

AUDIT COMMITTEE REPORT

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 for the Company for the financial year ending 31 March 2016 and the associated going concern statements.
- Reviewed key issues and areas of judgement in relation to the financial statements (including the calculation of the measured income accrual, the calculation of the bad debt provision, treasury and tax matters).
- Reviewed the Annual Statement of Responsibility by management with respect to the internal controls environment.
- Reviewed the Viability Statement and the supporting sensitivity analysis.

➔ 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 2017/18.
- Reviewed internal audit reports.

Other

- Considered material litigation.
- Reviewed IT security and cyber risk (further details of which can be found on page 87).

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 78 to 89 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 the internal auditor's risk-based internal audit programme each year, with regular meetings to assess progress and reprioritise audit assignments if necessary, to review the internal auditor's recommendations and to monitor progress in implementing those recommendations.

The external auditor reports annually on the findings of its review of the internal control environment to the Audit Committee. All control improvement recommendations are followed up by subsequent audits, the reports on which enable monitoring by the Audit Committee.

- Each member of the Management Board is required to review and self-certify the adequacy of the internal control for their area of the business on an annual basis. The results of this review are collated by the internal audit and presented to the Audit Committee.

Whistleblowing programme

The Group has a whistleblowing policy and programme in all its operations whereby employees can, in confidence, report on matters where they feel malpractice is taking place or if health and safety standards are being compromised. Additional areas 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 (or other nominated persons where those representatives are inappropriate) to decide whether there are grounds for further investigation. If so, allegations are then escalated to a designated person (Finance Director, Human Resources Director, Managing Director, Audit Committee or GIA representative).

Under the whistleblowing policy, the whistleblower should be notified within 10 days of the decision to carry out an investigation or not. An official written record will be kept by 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 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 auditor's independence is a lack of control over the volume of non-audit services. To address this issue all proposals for non-audit work are subject to pre-approved limits. Any non-audit service that exceeds these thresholds requires approval from the Committee and must be robustly justified and, if appropriate, tendered, before it is approved.

The fees paid to the external auditor during the year are set out in note 5 to the financial statements on page 161. These fees include £0.3 million for consulting services which were commissioned by the Company and completed by Deloitte prior to Deloitte's appointment as auditor. The audit-related assurance services relate to regulatory reporting to Ofwat and review of the Group's half-year results. 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 PwC. PwC was appointed by the Company on 1 August 2016 for a four-year term following a competitive tendering process.

In March 2016, the Committee approved the internal audit plan for 2016/17 and the plan for 2017/18 was approved at its meeting on 30 March 2017. During the year, the Committee received regular reports from the internal auditor, which set out its view of the control environment. Each report is rated by reference to the significance of any weaknesses in the controls relevant to the process that is the subject of the audit.

Specific actions are agreed with management to address any control weaknesses together with a timetable for completion of actions.

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 Deloitte's ongoing independence and objectivity in the audit process, the Audit Committee will annually review an overview of, and the value of, all non-audit-related work conducted by Deloitte on behalf of the Company. In addition, any non-audit services conducted by Deloitte require pre-approval by the Chairman of the Audit Committee and must be robustly justified. To ensure the auditor's independence is safeguarded, lead audit partners rotate every five years. The Committee considers the relationship the Company has with Deloitte annually, and for the year ended 31 March 2017, the Committee was satisfied with the performance, objectivity and independence of Deloitte as the external auditor.

AUDIT COMMITTEE REPORT

Committee performance and effectiveness

An annual review of the Committee's performance was undertaken as part of the Board evaluation process, detailed on page 107. 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 2017.

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*. Further details of these accounting judgements and estimates are set out in accounting policies note 1 in the financial statements on page 155. In addition the external auditors, Deloitte, also produce a report for the Audit Committee. For the year ended 31 March 2017, 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 2017, which was consistent with that used in previous years. Measured income accrual is an estimation of the amount of mains 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 the Company is required to disclose the accuracy of the accrual in its Annual Performance Report.
- **Bad debt provision** – the Committee reviewed the assumptions underpinning the provision for bad debts and how this is consistent with recent debt recovery experience.
- **Retirement benefit obligations** – the Committee considered actuarial assumptions used by management for valuing future liabilities. Examples of assumptions include discount rates applied to valuing liabilities, future price inflation, life expectancy and percentage of lump sum taken on retirement. These are set out in note 21 of the financial statements.
- **Property, plant and equipment** – the Committee considered the accounting policy for grants and contributions that required judgement to be made to determine whether they are capital or revenue in nature. Where such grants were capital in nature, judgement was also applied to decide the useful life of the related asset (being the period over which the grants and contributions will be released to income).
- **Derivative accounting** – the Committee considered the accounting policy for derivative valuations, application of hedge accounting and credit risk adjustments.
- **Classification of costs between operating and capital expenditure** – the Committee considered the policy for classifying operating and capital expenditure, and the basis on which overheads are capitalised.
- **Deferred taxation** – the Committee considered Management's assessment of the amount of advance corporation tax that could be recovered.

This report was approved by the Board of Directors on 31 May 2017.



John Hirst
Chairman of the Audit Committee
31 May 2017

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; Fiona Guthrie, Group HR Director; and Claire Russell, Company Secretary.

OTHER MEMBERS

James Bryce Manoj Mehta*
 Dame Polly Niall Mills
 Courtice Paul Whittaker
 Steve Good
 John Hirst

MEETINGS

One

COMPOSITION OF THE COMMITTEE

*Manoj Mehta is an investor-appointed member of the Nomination Committee, but is not a member of the Board. He was appointed to replace Christian Seymour when he stepped down on 1 November 2016.

DIRECTORS' BIOGRAPHIES

AVAILABLE ON PAGES 98 TO 100

Role of the Committee

The Committee's primary function is to advise the Board in relation to the appointment of Executive and Non-Executive Directors. The duties of the Nomination Committee include the following:

- annually reviewing the structure, size and composition of the Board, and making recommendations to the Board with regard to any changes
- giving full consideration to succession planning for Directors and other senior executives, taking into account the challenges and opportunities facing the Company, and the skills and expertise needed on the Board in future
- keeping under review the leadership needs of the organisation, both executive and non-executive, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace

- taking responsibility for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise
- before any appointment is made, evaluating the balance of skills, knowledge, experience and diversity on the Board and, in the light of this evaluation, preparing a description of the role and capabilities required for a particular appointment
- reviewing the results of the Board performance evaluation process that relate to the composition of the Board
- making recommendations to the Board concerning succession plans for both Executive and Independent Non-Executive Directors.

Only members of the Committee have the right to attend Committee meetings.

→ Available to view on the Company's website (www.anglianwater.co.uk):

Nomination Committee's terms of reference
 Diversity Policy

NOMINATION COMMITTEE REPORT

Main activities in the year

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 2016, the Committee reviewed the progress of the Diversity Action Plan. Encouraging progress had been made in the areas of gender, ethnicity and age but strategies deployed to recruit individuals with disabilities have proved less successful. The Company continues to strive for a genuine diversity of employees and has continued to refocus its efforts accordingly.

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 61 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.

As part of its commitment to developing its senior managers, the Company has worked in collaboration with Lane 4 Management Group Limited and Loughborough University Business School, to deliver the 'Transforming our Leadership' programme (TOL). The TOL programme has been designed to develop the skills and behaviours necessary to effectively deliver results and drive change.

All business discussed by the Committee during the course of the year was reported to the Board.

Non-Executive Director appointment

Duncan Symonds was appointed as a Non-Executive Director on 1 November 2016. Mr Symonds, an employee of IFM Investors, 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 107.

No material shortcomings in the operation of the Committee were highlighted. The Committee considered the outcome of the evaluation at the Board meeting on 30 March 2017 and it was agreed that the Committee should continue to monitor the diversity action.

This report was approved by the Board of Directors on 31 May 2017.



Stephen Billingham
Chairman of the Nomination Committee
31 May 2017

REMUNERATION REPORT

CHAIRMAN

Paul Whittaker

MEETINGS ALSO REGULARLY ATTENDED BY:

Peter Simpson, Chief Executive Officer; Scott Longhurst, Managing Director, Finance and Non-Regulated Business; Fiona Guthrie, Group HR Director (who succeeded Kate Kelly part way through the year); and Claire Russell, Company Secretary*.

OTHER MEMBERS

Stephen Billingham	Steve Good
James Bryce	John Hirst
Dame Polly Courtice	Niall Mills
	Manoj Mehta

MEETINGS

Four

COMPOSITION OF THE COMMITTEE

Andrew Cox stepped down from the Committee in June 2016 when he resigned from the Board. Manoj Mehta replaced Christian Seymour in November 2016 when he stepped down from the Committee.

DIRECTORS' BIOGRAPHIES

AVAILABLE ON PAGES 98 TO 100

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 2017 and the policy for 2017/18.

Company performance in 2016/17

This is the second year of AMP6, which began with customers benefiting from the greatest reduction in bills of all water and sewerage companies as a result of efficiencies made during AMP5. This has been coupled with a business plan focused on what customers said was important to them.

Similar to the first year of the AMP, 2016/17 has been another year of very strong performance, exceeding targets in a number of key areas. Almost all Outcome Delivery Incentives (ODIs) have met their base targets for the year, with 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 major ODIs such as leakage, pollutions and interruptions to supply have shown strong improvements against the previous AMP.

As well as avoiding significant 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 2016/17. 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 relatively mild weather.

In assessing executive performance during 2016/17, the Board considers that the management team has continued to provide very effective leadership through the first two years of AMP6 in light of challenging objectives.

*No attendee participates in discussions regarding their own remuneration.

REMUNERATION REPORT

Remuneration outcomes in 2016/17

At the start of the year, the Board set targets which focused management on driving improvements across the ODIs, efficiency and ensuring financial returns which maintained investor confidence.

In assessing performance against annual bonus targets detailed later in Table 9, the Committee is satisfied that the Company achieved the stretch target on the key financial metrics, just below stretch on Totex Delivery Index (TDI) and between base and stretch target on ODIs.

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 2016/17 were between 92.6 per cent and 93.4 per cent of annual bonus potential.

On 31 March 2017, the performance period ended for long-term incentive awards made in 2014. These awards were based on performance from 1 April 2014 to 31 March 2017 against seven 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 four of the measures, and achieved performance between base and stretch target on three measures. As a result of this performance over the three-year performance period, the percentage of base award vesting is 87.8 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 121.

As disclosed in the 2015/16 report, Peter Simpson's basic pay and Scott Longhurst's basic pay increased to £480,000 on 1 April 2016. Consistent with the salary increases for the general workforce, Chris Newsome and Jean Spencer received an increase of 1.5 per cent to basic salary from 1 April 2016.

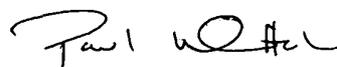
Each of the Executive Directors will receive an increase of 2.2 per cent to basic salary from 1 April 2017 in line with salary increases for the general workforce.

Other key decisions

The Committee carried out a full review of executive incentive design in advance of the new Asset Management Period beginning April 2015. The Committee conducted a review in 2016 and 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 investor returns. The only change is for the Committee now having the ability to withhold up to 100 per cent of the LTIP award in exceptional circumstances. No further changes are proposed for 2017/18. A further review will take place during 2017/18 and, if the Committee agrees that any changes are appropriate, they will apply from 2018/19.

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
31 May 2017

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 2017, and any changes for the year ending 31 March 2018.

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 attached 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.

REMUNERATION REPORT

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.

At 31 March 2017, James Bryce, Niall Mills and Duncan Symonds represent the ultimate owners of the Company. Andrew Cox stepped down from the Board in June 2016 and Werner Kerschl resigned on 1 November 2016. Investor appointed directors do not have letters of appointment or service contracts, nor do they receive a fee from the Company for their services.

Illustrations of application of the remuneration policy

The charts below show the total potential remuneration which could be payable by AWS and AWG to the Executive Directors in various performance scenarios under the proposed remuneration policy in 2017/18.

In these charts:

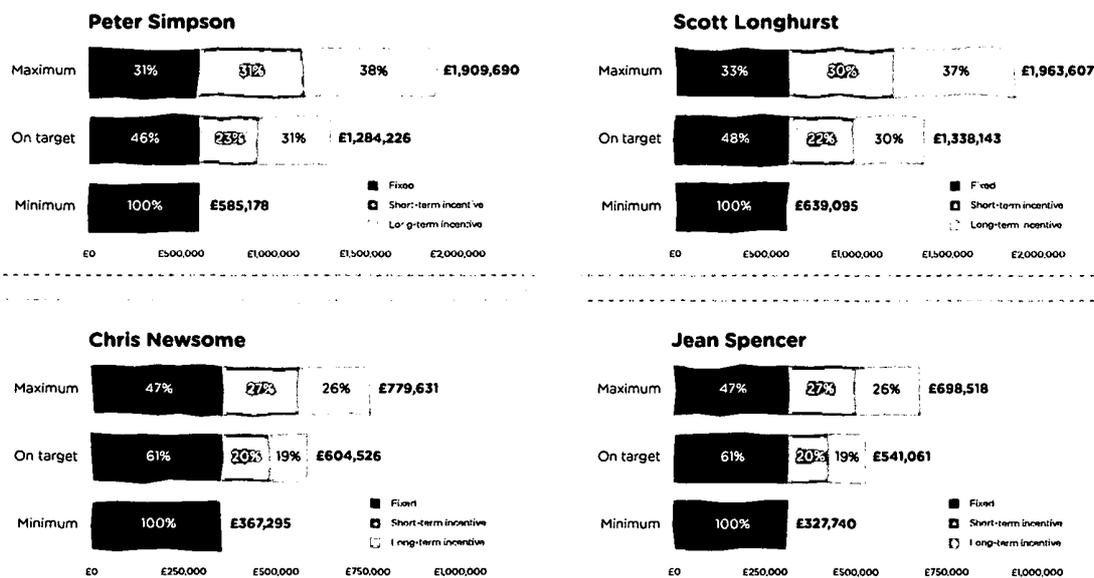
- fixed remuneration is the minimum payable, and is made up of base pay for 2017/18 plus the value of pension and benefits
- the short-term incentive is the annual bonus for 2017/18
- the long-term incentive is the long-term incentive plan (LTIP) under which base awards will be made in 2017/18
- for the annual bonus, the Board has set base and stretch targets, or a range of minimum and maximum levels of performance which 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 2017 but which are due to vest in subsequent years; they do not include the LTIP awards granted in 2015 which will vest in May 2018.

Table 1: Total remuneration which could be payable from AWS and AWG in 2017/18, depending on performance



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.

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.

REMUNERATION REPORT

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.

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 2017, and any changes for the year ending 31 March 2018.

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 2014 long-term incentive plan award, which vests in 2017, 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 69 per cent performance-related and 67 per cent performance-related for Peter Simpson and Scott Longhurst, and 31 per cent and 33 per cent non-performance-related respectively.

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 2017/18
Base salary				
Helps 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	Each of the Executive Directors will receive a base salary increase of 2.2%, 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 4%. For Chris Newsome it is 8.7% and for Jean Spencer it is 6.3%.	n/a	No changes proposed.

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 2017/18
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. 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. 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. 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>	<p>Awards vest at the end of the three-year performance period, based on achievement of specified performance conditions.</p> <p>The performance conditions are shown under the long-term incentive plan (LTIP) section of this report.</p>	<p>Following a brief review, it was agreed the Committee should have the ability to withhold up to 100% of the award in exceptional circumstances. No further changes were required for 2017/18. A detailed review will be carried out during 2017/18 and any changes will apply from 2018/19.</p>

Purpose and link to strategy	Operation	Maximum potential value as % of base pay	Performance metrics	Changes for 2017/18
Pension				
To attract and retain high-calibre individuals by providing good-quality pension arrangements.	<p>AWS operates a defined contribution pension arrangement. Following the introduction of the annual and lifetime allowances, where the level of pension saving would exceed the allowances, a cash payment in lieu of company contribution to pension may be made.</p> <p>This is subject to tax and national insurance deductions.</p> <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 was 1/60th. He is now a deferred member.</p>	<p>Peter Simpson has ceased saving into both the defined benefit and defined contribution sections of the Anglian Water Group Pension Scheme (AWGPS). He receives his full contractual pension commitment of 12.8% of salary up to a cap of £138,885 and 15% above the cap, as a cash payment, which is subject to tax and national insurance contributions.</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>The Executive Directors remain covered for death benefits through the AWGPS. The Company pays 1.4% of salary for life assurance cover and administration charges for the defined contribution scheme in line with the wider employee population.</p>	n/a	No changes proposed.

REMUNERATION REPORT

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 2015/16 and 2016/17. 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 which could be earned for minimum and maximum performance levels.

Table 3: Peter Simpson

Component of remuneration	2015/16 value (% of base pay)		2016/17 value (% of base pay)	
	Target performance	Maximum performance	Target performance	Maximum performance
Base pay	100.0	100.0	100.0	100.0
Benefits ¹	4.0	4.0	4.0	4.0
Pension ²	15.1	15.1	14.4	14.4
Bonus	60.0	120.0	60.0	120.0
Long-term incentive plan (LTIP)	82.5	150.0	82.5	150.0
Total as % of base pay	261.6	389.1	260.9	388.4
Variable pay – bonus and LTIP (as % of total pay)	54.5	69.4	54.6	69.5
Long-term pay – LTIP and pension (as % of total pay)	37.3	42.4	37.1	42.3

¹ Benefits are private health insurance, car allowance and private fuel.

² For 2015/16, 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. 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. For 2016/17, pension costs included a cash payment of 12.8 per cent of salary up to a cap of £138,885 and 15 per cent above the cap. Cash payments are subject to tax deductions and national insurance contributions.

Table 3 (continued): Scott Longhurst

Component of remuneration	2015/16 value (% of base pay)		2016/17 value (% of base pay)	
	Target performance	Maximum performance	Target performance	Maximum performance
Base pay	100.0	100.0	100.0	100.0
Benefits ¹	3.8	3.8	4.0	4.0
Pension	25.0	25.0	25.0	25.0
Bonus	60.0	120.0	60.0	120.0
Long-term incentive plan (LTIP)	82.5	150.0	82.5	150.0
Total as % of base pay	271.3	398.8	271.5	399.0
Variable pay – bonus and LTIP (as % of total pay)	52.5	67.7	52.5	67.7
Long-term pay – LTIP and pension (as % of total pay)	39.6	43.9	39.6	43.9

¹ Benefits are private health insurance, car allowance and private fuel.

Table 3 (continued): Chris Newsome

Component of remuneration	2015/16 value (% of base pay)		2016/17 value (% of base pay)	
	Target performance	Maximum performance	Target performance	Maximum performance
Base pay	100.0	100.0	100.0	100.0
Benefits ¹	9.0	9.0	8.7	8.7
Pension	25.0	25.0	25.0	25.0
Bonus	45.0	75.0	45.0	75.0
Long-term incentive plan (LTIP)	41.3	75.0	41.3	75.0
Total as % of base pay	220.3	284.0	220.0	283.7
Variable pay – bonus and LTIP (as % of total pay)	39.2	52.8	39.2	52.8
Long-term pay – LTIP and pension (as % of total pay)	30.1	35.2	30.1	35.2

¹ Benefits are private health insurance, car allowance and private fuel.

Table 3 (continued): Jean Spencer

Component of remuneration	2015/16 value (% of base pay)		2016/17 value (% of base pay)	
	Target performance	Maximum performance	Target performance	Maximum performance
Base pay	100.0	100.0	100.0	100.0
Benefits ¹	6.4	6.4	6.3	6.3
Pension	25.0	25.0	25.0	25.0
Bonus	45.0	75.0	45.0	75.0
Long-term incentive plan (LTIP)	41.3	75.0	41.3	75.0
Total as % of base pay	217.7	281.4	217.6	281.3
Variable pay – bonus and LTIP (as % of total pay)	39.6	53.3	39.7	53.3
Long-term pay – LTIP and pension (as % of total pay)	30.4	35.5	30.5	35.5

¹ Benefits are private health insurance, car allowance and private fuel.

Outcomes for 2016/17

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 £	
	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17
Scott Longhurst	277,763	288,000	10,526	11,417	73,329	76,032	327,260	322,848	0	0	688,878	698,297
Chris Newsome	264,998	268,973	23,982	25,481	66,628	67,628	186,495	178,803	172,792	191,537	714,895	732,422
Peter Simpson	325,500	336,000	13,136	15,027	77,700	51,604	389,917	373,330	412,725	156,858	1,218,978	932,818
Jean Spencer	238,290	241,864	15,302	17,490	62,909	63,852	177,276	168,821	131,472	176,540	625,249	668,567
Total Executive Directors	1,106,551	1,134,837	62,946	69,415	280,566	259,116	1,080,948	1,043,802	716,989	524,934	3,248,000	3,032,104

	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 £	
	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17
Scott Longhurst	185,175	192,000	7,017	7,611	48,886	50,688	218,174	215,232	1,142,781	435,715	1,602,033	901,246
Chris Newsome	0	0	0	0	0	0	0	0	0	0	0	0
Peter Simpson	139,500	144,000	5,630	6,440	33,300	22,116	167,107	159,998	730,056	278,858	1,075,593	611,412
Jean Spencer	0	0	0	0	0	0	0	0	0	0	0	0
Total Executive Directors	324,675	336,000	12,647	14,051	82,186	72,804	385,281	375,230	1,872,837	714,573	2,677,626	1,512,658

Outcomes for 2016/17

Single total remuneration figure (audited)

Table 4: Total Executive Directors' remuneration (continued)

	Base pay £		Taxable benefits ¹ £		Pension including cash in lieu ² £		Annual bonus £		LTIP ³ £		Total AWG Group £	
	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17
	Total paid by all AWG companies											
Scott Longhurst	462,938	480,000	17,543	19,028	122,215	126,720	545,434	538,080	1,142,781	435,715	2,290,911	1,599,543
Chris Newsome	264,998	268,973	23,982	25,481	66,628	67,628	186,495	178,803	172,792	191,537	714,895	732,422
Peter Simpson	465,000	480,000	18,766	21,467	111,000	73,720	557,024	533,328	1,142,781	435,715	2,294,571	1,544,230
Jean Spencer	238,290	241,864	15,302	17,490	62,909	63,852	177,276	168,821	131,472	176,540	625,249	668,567
Total Executive Directors	1,431,226	1,470,837	75,593	83,466	362,752	331,920	1,466,229	1,419,032	2,589,826	1,239,507	5,925,626	4,544,762

¹ Benefits are private health insurance, car allowance, private fuel and life assurance. Benefits also include Loyalty Savings Scheme bonus for Peter Simpson, Chris Newsome and Jean Spencer.

² Pension costs for 2015/16 include company contributions into company pension arrangements, including cash payments in lieu of contractual commitments. For 2016/17 only cash payments in lieu of contractual commitments are included as all Executive Directors are no longer saving into the pension scheme.

³ This long-term incentive payment relates to the 2014 award for the three-year performance period ending in March 2017 and in addition, in respect of 2015/16, the 2013 award under a separate long-term incentive plan which vested in 2016. 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 For 2015/16 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 2015 the relevant rate was the September 2015 CPI, which was 1.2 per cent. Peter Simpson ceased to be a member of the defined benefit scheme in March 2016.

REMUNERATION REPORT

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 2016/17, 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. One 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 eight financial years, in accordance with the disclosures required under UK regulations.

Table 5

	Peter Simpson	Jonson Cox ¹							
	2016/17	2015/16	2014/15	2013/14	2012/13	2011/12	2010/11	2009/10	2009/10
Total remuneration of CEO £	1,544,230	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	(32.7)	71	(5.2)	0.6	20.5	7.1	(86.7)	-	-
Annual bonus paid as a % of maximum potential	92.6	99.8	75.8	90.4	95.9	96.4	93.8	95.5	98.2
LTIP paid as a % of maximum potential ²	87.8	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.

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 2015/16 to 2016/17. 'Other employees' are the employees of Anglian Water Services and AWG Central Services, who have been employed for the full 2016/17 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 2016/17 vs 2015/16	% change in remuneration for other employees 2016/17 vs 2015/16
Base pay ¹	3.2	2.4
Taxable benefits ²	14.4	1.1
Annual bonus ³	(4.3)	(1.2)

¹ Includes company-wide annual pay review and salary progression.

² The increase in taxable benefits for the CEO relates to an increase of £509 for the cost of private fuel and inclusion of £2,192 on maturity of the Loyalty Savings Scheme (the Company's three-year savings scheme open to all employees). 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 decrease in the percentage change in annual bonus for the CEO reflects the slightly lower level of outperformance in 2016/17 compared to 2015/16, as described in other sections of the Report. Further details can be found on page 132. The decrease in the percentage change in annual bonus for the other employees relates mainly to senior and middle management where the element linked to company performance is slightly lower when compared to 2015/16.

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 2016 and 31 March 2017.

Table 7

	2016/17 £m	AWS 2015/16 £m	% change
Remuneration paid to employees ¹	179.7	180.2	(0.3)
Distribution to shareholders	128.0	152.2	(15.9)
Capital investment ²	309.7	269.4	15.0

¹ Remuneration paid to employees has reduced by 0.3 per cent. This includes an annual pay increase for all employees of 1.5 per cent, and a slight increase in employee numbers, which rose by 0.9 per cent. These were more than offset by a reduction in the IAS19 pension charge for the defined benefit pension scheme.

² Capital investment is higher in 2016/17 compared to the prior year to reflect typically higher spend in the second year of the AMP as projects move from design to implementation.

