

**The more
we keep
exploring,
the more
we'll achieve.
For everyone.**

Anglian Water Services Limited
Annual Integrated Report 2021



AT A GLANCE

**Our purpose is to bring
environmental and social
prosperity to the region
we serve through our
commitment to
love every drop**

OUR STRATEGIC AMBITIONS

Our long-term Strategic Direction Statement ambitions are shaped to deliver on our purpose.

Make the East of England resilient to the risks of drought and flooding

The management of climate change risks is embedded into everything we do

Enable sustainable economic and housing growth in the UK's fastest growing region

We will work to embed water and resilience at the heart of growth and development in the East of England

By 2030, be a net zero carbon business and reduce the carbon in building and maintaining our assets by 70%

We are committed to reducing our carbon footprint in both operational and capital carbon

Work with others to achieve significant improvement in ecological quality across our catchments

Our Articles of Association commit us to delivering positive environmental outcomes. Working in partnership helps us get there

Find out more on pages 22–25

GUIDED BY OUR MISSION STATEMENT

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

OUR FIVE-YEAR BUSINESS PLAN

We have four key goals for 2020–2025 that are guided by the views and needs of our stakeholders.

To make life better for our customers, every single day

We take pride in the difference we can make to our customers' lives, working together to Make Today Great

To deliver our identified business priorities

We think differently and work smarter to meet our commitments to customers

To deliver our 2020–2025 Final Determination

By 2025 we'll deliver our most ambitious Business Plan ever

To create a sustainable future for our region

Working to protect and enhance our environment is fundamental to how we operate

Find out more throughout

UNDERPINNED BY OUR VALUES

Our purpose is underpinned by our values. Together we...

OUR STAKEHOLDERS

The more we keep exploring, the more we'll achieve. For everyone.

Doing the right thing for our environment & the planet

Find out more on pages 42–47

Delivering for our customers & communities

Find out more on pages 48–53

Going further for our people & partners

Find out more on pages 54–57

Our shareholders are central to our business

Our shareholders have made a long-term commitment to Anglian Water and our environmental and social purpose, and have a shared interest in and responsibility for our success.

Find out more on page 58

Our relationships with our shareholders, our investors, banks and ratings agencies, our regulators, and local and national government, are crucial to help us deliver for all the stakeholders above.

Investors, banks & ratings agencies

The funding advanced by investors and banks, and the assessments made by the ratings agencies, are critical to the delivery of our investment programme.

Find out more on page 59

Regulators

We deliver our purpose through open and constructive working relationships with our regulators Ofwat, the Environment Agency and the Drinking Water Inspectorate.

Find out more on page 60

National & local government

We seek to build strong relationships with our region's MPs and engage with both the national policy agenda and local government, from local authorities to parish councils, in a two-way dialogue.

Find out more on page 61

Our stakeholders

**The more we keep exploring, the more we'll achieve.
For everyone.**

Doing the right thing for our environment & the planet.

Our environment and our planet's natural resources are precious to us and our customers. And they face enormous challenges from climate change and population growth. That's why we're committed to finding ever more intelligent solutions to reduce our footprint, protect the environment and ensure that water supply meets demand. Effectively, responsibly and sustainably.

See more on pages 42–47

INVESTING FOR TOMORROW

We're investing £3 billion from 2020–2025 to maintain resilient water and water recycling services.

See more on page 37

A SMALLER FOOTPRINT

Through nature-led, demand-led and technology-led solutions we'll reach net zero by 2030.

See more on page 22

Maintained our LEADING LEAKAGE PERFORMANCE

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

FLOURISHING ENVIRONMENT

The natural environment is the foundation of our business and the broader regional economy.

See more on page 23

SUPPLY MEETS DEMAND

Managing increasing demand on our water and water recycling networks is critical to delivering a sustainable future.

See more on page 43

**Delivered
520 SCHEMES**
to protect and enhance
the environment

FOUNDING SIGNATORY
to HRH The Prince of Wales's
Terra Carta

Our stakeholders

**The more we keep exploring, the more we'll achieve.
For everyone.**

Delivering for our customers & communities.

Providing safe, clean water and recycling it safely back to the environment will always be our priority. We want our customers to be delighted with the work we do and the services we provide. But our purpose demands more of us: we're committed to striving for social prosperity in our region, for individuals and communities alike.

See more on pages 48–53

FAIR CHARGES, FAIR RETURNS

We're committed to delivering affordable bills for our customers while paying fair returns to our shareholders and investors.

See more on pages 28–29

DELIGHTED CUSTOMERS

We seek to delight our customers with every interaction, and to listen to and act on their views on what our region needs.

See more on pages 48–53

**Delivered £1 million of support
to more than 160 organisations and
100,000+ BENEFICIARIES
through the Positive Difference Fund**

**SUPPORTED MORE THAN
319,000 vulnerable customers**

SAFE, CLEAN WATER

Delivering safe, clean drinking water is our most fundamental role; we call it doing the basics brilliantly.

See more on pages 52
and 88

POSITIVE IMPACT ON OUR COMMUNITIES

We act as a responsible citizen, supporting the most vulnerable and driving social prosperity for all.

See more on pages 40–41,
48–53

**ENGAGED WITH
MORE THAN 19,000
YOUNG PEOPLE**

through our education
programme

**SUPPLY CHAIN
INITIATIVE OF
THE YEAR 2020**

at the Utility Week Awards for
our smart metering programme

Our stakeholders

**The more we keep exploring, the more we'll achieve.
For everyone.**

Going further for our people & partners.

Everything we achieve as a business is through our people and our partners. Their safety, health and happiness is at the heart of everything we do. With strong foundations we'll keep our business resilient and achieve sustainable success together, guided by our purpose and underpinned by our values.

See more on pages 54–57

RESILIENT BUSINESS

Building a resilient business means being ready for whatever challenges we face, from coronavirus to climate change.

See pages 57, 76–78

OUR PEOPLE: HEALTHIER, HAPPIER, SAFER

Our people are our biggest asset; we strive to foster their health and happiness and keep them safe at all times.

See pages 54–57, 79, 82

Achieved our

BEST EVER

employee engagement score

Awarded

RoSPA GOLD AWARD

— our 17th consecutive year of recognition

**RoSPA SAFE@WORK,
SAFE@HOME**

award 2020

Named

EMPLOYER OF THE YEAR 2020

at the Utility Week Awards

About Anglian Water

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

A company with purpose

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

Long-term shareholders

Anglian Water Services Limited is the principal subsidiary of Anglian Water Group Limited, owned by a consortium of long-term investors representing millions of individual pension holders (see pages 26–27).

Supporting our communities

We've been a leading voice in responsible business for a number of years and were named Business in the Community's Responsible Business of the Year in 2017. In April 2020 we launched a £1 million Positive Difference Fund to support front-line Covid-19 relief efforts.

Pioneers in carbon reduction

We were the first water company to set ambitious targets on reducing both capital and operational carbon. We've exceeded our 2020 goals and are on track to reach, and help others to reach, net zero carbon by 2030, as well as reducing carbon in building and maintaining our assets by 70 per cent against a 2010 baseline, by the same date.

A leading employer

We've been named Employer of the Year at the 2020 Utility Week Awards, were awarded RoSPA Safe@Work, Safe@Home winner 2020 and hold the RoSPA (Royal Society for the Prevention of Accidents) gold award for health and safety, our 17th year of RoSPA recognition. We're an inclusive employer, committed to the Social Mobility Pledge; we're also a Disability Confident employer and hold the Armed Forces Covenant Gold award for employing ex-servicemen and women.

Sector-leading performance on leakage

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

Planning for the long term

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

Top-quality service to customers

Our whole organisation is committed to delivering for our customers; we were ranked the top-performing water and water recycling company by Ofwat for the period 2015–2020.

Leading on sustainability

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

Always exploring

Innovation is in our DNA and embedded in our values; we've pioneered innovation with customers through our Shop Window initiative; we're founder members of Innovate East, and our Water Innovation Network, which has connected more than 250 companies and explored 800 new ideas, celebrates its 10th anniversary this year.

Contributing to global goals

Our activities and the outcomes we deliver are aligned to the United Nations Sustainable Development Goals. We work in the spirit of all 17 goals but have mapped our work to the 10 where we have the most material impact.

In 2021 we were invited to become founding signatories to HRH The Prince of Wales's Terra Carta, and we are committed to working towards its goals.

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

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Chairman's welcome

Commitment to purpose is our guiding star.

"In a year of constant challenge, operational colleagues and office teams alike have stepped up to maintain our vital services to customers, while never losing sight of our environmental and social purpose."

John Hirst, CBE
Chairman

This past year has been challenging in ways previously unimaginable. Things that happened routinely for decades have been brushed aside in the pandemic. Systems designed for a nine-to-five, office-based lifestyle have been changed out of recognition to support a home-based, flexibly working, home-schooling society. That is as true for our water supply and recycling networks as it is for any other sector but perhaps with graver potential consequences than for many others since people depend on our water and waste services for the essentials of life.

And when it counted most, Anglian Water's people and partners carried on delivering through ever-changing circumstances. Water companies have been praised for their response to the pandemic, with Water Minister Rebecca Pow writing in May 2020: "I am incredibly grateful for the proactive approach and the extraordinary effort you have all shown to keep our vital services running."

I too am proud, as are my fellow Board members, of the way our people and our alliances have stepped up to the very significant demands of the past year.

See 'Our response to Covid-19' on pages 14–17

For my introduction to Governance, see page 99

Peter Simpson has set out overleaf just a few of the year's achievements and many more are recorded throughout this report. I know the business will continue to push ahead with urgency and determination, not simply to deliver a first-rate service to customers but to go above and beyond in line with our purpose and values.

It has been a year in which businesses of all types and sizes have been tested. Those which have survived — and indeed thrived, in some cases — have been those which supported their people and communities, and which kept climate change and environmental protection at the forefront of their thinking despite the pandemic, operating with public interest at their heart.

Public interest was the driving force behind the process we undertook with the Competition and Markets Authority (CMA) to redetermine our Business Plan for 2020–2025; rather than any short-term gains, we sought a long-term framework that would enable us to deliver the resilience to climate change and population growth that our region needs. We are grateful to the CMA for the diligence with which it worked through the complex issues put to it, seeking to establish the fairest settlement for customers while also recognising that long-term investment for resilience requires long-term investors, who deserve a fair return on their commitment. It is worth recognising that our investors are mostly pension funds that invest to service the retirement needs of millions of pensioners. The delivery of our 2020–2025 Business Plan remains challenging, but we are confident that, based on our track record, enhanced by the experience and learnings of the past year and with a strong strategic focus, we will achieve it.

We recognise, too, that there are actions we can take — indeed have taken — to strengthen our own resilience. We have created a new Group financing structure, strengthening the foundations of the company with an injection of equity that has allowed the company to reduce its gearing. We remain focused on maintaining our solid investment grade credit ratings to ensure we have a sustainable and efficient capital structure in the interest of customers and investors, the environment and long-term viability. At an operational level, the Management Board has driven a programme of efficiencies, asking our people to deliver cost savings right across the business.

Throughout, we have been immensely grateful for the patience and commitment of our shareholders who have supported us, and our communities, through every challenge. As we embark on the next four years of our plans with renewed vigour and clarity, we will seek to reward their commitment through the strength of our delivery for customers and the environment.

We look forward with optimism, keen to drive ever greater efficiencies and working with Ofwat and our other regulators to achieve our shared goals, including resilience, ever-increasing water quality, reduction in pollution and even more support for vulnerable customers.

That is not to say that the future is without challenge. Having weathered the initial storm, we may be yet to feel its full financial

Always exploring

Demonstrating leadership means constantly pushing boundaries.

That's why we're delighted to have secured funding through Ofwat's brilliant Innovation in Water Challenge on a project to help us reach our 2030 net zero carbon goal. Working with our @One alliance and our friends at Welsh Water, we'll build on our existing pioneering carbon database to understand carbon emissions and related costs across the entire life cycle of a project or asset.

The approach, a UK water industry first, will build on the current PAS 2080 carbon standard, which we helped develop, and its philosophy that reducing carbon reduces cost.

Find out more at
anglianwater.co.uk/casestudies

impact, with the ongoing furlough scheme perhaps deferring the impact on revenue, and the effect of the pandemic on the delivery of water companies' performance commitments yet to be fully weighed up.

At a national level, too, we recognise that water companies remain under scrutiny. We acknowledge and share concerns about the quality of England's rivers and the water that is discharged into them. Together with the farming community and other users of water, we have a crucial role to play in managing water quality. We fully accept our part in that collective responsibility, and we are committed to working in the public interest with our regulators, government and, of course, our customers, to find the way forward.

Our history of going beyond the basics to work with real ambition gives me great confidence for the year ahead. Having managed it in the most challenging of years, guided by our environmental and social purpose, I know that, with clarity on our investment programme to 2025, with a committed and newly agile workforce, with unprecedented levels of collaboration across our sector and with our regulators, and with the ongoing support of our shareholders, we will do so in the months and years to come.

John Hirst, CBE
Chairman

*See Board of Directors
on pages 100-103*

Chief Executive's statement

Strong delivery through the toughest of times.

"I couldn't be prouder of what we have achieved this year in the face of Covid-19, unprecedented demand for water, and widespread flooding: delivering great service to customers, leading the way on progress to net zero and tackling leakage, building resilience to climate change and population growth, and supporting our communities."

Peter Simpson
Chief Executive Officer

When I sat down to write a year ago, we were just beginning to emerge from the first wave of the pandemic, starting to reflect on the seismic changes in our society and what they could mean for our environment, our communities and our business.

We were also just embarking on the Redetermination of our Business Plan by the Competition and Markets Authority, set in context by the Chairman on pages 10 and 11.

Had I known then that Covid-19 would return with even more ferocity in a devastating second wave, that we would be supporting our communities through some of the worst flooding that our region has ever seen, and that we would have a winter during which we experienced more burst mains than during the Beast from the East in 2018, not to mention that the complex and testing CMA process would extend until March 2021, I would perhaps have felt somewhat daunted at the prospect of what lay ahead. Yet I said then, "I know we will rise to meet the challenges that lie ahead" — and so it proved.

See 'Stepping up in challenging times: winter flooding' on page 57

For 'Performance in context', see pages 70–71

That our people and our alliance partners continued to deliver for our stakeholders and meet numerous very stretching performance targets — which, let us not forget, were set in a pre-pandemic world — is exceptional.

In a year of such challenge it is — yet again — our leakage performance which stands out as our proudest achievement. We have not missed our leakage target for more than a decade now, and have again delivered a performance that leads the industry.

To have also delivered our best-ever performance on interruptions to supply, maintained water pressure and the high quality of our drinking water despite supplying more water than ever before through the soaring demand of summer 2020 is staggering. To put that in context, we have put 1.4 billion litres into supply in a single day on just eight days in the past 14 years — seven of which were in 2020. Alongside that, to have delivered record numbers of environmental commitments and, despite the extended period of flooding, to have achieved maximum reward for our leading performance on preventing internal flooding by comparison with our peers, reflects outstanding commitment from our people. We are also pleased that the significant focus we have placed on reducing pollutions has borne fruit, with a reduction of 20 per cent in the number of pollutions recorded versus 2019.

Overall, we are proud to be forecasting outperformance rewards of approximately £10 million for 2020/21.

And despite repeated lockdowns, I am pleased to report we delivered our full planned capital expenditure programme — our biggest ever — investing £448 million in the long-term

resilience of our region through smart metering, investments in our infrastructure, leakage reduction programmes, and the extension of our smart network and digital twinning programme. At the same time we managed within the operational budget we were set, cutting our coats according to our cloth.

Continuing to deliver for our customers is nothing less than an obligation, given our position as a monopoly provider of vital services. Our public duty is clear. More than that, though, we act in the public interest because the purpose we have defined for ourselves demands it of us: to bring environmental and social prosperity to the region we serve.

And despite the demands of the pandemic, and extreme weather conditions, we have maintained our focus on that wider purpose. Take our founding role in Business in the Community's National Business Response Network, pairing local need with corporate resource thousands of times over, or the £1 million Positive Difference Fund, funded by our shareholders and launched to support community groups' efforts through the pandemic, which has benefited more than 100,000 people across our region. Our Community Recovery Plan and Social Contract have set out the undertakings we are making to our customers and communities, and the sustainable future we want to achieve, with their help. In pursuit of our environmental purpose, we launched our Five-Point Plan for a Green Recovery, which helped to secure an additional £300 million to fast track our natural capital through the Water Industry National Environment Plan and, in parallel, spearheaded the efforts of the water sector to become the first industry globally to document how we'll reach net zero by 2030.

“Despite the demands of the pandemic, and extreme weather conditions, we have maintained our focus on our wider social and environmental purpose.”

Lateral endorsement of our commitment to purpose has manifested in several ways this year, most notably securing the Queen's Award for Enterprise: Sustainable Development for a second time and being invited to become founding signatories of HRH The Prince of Wales's Terra Carta initiative when it launched in January (see page 32).

And we have looked after our people, too — our most valuable asset. An overnight pivot to socially distanced, Covid-safe working for thousands of colleagues — and homeworking for thousands more — resulted in a rethink of our wellbeing strategy, reorientated to make time for both mental and physical health, while supporting staff through financially and emotionally challenging times. We were heartened that our people told us they feel well supported, with our engagement score reaching its best-ever level (see page 54), and to have that view objectively endorsed when we were named Employer of the Year at the Utility Week Awards in February.

But we will not pause in our determination to create a sustainable future for the region we serve and to deliver industry-leading performance. We know there are areas that need our relentless focus in the years to come. The risks we face from climate change and population growth are ever increasing; we will continue to seek new solutions to mitigate and adapt to their impacts. Our strategic interconnector programme and our work with the Regulatory Alliance for Progressing Infrastructure Development (RAPID) to develop proposals

for two vast new multi-use reservoirs (see page 43) will be vital to secure future water supplies. We will push, too, to go further and faster than ever to remove carbon from our operations (see page 22).

We must continue on the path we have set towards achieving zero pollutions, and we commit to working with the government and other agencies to improve the quality of the water discharged into our rivers. And we will strive to improve the service we offer to customers, returning to the industry-leading levels we achieved in the five years to 2020.

Looking ahead, we have an ambitious programme of activity to deliver in the remaining four years of this AMP (2020–2025) and beyond. Innovation, collaboration and real ambition, both within and beyond our sector, will be crucial, not just to the success of Anglian Water, but for the public good. We look forward to working with our fellow water companies through Water UK to develop the sector's vision for the future and deliver on the Public Interest Commitments, along with our partners and regulators on initiatives including the ambitious Ofwat Innovation Fund (see page 11) and RAPID (see page 60). Together we will continue to push boundaries and make the changes needed to deliver the social and environmental prosperity we all want to see.

Peter Simpson
Chief Executive Officer

*See Board of Directors
on pages 100–103*

Our response to Covid-19

The impact of Covid-19 on Anglian Water has been profound.

In the face of unprecedented circumstances, we have risen to the challenge, maintaining our critical business services to our customers and supporting our communities throughout the pandemic.

Hundreds of operational sites and offices alike needed to be made Covid-safe

Offices were reconfigured and capacity reduced to enable social distancing

A grateful customer gave a token of her appreciation to one of our keyworkers in the first lockdown

The Covid-19 crisis is unlike any incident we have previously prepared for, despite our industry-leading resilience team and ISO 22301 accreditation for business continuity. Although the provision of our vital services to our customers was never in doubt, we have had to adapt as an organisation to maintain our service delivery. We have learned, and are still learning, valuable lessons in resilience at both an organisational and an individual level.

Like the rest of the nation, we found the early characteristics of the pandemic to be incredibly dynamic, complex and far reaching.

Unlike operational incidents, where we have specialist responder teams and a clear incident management structure, the pandemic called for a pan-organisational response. So, reflecting the bronze, silver, gold and major incident strategy team (MIST) command structure that we use for large-scale operational incidents, we adopted a concept from the UK Armed Forces known as 'J' Cells — the 'J' representing joint, in line with the military's 'Joint Command' — formed of specialist teams who can work on different areas of a complex situation. For Covid-19, Anglian Water's J Cells represent all areas of the business:

people, operations, planning, supply chain, logistics, data/intelligence, communications, finance, business continuity, and health and safety, enabling us to coordinate a range of functions to address potential impacts while evaluating triggers for escalation and response as the situation has evolved.

Structuring ourselves in this way has allowed us to maintain a high level of situational awareness right across the business and with stakeholders, dealing with surges of activity and ensuring a consistent and comprehensive approach to how and when we communicate to the business.

Once the immediate disruptive effects of Covid-19 on our workforce had passed, we soon settled into a steady state of delivering our critical business services to customers, although we have remained on an incident management footing throughout the crisis. The structure and format of the J Cells allowed for a re-escalation of activity and focus during the approaches to the second peak.

Our approach to dealing with the impact of Covid-19 has at all times been driven by our social and environmental purpose and our values, leading us to look beyond the continuing supply of essential services, to our wider role as a core member of our community.

“The crisis has lasted beyond all our expectations but our employees have risen to the challenge, adapting quickly to new ways of working, and, for those on the front line, risking continued public contact to ensure that we keep safe, clean water flowing to all our customers.”

We have invested significantly in programmes and initiatives to support our most important business asset: our people.

The crisis has lasted beyond all our expectations, but our employees have risen to the challenge, adapting quickly to new ways of working and, for those on the front line, risking continued public contact to ensure that we keep safe, clean water flowing for all of our customers.

Thousands of our employees now carry out their duties from home and collaborate virtually, supported by our transformed IT networks and tools. Many have said that they feel an improved work-life balance from working at home, and we are adapting our ways of working permanently as a result (see Ways of Working).

On the following pages we have highlighted our response to the Covid-19 pandemic in line with our key impacted Principal Risks.

Our response to Covid-19 continued

Principal risk

Support our customers and communities

Stakeholder group

Our customers
and communities

Company response

As the impacts of the pandemic continue, we have maintained our focus on essential services for our customers, particularly those needing extra help, those self-isolating and those in a vulnerable situation.

We launched our new Priority Services Team which manages and maintains our Priority Service Register supporting customers in vulnerable circumstances, including those who need to be added temporarily because they are at high risk or are displaying symptoms of Covid-19. The team ensures priority contact during instances where these customers may face interruptions to their supply.

We set up a £1 million community support fund – the Anglian Water Positive Difference Fund. We donated £500,000 of emergency funds to more than 120 community organisations, and fast-tracked more than £50,000 to front-line organisations in the immediate response to the pandemic. The remaining £500,000 was allocated in March 2021, providing a smaller number of high-impact grants.

We have worked closely with Water UK and all our water industry peers to maintain a joined-up industry approach to the challenges of Covid-19.

Principal risk

Financing our business

Stakeholder group

Our customers
Our environment
Our people
and communities
and the planet
and partners

Company response

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

The furlough scheme has mitigated the impacts of Covid-19 on our overall revenue from domestic customers; we will continue to monitor the level of support required on affordability as furlough ends and unemployment potentially starts to rise.

Lockdown has resulted in increased household consumption of 11.36 per cent. Although meter reading was initially suspended as a non-essential task, we continued to track usage through smart meters and self-supplied meter readings.

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

Principal risk
Resilient business

Stakeholder group



Company response

One of our greatest challenges was the rapid transition to mass home working for over 3,000 office-based employees. We accelerated a long-planned IT transformation on a mass scale, ensuring our systems had the resilience to cope for a sustained period.

Changes in demand for water have had a sizeable operational impact. We have had to put record volumes of water into the system with a parallel impact on water recycling. We saw significant additional demand on rural sewage works and loss of demand on water recycling centres serving large business users. Later, flatter peak demand periods also posed a challenge for compliance.

We have assessed critical suppliers and have a range of existing mitigations in place; from April to October 2020 we regularly surveyed c.400 suppliers to assess general business health; we also reduced the time taken to make payments and helped support and advise small and medium-sized suppliers.

We have maintained stock levels built up for Brexit and ensured stockholdings of approximately 12–16 weeks' requirements. During the peak of the pandemic we built up supplies of PPE and continue to hold stocks.

Principal risk
Happier, healthier, safer

Stakeholder group



Company response

The wellbeing and safety of all our people, whether home or field-based, has been at the forefront of our response. Our crisis communications strategy continues to centre on providing updates on the evolving situation in line with government guidance and how the organisation needs to respond to it.

We have offered support for people's physical and mental wellbeing throughout the crisis and enhanced our communication channels with a series of business update videos from the Management Board, regular live virtual forums for leaders and our new intranet, Lighthouse.

Overcoming the challenges of Covid-19 has transformed our organisation. We have adapted our operational working practices to minimise face-to-face contact, keeping our customers and employees safe while continuing to deliver essential services.

As we move forwards from the pandemic, new ways of working are being introduced with more agile working and digital adoption. Guidance is being developed to support the new ways of working; however, some possible impacts and our people's views on the changes in the longer term are unknown.

Anglian Water in context

Our challenges and opportunities.

We have identified the main regional, national and international factors that drive the decisions we make.

Climate change, population and housing growth and the need to protect and enhance the natural environment are global challenges, but all are particularly acute in our region.

Others — acting in the public interest, delivering affordable services, meeting customer expectations, planning for the long term and exploring existing and developing markets — are common to the whole water industry. See pages 81–93 for more detail on the specific risks we are managing. Covid-19, naturally, has posed a particular set of challenges this year, and these are covered on pages 14–17.

OUR ROLE IN MARKETS

We have continued to play an active role in both existing and developing markets. In addition to the business retail market, we have helped to shape both the future direct procurement for customers (DPC) and Regulators Alliance for Progressing Infrastructure Development (RAPID) processes. We remain active in the bioresources and water resources trading market, engaging and enabling trades as available options arise.

See 'Regulators' on page 60

CLIMATE CHANGE

Ours is the driest region in the UK, and particularly vulnerable to climate change — low lying, with a long coastline and low rainfall. Water resources are already scarce, and climate change will reduce them further. Yet at the same time we face the threat of more frequent flooding due to more intense rainfall and rising sea levels. Therefore, reducing our carbon emissions and adapting to the climate emergency is embedded in everything we do. Our investment plans to 2025 are directed at reducing drought and flooding, which are our key climate-related risks; we are also mitigating the impacts of climate change through our 2030 net zero goal. We were the first organisation to publish an updated Adaptation Report as part of the third round of reporting under the Climate Change Act. Our report describes the range of actions we are taking to increase our resilience and how past investment has already made us better prepared for climate impacts.

See 'Our strategic ambitions' on pages 22–25 and 'Climate-related financial disclosures' on pages 74–75

POPULATION AND ECONOMIC GROWTH

Our region is one of the fastest growing in the country. Growth projections exceed 175,000 new homes over the next five years — without factoring in the proposed Oxford–Cambridge Arc. By 2040, the region's population may grow by a further million people, and growth is most likely in areas where supplies are most stretched, the environment is under most pressure and the risk of flooding is greatest. We need to facilitate sustainable growth with timely and efficient delivery of infrastructure and services. To help this, we have convened a Utilities Alliance to help the government accelerate plans for the OxCam Arc.

See 'Our strategic ambitions' on pages 22–25

DEMONSTRABLY ACTING IN THE PUBLIC INTEREST

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

See 'Holding ourselves to account' on pages 40–41

AFFORDABILITY AND CUSTOMER EXPECTATIONS

Customer expectations of service-orientated businesses continue to rise. While we delivered industry-leading customer service for the 2015–2020 period, we will continue to improve our offering. Ofwat plans to benchmark our performance not just against other water companies, but in comparison to the biggest brands in business – John Lewis, Amazon and Apple. We will use every opportunity to delight our customers, and create new ways to engage them through our contact centres, our digital channels (including our My Account app, tied to data from smart meters as they're rolled out), our colleagues in the field and our water parks. We also recognise that more of our customers may face financial challenges as furlough ends, and have put additional measures in place to ensure we can support those who need help.

See 'Our customers & communities' on pages 48–53 and 'Risk: Supporting our customers and communities' on page 84

ENVIRONMENTAL PRIORITIES

Water is vital for the natural environment as well as for public health, farming and industry. Our purpose commits us to achieve positive outcomes for the environment as well as society, building on our existing 25-year goal to work with others to improve the ecological health of catchments across our region. Following our strong performance in AMP6 (2015–2020), we have by far the largest Water Industry Natural Environment Programme (WINEP) among water companies in England and Wales, a doubling in number of commitments over the next five years. We are also taking forward our Water Resources Management Plan so that we can both accommodate significant housing growth and reduce the amount of water we abstract from the environment.

See 'Our strategic ambitions' on pages 22–25

PLANNING FOR THE LONG TERM

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

See 'Our strategic ambitions' on pages 22–25

Our business model

WHAT WE DO

Water is our business. We handle with care, and we don't cost the earth. We provide high-quality drinking water and recycle it safely back to the environment, serving almost seven million customers in the East of England and Hartlepool.

WHAT DRIVES US

OUR PURPOSE

Our purpose is to bring environmental and social prosperity to the region we serve through our commitment to *love every drop*

OUR VALUES

OUR LONG-TERM AMBITIONS

Our ambitions respond to the pressures outlined in our 25-year Strategic Direction Statement.

Make the East of England resilient to the risks of drought and flooding

OUR STAKEHOLDERS

Environment & planet

Customers & communities

People & partners

Enable sustainable economic and housing growth in the UK's fastest growing region

Shareholders

By 2030, be a net zero carbon business and reduce the carbon in building and maintaining our assets by 70%

Investors, banks & ratings agencies

Regulators

National & local government

Work with others to achieve significant improvement in ecological quality across our catchments

Read more about the relationships with our stakeholders on pages 42–61

Read more about our progress on pages 22–25

The UN Sustainable Development Goals influence our thinking and the work we do contributes towards their delivery

Find out more at
anglianwater.co.uk/UN-SDGs

HOW WE ARE CREATING VALUE

OUR GOALS FOR 2020–2025

- 1** To make life better for our customers, every single day
- 2** To deliver our 2020–2025 Final Determination
- 3** To deliver our identified business priorities
- 4** To create a sustainable future for our region

WHAT WILL HELP US GET THERE?

- Skilled, trusted and customer-focused people who are happy, healthy and safe
- Maximising opportunities from standardisation and centralisation
- Smart use of information and technology
- World-leading alliances, working as one team
- Collaboration inside and outside the organisation

HOW WE MAKE DECISIONS

We balance our six capitals to shape investment decisions

Read more in 'Holding ourselves to account' on pages 40–41

Natural

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

Financial

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

People

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

Social

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

Manufacturing

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

Intellectual

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



**MEASURING 2020/21
OUTCOMES FOR OUR
STAKEHOLDERS**

61.2%
CAPITAL
CARBON REDUCTION

83.05/100
CUSTOMER MEASURE OF
EXPERIENCE (CMEX)

0
EMPLOYEES
FURLOUGHED

Our strategic ambitions

Our long-term strategic ambitions are shaped to deliver on our purpose and drive us to achieve more, for everyone.

By 2030, be a net zero carbon business and reduce the carbon in building and maintaining our assets by 70%.

We are committed to reducing our carbon footprint in both operational and capital carbon.

CAPITAL CARBON

Reduction from 2010 baseline

61.2%

(Target by 2025: 65%)

GROSS OPERATIONAL CARBON

Reduction from 2019/20 baseline

5.1%

(Target by 2021: 2%)

Example UN SDG target:
9.4. Upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.

Key achievements

- Co-sponsor and co-chair of working group creating Water UK 2030 routemap to net zero
- Won Net Zero Carbon Initiative of the Year awards at the 2020 and 2021 Water Industry Awards and the 2020 Utility Week Awards
- Record year for renewable energy: 134.4 GWh, enough to power 40,000 homes
- Collaborative Innovate East event driving progress to net zero

Leadership

We've played a leading role this year in the development of the water sector's ground-breaking routemap to net zero, with our CEO Peter Simpson co-sponsoring the goal and Anglian Water co-chairing the routemap working group. The routemap was described as "one of the most significant steps taken by any industry in the world" by UK Climate Action Champion Nigel Topping. Peter also chaired an official UN Race to Zero dialogue in November through his role as co-chair of CLG UK, the UK Corporate Leaders Group.

Renewable energy and storage

In 2020/21 we've delivered another record-breaking year for renewable energy generation. We generated 7.2 GWh from the growing portfolio of 14 solar photovoltaic (PV) installations at our sites — an increase

from 3 GWh in 2020 — and completed the largest solar array at one of our sites to date, at Grafham Water. By next year we expect to generate more than 16 GWh from solar. Our biggest source of renewable energy remains our fleet of combined heat and power engines (CHP) which generated a massive 114 GWh this year. We're exploring energy storage through our pathfinder project at Little Melton to shape future energy strategies.

Next steps

All water companies are now completing their own detailed routemaps to net zero by July 2021. Ours will feature a blend of technology-led solutions, accelerating action on renewable energy and understanding process emissions; demand-led solutions, driving energy efficiency and making the most of biogas; and nature-based solutions, including in-region carbon sequestration and treatment wetlands. Our Innovate East events in partnership with Essex and Suffolk Water and Yorkshire Water are helping develop leading-edge thinking to contribute to our routemap.

The 42,000-panel solar array installed at Grafham Water is one of the largest in the UK water sector

Work with others to achieve significant improvement in ecological quality across our catchments.

Our Articles of Association commit us to delivering positive environmental outcomes.

Read more at
anglianwater.co.uk/slug-it-out

SITES OF SPECIAL SCIENTIFIC INTEREST IN FAVOURABLE CONDITION

99%

(National average: 38.9% in 2020)

WATER INDUSTRY NATIONAL ENVIRONMENT PROGRAMME SCHEMES DELIVERED

520

(Target for 2020/21: 280)

Example UN SDG target:
6.6. Protect and restore water-related ecosystems, including mountains, forests, wetlands, rivers, aquifers and lakes.

Key achievements

- Brought forward £300 million of investment in Water Industry National Environment Programme through green recovery plan, at no additional cost to customers
- Continued success of 'Slug it Out' programme
- Reduced number of pollutions by 20 per cent
- Exceptional water recycling centre compliance: 99.29 per cent

Leading on green recovery

We set out our five-point plan for a green recovery in September, collating a series of commitments and highlighting the future we want to see on net zero carbon, accelerating sustainable housing and infrastructure growth, creating green jobs and boosting skills growth, delivering climate change adaptation and resilience and enabling nature recovery. The plan was instrumental in securing the acceleration of £300 million of planned investment in our region's environment, including dozens of new treatment wetlands and innovative river restoration schemes.

See anglianwater.co.uk/green-recovery

Improving soil quality

We work proactively with farmers and landowners across our region to help them adopt catchment-based approaches and manage risks to water quality. We've seen continued success through our Slug it Out metaldehyde reduction programme this year, including extension to an additional catchment in Lincolnshire.

Tackling pollution

Preventing pollution is a fundamental part of our remit. Through the delivery of our nine-step Pollution Incident Reduction Plan, we've achieved a 20 per cent reduction in the volume of pollutions this year which we anticipate will enable us to regain our 3* Environmental Performance Assessment status in July.

We're also increasing monitoring of storm overflows to assess how best to target investment to benefit the environment and engaging with the Government's Storm Overflows Taskforce to accelerate progress, share best practice and technology and develop long-term solutions.

Reducing abstraction

A key way in which we're improving ecological quality across our catchments is by reducing the amount of water we abstract from major aquifers in our region, which feed many precious and rare chalkstreams and wetlands.

Our strategic ambitions continued

Make the East of England resilient to the risks of drought and flooding.

The management of climate change risks is embedded into everything we do.

RISK OF SEVERE RESTRICTIONS IN DROUGHT

4.2%

(Target for 2020/21: 20.5%)

RISK OF SEWER FLOODING IN A STORM

0.37%

(Target for 2020/21: 9.75%)

PERCENTAGE OF POPULATION SUPPLIED BY A SINGLE SUPPLY SYSTEM

22.7%

(Target for 2020/21: 24.1%)

Example UN SDG target:
13.1. Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries.

Key achievements

- Achieved global A-list status for response to climate change in second year of reporting through CDP
- First organisation in UK to deliver Adaptation Report in third round of reporting
- Embarked on biggest infrastructure programme in Anglian Water history
- Led creation of Future Fens Taskforce

Reaching the global A-list for adaptation

In only our second year of reporting we reached CDP's global A-list for our response to climate change, placing us in the top 3 per cent of 9,600 companies and one of only 21 UK companies to do so.

Safeguarding future supplies

Together with our partners in the Strategic Pipeline Alliance (SPA) — Costain, Farrans, Jacobs and Mott MacDonald Bentley — we're delivering the biggest infrastructure programme in Anglian Water history. By 2025 we'll create a new network of hundreds of kilometres of vast interconnecting pipelines, and upgrade existing infrastructure to allow water to be moved around our water-scarce region, from areas where supplies are more abundant to areas that have a shortfall, helping us secure water supplies across our region for many years to come.

The SPA is supported by cutting-edge digital infrastructure — a digital twin — which will mirror the physical infrastructure, providing real-time data to drive insight, helping us to monitor and optimise the network.

Read more at anglianwater.co.uk/future-fens

Future Fens: Integrated Adaptation

Led by Anglian Water in partnership with Water Resources East, the Environment Agency and a wealth of other partners, an ambitious programme is coming together to drive resilience to climate change in the Fens. Future Fens combines flood risk management (including upgraded coastal defences, barriers and barrages) with new open water transfers and multi-user reservoirs to unlock economic growth, new housing projects and improved transport links, as well as benefiting nature and tourism. We hope the programme will be showcased as an international exemplar of innovative approaches to adaptation at November's global COP26 Summit.

Huge large-diameter pipelines will carry water from the north of the region to areas of scarcity in the south and east

Enable sustainable economic and housing growth in the UK's fastest growing region.

We are working to embed water and resilience at the heart of growth and development in the East of England.

NEW WATER CONNECTIONS MADE

19,922

NEW WASTEWATER CONNECTIONS MADE

23,227

DEVELOPER MEASURE OF EXPERIENCE (DMEX)

5th place

(Target: top 25% of companies)

Key achievements

- Awarded Best In-House Planning Team 2020, Royal Town Planning Institute Awards for Planning Excellence
- New location selected for Cambridge Waste Water Treatment Plant, with potential for 5,600 homes on existing site
- Ox-Cam utilities alliance convened
- Published guide for developers of Nationally Significant Infrastructure Programmes

Supporting housing growth

Ongoing rapid growth in our region poses major challenges for Anglian Water, but also presents an opportunity to make a positive influence on new developments. A key priority is the work we are undertaking with South Cambridgeshire District Council and Cambridge City Council to support their vision for sustainable growth by moving our Cambridge Waste Water Treatment Plant to a new location (see page 65). This ambitious project, for which a site has now been selected, following customer consultation, would free up land for up to 5,600 of the 8,000 homes to be created in the wider area.

We work closely with our local authorities to ensure that water is a key consideration of their plans. This year we've secured agreement that all Norfolk local authorities will seek the optional higher water efficiency target of 110 litres per day in all new housing development. We've also appeared at North Essex Local Plan hearings to explain the infrastructure needed to accommodate identified housing need of over 40,000 homes by 2033.

Influence and leadership

As a major facilitator of growth in the East of England we take every opportunity to shape and influence the national and local development debate.

In our region, we've convened a utilities alliance across the Ox-Cam Arc to create a joined-up approach to planning for substantial development and population growth that will help reduce costs, cut carbon and support inbound investment to the area, as well as making the case for creating water-efficient homes and businesses.

Nationally, we've been drawing together organisations through the Chartered Institute of Water and Environmental Management water reuse partnership and Waterwise to tackle persistent barriers to water management methods such as neighbourhood-level water harvesting and reuse.

Example UN SDG target:
9.1. Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all.

Our Developer Services team works closely with private customers and larger developers to ensure water infrastructure needs are met

Ownership and structure

Anglian Water Services Limited is a private limited company.

Ownership and company structure

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

Our corporate structure

AWG is owned by a consortium of committed, long-term investors representing millions of individual pension holders. Details of the consortium, along with details of beneficial ownership of AWG by investor type, are shown below.

The complete holding company structure is presented in the diagram opposite and the principal companies in the structure are explained below. When AWG was acquired by investors in 2006, it became the ultimate parent company of the Group. It is a Jersey-registered company, but it is UK tax resident and, as such, is liable for tax in the UK. All companies in the AWG Group holding structure are UK tax resident and liable for tax in the UK. Osprey Holdco Limited has issued debt that is held by our shareholders in proportion to their respective shareholdings, and they are entitled to receive an interest payment on the debt annually.

After the end of the 31 March 2021 financial year, two new UK companies were inserted into the holding company structure, as part of the Group's financing strategy for AMP7 to reduce AWS gearing in order to enhance and protect its current solid investment grade credit ratings. This will allow us to borrow at lower rates to support the investments customers have asked us to make. The insertion of these companies puts in place a two-tier financing structure sitting above AWS in the AWG group and enables the group to increase its equity investment in AWS.

Under this new structure, Aigrette Financing Limited, and its newly incorporated UK subsidiary, Aigrette Financing (Issuer) Plc, will borrow funds externally and flow the cash to AWS as increased equity.

Osprey Investco Limited, Osprey Acquisitions Limited and Osprey Acquisitions Limited's subsidiary, Anglian Water (Osprey) Financing Plc, together comprise AWG's 'midco' financing group. Funds raised by the 'midco' financing group will be used to increase the equity investment in AWS and for other purposes.

AWS will reduce its gearing with the funds received as equity injections under this enhanced financing structure.

AWG Parent Co Limited, AWG (UK) Holdings Limited and AWG Group Limited are holding companies that were set up when AWG was a listed group. They are all 100 per cent owned, and currently none of these companies has any external debt. They are all registered in the UK and UK tax resident. During the 2020/21 financial year, another holding company, AWG Holdings Limited, was removed from the holding structure. The company will be liquidated during the 2021/22 financial year.

IFM Global Infrastructure Fund is a fund advised by IFM Investors. IFM Investors is a global institutional fund manager owned by 26 profit-to-member Australian pension funds, specialising in infrastructure, private equity, debt and equity investments.

Origin: Australia

19.8%

Canada Pension Plan Investment Board (CPP Investments™) is a professional investment management organisation that manages the Fund in the best interest of the more than 20 million contributors and beneficiaries of the Canada Pension Plan.

Origin: Canada

32.9%

15%

**ANGLIAN
WATER
GROUP LTD**

Camulodunum Investments is a joint investment vehicle for Dalmore Capital and GLIL Infrastructure. GLIL Infrastructure is run by the pension funds of Greater Manchester, Merseyside, West Yorkshire and Local Pension Partnership Investments. Dalmore has more than 1.3 million UK pension holders invested directly in AWG.

Origin: UK

16.7%

15.6%

First Sentier Investors has US\$176 billion (as at 31 December 2020) in assets under management on behalf of institutional investors, pension funds, wholesale distributors, investment platforms, financial advisers and their clients worldwide.

Origin: Australia

Infinity Investments S.A. belongs to a group of entities ultimately wholly owned by the Abu Dhabi Investment Authority (ADIA) and focuses on infrastructure investments in Europe.

Origin: Luxembourg

Anglian Water Services Holdings Limited was put in place in 2002, when Anglian Water's covenanted and ring-fenced debt structure was established. This group of companies (referred to as the Anglian Water Services Financing Group, or AWSFG) protects customers and our bond holders from risk associated with other non-regulated Anglian Water Group companies outside of the ring fence.

This makes us an attractive investment prospect for bond holders, which means we are able to keep financing costs lower, ultimately benefiting our customers in the form of lower bills.

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

Anglian Water Services Limited is the regulated entity that trades as Anglian Water, managing our water and sewerage network and serving almost seven million customers. It is the part of the business that most people think of as 'Anglian Water'.

Anglian Water Services Financing Plc is the financing company that raises money on behalf of Anglian Water Services Limited. We need a plc to raise debt in the UK public bond market. Funds raised by this company underpin our investment in the region's water and water recycling services.

Asset manager:
(Dalmore Capital)

Sovereign wealth fund:
(Infinity Investments S.A.)

7.5%

16.7%

75.8%

Pensions:
(CPP Investments, GLIL Infrastructure, First Sentier Investors and IFM Investors)

AWG Investors

Anglian Water Group Ltd

Osprey Holdco Ltd

Aigrette Financing Ltd

Osprey Investco Ltd

Osprey Acquisitions Ltd

AWG Parent Co Ltd

AWG (UK) Holdings Ltd

AWG Group Ltd

Anglian Water Services Holdings Ltd

Anglian Water Services UK Parent Co Ltd

Anglian Water Services Ltd¹

Anglian Water Services Financing Plc¹

Anglian Water Services Financing Group (AWSFG)

Direct subsidiary

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

Responsible financing

Our position as a monopoly provider of essential public services makes it essential that we maintain the trust and confidence of our customers while providing fair returns to our shareholders.

That means running our business in a responsible and transparent way so people can clearly see that:

- we act in the public interest;
- their bills are affordable and provide value for money;
- we are responsible with their money;
- we run our business efficiently, sharing any savings fairly between them and our shareholders;
- while our shareholders (representing millions of individual pension holders) deserve to make a return, our profits are not excessive; and
- we pay our fair share of tax.

Sharing the rewards

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

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

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

Efficiencies are either reinvested to improve service for customers or shared with customers, helping to keep bills down.

In addition, our focus on sustainable savings that can be maintained over the long term will help reduce our cost base in 2020–2025.

Attracting investment

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

When inflation outturns at a significantly lower rate than assumed at a price determination, this can adversely affect our finances. Conversely, when inflation outturns at a higher rate, it can benefit companies.

See 'Financial performance report' on pages 34–39

See 'Shareholders' on page 58

We look to manage this inflation risk to minimise the impact for us and our customers, and the link to inflation is a key driver of the relatively low costs of capital from which customers benefit.

Private investment also effectively spreads the cost of extending and improving our assets over their operational life. In this way, tomorrow's customers pay for tomorrow's use of the asset.

Our dividend policy

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.

More detail is set out on page 38

Our full dividend policy can be found on our website at anglianwater.co.uk/governance

Tax

We are committed to complying with tax laws in a responsible manner and to having open and constructive relationships with tax authorities. We support moves towards greater transparency that increase understanding of tax systems and the building of public trust. We make significant contributions to the Exchequer each year, through a wide range of taxes collected and paid. Our taxable profits are less than the profits shown in our accounts, but our effective rate of corporation tax is in line with the statutory rate of corporation tax. This is because of the huge amount of investment we bring into our region and the HM Revenue & Customs (HMRC) rules on interest payments and capital allowances designed to encourage that investment.

We have one of the largest levels of private investment in the region, and invested £2 billion between 2015 and 2020. This is central to underpinning the growth of the regional economy.

That investment is largely paid for by borrowing, and we have to pay interest on that borrowing. HMRC rules say companies only pay corporation tax on the profits they have remaining after any interest payments are made.

Our taxable profits are also reduced by capital allowances, which the Government grants us to encourage infrastructure investment. Accounting profits are reduced by depreciation – the drop in the value of equipment and plant due to wear and tear over their useful life. HMRC does not take account of depreciation when it comes to determining taxable profits. Instead, it grants companies capital allowances. These encourage investment by letting a company recoup the cost of an asset at a faster rate than depreciation.

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

Responsible financing continued

An open and constructive approach

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

Tax planning and compliance

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

We conduct transactions between Anglian Water Group companies on an arm's-length basis and in accordance with both current Organisation for Economic Co-operation and Development (OECD) principles and regulatory accounting guidelines.

We adhere to relevant tax laws and we seek to minimise the risk of uncertainty or disputes. We do this because it helps keep customer bills low, which is a guiding principle in everything we do.

We believe we are compliant with UK tax legislation and pay the right taxes at the right time. Tax incentives and exemptions are sometimes implemented by governments and fiscal authorities in order to support investment, employment and economic development. Where they exist, we seek to apply them in the manner intended.

Due consideration is given to the Group's reputation, brand, and corporate and social responsibilities when seeking to apply tax incentives, as well as the applicable legal and fiduciary duties of Directors and employees of the Group, and forms part of the overall decision-making and risk assessment process.

Relationships with tax authorities

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

Tax risk management and governance

We have a comprehensive, multi-layered risk management system, which consists of risk registers for all areas of the business (see pages 80–81). These registers are subject to both internal and external review. We have a specialist tax team who identify, assess and manage tax risks and account for them appropriately. We implement risk management measures, including controls over compliance processes, and monitor their effectiveness.

On a periodic basis, the Board reviews how tax risks are managed, monitored and assured, and any improvements being made. In this way the Board provides governance and oversight of significant risks.

Where there is uncertainty as to the application or interpretation of tax law, appropriate written advice that takes into account the facts and risks may be taken from third-party advisors to support the decision-making process.

Our tax contribution

Our total tax contribution for the year extends significantly beyond the payment for corporation tax. Total tax paid or collected in the year to 31 March 2021 amounted to £255 million (2020: £270 million), of which £83 million was collected on behalf of the authorities for value-added tax (VAT) (£38 million) and employee payroll taxes (£45 million).

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

- Business rates of £67 million paid to local authorities. This is a direct cost to Anglian Water and reduces profit before tax. The company was given automatic rates relief as part of the government's Covid-19 measures for our recreation and retail premises. The Board of Directors opted not to make use of any financial support from the government during the pandemic, and therefore £205,094 was repaid.
- Employment taxes of £65 million, including £45 million of employee Pay As You Earn (PAYE) and National Insurance Contributions (NICs) collected from salaries paid. In addition, employer NICs of £20 million were charged approximately 72 per cent to operating costs, reducing profit before tax, with 28 per cent capitalised to fixed assets.
- VAT of £38 million collected and paid to HMRC. VAT has no material impact on profit before tax.
- Payments of £25 million made to other Anglian Water Group companies to compensate them for tax losses surrendered to Anglian Water. This has no impact on profit before tax.
- Abstraction licences and direct discharges of £19 million. This is a direct cost to Anglian Water and reduces profit before tax.
- Fuel excise duty of £5 million related to transport costs and charged to operating costs, reducing profit before tax.
- Environmental taxes of £34 million charged to operating costs, reducing profit before tax.

Responsible financing continued

Financing our business sustainably.

We highlighted in last year’s report how sustainable financing was rising up the corporate and investor agenda. Encouragingly, the movement towards incorporating environmental, social and governance considerations into investment decisions has gathered real momentum over the past year.

A significant milestone came with the launch of HRH The Prince of Wales’s Terra Carta in January 2021, to which Anglian Water was invited to become a founding signatory.

Terra Carta sets out to provide a roadmap for acceleration towards an ambitious and sustainable future; to harness the power of Nature combined with the transformative power, innovation and resources of the private sector. Among its ‘asks’ is a commitment to developing new sources of funding for sustainable activities, with signatories challenged to “make global investment and financial flows consistent with a pathway towards low greenhouse gas emissions, climate-resilient development and Natural Capital/ biodiversity restoration (on land and below water)”.

CAPITAL CARBON SAVING:

161,474 tonnes of CO₂e

Anglian Water was an early adopter of exactly this type of sustainable finance, pioneering its use when we became the first European utility to launch a sterling Green Bond. Our first £250 million, eight-year bond will mature in August 2025 with a return to investors of 1.625 per cent.

Since then, we’ve raised a total of £1.103 billion through green financing (£876 million in our 2015–2020 Business Plan and £227 million since the start of our 2020–2025 Business Plan, via 12 debt raisings.

The investments financed through Green Bonds have avoided 161,474 tonnes of carbon, as measured in 2020. They contribute to five environmental objectives: climate change mitigation; climate change adaptation; biodiversity conservation; pollution prevention and control; and natural resources conservation. Projects funded include innovative water abstraction projects, drought and flood resilience schemes and progressive water recycling and water resource management schemes (see case study, opposite).

And we’re not standing still. This year saw the launch of our Sustainability Financing Framework for 2020–2025, which expands the scope of our sustainable transactions to encompass not just Green Bonds but also Social and Sustainability Bonds, private placements and loans, and leases. This opens a new realm of funding opportunities, with the option to secure funding based on meeting social targets related to ‘affordable basic infrastructure’ as well as

View our Sustainability Financing Framework online at awg.com/sustainability-financing-framework

environmental ones related to sustainable water and wastewater management, climate change adaptation, environmentally sustainable management of living natural resources, and land use. Further, the inclusion of Sustainability-Linked Bond principles linked to Scope 1, 2 and 3 greenhouse gas (GHG) emissions (measured in tonnes of CO₂e) means investors will be able to invest in schemes which will directly contribute towards us meeting our goal to reach net zero carbon by 2030.

We’re planning to raise all of the £1.64 billion capital we need to fund our programme for 2020–2025, as sustainable finance.

We also use liquidity.bank facilities that incentivise the delivery of agreed environmental and social goals.

For us, finance and sustainability go hand in hand — and thanks to our long track record of securing external validation of our impact, we have the evidence base that enables us to engage with these progressive funding sources. Together with a growing number of organisations both in the UK and around the world, we have the power to make a real difference. In the words of HRH The Prince of Wales, “Today must be the decisive moment that we make sustainability the growth story of our time, while positioning Nature as the engine of our economy.”

Green Bonds supporting environmental protection

Ensuring resilient infrastructure is a key part of our long-term water resources planning. And with a fast-growing population in an area where water is scarce and where there is a high concentration of sites of special scientific interest, it's crucial that we find the right balance between our customers' demand for water and the needs of the wider environment.

We work closely with the Environment Agency to review our abstraction licences, and we've agreed to reduce the amount of water we take from the environment by 84 million litres a day by 2025.

A new £9 million scheme in Ludham, in the Norfolk Broads, designed to maintain water supplies to 3,000 homes while protecting the precious environment of Catfield Fen, exemplifies how we're doing just that.

Previously, the public water supply for this area came from a borehole close to Ludham itself. This scheme has seen us install a brand new three-kilometre pipeline to connect Ludham to Horstead Water Tower, meaning we no longer need to take water from this groundwater source. The scheme has been fully funded by Green Bonds.

Ultimately, the water in the tower comes from one of the company's main treatment centres at Heigham in Norwich, which itself benefited from a £34 million investment funded by Green Bonds in 2019/20. A new booster station and additional water storage facility at Horstead will pump water directly to customers' taps. Both the Ludham and Heigham investments will complement our biggest ever single infrastructure programme: the construction of hundreds of kilometres of strategic interconnecting pipelines (see page 24) to bring water from areas of greater abundance to areas of scarcity.

"The new pipeline means we can turn off our groundwater abstraction at Ludham. This will protect the environment in a much-loved part of our region whilst keeping taps running for thousands of nearby homes for years to come."

Sarah Underhill,
Regional Water Resources Manager

Financial performance report

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

Financial results

The financial results are summarised in the table below:

	2021 Total £m	2020 Total £m
Revenue (excluding grants and contributions)	1,276.2	1,330.6
Grants and contributions	75.6	89.3
Operating costs	(590.3)	(624.6)
Charge for bad and doubtful debts	(31.1)	(40.7)
Other operating income	12.5	13.0
EBITDA¹	742.9	767.6
Depreciation and amortisation	(351.3)	(368.5)
Operating profit	391.6	399.1
Finance income	2.0	4.8
Adjusted finance costs ²	(251.4)	(329.9)
Adjusted profit before tax ¹	142.2	74.0
Finance costs – fair value losses on financial derivatives ²	(23.2)	(30.4)
Profit before tax on a statutory basis	119.0	43.6
Tax charge	(20.2)	(120.4)
Profit/(loss) for the year	98.8	(76.8)

1 Financial measures or metrics used in this report that are not defined by IFRS are alternative performance measures. The Group uses such measures for performance analysis because they provide additional useful information on the performance and position of the Group. Since the Group defines its own alternative performance measures, these might not be directly comparable to other companies' alternative performance measures. These measures are not intended to be a substitute for, or superior to, IFRS measurements.

2 In order to show pre-tax performance based on management's view of an underlying basis, the fair value gains and losses on financial derivatives have been shown separately in the table because these are volatile non-cash movements that distort the actual underlying economic performance.

Revenue

Revenue, excluding grants and contributions, for the year was £1,276.2 million (2020: £1,330.6 million), a decrease of £54.4 million (4.1 per cent) on last year. The decrease in revenue is as a result of the following factors:

- The price reduction for customers following the Final Determination, £71.0 million decrease.
- The impact of Covid-19, net £23.6 million increase. Household consumption up £58.2 million and non-household consumption down £34.6 million.
- Other offsetting decreases in revenue of £7.0 million.

Grants and contributions represent the cash and asset contributions made principally by property developers and local authorities for connecting new property developments to the water and sewerage network, and for diverting existing infrastructure. Over the year these have decreased by £13.7 million to £75.6 million; although there was a strong rebound in the housing market later in the year, there was an impact in the first lockdown.

£9 million of wholesale revenue raised over and above the amount set in the Final Determination will be returned to customers through lower bills.

The money we can raise from bills, along with how much we are allowed to invest in our service, is decided every five years through Ofwat's price-setting process and set out in our Final Determination (FD). Due to the impact of Covid-19 on consumption and grants and contributions, reflected above, we raised £5.7 million of wholesale revenue over and above the amount set in the FD. This will be returned to customers in 2022/23 through lower bills.

Other operating income

Other operating income comprises primarily external income from power generation, bio-solid sales to farms, rents received and various other non-core activities; this was consistent with prior years.

Operating costs (including charge for bad and doubtful debts)

Operating costs including charges for bad and doubtful debt for the year decreased by £43.9 million (6.6 per cent) to £621.4 million. This decrease is explained in the table opposite:

	£m
March 2020 total	665.3
Non-recurring items	
2019 summer flooding costs	(3.0)
2020 restructuring costs	(5.0)
2020 Covid-19 bad debt provision	(12.0)
Funded by FD	
General inflation	4.3
Innovation Fund	4.4
Weather-related incidents	
Impact of hot summer	1.5
2020 winter flooding costs	3.0
Covid-19	
Covid-19-related materials, travel and fuel	(6.0)
Increase in energy cost/usage due to increased consumption	3.0
Impact of Covid-19 on bad debt	6.5
Management actions	
Reduction in bad debt (non-Covid-19)	(4.2)
Continuous improvement and mitigating actions	(36.4)
March 2021 total	621.4

The inflationary increases and Innovation Fund costs formed part of the Final Determination and are therefore offset in revenues.

