

Anglian Water Services Limited

Annual Integrated Report for the financial year ended 31 March 2023

Company number: 02366656



Anglian Water Services Limited

Annual Integrated Report 2023

**Leading with purpose:
navigating today's
challenges with
tomorrow's vision**

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Awards and accreditations

More information
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Our purpose

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

We create value for our stakeholders

- Environment
- Customers
- Communities
- Investors
- Partners
- Colleagues

→ Read more about how in our stakeholder sections on page 39.

Our purpose guides us as one of the **East of England's biggest investors in the environment.**

We make a significant contribution to the region's economy. **We employ more than 5,000 people and support employment** for thousands more colleagues through our long-standing capital delivery partners and contractors.

Underpinned by our values. Together we...

Build trust | **Do the right thing** | **Are always exploring**

“

If you have the right environment internally, everyone can be empowered to put purpose into practice in the decisions they're making and in the roles they play day to day.”

Peter Simpson
Chief Executive



Led by our purpose

<p>80% BITC Responsible Business tracker score versus a utility sector average of 64%.</p>	<p>281% biodiversity net gain delivered through our extensive capital programme.</p>	<p>334,000 vulnerable customers supported this year and £135 million committed to help more in 2023/24.</p>
<p>£811m environmental enhancement between 2020-2025, including £200 million to tackle storm spills.</p>	<p>Named a Times Top 50 Employer for Gender Equality 2023.</p>	<p>£725m record year of Capex investment delivered as part of a £3 billion plan between 2020 and 2025.</p>

Operational highlights

<p>Lowest leakage level achieved in FY22. This year, we have improved on that industry-leading position.</p>	<p>54% reduction in storm spill duration to an industry-leading low.</p>	<p>Best ever acceptability levels for drinking water quality, and strong Event Risk Index score demonstrating operational control.</p>
<p>94% of our coastal bathing waters rated Good or Excellent.</p>	<p>Outstanding health and safety performance.</p>	<p>100% compliance on our annual drinking water abstraction licences.</p>

Financial highlights

<p>Key terms RCV - Regulated Capital Value. AMP - Asset Management Plan. We are currently in year three of AMP7, running from 2020-2025. Totex - Total expenditure. This includes our Capital Expenditure (capex) and Operational Expenditure (opex).</p>	<p>£1,495m Revenue +7% (2022: £1,400m)</p>	<p>£424m Operating profit -4% (2022: £441m)</p>	<p>163% capital investment as a percentage of operating profit.</p>
	<p>5.3% Dividend yield. Earnings as a percentage of Equity RCV (2022: 3.8%)</p>	<p>£1.6bn green finance raised since the start of this AMP.</p>	<p>AA rating in MSCI's 2023 ESG rating.</p>

Welcome to our 2023 Annual Integrated Report, the midpoint of this Asset Management Plan period which has been unprecedented, defined by its volatility and headwinds at a global, national and local level.

In the years I have spent as Chair and on Anglian Water's Board, we have never experienced two climate change-related events in a single year, let alone the other macroeconomic challenges we faced in common with other businesses. Never has it been more apparent that being guided by our purpose and committed to resilience – both financial and operational – has been the right long-term decision for this business.

Weathering the storm with purpose

Our purpose, which locks public interest into our constitution, has kept us striving for the greatest outcomes in this difficult year. We hold ourselves to account against this purpose, and it is in this spirit we openly acknowledge some areas of performance are not yet at the level we or our customers expect. We have listened to the concerns raised about pollutions and the need to upgrade aging Victorian infrastructure and made firm commitments to act on those issues. Where we are not performing to the standard we expect, we have plans in place to redress that, more on which is detailed in this report.

However, it is also true that we have outperformed or achieved sector-leading results in many areas. Our colleagues, and their expertise, have helped us weather the challenges of the year against difficult odds and we are justly proud of these triumphs over adversity. For example, our lowest-ever level of leakage places us head and shoulders above the industry; we've helped more than 330,000 customers through hardship and vulnerable circumstances, met our stretching capital and embodied carbon targets, made great strides on our environmental commitments through Get River Positive, performed well on water quality indexes, and protected water resources across the region by avoiding drought permits, which meant we did not need a hosepipe ban.

I am particularly proud of the levels of investment we have made in this region. It has been our largest ever year of capital expenditure at £725 million.

The fact we have maintained this amidst a war in Europe and the resulting supply chain shockwaves speaks to the strong capital alliances, risk management and resilient financial foundations we have in place.

It also evidences our ability to deliver the anticipated surge in investment needed in future Asset Management Plan (AMP) periods – and indeed the remainder of this AMP, as we continue to invest on an even larger scale to meet the myriad of challenges faced in this region.

Importantly, we have continued our laser focus on controlling costs. A strong financial discipline ensured we met our 'Totex' target, which is a key comparator for success across the industry. We are proud to have accomplished this every year this AMP, in what is such a sizeable investment period. In doing so, we are making good on our promise to keep customer bills at the level agreed and build the future infrastructure pledged to the region – not short-changing or overspending.

Committed to customers

Amidst the cost of living crisis, we have demonstrated leadership in many of the areas our customers told us were important. Taking swift, leading and comprehensive action, we announced a record £135 million package of support to help customers in hardship this coming year. Having also achieved an ISO standard for vulnerable customers, we are one of just two water companies providing such rigour behind our care for those in need.

**Purpose is
at the heart
of everything
we do**

→ For my introduction to Governance, see page 101.

Alongside stepping up on support, we continue to progress the other things our customers care about: our Water Industry National Environment Plan (WINEP) worth £811 million is one of the industry's largest and will deliver significant environmental benefits in our region. Initiatives include reducing the amount of water we take from the environment and building additional storm capacity to further reduce spills. Our consistent industry-leading low leakage levels, smart meter programme and groundbreaking interconnecting pipeline will all maintain the resilient footing we have built over years, securing supplies for generations to come, just as our customers asked us to.

Addressing pollutions

Although we have reduced serious pollutions, our overall performance remains stubbornly similar to last year. As a Board, we understand and hear what our customers are saying, and I cannot deny our disappointment with this result. It is my absolute focus to bring about the transformation we want to see and to put us back on the glidepath to zero harm from our assets, working with regulators, shareholders and partners to make this a reality.

Our performance is also frustrating given the focus and effort of the business. It is at odds with the great progress we have made in addressing other key issues for customers, such as reducing storm overflow spills through our Get River Positive commitment, where we have achieved the lowest spills in the sector. The five pledges that underpin Get River Positive not only compel us to resolve our impact on the health of rivers, but to work with others to reduce their impact too. See more on page 44.

Shareholder support

Our owners are long-term shareholders who have provided resolute support for the business this year just as they have previously. They represent the very definition of patient capital, having taken their first dividend since 2017 in the summer of 2022. See our Dividend Policy on page 23.

We are grateful for their continued support, which has allowed us to invest at pace and scale.

A fair return for shareholders is fundamental to the long-term viability of our business and enabling sustained investment to deliver environmental and social prosperity in this region.

In line with our purpose, we have set dividends to reflect performance and build financial resilience. This takes account of the excellent achievements in many areas but it has also been adjusted where performance has not met the standard we expect, balancing the needs of all our stakeholders to attract continued investment for this region.

Just as our shareholders have been unwavering in their support for the business, our people have been unshakeable in a year that has tested the business like never before.

Thanks and recognition

Without the action and dedication of our committed people, our year-end position could have been very different. Knowing these efforts have been recognised and endorsed by others is welcome. Our shortlisting for Company of the Year at the Water Industry Awards 2023 is one of the sector's most prestigious accolades, and our inclusion in the Times Top 50 for Gender Equality is standout recognition in a fiercely competitive field.

Looking ahead

Given the force of the headwinds faced this year, our relative position in the sector shows we have handled these well, drawing on a reservoir of experience and consistent investment that has allowed us to outperform others. I am grateful to shareholders, colleagues and partners, all of whom have enabled us to faithfully deliver on what matters most to our customers and the environment, respond to change and ensure our impact on this region remains positive.

As we look to the year ahead, we are pragmatic about the challenges and work needed to bring about the improvements we want to see. We also have much success to build on, and with the dedication of our people and the continued support of shareholders, I know we can achieve great outcomes, as we strive to create social and environmental prosperity for the East of England.

John Hirst, CBE

Chair

In the past three years, challenge has been brought to life in a truly unprecedented way; a pandemic, a global war, a supply chain crisis, rising inflation, a cost of living and energy crisis, increasing public scrutiny of the sector, and severe weather events driven by climate change. Throughout, we have listened to our customers and remained true to our purpose and values.

Alongside these broader issues, our region faces its own very specific set of challenges: extensive population growth, low rainfall, susceptibility to climate change, slow-moving rivers and intensive agriculture, all combine to create a unique, beautiful, yet challenging environment.

But these are not news to us. We've been carefully planning and investing over decades to make sure we're on the front foot when it comes to addressing issues and harnessing opportunities. Our long-term, strategic view has made Anglian Water the operationally and financially resilient business it is today: resilient by design and hard work, not by happenstance.

With this in mind, this Annual Integrated Report for 2022/23 illustrates a year of intense market volatility, with the war in Ukraine, inflation, intense public scrutiny and other factors coming to bear, where our hard-earned wins have been juxtaposed with challenges old and new.

In the face of these pressures, we acted quickly, building on our strong foundations. For example, drawing on our alliance partners and strength in our supply chain, we have secured the steel needed for our strategic pipeline – a vital investment to help secure a sustainable future of water in our region. We have also maintained a strong financial discipline by keeping within our final determination from the regulator, carefully managing rising costs such as energy, to remain efficient and prevent these being passed onto customers through bills.

Looking after all our customers, especially with the cost of living crisis intensifying on the back of rising inflation, was of utmost importance to us. We've supported a record 334,000 vulnerable customers already, achieved a specific ISO standard for our support for the most vulnerable in society, and pledged £135 million to help even more people in the year ahead.

In addition, climate change in our region has never been more evident than this year when we saw two 'Red' weather warnings from the Met Office – extreme heat and drought over summer, and a rapid freeze-thaw in December. This created a barrage of operational challenges, but our long-standing and leading track record on leakage, water efficiency and building infrastructure for resilience, enabled us to withstand the year well. We kept water flowing, avoided a hosepipe ban and protected nature by staying within the amount we are licensed to safely take out of the environment.

“This was a record year for capital investment, with £725 million ploughed, part of a £3 billion plan for the region. This makes us one of the biggest private investors in the East of England and one of the biggest contributors to the region's environment.”

- See The year in context on pages 10 to 16.
- See Our environment on pages 39 to 45.

Navigating
today's
challenges
with purpose

We hear what our customers are saying

We still have a lot more to do, though. We didn't achieve all of our Outcome Delivery Incentive (ODI) targets this year, largely as a result of extreme heatwave and drought, which led to record soil moisture deficits versus the rest of the country. These impacts principally affected three ODIs – Burst Mains, Interruptions to Supply and Leakage, making up the majority of the £22 million penalty incurred, more on which is detailed in Performance Commitments on page 31.

We listen to our customers and stakeholders, putting their feedback at the heart of our decisions. Customers have consistently told us they want us to be resilient to climate change, take care of the environment, keep taps flowing, look after the most vulnerable and invest for the future, and we have delivered in these areas.

Securing water supplies and providing safe, clean drinking water has always been at the top of the list for customer priorities on page 12. In addition to demonstrating our resilience through the drought, we also achieved a stand-out performance on drinking water quality contacts. Our lowest-ever number of customer acceptability complaints, compliance improvement and Event Risk Index score are strong indicators of our robust operational management and compliance. These are exceptional results given the volume of water put into supply through the heatwave, and the year of climate-related operational issues we've had to respond to.

We have also been listening and working hard to address customer concerns regarding the sewerage infrastructure in this country, especially related to pollutions and storm overflows. While we have been active, society's expectations have leapt, and we need to go further again to address these concerns for customers.

We have made some excellent inroads this year, reducing average spills to the lowest level in the industry (see page 43). That achievement has been made possible by adding 11,000 cubic metres of additional storm capacity across 40 sites this past year – part of the progress on our pathway to invest £200 million to tackle storm overflows this Asset Management Plan (AMP) period. This focused investment forms part of our Water Industry National Environment Programme (WINEP) – one of the largest in our industry, worth £811 million, which has also supported a fantastic 94% of our coastal bathing waters to be rated as good or excellent this year.

Our commitment to protect the environment was brought to life by our efforts in Statton Cross, Wellingborough, this February when hairline fractures were found in the original sewer pipe. We constructed an 800 metre replacement in just nine days (see page 14) preventing a potentially serious pollution and demonstrating the extreme steps we will take to safeguard the environment.

Serious pollutions reduced this year but we are restless for progress and committed to going further and faster. Our pollution reduction plan is progressing well, where we're installing sewer monitors across 11,000km of our high and medium-risk network and embedding predictive analytics and machine learning that will give us the insight to asset health we need. See more on pages 14 and 39. However, we also know more investment is required for our infrastructure, which is why we have announced plans for more than £1 billion investment in upgrading our sewerage system in the next AMP from 2025-2030.

Acting more broadly on river health, our bold Get River Positive initiative, launched in March 2022, has in its first year seen us reduce storm spills. Built on our biggest environment programme, WINEP, we've also seen the successful designation for three out of the four new inland bathing waters announced this year and are working with more partners than ever which will help achieve a host of benefits as Get River Positive progresses. See more on page 44.

The commitments that underpin this programme have now been adopted by the rest of the sector and go far beyond taking care of our own assets. By forming enduring partnerships, we aim to reduce the 17% of reasons rivers are not achieving 'Good' status (RNAGs) to zero by 2030, whilst supporting other sectors to reduce their impact on river health too.

Scrutiny an opportunity for open debate

Public scrutiny of the sector has intensified this year, placing the industry in the spotlight more than ever before. We firmly believe this brings opportunity, in particular, to foster a better public debate on critical environmental issues such as abstraction reduction. With support from Defra and the Environment Agency, we're demonstrating the importance of more holistic environmental measures as we head into our next regulatory Price Review, PR24.

Good ecological status

Operating in the driest part of the country with the fastest-growing population, we have also committed to reduce the amount of water we take from nature by more than any other water company.

The reason being, one of the best ways to protect the environment is to reduce the amount of water we take from it. That means driving down leakage, encouraging customers to use less, investing in drought resilience like our reservoirs and interconnecting pipeline, and not resorting to drought permits.

These are the core pillars to our supply and demand strategy, the cornerstone of our 25-year Water Resources Management Plan, published this year. It is an ambitious plan where drought permits do not feature, and by 2030 we will have increased drought resilience to a 1-in-500-year event, more than doubling our existing 1-in-200-year resilience.

By leading on reducing abstraction, last AMP we left an extra 80 million litres a day in the environment. By the end of this AMP, we will have left a further 85 million litres in environmentally sensitive sites. This represents 5.6% of the amount we put into supply every day – a significant contribution to a flourishing environment. Building up to that point, our rapid roll out of smart meters means nearly one in four homes now has one fitted. Together with our water saving campaign, including weather-triggered advertising, we have helped customers become some of the most water efficient in the country and achieved our best-ever per capita consumption result.

This, along with our long-standing leakage record, has required enormous effort, but has afforded us a strong position during the drought. In turn, this has provided significant environmental protection in this region.

Investing today to improve tomorrow

Our sector is facing unparalleled demand for investment in both the near and long-term future. As we prepare for the next five-year AMP period, 2025–2030, our industry is at a pivotal point to lay the groundwork for future generations. We are at a point in time where, if we don't make the changes we need to see today, it will be to the detriment of the next generation.

The urgency of water infrastructure has never been more obvious, with this year's drought underscoring the importance of our strategic pipeline and two planned reservoirs, which will provide sustainable water on tap for future generations.

Between 2020 and 2025, we will invest more than £3 billion in the region, with £1.7 billion already invested AMP-to-date, making us one of the biggest private investors in the East of England and one of the biggest contributors to the region's environment. Our consistency in delivering back-to-back record periods of capital investment, which this year topped £725 million, provides assurance we can scale up and deliver the anticipated uptick in capital infrastructure, too.

The strength and maturity of our capital alliance partnerships is evident having successfully completed such a large year of capital delivery. I am particularly proud of the outstanding health and safety performance achieved during this mammoth year, reinforced by our achievement of a RoSPA Gold Award and an ISO for Psychological Wellbeing of employees.

Holding ourselves to account

As a monopoly provider of a service which is fundamental to society, we are conscious of the weight of responsibility we bear, not simply to deliver fresh, clean water and to recycle it safely, but to protect and enhance our environment and to enrich our communities. That responsibility drove us to become the first utility to change our Articles of Association in 2019, embedding purpose and locking public interest into the fabric of our business. In 2022, we acted as lead sponsor with the British Standards Institution to create a new Publicly Available Specification for embedding purpose in organisations. One year on, we are holding ourselves to account against this specification; using it to inform our ongoing work to put our purpose and environmental, social and governance consideration at the heart of everything we do. See more on page 18.

Thank you

In what has been an exceptionally trying year, I want to thank my 5,000 plus colleagues for their commitment come rain or shine, and all the extremes either side. In addition to our fantastic operational response, our teams are working hard behind the scenes to make us an even better business. This has been reflected in another haul of awards and commendations recognising the ground-breaking innovations we are pioneering across our industry.

In the same year, our people have also faced scrutiny with a spotlight on the whole sector. Their dedication tells me we can continue to deliver on our aspirations for this region and for our customers.

I also want to thank our shareholders, investors and alliance partners. They have made it possible to deliver some of the biggest and most complex infrastructure projects in the sector, putting us on the glidepath to provide long-term environmental and social prosperity in the East of England.

And finally, I want to show my gratitude to customers for their understanding of the specific challenges in this region and their efforts to use less water during this record hot, dry year. In doing so, they have protected the environment, one drop at a time.

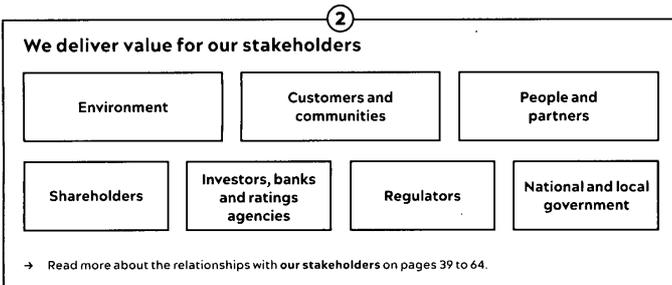
Together with the support of all our stakeholders, we are facing into the challenges ahead, investing with our purpose front of mind to help the East of England thrive and deliver value back to this region.

Peter Simpson
Chief Executive

1

What drives us

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



3

Our long-term ambitions

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

<p>Make the East of England resilient to the risks of drought and flooding</p> <p>By 2030, be a net zero carbon business and reduce the carbon in building and maintaining our assets by 70%</p> <p>→ Read more in our net zero roadmap</p>	<p>Enable sustainable economic and housing growth in the UK's fastest-growing region</p> <p>Work with others to achieve significant improvement in ecological quality across our catchments</p>
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→ Read more about our ambitions and progress on page 17.

4

Our goals for 2020–2025

- To make life better for our customers, every single day
- To deliver our 2020–2025 Final Determination
- To deliver our identified business priorities
- 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

5

How we make decisions

We balance our six capitals to shape investment decisions

Natural	Social	People
Financial	Intellectual	Manufactured

→ Read more about how six capitals are embedded within our purpose framework on pages 18 and 19.

6

The UN Sustainable Development Goals influence our thinking and the investment we make contributes towards their delivery. We work in the spirit of all 17 goals, but **we have mapped our work to the 10 where we have the most material impact.**

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

The year in context

It has been a year of complex, interconnected challenges. Political turmoil and global conflict has given rise to soaring energy prices, supply chain issues and inflation, resulting in one of the deepest cost of living crisis in the UK for a generation.

We have been impacted on multiple fronts. A year of climate-related events brought extreme heat and drought in summer, combined with a freeze-thaw event in December. Both were classified as Red warning events by the Met Office, which had consequences for our operations and led to a year-end penalty. More on our Outcome Delivery Incentives (ODIs) is detailed on page 31.

Overall though, our performance reflects we are on the front foot and continue to build an ever-more resilient business.

One of the best ways to understand our performance is measuring us relative to other water companies, who have experienced many of the same pressures this year. Ofwat's most recent assessment of company performance and financial resilience (Figure 1 below) shows we are an upper quartile performer and top four water and sewerage company.

Over the following pages we set out our market context, highlighting the in-year impacts, steps taken to mitigate these, and our relative performance.

Figure 1: Ofwat's Company Performance and Financial Resilience, 2021/22

	Lagging	Average	Leading
Standard	Welsh South West	Anglian United Utilities Wessex	Severn Trent
Elevated concern	Northumbrian		
Action required	Southern Thames Yorkshire		

Source: Ofwat Company Performance and Financial Resilience reports 2021/22.

Our region in context

Research shows the region we serve is the most challenged in the country. On the frontline of a changing climate, it's the driest, receiving a third less rainfall than elsewhere in the UK, illustrated by the record soil moisture deficits seen this summer. Meanwhile, a rapidly growing population – faster than London – means nearly one million additional people will live here by 2040. Ensuring we can balance the amount of water available against demand, now and in the future, fundamentally underpins the regional economy.

The region is also flat and low-lying with 28% of land below sea level, making it prone to flooding, meaning we must invest in both flooding and drought, at both ends of the climate change spectrum.

Home to nearly half of the UK's Grade 1 and 2 agricultural land and dubbed the 'breadbasket of Britain', 25% of the nation's cereal crop is produced here in the East of England. This land use means we must partner closely with agriculture to protect our shared environment, but also that our plans to provide water security are intrinsically linked to food security.

As the largest water and water recycling company in England and Wales by geographic area, we have a large number of small, dispersed population centres spread across the flat, drained landscape that dominates. Rivers move slowly through intensively farmed land, presenting significant challenges for river health and pollution.

Furthermore, our extensive network of small-diameter sewers, which would stretch around the world twice, are at greater threat from blockages. As we can't use gravity to our advantage, sewage needs to be pumped over vast distances, meaning collectively, we manage more related assets than any other UK wastewater company. As a result, we have to bear the additional associated energy costs.

The East of England is one of only three areas that makes a net positive contribution to the Exchequer, reflecting the industry and commercial centres across our region. However, we also have areas of high deprivation and low social prosperity. We are seeking to address this in many ways, guided by our purpose. See more on pages 46 to 52.

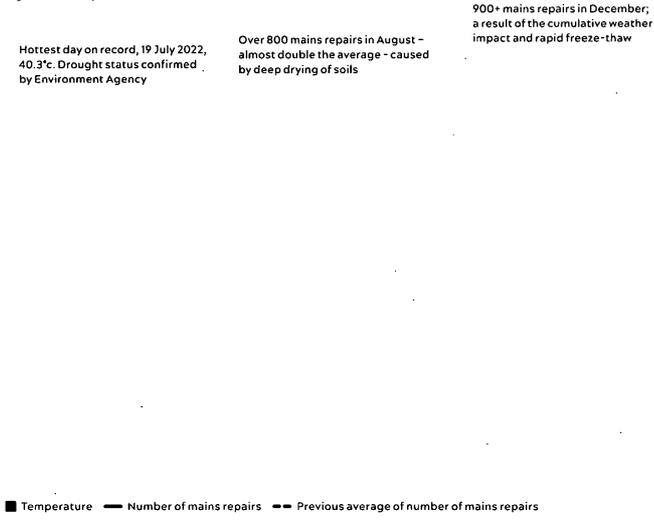
Impact of climate change

Following the wettest winter on record in 2021, this summer's drought was born out of the driest summer on record since 1995 and the highest daily temperatures since records began. Nonetheless, we met the demand for water without needing to resort to drought permits or orders.

December brought a second red Met Office weather warning for frost, which was followed by a rapid thaw with a 21 degree swing in temperature. A combination of record-breaking heat, low rainfall and greater than normal sunshine hours resulted in a record soil moisture deficit too (see graph opposite).

Both weather events coincided with a spike in burst mains, requiring operational effort to minimise the impacts on customers and preserve water lost to leaks.

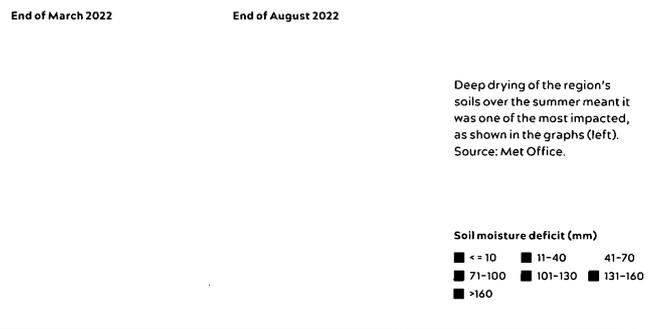
Figure 2: The impact of extreme weather on our water mains



Responding with resilience

Anglian Water was one of the only companies that did not need to resort to drought permits and implement a hosepipe ban this year. Achieving 100% compliance for our annual drinking water abstraction licences meant we did not place additional stress on our environment. Instead we protected it by keeping within the amount we are licensed to safely take from rivers and watercourses. This is possible due to years of consistent investment on supply options and reducing demand for water through low leakage and water-wise customers.

Figure 3: Soil moisture deficit shown across the UK during the 2022 drought



Leading on leakage

Historic investment in leakage has seen us achieve our lowest-ever leakage level this year. At 179.5 megalitres per day (M/d), this represents a 38% reduction in leakage since privatisation, and we are confident will yet again be an industry-leading result. For the past 13 years we have outperformed the sector with leakage levels half the national average. This strong position helped us keep water flowing through the drought.

Figure 4: Water companies leakage levels against Public Interest Commitment (PIC) and National Infrastructure Commission (NIC) targets

In summer, we invested to increase the number of leakage repair teams by a third, taking us to more than 100 repair crews, and diverted other teams to critical bursts, which enabled us to minimise water lost as quickly as possible. Retaining the additional teams also helped us weather the subsequent freeze-thaw in December.

Read more about our frontline teams who worked through the prolonged heatwave to find and fix leaks and minimise impact on customers, on page 57.

We narrowly missed our ODI target, which was on course prior to the run of extreme weather and therefore does not reflect our long-standing position as industry leaders.

As it got hotter, our messaging ramped up and supported customers with helpful tips to make water smart choices while still keeping cool.

Driving down consumption

Our customers are some of the most water efficient in the country, and this year Per Capita Consumption (PCC) across our region has reduced by around 5%. Part of a consistently improving downward trend, customers are using around 20 litres less each day than four years ago.

All year round we encourage our customers to consider their water usage and make positive changes. In tandem with our smart meter roll out and the successful release of our smart meter App, we used social media to deliver the right messages at the right time. For example, weather adverts triggered according to the temperature served up tailored content for the greatest impact.

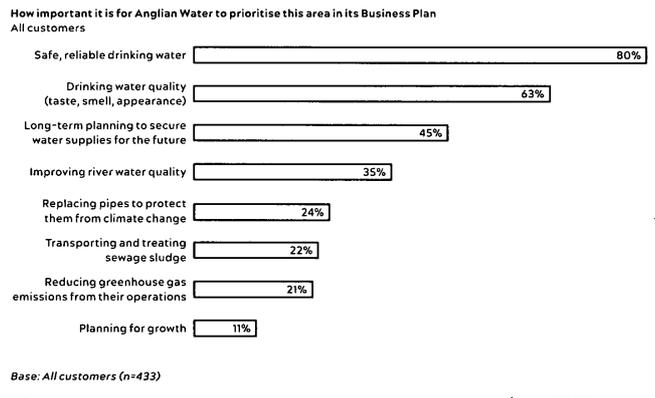
Examples of our weather-triggered marketing communications during the heatwave

Delivering on customer priorities

Customers want safe, clean water, for us to secure resources for the future in the face of climate change, to take care of the environment and to support the most vulnerable in society. See Figure 5 below.

These are the areas we have prioritised with investment, based on what customers have told us matter most, and the benefit of that long-term investment has been visible this year.

Figure 5: Customer Priorities 2022/23



Drinking water

Safe, clean drinking water is consistently a priority for customers.

This year we put 1.2 billion litres of water into supply every single day, peaking at around 1.5 billion litres during the heatwave. Throughout, we maintained excellent water quality. Our provisional Compliance Risk Index (CRI) and Event Risk Index (ERI) scores demonstrate the robust processes and controls we have in place to manage water quality, especially given the operationally challenging year.

The provisional CRI score of 2.92 (against an Ofwat target of 0) is almost half the industry average of 5. Our provisional ERI score of 2.77 (against an Ofwat target of 15) is also one of our best-ever scores. In addition, we also achieved our lowest-ever 'acceptability' score of 1.01, which is based on the number of customer contacts about the appearance, taste or smell of their water per thousand people served. Mobilisation of our customer-facing incident team, Anglian Water Force, and swift actions taken by our operational management centre and engineers, helped minimise customer impact from operational issues. Event Risk Index scores consider the type of event, population impacted and duration of the event.

Figure 6: Event Risk Index score 2022/23

Anglian Water	2.77
Industry average	833
Ofwat target	15

Sector reputation

Our sector continues to make national headlines, with much of the public discourse and attention on environmental protection. We listen to our customers and act on their priorities and are also taking steps to enhance stakeholders' understanding of our environmental commitments.

This year, we reinstated our Customer Board, giving customers the opportunity to provide direct feedback to our Chief Executive and Management Board. In March 2023, we held our first river health expert scrutiny panel. Made up of academics and thought leaders, the expert panel oversees our Get River Positive strategy, challenging our work and identifying research opportunities for further improvement.

Storm overflows

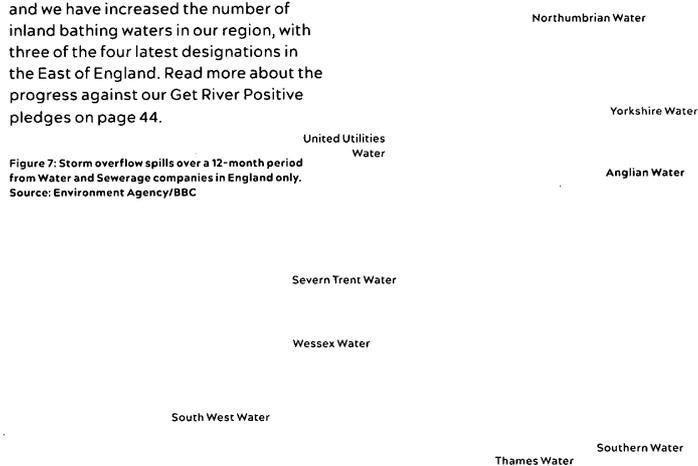
In response to the changing expectations of customers, we are channelling our efforts to reduce storm spills, reduce pollutions and restore river health.

Storm overflow spills make up just 0.3% of the water and sewage we process every year. The Environment Agency has also reported that overflows are responsible for between just 1% and 4% of environmental harm.

One year since launching our Get River Positive commitments, and as part of a £200 million investment programme between 2020 and 2025, we have achieved the lowest average storm spills in the industry at 15 versus an industry average of 29.

Spill duration has also more than halved, and we have increased the number of inland bathing waters in our region, with three of the four latest designations in the East of England. Read more about the progress against our Get River Positive pledges on page 44.

Figure 7: Storm overflow spills over a 12-month period from Water and Sewerage companies in England only. Source: Environment Agency/BBC



Bathing water quality

At privatisation, blue flag bathing waters were unheard of and the UK was referred to as the 'dirty man of Europe'. This year, 94% of coastal bathing waters in our region are good or excellent. To bring about these improvements, we have invested to tackle misconnected homes and highway drains, agricultural and urban run-off, as well as addressing issues with our own assets to support our coastal towns and their thriving tourism economies.

This year, £93 million was invested to increase storm water capacity at 40 sites, protect and improve bathing water quality and make a wide range of enhancements to the environment, all as part of our biggest ever environment programme, WINEP, worth £811 million between 2020 and 2025.

Figure 8: Bathing Water performance

Excellent	32
Good	13
Total % rated Excellent or Good	94%

Action on pollutions

Protecting, restoring and improving our region’s environment is at the heart of our business, and we take this responsibility incredibly seriously.

We were extremely disappointed to drop to a two-star Environmental Performance Assessment rating last year.

In response, we have made significant changes to our business and how we work, including bringing in a new Director of Water Recycling and setting up a Quality and Environment Directorate. We know there is no room for complacency. Improving our pollutions performance is an absolute priority.

This year, our self-reporting has continued to improve. Importantly, we made gains on our comparative pollutions performance but this has been offset by our decision to retrospectively report incidents in light of our new monitoring capabilities. We are one of a few companies to take a national lead on this.

The progress we are making on our Pollution Incident Reduction Plan will give us greater insight on asset health but we know it will take time for the cumulative benefit to feed through to these results.

We are committed to creating a flourishing environment and delivering on the expectations of customers and stakeholders to transform river health across the region. See more on pages 39 to 45.

This commitment to protect the environment could not have been more apparent in Statton Cross, Wellingborough in February, where our team constructed an 800 metre above-ground replacement, which avoided a potentially serious pollution event, pictured below.

Achieving more for less with partnerships

We are partnering with others, leveraging match funding and delivering nature-based solutions more cost-efficiently than we could ever do alone. This maximises the benefit achievable while keeping bills low.

Between 2020 and 2025 we will have attracted an enormous £112 million from our flooding partnerships, meaning our cost contribution to achieve these shared outcomes is reduced to just 14%. See page 60.

Prospective legal proceedings

In February 2023, the company received a letter from solicitors, Leigh Day, who have been instructed by Professor Carolyn Roberts. Professor Roberts intends to act as the class representative for a proposed class comprising consumers of Anglian Water.

Leigh Day assert that, since April 2017, customers have been charged for treating wastewater and discharging it safely into the environment in circumstances where wastewater has, in fact, been discharged in breach of permit without having been adequately treated.

Leigh Day suggest that the company has breached the provisions of Chapter II of the Competition Act 1998. The legal basis of the claim is extremely novel and relies upon arguments to the effect that misleading a regulator can amount to an abuse of dominance and/or that the company has charged unfair and excessive prices. The regulatory pricing mechanism, which determines how much we are allowed to charge customers, has specific measures in place to compensate customers for poor performance via a reduction in future bills.

Jaywick prosecution

In April 2023 we were prosecuted for an historic incident at Jaywick Water Recycling Centre. We were fined £2.65 million. We accept that fines should be proportionate to the environmental impact. However, on this occasion, the judge found that there was no harmful impact on the environment. We consider that the fine was disproportionate to the harm resulting from the incident.

Overground sewer constructed in nine days to avoid pollution in Wellingborough.

Near and long-term risks

Meeting future demand for water

The amount of water we have available in future is reducing due to climate change, the need for greater environmental protection, and the increasing population. In order to protect sensitive environments such as chalk streams, we must leave more water in the environment over the long term. Our 25-year Draft Water Resources Management Plan (DWRMP), published this year, sets out how we will balance supply with demand and ensure we have enough water for future generations.