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. As disclosed in the 2015/16 report, the Board agreed that:

- Peter Simpson's basic pay would increase from £465,000 to £480,000 on 1 April 2016
- Scott Longhurst's basic pay would increase from £462,938 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 1.5 per cent to basic salary from 1 April 2016.

REMUNERATION REPORT

Annual bonus

Framework for 2016/17

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 8 shows the performance measures and weightings for the annual bonus for 2016/17.

Table 8: Annual bonus plan for Executive Directors

Performance measures	Weightings as % of base pay 2016/17		
	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 is 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 per cent of this bonus element is based on the qualitative part of the measure and 25 per cent on quantitative.

Outcomes for 2016/17

In assessing performance against annual bonus targets, the Committee is satisfied that the Company achieved the stretch target on the financial measures, just below stretch on Totex Delivery Index (TDI) and between base and stretch target on ODIs.

Overall, financial performance has been strong throughout the year. Specific management focus around cost control delivered efficiencies over and above plan levels during the year and, excluding one-off market reform costs, below last year's expenditure. In addition, strong cash management, particularly around the collection of customer debt, has been extremely successful and helped to deliver in excess of stretch cash targets.

In terms of the non-financial measures, overall the performance in the year was above stretch against most of the major ODIs and, as a consequence, we have achieved between base and stretch target against the total scorecard. In the performance period we incurred a small penalty of £0.6 million but have successfully avoided much larger potential penalties by taking action to maintain and improve interruptions to supply, pollutions, leakage and 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 2016/17, which will be confirmed shortly by Ofwat.

For totex this was a successful year, achieving the challenging stretch financial outperformance while falling just short of stretch against the on-time delivery of projects.

The Remuneration Committee recommended to the Board that the extent to which overall company performance targets had been achieved was 91.8 per cent for Peter Simpson, 93.0 per cent for Scott Longhurst, and 92 per cent for Chris Newsome and Jean Spencer.

As a result of this performance, and the Remuneration Committee's review of the Chief Executive Officer's assessment of performance against the personal objectives of each individual Executive Director, annual bonus payments for 2016/17 were between 92.6 per cent and 93.4 per cent of annual bonus potential.

REMUNERATION REPORT

Table 9: Annual bonus payments to Executive Directors (audited)

	Peter Simpson		Scott Longhurst		Chris Newsome		Jean Spencer	
	Weight for 2016/17 (as % of base pay)	Outcome %	Weight for 2016/17 (as % of base pay)	Outcome %	Weight for 2016/17 (as % of base pay)	Outcome %	Weight for 2016/17 (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	43.51	43.20	37.30	31.50	27.30	31.50	27.30
Outcome Delivery Incentives (ODI)	25.20	19.15	21.60	16.42	15.75	11.97	15.75	11.97
Totex Delivery Index (TDI)	25.20	24.36	21.60	20.88	15.75	15.33	15.75	15.33
Non-regulated businesses' performance	0	0	12.00	12.00	0	0	0	0
Personal objectives	36.00	34.00	36.00	34.00	22.50	21.50	22.50	21.50
Total % base pay	120.00	111.11	120.00	112.10	75.00	69.80	75.00	69.80
Base pay £		480,000		480,000		256,165		241,864
Bonus paid £		533,328		538,080		178,803		168,821

¹ The non-financial measures are explained in the notes to Table 8.

Changes for 2017/18

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 2016/17 and proposed a change for 2017/18 to give the Committee discretion to reduce the payment (including to nil) in respect

of either or both of the ODI and TDI performance measures where, in the absolute discretion of the Committee, overall ODI and/or TDI performance is unsatisfactory.

The performance metrics for 2017/18 are shown in Table 10. The Board has set stretching targets for all measures.

Table 10: Annual bonus 2017/18 – 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 8, notes 1 and 2.

REMUNERATION REPORT

Long-term incentive plan

Framework for 2016/17

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 12 (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 100 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 119)
- 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 11, note 1
- reduce the value of unvested awards (malus) or claw back awards already paid out, where in the judgement of the Committee, there has been serious misconduct.

Outcomes in 2016/17

Long-term incentive 2014

The 2014 award under the AWG long-term incentive plan vested in May 2017. Table 11 shows the performance measures and weightings for the awards made in 2014. The performance period ran from 1 April 2014 to 31 March 2017.

Table 11

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%
Serviceability ¹	Achievement of stable serviceability across all four asset classes.	20%
Service Incentive Mechanism ²	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%
Leakage reduction	The level of leakage must be reduced to 187 Megalitres per day by the end of the performance period.	5%
Interruption to supply	Average duration of water supply interruptions is reduced by 135 seconds against the average performance in the years 2012/13 through 2015/16.	5%
Pollution	Pollution incidents must be reduced by 10% to 25%.	5%
Quality outputs	Complete schemes required in order to meet the Company's statutory obligations to its quality regulators (the Environment Agency and Drinking Water Inspectorate).	5%

¹ The Company operates within a serviceability framework which 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.

² The Service Incentive Mechanism is described in the notes to Table 8.

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 four of the seven measures (the Service Incentive Mechanism, leakage reduction, interruption to supply and quality outputs) and had achieved performance between base and stretch target on the rate of return measure, serviceability measure and pollution.

The Remuneration Committee therefore recommended that the extent to which the performance conditions had been achieved over the three-year period was 87.8 per cent. Under

the design of the scheme, awards are uplifted by the average rate of return over the performance period. For the 2014 LTIP, this was 11.3 per cent.

As explained on page 134, the Board has discretion to withhold up to 100 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 12: Payments to Executive Directors during 2016/17 and the value of other long-term incentives they hold which 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 2016 £	Base value of awards granted during the year £	Base value of awards held at 31 March 2017 £	Value of awards that vested at Remuneration Committee on 25 May 2017 £
Peter Simpson¹								
2014 LTIP Award		4 June 2014	31 March 2017		445,875	0	445,875	435,715
	Rate of return			33.0%				
	Serviceability ³			15.0%				
	Service Incentive Mechanism			20.0%				
	Leakage reduction			5.0%				
	Interruption to supply			5.0%				
	Pollution			4.8%				
	Quality outputs			5.0%				
2015 LTIP Award		1 June 2015	31 March 2018		697,500	0	697,500	
2016 LTIP Award		1 June 2016	31 March 2019		0	720,000	720,000	
Scott Longhurst²								
2014 LTIP Award		4 June 2014	31 March 2017		445,875	0	445,875	435,715
	Rate of return			33.0%				
	Serviceability ³			15.0%				
	Service Incentive Mechanism			20.0%				
	Leakage reduction			5.0%				
	Interruption to supply			5.0%				
	Pollution			4.8%				
	Quality outputs			5.0%				
2015 LTIP Award		1 June 2015	31 March 2018		694,407	0	694,407	
2016 LTIP Award		1 June 2016	31 March 2019		0	720,000	720,000	
Chris Newsome								
2014 LTIP Award		4 June 2014	31 March 2017		196,003	0	196,003	191,537
	Rate of return			33.0%				
	Serviceability ³			15.0%				
	Service Incentive Mechanism			20.0%				
	Leakage reduction			5.0%				
	Interruption to supply			5.0%				
	Pollution			4.8%				
	Quality outputs			5.0%				
2015 LTIP Award		1 June 2015	31 March 2018		186,670	0	186,670	
2016 LTIP Award		1 June 2016	31 March 2019		0	201,730	201,730	

Table 12: Payments to Executive Directors during 2016/17 and the value of other long-term incentives they hold which 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 2016 £	Base value of awards granted during the year £	Base value of awards held at 31 March 2017 £	Value of awards that vested at Remuneration Committee on 25 May 2017 £
Jean Spencer								
2014 LTIP Award		4 June 2014	31 March 2017		180,656	0	180,656	176,540
	Rate of return			33.0%				
	Serviceability ³			15.0%				
	Service Incentive Mechanism			20.0%				
	Leakage reduction			5.0%				
	Interruption to supply			5.0%				
	Pollution			4.8%				
	Quality outputs			5.0%				
2015 LTIP Award		1 June 2015	31 March 2018		176,250	0	176,250	
2016 LTIP Award		1 June 2016	31 March 2019		0	181,398	181,398	

¹ The cost of Peter Simpson's long-term incentives is split between the Company and AWG as described on page 128.

² The cost of Scott Longhurst's long-term incentives is paid by AWG and is not charged to the Company.

³ 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

2017 awards

The Committee intends to make further awards in June 2017, 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 2017 to 31 March 2020. These are shown in Table 13.

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 up to 100 per cent of the award in exceptional circumstances.

Further information on the ODI Scorecard is in Table 8, note 1.

Table 13: Performance measures and weightings for 2017 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 £30,000.

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 Billingham ¹	26 November 2014	No fixed term
Dame Polly Courtice	1 April 2015	31 March 2018
Steve Good	1 April 2015	31 March 2018
John Hirst	1 April 2015	31 March 2018
Paul Whittaker	14 October 2013	13 October 2019

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.

Remuneration

Table 14 provides a summary of key elements of remuneration for the Chairman and Non-Executive Directors for the year ended 31 March 2017 and any changes for the year ending 31 March 2018.

Table 14

Purpose and link to strategy	Operation	Maximum potential value as % of base fee	Performance metrics	Changes for 2017/18
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 2017/18.
Benefits				
	The Company covers the cost of travel between the Directors' home and office when carrying out duties. This includes payment of any tax due. Normal place of work is deemed to be the Company's head office in Huntingdon. Travel to any other location is reimbursed as normal business travel expenses.		Depending on the home location of the Director, these payments are all less than 1.5% of base fees.	

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. One hundred per cent of the Independent Non-Executive Directors' costs are charged to the Company.

Outcomes in 2016/17

Table 15: Single total remuneration figure for Non-Executive Directors (audited)

	Total remuneration AWS £				Total remuneration - other AWG companies £				Total remuneration all AWG £					
	2015/16		2016/17		2015/16		2016/17		2015/16		2016/17		2015/16	2016/17
	Fees	Benefits ¹	Fees	Benefits ¹	Fees	Benefits	Fees	Benefits	Fees	Benefits	Fees	Benefits	Total	Total
Stephen Billingham	180,000	790	180,000	1,098	120,000	527	120,000	732	300,000	1,317	300,000	1,830	301,317	301,830
Dame Polly Courtice	45,000	217	45,000	332	0	0	0	0	45,000	217	45,000	332	45,217	45,332
Steve Good	45,000	0	45,000	671	0	0	0	0	45,000	0	45,000	671	45,000	45,671
John Hirst	57,500	0	65,000	650	0	0	0	0	57,500	0	65,000	650	57,500	65,650
Paul Whittaker	55,000	0	55,000	0	0	0	0	0	55,000	0	55,000	0	55,000	55,000
Total Non-Executive Directors²	382,500	1,007	390,000	2,751	120,000	527	120,000	732	502,500	1,534	510,000	3,483	504,034	513,483

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 Dame Polly Courtice, Steve Good and John Hirst were appointed as Independent Non-Executive Directors on 1 April 2015.

Fees

There were no 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 2016/17 performance year were discussed at Remuneration Committee meetings held on 26 May 2016, 30 November 2016, and 14 and 30 March 2017. The items discussed at these meetings are summarised below.

May 2016

- Approval of the performance contract outturn in respect of the financial year just concluded, being the year under review ('past year').
- Performance review and pay and bonus recommendation for senior management.
- Approval of pay awards to Executive Directors for the forthcoming financial year.
- Discussion of Co-Investment Plan participants for the forthcoming year.
- Discussion of additional incentive to mitigate the reduction in dividends.

November 2016

- Interim review of performance of the Group CEO and CFO for the past year.
- Discussion of AWG Loyalty Savings Scheme.
- Discussion of Gender Pay Gap Reporting.

March 2017

- Initial review of the vesting of the long-term incentive plan awards with a performance period ending in the past year.
- Initial review of bonus payments to AWS Executive Directors in relation to performance during the past year.
- Approval of the AWS performance contract for the forthcoming financial year.

- Approval of the structure of long-term incentive plan awards to AWS employees to be made at the start of the new financial year.

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 107. 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 2017 and some minor improvements to the operation of the Committee were suggested.

External advisors

During 2016/17, 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.

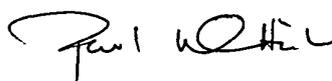
Remuneration policy in 2017/18

As explained in Table 2, no changes are proposed to the remuneration policy for 2017/18. 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 the 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 of Directors on 31 May 2017.



Paul Whittaker

Chairman of the Remuneration Committee
31 May 2017

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2017

The Directors present their report and the audited financial statements of Anglian Water Services Limited (the Company) for the year ended 31 March 2017.

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 18.

The information that fulfils the requirement of the Strategic Report, including a summary of the Group's performance, future prospects, key performance indicators and principal risks and uncertainties, is included in the Strategic Report and Financial Performance sections on pages 1 to 95. The information that satisfies the disclosure requirements regarding greenhouse gas emissions is given in the Strategic Report on page 55.

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 101 to 108 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 101 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 93 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.

Results and dividends

The Group income statement on page 147 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 165.

Health and safety

Details are included on pages 64 to 66.

Directors

Current Directors of the Company are listed on pages 98 to 100 together with their biographical details. Details of Board changes that took place during the year are detailed on page 103.

Directors' indemnities

During the 2016/17 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. During the year, the Company donated £40,000 to WaterAid and actively encouraged the participation of its employees in various fundraising activities through a number of initiatives, including a sponsored spinathon and the ongoing monthly WaterAid lottery. Volunteering for WaterAid is a key part of the Company's Love to Help employee volunteering programme, which allows employees to take time out of the office in support of various good causes.

With the support of the Company, employee volunteers, partners and suppliers across the business, our WaterAid Volunteers' Committee successfully fundraised an extra £766,474 for WaterAid (2016: £624,984) – the highest amount ever raised by the business.

No political donations were made during the year (2016: Enil).

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 actively seeks to engage with present and future customers across its region. Future customers are engaged through school outreach programmes and hosting students at our education centres. A number of elements of our PR19 customer engagement programme will reach children and young people. An Anglian Water tour bus will visit a range of locations in the summer, including events that will attract families (such as county shows and town festivals) and some events specifically run for young people. An extensive programme of customer engagement has been developed for this AMP, with the aim of generating an ongoing dialogue regarding customer priorities and making the best use of insight from existing contact channels. The programme has been developed in line with the Company's ambition to put customers at the heart of its activities, as well as being updated in response to Ofwat's guidance for PR19.

The Company's Business Plan for 2015–2020 was informed by the results of its biggest ever, region-wide consultation on the future of water and water recycling services, and was a step-change from the engagement activity for the previous plan. The customer engagement activity in AMP6 is another significant step forward, to keep pace with technological advances and changing customer expectations. A diverse range of innovative and traditional techniques are being used to engage with customers and to analyse results according to customer circumstances, behaviours and attitudes.

Since 2011, the independent Customer Engagement Forum (CEF) has been in place to advise and challenge the Company on how it has engaged with its customers and how customer views are reflected in its plans. From the start of this AMP, the CEF has also monitored current performance and challenged areas where the Company has not met targets, or has significantly exceeded them. In particular, it has focused on the Company's suite of Outcome Delivery Incentives (ODIs), 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 Management Board is actively involved in the development of the Company's customer service offering, while the Board monitors the results of the quarterly SIM survey conducted by Ofwat (itself an ODI) and uses Board meetings to discuss performance which has resulted in the SIM score at each quarter.

Employees

Employees are kept informed of changes in the business and general financial and economic factors influencing the Company. This is achieved through a systematic approach to employee communication, which includes regular briefings, presentations and electronic mailings. 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.

The Company values the views of its employees and consults with them and their representatives on a regular basis about matters that may affect

DIRECTORS' REPORT

them. The Company recognises three trade unions, with whom management meets regularly for collective bargaining and consultation purposes. The Company has an active network of health and safety committees at which senior managers meet with trades union representatives to consult on matters affecting health and safety at work. The Company also operates a further elected employee forum Open House, where senior managers and front-line employees meet regularly to discuss the challenges facing the business and 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 110. The Company also has a series of family-friendly policies, including such initiatives as flexible working hours, home working, sabbaticals and career breaks.

The Company participates in the AWG Loyalty Savings Scheme, which has been offered every year since 2007 and enables employees to potentially benefit from future financial performance.

The Company values diversity within its workforce and has put in place procedures to ensure that it is an equal opportunities employer. All job applications are fully and fairly considered, having regard only to the applicant's aptitudes and abilities relevant to the role. In the event of disability, every effort is made to ensure that employment continues, appropriate adjustments are made and training given. Career development and promotion of disabled people are, as far as possible, identical to those of other employees.

Events occurring after the reporting period

Details of events occurring after the reporting period are included in note 30 of the Group financial statements.

Going concern

The Directors believe, after due and careful enquiry, that the Company has sufficient resources to continue in operational existence for the foreseeable future and, therefore, consider it appropriate to adopt the going concern basis in preparing the 2017 financial statements.

Directors' disclosures to auditors

In the case of each of the persons who are Directors at the time when the report is approved under section 418 of the Companies Act 2006 the following applies:

- a) So far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware.
- b) He/she has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

During the year, following a competitive tender process, Deloitte LLP (Deloitte) was appointed as the Company's new external auditor with effect from 1 September 2016. The engagement follows a review by the Company of its Internal and External Audit functions and is in line with a wider group initiative by its ultimate parent undertaking, Anglian Water Group Limited. As part of this process, PricewaterhouseCoopers LLP (PwC) tendered for, and was awarded, the Company's internal audit contract. Accordingly, PwC was ineligible to re-tender for the external audit contract and resigned as external auditor on 29 July 2016. Deloitte is deemed to be reappointed under section 487(2) of the Companies Act 2006.

By order of the Board



Claire Russell
Company Secretary
31 May 2017

Registered Office:
Anglian Water Services Limited
Lancaster House
Lancaster Way
Ermine Business Park
Huntingdon
Cambridgeshire PE29 6XU
Registered in England and Wales No 2366656

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Integrated Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the Group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions, and disclose with reasonable accuracy at any time the financial position of the Company and the Group, and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS

Regulation. They are also responsible for safeguarding the assets of the Company and the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names and functions are listed in the Who leads us? and Board of Directors sections on pages 20 to 21 and 98 to 100 confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group

- the Directors' Report and Strategic Report contained in the Annual Report include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

The Directors consider that the Annual Integrated Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.



Claire Russell
Company Secretary
31 May 2017

STATUTORY ACCOUNTS

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Group income statement

for the year ended 31 March 2017

Notes	2017			2016 (restated)			
	Underlying results £m	Other items ¹ £m	Total £m	Underlying results £m	Other items ^{1,2} £m	Total £m	
Continuing operations							
	Revenue	1,227.0	-	1,227.0	1,185.4	-	1,185.4
	Other operating income	14.8	-	14.8	13.5	-	13.5
	Operating costs						
	Operating costs before depreciation and amortisation	(565.3)	-	(565.3)	(560.6)	-	(560.6)
	Depreciation and amortisation	(311.2)	-	(311.2)	(297.9)	-	(297.9)
	Total operating costs	(876.5)	-	(876.5)	(858.5)	-	(858.5)
	Operating profit	365.3	-	365.3	340.4	-	340.4
	Finance income	2.0	192.3	194.3	3.6	192.8	196.4
	Finance costs	(283.2)	-	(283.2)	(254.9)	-	(254.9)
	Fair value losses on derivative financial instruments	-	(116.0)	(116.0)	-	(89.7)	(89.7)
6	Net finance costs	(281.2)	76.3	(204.9)	(251.3)	103.1	(148.2)
	Profit before tax from continuing operations	84.1	76.3	160.4	89.1	103.1	192.2
7	Tax			37.9			138.8
	Profit for the year			198.3			331.0

¹ Other items comprise fair value losses on derivative financial instruments and energy hedges of £116.0 million (2016: £89.7 million) and intra-group interest income of £192.3 million (2016: £192.8 million).

² See note 1 'Accounting policies' for details of the change in classification of the movement in fair value of energy hedges.

Notes 1 to 30 are an integral part of these consolidated financial statements.

Group statement of comprehensive income

for the year ended 31 March 2017

Notes	2017 £m	2016 £m
Profit for the year	198.3	331.0
Other comprehensive income for the year:		
Items that will not be reclassified to profit or loss		
21 Actuarial (losses)/gains on retirement benefit obligations	(100.9)	38.5
7 Income tax on items that will not be reclassified	16.8	(8.7)
	(84.1)	29.8
Items that may be reclassified subsequently to profit or loss		
Losses on cash flow hedges	(22.1)	(23.2)
7 Income tax on items that may be reclassified	2.6	2.2
	(19.5)	(21.0)
Total comprehensive income for the year	94.7	339.8

Group and Company balance sheets

at 31 March 2017
Company number 02366656

Notes	Group 2017 £m	2016 £m	Company 2017 £m	2016 £m	
Non-current assets					
11	Intangible assets	139.4	129.1	139.4	129.1
12	Property, plant and equipment	9,517.7	9,426.1	9,517.7	9,426.1
13	Investments	1,602.6	1,602.6	1,602.6	1,602.6
18	Derivative financial instruments	256.1	155.2	256.1	155.2
21	Retirement benefit surpluses	4.0	57.1	4.0	57.1
		11,519.8	11,370.1	11,519.8	11,370.1
Current assets					
14	Inventories	9.3	9.0	9.3	9.0
15	Trade and other receivables	429.9	496.1	429.9	496.1
	Investments	75.0	267.3	75.0	267.3
	Cash and cash equivalents	354.8	151.7	353.1	150.4
18	Derivative financial instruments	12.6	7.3	12.6	7.3
		881.6	931.4	879.9	930.1
28	Assets classified as held for sale	85.6	-	85.6	-
	Total assets	12,487.0	12,301.5	12,485.3	12,300.2
Current liabilities					
16	Trade and other payables	(467.3)	(436.1)	(513.2)	(481.8)
	Current tax liabilities	(267.6)	(125.1)	(267.6)	(125.1)
17	Borrowings	(278.4)	(494.4)	(278.4)	(494.4)
18	Derivative financial instruments	(16.3)	(16.3)	(16.3)	(16.3)
19	Provisions	(4.1)	(3.1)	(4.1)	(3.1)
		(1,033.7)	(1,075.0)	(1,079.6)	(1,120.7)
	Net current liabilities	(152.1)	(143.6)	(199.7)	(190.6)
Non-current liabilities					
17	Borrowings	(6,196.5)	(5,758.2)	(6,196.5)	(5,758.2)
18	Derivative financial instruments	(1,043.8)	(897.1)	(1,043.8)	(897.1)
20	Deferred tax liabilities	(839.5)	(914.0)	(839.5)	(914.0)
21	Retirement benefit obligations	(79.6)	(45.0)	(79.6)	(45.0)
19	Provisions	(10.2)	(9.4)	(10.2)	(9.4)
16	Other non-current liabilities	(484.0)	(588.7)	(484.0)	(588.7)
		(8,653.6)	(8,212.4)	(8,653.6)	(8,212.4)
28	Liabilities directly associated with assets held for sale	(11.2)	-	(11.2)	-
	Total liabilities	(9,698.5)	(9,287.4)	(9,744.4)	(9,333.1)
	Net assets	2,788.5	3,014.1	2,740.9	2,967.1
Capital and reserves					
23	Called-up share capital	10.0	10.0	10.0	10.0
	Retained earnings	2,899.0	3,105.1	2,851.4	3,058.1
22	Hedging reserve	(120.5)	(101.0)	(120.5)	(101.0)
	Total equity	2,788.5	3,014.1	2,740.9	2,967.1

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 £197.7 million (2016: £330.6 million).

Notes 1 to 30 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 31 May 2017 and signed on its behalf by:



Peter Simpson
Chief Executive



Scott Longhurst
Managing Director of Finance and Non-Regulated Business

Group statement of changes in equity

for the year ended 31 March 2017

	Share capital £m	Revaluation reserve £m	Retained earnings £m	Hedging reserve £m	Total equity £m
Year ended 31 March 2017					
At 1 April 2016	10.0	-	3,105.1	(101.0)	3,014.1
Profit for the year	-	-	198.3	-	198.3
Other comprehensive income for the year	-	-	(84.1)	(19.5)	(103.6)
Total comprehensive income	-	-	114.2	(19.5)	94.7
Dividends (see note 10)	-	-	(320.3)	-	(320.3)
At 31 March 2017	10.0	-	2,899.0	(120.5)	2,788.5
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 (see note 10)	-	-	(345.0)	-	(345.0)
At 31 March 2016	10.0	-	3,105.1	(101.0)	3,014.1

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 ended 31 March 2016, 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 income statement

for the year ended 31 March 2017

Notes	2017			2016 (restated)		
	Underlying results £m	Other items ¹ £m	Total £m	Underlying results £m	Other items ^{1,2} £m	Total £m
Continuing operations						
	Revenue		1,227.0			1,185.4
	Other operating income		14.8			13.5
	Operating costs					
	Operating costs before depreciation and amortisation		(565.3)			(560.6)
	Depreciation and amortisation		(311.2)			(297.9)
	Total operating costs		(876.5)			(858.5)
	Operating profit		365.3			340.4
	Finance income		2.0			192.8
	Finance costs		(283.2)			(254.9)
	Fair value losses on derivative financial instruments		-			(89.7)
6	Net finance costs		(281.2)			(251.3)
	Profit before tax from continuing operations		84.1			103.1
7	Tax					138.8
	Profit for the year		198.3			331.0

¹ Other items comprise fair value losses on derivative financial instruments and energy hedges of £116.0 million (2016: £89.7 million) and intra-group interest income of £192.3 million (2016: £192.8 million).