The impacts of climate change are fundamental to our business and our climate-related financial disclosures can be found on pages 74–75. The past two years have seen a number of exceptional weather events, resulting in a net year-on-year increase in operating costs of £1.5 million.

Covid-19 has impacted the business in a number of areas. We have also seen a change in where we incur costs. We have seen reduced costs in relation to travel and expenditure, but these have been offset by increased spend on energy usage at our operational sites to manage increased customer demand.

The increase in bad debt charge due to Covid-19 of £6.5 million relates to the additional £1.5 million provision recorded in March 2021 in relation to the expected impact Covid-19 will have on unemployment and, in turn, our customers' ability to pay outstanding bills. This has increased from £12.0 million recorded in 2020 to £13.5 million as at March 2021. In addition, in the year, Covid-19 has resulted in increased household revenue which has an increased risk when compared to non-household revenue.

This has resulted in an increase in our bad debt charge of £5.0 million. These increases have been partially offset by a reduction in our base charge of £4.2 million.

The £36.4 million decrease in operating costs reflects significant management action in the period to mitigate an incorrect allocation between operational expenditure (opex) and capital expenditure (capex) in the PR19 Final Determination. This error was subsequently corrected by the CMA Redetermination. In the meantime, mitigation has involved taking difficult decisions, such as undertaking less optimal capital solutions while we were unable to fully optimise totex whole-life cost solutions in our investment decisions.

EBITDA

Earnings before interest, taxes, depreciation and amortisation (EBITDA) is defined as the profit from continuing operations before interest, tax, depreciation and amortisation. This has decreased by 3.2 per cent to £742.9 million, which is consistent with the effect of the regulatory price decreases outweighing the increases in consumption and decreases in operating costs.

Depreciation and amortisation

Depreciation and amortisation is down 4.7 per cent compared with last year, primarily as a result of additional depreciation on certain sludge assets in the prior year which resulted in them being fully depreciated.

Operating profit

Operating profit has decreased by 1.9 per cent to £391.6 million, which is consistent with the decrease in EBITDA partially offset by the decrease in depreciation.

Financing costs and profit before tax

Adjusted finance costs (calculated as finance costs less fair value gains and losses on financial instruments) decreased from £329.9 million in 2020 to £251.4 million in 2021. This was primarily the result of the non-cash impact of lower inflation on index-linked debt (£65.9 million) which was due to a fall in year-on-year average Retail Price Index (RPI) from 2.6 per cent to 1.2 per cent and year-on-year average Consumer Price Index (CPI) from 1.7 per cent to 0.6 per cent.

CAPITAL INVESTMENT IN
OUR REGION IN 2020/21

£448m

(2019/20: £74.0m)

Financial performance report continued

There was a fair value loss of £23.2 million on derivative financial instruments in 2021, compared with a loss of £30.4 million in 2020. The fair value losses in the current year are all non-cash in nature and have no material effect on the underlying commercial operations of the business. The driving factors for the loss in 2021 were primarily due to increases in forward inflation expectations, partially offset by a rise in forward interest rates (decreasing the discounted present value of derivatives). During the year, forward inflation increased by circa 63 basis points and forward interest rates increased by 28 basis points across the curves.

Adjusted profit before tax (excluding fair value gains and losses on financial instruments), as shown in the table on page 34, for the year was £142.2 million, compared with £74.0 million in the prior year. This increase primarily reflects the impact of lower inflation on interest costs as mentioned.

Taxation

Our adjusted effective tax rate of 20.0 per cent is in line with the rate of corporation tax. Adjusted effective tax is calculated as tax charge for the year, £20.2 million, excluding adjustments for prior periods, £3.8 million (as per note 8) and tax on fair value of derivatives, £4.4 million (£23.2 million at 19 per cent), as a percentage of adjusted profit before tax. A breakdown of the tax charge can be found in note 8 of the financial statements. We are one of the largest private investors in infrastructure in our region, having invested more than £2 billion from 2015–2020. 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 2021, other than corporation tax, amounted to £255 million (2020: £270 million), of which £83 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 and deferred tax

The current tax credit for the year was £5.5 million (2020: £14.5 million). The deferred tax charge has decreased by £109.2 million from £134.9 million in 2020 to £25.7 million this year. The current tax credit for both years reflects receipts from other Group companies for losses surrendered to those Group companies. The tax losses arise mainly because capital allowances exceed the depreciation charged in the accounts, as well as some income not being taxable and the availability of tax relief on pension contributions paid in the year.

The deferred tax charge for this year mainly reflects capital allowances claimed in excess of the depreciation charge in the accounts; this is consistent with the prior year.

In 2020 there was a charge relating to a reversal of the corporation tax rate which was originally expected to reduce from 19 per cent to 17 per cent effective from 1 April 2020. The deferred tax balances at 31 March 2019 were therefore measured using the rate of 17%.

This reduction in corporation tax rate was reversed in March 2020 and so those deferred tax balances were remeasured using the rate of 19% and gave rise to a charge of £113.8 million in 2020.

We are one of the largest private investors in infrastructure in our region, having invested more than £2 billion from 2015–2020.

In the March 2021 Budget, it was announced that legislation will be introduced in the Finance Bill 2021 to increase the main rate of UK corporation tax from 19% to 25%, effective 1 April 2023. As substantive enactment is after the balance sheet date, deferred tax balances as at 31 March 2021 continue to be measured at a rate of 19%.

If the amended tax rate had been used, the deferred tax liability would have been £345 million higher.

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

A strong start to our AMP7 investment programme

2020/21 marks the first year in the five-year AMP7 investment programme, during which time we will invest a record £3.0 billion through our capital investment programme. This spend will help us achieve our Business Plan commitments and includes significant investments to ensure our region is resilient to the impacts of drought, climate change and population growth, alongside our largest ever programme of schemes delivering environmental protection.

Delivery against this investment programme has started strongly with gross annual capital expenditure across the appointed business of £448 million (£221 million on capital maintenance, £226 million on capital enhancement and £1 million non-appointed). This is broadly in line with management expectations and is particularly pleasing given the significant challenges posed by the ongoing pandemic throughout the year.

Financial needs and resources

In respect of financing, the Group continues to develop its funding profile to provide an economic hedge against the regulatory transition from RPI to CPIH-linked revenues, and to align financing with the Group's focus on sustainability.

During the year to 31 March 2021, Anglian Water sourced £242.6 million of new funds in term debt under its sustainable financing programme to finance ongoing capital investment. Included in this amount was £65 million from a forward-starting CPI-linked bond, transacted in 2018, with proceeds received on 3 April 2020. In addition, two forward-starting, fixed-rate notes totalling £75 million were also transacted in the year with amounts settled on 28 April 2021. As a result of this timing these amounts were not included in debt on the balance sheet at the period end.

Debt repayments in the period consisted of £1,003.4 million primarily due to settling a 4.125 per cent index-linked bond (£263.8 million) and repayment of £575 million on the syndicated and bilateral revolving credit facilities. In the prior year these general purpose facilities totalling £600 million were fully drawn to provide a short-term liquidity buffer in light of the Covid-19 uncertainty; however, these were repaid during the year as expectations on materially adverse impacts to cash flows were reduced.

Other debt amounts repaid during the period related to scheduled redemption amounts on EIB amortising debt (£65 million), principal accretion settlements on index-linked swaps and lease repayments as they fell due.

As at March 2021 Anglian Water has access to £575.0 million of undrawn facilities (March 2020: £50.0 million), to finance working capital and capital expenditure requirements. In addition, Anglian Water has access to a further £400.0 million of liquidity facilities (March 2020: £400.0 million), consisting of £279.0 million to finance debt service costs and £121.0 million to finance operating expenditure and maintenance capital expenditure in the event that the company was in an Event of Default on its debt obligations and had insufficient alternative sources of liquidity. See note 1 for further commentary over the liquidity requirements of the Group in relation to going concern.

The business generated cash from operations of £659.3 million in the year (2020: £686.0 million). The decrease primarily reflects additional pension scheme contributions, timing of supplier payments and VAT receipts.

Distributions available to the ultimate investors

There were no dividend payments in the year (2020: £67.8 million). Based on the available free cash flow there was capacity to pay a dividend of £203.6 million. The Directors have proposed to pay a final dividend of £96.3 million.

This dividend does not represent dividends paid to our ultimate shareholders; at this time there is no proposal to pay a dividend to shareholders of Anglian Water Group Limited (AWGL), the ultimate parent company. No dividends were paid to the shareholders of AWGL in the year (2020: Enil).

This decision is in combination with an equity injection of £110.0 million in April 2021 in line with our de-gearing target. In addition, the Group has implemented a new financing structure in order to enable a substantial equity injection into the company, leading to a future reduction in gearing. Through these capital injections the company continues to benefit from the strong support of shareholders, who have foregone dividends since June 2017 for the long-term benefit of the company and its customers, in line with our purpose.

Financial performance report continued

The Board has an approved dividend policy, under which dividend payments will be aligned to the performance of the business, taking into account commitments to customers and other stakeholders and ensuring that it can finance its operations. Anglian Water aims to attract long-term shareholders who support its long-term ambitions. The support of our shareholders is critical to the success of our business and to securing the investment that Anglian Water needs. Therefore, our shareholders are entitled to an appropriate return on their investment. This is delivered partly through long-term capital growth and partly through dividends.

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 and the capital programme, and servicing its debt for the next 18 months. When considering a dividend, the Directors will consider the Business Plan, have regard to Anglian Water's purpose and to their duties under the company's Articles of Association.

An assessment will be completed by the Board to determine if the payment or part payment of the dividend reflects and/or would compromise the long-term social, financial and operational commitments made to our stakeholders. Following this assessment and depending on the actual performance of Anglian Water, the Board can decide to increase or decrease any dividend payment from the base position. In assessing the dividend payment, the Directors review the business performance forecasts (currently to the end of the AMP period of 31 March 2025) and give consideration to the potential impact of external factors in the economy and regulatory environment on the company's forecast cash flows.

The dividend policy is also based on ensuring that there is adequate headroom in relation to all of Anglian Water's obligations to lenders, including commitments to comply with certain financial covenants. In particular, Anglian Water has committed to lenders that it will only pay dividends when key financial ratios are satisfied. Additionally, the policy sets out to ensure that key credit rating agency credit metrics required to support the capital structure as determined by the Board can be satisfied.

In its Articles of Association, the company has committed to conduct its business and operations for the benefit of members as a whole while delivering long-term value for its customers, the region and the communities it serves and seeking positive outcomes for the environment and society. In making decisions (including decisions in relation to dividend payments), Directors are required to act in the way that is considered most likely to promote the purpose of the company. In doing so, Directors must have regard (among other things) to the likely consequences of any decision in the long term, the interests of the company's employees, relationships with suppliers, customers and others and the impact of the company's operations on the community and the environment.

The Board will therefore consider if the payment or part payment of the dividend reflects or would be consistent with the long-term social, financial and operational commitments made to stakeholders, including customers, employees and pension fund holders. In considering this issue, the Board will have regard to the suite of Performance Commitments that the company has made which include targets in relation to:

- Performance for customers (including, but not limited, to CMEX and DMEX).
- Operational commitments which are of importance to customers (including, but not limited to, commitments in relation to leakage, per capita consumption, water quality, interruptions to supply, and risk of low pressure).
- Wider social and environmental commitments (including, but not limited to, commitments in relation to vulnerable customers, sustainable abstraction, and community investment).

The overall amount of the company's ordinary dividends will not exceed the free cash flow (defined as operating cash flow less interest and capital maintenance payments) generated by Anglian Water, and in practice will be limited by its current and forecast financial covenants. Special dividends may also be paid in addition to ordinary dividends, but these too are limited by specific financial covenant constraints. This policy is consistent with Condition F of the Licence. The full dividend policy is available on the Anglian Water website.

Read more at anglianwater.co.uk/governance

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 2021, the Anglian Water Services Group held cash, deposits and current asset investments of £285.9 million (2020: £1,048.1 million). The decrease in cash amounts held is primarily the result of the company repaying £575 million of its £600 million committed bank facilities that were drawn down in the prior year in light of uncertainty on impacts to cash flows related to the Covid-19 pandemic. While a degree of uncertainty still remains, the expected impacts to cash flows and ability to raise additional debt finance to service the company's capital expenditure programme has been reduced.

Anglian Water has access to £975.0 million of undrawn liquidity facilities (2020: £450.0 million), consisting of £575.0 million for general corporate purposes, £279.0 million to finance debt service costs and £121.0 million to finance operating expenditure and maintenance capital expenditure in the event that the company was in default on its debt obligations and had insufficient alternative sources of liquidity. All bank facilities and debt capital market issuance are issued pursuant to the Global Secured Medium Term Note Programme dated 30 July 2002 between the company, AWSF and Deutsche Trustee Company Ltd (as agent and trustee for itself and each of the finance parties). This agreement provides that any facilities drawn by AWSF will be passed directly on to the company upon utilisation of the facility.

Interest rates

The company's policy, as agreed by the Board, is to achieve a balanced mix of funding to inflation-linked, fixed and floating rates of interest. At the year end, taking into account interest rate swaps, 62.7 per cent (2020: 52.1 per cent) of the company's borrowings were at rates indexed to inflation, 31.2 per cent (2020: 34.0 per cent) were at fixed rates and 6.1 per cent (2020: 13.9 per cent) were at floating rates. At 31 March 2021, the proportion of inflation debt to regulated capital value was 53.4 per cent (2020: 50.0 per cent).

Pension funding

At 31 March 2021, the closed defined benefit scheme, excluding the unfunded pension liability, had an IAS 19 accounting pension surplus (before deferred tax) of £54.8 million, compared to a surplus of £171.6 million at 31 March 2020. This decrease in surplus reflects a decrease in the corporate bond rate used to discount the scheme's liabilities. During the year a deficit reduction payment of £36.5 million was made by the company, compared with £15.1 million in the prior year.

In addition the company has an unfunded pension liability of £44.8 million (2020: £41.6 million).

Annual Performance Report

Under Condition F of its Licence, Anglian Water is obliged to provide the Water Services Regulation Authority, Ofwat, with additional accounting information to that contained in the statutory financial statements.

This information is presented in the Annual Performance Report, a copy of which is available on the Anglian Water Services website.

*Read more at
anglianwater.co.uk
/about-us/our-reports/*

Holding ourselves to account

In line with our purpose, embedded into the fabric of the company in 2019, we strive to make informed decisions that create environmental and social prosperity for our region alongside fair returns for our shareholders.

See our business model on pages 20–21

Inevitably, doing the right thing is often a question of balancing the needs of different stakeholders to find outcomes that work for communities and the environment, as well as making financial sense for the business and enabling shareholders to make a return on their investment.

Our six capitals framework, set out in our business model, is a key tool to help us do that. By taking the six capitals — natural, social, financial, manufacturing, people and intellectual — into account when making investment decisions, we can stimulate the creation of options with a wider range of value creation, and move examples of best practice and innovation into business as usual.

But it's crucial, too, that as a purpose-led business working in pursuit of sustainability, we are transparent in our approach and willing to be judged by our actions.

We've made a set of commitments to our customers through our Social Contract, in a two-way engagement founded on our 10 outcomes and the Public Interest Commitments. This contract was developed in consultation with customers and employees; it not only sets out our commitments to delivering a more sustainable future but also highlights how our customers and communities can get involved too. The contract is co-signed with the chair of our Customer Advisory Board, whose role is to advise, support and challenge our Management Board on these issues. It also contains a direct invitation to customers to hold us to account against our stated commitments.

To complement the launch of the Social Contract this year, and alongside our green recovery plan we have developed a five-point plan for community recovery, which sets out our track record of support for our communities, the social commitments we have made and the future we want to see.

Read more at anglianwater.co.uk/green-recovery

Read more at anglianwater.co.uk/our-purpose

The plan covers five key areas for community recovery:

- 1** Maintaining affordability and supporting vulnerable customers
- 2** Being inclusive and improving social mobility
- 3** Investing in our communities
- 4** Supporting health and wellbeing
- 5** Acting ethically, both within Anglian Water and throughout our supply chain

“What an inspiring and uplifting read. What I love most is that with this laser focus you continue to raise the bar at an impressive pace, for yourselves and for others.”

Shona Welberry, Relationship Manager, Business in the Community, writing in response to the launch of our Social Contract and Community Recovery Plan

We want to demonstrate that we live up to our purpose and values, operating in a way that meets the principles of a sustainable business, and so we have been taking part in Business in the Community's Responsible Tracker for the last two years. This not only assesses us against a comprehensive set of criteria, but also allows us to measure our performance in comparison with our sector and the entire reporting cohort.

Our overall score in the 2019/20 tracker was 73 per cent, significantly ahead of the average score of our sector and the average of all reporting companies.

However, the value of using the tracker comes from comparing and challenging our progress against specific areas of materiality and prioritising work in the areas where we identify the most value in developing. These were presented to our Management Board as a supplement to their regular sustainability report. As a result we have particularly focused on developing our programme on diversity and inclusion this year. For 2020/21 BITC has revised the reporting cycle; so, although we have completed and submitted the tracker, we have yet to receive the results and will report them in next year's report.

In addition to assessing ourselves against the BITC Responsible Business Tracker, we are also sponsoring the development of a new Publicly Accessible Specification (PAS) on Sustainable Purpose with the British Standards Institution (BSI). This project is being sponsored by the BSI, KPMG and the Department for Digital, Culture, Media and Sport, and supported by the Cambridge Institute for Sustainability Leadership.

The development of the PAS has begun and is being overseen by an advisory panel consisting of a wide range of business, policy, academic and consumer stakeholders.

The draft specification will be released for consultation later this year and the final PAS is expected to be published in the spring of 2022.

Working in the spirit of the UN Sustainable Development Goals

It is important to us to be able to demonstrate that our activities not only contribute to positive outcomes in our region, but also play a small part in delivering the international objectives of the United Nations (UN) Sustainable Development Goals (SDGs). We are working in the spirit of all 17 goals, but we have mapped our work to the 10 where we have the most material impact at the level of the targets.

You can see some of the links between the Sustainability Development Goals targets and our delivery throughout the report (and more details on our website).

In our Green Bond reporting we have mapped our contribution through our featured projects to the UN Sustainable Development Goals.

*Read more at
anglianwater.co.uk/UN-SDGs*

Signing up to Terra Carta is a further indication of our commitment to meeting international benchmarks of best practice. We are already working in line with many of its articles, but this ambitious initiative will provide further challenge for us to stretch our performance.

Our stakeholders

Our environment & the planet

The environment is at the heart of our purpose as a company; we work hard every day to protect and enhance the land, water, air and wildlife in our region and beyond, for today and for the future.

NUMBER OF POLLUTION
INCIDENTS PER 10,000
KM OF SEWER NETWORK

27.65

(Target for 2020/21: 24.51)

ABSTRACTION
INCENTIVE
MECHANISM

-83 MI

(Target for 2020/21:
reduction)

WATER INDUSTRY
NATIONAL ENVIRONMENT
PROGRAMME

520

ENVIRONMENTAL
SCHEMES DELIVERED
(Target for 2020/21: 280)

HOW WE ENGAGE

- Through our Strategic Direction Statement (SDS) for 2020–2045, first published in 2007, with an updated version reviewed and approved by the Board in 2017. It includes the goal to “work with others to achieve significant improvement in ecological quality across our catchments” (see page 23) and is fully aligned with the Government’s own 25-Year Environment Plan.
- Through the plans and strategies we set out, including our Water Resources Management Plan, our new Drainage and Wastewater Management Plan, currently in development, our Drought Plan and our Adaptation Report, all of which are issued for public and stakeholder consultation.
- The Board regularly considers environmental matters including water quality, water resources, compliance against the Environment Agency’s Environmental Performance Assessment, and renewable energy.

- We maintain a strong presence in environmental policy development forums, feeding into government thinking through formal and informal meetings and workshops, and responding to policy consultations. We contribute both individually and collectively as members of Water UK, the Aldersgate Group and the Broadway Initiative. Taking part in these exercises is a two-way process, with the results informing our internal approach to environmental policy issues, nature restoration and the delivery of our long-term plans for water resources and water recycling infrastructure.
- The Management Board sponsors an internal Policy Advisory Committee that oversees our input into external environmental policy and regulatory exercises.
- We also engage with farmers, non-governmental organisations and academic institutions on soil health, catchment management and broader issues around sustainability.

Planning ahead: long-term resilience

How can we safeguard resilient future water supplies for our fast-growing region while ensuring we protect the environment and manage our response to climate change? These are some of our biggest challenges, and they require long-term strategic focus. Our long-term plans, set out in ‘how we engage’, above, will enable us to tackle these huge and fundamental issues. Key to our Water Resources Management Plan is addressing our supply-demand balance which, if we took no action, would see our region experience significant water shortages within the next five years, and up to 146 million litres a day by 2045. We are taking steps to manage demand by driving water efficiency through behavioural change programmes, reducing leakage and installing smart meters, while on the supply side we are investing in a network of strategic pipelines to better join up our network and move water from areas of relative abundance to areas of deficit (see page 24).

We are also developing proposals for two new multi-purpose, multi-sector reservoirs, one proposed for Lincolnshire and the second for Cambridgeshire or Norfolk, which, if confirmed, will be commissioned between 2035 and 2040. Both reservoirs are expected to be facilitated through the Regulatory Alliance for Progressing Infrastructure Development (RAPID) and are likely to be of a similar scale to Grafham Water. And in a further example of stretching our thinking, we have partnered with our neighbours at Essex & Suffolk Water to create a water trading platform that allows water abstractors to advertise if they have water to share or need to acquire more.

The project has been developed with input from the Environment Agency and Water Resources East.

SMART METERING DELIVERY

164,400

SMART METERS INSTALLED AT CUSTOMER PROPERTIES
(Target for 2025: 1.1 million)

TREATMENT WORKS COMPLIANCE PERCENTAGE OF WATER AND SEWAGE TREATMENT WORKS MEETING PERMITS FOR THE QUALITY OF WATER DISCHARGED TO THE ENVIRONMENT

99.3%

(Target for 2020/21: 100%)

REACTIVE MAINS BURSTS BURSTS IDENTIFIED AND REPORTED BY CUSTOMERS

4,037

(Target for 2020/21: 3,063)

Our stakeholders continued

WHAT THEY TELL US

Our customers tell us they support our plans to invest now to protect our environment for the long term. Tackling leakage and preventing pollutions are two of their particular priorities for us, and we are investing billions of pounds in capital programmes to ensure our infrastructure performs as it should.

Our environmental stakeholders, including catchment partnerships, government and non-governmental organisations, farmers and landowners, value our committed and ongoing engagement with them to drive positive progress.

Getting smart about water efficiency

One of the key tools in our water efficiency armoury is our smart metering programme, through which we have begun upgrading all of our customers' meters. We have installed 164,400 meters in the first year of this award-winning installation programme, which will now ramp up even further with a goal of 1.1 million installations by 2025. The meters remotely collect hourly consumption data, helping customers to understand and reduce their water use through our upgraded MyAccount customer portal, and helping us to better understand how our water network operates and identifying customer-side leaks.

Tackling leakage and optimising our network

We know that leakage is one of our customers' highest priority areas. Together with our regulator Ofwat, we are committed to addressing it and, as far as possible, preventing it. With our fellow water companies in England, we have undertaken to triple the rate of sector-wide leakage reduction by 2030, a commitment which is sponsored by our CEO Peter Simpson in collaboration with the CEOs of Portsmouth Water and Affinity Water. Ofwat has set stretching targets for our performance which will require us to make a 16.4 per cent reduction by 2025 from our industry-leading 2020 leakage baseline. As a frontier company it is incrementally harder year on year to find new ways to better our performance. However, we are determined to meet this challenge and are investing millions of pounds in advanced technology to help us do so. We found and repaired 35,607 leaks in 2020/21, including hidden leaks found by our leakage team and visible leaks called in by members of the public.

This year we have continued to roll out our world-leading network of 'smart' fixed network hydrophones which listen for new leaks so we can tackle them proactively, before customers need to tell us about them.

We have also been exploring fibre-optic technology, machine learning, electroscanning to assess the condition of pipes and the volume of leaks, satellites to detect leaks from space and drones to find leaks using thermal imaging — all in pursuit of the significant further reductions we and our customers so want to see.

In a year of Covid lockdowns and extreme weather which saw us coping with nearly triple the number of burst mains we had to contend with last year, we are immensely proud to have maintained our industry-leading performance and exceeded our target for the 10th year running.

Protecting and enhancing our environment

Our Water Industry National Environment Plan for 2020–2025 is our most ambitious ever, boosted by the acceleration of £300 million of investment through our green recovery plan (see page 23). We have delivered 520 environmental schemes in the first year of our five-year programme alone — a remarkable achievement through the pandemic, especially when set against the 1,000 schemes we delivered in total between 2015 and 2020. Among the schemes we have delivered are two projects tackling invasive species — floating pennywort on the River Ouse and Himalayan balsam on the River Wensum. These species are detrimental to river wildlife and the public enjoyment of our waterways.

Safeguarding our chalk streams: action on the River Lark

One of the crucial ways in which we are working to protect the environment is by reducing the amount of water we abstract from sensitive areas by 85 million litres per day by 2025, and working to restore the health of the precious and internationally important chalk streams in our region.

A particular area of focus is the River Lark, in Suffolk, where we have agreed with the Environment Agency that by March 2025 we will significantly tighten the 'Hands Off Flow' level, which means we will act sooner and leave more water in the river. This will allow for flows to be protected, particularly at times of drier weather.

Find out more at
anglianwater.co.uk/casestudies

To allow this to happen we are creating a connection to our new strategic grid which will move water from the north of our region, where supply is more abundant, to areas of water shortage. During this period we will also be completing river restoration and river support schemes on rivers within the wider Lark catchment, including the River Linnet.

Working with local stakeholders plays a vital part in unlocking progress and helping us understand regional drivers. Here on the River Lark, we have joined forces with local MP Jo Churchill, together with the River Lark Catchment Partnership (for which we have funded a catchment study), the Cam and Ely Ouse Catchment Partnership (Cam-EO) and local landowners, farmers and businesses to protect this unique chalk stream habitat.

Increasing biodiversity

We are committed to delivering a 10 per cent gain in biodiversity resulting from construction, where there is a material impact, and land management on Anglian Water land from 2020. This year we have also begun work on a collaborative model with landowners founded on our desire to deliver the carbon offsets we will need within our region, rather than offsetting overseas. Through partnerships and the development of a sequestration marketplace based on improving soil quality, we aim to sequester hundreds of thousands of tonnes of carbon, bringing multiple co-benefits in terms of biodiversity and water quality.

Preparing for COP26

The global COP26 summit being hosted by the UK in Glasgow in November provides an international platform to showcase UK leadership on carbon reduction and adaptation to climate change. We hope to showcase the Future Fens: Integrated Adaptation initiative (see page 24) in partnership with Water Resources East, the Environment Agency, the Coalition for Climate Resilient Investment and the Dutch Delta Commission in the Resilience Hub as an exemplar of how integrated water management can unlock opportunity as well as manage risk. We are also partnering with the Centre for Digital Built Britain, BT and UK Power Networks on an ambitious project to create a national digital twin demonstrator to model the shared impact of extreme

climatic events on interconnected services and assets. This project, funded by the Department for Business, Energy and Industrial Strategy, will see us collaborating and sharing data in new ways to advance the national conversation on climate change adaptation.

“Future Fens: Integrated Adaptation will be a pioneer in how to adapt to the impact of climate change across a complex, low-lying landscape. We are hugely supportive of Anglian Water convening the Future Fens taskforce and we look forward to being part of it.”

Emma Howard Boyd,
Chair, The Environment Agency

Our stakeholders continued

Environmental Performance Assessment

We have maintained a relentless focus on all aspects of our environmental performance this year, following a challenging year for pollutions in 2019 which saw us lose our status as a 3* company in the Environment Agency's Environmental Performance Assessment for the first time since the measure was introduced in 2011. Two-star performance is not acceptable to us, our customers or the environment, and we are pleased that following a comprehensive action plan (see page 91) we have reduced the number of pollutions by 20 per cent and anticipate that we will regain 3* status in July.

Water recycling compliance

The quality of the water we return to the environment from 718 of our water recycling centres is monitored by the Environment Agency. We have delivered our best ever performance on compliance this year, with 99.3 per cent of centres meeting their numeric limits on water quality. However, every failure is investigated to discover root cause and improve our performance.

Contributing to a circular economy

In a world first, we have partnered with Oasthouse Ventures to use warm water, the natural by-product of the water recycling process, to heat two of the UK's largest greenhouses, one in Norfolk, the other in Suffolk. Together, they are capable of producing up to 12 per cent of the UK's tomatoes with a carbon footprint 75 per cent lower than a traditional greenhouse. This remarkable engineering feat provides a blueprint for sustainable, low carbon food production to meet the challenge of delivering net zero. There are additional environmental benefits,

too, since the water that is returned to the chalk stream is cooled – better for aquatic organisms and less likely to promote bacterial growth.

Protecting our rivers and beaches

We have partnered with Keep Britain Tidy since 2001 to empower communities to look after their local coastline and waterways by tackling litter, removing invasive species and restoring rivers. Forty-nine established RiverCare and BeachCare volunteer groups look after stretches of river and beach across our region.

Focusing on coastal water quality

Protecting the quality of coastal bathing waters is of huge importance, both to the environment and to the economy of our region's seaside towns. Our Coastal Water Protection team works with councils, the Environment Agency, local businesses and residents' groups to identify and address sources of pollution. Our 2019 scores against the four standards set out for bathing waters were as follows: 32 of our bathing waters are rated as 'Excellent' (required for Blue Flag awards); 11 were rated as 'Good' and five as 'Sufficient'.

This followed a judicial review in Anglian Water's favour of a downgrading triggered by samples taken by the Environment Agency during unprecedented rainfall and flooding in June 2019. New classifications were not made for 2020 due to the Covid-19 pandemic.

We constantly look for new ways to improve the quality of the water discharged to bathing waters from our water recycling centres.

One of two vast greenhouses which will be heated using water from the water recycling process (see left)

Up to 12 per cent of the UK's tomatoes will be grown with a lower carbon footprint

Our BeachCare volunteers look after stretches of beach across our region

See more in-depth
info on page 44

Two of our bathing waters – Cleethorpes and Ingoldmells South – were recategorised from ‘Good’ to regain their ‘Excellent’ status this year.

This year we became one of the first organisations in the UK to trial the use of performic acid as a low carbon, environmentally friendly and cost-effective alternative to ultraviolet treatment to destroy bacteria. The trial will continue at Southwold this bathing water season, where water quality at the water recycling centre and nearby bathing waters will continue to be monitored, providing learnings which we hope can be rolled out elsewhere.

Tackling plastic pollution

We’ve continued our work towards meeting our ambitious pledge to rid the East of England of plastic pollution by 2030, most notably through hosting a virtual work experience week focused on tackling plastic waste, finalising a collaborative research project to baseline the quantity of plastic waste being received via the sewer network and, as a result of improving our understanding of PPE waste, developing a new hard hat recycling scheme.

Reduce, reuse, recycle

We undertake a zero to landfill approach, recognising our responsibility to reduce the environmental impact of the waste streams we produce in line with our value of ‘doing the right thing’. Across the business and our alliance partners, 96 per cent of waste was recycled or recovered – an improvement of 8 per cent from last year.

In 2020 we built on the progress made in implementing the strategy at Flag Fen Water Recycling Centre (WRC) by introducing it at our large Cotton Valley WRC, increasing waste recycling options, introducing new signage and creating ‘buy in’ to enhance existing good waste management practices.

By working with Biffa, we can make sure wastes produced at Cotton Valley and Flag Fen (excluding sewage screenings and grit) are recycled or reused rather than disposed of in a landfill. As well as being environmentally friendly, it is also cost-effective, as it is typically cheaper to send waste to recycle rather than landfill.

Stakeholder visits to our environmental projects (including this one from 2019, before the pandemic) are a key way to share our learnings and progress

REDUCTION IN LEAKAGE

1.5%

(Target for 2020/21: 1.4%)

PER CAPITA CONSUMPTION (PCC)

3%

ADDITIONAL USAGE

(Target for 2020/21: 0.8% reduction)

ABSTRACTION INCENTIVE MECHANISM

-83

MEGALITRES REDUCTION

(Target for 2020/21: reduction from historic levels)

Our stakeholders continued

Our customers & communities

We can only deliver on our purpose when we understand what matters most to our customers and the communities across our region.

INVESTED IN
COMMUNITIES

£1m

THROUGH THE ANGLIAN
WATER POSITIVE
DIFFERENCE FUND

CUSTOMERS AWARE OF THE
PRIORITY SERVICES REGISTER

54.3%

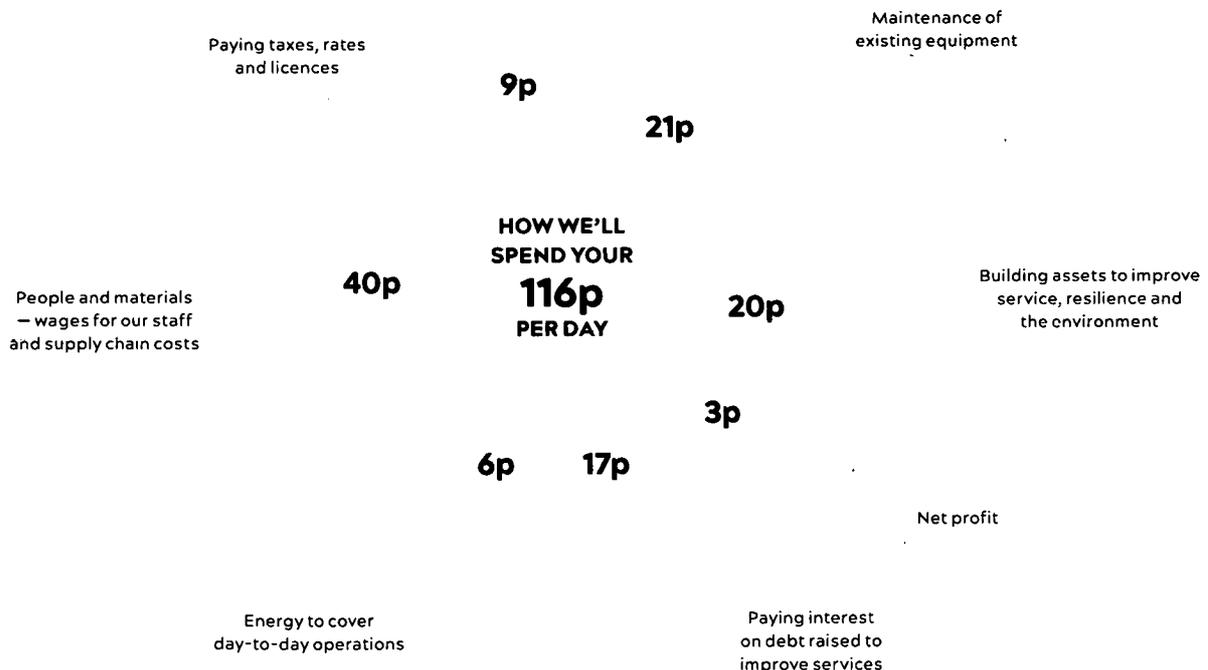
(Target for 2020/21: 47.5%)

HOW WE ENGAGE

- Through consultation with customers (see ‘Fair charges for customers’ below; we also consult our customers on key initiatives such as the proposed relocation of our Cambridge Waste Water Treatment Plant, page 25)
 - Directors of both the Board and the Management Boards consider and challenge plans involving both short- and long-term strategy in relation to customers and communities; they also engage with presentations from managers on key issues that impact customers and take part in customer workshops. Peter Simpson routinely reports to the Board on customer service performance, and the Board actively debates the root causes of any performance issues and recognises excellent performance.
 - Through the Customer Engagement Forum (CEF). Set up in 2011, the CEF has an ongoing role in challenging us on how we engage with customers and monitoring how we perform on commitments.
- Its members come from a wide range of backgrounds to represent the interests of household and business customers, communities, the environment and the economy.
- Through our online community of 500 customers, whose views we seek weekly on a wide range of topics, and our Customer Board, which comprises a representative selection of members from the online community to provide further guidance and directly feed in customers’ views.
 - Via our own weekly surveys of our customers and the Customer Experience (CMeX), Developer Experience (DMeX) and Retail Experience (RMeX) surveys carried out by Ofwat.
 - Through our partnerships with charities and other organisations, through our education and community ambassador programmes, and through Business in the Community and the Community Foundations which administered the Positive Difference Fund.

Fair charges for customers

Our customers want services that provide value for money, and are fair and affordable. Our Business Plan for 2020–2025, created following engagement with more than half a million customers and stakeholders, includes a significant increase in investment for our customers while reducing bills and returns to our investors. Based on the average household bill in 2021/22, water and sewerage charges will cost £1.16 per day. Below is a breakdown of how we spend that money.



Our stakeholders continued

We are more than just a utility company. Our ambition is to make life better for our customers, every single day.

WHAT THEY TELL US

- Our customers tell us water quality is their highest priority; 87 per cent of those engaged on our Business Plan for 2020–2025 cited it as the most important of our 10 customer outcomes. They also tell us they want us to invest now to drive future resilience, rather than leaving future generations to pick up the bill.
- Our communities tell us they want to see us actively supporting people who are vulnerable and causes which add to the social prosperity of the region.

HELPING THOSE STRUGGLING TO PAY

319,466

(Target for 2020/21: 281,653)

WATER SUPPLY INTERRUPTIONS

5m 02s

(Target for 2020/21: 6m 30s)

WATER QUALITY CONTACTS PER 1,000 CUSTOMERS

1.13*

(Target for 2020/21: 1.09; *outcome provisional pending publication of 2020 data by the Drinking Water Inspectorate)

CUSTOMERS AGREE WE PROVIDE GOOD VALUE FOR MONEY

76%

(Target for 2020/21: 77%)

Help for those who struggle to pay

We have committed to make bills affordable as a minimum for all households where water and sewerage bills constitute more than 5 per cent of their disposable income by 2030. This is one of five Public Interest Commitments made jointly with our fellow water companies in England in April 2019.

The Covid-19 pandemic has had a serious impact on many of our customers' household finances. We have mounted proactive communications campaigns to encourage those in difficulty to contact us to discuss their circumstances. We also understand that Covid-19 aside, affordability will vary across time for the same household and can be driven by different circumstances. We have transformed the service that we offer customers who are struggling to pay, applying experience from across our business in order to target support most effectively.

Using data analytics we route customer contacts with high affordability risk through to our Extra Care team, where we check to see if they are claiming all benefits to which their household is entitled. This year we have signposted customers to more than £4 million-worth of potential unclaimed benefits.

We then look to see what help we can provide to customers in managing their payments to us, with schemes including payment holidays, affordable instalment plans and settlement agreements. Through these schemes we have been able to help 196,125 customers over the last 12 months.

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

Altogether, these schemes provided assistance to 319,466 customers during 2020/21.

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

The Priority Services Register

Sometimes customers need a little extra help — and our Priority Services Register plays a vital role in helping us identify and support those with additional needs, which can be anything from sight, hearing, learning or mobility difficulties, to having a baby under 12 months old. The service also provides support to customers with long or short-term medical needs should there be any interruption to their water supply — a particular boon during the pandemic. Sign-ups to the register increased by 112 per cent over the year because of active promotion, and we are now able to support more than 175,000 customers.

Make Today Great

Our customers remain influential in our decision making through our ongoing engagement channels, weekly satisfaction surveys, the 'MyAccount' platform and our online community.

With over six million digital interactions this year, our customers have demanded even more from our digital services.

More than 38,000 customers have used our new online service where they can check work in their area, get updates, report service issues or book appointments.

We are also enhancing our online MyAccount to work alongside our new smart metering programme. Due to go live in early summer 2021, customers will be able to monitor their water usage, compare to other similar households and stay more in control of their bills.

Throughout this changeable and challenging period, our customers continue to rate our service highly, with more than 96 per cent rating the service received as satisfactory or better (as measured by our internal satisfaction survey).

Working in partnership

We are proud to say that we now work in partnership with over 100 organisations including charities, local authorities, public health bodies and other utility companies.

Throughout this last year, we have been able to use their trusted voice to help spread our message and reach more of our most vulnerable customers. Their expert knowledge has also helped test our services, ensuring they are inclusive and accessible for all.

From running targeted social campaigns in areas of high deprivation, to promotion on pharmacy bags across our whole region, working with partners has given us a reach of almost 800,000 customers in potentially vulnerable situations.

Having partners from a domestic abuse charity (Leeway), carers support charity (Carers First) and charities for people with hearing and sight loss (Lincolnshire Sensory Services and Blind Veterans), as well as British Gas, deliver specialised training to our Priority Services Team helps to ensure we're providing appropriate and tailored support to our customers.

“We’ve found Anglian Water truly go the extra mile for their customers. They have invited us on several occasions to deliver training to their Priority Services team to help them understand more about unpaid carers.”

Andy Watts, Director of Income and Communications, Carers First

Our stakeholders continued

Delivering safe, clean water

Maintaining supplies of high-quality drinking water is our biggest priority, and we engage and invest from source to tap to maintain and improve on our performance. Two new regulatory measures, the Event Risk Index (ERI) and Compliance Risk Index (CRI), first introduced by the Drinking Water Inspectorate (DWI) in 2017, were formally adopted as performance commitments this year. We anticipate our best ever year for ERI and a strong score for CRI, maintaining our position as one of the strongest performing water companies. It has been a particularly challenging year for managing water quality, largely in light of record levels of demand due to lockdowns and home working. A further difficulty was the suspension of normal water sampling during lockdown, and we were grateful that colleagues stepped up to volunteer their homes for sampling.

We were pleased to see the DWI calling out our Water in Buildings programme, focused on helping customers manage water risks in their homes, as an example of best practice. We have also come together with national stakeholders through our chairship of the industry's Lead Strategy Board to identify industry-wide strategies to remove lead from our water. And in a bid to find new ways to communicate water quality messages to customers, we have made increased use of digital channels, for example to highlight the need for commercial properties to flush their pipes when reopening after lockdown, and to raise customer awareness of how to cope with hard water.

Our growing region: developer services

The service we provide to our developer customers is measured via the Developer Measurement of Experience (DMeX) which combines qualitative customer satisfaction ratings and quantitative Water UK level of service metrics.

Overall this year, we achieved fifth place in a league table of our peers. We are constantly exploring new ways to support our developer customers including, this year, creating a new Technical Extra Care team and using data and insights to set clearer expectations on timings with customers.

Partnership working to reduce flood risk

A key way in which we can support our customers and communities is by taking action to reduce flood risk. We are increasingly working with partners on flood prevention initiatives to make effective use of our resources. We work with 22 Lead Local Flood Authorities and myriad Risk Management Authorities, including Internal Drainage Boards, local authorities (both LLFA and Districts), Highways Authorities and the Environment Agency to manage flood and coastal erosion risk, and have increased our partnership budget by 50 per cent to £12 million for 2020–2025.

WaterAid: Securing access to clean water

Anglian Water has a long-standing partnership with the charity WaterAid, which transforms lives by improving access to clean water, decent toilets and good hygiene in the world's poorest communities: more important than ever during the pandemic. The Beacon Project, led by Anglian Water and our alliances, supported Covid-19 relief efforts by providing hand-washing stations, extending water supply times and donating PPE in Lahan in Nepal.

With no ability to meet in person, fundraising has been difficult this year. Nonetheless the Volunteers' Committee has hosted virtual 'lockdown' quizzes and a cycling challenge, as well as continuing with payroll giving and the WaterAid Lottery. Total funds raised were £334,701 (2020: £1,366,274), while Anglian Water Group donated a further £40,000.

Supporting communities through Covid-19

A big part of our support for local communities through the pandemic has been the launch of the £1 million Anglian Water Positive Difference Fund, planned pre-Covid as part of our Social Contract with customers but brought forward with the support of our Board and funding from our shareholders.

The Fund has been administered through 15 Community Foundations across our region using their extensive local expertise and knowledge to target support where it is most needed.

The first half of the fund, made available in the summer, provided emergency funds benefitting more than 83,000 people through more than 120 community groups. It supported the most vulnerable in our communities through activities like providing hot meals for people sleeping rough, adapting services for autistic children and vulnerable adults, befriending for people with dementia and combatting coronavirus fraud. The remaining half was allocated in March 2021, providing a smaller number of high-impact grants of up to £20,000 to support community groups' recovery from the challenges of the pandemic. The panel which awarded the second phase grants included the chair of Anglian Water's Customer Board, Management Board Directors, a representative of Business in the Community (BITC) and UK Community Foundations. In total it is estimated that the Positive Difference Fund will support more than 100,000 people across more than 160 community organisations.

We were also instrumental, through our regional leadership of Business in the Community (BITC), in setting up the National Business Response

"Support for our communities and charities has never been more needed. On behalf of all the Community Foundations and, most importantly, all of the vital projects this fund is enabling, I am so grateful for Anglian Water's support."

Michael O'Toole, CEO of Cambridgeshire Community Foundation

Network (NBRN), a virtual notice board that promotes a brokerage service between BITC members and organisations in the community that need help. Through NBRN we have donated a brand-new van to the Ferry Project, in Wisbech, which provides accommodation and skills to enable people who are homeless to live independently.

Our alliance partners have stepped up too, providing self-contained cabins to the Ferry Project which can accommodate six people each night; 536 nights' shelter had been provided by the end of March 2021.

Taking our STEM education programme virtual

Education has always played a fundamental role in our community outreach; our education team has reached more than 500,000 young people since it was formed in 2007, educating and inspiring school and college students about water and the environment, and promoting study and careers in science, technology and mathematics (STEM) subjects. The team were determined not to let Covid-19 stand in the way of their activity and rapidly switched to online delivery, producing a suite of 12 online lessons to support our region's parents which has achieved more than 7,000 unique views. Virtual events have become the norm, with sessions delivered at LearnLives World of Work Week, Stemtastic, Buildtastic, Northampton University Women in STEAM Event and the high-profile UK Youth Summit, where the education and carbon teams joined forces to present a session on the link between carbon and water. Virtual interactive lessons have included water and water-recycling sessions for primary

schools and an engineering challenge for secondary schools, while virtual work experience and mock interviews have ensured young people can still experience life in the workplace. A total of 19,141 young people have benefited from live interactive sessions.

Water parks: a vital green lung for communities

With a constantly shifting set of circumstances, it has been a challenging year for our parks team, who would usually welcome some two and a half million visitors a year to the 4,428 hectares of parkland, woodland, nature reserves and water at our seven water parks. The team have worked hard to keep the parks and their facilities open whenever safe to do so, recognising that these beautiful green spaces are a source of wellbeing for our local communities, and adapting spaces and services to make them Covid-safe.

Find out more at
[anglianwater.co.uk/
casestudies](https://anglianwater.co.uk/casestudies)

Our stakeholders continued

Our people & partners

Everything we achieve as a business is through our people — which, in our case, extends beyond our 5,000 employees to the thousands of people who work on behalf of Anglian Water through our supply chain. Through our purpose-led culture we strive every day to uphold our values: we build trust, we do the right thing, and we are always exploring.

Love to Listen

79%

feel a strong connection to our purpose, agreeing that this is a responsible business creating a sustainable future

7%

of operational staff are on apprenticeships, 18% are in training eligible for apprenticeship levy spending

Covid support:

no Anglian Water colleagues furloughed; Employee Assistance Fund launched; recruitment continued

100%

First utility to achieve 100% score in Energy and Utility Procurement Skills Accord assessment

3,000

colleagues attended Time Out For Life stand-down events

74%

employee engagement, up 2% — our best ever score

See 'Our response to Covid-19' on pages 14-17

Our people: happier, healthier, safer

We have placed our people's health, safety and wellbeing at the heart of our response to Covid. We have continued to run LIFE Orientations (our behavioural safety programme) virtually; having observed a slight rise in the number of accidents this year, we also worked with an external provider to deliver effective health and safety leadership training to our key leaders, resulting in an increase in support for the front line. As we entered 2021, recognising what a difficult year it has been, we arranged a month of Time Out for Life events for colleagues to spend half a day focusing on their own health, safety and wellbeing. More than 3,000 people attended.

We have maintained our ISO 45001 standard for health and safety following an extensive audit process. We also undertook a review and held stand-down events in response to the tragic events at Wessex Water's Avonmouth plant (see page 82).

Life beyond Covid: Ways of Working

The rapid adoption of home working during the pandemic has highlighted that work is a thing you do, not a place you go. While field-based colleagues have remained on the front line delivering vital services to customers, our office-based people told us through our Love to Listen employee survey (see page 56) that they want to continue working flexibly after Covid-19, coming to our buildings primarily to connect and collaborate. Through our Ways of Working programme, one of six themes through which feedback from Love to Listen is being actioned, we're adapting our buildings to create more space for that to happen, and creating operational hubs that offer good meeting facilities within easier travelling distance, helping us to travel less and reduce our carbon footprint.

HOW WE ENGAGE

- Through the Board: welfare and development of colleagues and our company culture and values are key areas of focus at every meeting. Non-Executive Director Duncan Symonds is the Non-Executive Director responsible for engaging with the workforce (see page 63).
- Through a range of communications channels including our Lighthouse intranet, launched this year, our weekly Newstream newsletter and our company newspaper, Anglian Water News.
- Through regular events for front-line managers and leaders, led by our Management Board and held virtually since 2020.
- Through our three recognised trade unions and our elected employee forum, Open House.
- Through our health, safety and wellbeing network meetings attended by management and elected safety representatives.

Health and safety key metrics

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Category 1 events*	7	3	10	5	4	7
<ul style="list-style-type: none"> • Reporting of Injuries, Diseases and Dangerous Occurrences Regulation (RIDDOR) reportable specified injury accidents • RIDDOR reportable non-worker/member of the public accidents • RIDDOR reportable (potentially life-limiting) occupational diseases • Fatalities 						
Accident frequency rate (AFR)	0.11	0.12	0.12	0.12	0.08	0.13
The number of reportable accidents in every 100,000 hours worked. Our AFR includes data from our own employees and our contractors						
Sick absence – 4.5 days	4.26	4.39	4.61	4.60	4.54	3.77*
The average number of working days lost per employee due to sickness (*excluding self isolation and shielding)						

* In 2019 we made changes to the way we report on the more serious events. To ensure we have a more objective and refined way of reporting and measuring performance, we revised the event types that are now classified as Category 1 events. To ensure consistency of reporting, we have revised the previous years' Category 1 figures in line with the current reporting criteria so that we are comparing like for like.

Our stakeholders continued

WHAT THEY TELL US

- Our annual Love to Listen survey showed our people remain highly engaged, have a strong connection to our purpose and feel well supported through the challenges of Covid-19.
- Their feedback provides invaluable insight on how we can improve and we have identified six company-wide themes for action.

“I believe Anglian Water is really committed to the prosperity of our customers, communities and natural environment – which is inspiring.”

Anonymous employee feedback in Love to Listen survey

Professional development includes the opportunity to pursue specialist qualifications

Development opportunities include our successful Accelerated Management Trainee scheme

Monitoring our culture

Our company culture has evolved over the past three years following an independent ‘culture capture’ review in 2018. We have defined our purpose and values, incorporated our purpose in our Articles of Association and are embedding these internally through our policies, processes and communications. A framework to monitor our culture has now been developed, enabling us to ensure our purpose and values drive the right outcomes through regular tracking of key cultural indicators.

Creating an inclusive workplace

Being inclusive is an integral part of being a responsible business. We value diversity of thought and believe having people from different backgrounds and with different experiences stimulates innovation and improves the ways in which we work.

One of the successes of our inclusion strategy has been the launch of our Inclusion Community, connecting more than 200 people from across the organisation.

We held our second Inclusion Week in October 2020, and regularly invite external speakers such as Sue Sanders, the founder of LGBT+ History Month, to talk to our people.

And while employers do not have to report gender pay gaps this year, we believe it’s important to continue our focus on eliminating

Read our gender pay gap report at anglianwater.co.uk/governance

the gap. Our mean gender pay gap improved, from 5.9 per cent in 2019 to 5.7 per cent in 2020; while our median gap rose slightly to 11.6 per cent from 11.0 per cent. This continues to compare favourably with the national average mean and median gaps, both at 16.5 per cent in 2019/20. This year more than half our interns are women, and 50 per cent of our senior manager hires. Find out more in our 2020 gender pay gap report. At Board level, at 31 March 2021, there were three female and eight male Directors of Anglian Water. In addition to the two Executive Directors (both male), there were two women and nine men on the Management Board. Also at 31 March 2021, there were 1,756 female employees and 3,663 male employees of Anglian Water. A small number of employees prefer not to disclose their gender.

We welcome job applications from all sectors of society and base selection decisions on applicants’ skills, experience and competence for the role, embedding flexible working practices for anyone with a disability, health condition or family responsibilities that affect how and when they work. We advertise on disability job boards and are a Disability Confident employer.

Our STEM-focused education programme plays a key role in attracting a more diverse workforce to Anglian Water.

Attracting, retaining and developing our talent

We continue to invest in building the balanced and highly skilled workforce of the future, from

our apprentice and graduate programmes to continuing professional development and Licence to Operate training even for our most experienced people.

We have maintained our commitment to early careers opportunities through Covid-19, with 50 new apprentices joining in October, and six joiners to our Graduate scheme. Our Future Leaders Board, sponsored by Directors, plays an active role in future planning, innovation and decision making.

A strong supply chain

Our most important supply chain relationships are with our alliance partners, with whom we work to deliver all our capital investment programmes and our information services. More than 3,400 people come together as part of our six alliances to form our extended workforce of more than 8,000.

We are committed to ethical and sustainable procurement and are members of the Energy and Utility Procurement Skills Accord and the Supply Chain Sustainability School. In this most challenging of years, we have supported our supply chain through Covid-19 and held our first ever virtual Supplier Awards, bringing together 200 members of our supply chain from 100 companies to celebrate our shared achievements. We also held our first virtual WaterConnect engagement event for the Water Innovation Network, which was attended by more than 270 representatives of supply chain partners, SMEs and start-ups.

Stepping up in challenging times: winter flooding 2021

As well as dealing with the impacts of Covid-19, our resilience was tested by the wettest December and January in the East of England since 1915. The sheer volume of ground and surface water, with several rivers overtopping their banks, meant we faced isolated pockets of flooding across our region over many weeks. This resulted in an unprecedented volume of customer issues and flooding reports — more than 30,000 jobs, 10,000 more than in the same period in 2020. Our incident team ‘stood up’ for more than 11 weeks, supported by our alliance partners and operational teams; our response saw 400 technicians and 127 tankers deployed, with more than 200 Anglian Water Force volunteers stepping up to cover 500 incident shifts. We received more than 250 stakeholder enquiries and undertook constant proactive management, company-wide coordination and stakeholder engagement, holding meetings with regional MPs and local authority representatives and leading tactical coordination groups and local flood cells.

Thankfully, due to our response, most customers saw no impact to services; drinking water was maintained throughout and water recycling services were swiftly restored to the majority of those affected. Our tactical management of the incident was underpinned by decades of strategic planning, risk management and investment in resilience (see pages 76–80).

Find out more at anglianwater.co.uk/casestudies

Incident response in numbers

More than 250 enquiries

received from stakeholders such as local MPs and councils. Protective communications helped keep stakeholders in the loop.

More than 30,000 jobs

raised in Water Recycling in a 12-week period from December to March, up 10,000 compared with the same period in 2020.

Up to 120 tankers

deployed, double the number normally used.

Over 52,000 contacts

from affected customers received by mid-March, 75 per cent more than the same period in 2020.

169 flood investigations

will be carried out across the region. Anglian Water will be involved, in conjunction with other agencies, as required by section 19 of the Flood and Water Management Act 2010.

Our stakeholders continued

Shareholders

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

HOW WE ENGAGE

Our investors own shares in the Group's ultimate parent company Anglian Water Group Limited (AWG) (details of our shareholders can be found on page 26). Representatives from our shareholders engage in a number of ways including:

- By attending meetings of the company's Board in their capacity as Non-Executive Directors and, as such, participating in discussions and decisions about Anglian Water (see pages 100–103).
- By attending meetings of the Board of AWG (which chiefly comprises representatives of our shareholders), which regularly considers and has input into matters of importance to Anglian Water.
- Through conversations with senior management, including the Chief Executive Officer and the Chief Financial Officer.
- Via written reports, including full-year and half-year reports, the Annual Integrated Report and the annual Green Bond Impact Report, and by publishing interim and preliminary company results at half year and year end.

WHAT THEY TELL US

Our shareholders value the opportunity to engage with the Board and management to further understand the value of their investment.

Our shareholders

Our shareholders have made a significant financial investment in the Group and a number of them represent millions of individual pension investors both in the UK and overseas. Representatives from our shareholders are non-executive directors on the Boards of both Anglian Water and our parent company Anglian Water Group Limited. They bring with them a broad range of skills and experience which is extremely valuable during Board discussions. Further information on the AWS Directors can be found in the biographies on pages 100–103.

In 2019, our shareholders supported the change to Anglian Water's Articles of Association to lock public interest into the way we run our business, both now and for future generations. This means that environmental and social priorities now sit alongside the need to deliver fair returns for our shareholders. Our external shareholders have not received a dividend since 2017 and we acknowledge their continued support during this period.

Innovation

In September 2020 we held our first online Investor Day, focused around innovation. The members of the AWS and AWG boards were invited to a day of virtual presentations highlighting areas including our holistic 'Innovators, not Innovation' approach to driving progress, the Ofwat Innovation Fund and a new sector-wide innovation strategy, innovation discovery, progress on the 2030 net zero routemap, an update on Anglian Water's HpH anaerobic digestion technology, and an insight into digital twins.