Vital infrastructure is already underway to bridge the deficit. As well as announcing plans for two new reservoirs to store more water, and our strategic pipeline, we have also made sector-leading commitments to reduce abstraction.

By 2025 our investment in this area will mean we leave an extra 85 million litres in environmentally sensitive sites. This represents 5.6% of the amount we put into supply every day.

We have maintained a watchful eye on reservoirs and groundwater levels through the winter refill period. Although December to February was very dry, rainfall in the latter part of the season has helped levels recover in most places. We are closely monitoring North Norfolk, which is largely groundwater fed, and has not received the same rainfall as the rest of the region. It brings into sharp focus the importance of our strategic interconnecting pipeline, which will help balance water deficits across the region.

Figure 9: Our supply and demand forecast to 2045

Near and long-term risks

Inflation and the cost of living crisis

Inflation peaking at 11.1% along with a dramatically rising cost of debt in recent years has put additional pressure on some households. Guided by our purpose, this year we have supported more than 330,000 customers through the cost of living crisis. See page 47.

Customer charges for 2023/24 will increase by 10.7% or £47.77 per year on average due to rising inflation (4.6% CPIH) but also to fund the extensive capital programme we have planned. The charges remain in line with the bill curve agreed in our Business Plan and brings the average customer bill to £493 per year or £1.35 per day, hand-in-hand with our biggest-ever package of support for vulnerable customers.

Inflation has also impacted our operational costs. The need to pump water and sewage across our flat landscape means we are one of the largest energy users in the East of England.

By purchasing energy in advance, we were well placed for the current year before the most substantial price hikes occurred. We are now fully hedged until the end of 2024/25 and continue to undertake activities to diversify our energy sources.

The hedged prices secured are materially below the government cap and therefore, as with furlough rates relief available during the Covid pandemic, we have not had to make use of Government support for energy price rises.

Near and long-term risks

Population growth

Our region's population is growing, faster than anywhere else in the UK. We are supporting councils to locate growth in sustainable locations which minimise the need to construct new infrastructure and reduce carbon.

We have long-believed in Sustainable urban Drainage Systems (SuDS) as a nature-based solution and we are leading a £6 million Ofwat Innovation

Project to develop a framework to demonstrate how nature-based solutions can drastically reduce the water and carbon footprint of new housing developments.

Our Accelerated Infrastructure Delivery Plan will also help unlock growth in critical areas by reducing nutrient-loading on rivers.

Near and long-term risks

Skills and labour shortages

A labour and skills shortage has followed Brexit, combined with heightened competition for talent in the aftermath of the pandemic and the move to flexible working impacting certain professions.

During the nationwide HGV driver shortage, we proposed a talent retention package to maintain normal operations.

Recruitment of engineers continues to be a focus area as we plan for the forthcoming AMP for 2025–2030, where we expect our requirement for new capital infrastructure to increase too.

We continue our outreach efforts to promote careers in STEM whilst recruiting and retaining a diverse and effective workforce in collaboration with our long-standing capital delivery partners. Read more about our approach to retaining talent in our Remuneration Report, from page 127.

Near and long-term risks

Supply chain pressures

The economic volatility heightened by the war in Ukraine has led to supply chain pressures, rising costs of raw materials and services, particularly steel, chemicals and energy. The increase in costs has outstripped the increase in revenue from customer bills, meaning we are managing an already tight budget in the face of escalating pressures.

However, with the right controls in place across our supply chain, we have been able to mitigate many of the issues, identifying alternative suppliers or de-risking where an alternative is not available.

In the case of our strategic pipeline, with our partners, we have secured 100% of our steel supplies earlier than typically necessary, minimising supply chain pressures on our critical water grid. We expect these supply challenges to continue into 2023 and the remainder of the AMP. See our Risk report on page 83.

This year we successfully completed our single biggest year of capital investment at £725 million, significantly above our operating profit. We have ploughed in £1.7 billion so far this AMP, part of a multibillion pound investment in the region by 2025.

Efficient capital delivery sits in tandem with cost control, which is why we view Totex performance as a strong indicator of financial discipline, offering comparison across the sector. We have met our Totex target consistently this AMP.

Figure 10 below shows our Botex position relative to the industry. It means we are well-placed to ramp up and deliver on the surge in investment anticipated in future. Botex is capital maintenance and operational expenditure and provides a useful in-year indicator of Totex.

Our health and safety performance in this record year of capital delivery also demonstrates focus and control at scale, and a safety-first culture. See page 54.

Note: Botex is expenditure to operate and maintain our assets to a fixed service performance level.

Our approach to risk

Our full corporate risk register which captures significant risks to the business and individual business units is set out in our Risk section on page 83.

The top tier risk register includes climate-related risks which are demonstrated in more detail throughout our TCFD report on page 71.

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

<p>Make the East of England resilient to the risks of drought and flooding</p> <ul style="list-style-type: none"> • The construction of our new strategic pipeline will move surplus water from some of our wettest regions to our driest. Read more on page 41. • We've announced plans for two new reservoirs. • Our smart metering programme is helping customers better understand their water usage; our customers are some of the most efficient in the country. • Our flood partnerships will have attracted £112 million of additional third-party funding this AMP. <p>UN SDG target in action: 13.1. Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries.</p>	<p>Enable sustainable economic and housing growth in the UK's fastest-growing region</p> <ul style="list-style-type: none"> • We're expecting 175,000 new homes to be built in this region by 2025. • We're in the process of gaining planning approval for a new Greater Cambridge wastewater treatment facility, enabling the creation of a new low-carbon city district in North East Cambridge. • Our nutrient removal schemes on our water recycling centres at Fakenham, Dereham and Whitlingham will enable Norfolk County Council to approve approximately 15,000 homes. • Find out more about how we're driving growth in our Green Recovery plan, here. <p>UN SDG target in action: 9.1. Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human wellbeing, with a focus on affordable and equitable access for all.</p>	<p>By 2030, be a net zero carbon business and reduce the carbon in building and maintaining our assets by 70%</p> <ul style="list-style-type: none"> • We've achieved a 63% reduction in capital (embodied) carbon against a 2010 baseline and a 6% reduction in operational carbon against a 2018 baseline. • We're leading five projects as part of Ofwat's Water Breakthrough Challenge; many are focused on reducing carbon emissions across our sector. • Our pioneering nature-based solutions remove the need for carbon intensive infrastructure. Read more on page 45. <p>UN SDG target in action: 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.</p>	<p>Work with others to achieve significant improvement in ecological quality across our catchments</p> <ul style="list-style-type: none"> • This year we've reduced storm overflow spills by half, meeting our 2025 target early. While we have improved, society's expectations have leapt, which is why we have pledged £1 billion for upgrades next AMP (2025-2030). • Our Get River Positive initiative to revitalise rivers by 2030 drives us to partner with others at landscape-scale. Read more on page 44. • We are collaborating to create the world's first ecological digital twin to help scale and trial ecological solutions in a virtual setting. Read more on page 45. <p>UN SDG target in action: 6.6. Protect and restore water-related ecosystems, including mountains, forests, wetlands, rivers, aquifers and lakes.</p>
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Our position as a supplier of **an essential public service** presents us with both the **opportunity and the responsibility to do more for customers and the environment** in our region.

It is essential we maintain the trust and confidence of our customers. That means running our business in a responsible and transparent way so customers and stakeholders can see that:

- we act in the public interest and recognise our wider role to the communities we serve beyond providing fresh clean drinking water and protecting the natural environment we operate in;
- their bills are fair, affordable and value for money;
- we are responsible with their money;
- our profits are fair and not excessive; and
- we pay our fair share of tax.

We express this to our colleagues, customers and other stakeholders through our defined purpose, which is underpinned by our company values and six capitals model for decision-making. Our people are rewarded for demonstrating behaviours in line with our purpose and values, see Responsible Financing on pages 22 to 25.

In 2022, we experienced a number of external headwinds, and our performance didn't meet our expectations in some areas. As a responsible business, it's important to use these events as opportunities to learn and improve.

“It’s easy to be purposeful during the good times, but it’s what carries you through the hard times too.”

Andy Brown, Group Chief Sustainability Officer

For example, after a disappointing Environmental Performance Assessment in 2021, we launched Get River Positive and our zero tolerance pollutions strategy, driving a step change in our approach to pollutions.

We also made structural changes within the business, including appointing our first Group Chief Sustainability Officer, Andy Brown. In his new role, Andy will work with and challenge our Board, ensuring decisions are guided by our purpose framework.

Similarly, as the cost of living started to rise we announced an additional package of £65 million to help our customers struggling to pay their bills, and in November doubled that package to £135 million to support customers through 2023/24. We also addressed the financial implications on our workforce too, see page 55.

BITC’s Responsible Business Tracker®

When we embedded our purpose into our Articles of Association in 2019, we committed to assessing ourselves against a set of responsible business principles, including Business in the Community’s (BITC) Responsible Business Tracker®. The Tracker assesses our work against principles, underpinned by the UN’s Sustainable Development Goals.

We use the feedback from the Tracker to agree future areas of focus. Following our annual feedback last year, we progressed a number of sustainable procurement projects and initiatives. We continued to make progress on our diversity and inclusion work, and biodiversity – both of which saw improvements in this year’s results. See more in our Nomination Committee report from page 123.

We were pleased to receive a score of 100% for purpose and values.

2022 BITC Tracker® score



BITC Relationship Manager, **Phillippa Lennox-King**, said:

“It is fantastic to see Anglian Water’s progress across many areas of responsible business, especially regarding overall governance; nature stewardship governance and action; climate action disclosure and your work in education. It is brilliant to see you are making this progress despite the current challenges presented in the water industry.”

Validating our purpose

We have acted as lead sponsor alongside the British Standards Institution (BSI) to create a new Publicly Available Specification (PAS) for embedding purpose in organisations – PAS 808: 2022 Purpose-Driven Organisations, Worldviews, Principles and Behaviours.

Launched in July 2022, it is the bar by which we will hold ourselves to account, reporting against it to continue to embed our purpose in all we do. We have started by conducting an initial assessment against the seven principles, considering to what extent we demonstrate the behaviours associated with each principle.

Based on this initial assessment, we have developed a maturity matrix. We expect this to evolve as we continue the process, engaging with our internal Sustainability Centre of Excellence, Customer Board, Independent Challenge Group, and an external validation specialist.

PAS 808 Maturity Matrix

We continue to work with an external validation specialist by piloting a PAS 808 certification scheme. We will publish the outcomes of this audit, later in the year, as part of our commitment to hold ourselves to account.

Here's a first look of how well we think we integrate the principles of a Purpose-Driven Organisation into our policies, processes and culture*.

	Principles	Never	Limited	Moderate	Embedded
Wellbeing ends – principles for the reason the organisation exists	1 Long-term wellbeing for all people and planet is the ultimate goal and all people and planet are the ultimate beneficiaries				✓
	2 The purpose, achieved in the right way (means and method), is the strategic and accountability anchor			✓	
Healthy means – principles for classifying, protecting and enhancing the means to achieve the purpose	3 A fair and adequate contribution to the health of the means is non-negotiable			✓	
	4 The value network is understood, cared for, integrated with and aligned			✓	
Wise and ethical method – principles for the manner in which the purpose is achieved	5 Stated values are authentic, legitimate and lived				✓
	6 There is boldness towards the ends and precaution towards the means			✓	
	7 The best evidence is sought and relied on			✓	
Never	No examples of integration		Limited	Some examples of integration	
Moderate	Regular examples of integration		Embedded	Fully integrated into policies, processes and culture	

* This Maturity Matrix is an internal self-assessment against PAS 808. Our scores are subject to change as we develop our approach further and as a result of external verification.

Scrutiny

In 2022, we re-established our Customer Board, where we facilitate an open, two-way discussion between customers and our Management Board on a variety of topics which are important to our customers. Recent discussions include bill increases, our Water Resources Management Plan, water quality, leakage, and our executive bonuses.

Anglian Water Services Limited is a private company limited by shares

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, the Chief Financial Officer and an independent Non-Executive Chair.

Overview of 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 on page 21 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.

The aim of the group's financing strategy for AMP7 has been to reduce AWS gearing in order to enhance and protect its current solid investment-grade credit ratings, enabling AWS to borrow at lower rates to support the investments that customers have asked us to make. Earlier in AMP7, three new UK companies (Aigrette Financing Limited, Osprey Investco Limited and Aigrette Financing (Issuer) Plc) were inserted into the company structure to help deliver the AMP7 financing strategy.

The insertion of these companies resulted in a two-tier financing structure sitting above AWS in the AWG group and enabled the group to increase its equity investment in AWS.

IFM Global Infrastructure Fund is a fund advised by IFM Investors. IFM investors is a global institutional fund manager owned by 17 profit-to-member Australian pension funds, specialising in infrastructure, private equity, debt and equity investments. IFM invests on behalf of approximately 120 million pensioners from around the world.

Origin: Australia Ownership: 19.8%

Canada Pension Plan Investment Board (CPP InvestmentsTM) 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 Ownership: 32.9%

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. GLIL serves over 12 million scheme members. Dalmore has more than 1.3 million pension holders invested directly in AWG.

Origin: UK Ownership: 15%

Igneo Infrastructure Partners is an unlisted infrastructure asset management business and is part of the First Sentier Investors Group (FSIG), a global asset management business. FSIG has US\$148 billion in assets under management (as at 31 March 2023) on behalf of institutional investors, pension funds, wholesale distributors, investment platforms, financial advisors and their clients worldwide.

Origin: Australia Ownership: 15.6%

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 Ownership: 16.7%

AWG Group companies

Aigrette Financing Limited and its UK subsidiary Aigrette Financing (Issuer) Plc have borrowed funds externally in order to increase the equity investment in AWS.

Osprey Investco Limited, Osprey Acquisitions Limited and Osprey Acquisitions Limited's subsidiary, Anglian Water (Osprey) Financing Plc, together comprise AWG's 'midco' financing group. The 'midco' financing group has also borrowed funds externally during AMP7 to increase the equity investment in AWS.

AWG Parent Co Limited and AWG Group Limited are holding companies that were set up when AWG was a listed group.

Both companies are wholly owned subsidiaries, are registered in the UK and are UK tax resident. During the 2022/23 financial year, AWG (UK) Holdings Limited (which was used to be the immediate parent of AWG Group Limited) was removed from the holding structure.

Anglian Water Services Financing Group companies

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're 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 UK tax resident companies.

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

AWS has reduced its gearing with the funds received as equity investments under the Group's enhanced financing structure.

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%

Pensions:
(CPP Investments, GLIL Infrastructure, Igneo Infrastructure Partners and IFM Investors)

75.8%



Anglian Water Services Financing Group (AWSFG)

Direct subsidiary

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

Why profit is crucial to deliver on our purpose

As a monopoly provider of essential public services, it is imperative to maintain the **trust and confidence of our customers** while providing **fair returns to our shareholders**.

Balancing regulatory funding and attracting investment

The money we can raise from bills, along with how much we're 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.

Profits are essential to attract private investment, which in turn enables us to spread the cost of improving and extending our assets over their operational life, similar to a mortgage. In this way, tomorrow's customers pay for tomorrow's use of the asset.

We have to provide investors with a reasonable return on their investment in exchange for the risks they carry. During the past financial year, a number of risks have crystallised including high energy prices. Investors have borne the cost of dealing with these risks, which have therefore not been passed on to customers.

We also believe that in years where we deliver excellent performance, this should be reflected in higher profits. In contrast, this year, dividends have been reduced down to reflect performance. However, profits can also rise or fall due to factors not directly related to performance – for instance, the level of interest rates or unexpected new legal obligations.

Ofwat sets allowed returns at a fixed rate plus inflation. This means that when inflation is at a significantly lower rate than assumed at a price determination, this can adversely affect our finances.

However, the driving factors behind that high inflation mean the true picture is far more complicated. The current high inflation (CPIH, or Consumer Price Index including Housing) is driven in part by high energy prices. CPIH is calculated by using the change in costs of a range of items (basket of goods), plus the cost of owning and maintaining a home.

As a high consumer of energy, our business is more exposed to energy prices than is reflected in the CPIH basket, and we have to manage this through our hedging strategy.

“Being a purposeful business means creating value for society; having a long-term interest in people and planet. Business is part of society, but it has felt separate when there has been, traditionally, a single-minded push for profit over the years – ignoring any negatives the business created. Profit is critical. It's a necessary condition to continue, but for purpose-led organisations, it's not the primary goal – it's an outcome of creating value for society.”

Sarah Gillard

CEO, A Blueprint for Better Business, who worked with Anglian Water and BSI on the development of the new PAS 808.

- See Financial performance report on pages 26 to 30.
- See Shareholders on page 62.

Dividends

The Board has an approved dividend policy, under which dividend payments take account of a range of matters including service delivery for customers and the environment, current and future investment needs and financial resilience over the longer term.

In line with this dividend policy, the Board have proposed to pay a final dividend amounting to £79.9 million. The base dividend has been adjusted for a total of £26.0 million deduction to reflect service delivery for customers and the environment.

A £169.0 million prior year final dividend was paid in the period (2022: £96.3 million in relation to financial year 2021), reflecting the company's dividend policy. A deduction was made to the base dividend of £9.0 million to reflect performance in 2021/22.

These dividends were paid against a backdrop of an equity injection of £1,165.0 million in the prior period and results in a net equity injection for the AMP of £899.7 million. Through these capital injections the company continues to benefit from the strong support of shareholders.

Tax

Anglian Water complies with all relevant tax laws. 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. 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 make 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 have invested over £1.7 billion since 2020 as part of our five-year plan to 2025. This is central to underpinning the growth of the regional economy.

Our Water Industry National Environment Programme (WINEP), one of the biggest in our industry, is set to deliver £811 million worth of environmental benefits during this period. That investment is largely paid for by borrowing, and we 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 fall 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.

We have one of the largest levels of private investment in the region and have invested over £1.7 billion since 2020 as part of our five-year plan to 2025.

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

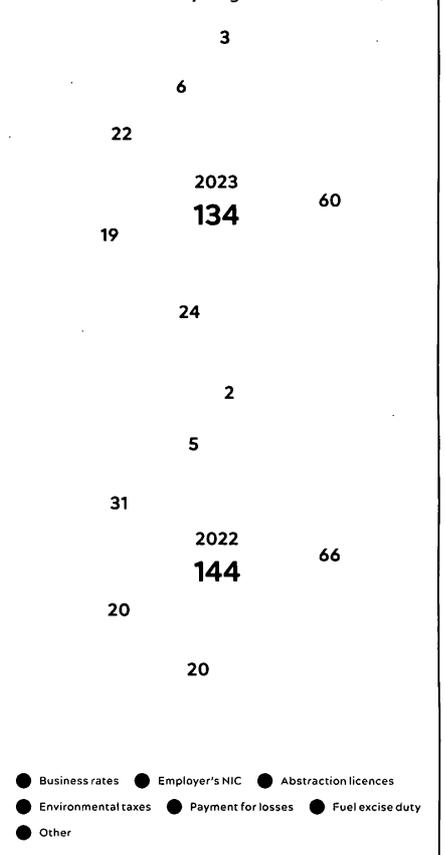
An open and constructive approach

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

Tax planning and compliance

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

Tax incurred directly (Figures in £ million)



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 Risk Section on pages 83 to 96. 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 mitigations in place. In this way the Board provides governance and oversight of significant risks.

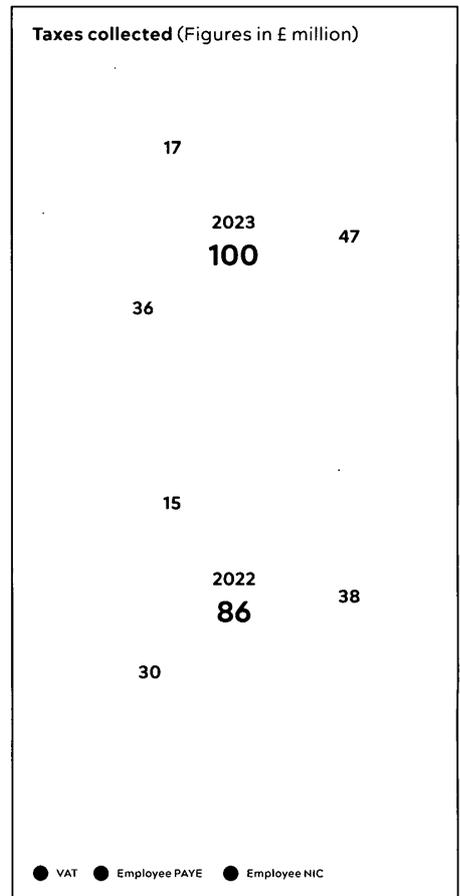
Where there is uncertainty as to the application or interpretation of tax law, appropriate written advice that takes into account the facts and risks may be taken from third-party advisors to support the decision-making process.

Our tax contribution

Our total tax contribution for the year extends significantly beyond the liability for corporation tax. Total tax paid or collected in the year to 31 March 2023 amounted to £234 million (2022: £230 million), of which £100 million was collected on behalf of the authorities for value-added tax (VAT) comprising (£47 million) and employee payroll taxes (£53 million).

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

- Business rates of £60 million paid to local authorities. This is a direct cost to Anglian Water and reduces profit before tax.
- Employment taxes of £77 million, including £53 million of employee Pay As You Earn (PAYE) and National Insurance Contributions (NICs) collected from salaries paid. In addition, employer NICs of £24 million were charged approximately 72% to operating costs, reducing profit before tax, with 28% capitalised to fixed assets.
- VAT of £47 million collected and paid to HMRC. VAT has no material 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 £6 million related to transport costs and charged to operating costs, reducing profit before tax.
- Environmental taxes of £22 million charged to operating costs, reducing profit before tax.



Sustainable financing and green bonds

Investor appetite for sustainable financing is strong.

In 2022, more than \$1.5 trillion in sustainable debt instruments were issued globally, bringing the total market to over \$5.8 trillion.

Green finance

In 2022, the total global sustainable debt market reached over \$5.8 trillion¹. Social and sustainability bonds together reached a record \$294 billion² in issuance in 2022. What was, until recently, a niche market has reached the mainstream, with data showing investor appetite for sustainable financing remains strong.

For us, sustainable finance is business as usual. We were an early adopter of sustainable funding instruments, pioneering the use of Green Bond funding in 2017, when we became the first European utility to launch a sterling Green Bond.

Since 2017, we have raised £2.6 billion in green financing versus the UK Government, who have raised £18 billion for all UK plc³. Our first £250 million, eight-year bond will mature in August 2025, with a return to investors of 1.625%.

In 2022, we were the first UK company to issue a £225 million corporate green bond in the Canadian 'maple' bond market, to fund our drought resilience project being delivered by our Strategic Pipeline Alliance (SPA). The investments we've financed through our Green Bonds contribute to five environmental objectives: climate change mitigation; climate change adaptation; biodiversity conservation; pollution prevention and control; and natural resources conservation.

Throughout this year, we've raised £740.1 million of funds across a number of debt transactions. Investors have financed a wide range of investments under different portfolios. This builds on the company's first Sustainability-Linked Bond for £300 million issued in 2021/22, tied to achieving our net zero 2030 targets and 2025 interim targets. This means that the interest rates payable for the debt are tied to the company achieving its net zero targets: if we fail to achieve our ambitious 2025 transitional carbon goals, we will pay a higher rate of interest for the debt. The investments made through the Green Bonds issued to date are expected to result in a 63% reduction from the company's 2010 capital carbon baseline.

Our Water Industry National Environment Programme (WINEP) for 2020-2025 will be financed almost entirely with sustainable finance. Our £25.5 million equivalent private placement to fund many schemes within WINEP are underway now, including the protection of wildlife and restoring chalk streams, which are a vital part of the local ecosystem. Further funding is planned for the forthcoming financial year to cover the bulk of the spending required for the WINEP programme.

In total this AMP, we have issued £1.6 billion of funds through green finance, and we plan to fund our entire remaining capital programme to 2025 using sustainable funding instruments. All Anglian Water Services debt was raised as sustainable finance over the past year, and we're planning to continue to do so for the remainder of our debt raising this AMP.

External validation

We have a track record of securing external validation of our ESG impact and business resilience. This year, we maintained our AA rating in MSCI's 2023 ESG rating – the second-highest ranking for the second year running. The measurement assesses a company's resilience to long-term ESG risks. Our approach to corporate governance and business ethics practices was hailed as globally leading.

Our Sustainability-linked Bond Framework, which was reviewed by DNV as a second layer of assurance, governs our approach to sustainability-linked debt such as the bond issuance described here, as well as private placements and debt facilities.

Looking ahead

As part of Anglian Water's commitment to sustainability, the funds we have received from investors as green bonds are invested in sustainable investments until they are allocated to project spend and withdrawn from the account. The sustainable investment programme at Anglian Water is new and rapidly expanding – we are seeking new opportunities to ensure 100% of investments from the ring-fenced account are sustainable investments. We are pleased to increase our impact through these innovative new products.

¹ Bloomberg New Energy Finance.

² www.gov.uk/government/publications/uk-government-green-financing

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:

	2023 Total £m	2022 Total £m
Revenue (excluding grants and contributions)	1,388.9	1,299.7
Grants and contributions	106.0	100.1
Operating costs	(678.0)	(612.5)
Charge for bad and doubtful debts	(30.1)	(11.1)
Other operating income	16.0	12.3
EBITDA ¹	802.8	788.5
Depreciation and amortisation	(379.1)	(347.7)
Operating profit	423.7	440.8
Finance income	20.6	1.8
Finance costs ²	(731.1)	(460.1)
Adjusted loss before tax ¹	(286.8)	(17.5)
Finance costs – fair value gains/(losses) on financial derivatives ²	645.3	(115.1)
Profit/(loss) before tax on a statutory basis	358.5	(132.6)
Tax	(90.2)	(310.2)
Profit/(loss) after tax	268.3	(442.8)

¹ As defined in note 30 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, and have been consistently applied within each year presented in these financial statements.

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 £1,388.9 million (2022: £1,299.7 million), an increase of £89.2 million (6.9%) on last year. The increase in revenue is as a result of the following factors:

- The price increase for customers following the regulatory pricing formula, £87.7 million increase.
- A net decrease in demand of £13.4 million. Household consumption is down £21.8 million and non-household consumption up £8.4 million as we move back towards pre-Covid-19 levels of consumption.
- Increase in revenue of £8.4 million as a result of increase in customer numbers.
- Other increases in revenue of £6.5 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 work on existing infrastructure needed to accommodate development. Over the year, these have increased by £5.9 million to £106.0 million. This is driven by the strong housing market and construction sector in our region.

Ofwat's price setting process, set out in our Final Determination, sets the level of customer bills and therefore how much is available to invest in our services.

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 charges for bad and doubtful debts)

Operating costs including charges for bad and doubtful debt for the year increased by £84.5 million (13.6%) to £708.1 million. This increase is explained in the table below:

	Total £m
Prior period	623.6
In year movements:	
Funded by Final Determination (FD)	
Inflation	53.2
Capitalisation of replacement infrastructure assets	(9.1)
Weather related	
Investment in leakage to recover from hot weather and freeze-thaw	13.9
Bad debt provision	
Increase in base bad debt charge	6.3
Prior year reassessment of provision	6.0
Prior year change in macroeconomic outlook	6.6
Power	
Benefit of proactive hedging	(4.2)
Other significant items	
Fuel in excess of inflation	3.7
Chemicals in excess of inflation	9.4
Business rates	(10.1)
Other	8.8
Total increase	84.5
March 2023	708.1

Inflation

The inflationary increases formed part of the Final Determination and are therefore funded through the inflationary increases in revenues.

Capitalisation of replacement infrastructure assets

In order to improve efficiency, there was a change in the way we deliver boundary box and external meter chamber replacement in the second half of last year. As a result of the change in delivery, which has moved from individual jobs to a scheme of work, the cost of the scheme is above our de minimis threshold for capitalisation, resulting in the costs being treated as capital expenditure rather than operational. In addition, this year we have also expanded this process to include manhole covers and network fittings.

Weather related

The impacts of climate change are fundamental to our business and our climate-related financial disclosures can be found as an appendix to the paper presented to the Committee. As a result of the hot summer, the Board agreed to invest £13.9 million with a view to maintaining our industry-leading leakage position as we sought to recover from a number of weather-related events throughout the year.

The first six months of the year saw very little rainfall and as a result we saw exceptionally dry ground conditions. This was then compounded by two extremely cold spells in winter both followed by a rapid rise in temperatures. Fluctuations like this lead to ground movements which affect infrastructure such as pipes and valves, causing leaks, bursts and failure, resulting in additional costs to repair.

Bad debt provision

The increase in bad debt charge is primarily a result of three factors set out below but we continue to see stable cash collection with our base bad debt charge over the long term reducing as a percentage of revenue.

- An increase in our base bad debt charge of £6.3 million, partly a result of the increase in our revenue and partly due to a return to more typical levels after an exceptionally strong performance in the prior year.
- The prior year reassessment of provision in our debt over 48 months old, which resulted in a one off £6.0 million provision release in the prior year, as a result of continued positive collection in combination with a change to our write-off policy in April 2020.
- In addition, we estimate the impact of future macroeconomic factors on our collection performance as required by IFRS 9. In March 2022 we released £6.6 million of this provision as the projected impact of Covid-19 on unemployment subsided, thus reducing the charge in that year. The latest forecasts for unemployment are broadly the same as that at March 2022 and therefore we have maintained the same overlay provision as at March 2022, thus having no impact on the income statement. Further details can be found in note 2.

Power

Our OPEX reconciliation in the above table splits out the impact of inflation and as we operate a robust hedging strategy our energy costs rose slower than inflation in the year thus presenting as a real terms reduction. This strategy meant that we had locked in our energy prices prior to the start of the year and the war in Ukraine. As such our weighted average hedged price for the year was £58/MWh compared to an average day ahead price for the year of £187/MWh.

Other significant items

Other significant items primarily relate to costs that have risen above average inflation, such as fuel and chemicals.

In addition, following a rates review we received a refund of £10.1 million in the year.

EBITDA

Earnings before interest, taxes, depreciation and amortisation (EBITDA) is defined in note 30 and is the profit from continuing operations before interest, tax, depreciation and amortisation. This has increased by 1.8% to £802.8 million, which is consistent with the effect of the increases described above.

Depreciation and amortisation

Depreciation and amortisation is up 9.0% to £379.1 million, primarily as a result of higher fixed asset balances as we construct and commission assets in line with our capital investment programme.

Operating profit

Operating profit has decreased by 3.9% to £423.7 million. Whilst there have been significant inflationary costs pressures due to the mismatch in timing with revenue, our proactive energy hedging policy protected the business. In addition, the Board committed to invest £13.9 million with a view to ensuring we maintained our industry-leading leakage position as we sought to recover from a number of weather-related events throughout the year.

Financing costs and profit before tax

Adjusted net finance costs, which are finance income net of finance costs before fair value gains and losses on financial instruments, increased from £458.3 million in 2022 to £710.5 million in 2023. This was primarily the result of the non-cash impact of higher inflation on index-linked debt which increased by £306.4 million to £561.4 million. This increase was due to an increase in year-on-year average Retail Price Index (RPI) from 5.8% to 12.8% and year-on-year average Consumer Price Index (CPI) from 4.0% to 10.0%. We have both RPI-linked debt and CPI-linked debt to hedge the Regulated Capital Value (RCV). Finance income was £16.0 million, up £14.6 million as we benefited from these higher interest rates on our cash balances.

There was a fair value gain of £645.3 million on derivative financial instruments in 2023, compared to a loss of £115.1 million in 2022. The fair value gains in the current year are predominantly non-cash in nature and have no material effect on the underlying commercial operations of the business and have only partially reversed fair value losses experienced over the past 10-years in a falling interest rate environment. The driving factors for the gain in 2023 were primarily due to decreases in the average levels of forward inflation expectations, in combination with the rise in forward interest rates (decreasing the discounted present value of derivatives). During the period, forward inflation decreased by circa 90 basis points and forward interest rates increased by 200 basis points across the curves.

Taxation

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Current tax:		
In respect of the current period	(25.4)	(13.6)
Adjustments in respect of prior periods	0.7	(5.1)
Total current tax credit	(24.7)	(18.7)
Deferred tax:		
Origination and reversal of temporary differences	113.0	(25.9)
Adjustments in respect of previous periods	1.9	1.2
Increase in corporation tax rate	-	353.6
Total deferred tax charge	114.9	328.9
Total tax charge on profit on continuing operations	90.2	310.2

We are one of the largest private investors in infrastructure in our region, having invested over £1 billion in the last two years. The Government actively encourages infrastructure investment and grants us capital allowances, which defer some of our corporation tax liabilities until a later period. Our customers directly benefit from the deferral as it helps to keep their bills lower.

Total tax paid or collected in the year to 31 March 2023, other than corporation tax, amounted to £234 million (2022: £231 million), of which £100 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 £24.7 million (2022: £18.7 million). The deferred tax charge has decreased by £214.0 million from £328.9 million in 2022 to £114.9 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. This is offset by disallowable costs and interest. In the prior year there is also a one-off credit arising on a change of accounting treatment.

The deferred tax charge for this year mainly reflects capital allowances claimed in excess of the depreciation charge, a charge on the fair value gains on derivatives, offset by a credit on losses carried forward to future years. The prior year charge mainly reflects the effect of a corporation tax rate from 19% to 25% that comes into effect on 1 April 2023 but was legislated for in the Finance Bill 2021, capital allowances claimed in excess of the depreciation charge in the accounts offset by a credit on losses carried forward to future years.

The Finance Bill 2021 also introduced increased tax relief for capital expenditure incurred in the period up to 1 April 2023. This has increased the deferred tax charge in this year.

The current and deferred tax adjustments in respect of previous periods for both years relate mainly to the agreement of prior year tax computations.

The amounts included for tax liabilities in the financial statements include estimates and judgements. If the computations subsequently submitted to HMRC include different amounts then these differences are reflected as an adjustment in respect of prior years in the subsequent financial statements.

In addition to the £90.2 million tax charge on the income statement, there is a credit of £35.5 million (2022: charge of £40.7 million) in the statement of other comprehensive income in relation to tax on actuarial losses/(gains) on pension schemes and fair value gains on cash flow hedges.

Distributions available to the ultimate investors

In line with the approved dividend policy, the Board have proposed to pay a final dividend amounting to £79.9 million payable on 15 June 2023. The dividend has been adjusted with a £26 million deduction to reflect aspects of underperformance against ODIs, including the ODI penalty incurred. A £169.0 million prior year final dividend was paid in the period (2022: £96.3 million in relation to financial year 2021), reflecting the Company's dividend policy. A deduction was made to the base dividend of £9 million to reflect performance in 2021/22.

This dividend will be paid against a backdrop of an equity injection of £1,165.0 million in the prior period and results in a net equity injection for the AMP of £899.7 million. Through these capital injections the company continues to benefit from the strong support of shareholders.

Continuing to deliver our AMP7 capital investment programme

2022/23 is the third year in the five-year AMP7 investment programme. Over the five years to 2025, we will invest a record £3 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 remains strong with gross annual capital expenditure on an accruals basis across the appointed business increasing from £635 million in 2021/22 to £725 million in 2022/23 (£326 million on capital maintenance, £399 million on capital enhancement).