² See note 1 'Accounting policies' for details of the change in classification of the movement in fair value of energy hedges.

Notes 1 to 30 are an integral part of these consolidated financial statements.

Group statement of comprehensive income

for the year ended 31 March 2017

Notes	2017 £m	2016 £m
Profit for the year	198.3	331.0
Other comprehensive income for the year:		
Items that will not be reclassified to profit or loss		
21 Actuarial (losses)/gains on retirement benefit obligations	(100.9)	38.5
7 Income tax on items that will not be reclassified	16.8	(8.7)
	(84.1)	29.8
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Losses on cash flow hedges	(22.1)	(23.2)
7 Income tax on items that may be reclassified	2.6	2.2
	(19.5)	(21.0)
Total comprehensive income for the year	94.7	339.8

Group and Company balance sheets

at 31 March 2017
Company number 02366656

Notes		Group 2017 £m	2016 £m	Company 2017 £m	2016 £m
	Non-current assets				
11	Intangible assets	139.4	129.1	139.4	129.1
12	Property, plant and equipment	9,517.7	9,426.1	9,517.7	9,426.1
13	Investments	1,602.6	1,602.6	1,602.6	1,602.6
18	Derivative financial instruments	256.1	155.2	256.1	155.2
21	Retirement benefit surpluses	4.0	57.1	4.0	57.1
		11,519.8	11,370.1	11,519.8	11,370.1
	Current assets				
14	Inventories	9.3	9.0	9.3	9.0
15	Trade and other receivables	429.9	496.1	429.9	496.1
	Investments	75.0	267.3	75.0	267.3
	Cash and cash equivalents	354.8	151.7	353.1	150.4
18	Derivative financial instruments	12.6	7.3	12.6	7.3
		881.6	931.4	879.9	930.1
28	Assets classified as held for sale	85.6	-	85.6	-
	Total assets	12,487.0	12,301.5	12,485.3	12,300.2
	Current liabilities				
16	Trade and other payables	(467.3)	(436.1)	(513.2)	(481.8)
	Current tax liabilities	(267.6)	(125.1)	(267.6)	(125.1)
17	Borrowings	(278.4)	(494.4)	(278.4)	(494.4)
18	Derivative financial instruments	(16.3)	(16.3)	(16.3)	(16.3)
19	Provisions	(4.1)	(3.1)	(4.1)	(3.1)
		(1,033.7)	(1,075.0)	(1,079.6)	(1,120.7)
	Net current liabilities	(152.1)	(143.6)	(199.7)	(190.6)
	Non-current liabilities				
17	Borrowings	(6,196.5)	(5,758.2)	(6,196.5)	(5,758.2)
18	Derivative financial instruments	(1,043.8)	(897.1)	(1,043.8)	(897.1)
20	Deferred tax liabilities	(839.5)	(914.0)	(839.5)	(914.0)
21	Retirement benefit obligations	(79.6)	(45.0)	(79.6)	(45.0)
19	Provisions	(10.2)	(9.4)	(10.2)	(9.4)
16	Other non-current liabilities	(484.0)	(588.7)	(484.0)	(588.7)
		(8,653.6)	(8,212.4)	(8,653.6)	(8,212.4)
28	Liabilities directly associated with assets held for sale	(11.2)	-	(11.2)	-
	Total liabilities	(9,698.5)	(9,287.4)	(9,744.4)	(9,333.1)
	Net assets	2,788.5	3,014.1	2,740.9	2,967.1
	Capital and reserves				
23	Called-up share capital	10.0	10.0	10.0	10.0
	Retained earnings	2,899.0	3,105.1	2,851.4	3,058.1
22	Hedging reserve	(120.5)	(101.0)	(120.5)	(101.0)
	Total equity	2,788.5	3,014.1	2,740.9	2,967.1

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 £197.7 million (2016: £330.6 million).

Notes 1 to 30 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 31 May 2017 and signed on its behalf by:



Peter Simpson
Chief Executive



Scott Longhurst
Managing Director of Finance and Non-Regulated Business

Group statement of changes in equity

for the year ended 31 March 2017

	Share capital £m	Revaluation reserve £m	Retained earnings £m	Hedging reserve £m	Total equity £m
Year ended 31 March 2017					
At 1 April 2016	10.0	-	3,105.1	(101.0)	3,014.1
Profit for the year	-	-	198.3	-	198.3
Other comprehensive income for the year	-	-	(84.1)	(19.5)	(103.6)
Total comprehensive income	-	-	114.2	(19.5)	94.7
Dividends (see note 10)	-	-	(320.3)	-	(320.3)
At 31 March 2017	10.0	-	2,899.0	(120.5)	2,788.5
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 (see note 10)	-	-	(345.0)	-	(345.0)
At 31 March 2016	10.0	-	3,105.1	(101.0)	3,014.1

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 ended 31 March 2016, 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).

Matters on which we are required to report by exception**Adequacy of explanations received and accounting records**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report arising from these matters.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and 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 acquired in the course of performing our audit; or
- otherwise misleading.

We confirm that we have not identified any such inconsistencies or misleading statements.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

Other matters

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the provisions of the Companies Act 2006 that would have been applied were the company a quoted company.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

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. 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.

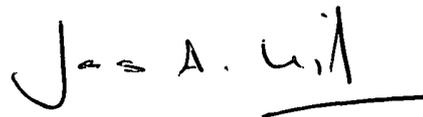
James Leigh (Senior statutory auditor)

For and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

London, United Kingdom

31 May 2017



Company statement of changes in equity

for the year ended 31 March 2017

	Share capital £m	Revaluation reserve £m	Retained earnings £m	Hedging reserve £m	Total equity £m
Year ended 31 March 2017					
At 1 April 2016	10.0	-	3,058.1	(101.0)	2,967.1
Profit for the year	-	-	197.7	-	197.7
Other comprehensive income for the year	-	-	(84.1)	(19.5)	(103.6)
Total comprehensive income	-	-	113.6	(19.5)	94.1
Dividends (see note 10)	-	-	(320.3)	-	(320.3)
At 31 March 2017	10.0	-	2,851.4	(120.5)	2,740.9
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 (see note 10)	-	-	(345.0)	-	(345.0)
At 31 March 2016	10.0	-	3,058.1	(101.0)	2,967.1

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 2017

Notes	Group		Company		
	2017 £m	2016 (restated) ¹ £m	2017 £m	2016 (restated) ¹ £m	
	Cash flows from:				
	Operating activities				
(a)	Cash generated from operations	632.0	644.4	632.0	644.4
	Income taxes paid ²	(19.8)	(16.9)	(19.8)	(16.9)
	Net cash flows from operating activities	612.2	627.5	612.2	627.5
	Investing activities				
	Purchase of property, plant and equipment	(302.1)	(260.2)	(302.1)	(260.2)
	Purchase of intangible assets	(47.0)	(40.0)	(47.0)	(40.0)
	Grants and contributions received	39.4	30.8	39.4	30.8
	Proceeds from sale of property, plant and equipment	2.8	3.9	2.8	3.9
	Interest received	194.8	196.9	194.4	196.8
	Net cash used in investing activities	(112.1)	(68.6)	(112.5)	(68.7)
	Financing activities				
	Interest paid	(233.4)	(218.2)	(233.4)	(218.2)
	Issue costs paid	(4.5)	(2.2)	(4.5)	(2.2)
	Interest element of finance lease rental payments	(1.3)	(1.5)	(1.3)	(1.5)
	Increase in amounts borrowed	569.3	-	569.3	-
	Repayment of amounts borrowed	(494.0)	(325.8)	(494.0)	(325.8)
	Capital element of finance lease rental payments	(5.1)	(4.7)	(5.1)	(4.7)
	Increase/(decrease) in short-term bank deposits	192.3	(157.3)	192.3	(157.3)
	Dividends paid	(320.3)	(345.0)	(320.3)	(345.0)
	Net cash used in financing activities	(297.0)	(1,054.7)	(297.0)	(1,054.7)
	Net increase/(decrease) in cash and cash equivalents	203.1	(495.8)	202.7	(495.9)
	Cash and cash equivalents at the beginning of the year	151.7	647.5	150.4	646.3
(b)	Cash and cash equivalents at 31 March	354.8	151.7	353.1	150.4

Notes (a) and (b) form part of this cash flow statement.

¹ The Group has changed its presentation of interest received in the cash flow statement. Previously interest received was considered to be a financing activity; however, it is now considered more appropriate to show interest received as an investing activity to better reflect the nature of interest received.

² Income taxes paid are all intra-group.

Notes to the Group and Company cash flow statements

for the year ended 31 March 2017

(a) Cash generated from operations

	Group		Company	
	2017 £m	2016 (restated) ¹ £m	2017 £m	2016 (restated) ¹ £m
Operating profit	365.3	340.4	365.3	340.4
Adjustments for:				
Amortisation of deferred grants and contributions	(14.8)	(13.5)	(14.8)	(13.5)
Depreciation and amortisation	311.2	297.9	311.2	297.9
Profit on sale of property, plant and equipment	(2.5)	(3.5)	(2.5)	(3.5)
Difference between pension charge and cash contributions	(12.5)	(13.0)	(12.5)	(13.0)
Net movement in provisions	2.2	(0.2)	2.2	(0.2)
	283.6	267.7	283.6	267.7
Working capital:				
Increase in inventories	(0.3)	-	(0.3)	-
(Increase)/decrease in trade and other receivables	(16.8)	17.8	(16.8)	17.8
Increase in trade and other payables	0.2	18.5	0.2	18.5
	(16.9)	36.3	(16.9)	36.3
Cash generated from operations	632.0	644.4	632.0	644.4

¹ Comparative periods have been restated for the change in disclosure of the movement in fair value of energy hedges (see note 1 'Accounting policies').

All of the above cash flows related to continuing operations.

(b) Analysis of net debt

	Group				
	Cash and cash equivalents £m	Financial investments £m	Borrowings £m	Derivative financial instruments ¹ £m	Total £m
At 1 April 2016	151.7	267.3	(6,252.6)	(705.6)	(6,539.2)
Cash flows	203.1	(192.3)	(42.5)	2.2	(29.5)
Interest	-	-	14.3	4.7	19.0
Issue costs relating to new borrowings	-	-	4.8	-	4.8
Amortisation of issue costs	-	-	(3.1)	-	(3.1)
Indexation of borrowings and RPI swaps	-	-	(61.1)	(14.1)	(75.2)
Fair value gains and losses	-	-	(69.3)	(54.0)	(123.3)
Exchange movements	-	-	(65.4)	-	(65.4)
At 31 March 2017	354.8	75.0	(6,474.9)	(766.8)	(6,811.9)
Net debt at 31 March 2017 comprises:					
Non-current assets	-	-	-	256.1	256.1
Current assets	354.8	75.0	-	12.6	442.4
Current liabilities	-	-	(278.4)	(10.1)	(288.5)
Non-current liabilities	-	-	(6,196.5)	(1,025.4)	(7,221.9)
Net debt	354.8	75.0	(6,474.9)	(766.8)	(6,811.9)

¹ Derivative financial instruments excludes the fair value of energy derivatives of £24.6 million (2016: £45.3 million) as these are not classified as part of net debt.

Current asset investments above comprise £75.0 million (2016: £267.3 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 2017

(b) Analysis of net debt continued

	Company				Total £m
	Cash and cash equivalents £m	Financial investments £m	Borrowings £m	Derivative financial instruments ¹ £m	
At 1 April 2016	150.4	267.3	(6,252.6)	(705.6)	(6,540.5)
Cash flows	202.7	(192.3)	(42.5)	2.2	(29.9)
Interest	-	-	14.3	4.7	19.0
Issue costs relating to new borrowings	-	-	4.7	-	4.7
Amortisation of issue costs	-	-	(3.1)	-	(3.1)
Indexation of borrowings and RPI swaps	-	-	(61.1)	(14.1)	(75.2)
Fair value gains and losses	-	-	(69.2)	(54.0)	(123.2)
Exchange movements	-	-	(65.4)	-	(65.4)
At 31 March 2017	353.1	75.0	(6,474.9)	(766.8)	(6,813.6)
Net debt at 31 March 2017 comprises:					
Non-current assets	-	-	-	256.1	256.1
Current assets	353.1	75.0	-	12.6	440.7
Current liabilities	-	-	(278.4)	(10.1)	(288.5)
Non-current liabilities	-	-	(6,196.5)	(1,025.4)	(7,221.9)
Net debt	353.1	75.0	(6,474.9)	(766.8)	(6,813.6)

¹ Derivative financial instruments excludes the fair value of energy derivatives of £24.6 million (2016: £45.3 million) as these are not classified as part of net debt.

Current asset investments above comprise £75.0 million (2016: £267.3 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 2017

1 Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all of the years presented, except as described in the paragraph below.

In accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' the Group has changed its accounting policy in respect of the disclosure of the movement in fair value of energy hedges. Previously such movements were separately disclosed within operating costs on the face of the income statement as a non-underlying gain or loss. However, these hedging arrangements are similar in nature to the other cash flow hedges the Group has in place, where the gain or loss relating to the ineffective portion of these arrangements is charged to finance costs. It is therefore considered more appropriate to adopt a consistent treatment for energy hedges and take the movements in fair value to finance costs. On realisation, the hedged values of energy costs are included within operating profit. The impact of this change in accounting policy has been to decrease operating profit for the year ended 31 March 2017 by £7.0 million (2016: increase operating profit by £4.8 million) with a corresponding increase in fair value losses on derivative financial instruments within net finance costs. There is no impact on either the profit for the year or on any balance sheet item.

(a) Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), and IFRS Interpretations Committee interpretations, as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRSs.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of property, plant and equipment, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit and loss.

Underlying profit before tax excludes the fair value gains and losses arising on derivative financial instruments and energy derivatives, which introduces volatility into the accounts, which management believes 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 as the Company pays dividends to Anglian Water Services Holdings Limited to fund this interest receivable, such that the Company is financially neutral and accordingly the interest does not reflect the underlying performance of the business. The AWSF Group comprises Anglian Water Services Holdings Limited, Anglian Water Services Overseas Holdings Limited, Anglian Water Services Limited and Anglian Water Services Financing Plc.

(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 consideration receivable for the sale of goods and services, net of value added tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

- (i) Water and sewerage services – revenue includes an estimation of the amount of mains water and sewerage charges unbilled at the period end. The revenue accrual is estimated using a defined methodology based 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. There were no such items in either 2017 or 2016.

Notes to the Group financial statements continued

1 Accounting policies continued

(h) Taxation

Current income tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates enacted or substantively enacted by the balance sheet date and is expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets and surplus advance corporation tax are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(i) Dividends

Dividends are recognised as a liability in the period in which they are approved or committed. Interim dividends are recognised in the period in which they are paid or when the Company has a constructive or legal commitment to pay the dividend.

(j) Intangible assets

Intangible assets are shown at cost less subsequent amortisation and any impairment. Amortisation of intangible assets is calculated on a straight-line basis over their estimated useful lives, which are primarily three to 10 years.

(k) Property, plant and equipment

Property, plant and equipment comprises:

- (i) Land and buildings – comprising land and non-operational buildings.
- (ii) Infrastructure assets – comprising a network of systems consisting of mains and sewers, impounding and pumped raw water storage reservoirs, sludge pipelines and sea outfalls.
- (iii) Operational assets – comprising structures at sites used for water and wastewater treatment, pumping or storage where not classed as infrastructure along with associated fixed plant.
- (iv) Vehicles and mobile plant and equipment.
- (v) Assets under construction.

All property, plant and equipment is shown at cost less subsequent depreciation and any impairment. Cost includes expenditure directly attributable to the acquisition or construction of the items.

Items of property, plant and equipment that are transferred to the Group from customers or developers are initially recognised at fair value. The corresponding credit is recorded as deferred income and released to other income over the expected useful lives of the related assets.

Borrowing costs incurred for the construction of qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement as incurred.

Freehold land is not depreciated, nor are assets in the course of construction until commissioned. Depreciation of other assets is calculated at rates expected to write off the cost less the estimated residual value of the relevant assets on a straight-line basis over their estimated useful lives, which are primarily as follows:

Non-operational buildings	30-60 years
Infrastructure assets – water	50-120 years
Infrastructure assets – water recycling	50-160 years
Operational assets	30-80 years
Fixed plant (including meters)	12-40 years
Vehicles and mobile plant and equipment	3-10 years

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) *Trade receivables*

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

The bad debt provision is calculated by applying expected recovery rates, based on actual historical cash collection performance, to the aged debt profile.

(q) *Cash and cash equivalents*

In the consolidated statement of cash flows, cash and cash equivalents comprise cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturity dates of three months or less and outstanding bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities.

(r) *Assets held for sale*

Where an asset or group of assets (a disposal group) is available for immediate sale and the sale is highly probable and expected to occur within one year, the disposal group is deemed held for sale. At this point the gross assets and gross liabilities of the disposal group are shown separately as held for sale. The value of the disposal group is measured at the lower of the carrying amount and fair value less costs to sell.

(s) *Borrowings*

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

Notes to the Group financial statements continued

1 Accounting policies continued

(t) Derivative financial instruments

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

Derivatives are initially recognised at fair value and subsequently re-measured at fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group designates certain derivatives as either a fair value or cash flow hedge in accordance with 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 is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for example, in the periods when interest income or expense is recognised, or when the forecast sale that is hedged takes place).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(iii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments, principally index-linked swaps and swaptions, do not qualify for hedge accounting. Such derivatives are classified at fair value through profit or loss, and changes in fair value are recognised immediately in the income statement.

(u) Provisions

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

(v) Pensions

(i) Defined benefit schemes

For defined benefit schemes, pension scheme assets are measured at fair value, and liabilities are measured on an actuarial basis using the projected unit credit method and are discounted at the current rate of return on a high-quality corporate bond of equivalent term and currency to the liabilities. The current service cost, which is the increase in the present value of the liabilities of the Group's defined benefit pension schemes expected to arise from employee service in the period, is charged to operating costs. The net interest on the schemes' net assets/(liabilities) is included in other finance charges. Actuarial gains and losses are recognised in the statement of comprehensive income.

Pension schemes' surpluses, to the extent that they are considered recoverable, or deficits, are recognised in full and presented on the face of the balance sheet.

(ii) Defined contribution schemes

The cost of defined contribution schemes is charged to the income statement in the period in which the contributions become payable.

(w) New standards, amendments and interpretations not yet adopted

At the date of approval of these financial statements the following standards were in issue but not yet effective:

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. The standard is effective for the year ending 31 March 2019 and the Group has no plans to early adopt. The standard simplifies the classification and measurement models for financial assets, as required by IAS 39, and introduces a model with two classification categories: amortised cost and fair value. Classification is driven by the business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The accounting and presentation for financial liabilities and for derecognising financial instruments is relocated from IAS 39 without any significant changes. Finally the standard introduces amendments to the impairment of financial assets and hedge accounting. The Group is currently assessing the impact of IFRS 9 on its financial statements and at this stage it is not yet practicable to quantify the impact IFRS 9 will have on the financial statements.

IFRS 15 'Revenue from Contracts with Customers'

This standard will be mandatory for the Group's financial statements for the year ending 31 March 2019, and the Group does not currently have any plans to early adopt.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This is achieved by a five-step model to be applied to all contracts with customers, except for contracts that are within the scope of other standards such as leases and financial instruments, as summarised below.

- (i) Identify the contract(s) with a customer.
- (ii) Identify the performance obligations in the contract.
- (iii) Determine the transaction price.
- (iv) Allocate the transaction price to the performance obligations in the contract.
- (v) Recognise revenue when (or as) the entity satisfies a performance obligation.

The Group's principal source of income is from customers in respect of the provision of water and sewerage services. These services, which are defined by our Licence, are provided on an ongoing basis, at a price determined annually by our regulatory tariffs, all of which is reflected in our current income recognition policy. We do not expect the new standard to impact our current income recognition policy for this principal revenue type.

A secondary source of income for Anglian Water is from developer contributions in respect of new connections for water and/or sewerage services. This income is currently deferred and subsequently recognised in 'other operating income' over the life of the associated assets, and makes up only around one per cent of total revenue. However, Ofwat is currently consulting on how developer contributions will be calculated for future years, so it is not possible to draw any firm conclusions on the potential impact of the new standard in this area at this time.

IFRS 16 'Leases'

IFRS 16 'Leases' will replace the current guidance in IAS 17. The standard will be effective for the Group's annual financial statements for the year ending 31 March 2020, subject to EU endorsement. The Group currently has no plans to early adopt this standard.

IFRS 16 requires lessees to recognise on the balance sheet a lease liability, reflecting future lease payments, and a 'right-of-use asset' for the majority of leases, thereby removing the distinction currently made between finance and operating leases under IAS 17. Leases of a short duration, and those for individual assets of a low underlying value, are excluded from this requirement and lease payments on such agreements will continue to be expensed through the income statement.

On adoption of IFRS 16 the Group expects to bring substantially all leases currently treated as operating leases, being primarily leases of office buildings and vehicles, onto the balance sheet, and is assessing the financial impact of this change.

Other standards and interpretations

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

2 Key assumptions and significant judgements

In preparing these consolidated financial statements, the Directors have made judgements, estimates and assumptions that affect the application of the Group's accounting policies, which are described in note 1, and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised in the period in which the estimate is revised if the revision only affects that period, or in the period of the revision and future periods if the revision affects both the current and future periods.

Notes to the Group financial statements continued

2 Key assumptions and significant judgements continued

(a) Significant judgements

The areas where the most critical judgements have been applied are as follows:

(i) Capitalised expenditure

Additions to intangible assets, and to property, plant and equipment, include £58.4 million (2016: £55.8 million) of own work capitalised. Judgement is made to ensure these costs relate to relevant assets and that future economic benefit will flow to the Group. Judgement is also made as to whether certain costs constitute repairs and maintenance or the enhancement of assets.

(ii) Depreciation

The property, plant and equipment used in the Group is primarily the infrastructure and operational assets of the regulated water business. Operational assets have estimated useful lives of between 30 and 160 years and the depreciation charge is clearly sensitive to the lives allocated to the various types of asset. Asset lives are reviewed regularly and changed where necessary to reflect the current view on their remaining lives in light of the technological change, prospective economic utilisation and the physical condition of the assets.

(iii) Taxation

The Group's tax charge is based on the profit for the year and tax rates in force at the balance sheet date. Estimation of the tax charge involves an assessment of the potential tax treatment of certain items 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.

(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 loss of £100.9 million (2016: gain of £38.5 million). The main assumptions and associated sensitivities are set out in note 21 of the financial statements.

(b) Areas involving estimation

The key areas involving estimation are discussed below.

(i) Measured income accrual

The measured income accrual is an estimation of the amount of mains water and wastewater charges unbilled at the period end. The accrual is estimated using a defined methodology based upon weighted average water consumption by tariff, which is calculated based upon historical billing information. The calculation is sensitive to estimated consumption for measured domestic customers (a fall of one cubic metre in average annual consumption will reduce turnover by approximately £5.2 million).

(ii) Bad debts

The bad debt provision is calculated by applying expected recovery rates, based on actual historical cash collection performance, to the aged debt profile. The determination of the appropriate level of provision is therefore inherently open to judgement (see note 15 for details of the doubtful debts provision).

3 Segmental information

The Directors believe that the whole of the Group's activities constitute a single class of business.

The Group's revenue is wholly generated from within the United Kingdom.

4 Other operating income

Other operating income comprises the amortisation of grants and contributions.

5 Operating costs

	2017 £m	2016 (restated) ¹ £m
Raw materials and consumables	16.8	17.1
Staff costs (see note 8)	196.3	195.5
Charge for bad and doubtful debts	30.0	31.9
Operating lease rentals		
Properties	1.7	2.6
Plant and equipment	0.2	0.2
Research and development expenditure	2.5	2.4
Contribution to the Anglian Water Assistance Fund	1.1	0.7
Other operating costs	377.6	369.5
Own work capitalised	(58.4)	(55.8)
Profit on sale of property, plant and equipment ²	(2.5)	(3.5)
Operating costs before depreciation and amortisation	565.3	560.6
Depreciation of property, plant and equipment	276.4	268.2
Amortisation of intangible assets	34.8	29.7
Depreciation and amortisation	311.2	297.9
Operating costs	876.5	858.5

¹ See note 1, change in accounting policy in respect of the disclosure of the movement in fair value of energy hedges.

² The 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:

	2017 £m	2016 £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	0.3	-
	0.6	0.4

The Company's auditor during the year ended 31 March 2017 was Deloitte LLP. The fees payable to the Company's auditor include £0.3 million for consulting services which were commissioned by the Company and completed by Deloitte LLP prior to their appointment as auditors. The comparative figures in the table above relate to fees payable to PricewaterhouseCoopers LLP, the auditors of the Company during the year ended 31 March 2016. The audit-related assurance services relate to regulatory reporting to Ofwat and review of the Group's half-year results.