"The online investor day was an excellent opportunity to hear from several areas of the business about new projects and initiatives, and really reinforced Anglian Water's consistently innovative approach to tackling big long-term challenges".

Duncan Symonds, Executive Director of Asset Management, IFM Investors European Infrastructure

Investors, banks & ratings agencies

The funding advanced by investors and banks is crucial to the delivery of our investment programme, which directly benefits our communities and our environment.

Engagement is vital to understand their requirements, demonstrate our long-term sustainable vision and help them understand what makes Anglian Water a sound investment.

Sustainable financing

We are committed to securing the vast majority of our capital funding sustainably. This year saw the publication of our Sustainability Financing Framework for 2020–2025 and our 2020 Green Bond Impact Report. In the first year of this AMP we have raised £227 million of funds across a number of debt transactions. Investors have financed a wide range of investments under a range of portfolios such as ‘Resilient Water Supplies’ which have funded programmes including the installation of 164,400 smart meters, leakage reduction measures, improvements to our network to ensure high-quality, safe drinking water for our customers and investments to minimise internal and external pollutions.

HOW WE ENGAGE

- Through dedicated investor events held at least twice a year to coincide with preliminary and interim company results, and periodical additional events and site visits.
- Through regular face-to-face meetings and telephone and video conference calls with banks, investors and ratings agencies, led by the CEO, CFO and Group Treasurer.
- Through written reports, including the Annual Integrated Report, the annual Green Bond Impact Report and the semi-annual investor report, and by publishing interim and preliminary company results at half year and year end.

WHAT THEY TELL US

Banks, investors and ratings agencies tell us they value the dialogue we have with them in respect of business, financial and ESG performance. This year, the first of AMP7 (our Business Plan for 2020–2025), has been more challenging than many other years, recognising our appeal to the Competition and Markets Authority in respect of the allowed revenues for AMP7, as well as dealing with the effects of Covid-19, but we have maintained a close dialogue.

“Anglian Water Services Financing Plc’s [below baseline] ESG Vulnerability Score of 19/100 at 2050 reflects its record of implementing a comprehensive ESG policy, changing its articles of association to include public value, as well as its high asset quality and good operational performance.”

Fitch Ratings, April 2021

Our stakeholders continued

Regulators

As a regulated business, we benefit from open and constructive working relationships with our regulators: Ofwat, the Environment Agency (EA) and the Drinking Water Inspectorate (DWI).

Key areas of engagement in 2020/21

2020–2025 Business Plan (PR19)

Following the Board’s decision to refer Ofwat’s PR19 Final Determination to the Competition and Markets Authority (CMA), the Executive, supported by the senior Regulation and Strategy leadership, has engaged extensively with the CMA panel and wider staff, Ofwat and a wider range of interested third parties seeking views to support the Redetermination process.

Regulators’ Alliance for Progressing Infrastructure Development (RAPID)

We continue to develop strong working relationships with both RAPID and Ofwat as we progress the development of our future water resource options through the RAPID gateway processes.

Direct Procurement for Customers (DPC)

We continue to work collaboratively with Ofwat and others to enable the revised scope for the Elsham DPC scheme to be progressed.

Environment Agency and Ofwat

Specific to 2020/21, we have also been in dialogue with the EA and Ofwat in terms of scope for investments as part of the Green Recovery agenda, which resulted in the early confirmation of Water Industry National Environment Plan amber schemes for 2020–2025. We continue to work closely and constructively with Ofwat in terms of the early stages of PR24 development.

Covid-19

We have worked both with Ofwat and MOSL (Market Operator Services Ltd), the market operator for the retail water market, to understand the respective impacts on both our Business Plan for 2020–2025 and the business retail market.

Positive engagement with the EA and Ofwat has unlocked funding for schemes to support green recovery

HOW WE ENGAGE

- Updates from the Director of Strategy and Regulation at each Board meeting plus regular reports on engagement with the Environment Agency and the DWI, including details of material pollution and water quality events. The Board takes an active role in understanding the root cause of any significant incidents, together with lessons learned.
- Board approval of key regulatory decisions (see anglianwater.co.uk/siteassets/household/board-matters.pdf) such as proposed material changes to our Licence or seeking a redetermination of our Price Control.
- Introductory meetings between Non-Executive Directors and Ofwat ahead of their appointment, enabling them to have a clear understanding of their responsibilities in this regulated sector.
- Daily engagement between our economic and environmental regulators and leaders across the business.
- Peter Simpson maintains an active dialogue with Ofwat’s CEO and with his counterparts at both the Environment Agency and the DWI. We have also actively engaged with Ofwat’s future strategy development.
- Quarterly Directors’ meetings with the Environment Agency and Ofwat to discuss operational performance and delivery of our strategic investment programme. An annual performance meeting is held to discuss our Environmental Performance Assessment (EPA) for the year.
- Shaping code changes and modifications in the business retail market, as well as having representation on the Board of MOSL, the market operator of England’s non-household water market.

WHAT THEY TELL US

- The respective roles of economic and environmental regulation are critical to enabling sustainable long-term investment to deliver long-term environmental benefits to the region.

National & local government

Anglian Water has strong interests in the legislative agenda in Parliament, and in building relationships with the 75 MPs who represent constituencies within our region.

Engagement with local government, including local authorities, city, town and parish councils, is critical to the delivery of our strategy and we continually consult with regional representatives to align our priorities and plans.

Environment Bill

We strongly support the Environment Bill setting ambitious long-term targets for nature recovery, and as part of that, placing greater emphasis on water conservation and cross-sector action on improving river water quality. We have worked with a range of partners to call for ambitious, legally binding targets for the water environment, and for stronger governance to hold the government and public authorities to account for helping to achieve them.

River water quality

Action to improve river water quality has been a hot topic this year, with the launch of the government's Storm Overflows Taskforce and the private member's Sewage (Inland Waters) Bill introduced by the Rt Hon Philip Dunne MP. We wrote to local MPs to pledge our support to the private members' bill, especially the series of policies it contained that would help alleviate the pressure on sewerage systems caused by poor urban drainage and sewer abuse by households and businesses.

COP26 and engagement on climate change

We are members of the Race to Zero campaign (see page 22) and are in discussions with the COP26 team regarding the parallel Race to Resilience theme. Working with a range of partners, we submitted several expressions of interest to take part in COP26 itself.

Realising the potential of purpose-led utilities

Having enshrined our company purpose within our Articles of Association in 2019, we continue to promote the potential for purpose-led utilities to deliver in the wider public interest, especially in response to Covid-19. We took part in the Said Business School's Economics of Mutuality conference in 2020, and sponsored Sustainability First's Regulation for the Future report, which considered the implications of public purpose for policy and regulation in utilities.

Winter flooding

From December to February, our region faced significant flooding (see page 57). We engaged with more than 100 regional stakeholders to support the emergency response, and have continued to engage subsequently, notably through the Norfolk Strategic Flood Alliance set up and chaired by Lord Dannatt, to explore how all partners involved can deliver an effective and joined-up response to future incidents.

HOW WE ENGAGE

- Direct engagement with ministers and senior government officials, including as members of the Aldersgate Group and Broadway Initiative.
- Responding to government consultations and taking part in policy working groups.
- Providing evidence to parliamentary select committee inquiries.
- Meeting and corresponding with local elected members – MPs, councillors and the elected mayor – keeping them informed on key issues, responding to constituent issues and answering requests for information.
- Utilising our convening power to facilitate regional engagement events on regional priorities.

WHAT THEY TELL US

- Water companies have a critical role to play in achieving the government's social and environmental objectives.
- We are key partners in local growth and development plans, especially to 'build back better' from Covid-19.

"I welcome your initiative, and your commitment to joined-up delivery of infrastructure in a key area of the UK's economy."

Rt Hon Rishi Sunak MP, Chancellor of the Exchequer, on the formation of the Ox-Cam Utilities Alliance.

Section 172 statement

Engaging with our stakeholders.

In July 2019, with the approval of our Board and shareholders, we became the first major utility to amend our Articles of Association to enshrine, for the long term, the principles set out in section 172 of the Companies Act 2006 and our long-standing commitment to working in the public interest (see page 104).

Section 172(2) says that where the purposes of a company consist of purposes other than, or in addition to, benefiting the company's shareholders, the section 172 duties will take effect as if the reference to promoting the success of the company for the benefit of shareholders was a reference to achieving those alternative purposes. Anglian Water's purpose (as set out in its Articles of Association) is to conduct its business and operations for the benefit of members as a whole while delivering long-term value for its customers, the region and the communities it serves and seeking positive outcomes for the environment and society. It follows that the Directors of Anglian Water have a duty to act in a way they consider would be most likely to promote the purpose of the company. The section 172 duties to which the Directors are subject must therefore be considered in the context of this overarching purpose.

The disclosures set out on pages 62–65 demonstrate how the Board has had regard to the matters set out in Section 172(1) (a) to (f) which are now enshrined in Anglian Water's Articles of Association and includes cross-references to other sections of the report for further information.

Board engagement with stakeholders

Our Board has set out to define discrete stakeholder groups, but it recognises that in many cases they have complementary interests and shared priorities. On occasion, their concerns may even conflict with one another. The Board's duty, in reviewing, challenging and shaping plans, and setting strategic direction, is to consider and balance the impact of its decisions on a wide range of stakeholders. More information on our business model, including how we use six capitals thinking to shape decisions and measure outcomes, can be found on pages 20–21, while information on our key stakeholders can be found throughout the Strategic Report.

Engagement with stakeholders is most effective when it is continual and two-way, and when its outcomes are recorded, shared and acted upon.

We have developed an annual stakeholder strategy, approved by the Board and designed both to demonstrate how we are delivering on our purpose and to increase the breadth and depth of understanding of the value Anglian Water delivers. The Board regularly engages in the delivery of the stakeholder strategy.

There are some issues which are of such importance that the Board itself judges that it should engage directly with relevant stakeholders. However, much of our engagement also happens at an operational level. Where the Board has not engaged directly with stakeholders, it ensures that it receives regular reports from management, so that the Directors can understand and take account of the key issues to which they must have regard.

Find out more in 'Our stakeholders' on pages 42–61

Opposite: Our place-based approach to regeneration, developed in partnership with Business in the Community, is a key pillar of our stakeholder engagement. This Spotlight on Lowestoft event, held pre-Covid, marked the launch of the Lowestoft Place Board

Making long-term decisions

The company's long-term strategy is driven by our 25-year Strategic Direction Statement (SDS), first published in 2007 and refreshed in November 2017, when the Board reviewed and approved an updated version covering 2020–2045. The SDS's four key ambitions are set out in our business model (see pages 20–21).

Our Board has also approved our long-term viability statement (see pages 94–97) within which the Directors have assessed Anglian Water's prospects over the next 10 years.

See 'Our strategic ambitions' on pages 22–25

Having regard to employees' interests

The welfare and development of our employees, and the company's culture and values, are key areas of focus for the Board and its committees, and employee-related issues are covered at every Board meeting. Areas considered by the Board range from health, safety and wellbeing to inclusion, employee engagement and succession planning. Each year we conduct our Love to Listen survey to seek the views of our employees. The results of the survey, together with plans to address its findings, are brought to and discussed by the Board.

In line with the Anglian Water Services Corporate Governance Code 2020, the Board has appointed Duncan Symonds as the Non-Executive Director responsible for engaging with the workforce. During the year, Duncan met members of the senior management team to discuss the results of the 2020 Love to Listen survey, during which he was able to provide constructive feedback. Duncan also joined a session of the Anglian Water Leaders' Forum, at which he gave a presentation setting out his role and answered questions. Further information on how the Board and management engage with employees, and the impact of that engagement, can be found on page 55.

See 'Our people and partners' on pages 54–57

Fostering business relationships with suppliers, customers and others

Engagement with customers and communities is fundamental to the development of our strategy and plans. During 2020 and 2021 the company developed a two-way Social Contract with customers (see page 40) which was discussed in details by the Board. The Board oversaw all aspects of the planning process for our Business Plan for 2020–2025, including the customer engagement strategy;

the Board is also fully engaged with and approves the annual Business Plan and the Charges Scheme (see case study on page 65) each year. Further information on engagement with customers can be found on page 49.

Our most important supply chain relationships are with our alliance partners, who play a crucial role in the delivery of our infrastructure and services. The Board receives an update into the capital investment programmes at each Board meeting, which provides an opportunity for the Directors to review and challenge progress across the different investment programmes. In addition, under Anglian Water's Scheme of Delegation, the Board must approve contracts with suppliers above a certain value; this ensures that there is the appropriate level oversight of these key contracts.

During the year, the Board met with the Chief Inspector of the Drinking Water Inspectorate, which provided the Directors with an opportunity to understand in greater detail the role of the DWI as regulator and an opportunity for the Board to interrogate water quality plans for AMP7.

See 'Our customers & communities' on pages 47–53 and 'Our people & partners' on page 57

Section 172 statement continued

Impact on community and environment

The environment is at the heart of our purpose, and our SDS is fully aligned with the Government's own 25-year Environment Plan. The Board regularly considers environmental matters including water quality, abstraction, water quality, compliance against the Environment Agency's Environmental Performance Assessment and pollution reduction schemes. Further information on these can be found on page 23 and pages 42–47.

Our purpose also requires us to consider the impact of our operations on our communities. One key area on which we have done so this year is through the extensive engagement process around the proposed relocation of our Cambridge Waste Water Treatment Plant (see case study opposite). Further information on our engagement with communities can be found on page 49.

See 'Our environment & the planet' and 'Our customers & communities' on pages 42–47 and 48–53 respectively

Engagement in action

In October 2020, Anglian Water hosted a series of online workshops for stakeholders across the region. The theme of the workshops was 'Working Towards a Green Recovery – Levelling up the East of England'. In total 66 stakeholders representing 46 organisations took part, including MPs, councillors and representatives from charities, business and environmental groups. Non-Executive Directors from the Boards of both Anglian Water and Anglian Water Group also attended the sessions, giving them the opportunity to further understand the priorities of a wide range of stakeholders and receive first-hand feedback from them.

Before the event, all stakeholders were asked to share their top three priorities for the region, which were innovation, reaching net zero carbon and delivering infrastructure. This insight, along with the information collated from the breakout discussions, has been used to identify a number of areas for follow up and inform the ongoing stakeholder engagement strategy.

Maintaining high standards of business conduct

We seek to maintain high standards in all that we do as a business. We have robust risk management and internal control processes, both of which are reviewed by the Board or the relevant Board committee (see pages 76–80 for more information). Our code of conduct, 'Doing the Right Thing', applies to all employees and sets out what is expected from our people in different situations.

Anglian Water also holds itself to account against a set of Responsible Business Principles which are approved by the Board (see pages 41 and 104).

See 'Holding ourselves to account' on pages 40–41

Response to Covid-19

The impact of Covid-19 and the company's response has remained a key area of focus for our Board during the year. Board discussions have focused on the potential short- and long-term impact of Covid-19 across a wide range of stakeholders. More information on Anglian Water's response to Covid-19 can be found on pages 14–17.

Acting fairly between members

The Anglian Water Group has five shareholders, and all are represented on the board of our ultimate parent company Anglian Water Group Limited. There are also shareholder representatives on the Anglian Water Board. In this way we ensure that we treat all shareholders fairly and that their views are heard when making key decisions. Further information on our company structure and ownership can be found on pages 26–27, and in Board biographies on pages 100–103.

See 'Our shareholders' on page 58

“Very good event - I felt the width of the audience experience was excellent. it was possibly the first time I have seen a major utility with huge responsibility reach out in that way to its stakeholders.”

“Glad to participate and well done for organising and being so proactive on important issues.”

Comments from participants at our online stakeholder workshops held in October 2020

Considering stakeholders in decision making.

We define principal decisions as both those that are material to Anglian Water, and those that are significant to any of our key stakeholder groups. In making the following principal decisions the Board considered the outcome from its stakeholder engagement as well as the need to maintain a reputation for high standards of business conduct and the need to act fairly between the members of the company.

Stakeholder engagement	Stakeholder considerations	Outcome	
APPROVAL OF THE CHARGES SCHEME			
<p>Anglian Water operates a number of different tariffs to support customers in a range of vulnerable circumstances. Under the LITE social tariff, eligible customers receive a lower bill, which is funded through a customer cross-subsidy. As part of the annual approval of the Charges Scheme, the Board was asked to consider an increase in the customer cross-subsidy to reflect the significant rise in the forecast number of customers who would be seeking support as a result of Covid-19.</p>	<p>Initially an externally facilitated customer consultation was undertaken to measure customers' willingness to support an increase in the LITE cross-subsidy. The outcome of consultation was that most customers were supportive of an increase.</p> <p>We then consulted with the Consumer Council for Water with regards to the proposed increase in cross-subsidy. We then corresponded with Ofwat as to the outcomes of both consultations.</p>	<p>The results of the consultation with different stakeholders were thoroughly reviewed by senior management and a proposal was put to the Board recommending that the LITE cross-subsidy be increased. On making the recommendation it was recognised that there was a significant risk of an increase in customers with affordability issues due to the unwinding of the Government's furlough arrangements.</p>	<p>When making their decision the Directors considered the outcome of the customer consultation, the likely impact of the increase in cross-subsidy on customers (both recipients and non-recipients of the LITE tariff) and the potential long-term impact of Covid-19. Following these considerations, the Board approved the increase in the cross-subsidy.</p>

Stakeholder engagement	Stakeholder considerations	Outcome	
CAMBRIDGE WASTE WATER RELOCATION PROJECT – NEW SITE SELECTION DECISION			
<p>We are working closely with South Cambridgeshire District Council and Cambridge City Council to support their vision for sustainable housing growth in North East Cambridge by moving our Cambridge Waste Water Treatment Plant (WWTP), with financial support from Homes England, to a new location. This is a long-term project which will free up land for up to 5,600 of the 8,000 homes planned for the area. At the end of 2020, Board approval was sought for the proposed site of the new WWTP.</p>	<p>During the year there was an extensive stakeholder engagement process to seek feedback from statutory stakeholders, local residents and other interested parties regarding the three proposed site options for the new Cambridge WWTP. More than 3,000 responses were received, giving insights from local communities and a wide spectrum of stakeholders.</p>	<p>In considering the proposed site selection the Board reviewed the responses from the community and technical stakeholders including the Environment Agency, National Trust, Natural England, Historic England, Cambridgeshire County Council and Highways England. The Board, considered the feedback alongside the results of a detailed, multi-stage site selection study in which criteria had been evaluated across environmental, community, planning, operational and economic considerations.</p>	<p>The Board carefully considered site selection over a series of meetings, taking into account responses from stakeholders, the potential impact of the proposed site on local communities and the environment, the risks and the long-term resilience of the proposed site, prior to its final decision to select the site area north of the A14.</p>

Delivering our outcomes

Performance commitments dashboard.

To measure our progress towards our 2020–2025 outcomes, we've been set targets by our regulator Ofwat. These are summarised below, together with information on how we'll monitor our progress and whether outperformance rewards or underperformance penalties are applied to each measure.

Full details of our performance are available in our Annual Performance Report at anglianwater.co.uk/our-reports

Delighted customers

What are we measuring?	How are we measuring it?	2020/21 performance	2020/21 target	Eligible for reward or penalty?
Customer Measure of Experience (CMeX)	Customer survey conducted for Ofwat called CMeX which assesses the experience the company provides to residential customers.	83.05/100, putting us in 5th place	This is a comparative measure – we will target to perform in the top 25% of companies	Reward and penalty
Developer Measure of Experience (DMeX)	Survey conducted for Ofwat called DMeX which assesses the experience the company provides to developer services customers who build new homes.	87.72/100, putting us in 5th place	This is a comparative measure – we will target to perform in the top 25% of companies	Reward and penalty
Properties at risk of persistent low pressure	Number of properties that are affected by persistent low pressure. Persistent low water pressure is an ongoing low pressure problem rather than short-term low pressure caused by a water mains burst or unusual peak in demand for water.	147	150	Reward and penalty
Internal sewer flooding	The number of times that properties are flooded internally per 10,000 customer connections to the sewer.	1.33	1.68	Reward and penalty
External sewer flooding	The number of times that properties are flooded externally.	3,628	4,191	Reward and penalty
Non-household retailer satisfaction	This measure assesses the service provided by the company to non-household retailers.	74.6	74.6	No
Water supply interruptions	Average length of supply interruptions per property (for interruptions over 3 hours).	5m 02s	6m 30s	Reward and penalty

Fair charges, fair returns

What are we measuring?	How are we measuring it?	2020/21 performance	2020/21 target	Eligible for reward or penalty?
Managing void properties	The percentage of properties that are falsely identified as void properties. This means that they are occupied and should be charged by the company.	0.21	0.5	Reward and penalty
Value for money	A survey of customers by the Consumer Council for Water about the value for money provided by the company.	76% agree we provide good value for money	77% agree we provide good value for money	No

Safe, clean water

What are we measuring?	How are we measuring it?	2020/21 performance	2020/21 target	Eligible for reward or penalty?
Water quality (Compliance Risk Index)	This is the key measure used by the Drinking Water Inspectorate to determine our overall compliance with stringent regulatory drinking water standards.	1.98*	2	Penalty
Water quality contacts	The number of complaints from customers about water quality per thousand people served.	1.13*	1.09	Reward and penalty
Event Risk Index	This assessment looks at the company's approach to risk mitigation of water quality events.	6.16*	15.00	No

Resilient business

What are we measuring?	How are we measuring it?	2020/21 performance	2020/21 target	Eligible for reward or penalty?
Risk of severe restrictions in drought	The percentage of properties at risk of service restrictions in the event of a 1-in-200-year drought.	4.2%	20.5%	No
Risk of sewer flooding in a storm	The percentage of properties that we serve that are at risk of sewer flooding during an extreme wet weather event.	0.37%	9.75%	No
Percentage of population supplied by single supply system	Percentage of population served by a single supply system. Our goal is to increase the number of properties supplied by more than one water treatment works so that if something goes wrong at one works, our customers' water supplies are protected.	22.7%	24.1%	Reward
Cyber security	Percentage of risks mitigated against the cyber threat to operational technology (OT) and to comply with the network and information systems (NIS) regulations.	Not assessed	100% by 2025	Penalty

A smaller footprint

What are we measuring?	How are we measuring it?	2020/21 performance	2020/21 target	Eligible for reward or penalty?
Operational carbon	Percentage reduction in carbon emissions from day-to-day operations compared to a 2019/20 baseline.	5.1%	2%	No
Capital carbon	Percentage reduction in carbon emissions from construction activity measured in tonnes of CO ₂ equivalent compared to a 2010 baseline.	61.2%	61%	No

* These are internal estimates pending the release of 2020 data from the Drinking Water Inspectorate.

Supply meets demand

What are we measuring?	How are we measuring it?	2020/21 performance	2020/21 target	Eligible for reward or penalty?
Leakage	A percentage reduction in the amount of water lost to leakage across the region in megalitres per day (Ml/d). One megalitre is a million litres.	1.5% reduction	1.4% reduction	Reward and penalty
Per capita consumption (PCC)	A percentage reduction in the average water consumption per household per day for properties in our region.	3% increase	0.8% reduction	Reward and penalty
Smart metering delivery	The number of smart water meters that are installed at customer properties.	164,400	On track for 1.1 million by 2025	Penalty
Internal interconnector delivery	The number of megalitres per day extra capacity delivered to ensure that customers in the region have sufficient water in the future.	1.5 Ml/d	0 Ml/d (schemes scheduled for completion from 2021/22)	Penalty
Elsham DPC (Underperformance)	Measures the progress in implementing a direct procurement for customers process to support the appointment of a competitively appointed provider to construct and finance the Elsham treatment works and transfer scheme.	N/A	N/A	Penalty
Elsham DPC (Outperformance)		N/A	N/A	Reward

Flourishing environment

What are we measuring?	How are we measuring it?	2020/21 performance	2020/21 target	Eligible for reward or penalty?
Pollution incidents	Number of pollution incidents due to escapes from our sewerage network per 10,000 km of sewer network.	27.65	24.51	Reward and penalty
Bathing waters attaining 'Excellent' status	Number of recognised bathing waters in our region rated 'Excellent' (based on standards set by the European Bathing Water Directive).	Not assessed	33	Reward and penalty
Abstraction Incentive Mechanism	An incentive to reduce the water we take from sensitive rivers or wetlands during very dry periods.	-83 Ml	Reduction compared to historic levels	Reward and penalty
WINEP	The progress of the company in delivering its agreed Water Industry National Environment Programme (WINEP) schemes in a timely manner.	520	280	Reward and penalty
WINEP delivery		Met	Met	No
Natural capital	This measures progress towards meeting improvements in natural capital within our region.	Partially met	On track	No
Regional collaboration	This measures progress towards the development of a regional approach to assessing and considering natural capital.	On track	On track	No

Positive impact on communities

What are we measuring?	How are we measuring it?	2020/21 performance	2020/21 target	Eligible for reward or penalty?
Priority services for customers in vulnerable circumstances	The percentage of customers recorded as requiring priority services due to being in vulnerable circumstances and the percentage of people contacted to ensure records are kept up to date.	6.0% reach 38.8% actual contact 50.0% attempted contact	1.7% reach 17.5% actual contact 45% attempted contact	No
Customers aware of the PSR	Percentage of customers made aware of our Priority Services Register (PSR) and how they can benefit from being on it.	54.3%	47.5%	No
Helping those struggling to pay	The number of customers who are struggling to pay their water bill and who receive financial support through one of the company's financial support schemes.	319,466	281,653	No
Community investment	The percentage increase in community investment programmes through which the company adds social value to its communities (compared to 2020/21).	0%	0% (baseline year)	No
Customer trust	The improvement in company score for a survey of customers by the Consumer Council for Water about the trust that customers place in the company.	0	0	No
BSI Standard for Inclusive Service	To maintain certification for the British Standard for Inclusive Service Provision (BS 18477).	Maintained	Maintain	No
Partnership working on pluvial and fluvial flood risk	Investments delivered working in partnership with other organisations to protect infrastructure from flooding.	14	92 by 2025	No

Investing for tomorrow

What are we measuring?	How are we measuring it?	2020/21 performance	2020/21 target	Eligible for reward or penalty?
Mains repairs	Number of repairs made to water mains per 1,000 km of total water mains.	129.2	140.1	Penalty
Unplanned outage	Percentage of maximum water treatment works output unavailable during the year.	1.14%	2.34%	Penalty
Sewer collapses	Number of sewer collapses per 1,000 km of sewers.	6.1	5.6	Penalty
Treatment works compliance	Percentage of water and sewage treatment works meeting permits for the quality of water discharged to the environment.	99.29%	100%	Penalty
Reactive mains bursts	Reactive bursts are those that are identified and reported by a customer or third party before they are identified by the company.	4,037	3,063	No

Delivering our outcomes continued

Our performance in context.

We measure our performance against a set of commitments that help us, our regulators and our customers understand the progress we're making and what we've delivered.

This year (2020/21) is the first of our latest five-year regulatory cycle (also known as AMP7, as it is the seventh asset management period since privatisation in 1989). It saw the introduction of a suite of stretching targets for our performance, known as Performance Commitments (PCs). This, coupled with the ongoing Covid-19 pandemic and extreme weather patterns, has made it a very challenging year.

Despite these challenges we have seen some great performance across all areas of the business.

We have outperformed our interruptions to supply PC target, scoring 5 minutes and 2 seconds against a target of 6 minutes and 30 seconds and earning an outperformance payment of £1 million (see case study).

We have also earned outperformance payments for performing in the top quartile among our peers in flooding. The number of properties affected by internal flooding was at 1.33 incidents per 10,000 connections, which is lower than the industry target of 1.68 and earns us £3.6 million. For external flooding, there were 3,628 incidents this year, which is below our regulatory target of 4,191 incidents and earns us £2.4 million in outperformance payment.

Our region was severely impacted by wet weather over the winter period, which saw groups of customers in geographically discrete areas of our region flooded for a prolonged period, primarily due to the sheer volume of surface water and groundwater flooding. The severity and duration of flooding impacted both flooding measures; however, the impact was mitigated due to our ongoing investment in flood prevention measures and our proactive response, working with local flood authorities to go above and beyond our statutory duties.

Per capita consumption (PCC) has been badly impacted by the Covid-19 pandemic. People staying at home to work has meant that domestic consumption has increased and this has had a particularly notable impact in the East of England, because a lot of our customers usually commute out of our region to work in London during the day. The result of this change is that PCC has increased to a three-year average of 138.1 litres per person per day this year compared to 136.1 in the previous year. This would normally result in a significant penalty; however, Ofwat has decided to delay the impact of this PC until the end of AMP7 while it decides whether it should take account of the pandemic in its assessment of performance.

Leakage has also been impacted by the Covid-19 increase in demand, as well as by notably cold weather over the winter leading to an increase in burst mains. In light of these challenges we are particularly pleased to have marginally exceeded our stretching regulatory target of a 1.4 per cent reduction.

Pollution incidents per 1,000 km of sewer have fallen this year from 35.0 to 27.7, with significant investment in prevention and resolution of incidents through our Pollution Incident Reduction Plan (see page 23); however, they have not yet fallen sufficiently to avoid a penalty of £1.4 million for being above the stretching regulatory target of 24.5.

Sewer collapses have increased this year and we have missed our regulatory target of 5.6 collapses per 1,000 km of sewer and outturned at 6.1 collapses per 1,000 km of sewer. This results in an underperformance penalty of £1.1 million.

We have delivered a number of Water Industry National Environment Plan (WINEP) schemes early this year and this has resulted in a reward of £3.0 million.

We have made ongoing investment this year to reduce the number of properties served by a single supply, resulting in an outperformance payment of £0.6 million as we have performed ahead of our target.

Our water quality contacts commitment shows a small penalty of £0.1 million for marginally missing the target, primarily as a direct result of increased demand due to Covid-19 (see page 17).

On the Customer Measure of Experience (CMeX) we have achieved a score above average, which entitles us to an outperformance payment. This is also true for the Developer Measure of Experience (DMeX).

Performance commitment	2020/21 total reward/penalty £m
Interruptions to supply	1.0
Leakage	0.1
Per capita consumption	-1.9
Internal sewer flooding	3.6
Pollution incidents	-1.4
External sewer flooding	2.4
CMeX	1.1
DMeX	1.1
WINEP	3.0
Single supplies	0.6
Sewer collapses	-1.1
Water quality contacts	-0.1
Void properties	1.4
Total	9.7*

* Amounts do not total £9.7 million due to rounding.

Keeping the taps flowing

This year saw us deliver our best ever performance on interruptions to supply, regaining our previous strong position which had been derailed in 2019/20 by a single, very significant incident in December 2019. The Restoration team have focused on handling long-duration incidents affecting small numbers of customers effectively to minimise disruption, and implementing line-stop technology. This can be inserted into live water mains, controlling the flow and pressure so that repair teams can carry out work without turning off customers' water supply. They've also increased resource, invested time in planning for future incidents and focused on the 'golden hour' – early escalation of potential issues – at the outset of an incident. Our leading performance means we've reduced the average amount of time our customers are without supply by more than half since 2015.

Non-financial information statement

Our Articles of Association requires us to publish the information contained in a non-financial information statement (as defined in sections 414CB of the Companies Act 2006).

We integrate this information throughout this report; the table below is designed to help you find key elements on non-financial matters. Links to policies, standards and relevant documents can be found at anglianwater.co.uk/about-us/our-purpose/environmental-social-and-corporate-governance/.

Reporting requirement	Policies, standards and relevant documents that govern our approach	Current activities and risk management
<p>Environmental matters</p> <p>Our commitment to protecting and enhancing our environment is enshrined in the Articles of Association of Anglian Water through our stated purpose: To bring environmental and social prosperity to the region we serve through our commitment to Love Every Drop.</p>	<ul style="list-style-type: none"> · Anglian Water Articles of Association · Love Every Drop outcomes · Anglian Water Strategic Direction Statement · Anglian Water Water Resources Management Plan · Draft Anglian Water Drought Plan · Anglian Water Water Recycling Long Term Plan · Anglian Water Climate Change Adaptation Report 	<ul style="list-style-type: none"> · Chairman's welcome, pages 10–11 · Chief Executive's statement, pages 12–13 · Anglian Water in context: challenges and opportunities, pages 18–19 · Our strategic ambitions, pages 22–25 · Responsible financing: Sustainable finance, pages 32–33 · Holding ourselves to account, pages 40–41 · Our stakeholders: our environment & the planet, pages 42–47 · Section 172 statement, pages 62–65 · Climate-related financial disclosures, pages 74–75 · Principal risks, pages 80–93
<p>Employees</p> <p>Our approach to our employees is guided by the values that drive our continued progress: Together, we build trust; we do the right thing; we are always exploring.</p>	<ul style="list-style-type: none"> · Values framework · Doing the right thing – code of behaviour · Diversity and inclusion plan · Health and Safety policy · Dignity at work code of conduct · Relationships at work policy · Gender pay gap report · Whistleblowing policy 	<ul style="list-style-type: none"> · Chairman's welcome, pages 10–11 · Chief Executive's statement, pages 12–13 · Our stakeholders: our people & partners, pages 54–57 · Section 172 statement, pages 62–65 · Corporate Governance Report, pages 104–113 · Audit Committee Report, pages 114–119 · Remuneration Committee Report, pages 123–143
<p>Human rights</p> <p>Our policies and processes are underpinned by our values, in particular: we do the right thing.</p>	<ul style="list-style-type: none"> · Doing the right thing – code of behaviour · Dignity at work code of conduct · Data protection policy · Information retention policy · Privacy policy · Modern slavery statement 	<ul style="list-style-type: none"> · Our stakeholders, pages 42–61 · Nomination Committee Report, pages 120–122

Reporting requirement

Social matters

Our commitment to serving our customers and our communities is enshrined in the Articles of Association of Anglian Water through our stated purpose: To bring environmental and social prosperity to the region we serve through our commitment to Love Every Drop.

Anti-corruption and bribery

Our policies and processes are underpinned by our values, in particular: we do the right thing.

Description of principal risks and impact of business activity

Description of the business model

Non-financial key performance indicators

Policies, standards and relevant documents that govern our approach

- Anglian Water Articles of Association
- Public Interest Commitment
- Social Contract
- Employee volunteering guidelines – Love to Help
- Anglian Water Strategic Direction Statement

- Doing the right thing – code of behaviour
- Competition law compliance policy
- Anti-bribery policy
- Corporate hospitality policy
- Whistleblowing policy

- Anglian Water in context: challenges and opportunities, pages 18–19

- Our business model, pages 20–21

- Non-financial performance measured against a set of commitments agreed with Ofwat
- Health and safety measures and targets

Current activities and risk management

- Chairman's welcome, pages 10–11
- Chief Executive's statement, pages 12–13
- Our response to Covid-19, pages 14–17
- Anglian Water in context: challenges and opportunities, pages 18–19
- Our strategic ambitions, pages 22–25
- Holding ourselves to account, pages 40–41
- Our stakeholders: our customers & communities, pages 48–53
- Section 172 statement, pages 62–65

- Principal risks: no. 9: Political, regulatory and legislative changes or breaches, pages 89–90
- Audit Committee Report, pages 114–119

- Risk management, pages 76–80
- Principal risks, pages 80–93
- Business long-term viability statement, pages 94–97

- Board statement of company direction and performance, Annual Performance Report (available at anglianwater.co.uk/about-us/our-reports)

- Delivering our outcomes: performance commitments dashboard, pages 66–69
- Delivering our outcomes: performance in context, pages 70–71
- Our stakeholders: our people & partners, pages 54–57

A copy of our code of conduct ('Doing the Right Thing'), together with our Whistleblowing policy, our Anti-bribery policy and our current Slavery and Human Trafficking Statement can be found on our website at anglianwater.co.uk/about-us/who-we-are/our-suppliers/. Our customer privacy notice can be found at anglianwater.co.uk/about-us/legal/privacy-notice.

Climate-related financial disclosures

The management of climate change is embedded into everything we do.

We were early adopters of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and have reported in line with them since 2017. We make an annual disclosure through CDP (formerly Carbon Disclosure Project) following the modification of its structure to align with the TCFD.

In 2020, in only our second year of reporting through CDP, we achieved a rating of 'A' for our response to climate change, a result which puts us in the top 3 per cent of more than 9,600 companies globally. **We are the only UK water company to achieve such a rating and one of only 21 companies in the UK to do so.**

We submitted our Climate Change Adaptation Report (CCAR) for the third round in December 2020, nine months ahead of the deadline and the first water company to submit its response. Prior to completing the final draft, we issued the report for consultation, the first time we have done so. The report, and the risks and actions contained within it, was drafted with input from stakeholders across our business as well as specialists in adaptation from consultants WSP. Inputs from the consultation were also incorporated into the final document. The report includes an assessment of our physical and transition climate-related risks, a description of how we are managing these risks and metrics to track our performance.

See more at
anglianwater.co.uk/adaptation

The section below summarises how climate change is integrated across the four elements defined by the TCFD. This summary should be read in conjunction with the detail in the CCAR and CDP disclosure. References to the relevant CDP questions have been provided below.

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

Climate-related risks are included within our top-tier risk register (see pages 81–93). This is reviewed regularly in detail by the Board, which has agreed short-, medium- and long-term climate-related targets and has effective oversight. Management Board members chair the groups responsible for reducing carbon emissions and climate change adaptation and are financially incentivised on progress towards achieving the targets.

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

Our long-term strategy is described in our publicly available Strategic Direction Statement, updated in 2017. We have submitted three Adaptation Reports to the Government, the latest in December 2020. Our most significant physical risks are drought and flooding. These are being effectively mitigated in line with our long-term plans, which consider more than one climate change scenario. Our most recent adaptation strategy also describes

how we are managing transition risks. We took a leading role in the development of the Water UK Net Zero Carbon Routemap 2030. Our Chief Executive Officer is the Co-Chair of the UK's Corporate Leaders Group and is helping to lead the response of businesses to the climate emergency. We will also play a role at COP26, the UN Climate Change conference taking place in Glasgow in November 2021.

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

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

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

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

See our strategic ambitions on pages 22-25

	Units	2019/20 CAWv13	2019/20 CAWv15	2020/21	Inclusions
Energy consumption used to calculate emissions kWh	kWh	1,116,193,544	1,116,193,544	1,076,648,591	Electricity, gas, fuels combusted onsite (fossil fuels and biogas), transport (company cars, fleet vehicles, personal & hire cars on business use) plus liquid fuels consumed onsite
SCOPE 1 – Gas and fuel oil consumption	Kg CO ₂ e	12,535,981	12,595,339	13,097,373	Fossil fuel combusted, natural gas and biogas
SCOPE 1 – Process and fugitive emissions	Kg CO ₂ e	70,691,157	83,128,528	83,009,085	Water and waste water treatment, biogas
SCOPE 1 – Owned transport	Kg CO ₂ e	22,119,099	22,119,010	20,903,352	Fleet vehicles and company cars
SCOPE 1 – Total	Kg CO₂e	105,346,236	117,842,876	117,009,809	
SCOPE 2 – Purchased electricity	Kg CO ₂ e	163,485,177	163,485,177	151,823,882	Grid electricity – location-based electric for vehicles
SCOPE 2 – Total	Kg CO₂e	163,485,177	163,485,177	151,823,882	
SCOPE 3 – Business travel	Kg CO ₂ e	973,458	973,423	139,996	Private cars, public transport
SCOPE 3 – Outsourced transport	Kg CO ₂ e	14,891,058	14,821,673	13,799,855	Outsourced tankers
SCOPE 3 – Purchased electricity	Kg CO ₂ e	13,879,610	13,879,610	13,056,506	Transmission & distribution
SCOPE 3 – Total significant	Kg CO₂e	29,744,125	29,674,707	26,996,356	We have not included commuting, capital carbon & emissions from use of water in customers' homes.
TOTAL ANNUAL GROSS EMISSIONS	Kg CO₂e	298,575,539	311,002,760	295,830,047	
Exported renewables	Kg CO ₂ e	-8,309,949	-8,309,949	-6,775,929	Exported renewables REGO certified
Green tariff	Kg CO ₂ e	0	0	0	
TOTAL ANNUAL NET EMISSIONS	Kg CO₂e	290,265,590	302,692,811	289,054,118	
INTENSITY RATIO – water treated	Kg CO ₂ e per Ml	223.87	237.97	230.97	
INTENSITY RATIO – recycled water	Kg CO ₂ e per Ml	431.83	467.68	433.46	
INTENSITY RATIO – recycled water	Kg CO ₂ e per Ml	219.73	237.98	224.13	Full flow to treatment

Methodology: The reporting boundary covers the emissions within the regulated activity of Anglian Water Services Ltd where we have operational control. We have followed the 2020 UK Government environmental reporting guidance. We have used the GHG Protocol Corporate Accounting and Reporting standard (revised edition) and emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2020 to calculate the above disclosures. Where relevant we have also aligned with industry best practice for emissions measurement and reporting. This approach has been verified, since 2011, by CEMARS (now renamed Carbon Reduce) as being measured, managed and reduced in accordance with ISO 14064.

During 2020 UKWIR, to reflect improved scientific understanding, revised upwards the emissions factors associated with process and fugitive emissions. Consequently, process and fugitive emissions associated with a given treatment volume have increased in 2020/21 over 2019/20. In order to provide a like-for-like comparison we have recalculated our 2019/20 emissions using the 2020/21 process and fugitive emissions factor.

Therefore, three columns of numbers are presented: 2019/20 as reported in our 2020 Annual Integrated Report; 2019/20 recalculated using the revised (current) process and fugitive emissions factor; and 2020/21 using the current process and fugitive emissions factor.

Energy efficiency action: In the reporting year we fulfilled our obligation to notify the Environment Agency that we had complied with our Energy Saving Opportunity Scheme (ESOS) obligations. In doing so we demonstrated the actions we are taking to identify and deliver improvements in energy efficiency. For example, in 2020/21 we invested £6.4 million in energy-saving projects, saving 11.27 gigawatt hours in-year (annualised figure 18.04). Within the year we also designed energy and carbon out of our construction projects, increased our generation of renewable energy and increased our use of electric and hybrid vehicles. See 'Our strategic ambitions', page 22.

Resilience and risk management

Maintaining a resilient business and managing our risks.

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

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

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

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

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

- **Corporate resilience:** the ability of an organisation's governance, accountability and assurance processes to help avoid, cope with and recover from disruption and to anticipate trends and variability in its business operations.
- **Financial resilience:** an organisation's ability to avoid, cope with and recover from disruption to its finances.
- **Operational resilience:** the ability of an organisation's infrastructure, and the skills to run that infrastructure, to avoid, cope with and recover from disruption in its ability to provide critical services to customers.

We are constantly developing our resilience approach to ensure robust systems thinking and have incorporated our Resilience Systems Thinking into our AMP7 Business Plan.

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

When things don't quite go to plan, we have well-rehearsed policies and procedures which underpin our incident escalation and response mechanism. This is supported by the Anglian Water Force — our trained incident response community. We have more than 1,200 incident responders from right across the business and our alliance partners who are ready to respond and ensure the business maintains operational and organisational resilience.

Multi-agency and partnership working is fundamental to risk management and resilience. We actively engage across our 13 Local Resilience Forums in planning and risk mitigation to ensure interdependencies are known and mitigations are prepared. Alongside the usual planning and exercising, we supported the response to severe flooding in our region in January 2021 (see page 57).

We collaborate with other water companies across the country through a national Water UK group, which meets to plan for and respond to events such as Brexit, severe weather and coronavirus. As part of the industry collaboration, a Platinum Incident Management (PIM) and National Incident Management group was set up to address industry challenges surrounding Brexit and Covid-19.

Anglian took an active role and established the incident management framework that surrounds the industry incident response.

Anglian Water continues to be the only water company certified to ISO 22301, an international standard in business continuity management, which recognises that we have the plans and systems in place to keep our business running.

Security is a fundamental part of resilience and we maintain our security standards across operational assets and ensure that new capital schemes and the Strategic Pipeline Alliance (SPA)

project have adequate security in place to protect assets, staff and customers.

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

- At a global level, we consider what are the potential mega trends, and whether we have ensured these are on our horizon when planning for future resilience.
- The National Risk Register also plays a key part in our resilience thinking and helps us prioritise both in terms of likelihood of occurrence and scale of impact.

- We use an all-hazards approach and challenge ourselves to ensure we look at an end-to-end systems approach to the current risks and ensure preparedness for the shocks and stresses we may face.

- We seek to engage with customers to help their understanding of the challenges we face and our understanding of their priorities.

We manage risk across our business through a number of formal and informal processes. These risk management processes sit within our overall governance framework, which includes clear accountabilities, delegated authority limits and well-defined policies and procedures that govern employee conduct.

Our resilience framework



Resilience and risk management continued

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

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

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

Risk appetite

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

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

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

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

Anglian Water continues to ensure compliance with the Anglian Water Services Corporate Governance Code, which was revised in 2020.

OUR MANAGEMENT SYSTEM FRAMEWORK POLICY

Our Integrated Management System (IMS) framework helps ensure we meet customer and stakeholder commitments and deliver our outcomes:

CUSTOMER

To make life better for our customers every single day, by delivering a personal, trusted and effortless experience.

WATER QUALITY

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

ENVIRONMENT

Safeguarding and enhancing the air, water and land where we live to sustain and maintain a flourishing environment.

ASSET MANAGEMENT

Exploiting the whole life cycle of our assets to maximise value and reduce our capital and operational carbon footprint.

RESILIENCE

Effective planning and preparation to manage and mitigate the impact of any disruptive event so we can successfully respond and recover.

Our Health and Safety Charter

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

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

This integrated Management System framework sets out all our management system standards in a clear and consistent way aligning to strategic priorities, business goals and good outcomes. Strategic and business unit plans form the basis on which we set and review our objectives, obligations and targets.

We are committed to:

- Directors leading and being responsible for achieving the intended outcomes by keeping our promise to customers.
- Delivering excellent drinking water quality.
- Making the most of our employees' knowledge and experience by recognising the contribution that they make.
- Continually improving the efficiency and effectiveness of our operating processes and this management system framework.
- Preventing pollution while protecting and enhancing the quality of the recycled water that we treat and return to the environment.

Maintaining our laboratory's UKAS accreditation.

- Complying with relevant legislation, regulations and other needs including the requirements and standards of:
 - ISO 45001 Health and Safety Management
 - ISO 9001 Quality Management
 - ISO 14001 Environmental Management
 - ISO 55001/PAS 55 Asset Management
 - ISO 22301 Business Continuity
 - ISO 37001 Anti-Bribery
 - BS 18477 Customer Vulnerability
 - PAS 2080/EU ETS Carbon Management.

We will:

- Take account of the needs of our stakeholders and interested parties.
- Live our purpose, values and behaviours.
- Communicate and promote strategic priorities, business goals and good outcomes throughout our business and the alliances that work with us.
- Effectively manage our assets to deliver optimal whole-life value.
- Assess the aspects of our operational activities and their potential impact on the environment.
- Undertake business impact analysis to determine critical products or services and ensure that robust arrangements are in place to manage them if disrupted in any way.
- Maintain and protect data to meet our obligations and have reliable, accurate and complete auditable information on our assets, performance and business activities.

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. The diagram overlaid sets out the overall risk management process.

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

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

Through a process of review and discussion, we have developed a structured 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. In addition, we link the principal risks to our assurance plan to ensure our focus is on the most significant risks.

Resilience and risk management continued



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

Over the last year we have made a number of improvements to our risk management processes to ensure we are managing risk effectively, including:

- Fully aligning the risk registers with the business operating model and the structures put in for AMP7.
- Updating our risk management systems to make them more effective and user friendly with greater reporting capability.
- Specific focus on key risks at Audit Committee.
- Developing the risk community to further strengthen the focus of risk, bringing together subject matter experts and risk owners from across the business.
- Further exploitation of technology to enable increased visibility of risk.

Principal risks

The Board has a responsibility to disclose ‘significant failings and weaknesses’ or areas of concern that have not been resolved by year end. The Board’s interpretation of this requirement is that there is a need to disclose any control failure or omission that, if unchecked, has the potential to result in significant financial, operational or reputational damage to the business.

Currently the two most significant negative influences on the risk position to the business are the ongoing Covid-19 pandemic, and the determination we received from the CMA which, while improved compared with the Ofwat determination, remains challenging. For further information on how we have managed risks related to Covid-19, please see pages 14–17. We continue to monitor the position in relation to the UK’s post-Brexit relationship with the European Union, and its remaining potential to cause operational disruption. At present we are well prepared for this impact.

Climate change and population growth both represent longer-term systemic influences on our risk position. We continue to develop our understanding of the forecasted impacts of different scenarios as set out in our Climate Change Adaptation Report and throughout the Strategic Report, including ‘Our strategic ambitions’ (pages 22–25), ‘Our challenges and opportunities’ (pages 18–19), and ‘Climate-related financial disclosures’ (pages 74–75). These topics are viewed as future scenarios which impact on our principal risks and are therefore not included in our principal risks list, documented in the table on page 81. The table shows how the principal risks have changed through the year, as affected by these scenarios, in particular the pandemic.

Covid-19 risks are discussed on pages 14-17

Principal risks	Annual risk movement	Inherent risk profile	Current risk profile	Inherent risk impact score	Inherent risk likelihood score	Current risk impact score	Current risk likelihood score	Risk life expectancy
Safety								
1 Happier, healthier, safer	↔	●	●	5 - critical	4 - likely	3 - moderate	4 - likely	ST/MT
Operational								
2 Asset investment, asset health and asset serviceability	↔	●	●	4 - major	4 - likely	4 - major	4 - likely	LT
3 Support our customers and communities	↑	●	●	4 - major	4 - likely	3 - moderate	3 - possible	LT
4 Future planning for business	↔	●	●	5 - critical	4 - likely	4 - major	3 - possible	LT
5 Resilient business	↔	●	●	4 - major	4 - likely	3 - moderate	4 - likely	LT
6 Physical, cyber and personnel security	↔	●	●	5 - critical	4 - likely	4 - major	3 - possible	ST
7 Supply and demand	↑	●	●	5 - critical	4 - likely	4 - major	4 - likely	LT
8 Water quality	↑	●	●	5 - critical	4 - likely	4 - major	3 - possible	LT
Regulatory and compliance								
9 Political, regulatory and legislative changes or breaches	↔	●	●	4 - major	4 - likely	2 - minor	4 - likely	LT
10 Protecting our environment	↑	●	●	4 - major	4 - likely	2 - minor	4 - likely	LT
11 Business performance	↑	●	●	4 - major	5 - almost certain	3 - moderate	4 - likely	MT
Financial								
12 Financing our business	↔	●	●	4 - major	5 - almost certain	2 - minor	3 - possible	ST

KEY

Current risk profile

- High
- Medium
- Low

The score of the risk today, with the current status of fully effective controls and completed actions

Current/inherent likelihood score

- 5 Almost certain
- 4 Likely
- 3 Possible
- 2 Unlikely
- 1 Rare

The score of the risk in the worst-case scenario should no controls or actions be in place

Current/inherent impact score

- 5 Critical
- 4 Major
- 3 Moderate
- 2 Minor
- 1 Insignificant

The score of the risk in the worst-case scenario should no controls or actions be in place

Proximity

- LT Long term (25 years)
- MT Medium term (10 years)
- ST Short term (5 years)

Annual risk movement

- ↑ Increasing
- ↓ Decreasing
- ↔ Stable

Resilience and risk management continued

Safety

1

Happier, healthier, safer

Risk definition

A failure to follow the Safe & Well systems and LIFE values impacting our employees, contractors and/or customers, leading to a loss of protection which could result in injury/death or adverse effect to mental and/or physical wellbeing, as well as possible breaches of law. Such a failure could lead to possible criminal prosecution, imprisonment and significant reputational damage.

Unmitigated risk description

Maintaining the health, safety and wellbeing of our employees and customers is paramount. Failing to communicate and implement health and safety policies, procedures and instructions can be effectively to ensure safe working practices are understood and followed by all employees and result in serious injuries and harm to our employees, contractors and customers. A failure to maintain high standards of fleet safety could result in the loss of our operator (O) licence for heavy goods vehicles, making us dependent on third parties for logistics at enhanced rates and significant cost, with a significant reputational impact.

Controls and mitigation

The health and safety of our workforce, partners and the general public is a key priority.

We are committed to looking after our employees' health and safety and believe that work should have a positive impact on their health and wellbeing. The Management Board reviews health and safety performance and associated actions monthly, including thoroughly reviewing all significant incidents as well as reporting them to the Board. An in-depth review into health and safety performance is also carried out on a quarterly basis. Performance is further monitored through our ISO 45001-certified Safe and Well management system, with six-monthly external reviews by Lloyd's Register as well as through our internal audit programme.

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

Underpinning our approach is LIFE, a philosophy that brings health, safety and wellbeing together, moving from a traditional compliance-based approach to a culture where we take responsibility for our health, safety and wellbeing and that of our colleagues. LIFE has ensured that we put our people's health, safety and wellbeing at the heart of our response to Covid through good engagement with key stakeholders and positive collaboration.

We will continue to work with internal and external stakeholders to ensure our high-risk processes are fully understood and the correct control measures are in place and working.

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

In response to the tragic events at Wesssex Water's Avonmouth site, we have:

- Held stand-down events across the business to raise awareness and give people the opportunity to talk and raise concerns.
- Reviewed our inspection plan for DSEAR (areas of potential explosive atmospheres) to ensure gas-producing tanks/silos (sludge storage) are included as part of the programme.
- Reviewed how we manage work in high-risk areas and identified areas for improvement.
- Raised awareness of those working or managing high-risk processes.
- Worked with the industry to ensure a consistent approach to managing similar risks.

Our Fleet Compliance Group is tasked with monitoring legislation relating to O licence conditions and ensuring any changes are implemented and communicated alongside routine training.

Assurance of all control measures is done through a combination of Fleet Compliance Group and regular exception reporting through the Water Recycling Leadership Team Performance meeting.

Current risk assessment

We will always remain vigilant to maintain the highest health and safety behaviour in the business. We are developing reporting systems and reviewing health and safety data, looking for improvements and learning from others.

The current risk assessment is based on the confidence that we have control measures in place that are effective and embedded in the performance cycle. Exceptions are also escalated to the Management Board for discussion. With current mitigations and initiatives, this risk is stable.

Operational

2

Asset investment, asset health and asset serviceability

Risk definition

A failure to invest, maintain and service assets with the potential to affect colleagues, partners, customers, communities and the environment, leading to the risk of accidents and injury to our workforce, interruptions to the supply of water, returning untreated water back to the environment, regulatory, or legal or criminal action resulting in substantial penalties.

Unmitigated risk description

At Anglian Water we have a significant asset base, ranging from large tunnels and reservoirs to small pumping stations serving two or three homes. The inherent risk we face, if we fail to invest and deliver our major infrastructure programme, would be an impact on business performance and associated reputation.

We understand the link between the performance of our assets and the service we deliver to customers and the environment, and how asset failure would affect performance against metrics agreed with our regulators, including the Health and Safety Executive, the Environment Agency and Ofwat. More importantly, this could lead to risk of harm to customers and colleagues, environmental damage and reputational damage with our customers and regulators, as well as legal penalties.

Controls and mitigation

We invest in our assets to mitigate the maximum risk for the best value. We have strategic alliances in place to deliver capital programmes to assure continuation of services to our customers.

Our updated investment process and corporate governance is agreed and operating for these projects, led by senior management, with independent assurance. We have cross-business governance bodies that align to business strategy.

We are also working closely with industry bodies such as UKWIR and Ofwat to review the regulatory framework in relation to asset health, to further address long-term risks.

Current risk assessment

We assess our current risk position to be Amber and stable, given the effectiveness of the controls mentioned above during our largest ever programme of investment in the first year of an AMP. The outcome of the price review Redetermination process undertaken with the CMA does not substantially affect this position.

Resilience and risk management continued

Customer cross-subsidy will increase in 2021/22 (see page 65). This additional funding will increase the capacity of our social tariff (LITE), so that we can support a larger number of customers.

Water UK commissioned economics consultants CEPA to develop and estimate a common metric for measuring water poverty in England and Wales. This will feed into the independent review of the current affordability support for financially vulnerable customers being carried out by the Consumer Council for Water on behalf of the UK and Welsh Governments.

We monitor media daily to identify corporate and brand-related risks and issues. We are part of the cross-sector Communications Working Group, which comprises senior communications specialists who share intelligence and promote/defend the sector as appropriate. Our communications teams are trained and exercised on crisis communications and incident preparedness, ensuring we have 24-hour coverage for inbound media enquiries.

Our Project Delivery Milestone stages ensure there is an obligation for investment programmes and key corporate initiatives to consider customer and reputational impact at planning stages.

Current risk assessment
We assess our current risk position to be Amber. Given the changing landscape of the impact of Covid-19 and the ongoing restrictions, with high levels of furlough or unemployment of people within our region resulting in impacts on vulnerability and affordability, this is an increasing risk.

With the ever-increasing use of social media, we are keen to ensure the right messages are reaching our customers, so they are receiving appropriate information in a timely manner.

4

Future long-term business planning

Risk definition

A failure to plan for the future affecting our people, partners, customers, communities and the environment, leading to a potential impact on future sustainability in our region, reduced resilience, inability to deliver our long-term ambitions as set out in our Strategic Direction Statement, severe reputational damage and loss of trust in key relationships, inability to meet growing demand in our region and increased risk of asset failure.

Unmitigated risk description

Anglian Water's approach to prepare for AMP8 through the Price Review 2024 (PR24) process focuses on the development of its proposed Business Plan in line with our purpose and the preferences of our customers and wider stakeholders to achieve our long-term ambitions for the region.

3

Support our customers and communities

Risk definition

An inability to offer core services and timely, accurate information to our customers and communities resulting in a loss of confidence, reputational damage, impact to business performance objectives and increased cost to the business, as well as potential hardship and loss of wellbeing for our customers.