This is broadly in line with management expectations and is particularly pleasing given the significant increase in the size of the programme compared to AMP6, in addition to the supply chain impacts from the war in Ukraine and other macroeconomic factors.

This has resulted in a £436.1 million increase in property, plant and equipment and intangible assets, net of depreciation.

Financial needs and resources

During the year to March 2023, Anglian Water raised new debt of £740.8 million. This comprised the following new issuances:

- 10-year Canadian Maple Bond amounting to circa \$350.0 million which was swapped to a sterling equivalent of £224.8 million;
- £100 million 18-year CPIH linked bond. This was the first CPIH linked issuance by Anglian Water;
- £150 million drawdown on NatWest facility; and
- £266 million US private placement.

Repayments of £668.7 million were made in respect of maturing debt, which consisted of a £250 million 5.837% fixed rate debt, £15 million 1.37% index-linked private placement, £31.9 million 4% private placement, £22.3 million 4% private placement, amortising payments on EIB index-linked debt and £266.5 million early settlement of accretion due on 2.4% ILLS 2035 note.

At 31 March 2023, excluding derivatives, Anglian Water had borrowings net of cash of £6,247.9 million, an increase of £626.6 million over the prior year. Net borrowings comprised a mixture of fixed, index-linked and variable-rate debt of £6,845.1 million, leases of £36.4 million and cash and deposits of £633.1 million. Net debt increased as a result of indexation on debt as described above combined with our continuing capital investment programme. The increase in net borrowings, excluding the fair value of derivatives, primarily reflects the higher accretion on index-linked debt.

At 31 March 2023, Anglian Water had a derivative financial instrument liability of £697.7 million (excluding energy derivative assets of £0.7 million), down from £1,162.0 million in 2022 (excluding energy derivative assets of £73.4 million).

The business generated cash from operations of £710.9 million in the year (2022: £749.9 million). The decrease primarily reflects short-term timing differences on working capital more than offsetting improvements in relation to EBITDA described above.

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 2023, Anglian Water held cash, deposits and current asset investments of £633.1 million (2022: £870.7 million). The decrease in cash amounts held is reflective of the higher debt repayments than new debt issuances in the period, the payment of the March 2022 final dividend and also the net of operational and residual investing and financing cash flows.

As at March 2023 Anglian Water has access to £975.0 million of undrawn facilities (March 2022: £600 million), to finance working capital and capital expenditure requirements.

In addition, Anglian Water has access to a further £375.0 million of liquidity facilities (March 2021: £375.0 million), consisting of £244.0 million to finance debt service costs and £131.0 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.

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, 66.6% (March 2022: 68.9%) of the company's borrowings were at rates indexed to inflation, 26.2% (March 2022: 25.1%) were at fixed rates and 7.2% (March 2022: 6.0%) were at floating rates. At 31 March 2023, the proportion of inflation debt to regulated capital value was 47.9% (2022: 51.4%).

Pension funding

At 31 March 2023, the closed defined benefit scheme had an IAS 19 accounting pension surplus (before deferred tax) of £51.1 million, compared to £163.4 million at 31 March 2022. This decrease in surplus reflects a decrease in the scheme's liabilities resulting from an increase in the corporate bond rate used to discount those liabilities on an accounting basis compared to a greater decrease in our assets which are hedging gilt-based liabilities.

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 anglianwater.co.uk/our-reports

Performance commitments

Ofwat uses a set of performance commitments, referred to as Outcome Delivery Incentives (ODIs), to measure our progress through the Asset Management Plan (AMP) period. These performance commitments are summarised below, with information on how we monitor our progress, how we've performed this year and whether rewards or penalties are attached to each¹.

Operations were significantly impacted by the extreme weather over the year leading to record soil moisture deficits. This principally affected three ODIs – Burst Mains, Interruptions to Supply and Leakage – and accounted for the majority of the total penalty.

¹ Please note, the total is calculated in 2017/18 prices and does not match the sum of the individual performance commitment rewards and penalties due to rounding.

Against some measures, such as pollutions, we have not met the high standards we set for ourselves. In others, like leakage, we find ourselves at the forefront of our sector but still in penalty, when others with higher levels of leakage may not be in the same position.

Overall, we have performed well in a number of areas that are of utmost importance to our customers, such as drinking water quality (Compliance Risk Index, Event Risk Index and water quality contacts), water efficiency (Per Capita Consumption), leakage, environmental protection (abstraction, bathing water quality and WINEP delivery), carbon reduction, and helping the most vulnerable in society with additional support, while keeping bills affordable and providing good value for money (Totex).

Resilient business

What are we measuring?	How are we measuring it?	Prior year performance (2021/22)	Current year performance (2022/23)	Current year target (2022/23)	Reward or penalty outcome for 2022/23
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.	5.2%	5.2%	22.0%	n/a
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.	0.75%	0.74%	9.75%	n/a
Percentage of population supplied by single supply system	Percentage of population served by a single supply system. Our goal is to reduce the number of properties served by a single supply system, so that if something goes wrong at one works, our customers' water supplies are protected.	22.7%	22.3%	21.8%	£0
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.	Ongoing	Ongoing	100% by 2025	n/a

Risk of severe restrictions in drought: Our twin-track strategy to balance supply and demand, plus decades of investment in resilience, was evidenced this year when we did not need a temporary usage ban (commonly referred to as a hosepipe ban) during the drought. Our progress in building a more integrated and resilient network is clear, given the record soil moisture deficits and peak temperatures seen in this region through the year. See also 'Supply meets demand' performance commitments.

Risk of sewer flooding in a storm: This measure is based on modelling that predicts the likelihood of flooding in our network in a 1-in-50 year storm. Targeted investment such as £100 million for storm tanks and sustainable drainage solutions (between 2020 and 2025) has helped increased storm capacity. See more on page 43.

Percentage of population supplied by a single supply system: This measure is linked to the delivery of our strategic interconnector grid (see more on page 33) which, on completion, will provide more than 80% of customers with a dual supply system. We have reprofiled delivery based on supply chain issues earlier in the AMP, but the project remains on track.

Cyber security: We have adopted appropriate processes and controls to protect our systems, staff and customers across our information technology and operational technology services. We use a hybrid delivery model of in-house cyber professionals and outsourced 24/7 Managed Security Services, managed by Airbus. We operate a programme of continual improvement and risk reduction with the oversight of the Audit Committee. Our progress is ongoing.

A smaller footprint

What are we measuring?	How are we measuring it?	Prior year performance (2021/22)	Current year performance (2022/23)	Current year target (2022/23)	Reward or penalty outcome for 2022/23
Operational carbon	Percentage reduction in carbon emissions from day-to-day operations compared to a 2019/20 baseline.	9.4%	6%	6%	n/a
Capital carbon	Percentage reduction in carbon emissions from construction activity measured in tonnes of CO ₂ equivalent compared to a 2010 baseline.	63.1%	63.2%	63.0%	n/a

Capital and operational carbon: Our operational carbon target of 10% reduction is phased over the AMP. Last year was an exceptional result of 9.4% against a target of 4%. This year we have met our 6% target. We continue to work in line with carbon reduction approaches.

Supply meets demand

What are we measuring?	How are we measuring it?	Prior year performance (2021/22)	Current year performance (2022/23)	Current year target (2022/23)	Reward or penalty outcome for 2022/23
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.	6.1% reduction	7.5% reduction	8.5% reduction	-£1.33 million
Per capita consumption (PCC)	A percentage reduction in the average water consumption per household per day for properties in our region, on a three year rolling average.	3.4% increase	2.5% increase ²	3.2% reduction	n/a
Smart metering delivery	The number of smart water meters that are installed at customer properties.	310,321	543,686	657,838	n/a
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.	1.5Ml/d	6.5 Ml/d	0 Ml/d	n/a

Leakage: For the first time since 2010, we missed our regulated leakage target owing to the weather impacts both in summer and winter. At 179.5 Ml/d, our three year rolling leakage continues to improve and is now 7.5% below 2019/20 levels and builds on our industry-leading leakage performance last year. This year we find ourselves in an ODI penalty while also being sector-leading. See more on pages 11 and 41.

Smart metering delivery: We are rolling out smart meters at a rapid rate – an average of 4,500 installations every week. Since the start of the AMP, we've installed more than 543,000 smart meters, 233,365 this year alone. Smart meters improve accuracy, allowing us to assess leaks using real, measured data. This leads to more robust reporting and more efficient targeting of leak detection activities, as current leakage calculation methods rely on assumptions and allowances for customer night usage. The installation programme has been affected slightly by issues with microprocessor availability, which has delayed deliveries of smart meters and caused us to miss the in-year target. We remain on course to complete installations in one million homes by 2025.

Per capita consumption (PCC): Provisional PCC figures show a reduction of around 5% on a single-year basis to 129.3 litres down from 136 litres in 2021/22. This is a significant reduction on the 146.9 litres in 2020/21, when the Covid pandemic saw water usage increase as a result of more hand-washing and people staying at home. This is our best-ever annual score on the single-year measure since it was introduced by Ofwat in 2017/18. The three-year rolling average which we have to report on for this performance commitment is still impacted by higher usage following the Covid pandemic. Customers have been supported to use less water through behavioural change campaigns, smart metering and our associated 'My Account' app. In addition, smart meters have helped pinpoint 93,000 customer-side leaks, saving customers water and money.

Internal interconnector delivery: Delivered through our partners that make up the Strategic Pipeline Alliance, our new interconnecting pipeline will bring water from areas where there is a natural surplus, leaving more water in environmentally sensitive areas. Efforts to overcome supply chain challenges mean we are now 100% purchased on steel and have planning permission granted for about two-thirds of the route, giving us confidence of delivery.

² Our current year performance is subject to finalisation.

Flourishing environment

What are we measuring?	How are we measuring it?	Prior year performance (2021/22)	Current year performance (2022/23)	Current year target (2022/23)	Reward or penalty outcome for 2022/23
Pollution incidents	Number of pollution incidents due to escapes from our sewerage network per 10,000 km of sewer network.	33.75	33.36	23.00	-£4.61 million
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).	32	32	34	n/a
Abstraction Incentive Mechanism	An incentive to reduce the water we take from sensitive rivers or wetlands during very dry periods.	-376 MI	17 MI	-87 MI	-£0.05 million
WINEP		1,184	1,399	1,126	+£2.24 million
WINEP delivery	The progress of the company in delivering its agreed Water Industry National Environment Programme (WINEP) schemes in a timely manner.	Met	Not met	Met	n/a
Natural capital	This measures progress towards meeting improvements in natural capital within our region.	Fail	Fail	On track	n/a
Regional collaboration	This measures progress towards the development of a regional approach to assessing and considering natural capital.	On track	On track	On track	n/a
Sludge treatment capacity	This measures progress towards delivering additional sludge treatment capacity.	0%	0%	100% by 2025	n/a

Pollution incidents: Serious pollutions reduced this year from 14 in 2021/22 to 11, but we remain significantly off target. While classified as 'serious', none of the pollution incidents in the period resulted in the death of fish. Following close review, we know the very narrow watercourses, owing to the heavily drained nature of our region, create an increased vulnerability for serious pollutions. This is something we are looking to address. Our Category 1-3 pollutions per 10,000km sewer totalled at 33.36. In 2021/22, the total was similar at 33.75. Our performance remains off target and improving our pollutions performance is an absolute priority. This year, our self-reporting has continued to improve. The progress we are making on our Pollution Incident Reduction Plan will give us greater insight on asset health, but it will take time for the cumulative benefit to feed through to our results. See more on pages 11 and 43.

Bathing waters attaining 'Excellent' status: 94% of our coastal bathing waters were rated as 'Excellent' or 'Good': 32 were rated as 'Excellent', eligible for Blue Flag status, 13 were rated as good, two as sufficient, and one poor. Investigations at the poor site have ruled out our assets as the cause. Despite being a strong result equal to last year, a decline in Norfolk bathing water quality has caused us to miss the in-year target. A recent 'Source Apportionment' study found our assets are not the primary cause for this decline. See more on page 44.

Abstraction Incentive Mechanism: The Abstraction Incentive Mechanism exists to encourage additional, temporary reduction in abstraction at four particular sites and in dry conditions, when this is operationally feasible. This year we were able to make reductions at two sites, with no change at a third site.

At a fourth site we did not have an opportunity to reduce abstraction as a neighbouring source was out of service, and we therefore missed our target this year. This measure is unrelated to our 100% compliance on annual abstraction licences, which, cited elsewhere in the report, was important to safeguard the environment through the drought. At the same time we are proceeding at pace with our strategic pipeline, which will enable us to reduce abstraction by 31,025 MI per year, the largest commitment on abstraction reduction in the industry, as outlined in our Water Resources Management Plan.

Water Industry National Environment Programme (WINEP): Our WINEP is one of the biggest environmental programmes in the sector, worth £811 million between 2020-2025. So far, more than 300 schemes have been delivered early. We have worked hard again this year to deliver another significant tranche of obligations ahead of schedule. This includes our work to investigate and remediate storm spills, and deliver nine flow-to-full-treatment (FFT) schemes this year, four of which were delivered early.

Natural Capital: This performance commitment captures improvements across four sub-measures; water quantity, ground water quality, surface water quality and biodiversity. We must be on track across all four to be on target. This year, we were ahead of target on biodiversity net gain and surface water quality, and on target for ground water quality. However, on water quantity, which tracks the rolling three-year average for the total volume of water put into supply in relation to our regional population, was higher than the target, owed to household water use being higher than predicted, although we are now seeing that reduce.

Delighted customers

What are we measuring?	How are we measuring it?	Prior year performance (2021/22)	Current year performance (2022/23)	Current year target (2022/23)	Reward or penalty outcome for 2022/23
Customer Measure of Experience (CMeX)	Customer survey conducted for Ofwat called CMeX which assesses the experience the company provides to residential customers.	80.4/100, putting us in 9th place	78.8/100, putting us in 10th place	This is a comparative measure – we aim to perform in the top 25% of companies (4th position or higher)	-£0.29 million
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.	87.54/100, putting us in 7th place	87.3/100, putting us in 9th place	This is a comparative measure – we aim to perform in the top 25% of companies (4th position or higher)	£0
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.	58	53	150	+£0.6 million
Internal sewer flooding	The number of times that properties are flooded internally per 10,000 customer connections to the sewer.	1.73	1.69	1.58	-£1.2 million
External sewer flooding	The number of times that properties are flooded externally.	4,181	4,673	4,091	-£2.4 million
Non-household retailer satisfaction	This measure assesses the service provided by the company to non-household retailers.	90.2	86.7	76.9	n/a
Water supply interruptions	Average length of supply interruptions per property (for interruptions over three hours).	9m 47s	14m 35s	5m 45s	-£10.13 million

Customer Measure of Experience (CMeX): Disappointingly, we have slipped to 10th place in the CMeX ranking this year, which is just below the average position for the industry. This means we will incur a penalty of around £0.3 million. Customers preferences are changing, with a growing desire to interact and transact digitally. To deliver this, we have consciously allowed our digital channels to grow, making the experiences as effortless for customers as possible. Due to the varying survey and contact channels used and the known differences in satisfaction rates, the current CMeX methodology favours non-digital contacts, such as a phone call. Due to the range of digital channels we offer, more than 60% of our contacts are now via a digital channel. As a result our CMeX score is disproportionately lower than if the volume of our digital contacts was less. We stand by our decision to respond to customer feedback and act on what they have told us is important. We are pleased to be working with the industry and Ofwat to identify what changes may be needed for CMeX to adapt to the changing customer demand.

Developer Measure of Experience (DMeX): We are the median company (9th) this year, meaning we receive no penalty or reward.

Internal and External sewer flooding: The self-cleansing nature of sewer pipes means a dry year can also lead to more blockages and flooding. The drought, coupled with the scale and features of our sewer network, created the perfect conditions for blockages to accumulate in many locations. As a result, we did not meet our target and will incur a penalty. We are working on combatting this by enhancing our jetting programme and through our Dynamic Sewer Visualisation programme. See more on page 43.

Water supply interruptions: A significant proportion of our total penalty this year is a result of our interruptions to supply. Almost half of the score for the year was incurred during the summer heatwave and drought period. As customers are on water 99.99% of the time, their willingness to invest bill money in this area has been and remains low. Read more about how our teams worked through extreme temperatures to minimise customer impact on page 50.

Properties at persistent risk of low pressure: We have continued to reduce the number of properties at risk of persistent low pressure, removing five properties from our low pressure register this year. A combination of investment and operational investigations means we are ahead of target for 2022/23.

Fair charges, fair returns

What are we measuring?	How are we measuring it?	Prior year performance (2021/22)	Current year performance (2022/23)	Current year target (2022/23)	Reward or penalty outcome for 2022/23
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.	0.12	0.10	0.35	+£1.18 million reward
Value for money	A survey of customers by the Consumer Council for Water about the value for money provided by the company.	77% agree we provide good value for money	81% agree we provide value for money	81% agree we provide good value for money	n/a

Value for money: We regularly engage with our customers on key issues such as value for money. This year, we reinstated our customer Board, which facilitates two-way conversations on our performance, where we have explained how we are maximising bill-payers' money to deliver environmental and social benefits within the region.

The average Anglian Water customer bill is £1.35 per day, pegged down by our efforts to keep bills low. Since privatisation, our bills have risen little more than 10% (excluding inflation), against an industry average increase of 40%. Where we have needed to increase charges, we have matched this with a strong package of support for vulnerable customers. We maintain the fairest way to bill our customers is to charge for what they use, and 83% of customers do so, based on meter readings, aiding water efficiency.

Safe, clean water

What are we measuring?	How are we measuring it?	Prior year performance (2021/22)	Current year performance (2022/23)	Current year target (2022/23)	Reward or penalty outcome for 2022/23
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.	4.04	2.92 ²	0.00	-£1.1 million
Water quality contacts	The number of complaints from customers about water quality per thousand people served.	1.03	1.01	0.93	-£0.2 million
Event Risk Index	This assessment looks at the company's approach to risk mitigation of water quality events.	0.972	2.77 ²	15	n/a

Compliance Risk Index: This year our provisional Compliance Risk Index score is 2.92. Whilst we missed our target and we aren't where we want to be, our 2022/23 score reflects a 29% improvement on 2021/22. Furthermore, our score is well ahead of the 2022/23 provisional industry average of 5. This reflects the success of our improvement programmes targeted in the areas of coliform and E.coli detections at Water Treatment Works' finals and storage points, and taste and odour detections at customers' taps.

Event Risk Index: Our provisional score for 2022/23 of 2.77 is well within our target and significantly below the provisional industry average. It reflects our robust processes to minimise impact on customers during planned work and our reactive response.

Water quality contacts: This is our best-ever result. Although we have narrowly missed the ODI, in the face of the operational challenges this year, to receive such a low level of complaints demonstrates our robust processes to minimise customer impact.

² Our current year performance is subject to finalisation.

Positive impact on communities

What are we measuring?	How are we measuring it?	Prior year performance (2021/22)	Current year performance (2022/23)	Current year target (2022/23)	Reward or penalty outcome for 2022/23
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.	9.6% reach 62% actual contact 100% attempted contact	11.4% reach 62.4% actual contact 100% attempted contact	6.1% reach 35% actual contact 90% attempted contact	n/a
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.	52.5%	61.8%	56.5%	n/a
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.	324,750	344,483	292,577	n/a
Community investment	The percentage increase in community investment programmes through which the company adds social value to its communities (compared to 2020/21).	137.5%	104%	2.0%	n/a
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.	0.34	0.09	0.02	n/a
BSI Standard for Inclusive Service	To maintain certification for the British Standard for Inclusive Service Provision (BS 18477).	Maintained	Maintained	Maintained	n/a
Partnership working on pluvial and fluvial flood risk	Investments delivered working in partnership with other organisations to protect infrastructure from flooding.	35	49	92 by 2025	n/a

Priority services for customers in vulnerable circumstances: We are significantly ahead of target on all areas relating to our support for vulnerable customers, including, most notably, take-up of our Priority Services Register, which has already met the full AMP target. Now, 11.4% of customers are signed-up to the PSR against a national average of 5%.

Helping those struggling to pay: We supported in excess of 330,000 customers with a £65 million cost-of-living package, and announced £135 million in support for 2023/24. See more on pages 46 to 52.

Community Investment: In our pursuit to bring social prosperity to our region, in 2022/23, we directly reached or supported an estimated 58,267 people through our community investment activities, delivered by ourselves and through our Alliance partners. Our ODI target is 2%, we outperformed, achieving 104%.

Partnership working on pluvial and fluvial flood risk: Our flood partnership approach has resulted in 49 outputs being achieved collaboratively so far this AMP. One example is our continued engagement through the Norfolk Strategic Flood Alliance, supporting a catchment-based approach to protect Norfolk communities and infrastructure against the risks of inland and coastal flooding, as well as drought. Our work is one part of the puzzle to deliver an ambitious multi-agency approach that reduces risk, rather than focusing on response. Our partnership match-funding and outputs delivered increase sharply in years four and five of this AMP, so we are confident we remain on track to meet our commitment of 92 outputs.

Investing for tomorrow

What are we measuring?	How are we measuring it?	Prior year performance (2021/22)	Current year performance (2022/23)	Current year target (2022/23)	Reward or penalty outcome for 2022/23
Mains repairs	Number of repairs made to water mains per 1,000 km of total water mains.	122.2	173.2	136.2	-£4.4 million
Unplanned outage	Percentage of maximum water treatment works output unavailable during the year.	1.72%	1.91%	2.34%	Met (penalty applied if unmet)
Sewer collapses	Number of sewer collapses per 1,000 km of sewers.	5.44	5.2 ³	5.50	Met (penalty applied if unmet)
Treatment works compliance	Percentage of water and sewage treatment works meeting permits for the quality of water discharged to the environment.	98.22%	98.57%	100%	-£0.6 million
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.	3,322	5,140	3,063	n/a

Main repairs (and reactive mains bursts): Climate-related events in both summer and winter impacted burst mains performance. In our heavily drained region with clay and other soil types, underground assets are particularly susceptible to ground movement, especially in dramatically changing environments experienced this year. Our teams worked hard to minimise the impact on customers, and deploying our Anglian Water Force incident teams where needed. In Ely, the only community that was significantly impacted through the whole period, we were praised by customers for our quick response. Our records show that December 2022 saw our highest ever burst main repairs recorded since 2011/12.

Treatment works compliance: Our compliance improved from 98.2% (2021) to 98.6% in 2022 and we recorded fewer failing treatment works. This continues to be a significant area of focus.

Sewer collapses: This is a measure of the health of our water recycling network. We have delivered an improved level of performance this year by focusing our investment on our highest risk sewers and rising mains.

Unplanned outages: These are a measure of the health of our water treatment assets. It is the percentage of capacity (peak week production capacity) unavailable throughout the year. We have maintained a low level of outage this year.

³ Our current year performance is subject to finalisation.

Our environment

Protecting and enhancing our region's environment could not be more fundamental to our business. It is critical to securing long-term resilience for our water supplies and is underpinned by our purpose.

281% biodiversity net gain delivered (2022: 302%)	94% of our coastal bathing waters are rated 'good' or 'excellent' (2022: 94%)
£811m of environmental enhancement being delivered between 2020-2025 (2015-2020: £360m)	99% of our Special Sites of Scientific Interest in a favourable condition (2022: 99%)
11,000m³ of additional capacity helped achieve the lowest average number of spills in the industry	63.2% reduction in capital carbon against 2010 baseline (2022: 63.1%)
No hosepipe ban needed despite the summer drought, showing excellent demand management and resilience	

Our environment continued

Our region is the most challenged in the UK - water stressed, on the front line of climate change, a rapidly growing population and with many special habitats such as the Broads national park to protect. This is why we have one of the largest Water Industry National Environment Programmes (WINEP) in our industry, worth £811 million. Coupled with our extensive investment strategies to reduce abstraction, reduce leakage, increase supply, build resilience to drought and reduce demand from customers, it makes us one of the biggest investors in the East of England's environment.

This year we've ploughed £93 million into 224 schemes, including making improvements to bathing water quality, increasing the capacity of water recycling centres to treat more sewage and installing more storm tanks at water recycling centres to reduce storm overflow spills, which we reduced to our lowest level yet.

In addition, we've committed to Get River Positive by 2030 with five bold pledges to make rivers the healthiest they can be, setting a benchmark for the industry. Through the initiative, we are investing in and convening partners across our region to improve river health.

We've had substantially fewer storm spills this year, with one of the best results in the industry, which is evidence of our commitment to take action on customer priorities and that we are focused on the right areas. But we need to work harder to ensure no environmental harm is caused by our assets.

This year we fell short of our ambitions for pollutions. Whilst we have taken action to bring about improvements, our total number of pollutions remain similar to last year, see page 43.

In July 2022, our new Director of Water Recycling, Emily Timmins, was appointed to bring about the change we want to see. Sitting on our Management Board, Emily has implemented predictive analytics and machine learning at pace that will give us the insight we need on asset performance. The early data gives us confidence we are on the right track, but we also know it will take time to see the cumulative impact of these actions transpire into results. Recognising the need to go further and faster still, we are working hard to get back on the glidepath to zero serious pollutions and zero harm from our assets.

In addition, we have delivered several environmental benefits over the year; from leakage reductions, abstraction compliance, progressing our Get River Positive pledges and achieving biodiversity net gain of 281%.

“

Although we are two years ahead of our storm overflow spill target, we regard any spill as unacceptable. We need to go further, so, we're bringing in smart technology and machine learning at pace to help predict and prevent pollutions.”

Emily Timmins
Director of Water Recycling

We went further still to protect the environment this summer during the drought.

1,653 megalitres

put directly into environmentally sensitive river systems across our region during 2022, supporting the environment during times of low flow.

We deliberately reduced abstraction at our Wansford abstraction point, enabling farmers to continue irrigating their crops through the hot, dry summer, safeguarding food production, as well as supporting downstream RSPB nature reserves and fisheries.

100%

compliance on our annual drinking water abstraction licences. This meant we avoided additional stress on the environment during the drought.

99.7%

of the water we receive is processed, treated and returned to rivers as it should be.

No hosepipe ban

needed during 2022's exceptionally hot, dry summer. Despite record soil moisture deficits in our region, we did not need to deploy a Temporary Use Ban. This was made possible through years of consistent investment on supply options and reducing demand through low leakage. We supported our customers throughout the summer to make water smart decisions to protect the environment.

Our environment continued

Managing supply and demand

Reducing the amount of water we take from the environment is one of the greatest things we can do to protect it. Our twin-track approach to reduce demand and increase supply has enabled us to build resilience over decades, which meant during this summer's drought we avoided the need for drought permits, despite record soil moisture deficits in this part of the country. Nonetheless, we have a growing population to serve and we're building a ground-breaking interconnected pipeline, amongst other infrastructure, to bring in water from more sustainable sources.

Strategic pipeline builds resilience

Together with our Strategic Pipeline Alliance (SPA) partners: Costain, Farrans, Jacobs and Mott MacDonald Bentley, we're delivering the biggest infrastructure programme in Anglian Water's history. Our pipeline will be key to moving water around the region to improve resilience to drought and keeping fresh, clean water flowing to homes and businesses.

The new network – hundreds of kilometres of interconnecting pipelines – will allow us to move water from areas where there is a surplus to areas where there is not – protecting vulnerable habitats by allowing us to reduce abstraction in sensitive environments.

Starting at Elsham in North Lincolnshire, the pipeline will end near Colchester, in Essex, and Ipswich, in Suffolk – making it as long as the M1 motorway.

Commissioning of the 12.5km Norwich to Wymondham section is now complete. The next section to be commissioned is the 34 kilometres linking Lincoln and Grantham. Planning permission has now been granted for the route of the 70-kilometre stretch between Bexwell and Bury St Edmunds, meaning permission is now in place for about two-thirds of the route.

Record low leakage

To ensure there is enough water to serve the growing population in this region, in addition to building new infrastructure, decades of investment have helped us to achieve our long-standing track record on leakage. In response to the operational challenges this summer, **we invested to boost the number of leakage teams by a third. More than 100 leakage repair crews and all leakage resource was diverted to emerging, critical bursts which enabled us to minimise water lost as quickly as possible.**

Retaining the additional resource also helped us weather the subsequent freeze-thaw in December. The huge swing in temperatures led to significant ground movement and a spate of bursts that added 60 megalitres of water loss to our leakage total. The additional repair teams recovered the loss in six weeks.

544,000+ smart meters fitted

Smart meters support customers to understand and reduce their usage and help us identify leaks. Helping customers look after their domestic plumbing is a fundamental part of our forward plan to reduce demand for water.

We're on track to reach our 2025 target to install smart meters in 1.1 million homes. Since 2020, we've installed over 544,000 smart meters in what is one of the most ambitious roll-outs in the industry, with approximately 4,500 weekly installations, around one in four homes now has a smart meter. Our entire smart meter programme will be complete by 2030.

High penetration of smart meters gives us access to an unprecedented scale of data, with 12 million reads a day. This enables us to differentiate between customer use and leaks at a granular level. For example, in one District Metered Area, we saw higher night flow across many properties during spring – potentially indicative of a leak. This change in use coincided with the month of Ramadan.

The data enabled us to recognise this was normal night-time usage for this community, and we did not need to send a technician to investigate.

Our smart meters helped us identify 104,589 properties with continuous flow last year, of which 12,964 were identified and fixed directly by customers. We supported customers to fix a further 93,074 leaks. This resulted in 25 Ml/d of leakage or plumbing loss being resolved.

Our focus on metering over decades has resulted in our customers being some of the most water efficient in the country. Our MyAccount app provides smart meter updates, enabling customers to monitor their water usage, see comparisons to similar households and stay more in control of their bill.

Innovation in action: Flora growth helps identify leaks during drought

We've used drone technology to detect leaks for a number of years. This has helped us reduce leaks even further throughout 2022. During the hot summer and drought, our quick-thinking teams repurposed the drones to spot flora growth amongst the arid landscape, which helped us to identify leaks in a new way.

Our environment continued

Encouraging customers to Love Every Drop

Our behaviour change programmes also support customers to think differently about water. We continually encourage our customers to consider their water usage and make positive changes. For example, during the drought, we ran a seasonal campaign to help customers save water, which reached 2.9 million people on our social media channels alone. Our ‘shorter shower’ campaign focused on helping customers to reduce their energy bills as well as water consumption. This tied in with our wider cost of living campaign, which aimed to raise customer awareness of our cost of living affordability schemes. As part of the campaign, 6,000 Anglian Water bathroom kits have been sent out since January 2023.

Sustainable solutions to flooding

Keeping rainwater out of our sewers using nature-based solutions is one way we are reducing the risk of flooding and reducing storm overflow spills. It is why we are accelerating our programme of Sustainable urban Drainage Systems (SuDS). SuDS are a great solution for urban areas, combining drainage materials, plants and soil to help retain water and allow it to soak away naturally.

We’ve been working in partnership with developers and local councils to help deliver more than 100 SuDS projects since 2012. This past year, we have worked alongside the department for education helping fund SuDS in schools, which typically have expanses of impermeable surfaces, like playgrounds. This has made schools more resilient to extreme weather, as well as teaching young people about flood risk and sustainability.

Due to the Government’s recent announcement to implement Schedule 3 of the Flood and Water Management Act, SuDS will become mandatory for new developments. This is an issue we have campaigned on for a long time, and the resulting change in policy will help us manage flood risk and storm overflow discharges in future.

We are also funding an increasing number of nature-based solutions, including a beaver release near Finchingfield in Essex. These beavers have already started to create dams in the upper catchment which slows flow and reduces the flood risk to the middle and lower catchments. This was previously an area which suffered from flooding but now, thanks to nature’s engineers, the risk has been significantly reduced.

Water on tap for generations to come

We have announced plans for two new reservoirs – one in Lincolnshire, and another in The Cambridgeshire Fens in partnership with Cambridge Water.

The Fens is one of the UK’s areas most exposed to climate change impacts; on the frontline of rising sea levels, it’s at growing risk of severe tidal flooding. It is also the driest part of the country, with water shortages a real and increasing risk. As home to more than half of the UK’s most fertile land, agriculture here provides a fifth of the nation’s crops and a third of its vegetables. Prolonged drought would pose enormous challenges to food production.

The reservoirs will serve multiple purposes beyond water supply security. Designed with greater outcomes in mind, they will also alleviate flood risk, support agricultural irrigation to provide food security, provide amenity and help to regenerate this part of the Fens, which has patterns of rural poverty and deprivation. Find out how we are supporting adaptation in the Fens, [here](#).

Grafham Water in Huntingdonshire was built in 1965 and will be joined by the new new reservoirs proposed.

Our environment continued

Reducing pollutions

Our self-reporting of pollutions continued to improve in 2022/23. Importantly, we have made gains on our year-on-year comparative pollutions performance, however this has been offset by our decision to retrospectively report incidents in light of our new monitoring capabilities. We are one of a few companies to take a national lead on this.

Having looked closely at the drivers for pollutions and interrogating the unique features of our region in relation to these, we have been able to determine key areas of focus. For example, the narrow watercourses that are symbolic of our heavily drained region mean pollutions can travel greater distances and we need to address this. Similarly, the high proportion of rural communities in our region (90% rural, 10% urban) means we have many unmonitored remote locations across our asset base. This is now an area of focus. The rural nature of our region also means third-party damage to our assets is a primary factor and we are prioritising working with local stakeholders to bring about improvements.

We recognise we have more work to do, and having completed a detailed analysis, our Pollution Incident Reduction Plan is heavily geared towards specific asset types and protecting sensitive environments, as well as operational control, predictive analytics and operational excellence.

Our Dynamic Sewer Visualisation Programme will see us install more than 20,000 sewer monitors that provide coverage over 11,000km of our high and medium risk sewer network.

This is supported by our routine cleansing and jetting programme to prevent repeat blockages.

We're also using a new system, Storm Harvester, which uses machine learning to tell us how our sewer network is performing. Overlaid with weather forecasting data, the system alerts us when flow is up or down, with our analysts able to quickly identify whether flow is related to a weather event or a potential blockage and intervene accordingly.

Data is collected from each sewer monitor once a day for a period of three months. During this time, Storm Harvester assesses the typical pattern of the sewer level. When the level in the sewer deviates from what is expected, an alert is raised. As well as helping to prevent pollutions, the system is self-learning, so we expect the initial results to improve. This is just one of the ways in which we are using new technologies to reduce pollutions.

Supporting customers to 'Keep it Clear'

Blockages account for almost 40% of pollution incidents on our sewer networks. Installing monitors will help us detect a blockage forming so that we can clear it before it causes an impact.

We clear over 40,000 blockages every single year, caused by wrongly flushed items, as well as a build-up of fats, oils and greases. This equates to one blockage every five minutes - of which 80% are avoidable. Our partnership with ECAS to reduce the impact of food serving establishments has now been widened to domestic customers.