Notes to the Group financial statements continued

6 Net finance costs

	2017 £m	2016 (restated) ¹ £m
Finance income		
Interest income on short-term bank deposits	2.0	3.6
Other interest income ²	192.3	192.8
	194.3	196.4
Finance costs		
Interest expense on other loans including financing expenses	(212.8)	(216.1)
Indexation	(75.2)	(44.4)
Amortisation of issue costs	(3.1)	(2.5)
Interest expense on finance leases	(1.2)	(1.4)
Unwinding of discount on provisions	(1.1)	(0.4)
Defined benefit pension scheme interest credit/(charge)	0.6	(1.0)
Total finance costs	(292.8)	(265.8)
Less: amounts capitalised on qualifying assets	9.6	10.9
	(283.2)	(254.9)
Fair value (losses)/gains on derivative financial instruments		
Fair value gains/(losses) on energy hedges ¹	7.0	(4.8)
Hedge ineffectiveness on cash flow hedges	0.8	(1.3)
Hedge ineffectiveness on fair value hedges ³	4.0	(4.1)
Amortisation of adjustment to debt in fair value hedge	0.1	0.1
Derivative financial instruments not designated as hedges	(126.9)	(77.3)
Transfer from hedging reserve arising from discontinuation of cash flow hedges	(1.0)	(2.3)
	(116.0)	(89.7)
Net finance costs	(204.9)	(148.2)

¹ See note 1, change in accounting policy in respect of the disclosure of the movement in fair value of energy hedges.

² Other interest income comprises intra-group interest income of £192.3 million (2016: £192.8 million).

³ Hedge ineffectiveness on fair value hedges comprises fair value gains on hedging instrument of £46.5 million (2016: £15.3 million), offset by fair value losses of £42.5 million on hedged risks (2016: £19.4 million).

7 Taxation

	2017 £m	2016 £m
Current tax:		
In respect of the current period	61.4	20.5
Adjustments in respect of prior periods	40.1	(7.7)
Total current tax charge	101.5	12.8
Deferred tax:		
Origination and reversal of temporary differences	(56.8)	(16.3)
Adjustments in respect of prior periods	(28.3)	(12.4)
Reduction in corporation tax rate	(54.3)	(122.9)
Total deferred tax credit	(139.4)	(151.6)
Total tax credit on profit on continuing operations	(37.9)	(138.8)

The current tax adjustment in respect of previous periods in 2017 related to capital allowances disclaimers made in earlier years. In 2016, the credit related to the agreement of prior year tax computations.

The deferred tax adjustments in respect of previous periods for 2017 relate to the effect of these capital allowance disclaimers and the restatement of the opening deferred tax balances. In 2016, the adjustment related to adjustments to prior year capital allowances 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 17 per cent which is effective from 1 April 2020. To reflect reversals during the period to 31 March 2020 we have used a composite rate of 17.08 per cent to re-measure deferred tax balances.

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 (2016: 20 per cent) to the profit before tax from continuing operations as follows:

	2017 £m	2016 £m
Profit before tax from continuing operations	160.4	192.2
Profit before tax from continuing operations at the standard rate of corporation tax in the UK of 20 per cent (2016: 20 per cent)	32.1	38.4
Effects of recurring items:		
Items not deductible for tax purposes	1.9	3.2
Items not taxable	-	(0.7)
Group relief utilised	(38.5)	(38.6)
	(4.5)	2.3
Effects of non-recurring items:		
Reduction in corporation tax rate	(54.3)	(122.9)
Effects of differences between rates of current and deferred tax	9.1	1.9
Adjustments in respect of prior periods	11.8	(20.1)
Tax credit for the year	(37.9)	(138.8)

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

	2017 £m	2016 £m
Deferred tax:		
Defined benefit pension schemes	(17.2)	6.9
Cash flow hedges	(3.8)	(4.2)
Reduction in corporation tax rate - pensions	0.4	1.8
Reduction in corporation tax rate - cash flow hedges	1.2	2.0
Total tax (credit)/charge recognised in other comprehensive income	(19.4)	6.5

Notes to the Group financial statements continued

8 Employee information and Directors' emoluments

(a) Employee information	2017 £m	2016 £m
Staff costs for the Group and Company		
Wages and salaries	165.3	164.1
Social security costs	16.6	15.3
Pension costs – defined contribution (see note 21)	7.6	7.2
Pension costs – defined benefit (see note 21)	6.8	8.9
	196.3	195.5

Staff costs for the year ended 31 March 2017 include £44.9 million (2016: £48.9 million) of costs that have been capitalised within 'own work capitalised'.

Average monthly number of full-time equivalent persons (including Executive Directors):

	2017	2016
Water Services	716	691
Water Recycling Services	1,495	1,448
Customer Services	616	784
Asset Management and Other	1,635	1,509
	4,462	4,432

(b) Directors' emoluments	2017 £'000	2016 £'000
Aggregate emoluments	2,507	2,838
Pension costs – defined contribution	-	-
Benefits received under long-term incentive plans	525	717

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 (2016: zero Directors) under a defined benefit pension scheme. Retirement benefits are accruing to four Directors (2016: four Directors) under a defined contribution pension scheme. In addition to the aggregate emoluments above, certain Directors receive emoluments from other Anglian Water Group Limited group undertakings.

(c) Highest paid Director

The Company's contribution in respect of the highest paid Director into defined contribution pension schemes was £6,720 (2016: £3,000).

More detailed disclosures of the Directors' remuneration can be found in the Remuneration Report on page 115.

	2017 £'000	2016 £'000
Highest paid Director's emoluments	775	807
Highest paid Director's amounts received under long-term incentive schemes	157	412
Accrued defined benefit at year end	-	56

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 £197.7 million (2016: £330.6 million).

10 Dividends

	2017 £m	2016 £m
Paid by the Group:		
Previous year final dividend	100.0	100.0
Current year interim dividend	28.0	52.2
Dividend paid by the Company and retained within the Anglian Water Services Financing Group	191.8	192.3
Dividend committed to be paid by the Company and retained within the Anglian Water Services Financing Group	0.5	0.5
	320.3	345.0

A dividend of £192.3 million (2016: £192.8 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 (2016: £1,602.6 million). The prior year dividend committed of £0.5 million was paid in April 2016.

The Directors have proposed a final dividend for the year ended 31 March 2017 of £6.11 per share, which is a total of £61.1 million. This distribution has not been accounted for within the 2017 financial statements as it was proposed and approved after the year end. In addition, on 3 April 2017 the Company paid a special dividend of £62.2 million to partially fund the transfer of the non-household retail business from Anglian Water Services Limited to Anglian Water Business (National) Limited.

11 Intangible assets

	Group and Company		
	Computer software £m	Internally generated other £m	Total £m
Cost			
At 1 April 2015	340.6	107.5	448.1
Additions	24.7	17.2	41.9
At 31 March 2016	365.3	124.7	490.0
Additions	35.1	13.1	48.2
Disposals	(0.3)	(65.3)	(65.6)
Transferred to disposal group	(3.2)	-	(3.2)
At 31 March 2017	396.9	72.5	469.4
Accumulated amortisation			
At 1 April 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)
Charge for the year	(21.6)	(13.2)	(34.8)
Disposals	0.3	65.3	65.6
Transferred to disposal group	0.1	-	0.1
At 31 March 2017	(298.2)	(31.8)	(330.0)
Net book amount			
At 31 March 2017	98.7	40.7	139.4
At 31 March 2016	88.3	40.8	129.1

Internally generated intangible assets mainly comprise capitalised development expenditure.

Included within additions above is £1.1 million (2016: £1.8 million) of interest that has been capitalised on qualifying assets at an average rate of 4.3 per cent (2016: 4.5 per cent).

Included within intangible assets above are assets under construction of £26.1 million (2016: £19.8 million) which are not yet subject to amortisation.

Notes to the Group financial statements continued

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 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
Additions	-	-	-	-	368.7	368.7
Transfers on commissioning	0.6	101.4	106.2	56.6	(264.8)	-
Disposals	-	-	(4.9)	(69.4)	-	(74.3)
Transfer to disposal group	-	-	-	(0.6)	-	(0.6)
At 31 March 2017	46.9	6,566.4	5,698.7	821.5	319.0	13,452.5
Accumulated depreciation						
At 1 April 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)
Charge for the year	(0.4)	(53.4)	(175.1)	(47.5)	-	(276.4)
Disposals	-	-	4.9	69.2	-	74.1
Transfer to disposal group	-	-	-	0.1	-	0.1
At 31 March 2017	(6.9)	(616.2)	(2,753.4)	(558.3)	-	(3,934.8)
Net book amount						
At 31 March 2017	40.0	5,950.2	2,945.3	263.2	319.0	9,517.7
At 31 March 2016	39.8	5,902.2	3,014.2	254.8	215.1	9,426.1

Property, plant and equipment at 31 March 2017 includes land of £27.4 million (2016: £27.2 million) which is not subject to depreciation. The Group's interests in land and buildings are almost entirely freehold.

Included within additions above is £8.5 million (2016: £9.1 million) of interest that has been capitalised on qualifying assets at an average rate of 4.3 per cent (2016: 4.5 per cent).

Assets held under finance leases

Included within the amounts shown above are the following amounts in relation to property, plant and equipment held under finance leases, the majority of which is included in operational assets:

	2017 £m	2016 £m
Net book amount at 31 March	48.9	51.6

13 Investments

	Group and Company		
	Loan to parent company £m	Shares in subsidiary undertakings £m	Total £m
Cost			
At 1 April 2016 and at 31 March 2017	1,602.6	-	1,602.6

The loan of £1,602.6 million (2016: £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, all in ordinary shares, and is registered, incorporated and operating in the UK at 31 March 2017. The address of its registered office is Lancaster House, Lancaster Way, Ermine Business Park, Huntingdon, Cambridgeshire, PE29 6XU.

14 Inventories

	Group and Company	
	2017 £m	2016 £m
Raw materials and consumables	9.3	9.0
	9.3	9.0

15 Trade and other receivables

	Group		Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Trade receivables	327.9	402.2	327.9	402.2
Provision for impairment	(185.3)	(197.5)	(185.3)	(197.5)
Net trade receivables	142.6	204.7	142.6	204.7
Amounts owed by other Anglian Water Group Limited group undertakings	1.4	0.8	1.4	0.8
Other amounts receivable	16.7	12.4	16.7	12.4
Prepayments and accrued income	269.2	278.2	269.2	278.2
	429.9	496.1	429.9	496.1

Prepayments and accrued income as at 31 March 2017 includes water and sewerage income not yet billed of £260.5 million (2016: £268.7 million). In addition, at 31 March 2017, £45.0 million of accrued income has been included within assets classified as held for sale (see note 28).

The carrying values of trade and other receivables are reasonable approximations of their fair values.

The Group manages its risk from trading through the effective management of customer relationships. Concentrations of credit risk with respect to 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	
	2017 £m	2016 £m
Provision at the beginning of the year	197.5	197.0
Charge for bad and doubtful debts	30.0	31.9
Amounts written off during the year	(40.5)	(31.4)
Transferred to disposal group	(1.7)	-
At 31 March	185.3	197.5

Notes to the Group financial statements continued

15 Trade and other receivables continued

Included in trade receivables are balances with a carrying amount of £112.4 million (2016: £133.5 million) that were past due at the reporting date but for which no specific provision has been made as the collective impairment recorded against such assets is considered to be sufficient allowance for the risk of non-collection of such balances. In addition, at 31 March 2017, £30.7 million of balances past due at the reporting date have been included within assets classified as held for sale (see note 28).

The aged analysis of receivables that were past due at the reporting date but not individually impaired is as follows:

	Group and Company	
	2017 £m	2016 £m
Within one year	76.5	95.2
Between one and two years	17.3	19.2
Between two and three years	8.8	9.4
Between three and four years	3.4	3.9
After four years	6.4	5.8
	112.4	133.5

At 31 March 2017 and 31 March 2016, the Group had no trade receivables that were individually impaired.

16 Trade and other payables

	Group		Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Current				
Trade payables	35.8	33.9	36.2	34.0
Capital creditors and accruals	89.8	57.2	89.4	57.2
Amounts owed to other Anglian Water Group Limited group undertakings	0.6	1.2	46.6	46.9
Receipts in advance	262.3	266.1	262.3	266.1
Other taxes and social security	4.1	4.0	4.1	4.0
Accruals and deferred income	59.8	60.0	59.7	59.9
Deferred grants and contributions	14.9	13.7	14.9	13.7
	467.3	436.1	513.2	481.8
Non-current				
Other payables	-	145.1	-	145.1
Deferred grants and contributions	484.0	443.6	484.0	443.6
	484.0	588.7	484.0	588.7

Receipts in advance includes £227.8 million (2016: £238.5 million) relating to amounts received from customers for water and sewerage charges in respect of bills that fall due in the following year. In addition, at 31 March 2017, £10.2 million of amounts received from customers in respect of bills that fall due in the following year has been included within liabilities directly associated with assets held for sale (see note 28).

The £145.1 million other non-current payables, which relates to payment for the surplus advance corporation tax (ACT), has been included within current tax liabilities at 31 March 2017 following capital allowance disclaimers being made in the current and prior period in order to utilise the surplus ACT.

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

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

17 Loans and other borrowings

	Notes	Group		Company	
		2017 £m	2016 £m	2017 £m	2016 £m
£250 million 5.837% fixed rate 2022	d f	258.2	258.0	258.2	258.0
£200 million 6.875% fixed rate 2023	d f	208.4	208.4	208.4	208.4
£200 million 6.625% fixed rate 2029	d f	202.7	202.7	202.7	202.7
£246 million 6.293% fixed rate 2030	b d f	255.3	254.4	255.3	254.4
£150 million 5.5% fixed rate 2017/2040	b d e f g	155.5	158.2	155.5	158.2
£150 million 4.125% index-linked 2020 ¹	c d f	240.3	236.4	240.3	236.4
£75 million 3.666% index-linked 2024	c d f	114.0	112.1	114.0	112.1
£200 million 3.07% index-linked 2032	c d f	301.9	296.8	301.9	296.8
£60 million 3.07% index-linked 2032	c d f	91.7	90.2	91.7	90.2
Finance leases	b d f g	33.7	38.7	33.7	38.7
£402 million 2.4% index-linked 2035	c d f	568.3	556.5	568.3	556.5
£50 million 1.7% index-linked 2046	c d f	67.9	66.7	67.9	66.7
£50 million 1.7% index-linked 2046	c d f	68.2	67.0	68.2	67.0
£40 million 1.7146% indexation bond 2056	c d f	54.7	53.7	54.7	53.7
£50 million 1.6777% indexation bond 2056	c d f	68.4	67.2	68.4	67.2
£60 million 1.7903% indexation bond 2049	c d f	82.0	80.6	82.0	80.6
£100 million 1.3784% indexation bond 2057	c d f	136.6	134.1	136.6	134.1
£50 million 1.3825% indexation bond 2056	c d f	68.3	67.0	68.3	67.0
£100 million Class A wrapped floating rate bonds	d f	100.0	100.1	100.0	100.1
£75 million 1.449% indexation bond 2062	c d f	97.6	96.4	97.6	96.4
£50 million 1.52% indexation bond 2055	c d f	65.0	64.1	65.0	64.1
JPY 15 billion 2.925% fixed rate bond 2018/2037	a b d f	112.7	102.1	112.7	102.1
£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	37.5	33.9	37.5	33.9
€500 million 6.25% fixed rate bond 2016	a d f g	-	415.1	-	415.1
£25 million 6.875% private placements 2034	d f	25.0	25.0	25.0	25.0
EIB £50 million 1.626% index-linked term facility 2019	c d f	62.9	61.2	62.9	61.2
EIB £50 million 1.3% index-linked term facility 2020	c f	61.9	60.3	61.9	60.3
£130 million 2.262% indexation bond 2045	c d f	157.0	153.0	157.0	153.0
US\$160 million 4.52% private placements 2021	a b d f	137.3	125.7	137.3	125.7
US\$410 million 5.18% private placements 2021	a b d f	331.4	289.5	331.4	289.5
EIB £75 million 0.53% index-linked term facility 2027	c d f g	84.2	82.0	84.2	82.0
EIB £75 million 0.79% index-linked term facility 2027	c d f g	84.2	82.0	84.2	82.0
£250 million 4.5% fixed rate 2027 ²	d f	251.9	251.6	251.9	251.6
£15 million 1.37% index-linked private placements 2022 ²	c d f	16.5	16.0	16.5	16.0
£50 million 2.05% index-linked private placements 2033	c d f	55.2	53.7	55.2	53.7
£25.5 million 4.195% private placements 2017	d f	26.0	26.0	26.0	26.0
£31.9 million 3.983% private placements 2022	d f	32.4	32.4	32.4	32.4
£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	38.2	33.4	38.2	33.4
EIB £150 million 0% index-linked term facility 2028 ³	c d f	163.4	159.1	163.4	159.1
£200 million Class B 4.5% fixed rate 2026	b d f	209.8	207.1	209.8	207.1
Sub-total carried forward		5,333.6	5,625.8	5,333.6	5,625.8

Notes to the Group financial statements continued

17 Loans and other borrowings continued

	Notes	Group		Company	
		2017 £m	2016 £m	2017 £m	2016 £m
Sub-total brought forward		5,333.6	5,625.8	5,333.6	5,625.8
£35 million 1.141% index-linked bond 2042	c d f	37.7	36.7	37.7	36.7
US\$170 million 3.84% private placements 2023	a b d f	142.1	130.3	142.1	130.3
£93 million 3.537% private placements 2023	d f	94.1	94.1	94.1	94.1
US\$160 million 4.99% private placements 2023	a b d f	129.0	112.6	129.0	112.6
EIB £65 million 0.41% index-linked term facility 2029 ⁴	c d f	68.7	66.9	68.7	66.9
EIB Tranche 2 £125 million 0.1% 2029 ⁵	c f	130.8	127.4	130.8	127.4
EIB Tranche 3 £60 million 0.01% 2030 ⁵	c f	62.5	60.8	62.5	60.8
RCF £500 million	d f	52.6	(2.2)	52.6	(2.2)
RCF £100 million bilaterals	d f	(0.3)	(0.3)	(0.3)	(0.3)
US\$150 million 3.29% private placements 2026	a b d	117.1	1.1	117.1	1.1
£55 million 2.93% fixed rate private placements 2026	d f	54.8	(0.3)	54.8	(0.3)
£20 million 2.93% fixed rate private placements 2026	d f	19.9	(0.1)	19.9	(0.1)
£35 million floating rate private placements 2031	d f	34.5	(0.2)	34.5	(0.2)
£200 million Class B 2.6225% fixed rate 2027	b d f	197.8	-	197.8	-
Total loans and other borrowings		6,474.9	6,252.6	6,474.9	6,252.6
Included in:					
Current liabilities		278.4	494.4	278.4	494.4
Non-current liabilities		6,196.5	5,758.2	6,196.5	5,758.2

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.

(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 £57.2 million (2016: £33.5 million) has been taken to the income statement as part of interest payable.

(d) These loans are shown net of issue costs of £31.0 million (2016: £29.4 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 2017 this charge applies to £6,474.9 million (2016: £6,252.6 million) of the debt listed above.

(g) Amounts are repayable wholly or partly within one year.

With the exception of issue costs capitalised and the finance leases, all of the Company's borrowing is payable to Anglian Water Services Financing Plc.

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 2017					
Investments					
Current	-	-	-	75.0	75.0
Non-current	-	-	1,602.6	-	1,602.6
Cash and cash equivalents					
Current	-	-	354.8	-	354.8
Trade and other receivables					
Current	-	-	421.0	-	421.0
Derivative financial instruments					
Current	1.9	10.7	-	-	12.6
Non-current	12.7	243.4	-	-	256.1
	14.6	254.1	2,378.4	75.0	2,722.1
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	-	-	486.9	-	486.9
Derivative financial instruments					
Current	1.5	5.8	-	-	7.3
Non-current	9.1	146.1	-	-	155.2
	10.6	151.9	2,241.2	267.3	2,671.0

Trade and other receivables above exclude prepayments.

The prior year position for derivative assets and derivative liabilities has been restated to more accurately reflect derivative netting principles.

Notes to the Group financial statements continued

18 Financial instruments continued

Financial assets by category 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	
At 31 March 2017					
Investments					
Current	-	-	-	75.0	75.0
Non-current	-	-	1,602.6	-	1,602.6
Cash and cash equivalents					
Current	-	-	353.1	-	353.1
Trade and other receivables					
Current	-	-	421.0	-	421.0
Derivative financial instruments					
Current	1.9	10.7	-	-	12.6
Non-current	12.7	243.4	-	-	256.1
	14.6	254.1	2,376.7	75.0	2,720.4
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	-	-	486.9	-	486.9
Derivative financial instruments					
Current	1.5	5.8	-	-	7.3
Non-current	9.1	146.1	-	-	155.2
	10.6	151.9	2,239.9	267.3	2,669.7

Trade and other receivables above exclude prepayments.

The prior year position for derivative assets and derivative liabilities has been restated to more accurately reflect derivative netting principles.

	Group			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				
At 31 March 2017				
Borrowings				
Current	-	-	278.4	278.4
Non-current	-	-	6,196.5	6,196.5
Trade and other payables				
Current	-	-	190.1	190.1
Derivative financial instruments				
Current	12.5	3.8	-	16.3
Non-current	910.9	132.9	-	1,043.8
	923.4	136.7	6,665.0	7,725.1
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	151.3	-	897.1
	761.0	152.4	6,408.9	7,322.3

Trade and other payables above exclude deferred grants and contributions and receipts in advance.

The prior year position for derivative assets and derivative liabilities has been restated to more accurately reflect derivative netting principles.

Notes to the Group financial statements continued

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 2017				
Borrowings				
Current	-	-	278.4	278.4
Non-current	-	-	6,196.5	6,196.5
Trade and other payables				
Current	-	-	236.0	236.0
Derivative financial instruments				
Current	12.5	3.8	-	16.3
Non-current	910.9	132.9	-	1,043.8
	923.4	136.7	6,710.9	7,771.0
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	151.3	-	897.1
	761.0	152.4	6,454.6	7,368.0

Trade and other payables above exclude deferred grants and contributions and receipts in advance.

The prior year position for derivative assets and derivative liabilities has been restated to more accurately reflect derivative netting principles.

	Group and Company			
	2017 Assets £m	2017 Liabilities £m	2016 Assets £m	2016 Liabilities £m
Derivative financial instruments				
Designated as cash flow hedges				
Interest rate swaps	-	(115.3)	-	(118.7)
Cross-currency interest rate swaps	102.4	-	48.9	-
Energy swaps	0.1	(21.4)	-	(33.7)
	102.5	(136.7)	48.9	(152.4)
Designated as fair value hedges				
Interest rate swaps	14.5	-	(3.1)	-
Cross-currency interest rate swaps	137.2	-	106.1	-
	151.7	-	103.0	-
Derivative financial instruments designated as hedges	254.2	(136.7)	151.9	(152.4)
Derivative financial instruments not designated as hedges:				
Interest rate swaps and swaptions	14.5	(235.4)	10.6	(188.1)
RPI swaps	-	(684.7)	-	(561.3)
Energy swaps	-	(3.3)	-	(11.6)
Total derivative financial instruments	268.7	(1,060.1)	162.5	(913.4)
Derivative financial instruments can be analysed as follows:				
Current	12.6	(16.3)	7.3	(16.3)
Non-current	256.1	(1,043.8)	155.2	(897.1)
	268.7	(1,060.1)	162.5	(913.4)

The prior year position for derivative assets and derivative liabilities has been restated to more accurately reflect derivative netting principles.

Notes to the Group financial statements continued

18 Financial Instruments continued

Derivative financial instruments continued

The ineffective portion recognised in the income statement that arises from cash flow hedges amounts to a gain of £0.8 million (2016: loss of £1.3 million). The ineffective portion recognised in the income statement that arises from fair value hedges amounts to a gain of £4.0 million (2016: loss of £4.1 million).

The notional principal amount plus RPI of the outstanding interest rate swap contracts, including the GBP leg of cross-currency interest rate swap contracts below, at 31 March 2017 was £4,053.5 million (2016: £3,974.9 million) and there were no outstanding swaptions at 31 March 2017 (2016: £300.0 million).

The notional foreign currency principal amount of the outstanding cross-currency interest rate swap contracts at 31 March 2017 was USD 1,097.0 million (2016: USD 1,097.0 million), EUR nil (2016: EUR 500.0 million), JPY 20.0 billion (2016: JPY 20.0 billion).

At 31 March 2017 the fixed interest rates vary from 2.840 per cent to 5.985 per cent, floating rates vary from 0.337 per cent (LIBOR plus 0.0bp) to 3.166 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 were no amounts recorded in the income statement for gains or losses on embedded derivatives for the period ended 31 March 2017 (2016: Enil).