Unmitigated risk description

Rising unemployment rates will cause more customers to fall into arrears, and without assistance we will see a reduction in cash and an associated increase in bad debt and collections operating costs. We will likely see a rise in customer dissatisfaction due to increased collections activities, including adverse credit reporting.

Unbalanced or inaccurate media and public attention, traditional or social, results in damage to our reputation and our customers' trust and perception of us as a responsible business acting in line with our purpose.

Controls and mitigation

We offer our customers a wide range of support through our WaterCare assistance programme, including forgiveness schemes, payment holidays, concessionary tariffs, charges holidays and temporary instalment plans. The number of unique customers supported is tracked through our Performance Commitment, which seeks to target assistance.

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

Controls and mitigation

Our plans for PR24 are already underway. We have begun our programme of work with the Board to ensure that we develop plans for the future which reflect customer priorities, meet the future regulatory standard of proof and link back to our long-term ambitions, as set out in our 2017 Strategic Direction Statement. Our preparations will reflect any lessons learned, both from our internal review and also the CMA Redetermination process we have engaged in over the past year.

Ahead of the final formulation of the PR24 methodology, we continue to collaborate with key stakeholders and policymakers, including Defra, RAPID and Ofwat, as well as with companies and wider stakeholders.

We invest considerable effort in forecasting our supply and demand requirements at a local and a regional level for the next 25 years. We continually assess our investment options to identify the most cost-effective combination of new water resources, network enhancements and demand management measures to meet this challenge.

We are also working as part of the Water Resources East initiative and National Water Resources Long-Term Planning Framework to develop long-term solutions to water resources, and our Water Resources Management Plan (WRMP) outlines an ambitious, cost-beneficial demand management strategy that is forecast to offset the impacts of growth in our region.

Current risk assessment

Current growth in our region is broadly in line with our 2020–2025 (AMP7) plans. As part of our CMA referral, we challenged the assumptions around how growth is forecast and treated in Price Review 2019 (PR19). While this growth may be impacted by Covid-19, the longer-term demand for housing in our region will remain. The CMA Redetermination has provided greater recognition of the costs of enabling growth, should the high level of growth expected in the region materialise during AMP7.

5

Resilient business

Risk definition

A failure to prepare for emerging risks and be resilient against them, resulting in increased response time to operational incidents, an impact on our ability to offer core services to customers and/or to operate our water and waste treatment processes, risk of harm to our people or customers and/or failure to prepare and respond to climate change.

Unmitigated risk description

Shortage of key skills, including a limited pipeline of students studying STEM subjects, at a time of rising demand for these skills across multiple sectors, could create significant risk of underperformance against business objectives due to lack of resource, or rising labour costs for both us and our partners.

Without timely and appropriate recovery action before, during and following a severe weather incident, the impact of flooding at water recycling sites on service and compliance, and the financial cost to the business, would be significant.

Failure to mitigate a loss of our key suppliers could have a significant impact on our business's overall performance and reputation. Short-term loss of supplied services, products or personnel would lead to high levels of disruption and inability to continue the maintenance and repair of key services, resulting in loss of water and water recycling services to customers and failure to meet performance commitments.

Poor performance by our key suppliers could have an impact on health and safety, operational performance and investment programme delivery, as well as impacting our ability to deliver core services to customers.

Resilience and risk management continued

Controls and mitigation

Our schools education programme encourages STEM and utility industry recruitment through curriculum-relevant water-based teaching facilities/exercises. We undertake collaborative activities with our partners in terms of succession planning, talent development and links with STEM schools and colleges, specifically supporting the Greater Peterborough University Technical College (UTC), Norwich UTC and the College of West Anglia, where we sponsor courses on key areas of shortage.

Our Inclusion Committee is also working to a long-term strategy which was endorsed by the Management Board and is well underway; this includes our inclusion plan, developed to identify new channels to attract candidates to our business.

Flood Emergency Response Plans (FERPs) are documented for sites which are at high risk and/or have historical evidence of flooding. These provide an understanding of risk and detail the mitigation measures, along with specific actions to be taken on site in the event of a flood warning to limit any damage. These response plans are managed through a programme of review, testing and revision, including lessons learned and triggers for updates in operational activity. Consideration is being given to any changes necessary to FERPs following recent events.

We are constructing a number of flood protection schemes in our 2020–2025 Business Plan, based on development and subsequent reprioritisation, and are finalising our Year 2 Flood Resilience Programme. Prioritisation within the flood protection asset intervention programme is ongoing.

Stock levels built up prior to Brexit have been maintained throughout the year during the transition period to exiting the EU, and have ensured sufficient stock holdings of critical spares in the event of supplier failure or extension in lead times. Increased stocks of key network materials were built throughout the winter period, ensuring availability.

Frameworks (including the alliances) are typically made up of a number of suppliers capable of supplying goods or services in the event of a supplier failure, giving the ability to switch suppliers at short notice.

Between April and October 2020 a survey of over 400 of Anglian Water's suppliers was used to assess the general business health in the wake of Covid-19. In the latter part of the year the survey was used to assess supplier health and readiness for a potential 'no-deal' Brexit.

Current risk assessment

The current risk assessment is based on the understanding that we are reviewing control measures already in place and in the context of significant modelling having been done as part of our business planning for 2020–2025.

The shocks and stresses we have experienced this year have severely tested our control measures, but we have been able to adapt and maintain performance through our preparedness and response, and use the experience to further improve our control measures.

6

Physical, cyber and personnel security

Risk definition

A failure to put appropriate measures in place to protect our business and customers from physical, cyber and personnel security breaches resulting in loss or damage to data, physical damage to sites or assets, potential harm to our people and customers, inability to operate systems, inability to supply core services, legal or criminal action, reputational damage and loss of confidence in our business.

Unmitigated risk description

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

A breach of corporate IT systems, whether deliberate, malicious or accidental, could lead to loss of Anglian Water data. Any breach could be financially damaging, as well as causing a breach of the Data Protection Act 2018, combined with the associated reputational damage once the breach was reported publicly.

Controls and mitigation

We seek to mitigate this risk with a clear cyber strategy and continual improvements to critical governance and technical controls. This approach allows us to identify threats and introduce countermeasures to defend our assets from attack, damage and loss. With the support of regular reviews by external experts who assess both the suitability and the effectiveness of these controls, this provides assurance that we have the right measures in place to counter the threats we face. In addition to enhancing technical controls, an ongoing awareness and education campaign continues to modify employees' behaviours towards cyber risk, with regular checks to test people's understanding. We continue to operate and strengthen our security operations centre, managed by Airbus, to ensure additional controls, cyber monitoring and system protection.

The business is driving technical innovation within Operational Technology (OT) to deliver business efficiencies. The critical OT systems which control water production are becoming more reliant upon common IT technologies; whereas previously these systems were 'standalone', increasingly they are being integrated into third-party networks (i.e., providing a remote attack vector). This risk is mitigated by our funded AMP7 programme to deliver enhanced cyber security controls to our critical water supply facilities. Our Cyber Security Strategy is driven by the requirements of the Security of Network and Information Systems Regulations Directive.

Current risk assessment

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

However, the overall and increasing risk is at Amber. As an example of the oversight of risk in the business, the Audit Committee recently requested a review of cyber security risk, in which the risk position and future strategy was discussed in detail, with the Committee supporting this assessment.

7

Supply and demand

Risk definition

A failure to supply clean, safe drinking water at the level of demand, impacting our customers and communities and resulting in reputational damage, dissatisfied customers, significant penalties and regulatory action.

Unmitigated risk description

Ensuring our business is resilient to long-term supply and demand requirements is a stretching target, but critical to fulfil our customers' needs. Climate change is a major challenge to our business that could impact our assets and service to our customers (see page 24 and pages 74–75). We have seen our Security of Supply Index (SoSI) reducing over the past two years, with increasing demands reducing available headroom in some of our Water Resource Zones (WRZs). We see the inherent risk continuing to increase with the effects of climate change, customer demand and environmental challenges, hence a red status. Covid-19 has also affected SoSI over the past financial year due to shifting patterns of demand.

Our region is environmentally sensitive, and we recognise that all our abstractions must be environmentally sustainable as part of our commitment to enhance the natural environment. The publication of the Water Abstraction Plan by the Government in 2017 marked an important turning point in abstraction reform by driving a tightening of regulatory powers to address unsustainable abstraction. Our Water Resources Management Plan 2019 included all known challenges at the time of publication; however, we are experiencing a change in regulatory expectations to meet the Water Framework Directive 2027 deadline.

The most imminent challenge relates to our groundwater sources in the Ant Valley Catchment where there is an ongoing habitats review by the Environment Agency (EA). If our abstraction is deemed unsustainable, under Section 52 of the Water Resources Act, the EA will serve notice to cease or reduce abstraction within 28 days. This timescale is outside the agreed programme in WRMP24.

A second challenge relates to the application of licence capping across our region. In WRMP24, we agreed to cap all groundwater licences to recent actual peak levels (i.e., maximum peak annual quantity abstracted between 2005 and 2015). The EA has indicated it intends to change the way licences are capped, using average rather than peak recent actual abstraction levels. This change would pose an unacceptable risk to our ability to continue to meet our statutory duty to provide drinking water to our domestic customers.

We foresee a continuation of new abstraction challenges in the next five to ten years.

Resilience and risk management continued

Controls and mitigation

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

We have been closely monitoring and investigating the demand changes in our area over the past year, with an increase in activities such as logging and night flow monitoring, and an increase in the frequency of internal reporting to enable pre-emptive action. Although we have a good level of potable water storage, we have plans in place to tanker water, if necessary, to maintain SoSI.

We continue to work closely with neighbouring water companies to explore opportunities to share resources through trading arrangements and continue to be a key stakeholder in Water Resources East (WRE), contributing to the development of the Regional Water Resources Plan.

During this year we have updated and resubmitted our Drought Plan to Defra. We continue working on our long-term water resources planning and have internal groups in place to develop demand-side and supply-side options that will feed into our WRMP24 and PR24 plans.

We remain on target to deliver our 2020–2025 performance commitment to reduce the population served by only one water treatment works to 14.1 per cent by the end of the AMP. The majority of the reduction will be delivered by completion of the strategic pipeline and associated schemes.

An Abstraction Challenges Steering Group, chaired by the Director of Water, has been established to manage and drive action to address the key abstraction risks identified. This group brings together multiple stakeholders from across Water, Legal, Strategy and Regulation, and Brand and Communications.

Current risk assessment

Severe weather is placing an increasing challenge on our ability to provide a service to our customers and the environment.

This year we have seen the combined impact of extreme weather and a significant shift in demand for water as a result of the pandemic. During the summer of 2020 a prolonged period of hot weather, combined with an increase in domestic consumption as a result of customers staying at home, required us to produce and supply record-breaking volumes of drinking water. Several incidences of cold weather during the winter months have also resulted in increases to our distribution input. Significant tactical interventions have taken place during the year to prevent any service impact on customers; however, when combined with increasing pressure on our abstraction licences, this results in increasing pressure on our overall supply-demand balance. This pressure is expected to continue throughout the period to 2025 due to reductions in our abstraction licence volumes, hence an assessment of Amber.

8

Water quality

Risk definition

Occurrence of a water quality event significant enough in severity to be classified as Major (Category 5) by the Drinking Water Inspectorate (DWI), impacting our customers, communities and environment, disrupting customer service, and leading to significant financial and reputational impact.

Unmitigated risk description

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

Controls and mitigation

We have a mature Drinking Water Safety Planning approach that meets regulatory requirements, underpinned by our extremely robust Policies and Standards for Water Supply Hygiene. These ensure that we manage water quality from source — through our water treatment works and water storage points — and in our network of pipes into customers' premises. We have delivered a significant capital maintenance and quality enhancement programme between 2015 and 2020 to ensure we maintain and improve our drinking water quality and received full support from the Drinking Water Inspectorate (DWI) for our quality enhancement programme over that period.

Regular audits are carried out both internally and externally. Water Business Stream processes are externally assessed annually by Lloyd's Register Quality Assurance to ISO 9001 Quality Management and ISO 22301 Business Continuity Management System standards. Our comprehensive internal audit programme is signed off each year by the Director of Water Business Stream and the senior leadership team and is delivered by members of the Water Quality and the Risk and Systems teams. The national accreditation body, the United Kingdom Accreditation Service (UKAS), audits and accredits our laboratory as part of ISO 17025 and we are one of only two companies to achieve external certification for our water quality risk assessments through Lloyd's Register on behalf of the DWI.

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

Sub-groups track progress with key water quality programmes of work – for example, monthly Storage Point Delivery Group and weekly senior manager-led conference calls track the progress of external and internal water storage point inspection programmes.

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

The Water Business Stream Competent Operator Scheme has recently been certificated to ISO 17024 Certification of Personnel.

Our Water Quality Regulations Team continuously monitors wider industry events and incidents in order to understand the risk of a similar event happening at Anglian Water. This process is governed through our 'Could it happen here?' process reviewed monthly at our Water Business Stream Compliance Monitoring Group, with relevant learning points incorporated into our policies, procedures or training.

Current risk assessment

This continues to be an increasing risk for us as a business, with continued focus, particularly on quality standards.

Regulatory and compliance

9

Political, regulatory and legislative changes or breaches

Risk definition

A breach or failure to comply with political, regulatory or legal requirements affecting our people, customers and/or the environment, and potentially leading to substantial penalties, reputational damage, environmental impact and regulatory, legal or criminal action.

Unmitigated risk description

Water companies have continued to be under the national spotlight in the context of complex societal, political and environmental challenges moving up the political agenda. If reforms of the water sector are introduced with insufficient foresight, evidence or consultation, there is a risk they will stifle investment, harm the interests of customers, employees and our suppliers and damage the value of the business for investors.

Resilience and risk management continued

There is increased pressure on the water industry from our regulators to perform, which has been reflected in tougher performance commitments and environmental standards that do not always reflect the unique challenges facing the East of England. Failure to meet these performance commitments and standards could lead to penalties and potential reputational damage.

One area of focus has been Water Recycling Centre compliance in line with our responsibilities in the Environmental Performance Assessment and our performance commitments.

Controls and mitigation

We stay abreast of current political, regulatory and legislative matters that may affect our industry or company. We ensure compliance with current legislation, influence the shape of new policy and forthcoming legislation and monitor the potential impacts of new legislation. To manage compliance, we have numerous business controls and processes, including a legal risk register, as well as our online training system. We expect all employees, partners, agents and contractors to adopt a high standard of business ethics and have zero tolerance of bribery and corruption. All senior managers are required to confirm that employees within their business unit have taken appropriate steps to comply with the policies that deal with the legislative risks, including completing training where required to do so and, in the case of our anti-bribery strategy, complying with our gifts and corporate hospitality policy. All employees are required to complete online training on areas including anti-bribery, maintaining a level playing field (which deals with competition law risk) and data protection law, in line with the requirements of the General Data Protection Regulation (GDPR).

We collaborate with other water companies and with Water UK to keep abreast of emerging thinking within government, the opposition parties, and wider influential voices. We continue to propose our own models for reform that marry the benefits of private sector investment with stronger corporate governance through the Boardroom that demonstrably delivers in the long-term public interest.

Our Internal Public Advisory Committee, a formal sub-committee of the Management Board, oversees our engagement with government and our regulators on policy reforms and regulatory risks, and seeks to influence these by, for example, responding to consultations and providing evidence to parliamentary select committee inquiries. Our submissions can be found on our website.

Our dedicated Treatment team manages day-to-day performance and risks of our Water Recycling Centres, with all critical assets and processes connected to and monitored by an effective telemetry system. Our Water Industry National Environment Plan sets out how we will meet future compliance, growth and maintenance needs.

To ensure asset availability we have a routinely reviewed maintenance strategy, while to maintain compliance we have a sludge removal strategy. Our service delivery scientists provide on-site technical guidance and we proactively review performance and quality to identify emerging risks.

To manage third-party impacts (traders and fly tipping) we maintain a catchment strategy which includes our proactive sampling programme for all traders. Our catchment strategy for managing impact from networks septicity includes controls, measurement and optimisation of septicity assets to prevent any impact to treatment processes.

Current risk assessment

We assess our current risk position to be Green and stable given the effectiveness of the controls mentioned above. 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.

10

Protecting our environment

Risk definition

A failure to protect our environment and planet by causing damage, leading to a lasting effect on our customers and local communities and resulting in loss of confidence, reputational damage, impact on business performance objectives, increased costs to the business and environment and potential regulatory, legal or criminal action.

Unmitigated risk description

Leaks, spills and escapes from our water recycling assets, combined with the overall serviceability of the infrastructure, have the potential to cause pollution, damaging or endangering the natural environment. Such incidents are categorised by the Environment Agency (EA) and, depending on their impact and severity, can lead to prosecutions and financial penalties. While such events are rare, their potential to cause environmental harm and reputational damage to Anglian Water, and the fines they attract, make them a significant risk. We have seen this unmitigated risk

to the business increase due to the scale of fines that are being imposed by the EA, increased scrutiny from our customers and the reputational impact associated with pollution events.

Without action to ensure we meet our bathing water directive, we risk failing to meet the environmental quality standards for bathing waters in our region and our performance commitment for AMP7.

There are increasing restrictions to agricultural outlets for biosolids. The water industry has become increasingly reliant on both a diminishing land bank and food chain stakeholder endorsement beyond farmers.

Controls and mitigation

Anglian Water has set a goal to drive down the number and severity of pollutions. All incidents and the associated response, mitigation and preventative actions are reported to and monitored by our newly formed Pollutions Task Force and senior management. We have a wide programme of activities to reduce pollution incidents and improve our understanding of their causes, summarised in our Pollution Incident Reduction Plan (PIRP).

This includes:

1. Investment on planned preventative maintenance to reduce blockages and consequent pollutions.
2. A priority 'blue light', or fast response, for areas with historical pollution risk and/or significant environmental sensitivity.
3. Ongoing investment in new technology for remote monitoring of discharges. This has been installed at key points on the network, both inland and coastal.
4. Continuing to enhance our systems to achieve real-time monitoring and reporting of pollution incidents, to provide a one-stop shop for pollution information and analytics to support targeted investment.
5. Aligning our internal processes and procedures to meet changes to Environment Agency guidance.
6. Extension of our Pollution Watch campaign targeted at the public and river users to encourage earlier engagement with resolution of any potential incident.
7. 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.
8. Investment in flow monitoring on rising mains and smart pump control across 250 high-priority pumping stations.
9. Continuing to work on improving our self-reporting of potential pollution events to the Environment Agency by getting the right information from the field quickly, utilising our telemetry systems to make an assessment of probability and working to improve our monitoring and handling of events.

Resilience and risk management continued

To ensure we meet our bathing water directive we have a mature Coastal Catchment team in place. Collectively, this team ensures that we are complying with all relevant standards and also actively manages risks to our bathing waters.

A number of asset-related activities are in development to ensure the bathing water asset intervention programme is fit for purpose, including investigation into coastal pollution sources, a programme of removal of unsatisfactory combined sewer overflows, development of ACMS and BeachAware, a programme of installation of UV treatment at key coastal Water Recycling Centres.

As part of our mitigation for the diminishing outlets for biosolid disposal, we have implemented the Biosolids Assurance Scheme (BAS), the national quality assurance scheme for recycling of biosolid products. The scheme is accredited by the United Kingdom Assurance Service (UKAS), with audits completed by an external certification body. Due to the current position on the interpretation of legislation, we are increasing our level of engagement on this issue with regulators, government and the European Union. This is ongoing and the risk will be routinely reviewed.

Current risk assessment

The current risk assessment is Green, based on the current arrangements and monitoring regimes including:

- The continued work of the Pollutions Task Force. Work is underway to understand the ongoing requirements and nature of the task force and will be considered alongside the plan to meet the stretching targets associated with the PIRP.

- The recent government commitment to increase the safety of bathing waters in light of the wild water swimming boom. We may see significant impacts on bathing water performance and the associated performance commitment.
- The EA's position, which has potentially increased the likelihood of this risk occurring.

11

Business performance

Risk definition

Our risk register includes the risk of not delivering business priorities, hence delivery is one of the four goals set out in our strategy for 2020–2025 (see our business model on pages 20–21. Our performance is set out throughout the Strategic Report; in particular in the financial performance report on pages 34–39, the performance commitments dashboard on pages 66–69 and our performance in context on pages 70–71.

See our financial performance report on pages 34–39

Financial

12

Financing our business

Risk definition

A failure to finance our operations in either the short or the long term.

Unmitigated risk description

Our AMP7 business plan consists of a £5 billion totex programme and we have £7.8 billion of gross debt to manage and service. Recognising we continue to face economic challenges we have announced a new financing structure to support our AMP7 commitments.

In addition, the risk of the impact on Covid-19 on our domestic customers and commercial businesses will continue to be monitored and the associated revenue and cash impacts managed.

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

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

Controls and mitigation

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

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

Net debt accounts for approximately 82.0 per cent of our regulatory capital value as at 31 March 2021, as measured in our financial covenants agreed with our debt providers. The debt-funding structure was established in 2002. Our focus is on maintaining stable credit ratings and a strong liquidity and cash position, which we manage through cash and investments, together with available banking facilities and having a diverse debt portfolio in terms of source and maturity. We manage our financing risks through regular senior-level meetings held with banks, ratings agencies and bond holders, along with internal monitoring of our treasury strategy and liquidity, energy and covenant policies through our Finance, Treasury and Energy Policy Group.

We have implemented a new financing structure to support our AMP7 commitments. This follows a full review, announced on 30 March of the AWS financing strategy, which was conducted alongside our CMA appeal. Following that review, AWS committed to reduce total gearing in order to maintain its current solid investment grade credit ratings and ensure it has a sustainable and efficient capital structure in the interest of customers and investors, the environment and long-term viability.

The new structure will refinance existing debt at AWSF and AWOF and support AWS in meeting its commitments outlined above. The key elements of the new structure are as set out on pages 26–27.

Current risk assessment

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

Long-term viability statement

Background

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

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

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

Look-forward period

As one of the 10 regional water and sewerage services companies operating in the UK, Anglian Water's prices are set by the industry regulator Ofwat for five-year Asset Management Plan (AMP) periods, which support the Group's underlying costs. This provides the basis for future tariffs, revenues, costs and cash flows over the current AMP (April 2020 to March 2025).

Assessment of prospects and viability

The Directors have assessed Anglian Water's financial prospects over the next 10 years from April 2021 to March 2031. A 10-year period has been chosen to ensure that our Business Plan for the current AMP does not impact the longer-term viability of the company:

- The first four years takes us to the end of the current AMP, for which there is reasonable certainty and clarity, with a stretching five-year plan to deliver in line with the Competition and Markets Authority (CMA) Final Determination for AMP7.
- The next six years of the period are outside the current AMP and therefore subject to the final outcome of the following five-year price reviews, PR24 and PR29, for which uncertainty exists. Our assumptions for AMP8 (2025–2030) align to the AMP8 forecasts submitted in our PR19 Business Plan submission, which have been updated to account for the CMA Redetermination.
- The Board considered whether there are specific, foreseeable risk events relating to the principal risks that are likely to materialise within a 10-year period, and which might be substantial enough to affect the company's viability and therefore should be taken into account when setting the assessment period. These events were modelled appropriately within our downside scenarios.
- The Board has considered the impact of the wider activities of other Group companies and transactions and of the overall Group structure.

- The Board considers the maturity profiles of debt and the availability of new finance over 10 years as part of its review of financial modelling and forecasting, as well as considering the credit ratings of the debt.
- Finally, we take note of the Water Industry Act, which requires Ofwat to ensure that water companies can (in particular through securing reasonable returns on their capital) finance the proper carrying out of their statutory duties.

Principal risks

We have set out the details of the principal risks facing the company on pages 81–93, described in relation to our ability to deliver our 10-year outcomes. We identify our principal risks through a robust assessment that includes a continuous cycle of bottom-up reporting and review, and top-down feedback and horizon scanning. Through this assessment, priorities are elevated appropriately and transparently. This process is described in more detail on pages 76–80.

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

See our principal risks on pages 81–93

Stress testing the business plan

In reviewing its financial viability, Anglian Water considers the stringent covenant tests required under its securitised structure to provide comfort to our bondholders that our business is viable to the end of the current AMP period and beyond, and to ensure the availability of debt to finance Anglian Water's investment

programme. At each regulatory price review and throughout the AMP, the Board satisfies itself that the agreed five-year business plans ensure adequate covenant headroom throughout the AMP period and beyond. This includes extensive downside scenario testing at both Anglian Water and Group level from severe, plausible and reasonable scenarios chosen

because they pose the greatest risk to the business. The following scenarios have been used with individual and combined impacts, as set out in the table, to model the impact on the overall performance of the business, the ability of the business to service its debt and the impact on its credit rating:

Scenario	Impact modelled	Potential mitigations required
Material total expenditure (totex) underperformance against the Final Determination allowance	Overspend of 10 per cent across an AMP	No mitigations required
Material Outcome Delivery Incentive (ODI) penalties	Up to £100 million applied in a single year	No mitigations required
Regulatory fines and legal penalties	Up to 3 per cent of turnover applied in a single year	No mitigations required
Unfunded pension liabilities	Up to £15 million applied per annum	No mitigations required
Risks associated with the disruption caused by Covid-19, potential reductions in revenue collection	Up to 7 per cent decrease in cash collection	No mitigations required
The potential impact of credit rating agencies downgrading the debt for any companies in the Group	2 per cent increase in cost of new debt	No mitigations required
Cost of debt increases	2 per cent above base level assumptions across an AMP	No mitigations required
Significant inflation fluctuations	1 per cent above and below base level assumptions for each AMP	No mitigations required
Combined scenario based on totex underperformance for a whole AMP, along with a significant ODI penalty	Overspend of operating costs of £15 million per annum and £50 million ODI penalty in a single year	No mitigations required
Combined scenario based on totex underperformance and lower inflation	Overspend of totex by 2.8 per cent over AMP combined with inflation 1 per cent below base	No mitigations required

Long-term viability statement continued

As part of our stress tests for the downside scenarios we have considered the potential impacts of cost shocks resulting from climate change. Such cost shocks include the 'Beast from the East' extreme cold weather event followed by a rapid thaw, experienced in early 2018, and the extreme wet weather events experienced in our region in the summer of 2019 and winter of 2020/21. The cost impacts of these events (including longer-term recovery impacts such as leakage reduction), were in the order of £7 million for the 'Beast from the East' and £3 million for each extreme wet weather event. Our modelled downside scenarios include cost shocks equal to experiencing several of these events in continuous years across the AMP; we are therefore confident that we can withstand the financial impacts of extreme weather events, predicted to increase as a result of climate change.

In April 2019 Ofwat issued Information Notice IN 19/07 setting out its expectations for companies in issuing long-term viability statements. In our Annual Performance Report we provide additional detail on the processes and assumptions underpinning our long-term viability statement and demonstrate our compliance with IN 19/07.

See our Annual Performance Report at anglianwater.co.uk/our-reports

Mitigating actions

For each sensitivity and combined scenario, we identify, in case required, the appropriate mitigations against the potential risks. In the event that the situations used for stress testing were to result in an unacceptable level of deterioration in the company's financial metrics, management's principal actions would include further reducing the level of shareholder distributions, potential shareholder equity injections, reviewing the financing structure and identifying further opportunities to reduce the company's cost base or reduce financing costs.

Evidence of the shareholders' support for equity injections is provided by the equity injections made in October 2018 of £22.0 million and in April 2021 of £110.0 million. In addition, subsequent to the year end, the Group has implemented a new financing structure in order to enable a substantial equity injection into the company, leading to a future reduction in gearing.

As a further mitigation we have a significant portfolio of insurance cover in place to provide protection against many catastrophic scenarios such as dam failure, pluvial and fluvial flood, terrorism, and public and employer's liability. There would still be a short-term liquidity impact from such events due to the time it would take between incurring the expenditure and recovering this through the insurance claim; however, it is an important consideration in terms of medium-term liquidity.

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

Benefits of the securitised structure

The highly covenanted nature of our financing arrangements (often described as a whole business securitisation) enhances our financial resilience by imposing a rigorous governance framework. This requires continuous monitoring and reporting of our financial and operating performance by senior management, through a well-established business process, to ensure compliance with our financing arrangements, and provides an additional layer of control over how we transact with our stakeholders, including suppliers, business partners, customers, shareholders and lenders in parallel with the regulatory frameworks by which we are governed.

Assurance

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

Directors' statement

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

Ofwat published its PR19 Final Determination in December 2019. This will form the basis for setting customer charges in 2021/22. Funding for the remaining years of AMP7 will be set by the CMA Redetermination, which rebalanced the split between operational expenditure (opex) and capital expenditure (capex) and recognised that long-term investment for resilience requires long-term investors, who deserve a fair return on their investment. While the delivery of our 2020–2025 Business Plan remains challenging, the Redetermination will enable us to deliver the resilience to climate change and population growth that our region needs and continue to operate within our covenant requirements.

Ofwat's Final Determination included a reduced cost of capital which remains a significant challenge to our financeability in year 2 of AMP7, while later years benefit from the adjustments made by the CMA which improve our financeability. To mitigate this, a number of initiatives have been undertaken to increase our headroom in 2021/22 such that the business can accommodate moderate to severe downside shocks in that year.

As well as incorporating the impacts of Covid-19 into our base forecasts, we also conducted modelling of worst-case scenarios, including the likely recessionary impact on the wider economy. As a result of the initiatives in 2021/22, and the adjustments from the CMA process in later years, the viability of the business is not significantly affected by these downside scenarios and no downside scenarios require mitigations.

Anglian Water Services is an efficient company with a history of outperformance and the Directors can be satisfied that the business has a reasonable expectation of being able to continue in operation and meet its liabilities as they fall due at least to March 2031, and is financially resilient in the face of severe but plausible downside shocks.

This is based on the reasonable certainty of its future revenue stream, the strength of the balance sheet (in particular the substantial cash balance and strong net assets), the availability of undrawn debt facilities in the unlikely event that debt markets were temporarily restricted, and by reviewing the business plans and strategic models, combined with the robust risk management process and mitigations described above.

This Strategic Report was approved by the Board of Directors on 16 June 2021 and signed on its behalf by

Claire Russell
Company Secretary



Governance

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Chairman's introduction to Governance

Introducing the Board's approach to governance and its key areas of focus this year.

John Hirst, CBE
Chairman

Board Leadership, Transparency and Governance Principles start on page 104

Dear Stakeholder

I present the Corporate Governance Report for the year ended 31 March 2021. This report provides you with a more detailed look at the Board's approach to governance and its key areas of focus this year.

As I referenced in my Chairman's welcome on pages 10–11, this year has been challenging in ways previously unimaginable. As a Board we are proud of the way our people and alliances have stepped up to the very significant demands of the past year. The Board has also had to respond to Covid-19 and I am grateful to my fellow Directors for their adaptability, with all our Board meetings having been held virtually during the year. Further information on our response to Covid-19 can be found on pages 14–17.

Transparency and governance

This report details our compliance against the Anglian Water Services Corporate Governance Code 2020 (which was adopted by the Board during the year). As described in more detail in the Corporate Governance Report, the 2020 Code incorporates both Ofwat's Board Leadership, Transparency and Governance Principles (which are now incorporated into the Company's Licence) and most of the provisions contained in the 2018 UK Corporate Governance Code.

Board Committees

As ever, our Board continues to be supported by the work of our Committees: Audit, Nomination and Remuneration, whose reports you can read on pages 114–143.

Stakeholder engagement

Throughout the year we have sought to ensure that the needs of our stakeholders are taken into consideration in our decision making, and further information on our key stakeholders can be found throughout the Strategic Report. In October 2020, my fellow Directors and I were able to attend one of our online stakeholder workshops. I found the event valuable as it provided me with the opportunity to meet and receive feedback from a wide range of stakeholders. You can read more in our dedicated section 172 statement on pages 62–65.

Board evaluation

The Board considers the annual review of the Board, its Committees and Directors to be an essential part of good corporate governance. This year the Board undertook an external evaluation; more information on that can be found in the Nomination Committee Report on pages 120–122.

Annual Performance Report

As in previous years, the Annual Performance Report is being published as a separate document; see anglianwater.co.uk/about-us/our-reports. This report contains a statement from the Board, which focuses on how the Company has set its long-term ambitions and targets and how the Company is delivering for everybody that it serves.

John Hirst

Chairman
16 June 2021

Information on the Company's performance during the year can be found on pages 22–75

Please see our Board skills matrix on page III

Board of Directors

ANGLIAN WATER SERVICES MANAGEMENT BOARD

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

Peter Simpson

Group Chief Executive Officer

Steve Buck

Group Chief Financial Officer

Susannah Clements

Group People and Change Director

Brian Ebdon

Director of Strategic Planning and Performance

Iain Fry

Director of Information Services

Paul Gibbs

Director of Water Recycling

Pete Holland

Director of Customer and Wholesale Services

Ciaran Nelson

Director of Brand and Communications

Alex Plant

Director of Strategy and Regulation

Ian Rule

Director of Water Services

Claire Russell

Group Legal Director/ Company Secretary

Jason Tucker

Director of Strategic Delivery and Commercial Assurance

INDEPENDENT CHAIRMAN

(N) R

John Hirst, CBE

Independent Chairman

- Chairman in April 2020
- Senior Independent Non-Executive Director in January 2016
- Independent Non-Executive Director in April 2015

John has a wealth of experience leading and transforming complex organisations. He was Chief Executive of the Met Office from 2007 to 2014 and was Group Chief Executive of Premier Farnell plc, a FTSE 250 electronics distribution company, between 1998 and 2005. His early career was with ICI, beginning in finance before progressing into various leadership roles and serving on the group executive team as Chief Executive of the speciality chemicals division. 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.

John is Chairman of the British Standards Institution (BSI) and the National Oceanography Centre. He is also a Director of IMIS Global Limited and Afontech Limited. John is Chairman of SUDEP Action and a Trustee of Epilepsy Research UK.

INDEPENDENT NON-EXECUTIVE DIRECTORS

N R

Dame Polly Courtice, DBE, LVO

Senior Independent Non-Executive Director

- Senior Independent Non-Executive Director in April 2020
- Independent Non-Executive Director in April 2015

As the Founder Director of the University of Cambridge Institute for Sustainability Leadership (CISL) from 1989 to 2021, Polly has extensive experience working with global businesses as an ambassador for best practice in sustainability. In 2016 Polly was made a Dame Commander of the Order of the British Empire (DBE) for services to sustainability leadership, and in 2008 she was made a Lieutenant of the Victorian Order (LVO). Polly was awarded the 2015 Bright Award for Environmental Sustainability from Stanford University Law School, and in 2016 was recognised with a Lifetime Achievement Award from Ethical Corporation.

Polly is Emeritus Director and Senior Ambassador of CISL. She is a Board Adviser to BSI, is a Director of Jupiter Green Investment Trust and serves on the environmental/sustainability advisory boards for AstraZeneca and Nespresso. She is also Deputy Lieutenant for Cambridgeshire and is a member of the Cambridgeshire and Peterborough Independent Commission on Climate.

APPOINTED

SKILLS, COMPETENCIES & EXPERIENCE

OTHER ROLES

A Audit Committee N Nomination Committee R Remuneration Committee ○ Denotes Committee Chair

A R

○ A N

A N ○ R

Natalie Ceeney, CBE

Independent Non-Executive Director

- Independent Non-Executive Director in April 2018

Natalie spent more than 20 years leading organisational and digital transformation, firstly as a McKinsey & Company consultant and then as an executive. She has worked across a range of sectors, both public and private, and has experience as a regulator as well as a CEO. Natalie has a focus on and deep interest in meeting the needs of customers, inclusion, and the transformational nature of technology. Natalie's executive career included chief executive roles at HM Courts & Tribunals Service, the Financial Ombudsman Service, the National Archives and as a member of HSBC's UK executive team. Natalie is a graduate of the University of Cambridge.

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

Zarin Patel

Independent Non-Executive Director

- Chair of the Audit Committee in April 2020
- Independent Non-Executive Director in October 2018

Zarin is a chartered accountant who spent 16 years at KPMG followed by 15 years at the BBC, during which time she helped to transform the organisation into a fully digital broadcaster. Zarin was CFO of the BBC and sat on its Board, where she was also responsible for risk management. Latterly, Zarin was COO of The Grass Roots Group plc, a customer and employee engagement specialist.

She was an independent member of the Audit & Risk Committee of John Lewis Partnership plc until April 2021.

Zarin is currently a Non-Executive Director of Post Office Limited and Pets at Home Group plc, where she is Chair of the Audit & Risk Committee. She is an Independent Member of the Audit & Risk Committee of HM Treasury. She also sits on the Board of Trustees of the National Trust and chairs its Audit Committee.

Paul Whittaker

Independent Non-Executive Director

- Chair of the Remuneration Committee in January 2015
- Independent Non-Executive Director in October 2013

Paul has significant regulatory experience gained during an extensive career in the energy sector. He was formerly Director, UK Regulation at National Grid plc, where 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. Immediately prior to that he was Group Head of Strategy.

His career began at British Gas in 1981 and included the privatisation and subsequent liberalisation of the UK gas industry as well as periods working internationally. He joined National Grid when it merged with Lattice in 2002.

Paul is an Associate at Oxera LLP.

Board of Directors continued

EXECUTIVE DIRECTORS

NON-EXECUTIVE DIRECTORS

Peter Simpson
Chief Executive Officer

· CEO of Anglian Water Group in October 2013
· Managing Director of Anglian Water in 2010 and COO from 2004

Steve Buck
Chief Financial Officer

· CFO of Anglian Water Group in August 2019

John Barry*
Non-Executive Director

· Non-Executive Director in November 2020

APPOINTED

Peter is a founding member, and now co-chair, of CLG UK (the Corporate Leaders Group, run by the University of Cambridge Institute for Sustainability Leadership), which provides a strong voice to support UK leadership nationally and internationally on the transition to a climate-neutral, resource-efficient, socially inclusive economy by 2050.

Peter also works with Business in the Community (BITC) as Chair of the East of England Leadership Team, and sits on the Board of Trustees of Wateraid. Peter is a Chartered Water and Environmental Manager, a Chartered Scientist and a Chartered Environmentalist. In 2016, he was made an Honorary Fellow of both the Society of the Environment and the Chartered Institution of Water and Environmental Management. He holds an MBA from Warwick Business School.

SKILLS, COMPETENCIES & EXPERIENCE

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

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

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

John is a Chartered Accountant who was a founding member of 3i's infrastructure business and served as a Director of 3i Infrastructure. More recently, he was a Managing Director of First Reserve Corporation, where he was one of the founders of First Reserve's energy infrastructure business. During his time at First Reserve he oversaw numerous investments into the energy sector, including energy from waste, wind and solar power plants, gas-fired power plants, utilities and oil and gas midstream as well as energy backup. John holds a BSc (Hons) in Physics from the University of Southampton.

John is Non-Executive Chairman of Cory Energy Group, a Non-Executive Director of North Sea Midstream Partners and a member of the Independent Investment Committee for SUSI Infrastructure Partners Energy Transition Fund.

OTHER ROLES

* Director of Anglian Water Group Limited
** Alternate Director of Anglian Water Group Limited.

A Audit Committee N Nomination Committee R Remuneration Committee ○ Denotes Committee Chair

N R

James Bryce*

Non-Executive Director

- Non-Executive Director in May 2018

James is co-head of CPPIB's Portfolio Value Creation Team. Prior to joining CPPIB in 2012, James was a managing director at Royal Bank Equity Finance (RBEF), where he spent 10 years focused on private equity and infrastructure transactions. Before that, he was a member of the private equity team at JP Morgan Capital and started his career as a pension fund manager at Hambros Bank. James holds an MA from Oxford University.

James is a Director of Associated British Ports Holdings Limited and Viterro Limited.

N R

Niall Mills*

Non-Executive Director

- Non-Executive Director in April 2014

Niall is the Global Head of Infrastructure Investments for First Sentier Investors. Niall joined First Sentier Investors in 2008, prior to which he worked in industry, holding senior roles across a variety of sectors, including utility companies, rail and airports.

Niall holds an MBA from London Business School, an Institute of Directors Diploma in Company Directorship and a Bachelor of Engineering (Hons) from Sheffield Hallam University. He is a Fellow of the Institution of Civil Engineers.

Niall is a Director of AS Utilitas Tallinn and Tallinn Water (AS Tallinna Vesa).

N R

Duncan Symonds**

Non-Executive Director

- Non-Executive Director in November 2016

Duncan is the Executive Director of Asset Management for the IFM Investors European Infrastructure team, where he is responsible for the identification and implementation of asset management initiatives across IFM Investors' existing portfolio of infrastructure assets, and for the development and execution of transition plans for new investments. Duncan has an extensive track record in the engineering, construction and transportation industries. He is a Fellow of the Institution of Civil Engineers and holds an MBA from Cranfield School of Management.

Duncan also represents IFM Investors as a director on the boards of Global Infracore S.a.r.l., Airports Group Europe S.a.r.l., and Luxpoort S.a.r.l.

Corporate Governance Report for the year ended 31 March 2021

Principles of corporate governance

Anglian Water is committed to the highest standards of corporate governance. The Anglian Water Services Limited Corporate Governance Code 2020 (the 2020 Code) came into effect on 1 October 2020 and replaced the Anglian Water Services Limited Corporate Governance Code 2019 (the 2019 Code). The 2020 Code incorporates Ofwat's 2019 Board Leadership, Transparency and Governance Principles (the BLTG Principles) and supporting provisions along with most of the provisions contained in the 2018 UK Corporate Governance Code. Only the parts of the UK Corporate Governance Code that cannot sensibly be applied to a company in private ownership, such as the provisions relating to shareholder meetings, have been omitted. Although compliance with the Wates Corporate Governance Principles (in addition to the BLTG Principles) would be sufficient, the Board was keen to adopt more stretching corporate governance requirements found in the 2018 UK Corporate Governance Code.

The only difference between the 2019 Code and the 2020 Code is that Provision 2.4 has been updated to ensure alignment with the company's Articles of Association and Ofwat's requirements on Board composition.

This report details compliance with the 2020 Code and complies with the requirement contained in Anglian Water's Licence to meet the objectives contained in the BLTG Principles and to explain, in a manner that is effective, accessible and clear, how Anglian Water is meeting the four objectives, which are detailed below. Both the 2020 and the 2019 Code can be found at anglianwater.co.uk/governance. The Company Secretary keeps compliance with the relevant corporate governance standards under review and any changes recommended are subject to approval by the Board.

"Anglian Water is committed to the highest standards of corporate governance."

Available to view at
anglianwater.co.uk

Company purpose, values and culture

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

The Board recognises that Anglian Water has a special responsibility as a monopoly provider of an essential public service and that it has a duty to deliver wider benefits to society, above and beyond the provision of safe, clean water and the effective recycling of waste water. In 2019, Anglian Water's Articles of Association were amended to enshrine the company's long-standing commitment to a social and environmental purpose. As a consequence of this change in its constitution, Anglian Water must conduct its business and operations for the benefit of shareholders while delivering long-term value for its customers, the region and the communities it serves, and seeking positive outcomes for the environment and society. As part of the change to the Articles of Association the Board has also made an explicit commitment to consider, as part of its decision-making process:

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

Within the new Articles of Association, the Directors are required to adopt a Statement of Responsible Business Principles (the SRBP) and, to the extent not covered in the non-financial information statement, explain any steps that have been taken to ensure that the business of the company has been carried out in accordance with the SRBP. In 2020, the Board agreed the SRBP should take the form of Business in the Community's (BITC) Responsible Business Tracker. The outputs from the assessment conducted using the Responsible Business Tracker were discussed with the Board and used to identify areas for development in the following year. The company has conducted a further assessment using the Responsible Business Tracker in 2021 and is awaiting the results. In addition, the collaborative project with the British Standards Institution to develop a Publicly Accessible

Specification (PAS) for Sustainable Purpose is now in development and is due to be completed before the end of the 2021/22 financial year; see pages 40–41 for further information. In future the company intends to hold itself to account in relation to the principles set out in this PAS but will also continue to use the BITC Responsible Business Tracker to monitor progress.

The company's purpose is one part of its 'North Star' framework, which also includes the company's mission and values. Created with employees and endorsed by the Board, the North Star is a rearticulation of the company's purpose, underpinned by a mission statement that describes what kind of business the company is, and by three core values that set standards of behaviour for employees which support the company's mission and purpose. This framework gives all employees a common goal to work towards.

The Board has also sponsored the development of a Social Contract, with the support of employees and customers, which sets out the 10 outcomes the company has agreed with its customers, together with the five Public Interest Commitments to which the water sector jointly committed in April 2019 (see pages 40–41). The Contract sets out Anglian Water's commitment to achieving a positive impact on the environment and the communities it serves and invites customers to play a part in driving these sustainable outcomes in a two-way engagement.

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

To ensure that colleagues understand the standards expected of them, the company provides all new starters with a booklet entitled 'Doing the Right Thing'. The booklet summarises key company policies in a clear and concise way to ensure that Anglian Water's values and standards are clear to colleagues from their very first day. Doing the Right Thing is available on the company's website at anglianwater.co.uk/governance. Further information can be found on page 56.

A statement from the Board detailing how the company has set its aspirations and performs for all those it serves can be found in the company's Annual Performance Report.

At its meeting in May 2021, the Board considered and inputted into the work undertaken to monitor the company's culture, including how its culture had changed following the 'culture capture' review in 2018 and the evolution of a framework to monitor the company's culture (see page 56).

Corporate Governance arrangements resulting from the Aligned Debt Programme

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

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

Corporate Governance Report for the year ended 31 March 2021 continued

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

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

(a) Non-Permitted Business Limits (i.e., de minimis limits on the amount of non-regulated business which can be carried out).

(b) A restriction on tax transactions and a positive obligation to pay all taxes when due.

(c) Minimum insurance requirements (including requirements on the creditworthiness of the insurers).

(d) A hedging policy to require prudent hedging of interest rate and foreign exchange exposure, to prohibit speculative use of derivatives and to ensure swaps are only entered into with highly rated counterparties (so as to reduce counterparty risk).

(e) A requirement to maintain and hold all required IP rights.

(f) An obligation to act in accordance with 'Good Industry Practice' in all areas of the business.

The impact of these covenants was acknowledged by the Competition and Markets Authority (CMA) in its Redetermination of the company's PR19 regulatory settlement, in which the CMA noted that "covenanted companies have de-risking features such as additional ringfencing measures, enhanced rights for secured creditors, automatic standstill periods and contractual dividend restrictions".

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

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

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

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

The Board's aim is to ensure the effective delivery of the company's strategy. The company has developed four key goals for 2020–2025 (AMP7), which are:

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

These goals are designed to be consistent with the company's long-term strategy (which takes the form of a 25-year Strategic Direction Statement, approved by the Board in 2017) which sets out four long-term ambitions which are to:

- make the East of England resilient to the risks of drought and flooding;
- enable sustainable economic and housing growth;
- work with others to achieved significant improvement in ecological quality across our catchments; and
- be a net zero carbon business and reduce the carbon in building and managing our assets by 70 per cent by 2030.

A clearly defined framework of roles, responsibilities and delegated authorities is in place, which is designed to facilitate the achievement of the company's key goals. The Board has a formal governance matrix, which sets out the matters that are specifically reserved for its decision, thus ensuring that it exercises control over appropriate strategic, financial, operational and regulatory issues.

A list of matters reserved to the Board appears at anglianwater.co.uk/governance

This document also shows which decisions are reserved to the Board of Anglian Water Group Limited (AWG). They include:

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

During the 2020/21 financial year, a number of matters required approval by the AWG Board under the terms of the governance matrix; these included:

- remuneration matters, including awards under the Deferred Bonus Scheme;
- the extension of the Chairman's contract and associated changes to Committee membership;
- the appointment of a new Non-Executive Director; and
- the approval of a refreshed strategy for the remainder of AMP7 (which takes into account the impact of the CMA's Redetermination).

The Board does not believe that the impact of the governance matrix referred to above is such that Directors are deprived of the opportunity to exercise control of the company's strategy. Companies that are governed by the Listing Rules must obtain shareholder approval before concluding a material transaction (materiality being determined by reference to the Class tests set out in Rule 10).

Such transactions are likely to result from a major change in strategy and might include (for example) the acquisition of another undertaker (or a part thereof). The Board therefore considers it to be reasonable to ask the ultimate owners of the company to approve material changes in strategy, given that this power is broadly analogous to the approval power of shareholders in a listed company.

Where matters require the approval of the AWG Board, the role of the Board is to consider the relevant proposal and to make a recommendation to the AWG Board for approval. During the 2020/21 financial year the company's Board considered each of the matters detailed above prior to the matter being considered by the AWG Board and made a recommendation. In each case the AWG Board agreed with the recommendation made by the company's Board. In formulating their recommendations, the Directors of the company are mindful of the company's purpose (referred to above) as well as their duty under the company's Articles of Association to act in the way that is likely to promote the success of the company (which requires Directors to have regard to the likely consequences of any decision in the long term while also having regard to the interests of other key stakeholders).

The composition of the Board is such that the Directors are able to act independently of the parent company or controlling shareholder and exclusively in the interests of the company. The Executive and Non-Executive Directors are equal members of the Board and have collective responsibility for the company's strategy and performance. The Board is satisfied that the composition of the Board and its Committees are such that there is an appropriate balance of skills, experience, independence and knowledge of the company. As is explained below, Independent Non-Executive Directors make up the largest single group on the Board. The Board considers that the combination of Executive and Non-Executive Directors is such that no individual or small group of individuals can dominate the Board's decision making.

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.

Details of the skills and experience of the Directors are contained in the Directors' biographies on pages 100-103

Corporate Governance Report for the year ended 31 March 2021 continued

Board composition

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

John Hirst
Independent Non-Executive
Chairman, appointed as Chairman
1 April 2020

Peter Simpson
Chief Executive Officer

Steve Buck
Chief Financial Officer

Dame Polly Courtice
Senior Independent
Non-Executive Director

Natalie Ceaney
Independent Non-Executive
Director

Zarin Patel
Independent
Non-Executive Director

Paul Whittaker
Independent Non-Executive
Director

John Barry
Non-Executive Director,
appointed 23 November 2020

James Bryce
Non-Executive Director

Niall Mills
Non-Executive Director

Duncan Symonds
Non-Executive Director

At the date of these financial statements, in addition to the Independent Chairman John Hirst, there were four Independent Non-Executive Directors, two Executive Directors and four Non-Executive Directors. None of the Directors has a formally approved alternate.

The company's Chairman is also the Chairman of the company's ultimate parent company, AWG. The 2020 Code does not prohibit chairmanship of other companies in the Group, and on appointment as Chairman, the Board considered John Hirst (who was appointed as Chairman with effect from 1 April 2020) to be independent in judgement and character, notwithstanding the existence of his other directorships.

John Hirst is independent of investors and management and has no relationship with any of the company's shareholders, except for his chairmanship of AWG. None of the other situations listed in provision 2.3 of the 2020 Code, which might otherwise call into question independence, apply.

The independence of all the Independent Non-Executive Directors was considered by the Board at its meeting in January 2021. The Board concluded that all the Independent Non-Executive Directors remain independent of management and are not party to any business or other relationship that could materially interfere with the exercise of their independent judgement in accordance with the 2020 Code.

The Chairman and each of the Independent Non-Executive Directors have letters of appointment with the company rather than service contracts, which include the expected time commitment of the appointment. Copies of these letters can be found at anglianwater.co.uk/governance.

Where Directors have concerns about the operation of the Board or the management of the company that cannot be resolved, these would be recorded in the Board minutes, but no such concerns have been raised.

Board structure and effectiveness

OFWAT PRINCIPLE: The Board of the Appointee and their committees are competent, well run, and have sufficient independent membership, ensuring they can make high-quality decisions that address diverse customer and stakeholder needs.

It is the company's policy that the roles of the Chairman and Chief Executive Officer are separate, with their roles and responsibilities clearly divided.

A document that clearly sets out the respective responsibilities of the Chairman and the Chief Executive Officer (which was approved by the Board) can be found at anglianwater.co.uk/governance. The Chairman's commitment to the company and to its ultimate parent company is usually six to eight days per month. His other significant commitments are disclosed in his biography on page 100. The Board considers that these commitments do not hinder his ability to discharge his responsibilities to the company effectively.

The Board has appointed Dame Polly Courtice as the Senior Independent Non-Executive Director. A document setting out the role and duties of the Senior Independent Non-Executive Director has been agreed by the Board and can be found at anglianwater.co.uk/governance.

No Director may vote on any contract or arrangement between the company and any other Anglian Water Group company if he/she is also a Director of that Anglian Water Group company. In accordance with the relevant provisions of the Companies Act 2006, all the Directors are required to disclose details of all conflicts of interest to the Board. On appointment to the Board, all Directors are required to declare all their interests; any new interests held by Directors are considered at the start of each Board meeting and, where relevant, interests are declared prior to any substantive discussions. In addition, a further review of all Directors' interests is undertaken annually. The Board has approved a protocol for dealing with conflicts of interests, which is available on the company's website (anglianwater.co.uk/governance). At its meeting in January 2021, the Board considered the transfer of surplus land to AWG. Prior to the matter being considered, one Director declared an interest as they were also a director of the parent company of the land valuer. As such, pursuant to the company's Articles of Association, the Director did not vote on the matter.

Recommendations for appointments to the Board are made by the Nomination Committee. Appointments are made on merit and against objective criteria with due regard to skills, knowledge, experience and diversity. Non-Executive appointees are required to meet with Ofwat prior to their appointment to the Board and are also required to demonstrate that they have sufficient time to devote to the role. The Directors' key responsibilities are set out in the table overleaf.

Board committees

The Board has an Audit Committee, a Nomination Committee and a Remuneration Committee. Final decisions on issues considered by each of these Committees are made by the Board; all decisions made during the year were unanimous.

Audit Committee

Details of the terms of reference of the Audit Committee, its membership and its activities during the year are contained in the Audit Committee Report. All members of the Audit Committee are Independent Non-Executive Directors and its chair is Zarin Patel.

Nomination Committee

Details of the terms of reference of the Nomination Committee, its membership and its activities during the year are contained in the Nomination Committee Report. The majority of the members of the Nomination Committee are Independent Non-Executive Directors and its chair is John Hirst.

Remuneration Committee

Details of the terms of reference of the Remuneration Committee, its membership, activities, the company's remuneration policy and the remuneration paid to Directors during the year are contained in the Directors' Remuneration Report. The majority of the members of the Remuneration Committee are independent and its chair is Paul Whittaker.

The Board believes that Committees have sufficient independent membership to ensure that high-quality decisions can be made that best address diverse customer and stakeholder needs.

Board processes

The Chairman is responsible for ensuring that Directors receive timely, accurate and clear information. To ensure adequate time is available for Board discussion and to enable informed decision making, briefing papers are prepared and circulated to Directors in the week prior to scheduled Board meetings. All Non-Executive Directors are encouraged to make further enquiries as they feel appropriate of the Executive Directors and senior management. In addition, Board Committees are provided with sufficient resources and the power to co-opt such additional support as they may require from time to time to undertake their duties. The Company Secretary is available to all Directors and is responsible for information flows to the Board and advising the Board on corporate governance matters. This ensures compliance with Board procedures and applicable laws and regulations. The Board has responsibility for the appointment and removal of the Company Secretary.

Read the Audit Committee Report on pages 114-119

Read the Nomination Committee Report on pages 120-122

Read the Directors' Remuneration Report on pages 123-143

Corporate Governance Report for the year ended 31 March 2021 continued

Board composition and roles

Independent Chairman

John Hirst

Responsible for leading the Board and for its overall effectiveness in directing the company. Ensuring Board members are aware of, and understand, the views of key stakeholders. Helps set the tone from the top in terms of the purpose, goal, vision and values for the whole organisation. Responsible for ensuring that the Directors receive accurate, timely and clear information.

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.

Chief Financial Officer

Steve Buck

Supports the Chief Executive in developing and implementing strategy, and in relation to the financial and operational performance of the company.

Senior Independent Non-Executive Director

Dame Polly Courtice

Responsible for providing a sounding board for the Chairman and to serve as an intermediary for other Directors where necessary. Available to shareholders of the company if they have concerns that contact through the normal channels of Chairman, Chief Executive Officer or other Executive Directors has failed to resolve, or for which such contact is inappropriate.

Independent Non-Executive Directors

Natalie Ceeney

Zarin Patel

Paul Whittaker

Responsible for bringing independence to the Board and its decision-making process. They particularly provide constructive challenge and strategic guidance, offer specialist advice and hold management to account.

Non-Executive Directors

John Barry

James Bryce

Niall Mills

Duncan Symonds

Responsible for providing constructive challenge to the Board's decision-making processes.

During the year, the Chairman held a meeting with the Independent Non-Executive Directors without the presence of the Executive Directors.

All new Directors receive a thorough induction programme on appointment, which includes receiving a full background information pack, making visits to operational sites and receiving briefings from Executive Directors and senior managers. To ensure that there is a clear understanding of the responsibilities attached to being a Non-Executive Director in the sector, all Non-Executive Directors, including John Barry, who was appointed as a Director during the financial year, attend a pre-appointment meeting with representatives from Ofwat. As was disclosed in our 2020 Annual Integrated Report, following his appointment as Interim Chairman of the company, John Hirst met with the Chairman of Ofwat during the week following his appointment.

The company offers the Directors in-house training as necessary to aid their professional development and awareness of business and sector-specific issues.

In addition, the company offers to fund participation on externally provided training courses. All Directors are entitled to receive, at the company's expense, independent professional advice on any matters relating to their responsibilities as a Director.

Periodically, the Board visits different business locations to enable the Directors to meet with a range of employees, and to update and maintain their knowledge of and familiarity with the company's operations. Due to the restrictions in place because of Covid-19 the Board was unable to visit any business locations during the financial year. However, in September 2020 an online investor day was held, which focused on innovation (see page 58). The Board was invited to a series of virtual presentations highlighting areas such as Ofwat's Innovation Fund and the progress on the 2030 Net Zero Routemap.

Information on the annual evaluation of the performance of the Board and the Chairman can be found in the Nomination Committee Report.