Furthermore, whilst we welcome calls to remove plastic from wet wipes, this will not necessarily stop them from blocking our sewers. Our ongoing 'Keep it Clear' campaign, which educates our customers on what is fine to flush (the three Ps - Pee, Poo and Paper), reached approximately three million customers in the last year.

Storm overflows

Storm overflows are designed to act as relief valves when the sewerage system is at risk of being overwhelmed, for example during heavy downpours when a lot of rainwater runs into drains and the sewers over a short period. Storm overflows are several decades old and removing them completely would be complicated, disruptive and expensive, with an estimated price tag of £600 billion to effectively re-plumb major towns and cities across the UK.

Since privatisation we have revoked the permits for 13% of our overflows, but we understand society wants us to go further. We have pledged to reduce spills to an average of 20 by 2025 and eliminate harm from storm overflows by 2030.

This year we met our 2025 target to reduce spills, with an average of 15 spills per overflow - the lowest in the industry which averaged 29.

We recognise one year of performance ahead of target does not mean the job is complete, but the progress and positive downward trajectory is clear. More than 86% of our storm overflows are fitted with Event Duration Monitors, and we will have full coverage by the end of the year, well before government's target.

We have made substantial improvements to our sewer network to reach this point, installing over 100 storm tanks this AMP, many of them ahead of schedule.

Our environment continued

In the past year, we've increased storm capacity at 40 sites adding over 11,000m³ of storm storage volume to the network.

Furthermore, we have launched an [interactive map](#) on our website showing where our storm overflows are located and data about how often they spilled in 2022. We are working to provide near real-time spill data by the end of 2023.

Biodiversity net gain

Recognising the responsibility we have to contribute to nature recovery, we are committed to deliver 10% biodiversity net gain across our capital schemes and land management activities where there is a material impact on biodiversity.

Over the past year, we delivered 281% net gain. Many of the enhancements were delivered via our @one Alliance, and through our land management activities.

Three new bathing waters

In April 2023 Defra announced four new inland bathing water designations, three of which were in our region. Our two bathing sites at Rutland Water received official designation along with a stretch of the River Deben near Woodbridge, where we carried out river water quality sampling to support the application. We continue to work with local river groups, swimming clubs, town councils and local authorities to support more applications for next year.

Coastal waters

Our ambition is for the majority of our customers to live within one hour of a designated bathing water site. Our Coastal Water Protection Team has safeguarded the quality of our region's bathing waters with stakeholder engagement, targeted investigations and investment this year as part of our WINEP investment programme.

This year 94% of our coastal bathing waters were good or excellent; 32 excellent and 13 rated good. 17 sites have Blue Flags and a further 20 have Seaside Awards which supports the tourism economies of those coastal towns, and is determined by the range of facilities on offer at those locations as well as the high quality of the bathing waters.

The introduction of PerFormic Acid (PFA) dosing at Southwold Water Recycling Centre in 2021/22 tied in with an improvement in the bathing water classification at Southwold the Denes beach from 'Sufficient' to 'Good'. The PFA trial continued this year and resulted in a further improvement to achieve the 'Excellent' classification. This is the first time this beach has achieved the highest classification and demonstrates the potential of PFA as a low carbon, environmentally friendly and cost-effective alternative to ultraviolet treatment.

The one 'Poor' location in our region, Heacham, has been thoroughly investigated with no link found between the decline in bathing water quality and our assets. A recent 'Source Apportionment' study identified birds feeding on the mudflats on the Wash as the largest source of bacteria impacting the bathing water quality.

Get River Positive

Our Get River Positive (GRP) initiative is underpinned by five pledges to protect and revitalise rivers, setting the standard for the industry. In the Anglian Water region we are responsible for 17.9% of the reasons rivers are not achieving good ecological status (RNAGs) – a number that is reducing as we continue our investment and improvements.

Commitment 1	Commitment 2	Commitment 3	Commitment 4	Commitment 5
Ensure storm overflows, sewage treatment works and abstraction do not harm rivers	Create more opportunities for everyone to enjoy our region's rivers	Support others to improve and care for rivers	Enhance our rivers and create new habitats so wildlife can thrive	Be open and transparent about our performance and our plans

Since launching in March 2022 we have progressed many actions; establishing the Rivers Trust Strategic Partnership, unlocking funding for a wetland on the River Stiffkey, partnering with global leaders like Microsoft and Avanade, convening an expert scrutiny panel to hold us to account, and launching our interactive storm overflow spill map. Shareholders reinvested £7 million to fund GRP and accelerate river health improvements over two years. We continue to progress our commitments, seeking match-funding from partners to leverage more capital and have an even bigger, collective impact.

Our environment continued

In these instances, our Coastal Team will work with local stakeholders to see what action can be taken.

Wherever there is a negative change in quality, we will investigate and wherever our assets are found to be linked, investment and remedial works are planned to ensure quality remains protected or improved.

99% favourable SSSIs

Part of our role in supporting the environment in the East of England is the management of 49 designated sites of special scientific interest (SSSIs). We are proud of our track record in this area, with 99% of our sites considered to be in favourable condition against a national average of just 38.23%.

Our commitment to net zero

In 2021, we made a commitment to reach net zero carbon by 2030. Our decarbonisation journey first began in 2010, when we set out to halve capital (embodied) and operational carbon. With committed leadership and a determined supply chain, by 2022/23 we'd reduced capital carbon, the carbon embodied in our assets, by more than 63.2% from our original 2010 baseline, and reduced operational emissions, the carbon used in running the business day-to-day, by 6% against a 2018 baseline. Our decarbonisation principles include offsetting unavoidable emissions through sequestration in our region, using nature-based solutions. Our approach to offsetting will see us prioritise credible schemes within our region or in the UK.

Where we cannot viably offset in the UK, we may invest in the international offset credit markets. Read more in our TCFD report, page 71 to 82, and in our net zero roadmap.

In our carbon reduction journey we're pioneering low-emission innovations, such as the UK's first all-electric sewage jetting van. The five-year project saw us work with engineers from Rioned and car manufacturer, Maxus, to develop the jetter. We believe it is the first of its kind and size in the UK. Used for cleaning sewer blockages, the four-tonne electric jetter is silent even while operational, allowing us to minimise disruption and noise during late night call-outs.

Wendling Beck Environment Project

The Wendling Beck Environment Project (WBEP) is a pioneering habitat creation, nature restoration and regenerative farming project covering almost 2,000 acres of farmland and chalk stream in the heart of Norfolk. The aim of the project is to create a blueprint to help farmers, landowners, environmental NGOs, and private companies across the UK evolve the way land is used, towards a model that is more environmentally and financially resilient.

Over the year, we invited Ofwat, Natural England and Defra to visit the project, which is a true exemplar of partnership working, demonstrating our commitment to outcomes-based environmental regulation and working in partnership with others. We also confirmed plans to plant two hectares of woodland with local charities Dereham Cancer Care and Mid Norfolk Mencap.

World's first ecological digital twin

We are creating the world's first ecological digital twin, in partnership with Microsoft and Avanade, based on the River Stiffkey catchment. Once complete, the digital twin will offer the ability to scale and trial ecological solutions, enabling new ideas and ways of working to be tested.



Video: More about Get River Positive

Innovation in action: Revolutionising pipeline commissioning

In a first for the UK water industry, with our Strategic Pipeline Alliance (SPA) partners, we developed an innovative new technique to clean the newly laid water pipe to food hygiene standards without using vast amounts of water. Known as Low Water Commissioning, we used it to flush the first section of the new network, a 12.5km pipeline in Norfolk.

A 700mm diameter pipe around a kilometre long would need around 380,000 litres of water to clean it by traditional means – a method and volume simply not tenable given the scale of our pipeline. Low Water Commissioning uses just 15% of the water in comparison by using compressed, dry, and clean air to drive slugs of water between swabs to clean and disinfect the pipes.



Not only is this work hugely beneficial for water quality in the River Wensum, which is fed by precious, rare chalk streams, it will also help improve soil and air quality in the area."

Chris Gerrard, Catchment and Biodiversity Manager, Anglian Water

£65m cost of living support package in 2022/23 (2022: £32.2m)	334,000+ vulnerable customers supported (2022: 277,418)
11.4% of customers in our region now on PSR register against national average of 5% (2022: 9.6%)	£2m+ distributed to customers through the Household Support Fund (new for 2022)
£2.6m of additional benefits identified for our customers (2022: £1.7m)	2.77 Our Event Risk Index score in 2022/23 (2022: 0.972)

Our customers and communities

The cost of living crisis has meant more customers and communities across the region are in vulnerable circumstances than ever before. We're doing everything we can to offer practical support and a listening ear.

Customers and Communities continued

Our purpose drives us to **deliver outstanding service and support to our customers.**

Internally, our purpose is brought to life through our 'Make Today Great' strategy, underpinned by our values – empowering employees to make a difference for customers at every interaction.

Our cost of living crisis support

Throughout the cost of living crisis we have helped customers stay on top of household finances.

This year our tailored affordability support package for customers totalled more than £65 million (and will be doubled in 2023/24), helping more than 334,000 customers with discounts, temporary payment plans, debt support schemes, payment breaks and hardship funds.

We significantly lowered the eligibility threshold for our social tariff, LITE, resulting in a doubling of customers benefiting from reduced bills. We now support more than 110,000 customers with a lower bill through LITE.

We utilise every avenue to reach people in need of support before they fall into arrears, including working with the Department for Work and Pensions

and Housing Associations to proactively identify customers in hardship. Using this data, we have been able to automatically passport more than 13,600 customers onto our financial support schemes.

Our trained Extra Care teams help customers create personalised plans to pay their bills and utilise our industry-first, all-in-one benefits assessment calculator to point customers towards additional cost-of-living assistance.

This year we conducted 63,149 Extra Care assessments, supporting 6,535 customers by identifying more than £2.6million pounds of unclaimed benefits, helping them maximise their income.

Our Extra Care team has also been on hand to support customers with payment plans and setting up direct debits, along with signposting them to the broad package of support we offer.

“Chloe helped me lower my monthly cost on water charges by listening to my situation, not being judgemental and offering some support to help me out. I felt like she made my year by being able to lower costs for me. It will really help me so much.”

Feedback from one of our customers

63,149

Extra Care assessments conducted.

£2.6m

The amount our Extra Care team has helped identify in additional benefits for customers this year.

WATCH VIDEO: Barney

Our Extra Care team includes people like Barney, who knows what it takes to push through tough times and come out stronger on the other side.

Customers and Communities continued

We're always exploring new ways to support our customers. This was reflected this year when we partnered with local councils in our region to distribute more than £2 million from the Government's Household Support Fund to people experiencing financial hardship.

Priority Services Register

Our Priority Services Register (PSR) enables our teams to support customers 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. We offer services from reading meters, to sending bills in other formats. However, many customers aren't aware they qualify for this service and we've been on a mission to redress that balance. We proactively get in touch with our PSR customers every two years at least, to check in and see if there's anything else we can help with.

"Lulu was so lovely, and helped me so much without judging or being abrupt, which is how normal companies are if you ring with problems due to financial issues. Times are so difficult and having someone who is kind, understanding and finds a solution to people's financial problems is virtually impossible nowadays, but Lulu did. What a great asset to your company, thank you."

Feedback from one of our customers

Recognised for our vulnerable customer support

Our commitment to supporting vulnerable customers and providing access to support services was reflected in our achievement of the new British ISO standard 22458: Customer Vulnerability, in January 2023. We are one of only two water companies to achieve this.

Customers on the Priority Services Register since 2018

We have significantly increased the number of customers on our Priority Services Register since the launch of our customer vulnerability strategy in 2018. At that time, we had 0.6% of customers, around 15,000 people, on the register. Today we have more than 11.4% of customers on our register, around 334,000 people. Many have also been helped with our cost of living financial support package.

We are proud to report PSR registrations now comprise 11.4% of our customers, putting us streets ahead of our end-of-year target of 6.1%, and our competitors, who are averaging around 5-6%. We have also surpassed Ofwat's 2025 target of reaching 7% of households.

We continue to identify and support more than 1,400 customers each week through our PSR team and remain committed to helping vulnerable customers in our community in line with our purpose.

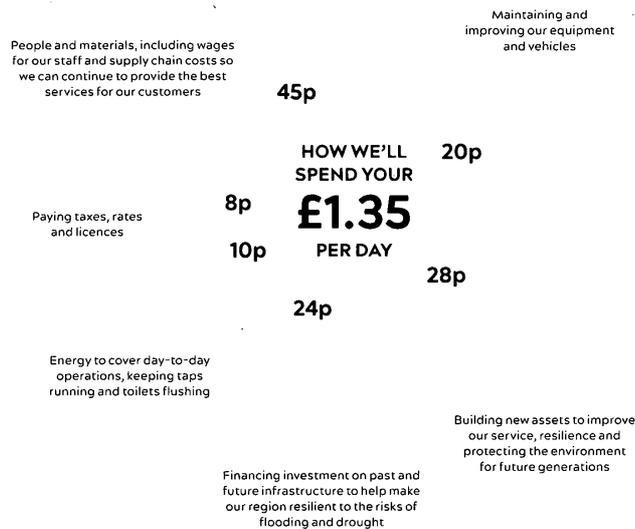
We have a dedicated customer partnerships team who help us form relationships with organisations that support specific community groups and those who are more challenging to reach, for example, those who are vulnerable and/or disabled. To read more about the work they do, see page 59.

Customers and Communities continued

Fair charges for customers in 2022/23

Our customers want services that provide value for money, 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 in the services that matter most to customers and prepare our region to meet the challenges of a rapidly changing climate and growing population.

From 1 April 2023, customers will pay, on average, £1.35 per day for all water and sewerage services. Below is a breakdown of how we spend that money.



Safe clean water for our region

We have recorded our best ever year for customer contacts about the appearance, taste and odour of their water. While we narrowly missed our very challenging ODI performance commitment, set at 0.93 complaints per 1,000 customers, this year's performance is exceptional considering the climate-related operational impacts experienced.

At 1.01 customer contacts per 1,000 customers (compared with 1.03 customer contacts per 1,000 in 2021) this is a strong performance.

Drinking water quality

This year the provisional Compliance Risk Index (CRI) score is 2.92. Whilst not quite meeting our Ofwat set target, we saw a 29% improvement compared to 2021 (4.04 in 2021). This reflects progress in our improvement programmes targeted in the areas of coliform and E.coli detections at Water Treatment Works' final water testing points and storage points, and taste and odour detections at customers' taps.

1.01

Number of customer contacts per 1,000 customers about the quality of their drinking water (1.03 in 2021/22).

Our provisional Event Risk Index (ERI) score for 2022 is 2.77 which is within our Ofwat set target of 15. This score reflects our robust processes to minimise impacts to customers during planned work and our reactive response, and is an impressive score given the year of climate-related operational impacts.

Water quality audit

One technical audit was carried out by the Drinking Water Inspectorate (DWI) as part of its risk-based audit programme relating to the regulation 28 risk assessment returns. The audit outcome was 'Generally Satisfactory', with a single recommendation to be followed up in 2023.

Throughout 2022/23, we reviewed and strengthened our approach to assuring compliance with the requirements of regulation 31 'Application and introduction of substances and products' to ensure our policies and procedures remain industry-leading. We also introduced a new Laboratory Information Management System (LIM) to enhance the management of both processes and data within the laboratory and for reporting to the wider business and stakeholders.

29%

The improvement in our CRI score compared with 2021/22.

Customers and Communities continued

Make Today Great

We're proud of our great customer service. In 2022/23 we surveyed more than 70,000 customers, with over 90% saying they were very satisfied with our service.

However, the comparative customer measure of experience score (CMeX), as measured by Ofwat, was 78.77/100, placing us seventh among our water and sewerage company peers, 10th overall (see page 35). This is not the position we strive to be in and we are using insight to inform our improvement plans. We listen to thousands of customers every year and use this feedback to make improvements, while continuing with our internal Make Today Great campaign to improve the service for customers.

To meet customers' evolving needs, we've launched our new WhatsApp service, which is achieving a 94% first time resolution.

Unlike a traditional chatbot, our WhatsApp service has a real person behind it, allowing customers to respond at their convenience. This service is inclusive and provides an easy channel for customers to communicate with us. We've been able to support customers whose first language is not English, as well as those with speech or hearing difficulties.

One customer said of the WhatsApp service:

"I have had a stroke which has affected my speech. Without this way of communicating, I would not have been able to sort my problem out."

Supporting our communities on the ground

In addition to diversifying our communications channels to meet our customers' needs, our people went to great lengths to Make Today Great for our communities through the summer.

Working through the prolonged hot spell, they responded to high work volumes generated by the extreme conditions and record temperatures.

Our people are dedicated to helping customers whatever the weather, as evidenced by our growing Anglian Water Force community - our Incident Response team made up of a huge number of employees in different roles to support during incidents.

This was the year Anglian Water Force was rolled out to all Anglian Water employees, with the aim of creating a much larger community of people who can support during an incident.

We had six incidents this year where we activated our Anglian Water Force, ranging from the drawn-out summer issues to power outages affecting key supply sites. Many used the summer demand as an opportunity to support their communities. Our people covered an average of 88% of the shifts available.

7.5 million+

digital interactions this year, with customers using online services to update their accounts, report service issues or book appointments, up 24.7% on 2020/21, to over 70% of total contacts.

Inclusive service

This year, in addition to achieving the new ISO for Customer Vulnerability (22458), we maintained our certification for the British Standard for Inclusive Service Provision.

Customers and Communities continued

“We’re Here To Help”

We operate five customer contact centres within our region, each of which is a critical part of our organisation.

“Many other call centres measure handle time, however we’ve removed that metric. It’s not about how quickly we come up with solutions, more that we find the right one, and nor do we want to rush vulnerable people.”

Jane Taylor, Head of Customer Services

Our aim is to understand our customers’ needs from their first interaction with us, reducing the need for call-backs. For example, this year, we have created a team of multi-functional agents who provide a one-stop shop, dealing with anything from a bill query to a blocked manhole.

This year, our main contact centre teams have undertaken specialist vulnerability training to help identify and manage vulnerable customers.

To raise customer awareness of our cost of living affordability schemes in 2022/23, we ran an extensive multi-channel marketing campaign reaching millions of people with clear messaging about the help we offer.

Our cost-of-living emails saw a record open rate of 67% – well ahead of the 31.3% benchmark, and across the campaign we saw traffic to our online support pages increase by 80%. We also sent out letters alongside our printed bills to people who don’t engage digitally to promote ways we can help.

This year our home-mover email campaign, which welcomes new customers when they move into the area, was recognised as an example of best practice, winning the ‘Most impactful campaign of the year by a B2C business’ award at the DotDigital ‘Dotties’.

The judges were impressed by the high levels of engagement with home-movers, as well as the dynamic way we used content and different touchpoints to tailor messages to customers throughout their first 90 days in their new home. This campaign saw open rates of 73.4% (2021/22), well ahead of the average of 11%.

97%
of our customer-facing staff agreed that ‘where I work, there is a strong emphasis on delivering great service to our customers’.

80%
increase in the traffic to our cost of living support web pages in 2022/23, as part of our efforts to raise customer awareness of the support we offer.

Customers and Communities continued

Contributing social value to the community we serve

More than 58,000 people were directly reached or supported by our community investment activities this year, including activities by our Alliance partners in the course of their work for us.

Our forthcoming Community Investment Report, to be published in July 2023, outlines the work we've undertaken throughout the year.

Strength in diversity

Our Strength in Diversity programme seeks to diversify our business by targeting specific towns in our region and working with schools, community groups and jobseekers to support them into work.

In 2022 we launched our programme in Peterborough, which has a high population of Black and Asian residents in relation to our wider region. As part of the programme, we have attended jobs fairs, run employability workshops, hosted a Women in STEM Day for Peterborough schools and invited 18 pupils to take part in a work experience activity.

We have seen great results from the programme to date. This year we saw an increase of 16% in new hires in Peterborough from Ethnically Diverse Communities, an increase from 10% in 2021. This far exceeds our target of 2% by 2024, and we are continuing the programme while also monitoring our progress to ensure this promising trend continues.

We have extended our activities to Milton Keynes and Bedford, and our Education team is focusing its outreach in these areas to support this important work.

21 years of RiverCare

Last year we proudly celebrated the 21st anniversary of our partnership with Keep Britain Tidy. As the sole funders of the RiverCare and BeachCare programme, we empower community-led volunteer groups to look after their local environment and waterways.

The programme now supports 50 community groups with over 1,000 volunteers across the region that help us keep rivers litter-free and undertake work to enhance biodiversity.

RiverCare and BeachCare participant feedback:

97% of volunteers said that being part of the programme gave them a greater appreciation of their local watercourse or beach.

94% said that their group was addressing a real need in their area.

98% said that volunteering helped them feel more connected with their local community.

2,200

books were donated by our Strategic Pipeline Alliance to 11 schools along the various routes of the new water network in partnership with reading charity, Bookmark. In addition, some of our people have volunteered to work alongside children as reading buddies and help create 'story corners' to give youngsters a space to read.

“

We're delighted with our new books. It will help our children build their enthusiasm for reading and develop a better understanding of the environment around them, in particular the importance of fresh, clean water.”

Alma McGonigle
Headteacher of Nova Primary Academy

Our people

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. Together, we build trust, we do the right thing and we are always exploring.

46% reduction in our accident frequency rate (2022: 0.07, 2021: 0.13)	4,500 attended our Time Out for Life event (See page 55)
 Achieved Disability Confident Employer status in November 2022	 Achieved ISO 45003 certification – Psychological health and safety at work
85% of our people said they felt more in control of their financial wellbeing after attending our Talk Money Week sessions (See page 55)	86% of our people believe we are an inclusive place to work (See page 57)
Times Top 50 Employer for Gender Equality	RoSPA Gold Award 7th consecutive year

Our people

Health and safety

Keeping our people safe and well is at the heart of our culture. Our safety performance has improved this year, with a reduction of 25% in serious accidents and near misses across the organisation compared with the same period in 2021. Our accident frequency rate has also significantly improved by 46% to 0.07, compared with 0.13 last year.

Our approach to health and safety was recognised with a prestigious RoSPA Gold Award for the seventh year in a row. We also received a RoSPA Fleet Safety Gold Medal for the fifth year in a row for managing occupational road risk, alongside a RoSPA Commended in the Safe@Work-Safe@Home Trophy. This commendation recognises how we have demonstrated innovation in promoting safety and protecting our employees in their lives outside of the workplace, in the home and in local communities.

We also successfully maintained our ISO 45001 accreditation for Health and Safety Management through a robust audit process from BSI.

We've continued to focus on behavioural safety through our Safe LIFE campaign, which focuses on the behaviours and choices we all make on a day-to-day basis.

We ran a virtual 'stand-down' event which saw more than 400 people attending. Our in-person LIFE Fest event was attended by more than 1,200 people. Both events focused on mental and physical wellbeing as well as behavioural safety, and received positive feedback from attendees.

This year we have utilised technology to increase safety engagement, launching a risk assessment app to help keep our people safe at the front line. Over 190,000 assessments have already been completed on the app. We also built a new action tracking system to help managers manage health and safety actions and near misses.

Health and safety leadership training continues to be rolled out with a positive impact across the business as a result.

Health and safety Metrics

	2018 /2019	2019 /2020	2020 /2021	2021 /2022	2022 /2023
Category 1 events¹					
• Reporting of Injuries, Diseases and Dangerous Occurrences Regulation (RIDDOR) reportable specified injury accidents					
• RIDDOR reportable non-worker/member of the public accidents	5	4	7	7	3
• RIDDOR reportable (potentially life-limiting) occupational diseases					
• Fatalities					
Accident frequency rate (AFR)					
• The number of reportable accidents in every 100,000 hours worked. Our AFR includes data from our own employees and our contractors	0.12	0.08	0.13	0.13	0.07
Sick absence – target 5 days					
• The average number of working days lost per employee due to sickness	4.60	4.54	3.77 ²	5.82 ²	5.04

1 In 2019 we made changes to the way we report on 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're comparing like for like.
 2 These figures exclude self-isolation and shielding due to Covid-19.

This year we were proud to achieve the ISO 45003 certification for psychological health and safety at work. This is the first global standard on managing psychological health in the workplace and reflects our efforts to create a working environment where our people feel safe and supported to be themselves.

Our people continued

7.7%

Consolidated wage increase for our people

In order to provide comprehensive support for our people as the cost of living crisis took hold, Anglian Water and the Trade Unions met early to agree a pay increase for all employees including the Executive Directors and for Non-Executive Director fees. This was in addition to the 4.6% pay increase applied in April 2022. All eligible employees received a further uplift of 7.7% of their salary but by introducing the pay increase early – effective from February 2023 rather than April, as is typical – the pay increase was spread over 14 months instead of just 12, increasing its value and making it available for employees sooner.

We agreed that this early pay rise should not apply to Executive Directors or Non-Executive Director fees, which were adjusted, by 7.7%, in April 2023.

To read more about remuneration updates for our workforce in 2022/23 see our Remuneration Report on page 127.

Prioritising employee wellbeing

Time Out for LIFE is our biggest-ever programme of health, safety and wellbeing online events, with everyone in Anglian Water and our capital delivery alliances invited to take part. This year approximately 9,000 employees had access to the event, and we were delighted that more than 4,500 joined us. This was the third consecutive year that we have run the event for our people, with 98% of attendees saying it was a benefit to them (97% in 2022).

5,500+

Our 'Talk Money Week' saw us focus on financial wellbeing, with 85% of our people saying they felt more in control of their financial wellbeing after attending.

Developing future talent

Our early careers programmes for graduates, apprentices and interns helps us build our workforce of the future.

We have made full use of our allocation of the Government apprenticeship levy, with a focus on areas where employment opportunities have been limited.

In 2022/23 we employed 63 apprentices, our highest-ever number, alongside eight graduates.

Our Graduate programme has been running since 2004 and continues to offer positions focusing on leadership across vital areas of our business, including environment, customer service and management of assets, alongside project management and engineering.

Early careers and women

We have a long-term strategy to improve the gender and ethnicity balance of our workforce to better reflect the community we serve.

This year we have seen a jump in the number of women graduates joining our business, from 33% in 2021 to 75% in 2022. The number of women apprentices in our business has increased too, from 10% to 24%. We also had an even gender split in our intake of interns (50:50), a positive trend we want to see continue.

To read more about how we are working to improve the gender and ethnicity composition of our workforce, see our Remuneration Report on page 127.

“

Apprentices and graduates have long been the lifeblood of Anglian Water. We are dedicated to making our early careers programmes a really attractive option so we can build a vibrant and diverse future workforce.”

Peter Simpson,
Chief Executive

Our people continued

Recruitment

We continue to refine and update our attraction and selection process, with an emphasis on putting inclusion at the heart of our efforts. In the past year we have made several changes to reflect this, including:

- Installing Recite Me, a translation and accessibility tool, on our careers site, allowing candidates to customise the website to meet their needs
- Partnering with new diversity job boards, covering eight different demographics including ethnicity, neurodiversity, over 50s, disability and the LGBTQ+ community
- Updating our recruitment and selection hiring manager training, adding more content on the importance of diverse hiring, making interview adjustments for candidate's health conditions (where shared) and addressing unconscious bias
- Connecting with ex-servicewomen and men from the military through British Forces Resettlement Services, Forces Transition Group and Forces Family Jobs

Inclusion and diversity

We want to ensure Anglian Water is a safe, welcoming environment for everyone, and continue to implement our Inclusion strategy, which is now in its third year.

In 2022 we launched our first-ever mandatory inclusion training. The aim of this course is to help our people better understand inclusion and feel more comfortable talking about inclusion to improve relationships with our colleagues, customers and stakeholders. More than 90% of our people have completed the training to date.

We have also set targets to improve gender equality in our business. These are short- (yearly) and mid-term (to 2025) targets which are signed off by our management board. In 2023 our target is for 36% of new hires to be women, and for 36% of senior manager positions to be held by women. By the end of 2025 this target raises to 38% for each.

Supporting our disabled workforce

In 2022 we made it our goal to become a Disability Confident Employer. Over the course of the year we implemented several new initiatives and changes across our organisation to improve the support we give disabled people. This included updating our Supporting Attendance Policy Procedure, which covers disability, reasonable adjustments, return to work and sickness and absence. The policy is briefed to all Managers and the Employee Relations and Occupational Health teams support employees and managers where needed.

As a result of our efforts, we were proud to achieve Disability Confident Employer status in November 2022.

We are now working towards attaining our Disability Confident Leader status. Being part of the Disability Confident scheme has helped to give us valuable direction and guidance to ensure we are inclusive to all people with disabilities.

We also set up an internal disability working group this year for people with disabilities or physical or mental health conditions. The group collaborates to create and implement new services for our people, discuss benefits and challenges experienced day-to-day and work together to find new solutions.

Volunteering in our region

The link between volunteering and wellbeing is clear. When we are helping others, we forge stronger links with our communities and support our own wellbeing, whilst making a difference to our customers and the environment. It's another way we can live our purpose and Make Today Great for the communities we serve.

That is why our Love to Help employee volunteering programme empowers our people to get behind a cause they are passionate about. We offer to match the time an employee spends volunteering in their own time with up to 30 hours per year of work time to do more volunteering, in addition to our company-wide offer of one Local Action Volunteering Day each year.

In 2022 we exceeded our target, with 46% of senior hires being women

In February 2023 we published our first-ever Ethnicity Pay Gap report, which although not a statutory requirement, is something we strongly believe is the right thing to do and have set targets to improve against. To read more about our Ethnicity and Gender Pay Gap reports, see our Remuneration Report on page 127.

“Without Love to Help, I wouldn't have been able to help the school as much as I did. I feel really lucky that Anglian Water is so supportive and it shows their commitment to local communities.”

James Wood, Project Manager Information Services

Our people continued

Love to Listen

Our annual Love to Listen survey, in 2022, showed that despite the challenges of the past year and scrutiny on the sector, our people remain highly engaged, have a strong connection to our purpose and feel well supported. This year saw the highest-ever response rate, with more than 6,900 respondents.

→ To read more about how we engage with our employees see our Section 172 Statement on page 65.

Highlights of Love to Listen include:

86%
of our people say we are an inclusive place to work regardless of gender, age, race, disability, religion or sexual orientation, and 84% say they are treated with dignity and respect at work (2021/22: 86%).

81%
of our people say they are proud to play a part in creating environmental and social prosperity in the region we serve (2021/22: 83%).

86%
of our people say they have a clear understanding of the goals of the business (2021/22: 86%).

85%
of our people say there is a strong emphasis on delivering great service to our customers (2021/22: 87%).

Anglian Water Force – teamwork in action

This year we expanded our incident response community, Anglian Water Force, to assist operations whenever additional support is needed. Each employee now has a dedicated role to adopt in the event of an operational emergency.

Anglian Water Force was instrumental in supporting the freeze-thaw incident in December 2022, leading to a significant operational incident affecting our water network.

At the peak of the incident, our teams dealt with over 220 burst mains across the region.

Our operational preparedness, combined with the Anglian Water Force community, meant we were able to deal with leaks swiftly, minimising both water loss and the impact on customers.

It speaks volumes about the dedication of our people across the entire organisation. This was also reflected in the feedback from our customers:

Anonymous
Thank you Anglian Water – Love Every Drop you have done a great job in trying circumstances. It's easy to keep up to date with what's going on and your response to provide water has been fantastic. Well done and thank you.

Love Reply 11h

“Whenever we have an incident of this nature, the knowledge, skill and sheer commitment of our teams shines through. We’ve seen colleagues from across the business step up to support our frontline colleagues through roles in the incident room and at our bottled water hubs. Their input, energy and willingness to get stuck in made all the difference during that week. Thank you.”

Ian Rule, Director of Water Services

Our partners

We do more and go further with our Partners

Partnering with others is vital to deliver on our purpose to bring environmental and social prosperity to our region. Crucially, partners help us broaden our impact, solve cross-sector issues and leverage additional funding. By working together we can achieve far more, and at no extra cost to our customers.

Forging new connections and collaborating to create a positive impact in our region is embedded in how we do business. We have a diverse range of partners spanning the breadth of Anglian Water. Below is a small snapshot.

Our partners continued

Supporting customers in vulnerable circumstances

Our relationships with local authorities in our region played a pivotal role in supporting customers through the cost of living crisis this year with the distribution of the Government’s Household Support Fund.

Working in partnership with six local authorities, we identified eligible customers and proactively distributed Household Support Funding directly to their Anglian Water account.

Reaching people experiencing financial hardship can be challenging for local authorities, however our established relationships with customers meant we could identify and assist them directly – without them needing to apply for funds. In total, we distributed more than £2 million to almost 8,000 customers across our region, at no extra cost to our business.

In addition, our partnerships with community groups and charities help us connect with and support our customers. Over the past year we’ve reached 1.1 million customers through partner relationships, many from traditionally harder to reach communities.

We conducted research with Scope, the UK’s leading pan-disability charity, to help us better understand the needs of our disabled customers. This piece of research has heavily influenced our partnership strategy, identifying customer groups which have the lowest awareness of Priority Services (customers with communication needs) as well as the customer group with the greatest need (customers who are water-dependent).

We currently partner with 16 national and local organisations that support people living with disabilities. In addition, we co-funded Scope’s Disability Energy Service with Water Advice, a specialist support service which helps reduce costs and improve services for disabled people. This year the service has supported 3,316 disabled people in our region and identified estimated annual savings for customers of £511,163.

Customer services partnerships helped us reach more than 1.1 million customers.

Partnerships have transformed the way we support our disabled customers. We make changes as a result of their feedback and work collaboratively with them to commission customer research and solicit feedback from local focus groups.

In June 2022 we undertook research to understand whether introducing coloured bills would help visually-impaired customers, in addition to our existing Braille and audio services. We worked with five local charities in our region; Hartlepool Vision Support, CamSight, Lincs Sensory Services, Macular Society and the Northampton Association for the Blind, who held focus groups with visually-impaired customers, covering everything from the font size used to overall format and colour preferences.

The feedback we received from the organisations and customers was constructive and positive. Customers told us they were pleased to be involved in the shaping of the service. As a result of the feedback, we launched a fully customised service in December last year to positive reception. Customers can now speak with our dedicated Priority Services Register team, who have been trained to help them identify the best coloured bill choice and update the customer’s records as a result.

“It really means a lot that a company is asking what we think, instead of assuming they know all the time.”

Ch G N

Key			
AE Academia and Education	A Alliances	Ch Charities	C Corporate
I Industry	G Government	N NGOs	

Our partners continued

Flood partnership funding: greater outcomes at no extra costs to customers

We aim to have a bigger impact by working with others. We have pioneered a multi-sector approach to resilience against flood and drought through the National Resilience Taskforce, the national Water Resources Long-Term Planning Framework and Water Resources East.

Together, we can better understand the impact and risk of flooding across our region and develop mitigating solutions.

For example, the Norfolk Strategic Flood Alliance was brought together in 2021 to strengthen Norfolk’s resilience to flooding. Through this, we’re supporting a catchment-based approach to protect Norfolk communities and infrastructure against the risks of inland and coastal flooding, as well as drought. Our work is one part of the puzzle to deliver an ambitious multi-agency approach that reduces risk, rather than focusing on response.