The effective interest rates at the balance sheet dates were as follows:

	Group and Company	
	2017 %	2016 %
Borrowings - GBP	4.8	3.5
Borrowings - USD	3.9	3.8
Borrowings - EUR	-	7.0
Borrowings - JPY	1.4	1.5

The weighted average interest costs at the balance sheet dates were as follows:

	Group and Company	
	2017 %	2016 %
Fixed	5.7	5.7
Floating	1.2	1.4
Indexed	4.3	2.7

Finance leases

The minimum lease payments under finance leases fall due as follows:

	Group and Company	
	2017 £m	2016 £m
Within one year	6.2	6.0
Between one and five years	28.5	27.6
After five years	0.6	8.5
	35.3	42.1
Future finance charges on finance leases	(1.6)	(3.4)
Present value of finance lease liabilities	33.7	38.7

	Group			
	2017 Book value £m	2017 Fair value £m	2016 Book value £m	2016 Fair value £m
Fair value of financial assets and liabilities				
Cash and cash equivalents	354.8	354.8	151.7	151.7
Current asset investments	75.0	75.0	267.3	267.3
Borrowings				
Current	(278.4)	(287.2)	(494.4)	(479.8)
Non-current	(6,196.5)	(8,107.4)	(5,758.2)	(7,230.0)
Derivative financial instruments				
Current	11.0	11.0	6.2	6.2
Non-current	(93.2)	(93.2)	(150.6)	(150.6)
RPI swaps				
Current	(8.5)	(8.5)	(8.1)	(8.1)
Non-current	(676.1)	(676.1)	(553.1)	(553.1)
Net debt	(6,811.9)	(8,731.6)	(6,539.2)	(7,996.4)
Non-current asset investments	1,602.6	2,985.3	1,602.6	2,870.3
Energy hedging derivatives	(24.6)	(24.6)	(45.3)	(45.3)
Other financial liabilities	-	(0.3)	-	(6.5)
	(5,233.6)	(5,771.1)	(4,981.9)	(5,177.9)

	Company			
	2017 Book value £m	2017 Fair value £m	2016 Book value £m	2016 Fair value £m
Fair value of financial assets and liabilities				
Cash and cash equivalents	353.1	353.1	150.4	150.4
Current asset investments	75.0	75.0	267.3	267.3
Borrowings				
Current	(278.4)	(287.2)	(494.4)	(479.8)
Non-current	(6,196.5)	(8,107.4)	(5,758.2)	(7,230.0)
Derivative financial instruments				
Current	11.0	11.0	6.2	6.2
Non-current	(93.2)	(93.2)	(150.6)	(150.6)
RPI swaps				
Current	(8.5)	(8.5)	(8.1)	(8.1)
Non-current	(676.1)	(676.1)	(553.1)	(553.1)
Net debt	(6,813.6)	(8,733.3)	(6,540.5)	(7,997.7)
Non-current asset investments	1,602.6	2,985.3	1,602.6	2,870.3
Energy hedging derivatives	(24.6)	(24.6)	(45.3)	(45.3)
Other financial liabilities	-	(0.3)	-	(6.5)
	(5,235.3)	(5,772.8)	(4,983.2)	(5,179.2)

Notes to the Group financial statements continued

18 Financial Instruments continued

The fair value of loans and other borrowings represents the market value of publicly traded debt instruments or, if in respect of debt not publicly traded, the cost which the Group would incur if it elected to repay these borrowings before their maturity dates, calculated by discounting future cash flows at prevailing rates including credit spreads experienced on publicly traded debt instruments.

The fair value of interest rate derivative financial instruments is determined by calculating the net realisable value that would have arisen if these contracts terminated at 31 March with reference to estimated future cash flows and observable yield curves. The fair value of cross-currency interest rate derivatives is determined using discounted cash flow analysis, with the foreign currency legs calculated with reference to observable foreign interest rate yield curves and the observable foreign exchange rate as at 31 March. The fair value of the Group's energy derivatives is calculated using discounted cash flow analysis, with reference to observable market prices at 31 March.

The fair value of interest rate swaptions, as included within derivative financial instruments above, represents the cost which the Group would incur if it elected to terminate these contractual arrangements before their maturity dates, calculated by discounting future cash flows at prevailing rates.

Fair values of non-current trade and other receivables, provisions and non-current trade and other payables have been estimated as not materially different from book value.

Derivative transactions expose the Group to credit risk against the counterparties concerned. Anglian Water has credit protection measures in place within agreements which provide protection in the event of counterparty rating downgrade or default. The Group only enters into derivative transactions with banks of high credit standing (as measured by reputable rating agencies) and also seeks to diversify exposure such that concentration with individual banks is avoided.

In accordance with IFRS 13 'Fair Value Measurement' the financial instruments carried at fair value on the balance sheet have been classified as level 2 for fair valuation purposes, being valued by reference to valuation techniques using observable inputs other than quoted prices in active markets that are observable for the asset or liability either directly or indirectly. The future cash flows have been discounted at a rate that reflects credit risk.

Control of treasury

The Treasury team, which reports directly to the Managing Director of Finance and Non-Regulated Business, substantially manages the financing, including debt, interest costs and foreign exchange, for the Group. Treasury policy continues to be focused on the efficient and effective management of cash and financial resources within the Group. The Treasury function 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.

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 2017 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 79.0 per cent (2016: 82.2 per cent).

Borrowing covenants

All of the Anglian Water Services Group's borrowings are raised by Anglian Water Services Financing Plc and guaranteed by the Anglian Water Services Financing Group which comprises Anglian Water Services Holdings Limited, Anglian Water Services Overseas Holdings Limited, Anglian Water Services Limited and Anglian Water Services Financing Plc.

The Treasury function monitors compliance against all financial obligations and it is the Group's policy to manage the balance sheet so as to ensure operation within covenant restrictions.

Management of financial risk

Financial risks faced by the Group include funding, interest rate, contractual, currency, liquidity and credit risks. The Group regularly reviews these risks and has approved written policies covering treasury strategy and the use of financial instruments to manage risks. The last review was in October 2016 and treasury matters are reported to the Board each month.

A Finance, Treasury and Energy Policy Group, including the Managing Director of Finance and Non-Regulated Business and the Group Treasurer, meets monthly with the specific remit of reviewing treasury matters.

The Group aims to meet its funding requirements primarily through accessing a range of financial markets such as public bond markets, private placements, bank loans and finance leases. Surplus cash is invested in short-term bank deposits, commercial paper, certificates of deposit, treasury bills and AAA-rated money funds.

The Group also enters into derivative transactions (comprising currency, index-linked, interest rate and energy swaps) to manage the interest rate and currency risks arising from the treasury policy. These transactions hedge risks to which the Group is exposed as follows:

Fair value hedges

Fair value hedges principally consist of interest rate and cross-currency swaps that are used to protect against changes in the fair value of fixed rate financial instruments due to movements in market interest rates.

Cash flow hedges

Exposure arises from the variability in future interest and currency cash flows on assets and liabilities which bear interest at variable rates or are in a foreign currency. Interest rate and cross-currency swaps are maintained, and designated as cash flow hedges, where they qualify, to manage this exposure. In addition forward energy and interest rate contracts are also used to hedge anticipated future electricity and interest cash flows.

Derivative financial instruments not designated as hedges

The Group does not utilise derivatives for trading purposes but due to the complex nature of hedge accounting under IAS 39 a subset of the derivative portfolio does not qualify for hedge accounting. These principally relate to RPI swaps, interest rate swaps, swaptions and energy swaps.

To ensure continued effectiveness and relevance, the Board carries out a formal annual review of the treasury strategy, organisation and reporting.

(a) Market risk

(i) Foreign currency

The Group has currency exposures resulting from debt raised in currencies other than sterling and very small purchases in foreign currencies. The Group's foreign exchange policy allows for a range of hedge instruments, including forward foreign exchange, swaps and options, to hedge such exposures. All hedges are undertaken for commercial reasons with the objective of minimising the impact of exchange rate fluctuations on net assets and profits. The Group has no material unhedged monetary assets and liabilities denominated in a currency different from the local currency of the particular operation, and has no material net exposure to movements in currency rates.

(ii) Interest rate

The Group's policy for the management of interest rate risk is to achieve a balanced mix of funding at indexed (to RPI), fixed and floating rates of interest. To guard against the adverse movements in interest rates having a detrimental impact on the business and to enable covenanted obligations and credit ratings to be met, the overall underlying debt portfolio is maintained between 30 per cent and 60 per cent for fixed rate debt, between 30 per cent and 55 per cent for index-linked debt, and between 5 per cent and 15 per cent for floating rate debt. Within these hedging levels, the Group endeavours to obtain the finest rates (lowest borrowing and finest depositing rates) consistent with ensuring that the relevant treasury objectives are met in full, i.e. the provision of adequate finance for Anglian Water Services Group at all times and maintaining security of principal.

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk, which is partially offset by cash held at variable rates. Borrowings issued at fixed rate expose the Group to fair value interest rate risk. Treasury manages its interest rate risk by monitoring market rates in relation to the debt (and investment) portfolios, analysing the effect of likely movements in interest rates and taking action as required, within the hedging limits outlined above.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated, taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift.

The sensitivity of the Group's profits and equity, including the impact on derivative financial instruments, to changes in interest rates at 31 March is as follows:

	Group and Company	
	2017 £m	2016 £m
Increase/(decrease) in profit before tax and in pre-tax equity		
1% increase in interest rates	251.3	312.1
1% decrease in interest rates	(406.0)	(428.5)

The following assumptions were made in calculating the interest rate sensitivity analysis.

- Cash flow and fair value hedge relationships remain effective.
- The main fair value sensitivity to interest rates is in relation to RPI-linked derivatives and swaptions which are not hedge accounted.
- Cash flow sensitivity is calculated on floating interest rate net debt.
- All other factors are held constant.

Notes to the Group financial statements continued

18 Financial instruments continued

(iii) Inflation rate risk

The finance cost of the Group's index-linked debt instruments and derivatives varies with changes in RPI rather than interest rates. These instruments form an economic hedge with the Group's revenues and regulatory assets, which are also linked to RPI inflation. Inflation risk is reported monthly to the Finance, Treasury and Energy Policy Group, which manages inflation risk by identifying opportunities to amend the economic hedge currently in place where deemed necessary, in line with the parameters for index-linked debt of between 30 per cent and 55 per cent of total debt.

The sensitivity at 31 March of the Group's profit before taxation and pre-tax equity to changes in RPI on debt and derivative instruments is set out in the following tables:

Debt instruments

The analysis below shows the impact of a one per cent change in RPI over the 12-month period to the reporting date on index-linked debt instruments. It should be noted, however, that there is a time lag by which current RPI changes impact on the income statement. The portfolio of index-linked debt is calculated on a lag basis, which varies from three to 14 months, and the index-linked principal and interest adjustments impacting the income statement at the reporting date are therefore mostly fixed and based on the annual RPI change from three to 14 months earlier.

	Group and Company	
	2017 £m	2016 £m
Increase/(decrease) in profit before tax and in pre-tax equity		
1% increase in RPI	(27.7)	(27.6)
1% decrease in RPI	27.6	27.4

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	
	2017 £m	2016 £m
Increase/(decrease) in profit before tax and in pre-tax equity		
1% increase in RPI	(297.3)	(190.0)
1% decrease in RPI	203.7	133.4

(iv) Commodity price risk

The Group is allowed a fixed amount of revenue by Ofwat, in real terms, to cover electricity costs for each five-year regulatory pricing period. To the extent that electricity prices remain floating over this period, this exposes the Group to volatility in its operating cash flow. The Group's policy is to manage this risk either through forward purchases to fix the cost of future blocks of electricity with the contracted energy supplier, or through the purchase of wholesale electricity swaps with financial counterparties.

The Group has used a combination of forward contracts and electricity swap contracts to fix the price of a portion of its anticipated electricity usage out to the end of AMP6.

Assuming all energy hedges were in effective hedging relationships, a 10 per cent increase/decrease in commodity prices would have the following impact:

	Group and Company	
	2017 £m	2016 £m
Increase/(decrease) in profit before tax and in pre-tax equity		
10% increase in commodity prices	9.4	6.7
10% decrease in commodity prices	(9.4)	(6.7)

(b) Credit risk

Credit risk arises principally from trading and treasury activities. From a trading perspective, the Group has no significant concentrations of credit risk due to minimising the risk through the effective management of customer relationships. The Group's largest trade receivable balance is in Anglian Water Services Limited, whose operating licence prevents the disconnection of water supply to domestic customers even where bills are unpaid. Irrecoverable debt is taken into consideration as part of the price review process by Ofwat, and therefore no additional provision is considered necessary in excess of the provision for doubtful debts included in note 15.

Placements of cash on deposit expose the Group to credit risk against the counterparties concerned. The Group has credit protection measures in place within agreements that provide protection in the event of counterparty rating downgrade or default. The Group only places cash deposits with banks of high credit standing (as measured by reputable rating agencies) and also seeks to diversify exposure such that concentration with individual banks is avoided.

All cash deposits are held with institutions with a minimum of two short-term ratings of P1/A1/F1 or higher, or in the case of money market funds with a minimum of two ratings of Aaam MR1+/AAAm/AAAmmf or higher.

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

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

Group policy requires that transactions are only executed with counterparties which are both (a) from the lending group and (b) rated at least A- (long term) or A1 (short term) by Standard & Poor's, Moody's or Fitch.

	Gross carrying amounts £m	Gross amounts offset £m	Net amount presented in the balance sheet £m	Offsetting not presented in the balance sheet £m	Net amount £m
At 31 March 2017	-	-	-	-	-
Derivative financial assets	321.6	(52.9)	268.7	(154.8)	113.9
Derivative financial liabilities	(1,113.0)	52.9	(1,060.1)	154.8	(905.3)
At 31 March 2016	-	-	-	-	-
Derivative financial assets	205.8	(43.3)	162.5	(99.2)	63.3
Derivative financial liabilities	(956.7)	43.3	(913.4)	99.2	(814.2)

The prior year position for derivative assets and derivative liabilities has been restated to more accurately reflect derivative netting principles.

Gross amounts offset represent equal and opposite transactions with the same counterparties and same terms on which no settlements are paid.

ISDA netting reflects the extent to which derivative assets and liabilities could be offset with the same counterparty in the event of counterparty default.

At 31 March 2017 and 31 March 2016 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	
	2017 £m	2016 £m
Cash and cash equivalents	354.8	151.7
Trade and other receivables	429.9	496.1
Investments	75.0	267.3
Derivative financial assets	268.7	138.8
	Company	
	2017 £m	2016 £m
Cash and cash equivalents	353.1	150.4
Trade and other receivables	429.9	496.1
Investments	75.0	267.3
Derivative financial assets	268.7	138.8

Notes to the Group financial statements continued

18 Financial instruments continued

(c) Capital risk management

Treasury's prime responsibility is the efficient and effective management of financial resources within the Group i.e. the provision of adequate finance and liquidity at all times while maintaining security of principal. This involves focus on efficiency, quality and effective control to improve cash flow and profitability. Treasury will actively seek opportunities to raise debt, and to reduce the cost of funding and the cost of hedging interest rate and foreign exchange risk, while maintaining a risk-averse position in its liquidity management and in its control of currency and interest rate exposures.

Recognising the 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 2017, in respect of which all conditions precedent had been met at that date:

	Group	
	2017 £m	2016 £m
Within one year	375.0	375.0
Between one and five years	545.0	600.0
	920.0	975.0

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, of which £55 million was drawn at 31 March 2017; and two bilateral facilities of £50.0 million each with Bank of China Ltd and Sumitomo Mitsui Banking Corporation for general corporate purposes.

The table below analyses the Group's financial liabilities and net-settled derivative financial instruments into relevant maturity groupings based on the remaining period at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, including interest payable:

	Group				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 2017					
Trade and other payables	(190.1)	-	-	-	(190.1)
Borrowings	(403.8)	(2,078.3)	(6,538.7)	(3,470.7)	(12,491.5)
Derivative financial instruments	(9.8)	(55.1)	(774.7)	(755.2)	(1,594.8)
Finance leases	(5.7)	(27.5)	(0.5)	-	(33.7)
	(609.4)	(2,160.9)	(7,313.9)	(4,225.9)	(14,310.1)
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)
Company					
	Within one year £m	Between one and five years £m	Between five and 25 years £m	After 25 years £m	Total £m
At 31 March 2017					
Trade and other payables	(236.0)	-	-	-	(236.0)
Borrowings	(403.8)	(2,078.3)	(6,538.7)	(3,470.7)	(12,491.5)
Derivative financial instruments	(9.8)	(55.1)	(774.7)	(755.2)	(1,594.8)
Finance leases	(5.7)	(27.5)	(0.5)	-	(33.7)
	(655.3)	(2,160.9)	(7,313.9)	(4,225.9)	(14,356.0)
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)

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 2016	1.1	8.5	2.9	12.5
Charge for the year	-	-	3.3	3.3
Unwinding of discount	0.1	1.1	-	1.2
Utilised in the year	(0.2)	(1.6)	(0.9)	(2.7)
At 31 March 2017	1.0	8.0	5.3	14.3

Maturity analysis of total provisions

	2017 £m	2016 £m
Current	4.1	3.1
Non-current	10.2	9.4
	14.3	12.5

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 Limited for the future additional cash flows caused by the enhanced coupon, discounted back to the balance sheet date.

Provisions for legal and other claims of £5.3 million are in respect of legal claims and potential pollution fines, all of which are expected to crystallise over a period of approximately two years.

20 Deferred tax

	Group and Company					Total £m
	Accelerated tax depreciation £m	Financial instruments £m	Retirement benefit obligation £m	Surplus ACT asset £m	Other £m	
At 1 April 2015	1,355.1	(138.7)	(7.7)	(145.1)	(4.5)	1,059.1
(Credited)/charged 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
(Credited)/charged directly to the income statement	(128.3)	(12.9)	1.7	-	0.1	(139.4)
Credited directly to other comprehensive income	-	(2.6)	(16.8)	-	-	(19.4)
Offset against corporation tax liability	-	-	-	84.3	-	84.3
At 31 March 2017	1,076.5	(160.7)	(12.9)	(60.8)	(2.6)	839.5

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 £60.8 million. A profit and loss credit of £145.1 million would arise in writing off the intra-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). On 31 March 2017, the assets and liabilities relating to the defined benefit scheme for employees of the former Hartlepool Water Limited, which was acquired on 1 April 2000, were transferred into a segregated section of 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 2017. 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 2017.

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 12.8 per cent (2016: 15.5 per cent) of pensionable pay plus £10.6 million (2016: £10.5 million) of deficit reduction payments to AWGPS during the year. In the year to 31 March 2018, employers' contributions are expected to be 12.8 per cent of pensionable pay plus circa £10.8 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 21 years for AWGPS, 20 years for Hartlepool and 12 years for the unfunded scheme.

A number of defined contribution schemes operate predominantly in the UK, and contributions to these schemes amounted to £7.9 million (2016: £7.2 million).

(a) Principal actuarial assumptions

The liabilities of the schemes have been valued using the projected unit method and using the following assumptions:

	2017 % pa	2016 % pa
Discount rate	2.6	3.5
Inflation rate		
RPI	3.3	3.0
CPI	2.3	2.0
Increase to deferred benefits during deferral		
RPI	3.3	3.0
CPI	2.3	2.0
Increases to inflation-related pensions in payment ¹		
RPI	3.2	2.9
CPI	2.3	2.1
General salary increases ²	2.5/4.3	2.5/4.0
	2017 Years	2016 Years
Longevity at age 65 for current pensioners		
Men	22.8	23.0
Women	24.9	25.1
Longevity at age 65 for future pensioners ³		
Men	24.5	24.9
Women	26.8	27.0

¹ For RPI 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 (4.3 per cent per annum) and RPI price inflation (3.3 per cent per annum) are both above 2.5 per cent per annum at 31 March 2017, 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 2037.

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 2017					
Discount rate	+/- 0.5% pa	-163/+190	-2/+3	-3/+3	-168/+196
Rate of RPI inflation	+/- 0.5% pa	+114/-104	+2/-1	+3/-3	+119/-108
Rate of salary increases	+/- 0.5% pa	Nil	+1/-1	Nil	+1/-1
Life expectancy	+/- 1 year	+49/-48	+1/-1	+2/-2	+52/-51

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 is 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
2017				
Amount charged to staff costs within operating profit				
Current service cost	(6.4)	-	(0.2)	(6.6)
Administration expenses	(0.1)	-	(0.1)	(0.2)
Total operating charge (see note 8)	(6.5)	-	(0.3)	(6.8)
Net interest income/(expense) (see note 6)	2.0	(1.5)	0.1	0.6
Amounts charged to the income statement	(4.5)	(1.5)	(0.2)	(6.2)
Amounts (charged)/credited to other comprehensive income				
Return on plan assets (excluding amounts included in net interest)	207.0	-	6.2	213.2
Actuarial gains arising from changes in demographic assumptions	15.4	0.7	0.2	16.3
Actuarial losses arising from changes in financial assumptions	(331.7)	(6.5)	(4.8)	(343.0)
Actuarial gains arising from experience adjustments	12.1	0.4	0.1	12.6
Net (charge)/credit to other comprehensive income	(97.2)	(5.4)	1.7	(100.9)
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 income/(expense) (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 demographic assumptions	10.8	0.3	0.2	11.3
Actuarial gains arising from changes in financial assumptions	54.2	2.1	0.6	56.9
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

(e) Amounts recognised in the balance sheet

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
2017				
Equities	258.2	-	4.7	262.9
Corporate bonds	631.2	-	-	631.2
Government bonds	292.1	-	23.6	315.7
Property	105.2	-	-	105.2
Alternatives	(42.5)	-	-	(42.5)
Other	249.6	-	1.9	251.5
Total assets	1,493.8	-	30.2	1,524.0
Present value of scheme liabilities	(1,524.2)	(49.2)	(26.2)	(1,599.6)
Net pension (deficit)/surplus	(30.4)	(49.2)	4.0	(75.6)
Comprising:				
Pension schemes with a net surplus, included in non-current assets	-	-	4.0	4.0
Pension schemes with a net obligation, included in non-current liabilities	(30.4)	(49.2)	-	(79.6)
	(30.4)	(49.2)	4.0	(75.6)

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
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

Pension schemes in a net surplus position at the balance sheet date are shown as retirement benefit surpluses within non-current assets on the balance sheet.

The scheme assets do not include any of the Group's own financial instruments, nor any property occupied by, nor other assets used by, the Group.

(f) Reconciliation of fair value of scheme assets

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
2017				
At 1 April 2016	1,263.7	-	25.1	1,288.8
Interest income on scheme assets	43.9	-	0.8	44.7
Administration costs	(0.1)	-	(0.1)	(0.2)
Employers' contributions	15.8	2.8	0.7	19.3
Members' contributions	4.0	-	0.1	4.1
Benefits paid	(40.6)	(2.8)	(2.5)	(45.9)
Return on plan assets (excluding interest income)	207.1	-	6.1	213.2
At 31 March 2017	1,493.8	-	30.2	1,524.0
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

(g) Reconciliation of scheme liabilities

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
2017				
At 1 April 2016	(1,208.4)	(45.0)	(23.3)	(1,276.7)
Current service cost	(6.4)	-	(0.2)	(6.6)
Interest cost on scheme liabilities	(41.8)	(1.5)	(0.8)	(44.1)
Members' contributions	(4.0)	-	(0.1)	(4.1)
Benefits paid	40.6	2.8	2.5	45.9
Actuarial gain	(304.2)	(5.5)	(4.3)	(314.0)
At 31 March 2017	(1,524.2)	(49.2)	(26.2)	(1,599.6)
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 loss	64.7	2.4	1.1	68.2
At 31 March 2016	(1,208.4)	(45.0)	(23.3)	(1,276.7)

22 Hedging reserves

	2017 £m	2016 £m
At 1 April	(101.0)	(80.0)
Gains/(losses) on cash flow energy hedges	13.7	(19.0)
Amounts transferred to the income statement	(2.3)	1.3
Gains on cash flow hedges	30.9	46.8
Transfer to income statement arising from discontinuation of cash flow hedges	1.0	2.3
Exchange movement on debt in cash flow hedges	(65.4)	(54.6)
Deferred tax movement on cash flow hedges	2.6	2.2
At 31 March	(120.5)	(101.0)

23 Share capital

	Group and Company	
	2017 £m	2016 £m
Allotted, issued and fully paid		
10 million (2016: 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	
	2017 £m	2016 £m
Property, plant and equipment	89.2	100.5
Intangible assets	20.1	11.1
	109.3	111.6

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 2017 the Group and Company had the following outstanding commitments in respect of future minimum lease payments under non-cancellable operating leases:

	2017 £m	2016 £m
Within one year	3.6	4.0
Between one and five years	14.4	14.5
After five years	18.4	21.3
	36.4	39.8

The total future minimum sub-lease payments expected to be received under non-cancellable operating leases were:

	2017 £m	2016 £m
Within one year	0.4	0.4
Between one and five years	1.7	1.7
After five years	0.3	0.7
	2.4	2.8

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 2017 amounted to £7,220.3 million (2016: £6,904.2 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 (2016: £1,602.6 million) loan made by the Company to Anglian Water Services Holdings Limited, Anglian Water Services Overseas Holdings Limited and Anglian Water Services Overseas Holdings Limited had no outstanding indebtedness at 31 March 2017.

In 2016, we received indications of claims from two groups of property search companies who, pursuant to the Environmental Information Regulations, assert that certain information that we provided to them should have been provided free of charge. This is an industry-wide issue and at this stage the Directors consider the amount to be uncertain, but not to be material to the financial standing of the Company.

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

27 Ultimate parent undertaking and controlling party

Anglian Water Services Limited is incorporated and domiciled in the UK.

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 Disposal group held for sale

At 31 March 2017, an agreement was in place for Anglian Water Services Limited to sell the billing and customer service activities of its non-household water and water recycling retail business to Anglian Water Business (National) Limited, a fellow subsidiary of the Group's ultimate parent undertaking.

The sale was completed on 1 April 2017 for proceeds of £79.0 million, resulting in a profit on sale of £4.6 million which will be recognised in the 2017/18 financial statements.

In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' the following assets and liabilities of Anglian Water's non-household retail business, valued at their carrying amount, have been classified as a disposal group held for sale as at 31 March 2017:

	2017 £m
Assets held for sale	
Intangible assets	3.1
Property, plant and equipment	0.5
Inventories	-
Trade and other receivables	82.0
Cash and cash equivalents	-
	85.6
Liabilities held for sale	
Short-term borrowings	-
Trade and other payables due within one year	(11.2)
Provisions for liabilities	-
Other non-current liabilities	-
	(11.2)
	74.4

There was no cumulative income or expense recognised directly in other comprehensive income relating to the above disposal group.