Board diversity and skills

The company's Board offers a diverse set of skills, which supports the company in the delivery of its long-term strategy. During the year, the Directors were asked to complete a skills matrix. The skills and experience captured in the matrix were aligned with the company's key stakeholders, namely: customer, communities, employees, environment, regulators, governments, investors and suppliers. When completing the matrix, the Directors were asked to award themselves a score, which, when added together, allowed the Nomination Committee to consider where there were areas of lower levels of skills or experience. This exercise has allowed the Committee to consider whether future recruitment should focus on addressing these areas and/or whether upskilling present members of the Board would be a better solution. There will be further discussion of skills and diversity when the Nomination Committee meets later in the year. Further information on the skills and experience of the Directors can be found in the Directors' biographies.

	Independent Chairman	Executive Directors		Independent Non-Executive Directors				Non-Executive Directors				Total
	John Hirst	Peter Simpson	Steve Buck	Natalie Ceeney	Polly Courtice	Zarin Patel	Paul Whittaker	John Barry	James Bryce	Niall Mills	Duncan Symonds	
Customers	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓
Environment	✓	✓	✓		✓	✓	✓	✓	✓	✓		✓
Communities	✓	✓		✓	✓					✓		✓
Employees (including experience of health, safety and wellbeing)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Regulators	✓	✓	✓	✓		✓	✓	✓	✓	✓		✓
National and local government	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓
Investors / banks and ratings agencies	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Engineering (Key suppliers)		✓								✓	✓	✓
Digital/ technology (Key suppliers)	✓	✓		✓		✓			✓	✓	✓	✓

- ✓ – some experience in this area but it has not been central to the relevant Director's role
 ✓ – significant amount of experience in this area

Corporate Governance Report for the year ended 31 March 2021 continued

Board leadership and transparency

OFWAT PRINCIPLE: The Board of the Appointee's leadership and approach to transparency and governance engenders trust in the Appointee and ensures accountability for their actions.

Board meetings

The Board held eight scheduled meetings during the year ended 31 March 2021. In addition, the Board held two scheduled meetings between 31 March 2021 and the date of signing this report, which all Directors attended. The Board received regular reports on business and financial performance, regulatory issues, health and safety performance, employee issues and the management of key business risks. The Chairs of the Audit, Nomination and Remuneration Committees also provided reports on matters discussed by those respective committees since the previous Board meeting.

Board and Committee attendance

The attendance by individual Directors at scheduled meetings of the Board and Committees during the year ended 31 March 2021 is shown in the table below. All decisions made by the Board during the year were unanimous.

During the year, 17 other Board meetings were held, some at short notice, to deal with the following matters: delegating authority to the Treasury function; the prospectus renewal; financing matters including bond issues and the annual renewal of the liquidity facility; the approval of the charges scheme; the provision of a statutory certificate to Ofcom, pursuant to which the company is permitted to install electronic equipment in the public highway; matters relating to the relocation of the Cambridge Waste Water Treatment Plant; approval of the external auditor's letter of engagement; and the company's interim results.

A further meeting of the Remuneration Committee was held on 26 May 2021, which all members attended. Further meetings of the Audit Committee were held on 26 May and 7 June 2021, which all members attended.

Board Committees are authorised to engage the services of external advisors as they deem necessary in the furtherance of their duties at the company's expense.

Director	Board	Audit Committee	Nomination Committee	Remuneration Committee
John Hirst**	8/8	4/4	2/3	5/5
John Barry	3/3	-	-	-
James Bryce	8/8	-	3/3	5/5
Steve Buck*	8/8	4/4	-	5/5
Natalie Ceeney	8/8	3/4	-	5/5
Dame Polly Courtice	8/8	-	3/3	5/5
Niall Mills	6/8	-	2/3	3/5
Zarin Patel	8/8	4/4	2/3	-
Peter Simpson*	8/8	4/4	3/3	5/5
Duncan Symonds***	8/8	-	3/3	5/5
Paul Whittaker	8/8	4/4	3/3	5/5

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

** Not a member of the Audit Committee but attended by invitation.

*** On 21 July 2020, Duncan Symonds replaced Manoj Mehta as member of the Nomination and Remuneration Committees. Duncan attended Committee meetings as Mr Mehta's alternate, prior to his appointment to the Nomination and Remuneration Committees.

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 76–93 along with details of the company's principal risks and an assessment of the future viability of the business.

The company also has in place systems and procedures for exercising control and managing risk in respect of financial reporting and the preparation of consolidated accounts. These include:

- The formulation and deployment of company accounting policies and procedures.
- Policies governing the maintenance of accounting records, transaction reporting and key financial control procedures.
- Monthly operational review meetings, which include, as necessary, reviews of internal financial reporting issues and financial control monitoring.
- Ongoing training and development of appropriately qualified and experienced financial reporting personnel.

For the year ended 31 March 2021, the company's internal and financial controls included the following:

- An internal audit programme, outsourced to PricewaterhouseCoopers LLP. The internal auditor carries out a comprehensive review of internal controls and formally reports its findings and recommendations to the Audit Committee.
- An annual process where business heads confirm the adequacy of the internal controls for their area of responsibility through a formal Statement of Responsibility, which is subsequently reviewed by the Audit Committee.
- A formal controls questionnaire completed by the business twice a year and reviewed by the internal auditor, with the conclusions being highlighted to the Audit Committee.
- A regular review by the Board of the top-tier risk register.
- An annual review of certain financial controls, by the company's external auditor, as part of its year-end audit. The findings of the most recent review were reported to the Audit Committee in March 2021 and no significant failings or weaknesses were identified from this review.
- A review by an independent assurance provider of the information that Ofwat requires the company to publish and other key corporate data.

Other disclosures

An explanation on the following can be found in the Strategic Report:

- the Group's structure
- dividend policy
- dividends paid.

The Directors' Remuneration Report explains the company's executive pay policy and how the criteria for awarding short- and long-term performance-related elements are substantially linked to stretching delivery for customers and are rigorously applied.

Compliance with the BLTG Principles and the 2020 Code

As detailed earlier in this report, the Board had incorporated the BLTG Principles (and its supporting provisions) into the 2020 Code and therefore, by reporting against compliance with the 2020 Code, the Board is also reporting against compliance with the BLTG Principles. The Board confirms that it has complied with the 2020 Code.

This report was approved by the Board of Directors on 16 June 2021.

Claire Russell

Company Secretary
16 June 2021

Audit Committee Report

MEETINGS ALSO REGULARLY ATTENDED BY:

Peter Simpson, Chief Executive Officer; Steve Buck, Chief Financial Officer; members of the Anglian Water Group Limited Audit Committee; representatives of the internal and external auditors; Wayne Young, Group Financial Controller; and Claire Russell, Company Secretary.

Available to view at
anglianwater.co.uk/governance

Committee members

CHAIR

Zarin Patel

OTHER MEMBERS

Natalie Ceeney

Paul Whittaker

MEETINGS

Four

“The Audit Committee plays a key role in monitoring the integrity of the Company’s financial reporting, reviewing the material financial judgements and assessing the internal control environment.”

Available to view at
anglianwater.co.uk

Role of the Committee

The principal role of the Audit Committee is to examine 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 the significant accounting judgements and estimates they contain.
- Review the annual and interim results and where requested by the Board review the content of the Annual Integrated Report as a whole.
- Review the Annual Performance Report, to ensure it is fair, balanced and understandable as well as reviewing significant financial returns to regulators.
- Review the integrity of the company’s systems of internal control.
- Review both the company’s procedures for detecting fraud and the company’s systems and controls for the prevention of bribery, and receive reports arising from the whistleblowing process.
- 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 and quality of the audit process.
- Review and approve the annual internal and external audit plan.
- Monitor the provision of non-audit services by the external auditor.

Membership and attendance

The Board is satisfied that sufficient members of the Committee have recent and relevant financial experience. Zarin Patel is a chartered accountant and was formerly Chief Financial Officer of the BBC and an Independent Member of the Audit & Risk Committee of John Lewis Partnership plc. She is currently an Independent Member of the Audit & Risk Committee of HM Treasury and is Chairman of the Audit & Risk Committee of Pets at Home Group PLC. Zarin Patel is therefore considered by the Board to have recent and relevant financial experience. Natalie Ceeney has considerable financial services experience, having worked for the Financial Ombudsman Service and been a member of HSBC’s UK executive team.

Paul Whittaker held a number of regulatory roles at National Grid. All members of the Committee are considered to have competence relevant to the sector in which the company operates.

Representatives from the company's external auditor and internal auditor also attended all or part of the Committee's meetings. In addition, members of the Committee met separately with representatives of the external auditor and internal auditor without management being present. During the year the Committee also received presentations from members of senior management on key topics such as cyber risk. The Company Secretary is Secretary to the Audit Committee.

Main activities in the 2020/21 financial year

Financial reporting

- Reviewed and discussed management's reports on the final results (for the year ended 31 March 2020) and the interim results (for half-year ended 30 September 2020). As part of this process the Committee considered key issues and areas of judgement in relation to the financial statements (including the calculation of the measured income accrual, the calculation of the bad debt provision, valuation of defined benefit pension scheme, derivative accounting and classification of costs between operating and capital expenditure) and the integrity of the audit process. Following this robust review, the Committee recommended that the Board approve both the annual and interim results. In respect of the Annual Integrated Report 2020 the Committee recommended to the Board that the report was fair, balanced and understandable, and provided the information necessary for shareholders to assess the company's performance, business model and strategy.
- Considered the company's going concern and long-term viability statements. The Committee supported the Board in its assessment of both viability and going concern by considering whether, in the challenging but plausible risk scenarios identified, including the impact of Covid-19 and the referral of the Final Determination to the Competition and Markets Authority, the company has adequate liquid resources to meet its obligations as they fall due over the next 12 months and to remain financially viable over the 10-year period to 31 March 2030.
- Reviewed the Annual Statement of Responsibility by management with respect to the internal controls environment (further information can be found in the Risk management and internal control section below).

Regulatory disclosures

- Reviewed the integrity of key regulatory statements and certificates as required by Ofwat, including the Certificate of Adequacy and the Board Statement of Company Direction and Performance, and recommended their approval to the Board.

External audit

- Reviewed the proposed audit plan for the 2020/21 statutory audit, including key audit risks and level of materiality applied by the external auditor, audit reports from them on the financial statements and the areas of particular focus for the 2020/21 audit (further information can be found in the External auditor section below).
- Assessed the effectiveness of the external auditor and made a recommendation to the Board on the reappointment of Deloitte as the external auditor.
- Agreed the statutory audit fee for the year ended 31 March 2021.
- In respect of the 2019/20 year-end statutory audit, the Committee reviewed progress made by the external auditor against the agreed audit strategy, with a focus on the previously agreed key audit matters for the 2019/20 audit and the impact of Covid-19.

Internal audit

- Agreed the scope of the internal audit plan for 2021/22 and considered the impact of the upcoming changes in structure of the internal audit function (further information can be found in the Internal audit section below).
- Reviewed internal audit reports and satisfied itself that management was in the process of resolving any outstanding issues or actions.

Other

- Received updates on the cyber risk landscape. These updates focused on both how the company manages risk of business interruption or adverse reputational impact due to cyber security events and also the cyber-specific risks associated with Covid-19.
- Monitored whistleblowing allegations and the associated investigations undertaken by management (further information can be found in the Whistleblowing, anti-fraud and anti-bribery processes section below).
- Considered actual and potential material litigation.
- Considered and supported a management proposal to refine the methodology for calculating the bad debt provision rates in relation to customer debt.

Audit Committee Report continued

- Considered the implementation of an audit exemption for certain Group companies, as permitted under section 479a of the Companies Act 2006.
- Reviewed reporting requirements, including climate change reporting.
- Received an update on the 'Independent Review into the Quality and Effectiveness of Audit' by Sir Donald Brydon and the associated consultation issued by the Department of Business, Energy and Industrial Strategy and agreed a strategy to develop a framework for reporting of effectiveness of internal controls over financial reporting.

All business discussed by the Committee during the course of the year was reported to the Board.

Risk management and internal control

Detailed disclosure regarding the company's approach to assessing and managing emerging and principal risks is included in the Strategic Report, followed by details of the company's principal risks and an assessment of the future viability of the business.

The Audit Committee reviews the effectiveness of the company's risk management and internal control systems throughout the year to ensure their adequacy. This is achieved through a number of activities, as follows:

- Risks are managed using a comprehensive system of risk registers, which operate at a number of levels across the business. These registers are used to assess the risks, to document the existing controls in place to manage these risks, to ensure mitigation plans are established and monitored, and to establish clear ownership of each of the risks.
- The top-tier risk register is regularly reviewed by the Board and the Management Board. Throughout the year, the Board receives presentations or papers from Management regarding the management of key risks.
- The Audit Committee reviews and approves the internal auditor's risk-based internal audit programme each year, with regular meetings to assess progress and reprioritise audits if necessary, to review the internal auditor's recommendations and to monitor progress in implementing those recommendations.
- The external auditor reports annually on the findings of its review of the internal control environment to the Audit Committee.
- All control improvement recommendations are followed up by audits, the reports on which enable monitoring by the Audit Committee.

- Each member of the Management Board is required to review and self-certify the adequacy of the internal control for their area of the business on an annual basis. The results of this review are collated by the internal auditor and presented to the Audit Committee.

Whistleblowing, anti-fraud and anti-bribery processes

Whistleblowing

The Committee is responsible for reviewing the adequacy and security of the company's arrangements for its employees, alliance partners and contractors to raise concerns, in confidence, about possible wrongdoing. The Committee is also responsible for ensuring that these arrangements support appropriate and independent investigation of such matters and that follow-up actions are undertaken where necessary. The Group has a whistleblowing policy whereby an individual can, in confidence, raise a concern relating to any wrongdoing or malpractice which may have an impact on Anglian Water's business such as: a criminal offence (such as fraud or bribery); a failure to comply with any legal obligations; a miscarriage of justice; danger to the health and safety of an individual or the public and; damage to the environment.

Under the policy individuals are encouraged to raise their concerns with line management or, if this is inappropriate, to raise them with the externally facilitated helpline or confidential email address, which is managed by an independent provider, SeeHearSpeakUp.

The independent provider maintains a register of all allegations made to the helpline and, following receipt of an allegation, will notify the Group Legal Director, Group Financial Controller, Group People Director and Head of Integrated Assurance (or other nominated persons where those representatives are inappropriate) to decide whether there are grounds for further investigation. If so, allegations are then escalated to an appropriate designated person for investigation.

Under the policy, the whistleblower must be notified within 10 days of the decision to carry out an investigation or not. An official written record will be kept regarding 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 and will be offered advice and support.

The Committee receives regular reports on whistleblowing allegations reported during the year. This gives the Committee the opportunity to satisfy itself that management has undertaken appropriate investigations into any allegations. Any significant reports arising from the whistleblowing process would be reported to the Board.

Anti-fraud and anti-bribery

The company has policies in place to address the risk of bribery and failure to prevent criminal facilitation of tax evasion and sets out mandatory standards of conduct in relation to the acceptance of gifts and corporate hospitality. All employees must comply with these policies and the Bribery Act 2010. All employees are required to complete training on these policies and an annual review of compliance against these policies and processes is undertaken. Any allegation of fraud or bribery which was raised through the whistleblowing system would be investigated and reported to the Committee, via the process described above.

Internal audit

The provision of internal audit services was outsourced to PricewaterhouseCoopers (PwC) for the year ended 31 March 2021. PwC was appointed by the company on 1 August 2016 for a four-year term following a competitive tendering process. In November 2019, the Committee approved a one-year extension to the contract to 31 July 2021. When the contract with PwC ends, the delivery of the internal audit services will be overseen by the newly appointed internal Head of Integrated Assurance with specialist support provided by PwC. The Head of Integrated Assurance reports jointly to the Chief Financial Officer and the Chair of the Committee.

The company's internal audit plan is approved on an annual basis and progress is reviewed by the Committee during the year. Prior to approving the internal audit plans for both the 2020/21 and 2021/22 financial years, the Committee was given the opportunity to review the plans, discuss them in detail with PwC and make amendments. In March 2020, the Committee approved the internal audit plan for 2020/21, whilst recognising the challenges the company was facing in relation to Covid-19. It was therefore agreed that there may be the need to flex the plan over the course of the financial year. The internal audit plan for 2021/22 was approved by the Committee at its meeting in March 2021. In preparing the internal audit plan, PwC met with key personnel across the Group to obtain their views on the risks facing the Group. PwC then developed its plan based on the Group's organisational objectives, priorities and the risks that may prevent those objectives from being achieved. The plan is developed having regard to key risks and also allows for review of key activities that merit either an annual or rotational review.

During the year, the Committee received regular reports from the internal auditor, which set out its view of the control environment.

Each report is rated by reference to the significance of any weaknesses in the controls relevant to the process that is the subject of the audit. Specific actions are agreed with management to address any control weaknesses, together with a timetable for completion of actions.

Internal audits carried out during the year included Information Services framework, capital controls, market performance reporting, developer services, customer debt, supply chain resilience, treasury operations and the Common Terms Agreement.

The Committee considers the internal audit process to be effective by virtue of the active contribution of the Committee to the development of the annual internal audit plan, the regular monitoring of progress against the plan and continued discussions with the internal audit function.

External auditor

The Committee has primary responsibility for overseeing the relationship with Deloitte LLP (Deloitte), the external auditor, including assessing its performance, independence and effectiveness and making a recommendation to the Board in respect of the auditor's appointment or removal.

Deloitte was awarded the contract for external audit services in September 2016, following a competitive tender process. The contract was for a four-year term which could be extended for up to a further four years, either annually or for any alternative period. The initial four-year contract expired in September 2020 and was extended in March 2020 until September 2021. At its meeting in May 2021 the Committee, after careful consideration, agreed to extend Deloitte's contract for a further year until September 2022.

Effectiveness of the external auditor

The Committee, on behalf of the Board, is responsible for the relationship with the auditor, and part of that role is to examine the effectiveness of the statutory audit process. At the Committee meeting in November 2020, Deloitte presented its proposed audit strategy for the 2020/21 year-end audit. Its report included the proposed scope of the audit, including its view of materiality; significant risks to the audit process and its response to these risks; and other areas of audit focus. After careful consideration the Committee approved the audit strategy. Deloitte provided an update in relation to the audit plan at the Committee's meeting in March 2021, providing an opportunity for the Committee to monitor progress.

Audit Committee Report continued

In addition, regular meetings are held throughout the year between the Committee members and key members of the audit engagement team, without management present, in order to encourage open and transparent feedback by both parties. Members of the Deloitte team also meet with management at regular intervals during the annual audit process.

To assess Deloitte's ongoing independence and objectivity in the audit process, the Audit Committee also reviews annually the scope and value of all non-audit-related work conducted by Deloitte on behalf of the company. Further information on non-audit services is detailed below.

For the year ended 31 March 2021, the Committee was satisfied with the performance, objectivity, audit quality and independence of Deloitte as the external auditor.

External auditor independence

There are two main ways in which the Committee assesses the independence of the external auditor.

- 1 Firstly, the Committee takes into account the information provided by Deloitte as part of the statutory audit process, that the audit engagement team, and others in the firm as appropriate, were independent of the company. In addition, Deloitte confirmed that it had not identified any relationships with the company, Directors, senior management and affiliates that Deloitte considers may reasonably be thought to bear on its objectivity and independence. The audit engagement partner also rotates every five years. The current lead audit partner is James Leigh who will be replaced following the completion of the 2020/21 statutory audit.
- 2 Secondly, the Committee recognises that a key factor that may impair the external auditor's independence and objectivity is a lack of control over the volume and/or value of non-audit services. No fees were incurred during the year for other non-audit services. However, if the external auditor were to provide non-audit services they would have to be compliant with the policy for fees on non-audit work carried out by the external auditor, as approved by the Committee. Any request to use the external auditor to carry out non-audit work had to be authorised by both the Chief Financial Officer and the Chair of the Audit Committee. In addition, there is a limit on the level of fee that could be paid to the external auditor for non-audit work. Under the policy on fees for non-audit services, only work permitted by the Financial Reporting Council's (FRC) 'whitelist' may be undertaken by the external auditors and the level of non-audit fees is restricted to 70 per cent or less of the average of the previous three years' audit fees.

The fees paid to the external auditor during the year are set out in note 6 to the financial statements on page 171. In addition to the fees payable in respect of the audit of the company and consolidated financial statements, other audit-related assurance services predominantly relate to regulatory reporting to Ofwat and the review of the Group's half-year results.

Taking into account the findings in relation to the effectiveness of the audit process and in relation to the independence of Deloitte, the Committee was satisfied that Deloitte continues to be independent, and free from any conflicting interest with the company.

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 122. No material shortcomings in the operation of the Committee were highlighted.

Annual Integrated Report

At the request of the Board, the Committee considers whether, in its opinion, this Annual Integrated Report (AIR), taken as a whole is fair, balanced and understandable and whether it provides the information necessary for shareholders to assess the company's position, performance, business model and strategy. To make this assessment, the Committee initially considered and approved the narrative structure and proposed themes of the report at its meeting in March 2021. The Committee then received copies of the AIR during the drafting process to enable sufficient time for comment and review and to ensure overall balance and consistency. At the Committee meeting in May 2021, Deloitte presented the results of its audit work and presented their findings on their significant risks. These were considered by the Committee (see below for more information). On the recommendation of the Committee, the Board approved the AIR and the associated Statement of Directors' Responsibilities which can be found on page 146.

Key issues in relation to the financial statements

The Committee considers a range of key issues in relation to the financial statements. These issues tend to relate to the judgements and accounting estimates management has to make in preparing the financial statements. As such, they are presented to the Committee in the form of a report prepared by management called the Key Issues and Areas of Judgement Report.

Bad debt provision: The Committee reviewed the assumptions underpinning the provision for bad debts and how this is consistent with recent debt recovery experience, current conditions and estimates of future economic conditions. Management calculates the bad debt provision by firstly evaluating the estimated recoverability of trade receivables and records a provision based on experience, primarily cash collection history, and then adjusts, as necessary, for forward-looking factors such as a change in economic conditions. Following agreement by the Audit Committee in March 2021 management have enhanced their provisioning methodology to provide better granularity of debt less than one year old. As part of this review management have taken the more prudent view that, whilst not yet billed and substantially offset by payments already received, the measured income accrual carries an element of bad debt risk. In its forward-looking review, the Committee considered management's assessment of the potential impact of Covid-19 on the bad debt charge based on market data and a review of post year-end cash collection rates. Further information can be found in notes 2(b) and 16 of the financial statements.

Measured income accrual: Estimating unbilled household income: the Committee reviewed the methodology and outcome of the estimate for measured income for the year ended 31 March 2021, which was consistent with that used in previous years. Measured income accrual is an estimation of the amount of mains water and sewerage charges unbilled at the end of the period and represents approximately 35.9 per cent of measured household revenue. While the methodology for calculating this accrual is well established, judgement is required in terms of the level of customer consumption. The value of the measured income accrual is disclosed in note 16 of the financial statements.

Retirement benefit obligations: The Group operates a defined benefit pension scheme, which was closed to future accrual on 31 March 2018. The Committee reviews the key assumptions that underpin the actuarial valuation of the scheme in accordance with IAS 19 'Employee benefits'. Further information can be found in note 2(b) of the financial statements.

Classification of costs between operating and capital expenditure: The Committee considered the policy for classifying operating and capital expenditure, and the basis on which overheads are capitalised. Further information can be found in notes 1(l) and 2(a) of the financial statements.

Depreciation of property, plant and equipment: The Committee considered the range of asset lives applied when calculating the depreciation charge. Further information can be found in note 2(a) of the financial statements.

Recognition of grants and contributions: The Committee considered the rationale for recognising the income from grants and contributions as revenue when new properties are connected to the network. More information can be found in note 2(a) of the financial statements.

Going concern and viability

At its meetings in May and June 2021, the Committee considered the company's preliminary results announcement, Annual Integrated Report and associated disclosures, including its going concern and viability statements. The Committee supported the Board in its assessment of both viability and going concern by considering whether, in the challenging but plausible risk scenarios identified, including the continuing impact of Covid-19, the company has adequate liquid resources to meet its obligations as they fall due in the next 12 months and to remain financially viable over the 10-year period to 31 March 2031. The Committee reviewed papers presented by management on its assessment of the company's going concern and longer-term financial viability based on budgets, business plans and cash flow forecasts and the stress testing performed based on the company's principal risks and the specific risks relating to Covid-19. The Committee considered the appropriateness of the scenarios modelled, the feasibility of management to deliver any required mitigations and the level of disclosure proposed and satisfied itself that the going concern basis of preparation is appropriate and that the company is financially viable over the duration of its assessment period.

This report was approved by the Board of Directors on 16 June 2021.

Zarin Patel

Chair of the Audit Committee
16 June 2021

Nomination Committee Report

Directors' biographies
are available on
pages 100-103

MEETINGS ALSO REGULARLY ATTENDED BY:

Peter Simpson, Chief Executive Officer; Susannah Clements, Group People and Change Director; and Claire Russell, Company Secretary.

COMPOSITION OF THE COMMITTEE

On 21 July 2020, John Hirst replaced Polly Courtice as Chair of the Committee and Manoj Mehta (who was an investor-appointed member of the Nomination Committee but was not a member of the Board) was replaced by Duncan Symonds as a member of the Committee.

Available to view at
anglianwater.co.uk/governance

Committee members

CHAIR

John Hirst

OTHER MEMBERS

James Bryce
Polly Courtice
Niall Mills
Zarin Patel
Duncan Symonds
Paul Whittaker

MEETINGS

Three

Role of the Committee

The Committee's primary function is to advise the Board in relation to the appointment of Executive and Non-Executive Directors.

The duties of the Nomination Committee include:

- Reviewing the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and making recommendations to the Board with regard to any changes.
- Giving full consideration to succession planning for Directors and other senior executives, taking into account the challenges and opportunities facing the company, how to support the development of a diverse pipeline, and the skills and expertise needed on the Board in future.
- Keeping under review the leadership needs of the organisation, both executive and non-executive, with a view to ensuring its continued ability to operate effectively in the marketplace.
- Taking responsibility for identifying and nominating for the approval of the Board candidates to fill Board vacancies as and when they arise.
- Before any appointment is made, evaluating the balance of skills, knowledge, experience and diversity on the Board and, in the light of this evaluation, preparing a description of the role and capabilities required for a particular appointment.
- Reviewing the results of the Board performance evaluation process that relate to the composition of the Board.
- Making recommendations to the Board concerning succession plans for both Executive and Independent Non-Executive Directors.

Only members of the Committee have the right to attend Committee meetings.

Main activities in the year

Board changes

As detailed in last year's report, on 31 March 2020, the company's Chairman, Stephen Billingham, retired from the Board. After careful consideration, the Committee recommended to the Board that John Hirst replace Stephen Billingham as Interim Chairman with effect from 1 April 2020. Having agreed the key skills and experience required by any individual appointed to the role, the Committee, led by Dame Polly Courtice, began the search and selection process for a permanent Chairman.

"The Committee recognises that inclusion is vital to the success of the organisation, and as such, takes a close interest in the company's approach to inclusion and diversity."

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Further information on inclusion can be found on page 56

The Committee was supported in the search process by Korn Ferry (a global executive recruitment firm which was appointed after a competitive tendering process, and which does not have any other connection with the company or individual Directors other than supporting the recruitment of Board appointments). Early in the 2020/21 financial year, the Committee reviewed a long list of candidates, provided by Korn Ferry, and a sub-committee undertook to interview a number of the candidates. Following a decision to step down from some of his other commitments, John Hirst then expressed an interest in taking on the role of Chairman on a permanent basis and was interviewed by Korn Ferry against the previously agreed specification.

At its meeting held in June 2020, the Committee carefully considered a report from Korn Ferry, summarising the key points arising from their interview with John Hirst; the Committee then unanimously recommended to the Board that John Hirst should be appointed as Chairman on a permanent basis. The Board approved John Hirst's appointment as Chairman at its meeting in July 2020.

Dame Polly Courtice's and Natalie Ceeney's terms of appointment expired on 31 March and 24 April 2021 respectively. At its meeting in March 2021, the Committee, after careful consideration, recommended to the Board that both Dame Polly Courtice and Natalie Ceeney should be reappointed for a further three-year term.

Inclusion

The Committee recognises that inclusion is vital to the success of the organisation, and as such, takes a close interest in the company's approach to inclusion and diversity. During the year the Committee had the opportunity to further understand, discuss and challenge the company's approach to this area. The Committee reviewed the progress already made, the 12-month plan and key deliverables and the launch of the Strength in Diversity project. Areas of achievement included: the launch of the Inclusion Steering Community; the use of gender-neutral wording on job advertising to encourage applications from more diverse backgrounds; and the sponsorship of events such as STEM Fest and Lincoln Pride. The aims of the Strength in Diversity project include:

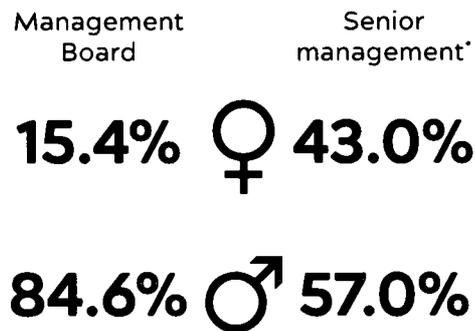
- Establishing strong long-term connections across educational settings and community groups in a small number of towns across the region.
- Building long-term talent pipelines, leading to a more inclusive workforce in the next five to ten years.
- Applying the learnings from the company's work in Wisbech which centres around providing opportunities for school leavers to develop skills in a college setting and apprenticeships.
- Considering broader ways to support communities.

In considering the Inclusion Strategy, which it fully endorsed, the Committee also reflected on the challenges and constraints of improving inclusion and reflected that the strategy aimed to improve inclusion over the longer term.

At Board level, the Committee has not set a specific female Board member quota. However, as at 31 March 2021, 27.3% of the Board were female.

As at 31 March 2021, the gender balance of the Management Board and those employees who directly reported into Management Board members is detailed below:

Gender statistics



* Individuals reporting into members of the Management Board

Succession planning

An important role of the Committee is to review the development, succession planning and talent pool for the Board, Management Board and other senior roles to identify both talent strengths and gaps.

At its meeting in November 2020, the Committee considered a Board skills matrix, which the Committee used as a basis for a discussion on areas where the Board may have a lower level of skill or experience. The Committee agreed to keep the Board skills matrix under review as part of Board succession planning.

During the year the Committee also undertook a review of senior management talent and succession planning. The review concentrated on the individuals within the Group who are considered to have the potential to carry out a Management Board role in both the near and longer term.

Further details of the matrix can be found on page 111

Nomination Committee Report continued

As part of the review, the Committee also considered the plans in place to support these individuals during the different stages of their development, as well as the progression opportunities available to all individuals across the business. The Committee considered the diversity of the talent pipeline, recognising both the strengths and challenges associated with this, with a focus on gender and ethnic diversity and the impact of an ageing workforce.

The Committee has opportunities to engage with those individuals who are part of the succession plan at Board meetings, market stall events and site visits.

See 'Creating an inclusive workplace' on page 56

Board and Committee evaluation

The Board considers the annual review of the Board, its Committees and Directors to be an essential part of good corporate governance. A thorough external evaluation of the Board and its Committees was conducted during the year, facilitated by Bernice Dunsmuir of Constal Limited, under the direction of the Chairman. Constal has no other connection to Anglian Water. The evaluation took the form of one-to-one interviews between Ms Dunsmuir and each Director. Areas the review covered included: boardroom behaviours and dynamics; the company's purpose and culture; the structure and processes around Board meetings; Board composition and structure, including succession; and the company's strategy. Constal collated and analysed the results of the interviews and prepared a report, which was presented to the Board at its meeting in March 2021 for consideration and debate.

Constal concluded that overall, the review had been very positive and commented that the Board had a strong culture of openness and transparency, that there were high levels of trust and respect between Directors, that information provided to the Board was of good quality and that Board members were well prepared for meetings and wished to add value. No material shortcomings in relation to the operation of the Board and its Committees were highlighted by the review and there were no serious concerns around key areas such as strategy, succession and risk management.

Certain areas were identified during the Board evaluation process as requiring additional focus, which included:

- Planning for the Business Plan for the period 2025–2030.
- Holding additional training sessions for Non-Executive Directors on company-specific matters such as regulatory issues and financial structures.
- Further developing the company's purpose, both within the company and externally.
- Providing the Board with an annual planner of agenda items.

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 performance of the Chairman. No areas of concern were raised.

The Chairman conducted a review of each individual Director and confirms that each Director continues to make a valuable contribution to the Board and, where relevant, the Committees of the Board.

All business discussed by the Committee during the course of the year was reported to the Board.

This report was approved by the Board of Directors on 16 June 2021.

John Hirst

Chair of the Nomination Committee
16 June 2021

2021 Directors' Remuneration Report

Directors' biographies
are available on
pages 100-103

MEETINGS ALSO REGULARLY ATTENDED BY:

Peter Simpson, Chief Executive Officer; Steve Buck, Chief Financial Officer; Susannah Clements, Group Director of People and Change; Claire Russell, Company Secretary

COMPOSITION OF THE COMMITTEE:

On 21 July 2020 Manoj Mehta (who was an investor-appointed member of the Committee but was not a member of the Board) was replaced by Duncan Symonds as a member of the Committee.

Available to view at
anglianwater.co.uk/governance

Committee members

CHAIR

Paul Whittaker

OTHER MEMBERS

James Bryce
Natalie Ceeney
Dame Polly Courtice
John Hirst
Niall Mills
Duncan Symonds

MEETINGS

Five

"The Committee believes that the Executive Directors and leadership teams have demonstrated exceptional leadership over a sustained period of time, and risen to the challenges in a thoughtful, coordinated and professional manner."

Available to view at
anglianwater.co.uk

Chairman's statement

I am pleased to present the report on Directors' remuneration, which sets out the remuneration policy for Anglian Water Services Limited (AWS), how it was applied in the financial year ended 31 March 2021 and the policy for 2021/22.

Company performance in 2020/21

Remuneration outcomes in 2020/21

As objectives were set at the beginning of the year, the Remuneration Committee has felt it appropriate to evaluate in its deliberations the leadership's response to an unprecedented set of unfolding events, many of which were not within their control. In assessing the performance of the leadership team, the Committee has taken into account:

- the decision not to furlough colleagues or access government funding, even though a number of employees were unable to carry out their functions, particularly in the early stages of the pandemic;
- the challenges of fundamental changes in water demand, specifically during the summer months, when supply demands broke all records, leading to operational challenges while still in the grip of various lockdowns;
- the added complexities of the ongoing CMA hearings and the extra management time needed to ensure detailed and considered responses were submitted;
- the extreme wet weather which began on 23 December 2020, which resulted in record flooding across East Anglia and extraordinary operational demands;
- that customer care remained at exceptional standards throughout, with services almost universally uninterrupted by extreme weather or operating changes;
- and, not least, the ongoing response to a very different way of working with safety and well-being at its heart.

The Committee believes that the Executive Directors and leadership teams have demonstrated exceptional leadership over a sustained period of time, and risen to the challenges in a thoughtful, coordinated and professional manner.

The Remuneration Committee set a series of targets which ensured that delivery to customers was at the heart of the remuneration arrangements.

2021 Directors' Remuneration Report continued

Customer satisfaction: It has been a challenging year for customer satisfaction for several reasons. We saw a positive spike in satisfaction at the start of the year due to our customer support during Covid-19 but then experienced a very challenging summer, due to Covid- and weather-related increases in demand followed by an exceptionally wet winter. We are therefore pleased to be ending the year less than 1 point from a top three position across the industry. Equally, our customer service under the Developer Measure of Experience (DMeX) measure was heavily influenced by the effect of the pandemic on development activity. We ended the year in fifth position with a good action plan to target improvements.

Customer delivery: The second component, the customer delivery scorecard, is linked to the company's performance in relation to a small number of outcome delivery incentives (ODIs) which our customers determined to be of greatest importance to them. In extremely challenging circumstances, across the basket of measures the base target was only missed for two measures and all other measures achieved between the base and stretch targets.

Customer efficiency: The final component relates to financial efficiency savings which are shared with customers. Despite the challenges of Covid, the stretch target was achieved.

As a result of this performance, and the personal performance of each individual Executive Director, bonus payments via the Deferred Bonus Scheme for 2020/21 were between 79.2 and 84.2 per cent of maximum.

On 31 March 2021, the performance period ended for long-term incentive awards granted in 2018.

The percentage of award vesting was 56 per cent. However, the Committee was mindful that during the period, the company had slipped from a 3-star Environmental Performance Assessment (EPA) rating to a 2-star rating for one of the years of the performance period, although performance had been recovered in the following year. The Remuneration Committee reviewed this important measure, which is on one of the listed detractors to the scheme, and determined that the award should be reduced by 10 per cent to reinforce the importance of environmental performance as an underpinning element of the scheme.

The Remuneration Committee reflected on the exceptional and unprecedented challenges the company had faced across the year and the outstanding leadership by the Executive Directors over this period. The Committee discussed the contractual bonus arrangements and associated bonus payment to be awarded and felt an additional special bonus was appropriate above these contractual commitments. The Committee therefore used its discretion and awarded special bonuses to Mr Simpson and Mr Buck. Full details of these payments received in April 2021 can be found in table 7.

Other key decisions

The Committee carried out a review of executive incentive design in advance of the year beginning April 2021 in light of the CMA outcome and ongoing impacts felt as a result of the Covid-19 pandemic.

The previous set of targets comprised a subset of customer satisfaction and delivery ODIs, focussing on what customers considered most important at the start of the year. However, due to circumstances, some key ODIs which were not included, such as per capita consumption, proved to be key in the year that followed. Equally, the CMA Redetermination reinforced the principle that delivery of ODIs underpinned our commitments to customers. Given these two circumstances, instead of a subset of ODIs, the Committee has decided that performance across all ODIs which carry reward or penalty is the most appropriate way of measuring the level to which the company is delivering to customers and outperforming customer expectations.

Given this, the Committee has determined that for the 2021/22 performance year, the Deferred Bonus Scheme will have two sets of measures aligned to our obligations and to the annual Business Plan:

Customer delivery: This measure consists of the outcome of all reward/penalty-bearing ODIs. The relative weight of these ODIs is reflected in the level of reward or penalty that Ofwat has deemed to reflect the potential level of outperformance, and this has been reinforced and refined by the recent CMA Redetermination. Therefore a simple measure of overall reward/penalty will be used to determine the overall level of delivery to customers during the year.

Customer efficiency: A measure of financial efficiency shared with customers. This remains the same as last year, ensuring that customers receive an efficient service, and also that customers receive benefit from any financial outperformance.

In addition to these customer-focused measures, the Executive Directors will have specific targets that focus on their broader roles across the Anglian Water Group companies.

Changes to the Board

Details of changes in the composition of the Board during the year can be found on page 108 of the Corporate Governance Report. All relevant remuneration information for all Directors who served during the year is included in this report.

Paul Whittaker

Chairman of the Remuneration Committee
16 June 2021

At a glance

The primary objective of the remuneration policy is to ensure that competitive reward packages are offered that will attract, retain and motivate talented and experienced senior executives to run the business effectively, and to promote the success of the company.

Within these arrangements, a significant proportion of reward is based on performance against demanding targets.

The overall aim is that Executive Directors' remuneration should be market-competitive relative to other comparable companies, and with a significant proportion being performance-related, and therefore only being paid out if stretching short-term and long-term targets are achieved.



This diagram denotes the Anglian Water outcomes for our customers and the environment. The Executive Directors' annual bonus, and therefore their overall remuneration, is directly linked to the achievement of these outcomes through the ODI measure. More detail is provided in table 10 on page 133.

Consideration of shareholder views

Non-Executive Directors representing the ultimate owners of the company sit alongside Independent Non-Executive Directors (who form the majority) on the Committee and are involved in monitoring the performance of the Executive Directors, and making recommendations to the Board on remuneration levels, payments and changes to reward packages. This involvement ensures that shareholders play a key part in shaping remuneration policy and decisions, and that the link between pay and performance is robustly managed.

Breakdown of executive remuneration over the year

Graph 1 below shows the proportion of payments related to variable and long-term performance for 2020/21. The design of the bonus arrangements includes both base and stretch targets. The graph therefore shows the percentage of base salary which could be earned for both minimum and maximum performance levels, as well as the actual outcome for 2020/21. The actual level of award includes payment of one-off bonuses to Peter Simpson and Steve Buck which are detailed later in the report.

Graph 1

Note: The adjusted maximum remuneration for the LTIP calculation includes the uplift for the actual Average Rate of Return (ARR) across the performance period. This figure was not known at the start of the performance period but is deemed to be the most appropriate to use to demonstrate actual remuneration against maximum remuneration.

Steve Buck joined after the AWS LTIP plan was discontinued in April 2019. Steve Buck's benefits include relocation expenses that were reimbursed in line with policy agreed as part of his appointment.

2021 Directors' Remuneration Report continued

Directors' remuneration policy

This part of the Directors' Remuneration Report sets out the remuneration policy for Anglian Water Services Limited (AWS) for the year that ended 31 March 2021, and any changes for the year ending 31 March 2022.

Table 1

Element and link to strategy	Operation and performance metrics	Maximum potential for 2020/21	Changes for 2021/22
<p>Base salary</p> <p>To attract and retain Executive Directors with appropriate experience, skills and competencies relative to the role.</p>	<p>Reflects individual experience and role. Usually reviewed annually and fixed for 12 months from 1 April. Decision influenced by:</p> <ul style="list-style-type: none"> Role, experience and performance Average change in broader workforce salary Total organisational salary budgets. <p>Salaries are benchmarked against the FTSE 250 and other comparable utility companies.</p>	<p>Annual increases will not exceed the general level of increases for the company's employees except where an individual changes roles, or where benchmarking indicates that an individual's salary requires realignment to remain competitive.</p>	<p>Peter Simpson has received no salary increase pending the outcome of further benchmarking which is being undertaken at the request of the Remuneration Committee in the light of Mr Simpson's increased responsibilities across the Group. The review is being undertaken by our remuneration consultants. Any changes will be reported in the next Remuneration Report.</p> <p>Steve Buck's salary increased in line with the wider workforce by 2%.</p>
<p>Benefits</p> <p>To increase the economic security of employees, and recruit and retain employees.</p>	<p>Directors are entitled to private medical insurance, car allowance, private fuel and life assurance.</p>	<p>Peter Simpson:</p> <p>3.1% of base salary</p> <p>Steve Buck:</p> <p>4.3% of base salary</p> <p>31.3% of salary was claimed in final settlement for one-off relocation expenses agreed at time of appointment</p>	<p>No changes proposed.</p>
<p>Deferred Bonus Scheme</p> <p>To reward achievement of annual financial and strategic business targets and delivery of personal objectives.</p>	<p>Payment determined by the Committee following the year end.</p> <p>Company targets set and reviewed annually; these comprise a basket of financial and non-financial metrics, plus personal objectives. Awards for 2020/21 are based 60% on company performance and 40% on personal objectives.</p> <p>Personal objectives relate to areas of the business over which the individual has influence.</p> <p>The Committee has the discretion to reduce bonus payouts in the event of material issues in relation to service, health and safety, quality, reputation and financial or regulatory performance.</p>	<p>Peter Simpson</p> <p>Maximum: 135% of base salary</p> <p>Target: 67.5% of base salary</p> <p>Steve Buck</p> <p>Maximum: 110% of base salary</p> <p>Target: 55% of base salary</p>	<p>The balance between personal performance and company performance has been reset to 30% personal and 70% company in line with prior years. A one-off adjustment was made in 2020/21 to reflect additional focus on targets across the Group rather than the water company.</p> <p>The Committee updated the leaver provisions to allow it to apply discretion over entitlement to future payments and, in addition, greater flexibility over the payment date for all eligible employees.</p>

Element and link to strategy	Operation and performance metrics	Maximum potential for 2020/21	Changes for 2021/22
Pension To attract and retain high-calibre individuals by providing good-quality pension arrangements.	AWS operates a defined contribution pension arrangement. Following the introduction of the annual and lifetime allowances, where the level of pension saving would exceed the allowances, a cash payment in lieu of company contribution to pension may be made.	Peter Simpson receives a contribution of 12.8% of base salary up to a cap of £138,885 and a cash payment of 15% of base salary above this cap. In line with the wider workforce Steve Buck receives a total contribution of 12% of base salary, some of which he received in cash, and some of which is paid into his pension scheme.	No change.

Policy on recruitment remuneration

The Committee expects any new Executive Director to be engaged on terms consistent with the policy described in this report. The Committee also recognises that where it is in the interests of the company to secure the services of a particular individual, it may be necessary to take account of that individual's existing employment and/or their personal circumstances.

In making any decision on the remuneration package for a new recruit, the Committee would seek to balance company interests with the requirements of the new recruit, and would strive not to pay more than is necessary to achieve the recruitment.

Table 2

Element	Policy
General	The Committee's approach to recruitment remuneration is to pay no more than is necessary to attract appropriate candidates to the role. The remuneration package of new Executive Directors will be consistent with the remuneration policy as set out in this report.
Replacement awards	The Committee will seek to structure any replacement awards such that they are no more generous in terms of quantum or vesting period than the awards due to be forfeited and will be subject to clawback in the event of any early exit. In determining quantum and structure of these commitments, the Committee will require reasonable evidence of the nature and value of any forfeited award.
Sign-on payments / recruitment awards	Our policy is not to provide sign-on compensation. However, in exceptional circumstances, the Committee may make a sign-on payment to an individual, payment of which will be subject to performance conditions and/or a holding period and good and bad leaver provisions. The maximum value of this one-off compensation will be proportionate to the overall remuneration offered by the company. In the majority of cases the maximum compensation would be no greater than 100% of salary.
Relocation policies	Where an individual is relocating to take up the role, the company may provide one-off benefits such as reasonable relocation expenses based on actual costs incurred.

2021 Directors' Remuneration Report continued

Policy on payment for loss of office

Table 3

Component	Policy on exit
General	No Executive Director has any contractual rights to compensation for loss of office, apart from payment of salary and benefits in lieu of notice, where appropriate. The Committee's policy is that, in the event of a Director's contract being terminated, poor performance will not be rewarded. When calculating any termination payment, the Committee takes into account a range of factors, including the Executive Director's obligation to mitigate their own loss.
Base salary, pension and benefits	Salary, pension and benefits will be paid over the notice period. The Committee has discretion to make a payment of salary in lieu of notice.
Annual incentive	The rights of Executive Directors to the payment of a deferred bonus in respect of the financial year in which the termination occurs are governed by the rules of the Deferred Bonus Plan. Where the reason for termination is a 'Good Leaver' reason (as defined in the Plan), the Director will be entitled to a reduced payment to reflect the Director's actual period of service in that financial year.
Deferred bonus payments	The last Award made under the LTIP vested in June 2021. The rules of the Deferred Bonus Plan apply in respect of the deferred element of Awards (including those made in 2019 and 2020) and contain provisions which allow for payment of a portion of the Award where the Director is a 'Good Leaver' (as set out above).

Service contracts

All Executive Directors appointed to the Board are currently employed on service contracts of no fixed term, with a notice period of 12 months by the company and six months by the individual. Each Executive Director is entitled to pension provision and certain contractual benefits, details of which are summarised in the Policy. Each Executive Director also participates in bonus or incentive arrangements at the sole discretion of the Committee. Currently, each Executive Director participates in the Deferred Bonus Scheme which is described further in the relevant sections of this report.

Table 4 shows the start date for each Executive Director.

Table 4

	Start date as Executive Director	End date as Executive Director
Peter Simpson	18 November 2004	n/a
Steve Buck	1 August 2019	n/a

At 31 March 2021, John Barry, James Bryce, Niall Mills and Duncan Symonds represent the ultimate owners of the company. Consequently, they do not have letters of appointment or service contracts, nor do they receive a fee from the company for their services. Details of the letters of appointment in respect of the Chairman and Independent Non-Executive Directors are detailed in Table 5 on page 129.

External appointments

Executive Directors are not permitted to hold external non-executive directorships unless specifically approved by the Committee. Directors are permitted to retain the remuneration they receive in connection with their non-executive appointment.

Consideration of employment conditions elsewhere in the company

In setting remuneration policy, the Committee ensures that the remuneration arrangements for the Executive Directors are appropriate when compared with those for other senior executives, and the wider workforce. In particular the Committee is kept informed on a regular basis of:

- the level of salary increase for the general employee population;
- company-wide benefit provision and any proposed changes; and
- overall spend on management bonus arrangements.

Employee consultation

While the Committee does not directly consult with employees as part of the process of reviewing executive pay, the Committee does receive updates and feedback from various employee consultation and engagement channels, and takes these into account when reviewing executive pay.

The Anglian Water Services Corporate Governance Code 2020 (2020 Code) came into effect on 1 October 2020 and replaced the Anglian Water Services Corporate Governance Code 2019.

See pages 104–113

The 2020 Code combines Ofwat's BLTG principles and most of the provisions contained in the 2018 UK Corporate Governance Code that applies to listed companies. More information on compliance with the 2020 Code is detailed in the Corporate Governance Report.

In line with the 2020 Code, the Board has appointed Duncan Symonds as the designated Non-Executive Director responsible for engagement with the workforce. Further information on the activities undertaken by Duncan Symonds during the year can be found in the section 172 statement on pages 62–65.

Chairman and Independent Non-Executive Directors

Terms of appointment

The Chairman and the Independent Non-Executive Directors have letters of appointment rather than service contracts. Copies of these letters of appointment are available on the Anglian Water website at anglianwater.co.uk/governance.

Dates of letters of appointment and expiry of current terms for those who have served as Chairman and other Independent Non-Executive Directors during the year are shown in Table 5.

Table 6 – Fee policy

Element and link to strategy	Operation	Maximum potential for 2020/21	Changes for 2021/22
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 act as Senior Independent Non-Executive Director or chair Board committees, to reflect the significant additional responsibilities attached to these duties. The Chairman and the Non-Executive Directors do not participate in any of the company's incentive or pension schemes.	n/a	All Non-Executive Directors' fees increased by 2% in line with the company-wide pay deal.
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.	n/a	No change.

60 per cent of the Chairman's costs are charged to the company. 100 per cent of the Non-Executive Directors' costs are charged to the company.

Table 5

	Date of first appointment	Date of expiry of current terms
Polly Courtice	1 April 2015	31 March 2024
John Hirst	1 April 2015	31 March 2024
Paul Whittaker	14 October 2013	13 October 2022
Natalie Ceeney	25 April 2018	24 April 2024
Zarin Patel	31 October 2018	30 October 2021

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.

Policy for determination of fees

The fees for the Independent 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.

2021 Directors' Remuneration Report continued

Annual Report on Remuneration

Table 7 – Single total remuneration figure (audited)

	Total paid by all AWG companies (£)													
	Base pay		Taxable benefits ¹		Pension including cash in lieu ²		Other bonus ³		Deferred bonus ⁴		LTIP ⁵		Total ⁶	
	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21
Peter Simpson ⁷	505,277	505,277	19,106	15,829	72,559	72,559	550,000	497,637	540,092	187,658	390,890	1,282,236	2,074,647	
Steve Buck ⁸	263,333	395,000	31,794	140,679	27,776	38,998	150,000	375,000	323,744	365,753		796,647	1,315,430	
Total Executive Directors	768,610	900,277	50,900	156,508	100,335	111,557	150,000	925,000	821,381	905,845	187,658	390,890	2,078,883	3,390,077

- Benefits include private health insurance, car allowance, private fuel and life assurance for all Executive Directors. Steve Buck's figure also includes £123,815 relocation expenses that were reimbursed in line with policy agreed as part of his appointment.
- Pension costs for Peter Simpson represent cash payments in lieu of contractual commitments as he does not save into the pension scheme. Pension costs for Steve Buck represent a mixture of cash payments in lieu of contractual commitments and company contributions into the pension scheme, paid in line with all other Anglian Water employees.
- The Remuneration Committee reflected on the exceptional and unprecedented challenges across the year the company had faced and the outstanding leadership by the Executive Directors over this period. The Committee discussed the contractual bonus arrangements and associated bonus payment to be awarded and felt an additional special bonus was appropriate above these contractual commitments. The Committee therefore used its discretion and awarded special bonuses to Peter Simpson and Steve Buck. As part of his joining arrangements Steve Buck was paid £300,000 to compensate for loss of payments from his previous employer under long-term incentives in place.
- The deferred bonus figure for 2019/20 has been updated owing to a true-up exercise where the Committee reviewed the ODI outcomes for 2019/20 for metrics not available at the time of the initial payment.
- This long-term incentive payment relates to the 2018 awards for the three-year performance period ending in March 2021. This includes 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. Peter Simpson agreed to waive his entitlement to 50% of his 2017 LTIP and the company made a contribution of £212,000 into the Employee Assistance Fund, which was set up to support employees across the Group suffering hardship as a result of the Covid-19 pandemic.
- Scott Longhurst, his predecessor, was included in the £3.2 million (2019/20 figure reported in June 2020). However, Mr Longhurst's total remuneration is no longer reported as he has now left the company.
- For Peter Simpson, 36 per cent of long-term incentive costs and 70 per cent of basic salary, benefits, pension and bonus costs are paid by Anglian Water Services with the remaining proportion paid by other parts of the AWG Group.
- For Steve Buck, 60 per cent of all remuneration costs are paid for by Anglian Water Services, with the remaining 40 per cent being paid by the AWG Group.

Base pay

When assessing the pay awards for each of the Executive Directors and senior managers, the Committee considers the remuneration increases for employees throughout the Group. As the wider workforce did not receive an increase, the Board agreed there would not be a pay increase for Executive Directors from April 2020.

Table 8

	Base pay for Executive Directors effective 1 April 2020
Peter Simpson	505,277
Steve Buck	395,000

Deferred Bonus Plan Award (2020)

The Deferred Bonus Plan was implemented in 2019/20 after the Committee reviewed the previous short- and long-term incentive schemes. This plan rewards the delivery of outcomes that customers have indicated are most important to them, and which have been agreed with Ofwat as the most appropriate expression of these measures.

50 per cent of the Deferred Bonus Plan Award made in June 2020 is payable at the end of Year 1 (2021), with 25 per cent payable at the end of Year 3 (2024) and 25 per cent payable at the end of Year 4 (2025).

The performance condition applicable to the Award made in June 2020 has two elements, the first element relates to personal performance and the second element relates to performance for customers.

Performance for customers is assessed by reference to three measures, being customer satisfaction, customer delivery and customer efficiency. These measures were felt to best reflect the views of key stakeholders, including those gathered through Customer Forums, from Ofwat and from shareholders.

Customer satisfaction: CMeX and DMeX (25 per cent)

Customer satisfaction during the performance period is determined by reference to the company's performance in relation to Ofwat's two measures of customer satisfaction (CMeX for household customers and DMeX for customers – including, but not limited to – developers who require new connections).

In recognition of the fact that the number of household customers is significantly greater than the number of developer service customers, the customer satisfaction measure is weighted in favour of household customers such that:

- a maximum of 20 per cent depends upon CMeX performance during the performance period; and
- a maximum of 5 per cent depends upon DMeX performance during the performance period.

Customer delivery: A small number of ODIs representing the most important customer priorities as determined by our customers (40 per cent)

The table below details the ODIs that are measured:

ODI	Measure
Leakage (3-year average)	MI/d, 3-year average
Interruptions to supply	Average minutes lost per customer
Internal flooding	No. incidents per 10,000 sewer connections
External flooding	No. incidents
Pollutions	No. water recycling category 1–3 pollution incidents per 10,000 km of sewer
Mains repairs	No. repairs per 1,000 km of water main
Water quality compliance	Compliance Risk Index
Treatment works compliance	% of WRCs and WTWs failing numeric discharge permit conditions

Customer efficiency: A measure of financial efficiency shared with customers (35 per cent)

This measure relates to the 'totex gap', which means the gap between the amount of totex spent during the performance period and the amount allowed by Ofwat in the FD in respect of the performance period. Outcomes for this measure are based on the overall reduction of this gap, which will benefit customers in future years.

These measures are directly linked to the 2020–2025 outcomes following our Business Plan submission and the Final Determination.

In recognition of the extreme pressure on costs during 2020/21, the performance condition included an additional target linked to a base opex threshold which needed to be satisfied before any payment could be made. If the company achieved the base opex target but did not meet the stretch target, the overall payment could be reduced. Payments could still be made in future years if the remaining performance targets were satisfied.

In addition to the three customer-focused performance measures, payments to Executive Directors were also dependent upon the achievement of personal objectives focussing on their broader roles across the Group.

The Committee has discretion to amend company and personal objectives during the year. When assessing performance against company and personal objectives, the Committee considers any other results or factors it deems relevant, and applies its overall judgement in recommending final bonus outcomes to the Board. In relation to the deferred elements of the Award (payable in 2023 and 2024), the Committee is also entitled to reduce payments in circumstances where there have been material issues in respect of service, quality, health and safety, reputation, and financial or regulatory performance. The Committee may also claw back bonus already paid where, in its judgement, there has been serious misconduct.

Outcomes for 2020/21**Customer satisfaction (25 per cent)**

2020/21 was a challenging year for several reasons. We saw a positive spike in the customer measure of experience (CMeX) at the start of the year due to our support for customers during the early days of the pandemic, but then experienced a very challenging summer due to increased demand related to Covid-19, and hot weather, followed by a wet winter. In that context we are pleased to be ending the year less than one point from a top three position across the industry. Equally, our customer service under the DMeX measure was heavily influenced by the effect of the pandemic on development activity. We ended the year in fifth position with a good action plan to target improvements.

2021 Directors' Remuneration Report continued

Customer delivery scorecard (40 per cent)

Performance in relation to performance commitments (or ODI) outcomes is measured through an overall ODI scorecard. Within the scorecard, each outcome has a maximum number of points associated with it, which reflects a balance between the importance that our customers place on the relevant outcome and the value of the associated financial reward or penalty.