Furthermore, through partnerships, we can harness the strengths of other organisations to make the case for

legislative change. This year, positive policy announcements took forward issues we have campaigned on for many years, including the Government’s plans to implement Schedule 3 of the Flood and Water Management Act. This move will make Sustainable Urban Drainage Schemes mandatory to new developments, helping to manage flood risk and storm overflow discharges.

Partnerships also help us unlock funding, delivering projects at less cost to customers. This year, we will have invested £3 million into our flooding partnerships, leveraging £20 million match-funding in return.

Between 2020 and 2025, we will have attracted £112 million into our flood reduction partnerships, meaning our cost contribution to achieve these shared outcomes is reduced to just 14%.



Unlocking the power of partnerships in Stiffkey

Building on the fantastic work of the Norfolk Rivers Trust (NRT) in Stiffkey, we pledged £1 million towards an Integrated Constructed Wetland which is providing a sustainable, low-carbon, natural wastewater treatment system that will boost biodiversity and support the four chalk stream catchments in that area.

Water companies, on average, are responsible for 27% of the reasons rivers are not achieving good ecological status (RNAGs). See more in the ‘Reasons for poor river health’ table, (left). In the Anglian Water region, we are responsible for 17.9% of RNAGs, a number that’s reducing as we continue our investment and improvements. Several issues affect the river quality in Stiffkey; from water recycling centre effluent, intensive agriculture, to sediment run-off and septic tanks, meaning it is rated at ‘moderate’ ecological status.

By feeding our investment into NRT’s funding model, it has enabled them to attract additional funding and partners, including the Government’s Green Recovery Challenge Fund, the Norfolk Coast Partnership, the Environment Agency, the WWF/Finish partnership, and the Coca-Cola Foundation.

The wetland takes treated used water from our Water Recycling Centre, filtering it further before it enters the stream. As a nature-based solution, the wetland will also enhance local biodiversity, through the creation of a richer, varied habitat. The aim is to deliver a water environment improvement plan at a total catchment scale, with benefits to people and nature too.

In addition to our £600,000 initial investment in Get River Positive initiatives, we were able to leverage a further £1.6 million of partnership funding from a diverse range of sources.



Reasons for poor river health

Agriculture and Rural Management	40%	Industry	3%
Water Industry	27%	Mining and Quarrying	3%
Urban Development and Transport	11%	Under investigation	2%
Local and Central Government	5%	No specific Sector	1%
Public (e.g. Misconnected Plumbing)	4%		

Source: The Environment Agency Catchment Data for England, August 2022.

Our partners continued

Leaving an environmental and social legacy through our Strategic Pipeline Alliance

Since 2015, we have taken a constructive new approach to project partnerships and set a new benchmark for collaborative working, through our capital alliances. Our established partnership collaborations drive an integrated approach to project delivery. Our Strategic Pipeline Alliance (SPA) partners include Costain, Farrans, Jacobs and Mott MacDonald Bentley.

Our Strategic Pipeline Alliance has been critical to delivering on vital infrastructure, such as our interconnected pipeline, which will enable us to move water from areas with a natural surplus, to drier, more environmentally sensitive areas. This supports our long-term demand management strategy, futureproofing our region from the impacts of climate change.

The pipeline is the biggest infrastructure project in Anglian Water's history and will improve the region's resilience to drought and keep fresh, clean water flowing into homes and businesses.

The 12.5km section from Norwich to Wymondham is now complete. A 34km section linking Lincoln and Grantham is due to be commissioned in 2023. Planning permission has now been granted for the 70km stretch between Bexwell and Bury St Edmunds, meaning permission is now in place for about two-thirds of the route.

We've delivered a series of social and environmental projects to support communities and wildlife along the pipeline route including:

- Donating more than 2,000 books to 11 primary schools with Bookmark Reading Charity
- Planting thousands of trees to boost biodiversity
- Building special 'commuter' fences to help bats and provide tiny homes for dormice
- Using sniffer dogs to help locate endangered water voles
- Donating life-saving defibrillators to surrounding villages



Wildlife detection dogs help locate endangered water voles along a section of the network, to protect wildlife.

We believe that the power of collaboration is the only way to tackle the huge challenges related to water.

Ofwat Innovation Fund

The Ofwat Innovation Fund was established to build innovation capacity in the water sector and fast-track innovation through collaboration and partnership working.

Since its launch we have led on five projects, receiving more than £17.3 million in funding. We have also contributed to a further 13 projects as a supporting partner, which have received almost £21 million in funding.

Enabling Whole Life Carbon in Design was one of the first projects to secure funding and was completed in May 2023.

Led by Anglian Water and our @One Alliance, the project joins together minds and resources from Welsh Water, Affinity Water, Sweco, Skanska and others to create an industry blueprint for calculating the true cost of carbon in the design process.

Whole Life Carbon builds on our existing successful approach through the PAS 2080 carbon standard, which we helped develop. It does so by integrating carbon and cost management and creating engaging visualisations of performance to identify carbon hotspots. Read more in our TCFD report on page 71.

The Whole Life Carbon project is worth a total of £233,600 – a combination of money awarded from Ofwat, and a contribution made by Anglian Water and our @One alliance.



Shareholders

Sharing our vision to secure long-term resilience in the region, our shareholders agree that we need to invest in protecting the environment now, rather than leaving it to future generations.

Over the past six years our ultimate shareholders have taken only one dividend payment, forgoing five years of returns between 2017 and 2022, choosing instead to reinvest. This endorses the changes we made to enshrine environmental and social purpose at the heart of our business through our Articles of Association. In the same period they have injected £1.165 billion to improve the financial resilience of the business.

Shareholders have also played their part by picking up the bill for the rising cost of energy, so this was not passed on through customer bills, and reinvesting £7 million over two years (2022 and 2023) to accelerate our Get River Positive programme.

This year we hosted three shareholder events. In July 2022, we showcased our plans to build our workforce for the future, looking into our long-term people strategy and resourcing plans to enable us to deliver on our purpose.

In September, we invited our equity investors alongside our regulator, Ofwat, to Grafham Water Treatment Works, where we illustrated how our long-term plan aligns with the upcoming price review, PR24.

We continue to foster engagement between our shareholders and the teams responsible for delivering our next five-year Business Plan.

Investors, banks & rating agencies

Over 100 of our key stakeholders joined us at our Capital Markets Day in September, where we provided investors, banks and rating agencies with a performance update.

Held on site at Milton Water Recycling Centre in Cambridge, the event provided a trading update as well as sharing our latest progress in protecting and enhancing the environment, securing future water supplies and building business resilience.

Guests joined a tour of our Water Recycling site, helping them understand the treatment process, how we measure environmental water quality and deal with 'unflushables', all in pursuit of a flourishing environment. We also showcased progress on our plans for innovation, community and green recovery.

ESG: MSCI rating

We maintained our AA rating in MSCI's 2023 ESG rating – the second-highest ranking – for the second year running. The measurement assesses a company's resilience to long-term ESG risks.

Feedback from an attendee of our Capital Markets Day

“

It was interesting to see Anglian Water's future plans and where they are investing in new technologies and futureproofing the business to improve the environment and region. Despite negative press and industry challenges, it's clear the company wants to do the right thing and is doing it! This is also evidenced by the approach to customers and billing.”

£1.6 billion

green finance raised since the start of this AMP.

Regulators

We strive for open and constructive working relationships with our regulators. The roles of economic and environmental regulation are critical to enabling sustainable long-term investment to deliver environmental outcomes for the region.

Ofwat

Developing our Business Plan for the forthcoming price review, PR24, has been our main area of focus ahead of the October submission deadline. We have engaged with Ofwat through various industry forums, working groups, written submissions and face-to-face discussion.

In September, we invited Ofwat's senior leadership team to our Grafham Water Treatment Works to learn more about how our long-term plan aligns with the four ambitions set out for PR24, and our projects and processes, including our flood partnership approach (page 60), Get River Positive commitments (page 44), customer and vulnerability support (page 47) and training and development.

A separate visit brought Ofwat's Chair, Iain Coucher, to our treatment wetland in Ingoldisthorpe and wetland project in Wendling Beck. Both are good examples of partnership working and demonstrate the benefits of an outcomes-based approach to environmental regulation.

In April, we were invited by Ofwat and Water UK to showcase our achievements in improving river water quality, particularly our Get River Positive programme over the last 12 months. [Read more here.](#)

Environment Agency

This year, we engaged with the Environment Agency (EA) on a range of topics, including the reform of WINEP for the forthcoming AMP period.

We submitted our Advanced WINEP proposals alongside our full WINEP submissions to both the EA and Ofwat. This outlines our plans, where we wish to go further and require regulation to support us to achieve more for the environment and customers.

We worked with the EA in relation to water resources, including the publication of our draft Water Resources Management Plan 2024 and in addressing ongoing challenges in relation to abstraction reform across the East of England.

This included the submission of an Imperative Reasons of Overriding Public Interest case under the Habitats Directive to extend our abstraction from a groundwater source in the Ant Valley to align with the delivery of a major infrastructure scheme. The case was jointly submitted with the EA to the Secretary of State, and was accepted on 29 July 2022.

Through the National Drought Group, we engaged with the EA and the wider industry on the prolonged dry weather and extreme temperatures.

Drinking Water Inspectorate

We regularly liaise with the Drinking Water Inspectorate (DWI) to review water quality compliance. DWI's quarterly risk based technical audits, and additional audits on our Lead strategy and Regulation 28 reporting were deemed satisfactory.

Over the past year we reviewed and strengthened our approach to assuring compliance with the requirements of regulation 31 'Application and introduction of substances and products' to ensure our policies and procedures remain industry-leading.

In 2022, we introduced a new Laboratory Information Management System (LIMS) to enhance the management of both processes and data within the laboratory and for reporting purposes.

Our relationship with the DWI also covers Network Information Systems Regulations and more recently, the Security and Emergency Measures Directive. In April, we submitted proposals for both, alongside our water quality proposals for PR24.

Consumer Council for Water

We meet monthly with the Consumer Council for Water (CCW). This year, we've discussed pricing changes, using CCW as a soundboard on our customer communication strategy. We also discussed the support we offer our financially vulnerable customers, taking on board suggestions made in their affordability review.

Over the past year, we took part in various industry workshops on topics including, water supply interruptions, low pressure, sewer flooding and affordability amongst others, using these conversations to adapt our services where needed.

We continue to update CCW with our latest customer performance and complaints, wider company plans and initiatives and seek feedback on any potential service changes we may be planning.

Office for Environmental Protection

We continue to engage with the Office for Environmental Protection on our environmental commitments such as Get River Positive.

National & local government

Engagement with local government helps us to understand our customers' priorities and hear what is most important. Our business priorities are shaped by these conversations.

Successful policy changes

This year, we have seen positive policy announcements which take forward issues that we have been campaigning on for many years.

In January, the Government announced plans to implement Schedule 3 of the Flood and Water Management Act. The move will make Sustainable Drainage Systems mandatory for new developments, helping to manage flood risk and storm overflow discharges. We have been campaigning for this change for over a decade.

In September, Defra launched a consultation on mandatory water efficiency labelling, a significant step forward in supporting water efficiency.

The new labelling scheme is proposed to come into force in 2025.

We have also campaigned for change on Fleur Anderson's Bill to ban wet wipes. The Government's Plan for Water, launched in April, includes measures to ban plastic in wet wipes (subject to consultation) and specifically mentioned support for Water UK's 'Bin the Wipe' campaign. We await the second reading of the Bill and continue to champion it with regional stakeholders. We have written to regional MPs asking to ask them to vote in favour, and to Fleur Anderson to echo our support and share statistics on blockages. In addition, we have responded to the Defra consultation on single use plastics, mentioning wet wipes.

Labour engagement

As co-Chair of the UK Corporate Leaders Group (CLG), our Chief Executive Peter Simpson met with Sir Keir Starmer and Ed Miliband to discuss Labour's plans for encouraging investment in net zero.

Climate for change event

In February we hosted our Climate for Change event in London in collaboration with the Corporate Leaders Group. Through this event, we aimed to build upon a more co-ordinated and collaborative cross-sector approach to hitting our common carbon goals by bringing people together who can make a real difference and act as one.

Regional Engagement

We hosted 34 site visits at our local Water Recycling Centres, with over 400 face-to-face stakeholder interactions. We attended two local authority scrutiny committee meetings to discuss river water quality, flooding and other matters.

Improving understanding amongst key stakeholders

In February, Thérèse Coffey, Secretary of State for Environment, Food and Rural Affairs, visited our Cliff Quay water recycling centre during National Apprenticeship week. During Therese's visit, we discussed a range of issues including farming rules for water, demand management and our proposed new reservoirs.

Nutrient neutrality is being addressed through an amendment to the Levelling Up and Regeneration Bill.

Employees visit 10 Downing Street to discuss nutrient neutrality and the Levelling Up and Regeneration Bill.

The amendment places new duties on water companies to address nutrient issues, but in its current form, risks restricting companies to traditional engineering solutions, ruling out nature-based solutions which could have wider benefits. We have been invited to Number 10 to discuss the issue with the Prime Minister's team.

In March we held an event at Westminster to showcase our work on Get River Positive, one year on since launch.

Section 172 statement

Engaging with our stakeholders

In July 2019, with the approval of our Board and shareholders, we became the first major utility company 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 69).

Section 172(2) states 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 were 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, while delivering long-term value for its customers, the region and the communities it serves, 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 65 to 68 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 include cross-references to other sections of the report for further information.

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 four key ambitions within our SDS are shown in our business model in our business model, see page 9. We have a statutory obligation to produce a Water Resource Management Plan (WRMP). During the year, we published our draft WRMP for the period 2025–2050 for consultation. This plan sets out how we will manage the water supplies in our region to meet our future needs, ensuring our customers remain on resilient water supplies and preventing deterioration to the environment. The Board oversaw and scrutinised the development of the plan and provided assurance that the company has met its obligations in developing the WRMP and that it is the best value plan, based on sound and robust evidence and costing processes.

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 page 9, while information on our key stakeholders can be found throughout this strategic report and below.

We've developed an annual stakeholder engagement strategy, approved by the Board and designed both to demonstrate how we're 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 judges that it should engage directly with relevant stakeholders. However, much of our engagement happens at an operational level.

Where the Board has not engaged directly with stakeholders, 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.

Similarly, we're required to produce a Drainage and Wastewater Management Plan (DWMP) to set out how we will manage and recycle water in our region over the next 25 years. The draft DWMP was published in June 2022 for consultation and the final DWMP was published in May 2023. In it, we address the triple challenge we face from our rapidly changing climate, a fast-growing population, and the need to protect our region's precious chalk streams and rivers. Again, the Board had oversight of the DWMP and gave assurance that the resulting plan is the best value plan for customers and the environment and is based on robust evidence and costing processes.

During the year the Board also considered the development of the company's Long-term Delivery Strategy (LTDS), which will be aligned with our existing strategic frameworks including the WRMP, DWMP and our Water Industry National Environment Plan (WINEP) as well as the Government's long-term objectives, in order to create a coherent strategy to 2050.

Our Board has also approved our long-term viability statement (see pages 96 to 101) within which the Directors have assessed Anglian Water's prospects over the next 10 years.

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. The Board meets with the Head of Safety on a quarterly basis, which enables the Board to monitor key safety trends and to challenge performance where appropriate.

In September 2022, we conducted our Love to Listen survey to seek and act on the views of our employees. The results of the survey, together with plans to address its findings, were discussed by the Board.

In line with the Anglian Water Services Corporate Governance Code 2020, the Board has appointed John Barry as the Non-Executive Director responsible for engaging with the workforce.

Anglian Water offers employees the opportunity to participate in the AWG Loyalty Savings Scheme. This scheme enables employees to save on a monthly basis and then potentially benefit from the financial performance of the company at the end of the three-year savings period.

During the year three 'market stalls' events were held which gave the Directors and employees the opportunity to engage with each other and discuss in detail a variety of important matters affecting the company.

Further information on how the Board and management engage with employees, and the impact of that engagement, can be found on pages 53 to 57.

Fostering business relationships with suppliers, customers and others

Engagement with customers and communities is fundamental to the development of our strategy and plans. The Board oversaw all aspects of the planning process for our Business Plan for 2020–2025, including the customer engagement strategy, and is already fully engaged with the planning process for the Business Plan for 2025–2030. During the year the Board approved certain actions to mitigate the increase in customer bills including concessionary tariffs, and instalment plans see case study on page 67.

The overall package of support totalled £135 million. Further information on how we engaged with customers can be found on pages 46 to 52.

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. This update 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 of oversight of these key contracts. During the year the Board approved procurement strategies for the renewable assets' framework and polymers. Each year the Board also approves Anglian Water's Modern Slavery and Human Trafficking Statement, which details the steps that we have undertaken to ensure that slavery and human trafficking is not taking place in any part of the business or within Anglian Water's supply chain.

The Board also engages with our different regulators including Ofwat, the Environment Agency and the Drinking Water Inspectorate. In September 2022, the Board and members of Ofwat's senior leadership team, including Chief Executive, David Black, attended an event at Grafham Water which gave attendees the opportunity to engage with and discuss in detail issues relevant for planning for AMP8.

Another important stakeholder group are our debt investors, banks and rating agencies. Engagement is key to understand their requirements, demonstrate our long-term sustainable vision and help them to understand what makes Anglian Water a sound investment. Engagement occurs through dedicated investor events held at least twice a year to coincide with the company's results announcements and additional events such as the Capital Markets Day which took place in September 2022 (see page 62 for more information).

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. In July 2021, we published our net zero strategy to 2030. This routemap, which was fully supported by the Board, sets out how we aim to reach net zero carbon emissions by 2030. As referred to above, the Board considered both the draft WRMP and DRMP (see case studies on page 68) during the year. The Board regularly considers environmental matters, including abstraction, compliance against the EA's Environmental Performance Assessment, the progress of our WINEP, the water resource position and pollution reduction schemes. During the year, the Board considered updates on the water resources situation both at a regional and national level and the proposed WINEP for the period 2025–2030. Further information on these can be found on pages 39 to 45.

Throughout the year the Board has monitored the progress of both Ofwat's and the Environment Agency's investigations into sewage treatment works compliance. The Board has also supported the continued focus on reducing storm spills together with the deployment of smart technology and machine learning at pace to help predict and prevent pollutions. See page 43.

Our purpose requires us to consider the impact of our operations on our communities. The Board receives regular updates on stakeholder engagement activities. During the year the Board authorised the submission of the Development Consent Order planning application to the Planning Inspectorate in the relation to the Cambridge Waste Water Treatment Plan Relocation Project.

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. 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 18 and 106).

Acting fairly between members

The Anglian Water Group is owned by a consortium of five long-term investors representing millions of long-term pension holders both in the UK and overseas. These shareholders 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. These Directors bring with them a broad range of skills and experience which is extremely valuable during Board discussions. 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.

Further information on our company structure and ownership can be found on pages 20 and 21, and in Board biographies on pages 102 to 105.

Bill Impact Mitigation

We know that the cost of living crisis is making life more difficult for our customers. During the year under review, our Board considered its impact on our most vulnerable customers and what the business could do to support them with their water bills.

Stakeholder engagement

We conducted customer surveys to understand the impact of the cost of living crisis, which indicated that households were focusing on budgeting in order to ensure they could pay all utility bills.

The company worked closely with the Consumer Council for Water (CCW) to develop its communication strategy.

We collaborated with certain not-for-profit organisations to explore how we could support them, supporting our customers with financial difficulties.

Stakeholder considerations

The Board considered the potential to abate the company's allowed revenue. However, doing so would potentially place pressure on the headroom to the company's critical banking covenants, risking the company's financial resilience.

The Board then considered the mitigations put in place by management and delivered by the company's Extra Care team, which included a package of budgeting support for customers, concessionary tariffs, and instalment plans (the Base Package). The Extra Care team has helped vulnerable customers across our region to identify the range of benefits available to them by working with trusted partners in the not-for-profit sector.

Emphasis was also put on the importance of water efficiency in communication with customers and providing support for this.

Outcome

The Board considered the help provided to vulnerable customers and what more the company could do in pursuit of its purpose, whilst also ensuring the financial resilience of the company in compliance with its licence conditions. The Directors concluded:

- The company should continue to maximise the support available within its existing Base Package and to work with the CCW to ensure the quality and clarity of our customer communications around bill increases and water efficiency;
- The company should provide staff to support our trusted not-for-profit partners, to help advise vulnerable people in our region; and
- An overall package of support totalling £135 million was approved for Anglian Water to deliver.

Approval of the Drainage and Wastewater Management Plan (DWMP)

Covering the period 2025-2050, our DWMP is a collaborative long-term strategic plan which sets out our plans for how we will manage and recycle water in the region over the next 25 years. The DWMP addresses the triple challenge the region faces from a rapidly changing climate, a fast-growing population, and the need to protect the region's precious chalk streams and rivers.

Stakeholder engagement

Engagement with stakeholders commenced in early 2020, when we captured stakeholders' ambitions in the Strategic Context, our outline of the DWMP aims, which is published on our website.

Stakeholders, including county and district councils, the Environment Agency, River and Wildlife Trust and Natural England worked with us to identify catchment risks. We completed catchment workshops with stakeholders to understand risks, opportunities and identify any partnership working opportunities.

We engaged with our customers through our online community and independent focus groups. We held two consultation periods on our draft plans.

Stakeholder considerations

Customer and other stakeholder preferences were reflected in the DWMP discussed and agreed at senior management level by our Board.

We understand how important natural solutions are to our stakeholders and the DWMP promotes the use of these solutions particularly through addressing surface water removal.

The DWMP protects the environment through improvement to our discharges to meet the Storm Overflow Discharge Reduction Plan.

The DWMP aligns with our other strategic plans such as the Water Resources Management Plan as well as Get River Positive. It also aligns with external plans such as the River Basin Management Plan.

Outcome

The Board considered whether the DWMP planning process, as defined by the planning framework and guiding principles, had been followed and applied. The Board also had to consider whether the DWMP had been appropriately assured.

On approving the DWMP and associated assurance statement, the Board had to balance our purpose, stakeholder preferences, affordability and risk. The DWMP was accepted as being the best value plan to manage the risks over the next 25 years.

Approval of the Draft Water Resources Management Plan (WRMP)

Our region is the driest area in England and over the past decade has had the highest level of population growth in the United Kingdom, so we must manage the water we have carefully. A key part of planning ahead and adapting to the challenges we face is our Water Resource Management Plan (WRMP) which we produce every five years. Our latest plan WRMP24, is at draft stage and sets out how we will manage the water supplies in our region to meet current and future needs over the period 2025 to 2050.

Stakeholder engagement

Engagement with stakeholders has been central to shaping, informing and challenging the draft WRMP. We worked closely with regional planning groups (RPGs) Water Resources East and Water Resources North. The RPGs coordinate stakeholders with an active interest in water resources and produce a regional plan.

We liaised closely with key regulators including the Environment Agency, Ofwat and the Drinking Water Inspectorate. We also worked closely with our customers through our Online Community to understand their priorities and views.

Stakeholder considerations

Customer and other stakeholder preferences were reflected in the draft WRMP discussed and agreed at senior management level by our Board.

Customers told us we should focus on utilising the resources we already have, so we are focusing on our demand management strategy around smart metering, leakage efficiencies and water efficiency, as well as increasing our capacity to move water around our region. The majority of our customers also agree that metering is a fair way to pay for water. This has helped to inform our compulsory metering strategy, while shaping how we will help vulnerable customers. Customers are also clear about new resources options, favouring reservoirs and reuse above desalination.

Outcome

The Board considered whether the draft WRMP met the obligations set out in the relevant guidelines, reflected the appropriate Regional Plans and is the best value plan for managing and developing water resources so that we can continue to meet our obligations to supply water, protect the environment, whilst looking to provide societal benefit.

On approving the draft WRMP and associated assurance statement, the Board was confident that it had challenged management and helped shape the development of the draft WRMP and that it had regard to the views of stakeholders through the engagement carried out.

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

We integrate this information throughout this report; the information 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

Environmental matters

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.

Policies, standards and relevant documents that govern our approach

- Articles of Association
- Love Every Drop outcomes
- Strategic Direction Statement
- Water Resources Management Plan
- Drought Plan
- Water Recycling Long-Term Plan
- Climate Change Adaptation Report
- Drainage and Wastewater Management Plan
- Pollution Incident Response Plan

Current activities and risk management

- Chair's welcome **pages 4 and 5**
- Chief Executive's statement **pages 6 to 8**
- The Year in context: **pages 10 to 16**
- Our strategic ambitions **page 17**
- Holding ourselves to account **pages 18 and 19**
- Responsible financing: Sustainable finance **pages 22 to 25**
- Our stakeholders: our environment **pages 39 to 45**
- Section 172 statement **pages 65 to 68**
- Climate-related financial disclosures **pages 71 to 82**
- Principal risks **pages 83 to 95**

Employees

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.

Policies, standards and relevant documents that govern our approach

- Values framework
- Doing the right thing – code of conduct
- Diversity and inclusion plan
- Health and Safety policy
- Dignity at work code of conduct
- Relationships at work policy
- Gender pay gap report
- Whistleblowing policy
- Ethnicity pay gap report

Current activities and risk management

- Chair's welcome **pages 4 and 5**
- Chief Executive's statement **pages 6 to 8**
- Our stakeholders: our people **pages 53 to 57**
- Section 172 statement **pages 65 to 68**
- Corporate Governance Report **pages 101 to 115**
- Audit Committee Report **pages 116 to 122**
- Remuneration Committee Report **pages 127 and 155**

Human rights

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

Policies, standards and relevant documents that govern our approach

- Doing the right thing – code of behaviour
- Dignity at work code of conduct
- Data protection policy
- Information retention policy
- Privacy policy
- Modern slavery and human trafficking statement
- Human Rights Policy

Current activities and risk management

- Our stakeholders **pages 39 to 64**
- Nomination Committee Report **pages 123 to 126**

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

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.

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

Current activities and risk management

- Chair's welcome pages 4 and 5
- Chief Executive's statement pages 6 to 8
- Anglian Water in context: challenges and opportunities pages 10 to 16
- Our strategic ambitions pages 17
- Holding ourselves to account pages 18 and 19
- Our stakeholders: our customers & communities pages 46 to 52
- Section 172 statement pages 65 to 68

Anti-corruption and bribery

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

Policies, standards and relevant documents that govern our approach

- Doing the right thing - code of conduct
- Anti-bribery policy
- Corporate hospitality policy
- Whistleblowing policy

Current activities and risk management

- Principal risks: no. 13: Legal
- Audit Committee Report pages 116 to 122

Description of principal risks and impact of business activity

Policies, standards and relevant documents that govern our approach

- Anglian Water year in review: pages 10 to 16

Current activities and risk management

- Risk management pages 83 to 86
- Principal risks pages 86 to 95
- Business long-term viability statement pages 96 to 99

Description of the business model

Policies, standards and relevant documents that govern our approach

- Our business model page 9

Current activities and risk management

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

Non-financial key performance indicators

Policies, standards and relevant documents that govern our approach

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

Current activities and risk management

- Delivering our outcomes: performance Commitments dashboard pages 31 to 38
- Our people pages 53 to 57
- Our partners pages 58 to 61

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

Making information about climate-related risks and opportunities available to our **stakeholders is key to how we operate.**

That is why, since 2017, we've made disclosures under the recommendations of the Task Force for Climate-Related Financial Disclosures (TCFD), adopting them well ahead of their mandatory introduction.

We continue to improve our climate-related disclosures year-on-year as we keep abreast of the latest requirements and best practice. We believe that our approach is consistent with 10 of the 11 TCFD recommendations.

The area we will continue to work on for 2023/24 is: Strategy, Part B – Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning. This is specifically around our plans for transitioning to a low-carbon economy and the quantification of future financial impacts.

Introduction

Sustainability is at the heart of everything we do – our company purpose is to bring environmental and social prosperity to the region we serve through our commitment to Love Every Drop – and we fundamentally understand the links between the provision of water supply and water recycling services and the environment.

This understanding that the health of the environment both influences, and is impacted by, our operations has driven our successful adoption of a host of climate-related commitments and targets over many years. Our approach is set out throughout this section of the report.

Our Annual Integrated Report complies with the requirement of LR 9.8.6R by including climate-related financial disclosures.

Highlights

- Named by the Financial Times and Statista as a 2023 European Climate Leader
- £490.8 million green bonds raised in the year, and a total of £2.6 billion of sustainable financing since 2017
- On track to achieve net zero operational carbon emissions by 2030
- On track to achieve a 70% reduction in capital carbon by 2030
- Platinum certified by Achilles Carbon Reduce (formerly CEMARS), signalling 10+ consecutive years of carbon reductions

Governance

Disclose the organisation's governance around climate-related risks and opportunities

Page	Further references
→ page 72	→ See organisational structure on page 72 → See climate-related governance on page 72 to 74

Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material

Page	Further references
→ page 74	→ See climate-related strategy on page 74 ↳ Water Resources Management Plan ↳ Water Recycling Long-Term Plan ↳ Sustainable Finance Impact Report 2023 ↳ Strategic Direction Statement ↳ Climate Change Adaptation Report ↳ Net Zero Carbon Routemap → See CREDo on page 78

Risk management

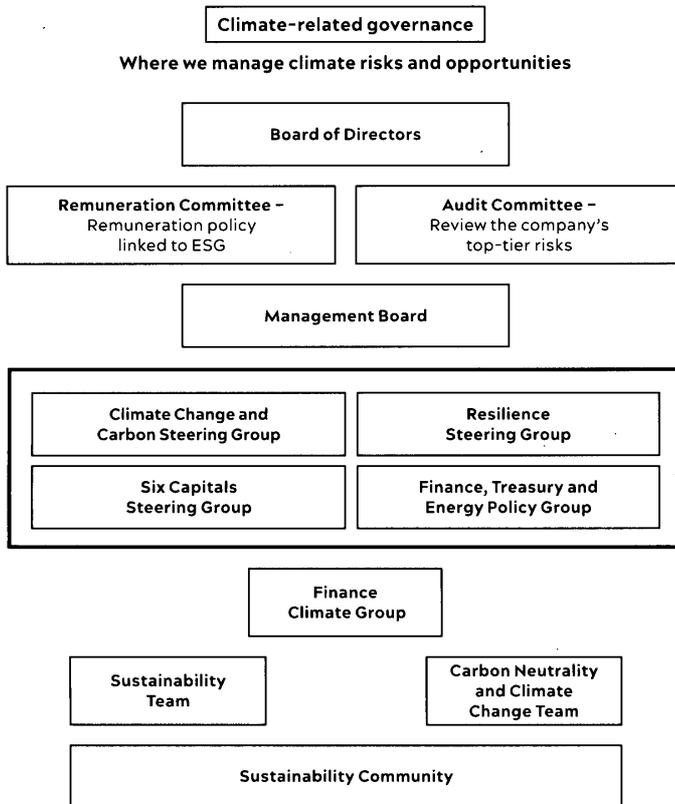
Disclose how the organisation identifies, assesses and manages climate-related risks

Page	Further references
→ page 80	→ See climate-related risk management on page 80 → See our approach to risk on page 80 → See our principal risks on page 80

Metrics & targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material

Page	Further references
→ page 80	→ See our climate-related metrics and targets on page 81 → See our greenhouse gas performance on page 81 ↳ Net Zero Carbon 2030 Routemap ↳ Climate Change Adaptation Report



Board oversight

The Anglian Water Services (AWS) Board retains overall oversight of climate-related risks and opportunities. In the course of its meetings, the Board discussed climate-related issues where relevant, for example reviewing the draft Water Resources Management Plan and dealing with demand issues during the dry, hot summer. Climate-related risks are included within the company's top-tier risk register and managed through risk management and internal control systems. The Board led the business to be one of the first utilities to raise finance through a Green Bond, in 2017, which the business was able to do due to the governance structure we have in place as an organisation.

In December 2020, Anglian Water published its latest Climate Change Adaptation Report, which was driven and overseen by the Board.

The Board has also driven and supported the commitment for the company to be net zero carbon by 2030; indeed, our Chief Executive Peter Simpson was co-sponsor of the sector-wide Water UK commitment (www.water.org.uk/routemap2030/).

This net zero 2030 commitment covers our Scope 1 and 2 emissions, together with those Scope 3 emissions we're required to report. The Board monitors progress through review of performance commitments, as do the committees noted below.

In addition, we've also committed to reducing our capital carbon emissions - those Scope 3 emissions arising as a consequence of building and maintaining our assets - by 70% against a 2010 baseline by 2030. We're currently developing our strategy to further reduce these emissions post 2030.

Peter Simpson is co-chair of the UK Corporate Leaders Group (CLG UK), part of the University of Cambridge Institute for Sustainability Leadership, while our Senior Independent Non-Executive Director, Dame Polly Courtice, is the Institute's Founding Director and now Emeritus Director. CLG UK provides a strong voice to support UK leadership on climate change and draws together business leaders from a wide range of sectors. Many AWS Board members sit on external bodies such as Business in the Community (BITC), where Peter Simpson chairs the East of England Leadership Team. In May 2022 Peter Simpson was included in the ENDS Report power list of the 100 most influential environmental professionals in the UK.

The role of the Audit Committee

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. The Committee provides effective oversight of both financial and non-financial disclosures, including climate-related financial disclosures. The Committee receives presentations or papers from senior management, including the Group Risk Manager, regarding the management of key risks, including the overall review of the top-tier risk register, which is formally presented bi-annually. The Committee also approves our annual internal audit plan and can drive areas of focus.

The role of the Remuneration Committee

The Remuneration Committee plays a key role in ensuring that climate change, and other Environmental, Social and Governance issues are considered at the top of the organisation.

A portion of variable executive remuneration is already aligned to our purpose and selected ESG measures. These measures include our performance as a business in operational and embedded carbon. See page 138 of the Remuneration Report for more detail.

The role of management

During the year we have appointed our first Group Chief Sustainability Officer role. This new role will challenge our Board, ensuring decisions are guided by our purpose framework.

In general, the Management Board meets three times each month and discusses issues impacting climate change. These meetings are often shaped by the agendas and outcomes of the groups specified below. The Management Board consists of our Chief Executive and Chief Financial Officer along with key decision makers within the organisation (see page 102), who chair many of the groups discussed below.

These groups are made up of key subject matter experts and representatives are drawn from across the business. Some members sit on multiple groups to ensure effective coordination and cooperation.

The members have annual objectives related to climate change. These groups are chaired by a member of the Management Board; through them, targets are set and action plans developed to ensure climate-related risks and carbon are measured, managed and reduced.

The Climate and Carbon Steering Group has been created by combining the Carbon Neutrality Steering Group and the Climate Change Steering Group. By creating a single group all employees responsible for climate change mitigation and adaptation are present. We believe that this group will better deliver insight into and progress against climate change mitigation and adaptation.

This new group meets monthly with time set aside for 'deep dives' into specific themes, such as electric vehicle strategy and process emissions reductions. The group is chaired by a member of the Management Board and two other Management Board members attend ensuring that this group is integrated with the overall strategy of the business. Updates are provided to the Management Board when required, for example our Net Zero Carbon 2030 performance update. Strategy documents are currently being developed in line with our net zero 2030 targets. These will be reviewed by this group to ensure consistency in approach and measurement against plans.