29 Related party transactions

(a) Transactions with shareholders

The consortium of investors owning Anglian Water Group Limited are considered to be related parties of the Company as they each have the ability to influence the financial and operating policies of both the Company and the Group.

During the year to 31 March 2017, the Commonwealth Bank of Australia, the parent company of Colonial First State Global Asset Management, one of the consortium of investors owning Anglian Water Group Limited, agreed to the extension of its participation in the £500.0 million revolving credit facility with an allocation of £45.0 million, and continued to participate in the Operation and Maintenance facility with an allocation of £25.0 million. The fees earned on these facilities totalled £76,250.

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. 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 2017 there were no other transactions, other than £128.0 million of dividends (2016: none other than £152.2 million of dividends) with the shareholders.

Notes to the Group financial statements continued

29 Related party transactions continued

(b) Remuneration of key management personnel

Key management personnel comprise 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 115 to 141.

	2017 £m	2016 £m
Short-term employee benefits	4.7	4.3
Post-employment benefits	0.4	0.5
Other long-term benefits	1.6	1.1
Termination benefits	-	-
	6.7	5.9

At the balance sheet date key management also held various bonds issued by the Group totalling £0.1 million (2016: £0.1 million).

(c) Parent company

The Company's related party transactions are summarised below:

	2017 £m	2016 £m
Sale of goods/services to:		
Parent company	-	-
Subsidiaries	-	-
Fellow subsidiaries of Anglian Water Group Limited	0.5	0.4
Purchase of goods/services from:		
Parent company	-	-
Subsidiaries	-	-
Fellow subsidiaries of Anglian Water Group Limited	0.8	0.7
Management fees received from:		
Parent company	-	-
Subsidiaries	-	-
Fellow subsidiaries of Anglian Water Group Limited	-	-
Management fees paid to:		
Parent company	-	-
Subsidiaries	0.3	0.3
Fellow subsidiaries of Anglian Water Group Limited	-	-
Interest received from:		
Parent company	192.3	192.8
Subsidiaries	-	-
Fellow subsidiaries of Anglian Water Group Limited	-	-
Interest paid to:		
Parent company	-	-
Subsidiaries	286.5	262.3
Fellow subsidiaries of Anglian Water Group Limited	-	-
Dividends received from:		
Subsidiaries	-	-
Dividends paid to:		
Parent company	320.3	345.0

30 Events after the balance sheet date

The final dividend for 2016/17 of £61.1 million was approved by the Board on 31 May 2017 for payment on 31 May 2017.

On 3 April 2017 the Company declared and paid a special dividend of £62.2 million used to fund the sale of its non-household retail business referred to below.

On 1 April 2017 Anglian Water Services Limited sold the billing and customer service activities of its non-household water and water recycling retail business to Anglian Water Business (National) Limited, a fellow subsidiary of the Group's ultimate parent undertaking. A profit on sale of £4.6 million will be recognised in the 2017/18 financial statements.

Other than the above, there have been no events between the balance sheet date and the date on which the financial statements were approved by the Board, which would require adjustment to the financial statements or any additional disclosures.

	2017 £m	2016 £m
Trade and other receivables due from:		
Parent company	0.5	0.5
Subsidiaries	-	-
Fellow subsidiaries of Anglian Water Group Limited	1.2	0.6
Trade and other payables due to:		
Parent company	-	-
Subsidiaries	46.0	45.7
Fellow subsidiaries of Anglian Water Group Limited	267.6	270.2
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	6,442.5	6,192.8
Fellow subsidiaries of Anglian Water Group Limited	-	-

Independent auditors' report

Independent auditors' report to the members of Anglian Water Services Limited

Opinion on financial statements of Anglian Water Services Limited

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and Company's affairs as at 31 March 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the 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.

The financial statements comprise:

- the Group income statement;
- the Group statement of comprehensive income;
- the Group and Company balance sheets;
- the Group and Company cash flow statement;
- the Group and Company statements of changes in equity; and
- the notes to the financial statements, which include a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Going concern and the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

We are required to state whether we have anything material to add or draw attention to in relation to:

- the Directors' confirmation on page 145 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;
- the disclosures on page 78 that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement in note 1 to the financial statements and within the directors' report about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the Directors' explanation on page 142 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We confirm that we have nothing material to add or draw attention to in respect of these matters.

We agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Summary of our audit approach

Key risks The key risks that we identified in the current year were:

- Bad debt provisioning
- Revenue recognition in relation to estimating unbilled revenue
- Classification of costs between operating and capital expenditure
- Derivative accounting

The risks identified are the same as the ones identified by the previous auditor in the prior year.

Materiality The materiality that we used in the current year was £13 million which was determined on the basis of 5% of profit before tax, excluding fair value movements on derivatives.

Scoping The Group comprises Anglian Water Services Limited (the regulated water and water recycling business) and its only subsidiary company Anglian Water Services Financing plc (which issues the Group's debt). Both of these companies were subject to full statutory audit by the Group audit engagement team.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards.

We confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

Bad debt provisioning	
Risk description	<p>A proportion of Anglian Water Services Limited's customers do not or cannot pay their bills which results in the need for provision to be made for non-payment of the customer balance. There is significant judgement involved in calculating the bad debt provision, particularly regarding the estimation of future cash collection.</p> <p>Provisions are made against Anglian Water Services Limited's trade receivables based on historical experience of levels of recovery from accounts in particular ageing categories of the debt balance (provision of £185.3 million as at 31 March 2017).</p> <p>The Audit Committee also considered this as a significant issue as discussed in the Audit Committee Report on page 109. Management has included this as a key source of estimation uncertainty in note 2 to the financial statements.</p>
How the scope of our audit responded to the risk	<p>We reviewed and challenged the information used to determine the bad debt provision by considering cash collection performance against historical trends and the level of bad debt charges over time. Specifically, we reviewed the actual history of slow paying customers in the period to understand the collection of previously aged debtors. We used data analytics to recompute the ageing analysis. We evaluated the design and implementation of key management review controls and those relating to the production of the data used in the bad debt model. We have also agreed a sample of this data back to its source, being the billing system.</p>
Key observations	<p>We are satisfied that the assumptions applied in assessing the impairment of trade receivables and the calculation of the ageing of trade receivables are appropriate and no additional provision was identified from the audit work performed.</p>
Revenue recognition in relation to estimating unbilled revenue	
Risk description	<p>For water and water recycling customers with meters, the revenue recognised depends upon the volume used, including an estimate of the sales value of units supplied between the date of the last meter reading and the year end.</p> <p>The risk has been focused on the usage estimate, because this is based on historical data and assumptions around consumption patterns upon which management then recognises unbilled revenue.</p> <p>The Audit Committee also considered this as a significant issue as discussed in the Audit Committee Report on page 109. Management has included this as a key source of estimation uncertainty in note 2 to the financial statements.</p>
How the scope of our audit responded to the risk	<p>We challenged the validity of management's estimate of current year accrued revenue by comparing actual amounts billed to the estimate made in the prior year to determine the accuracy of the estimation techniques.</p> <p>In addition, we used data analytics to recompute the total level of unbilled revenue for the current year as well as evaluating the design and implementation of key management review controls and those relating to the key data inputs to the model. We also agreed a sample of this data back to its source, being the billing systems.</p>
Key observations	<p>We are satisfied that management's assumptions in relation to the recognition of unbilled revenue are appropriate.</p>
Classification of costs between operating and capital expenditure	
Risk description	<p>The Group has a substantial capital programme (fixed asset additions in the year £368.7 million) and therefore incurs significant expenditure in relation to the development and maintenance of both infrastructure and non-infrastructure assets. Expenditure in relation to increasing the capacity or enhancing the network is treated as capital expenditure. Expenditure incurred in maintaining the operating capability of the network is expensed in the year (£54.0 million) in which it is incurred. Capital projects can contain a combination of enhancement and maintenance activity which are not distinct and therefore the allocation of costs between capital and operating expenditure is inherently judgemental.</p> <p>The Audit Committee also considered this as a significant issue as discussed in the Audit Committee Report on page 109. Management has included this as a significant judgement in note 2 to the financial statements.</p>
How the scope of our audit responded to the risk	<p>We assessed the Group's capitalisation policy to determine compliance with relevant accounting standards and tested the operating effectiveness of controls over the application of the policy to expenditure incurred on projects within the Group's capital programme during the year. This included consideration of the allocation of costs between capital and operating expenditure.</p> <p>In addition, for a sample of capital projects, we assessed the application of the capitalisation policy to the costs incurred by agreement to third party invoices and obtained explanations and further support for any significant changes in capital expenditure from budget.</p>
Key observations	<p>Based on our audit of a sample of capital projects, the testing of controls, and our review of the project budgets, we consider that the classification of costs between operating and capital expenditure is appropriate.</p>

Independent auditors' report continued

Derivative accounting

Risk description	Accounting under IAS39 involves recording derivative contracts on the balance sheet and requires judgements to be made as to whether hedge effectiveness can be achieved which allows fair value movements on the hedging instruments to be offset by equal and opposite movements to the hedged item or taken to reserves, rather than being charged in the income statement. The Group has a net derivative liability of £791.4 million, including interest rate swaps, index linked swaps, cross currency swaps and contracts to fix energy prices. A number of these have been designated in hedging relationships, while the remainder are considered economic but not accounting hedges, with changes in fair values recorded in the income statement. This is a complex area of accounting and requires management judgement in relation to the derivative valuation, in particular the credit risk adjustments, and therefore the valuation of the derivatives and the appropriateness of hedge accounting. The risk has been focused on the valuation of the index linked and cross currency swaps, as well as swap locks, due to their complexity. Additionally we have identified hedge accounting eligibility and the calculation of hedge effectiveness as a separate risk. The Audit Committee also considered this as a significant issue as discussed in the Audit Committee Report on page 109.
How the scope of our audit responded to the risk	We have performed a sample of independent valuations across all the derivative contracts. Where hedge accounting was applied, we have performed independent hedge effectiveness testing on a sample of the hedge relationships and agreed the accounting treatment as appropriate.
Key observations	Based on our sample of valuations across the derivative contracts, no material misstatements were identified. From our sample of hedges, we are satisfied that the hedge accounting treatment is appropriate.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£13 million (2016: £13 million was used by the previous auditor)
Basis for determining materiality	5% of profit before tax, excluding fair value movements on derivatives.
Rationale for the benchmark applied	The impact of fair value movements on derivatives have been excluded from profit before tax, to focus on the Group's underlying trading performance, consistent with their Group's internal and external reporting.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.66 million (2016: £0.5 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level.

Anglian Water Services Limited and Anglian Water Services Financing Plc were subject to full statutory audits and together account for 100% (2016: 100%) of the Group's turnover and net assets and profit before tax, gains/losses on financial instruments and exceptional items.

The Group audit team directly performs the audit of Anglian Water Services Limited and Anglian Water Services Financing Plc.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

Matters on which we are required to report by exception**Adequacy of explanations received and accounting records**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report arising from these matters.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and 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 acquired in the course of performing our audit; or
- otherwise misleading.

We confirm that we have not identified any such inconsistencies or misleading statements.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

Other matters

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the provisions of the Companies Act 2006 that would have been applied were the company a quoted company.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

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. 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.

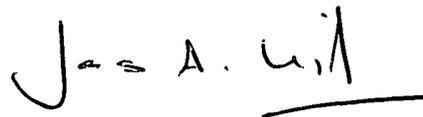
James Leigh (Senior statutory auditor)

For and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

London, United Kingdom

31 May 2017



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 the Annual Performance Report (APR), for the year ended 31 March 2017. This provides specific information on progress on delivery of customer outcomes, service levels, transparent costs and financial performance. The APR 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 (IFRSs).

There are differences between IFRSs 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 the 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 88 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, our Instrument of Appointment and the Regulatory Accounting Guidelines 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.

We have provided sludge treatment services to other water and sewerage companies and recharged the appointed business for the use of the relevant appointed business assets. These transfer prices have been based on a short-run marginal cost approach, which is not permitted by Regulatory Accounting Guideline 5.06. We have previously notified Ofwat of this. The transfer prices are compliant with the revised version RAG 5.07 which Ofwat has proposed since the end of the year.

This risk and compliance statement was approved by the Board of Directors on 31 May 2017 and signed on its behalf by Claire Russell, Company Secretary.



Claire Russell
Company Secretary
31 May 2017

Table 1A - Income statement

for the year ended 31 March

	2017				Total appointed activities £m
	Statutory £m	Adjustments		Total adjustments £m	
		Differences between statutory and RAG definitions ¹ £m	Non-appointed £m		
Revenue	1,227.0	-	(19.8)	(19.8)	1,207.2
Operating costs	(876.5)	10.0	11.8	21.8	(854.7)
Other operating income	14.8	(12.3)	-	(12.3)	2.5
Operating profit	365.3	(2.3)	(8.0)	(10.3)	355.0
Other income	-	14.8	-	14.8	14.8
Interest income	194.0	-	-	-	194.0
Interest expense	(283.5)	(10.2)	-	(10.2)	(293.7)
Other interest income	-	0.6	-	0.6	0.6
Profit before tax and fair value movements	275.8	2.9	(8.0)	(5.1)	270.7
Fair value losses on financial instruments	(116.0)	-	-	-	(116.0)
Profit before tax	159.8	2.9	(8.0)	(5.1)	154.7
UK corporation tax	(101.5)	-	1.6	1.6	(99.9)
Deferred tax	139.4	(0.5)	-	(0.5)	138.9
Profit for the year	197.7	2.4	(6.4)	(4.0)	193.7
Dividends	(320.3)	-	6.4	6.4	(313.9)

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 depreciation, interest and deferred tax. The other adjustments are reclassifications of the following items.

- Profit on disposals of fixed assets 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.
- Release of deferred grants and contributions is classified as other operating income in the statutory accounts, and other income in the APR.

Table 1B - Statement of comprehensive income

for the year ended 31 March

	2017				Total appointed activities £m
	Statutory £m	Adjustments		Total adjustments £m	
		Differences between statutory and RAG definitions ¹ £m	Non-appointed £m		
Profit for the year	197.7	2.4	(6.4)	(4.0)	193.7
Actuarial losses on post-employment plans	(84.1)	-	-	-	(84.1)
Other comprehensive income	(19.5)	-	-	-	(19.5)
Total comprehensive income for the year	94.1	2.4	(6.4)	(4.0)	90.1

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 profit for the year.

Table 1C - Statement of financial position

at 31 March

	2017				Total appointed activities £m
	Statutory £m	Adjustments		Total adjustments £m	
		Differences between statutory and RAG definitions' £m	Non-appointed £m		
Non-current assets					
Fixed assets	9,517.7	(327.1)	(11.1)	(338.2)	9,179.5
Intangible assets	139.4	(6.7)	(0.7)	(7.4)	132.0
Investments - loans to Group companies	1,602.6	-	-	-	1,602.6
Investments - other	-	-	-	-	-
Financial instruments	256.1	-	-	-	256.1
Retirement benefit assets	4.0	-	-	-	4.0
Total non-current assets	11,519.8	(333.8)	(11.8)	(345.6)	11,174.2
Current assets					
Inventories	9.3	-	-	-	9.3
Trade and other receivables ²	515.5	-	-	-	515.5
Financial instruments	12.6	-	-	-	12.6
Cash and cash equivalents	428.1	-	(1.6)	(1.6)	426.5
Total current assets	965.5	-	(1.6)	(1.6)	963.9
Current liabilities					
Trade and other payables ²	(524.4)	25.8	11.8	37.6	(486.8)
Capex creditor	-	(89.8)	-	(89.8)	(89.8)
Borrowings	(278.4)	78.9	-	78.9	(199.5)
Financial instruments	(16.3)	-	-	-	(16.3)
Current tax liabilities	(267.6)	-	1.6	1.6	(266.0)
Provisions	(4.1)	(14.9)	-	(14.9)	(19.0)
Total current liabilities	(1,090.8)	-	13.4	13.4	(1,077.4)
Net current liabilities	(125.3)	-	11.8	11.8	(113.5)
Non-current liabilities					
Trade and other payables	-	-	-	-	-
Borrowings	(6,196.5)	-	-	-	(6,196.5)
Financial instruments	(1,043.8)	-	-	-	(1,043.8)
Retirement benefit obligations	(79.6)	-	-	-	(79.6)
Provisions	(10.2)	-	-	-	(10.2)
Deferred income - Grants and contributions	(484.0)	-	-	-	(484.0)
Deferred tax	(839.5)	57.0	-	57.0	(782.5)
Total non-current liabilities	(8,653.6)	57.0	-	57.0	(8,596.6)
Net assets	2,740.9	(276.8)	-	(276.8)	2,464.1
Equity					
Called-up share capital	10.0	-	-	-	10.0
Retained earnings and other reserves	2,730.9	(276.8)	-	(276.8)	2,454.1
Total equity	2,740.9	(276.8)	-	(276.8)	2,464.1

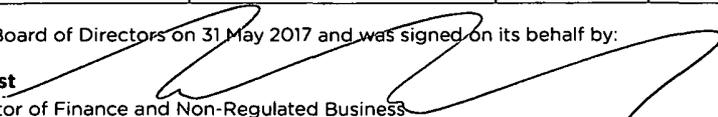
The Annual Performance Report was approved by the Board of Directors on 31 May 2017 and was signed on its behalf by:

Peter Simpson
Chief Executive



Scott Longhurst

Managing Director of 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 current grants and contributions and accrued interest to trade and other payables and of capital creditors.

² In the statutory accounts the assets and liabilities relating to the non-household retail business are shown as 'assets classified as held for sale' and 'liabilities directly associated with assets held for sale'. There is no equivalent in Table 1C and therefore these assets and liabilities have been reclassified as trade and other receivables and trade and other payables respectively.

Table 1D - Statement of cash flows

for the year ended 31 March

	2017				Total appointed activities £m
	Statutory £m	Adjustments		Total adjustments £m	
		Differences between statutory and RAG definitions ¹ £m	Non-appointed £m		
Statement of cash flows					
Operating profit	365.3	(2.3)	(8.0)	(10.3)	355.0
Other income	-	14.8	-	14.8	14.8
Depreciation	311.2	(12.5)	(1.1)	(13.6)	297.6
Amortisation - Grants and contributions	(14.8)	-	-	-	(14.8)
Changes in working capital	(16.9)	-	1.1	1.1	(15.8)
Pension contributions	(12.5)	(6.8)	-	(6.8)	(19.3)
Movement in provisions	2.2	6.8	-	6.8	9.0
Profit on sale of fixed assets	(2.5)	-	-	-	(2.5)
Cash generated from operations	632.0	-	(8.0)	(8.0)	624.0
Net interest paid	(44.8)	4.5	-	4.5	(40.3)
Tax paid	(19.8)	-	1.6	1.6	(18.2)
Net cash generated from operating activities	567.4	4.5	(6.4)	(1.9)	565.5
Investing activities					
Capital expenditure	(349.1)	-	-	-	(349.1)
Grants and contributions	39.4	-	-	-	39.4
Disposal of fixed assets	2.8	-	-	-	2.8
Other	192.3	-	-	-	192.3
Net cash used in investing activities	(114.6)	-	-	-	(114.6)
Net cash generated before financing activities	452.8	4.5	(6.4)	(1.9)	450.9
Cash flows from financing activities					
Equity dividends paid	(320.3)	-	6.4	6.4	(313.9)
Net loans received	70.2	(4.5)	-	(4.5)	65.7
Net cash generated from financing activities	(250.1)	(4.5)	6.4	1.9	(248.2)
Increase in net cash	202.7	-	-	-	202.7

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 other adjustments are a reclassification of issue costs from interest paid to net loans received and a reclassification of pensions operating expenditure from contributions to movements in provisions.

Table 1E – Net debt analysis

at 31 March

	2017			Total £m
	Interest rate risk profile			
	Fixed rate £m	Floating rate £m	Index-linked £m	
Borrowings ^{1,2} (excluding preference shares)	2,242.5	363.1	3,653.3	6,258.9
Preference share capital				-
Total borrowings				6,250.9
Cash ³				(165.5)
Short-term deposits ³				(261.0)
Net debt				5,832.4
Gearing				79.1%
Adjusted gearing				79.0%
Full-year equivalent nominal interest cost	118.5	10.8	158.9	288.2
Full-year equivalent cash interest payment	118.5	10.8	77.2	206.5
Indicative interest rates				
Indicative weighted average nominal interest rate	5.3%	3.0%	4.3%	4.6%
Indicative weighted average cash interest rate	5.3%	3.0%	2.1%	3.3%
Weighted average years to maturity	7.1	3.0	20.0	14.8

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 £31.0 million (2016: £29.4 million).

³ Cash and short-term deposits are split as per RAG 4.06. 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.

The table below sets out the reconciliation between gross debt on a basis consistent with the RAGs as reported in Table 1E to gross debt on an IFRS basis as reported in the statutory accounts.

	Total £m
Borrowings (per regulatory definition)	6,258.9
Fair Value IFRS adjustments ¹	168.1
Adjust Issue Costs ²	(31.0)
Debt as per Table 1C	6,396.0
Debt interest accrual ³	78.9
2017 IFRS debt (per statutory accounts)	6,474.9

¹ This represents the IAS 39 fair value accounting adjustment to applicable debt and derivatives.

² These are debt issue costs capitalised in the statutory accounts balance sheet and amortised over the lifetime of the debt on an effective interest rate basis. The issue costs are excluded in Table 1E borrowings in accordance with the RAGs.

³ Under the RAGs debt is shown excluding accrued interest. Under IFRS debt is shown including accrued interest. This is a balance sheet presentational adjustment moving the interest accrual from accruals on the balance sheet to debt on the balance sheet.

Table 2A - Segmental income statement

for the year ended 31 March

	2017								Total £m
	Retail		Wholesale					Total £m	
	Household £m	Non- household £m	Water resources £m	Water network+ £m	Water total £m	Wastewater network £m	Sludge £m		
Revenue - price control	86.2	15.4	-	442.8	442.8	650.4	-	650.4	1,194.8
Revenue - non-price control	-	-	-	10.2	10.2	2.2	-	2.2	12.4
Operating expenditure	(69.0)	(11.0)	(36.0)	(176.7)	(212.7)	(209.8)	(54.6)	(264.4)	(557.1)
Depreciation - tangible fixed assets	(1.1)	(0.1)	(8.2)	(97.5)	(105.7)	(131.4)	(26.6)	(158.0)	(264.9)
Amortisation - intangible fixed assets	(0.3)	(0.1)	(1.1)	(3.9)	(5.0)	(26.9)	(0.4)	(27.3)	(32.7)
Other operating income	-	-	0.2	0.2	0.4	2.1	-	2.1	2.5
Operating profit before recharges	15.8	4.2	-	-	130.0	-	-	205.0	355.0
Recharges from other segments	(3.4)	(0.1)	(0.9)	(11.0)	(11.9)	-	(3.0)	(3.0)	(18.4)
Recharges to other segments	-	-	-	-	-	18.4	-	18.4	18.4
Operating profit	12.4	4.1	-	-	118.1	-	-	220.4	355.0
Surface water drainage rebates									1.1

Table 2B - Totex analysis - wholesale

for the year ended 31 March

	2017				Total £m
	Water resources £m	Water network+ £m	Wastewater network+ £m	Sludge £m	
Operating expenditure					
Power	7.5	23.4	34.9	-	65.8
Income treated as negative expenditure	(0.1)	(0.7)	(0.8)	(7.5)	(9.1)
Service charges/discharge consents	10.1	0.4	6.8	-	17.3
Bulk supply/bulk discharge	-	1.4	-	-	1.4
Other operating expenditure	13.4	106.9	146.5	58.7	325.5
Local authority and Cumulo rates	3.4	41.0	21.7	3.2	69.3
Total operating expenditure excluding third-party services	34.3	172.4	209.1	54.4	470.2
Third-party services	1.6	4.3	0.7	0.3	6.9
Total operating expenditure	35.9	176.7	209.8	54.7	477.1
Capital expenditure					
Maintaining the long-term capability of the assets - infra	0.3	15.3	19.5	-	35.1
Maintaining the long-term capability of the assets - non-infra	3.0	65.1	74.6	23.4	166.1
Other capital expenditure - infra	3.2	39.9	36.6	-	79.7
Other capital expenditure - non-infra	4.6	37.0	51.6	1.2	94.4
Total gross capital expenditure excluding third-party services	11.1	157.3	182.3	24.6	375.3
Third-party services	-	-	-	-	-
Total gross capital expenditure	11.1	157.3	182.3	24.6	375.3
Grants and contributions	-	(18.7)	(12.0)	-	(30.7)
Totex	47.0	315.3	380.1	79.3	821.7
Cash expenditure					
Pension deficit recovery payments	0.4	3.3	3.8	1.5	9.0
Other cash items	-	-	-	-	-
Totex including cash items	47.4	318.6	383.9	80.8	830.7

Table 2C - Operating cost analysis - retail

for the year ended 31 March

	2017		Total £m
	Household £m	Non-household £m	
Operating expenditure			
Customer services	16.6	2.8	19.4
Debt management	8.4	1.0	9.4
Doubtful debts	27.4	2.3	29.7
Meter reading	2.9	0.3	3.2
Services to developers	-	0.1	0.1
Other operating expenditure	13.7	4.5	18.2
Total operating expenditure excluding third-party services	69.0	11.0	80.0
Third-party services operating expenditure	-	-	-
Total operating expenditure	69.0	11.0	80.0
Depreciation - tangible fixed assets	1.1	-	1.1
Amortisation - intangible fixed assets	0.3	0.1	0.4
Total operating costs	70.4	11.1	81.5
Debt written off	37.1	3.3	40.4

Household costs in the year of £70.4 million were below allowed retail costs of £74.0 million, although the number of customers was 0.8 per cent less in 2017 than assumed in price limits. We saw a reduction in the bad debt charge for household customers of £3.8 million in real terms as a result of strong collection performance in the year.