On leakage, our performance remains sector leading. We ended the year having achieved slightly above the base target, an exceptional performance in the context of an extremely challenging year and exceptional weather events.

We continue to perform strongly on interruptions to supply. However, our performance on external sewer flooding and pollution incidents has also been impacted by the exceptional rainfall over the winter period. While these events are not considered to be

reflective of underlying business performance, this has resulted in these targets being missed. We have seen a very strong performance on total mains repairs over the year, achieving stretch, and achieved good performance for water quality, internal flooding and treatment works compliance, achieving above the base target position.

Customer efficiency (35 per cent)

Delivery of opex and capex targets in the year was particularly strong, with significant opex initiatives delivered to enable the business to deliver on the basis of Ofwat's Final Determination in the year. Despite the challenges of Covid, the capex programme has tracked close to target throughout the year.

Table 9 shows the scoring mechanism and the customer delivery ODI outcomes for 2020/21, detailing the company performance for each ODI measure.

Table 9

	Threshold	Base	Stretch	Outcome
Leakage (megalitres per day)		183 G	R	182.5
Interruptions to supply (minutes)	-	6.30 G	G	5.02
Internal flooding (no. incidents per 10,000 sewer connections)	-	1.35 G	G	1.33
External flooding (no. incidents)	-	2,333 R	R	3,628
Pollutions (no. water recycling category 1–3 pollution incidents per 10,000 km)		26.1 R	R	27.7
Mains repair (no. repairs per 1,000 km of water main)		140.1 G	G	129.2
Water quality compliance (Compliance Risk Index)		2 G	R	1.99
Treatment works compliance (% of WRCs and WTWs failing numeric discharge permit conditions)		98.7 G	R	99.3

R Red**A** Amber**G** Green

Outcomes for Executive Directors (audited)

The Committee recommended to the Board that the extent to which overall company performance targets had been achieved was 73.63 per cent for the Executive Directors.

As a result of this performance, and the Committee's review of the assessment of performance against the personal objectives of each individual Executive Director, deferred bonus payments for 2020/21 were between 79.2 and 84.2 per cent of maximum.

Table 10 details the relationship between each of these performance measures and how it relates to the bonuses achieved by each Executive Director in the 2020/21 performance year.

Table 10

Peter Simpson	Weighting for 2020/21 (as % of base pay)	Threshold	Base	Stretch	Outcome
Customer satisfaction	20.3%	ⓐ	ⓑ	ⓑ	10.1%
CMeX performance	16.2%	ⓐ	ⓑ	ⓑ	8.1%
DMeX performance	4.1%	ⓐ	ⓑ	ⓑ	2.0%
Customer delivery	32.4%	ⓐ	ⓐ	ⓑ	21.2%
Customer efficiency	28.4%	ⓐ	ⓐ	ⓐ	28.4%
Personal objectives	54.0%	ⓐ	ⓐ	ⓐ	47.3%
Total % award payable	135.0%				106.9%
Maximum award payable					£682,124
Deferred bonus paid					£540,092

Steve Buck	Weighting for 2020/21 (as % of base pay)	Threshold	Base	Stretch	Outcome
Customer satisfaction	16.5%	ⓐ	ⓑ	ⓑ	8.3%
CMeX performance	13.2%	ⓐ	ⓑ	ⓑ	6.6%
DMeX performance	3.3%	ⓐ	ⓑ	ⓑ	1.7%
Customer delivery	26.4%	ⓐ	ⓐ	ⓑ	17.2%
Customer efficiency	23.1%	ⓐ	ⓐ	ⓐ	23.1%
Personal objectives	44%	ⓐ	ⓐ	ⓐ	44.0%
Total % award payable	110%				92.6%
Maximum award payable					£434,500
Deferred bonus paid					£365,753

ⓑ Red ⓐ Amber ⓐ Green

2021 Directors' Remuneration Report continued

LTIP

Following the implementation of the Deferred Bonus Scheme in 2019/20, awards are no longer made under the LTIP. The AWG LTIP was designed to incentivise senior executives to deliver sustained performance improvements. Under the rules of the LTIP, selected senior employees were granted a conditional award entitling them to a cash payment subject to the achievement of performance conditions over a three-year performance period. In order to align the interests of executives with those of shareholders, the final payment is uplifted by the average rate of return to investors over the performance period.

Outcomes in 2020/21

The 2018 LTIP award vested in May 2021. Table 11 shows the performance measures and weightings for the awards made in 2018. The full performance period ran from 1 April 2018 to 31 March 2021.

The design of the 2018 scheme introduced two performance conditions which were associated with the value of the business (calculated by reference to the return to the ultimate owners of the business). These conditions related to the periods: 2018–2020 (44 per cent of the total) and 2020–2021 (33 per cent of the total), plus a totex savings target which accounted for the final 23 per cent.

In making recommendations to the Board as to the extent to which these performance conditions had been achieved, the Committee concluded that the company had outperformed on the totex efficiency measure, but had missed the targeted rate of return for the first performance period. The company met the stretch target for the second performance period.

The conditions attached to the 2018 LTIP award allowed the Committee to withhold up to 30 per cent of the LTIP award in circumstances where there was a material failure to meet certain key operational performance targets. One of these performance conditions required the company to maintain 3-star status in respect of the Environment Agency's Environmental Performance Assessment. The company's performance in 2019 was assessed by the Environment Agency as being only 2-star. As the company achieved 3 stars in 2018 and anticipates 3 stars for 2020, it was determined by the Committee that a significant deduction of 10 per cent should be applied. Therefore, as the Committee had recommended that the extent to which the performance conditions that had been achieved over the three-year period was 56 per cent, with the 10 per cent reduction applied, the final award applied was 50.4 per cent. This award value was uplifted by the average rate of return, which for the 2018 LTIP was 5.4 per cent.

Table 11

Performance measure		Weighting as % of base pay		Actual performance	
		Peter Simpson and Scott Longhurst	Chris Newsome and Jean Spencer	Peter Simpson and Scott Longhurst	Chris Newsome and Jean Spencer
Rate of return	Achievement of targeted average rate of return over the performance period 1 (2018–2020)	66.0%	33.0%	0.0%	0.0%
	Achievement of targeted average rate of return over the performance period 2 (2020–2021)	49.5%	24.8%	49.5%	24.8%
Totex outperformance	Achievement of targeted savings against totex allowed in the Final Determination over the Performance Period	34.5%	17.3%	34.5%	17.3%

Table 12 - Payments to Executive Directors during 2020/21 and the maximum value of unvested long-term incentives (audited) - awards prior to 2020/21

	LTIP award	Performance period	Performance measure and achievement	Base value of awards held at 31 March 2020 £	Value of awards vesting on 31 March 2021 £
Peter Simpson	2018 LTIP	1 April 2018 to 31 March 2021		735,840	390,890
Scott Longhurst ¹	2018 LTIP	1 April 2018 to 31 March 2021	Rate of return - 33%	490,560	260,593
Chris Newsome ¹	2018 LTIP	1 April 2018 to 31 March 2021	Totex outperformance - 23%	65,450	34,768
Jean Spencer ¹	2018 LTIP	1 April 2018 to 31 March 2021		61,796	32,827

¹ Scott Longhurst will receive two thirds, and Jean Spencer and Chris Newsome will receive one third of the 2018 LTIP as per the scheme rules and their leaving arrangements, and all figures are adjusted for this in this table.

² The cost of Scott Longhurst's LTIP awards are paid by other parts of AWG and are not charged to the company.

Table 13 - Payments to Executive Directors during 2020/21 and the value of Deferred Bonus awards (audited) - from 2020/21

Table 13 shows the value of payments made pursuant to the 2020 Deferred Bonus Plan made in the performance year and subsequent conditional deferred payments that are due in Year 3 (2023) and Year 4 (2024). The breakdown of the 2020 payment can be found in Table 10. All future payments depend on conditional requirements being met. The value of the deferred payments will be uplifted by CPHI. The secondary performance conditions applicable to the deferred payments are:

- our assets must be maintained in good condition against a series of specific measures;
- good water quality must be maintained as measured by DWI statistics;
- the company must maintain good environmental performance;
- there must be no material damage to the reputation of the company; and
- there must be no significant deterioration in health and safety performance.

The Committee will review these measures at the end of Year 3 and again at the end of Year 4 and has discretion to reduce the amounts payable based on set criteria.

Table 13

	DBS award	Performance period	Performance measure and achievement	Base value of conditional payments held at 31 March 2021 £	Value of awards vesting on 31 March 2021 £
Peter Simpson	2020	1 April 2020 – 31 March 2024	Personal objectives and leadership behaviours 47.3% Financial and operational targets - 59.7%	682,124	540,092
Steve Buck	2020	1 April 2020 – 31 March 2024	Personal objectives and leadership behaviours - 44% Financial and operational targets - 48.6%	434,500	365,753

Note: Performance measures and achievements reflect the percentage award relevant for the payment achieved in 2020/21, excluding future payments subject to secondary performance conditions.

2021 Directors' Remuneration Report continued

Graph 2 - Change in CEO remuneration

Graph 3 - Change in percentage of award of CEO performance-related pay

Note: The Annual Bonus and LTIP were replaced by the Deferred Bonus Scheme at the start of 2019. 2020/21 LTIP payments are based on the 2018 LTIP award which was the final award under this plan.

AWG Co-investment Plan

The Co-investment Plan (the Plan) was established in March 2020 and was designed to operate annually throughout AMP7 (2020–2025). Senior Executives are able to make one annual investment out of net annual bonus and historic LTIP Awards vested in the applicable year, to a maximum of £1 million over the AMP period. Funds are locked in for the whole AMP unless the Remuneration Committee exercises its discretion to waive this condition (which will only occur in exceptional circumstances).

Sums invested are treated as a loan in respect of which interest is payable, calculated annually and applied to the principal sum invested. The rate of interest is aligned to the total shareholder returns and may increase or decrease over the investment period.

Table 14 shows the sum invested for Executive Directors during 2020/21 in the AMP7 Co-investment Plan.

Table 14

Executive Director	Amount invested 2020/21
Peter Simpson	£297,000

Table 15 shows the amount invested and total return of the AMP6 Co-investment Plan, which closed at the end of June 2020. This table includes all Executive Directors who invested into the plan.

Table 15

Executive Director	Amount invested over AMP6 2015–2020	Total return based on interest payable
Peter Simpson	£1,000,000	£238,676
Scott Longhurst	£1,000,000	£249,054
Chris Newsome	£300,000	£58,160
Jean Spencer	£280,000	£41,184

Jean Spencer and Chris Newsome stepped down from the Board on 11 August 2018. The Committee agreed that sums invested by Jean Spencer and Chris Newsome could remain invested until June 2020.

Table 16 – Single total remuneration figure for Non-Executive Directors (audited)

	Total remuneration all AWG £			
	2020/21			2019/20
	Fees	Benefits ¹	Total	Total
John Hirst ²	300,000		300,000	72,100
Stephen Billingham	150,000	232	150,232	300,407
Polly Courtice	71,500		71,500	51,500
Paul Whittaker	61,800		61,800	61,800
Zarin Patel	61,500		61,500	51,500
Natalie Ceeney	51,500		51,500	51,671
Total Non-Executive Directors	696,300	232	696,532	588,978

1 Benefits are cost of home to office travel and associated tax paid by the company for Non-Executive Directors carrying out duties at the company's head office in Huntingdon.

2 60 per cent of John Hirst's costs are met by Anglian Water Services Limited with the remainder paid by Anglian Water Group.

Stephen Billingham retired on 31 March 2020. The fees received were as part of his payment in lieu of notice.

Fees

Fees for Polly Courtice and Zarin Patel were increased in line with a market review of their current roles as Non-Executive Directors.

2021 Directors' Remuneration Report continued

Implementation of remuneration policy in 2021/22

2021/22 base pay

The Committee reviewed current base pay arrangements and agreed Steve Buck's base salary would increase by 2 per cent in line with the increase for the rest of the workforce. It was agreed that there would be no change to Peter Simpson's base salary at this stage until a broader review of his remuneration is expected to conclude later in the coming year.

It was also agreed the fees for Independent Non-Executives would increase by 2 per cent in line with the increase to the wider workforce.

2021/22 Deferred Bonus Plan Award

Following the appeal to the Competition and Markets Authority (CMA) and following the unprecedented year in 2020/21, a review was undertaken of all the performance conditions attached to awards under the Deferred Bonus Plan. The Committee set stretching targets to ensure Executives are incentivised to deliver across a wide suite of customer-focussed measures. The balance across these measures was felt to best reflect the views of key stakeholders, including those gathered through Customer Forums, and from our regulator and shareholders.

The performance conditions that apply for the 2021 award should be as set out below:

Customer delivery (65%)

The performance commitments that contribute to this measure are listed below and will be consolidated into a basket of measures. Each of the performance commitments has an associated penalty and/or reward which have been set by the regulator and refined by the CMA in its Redetermination. Therefore the amount of reward (if any) will be to the extent to which the amount of this element of the award will vest.

Measure	
Customer Measure of Experience (CMeX)	Customer survey conducted for Ofwat called CMeX which assesses the experience the company provides to residential customers.
Developer Measure of Experience (DMeX)	Survey conducted for Ofwat called DMeX which assesses the experience the company provides to developer services customers who build new homes.
Properties at risk of persistent low pressure	Number of properties that are affected by persistent low pressure. Persistent low water pressure is an ongoing low pressure problem rather than short-term low pressure caused by a water main burst or unusual peak in demand for water.
Internal sewer flooding	The number of times that properties that are flooded internally per 10,000 customer connections to the sewer.
External sewer flooding	The number of times that properties are flooded externally.
Water supply interruptions	Average length of supply interruptions per property (for interruptions over 3 hours).
Managing void properties	The percentage of properties that are falsely identified as void properties. This means that they are occupied and should be charged by the company.
Water quality (Compliance Risk Index)	This is the key measure used by the Drinking Water Inspectorate to determine our overall compliance with stringent regulatory drinking water standards.
Water quality contacts	The number of complaints from customers about water quality per thousand people served.
Percentage of population supplied by single supply system	Percentage of population served by a single supply system. Our goal is to increase the number of properties supplied by more than one water treatment works so that if something goes wrong at one works, our customers' water supplies are protected.

Measure	
Cyber security	Percentage of risks mitigated against the cyber threat to operational technology (OT) and to comply with the network and information systems (NIS) regulations.
Leakage	A percentage reduction in the amount of water lost to leakage across the region in Ml/d. Ml/d is megalitres per day and 1 Ml/d is 1 million litres.
Per capita consumption (PCC)	A percentage reduction in the average water consumption per household per day for properties in our region.
Smart metering delivery	The number of smart water meters that are installed at customer properties.
Internal interconnector delivery	The number of megalitres per day extra capacity delivered to ensure that customers in the region have sufficient water in the future.
Elsam DPC (Underperformance)	Measures the progress in implementing a direct procurement for customers process to support the appointment of a competitively appointed provider to construct and finance the Elsham treatment works and transfer scheme.
Elsam DPC (Outperformance)	
Pollution incidents	Number of pollution incidents due to escapes from our sewerage network per 10,000 km of sewer network.
Bathing waters attaining excellent status	Number of recognised bathing waters in our region rated 'Excellent' (based on standards set by the European Bathing Water Directive).
Abstraction Incentive Mechanism	An incentive to reduce the water we take from sensitive rivers or wetlands during very dry periods.
WINEP	The progress of the company in delivery of its agreed Water Industry National Environment Programme (WINEP) schemes in a timely manner.
Partnership working on pluvial and fluvial flood risk	Investments delivered working in partnership with other organisations to protect infrastructure from flooding.
Mains repairs	Number of repairs made to water mains per 1,000 kilometres of total water mains.
Unplanned outage	Percentage of maximum water treatment works output unavailable during the year.
Sewer collapses	Number of sewer collapses per 1,000 kilometres of sewers.
Treatment works compliance	Percentage of water and sewage treatment works meeting permits for the quality of water discharged to the environment.

Customer efficiency: A measure of financial efficiency shared with customers (35 per cent)

This measure relates to the 'totex gap', which means the gap between the amount of totex spent during the performance period and the amount allowed by Ofwat in respect of the performance period. Outcomes for this measure will be based on the overall reduction of this gap, which will benefit customers in future years.

The Committee also reflected and adjusted the balance between the customer measures as detailed above and personal objectives for the Executive Directors. 30 per cent of their maximum bonus potential is based on a set of personal objectives set by the Committee, including responsibilities across the wider Group, and 70 per cent on the basket of customer measures.

At the end of the performance year, achievement will be calculated and the appropriate payment relating to the first tranche (50 per cent) will be paid out. The remaining half will be deferred and paid out in two equal tranches, two years and three years after the first payment and therefore three and four years after the performance period began. In addition to the initial performance criteria, these payments will also be dependent on a number of secondary performance conditions set out below:

- Our assets must be maintained in good condition;
- Good water quality must be maintained;
- The company must maintain good environmental performance;
- There must be no material damage to the reputation of the company; and
- There must be no significant deterioration in health and safety performance.

2021 Directors' Remuneration Report continued

Illustration of the deferred bonus potential for the Executive Directors

Table 17

	Base salary as at 1 April 2021 £	Deferred bonus potential 2021/22 (% of base salary)
Peter Simpson	£505,277	270%
Steve Buck	£402,900	220%

Note: For the 2021/22 potential, depending on the outcomes assessed by the Committee as achieved for the measures, 50 per cent will be paid in cash at the end of the initial performance period, 25 per cent will be deferred for a further two-year period and 25 per cent will be deferred for a further three-year period.

Illustrations of application of the remuneration policy

The charts in Table 18 show the weighting as a percentage of base pay for 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 2021/22.

In these charts:

- Fixed remuneration is the minimum payable, and is made up of base pay for 2020/21 plus the value of cash in lieu of pension and benefits.
- The deferred bonus is split into Year 1 (2022), Year 3 (2024) and Year 4 (2025) payments
- The 'on target' bar in the charts, shows the percentage of fixed remuneration that could be earned for achieving threshold levels of performance plus the minimum threshold performance for the deferred bonus.
- Maximum performance would result in the maximum deferred bonus payment, however this has been calculated without any allowance for CPIH. The maximum award may therefore be higher as it will be adjusted by CPIH over the period. The maximum bars in all the charts include the Deferred Bonus award granted in 2020/21 which are due to vest in subsequent years.
- As per the scheme rules, the second tranche payment for the 2019 Deferred Bonus award is due to vest in 2021/22. The payment reflected in these charts will change in line with the CPIH vesting outcome, which is not known at this time.

Table 18

Note: The figures in brackets show the amount of total remuneration costs that will be paid in 2021/22 by Anglian Water Services (AWS), with the rest paid for by other parts of the AWG Group. Peter Simpson will have 70 per cent of his costs and Steve Buck 60 per cent of his costs paid for by AWS.

AWG Co-investment Plan – 2020

A new Co-investment Plan (the Plan) was approved by the Remuneration Committee in May 2020 and is designed to operate annually throughout AMP7. As outlined earlier in the report, Senior Executives are able to make one annual investment out of net Deferred Bonus vested in the applicable year, to a maximum of £1 million over the period. Funds are locked in for the whole AMP with Remuneration Committee discretion to waive this condition in exceptional circumstances.

Sums invested are treated as a loan in respect of which interest is payable, calculated annually and applied to the principal sum invested. The rate of interest is aligned to the total shareholder returns and may increase or decrease over the investment period.

Conditions in the wider Group

Percentage change in CEO remuneration compared with other employees

Table 18 shows the percentage change in the base pay, taxable benefits and annual bonus of the CEO compared to other employees for the years 2019/20 to 2020/21 and follows the relevant guidelines. 'Other employees' are the employees of both the company and AWG Group Limited who have been employed for the full 2020/21 year. This group includes members of the company's Management Board.

Table 19

	% change in CEO remuneration, 2020/21 vs 2019/20	% change in remuneration for other employees, 2020/21 vs 2019/20
Base pay ¹	0.00%	1.55%
Taxable benefits ²	-17.15%	-22.90%
Deferred/Other bonus ³	122.14%	21.99%

1 There was no company-wide increase in base pay for the CEO or other employees in 2020/21. For the wider workforce, the increase is mainly down to the transfer of a number of contractors who are now permanent employees following the new IR35 legislation.

2 The decreases in taxable benefits for the CEO is owing to the difference in fuel allowance paid in 2020/21 in comparison to 2019/20.

The decrease in taxable benefits for 'other' employees is owing to a review of employee recognition resulting in a lower volume made through the company recognition system. In addition, as a result of Covid-19, although the healthcare benefit remained, the actual appointments available were scaled back due to focus on NHS services reducing the overall cost of this benefit at all levels of the company.

3 For the CEO, the increase can be explained following the decision by the Remuneration Committee to pay a one-off bonus given the unprecedented year that the company had faced as detailed in Table 7. A higher level of bonuses were also paid to a number of employees to reflect their exceptional performance throughout a very difficult year with the impact of the Covid-19 pandemic and other key initiatives. For the CEO, this was also following his decision in 2019/20 to waive his entitlement to 50 per cent of his LTIP, where a contribution of £212,000 was made to the Covid-19 Employee Assistance Fund on his behalf.

Table 20 shows the CEO's total remuneration in comparison to the 25th, 50th (median) and 75th percentile full-time equivalent remuneration of AWG employees.

There is an increase when comparing the remuneration of the CEO and wider workforce in 2020/21 in comparison to 2019/20, owing predominantly to the decision made by the Committee and the CEO for the CEO to waive 50% of the 2017 LTIP payment. The ratio is now in line with the expected ratio and is comparable to the 2018/19 ratio.

Table 20

	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2018/19	66 to 1	50 to 1	40 to 1
2019/20	41 to 1	31 to 1	25 to 1
2020/21	65 to 1	50 to 1	40 to 1

Note: All figures included in the ratio calculations were based effective from 31 March of each year. The methodology used was Option A under the Corporate Governance Code as it was deemed to be the most robust, transparent and accurate method available.

The figures in the table rely on estimated figures for the CEO LTIP and annual bonus figures, and employee annual bonus figures at the time of writing.

All pay elements have been used to calculate the total compensation for employees, and have been adjusted to a full-time equivalent for those who work part time or have joined part way through the year. An adjustment has also been made for the hourly working employees to represent full-time working.

The company believes that the median pay ratio is consistent with its overall policies relating to remuneration, and how these apply to the CEO and Anglian Water employees. In general, the pay and bonus policies that are applied across the Group show that as employees progress into more senior roles they become eligible for an increase in overall remuneration through eligibility for bonus schemes.

Table 21

Table 21 shows the salary and total pay and benefits for the employees at the 25th, 50th and 75th percentile and the salary component of total pay and benefits for these employees.

	CEO	25th percentile employee	Median employee	75th percentile employee
Salary	£505,277	£30,966	£34,796	£45,107
Total pay and benefits	£2,074,647	£32,091	£41,317	£51,975

Note: Salary includes base salary, basic hours (for hourly paid individuals) and holiday pay.

2021 Directors' Remuneration Report continued

Table 22

Table 22 below sets out employee remuneration, amounts paid in dividends, and capital expenditure for the years ended 31 March 2020 and 31 March 2021.

	AWS		
	2020/21 £m	2019/20 £m	% change
Remuneration paid to employees ¹	212.4	207.0	2.6
Dividend paid outside the AWS financing group net of equity injection ²	nil	67.8	(100.0)
Capital investment ³ (cash)	424.1	452.5	(6.3)

- 1 Remuneration paid to employees has increased by 2.6 per cent which reflects both an increase in the overall headcount and the impact of a number of salary increases to reflect development within role and transfer of contractors to permanent roles.
- 2 It is noted that Anglian Water Group did not pay any dividends to shareholders in this financial year (2020: Nil).
- 3 Capital investment is lower in 2020/21 but reflects a strong start to our AMP7 investment programme during which time we will invest a record £3.0 billion through our capital investment programme.

Remuneration Committee decisions

Consideration by the Directors of matters relating to Directors' remuneration

Remuneration matters relating to the 2021 financial year were discussed at Remuneration Committee meetings held on 22 April 2020, 7 May 2020, 29 May 2020, 23 November 2020 and 23 March 2021. The items discussed at these meetings are summarised below:

22 April 2020

- Consideration of the approach to bonus and LTIP payments in respect of the 2019/20 financial year.
- Consideration of the approach to remuneration arrangements in respect of the 2020/21 financial year.

7 May 2020

- Approval of true-up payment in respect of the 2018/19 performance contract.
- Discussion regarding the outturn of the 2019 Deferred Bonus Scheme.
- Discussion regarding the proposed structure and participants of the 2020 Deferred Bonus Scheme.

29 May 2020

- Approval of the Remuneration Report 2020.
- Performance review and pay and bonus recommendation for Executive Directors and senior management.
- Approval of the 2020 awards under the Deferred Bonus Plan.
- Approval of Co-investment Plan opportunity for 2020.
- Approval of vesting of 2017 LTIP award.
- Approval of the outturn in respect of the 2019 Deferred Bonus Plan award.
- Approval of the Executive Directors' objectives in respect of 2020/21.

23 November 2020

- Performance contract update.
- Discussion regarding the AWG Loyalty Savings Scheme.
- Discussion regarding the 2018 LTIP.
- Review of Executive Director performance.
- Review of Executive Director benchmarking.

23 March 2021

- Consideration of the draft outturn for the award under the 2020 Deferred Bonus Scheme.
- Overview of the Remuneration Report 2021.
- Discussion regarding 2020 Co-investment Plan.
- Discussion regarding Deferred Bonus Plan targets and participants.
- Evaluation of the Remuneration Committee.
- Approval of the structure of the Deferred Bonus Scheme Awards for the 2021/22 financial year.
- Discussion around the performance of the 2018 LTIP award and Loyalty Savings Scheme.
- Discussion regarding Executive Directors' objectives in respect of the 2021/22 financial year.
- Consideration of the impact of the annual pay award on senior managers' pay and Non-Executive Directors' fees.

The Committee's terms of reference are available on the AWS website.

Committee performance and effectiveness

An annual review of the Committee's performance was undertaken as part of the Board evaluation process, detailed on page 122. The key findings of the evaluation relating to the Committee were discussed at a meeting of the Committee on 23 March 2021. No material shortcomings in the operation of the Committee were highlighted.

External advisors

During 2020/21 the Committee used PwC as external remuneration consultants to provide advice and benchmarking data as part of a review of CEO and CFO remuneration packages.

Statutory requirements

This Remuneration Report has been prepared on behalf of the Board by the Committee.

The report was approved by the Board on 16 June 2021 and signed on its behalf.

Paul Whittaker

Chairman of the Remuneration Committee
16 June 2021

Directors' Report for the year ended 31 March 2021

The Directors present their report and the audited financial statements of Anglian Water Services Limited (the company) for the year ended 31 March 2021.

Business review

The ultimate parent company of Anglian Water Services Limited is Anglian Water Group Limited, a company registered in Jersey. Anglian Water Group Limited is owned by a consortium of investors consisting of the Canada Pension Plan Investment Board, First Sentier Investors, Infinity Investments S.A., IFM Investors and Camulodunum Investments Ltd. The Company's ownership structure is detailed on pages 26–27.

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 8–97.

Corporate governance statement

During the year the company has applied the Anglian Water Services Corporate Governance Code 2020 (2020 Code). Information on the requirements of the 2020 Code and how it was applied during the year can be found in the Corporate Governance Report on pages 104–113.

Details of the corporate governance arrangements resulting from the securitisation of the company in 2002 can be found on page 105 of the Corporate Governance Report, together with the disclosures that satisfy the requirements of paragraph 13 (2) (c) (d) (f) (h) and (i) of Schedule 7 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008, resulting from the EU Takeover Directive (DTR 7.2.6R).

Financial instruments disclosures

Details are included in note 20 of the financial statements.

Principal activities

The company provides around 1.1 billion litres of drinking water to 4.8 million people every day. The water comes from a variety of sources: reservoirs, underground reserves (aquifers) and abstraction from rivers. The company receives approximately 900 million litres of used water per day from 6.4 million people and businesses, including customers who receive their water from other companies. The used water is treated to a high standard and returned to the environment via rivers or coastal outlets. The organic waste is treated, dried and used in agriculture as a natural fertiliser. As well as providing these wholesale services, the company provides retail services to household customers within its region.

Results and dividends

The Group income statement on page 148 shows the Group's results and profit for the year. Details on dividends can be found in note 11 of the financial statements. No dividends were paid to the ultimate shareholders in the year.

Risk management

Detailed information about the company's risk management processes, including its approach to financial risks, can be found on pages 76–93.

Health and safety

Details are included on page 55 and pages 82–83.

Directors

Current Directors of the company are listed on pages 100–103 together with their biographical details. Details of Board changes that took place up to the date of this report are detailed on page 108.

Directors' indemnities

During the 2020/21 financial year and up until the date of the signing of the financial statements, the company has maintained Directors' and officers' liability insurance, which gives appropriate cover for legal action brought against its Directors. The company has also provided an indemnity for its Directors, which is a qualifying third-party indemnity provision for the purpose of section 234 ((2)–(6)) of the Companies Act 2006.

Political donations and expenditure

No political donations or expenditure were made during the year (2020: Enil).

Emissions

Information relating to carbon emissions can be found on pages 74–75.

Future developments

The Directors expect the activities as detailed in the Strategic Report to continue for the foreseeable future without material change.

Research and development

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

Employees

Information on the company's policy on employing people with disabilities and about how employees are kept informed and consulted can be found in 'Our people & partners' on pages 54–57. Information relating to how the Directors have engaged with employees and the effect of that regard can be found in the section 172 statement on pages 62–65.

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

Stakeholder engagement

Details of how the Directors have engaged with customers, suppliers and other stakeholders, including those representing communities and the environment, can be found in the section 172 statement on pages 62–65.

Events occurring after the reporting period

Details of events occurring after the reporting period are included in note 31 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 2021 financial statements. Further details of this review can be found on page 157.

Directors' disclosures to auditors

Each of the persons who is a Director at the date of approval of this report confirms that:

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

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Auditor

The auditor, Deloitte, has indicated its willingness to stay in office and is deemed to be reappointed.

By order of the Board

Claire Russell

Company Secretary
16 June 2021



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 financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The financial statements also comply with IFRSs as issued by the IASB. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the company and of the profit or loss of the Group for that period. In preparing these financial statements International Accounting Standard 1 requires that the Directors:

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- 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 corporate and financial information included on 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 Board of Directors sections on pages 100–103 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; and
- the Directors' Report and Strategic Report contained in the Annual Integrated Report include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

The Directors consider that the Annual Integrated Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Claire Russell

Company Secretary
16 June 2021

"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."

Statutory accounts

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Independent Auditor's Report

Group income statement

for the year ended 31 March 2021

Notes	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
4 Revenue	1,351.8	1,419.9
5 Other operating income	12.5	13.0
6 Operating costs		
Operating costs before depreciation, amortisation and charge for bad and doubtful debts	(590.3)	(624.6)
Depreciation and amortisation	(351.3)	(368.5)
Charge for bad and doubtful debts	(31.1)	(40.7)
Total operating costs	(972.7)	(1,033.8)
Operating profit	391.6	399.1
Finance income	2.0	4.8
Finance costs, including fair value losses on derivative financial instruments	(274.6)	(360.3)
7 Net finance costs	(272.6)	(355.5)
Profit before tax from continuing operations		
Profit before fair value losses on derivative financial instruments	142.2	74.0
Fair value losses on derivative financial instruments	(23.2)	(30.4)
Profit before tax from continuing operations	119.0	43.6
8 Tax charge	(20.2)	(120.4)
Profit/(loss) for the year from continuing operations	98.8	(76.8)

Notes 1 to 31 are an integral part of these financial statements.

Group statement of comprehensive income

for the year ended 31 March 2021

Notes	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Profit/(loss) for the year	98.8	(76.8)
Other comprehensive (expense)/income		
Items that will not be reclassified to income statement		
23 Actuarial (losses)/gains on retirement benefit deficit	(162.7)	108.4
8 Income tax on items that will not be reclassified	30.9	(18.8)
	(131.8)	89.6
Items that may be reclassified subsequently to income statement		
25 Gains on cash flow hedges recognised in equity	8.2	22.9
25 Gains/(losses) on cost of hedging recognised in equity	2.1	(0.6)
25 Losses on cash flow hedges transferred to income statement	10.2	3.9
25 Gains on cost of hedging transferred to income statement	(0.5)	(0.4)
8 Income tax on items that may be reclassified	(3.8)	(3.1)
	16.2	22.7
Other comprehensive (expense)/income for the year, net of tax	(115.6)	112.3
Total comprehensive (expense)/income for the year	(16.8)	35.5

Group balance sheet

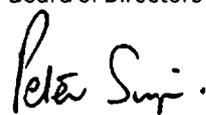
at 31 March 2021

Notes	At 31 March 2021 £m	At 31 March 2020 £m
Non-current assets		
12 Other intangible assets	257.4	217.3
13 Property, plant and equipment	10,041.7	9,940.3
20 Derivative financial instruments	112.6	317.8
23 Retirement benefit surplus	54.8	171.6
	10,466.5	10,647.0
Current assets		
15 Inventories	13.9	12.4
16 Trade and other receivables	500.9	530.6
17 Investments - cash deposits	80.0	319.0
17 Cash and cash equivalents	205.9	729.1
20 Derivative financial instruments	84.8	16.8
	885.5	1,607.9
Total assets	11,352.0	12,254.9
Current liabilities		
18 Trade and other payables	(502.2)	(520.9)
Current tax liabilities	(167.3)	(198.2)
19 Borrowings	(652.9)	(1,023.0)
20 Derivative financial instruments	(24.8)	(81.4)
21 Provisions	(6.6)	(6.2)
	(1,353.8)	(1,829.7)
Net current liabilities	(468.3)	(221.8)
Non-current liabilities		
19 Borrowings	(6,282.8)	(6,702.3)
20 Derivative financial instruments	(1,004.6)	(996.0)
22 Deferred tax liabilities	(1,092.2)	(1,093.6)
23 Retirement benefit deficit	(44.8)	(41.6)
21 Provisions	(9.4)	(10.5)
	(8,433.8)	(8,844.0)
Total liabilities	(9,787.6)	(10,673.7)
Net assets	1,564.4	1,581.2

Continued on next page.

Notes	At 31 March 2021 £m	At 31 March 2020 £m
Capital and reserves		
24 Share capital	32.0	32.0
Retained earnings	1,567.4	1,600.4
25 Hedging reserve	(37.4)	(52.3)
25 Cost of hedging reserve	2.4	1.1
Total equity	1,564.4	1,581.2

Notes 1 to 31 are an integral part of these financial statements. The financial statements were approved by the Board of Directors on 16 June 2021 and signed on its behalf by:


Peter Simpson
 Chief Executive


Steven Buck
 Chief Financial Officer

Company balance sheet

at 31 March 2021

(Company number: 02366656)

Notes	At 31 March 2021 £m	At 31 March 2020 £m
Non-current assets		
12 Other intangible assets	257.4	217.3
13 Property, plant and equipment	10,041.7	9,940.3
20 Derivative financial instruments	112.6	317.8
23 Retirement benefit surplus	54.8	171.6
	10,466.5	10,647.0
Current assets		
15 Inventories	13.9	12.4
16 Trade and other receivables	500.9	530.6
17 Investments - cash deposits	80.0	319.0
17 Cash and cash equivalents	180.7	729.0
20 Derivative financial instruments	84.8	16.8
	860.3	1,607.8
Total assets	11,326.8	12,254.8
Current liabilities		
18 Trade and other payables	(525.9)	(569.4)
Current tax liabilities	(167.3)	(198.2)
19 Borrowings	(652.9)	(1,023.0)
20 Derivative financial instruments	(24.8)	(81.4)
21 Provisions	(6.6)	(6.2)
	(1,377.5)	(1,878.2)
Net current liabilities	(517.2)	(270.4)
Non-current liabilities		
19 Borrowings	(6,282.8)	(6,702.3)
20 Derivative financial instruments	(1,004.6)	(996.0)
22 Deferred tax liabilities	(1,092.2)	(1,093.6)
23 Retirement benefit deficit	(44.8)	(41.6)
21 Provisions	(9.4)	(10.5)
	(8,433.8)	(8,844.0)
Total liabilities	(9,811.3)	(10,722.2)
Net assets	1,515.5	1,532.6

Continued on next page.

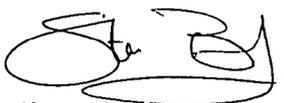
Notes	At 31 March 2021 £m	At 31 March 2020 £m
Capital and reserves		
24 Share capital	32.0	32.0
Retained earnings	1,518.5	1,551.8
25 Hedging reserve	(37.4)	(52.3)
25 Cost of hedging reserve	2.4	1.1
Total equity	1,515.5	1,532.6

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 £98.5 million (2020: loss of £76.9 million).

Notes 1 to 31 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 16 June 2021 and signed on its behalf by:


Peter Simpson
Chief Executive


Steven Buck
Chief Financial Officer

Group statement of changes in equity

for the year ended 31 March 2021

	Stated capital £m	Retained earnings £m	Hedging reserve £m	Cost of hedging reserve £m	Total equity £m
At 1 April 2019	32.0	1,655.4	(75.9)	2.0	1,613.5
Loss for the year	-	(76.8)	-	-	(76.8)
Other comprehensive income/(expense)					
Actuarial gains on retirement benefit obligations	-	108.4	-	-	108.4
Income tax charge on items that will not be reclassified	-	(18.8)	-	-	(18.8)
Gains on cash flow hedges	-	-	22.9	-	22.9
Losses on cost of hedging	-	-	-	(0.6)	(0.6)
Amounts on hedging reserves transferred to income statement	-	-	3.9	(0.4)	3.5
Deferred tax movement on hedging reserves	-	-	(3.2)	0.1	(3.1)
	-	89.6	23.6	(0.9)	112.3
Total comprehensive income/(expense)	-	12.8	23.6	(0.9)	35.5
Dividends	-	(67.8)	-	-	(67.8)
At 31 March 2020	32.0	1,600.4	(52.3)	1.1	1,581.2
Profit for the year	-	98.8	-	-	98.8
Other comprehensive (expense)/income					
Actuarial losses on retirement benefit obligations	-	(162.7)	-	-	(162.7)
Income tax charge on items that will not be reclassified	-	30.9	-	-	30.9
Gains on cash flow hedges	-	-	8.2	-	8.2
Gains on cost of hedging	-	-	-	2.1	2.1
Amounts on hedging reserves transferred to income statement	-	-	10.2	(0.5)	9.7
Deferred tax movement on hedging reserves	-	-	(3.5)	(0.3)	(3.8)
	-	(131.8)	14.9	1.3	(115.6)
Total comprehensive (expense)/income	-	(33.0)	14.9	1.3	(16.8)
At 31 March 2021	32.0	1,567.4	(37.4)	2.4	1,564.4

The hedging reserve represents the cumulative effective portion of gains and losses arising on the change in fair value of hedging instruments excluding those fair value movements identified as costs of hedging within the specific hedge relationship. The cost of hedging reserve captures the movement in the fair value of the cost of hedging component (see note 25).

Company statement of changes in equity

for the year ended 31 March 2021

	Stated capital £m	Retained earnings £m	Hedging reserve £m	Cost of hedging reserve £m	Total equity £m
At 1 April 2019	32.0	1,606.9	(75.9)	2.0	1,565.0
Loss for the year	-	(76.9)	-	-	(76.9)
Other comprehensive (expense)/income					
Actuarial gains on retirement benefit obligations	-	108.4	-	-	108.4
Income tax charge on items that will not be reclassified	-	(18.8)	-	-	(18.8)
Gains on cash flow hedges	-	-	22.9	-	22.9
Losses on cost of hedging	-	-	-	(0.6)	(0.6)
Amounts on hedging reserves transferred to income statement	-	-	3.9	(0.4)	3.5
Deferred tax movement on hedging reserves	-	-	(3.2)	0.1	(3.1)
	-	89.6	23.6	(0.9)	112.3
Total comprehensive income/(expense)	-	12.7	23.6	(0.9)	35.4
Dividends	-	(67.8)	-	-	(67.8)
At 31 March 2020	32.0	1,551.8	(52.3)	1.1	1,532.6
Profit for the year	-	98.5	-	-	98.5
Other comprehensive (expense)/income					
Actuarial losses on retirement benefit obligations	-	(162.7)	-	-	(162.7)
Income tax charge on items that will not be reclassified	-	30.9	-	-	30.9
Gains on cash flow hedges	-	-	8.2	-	8.2
Gains on cost of hedging	-	-	-	2.1	2.1
Amounts on hedging reserves transferred to income statement	-	-	10.2	(0.5)	9.7
Deferred tax movement on hedging reserves	-	-	(3.5)	(0.3)	(3.8)
	-	(131.8)	14.9	1.3	(115.6)
Total comprehensive (expense)/income	-	(33.3)	14.9	1.3	(17.1)
At 31 March 2021	32.0	1,518.5	(37.4)	2.4	1,515.5

The hedging reserve represents the cumulative effective portion of gains and losses arising on the change in fair value of hedging instruments excluding those fair value movements identified as costs of hedging within the specific hedge relationship. The cost of hedging reserve captures the movement in the fair value of the cost of hedging component (see note 25).

Group and company cash flow statements

for the year ended 31 March 2021

Notes	Group		Company	
	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Operating activities				
Operating profit	391.6	399.1	391.6	399.1
Adjustments for:				
Depreciation and amortisation	351.3	368.5	351.3	368.5
Assets adopted for £nil consideration	(29.3)	(37.1)	(29.3)	(37.1)
Profit on disposal of property, plant and equipment	(1.5)	(2.3)	(1.5)	(2.3)
Difference between pension charge and cash contributions	(39.3)	(18.5)	(39.3)	(18.5)
Net movement in provisions	0.6	5.2	0.6	5.2
Working capital:				
Increase in inventories	(1.5)	(0.8)	(1.5)	(0.8)
Decrease/(increase) in trade and other receivables	29.3	(45.5)	29.3	(45.5)
(Decrease)/increase in trade and other payables	(41.9)	17.4	(66.7)	19.3
Cash generated from operations	659.3	686.0	634.5	687.9
Income taxes paid ¹	(25.4)	(40.3)	(25.4)	(40.3)
Net cash flows from operating activities	633.9	645.7	609.1	647.6
Investing activities				
Purchase of property, plant and equipment	(338.8)	(391.3)	(338.8)	(391.3)
Purchase of intangible assets	(85.3)	(61.2)	(85.3)	(61.2)
Proceeds from disposal of property, plant and equipment	1.8	2.3	1.8	2.3
Interest received	2.0	4.8	1.7	4.6
Decrease/(increase) in short-term bank deposits	239.0	(22.0)	239.0	(22.0)
Net cash used in investing activities	(181.3)	(467.4)	(181.6)	(467.6)
Financing activities				
Interest paid	(218.8)	(229.3)	(218.8)	(229.3)
Debt issue costs paid	(2.9)	(2.6)	(2.9)	(2.6)
Borrowings premiums received	7.7	-	7.7	-
Interest paid on leases	(1.0)	(0.7)	(1.0)	(0.7)
Proceeds from amounts borrowed	242.6	815.9	242.6	815.9
Repayment of amounts borrowed	(928.8)	(220.3)	(928.8)	(220.3)
Repayment of principal on derivatives	(63.5)	(25.1)	(63.5)	(25.1)
Receipt of principal on derivatives	-	34.7	-	34.7
Repayment of principal on leases	(11.1)	(11.3)	(11.1)	(11.3)
Dividends paid	-	(67.8)	-	(67.8)
Net cash (used in)/from financing activities	(975.8)	293.5	(975.8)	293.5
Net (decrease)/increase in cash and cash equivalents	(523.2)	471.8	(548.3)	473.5
Cash and cash equivalents at 1 April	729.1	257.3	729.0	255.5
17 Cash and cash equivalents at 31 March	205.9	729.1	180.7	729.0

¹ Income taxes paid are all inter-company with AWG Group Limited.

Notes to the financial statements

for the year ended 31 March 2021

1. Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. Unless otherwise stated, these policies have been consistently applied to all of the years presented.

a) Basis of accounting

The group and company financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The financial statements have also been prepared in accordance with International Financial Reporting Standards as issued by the IASB.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of property, plant and equipment, and financial assets and financial liabilities (including derivative instruments) at fair value through profit and loss.

Adjusted profit before tax excludes the fair value gains and losses arising on derivative financial instruments and energy derivatives that the group holds as economic hedges. These introduce volatility into the accounts due to the present value of future cash flows, which management believes is not representative of the underlying operational performance of the business.

b) Basis of preparation

The Anglian Water Services Group (the group) financial statements comprise a consolidation of the financial statements of Anglian Water Services Limited (the company) and its subsidiary, Anglian Water Services Financing Plc, at 31 March. Inter-company sales and profit are eliminated fully on consolidation.

Going concern

The Directors have undertaken a detailed review to assess the liquidity requirements of the group compared against the cash and facilities available to the group, as detailed below.

The review included a range of downside outcomes as a result of Covid-19 against the redetermination of our price review issued by the CMA in March 2021.

The downside outcomes were assessed for liquidity and impacts on debt covenants that form a fundamental part of the single debt platform. Anglian Water Services Limited has a single debt platform (sometimes known as a "common terms" or "CTA" debt platform) that has been structured so as to align with, and enhance, the regulatory protections contained in the Water Industry Act 1991 and Anglian Water's Licence (an "Aligned Debt Programme"). Aligned Debt Programmes operate on a single covenant package and shared security and intercreditor arrangement that binds all debt providers.

Under this structure, the failure to meet certain metrics can cause a Trigger Event (which would restrict the Group from paying dividends until such metric was remedied) and, in some circumstances, an Event of Default. There were no Trigger Events (or Events of Default) present at year end. As part of the going concern downside testing, no scenario resulted in an Event of Default from anticipated impacts to the financial ratios.

Notes to the financial statements continued

for the year ended 31 March 2021

1. Accounting policies continued

In considering going concern the Directors have therefore considered:

- The liquidity of the group:
 - The group has significant cash balances and deposits, totalling £285.9 million (2020: £1,048.1 million), the reduction primarily due to the repayment of £575 million on the syndicated and bilateral revolving credit facilities. At the beginning of the year these general purpose facilities totalling £600 million were fully drawn to provide a short-term liquidity buffer in light of the Covid-19 uncertainty, however, they were repaid during the year as expectations of materially adverse impacts to cash flows were reduced.
 - Anglian Water has access to £575.0 million of undrawn facilities (2020: £50.0 million), to finance working capital and capital expenditure requirements as noted above. In addition, Anglian Water has access to a further £400.0 million of liquidity facilities (2020: £400.0 million), consisting of £279.0 million to finance debt service costs and £121.0 million to finance operating expenditure and maintenance capital expenditure in the event that the company was in an Event of Default on its debt obligations and had insufficient alternative sources of liquidity.
- The challenges presented by the PR19 Final Determination (FD) and the ability of the business to mitigate this risk through a cost reduction programme – at the end of AMP6 the business conducted an organisational model review to enable the investment delivery process to drive better value solutions. As part of the commitment to continuous improvement and to deliver ongoing efficiency, there is a cost reduction programme. The confidence of delivery of this programme was assessed as part of the going concern review as, whilst the redetermination was favourable, we continue to live with the FD for year 2 of the AMP, only benefitting from the redetermination from 2022/23.
- Profitability – this is an efficient group with a history of outperformance. The revenues of the business are underpinned by the regulatory model and the business has a stretching 5-year plan to deliver in line with the redetermination.
- Interest and dividend cover ratios – the business has significant headroom against Default Events under its securitised covenants with no plausible scenario identified that would cause a Default Event. Whilst undesirable a Trigger Event, if it happened, would not impact on the going concern assumption for the reasons noted below.
- Covid-19 – as well as incorporating the impacts of Covid-19 into our base forecasts, we also conducted modelling of worst-case scenarios, including the possible recessionary impact on the wider economy. These demonstrate that we do not hit Default levels on our covenants with sufficient liquidity to support the business if we enter a Trigger Event. The downside outcomes included assumptions in relation to:
 - the timing of re-opening of the economy;
 - potential tier restrictions re-introduced later in the year;
 - a range of unemployment rates;
 - rates of business failure; and
 - withdrawal of Government support.

Based on the above, despite the net current liability position, the Directors believe that the business has sufficient liquidity to meet its liabilities as they fall due for a period of at least 12 months from the date of approval of these financial statements.

Whilst our most severe scenario did indicate the potential for a Trigger Event for Anglian Water Services Limited, the Directors do not consider this possibility to constitute a material uncertainty related to going concern. This is due to the intention of a Trigger Event being that it is an early warning event designed to reinforce credit worthiness and to protect the group and its finance creditors from an Event of Default occurring. It does not enable creditors to destabilise the group through enforcing their security.

The focus in this period will be on ensuring that the business continues to have sufficient liquidity to operate. The following mitigations ensure that the business remains a going concern through the period required to rectify a Trigger Event:

- The business has significant cash balances at 31 March 2021 to continue to operate the business, cope with the downside scenario and deliver the capital programme. This shows over £800 million of cash and Working Capital Facility at September 2022, sufficient to cover the severe downside scenario.
- Additional facilities totalling £250 million are available at OAL which can be injected into AWS to provide further liquidity support which would enable the severe scenario to be mitigated beyond September 2022.
- The business would have control over the timing of delivery of the capital programme to further improve the liquidity position as required.

An Event of Default would be far more serious than a Trigger Event and could have a significant impact on the ability of the business to operate as a going concern. In addition to the above mitigations the business has the following comfort:

- The severe downside scenario which is viewed as extremely remote does not result in an Event of Default, demonstrating that we have significant headroom.
- The Default covenant with the tightest headroom is based on deducting actual maintenance capital expenditure and therefore the business has significant control over the timing of this delivery to provide additional headroom if required.

Conclusion

In summary, the business has both sufficient liquidity and headroom to covenants to meet its liabilities as they fall due. In severe downside scenarios there is potential for a trigger event although this is not considered a going concern issue. In these scenarios there is significant headroom to default and therefore, for these reasons, the Directors believe it appropriate to continue to adopt the going concern basis in preparing the financial statements.

Standards, amendments and interpretations effective or adopted

The following standards and amendments are effective in the group's consolidated financial statements:

- Amendments to IFRS 9, IAS 39 and IFRS 7 'Interest rate benchmark reform';
- Amendments to IAS 1 and IAS 8 'Definition of material';
- Amendments to IFRS 3 'Definition of a business'; and
- Amendments to references to the Conceptual Framework in IFRS standards.

IFRS 9, IAS 39 and IFRS 7 'Interest rate benchmark reform'
 In September 2019, the IASB issued Phase 1 of the Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7. These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the reforms. The amendments permit continuation of hedge accounting even if the hedged benchmark interest rate, GBP LIBOR, may no longer be separately identifiable. However, this relief does not extend to the requirement that the designated interest rate risk component must continue to be reliably measurable. If the risk component is no longer reliably measurable, the hedging relationship is discontinued.

The group chose to early apply the amendments to IFRS 9 for the reporting period ending 31 March 2020, which are mandatory for annual reporting periods beginning on or after 1 January 2020. Adopting these amendments allows the group to continue hedge accounting during the period of uncertainty arising from interest rate benchmark reforms. The adoption did not give rise to any amendments to earlier periods because of the reliefs provided by the IFRS 9 amendments applied to all of the group's hedge relationships and no hedge relationship was discontinued as a consequence.

Notes to the financial statements continued

for the year ended 31 March 2021

1. Accounting policies continued

As part of the IASB's Phase 2 response to IBOR reform, a set of amendments has been introduced which specifically addresses the issues arising as part of the transition process and their potential impacts to financial instruments (and lease liabilities). The amendment provides relief that changes as a direct result of IBOR replacement do not detrimentally impact the financial accounts provided. This encompasses reliefs on the modification of debt items and the continuation of hedge accounting relationships which would ordinarily be impacted from the contractual change of the IBOR rate. The Phase 2 IBOR amendments are mandatory for accounting periods beginning 1 January 2021. The group intends to adopt this in its subsequent accounting reporting period ending 31 March 2022 in line with its timeline to transition its impacted financial instruments.

ii Other amendments

Other amendments effective during the reporting period did not have any significant impact on adoption.

Standards, amendments and interpretations not yet effective and not early adopted

The following standards and amendments have not been adopted in the group's consolidated financial statements as they are not yet effective:

- IFRS 17 'Insurance contracts' (effective from 1 April 2023, not yet endorsed in the EU or the UK);
- Amendments to IFRS 16 'Covid-19-related rent concessions' (effective from 1 June 2020);
- Amendments to IAS 1 'Classification of liabilities as current or non-current' (effective from 1 January 2023, not yet endorsed in the EU or the UK);
- Amendments to IAS 16 'Property, plant and equipment – proceeds before intended use' (effective from 1 January 2022, not yet endorsed in the EU or the UK);
- Annual Improvements 2018-2020 Cycle – amendments to IFRS 1, IFRS 9 and IAS 41 (effective from 1 January 2022, not yet endorsed in the EU or the UK);
- Amendments to IFRS 3 'References to the Conceptual Framework' (effective from 1 January 2022, not yet endorsed in the EU or the UK);
- Amendments to IAS 37 'Onerous contracts – cost of fulfilling a contract' (effective 1 January 2022, not yet endorsed in the EU or the UK);
- Amendments to IAS 1 and IFRS Practice Statement 2 'Disclosure of accounting policies' (effective from 1 January 2023, not yet endorsed in the EU or the UK);
- Amendments to IAS 8 'Definition of accounting estimates' (effective from 1 January 2023, not yet endorsed in the EU or the UK).
- Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (mandatory for accounting periods beginning after 1 January 2021).

The group does not expect the future application of these amendments to have any significant impact on the consolidated financial statements.

c) Foreign currencies

Individual transactions denominated in foreign currencies are translated into local currency at the actual exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into local currency at the rates ruling at the balance sheet date. Profits and losses on both individual foreign currency transactions during the period and monetary assets and liabilities are dealt with in the income statement except for transactions where hedge accounting has been applied in accordance with IFRS 9 'Financial instruments'.

d) Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

e) Revenue recognition

Revenue is recognised to reflect the transfer of goods or services to customers at an amount that reflects the consideration to which the group expects to be entitled to in exchange for those goods or services.

Principal source of income

The group's principal source of income is from customers in respect of the provision of water and water recycling services within Anglian Water, the group's regulated water and sewerage company, at a price determined annually by its regulatory tariffs.

The majority of Anglian Water's household customers have meters, but there are a significant number who are not metered. This is relevant to how the group recognises the income over the year, since the unmeasured customers are billed at a flat rate based on the rateable value of the property, which reflects their right to an ongoing supply of water, while measured customers are billed in line with their usage, which tends to be seasonal.

Under IFRS 15, the performance obligation for measured customers has been assessed as the provision of water and sewerage services, and the performance obligation is met as water is supplied to the property. Accordingly for the variable element, revenue is recognised as water is supplied, based on volumes supplied at the relevant reporting date.

Related non-volumetric, or standing, charges reflect our obligation to stand-ready to deliver water, as is the case with unmeasured supply (see below), and is accounted for accordingly.

In respect of unmeasured customers, the performance obligation has been assessed as standing ready to provide water and sewerage services when required by our customers, and accordingly revenue is recognised under IFRS 15 as the stand-ready obligation is fulfilled over time. Accordingly, revenue from unmeasured customers is recognised on a time basis under IFRS 15.

Non-household revenue is charged and recognised on the basis of volumes supplied, based on data submitted by the market operator.

Grants and contributions

A secondary source of income for Anglian Water is from grants and contributions in respect of new connections for water and/or sewerage services. The significant components of grants and contributions, and their treatment, are as follows:

i New connection charges

The group considers that the developer requesting the connection is the customer, and that the group's performance obligation is satisfied by making the connection. On this basis it is appropriate to recognise the income as the connection is completed.

ii Self-lay, requisitions and adoption fees

The group has reached the same conclusion as for new connection charges (see (i) above).

iii Fair value of assets adopted for £nil consideration

These are principally sewers and pumping stations that a developer has constructed and then contributed to the group, on a £nil consideration basis, in exchange for being relieved of any future liability. As the group does not have any performance obligation to the developer post adoption, the group has concluded that immediate recognition based on the fair value of the asset adopted is appropriate.

Notes to the financial statements continued

for the year ended 31 March 2021

1. Accounting policies continued

iv Infrastructure charges

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

v Diversions

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

Other sources of revenue

i Other operating income

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

f) Research and development

Research expenditure is charged to profit and loss in the period in which it is incurred. Expenditure relating to development projects is capitalised as equipment or intangible assets and is written off over the expected useful life of the asset.

g) Exceptional items

Exceptional items are one-off items that individually or, if of a similar type, in aggregate need to be disclosed by virtue of their size or nature to enable a reader of the financial statements to understand the results for a particular period.

h) Operating profit

Operating profit is stated after charging operational expenses but before finance income and finance costs.

i) Taxation

Current income tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates enacted or substantively enacted by the balance sheet date and that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets 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.

j) 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.

k) Intangible assets

Other intangible assets are shown at cost less subsequent amortisation and any impairment. Amortisation of intangible assets is calculated on a straight line basis over their estimated useful lives, which are primarily three to 10 years.

l) Property, plant and equipment

Property, plant and equipment comprises:

- Land and buildings – comprising land and non-operational buildings.
- Infrastructure assets – comprising a network of systems consisting of mains and sewers, impounding and pumped raw water storage reservoirs, sludge pipelines and sea outfall.
- Operational assets – comprising structures at sites used for water and wastewater treatment, pumping or storage, where not classed as infrastructure, along with associated fixed plant.
- Vehicles, mobile plant and equipment.
- Assets under construction.

All property, plant and equipment is shown at cost less subsequent depreciation and any impairment. Cost includes expenditure directly attributable to the acquisition or construction of the items.

Borrowing costs incurred for the construction of qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement as incurred.