This group will be integral to the development of our climate adaptation investment plans for the next AMP period, as well as the preparation of our next Climate Change Adaptation Report to be submitted to government and progress against our 2030 carbon commitments to the Management and AWS Boards.

The Resilience Steering Group, chaired by the Chief Executive, is responsible for assessing and improving Anglian Water's resilience to shocks and stresses (e.g. acute and chronic risks). Anglian Water has introduced six capitals thinking (see Business model, page 9, and Holding ourselves to account, pages 18 and 19) and integrated them in the governance process for all project appraisals in the organisation, so that all six capitals – natural, financial, social, manufacturing, people and intellectual – are considered when making decisions between available options.

In addition to the groups above, which take the principal role in managing climate-related risk, other groups also play an important role in developing climate-related approaches.

The Six Capitals Steering Group has developed a methodology to assign values to measures across each of the six capitals and their contributing factors, allowing for project appraisals to consider value in the broadest possible sense.

Anglian Water has developed a methodology for capturing and reporting on this data, allowing for reports on performance against the six capitals to be included in a wider purpose dashboard that can/will be reported to the Board on a regular basis.

The Finance, Treasury and Energy Policy Group also plays an important role in managing transition risks and opportunities and is chaired by our Chief Financial Officer. Through this group, options are discussed around raising sustainable finance and potential projects aimed at generating our own energy (such as a recent solar initiative at Grafham, which went on to be approved by the Board). The group's members include the Chief Financial Officer, the Group Treasurer, other Management Board Directors and the Head of Carbon Neutrality.

The Finance Climate Groups' purpose is to create a central team within finance to coordinate, collate and share best practice on financial planning and reporting with regards to sustainability, carbon and climate-change issues. The group has improved the link between finance functions, and those delivering climate solutions around the business, through ensuring appropriate representation across the different areas. The group prioritises the finance sustainability projects to enable finance and the business to achieve its goals. Our Chief Financial Officer is invited to attend once a year to update on progress and prioritisation.

Anglian Water also launched a Sustainability Community to allow Anglian Water employees and alliance partners to engage with sustainability-related activities, ask questions and seek feedback from experts on ideas and initiatives. This community ensures engagement with and input into the climate change, carbon and sustainability agenda is open to all; while we have a structure in place for managing and monitoring climate-related issues we're aware that ideas to address these issues can come from a host of sources. This community aims to harness these ideas and the widespread commitment to sustainability across Anglian Water and our partners, so that the collective knowledge of our whole organisation is maximised.

Following the success of the Sustainability Community, which is open to all our people, in the current year we launched the Sustainability Centre of Excellence. This is a consultative and collaborative forum for those leading on sustainability and purpose through the organisation to identify synergies, maximise impact and increase transparency.

Climate-related strategy

Climate-related risks, opportunities and impact

As stated in our latest Adaptation Report (published in 2020), climate change in our region will lead to less rainfall in summer and wetter weather in winter. Drier summers and a limited capacity to store an increase in winter rainfall means that there will be less water available through the year. Climate change is also likely to increase the demand for water among both household and non-household customers in a drier, warmer climate. Left unmanaged, this combination of reducing supply and increasing demand results in one of our most significant climate-related risks. We have been assessing the impact of climate change on water resources since the 1990s. We have seen more extremes in weather conditions over recent years and this is a trend we expect to continue. Our next Climate Adaptation Report is due to be published in 2024.

Our governance structure has allowed us to identify climate-related opportunities in various forums across the organisation. These are centralised and reviewed within the Climate and Carbon Steering Group.

Climate-related strategy continued

S Short-term
M Medium-term
L Long-term

Climate-related risks, opportunities and impact

Key risk	Drivers	Potential impact	Response to risk
<p>Negative impact on our supply/demand balance and our ability to serve customers</p> <p>S M L</p>	<p>Hotter, drier summers increasing drought severity and frequency combined with forecast population growth</p>	<p>On customers:</p> <ul style="list-style-type: none"> • Increase in interruptions to supply • Low water-pressure issues • Drought restrictions more commonplace <p>On business:</p> <ul style="list-style-type: none"> • Impact on our financial penalty/reward position • Increase in operating costs to deal with periods of drought • Increase in capital investment required 	<p>We maintain a 25-year Water Resources Management Plan (WRMP) which quantifies the need and recommends investment to maintain the supply/demand balance to avoid water shortages in the context of drought and population growth (see page 77). This 25-year plan is refreshed every five years to incorporate short, medium and long-term actions, the next is due for publication later in 2023. This approach therefore delivers over a short, medium and long-term timeframe.</p> <p>We have recently completed a study into climate vulnerable mains. This covers mains which are vulnerable to bursts as a consequence of drought induced soil shrinkage. An investment programme will be developed.</p> <p>We are embarking on a study investigating the impact of extreme summer temperatures on our assets to develop resilience strategies.</p>
<p>Negative impact on our customers and the environment caused by failure to cope with impact of increased precipitation</p> <p>S M L</p>	<p>Increased frequency of periods of heavy rainfall combined with wetter, warmer winters</p>	<p>On customers:</p> <ul style="list-style-type: none"> • Internal and external sewer flooding and impact on customers' homes • Increase in interruptions to supply <p>On business:</p> <ul style="list-style-type: none"> • Impact on our financial penalty/reward position as well as environmental penalties • Increase in operating costs to deal with heavy rainfall and associated flooding • Increase in capital investment required 	<p>We maintain a 25-year Water Recycling Long-Term Plan (WRLTP) which assesses the risks to our water recycling infrastructure and promotes the use of sustainable and innovative solutions (see page 77). This 25-year plan is refreshed every five years, the next is due for publication later in 2023. This approach delivers over a short, medium and long-term timeframe.</p>
<p>One-off events which impact ability to operate</p> <p>S M L</p>	<p>Increased severity and frequency of storms</p>	<p>On customers:</p> <ul style="list-style-type: none"> • Increase in interruptions to supply • Impact on leakage due to freeze-thaw process <p>On business:</p> <ul style="list-style-type: none"> • Physical damage to assets and infrastructure impacting ability to operate in an area • Increase in operating costs during and after the event • Increase in capital investment following the event 	<p>We manage these risks with business continuity and meticulous emergency response planning. We have well-rehearsed policies, plans and procedures to ensure we minimise any risk to customers and the environment. This allows us to react to incidents in the short term while we plan for the medium and longer-term timeframes.</p>

Climate-related strategy continued

S Short-term
M Medium-term
L Long-term

Climate-related risks, opportunities and impact

Key opportunities	Drivers	Impact on business	Strategy to realise opportunity
Energy consumption reduction programme S M	Increased cost of energy	<ul style="list-style-type: none"> Reduced operating costs Reduction in operational and capital carbon Reduced energy consumption Reduced reliance on grid power thus increasing grid resilience 	We have a dedicated initiative to identify opportunities to reduce energy, carbon and cost. Funding is made available for this initiative, providing it pays back in five years or fewer. We also consider investments which may pay back over a longer period of time.
Correlation of reducing, carbon reduces cost S M	Need to reduce carbon footprint and alignment with our net zero targets	<ul style="list-style-type: none"> Reduced capital investment required on projects Reduction in operational and capital carbon 	Our strategy is consistent with the international standard for capital carbon management, PAS 2080, with which we assisted BSI in its development. PAS 2080 aims to achieve a systematic process for infrastructure delivery in which carbon management under the direct control of the value chain is the main focus.
Uptake of renewable energy S M L	The rising cost of grid power and the increasing appetite for renewable power	<ul style="list-style-type: none"> Reduced operating costs Increase in green energy consumption Reduction in energy required to be imported and opportunities to export 	Investment in the optimisation of our combined heat and power (CHP) programme, biomethane programme and solar photovoltaic installations at our sites.

Our investment periods cover five years and we have therefore used a five-year horizon to define short term. The development of these five-year investment plans is undertaken in the context of a much longer timeframe. For example, the WRMP is a 25-year plan and our net zero carbon commitment published in 2021 is to 2030, therefore, anything between five and 25 years defined medium term. Anything longer than 25 years is defined as long term.

Impacts are variable across the geography of our region and approaches are developed in this context. For example, our Strategic Pipeline Alliance (SPA) Project was developed to transport water from the north of the Anglian Water region where there are Water Resource Zones (WRZ) in surplus, to the south where there are WRZ in deficit, improving water resilience to the whole region.

We also consider customer smart meter penetration and leakage rates as opportunities to drive reduced water consumption.

Climate for Change event

In February 2023 we brought our value chain together to discuss climate change resilience, climate change adaptation and our journey to net zero carbon. Our 'Climate for Change' event, hosted in collaboration with the Corporate Leaders Group, had over 100 attendees. Chris Stark, Chief Executive of the Committee for Climate Change kicked off the day.

Climate-related strategy continued

Financial impact

During the year, climate-related weather events have resulted in a negative financial impact on the business. The Board committed to invest £13.9 million to maintain our industry-leading leakage position as we sought to recover from a number of weather extremes throughout the year. The first six months of the year saw very little rainfall and as a result, we saw exceptionally dry ground conditions. This was then compounded by two freezing cold spells in winter, followed by a rapid rise in temperatures. Rapid freeze-thaw conditions led to ground movements that interfere with our infrastructure.

These weather events also negatively impacted our performance commitments. The overall penalty in the year totalled £22 million, the adverse weather experienced within the year largely contributed to this. See more in our Performance Commitments Dashboard, pages 31 to 38 which discusses our Ofwat targeted performance commitments.

Organisational resilience and scenario planning

Anglian Water's overall resilience to climate-related risk is addressed in a host of ways, but most specifically through our [Water Resources Management Plan \(WRMP\)](#), [Water Recycling Long-Term Plan \(WRLTP\)](#) and [Strategic Direction Statement](#). The forthcoming [Drainage and Waste Water Management Plan](#), to be published later in 2023, will provide further key strategic input.

We also publish a [Climate Change Adaptation Report \(CCAR\)](#), have developed and published a [Net Zero Carbon 2030 Routemap](#), and have developed robust and long-standing partnerships with our supply chain to address climate resilience and low carbon delivery. For the detailed scenario analysis, refer to the linked documents.

For detailed analysis and conclusion, refer to the long-term viability statement on pages 96 to 99.

Water Resources Management Plan (WRMP)

In preparing our [current 25-year WRMP](#) we used climate-related scenario analysis. The approach is consistent with the Environment Agency's 2017 methodology for 'Estimating impacts of climate change on water supply'. In producing our supply forecast we used the 11 Spatially Coherent Projections (SCPs) in UK Climate Projection 09 (UKCP09) for each high, medium and low scenario. Our next WRMP is due for publication later in 2023.

The results of the climate change scenario analysis identified that two of our 28 Water Resource Zones (WRZ) were particularly vulnerable to climate change, and that there would be a material impact on the supply demand balance in another five WRZs due to climate change. These supply demand impacts were combined with other impacts such as growth to understand the total impact on the supply demand balance in each WRZ. This has helped inform better resilience strategies for the WRZs.

Water Recycling Long-Term Plan (WRLTP)

As described in our [current 25-year WRLTP](#), climate change scenarios form part of our hydraulic modelling standards for assessing growth risk to service from our water recycling infrastructure.

We used UKCP09 high emission scenarios for 2025, 2045 and 2065 to support the assessment of climate risk in our investment programme, which included up to a 20% increase in rainfall. These time horizons were chosen to allow engineers to align climate change with the design life of the solution. For example, a pumping station may only be viable for 20 years, while a pipeline will typically have a much longer design life.

The WRLTP describes how the inherent uncertainties in planning for growth and climate change necessitated the use of scenario planning. In response, we've taken a risk-based approach to developing an appropriate investment strategy at Anglian Water. We've followed a Bronze, Silver, Gold risk-based process to assess risk of detriment and to prioritise investment for over a thousand catchments and Water Recycling Centres (WRCs), to give us an integrated long-term strategy.

This approach gives an understanding of the level of risk climate change may present and solutions were costed and benefit-assessed at high level, including natural capital assessment of sustainable urban drainage solutions (SuDs). The solution of greatest cost benefit was promoted for investment in the period 2020-2025. These solutions help us deliver against our long-term goals, including the ambitions to make the East of England resilient to the impacts of flooding and to enable sustainable economic and housing growth.

Climate-related strategy continued

Addressing climate-related supply challenges

South Essex was one of the Water Resource Zones identified as being at risk of water supply and demand issues, as a result of climate change. Anglian Water has started to build a new network of hundreds of kilometres of vast interconnected pipelines. This huge infrastructure project – our biggest to date – will, by 2025, enable us to transfer water from areas where there is surplus (Lincolnshire) to the South Essex WRZ and other areas where deficits have been identified.

Strategic Direction Statement

Our Strategic Direction Statement (SDS), first published in 2007 and refreshed in 2017, sets out our long-term goals ‘to be a net zero carbon business by 2030’ and ‘to make the East of England resilient to the risks of drought and flooding’.

Our annual Greenhouse Gas Report charts the decline in intensity factors used to indicate the decarbonisation of our services. Our strategy is described in more detail in the SDS, and our Climate Change Adaptation Report describes how climate change is embedded into everything we do. We’re also leading the way in green financing. Since 2017, we have raised £2.6 billion in green financing, since we became the first European utility company to issue a sterling Green Bond in 2017.

The investments made through the Green Bonds issued to date are expected to support a 63% reduction from the company’s 2010 capital carbon baseline.

Engaging with our value chain

Our engagement with our supply chain on climate change was launched back in 2007 when we invited our key partners to HRH The Prince of Wales’ first Mayday Summit. Since then, we’ve worked with our design and construction partners to reduce capital carbon by more than 63%.

In February 2023 we brought our value chain together to discuss climate change resilience, climate change adaptation and our journey to net zero carbon. Our ‘Climate for Change’ event had over 100 attendees with Chris Stark, Chief Executive of the Committee for Climate Change, kicking off the day with a ‘call to arms’. As a result of the event, a number of collaborative workstreams will be taken forward. Collaboration is an enabler to the complexities of adapting to climate change.

An example of value chain collaboration is our Ofwat-funded research project to better understand Whole Life Carbon – that is the carbon associated with constructing, operating, maintaining and the end of life of our assets. Whole Life Carbon will integrate carbon and cost models into a single digital approach, enabling users to consider options to avoid constructing new assets through re-using existing infrastructure

Partnering to deliver Climate Resilience Demonstrator (CReDo)

We understand that our assets operate in an interrelated infrastructure system. We are reliant on the power network for electricity, the telecoms network for communications and the road system for access. In turn, the power and telecoms network are in some cases reliant on the water network. A failure in one of these elements of the system can lead to cascade failure, where other elements of this linked infrastructure network fail as a consequence. Extreme weather events can cause this failure. In 2021 the Climate Change Committee assessed infrastructure interdependencies as having a low-quality plan and that infrastructure owners were making slower progress than needed to manage risk.

In an effort to better understand these interdependencies in the context of a changing climate, we participated in the ground-breaking Climate Resilience Demonstrator (CReDo) project with a number of organisations including the Centre for Digital Built Britain, the National Digital Twin Programme, the Connected Places Catapult, UK Power Networks and BT.

Showcased at COP26, the project involved asset owners sharing asset data which was then synthesised with geographic information system (GIS) data to understand how assets are linked in a geographic area. A flooding scenario was then run to understand failures within the system.

The CReDo project gave important insight into how interrelated assets fail and how organisations can effectively share data and cooperate to develop holistic climate resilience solutions at an infrastructure system level. Ofwat and Ofgem funding has been secured to develop the next phase of CReDo. We are leading a project to understand the impacts of extreme and prolonged heat on the resilience of our assets which will enable effective planning in adapting to the future.

Video: [CReDo - Increasing climate resilience through cross-sector data sharing in a connected digital twin](#)

Climate-related strategy continued

or selecting lower carbon materials. The project has already identified future opportunities to combine carbon and climate resilience. This is just one example out of five that we are leading on, as part of Ofwat's Water Breakthrough Challenge, where we have secured £17.3 million in Ofwat Innovation funding to create solutions to our industry's biggest challenges.

In 2016 we became the first organisation to be verified against PAS 2080, which is the world's first standard for managing carbon in infrastructure. Designed to drive best practice in managing carbon across the supply chain, in 2023 PAS 2080 was revised. We aim to be verified against this revised standard later this year.

Engaging with our customers

We regularly engage with customers through a variety of channels to seek their views on our approach to addressing climate change. Customer channels include:

- 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 monitors 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;

- 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.

Our Business Plan for 2020–2025 saw us engage with circa 500,000 customers; the majority told us they want us to invest in resilience to climate change now, rather than in the future.

We also issue key climate-related plans, including our Drought Plan, Water Resources Management Plan, Climate Change Adaptation Report and Drainage and Waste Water Management Plan, for public consultation, incorporating and reflecting their feedback before plans are formally published.

Innovating to reduce carbon emissions

We have recently reorganised how we deliver innovation through our business. The Innovation Discovery Team leads much of our research and development work. Reporting to our Chief Engineer, it invests about £2.5 million per year into ground-breaking research and projects. One of the team's current projects is the Ofwat-funded Triple Carbon Reduction project, exploring how to reduce process emissions which, after electricity, is our biggest source of emissions, alongside reducing energy consumption in water recycling and producing hydrogen.

Hydrogen has the potential to result in significant carbon reductions, but there is uncertainty surrounding how this new model may work. This project will increase understanding of how hydrogen could play a role in the future.

Generating renewable energy

The vast majority of our operational emissions are associated with the electricity used to pump, treat and recycle water. One of the opportunities for reducing our emissions – and our costs – is to generate renewable energy from our sewage sludge, and to generate renewable power on our sites from wind and solar. Not only does generating renewable energy reduce our impact on the environment, it also mitigates the transition risk associated with changes in policy and cost linked to decarbonising the UK's electricity.

In 2004 we had only two sites with combined heat and power engines (CHP) producing less than 8GWh per annum. We now have ten sites producing more than 113GWh per annum. In 2012 we installed our first wind turbines and in 2016 we installed our first solar arrays.

We're now committed to increasing the renewable energy we produce to 40% of our consumption by 2025. See page 81 for our progress this year.

Energy efficiency

As well as generating our own renewable energy, we're also pursuing other opportunities to reduce our carbon emissions and reduce costs. This includes an energy efficiency 'spend-to-save' programme, designing carbon out of the new assets we build and reducing travel emissions. This programme was launched in 2006 and delivered savings of more than £10 million within four years. We have now embarked on our 20GWh challenge – attempting to generate energy consumption savings across the business.

Working in partnership

To reduce the climate-related risks we face from drought and flooding, we're partnering with other stakeholders to better manage our limited water and financial resources. For example, we've identified opportunities to enter into funding partnerships to deliver a single cost-effective flooding scheme to protect the assets of multiple stakeholders. Every five years we publish a statutory WRMP and a Drought Plan to set out the investment and interventions required to minimise the risk of a drought. We also prepare investment plans for flooding every five years.

By 2025, we expect our investment and interventions to have reduced the risk of severe restrictions in a 1-in-200-year drought so that it is approaching zero, and to have reached a position where fewer than 10% of our customers are at risk of sewer flooding in a storm (1-in-50-year storm).

Climate-related risk management

Identifying and assessing climate-related risks

On pages 89 to 95, we outline our 13 principal risks. Climate change is a consideration in each. Identification of current and emerging climate risks, including risks presented through implementation of change, is undertaken as part of our embedded risk processes. Our process utilises expert judgement, historical data, external data and forward-looking analysis. We use scenarios to inform our future direction. The development of adaptive planning, which is part of our PR24 planning process, will define a number of climate scenarios with alternative and adaptive pathways which can be adopted as the climate changes. Through monitoring of performance against a pre-defined set of decision points, tipping points and thresholds, our adaptive plan becomes dynamic and iterative.

The assessment and management of climate-related risks is consistent with the approach used to manage risk throughout the business. Climate-related risks were identified and assessed during the production of our latest Climate Change Adaptation Report. Climate risks are also identified and managed through the preparation of long-term plans and the delivery of individual investments. We review the current risk level and how our controls provide confidence and assurance around our management of that risk.

Managing climate-related risks

The management of climate-related risks is consistent with our approach to manage risk throughout the business, more in our Risk section on pages 83 to 95.

In preparing the WRMP, we identified the impact of climate change, and then customers and stakeholders were consulted on our proposals for adaptation. Most respondents shared our view that investment in climate change should not be delayed. Our latest WRMP is currently under review following a similar stakeholder engagement strategy.

In addition, we're undertaking research into customer views of climate change adaptation approaches as part of our PR24 (2025–2030) investment process.

Integrating climate-related risk into overall risk strategy

Our approach to climate-related risks are fully integrated within our overall risk strategy, as discussed on page 88.

Within this system, we define what constitutes substantial financial and strategic impact to the business. A significant impact at Anglian Water is defined in the risk register as being greater than £25 million, while a major impact is between £10 million and £25 million.

Climate-related metrics and targets

We've developed a process to assess, manage and mitigate the climate resilience of individual investments. Climate resilience is included within the Six Capitals Framework, which includes both resilience to changing weather patterns as a consequence of climate change and carbon impacts. These carbon impacts are operational and capital.

A monetised cost benefit analysis is also carried out on these investments, using our well-established Risk, Opportunity and Value (ROV) process. Investments are then assessed for climate resilience, operational carbon performance and capital carbon performance through each design gateway as the design iterates.

Anglian Water has previously used an internal price of carbon to see if it could advance carbon reduction. This proved of limited value. We transformed the thinking of the organisation to recognise that reducing carbon does reduce cost.

Setting this expectation alongside ambitious carbon targets (65% capital carbon reduction target by 2025 and 70% by 2030 against a baseline of 2010) and a rigorous process verified to PAS 2080 has proven much more effective.

The recognition that reducing carbon reduces costs is used to drive behaviour change and deliver financial efficiencies throughout the organisation. This is most clearly seen in the delivery of our five year plans, in accordance with PAS 2080.

The data collected on our carbon versus cost saving can be used to estimate an implicit financial value for a tonne of carbon.

The Performance Commitments section, pages 31 to 38, contains a set of metrics and targets we are using to understand progress against climate-related risk. Performance against these metrics is set out annually in our Annual Performance Report. Our Climate Change Adaptation Report also includes discussion on key metrics, of which an updated report will be published in 2024.

Climate-related metrics and targets continued

Scope 1, Scope 2 and relevant Scope 3 Greenhouse Gas Emissions (GHG)

Metrics and targets

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

	Units	2021/22	2022/23	Inclusions
Energy consumption used to calculate emissions kWh	kWh	1,047,019,565	1,073,538,749	Electricity, gas, fuels combusted on site (fossil fuels and biogas), transport (company cars, fleet vehicles, personal and hire cars on business use) plus liquid fuels consumed on site
SCOPE 1 – Gas and fuel oil consumption	Tonnes CO ₂ e	11,936	10,541	Fossil fuel combusted, natural gas and biogas
SCOPE 1 – Process and fugitive emissions	Tonnes CO ₂ e	81,601	85,859	Water and waste water treatment, biogas
SCOPE 1 – Owned transport	Tonnes CO ₂ e	20,854	21,904	Fleet vehicles and company cars
SCOPE 1 – Total	Tonnes CO₂e	114,390	118,304	
SCOPE 2 – Purchased electricity	Tonnes CO ₂ e	134,894	121,994	Grid electricity – location-based electric for vehicles
SCOPE 2 – Total	Tonnes CO₂e	134,894	121,994	
SCOPE 3 – Business travel	Tonnes CO ₂ e	306	621	Private cars, public transport
SCOPE 3 – Outsourced transport	Tonnes CO ₂ e	12,834	13,144	Outsourced tankers
SCOPE 3 – Purchased electricity	Tonnes CO ₂ e	11,937	11,154	Transmission & distribution
SCOPE 3 – Total significant	Tonnes CO ₂ e	25,077	24,920	We have not included commuting, capital carbon and emissions from use of water in customers' homes
TOTAL ANNUAL GROSS EMISSIONS	Tonnes CO₂e	274,362	265,219	
Exported renewables	Tonnes CO ₂ e	-4,946	-6,334	Exported renewables REGO certified
Green tariff	Tonnes CO ₂ e	0	0	
TOTAL ANNUAL NET EMISSIONS	Tonnes CO₂e	269,416	258,884	
INTENSITY RATIO – water treated	Kg CO ₂ e per Ml	203.73	192.48	
INTENSITY RATIO – recycled water	Kg CO ₂ e per Ml	425.20	409.54	
INTENSITY RATIO – recycled water	Kg CO ₂ e per Ml	232.61	227.79	Full flow to treatment

Methodology: Emissions have been calculated using Carbon Accounting Workbook v17 (2023) an industry standard reporting tool. 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 2023 to calculate the above disclosures. There have been no methodological changes in the way emissions have been calculated in financial year 2022-2023 against 2021-22.

The reporting boundary covers the emissions within the regulated activity of Anglian Water Services Ltd where we have operational control i.e. all Scope 1 emissions, all Scope 2 emissions and Scope 3 emissions of outsourced transport, business travel and transmission and distribution losses.

The numbers reported have been verified by Achilles Carbon Reduce (formerly CEMARS) as being measured, managed and reduced in accordance with ISO 14064-1. This verification process has been followed since 2011.

We aim to be a net zero carbon business by 2030. This is defined as net zero emissions where we have operational control as set out in our Net Zero Carbon Routemap 2030.

Climate-related metrics and targets continued

Energy consumption has increased slightly in 2022/23 over 2021/22 primarily because of an increased population and subsequent water supplied. This has led to an increase in wastewater treated, which increases our process and fugitive emissions. Emissions from electricity purchased have reduced whilst further emissions reductions have been achieved through increased export of renewables. Consequently, gross emissions have reduced 3.9% in 2022/23 against 2021/22.

Organisational targets to manage climate-related risks and opportunities

Our key short to medium term climate-related targets are as set out below. We are currently implementing changes to the way we structure and document our position against our net zero commitment to ensure we have the appropriate processes in place to achieve our target. These are in addition to our performance commitments. See more in our Remuneration Report on page 127.

- Be a net zero carbon business by 2030 (emissions where we have operational control and as set out in our Net Zero Carbon 2030 Routemap);
- Deliver a 65% reduction in capital carbon by 2025 against our 2010 baseline;
- Deliver a 70% reduction in capital carbon by 2030 against our 2010 baseline;

- Deliver a 10% reduction in operational carbon by 2025 against a 2020 baseline; and
- Between 2020 and 2025 ensure that a climate change resilience assessment is completed for all relevant investments.

Operational carbon is the carbon emitted as a consequence of the day-to-day operations of our business – energy use, process emissions from the water recycling process, emissions from our vehicle fleet, etc. Capital carbon is the carbon emitted as consequence of the manufacture and installation of assets we construct, for example, our new strategic pipeline or, a new treatment facility. From 2022/23, a proportion of senior leader remuneration is linked to performance against these climate-related targets: 2.5% of senior leaders' bonuses are linked to the achievement of our annual net zero carbon performance target and 2.5% is linked to the achievement of our annual capital carbon performance target.

Our longer-term climate-related targets are as follows:

- Make the East of England resilient to drought and flooding;
- Work with others to achieve a significant improvement in ecological quality across our catchments;
- Enable sustainable economic and housing growth in the UK's fastest-growing region;

- Develop a strategy to further reduce our capital carbon beyond 70% post 2030, with an ambition to be zero carbon well before the national target of 2050; and
- Develop a hydrogen strategy to best understand how we could generate hydrogen, use any oxygen generated from hydrolysis and understand how our HGV fleet could be powered using hydrogen.

We are making progress in these areas, and have below set out the actions underway. Our Water Resources Management Plan (WRMP) and Drainage and Water Management Plan (DWMP), set out our approach to dealing with both drought and flooding over the next 25 years in our region. The plan also covers how we can enable sustainable economic and housing growth in our region whilst protecting the environment.

We are also participating in the Climate Resilience Demonstrator (CReDo) project, where asset data from Anglian Water, UK Power Networks and British Telecom have been synthesised using a digital twin approach to understand how these assets are connected. For a specific area, a flooding scenario has been run to best understand asset failure in the context of an interconnected and interdependent infrastructure network.

This project has demonstrated that the validity of this approach and CReDo is moving forward with two workstreams: increasing the geographical area and asset types within the digital twin and using an extreme prolonged heat scenario to understand asset failure.

Our target is to reduce capital carbon by 70% by 2030 against our 2010 baseline. We are currently developing our approach to delivering further reductions post-2030, including our approach to increased uptake of low carbon concretes. We will publish our approach over the coming years.

We are currently engaged in a 'Triple Carbon Reduction' innovation project which uses renewable energy-powered hydrolysis to produce hydrogen and oxygen from water. The hydrogen is collected to be used as a fuel whilst the oxygen is used to replace traditional aeration, delivering efficiency gains. The results of this trial will feed into the development of our hydrogen strategy over the coming years.

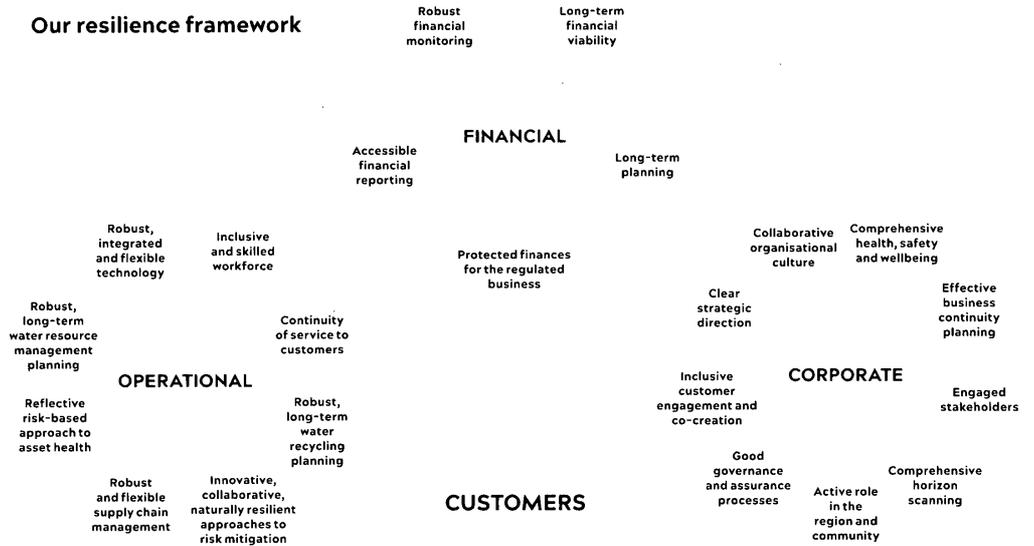
Maintaining a resilient business and managing our risks

Our long-term Strategic Direction Statement underpins our purpose to bring environmental and social prosperity to the region we serve through our commitment to Love Every Drop. Integrating resilience throughout our business is an integral part of our operational and organisational planning and delivery to ensure we can meet our purpose and secure long-term resilience surrounding water supplies and water recycling services.

Resilience is 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. Building in robust resilience allows us to quickly adapt to disruptions, maintain continuous business operations and safeguard our people, our customers and our assets.

- **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.

Our resilience framework



Over the past year, the economic, geopolitical and environmental climate has continued to be challenging. Whilst recovering from the lasting impacts of coronavirus, we have also responded to the consequences of the Russia/Ukraine conflict on our supply chains, risks of rota disconnections over the winter period, challenges to our chemical supply chains, and continued our water and water recycling services to our customers throughout the extremes of weather; heat in the summer and freeze-thaw in the winter.

To ensure operational and organisational resilience throughout these shocks and stressors we have:

- Aligned our corporate governance.
- Embedded our holistic organisational incident management structure through the business by taking the fundamental elements from the military J-cell approach; this provides visibility of emerging and present threats with a clear management structure through our silver and gold command to provide tactical and strategic leadership to ensure the business remains resilient.
- Developed our extensive emergency plans focusing on resilient services to customers.
- Built in interdependency mapping surrounding chemicals, supplies and our assets.
- Supported our differing customer profiles, whether that's businesses in our communities, vulnerable and priority customers, or our non-household customers.

- Integrated a robust training and exercising programme to enhance operational and organisational resilience. Over the past year we have run just over 60 exercises stress testing multiple plans, scenarios and interdependencies. These exercises have been a multi-agency collaboration with our regulators, Local Resilience Forums, Police (CTSA) and other water companies.

Incident preparedness through to response and recovery remains core to ensuring our business remains resilient. This is supported by our Anglian Water Force members who are our trained incident response community. Over the past year, we have rolled out a new company-wide initiative to assign all employees a secondary incident response role. So far, we have just over 3,000 employees trained and ready to respond during core hours.

We take a leading role with other UK water companies through two national Water UK collaboration groups, Platinum Incident Management (PIM) and National Incident Management (NIM), which meets to plan for and respond to events and situations to ensure the industry is resilient. As part of this industry collaboration, PIM and NIM have stood up and will remain in place to provide holistic water industry resilience.

We are proud to maintain our ISO 22301 certification, the international standard in business continuity management, which gives assurance that our processes provide a high level of business resilience.

We continue to ensure security is a fundamental part of our resilience strategy. Our personnel, cyber and physical security takes a holistic approach to ensure resilience across our employees, customers and assets. Our security standards are maintained, audited and stress tested across current and new operational assets and meet the requirements in the Protective Security Guidance (PSG) under the Security and Emergency Measures Direction (SEMD).

Risk management is a key part of resilience 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 megatrends, to ensure these are on our horizon when planning for future resilience.
- We use the National Risk Register to identify national risks that could impact our business.
- 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 engage with customers to help their understanding of the challenges we face and our understanding of their priorities.
- We continue to update our processes and procedures in line with the requirements of the Security and Emergency Measures Direction (SEMD) 2022 legislative change, which requires us to maintain a water supply and/or sewerage system in the interests of national security or to mitigate the effects of any civil emergency which may occur.

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.

Managing risk in line with our strategy

Our management team, with oversight from the Anglian Water Services (AWS) Board, is responsible for developing our strategy. Our strategic planning process aims to ensure we have developed clear objectives and targets, and identified the actions needed to deliver on our commitments, including the management of risk.

Risk management approach

We have an established Risk Management process in place. During 2022 into 2023 we have updated our Principal Risk Areas and reviewed and updated our risk appetite statements. Our top tier and business stream risks are aligned to our Principal Risk areas and are enabled by our risk management process and supporting activities.

Our risk management framework enables the identification, assessment and effective management of business risks, both individually and in aggregation. The consequences and likelihood of these risks are determined and ranked using a scoring matrix aligned to our risk appetite. This ensures that a consistent approach is taken when assessing overall impact to Anglian Water and our customers.