Non-household costs were £11.1 million against £9.1 million assumed in price limits, in line with forecast but £2.0 million higher than the final determination as expected due to the increase in costs resulting from market opening. The bad debt charge increased by £0.9 million from the prior year but this was due to a non-recurring credit in 2015/16.

Non-household capex was £3.2 million (£0.3 million tangible and £2.9 million intangible) relating to the costs of separating IT infrastructure, systems and accommodation from the household business. 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 increased by 27,600 in the year. Non-household customer numbers have increased by 600. The number of metered households has risen from 86.2 per cent in 2016 to 87.7 per cent in 2017.

Table 2D - Historical cost analysis of fixed assets - wholesale and retail

for the year ended 31 March

	2017						Total £m
	Wholesale				Retail		
	Water resources £m	Water network+ £m	Wastewater network+ £m	Sludge £m	Household £m	Non-household £m	
Cost							
At 1 April 2016	276.9	5,045.8	6,604.2	666.6	11.5	0.4	12,605.4
Disposals	-	(12.1)	(60.9)	(0.1)	(0.8)	(0.1)	(74.0)
Additions	8.6	143.2	165.3	16.9	0.1	0.3	334.4
Assets adopted at nil cost	-	-	25.7	-	-	-	25.7
At 31 March 2017	285.5	5,176.9	6,734.3	683.4	10.8	0.6	12,891.5
Depreciation							
At 1 April 2016	(61.5)	(1,177.4)	(2,019.0)	(256.0)	(6.5)	(0.1)	(3,520.5)
Disposals	-	12.1	60.5	0.3	0.8	0.1	73.8
Charge for the year	(8.3)	(97.4)	(131.4)	(26.6)	(1.1)	(0.1)	(264.9)
At 31 March 2017	(69.8)	(1,262.7)	(2,089.9)	(282.3)	(6.8)	(0.1)	(3,711.6)
Net book amount at 31 March 2017	215.7	3,914.2	4,644.4	401.1	4.0	0.5	9,179.9
Net book amount at 1 April 2016	215.4	3,868.5	4,585.2	410.6	5.0	0.3	9,084.9
Depreciation charge for the year							
Principal services	(8.3)	(97.4)	(131.4)	(26.6)	(1.1)	(0.1)	(264.9)
Third-party services	-	-	-	-	-	-	-
Total	(8.3)	(97.4)	(131.4)	(26.6)	(1.1)	(0.1)	(264.9)

The above table excludes intangible assets with a net book value at 31 March 2017 of £132.0 million (2016: £121.0 million).

The above table includes assets adopted at zero cost, which are brought onto the balance sheet at fair value and subsequently depreciated over their estimated useful lives. As at 31 March 2017 the fair value of these assets included was £70.5 million (2016: £44.8 million), the accumulated depreciation £1.1 million (2016: £0.7 million) and the net book value £69.4 million (2016: £44.1 million).

Table 2E - Analysis of capital contributions and land sales - wholesale

for the year ended 31 March

	2017			Total £m
	Fully recognised in income statement £m	Deferred and amortised (in income statement) £m	Fully netted off capex £m	
Grants and contributions - water				
Connection charges (s45)	-	8.4	-	8.4
Infrastructure charge receipts (s146)	-	7.7	-	7.7
Requisitioned mains (s43, s55 and s56)	-	2.7	-	2.7
Diversions (s185)	-	-	-	-
Other contributions	-	-	-	-
Total	-	18.8	-	18.8
Value of adopted assets	-	-	-	-
Grants and contributions - wastewater				
Infrastructure charge receipts (s146)	-	8.9	-	8.9
Requisitioned sewers (s100)	-	(0.1)	-	(0.1)
Diversions (s185)	-	0.3	-	0.3
Other contributions	-	2.9	-	2.9
Total	-	12.0	-	12.0
Value of adopted assets	-	25.7	-	25.7

	2017		Total £m
	Water £m	Wastewater £m	
Movements in deferred grants and contributions¹			
Brought forward	238.7	174.3	413.0
Deferred contributions received	18.7	12.0	30.7
Amortisation (in income statement)	(7.9)	(6.4)	(14.3)
Carried forward	249.5	179.9	429.4
Land sales			
Proceeds from disposals of protected land	0.1	1.9	2.0

¹ Movements in deferred grants and contributions excludes assets adopted at nil value.

Table 2F - Household revenues by customer type

for the year ended 31 March

	2017				
	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	101.2	16.73
Unmeasured wastewater only customer	73.5	4.5	78.0	262.9	16.94
Unmeasured water and wastewater customer	147.8	9.9	157.7	294.6	33.67
Measured water only customer	19.3	2.8	22.1	131.5	21.46
Measured wastewater only customer	106.1	11.7	117.8	545.3	21.40
Measured water and wastewater customer	491.8	55.6	547.4	1,422.8	39.10
Total	859.8	86.2	946.0	2,758.3	31.25

Table 2G - Non-household water revenues by customer type

for the year ended 31 March

	2017				
	Wholesale charges revenue £m	Retail revenue £m	Total revenue £m	Number of customers 000s	Average non-household retail revenue per customer £
Default tariffs					
Unmeasured (potable water)	0.4	-	0.4	1.6	25.03
Hartlepool Unmeasured (potable water)	0.1	-	0.1	0.4	16.94
Streamline Green (potable water) - (0.0 MI to 0.5 MI)	40.4	5.5	45.9	97.7	56.75
Streamline Orange (potable water) - (0.5 MI to 5.0 MI)	12.9	0.9	13.8	5.8	146.43
Streamline Blue (potable water) - (5.0 MI to 10.0 MI)	4.7	0.4	5.1	0.6	623.50
Profile (potable water) - (10.0 MI to 25.0 MI)	10.4	0.4	10.8	0.5	869.56
Profile Plus (potable water) - (25.0 MI +)	28.8	0.4	29.2	0.3	1,354.39
Profile Interruptible (potable water) - (25.0 MI +)	9.0	0.1	9.1	0.1	2,063.83
Hartlepool Commercial (potable water) - (0.0 MI to 50.0 MI)	0.9	0.1	1.0	1.7	46.87
Hartlepool Profile (potable water) - (50.0 MI +)	0.9	-	0.9	-	1,795.14
Streamline Orange (non-potable water) - (0.0 MI to 5.0 MI)	-	-	-	-	-
Streamline Blue (non-potable water) - (5.0 MI to 10.0 MI)	-	-	-	-	-
Profile (non-potable water) - (10.0 MI to 25.0 MI)	-	-	-	-	-
Profile Plus (non-potable water) - (25.0 MI to 400.0 MI)	-	-	-	-	-
Profile Industrial (non-potable water) - (400.0 MI +)	-	-	-	-	-
Special Agreements (potable water) - (0.0 MI +)	0.5	-	0.5	-	1,595.00
Special Agreements (non-potable water) - (0.0 MI +)	-	-	-	-	-
Total	109.0	7.8	116.8	108.7	71.51

There were no non-default tariffs in the year.

Table 2H - Non-household wastewater revenues by customer type

for the year ended 31 March

	2017				
	Wholesale charges revenue £m	Retail revenue £m	Total revenue £m	Number of customers 000s	Average non-household retail revenue per customer £
Default tariffs					
Unmeasured (sewerage)	1.0	0.1	1.1	3.5	28.00
Streamline Green (sewerage) - (0.0 MI to 0.5 MI)	47.6	5.3	52.9	99.7	52.82
Streamline Orange (sewerage) - (0.5 MI to 5.0 MI)	12.2	0.4	12.6	5.1	87.48
Streamline Blue (sewerage) - (5.0 MI to 50.0 MI)	10.8	0.4	11.2	0.9	432.87
Profile (sewerage) - (50.0 MI +)	9.7	0.1	9.8	0.3	510.98
Unmeasured (trade effluent)	-	-	-	-	29.30
Streamline Green (trade effluent) - (0.0 MI to 0.5 MI)	2.4	0.6	3.0	2.2	273.57
Streamline Orange (trade effluent) - (0.5 MI to 5.0 MI)	1.1	0.1	1.2	0.5	275.65
Streamline Blue (trade effluent) - (5.0 MI to 50.0 MI)	2.4	0.1	2.5	0.3	456.38
Profile (trade effluent) - (50.0 MI +)	25.4	0.4	25.8	0.2	1,569.58
Total	112.6	7.5	120.1	112.7	67.10

There were no non-default tariffs in the year.

Table 21 – Revenue analysis and wholesale control reconciliation

for the year ended 31 March

	2017		Total £m
	Household £m	Non-household £m	
Wholesale charge - water			
Unmeasured	90.0	0.5	90.5
Measured	232.1	108.5	340.6
Third-party revenue	-	11.8	11.8
Total	322.1	120.8	442.9
Wholesale charge - wastewater			
Unmeasured	152.6	1.0	153.6
Measured	385.2	111.5	496.7
Third-party revenue	-	-	-
Total	537.8	112.5	650.3
Wholesale total	859.9	233.3	1,093.2
Retail revenue			
Unmeasured	16.1	0.1	16.2
Measured	70.1	15.2	85.3
Other third-party revenue	-	0.1	0.1
Retail total	86.2	15.4	101.6
Third-party revenue - non-price control			
Bulk supplies - water			8.2
Bulk supplies - wastewater			2.2
Other third-party revenue			0.9
Principal services - non-price control			
Other appointed revenue			1.1
Total appointed revenue			1,207.2
	Water	Wastewater	Total
Wholesale revenue governed by price control	442.9	650.3	1,093.2
Grants and contributions	18.7	8.8	27.5
Total revenue governed by wholesale price control	461.6	659.1	1,120.7
Amount assumed in wholesale determination	453.6	662.1	1,115.7
Adjustment for in-period ODI revenue	-	-	-
Adjustment for WRFIM	-	-	-
Total assumed revenue	453.6	662.1	1,115.7
Difference	8.0	(3.0)	5.0

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 2016/17. This calculation of allowed revenue is used for setting charges for the 2016/17 Charges Scheme.

Allowed wholesale water revenue and wholesale wastewater revenue for main charges was calculated as £436.1 million and £648.3 million respectively. Actual wholesale revenue outperformance for water main charges against allowed revenue was £6.8 million, and results from the under-accrual recognised for 2015/16 (£2.9 million) and higher customer numbers than forecast when setting tariffs. Actual wholesale revenue outperformance for wastewater main charges against allowed revenue was £2.0 million, reflecting lower demand offsetting the over-accrual for 2015/16 (£2.4 million). The outperformance represents 1.5 per cent and 0.3 per cent respectively of main charges allowed revenue.

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 £1.2 million.

Contributions in respect of wastewater were less than the indexed Final Determination by £5.0 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.

Performance commitment	Units	2016/17 performance level - actual	2016/17 CPL met? ¹	2016/17 reward or penalty (In-period ODIs)	2016/17 reward or penalty (In-period ODIs)	2016/17 notional reward or penalty accrued	2016/17 notional reward or penalty accrued	Total AMP6 reward or penalty 31 March 2020 forecast ²	Total AMP6 reward or penalty 31 March 2020 forecast ²	Further detail can be found on page
					£m absolute value		£m absolute value		£m absolute value	
Properties flooded internally from sewers - three-year average (reduction)	nr	45	-	-	-	-	-	-	-	71
Properties flooded externally from sewers - three-year average (reduction)	nr	717	-	-	-	-	-	-	-	71
Percentage of sewerage capacity schemes incorporating sustainable solutions	%	25	-	-	-	-	-	-	-	73
Value for money perception variation from baseline against WaSCs (wastewater) ³	%	tbc	tbc	-	-	tbc	tbc	tbc	tbc	33
Percentage of bathing waters attaining excellent status	%	65	-	-	-	-	-	-	-	52
Percentage of SSSIs (by area) with favourable status	%	98.8	-	-	-	-	-	-	-	51
Pollution incidents (category 3)	nr	217	Yes	-	-	Reward	2.3	Reward	6.7	70
Environmental compliance (wastewater)	nr	3	-	-	-	-	-	-	-	70
Operational carbon (% reduction from 2015 baseline)	%	11	-	-	-	-	-	-	-	55
Embodied carbon (% reduction from 2010 baseline)	%	55	-	-	-	-	-	-	-	55
Survey of community perception	%	52	-	-	-	-	-	-	-	58
Sewerage infrastructure	category	Green	Yes	-	-	-	-	-	-	70
Sewerage non-infrastructure	category	Green	Yes	-	-	-	-	-	-	70
Qualitative Service Incentive Mechanism (SIM) score	text	6th among the 10 WaSCs	No	-	-	-	-	-	-	31
Service Incentive Mechanism (SIM)	score	86	-	-	-	-	-	-	-	31
Customer Satisfaction Index prepared by UK Institute of Customer Service	rank	9/23	-	-	-	-	-	-	-	31
Fairness of bills perception - variation from baseline against WaSCs ³	%	tbc	tbc	-	-	tbc	tbc	tbc	tbc	33
Affordability perception - variation from baseline against WaSCs ³	%	tbc	tbc	-	-	tbc	tbc	tbc	tbc	33

Table 3A - Outcome performance table continued

for the year ended 31 March

Performance commitment	Units	2016/17 performance level - actual	2016/17 CPL met? ¹	2016/17 reward or penalty (In-period ODIs)	2016/17 reward or penalty	2016/17 notional reward or penalty	2016/17 notional reward or penalty	Total AMP6 reward or penalty 31 March 2020 forecast ²	Total AMP6 reward or penalty 31 March 2020 forecast ²	Further detail can be found on page
					£m absolute value	£m absolute value	£m absolute value		£m absolute value	
Operational carbon (% reduction from 2015 baseline)	%	11	-	-	-	-	-	-	-	55
Embodied carbon (% reduction from 2010 baseline)	%	55	-	-	-	-	-	-	-	55
Survey of community perception	%	52	-	-	-	-	-	-	-	58

¹ We do not have Committed Performance Levels (CPLs) for every ODI. Where this is the case we have shown a blank in the fourth column.

² 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).

³ Performance against our customer perception measures (value for money water, value for money sewerage, affordability and fairness) depend on data in the CCWater report *Water Matters*. At the time this Annual Performance Report was approved *Water Matters* for 2016/17 had not been published, so data has not been published in the main body of the report. We will publish the data as an insert at the end of the main report when the data is available, together with the value of any associated rewards or penalties.

Notes to Table 3A – Outcome performance table

for the year ended 31 March

We update our Customer Engagement Forum (CEF) on current performance at every meeting. The information reported in Table 3A is consistent with the reports on Outcome Delivery Incentive (ODI) performance we made to our CEF during the year and after year end.

The table shows that we have earned rewards for performance in three ODIs: leakage, supply interruptions and pollution incidents. We also incurred a penalty for water infrastructure serviceability. These rewards and penalties are stated in the table 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 2016/17 figures to make them more relevant to stakeholders. A comparison between the figures is shown below:

	Rewards/penalties from 2016/17 ODI performance (£m)	
	2012/13 prices	2016/17 prices
Interruptions to supply	0.8	0.9
Leakage	2.6	2.8
Pollution incidents	2.3	2.5
Water infrastructure serviceability	(0.6)	(0.6)
Total	5.1	5.6

We are forecasting that by the end of the price control period we will earn the maximum reward available against our leakage ODI, where we are committing funds to achieve a step change reduction in leakage and are confident of achieving our period-end target of 172Ml/d. For the other ODIs we are forecasting that we will retain the rewards and penalty that we have earned so far. We might earn further rewards in the remaining three years of the price control period. Equally, we could incur penalties, particularly since the performance targets become more challenging for a number of ODIs. Given the uncertainties which affect all ODIs, it would be inappropriate at this stage to forecast further rewards or penalties beyond those already earned.

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 do not 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. Table 3B on the following page shows our performance in 2016/17 against each of the sub-measures.

Table 3B - Sub-measure performance table

for the year ended 31 March

Performance commitment/sub-measure	Units	2016/17 performance level - actual	2016/17 committed performance level met?
W-H1: Water infrastructure	Category	Amber	No
Unplanned interruptions >12 hours	Nr props	2,459	No
Reactive mains bursts - variation from model	%	+10.0%	No
Customer contacts - discolouration	nr per 1,000 pop	0.41	Yes
Distribution maintenance index	%	0.04	Yes
W-H2: Water non-infrastructure	Category	Green	Yes
WTW with coliforms detected	nr	3	Yes
Percentage (%) service reservoirs with >5% coliforms	%	0	Yes
WTW turbidity	nr	0	Yes
S-F1: Sewerage infrastructure	Category	Green	Yes
Pollution incidents	nr	105	Yes
Sewer collapses	nr	228	Yes
Internal flooding (overloaded + other causes)	nr	264	Yes
Sewer blockages	nr	10,522	Yes
S-F2: Sewerage non-infrastructure	Category	Green	Yes
Population equivalent (PE) WwTW in breach of consent	%	0.18	Yes
WwTW failing numeric consent	%	0.42	Yes

Further detail about all our serviceability sub-measures is available on our website at www.anglianwater.co.uk. This includes an explanation about how our sub-measure performance translates into penalties. A penalty of £0.6 million is due on the water infrastructure serviceability ODI from 2016/17 performance because we exceeded the upper control limit for mains bursts and supply interruptions over 12 hours.

Table 3C - Abstraction Incentive Mechanism (AIM) table

for the year ended 31 March

Abstraction site	2016/17 AIM performance MI	2016/17 normalised AIM performance	Cumulative AIM performance 2016/17 MI	Cumulative normalised AIM performance 2016/17	Contextual information relating to AIM performance
Marham (River Nar)	-	-	-	-	No flows below Q95 in 2016/17
Costessey (River Wensum)	5.28	0.11	5.28	0.11	Baseline reflects changes already made to abstraction to reduce impact. Further reductions are difficult due to poor water quality at alternative site, but installation of a new treatment works should solve this (due 2019).
Total	5.28	0.11	5.28	0.11	

Table 3D – Service Incentive Mechanism (SIM) table

for the year ended 31 March

	2017
	Score
Qualitative performance	
1 st survey score	4.38
2 nd survey score	4.39
3 rd survey score	4.42
4 th survey score	4.41
Qualitative SIM score (out of 75)	63.75
Quantitative performance	
Quantitative composite score	62.15
Quantitative SIM score (out of 25)	21.89
SIM score	
Total annual SIM score (out of 100)	86

Table 4A - Non-financial information

for the year ended 31 March

	2017	
	Unmeasured	Measured
Retail - household		
Number of void households (OOOs)	18.3	58.8
Per capita consumption (excluding supply pipe leakage) (litres/household/day)	161.7	127.1
	Water MI/d	Wastewater MI/d
Wholesale volume (Megalitres/day)		
Bulk supply export	45.1	2.4
Bulk supply import	2.5	7.4
Distribution input	1,099.5	N/A

Table 4B – Wholesale totex analysis

for the year ended 31 March

	2017		Cumulative 2015-2020	
	Water £m	Wastewater £m	Water £m	Wastewater £m
Actual totex				
Actual totex	366.0	464.7	682.6	873.0
Items excluded from the menu				
Third-party costs	6.0	0.9	12.2	1.7
Pension deficit recovery payments	3.7	5.4	7.4	10.7
Other 'Rule book' adjustments	-	-	-	0.5
Total items excluded from the menu	9.7	6.3	19.6	12.9
Transition expenditure				
Transition expenditure	-	-	26.8	28.6
Adjusted actual totex				
Adjusted actual totex	356.3	458.4	689.8	888.7
Adjusted actual totex base year prices	329.0	423.2	643.6	829.1
Allowed totex				
Allowed totex based on final menu choice – base year prices	394.1	556.7	738.3	992.5

The difference in base year prices between total allowed totex and adjusted actual totex on a cumulative basis is £258.1 million, comprising totex outperformance of £187.2 million and programme phasing differences of £70.9 million.

Our totex outperformance of £187.2 million is as a result of numerous totex efficiency measures and initiatives. Totex and Capital programme efficiencies continue to be driven through our Alliance delivery model, delivering efficient, innovative and lower carbon solutions. Our operating cost efficiency has been achieved through initiatives including supply chain efficiencies, lean process improvements, energy efficiency projects and general tight cost control. These will continue to be key areas of focus as we progress through the AMP.

The phasing difference of £70.9 million represents approximately four weeks of slippage for the 104 weeks of programme up to 31 March 2017.

By maximising the benefits of our alliances and innovation, we are delivering strong efficiencies across our programme. In line with our approach in AMP5, we intend to use efficiencies to deliver further benefits for customers. This will commence in 2017/18. In particular, we are taking forward key projects to improve our customers' experience when interacting with us, and to improve the management of our operational networks and assets that underpin that service to customers. By re-profiling our programme in this way, we can make the most of rapidly evolving digital technology solutions to deliver step changes in our overall performance and the quality of the customer experience.

Table 4C - Impact of Asset Management Plan performance to date on Regulatory Capital Value (RCV)

for the year ended 31 March

	2017	
	Water £m	Wastewater £m
RCV determined at Final Determination at 31 March	2,857.2	4,518.7
RCV element of cumulative totex over/underspend so far in the price control period	(42.2)	(79.3)
Adjustment for ODI rewards or penalties	-	-
Projected 'shadow' RCV	2,815.0	4,439.4

Table 4D - Wholesale totex analysis - water

for the year ended 31 March

	Units	2017						Total
		Water resources		Network+				
		Abstraction licences	Raw water abstraction	Raw water transport	Raw water storage	Water treatment	Treated water distribution	
Operating expenditure								
Power	£m	-	7.5	4.2	-	6.4	12.8	30.9
Income treated as negative expenditure	£m	-	(0.1)	(0.1)	-	(0.2)	(0.4)	(0.8)
Abstraction charges	£m	10.1	-	-	-	0.4	-	10.5
Bulk supply	£m	-	-	-	-	1.4	-	1.4
Other operating expenditure	£m	-	13.4	3.2	-	25.0	78.7	120.3
Local authority and Cumulo rates	£m	-	3.4	0.6	-	6.9	33.5	44.4
Total operating expenditure excluding third-party services	£m	10.1	24.2	7.9	-	39.9	124.6	206.7
Third-party services	£m	-	1.6	1.1	-	1.4	1.8	5.9
Total operating expenditure	£m	10.1	25.8	9.0	-	41.3	126.4	212.6
Capital expenditure								
Maintaining the long-term capability of the assets - infra	£m	-	0.3	-	-	-	15.3	15.6
Maintaining the long-term capability of the assets - non-infra	£m	-	3.0	3.5	2.7	38.0	20.9	68.1
Other capital expenditure - infra	£m	-	3.2	2.0	-	-	37.9	43.1
Other capital expenditure - non-infra	£m	-	4.6	0.7	-	18.5	17.8	41.6
Total gross capital expenditure excluding third-party services	£m	-	11.1	6.2	2.7	56.5	91.9	168.4
Third-party services	£m	-	-	-	-	-	-	-
Total gross capital expenditure	£m	-	11.1	6.2	2.7	56.5	91.9	168.4
Grants and contributions	£m	-	-	-	-	-	(18.7)	(18.7)
Totex	£m	10.1	36.9	15.2	2.7	97.8	199.6	362.3
Cash expenditure								
Pension deficit recovery payments	£m	-	0.4	0.0	-	1.3	2.0	3.7
Other cash items	£m	-	-	-	-	-	-	-
Totex including cash items	£m	10.1	37.3	15.2	2.7	99.1	201.6	366.0
Unit cost information (operating expenditure)								
Licensed volume available	MI	604,951						
Volume abstracted	MI		472,580					
Volume transported	MI			106,229				
Average volume stored	MI				-			
Distribution input volume - water treatment	MI					400,397		
Distribution input volume - treated water	MI						400,397	
Unit cost	£/MI	16.69	54.70	84.81	-	103.64	315.28	
Population	000s	4,591.8	4,591.8	4,591.8	4,591.8	4,591.8	4,591.8	
Unit cost	£/pop	2.20	5.63	1.96	-	9.04	27.49	