Freehold land is not depreciated, nor are assets in the course of construction until commissioned. Depreciation of other assets is calculated at rates expected to write off the cost less the estimated residual value of the relevant assets on a straight line basis over their estimated useful lives, which are primarily as follows:

Non-operational buildings	30–60 years
Infrastructure assets – water	50–120 years
Infrastructure assets – water recycling	50–160 years
Operational assets	30–80 years
Fixed plant, including meters	12–40 years
Vehicles, mobile plant and equipment	3–10 years

Items of property, plant and equipment that have no further operational use are treated as having been decommissioned and are written off immediately to profit or loss. In addition, property, plant and equipment is assessed for impairment, in accordance with IAS 36 'Impairment of Assets', if events or changes in circumstances indicate that the carrying value may not be recoverable.

m) Leased assets

The group assesses whether a contract is, or contains a lease, at inception of the contract. The group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (defined as leases for individual assets with a value of less than £5,000). For these leases, the group recognises the lease payments as an operating expense on a straight line basis over the term of the lease, unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the group uses its incremental borrowing rate.

Notes to the financial statements continued

for the year ended 31 March 2021

1. Accounting policies continued

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of the probability in exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate, or a change in expected payment under a guaranteed residual value, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used); or
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

n) Investments – cash deposits

After initial recognition at fair value, financial investments are held at amortised cost. This is based on the business' practice of acquiring financial assets to collect their contractual cash flows and the simple nature of the investments made, which consist solely of principle payments and interest on the principle outstanding.

The Expected Credit Loss (ECL) model requires the group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets, therefore this is no longer dependent on the group first identifying a credit loss event. This requires consideration of a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- where credit risk is low or has not increased significantly since recognition ('Stage 1');
- where credit risk is not low or has increased significantly since initial recognition ('Stage 2'); and
- where the financial asset is credit impaired (Stage 3).

'12-month expected credit losses' are recognised for Stage 1 while 'lifetime expected credit losses' are recognised for Stage 2.

Expected credit losses are defined as the weighted average of credit losses with the respective risk of default occurring as the weights.

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

The group manages credit risk exposures through a comprehensive counterparty credit risk policy. See the financial instruments disclosures for further details.

o) Inventories

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

p) Financial assets and liabilities

Financial assets and liabilities are recognised in the group's balance sheet when the group becomes a party to the contractual provisions of the instrument. Financial assets are initially classified as at fair value through profit and loss; fair value through other comprehensive income or amortised cost depending on the group's intention in regards to the collection of contractual cash flows (or sale) and whether the financial assets cash flows relate solely to the payment of principal and interest.

q) Trade receivables

Trade receivables are initially recognised at their transaction price. If there is objective evidence that the amount receivable is impaired it is written down to its recoverable amount, with the irrecoverable amount being recognised as an expense in operating costs.

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

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

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

r) Cash and cash equivalents

In the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturity dates of three months or less, and outstanding bank overdrafts.

Other short-term deposits with a tenor of more than three months are classified as investments – cash deposits.

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.

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.

Notes to the financial statements continued

for the year ended 31 March 2021

1. Accounting policies continued

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. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. Derivatives are not offset in the financial statements unless the Group has both a legally enforceable right and intention to offset. The impact of the master netting agreements on the Group's financial position is disclosed in note 20. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not due to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities. The group designates certain derivatives as either a fair value or cash flow hedge in accordance with IFRS 9 'Financial Instruments'. At the inception of the hedge relationship, the group documents the relationship between the hedging instrument and the hedged item, along with how the hedge aligns with the group's risk management strategy. Furthermore, at the inception of the hedge and on an ongoing basis, the group documents whether the hedging instrument is effective in offsetting changes in the fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

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

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

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

Embedded derivatives

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

Derivatives embedded in hybrid contracts with a financial asset host within the scope of IFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured as either amortised cost or fair value as appropriate.

Derivatives embedded in hybrid contracts with hosts that are not financial assets within the scope of IFRS 9 (e.g. financial liabilities) are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss (FVTPL).

If the hybrid contract is a quoted financial liability, instead of separating the embedded derivative, the Group generally designates the whole hybrid contract at FVTPL.

An embedded derivative is presented as a non-current asset or non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and is not expected to be realised or settled within 12 months.

The group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively.

i Fair value hedge

Changes in the fair value of derivatives designated and qualifying as fair value hedges are recorded in the income statement within 'fair value gains/(losses) on derivative financial instruments', together with changes in the fair value of the hedged asset or liability attributable to the hedged risk.

If a fair value hedge is discontinued, the hedged item is not adjusted for any subsequent movements in the hedged risk. The cumulative amount of fair value adjustment on the hedge item at the point of designation is then 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 other comprehensive income and accumulated in the cash flow hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within 'fair value gains/(losses) on derivative financial instruments'.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for example, in the periods when interest income or expense is recognised, or when the forecast hedged cost takes place).

When a cash flow hedge is discontinued, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

iii Derivatives that do not qualify for hedge accounting

Certain derivative instruments, principally index-linked swaps, do not qualify for hedge accounting. Such derivatives are classified at fair value through profit 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) Retirement benefit obligations

i Defined benefit schemes

For defined benefit schemes, pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit credit method and are discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liabilities. The current service cost, which is the increase in the present value of the liabilities of the group's defined benefit pension schemes expected to arise from employee service in the period, is charged to operating costs. The net interest on the schemes' net assets/(liabilities) is included in other finance charges. Actuarial gains and losses are recognised in the statement of comprehensive income.

Pension schemes' surpluses, to the extent that they are considered recoverable, or deficits, are recognised in full and presented on the face of the balance sheet.

ii Defined contribution schemes

The cost of defined contribution schemes is charged to the income statement in the period in which the contributions become payable.

Notes to the financial statements continued

for the year ended 31 March 2021

2. Key assumptions and significant judgements

In preparing these consolidated financial statements, the Directors have made judgements, estimates and assumptions that affect the application of the group's accounting policies, which are described in note 1, and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised in the period in which the estimate is revised if the revision only affects that period, or in the period of the revision and future periods if the revision affects both the current and future periods.

A key consideration, but not one which the group views as representing a material estimation uncertainty, is climate change. Climate change is a global challenge and an emerging risk not only to the environment but markets, businesses and people throughout the world. Climate change is embedded into everything we do and our long-term strategy effectively identifies, manages and mitigates these key risks. As a business we took a leading role in working with other water companies in developing a routemap to zero carbon and have committed to achieving net zero carbon by 2030. We have also set out the risks posed by climate change and how we will address them in our latest Adaptation Report.

For further detail see the strategic ambitions, risk and climate-related financial disclosures sections of the Annual Integrated Report on pages 22–25 and 74–93.

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 £101.7 million (2020: £72.4 million) of own work capitalised. Judgement is made to ensure these costs relate to relevant assets and that future economic benefit will flow to the group.

ii Asset lives

The property, plant and equipment used in the group is primarily the infrastructure and operational assets of the regulated water business. Infrastructure and operational assets have estimated useful lives of between 30 and 160 years and the depreciation charge is clearly sensitive to the lives allocated to the various types of asset. Asset lives are reviewed regularly and changed where necessary to reflect the current view on their remaining lives in light of technological change, prospective economic utilisation and the physical condition of the assets. Although considered during the review of asset lives, the group does not view the uncertainty around the potential future impact of climate change to indicate that the current useful life policy needs revising. Climate change, and the environment in general, are heavily embedded in the planning stage of asset construction to mitigate future risk.

iii Recognition of grants and contributions

Revenue is recognised when the performance obligations in a contract are met. For grants and contributions in respect of new housing developments our obligation to the developer is met when properties are connected to the network, and therefore this is considered the relevant trigger for income recognition. We believe the ongoing obligation to maintain the connection to the property is a separate contract with the property owner (in most cases the household customer) and separate from the contract with the developer.

A similar revenue recognition approach is taken with diversions. The obligation here is that we divert the sewer or water main at the request of the relevant authority or agency, and our obligation is fully met once the diversion is completed, and therefore the contribution is fully recognised as revenue at that point in time.

b) Areas involving estimation

The key areas involving estimation are discussed below.

i Measured income accrual

For Anglian Water the measured income accrual is an estimation of the amount of main water and wastewater charges unbilled at the year end. The accrual is estimated using a defined methodology based upon weighted average water consumption by tariff, which is calculated based upon historical billing information. The calculation is sensitive to estimated consumption for measured domestic customers (a fall or rise of two cubic metres in average annual consumption will reduce revenue or increase by approximately £10.8 million respectively).

ii Bad debts

IFRS 9 requires that historical loss rates are adjusted as appropriate to reflect current conditions and estimates of future economic conditions.

The company starts by evaluating the estimated recoverability of trade receivables and records a provision for doubtful receivables based on experience, primarily cash collection history and then adjusts, as necessary, for forward looking factors such as a change in economic conditions.

The actual level of receivables collected may differ from the estimated levels of recovery, which could impact operating results positively or negatively.

Management's view is that the previous four years provides the best indication of collection performance, to go back further would not account for improvements in collection methods. A three year look back period would increase the bad debt provision by £3.7 million.

Management continue to take a prudent approach of providing for 100 per cent of balances over four years old.

In previous years management have not made any adjustment for macro-economic conditions as the UK has experience a period of relative stability. However, at March 2020 management adjusted the bad debt provision to account for the expectation that Covid-19 would impact our customers' ability to pay in future years, thus meaning historic collection rates would not represent future collection. At March 2021 management have made a similar adjustment to reflect the expected impact of Covid-19 on our customers' ability to pay.

The last major shock to the economy was the Financial Crisis and subsequent to that we saw unemployment rates rise, which is similar to what is being predicted for the coming years.

Using data from this period, management anticipate that the forecast unemployment rate for the years to 2024/25, after which we fully provide for unpaid amounts, will increase the bad debt charge by £18.7 million over that period, of which £13.5 million relates to invoices outstanding at March 2021. Management have therefore increased their provision at March 2020 of £12.0 million by £1.5 million.

Management have based their calculation on the assumption that unemployment will peak at 7.0 per cent in 2021/22 before falling back to normal levels by 2024/25. If unemployment levels were to stay at 7.0 per cent for the period, this would increase the excess bad debt charge over the period by £14.0 million to £32.7 million. Management note that subsequent unemployment forecasts suggest a lower peak, however accounting standards require us to make the assessment based on information available at the 31 March 2021. This is not deemed to be an adjusting post balance sheet event therefore no adjustment has been made to reflect the revised forecasts.

iii Retirement benefit actuarial assumptions

The company operates one defined benefit scheme (which is closed to new members and future accrual), a defined contribution scheme and an unfunded arrangement for former employees. Under IAS 19 'Employee Benefits' the company has recognised an actuarial loss of £162.7 million (2020: gain of £108.4 million) in respect of the defined benefit scheme which affects other comprehensive income and net assets. The actuarial valuation of the scheme liabilities is reliant on key assumptions which include: the discount rate, salary inflation and life expectancy. The main assumptions and associated sensitivities are set out in note 23 of the financial statements.

Notes to the financial statements continued

for the year ended 31 March 2021

3. Segmental information

The Directors believe that the whole of the group's activities constitute a single class of business.

The group's revenue is wholly generated from within the United Kingdom.

4. Revenue

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Water and water recycling services:		
Anglian Water		
Household – measured	813.4	791.0
Household – unmeasured	219.8	235.7
Non-household – measured	206.3	265.2
Grants and contributions	75.6	89.3
Other	36.7	38.7
	1,351.8	1,419.9

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

The above analysis excludes other operating income (see note 5) and finance income (see note 7).

5. Other operating income

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

6. Operating costs

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Raw materials and consumables	21.9	22.2
Staff costs	233.6	226.9
Research and development	7.6	3.2
Contribution to Anglian Water Assistance Fund	1.2	1.0
Short-term lease costs	2.8	2.2
Other operating costs	426.4	443.8
Own work capitalised	(101.7)	(72.4)
Profit on disposal of property, plant and equipment ¹	(1.5)	(2.3)
Operating costs before depreciation, amortisation and charge for bad and doubtful debts	590.3	624.6
Depreciation of property, plant and equipment	302.5	323.6
Amortisation of intangible assets	48.8	44.9
Depreciation and amortisation	351.3	368.5
Charge for bad and doubtful debts	31.1	40.7
Operating costs	972.7	1,033.8

1 The profit on disposal 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 Auditor:

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Fees payable to the company's Auditor for the audit of the company and the consolidated financial statements	0.3	0.3
Fees payable to the company's Auditor for other services		
Audit-related assurance services	0.2	0.1
Other non-audit services	-	0.2
	0.5	0.6

The company's auditor for the year ended 31 March 2021 and 31 March 2020 was Deloitte LLP. Audit related assurance services predominantly relate to regulatory reporting to Ofwat and the review of the group's half-year results.

Notes to the financial statements continued

for the year ended 31 March 2021

7. Net finance costs

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Finance income		
Interest income on short-term bank deposits	2.0	4.8
	2.0	4.8
Finance costs		
Interest expense on bank loans and overdrafts	(3.3)	(0.1)
Interest expense on other loans including financing expenses	(213.2)	(226.7)
Indexation of loan stock	(48.6)	(114.5)
Amortisation of debt issue costs	(4.2)	(3.9)
Interest on leases	(1.0)	(0.7)
Unwinding of discount on provision	(0.1)	(2.1)
Defined benefit pension scheme interest	3.4	0.3
Total finance costs	(267.0)	(347.7)
Less: amounts capitalised on qualifying assets	15.6	17.8
	(251.4)	(329.9)
Fair value losses on derivative financial instruments		
Fair value gains/(losses) on energy hedges	2.3	(1.8)
Hedge ineffectiveness on cash flow hedges ¹	1.4	0.5
Hedge ineffectiveness on fair value hedges ²	2.3	(2.0)
Amortisation of adjustment to debt in fair value hedge	(0.1)	(0.3)
Derivative financial instruments not designated as hedges	(16.6)	(18.8)
Recycling of de-designated cash flow hedge relationship	(12.5)	(8.0)
	(23.2)	(30.4)
Finance costs, including fair value losses on derivative financial instruments	(274.6)	(360.3)
Net finance costs	(272.6)	(355.5)

1 Hedge ineffectiveness on cash flows hedges results from instances where the movement in the fair value of the derivative exceeds the movement in the hedged risk. See note 20 for details.

2 Hedge ineffectiveness on fair value hedges comprises fair value losses on hedging instruments of £60.8 million (2020: gains of £52.8 million), offset by fair value gains of £63.1 million on hedged risks (2020: losses of £54.8 million).

8. Taxation

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Current tax:		
In respect of the current period	(0.1)	(11.4)
Adjustments in respect of prior periods	(5.4)	(3.1)
Total current tax credit	(5.5)	(14.5)
Deferred tax:		
Origination and reversal of temporary differences	24.1	21.1
Adjustments in respect of previous periods	1.6	-
Reversal of decrease in corporation tax rate	-	113.8
Total deferred tax charge	25.7	134.9
Total tax charge on profit on continuing operations	20.2	120.4

The current tax credit for both years reflects receipts from other group companies for losses surrendered to those group companies. The tax losses arise mainly because capital allowances exceed the depreciation charged in the accounts, as well as some income not being taxable and the availability of tax relief on pension contributions paid in the year.

The deferred tax charge for both years mainly reflects capital allowances claimed in excess of the depreciation charge in the accounts.

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

In 2020 there was a charge relating to the reversal of the corporation tax rate, which was originally expected to reduce from 19 per cent to 17 per cent effective from 1 April 2020. The deferred tax balances at 31 March 2019 were therefore measured using the rate of 17 per cent. This reduction in corporation tax rate was reversed in March 2020 and so those deferred tax balances were re-measured using the rate of 19 per cent, giving rise to a charge in 2020.

In the March 2021 Budget, it was announced that legislation will be introduced in Finance Bill 2021 to increase the main rate of UK corporation tax from 19 per cent to 25 per cent, effective 1 April 2023. As substantive enactment is after the balance sheet date, deferred tax balances as at 31 March 2021 continue to be measured at a rate of 19 per cent. If the amended tax rate had been used, the deferred tax liability would have been £345 million higher.

Notes to the financial statements continued

for the year ended 31 March 2021

8. Taxation continued

The tax charge on the group's profit before tax differs from the notional amount calculated by applying the rate of UK corporation tax of 19 per cent (2020: 19 per cent) to the profit before tax from continuing operations as follows:

	Year ended 31 March 2021 £m	Year ended 31 March 2021 £m
Profit before tax from continuing operations	119.0	43.6
Profit before tax from continuing operations at the standard rate of corporation tax in the UK of 19% (2020: 19%)	22.6	8.3
Effects of recurring items:		
Items not deductible for tax purposes		
Depreciation and losses on assets not eligible for tax relief	0.9	0.8
Disallowable expenditure	0.5	0.6
	24.0	9.7
Effects of non-recurring items:		
Reversal of decrease in corporation tax rate	-	113.8
Adjustments in respect of prior periods	(3.8)	(3.1)
Tax charge for the year	20.2	120.4

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

	Year ended 31 March 2021 £m	Year ended 31 March 2021 £m
Deferred tax:		
Defined benefit pension schemes	(30.9)	20.6
Cash flow hedges	3.8	4.9
Reversal of decrease in corporation tax rate - pension	-	(1.8)
Reversal of decrease in corporation tax rate - hedges	-	(1.8)
Total deferred tax (credit)/charge	(27.1)	21.9
Total tax (credit)/charge recognised in other comprehensive income	(27.1)	21.9

9. Employee information and Directors' emoluments

a) Employee information

	Year ended 31 March 2021 £m	Year ended 31 March 2021 £m
Staff costs		
Wages and salaries	194.9	189.3
Social security costs	21.2	19.9
Pension costs - defined contribution	17.5	17.7
	233.6	226.9

Staff costs for the year ended 31 March 2021 in the table above are shown gross of £83.0 million (2020: £59.6 million) of costs that have been capitalised, as shown within 'own work capitalised' in note 6.

Average monthly number of full-time equivalent persons (including Executive Directors) employed by the group:

	Year ended 31 March 2021	Year ended 31 March 2021
Water Services	989	989
Water Recycling Services	1,552	1,568
Customer Services	518	507
Asset Management and Other	1,823	1,920
	4,882	4,984

b) Directors' emoluments

	Year ended 31 March 2021 £'000	Year ended 31 March 2021 £'000
Aggregate emoluments	1,908	1,771
Pension costs - defined contribution	2	-
Benefits received under long-term incentive plans	141	131

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 (2020: zero Directors) under a defined benefit pension scheme. Retirement benefits are accruing to two Directors (2020: two 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.

Notes to the financial statements continued

for the year ended 31 March 2021

9. Employee information and Directors' emoluments continued

c) Highest paid Director

More detailed disclosures of the Directors' remuneration can be found in the Remuneration Report on page 125.

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Aggregate emoluments	1,198	761
Benefits received under long-term incentive plans	141	131

10. Profit/(loss) of the parent company

The company does not present 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, was £98.5 million (2020: loss of £76.9 million).

11. Dividends

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Paid by the group:		
Previous year final dividend	-	67.8
	-	67.8

No dividends were paid by the company or out of the Anglian Water Services Financing Group for the year ended 31 March 2021 (2020: £67.8 million). No dividends were paid to the shareholders of Anglian Water Group Limited (AWGL), the ultimate parent company, in the year (2020: £nil). See note 31 for details of dividends declared after the end of the year.

12. Other intangible assets

	Group and company		
	Computer Software £m	Internally generated £m	Total £m
Cost			
At 1 April 2019	389.3	113.1	502.4
Additions	45.0	19.9	64.9
Disposals	(3.2)	-	(3.2)
At 31 March 2020	431.1	133.0	564.1
Additions	64.5	24.4	88.9
At 31 March 2021	495.6	157.4	653.0
Accumulated amortisation			
At 1 April 2019	(242.0)	(63.1)	(305.1)
Charge for the year	(25.7)	(19.2)	(44.9)
Disposals	3.2	-	3.2
At 31 March 2020	(264.5)	(82.3)	(346.8)
Charge for the year	(30.6)	(18.2)	(48.8)
At 31 March 2021	(295.1)	(100.5)	(395.6)
Net book amount			
At 31 March 2021	200.5	56.9	257.4
At 31 March 2020	166.6	50.7	217.3

The internally generated intangible assets mainly comprise capitalised development expenditure.

Included within additions above is £3.6 million (2020: £3.7 million) of interest that has been capitalised on qualifying assets, at an average rate of 4.4 per cent (2020: 4.8 per cent).

No intangible assets were disposed of during the year (2020: cost £3.2 million, £nil net book value).

Included within intangible assets above are assets under construction of £119.3 million (2020: £87.9 million), which are not yet subject to amortisation.

Notes to the financial statements continued

for the year ended 31 March 2021

13. Property, plant and equipment

	Group and company					Total £m
	Land and buildings £m	Infra- structure assets £m	Operational assets £m	Vehicles, mobile plant and equipment £m	Assets under construction £m	
Cost						
At 1 April 2019	80.1	6,855.6	6,035.8	840.5	408.6	14,220.6
Additions	-	-	-	-	462.4	462.4
Transfers on commissioning	5.9	205.7	214.2	74.5	(500.3)	-
Disposals	(2.2)	-	(11.1)	(24.1)	-	(37.4)
At 31 March 2020	83.8	7,061.3	6,238.9	890.9	370.7	14,645.6
Additions	-	-	-	-	404.2	404.2
Transfers on commissioning	1.5	98.3	164.3	74.6	(338.7)	-
Disposals	-	-	(2.9)	(23.6)	-	(26.5)
At 31 March 2021	85.3	7,159.6	6,400.3	941.9	436.2	15,023.3
Accumulated depreciation						
At 1 April 2019	(7.6)	(725.6)	(3,104.9)	(579.2)	-	(4,417.3)
Charge for the year	(4.2)	(57.1)	(210.6)	(51.7)	-	(323.6)
Disposals	0.7	-	11.1	23.8	-	35.6
At 31 March 2020	(11.1)	(782.7)	(3,304.4)	(607.1)	-	(4,705.3)
Charge for the year	(3.6)	(58.1)	(189.5)	(51.3)	-	(302.5)
Disposals	-	-	2.9	23.3	-	26.2
At 31 March 2021	(14.7)	(840.8)	(3,491.0)	(635.1)	-	(4,981.6)
Net book amount						
At 31 March 2021	70.6	6,318.8	2,909.3	306.8	436.2	10,041.7
At 31 March 2020	72.7	6,278.6	2,934.5	283.8	370.7	9,940.3

Property, plant and equipment at 31 March 2021 includes land of £28.3 million (2020: £28.0 million) which is not subject to depreciation. Included within additions above is £12.0 million (2020: £14.2 million) of interest that has been capitalised on qualifying assets, at an average rate of 4.4 per cent (2020: 4.8 per cent).

Right-of-use assets held under leases

Included within the amounts shown above are the following amounts in relation to right-of-use assets held under leases:

	Group and company				Total £m
	Land and buildings £m	Infra- structure assets £m	Operational assets £m	Vehicles, mobile plant and equipment £m	
At 31 March 2021					
Opening net book value	29.4	5.0	39.5	4.0	77.9
Additions	0.8	-	-	0.4	1.2
Depreciation charge	(3.2)	-	(1.3)	(1.4)	(5.9)
Net book value	27.0	5.0	38.2	3.0	73.2
At 31 March 2020					
Opening net book value	30.3	5.1	40.9	1.6	77.9
Additions	4.0	-	0.1	3.4	7.5
Disposals	(2.1)	-	(1.2)	(0.3)	(3.6)
Depreciation charge	(3.5)	(0.1)	(1.5)	(1.0)	(6.1)
Depreciation on disposals	0.7	-	1.2	0.3	2.2
Net book value	29.4	5.0	39.5	4.0	77.9

14. Investments

The sole subsidiary undertaking is Anglian Water Services Financing Plc, whose principal activity is that of a financing company. The value of the investment is £12,502. It is 100 per cent owned, all in ordinary shares, and is registered, incorporated and operating in the UK at 31 March 2021. The address of its registered office is Lancaster House, Lancaster Way, Ermine Business Park, Huntingdon, Cambridgeshire, PE29 6XU.

15. Inventories

	Group and Company	
	2021 £m	2020 £m
Raw materials and consumables	13.9	12.4
	13.9	12.4

Notes to the financial statements continued

for the year ended 31 March 2021

16. Trade and other receivables

	Group		Company	
	2021 £m	2020 £m	2021 £m	2020 £m
Trade receivables	397.8	355.8	397.8	355.8
Provision for bad and doubtful debts	(233.6)	(212.0)	(233.6)	(212.0)
Net trade receivables	164.2	143.8	164.2	143.8
Amounts receivable by other Anglian Water Group Limited group undertakings	0.1	0.7	0.1	0.7
Other amounts receivable	35.7	21.5	35.7	21.5
Prepayments and accrued income	300.9	364.6	300.9	364.6
	500.9	530.6	500.9	530.6

Other amounts receivable includes £21.0 million VAT debtor (2020: £12.7 million) and various other sundry debtors.

Prepayments and accrued income as at 31 March 2021 includes water and water recycling income not yet billed of £294.1 million (2020: £357.6 million). Of the trade receivables, £372.2 million (2020: £332.5 million) relates to residential customers, £16.4 million (2020: 19.7 million) relates to non-household retailer balances and the remaining balance of £9.2 million (2020: £3.6 million) relates to developer services and other receivables. The majority of non-household customers are billed in arrears and are therefore included within accrued income above.

The carrying values of trade and other receivables are reasonable approximations of their fair values.

The group manages its risk from trading through the effective management of customer relationships. Concentrations of credit risk with respect to household trade receivables are limited due to the Anglian Water customer base consisting of a large number of unrelated households. The Water Industry Act 1991 (as amended by the Water Industry Act 1999) prohibits the disconnection of a water supply and the limiting of supply with the intention of enforcing payment for certain premises including domestic dwellings. However, allowance is made by the water regulator in the price limits at each price review for a proportion of debt deemed to be irrecoverable. The Directors believe there is no further credit risk provision required in excess of the allowance for doubtful receivables.

Following the introduction of market reform on 1 April 2017, the provision of water and wastewater services to non-household customers was transferred to a relatively small number of licensed retailers. Anglian Water bills the retailers on a monthly basis, and they are contractually obliged to pay in full within one month and therefore the credit risk is limited to one month's revenue relating to non-household customers. The principal retailer that Anglian Water transacts with is Wave Ltd, with £14.2 million receivables (2020: £9.4 million) and £5.4 million of income accrued at 31 March 2021 (2020: £18.2 million).

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

	Group and company	
	2021 £m	2020 £m
At 1 April	212.0	193.3
Charge for bad and doubtful debts	31.1	40.7
Amounts written off during the year	(9.9)	(22.0)
Amounts recovered during the year	0.4	-
At 31 March	233.6	212.0

It is expected that the economic consequences of Covid-19 will impact our customers' ability to pay in 2021 and potentially subsequent years. Forecast unemployment rates for the years to 2024/25, after which we fully provide for unpaid amounts, are expected to increase the bad debt charge by £18.7 million over that period, of which £13.5 million relates to invoices outstanding at March 2021. Management have therefore increased their additional provision at March 2020 of £12.0 million by £1.5 million.

17. Analysis of net debt

	Group				
	Net cash and cash equivalents £m	Current asset investments – cash deposits £m	Liabilities from financing activities		Total £m
			Borrowings £m	Derivative financial instruments ¹ £m	
At 1 April 2019	257.3	297.0	(6,968.0)	(779.5)	(7,193.2)
Cash flows					
Interest paid	(229.3)	-	31.9	2.1	(195.3)
Issue costs paid	(2.6)	-	2.6	-	-
Interest on leases	(0.7)	-	-	-	(0.7)
Increase in amounts borrowed	815.9	-	(815.9)	-	-
Repayment of amounts borrowed	(220.3)	-	220.3	-	-
Principal settlement on derivatives	(25.1)	-	-	25.1	-
Repayment of principal on derivatives	34.7	-	-	(34.7)	-
Repayment of principal on leases	(11.3)	-	11.3	-	-
Non-financing cash flows ²	110.5	22.0	-	-	132.5
	471.8	22.0	(549.8)	(7.5)	(63.5)
Movement in interest accrual on debt	-	-	(2.1)	-	(2.1)
New lease agreements	-	-	(7.8)	-	(7.8)
Termination of leases	-	-	1.8	-	1.8
Amortisation of issue costs	-	-	(3.9)	-	(3.9)
Indexation of borrowings and RPI swaps	-	-	(77.8)	(36.7)	(114.5)
Fair value gains and losses and foreign exchange	-	-	(117.7)	85.5	(32.2)
At 31 March 2020	729.1	319.0	(7,725.3)	(738.2)	(7,415.4)

- Derivative financial instruments exclude the asset of £9.0 million (2020: liability £4.6 million) in respect of the fair value of energy hedges, as these are not classified as part of net debt.
- Non-financing cash flows comprise: net cash flows from operating activities of £633.9 million (2020: £645.7 million), less net cash used in investing activities, excluding decrease/(increase) in short term bank deposits, of £420.3 million (2020: £445.4 million) and dividends paid of £nil (2020: £67.8 million).

Notes to the financial statements continued

for the year ended 31 March 2021

17. Analysis of net debt continued

	Group				
	Net cash and cash equivalents £m	Current asset investments - cash deposits £m	Liabilities from financing activities		Total £m
			Borrowings £m	Derivative financial instruments ¹ £m	
At 1 April 2020	729.1	319.0	(7,725.3)	(738.2)	(7,415.4)
Cash flows					
Interest paid	(218.8)	-	31.5	(5.4)	(192.7)
Issue costs paid	(2.9)	-	2.9	-	-
Borrowings premiums received	7.7	-	(7.7)	-	-
Interest on leases	(1.0)	-	-	-	(1.0)
Increase in amounts borrowed	242.6	-	(242.6)	-	-
Repayment of amounts borrowed	(928.8)	-	928.8	-	-
Repayment of principal on derivatives	(63.5)	-	-	63.5	-
Receipt of principal on derivatives	-	-	-	-	-
Repayment of principal on leases	(11.1)	-	11.1	-	-
Non-financing cash flows ²	452.6	(239.0)	-	-	213.6
	(523.2)	(239.0)	724.0	58.1	19.9
Movement in interest accrual on debt	-	-	3.0	-	3.0
New lease agreements	-	-	(1.2)	-	(1.2)
Termination of leases	-	-	-	-	-
Amortisation of issue costs	-	-	(4.2)	-	(4.2)
Indexation of borrowings and RPI swaps	-	-	(32.0)	(16.6)	(48.6)
Fair value gains and losses and foreign exchange	-	-	100.0	(144.3)	(44.3)
At 31 March 2021	205.9	80.0	(6,935.7)	(841.0)	(7,490.8)
Net debt at 31 March 2021 comprises:					
Non-current assets	-	-	-	108.7	108.7
Current assets	205.9	80.0	-	79.7	365.6
Current liabilities	-	-	(652.9)	(24.8)	(677.7)
Non-current liabilities	-	-	(6,282.8)	(1,004.6)	(7,287.4)
	205.9	80.0	(6,935.7)	(841.0)	(7,490.8)

1 Derivative financial instruments exclude the asset of £9.0 million (2020: liability £4.6 million) in respect of the fair value of energy hedges, as these are not classified as part of net debt.

2 Non-financing cash flows comprise: net cash flows from operating activities of £633.9 million (2020: £645.7 million), less net cash used in investing activities, excluding decrease/(increase) in short term bank deposits, of £420.3 million (2020: £445.4 million) and dividends paid of £nil (2020: £67.8 million).

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

	Group and company	
	2021 £m	2020 £m
Non-current assets	3.9	0.5
Current assets	5.1	-
Current liabilities	-	(3.0)
Non-current liabilities	-	(2.1)
	9.0	(4.6)

	Company				
	Net cash and cash equivalents £m	Current asset investments - cash deposits £m	Liabilities from financing activities		Total £m
			Borrowings £m	Derivative financial instruments ¹ £m	
At 1 April 2019	255.5	297.0	(6,968.0)	(779.5)	(7,195.0)
Cash flows					
Interest paid	(229.3)	-	31.9	2.1	(195.3)
Issue costs paid	(2.6)	-	2.6	-	-
Interest on leases	(0.7)	-	-	-	(0.7)
Increase in amounts borrowed	815.9	-	(815.9)	-	-
Repayment of amounts borrowed	(220.3)	-	220.3	-	-
Principal settlement on derivatives	(25.1)	-	-	25.1	-
Repayment of principal on derivatives	34.7	-	-	(34.7)	-
Repayment of principal on leases	(11.3)	-	11.3	-	-
Non-financing cash flows ²	112.2	22.0	-	-	134.2
	473.5	22.0	(549.8)	(7.5)	(61.8)
Movement in interest accrual on debt	-	-	(2.1)	-	(2.1)
New lease agreements	-	-	(7.8)	-	(7.8)
Termination of leases	-	-	1.8	-	1.8
Amortisation of issue costs	-	-	(3.9)	-	(3.9)
Indexation of borrowings and RPI swaps	-	-	(77.8)	(36.7)	(114.5)
Fair value gains and losses and foreign exchange	-	-	(117.7)	85.5	(32.2)
At 31 March 2020	729.0	319.0	(7,725.3)	(738.2)	(7,415.5)

- Derivative financial instruments exclude the asset of £9.0 million (2020: liability £4.6 million) in respect of the fair value of energy hedges, as these are not classified as part of net debt.
- Non-financing cash flows comprise: net cash flows from operating activities of £609.1 million (2020: £647.6 million), less net cash used in investing activities, excluding decrease/(increase) in short term bank deposits, of £420.6 million (2020: £445.6 million) and dividends paid of £nil (2020: £67.8 million).

Notes to the financial statements continued

for the year ended 31 March 2021

17. Analysis of net debt continued

	Company				
	Net cash and cash equivalents £m	Current asset investments - cash deposits £m	Liabilities from financing activities		Total £m
			Borrowings £m	Derivative financial instruments ¹ £m	
At 1 April 2020	729.0	319.0	(7,725.3)	(738.2)	(7,415.5)
Cash flows					
Interest paid	(218.8)	-	31.5	(5.4)	(192.7)
Issue costs paid	(2.9)	-	2.9	-	-
Borrowings premiums received	7.7	-	(7.7)	-	-
Interest on leases	(1.0)	-	-	-	(1.0)
Increase in amounts borrowed	242.6	-	(242.6)	-	-
Repayment of amounts borrowed	(928.8)	-	928.8	-	-
Repayment of principal on derivatives	(63.5)	-	-	63.5	-
Receipt of principal on derivatives	-	-	-	-	-
Repayment of principal on leases	(11.1)	-	11.1	-	-
Non-financing cash flows ²	427.5	(239.0)	-	-	188.5
	(548.3)	(239.0)	724.0	58.1	(5.2)
Movement in interest accrual on debt	-	-	3.0	-	3.0
New lease agreements	-	-	(1.2)	-	(1.2)
Termination of leases	-	-	-	-	-
Amortisation of issue costs	-	-	(4.2)	-	(4.2)
Indexation of borrowings and RPI swaps	-	-	(32.0)	(16.6)	(48.6)
Fair value gains and losses and foreign exchange	-	-	100.0	(144.3)	(44.3)
At 31 March 2021	180.7	80.0	(6,935.7)	(841.0)	(7,516.0)
Net debt at 31 March 2021 comprises:					
Non-current assets	-	-	-	108.7	108.7
Current assets	180.7	80.0	-	79.7	340.4
Current liabilities	-	-	(652.9)	(24.8)	(677.7)
Non-current liabilities	-	-	(6,282.8)	(1,004.6)	(7,287.4)
	180.7	80.0	(6,935.7)	(841.0)	(7,516.0)

1 Derivative financial instruments exclude the asset of £9.0 million (2020: liability £4.6 million) in respect of the fair value of energy hedges, as these are not classified as part of net debt.

2 Non-financing cash flows comprise: net cash flows from operating activities of £609.1 million (2020: £647.6 million), less net cash used in investing activities, excluding decrease/(increase) in short term bank deposits, of £420.6 million (2020: £445.6 million) and dividends paid of £nil (2020: £67.8 million).

18. Trade and other payables

	Group		Company	
	2021 £m	2020 £m	2021 £m	2020 £m
Trade payables	40.4	34.7	40.4	34.7
Capital creditors and accruals	115.9	97.2	115.9	97.2
Receipts in advance	288.6	324.6	288.6	324.6
Amounts owed to group undertakings	1.2	1.3	24.9	49.8
Other taxes and social security	4.8	4.8	4.8	4.8
Accruals and deferred income	47.5	51.0	47.5	51.0
Other payables	3.8	7.3	3.8	7.3
	502.2	520.9	525.9	569.4

Receipts in advance includes £238.5 million (2020: £281.6 million) relating to amounts received from customers for water and sewerage charges in respect of bills that fall due in the following year.

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

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

There is no fixed payment date for amounts owed to group undertakings and no interest is applied. Amounts are payable on demand.

Notes to the financial statements continued

for the year ended 31 March 2021

19. Loans and other borrowings

	Group		Company	
	2021 £m	2020 £m	2021 £m	2020 £m
£250 million 5.837% fixed rate 2022	259.3	259.1	259.3	259.1
£200 million 6.875% fixed rate 2023	208.4	208.4	208.4	208.4
£200 million 6.625% fixed rate 2029	202.7	202.8	202.7	202.8
£246 million 6.293% fixed rate 2030	256.6	257.5	256.6	257.5
£150 million 4.125% index-linked 2020	-	264.6	-	264.6
£75 million 3.666% index-linked 2024	127.0	125.7	127.0	125.7
£200 million 3.07% index-linked 2032	336.4	333.1	336.4	333.1
£60 million 3.07% index-linked 2032	102.2	100.9	102.2	100.9
IFRS 16 leases	39.5	49.4	39.5	49.4
£402 million 2.4% index-linked 2035	629.2	623.7	629.2	623.7
£50 million 1.7% index-linked 2046	75.5	74.8	75.5	74.8
£50 million 1.7% index-linked 2046	75.7	74.7	75.7	74.7
£40 million 1.7146% indexation bond 2056	60.7	60.2	60.7	60.2
£50 million 1.6777% indexation bond 2056	75.9	75.2	75.9	75.2
£60 million 1.7903% indexation bond 2049	91.1	90.2	91.1	90.2
£100 million 1.3784% indexation bond 2057	151.6	149.7	151.6	149.7
£50 million 1.3825% indexation bond 2056	75.7	74.8	75.7	74.8
£100 million Class A wrapped floating rate bonds	99.9	100.1	99.9	100.1
£75 million 1.449% indexation bond 2062	109.0	106.9	109.0	106.9
£50 million 1.52% indexation bond 2055	72.6	71.2	72.6	71.2
£110 million Class A unwrapped floating rate bonds 2043	110.0	110.1	110.0	110.1
£25 million 6.875% private placements 2034	25.0	25.0	25.0	25.0
£130 million 2.262% indexation bond 2045	173.8	171.8	173.8	171.8
US\$160 million 4.52% private placements 2021	118.4	135.3	118.4	135.3
US\$410 million 5.18% private placements 2021	302.1	335.1	302.1	335.1
EIB £75 million 0.53% index-linked term facility 2027 ¹	55.8	64.4	55.8	64.4
EIB £75 million 0.79% index-linked term facility 2027 ¹	55.8	64.4	55.8	64.4
£250 million 4.5% fixed rate 2027	253.0	252.7	253.0	252.7
£15 million 1.37% index-linked private placements 2022	18.3	18.1	18.3	18.1
£50 million 2.05% index-linked private placements 2033	61.0	60.3	61.0	60.3
£31.9 million 3.983% private placements 2022	32.5	32.5	32.5	32.5
£73.3 million 4.394% private placements 2028	77.5	79.6	77.5	79.6
£22.3 million 3.983% private placements 2022	22.7	22.7	22.7	22.7
US\$47 million 5% private placements 2022	34.9	38.7	34.9	38.7
EIB £150 million 0% index-linked term facility 2028 ²	126.4	142.8	126.4	142.8
£200 million Class B 4.5% fixed rate 2026	207.6	209.8	207.6	209.8
£35 million 1.141% index-linked bond 2042	41.7	41.3	41.7	41.3
US\$170 million 3.84% private placements 2023	132.9	150.7	132.9	150.7
£93 million 3.537% private placements 2023	94.3	94.3	94.3	94.3
US\$160 million 4.99% private placements 2023	117.8	130.6	117.8	130.6
EIB £65 million 0.41% index-linked term facility 2029	60.8	67.5	60.8	67.5
EIB Tranche 2 £125 million 0.1% 2029 ⁽³⁾	122.9	135.6	122.9	135.6
EIB Tranche 3 £60 million 0.01% 2030 ⁽⁴⁾	62.1	68.2	62.1	68.2
RCF £550 million	23.0	548.0	23.0	548.0
RCF £50 million bilaterals ⁽⁵⁾	(0.1)	49.9	(0.1)	49.9
US\$150 million 3.29% private placements 2026	113.7	130.4	113.7	130.4
£55 million 2.93% fixed rate private placements 2026	55.4	55.3	55.4	55.3
£20 million 2.93% fixed rate private placements 2026	20.0	20.0	20.0	20.0
Sub-total carried forward	5,568.3	6,558.1	5,568.3	6,558.1

	Group		Company	
	2021 £m	2020 £m	2021 £m	2020 £m
Sub-total brought forward	5,568.3	6,558.1	5,568.3	6,558.1
£35 million floating rate private placements 2031	34.7	34.7	34.7	34.7
£200 million Class B 2.6225% fixed rate 2027	202.3	203.6	202.3	203.6
£250 million Green Bond 1.625% 2025	256.9	258.7	256.9	258.7
£300 million Green bond 2.75% 2029	300.1	299.7	300.1	299.7
£25 million 3.0% fixed rate 2031	24.9	24.9	24.9	24.9
US\$53 million 3.053% fixed rate 2029	38.4	42.7	38.4	42.7
£85 million 2.88% fixed rate 2029	84.8	84.8	84.8	84.8
£65 million 2.87% fixed rate 2029	65.4	65.4	65.4	65.4
£65 million CPI 0.835% 2040	65.2	(0.4)	65.2	(0.4)
JPY 7 billion 0.855% fixed rate 2039	45.8	52.4	45.8	52.4
EDC £100 million 1.588% fixed rate 2028	100.2	100.2	100.2	100.2
£50 million 1.76% fixed rate 2035	49.9	-	49.9	-
JPY 7 billion 0.85% fixed rate 2040	39.3	-	39.3	-
JR £26.1 million CPI 0.01% 2035	29.9	-	29.9	-
BPPT £26.1 million CPI 0.01% 2035	29.7	-	29.7	-
£35 million 2.14% fixed rate 2036 ⁽⁶⁾	(0.3)	-	(0.3)	-
£40 million 2.14% fixed rate 2036 ⁽⁶⁾	(0.3)	-	(0.3)	-
Liquidity facilities	0.5	0.5	0.5	0.5
Total loans and other borrowings	6,935.7	7,725.3	6,935.7	7,725.3
Included in:				
Current liabilities	652.9	1,023.0	652.9	1,023.0
Non-current liabilities	6,282.8	6,702.3	6,282.8	6,702.3
Of which are leases:				
Current liabilities	12.6	10.7	12.6	10.7
Non-current liabilities	26.9	38.7	26.9	38.7

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

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

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

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

5 The bilateral facility was decreased to £50.0 million in May 2020 (31 March 2020: £100.0 million).

6 These instruments were transacted in March 2021 with debt cash proceeds received in April 2021 after the current period end.

The value of the capital and interest elements of the index-linked loans is linked to movements in inflation. The increase in the capital value of index-linked loans during the year of £32.0 million (2020: £77.8 million) has been taken to the income statement as part of interest payable.

These loans are shown net of issue costs and premiums of £22.1 million (2020: £31.7 million). The issue costs and premiums are amortised at the effective interest rate based on the carrying amount of debt over the life of the underlying instruments.

Notes to the financial statements continued

for the year ended 31 March 2021

19. Loans and other borrowings continued

A security agreement dated 30 July 2002 between Anglian Water Services Financing Plc, Anglian Water Services Limited, Anglian Water Services Overseas Holdings Limited, Anglian Water Services Holdings Limited and Deutsche Trustee Company Limited (as Agent and Trustee for itself and each of the Finance Parties to the Global Secured Medium Term Note Programme) created a fixed and floating charge over the assets of Anglian Water Services Limited to the extent permissible under the Water Industry Act 1991. In addition, there is a fixed charge over the issued share capital of Anglian Water Services Financing Plc, Anglian Water Services Limited and Anglian Water Services UK Parent Co Limited. At 31 March 2021, this charge applies to £6,896.3 million (2020: £7,675.8 million) of the debt listed above.

With the exception of issue costs capitalised and leases, all of the company's borrowings are payable to Anglian Water Services Financing Plc, but on terms set out above.

Loans and other borrowing liabilities disclosed within borrowings on the balance sheet are the only instruments designated as fair value hedge items by the group. The table below details the impact of fair value hedge adjustments on the instruments subject to fair value hedge accounting:

	Group and company			
	Carrying value £m	Proportion hedged %	Accumulated hedge adjustment ² £m	Discounted hedge adjustment £m
At 31 March 2021				
US\$150 million 3.29% private placements 2026	113.7	76	(4.1)	-
US\$160 million 4.52% private placements 2021	118.4	100	(1.0)	-
US\$170 million 3.84% private placements 2023	132.9	94	(7.6)	-
£200 million Class B 2.6225% fixed rate 2027	202.3	41	(2.2)	-
£200 million Class B 4.5% fixed rate 2026	207.6	50	(8.0)	-
£246 million 6.293% fixed rate 2030	256.6	20	(1.7)	-
£250 million Green Bond 1.625% 2025	256.9	100	(6.0)	-
£73.3 million 4.394% private placements 2028	77.5	100	(2.7)	-
US\$410 million 5.18% private placements 2021 ¹	302.1	-	0.1	0.1
JPY 7 billion 0.85% fixed rate 2040	39.3	100	6.3	-
£35 million 2.14% fixed rate 2036	(0.3)	100	0.3	-
£40 million 2.14% fixed rate 2036	(0.3)	100	0.3	-
	1,706.7		(26.3)	0.1
At 31 March 2020				
US\$150 million 3.29% private placements 2026	130.4	76	(8.7)	-
US\$160 million 4.52% private placements 2021	135.3	100	(5.0)	-
US\$170 million 3.84% private placements 2023	150.7	94	(11.8)	-
£200 million Class B 2.6225% fixed rate 2027	203.6	41	(3.7)	-
£200 million Class B 4.5% fixed rate 2026	209.8	50	(10.4)	-
£246 million 6.293% fixed rate 2030	257.5	20	(2.6)	-
£250 million Green Bond 1.625% 2025	258.7	100	(8.2)	-
£73.3 million 4.394% private placements 2028	79.6	100	(4.8)	-
US\$410 million 5.18% private placements 2021 ¹	334.9	-	0.2	0.2
	1,760.5		(55.0)	0.2

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

² The movement in the accumulated hedge adjustment is shown within fair value losses on derivative financial instruments in the income statement. The accumulated hedge adjustment noted above is included within the carrying value of each instrument.

20. Financial instruments

Financial assets by category

	Group				Total £m
	Assets at fair value through profit and loss £m	Derivatives used for hedging £m	Assets at amortised cost and cash equivalents £m	Investments at amortised cost £m	
At 31 March 2021					
Investments					
Current – cash deposits	-	-	-	80.0	80.0
Cash and cash equivalents					
Current	-	-	205.9	-	205.9
Trade and other receivables					
Current	-	-	494.1	-	494.1
Derivative financial instruments					
Current	10.4	74.4	-	-	84.8
Non-current	37.6	75.0	-	-	112.6
	48.0	149.4	700.0	80.0	977.4
At 31 March 2020					
Investments					
Current – cash deposits	-	-	-	319.0	319.0
Cash and cash equivalents					
Current	-	-	729.1	-	729.1
Trade and other receivables					
Current	-	-	523.6	-	523.6
Derivative financial instruments					
Current	-	16.8	-	-	16.8
Non-current	68.8	249.0	-	-	317.8
	68.8	265.8	1,252.7	319.0	1,906.3

Trade and other receivables above exclude prepayments.

Notes to the financial statements continued

for the year ended 31 March 2021

20. 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	Assets at amortised cost and cash equivalents £m	Investments at amortised cost £m	
At 31 March 2021					
Investments					
Current - cash deposits	-	-	-	80.0	80.0
Cash and cash equivalents					
Current	-	-	180.7	-	180.7
Trade and other receivables					
Current	-	-	494.1	-	494.1
Derivative financial instruments					
Current	10.4	74.4	-	-	84.8
Non-current	37.6	75.0	-	-	112.6
	48.0	149.4	674.8	80.0	952.2
At 31 March 2020					
Investments					
Current - cash deposits	-	-	-	319.0	319.0
Cash and cash equivalents					
Current	-	-	729.0	-	729.0
Trade and other receivables					
Current	-	-	523.6	-	523.6
Derivative financial instruments					
Current	-	16.8	-	-	16.8
Non-current	68.8	249.0	-	-	317.8
	68.8	265.8	1,252.6	319.0	1,906.2

Financial liabilities by category

	Group			Total £m
	Liabilities at fair value through profit and loss £m	Derivatives used for hedging £m	Other liabilities held at amortised cost £m	
At 31 March 2021				
Borrowings				
Current	-	-	652.9	652.9
Non-current	-	-	6,282.8	6,282.8
Trade and other payables				
Current	-	-	213.6	213.6
Derivative financial instruments				
Current	17.6	7.2	-	24.8
Non-current	985.8	18.8	-	1,004.6
	1,003.4	26.0	7,149.3	8,178.7
At 31 March 2020				
Borrowings				
Current	-	-	1,023.0	1,023.0
Non-current	-	-	6,702.3	6,702.3
Trade and other payables				
Current	-	-	196.3	196.3
Derivative financial instruments				
Current	76.5	4.9	-	81.4
Non-current	976.4	19.6	-	996.0
	1,052.9	24.5	7,921.6	8,999.0

Trade and other payables above exclude receipts in advance.

Notes to the financial statements continued

for the year ended 31 March 2021

20. Financial instruments continued

Financial liabilities by category 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	
At 31 March 2021				
Borrowings				
Current	-	-	652.9	652.9
Non-current	-	-	6,282.8	6,282.8
Trade and other payables				
Current	-	-	237.3	237.3
Derivative financial instruments				
Current	17.6	7.2	-	24.8
Non-current	985.8	18.8	-	1,004.6
	1,003.4	26.0	7,173.0	8,202.4
At 31 March 2020				
Borrowings				
Current	-	-	1,023.0	1,023.0
Non-current	-	-	6,702.3	6,702.3
Trade and other payables				
Current	-	-	244.8	244.8
Derivative financial instruments				
Current	76.5	4.9	-	81.4
Non-current	976.4	19.6	-	996.0
	1,052.9	24.5	7,970.1	9,047.5

Derivative financial instruments

	Group and company			
	2021		2020	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Designated as cash flow hedges				
Interest rate swaps	-	(10.6)	-	(14.9)
Cross currency interest rate swaps	67.3	(8.9)	138.0	(4.5)
Energy swaps	9.0	-	0.5	(5.1)
	76.3	(19.5)	138.5	(24.5)
Designated as fair value hedges				
Interest rate swaps	24.0	(0.3)	32.1	-
Cross currency interest rate swaps	49.1	(6.2)	95.2	-
	73.1	(6.5)	127.3	-
Derivative financial instruments designated as hedges	149.4	(26.0)	265.8	(24.5)
Derivative financial instruments not designated as hedges				
Interest rate swaps and swaptions	34.5	(233.5)	17.5	(259.4)
RPI swaps	-	(568.3)	-	(631.1)
CPI swaps	13.5	(201.6)	51.3	(162.4)
Total derivative financial instruments	197.4	(1,029.4)	334.6	(1,077.4)
Derivative financial instruments can be analysed as follows:				
Current	84.8	(24.8)	16.8	(81.4)
Non-current	112.6	(1,004.6)	317.8	(996.0)
	197.4	(1,029.4)	334.6	(1,077.4)

At 31 March 2021, the fixed interest rates vary from 2.84 per cent to 5.99 per cent, floating rates vary from 0.09 per cent (LIBOR plus 0.0 bps) to 3.10 per cent (LIBOR plus 298.70 bps), RPI-linked interest rates vary from 1.27 per cent to 2.97 per cent plus RPI and CPI-linked interest rates vary from (1.21) per cent plus CPI to 1.69 per cent plus CPI. Gains and losses recognised in other comprehensive income and accumulated in the cash flow hedge reserve on interest rate and cross-currency interest rate swap contracts will be continuously released to the income statement within finance costs in line with the repayment of the related borrowings. Gains and losses recognised in other comprehensive income and accumulated in the cash flow hedge reserve on energy hedges will be released to the income statement within operating costs in line with the expiry of the power season to which the gains and losses relate.

In accordance with IFRS 9, the group has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. There were no amounts recorded in the income statement for gains or losses on embedded derivatives for the year ended 31 March 2021 (2020: £nil).

Notes to the financial statements continued

for the year ended 31 March 2021

20. Financial instruments continued

Leases

The minimum lease payments in respect of all leases fall due as follows:

	Group and company	
	2021 £m	2020 £m
Within one year	12.6	12.0
Between two and five years	15.0	24.0
After five years	20.5	22.7
	48.1	58.7
Future finance charges on leases	(8.6)	(9.3)
Present value of lease liabilities	39.5	49.4

Fair value of financial assets and liabilities

	Group			
	2021		2020	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Cash and cash equivalents	205.9	205.9	729.1	729.1
Current asset investments – cash deposits	80.0	80.0	319.0	319.0
Borrowings				
Current	(652.9)	(605.0)	(1,023.0)	(1,023.6)
Non-current	(6,282.8)	(7,883.6)	(6,702.3)	(8,477.6)
Interest and cross currency interest rate swaps – assets				
Current	75.0	75.0	12.1	12.1
Non-current	99.9	99.9	270.7	270.7
Interest and cross currency interest rate swaps – liabilities				
Current	(15.3)	(15.3)	(6.3)	(6.3)
Non-current	(244.2)	(244.2)	(272.5)	(272.5)
RPI swaps – liabilities				
Current	(9.5)	(9.5)	(72.1)	(72.1)
Non-current	(558.8)	(558.8)	(559.0)	(559.0)
CPI swaps – assets				
Current	4.7	4.7	4.7	4.7
Non-current	8.8	8.8	46.6	46.6
CPI swaps – liabilities				
Non-current	(201.6)	(201.6)	(162.4)	(162.4)
Net debt	(7,490.8)	(9,043.7)	(7,415.4)	(9,191.3)
Energy derivatives – assets				
Current	5.1	5.1	-	-
Non-current	3.9	3.9	0.5	0.5
Energy derivatives – liabilities				
Current	-	-	(3.0)	(3.0)
Non-current	-	-	(2.1)	(2.1)
	(7,481.8)	(9,034.7)	(7,420.0)	(9,195.9)

	Company			
	2021		2020	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Cash and cash equivalents	180.7	180.7	729.0	729.0
Current asset investments – cash deposits	80.0	80.0	319.0	319.0
Borrowings				
Current	(652.9)	(605.0)	(1,023.0)	(1,023.6)
Non-current	(6,282.8)	(7,883.6)	(6,702.3)	(8,477.6)
Interest and cross currency interest rate swaps – assets				
Current	75.0	75.0	12.1	12.1
Non-current	99.9	99.9	270.7	270.7
Interest and cross currency interest rate swaps – liabilities				
Current	(15.3)	(15.3)	(6.3)	(6.3)
Non-current	(244.2)	(244.2)	(272.5)	(272.5)
RPI swaps – liabilities				
Current	(9.5)	(9.5)	(72.1)	(72.1)
Non-current	(558.8)	(558.8)	(559.0)	(559.0)
CPI swaps – assets				
Current	4.7	4.7	4.7	4.7
Non-current	8.8	8.8	46.6	46.6
CPI swaps – liabilities				
Non-current	(201.6)	(201.6)	(162.4)	(162.4)
Net debt	(7,516.0)	(9,068.9)	(7,415.5)	(9,191.4)
Energy derivatives – assets				
Current	5.1	5.1	-	-
Non-current	3.9	3.9	0.5	0.5
Energy derivatives – liabilities				
Current	-	-	(3.0)	(3.0)
Non-current	-	-	(2.1)	(2.1)
	(7,507.0)	(9,059.9)	(7,420.1)	(9,195.9)

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 were terminated on 31 March with reference to discounted estimated future cash flows using observable yield curves. The fair value of cross-currency interest rate derivatives is determined using discounted cash flow methodology, with the foreign currency legs calculated with reference to observable foreign interest rate yield curves and the 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 energy prices at 31 March.

Notes to the financial statements continued

for the year ended 31 March 2021

20. Financial instruments continued

Fair values of other non-current investments, non-current trade and other receivables and non-current trade and other payables have been estimated as being materially equal to carrying value.

Derivative transactions expose the group to credit risk against the counterparties concerned. The group has credit protection measures in place within agreements which provide protection in the event of counterparty rating downgrade or default. The group only enters into derivative transactions with banks of high credit standing (as measured by reputable rating agencies) and also seeks to diversify exposure such that concentration with individual banks is avoided.

In accordance with IFRS 13 'Fair Value Measurement', the financial instruments carried at fair value on the balance sheet have been classified as either level 2 or level 3 for fair valuation purposes. Both classifications are valued by reference to valuation techniques using observable inputs other than quoted prices in active markets. Level 2 instruments are valued using inputs that are observable for the asset or liability either directly or indirectly. The level 3 instrument valuation relates to CPI-linked transactions where inputs are obtained from a less liquid market. In both cases, valuations have been obtained by discounting the estimated future cash flows at a rate that reflects credit risk.