Our management system framework policy

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

<p>QUALITY Protecting water quality from source to source, providing confidence that our drinking water and recycled water is always safe and clean.</p>
<p>ENVIRONMENT Safeguarding and enhancing the air, water and land where we live to sustain and maintain a flourishing environment.</p>
<p>ASSET MANAGEMENT Exploiting the whole life cycle of our assets to maximise value and reduce our capital and operational carbon footprint.</p>
<p>RESILIENCE Effective planning and preparation to manage and mitigate the impact of any disruptive event so we can successfully respond and recover.</p>
<p>CUSTOMER To make life better for our customers every single day, by delivering a personal, trusted and effortless experience.</p>

Our Health and Safety Charter

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

Chief Executive Policy Statement April 2021:

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're committed to:

- Directors leading and being responsible for achieving the intended outcomes by keeping our promise to customers.
- Delivering excellent drinking water quality.
- 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 Asset Management
 - ISO 22301 Business Continuity
 - ISO 37001 Anti-Bribery
 - BS 18477 Customer Vulnerability
 - PAS 2080/EU ETS Carbon Management
- 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.

Risk appetite

Risk appetite defines the opportunities and associated risks which Anglian Water is willing to accept in the pursuit of achieving its strategic objectives. These statements are used to drive risk-aware decision-making by key business stakeholders.

We consider risks aligned to our Principal Risk Areas and strategic priorities. Underpinning each statement is a series of Risk Appetite thresholds which, during 2023, are being refined. These assist in providing a view as to whether we are operating within our appetite, or whether additional risk mitigation may be required.

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 or reduce 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 generally 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.

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.

We carefully assess the principal risks facing us. These risks centre around the criticality of our infrastructure; the importance of our customers and our people, climate change and the environment, health and safety in our service delivery, cyber security, and our ability to finance our business appropriately, and are reported regularly to the Board, as set out below.

In addition to the principal risks, we also actively manage several low-level business stream risks which feed into our principal risks. Principal risks are assessed considering a combination of factors including emerging risks and external threats.

Principal risk	Current risk profile	Trend	Predicted Outlook	Business outcome
1. Customer proposition	■	↑	↔	Delighted customers
2. Environment	■	↔	↔	Flourishing environment
3. Water supply and quality	■	↔	↔	Safe, clean water
4. Health and safety	■	↓	↔	Our people: healthier, happier, safer
5. People	■	↔	↔	Our people: healthier, happier, safer
6. Technology	■	↔	↔	Resilient business, Investing for tomorrow
7. Finance	■	↔	↔	Fair charges, fair returns/Investing for tomorrow
8. Reputation	■	↑	↔	Delighted customers
9. Asset infrastructure	■	↔	↔	Investing for tomorrow
10. Business resilience	■	↔	↔	Resilient business
11. Commercial and third-party	■	↔	↔	Business resilience
12. Strategic execution	■	↔	↔	Investing for tomorrow
13. Legislation	■	↔	↔	Resilient business

Risk profiles

- High risk
- Medium risk
- Medium - Low Risk
- Low risk

Risk movement

- ↔ No change
- ↑ Risk increasing
- ↓ Risk decreasing

1	Customer proposition	Delighted customers
<p>Strategic goal:</p> <p>“To make life better for our customers, every single day.”</p>		
<p>Risk description:</p> <p>The risk that we are unable to improve and maintain the levels of customer service necessary to deliver what our customers tell us they want. Inability to support customers with vulnerability or affordability challenges, or to deliver on our social purpose.</p> <p>Key driver(s):</p> <p>The requirement to meet CMeX (Customer Measure of Experience), DMeX (Developer Measure of Experience) as set by Ofwat, and the continued customer affordability challenges as a result of the rising cost of living which could impact our risk of failing to achieve financial sustainability.</p>	<p>Risk management & mitigation</p> <p>To mitigate this risk, we:</p> <ul style="list-style-type: none"> • conduct customer satisfaction and experience surveys, publish the results and identify and act upon areas for improvement. With results being published and areas of improvement identified and acted upon; • have a clear complaints process to identify and address expressions of dissatisfaction; • test the accessibility of our services with a wide range of demographics; • are certified customers; to the ISO 22458 Inclusive Service Provision Framework to help identify and assist vulnerable customers; and • are deploying Agile methodologies and ways of working to focus and prioritise our efforts to the best of our ability and deliver value soonest to customers. <p>Opportunity:</p> <p>Use our customer service feedback to look for new ways to meet everyday challenges to make life better for our customers.</p>	
2	Environment	Flourishing environment
<p>Strategic goal:</p> <p>“To create a sustainable future for our region.”</p>		
<p>Risk description:</p> <p>The probability and consequence of damaging the environment through business activities and/or incidents. This could be through deficiencies in waste management, waste transport, waste treatment and disposal, breaching abstraction licences and unintended pollutions or our construction activities or our overall failure to be net zero by 2030.</p> <p>Key driver(s):</p> <p>Extreme weather events and gradual changes in climate, as well as environmental degradation, such as air, water and land pollution, water stress and biodiversity loss.</p>	<p>Risk management & mitigation</p> <p>To mitigate this risk:</p> <ul style="list-style-type: none"> • our investment plans are targeted to reduce drought and flooding; • we have an established route map to deliver our aim to be net zero by 2030; • mitigating the impacts of climate change; • all incidents and associated response, mitigation and preventative actions are reported to and monitored by our Pollutions Task Force, Escaped Sewage Cell, and senior management; • we have invested in new technology for remote monitoring of discharges which has been installed at key points on the network, both inland and coastal; and • we have implemented the Biosolids Assurance Scheme (BAS), the national quality scheme for recycling of biosolid products. <p>Opportunity:</p> <p>Use new learning and technical developments to collaborate and to be industry-leading in driving environmental change, promoting Anglian Water as a trusted custodian of the environment and public health.</p>	

3	Water quality and supply	Safe, clean water
<p>Strategic goal:</p> <p>“To make life better for our customers, every single day.”</p>		
<p>Risk description: The risk that we are unable to provide a reliable source of water to customers when they need it in line with quality standards.</p> <p>Key driver(s): The speed at which the climate changes and the population grows, together with our region being the driest in the UK, could see this risk materialising sooner than we had planned.</p> <p>Risk management & mitigation To mitigate this risk, we have:</p> <ul style="list-style-type: none"> • skilled and trained employees operate our water assets; • a mature drinking water safety planning approach that meets regulatory requirements; • robust policies and standards for water supply hygiene; • regular routine testing on water quality; • investment to maintain and improve water quality; 		
<ul style="list-style-type: none"> • regular internal and external audits; • detailed emergency and business continuity response plans; • a five-year statutory Water Resources Management Plan (WRMP); • a five-year statutory Drought Plan; • monthly monitoring in place for our water resources; and • regular discussions with the Environment Agency in relation to water supplies. <p>Opportunity: Exploit new digital technologies for water and water recycling solutions to enable us to better monitor, manage and ultimately reduce consumption of key inputs such as power, water and chemicals with real time data.</p> <p>Work across the industry to deliver winning solutions and drive wider benefits beyond cost efficiencies.</p> <p>Use Ofwat’s Adaptive Planning to help us monitor performance against a range of scenarios which can be adopted depending on future circumstances.</p>		
4	Health and safety	Our people, healthier, happier, safer
<p>Strategic goal:</p> <p>“To deliver our identified business priorities.”</p>		
<p>Risk description: The risk that we endanger the health, safety and physical wellbeing of our people, operating partners or members of the public.</p> <p>We recognise the importance of robust management systems and their role in the ongoing success of our business.</p> <p>Key driver(s): Stretched resources and pressure to reduce costs could lead to less focus on following procedures, processes and maintenance.</p>		
<p>Risk management & mitigation To mitigate this risk:</p> <ul style="list-style-type: none"> • the Management Board reviews health and safety performance and associated actions; • all accidents and incidents are investigated, and remedial actions tracked; • we have an established Health and Safety Charter and Policy; • health and safety is embedded in our culture and processes via training and raising awareness; • ISO 45001 management system monitors performance with six-monthly reviews undertaken by Lloyd’s Register as well as through internal audit; and • safety management is reviewed regularly to ensure that it is suitable and sufficient to manage the hazards we have in our undertakings. <p>Opportunity: Work with our employees and alliances to drive positive behaviours built around trust for health, safety and wellbeing.</p>		

5	People	Our people, healthier, happier, safer
<p>Strategic goal:</p> <p>“To deliver our identified business priorities.”</p>		
<p>Risk description:</p> <p>The risk that we do not have enough skilled or capable people to run our business and deliver on our goals. The engagement and wellbeing of our colleagues, and the creation of an inclusive workforce, are central to our culture.</p> <p>Key driver(s):</p> <p>The challenging labour market, low morale or lack of engagement as we continue to recover from Covid-19, coupled with rising inflation, could lead to an increase in attrition and a decrease in the wellbeing of our people.</p>	<p>Risk management & mitigation</p> <p>To mitigate this risk, we:</p> <ul style="list-style-type: none"> • have a suite of people policies in place which are routinely reviewed and updated as appropriate; • review recruitment and retention activities, including remuneration, reward and incentivisation tools; • monitor absence; • undertake engagement surveys, with actions to improve identified and implemented; • have identified and regularly review essential skills, roles and business activities; • have established business continuity plans to cater for low likelihood and high impact incidents; and • provide a comprehensive range of wellbeing benefits and activities. <p>Opportunity:</p> <p>To engage and listen to our colleagues, continuously improve our skills and capabilities and retain our most talented people to help us achieve our goals.</p>	
6	Technology	Resilient business Investing for tomorrow
<p>Strategic goal:</p> <p>“To deliver our identified business priorities.”</p>		
<p>Risk description:</p> <p>The risk to our operations of technology failing to be available, secure, reliable and to perform as expected, or we fail to capitalise on new and emerging technologies.</p> <p>Key driver(s):</p> <p>Heightened cyber threat as a result of the war between Russia and Ukraine has the potential to weaken our security defences, particularly in the face of public Russian threats to the UK for its leading role in the support for Ukraine; in addition, any Chinese military action against Taiwan will likely further heighten the cyber threat in the run up to and during any conflict, as well as severely impacting the world market for computer chips, resulting in supply capacity being hugely reduced. The speed at which new technologies are evolving could mean that we are not keeping pace with our industry or customer expectations.</p>	<p>Risk management & mitigation</p> <p>To manage this risk, we:</p> <ul style="list-style-type: none"> • are leading a digital transformation of our business, enabling us to become fit for the future by building our success on solid foundations and providing dependable, resilient, secure information technology and operational technology services; • have implemented, and are maturing the use of the National Cyber Security Centre’s ‘10 Steps’ framework to enhance our control environment; and • have an ongoing awareness and education campaign to modify employees’ behaviours towards cyber risk. <p>Opportunity:</p> <p>Take advantage of new technologies, particularly those that are cloud-based, as they become available to help us become more agile and resilient.</p> <p>Investment in technology and cyber security will help to strengthen our resilience and approach to managing incidents in the future. Our updated Information Security framework, aligned with best practice developed by the NCSC, will help in the overall improvement, recognition and management of IT risks.</p>	

7	Financial	Delighted customers
<p>Strategic goal: “To deliver our AMP7 Final Determination.”</p>		
<p>Risk description: The risk that we fail to appropriately finance our business in either the short or the long term.</p> <p>Key driver(s): Economic conditions affecting the availability or pricing of funding from debt markets. Failure to deliver our Totex programme to target either through overspending or missing outcomes, impacting our potential for earning financial rewards which allow us to invest for the future. Inability to maintain stable credit ratings.</p>	<p>Risk management & mitigation To mitigate this risk:</p> <ul style="list-style-type: none"> • revenue from our customers, together with the proceeds of new debt raised, finances the Totex programme; • we use a range of investment and debt instruments to finance our regulatory capital value; • we ensure access to a diversified source of debt across a range of maturities to minimise the refinancing risk; • we hold regular senior level meetings with banks, rating agencies and bond holders; and • we have robust treasury, liquidity and energy and covenant policies which are internally monitored through our Finance, Treasury and Energy Policy Group. <p>Opportunity: Maintaining a strong credit rating, liquidity levels and an attractive environmental, social and governance (ESG) profile will allow us access to a broad range of financial markets, optimising our financing costs.</p>	
8	Reputation	Delighted customers
<p>Strategic goal: “To deliver our identified business priorities.”</p>		
<p>Risk description: The potential for negative publicity, public perception, or events to have an adverse impact on our reputation.</p> <p>Key driver(s): The changing expectations of external (and internal) stakeholders, principally when communicated to us through public forums such as the traditional media, and now frequently amplified via social media.</p>	<p>Risk management & mitigation To manage this risk:</p> <ul style="list-style-type: none"> • reputational risk is managed as part of our Group Strategy and Planning; • our risk assessment process examines the likelihood and impact of events that could cause reputational damage; • we have a communications strategy, executed by a highly competent team, that promotes (both internally and externally) our purpose, vision, and our performance; • we constantly seek to secure lateral endorsement and support from stakeholders and other third parties who become willing to advocate on our behalf; and • we have well-rehearsed contingency plans and accompanying communications strategies for when things don't quite go right. <p>Opportunity: Using our insight and data to make sure communications are relevant, effective and engaging for our different audiences, promoting our industry's reputation and protecting our brand.</p>	

9	Asset infrastructure	Investing for tomorrow
<p>Strategic goal:</p> <p>“To create a sustainable future for our region.”</p>		
<p>Risk description: The risk of failing to plan, build, maintain and decommission assets reliably and efficiently to meet the service expectations of our customers.</p> <p>Key driver(s): Our significant and aging asset base, which ranges from large tunnels and reservoirs to small pumping stations serving two or three homes, together with the changing regulatory and environmental landscape.</p> <p>Risk management & mitigation To mitigate this risk, we:</p> <ul style="list-style-type: none"> • have strategic alliances in place to deliver capital programmes to assure continuation of services to our customers; • have an established investment and corporate governance process which operates for projects led by senior management with independent assurance; 		
<ul style="list-style-type: none"> • have cross-business governance bodies that align to business strategy; • have a detailed knowledge and understanding of our critical assets; and • work with industry bodies to review the regulatory framework in relation to asset health, to further address long-term risks. <p>Opportunity: Trial and implement new technologies and innovation to improve our water treatment processes and network operations, such as leakage detection.</p> <p>Use efficiency gains on analytical data, reporting and innovation to take advantage of analytical and digital capabilities to support a reduction in process costs and reduce inefficiencies.</p> <p>Use the Totex outcomes framework and engage with the Ofwat Innovation Fund to drive up performance and facilitate the innovation customers need.</p>		
10	Business resilience	Resilient business
<p>Strategic goal:</p> <p>“To create a sustainable future for our region.”</p>		
<p>Risk description: The risk of failing to embed capabilities, processes, behaviours and systems which allow us to continue to carry out our purpose. A failure to prepare for operational risks and be resilient against them.</p> <p>Key driver(s): Operational risks can arise within all areas of the business and can manifest themselves through inadequate or failed internal processes or systems, human error or from external events.</p> <p>Risk management & mitigation Our approach to ensure we have robust business resilient processes in place is to:</p> <ul style="list-style-type: none"> • proactively mitigate potential customer and environmental harm, regulatory or legal censure and financial and reputational impacts; • regularly review our processes and systems, including prevention and detection processes, to ensure we can absorb and/or adapt to internal or external events. 		
<p>Opportunity: Use data analytics to exploit the development of our smart networks and smart metering to bring an untapped level of data to increase resilience and service to customers.</p>		

11	Commercial and third-party	Resilient business	12	Strategic execution	Investing for tomorrow
<p>Strategic goal:</p> <p>“To deliver our identified business priorities.”</p>			<p>Strategic goal:</p> <p>“To deliver our identified business priorities.”</p>		
<p>Risk description: The risk of loss, failure or over-dependency on one or more of our key suppliers (including alliances) which may interrupt the services that they provide.</p> <p>Key driver(s): The rising expectations of customers, increasing regulation and rapidly evolving technology.</p>		<p>Risk management & mitigation To mitigate this risk, we:</p> <ul style="list-style-type: none"> • closely manage our supply chain, given our alliance and partnership model which supports the delivery of our core services; • monitor the long-term sustainability of key suppliers, considering wider macroeconomic pressures; and • operate a strong control environment through the delivery of our procurement and supply chain operating model, which is focused on delivering active monitoring of critical suppliers and partnerships. <p>Opportunity: Engagement and monitoring of our key suppliers to build on our success, optimising our value chain and enhancing our capabilities through the use of transformational technologies.</p>	<p>Risk description: Failure to inadequately translate the strategy from high-level ambition to specific action, to appropriately adapt the strategy when conditions change, to deliver change to time, cost and quality and to realise the benefits on completion.</p> <p>Key driver(s): Internal and external developments such as the supply chain challenges, the energy crisis, the cost of rising inflation and public/media sentiment, together with changing laws and regulations across the water industry, could all have an impact on our ability to finance or deliver our strategic goals.</p>		<p>Risk management & mitigation To manage our risks, we have taken the following steps:</p> <ul style="list-style-type: none"> • we agree to monitor and manage performance against the Board-approved plan and targets; • the Board leads the annual strategy and five-year planning process which considers our performance, competitor positioning and strategic opportunities; and • we identify and manage emerging risks using established governance processes and forums. <p>Opportunity: Use the experience and expertise across the business to design and deliver projects more efficiently and effectively delivering customer-centric solutions and taking new opportunities when they arise.</p>

13	Legal	Resilient business	Emerging risks	
<p>Strategic goal:</p> <p>“To deliver our identified business priorities.”</p>			<p>We define emerging risks as a new risk, or a familiar risk in a new or unfamiliar context (re-emerging) which is changing in nature, and where the likelihood and impact is not widely understood. These risks are more likely to have a longer-term impact; however, there is potential for the velocity to significantly increase within a shorter time frame and affect our performance.</p> <p><i>Hover over a number to read the risk description</i></p>	
<table border="0"> <tr> <td style="vertical-align: top;"> <p>Risk description:</p> <p>The risk of financial or reputational loss resulting from lack of knowledge (or misunderstanding) of how the law applies to our business, or operating with a reckless indifference to the law and how it applies.</p> <p>Risk of failure to maintain a suitable and sufficient framework to manage data protection legislative obligations.</p> </td> <td style="vertical-align: top;"> <p>Key driver(s):</p> <p>The changing legal and regulatory landscape.</p> <p>Risk management & mitigation</p> <p>To mitigate this risk, we:</p> <ul style="list-style-type: none"> • maintain a constructive and open relationship with our regulators and have a strong culture of delivering on our commitments to our customers; • have documented policies, processes and guidelines covering a range of Legal scenarios with our Legal team on hand to support the business to manage legal risk; and • have an internal mechanism to ensure that any breaches are identified, reported and investigated in a timely manner. <p>Opportunity:</p> <p>Engagement and monitoring of our key suppliers to build on our success, optimising our value chain and enhancing our capabilities through the use of transformational technologies.</p> </td> </tr> </table>				<p>Risk description:</p> <p>The risk of financial or reputational loss resulting from lack of knowledge (or misunderstanding) of how the law applies to our business, or operating with a reckless indifference to the law and how it applies.</p> <p>Risk of failure to maintain a suitable and sufficient framework to manage data protection legislative obligations.</p>
<p>Risk description:</p> <p>The risk of financial or reputational loss resulting from lack of knowledge (or misunderstanding) of how the law applies to our business, or operating with a reckless indifference to the law and how it applies.</p> <p>Risk of failure to maintain a suitable and sufficient framework to manage data protection legislative obligations.</p>	<p>Key driver(s):</p> <p>The changing legal and regulatory landscape.</p> <p>Risk management & mitigation</p> <p>To mitigate this risk, we:</p> <ul style="list-style-type: none"> • maintain a constructive and open relationship with our regulators and have a strong culture of delivering on our commitments to our customers; • have documented policies, processes and guidelines covering a range of Legal scenarios with our Legal team on hand to support the business to manage legal risk; and • have an internal mechanism to ensure that any breaches are identified, reported and investigated in a timely manner. <p>Opportunity:</p> <p>Engagement and monitoring of our key suppliers to build on our success, optimising our value chain and enhancing our capabilities through the use of transformational technologies.</p>			

Emerging Risks continued

Summary	Impacted principal risks		Summary	Impacted principal risks	
Energy costs			Employee wellbeing		
Gas and electricity prices have continued to rise rapidly through 2022 into early 2023, with consumer prices due to increase again by 20% in April 2023. Energy costs continue to put immense pressures on households and businesses. Whilst wholesale energy prices have now fallen from their summer 2022 peaks there is a substantial lag before these feed through to consumers with the energy crisis expected to last until at least 2024.	1 7 11	5 10	Many employees are seeing their bills rising, real pay falling and their health worsening. The year ahead will be marred by recession, the cost of living crisis, labour strikes and the war in Ukraine. According to ONS there are over 2.5 million workers out of the labour force due to long-term sickness which will mean employers will continue to face challenges during 2023. The cost of living crisis may see employees not turning on the heating, ignoring health issues or being unable to afford to travel to medical appointments, this will ultimately impact their health. The threat to financial security will provoke direct feelings of anxiety and worsening mental health.	7	5 10
Cost of living			Disruptions in global supply chains		
The UK remains in the grip of a cost-of-living crisis that is putting significant strain on household wallets. Low-income families have already been hit the hardest by soaring energy bills and food prices and are the most likely to have seen both their financial circumstances and their health deteriorate. Local cost pressures and supply challenges are not set to ease anytime soon with a lot of pressure still on the economy.	1 7	5 10	The recent macroeconomic turmoil and the war in Ukraine has increased vulnerability, triggering shortages and price increases in energy, food and certain raw materials. The conflict has added further pressures to supply chains already struggling with post pandemic disruption, such as shortages in semiconductors, which have yet to fully recover. Disruption to supply chain operations are set to stay in 2023.	7 11	10
Cyber-attack			Climate action failure		
As businesses move their data and infrastructure to the cloud and increase reliance on third-party software applications and service providers, they are significantly increasing the risk of cyber-attacks and breaches from third parties.	6 7 11	3 10	We face the reputational impact of not being seen to contribute towards the mitigation of climate change via achievement of net zero emissions by 2030.	2 7 12	3
Cyber-attack on Critical National Infrastructure			Chemical resilience		
The war in Ukraine and wider geopolitical tensions are shaping the landscape, heightening the risk of a large-scale cyber-attack. The war has brought the existential threat of attacks on vital services such as water supply systems, energy companies and transport networks into stark reality as Russian-affiliated groups set their sights on the CNI of Ukraine and its allies.	6 7	10	The chemical industry has been a major contributor to businesses and global trade growth for decades. The industry has been hit hard by recent trade barriers, increased levels of protectionism and the Covid-19 pandemic. The need for a resilient supply chain in the chemical industry has never been greater.	11	2 3 10

- 1 Customer proposition
- 2 Environment
- 3 Water quality and supply
- 4 Health and safety
- 5 People
- 6 Technology
- 7 Financial
- 8 Reputation
- 9 Asset infrastructure
- 10 Business resilience
- 11 Commercial and third-party
- 12 Strategic execution
- 13 Legal

Emerging Risks continued

Summary	Impacted principal risks	Summary	Impacted principal risks
<p>Artificial intelligence/Big data</p> <p>Artificial intelligence (AI) is becoming increasingly popular. Raising concerns around lack of transparency, over reliance on AI, bias and discrimination, vulnerability attacks, lack of human oversight, high cost and privacy concerns. Big Data is being leveraged to provide meaningful insights help water companies understand trends in land use and climate that influences key decisions about planning and adaptive and responsive water systems.</p>	<p>6 3</p> <p>12</p>	<p>Geopolitical instability</p> <p>The Russia-Ukraine war and other geopolitical shocks will continue to impact the global economy during 2023. The five overarching themes being unresolved conflict, energy security, easing supply chain disruptions that will remain vulnerable to labour and resource shortages, transitioning labour markets as demand overruns supply and likely recessions in both Europe and North America.</p>	<p>7 10</p> <p>11</p>
<p>Extreme weather</p> <p>The UK is forecast to be facing another year of heatwaves, storms, floods, and big freezes as meteorologists warn extreme weather is set to continue; the risk of failing to deal with the impact of extreme and/or unpredictable weather events on our assets and infrastructure is increasing.</p>	<p>1 2</p> <p>7 9 10</p>	<p>Infectious diseases</p> <p>As the world continues to battle the deadly coronavirus pandemic, 'infectious diseases' continues to be a global risk. This risk has been increasing over the last 20 years and every year the risk increases more.</p>	<p>7 5</p> <p>10</p>
<p>Shortage of skilled workers/digital skills gap</p> <p>A consequence of the pandemic and rising wage inflation is a shortage of skilled workforce at a time of high demand for labour and some workers choosing to take early retirement. Over the next 10-20 years it is reported that 90% of all jobs will require some form of digital skill with those most likely to need support falling into three groups; young or about to start their careers, the unemployed who need skills to find work and the retired or over seventy-fives.</p>	<p>6 7 3</p> <p>12 10</p>	<p>Regulatory reform</p> <p>Potential regulatory reform/changes to the number of regulators governing the water industry, or a merger. The introduction of financial penalties on accountable individuals, bigger fines or criminal proceedings for not meeting regulatory requirements/expectations.</p>	<p>2 3 5</p> <p>7 10</p>
		<p>Aging population</p> <p>According to the World Health Organization, in the next 25 years the number of people older than eighty-five will double to 2.6 million. A rise in the elderly population will place greater pressure on public finances as a relatively smaller working-age population supports growing spending on health, social care and pensions. An aging population could lead to a shortage of workers and hence push up wages causing wage inflation.</p>	<p>7 5</p> <p>10</p>

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Background

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

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

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

Look-forward period

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

Assessment of prospects

The Directors have assessed Anglian Water's financial prospects over the next 10 years from April 2023 to March 2033. A 10-year period has been chosen to ensure that our Business Plan for the current AMP does not impact on the longer-term viability of the group:

- The first two 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 CMA Final Determination for AMP7.

- The next eight 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 align to the AMP8 forecasts that we plan to submit in our PR24 Business Plan.
- The Board considered whether there are specific, foreseeable risk events relating to the principal risks that are likely to materialise within a 10-year period, and which might be substantial enough to affect the group's viability and therefore should be taken into account when setting the assessment period. These events were modelled appropriately within our downside scenarios.
- The Board has considered the impact of the wider activities of other group companies and transactions and of the overall group structure.
- The Board considers the maturity profiles of debt and the availability of new finance over 10 years as part of its review of financial modelling and forecasting, as well as considering the credit ratings of the debt.
- 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 group on pages 83 to 95, 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 83 to 86.

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

Stress testing the Business Plan

In reviewing its financial viability, Anglian Water considers the stringent covenant tests required under its securitised structure to provide comfort to our bondholders that our business is viable to the end of the current AMP period and beyond, and to ensure the availability of debt to finance Anglian Water's investment programme. At each regulatory price review and throughout the AMP, the Board satisfies itself that the agreed five-year business plans ensure adequate covenant headroom throughout the AMP period and beyond. This includes extensive downside scenario testing at both Anglian Water and group level from severe, plausible and reasonable scenarios chosen because they pose the greatest risk to the business.

Long-term Viability Statement continued

The following scenarios have been used individually and in combination to model the impact on the overall performance of the business, the ability of the business to service its debt and the impact on its credit rating.

The table below sets out, for each if the scenario, whether the impact modelled would require the business to implement mitigating actions to avoid a Trigger event, as described in the going concern assessment in note 1 of the Financial Statements, or in the case of the business maintaining sufficient headroom, no mitigations are required.

Principal risk	Scenario	Impact modelled	Potential mitigations required	Principal risk	Scenario	Impact modelled	Potential mitigations required
<ul style="list-style-type: none"> • People • Technology • Financial • Asset infrastructure • Business resilience • Commercial & third-party • Strategic execution 	Material Totex underperformance against the Final Determination allowance	<ul style="list-style-type: none"> Overspend of 10% across an AMP CAPEX overspend of 5% OPEX overspend of 5% 	<ul style="list-style-type: none"> No mitigations required No mitigations required No mitigations required 	<ul style="list-style-type: none"> • Financial • Reputation • Strategic execution 	The potential impact of credit rating agencies downgrading the debt for any companies in the Group	2% increase in cost of new debt	No mitigations required
<ul style="list-style-type: none"> • Customer proposition • Environment • People • Reputation • Asset infrastructure • Business resilience • Strategic execution 	Material Outcome Delivery Incentive (ODI) penalties	Up to £105 million applied in years four and five	No mitigations required	<ul style="list-style-type: none"> • Financial • Reputation • Strategic execution 	Cost of debt increases	2% above base level assumptions across an AMP	No mitigations required
<ul style="list-style-type: none"> • Environment • Water supply and quality • Health and safety • People • Reputation • Legal 	Regulatory fines and legal penalties	Up to 6% of turnover applied in a single year	Mitigations required	<ul style="list-style-type: none"> • Customer proposition • Financial • Asset infrastructure • Commercial & third-party 	Significant inflation fluctuations	<ul style="list-style-type: none"> 1% above and below base level assumptions for each AMP 2% below base level for each AMP 	<ul style="list-style-type: none"> No mitigations required No mitigations required
<ul style="list-style-type: none"> • Financial 	Unfunded pension liabilities	Up to £15 million applied per annum	No mitigations required	<ul style="list-style-type: none"> • Customer proposition • Environment • People • Technology • Financial • Reputation • Asset infrastructure • Business resilience • Commercial & third-party • Strategic execution 	Combined scenario based on Totex underperformance for a whole AMP, along with a significant ODI penalty and a revenue penalty	Overspend of 10% across an AMP, combined with an ODI penalty of 1.5% of RORE in year four and five plus a financial penalty of 1% of revenue in year four	No mitigations required
<ul style="list-style-type: none"> • Customer proposition • Financial • Business resilience 	Risks associated with the disruption caused by cost of living crisis, potential reductions in revenue collection	<ul style="list-style-type: none"> Up to 5% decrease in cash collection 20% increase in bad debt 	<ul style="list-style-type: none"> Mitigations required No mitigations required 	<ul style="list-style-type: none"> • Customer proposition • Financial • Asset infrastructure • Commercial & third-party • Reputation • Strategic execution 	Combined scenario based on low inflation and high cost of debt	Inflation 2% below base level for the AMP combined with cost of debt 2% above base level assumptions across an AMP	No mitigations required

Principal risk	Scenario	Impact modelled	Potential mitigations required
<ul style="list-style-type: none"> • Customer proposition • Environment • People • Technology • Financial • Reputation • Asset infrastructure • Business resilience • Commercial & third-party • Strategic execution 	<p>Combined scenario based on low inflation, an OPEX cost shock plus a significant ODI penalty</p>	<p>Inflation 1% below base for the AMP combined with 2.5% OPEX cost shock in AMP7 and a £50 million ODI penalty in year four</p>	<p>No mitigations required</p>

In deciding on appropriate downside scenarios and corresponding stress tests, management have considered the required modelling set out by Ofwat as part of the financial resilience testing for PR24. Management have taken the view that where the PR24 scenarios were more severe it would be prudent to align to these, this also provides consistency with our PR24 Business Plan submission.

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 'Beast from the East' and £3 million for each extreme wet weather event. During the current year, as a result of a number of weather-related incidents, the Board agreed to investing £13.9 million with a view to maintaining our industry-leading leakage position. 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.

Mitigating actions

For each sensitivity and combined scenario, we identify, where 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 group's financial metrics, management's principal actions would include further reducing the level of shareholder distributions, potential shareholder equity injections, reviewing the financing structure and identifying further opportunities to reduce the group's cost base or reduce financing costs.

Evidence of the shareholders' support for equity injections is provided by the equity injections made in October 2018 of £22.0 million, April 2021 of £110.0 million and July 2021 of £1,065.0 million, although ongoing support would require equity returns sufficient to attract the significant levels of new capital investment.

As a further mitigation we have a significant portfolio of insurance cover in place to provide protection against many catastrophic scenarios such as dam failure, pluvial and fluvial flood, terrorism and public and employer's liability. There would still be a short-term liquidity impact from such events due to the time it would take between incurring the expenditure and recovering this through the insurance claim; however, it is an important consideration in terms of medium-term liquidity. The Board formally reviews the output of the stress testing twice a year.

Benefits of the securitised structure

The highly covenanted nature of our financing arrangements (often described as a whole business securitisation) enhances our financial resilience by imposing a rigorous governance framework. This requires continuous monitoring and reporting of our financial and operating performance by senior management, through a well-established business process, to ensure compliance with our financing arrangements, and provides an additional layer of control over how we transact with our stakeholders, including suppliers, business partners, customers, shareholders and lenders, compared to the regulatory frameworks by which we are governed.

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.

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.

Long-term Viability Statement continued

In addition, the Directors have made assumptions about the ability to attract equity investment into the sector to fund the required capital investment.

This viability statement assumes that Ofwat will maintain sufficient financeability as required by the Water Industry Act, including an equity return sufficient to attract the significant levels of new capital investment in AMP8 and AMP9.

Anglian Water Services is an efficient company with a history of both operational and financial outperformance. 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 2033, 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 and an acceptable PR24 determination that meets the requirement to maintain sufficient financeability as required by the Water Industry Act, 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 and signed on its behalf by

Claire Russell
Company Secretary

7 June 2023



Governance

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Introducing the Board's approach to governance and its key areas of focus this year

Dear Stakeholder

I present the Corporate Governance Report for the year ended 31 March 2023. 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 Chair's welcome, this year has been a challenging one with two climate change-related events as well as the macroeconomic difficulties faced in common with other businesses. Never has it been more apparent that being guided by our purpose and committing to resilience – both financial and operational – has been the right decision. Although our position at year end is not where we want it to be, it could have been far more severe were it not for the swift operational action, adaptation and control achieved through our committed people. Nonetheless, we have underperformed against some key targets, and this has been reflected in our Executive Directors and Senior Management remuneration as we set out in the Remuneration Committee report on pages 127 to 155.

Transparency and governance

This report details our compliance against the Anglian Water Services Corporate Governance Code 2020. 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 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 116, 123 and 127.

Board events

This year, as a Board, we have welcomed the opportunity to meet with many colleagues across the business at various site visits and market stall events. These events give us, as Directors, the opportunity to engage with experts from around the business. In July, we focused on how the company is driving its purpose through its long-term people strategy, meeting with the employees responsible for delivering the company's people development programmes as well as engaging with those individuals who had benefited from such programmes (including graduates and apprentices). A further market stall event took place in September with the purpose of focusing on issues relevant to AMP8 planning and I was delighted that representatives from Ofwat, including their CEO, David Black, attended this session.

Board changes

The Board has seen a number of changes this year with both Colin Matthews and Alistair Phillips-Davies joining the Board in November and I welcome the new perspective their appointments bring. I will be stepping down as Chair at the end of this financial year, on completion of my nine-year term in office. The search for my successor has commenced, led by Dame Polly Courtice, the Senior Independent Director. Further information can be found in the Nomination Committee Report on page 124.

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](https://www.anglianwater.co.uk/about-us/our-reports). This report contains a statement from the Board, which focuses on how Anglian Water has set its long-term ambitions and targets and how the company is delivering for everybody that it serves.