Table 4E - Wholesale totex analysis - wastewater

for the year ended 31 March

	Units	2017								Total
		Network+ sewage collection			Network+ sewage treatment		Sludge			
		Foul	Surface water drainage	Highway drainage	Sewage treatment and disposal	Sludge liquor treatment	Sludge transport	Sludge treatment	Sludge disposal	
Operating expenditure										
Power	£m	5.5	3.1	1.1	23.8	1.4	-	-	-	34.9
Income treated as negative expenditure	£m	(0.1)	(0.1)	-	(0.6)	-	-	(5.4)	(2.1)	(8.3)
Discharge consents	£m	0.7	0.4	0.1	5.5	0.1	-	-	-	6.8
Bulk discharge	£m	-	-	-	-	-	-	-	-	-
Other operating expenditure	£m	52.0	13.3	5.0	72.1	4.1	20.7	28.0	10.0	205.2
Local authority and Cumulo rates	£m	-	-	-	20.6	1.1	-	3.2	-	24.9
Total operating expenditure excluding third-party services	£m	58.1	16.7	6.2	121.4	6.7	20.7	25.8	7.9	263.5
Third-party services	£m	-	-	-	0.7	-	-	0.2	0.1	1.0
Total operating expenditure	£m	58.1	16.7	6.2	122.1	6.7	20.7	26.0	8.0	264.5
Capital expenditure										
Maintaining the long-term capability of the assets - infra	£m	11.0	6.2	2.2	0.1	-	-	-	-	19.5
Maintaining the long-term capability of the assets - non-infra	£m	13.3	7.5	2.6	48.7	2.5	-	23.4	-	98.0
Other capital expenditure - infra	£m	20.9	11.7	4.0	-	-	-	-	-	36.6
Other capital expenditure - non-infra	£m	11.6	6.5	2.2	29.7	1.6	-	1.2	-	52.8
Total gross capital expenditure excluding third-party services	£m	56.8	31.9	11.0	78.5	4.1	-	24.6	-	206.9
Third-party services	£m	-	-	-	-	-	-	-	-	-
Total gross capital expenditure	£m	56.8	31.9	11.0	78.5	4.1	-	24.6	-	206.9
Grants and contributions	£m	(6.8)	(3.8)	(1.4)	-	-	-	-	-	(12.0)
Totex	£m	108.1	44.8	15.8	200.6	10.8	20.7	50.6	8.0	459.4
Cash expenditure										
Pension deficit recovery payments	£m	1.1	0.3	0.1	2.2	0.1	0.7	0.5	0.3	5.3
Other cash items	£m	-	-	-	-	-	-	-	-	-
Totex including cash items	£m	109.2	45.1	15.9	202.8	10.9	21.4	51.1	8.3	464.7
Unit cost information (operating expenditure)										
Volume collected - foul	MI	394,501								
Volume collected - surface water drainage	MI		221,688							
Volume collected - highway drainage	MI			77,686						
Biochemical Oxygen Demand (BOD) sewage treatment and disposal	Tonnes				153,486					
Biochemical Oxygen Demand (BOD) sludge liquor treatment	Tonnes					15,349				
Volume transported - sludge transport	m ³						2,666,971			
Dried solid mass treated - sludge treatment	ttds							213.4		
Dried solid mass disposed - sludge disposal	ttds								227.5	
Unit cost	£/MI	147.45	75.44	79.30	794.93	441.34	7.76	121,086.74	35,399.02	
Population	000s	5,973.7	5,973.7	5,973.7	5,973.7	5,973.7	5,973.7	5,973.7	5,973.7	
Unit cost	£/pop	9.74	2.80	1.03	20.43	1.13	3.46	4.33	1.35	

Table 4G - Wholesale current cost financial performance

for the year ended 31 March

	2017		Total £m
	Water £m	Wastewater £m	
Revenue	453.0	652.6	1,105.6
Operating expenditure	(212.6)	(264.5)	(477.1)
Capital maintenance charges	(135.1)	(264.1)	(399.2)
Other operating income	0.4	2.1	2.5
Current cost operating profit	105.7	126.1	231.8
Other income	7.9	6.9	14.8
Interest income	75.2	118.8	194.0
Interest expense	(113.8)	(179.9)	(293.7)
Other interest expense	0.2	0.4	0.6
Current cost profit before tax and fair value movements	75.2	72.3	147.5
Fair value losses on financial instruments	(44.9)	(71.1)	(116.0)
Current cost profit before tax	30.3	1.2	31.5

Table 4H - Financial metrics

for the year ended 31 March

	2017 Metric
Net debt	£5,832.4m
Regulated equity	£1,543.6m
Regulated gearing	79.1%
Post-tax return on regulated equity ¹	(1.6)%
RORE (return on regulated equity) ²	7.5%
Dividend yield	7.9%
Retail profit margin - Household	1.7%
Retail profit margin - Non-household	1.7%
Credit rating	Baa1
Return on RCV	3.8%
Dividend cover	0.0
Funds from operations (FFO)	£389.2m
Interest cover (cash)	2.7
Adjusted interest cover (cash)	1.4
FFO/debt	0.1
Effective tax rate	38.7%
Regulated free cash flow (RCF)	£75.3m
RCF/capex	0.2
Revenue (actual)	1,194.8
EBITDA (actual)	637.6
Proportion of borrowings which are fixed rate	35.8%
Proportion of borrowings which are floating rate	5.8%
Proportion of borrowings which are index-linked	58.4%
Proportion of borrowings due within 1 year or less	4.1%
Proportion of borrowings due in more than 1 year but no more than 2 years	1.7%
Proportion of borrowings due in more than 2 years but no more than 5 years	14.9%
Proportion of borrowings due in more than 5 years but no more than 20 years	60.4%
Proportion of borrowings due in more than 20 years	18.9%

¹ Post-tax return on regulated equity is negative due to the significant current tax charge in the year which exceeds the profit before tax (excluding intra-group interest receivable).

² See note 9 for a breakdown of the key components of RORE.

All of the above financial metrics exclude intra-group interest receivable of £192.3 million and the corresponding £192.3 million of dividends paid to Anglian Water Services Holdings Limited, a parent undertaking, in order to service this interest on an intra-group loan. This is to ensure the financial metrics reflect the underlying performance of the business.

Table 4I - Financial derivatives

for the year ended 31 March

	2017								
	Nominal value by maturity (net)			Total value		Total accretion £m	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		Payable	Receivable	
Interest rate swap (sterling)									
Floating to fixed rate	-	-	-	-	-	-	-	-	-
Floating from fixed rate	75.0	319.6	2,297.1	2,691.7	(321.5)	-	2.8%	1.6%	
Floating to index-linked	-	-	565.9	565.9	(601.6)	(83.0)	2.4%	1.0%	
Floating from index-linked	-	-	-	-	-	-	-	-	-
Fixed to index-linked	-	-	-	-	-	-	-	-	-
Fixed from index-linked	-	-	-	-	-	-	-	-	-
Total	75.0	319.6	2,863.0	3,257.6	(923.1)	(83.0)			
Currency interest rate									
Currency interest rate swaps USD	-	359.8	345.0	704.8	179.2	-	3.5%	4.3%	
Currency interest rate swaps EUR	-	-	-	-	-	-	-	-	-
Currency interest rate swaps YEN	65.9	25.1	-	91.0	60.1	-	1.2%	3.0%	
Currency interest rate swaps Other	-	-	-	-	-	-	-	-	-
Total	65.9	384.9	345.0	795.8	239.3	-			
Other financial derivatives	12.8	94.6	6.6	114.0	(24.6)	-	-	-	-
Total financial derivatives	153.7	799.1	3,214.6	4,167.4	(708.4)	(83.0)			

The nominal value is the face value of the financial instruments, these instruments are marked to market at the end of each reporting period and reported in the balance sheet at their fair value. The total of financial instruments in table 1C agrees to the sum of 'mark to market' and 'total accretion' in table 4I.

Notes to the Annual Performance Report

The following notes set out additional policies and disclosures required by the Regulatory Accounting Guidelines (RAGs) 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 RAGs 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 3.09, section 4 are provided with the relevant tables, with the exception of the tax reconciliations which are provided in note 10.

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.

2 Accounting policies continued

(b) Bad debt

The underlying customer bad debt provision is calculated based on applying expected recovery rates, using actual historical cash collection performance, for an aged debt profile. However, as a result of preparation for market opening, our provision for non-household debt and consequently the bad debt charge in the year have been calculated using a combination of cash collection rates, modified to reflect the collectability of live non-household debt transferred to the retail business and court and vacated debt retained in the wholesale business. This modification in methodology increased the bad debt charge for the year by £158,000.

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 £40.5 million (2016: £31.4 million). There have been no changes to debt write-off policies during the year.

(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 1.07, 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

- 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.
- 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 2.06, 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 3.09. Details of Directors' pay can be found in the Remuneration Report on page 115.

7 Measured income accrual

In accordance with RAG 3.09 we highlight the following comments in respect of turnover for the year:

Appointed turnover for the year ended 31 March 2016 included a measured income accrual of £266.5 million (year ended 31 March 2015: £260.8 million). The value of billing recognised in the year ended 31 March 2017 for the prior year was £277.1 million. This has resulted in the recognition in the current year's turnover of an estimation difference for the prior year of £10.6 million (2016: £0.4 million), representing 1.2 per cent of current year measured turnover (2016: 0.05 per cent) and within acceptable tolerances for accounting estimates.

Notes to the Annual Performance Report continued

There have been no changes to the methodology used in calculating the measured income accrual from the prior year.

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 £1.7 million were outstanding from other Group companies at 31 March 2017 (2016: £1.1 million).

(b) Payables

An amount payable of £46.0 million was owed to Anglian Water Services Financing Plc at 31 March 2017 (2016: £45.7 million).

(c) Borrowings

Sums borrowed, including accrued indexation by the appointee from Anglian Water Services Financing Plc at 31 March 2017, were:

Type of loan	Principal amount (v) £m	Repayment date	Interest rate %
Fixed rate	200.000	2023	6.875
Fixed rate	200.000	2029	6.625
Fixed rate	246.000	2030	6.293
Fixed rate	250.000	2022	5.837
Fixed rate (iv)	75.000	2017/2040	5.500
Fixed rate	25.000	2034	6.875
Fixed rate	63.600	2021	5.387
Fixed rate	197.200	2021	5.490
Fixed rate	250.000	2027	4.500
Fixed rate	25.507	2017	4.195
Fixed rate	31.884	2022	3.983
Fixed rate	73.332	2028	4.394
Fixed rate	22.319	2022	3.983
Fixed rate	29.973	2022	5.378
Fixed rate	100.000	2026	4.500
Fixed rate	7.021	2023	3.605
Fixed rate	93.000	2023	3.537
Fixed rate	100.240	2023	5.013
Fixed rate	24.952	2026	3.000
Fixed rate	55.000	2026	2.930
Fixed rate	20.000	2026	2.930
Fixed rate	118.800	2027	2.625
Index-linked (i)	238.626	2020	4.125
Index-linked (i)	303.281	2032	3.070
Index-linked (i)	91.439	2032	3.070
Index-linked (i)	113.730	2024	3.666
Index-linked (i)	563.960	2035	2.400
Index-linked (i)	67.997	2046	1.700
Index-linked (i)	68.085	2046	1.700
Index-linked (i)	54.494	2056	1.715
Index-linked (i)	68.118	2056	1.678
Index-linked (i)	81.689	2049	1.790
Index-linked (i)	136.259	2057	1.378
Index-linked (i)	68.130	2056	1.383
Index-linked (i)	97.346	2062	1.449
Index-linked (i)	64.944	2055	1.520
Index-linked (i)	62.848	2019	1.626
Index-linked (i)	61.782	2020	1.300
Index-linked (i)	158.168	2045	2.262
Index-linked (i)	25.000	2021	1.270
Index-linked (i)	84.163	2027	0.530
Index-linked (i)	84.163	2027	0.790
Index-linked (i)	16.562	2022	1.370
Index-linked (i)	55.206	2033	2.050
Index-linked (i)	163.460	2028	0.000
Index-linked (i)	37.888	2042	1.141
Index-linked (i)	68.850	2029	0.410
Sub-total carried forward	5,045.016		

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	5,045.016		
Index-linked (i)	130.752	2029	0.100
Index-linked (i)	62.462	2030	0.010
Floating rate (iv)	75.000	2017/2040	LIBOR + 0.682
Floating rate	100.000	2057	LIBOR + 0.340
Floating rate (iv)	65.931	2018/2037	LIBOR + 0.530
Floating rate	110.000	2043	LIBOR + 0.850
Floating rate	25.081	2038	LIBOR + 1.130
Floating rate	74.102	2021	LIBOR + 0.888
Floating rate	100.000	2026	LIBOR + 2.163
Floating rate	103.509	2023	LIBOR + 1.007
Floating rate	55.000	2017	LIBOR + 0.400
Floating rate	25.000	2026	LIBOR + 1.420
Floating rate	35.000	2031	LIBOR + 1.350
Floating rate	54.200	2026	LIBOR + 1.400
Floating rate	81.200	2027	LIBOR + 1.512
Index-linked swaps (iii)	5.814	2024	-
Index-linked swaps (iii)	6.705	2030	-
Index-linked swaps (ii)	35.461	2057	-
Index-linked swaps (ii)	19.706	2059	-
Index-linked swaps (ii)	13.538	2043	-
Index-linked swaps (iii)	1.725	2061	-
Total	6,225.202		

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 while 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 £313.9 million is payable for the year ended 31 March 2107 (2016: £338.4 million) in respect of the appointed business. Of this dividend, £192.3 million (2016: £192.8 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 (2016: £1,602.6 million) (see note 10 of the financial statements on page 165).

(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 2017 amounted to £7,220.3 million (2016: £6,904.2 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 (2016: £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 2017 (2016: £nil).

Notes to the Annual Performance Report continued

(f) Supply of services

The way in which services were charged to the appointee changed significantly in 2016/17. In order to prepare for the opening of the retail market, any appointed employee who also provided services to one or more associated companies transferred to Group employment from 1 April 2016.

As a result, in prior years a relatively small proportion of the cost of these individuals was previously charged by the appointee to associated companies but this has now reversed, and a relatively large proportion is charged by associated companies to the appointee. Approximately 90 employees transferred to Group employment.

Recharges by the appointee to associated companies:

Nature of transaction	Company	Terms of supply	Value £m
HR, Payroll, OHS, Regulation	AWG Group Limited	Actual costs	0.228
Asset Management	AWG Group Limited	Actual costs	0.318
Corporate Affairs	AWG Group Limited	Actual costs	0.251
Finance	AWG Group Limited	Actual costs	0.145
IT	AWG Group Limited	Actual costs	0.283
Healthcare	AWG Group Limited	Actual costs	0.140
Accommodation	AWG Group Limited	Actual costs	0.143
Laboratory charges	Alpheus Environmental Limited	Actual costs	0.058
Trade effluent charges	Alpheus Environmental Limited	Actual costs	0.225
Land rental	Alpheus Environmental Limited	Actual costs	0.170
Vehicles	AWG Group Limited and Alpheus Environmental Limited	Actual costs	0.155
			2.116

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	1.588
Treasury	AWG Group Limited	-	Time apportionment	0.824
Information Services	AWG Group Limited	-	Time apportionment	0.572
Customer Services	AWG Group Limited	-	Time apportionment	0.178
Corporate Affairs	AWG Group Limited	-	Time apportionment	0.460
Occupational Health & Safety	AWG Group Limited	-	Time apportionment	0.355
Legal	AWG Group Limited	-	Time apportionment	0.243
Human Resources	AWG Group Limited	-	Time apportionment	1.362
Property services	AWG Group Limited	-	Time apportionment	0.249
Transport services	AWG Group Limited	-	Time apportionment	0.106
Business change	AWG Group Limited	-	Time apportionment	0.264
Procurement	AWG Group Limited	-	Time apportionment	0.200
Internal Audit	AWG Group Limited	-	Tendered	0.518
External Audit	AWG Group Limited	-	Tendered	0.235
Insurance administration	AWG Group Limited	-	Negotiated	0.704
Income protection costs	AWG Group Limited	-	Negotiated	0.271
Taxation services	AWG Group Limited	-	Negotiated	0.271
Pension admin, advice and audit	AWG Group Limited	-	Pass through	0.345
Miscellaneous items	AWG Group Limited	-	Pass through	0.156
Building rental	AWG Group Limited	-	Pass through	0.152
Office accommodation Lancaster House	Ambury Developments Limited	0.558	Other market testing	0.447
Bulk purchase of water	Ardleigh Reservoir Committee ¹	1.254	Actual costs	0.785
				10.285

¹ Joint venture between Anglian Water Services Limited and Affinity Water Limited for a single reservoir and treatment works.

(g) Charitable and political donations

During the year, the business donated £40,000 (2016: £40,000) to WaterAid, its recognised charity.

No political donations were made (2016: £nil).

The Company made available £1.191 million (2016: £1.00 million) to the Anglian Water Assistance Fund, which paid a total of £1.051 million (2016: £0.74 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.

9 Return on regulated equity (RORE)

The table below outlines the main components of RORE:

	2016 %	2017 %
Base RORE	5.60	5.60
Company share of totex out/underperformance	0.91	2.88
The Company share of any out/underperformance on retail costs	(0.03)	0.06
The impact on the RCV run off of the out/underperformance of totex	0.01	0.07
The impact of any ODI or SIM penalties	0.45	0.17
The difference between the actual interest charge (in real terms) and the allowed interest (real) on notional debt	(1.07)	0.27
Calculated Annual RORE	5.89	9.06

The cumulative average RORE for the two years ended 31 March 2017 is 7.47 per cent.

The prior year RORE calculation has been revised down to 5.89 per cent (from 6.30 per cent) to reflect recent guidance from Ofwat on the calculation of financing out/underperformance based on the notional capital structure.

The main contributor to the RORE performance in 2017 is totex efficiency outperformance of 2.88 per cent, which equates of £142.7 million of efficiency savings in the year. This is set out in the following table:

Base year prices	2015/16 £m	2016/17 £m	Cumulative £m
Allowed totex	780.0	950.8	1,730.8
Actual totex	720.4	752.3	1,472.7
Difference	59.6	198.5	258.1
Difference due to timing	15.1	55.8	70.9
Difference due to efficiency	44.5	142.7	187.2

Another key component of RORE is the financing outperformance for 2017 of 0.27 per cent (2016: -1.07 per cent). The primary reason for this year-on-year change is the increase in inflation in the current year.

The contribution for ODI outperformance of 0.17 per cent reflects the total ODI reward of £5.1 million for 2017.

Notes to the Annual Performance Report continued

10 Current tax reconciliations

A reconciliation of the appointed corporation tax charge reported in Table 1A to that resulting from applying the standard rate of tax to the profit on ordinary activities before tax as shown in Table 1A is set out below.

	£m
Profit per the Annual Performance Report	154.7
Corporation tax charged at 20%	30.9
Depreciation and amortisation	47.5
Capital allowances	-
Items not taxable	(0.4)
Items not deductible for tax purposes	2.0
Short-term timing differences	(4.9)
Fair value losses on financial instruments (not deductible)	23.2
Group relief utilised	(38.5)
Adjustments in respect of previous years	40.1
Current tax charge for the year	99.9

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	12.6
Tax effect at 20% of:	
Increase in profit before tax	5.0
Reduction in disallowable depreciation and amortisation	(2.3)
Reduction in capital allowances	43.4
Reduction in pension deductions	1.1
Current tax charge before adjustments for previous years	59.8
Adjustments for previous years	40.1
Tax charge in APR	99.9

The adjustment for previous years reflects an increased current tax charge of £42.7 million due to capital allowance disclaimers made in 2015/16 to utilise advance corporation tax (ACT) held as an asset on the balance sheet. This is offset by a prior year credit which is due to taking an over-prudent view in earlier tax years. Capital allowances were also disclaimed in the current year to utilise ACT.

Group relief utilised represents losses surrendered from within the Anglian Water Services Financing Group for which there is an agreement that no payment is required. Losses surrendered from other group companies outside of Anglian Water Services Financing Group are paid for at the full corporation tax rate.

The main rate of corporation tax reduced from 20 per cent to 19 per cent on 1 April 2017. As the corporation tax in the price limits was calculated at a rate of 20 per cent there will be a reconciling item in each of the remaining years of the AMP. The corporation tax rate will reduce further to 17 per cent on 1 April 2020.

The Base Erosion and Profit Sharing (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 final legislation.

Tax and transparency

Included in the 2016 Finance Act was a requirement for large companies to publish their tax strategy on the internet for all years commencing after 15 September 2016. To comply with this we have prepared a statement on tax and transparency which can be found on our website at www.anglianwater.co.uk

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, have been properly prepared in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRa (RAG 1.07, RAG 2.06, RAG 3.09, RAG 4.06 and RAG 5.06) and the accounting policies (including the company's published accounting methodology statement as defined in RAG 3.09, Appendix 3) set out in note 2.

Emphasis of matter – basis of preparation

Without modifying our opinion on the Regulatory Accounting Statements within the Annual Performance Report, 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 company's published accounting methodology statement, as defined in RAG 3.09, Appendix 3) set out in the statement of accounting policies and under the historical cost convention. The nature, form and content of the Regulatory Accounting Statements are 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.

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). 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 Regulatory Accounting Statements on pages 198 to 238 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 Anglian Water Services Limited'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 totalx analysis for wholesale water and wastewater (Table 2B), the operating cost analysis for retail (Table 2C), the historical cost analysis of fixed assets for wholesale and retail (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 Condition F, the Regulatory Accounting Guidelines issued by the WSRa and the accounting policies (including the accounting separation methodology) set out in note 2 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 tables (tables 3A to 3D) 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 set out on page 145, the Directors are responsible for the preparation of the Annual Performance Report in accordance with Condition F, the Regulatory Accounting Guidelines issued by the Regulator and the Company's accounting policies (including the accounting separation methodology).

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 ICAEW Technical Release Tech 02/16 AAF 'Reporting to Regulators on Regulatory Accounts' issued by the Institute of Chartered Accountants in England & 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; and the reasonableness of significant accounting estimates made by the Directors. 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 the 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 International Standards on Auditing (UK & Ireland).

The Company has presented the allocation of operating costs and assets in accordance with the accounting separation policy set out in note 2 and its Accounting Methodology Statement published on the Company's website on 14 July 2017. 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 2017 on which we reported on 31 May 2017, 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.

Deloitte LLP

Chartered Accountants and Statutory Auditors

London, United Kingdom
31 May 2017

Deloitte LLP

Glossary of regulatory terms

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.

Licence – 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.

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.

WRFIM – wholesale revenue forecasting incentive mechanism.

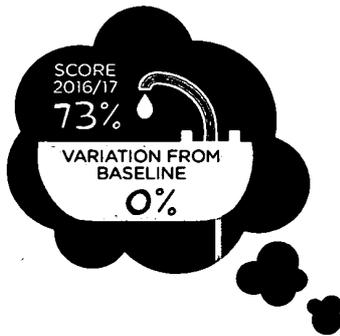
ADDENDUM – CUSTOMER PERCEPTION ODIs

Here is our performance against the four ODIs based on the Consumer Council for Water's annual *Water Matters* survey of customer perception. These were not included in the audited Annual Performance Report (APR) as the results were not published until June, after the APR had been signed off by the Directors. We will update the electronic version of the APR that we submit to Ofwat in July.

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

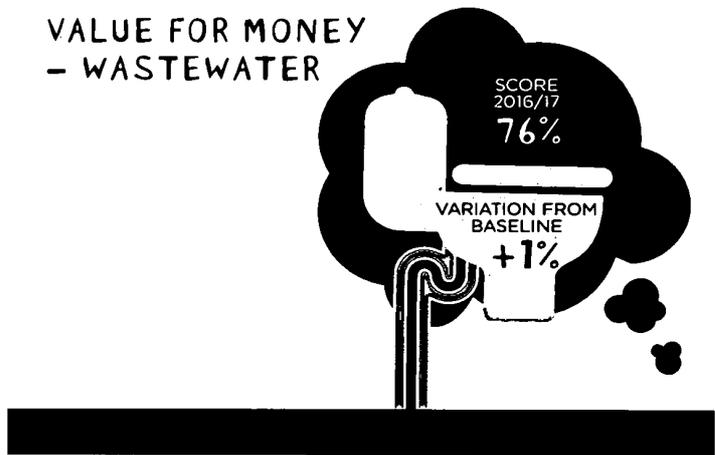
A measure of the changes in customers' perception of

VALUE FOR MONEY – WATER



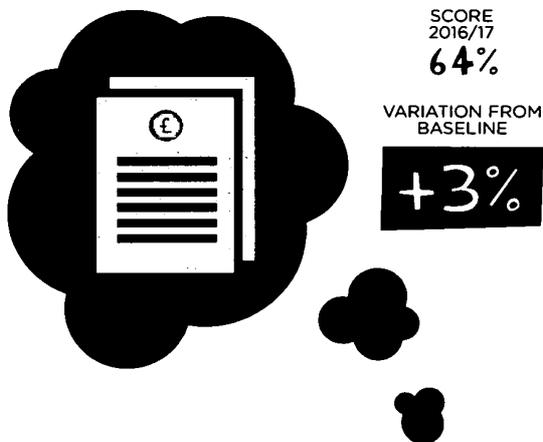
A measure of the changes in customers' perception of

VALUE FOR MONEY – WASTEWATER



A measure of the changes in customers'

FAIRNESS OF BILLS PERCEPTION



A measure of the changes in customers'

AFFORDABILITY PERCEPTION



Table 3A - Outcome performance table
for the year ended 31 March

Performance commitment	Units	2016/17 performance level - actual	2016/17 CPL met?	2016/17 reward or penalty (in-period ODIs)	2016/17	2016/17 notional reward or penalty accrued	2016/17	Total AMP6 reward or penalty forecast	Total AMP6
					reward or penalty (in-period ODIs)		notional reward or penalty accrued		31 March 2020 forecast
					£m absolute value		£m absolute value		£m absolute value
Value for money perception - variation from baseline against WaSCs (water)	%	0%	Yes	-	-	-	-	Reward	0.075
Value for money perception - variation from baseline against WaSCs (wastewater)	%	+1%	Yes	-	-	Reward	0.025	Reward	0.125
Fairness of bills perception - variation from baseline against WaSCs	%	+3%	Yes	-	-	Reward	0.075	Reward	0.200
Affordability perception - variation from baseline against WaSCs	%	+4%	Yes	-	-	Reward	0.100	Reward	0.250

Effect on Net Rewards and RORE

The figures in the table above are in 2012-13 prices and take our total net reward for ODI performance in 2016-17 to £5.3m, up £0.2m from the position in the APR. In 2016-17 prices our net reward is £5.8m.

The uplift in ODI reward is too small to have any impact on the RORE reported in table 4H.

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