There have been no transfers between level 1, level 2 and level 3 fair value measurements in the year. The group's policy is to recognise transfers into and out of the different fair value hierarchy levels at the date of the event or change in circumstances that caused the transfer occurred.

Level 3 derivative financial instruments

Level 3 derivative financial instruments comprise CPI-linked inflation swaps which are traded based on a spread to liquid RPI inflation markets often referred to as 'the wedge'. As the market for CPI swaps is still developing, the wedge is not currently observable in a liquid market and as such these swaps have been classified as level 3 instruments.

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

	Group and company	
	2021 £m	2020 £m
At 1 April	(111.0)	(110.4)
Net loss for the period	(93.5)	(0.6)
Settlements	16.3	-
At 31 March	(188.2)	(111.0)

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

The impact (on a post-tax basis) on the income statement of reasonably possible changes in the CPI inflation rate assumptions used in valuing instruments classified as level 3 within the fair value hierarchy are as follows:

	Group and company	
	2021 £m	2020 £m
Gain/(loss)		
1% increase in inflation rates	(188.7)	(182.0)
1% decrease in inflation rates	150.6	152.8

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

Control of treasury

The treasury team, which reports directly to the Chief Financial Officer, substantially manages the financing, including debt, interest costs and foreign exchange for the group. Treasury policy continues to be focused on the efficient and effective management of cash and financial resources within the group. The activities of the treasury function include the following:

- ensure that lenders' covenants are met
- secure funds through a balanced approach to financial markets and maturities
- manage interest rates to minimise financial exposures and minimise interest costs
- invest temporary surplus cash to best advantage at minimal financial risk
- maintain an excellent reputation with providers of finance and rating agencies
- enhance control of financial resources
- monitor counterparty credit exposure.

Financing structure

The group's regulated water and water recycling business, Anglian Water Services Limited, is funded predominately by debt in the form of long-term bonds and other debt instruments through its financing subsidiary Anglian Water Services Financing Plc. At 31 March 2021, Anglian Water's net debt to capital value ratio (net debt as defined in the Common Terms Agreement expressed as a percentage of Anglian Water's regulated capital value) was 82.0 per cent (2020: 78.4 per cent).

Borrowing covenants

With the exception of asset-based funding, the Group's borrowings are raised by 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. There were no covenant breaches in the year.

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.

A Finance, Treasury and Energy Policy Group, including the Chief Financial Officer and the Group Treasurer, meets monthly with the specific remit of reviewing treasury matters. Relevant treasury matters are reported to the board.

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 economically manage the interest, currency and commodity risks to which the group is exposed.

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.

Notes to the financial statements continued

for the year ended 31 March 2021

20. Financial instruments continued

Where exposures arise out of debt issuances in currencies other than sterling, this risk is hedged using cross currency interest rate swaps on the date the debt issuance is contracted. The group assesses the economic relationship by comparing the currency cash flows on the underlying debt item with the currency cash flows on the hedge instrument to ensure an exact offset of the specific foreign currency flows of the debt is achieved.

This results in a notional hedge ratio of one for all foreign currency hedge relationships. Both cash flow hedge accounting and fair value hedge accounting are applied to manage foreign currency risks as appropriate and detailed below.

	Group and company			Total m
	Within one year m	Between one and five years m	Between five and 25 years m	
At 31 March 2021				
Foreign currency borrowings - hedged item				
JPY	-	-	14,000.0	14,000.0
USD	570.0	377.0	203.0	1,150.0
Cross currency interest rate swap - cashflow hedge				
JPY	-	-	(7,000.0)	(7,000.0)
USD	(410.0)	(217.8)	(89.0)	(716.8)
Cross currency interest rate swap - fair value hedge				
JPY	-	-	(7,000.0)	(7,000.0)
USD	(160.0)	(159.2)	(114.0)	(433.2)
Net currency exposure	-	-	-	-
Weighted average spot rate				
JPY	-	-	138.3	
USD	1.6	1.6	1.4	
At 31 March 2020				
Foreign currency borrowings - hedged item				
JPY	-	-	7,000.0	7,000.0
USD	-	947.0	203.0	1,150.0
Cross currency interest rate swap - cashflow hedge				
USD	-	(627.8)	(89.0)	(716.8)
Cross currency interest rate swap - fair value hedge				
JPY	-	-	(7,000.0)	(7,000.0)
USD	-	(319.2)	(114.0)	(433.2)
Net currency exposure	-	-	-	-
Weighted average spot rate				
JPY	-	-	137.6	
USD	-	1.6	1.4	

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

Fair valuation movements related to foreign currency basis which forms part of the pricing of cross currency interest rate swaps are treated as a cost of hedging for all foreign currency hedge designations within the Group. As such, it is excluded from hedge relationships and is only a source of ineffectiveness where hedge accounting has been interrupted.

The changes in fair value of the foreign currency basis spread accumulated in the cash flow hedging reserve, are amortised to profit or loss on a rational basis over the term of the hedging relationship.

ii) Interest rate and inflation rate risk

The group's policy for the management of interest rate risk is to achieve a balanced mix of funding at indexed (to RPI or CPI), fixed and floating rates of interest. To guard against the adverse movements in interest rates having a detrimental impact on the business and to enable covenanted obligations and credit ratings to be met, the overall underlying debt portfolio is maintained at between 45 and 55 per cent of RCV for index-linked debt and between 5 per cent and 15 per cent for floating rate debt, with the remaining being fixed rate. Within these hedging levels, the group endeavours to obtain the finest rates (lowest borrowing and finest depositing rates) consistent with ensuring that the relevant treasury objectives are met in full, i.e. the provision of adequate finance for Anglian Water Services Group at all times and maintaining security of principal on investments.

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 deemed appropriate, within the hedging limits outlined above.

The table below summarises the impact of derivatives on interest rate and inflation risks within the debt portfolio:

	Group and company			
	Debt position £m	Swap impact £m	Post swap position £m	Effective interest rate %
At 31 March 2021				
Fixed	(3,598.0)	1,478.0	(2,120.0)	5.1
Floating	(270.0)	(146.0)	(416.0)	1.3
Index-linked	(2,872.8)	(1,388.9)	(4,261.7)	3.5
Leases	(29.0)	-	(29.0)	2.6
	(6,769.8)	(56.9)	(6,826.7)	
At 31 March 2020				
Fixed	(3,522.0)	967.5	(2,554.5)	5.0
Floating	(859.7)	(182.6)	(1,042.3)	2.0
Index-linked	(3,052.4)	(857.7)	(3,910.1)	5.0
Leases	(31.0)	-	(31.0)	3.0
	(7,465.1)	(72.8)	(7,537.9)	

Notes to the financial statements continued

for the year ended 31 March 2021

20. Financial instruments continued

Where exposures arising out of debt issuances are swapped this risk is hedged using cross currency interest rate swaps, interest rate swaps or inflation swaps. The group assesses the economic relationship by comparing the cash flows on the underlying debt instrument with the offsetting cash flows on the hedge to ensure an exact offset of the specified notional value of the debt is achieved. This results in a notional hedge ratio of one for all interest rate hedge relationships. Both cash flow hedge accounting and fair value hedge accounting are applied as appropriate. Derivatives that do not qualify for hedge accounting primarily consist of relationships which swap debt into inflation. The table below outlines the Group's exposures to interest rates from derivative swaps in isolation (excluding offsetting debt instrument cashflows).

	Group and company						Interest rate (weighted average)	
	Within one year	Between one and five years	Between five and 25 years	After 25 years	Mark to market			
	£m	£m	£m	£m	£m	payable	receivable	
At 31 March 2021								
Interest rate swaps								
Floating to fixed rate	269.6	225.5	74.0	200.0	(166.3)	4.4	0.8	
Floating from fixed rate	50.0	800.5	279.5	-	58.2	0.4	1.4	
Fixed to fixed interest rate swaps	-	100.2	581.3	-	(77.8)	3.7	2.3	
Inflation swaps								
Floating to RPI	25.0	150.0	225.0	165.9	(568.2)	3.1	0.7	
Fixed to CPI	-	-	365.9	300.0	(92.2)	0.8	3.6	
Floating to CPI	-	-	50.4	100.0	(96.0)	1.2	0.6	
Cross currency swaps								
JPY	-	-	101.2	-	(15.2)	2.0	0.9	
USD	359.8	240.7	144.3	-	116.4	2.8	4.6	
Total	704.4	1,516.9	1,821.6	765.9	(841.1)			
At 31 March 2020								
Interest rate swaps								
Floating to fixed rate	-	456.0	40.8	258.3	(212.9)	4.4	1.4	
Floating from fixed rate	-	325.5	729.5	-	75.5	0.9	1.3	
Fixed to fixed interest rate swaps	-	100.2	581.3	-	(87.4)	3.7	2.3	
Inflation swaps								
Floating to RPI	-	175.0	225.0	165.9	(631.9)	2.8	1.0	
Fixed to CPI	-	-	365.9	300.0	(16.0)	0.8	3.6	
Floating to CPI	-	-	-	100.0	(94.2)	1.7	0.6	
Cross currency swaps								
JPY	-	-	50.9	-	(4.5)	2.7	0.9	
USD	-	600.6	144.3	-	233.2	3.2	4.6	
Total	-	1,657.3	2,137.7	824.2	(738.2)			

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

The group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging derivatives. 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 potential changes in interest rates at 31 March is as follows:

	Group and company	
	2021 £m	2020 £m
Increase/(decrease) in equity		
1% increase in interest rates	(1.0)	(2.4)
1% decrease in interest rates	(2.5)	2.7
Increase/(decrease) in profit before tax		
1% increase in interest rates	255.6	269.4
1% decrease in interest rates	(340.3)	(358.3)

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

The following assumptions were made in calculating the interest rate sensitivity analysis:

- cash flow and fair value hedge relationships remain effective;
- the main fair value sensitivity to interest rates is in relation to inflation-linked derivatives;
- cash flow sensitivity is calculated on floating interest rate net debt; and
- all other factors are held constant.

Debt instruments

The following analysis shows the impact of a one per cent change in RPI and a one per cent change in CPI over the 12 month period to the reporting date on index-linked debt instruments.

The finance cost of the group's index-linked debt instruments and derivatives varies with changes in inflation rather than interest rates. These instruments form an economic hedge with the group's revenues and regulatory assets, which are linked to RPI and CPI-H inflation. Inflation risk is reported monthly to the Finance, Treasury and Energy Policy Group, which manages inflation risk by identifying opportunities to amend the economic hedge currently in place where deemed necessary.

The sensitivity at 31 March of the group's profit before tax to changes in RPI and CPI on debt and derivative instruments is set out in the following tables:

	Group and company	
	2021 £m	2020 £m
Increase/(decrease) in profit before tax		
1% increase in inflation	(21.9)	(27.9)
1% decrease in inflation	21.9	26.0

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

Notes to the financial statements continued

for the year ended 31 March 2021

20. Financial instruments continued

RPI-linked derivatives

The fair values of the group's RPI-linked derivatives are based on estimated future cash flows, discounted to the reporting date, and these will be impacted by an increase or decrease in RPI rates as shown in the following table. The sensitivity to CPI rates has been included in the level 3 disclosure and as such has not been repeated.

	Group and company	
	2021 £m	2020 £m
Increase/(decrease) in profit before tax		
1% increase in RPI	(220.2)	(229.0)
1% decrease in RPI	173.4	178.8

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

Anglian Water continues to closely monitor the impact of Interest Rate Benchmark Reform in both the debt and derivative markets. This includes announcements made by LIBOR regulators, including the Financial Conduct Authority (FCA), regarding the transition away from GBP LIBOR to the Sterling Overnight Index Average Rate (SONIA). The FCA announced on 5 March the formal cessation of LIBOR would occur at the end of 2021, at which point representative LIBOR rates will no longer be available (with the exception of some USD LIBOR fixings).

LIBOR-linked instruments make up 6 per cent or circa £400 million of the group's long-term debt portfolio when factoring in the economic impact of derivative swaps. There are three debt issuances totalling £245 million held in the portfolio linked to three- or six-month sterling LIBOR, which are subject to economic hedging but are not designated in hedging relationships. In addition to debt instruments, the group retains a net £416 million floating position as a result of the swap portfolio. These swaps are designated in a number of fair value hedge relationships. In maintaining these fair value hedge relationships, the group has assumed, as permitted by the Interest Rate Benchmark Reform Phase 1 amendment to IFRS 9, that the LIBOR benchmarks used will continue to provide a valid hedge to fair value movements due to floating rates of interest over the remaining life of the underlying transactions. In total, a notional amount of £962 million of swaps are included in fair value hedge relationships.

The group will continue to apply the Phase 1 amendments to IFRS 9 until the uncertainty arising from the interest rate benchmark reforms that the group is exposed ends. The group has assumed that this uncertainty will not end until the group's contracts that reference IBORs are amended to specify the date on which the interest rate benchmark will be replaced, the alternative benchmark rate and the relevant spread adjustment. At the point that the instruments are transitioned from LIBOR to the respective risk-free rate (e.g. to SONIA from GBP LIBOR) this assumption will cease to be applied.

Within the year the group has concluded its assessment and transition plan for IBOR reform on its financial instruments which is anticipated to have an overall immaterial impact to its financial statements. The group intends to actively transition its three floating rate debt notes in the first half the upcoming financial year. Similarly, the group's derivative swap portfolio containing IBOR referenced legs will also look to be actively transitioned via bilateral negotiation with counterparty banks within FY21/22. However, should this not be achievable, the group will look to utilise the International Swaps and Derivatives Association's (ISDA) fall-back clauses that were made available at the end of 2019.

Within the year the group entered into two interest rate swap derivatives, swapping a fixed coupon amount into a SONIA referenced floating amount. Both swaps existed in a fair value hedge relationship against firmly committed debt at year end.

iii) Commodity price risk

The group recovers its electricity costs through revenue, set in real terms by Ofwat, to cover costs for each five-year regulatory pricing period. To the extent that electricity prices remain floating over this period, this exposes the group to volatility in its operating cash flow. The group's policy is to manage this risk either through forward purchases to fix the cost of future blocks of electricity with the contracted energy supplier, through the purchase of wholesale electricity swaps with financial counterparties, or through direct generation. Where swap contracts are utilised, the group designates the swaps in cash flow hedge relationships.

	Group and company			
	Within one year MW	Between one and five years MW	Between five and 25 years MW	Mark to market £m
At 31 March 2021				
Electricity swap	60.0	123.4	-	9.0
At 31 March 2020				
Electricity swap	-	171.8	71.7	(4.6)

Hedge ineffectiveness primarily results from counterparty credit risk (which is present in the derivative but cannot be modelled as part of the hedged risk).

Assuming all energy hedges were in effective hedging relationships, a 10 per cent increase/decrease in commodity prices would have the following impact:

	Group and company	
	2021 £m	2020 £m
Increase/(decrease) in equity		
10% increase in original prices	4.2	3.9
10% decrease in original prices	(4.2)	(3.9)

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

b) Credit risk

Credit risk arises principally from trading and treasury activities. From a trading perspective, the group has no significant concentrations of credit risk due to minimising the risk through the effective management of customer relationships and through the collateralisation inherent in the licensing of business retail activities. The group's largest trade receivable balance is in Anglian Water Services Limited, whose operating licence prevents the disconnection of water supply to domestic customers even where bills are unpaid. Irrecoverable debt is taken into consideration as part of the price review process by Ofwat, and therefore no additional provision is considered necessary in excess of the provision for doubtful debts included in note 16.

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 upper investment grade (as measured by reputable rating agencies) and also seeks to diversify exposure such that concentration with individual banks is avoided. The credit rating applied to all counterparties is reviewed monthly and on an ongoing basis.

Notes to the financial statements continued

for the year ended 31 March 2021

20. Financial instruments continued

All cash and cash deposits are held with institutions with a minimum of two short-term ratings of P1/A1/F1 or higher, or in the case of money market funds with a minimum of two ratings of Aaam MR1+/AAAm/AAAmf or higher.

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

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

Group policy requires that transactions are only executed with counterparties which are both (a) from the lending group and (b) rated at least A- (long-term) or A1 (short-term) by Standard & Poor's, Moody's or Fitch.

	Group and company				
	Gross carrying amounts £m	Gross amounts offset £m	Net amount presented in the balance sheet £m	Offsetting not presented in the balance sheet £m	Net amount £m
At 31 March 2021					
Derivative financial assets	217.4	(20.0)	197.4	(113.8)	83.6
Derivative financial liabilities	(1,049.4)	20.0	(1,029.4)	113.8	(915.6)
At 31 March 2020					
Derivative financial assets	360.6	(26.0)	334.6	(140.4)	194.2
Derivative financial liabilities	(1,103.4)	26.0	(1,077.4)	140.4	(937.0)

Gross amounts offset represent equal and opposite transactions with the same counterparties and same terms on which no settlements are paid. Offsetting not presented in the balance sheet reflects the extent to which derivative assets and liabilities could be offset with the same counterparty in the event of counterparty default.

At 31 March, the maximum exposure to credit risk for the group is represented by the carrying amount of each financial asset in the group balance sheet:

	Group	
	2021 £m	2020 £m
Cash and cash equivalents	205.9	729.1
Trade and other receivables	500.9	530.6
Investments - cash deposits	80.0	319.0
Derivative financial assets	197.4	334.6
Company		
	2021 £m	2020 £m
Cash and cash equivalents	180.7	729.0
Trade and other receivables	500.9	530.6
Investments - cash deposits	80.0	319.0
Derivative financial assets	197.4	334.6

c) Capital risk management

The prime responsibility of the group's treasury function is the efficient and effective management of financial resources within the group, i.e. the provision of adequate finance and liquidity at all times while maintaining security of principal. This involves focus on efficiency, quality and effective control to improve cash flow certainty and profitability. The treasury function will actively seek opportunities to raise debt, to reduce the cost of funding and the cost of hedging interest rate and foreign exchange risk while maintaining a risk-averse position in its liquidity management and in its control of currency and interest rate exposures.

Recognising the level of gearing in the group, and the long-term nature of the group's asset base, the group is primarily funded from the debt capital markets. It is the group's policy to maintain sufficient cash and/or borrowing facilities to meet short-term commitments and to provide working capital support/flexibility in treasury operations in the event of short-term difficulties in the capital markets. The treasury team actively maintain a good financial reputation with rating agencies, investors, lenders and other creditors, and aims to maintain the relevant key financial ratios used by the credit rating agencies to determine the respective credit ratings.

d) Liquidity risk

The group's objective is to maintain flexibility, diversification and continuity of funding through access to different markets and debt instruments. Daily cash management is undertaken to calculate cash position and dealing requirements, and weekly and monthly cash forecasts are prepared to demonstrate short/medium-term liquidity, covenant compliance and to inform investment strategy. Regular meetings are held with cash forecasters to understand cash variances and challenge latest forecasts. Consolidated cash forecasts are presented to the Finance, Treasury and Energy Policy Group on a monthly basis.

The group maintains sufficient liquidity to cover 12 months' working capital requirements, and the non-regulated businesses are run on a cash-positive basis. Internal policy is to maintain 18 months' liquidity in terms of capital expenditure and operating costs in Anglian Water Services Limited, and to refinance maturing debt at least three months in advance, to ensure covenant compliance.

The group has the following undrawn committed borrowing facilities available at 31 March in respect of which all conditions precedent had been met at that date:

	Group and company	
	2021 £m	2020 £m
Expires:		
Within one year	400.0	450.0
Between two and five years	575.0	-
	975.0	450.0

Notes to the financial statements continued

for the year ended 31 March 2021

20. Financial instruments continued

The group's borrowing facilities of £1,000.0 million (2020: £1,050.0 million) comprise Class A and Class B debt service reserve facilities totalling £279.0 million provided by Barclays Bank Plc, HSBC Bank Plc, Sumitomo Mitsui Banking Corporation, JP Morgan Chase N.A. and Lloyds TSB Bank Plc; a £121.0 million operating and capital maintenance expenditure reserve facility provided by Barclays Bank Plc, BNP Paribas Plc, Lloyds TSB Bank Plc, Bank of Nova Scotia and Commonwealth Bank Of Australia; a syndicated £550.0 million authorised loan facility for working capital and capital expenditure requirements provided by Barclays Bank Plc and syndicated to certain other banks; and a bilateral facility of £50.0 million with Bank of China Limited for general corporate purposes. As at 31 March 2021, £25.0 million (2020: £600.0 million) of the group's borrowing facilities were drawn.

The table below analyses the group's financial liabilities and derivative financial instruments into relevant maturity groupings based on the remaining period at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, including interest payable:

	Group				Total £m
	Within one year £m	Between one and five years £m	Between five and 25 years £m	After 25 years £m	
At 31 March 2021					
Trade and other payables	(213.6)	-	-	-	(213.6)
Borrowings	(636.9)	(2,536.5)	(6,112.0)	(2,584.1)	(11,869.5)
Derivative financial instruments (net settled)	(10.4)	(99.3)	(817.2)	(635.8)	(1,562.6)
Derivative financial instruments (gross settled outflow)	(382.2)	(279.8)	(287.8)	-	(949.8)
Derivative financial instruments (gross settled inflow)	449.8	320.3	256.9	-	1,027.0
Leases	(12.6)	(15.0)	(16.7)	(3.9)	(48.1)
	(805.8)	(2,610.2)	(6,976.8)	(3,223.7)	(13,616.6)
At 31 March 2020					
Trade and other payables	(196.3)	-	-	-	(196.3)
Borrowings	(1,079.7)	(2,624.1)	(5,758.4)	(2,666.4)	(12,128.6)
Derivative financial instruments (net settled)	(75.0)	(69.6)	(828.5)	(434.7)	(1,407.8)
Derivative financial instruments (gross settled outflow)	(25.2)	(652.6)	(222.6)	-	(900.4)
Derivative financial instruments (gross settled inflow)	42.7	846.3	235.6	-	1,124.6
Leases	(12.0)	(24.0)	(22.7)	-	(58.7)
	(1,345.5)	(2,524.0)	(6,596.6)	(3,101.1)	(13,567.2)

	Company				Total £m
	Within one year £m	Between one and five years £m	Between five and 25 years £m	After 25 years £m	
At 31 March 2021					
Trade and other payables	(237.3)	-	-	-	(237.3)
Borrowings	(636.9)	(2,536.5)	(6,112.0)	(2,584.1)	(11,869.5)
Derivative financial instruments (net settled)	(10.4)	(99.3)	(817.2)	(635.8)	(1,562.6)
Derivative financial instruments (gross settled outflow)	(382.2)	(279.8)	(287.8)	-	(949.8)
Derivative financial instruments (gross settled inflow)	449.8	320.3	256.9	-	1,027.0
Leases	(12.6)	(15.0)	(16.7)	(3.9)	(48.1)
	(829.5)	(2,610.2)	(6,976.8)	(3,223.7)	(13,640.3)
At 31 March 2020					
Trade and other payables	(244.8)	-	-	-	(244.8)
Borrowings	(1,079.7)	(2,624.1)	(5,758.4)	(2,666.4)	(12,128.6)
Derivative financial instruments (net settled)	(75.0)	(69.6)	(828.5)	(434.7)	(1,407.8)
Derivative financial instruments (gross settled outflow)	(25.2)	(652.6)	(222.6)	-	(900.4)
Derivative financial instruments (gross settled inflow)	42.7	846.3	235.6	-	1,124.6
Leases	(12.0)	(24.0)	(22.7)	-	(58.7)
	(1,394.0)	(2,524.0)	(6,596.6)	(3,101.1)	(13,615.7)

21. Provisions

	Group and company			Total £m
	Legal and other £m	Coupon enhancement £m	Restructuring £m	
At 1 April 2019	5.2	6.4	-	11.6
Additional provisions recognised	1.8	-	4.7	6.5
Unused amounts reversed	(1.2)	-	-	(1.2)
Unwinding of discount	-	2.1	-	2.1
Utilised in the year	(0.3)	(2.0)	-	(2.3)
At 31 March 2020	5.5	6.5	4.7	16.7
Additional provisions recognised	6.0	-	-	6.0
Unused amounts reversed	(0.4)	-	-	(0.4)
Unwinding of discount	-	0.1	-	0.1
Utilised in the year	(0.6)	(1.4)	(4.4)	(6.4)
At 31 March 2021	10.5	5.2	0.3	16.0

Notes to the financial statements continued

for the year ended 31 March 2021

21. Provisions continued

Maturity analysis of total provisions:

	Group and company	
	2021 £m	2020 £m
Current	6.6	6.2
Non-current	9.4	10.5
	16.0	16.7

Provisions for legal and other claims includes legal claims and potential pollution fines, all of which are expected to crystallise over a period of approximately two years.

As part of the Anglian Water securitisation that took place in 2002, the bond that formed part of the transfer of debt from Anglian Water Plc to Anglian Water Services Financing Plc were restructured with enhanced coupon rates. A provision was created in Anglian Water Services Limited for the future additional cash flows caused by the enhanced coupon, discounted back to the balance sheet date and expected to be utilised over the next 20 years.

The restructuring provision of £0.3 million (2020: £4.7 million) relates to costs associated with an organisational model review.

22. Deferred tax

	Group and company				
	Accelerated tax depreciation £m	Financial instruments £m	Retirement benefit obligation £m	Other £m	Total £m
At 1 April 2019	1,085.8	(147.1)	0.7	(2.6)	936.8
Charged/(credited) directly to income statement	153.7	(21.4)	5.2	(2.6)	134.9
Charged directly to other comprehensive income	-	3.1	18.8	-	21.9
At 31 March 2020	1,239.5	(165.4)	24.7	(5.2)	1,093.6
Charged/(credited) directly to income statement	24.7	(4.1)	8.1	(3.0)	25.7
Charged/(credited) directly to other comprehensive income	-	3.8	(30.9)	-	(27.1)
At 31 March 2021	1,264.2	(165.7)	1.9	(8.2)	1,092.2

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

23. Net retirement benefit deficit

Pension arrangements for the majority of the company's UK employees are of the funded defined benefit type through the AWG Pension Scheme ('AWGPS') Main section and Hartlepool section (a defined benefit scheme for the employees of the former Hartlepool Water Limited where the pension scheme was transferred on 1 April 2000 which is now a section of the AWGPS). The defined benefit pension arrangements are closed to new pension accrual with effect from 31 March 2018.

The company also manages an unfunded pension arrangement which has been valued by independent actuaries to take account of the requirements of IAS19 as at 31 March 2021. 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 these former employees (or their dependants) and payments are expected to be made over approximately 25 years.

The assets and liabilities relating to the defined benefit scheme for the employees of the former Hartlepool Water Limited are held in a segregated section of the AWGPS. Hartlepool Water Limited was acquired in July 1997, with trade and assets transferred to Anglian Water on 1 April 2000. However, as the Trustees assess the funding requirements of the Hartlepool section separately from the rest of AWGPS, the Hartlepool section has been separately disclosed in the tables below.

Within these schemes, employees are entitled to retirement benefits based on their final salary and length of service at the time of leaving, or closure of, the schemes, payable on attainment of retirement age (or earlier death).

On 31 March 2018, following a period of consultation with representatives of all employees, the defined benefit sections of the AWGPS (including the Hartlepool section) were closed for future accruals. From 1 April 2018 all employees now have the option to participate in a new high quality defined contribution scheme which offers an equitable scheme with more flexible benefits.

Full valuations as at 31 March 2017 have been completed for the AWGPS Main and Hartlepool sections, the results of which have been used as a basis for the IAS 19 'Employee Benefits' disclosures as at 31 March 2021.

The group has a plan in place with the scheme's trustees to address the funding deficit for the Main Section of the AWGPS by 2026, through a series of annual deficit recovery contributions.

With effect from 1 April 2018, future service contributions for both the Main Section and Hartlepool Section of the AWGPS ceased as there was no future accrual of benefits. During the year, the group contributed £36.5 million (2020: £15.1 million) deficit reduction payments. There were no deficit reduction payments (2020: none) for the Hartlepool Section due to the funding position on the funding basis at the 31 March 2017 valuation.

In the year to 31 March 2022 employers' contributions are expected to be £13.2 million.

There is one defined contribution scheme which operates predominantly in the UK, and contributions to this scheme amounted to £17.5 million (2020: £18.1 million).

Notes to the financial statements continued

for the year ended 31 March 2021

23. Net retirement benefit deficit continued

a) Principal actuarial assumptions

The liabilities of the group's pension schemes have been valued using the projected unit method and using the following assumptions:

	Group and company	
	2021 % pa	2020 % pa
Discount rate	2.1	2.4
Inflation rate		
RPI	3.1	2.7
CPI	2.7	1.9
Increases to deferred benefits during deferment		
RPI	3.1	2.7
CPI	2.7	1.9
Increases to inflation related pensions in payment ¹		
RPI	3.1	2.6
CPI	2.7	1.9
	years	years
Longevity at age 65 for current pensioners		
Men	22.5	22.5
Women	24.6	24.5
Longevity at age 65 for future pensioners ²		
Men	23.8	23.8
Women	26.1	25.9

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

2 The life expectancy shown for future pensioners is for those reaching 65 in 2041.

b) Sensitivity analysis

The following table sets out the sensitivity of the liabilities within the schemes to changes in the financial and demographic assumptions.

	Group and company				Total £m
	Change in assumption	AWGPS £m	Hartlepool £m	Unfunded pensions £m	
At 31 March 2021					
Discount rate	+/- 0.5% pa	-130/148	-2/+2	-3/+3	-135/153
Rate of RPI inflation	+/- 0.5% pa	+130/-115	+1/-1	+3/-3	+134/-119
Life expectancy	+/- 1 year	+63/-58	+1/-1	+2/-2	+66/-61

Changes to market conditions that influence the assumptions above may also have an impact on the value of the schemes' investment holdings. The extent to which these are managed is discussed in section (c) below. The sensitivities in the table above have been calculated by changing the key assumption and leaving all others fixed, with the exception of the RPI inflation assumption, which has a corresponding impact on Consumer Prices Index ('CPI') inflation, pension increases and salary increases due to the way the assumptions are derived. These changes in assumptions represent a reasonable alternative range, as well as a useful benchmark change.

c) Risk and risk management

The group's defined benefit pension schemes, in common with the majority of such schemes in the UK, have a number of areas of risk. These areas of risk, and the ways in which the group manages them, are set out below.

The risks are considered below from both a funding perspective (which drives the cash commitments of the group) and from an accounting perspective, i.e. the extent to which such risks affect the amounts recorded in the group's financial statements.

Asset volatility

For the purpose of setting the contribution requirements, the calculation of the value of the liabilities uses a discount rate set with reference to government bond yields, with allowance for additional return to be generated from the investment portfolio. Under IAS 19, the defined benefit obligation is calculated using a discount rate set with reference to corporate bond yields.

The schemes hold a proportion of their assets in return-seeking funds. The return on these assets may be volatile and are not correlated to the value of the liabilities. This means that the deficit may be volatile in the shorter term, which may lead to an increase in the contribution requirements and an increase in the net defined benefit liability recorded on the balance sheet.

The group believes that return-seeking assets offer an appropriate level of return over the long-term for the level of risk that is taken. The schemes' other assets are well diversified by investing in a range of asset classes including government bonds and corporate bonds. The allocation to growth assets is monitored to ensure it remains appropriate given the schemes' long-term objectives.

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.

Notes to the financial statements continued

for the year ended 31 March 2021

23. Net retirement benefit deficit continued**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

	Group and company			
	AWGPS £m	Hartlepool £m	Unfunded pensions £m	Total £m
2021				
Amounts credited/(charged) to finance costs				
Interest income on scheme assets	34.3	0.5	-	34.8
Interest cost on scheme liabilities	(30.1)	(0.4)	(0.9)	(31.4)
Net interest income/(expense)	4.2	0.1	(0.9)	3.4
Amounts credited/(charged) to the income statement	4.2	0.1	(0.9)	3.4
Amounts (charged)/credited to other comprehensive income				
Return on plan assets (excluding amounts included in net interest)	61.6	(4.1)	-	57.5
Actuarial losses arising from:				
Changes in financial assumptions	(211.9)	(2.8)	(5.1)	(219.8)
Experience adjustments	(0.4)	-	-	(0.4)
Net (charge)/credit to other comprehensive income	(150.7)	(6.9)	(5.1)	(162.7)
2020				
Amounts credited/(charged) to finance costs:				
Interest income on scheme assets	35.8	0.7	-	36.5
Interest cost on scheme liabilities	(34.7)	(0.5)	(1.0)	(36.2)
Net interest income/(expense)	1.1	0.2	(1.0)	0.3
Amounts credited/(charged) to the income statement	1.1	0.2	(1.0)	0.3
Amounts credited/(charged) to other comprehensive income:				
Return on plan assets (excluding amounts included in net interest)	(4.8)	0.7	-	(4.1)
Actuarial gains arising from:				
Changes in financial assumptions	109.1	1.0	2.4	112.5
Net credit/(charge) to other comprehensive income	104.3	1.7	2.4	108.4

e) Amounts recognised in the balance sheet

	Group and company			Total £m
	AWGPS £m	Hartlepool £m	Unfunded pensions £m	
2021				
Equities	168.6	-	-	168.6
Corporate bonds	606.0	-	-	606.0
Government bonds	1,500.1	0.5	-	1,500.6
Property	64.8	-	-	64.8
Alternatives	87.3	-	-	87.3
Pooled LDI investments (with def of LDI)	70.6	-	-	70.6
Derivatives	(7.6)	-	-	(7.6)
Repurchases	(1,108.5)	-	-	(1,108.5)
Cash and cash equivalents	163.4	1.2	-	164.6
Insurance contract	-	18.5	-	18.5
Total assets	1,544.7	20.2	-	1,564.9
Present value of scheme liabilities	(1,491.6)	(18.5)	(44.8)	(1,554.9)
Net pension deficit	53.1	1.7	(44.8)	10.0
Comprising:				
Pension schemes with a net surplus, included in non-current assets	53.1	1.7	-	54.8
Pension schemes with a net deficit, included in non-current liabilities	-	-	(44.8)	(44.8)
	53.1	1.7	(44.8)	10.0
2020				
Equities	105.9	-	-	105.9
Corporate bonds	567.4	-	-	567.4
Government bonds	1,802.6	24.5	-	1,827.1
Property	65.3	-	-	65.3
Alternatives	94.7	-	-	94.7
Pooled LDI investments (with def of LDI)	92.4	-	-	92.4
Derivatives	(42.3)	-	-	(42.3)
Repurchases	(1,515.3)	-	-	(1,515.3)
Cash and cash equivalents	303.6	-	-	303.6
Total assets	1,474.3	24.5	-	1,498.8
Present value of scheme liabilities	(1,311.2)	(16.0)	(41.6)	(1,368.8)
Liability arising from minimum funding requirement	-	-	-	-
Net pension surplus	163.1	8.5	(41.6)	130.0
Comprising:				
Pension schemes with a net surplus, included in non-current assets	163.1	8.5	-	171.6
Pension schemes with a net deficit, included in non-current liabilities	-	-	(41.6)	(41.6)
	163.1	8.5	(41.6)	130.0

The scheme assets do not include any of the group's own financial instruments, nor any property occupied by, nor other assets used by, the group. All scheme assets are quoted at their market values.

Notes to the financial statements continued

for the year ended 31 March 2021

23. Net retirement benefit deficit continued

f) Reconciliation of fair value of scheme assets

	Group and company			
	AWGPS £m	Hartlepool £m	Unfunded pensions £m	Total £m
At 1 April 2020	1,538.1	25.1	-	1,563.2
Interest income on scheme assets	35.8	0.7	-	36.5
Employers' contributions	15.0	-	2.8	17.8
Benefits paid	(109.8)	(2.0)	(2.8)	(114.6)
Return on plan assets (excluding interest income)	(4.8)	0.7	-	(4.1)
At 31 March 2020	1,474.3	24.5	-	1,498.8
Interest income on scheme assets	34.3	0.5	-	34.8
Employers' contributions	36.5	-	2.8	39.3
Benefits paid	(62.0)	(0.7)	(2.8)	(65.5)
Return on plan assets (excluding interest income)	61.6	(4.1)	-	57.5
At 31 March 2021	1,544.7	20.2	-	1,564.9

g) Reconciliation of scheme liabilities

	Group and company			
	AWGPS £m	Hartlepool £m	Unfunded pensions £m	Total £m
At 1 April 2020	(1,495.4)	(18.5)	(45.8)	(1,559.7)
Interest cost on scheme liabilities	(34.7)	(0.5)	(1.0)	(36.2)
Benefits paid	109.8	2.0	2.8	114.6
Actuarial gains	109.1	1.0	2.4	112.5
At 31 March 2020	(1,311.2)	(16.0)	(41.6)	(1,368.8)
Interest cost on scheme liabilities	(30.1)	(0.4)	(0.9)	(31.4)
Benefits paid	62.0	0.7	2.8	65.5
Actuarial losses	(212.3)	(2.8)	(5.1)	(220.2)
At 31 March 2021	(1,491.6)	(18.5)	(44.8)	(1,554.9)

24. Share capital

	Group and company	
	2021 £m	2020 £m
Allotted, issued and fully paid		
32 million ordinary shares of £1 each	32.0	32.0
	32.0	32.0

25. Hedging reserve

	Group and company	
	2021 £m	2020 £m
At 1 April	(52.3)	(75.9)
Gains/(losses) on cash flow energy hedges	11.3	(1.7)
Amounts transferred to the income statement	(2.3)	(4.1)
(Losses)/gains on cash flow hedges	(66.6)	53.8
Amounts transferred to the income statement from discontinuation of cash flow hedges	12.5	8.0
Exchange movement on hedging instruments related to debt in cash flow hedges	63.5	(29.2)
Deferred tax movement on cash flow hedges	(3.5)	(3.2)
At 31 March	(37.4)	(52.3)

Cost of hedging reserve

	Group and company	
	2021 £m	2020 £m
At 1 April	1.1	2.0
Amounts transferred to the income statement	(0.5)	(0.4)
Gains/(losses) on cash flow hedges	2.1	(0.6)
Deferred tax movement on cash flow hedges	(0.3)	0.1
At 31 March	2.4	1.1

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

The table below provides additional information in relation to the annual movements and cumulative closing positions on the cash flow hedge reserves.

	Group and company					
	Annual movements			Cumulative reserves		
	Hedged item gain/(loss) £m	Hedge ineffectiveness gain/(loss) £m	Total reserves continuing £m	Total hedge reserves discontinued £m	Deferred tax on hedge reserves £m	Total hedge reserves £m
At 31 March 2021						
Cash flow hedge of interest rate risk	(58.7)	1.4	19.4	(63.0)	8.6	(35.0)
At 31 March 2020						
Cash flow hedge of interest rate risk	46.6	0.5	8.8	(72.5)	12.5	(51.2)

Notes to the financial statements continued

for the year ended 31 March 2021

26. Capital commitments

The group has a substantial long-term investment programme within Anglian Water, which includes expenditure to meet regulatory requirements, shortfalls in performance and condition, and to provide for new demand and growth. The commitments shown below reflect the value outstanding of orders placed at 31 March.

	Group and company	
	2021 £m	2020 £m
Property, plant and equipment	69.8	48.5
Intangible assets	46.0	22.5
	115.8	71.0

27. Lease arrangements

The group leases various items of property, plant and equipment. Right-of-use assets are included within property, plant and equipment on the balance sheet, further details can be found in note 13. Lease liabilities are included within borrowings on the balance sheet, further details can be found in note 19.

	Group and company	
	2021 £m	2020 £m
Additions to right-of-use assets	1.2	7.5
Depreciation charge for right-of-use assets	(5.9)	(6.1)
Carrying amount of right-of-use assets	73.2	77.9
Interest expense on lease liabilities	(1.0)	(0.7)
Expense relating to short-term leases	2.8	2.2
Total cash outflow for leases comprising interest and capital payments	(12.1)	(12.0)
Reconciliation of lease liability		
Contractual undiscounted cash flows	48.1	58.7
Effect of discounting	(8.6)	(9.3)
Lease liability	39.5	49.4

The group leases certain items of plant and equipment, as well as vehicles, under short-term leases. At 31 March 2021, the group had £0.1 million (2020: £0.3 million) outstanding commitments in respect of future minimum lease payments under non-cancellable short-term leases. The group does not typically lease low value assets and therefore no material costs were incurred individually or in aggregate in relation to such assets.

Leases recognised as debt under IFRS 16 can be analysed as follows:

	Group and company		
	Interest £m	IFRS debt £m	Permitted indebtedness £m
At 31 March 2021			
Vehicles operating leases	-	2.8	-
Property operating leases	0.8	29.0	29.0
Existing finance leases	0.2	7.7	-
At 31 March 2020			
Vehicles operating leases	-	3.8	-
Property operating leases	0.8	30.8	30.8
Existing finance leases	(0.1)	14.7	-

Permitted indebtedness is a category of debt within the Group which captures leases previously considered as operating leases which do not qualify as secured creditors. All interest has been paid/(received) in the year.

28. Contingencies

The company, as part of the Anglian Water Services Financing Group, guarantees unconditionally and irrevocably all the borrowings and derivatives of Anglian Water Services Financing Plc, which at 31 March 2021 amounted to £7,921.6 million (2020: £8,724.3 million). The borrowings of Anglian Water Services Holdings Limited and Anglian Water Services UK Parent Co Limited are also guaranteed unconditionally and irrevocably by the Company. Anglian Water Services Holdings Limited and Anglian Water Services UK Parent Co Limited had no outstanding indebtedness at 31 March 2021 (2020: £nil).

The Group has received indications of claims from four groups of property search companies who, pursuant to the Environmental Information Regulations, assert that certain information that Anglian Water Services Limited provided to them should have been provided free of charge. In April 2020, circa 100 property search companies (an amalgamation of two of the four groups) served proceedings on all of the Water and Sewerage Undertakers in England and Wales, including Anglian Water Services Limited. Anglian Water Services, in common with its co-defendants, has filed a robust defence and the company has been advised that the claimants face a number of significant hurdles in order to establish liability on the part of Anglian Water (and other defendants). Given the uncertainties noted, we are not able to reliably estimate any potential liability, however the Directors consider that it would not 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.

Notes to the financial statements continued

for the year ended 31 March 2021

29. Ultimate parent undertaking and controlling party

Anglian Water Services Limited is incorporated and domiciled in the UK.

The company's immediate parent undertaking is Anglian Water Services UK Parent Co Limited, a company registered in England and Wales.

The Directors consider Anglian Water Group Limited, a company registered in Jersey but domiciled in the UK, to be the ultimate parent undertaking. Anglian Water Group Limited is owned and ultimately controlled by a consortium of investors consisting of the CPPIB (Hong Kong) Limited, First Sentier Investors, Infinity Investments S.A., Global InfraCo (HK) E. Limited and Camulodunum Investments Ltd.

Osprey Acquisitions Limited is the parent company of the smallest group to consolidate the financial statements of the company, and Anglian Water Group Limited is the parent company of the largest group to consolidate the financial statements of the company. Copies of the Anglian Water Group Limited financial statements and Osprey Acquisitions Limited's financial statements can be obtained from the Company Secretary at the registered address: Anglian Water Services Limited, Lancaster House, Lancaster Way, Ermine Business Park, Huntingdon, Cambridgeshire, PE29 6XU.

30. Related party transactions

a) Transactions with shareholders

The consortium of investors owning Anglian Water Group Limited are considered to be related parties of the company as they each have the ability to influence the financial and operating policies of both the company and the group.

In August 2019, the Commonwealth Bank of Australia ceased to be the parent company of First Sentier, one of the consortium of investors owning Anglian Water Group Limited, as the business was acquired by Mitsubishi UFJ Financial Group, Inc. Prior to the transfer of the business, the Commonwealth Bank of Australia agreed to the extension of its participation in the £550 million revolving credit facility with an allocation of £45 million, and continued to participate in the Operation and Maintenance facility with an allocation of £25 million. The fees earned on these facilities totalled £98,750.

During the year to 31 March 2021, there were no transactions, (2020: none other than £67.8 million of dividends) with the shareholders.

b) Remuneration of key management personnel

Key management personnel comprise all the Directors and members of the Management Board during the year. The remuneration of Directors is included within the amounts disclosed below. Further information about the Directors' remuneration is provided in the Directors' Remuneration Report on pages 123-143.

	Group and company	
	2021 £m	2020 £m
Short-term employee benefits	5.6	4.6
Post-employment benefits	0.4	0.4
Other long-term benefits	0.9	0.6
	6.9	5.6

(c) Parent company

The company's related party transactions are summarised below:

	2021 £m	2020 £m
Sale of goods/services to		
Fellow subsidiaries of Anglian Water Group Limited	0.2	0.3
Purchase of goods/services from		
Fellow subsidiaries of Anglian Water Group Limited	6.8	7.0
Management fees paid to		
Subsidiaries	0.3	0.3
Interest paid to		
Subsidiaries	266.1	343.0
Dividends paid to		
Parent company	-	67.8
Trade and other receivables due from		
Fellow subsidiaries of Anglian Water Group Limited	0.1	0.7
Trade and other payables due to		
Subsidiaries	23.7	48.6
Fellow subsidiaries of Anglian Water Group Limited	1.2	1.3
Loans and other borrowings due to		
Subsidiaries	6,892.2	7,652.0

31. Events after the balance sheet date

On 29 April 2021 the company issued one £1 ordinary share to its immediate parent undertaking in return for £110.0 million of cash. This is part of an equity injection programme intended by the Directors to reduce gearing.

On 26 May 2021, the Board agreed to recommend a final dividend for 2020/21 of £96.3million to the Company's sole member. To facilitate this, a committee of the two executive directors was appointed to finalise the payment date before issuing the requisite member's written resolution.

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.

Independent Auditor's Report

To the members of Anglian Water Services Limited

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of Anglian Water Services Limited (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2021 and of the group's profit for the year then ended;
- the group financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs issued by the International Accounting Standards Board (IASB); and
- the parent company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the group income statement;
- the group statement of comprehensive income;
- the group and parent company balance sheets;
- the group and parent company statements of changes in equity;
- the group and parent company cash flow statements; and
- the related notes 1 to 31.

The financial reporting framework that has been applied in their preparation is applicable law, and international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs as adopted by the European Union and as issued by the IASB.

2. Basis for opinion

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

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"> · Bad debt provisioning; · Revenue recognition – estimating metered household revenue; and · Derivative accounting <p>Within this report, key audit matters are identified as follows:</p> <ul style="list-style-type: none"> ! Newly identified ↑ Increased level of risk ↔ Similar level of risk ↓ Decreased level of risk
Materiality	The materiality that we used for the group financial statements was £22.3m (2020: £18.6m) which was determined on the basis of 3% of EBITDA (2020: 3% of EBITDA).
Scoping	The group comprises Anglian Water Services Limited (the regulated water and water recycling business) and its only subsidiary company Anglian Water Services Financing Plc (the Group's financing entity). We performed full scope audit procedures, which accounted for 100% of the Group's net assets and 100% of Group's EBITDA.
Significant changes in our approach	<p>Two audit matters, being the valuation of defined benefit pension scheme balances and going concern basis of accounting, were identified as key audit matters in the prior year, but are not considered key audit matters in the current year. This is due to a reduction in the level of judgement associated with these items in the current year.</p> <p>In addition, the key audit matter around revenue recognition – estimating unbilled household revenue has been extended to include the estimated element of billed household revenue, as the risk around estimated consumption for billed household revenue has increased due to the impacts of Covid-19.</p> <p>No other significant changes were noted to the key audit matters or our overall audit approach as compared to the prior year.</p>

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- Understanding management's process to model the impact of going concern and agreeing relevant data points in the model to supporting documentation;
- Assessing the assumptions used in establishing management's base case, including comparison of the assumptions used in respect of the impact of Covid-19 to independent data sources;
- Evaluating liquidity, including in the scenario where future financing is restricted;
- Evaluating the external financing to establish the covenant requirements attached to this financing;
- Assessing the amount of headroom in the forecasts (cash and covenants);
- Evaluating the sensitivity analysis; and
- Assessing the sophistication of the model used to prepare the forecasts, testing of clerical accuracy of those forecasts and our assessment of the historical accuracy of forecasts prepared by management.

Independent Auditor's Report continued

To the members of Anglian Water Services Limited

4. Conclusions relating to going concern continued

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Bad debt provisioning ↔

Key audit matter description

At 31 March 2021, the bad debt provision was £234m (2020: £212m). The bad debt charge of £31.1m represented 3.0% of total household turnover (2020: £40.7m and 4.0% of total household turnover), as disclosed in note 16 to the financial statements.

A proportion of the group's customers do not or cannot pay their water bills, which results in the need for a provision to be made for the risk of non-payment of the customer balance. The bad debt provision is material, a key area of estimation uncertainty within the group and an area of scrutiny by Ofwat.

Provisions are made against the group's trade receivables based on historical cash collection rates for debt over a 4 year period, which is considered by management to be representative of collection risk on the whole population of household debtors. A top-up to the provision has been recorded to reflect anticipated changes to cash collection as a result of the anticipated impact of Covid-19 on economic activity and particularly unemployment rates.

The key audit matter, which is also a potential fraud risk, is focused on the estimation of the household bad debt provision, including whether the experience of cash collection in historical periods provides an appropriate expectation of future credit losses under IFRS 9 'Financial Instruments'.

In response to an expected deterioration in future cash collection due to the economic disruption caused by Covid-19, the bad debt provision at 31 March 2021 includes an additional £13.5m (2020: £12.0m) to reflect that future cash collection may not be consistent with historical cash collection trends. Management determined this additional provision considering a range of external data points and the correlation between unemployment rates and cash collections.

The Audit Committee have also considered this as a significant issue, and it is discussed in the Audit Committee Report on page 119. It is also included as an area involving estimation in note 2 to the financial statements, and the relevant accounting policy adopted is disclosed in note 1(p).

How the scope of our audit responded to the key audit matter	<p>In response to this matter, we have performed the following procedures:</p> <ul style="list-style-type: none"> • obtained an understanding of, and tested, relevant controls within the bad debt provision estimation process; • assessed the accuracy of information within the aged debt report to assess whether the customer debt is accurately categorised based on information contained within the group's billing system; • assessed that the provision, including the additional provision due to Covid-19, has been calculated in line with the policy of the group through testing the mechanical accuracy of the provision and reviewing its consistency with IFRS 9 'Financial Instruments'; • inspected management's bad debt policy, specifically challenging whether the recoverability assumptions are reflective of current cash collection rates; • assessed whether any discrepancies exist between the provision recognised and provision indicated by current cash collection ratios and other macroeconomic indicators that may impact the ability of customers to make payments; • assessed the accuracy and completeness of the cash collection trends used in the provision rate calculation by performing regression analysis; • assessed the assumptions underpinning the market data used by management in assessing the impact of Covid-19 by comparing these with the wider range of external market forecasts; • considered whether post year-end cash collection trends throughout April and May 2021 supported management's best estimate of additional provision due to Covid-19; and • engaged our IT analytics team to perform a recalculation on the debtor ageing.
Key observations	<p>Based on the work performed above, we are satisfied that the bad debt provision, including the potential impact of Covid-19, is reasonable and in accordance with the requirements of IFRS 9.</p>

5.2. Revenue recognition – estimating metered household revenue ↔

Key audit matter description	<p>For customers with water meters, the revenue recognised depends on the volume of water supplied, including an estimate of the sales value of water supplied between the date of the last meter reading and the year end (the "estimated metered household revenue"). This estimated metered household revenue includes both estimated unbilled metered household revenue and estimated billed metered household revenue. The household element of the unbilled income accrual is £272m (2020: £304m). The estimated element of billed metered household revenue is £32m. The total household revenue is £1,033.2m (2020: £1,026.7m).</p> <p>The usage estimates are based on historical data and assumptions around consumption patterns. Incorrect estimates of water consumption could lead to overstatement or understatement of revenue in the period. Due to the level of management judgement, we identified the estimation of metered household revenue as a key audit matter and area of potential fraud.</p> <p>The Audit Committee considers estimating unbilled household revenue as a significant issue, as discussed in the Audit Committee Report on page 119. It is also included as an area involving estimation in note 2 to the financial statements, and the relevant accounting policy adopted is disclosed in note 1(e).</p>
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Independent Auditor's Report continued

To the members of Anglian Water Services Limited

5.2. Revenue recognition – estimating metered household revenue ↔ continued

How the scope of our audit responded to the key audit matter	<p>In response to this matter, we have performed the following procedures:</p> <ul style="list-style-type: none"> · obtained an understanding of, and tested, relevant controls within the billed and unbilled household revenue process, including controls around the estimation techniques used with regard to consumption and other key data inputs into the model; · assessed management's assumptions for household consumption and the data sources used in estimating household unbilled revenue, including updates for impact of Covid; · assessed the 'look-back' testing of the prior year accrued revenue by comparing bills raised during 2020/21 relating to the 2019/20 accrual, including any adjustments included in the 2020/21 accrual; and · assessed the accuracy of the reports utilised by management in determining the appropriate accrual, with the involvement of IT specialists.
Key observations	We are satisfied that management's estimates in relation to the recognition of metered household revenue is appropriate.

5.3. Derivative accounting ↔

Key audit matter description	<p>The group and the parent company have a total net derivative liability of £832.0m (2020: £742.8m), disclosed in note 20 to the financial statements, including interest rate swaps, index-linked swaps, cross currency swaps and contracts to fix energy prices.</p> <p>IFRS 9 'Financial Instruments' requires derivatives to be accounted for at fair value with movements recognised as profit or loss, unless designated as hedge relationships. Where possible, management have elected to apply hedge accounting.</p> <p>We identified a key audit matter relating to the valuation of derivatives and the related credit risk adjustments, which can be both complex and judgemental. We have focused in particular on the risk of error arising on the valuation of the index-linked swaps due to their complexity.</p> <p>The relevant accounting policy adopted is disclosed in note 1(s).</p>
How the scope of our audit responded to the key audit matter	<p>In response to this matter, we have performed the following procedures:</p> <ul style="list-style-type: none"> · obtained an understanding of, and tested, relevant controls around the valuation techniques used in determining the fair value of derivatives; · performed valuation testing, through independent recalculation, of a sample of complex derivative financial instruments, including an assessment of the credit risk adjustment; · inspected the hedge documentation and tested hedge effectiveness against the criteria documented; · inspected the accounting for derivative positions to assess whether they are in accordance with IFRS 9; and · reviewed the disclosures required by IFRS 7 'Financial Instruments: Disclosures' and IFRS 13 'Fair Value Measurement' to assess whether they are compliant with the standard and observed industry practice.
Key observations	We are satisfied that derivative financial instruments have been accounted for appropriately and that the valuations adopted are reasonable.

6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£22.3m (2020: £18.6m)	£22.2m (2020: £18.5m)
Basis for determining materiality	In both years, we considered 3% of EBITDA as a benchmark for determining materiality. The parent company materiality was set at £0.1m (2020: £0.1m) lower than group materiality.	
Rationale for the benchmark applied	We have used EBITDA as the benchmark for materiality as this is deemed a key driver of business value, is a critical component of the financial statements and is a focus for users of the financial statements. EBITDA is disclosed on page 35 of the Financial Performance Report section.	
	The substantial majority of the group's operations are carried out by the parent company.	

6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent company financial statements
Performance Materiality	70% (2020: 70%) of group materiality	70% (2020: 70%) of parent company materiality
Basis and rationale for determining performance materiality	<p>In determining performance materiality, we considered the following factors:</p> <ul style="list-style-type: none"> our consideration of the group's control environment, including our control reliance approach across several business cycles; no significant deficiencies noted in the functioning of the key business operations due to Covid-19 or otherwise; the limited number of changes to the business and the limited turnover of management and key accounting personnel during the year; and the history of a low number of corrected and uncorrected misstatements identified in previous periods. 	

Independent Auditor's Report continued

To the members of Anglian Water Services Limited

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1m (2020: £0.9m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level.

Anglian Water Services Limited and Anglian Water Services Financing Plc were subject to full-scope audits and together account for 100% (2020: 100%) of the group's total assets and EBITDA. All procedures were carried out directly by the Group audit team.

7.2. Our consideration of the control environment

Our work in relation to the group's internal control environment involved testing of the group's key reporting system. We, with the involvement of our IT specialists, obtained an understanding of, and tested, relevant General Information Technology Controls (GITCs) within the group's key reporting system, including the access controls, change management controls and controls around segregation of duties.

We also tested the relevant controls within the household revenue, capital expenditure and operating expenses business processes, which are supported by the group's key reporting system. We performed a walkthrough and inquiry of management to test the design and implementation of the relevant controls within each of the business processes. We tested, on a sample basis, the operating effectiveness of these controls.

We were able to adopt a controls reliance approach for each of these business processes, including automated controls in these business processes and no significant control deficiencies were identified as a result of our work.

8. Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

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

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

10. Auditor's responsibilities for the audit of the financial statements

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

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

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
 - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, financial instruments valuations, pensions and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the areas of bad debt provisioning, estimating metered household revenue and classification of costs between capital and operating. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, Environment Agency regulations, pensions legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included the group's operating licence and the regulatory solvency requirements.

Independent Auditor's Report continued

To the members of Anglian Water Services Limited

11.2. Audit response to risks identified

As a result of performing the above, we identified bad debt provisioning and estimating metered household revenue as key audit matters also related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC and Ofwat;
- in addressing the risk of fraud in the classification of costs between capital and operating, testing a sample of capital projects by assessing the costs incurred to third-party documentation and assessing the appropriateness of the classification in accordance with the capitalisation policy; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Opinion on other matter prescribed by our engagement letter

In our opinion, the part of the Director's Remuneration Report to be audited has been properly prepared in accordance with the provisions of the Companies Act 2006 that would have applied were the company a quoted company.

14. Matters on which we are required to report by exception

14.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have nothing to report in respect of these matters.

14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the audit committee, we were appointed by the board of directors on 1 September 2016 to audit the financial statements for the year ending 31 March 2017 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is five years, covering the years ending 31 March 2017 to 31 March 2021.

15.2. Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

16. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

James Leigh

Senior statutory auditor

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

16 June 2021



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