John Hirst, CBE

Chair

7 June 2023

Anglian Water Services Management Board

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

Peter Simpson
Chief Executive Officer

Steve Buck
Chief Financial Officer

Susannah Clements
Group People and Change Director

Brian Ebdon
Director of Strategic Planning and Performance

Pete Holland
Director of Customer and Wholesale Services

Dr Robin Price
Director of Quality and Environment

Ian Rule
Director of Water Services

Claire Russell
Group Legal Director/Company Secretary

Emily Timmins
Director of Water Recycling Services

Jason Tucker
Director of Strategic Delivery and Commercial Assurance

A Audit **R** Remuneration
N Nomination **○** Denotes Committee Chair

Independent Chair

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R

John Hirst, CBE
Independent Chair

Appointed

- Chair in April 2020
- Senior Independent Non-Executive Director in January 2016
- Independent Non-Executive Director in April 2015

Skills, competencies and experience

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 Chair of the Audit Committee of Hammerson plc between 2004 and 2014, was a Non-Executive Director of Ultra Electronics between 2015 and 2019 and was Chair of the National Oceanography Centre between 2018 and 2022. He is a Fellow of the Institute of Chartered Accountants and a member of the Association of Corporate Treasurers.

Other roles

John is Chair of the British Standards Institution (BSI) and SMI Drug Discovery Limited. He is also a Director of IMIS Global Limited. John is Chair of SUDEP Action.

Independent Non-Executive Directors

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Dame Polly Courtice, DBE, LVO, DL
Senior Independent Non-Executive Director

Appointed

- Chair of Nomination Committee April 2023
- Senior Independent Non-Executive Director in April 2020
- Independent Non-Executive Director in April 2015

Skills, competencies and experience

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, and in 2022, was awarded an honorary doctorate from UiT - the Norwegian University of the Arctic.

Other roles

Polly is Emeritus Director and Senior Ambassador of CISL, and Chair of the Faculty Board of Engineering at the University of Cambridge. She is a member of the Supervisory Board of Mercedes-Benz AG and a Board member of BSI. She is a sustainability advisor to Terra Firma Capital Management Ltd, and is Deputy Lieutenant for Cambridgeshire.

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Natalie Ceeney, CBE
Independent Non-Executive Director

Appointed

- Chair of the Remuneration Committee in March 2022
- Independent Non-Executive Director in April 2018

Skills, competencies and experience

Natalie's career includes more than 20 years leading organisational and digital transformation, firstly as a McKinsey & Company consultant and then as an executive, before moving to non-executive roles. 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.

Other roles

Natalie is currently Chair of Cash Access UK Limited and an Independent Non-Executive Director of Openreach Limited. She is an Independent Non-Executive Director and Chair of the Remuneration Committee at both Spire Healthcare Group plc and Liverpool Victoria Financial Services Limited (LV-). At LV- Natalie is also Senior Independent Director.

Independent Non-Executive Directors		
<p>A</p>	<p>A N R</p>	<p>N R</p>
<p>Colin Matthews, CBE FREng Independent Non-Executive Director</p> <p>Appointed</p> <ul style="list-style-type: none"> Independent Non-Executive Director in November 2023 <hr/> <p>Skills, competencies and experience During his executive career Colin held engineering and leadership roles across a range of businesses, including Lucas, the American General Electric Company, British Airways and Transco. Subsequently he was Chief Executive of Hays plc, then Severn Trent plc and then, from 2008 to 2014, BAA/Heathrow Airport.</p> <p>Between November 2017 and December 2022 Colin was Chair of EDF Energy Holdings Limited. He has also been Chair of Renewi plc and government owned Highways England Company Limited, as well as previously holding non-executive positions at Mondip plc and Johnson Matthey plc.</p> <p>Colin holds an MA in Engineering, an MBA and is a Fellow of the Royal Academy of Engineering.</p>	<p>Zarin Patel Independent Non-Executive Director</p> <p>Appointed</p> <ul style="list-style-type: none"> Chair of the Audit Committee in April 2020 Independent Non-Executive Director in October 2018 <hr/> <p>Skills, competencies and experience 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.</p> <p>She was an independent member of the Audit & Risk Committee of John Lewis Partnership plc until April 2021 and the Senior Independent Director of Post Office Limited until March 2023.</p> <p>Other roles Zarin is currently the Senior Independent Director of Pets at Home Group plc, where she is Chair of the Audit & Risk Committee and a Non-Executive Director of Hays plc. She is a Non-Executive Director on the Board of HM Treasury and chairs its Audit & Risk Committee. She also sits on the Board of Trustees of the National Trust and chairs its Audit Committee.</p>	<p>Alistair Phillips-Davies Independent Non-Executive Director</p> <p>Appointed</p> <ul style="list-style-type: none"> Independent Non-Executive Director in November 2022 <hr/> <p>Skills, competencies and experience Alistair joined SSE plc (Southern Electric) in 1997 and has been Chief Executive since 2013. He has held a range of senior roles across multiple business areas within the SSE Group. Prior to joining the Board in 2002 as Energy Supply Director, Alistair was Director of Corporate Finance and Business Development. In 2010, he became Generation and Supply Director, before Deputy Chief Executive in 2012. Alistair is a chartered accountant, a fellow of the Energy Institute, a former Vice President of Eurelectric and former Director of Energy UK.</p> <p>Prior to joining SSE plc he worked for HSBC and National Westminster Bank in corporate finance and business development roles in London and New York.</p>

Executive Directors		Non-Executive Directors	
<p>Peter Simpson Chief Executive</p> <p>Appointed</p> <ul style="list-style-type: none"> • CEO of Anglian Water Group in October 2013 • Managing Director of Anglian Water in 2010 and COO from 2004 <hr/> <p>Skills, competencies and experience</p> <p>Peter is a founding member, and 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.</p> <p>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 and in 2021 he was made an Honorary Member of the Institute of Water. He holds an MBA from Warwick Business School.</p>	<p>Steve Buck Chief Financial Officer</p> <p>Appointed</p> <ul style="list-style-type: none"> • CFO of Anglian Water Group in August 2019 <hr/> <p>Skills, competencies and experience</p> <p>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.</p> <p>Between 2008 and 2017 Steve held a number of positions within Centrica including Group Head, Finance and Transformation. Prior to this, he held a number of roles in Thames Water.</p> <p>Steve is 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.</p>	<p>(N) (R)</p> <p>Appointed</p> <ul style="list-style-type: none"> • Non-Executive Director in November 2020 <hr/> <p>Skills, competencies and experience</p> <p>John is a Chartered Accountant who was a founding member of 3i's infrastructure business and served as a Director of 3i Infrastructure, where one of his transactions was the take-private of Anglian Water Group in 2006. More recently, he was a Managing Director of First Reserve Corporation and 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.</p> <hr/> <p>Other roles</p> <p>John is Non-Executive Chair of Cory Group, a Non-Executive Director of North Sea Midstream Partners and an independent member of the Investment Committee for the SUSI Infrastructure Partners Energy Transition Fund.</p> <p>John has been a Non-Executive Director of Anglian Water Group Limited since March 2018.</p>	<p>(N) (R)</p> <p>Appointed</p> <ul style="list-style-type: none"> • Non-Executive Director in March 2023 <hr/> <p>Skills, competencies and experience</p> <p>Deepu is an Executive Director at IFM Investors where she is responsible for the origination and execution of infrastructure transactions as well as asset management of IFM Investors' existing European investments. She has played a key role in a number of acquisitions by IFM Investors in Europe, including the acquisition of GlasfaserPlus, M6toll, Vienna Airport and Manchester Airports Group.</p> <p>Prior to IFM Investors, Deepu worked at Citigroup in the infrastructure finance and advisory team in New York. She has a master's degree from Stanford University.</p> <hr/> <p>Other roles</p> <p>Deepu is an Advisory Board member of GlasfaserPlus in Germany.</p> <p>Deepu has been a Non-Executive Director of Anglian Water Group Limited since March 2023.</p>

Non-Executive Directors	
	
<p>Appointed</p> <ul style="list-style-type: none"> Non-Executive Director in October 2022 	<p>Appointed</p> <ul style="list-style-type: none"> Non-Executive Director in November 2021
<p>Skills, competencies and experience</p> <p>Alex is a Managing Director of Igneo Infrastructure Partners based in London. Alex joined Igneo Infrastructure Partners in 2015, prior to which he spent over 15 years in investment banking with HSBC, Dresdner Kleinwort Benson and CSFB.</p> <p>Alex holds a Dipl. Engineering from the National Technical University of Athens and an MBA from Manchester Business School.</p>	<p>Skills, competencies and experience</p> <p>Batiste is Head of Infrastructure Investments (Europe) at CPP Investments. During his career, Batiste has overseen multiple investments across water, gas, electricity, transport, communication, wind and solar sectors. Batiste is a Fellow of the Institute of Chartered Accountants in England and Wales (ICAEW).</p>
<p>Other roles</p> <p>Alex is an Independent Non-Executive Director of EYDAP S.A. (EYDAP:ATH, Greece) and is an alternate Non-Executive Director of Anglian Water Group Limited.</p>	<p>Other roles</p> <p>Batiste represents CPP Investments as a Director of Renewable Power Capital Limited. He is also a member of CPP Investments' European Credit Committee.</p> <p>Batiste has been a Non-Executive Director of Anglian Water Group Limited since May 2021, having been an alternate Non-Executive Director since July 2019.</p>

Chief Executive Peter Simpson at a treatment wetland with partners and colleagues.

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. 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.

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, as detailed in this report. The 2020 Code and the previous Corporate Governance Codes applied by Anglian Water can be found at [anglianwater.co.uk/governance](https://www.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. Find out more on our website, [anglianwater.co.uk/governance](https://www.anglianwater.co.uk/governance)

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.

Our Articles of Association require the Directors 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 2022, the Board agreed again that the SRBP should take the form of Business in the Community's (BITC) Responsible Business Tracker[®]. The company conducted an assessment using the Responsible Business Tracker[®] in 2022, scoring 80% against a cohort average of 46% (see page 18) and a utilities sector average of 64%. In addition, the collaborative project with the British Standards Institution to develop a Publicly Available Specification (PAS) for Embedding Purpose in Organisations has now concluded and the final standard BSI PAS 808 'Purpose-Driven Organisations - Worldviews, principles and behaviours for delivering sustainability' was launched in July 2022; see page 19 for further information.

From 2023 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 assessment approach to PAS 808 is outlined on page 19 and once completed will be published on our website.

The company's purpose is one part of our business model, page 9, which also includes the company's ambitions and values. The Board is committed to the implementation of the company's business model.

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 67.

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.

The Board regularly reviews the company's culture, taking an active interest in our Love to Listen survey feedback and follow-up action and reviewing our culture dashboard. The dashboard comprises a range of cultural indicators that are tracked over time, such as the latest participation figures for wellbeing and inclusion events, the number of employees taking new opportunities internally and regular exit feedback.

Corporate Governance arrangements resulting from the Aligned Debt Programme

As we note on page 21, 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 AWSFG (described on page 21) 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).

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 (32,000,002 ordinary £1 shares).

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 is ultimately responsible for the strategy, and overseeing the performance of, the company. As explained in our Business Model on page 9, the company has developed four key goals for 2020-2025 (AMP7), which are:

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

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 in the UK's fastest growing region;
- work with others to achieve significant improvement in ecological quality across our catchments; and
- by 2030, be a net zero carbon business and reduce the carbon in building and managing our assets by 70%.

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 full list of matters reserved to the Board appears at anglianwater.co.uk/governance. 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.

Anglian Water's investors are represented on our Board. However, Independent Non-Executive Directors form the largest single group on the Board. All Directors are required under our Articles of Association to take decisions in good faith, and in a way that is most likely to promote the purpose of the company. When making decisions, Directors must have regard (among other matters) to the interests of and impact on the company's key stakeholders (including customers, employees, suppliers, communities and the environment) as well as the interests of shareholders. Further information can be found in the Section 172 Statement on pages 65 to 68.

The Board acts independently and in the best interests of the company as a whole whilst considering the views of shareholders in its deliberations. Anglian Water values the particular contribution of the investor representatives who sit on the Anglian Water Board.

As is explained below, a number of matters require the approval of the Board of Anglian Water Group Limited (AWG). However, any matters requiring AWG Board approval are first considered by the AWS Board (or by the relevant Board Committee) before being passed to the AWG Board for approval. This approach means that, where relevant, the AWG Board is asked to make a decision based on the recommendation of the AWS Board.

The investor representatives who sit on the AWS Board are also members of the AWG Board. Therefore, the substantive debate on all matters takes place in the course of AWS Board meetings. It follows that, where AWG Board approval is required, the AWG Board is effectively asked to endorse a decision already taken in principle by the AWS Board. The close liaison between the two Boards, and the fact that investor views are considered by the AWS Board, means that the AWG Board has never rejected a recommendation made by AWS Directors. However, the formal requirement for AWG Board approval means that these matters are made visible to the AWG Board. This is particularly important where additional equity funding might be required in order to implement a strategy proposed by the AWS Board. For example, a material increase in the size of the company's capital programme at PR24 would necessarily entail the injection of equity. Provisions in the AWG Investors' Agreement ensure that AWS Directors will not take any action which would cause Anglian Water to breach either the terms of its Licence or any of the company's obligations under the Water Industry Act.

The decisions requiring formal approval by the AWG Board 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 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 2022/23 financial year, the following matters required approval by the AWG Board under the terms of the governance matrix:

- remuneration matters, including the granting of new awards under the Deferred Bonus Plan, the vesting of awards under the Deferred Bonus Plan and Directors' pay increases;
- the procurement strategy for a number of high-value contracts;
- the appointment of new Non-Executive Directors and changes to Committee membership; and
- the formation of the AWS Finance & Administration Committee.

Board composition

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. The Executive and Non-Executive Directors are equal members of the Board and have collective responsibility for the company's strategy and performance. As is explained above, 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.

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 Chair

Peter Simpson
Chief Executive Officer

Steve Buck
Chief Financial Officer

Dame Polly Courtice
Senior Independent
Non-Executive Director

Natalie Ceeney
Independent
Non-Executive Director

Colin Matthews
Independent
Non-Executive Director
(appointed 23 November 2022)

Zarin Patel
Independent
Non-Executive Director

Alistair Phillips-Davies
Independent
Non-Executive Director
(appointed 23 November 2022)

John Barry
Non-Executive Director

Deepu Chintamaneni
Non-Executive Director
(appointed 22 March 2023)

Alex Nassuphis
Non-Executive Director
(appointed 28 September 2022)

Batiste Ogier
Non-Executive Director

The following Directors resigned from the Board during the year:

Niall Mills
Non-Executive Director
(resigned 28 September 2022)

Paul Whittaker
Independent
Non-Executive Director
(resigned 13 October 2022)

Duncan Symonds
Non-Executive Director
(resigned 22 March 2023)

At the date of these financial statements, in addition to the Independent Chair John Hirst, there were five Independent Non-Executive Directors, two Executive Directors and four Non-Executive Directors. None of the Directors has a formally approved alternate.

The company's Chair is also the Chair of the company's ultimate parent company, AWG. The 2020 Code does not prohibit Chairship of other companies in the group, and on appointment as Chair, the Board considered John Hirst (who was appointed as Chair 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 Chairship 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 2023. 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. Alistair Phillips-Davies is Chief Executive Officer of SSE plc (SSE).

A subsidiary of SSE supplies electricity and gas to the company. However, this relationship would only be a barrier to independence if it could be classed as 'material'. When considering the independence of Alistair Phillips-Davies, the Board reviewed the details of the contracts in place, including their value, and whether they could be considered material. The Board noted that all of the contracts were tendered and commenced prior to Alistair Phillips-Davies' appointment and concluded that Alistair Phillips-Davies remained independent. If a conflict did arise it would be dealt with via the Board protocol for dealing with conflicts of interest, a copy of which can be found at anglianwater.co.uk/governance

The Chair 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 Chair and Chief Executive are separate, with their roles and responsibilities clearly divided. A document that clearly sets out the respective responsibilities of the Chair and the Chief Executive (which was approved by the Board) can be found at anglianwater.co.uk/governance. The Chair'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 102. 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 at anglianwater.co.uk/governance

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. The Chair of the Audit Committee 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. The chair of the Nomination Committee is Dame Polly Courtice.

Remuneration Committee

Details of the terms of reference of the Remuneration Committee, its membership, activities, the company's remuneration policy and the remuneration paid to Directors during the year are contained in the Directors' Remuneration Report on pages 127 to 155. The majority of the members of the Remuneration Committee are independent. The chair of the Remuneration Committee is Natalie Ceeney.

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 Chair is responsible for ensuring that Directors receive timely, accurate and clear information. To ensure adequate time is available for Board discussion and to enable informed decision-making, briefing papers are prepared and circulated to Directors in the week prior to scheduled Board meetings. All Non-Executive Directors are encouraged to make further enquiries as they feel appropriate of the Executive Directors and senior management. In addition, Board Committees are provided with sufficient resources and the power to co-opt such additional support as they may require from time to time to undertake their duties. The company Secretary is available to all Directors and is responsible for information flows to the Board and advising the Board on corporate governance matters. This ensures compliance with Board procedures and applicable laws and regulations. The Board has responsibility for the appointment and removal of the Company Secretary.

Board composition and roles

Independent Chair

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 Chair 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 Chair, Chief Executive Officer or other Executive Directors has failed to resolve, or for which such contact is inappropriate.

Independent Non-Executive Directors

Natalie Ceeney/Colin Matthews/Zarin Patel/Alistair Phillips-Davies

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*/Deepu Chintamaneni/Alex Nassuphis/ Batiste Ogier

Responsible for providing constructive challenge to the Board's decision-making processes.

* Non-Executive Director responsible for engaging with the workforce.

During the year, the Chair 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 the four Non-Executive Directors who were appointed as Directors during the financial year, attended a pre-appointment meeting with representatives from Ofwat.

The company offers the Directors in-house training as necessary to aid their professional development and awareness of business and sector-specific issues. During the year the Directors received external training on the Market Abuse Regulations. In addition, Directors were given access to the company's online training portal to enable them to complete training courses on: Inclusion, the Competition Act compliance, Data Protection, Anti-Bribery and Modern Slavery.

The company also offers to fund participation on externally-provided training courses. All Directors are entitled to receive, at the company's expense, independent professional advice on any matters relating to their responsibilities as a Director.

Periodically, the Board visits different business locations to enable the Directors to meet with a range of employees, and to update and maintain their knowledge of and familiarity with the company's operations. During the year, a number of Directors attended different site visits including to Wing Water Treatment Works, Grafham Water Treatment Works and Milton Water Recycling Centre. In addition, three 'market stalls' events were held during the year, which gave the Directors the opportunity to listen to presentations and engage with experts from around the business. The July event focused on how the company is driving its purpose through its long-term people strategy. Directors were able to meet with the employees responsible for delivering the company's people development programmes as well as to engage with those individuals who had benefited from such programmes (including graduates and apprentices). A further 'market stall' event took place in September and was attended by members of the Ofwat team (including Ofwat's Chief Executive, David Black). This event gave attendees the opportunity to engage with and discuss in detail issues relevant to planning for AMP8 (including Supporting our Customers/Ensuring affordability for all, Leveraging Partnerships for Value, Enhancing the Environment, Digital solutions and innovation and Planning and Investing for the Long Term). A third market stall event took place in March 2023 and focused on key components of the PR24 Business Plan.

Information on the annual evaluation of the performance of the Board and the Chair can be found in the Nomination Committee Report.

Board diversity and skills

The company’s Board offers a diverse set of skills and background, which supports the company in the delivery of its long-term strategy. To support this the Directors have completed a skills matrix. The skills and experience captured in the matrix have been aligned with the company’s key stakeholders, namely: customers, communities, employees, environment, regulators, national and local government, 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. The Nomination Committee has used the skills matrix to inform the recruitment process for new Independent Non-Executive Directors (see page 124).

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. Further information on the skills and experience of the Directors can be found in the Directors’ biographies on pages 102 to 105.

	Independent Chair	Executive Directors			Independent Non-Executive Directors					Non-Executive Directors				Total
	John Hirst	Peter Simpson	Steve Buck	Natalie Ceeneey	Polly Courtice	Colin Matthews	Zarin Patel	Alistair Phillips-Davies	John Barry	Deepu Chintamaneni	Alex Nassuphis	Batiste Ogier		
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.

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 seven scheduled meetings during the year ended 31 March 2023. In addition, the Board held two scheduled meetings between 31 March 2023 and the date of signing this report, which all Directors attended, other than Alistair Phillips-Davies was unable to attend the Board meeting in May 2023. 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 2023 is shown in the table opposite. All decisions made by the Board during the year were unanimous.

During the year, 12 other Board meetings were held, some at short notice, to consider different matters, including: delegating authority to the Treasury function for certain treasury matters; the provision of a statutory certificate to Ofcom pursuant to which the company is permitted to install electronic equipment in the public highway, and financing matters including bond issues, banking mandates, a letter of credit and the annual renewal of the liquidity facility.

Further meetings of the Audit, Nomination and Remuneration Committees were held on 22/23 May 2023, which all Committee members attended, other than Alistair Phillips-Davies. Further meetings of the Audit and Remuneration Committees were held on 5 June 2023 which all committee 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**	7/7	3/3	4/4	6/6
John Barry	7/7	-	4/4	6/6
Steve Buck*	6/7	3/3	-	4/6
Natalie Ceeney	7/7	3/3	4/4	6/6
Deepu Chintamaneni	1/1	-	1/1	1/1
Dame Polly Courtice	6/7	-	3/4	6/6
Colin Matthews	2/3	1/2	-	-
Alex Nassuphis	3/3	-	2/2	4/4
Batiste Ogier	7/7	-	4/4	6/6
Zarin Patel	7/7	3/3	3/4	4/6
Alistair Phillips-Davies	3/3	-	2/2	2/2
Peter Simpson*	7/7	3/3	4/4	6/6

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

** Not a member of the Audit Committee but attended by invitation.

Former Directors who served during the year	Board	Audit Committee	Nomination Committee	Remuneration Committee
Niall Mills	4/4	-	0/1	0/2
Duncan Symonds	4/6	-	1/3	2/5
Paul Whittaker	4/4	1/1	1/1	4/4

Risk management and internal control

Detailed disclosure regarding the company's risk management approach, risk appetite and principal as well as emerging risks is included in the Strategic Report (see pages 83 to 95). 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 2023, the company's internal and financial controls included the following:

- 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 regular review by the Board of the top-tier risk register.
- A programme of internal audits undertaken by our quality and systems team which provide the business with assurance that our accredited quality management systems are supporting the delivery of key business objectives and performance commitments. Development of the internal audit programme takes into account the top tier risk register as well as organisational objectives and priorities. Inputs include critical business processes and current areas of focus, legal and regulatory compliance requirements, events and incidents, and management system requirements. The company's Integrated Management System Framework Policy is published on our website.

- An internal audit programme, which is led by the Head of Internal Audit, with support provided by external specialists, as necessary. During the year there is a comprehensive review of internal controls, the findings and recommendations of which are formally reported to the Audit Committee.
- A detailed process of assurance in relation to the data submitted to Ofwat in our Annual Performance Report which follows the approach set out in the company's assurance framework (see: www.anglianwater.co.uk/siteassets/household/about-us/our-assurance-framework-2022-new.pdf) and which includes review by an independent assurance provider where appropriate (and in accordance with the risk-based approach set out in our framework).

Other disclosures

An explanation on the following can be found in the Strategic Report:

- the group's structure;
- dividend policy; and
- dividends paid.

The Remuneration Committee 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 throughout the 2022/23 financial year with the following exception: between 13 October 2022 (the date Paul Whittaker resigned) and 23 November 2022 (the date of appointment for both Colin Matthews and Alistair Phillips-Davies) Independent Non-Executive Directors were not the single largest group on the Board (provision 2.4). The company gave Ofwat advance notice of this short period of non-compliance and no concerns were raised by the economic regulator.

This report was approved by the Board of Directors on 7 June 2023.

Claire Russell
Company Secretary



7 June 2023

“

As a Committee we are fully supportive of the Government’s plans to restore trust in audit and corporate governance.”

Committee members

Chair
Zarin Patel

Other members
Natalie Ceeney
Colin Matthews

Meetings
Three

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 external auditors; Wayne Young, Group Financial Controller; Tori Coombe Head of Internal Audit; Ellie King, Group Risk Manager; and Claire Russell, Company Secretary

View the Audit Committee’s terms of reference and Whistleblowing policy at anglianwater.co.uk/governance

Chair’s Letter

As Chair of the Audit Committee, I am pleased to present the Committee’s report for the year ended 31 March 2023. These pages outline how the Committee has discharged the responsibilities delegated to it by the Board over the course of the year, and the key topics it considered in doing so. I would like to use this letter to highlight a few of the key areas the Committee has considered during the year, and I hope that you find it useful in understanding our work.

The Committee continues to monitor the integrity of the company’s financial information as well as focusing and supporting the company’s evolving approach to risk management and ensuring that its internal controls remain robust and suitable.

As a Committee we are fully supportive of the Government’s plans to restore trust in audit and corporate governance. As such, it takes a keen interest in the plans the company is putting in place to ensure compliance within the appropriate timeframes. The Committee will also ensure that the Financial Reporting Council’s proposed new minimum standards for audit committees will be complied with.

During the year, we approved the internal audit plan and received updates on progress against the plan at each meeting, challenging management’s actions where appropriate.

During the year, Paul Whittaker stepped down from the Committee, when he resigned from the Board on completion of his nine-year term. He was replaced on the Committee by Colin Matthews, who has extensive experience both as an executive and non-executive director and I welcome Colin’s expertise on the Committee.

I would like to extend my thanks to Committee colleagues for their work and support during the year. As Independent Non-Executive Directors, my fellow Committee members and I have no hesitation in seeking a full explanation from management or Deloitte on any matter we feel necessary.

Zarin Patel
Audit Committee Chair

Role of the Committee

The Committee's roles and responsibilities are covered in its terms of reference which are available at www.anglianwater.co.uk/governance. These terms of reference were most recently reviewed in March 2022. 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 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, including the mandatory disclosures on the Taskforce for Climate-related Financial Disclosures (TCFD) on pages 71 to 82.

- 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.
- Review and assess the annual internal audit work plan.
- Monitor and review the effectiveness of the internal audit function and review the actions taken by management to implement the recommendations made by 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 Committee held three meetings during the year. The meeting attendance table is shown on page 114. The Committee Chair regularly holds separate one-to-one meetings with the Chief Financial Officer, the Head of Internal Audit, the Group Risk Manager and representatives from the company's external auditor outside the Committee's meetings to better understand any issues or areas for concern. The Committee meets without management present, and meets privately with the Head of Internal Audit, Group Risk Manager and external auditor on a regular basis.

Details of the Committee members' skills, experience and qualifications can be found in the biographies on pages 102 to 105. The Board believes Committee members have the necessary range of financial, risk, control and commercial expertise required to provide effective challenge to management and have competence in accounting and auditing as well as recent and relevant financial experience. Zarin Patel is considered by the Board to have recent and relevant financial experience: she is a Chartered Accountant and was formerly Chief Financial Officer of the BBC.

She is currently a Chair of the Audit & Risk Committee of HM Treasury, is Chair of the Audit & Risk Committee of Pets at Home Group PLC, Chair of the Audit Committee at the National Trust and a member of Hays plc Audit Committee. Natalie Ceeney has considerable financial services experience, having worked for the Financial Ombudsman Service and been a member of HSBC's UK executive team. She is currently also a member of the Audit and Risk Committee of Liverpool Victoria Life Company Limited (LV=). Colin Matthews, who joined the Committee during the year, has extensive experience working both as an Executive Director and Non-Executive Directors across a range of listed and non-listed companies. All members of the Committee are considered to have competence relevant to the sector in which the company operates. The Company Secretary is Secretary to the Audit Committee.

Summary of key Committee activities during the year

All business discussed by the Committee during the course of the year was reported to the Board.

Financial reporting

- Reviewed the final results for the year ended 31 March 2022 and interim results for the half-year ended 30 September 2022 (see below).
- Considered the company's going concern and long-term viability statements (see pages 96 to 99).
- Considered key issues and areas of judgement in relation to the financial statements (see page 119) and the integrity of the audit process.
- Reviewed the mandatory TCFD disclosures for inclusion in the Annual Integrated Report.
- Reviewed the processes in place to ensure that there was sufficient control over the Capital Commissioning process and associated accounting implications.

Internal audit

(further information on page 120)

- Reviewed progress against the 2022/23 internal audit plan and agreed the scope of the internal audit plan for 2023/24.
- Where areas of improvement are identified during the internal audit process, the Committee closely reviews implementation of associated action plans.

External audit

(further information on page 124)

- Reviewed the proposed audit plan for the 2022/23 statutory audit, including key audit risks and level of materiality applied by the external auditor.
- Considered audit reports from the external auditor on the financial statements and the areas of particular focus for the audit.
- Assessed the quality and effectiveness of the external auditor and Deloitte's response to the Audit Quality Review Findings. Following this assessment, the Committee made a recommendation to the Board on the reappointment of Deloitte as the external auditor for the financial year ended 31 March 2023.
- Agreed the statutory audit fee for the year ended 31 March 2023.
- In respect of the 2023 year-end statutory audit, the Committee reviewed progress made by the external auditor against the agreed audit strategy.

Regulatory and legal disclosures

- Reviewed the integrity of key regulatory and legal statements and certificates as required by the company's Instrument of Appointment, the Water Industry Act, the Companies Act 2006 and Ofwat, including the statement as to disclosure of information to auditors, Ring-Fencing Certificate, Board statement on accuracy and completeness of data and information and the risk and compliance statement, and recommended their approval to the Board.

Risk

- Considered the risk appetite statements and thresholds for each of the principal risk areas and recommended approval by the Board.
- Conducted a review of the effectiveness of the internal control environment and the risk management framework, supported by the Annual Statement of Responsibility as self-certified by management (see page 120).
- Considered key treasury risks.
- Reviewed and supported the company's approach to IT risk, including cyber security.

Review of financial statements

The Committee reviews the financial statements of the company and assesses whether suitable accounting policies have been adopted and whether management has made appropriate estimates and judgements. In order to assist with this review, the Committee requested that management present detailed papers explaining and substantiating the basis for the group's accounting policies, and key areas of judgement and estimation.

Other

- Monitored whistleblowing allegations and the associated investigations undertaken by management (see page 121).
- Considered actual and potential material litigation.
- Considered the results of the Committee evaluation which was undertaken as part of the wider Board evaluation.
- Considered the company's readiness to meet the requirements set out in the Government's proposals to "Restore Trust in Audit and Corporate Governance".
- Reviewed feedback and insights on the 2022 AIR and agreed areas of improvement in respect of the 2023 AIR.

The Committee also recognises the importance of the views of the external auditor and consequently made enquiries to ensure that suitably robust challenges and audit procedures had been performed on these judgements during the course of the audit. There were no significant differences between management and the external auditor. Having reviewed management's papers and considered the procedures and findings of the external auditor, the Committee is satisfied that the judgements are reasonable, and that suitable accounting policies have been adopted and disclosed in the accounts.

Significant matters and judgements for the year ended 31 March 2023

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.

Details of Committee review	Reference to financial statements
Area of focus – Bad debt provision	
The Committee reviewed the assumptions underpinning the provision for bad debts and how this is consistent with recent debt-recovery experience, current conditions and estimates of future economic conditions. Management calculates the bad debt provision by firstly evaluating the estimated recoverability of trade receivables and records a provision based on experience, primarily cash collection history, and then adjusts, as necessary, for forward-looking factors such as a change in economic conditions. In its forward-looking review, the Committee considered management's assessment of the potential impact of macroeconomic conditions, such as the cost of living crisis, on the bad debt charge based on market data and a review of post year-end cash collection rates.	Notes 2(c) and 16
Area of focus – 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 2023, which was consistent with that used in previous years. Measured income accrual is an estimation of the amount of mains water and water recycling charges unbilled at the end of the period and represents approximately 37.7% 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.	Note 17
Area of focus – 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'.	Notes 1(v), 2(b) and 22

Details of Committee review	Reference to financial statements
Area of focus – 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.	Notes 1(l) and 2(a)
Area of focus – Depreciation of property, plant and equipment	
The Committee considered the range of asset lives applied when calculating the depreciation charge. In addition the Committee reviewed the assumptions used in determining the amount of depreciation applied to assets not yet commissioned.	Notes 1(l) and 12
Area of focus – 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. As discussed, this follows a review into this judgement and the application of IFRS 15 based on the March 2021 AIR.	Notes 1(e) and 2a
Area of focus – Climate Change	
The Committee reviewed the paper prepared by management setting out the actions taken by the company to identify and mitigate risks arising from climate change and the related impacts on the financial statements including the disclosure to be presented in the AIR.	See Climate-related Financial Disclosures from page 71 Note 2 of the financial statements for more information.

Going concern and viability statement

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, the company had adequate liquid resources to meet its obligations as they fell due over the next 12 months and to remain financially viable over the 10-year period to 31 March 2033. 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 current macroeconomic environment, including the potential impacts of climate change. 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. The Committee carefully considered the assumptions underpinning the viability statement, particularly the uncertainty at this early stage of preparing business plans for future AMP periods and the Committee satisfied itself that the company is financially viable over the duration of its assessment period.

Annual Integrated Report

At the request of the Board, the Committee considers whether, in its opinion, the 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 followed the process detailed below:

- | | | |
|---|--|---|
| <p>1</p> <p>In January 2023, Committee Chair met with key members of management to agree key messages in respect of the AIR.</p> | <p>2</p> <p>In March 2023 the Committee considered a review of the 2022 AIR including feedback from Deloitte, the FRC and Ofwat and agreed a series of actions to improve the 2023 AIR.</p> | <p>3</p> <p>The preparation of the AIR is led by a small team of senior management. Senior management reviews the content of the AIR as a whole to ensure accuracy.</p> |
| <p>4</p> <p>The Committee reviews the AIR during the drafting process and each Committee Chair reviews and inputs into their specific reports. By facilitating input at an early stage there is adequate time for review and amendments.</p> | <p>5</p> <p>The external auditor presents the results of its audit work and work on significant risks which were considered by the Committee.</p> | <p>6</p> <p>On the recommendation of the Committee, the Board approved the AIR and the associated Statement of Directors' Responsibilities which can be found on page 158.</p> |

Risk management, internal control and internal audit

Risk management

Detailed disclosure regarding the company's risk management approach, risk appetite and principal as well as emerging risks is included in the Strategic Report (see pages 83 to 95), followed by an assessment of the future viability of the business. The Board has overall responsibility for setting risk appetite and ensuring that there is an effective risk management framework in place. The Committee assists the Board with risk management, particularly with regard to the monitoring of financial risks, internal control, risk management systems and the alignment of the internal audit plan with key risks. At the March meeting, the Committee reviewed the approach to risk appetite and the risk appetite statements associated with each of the company's Principal Risk Areas. On conclusion of the review, the Committee recommended the risk appetite statements to the Board for approval.

The Audit Committee reviews the effectiveness of the company's risk management and internal control systems throughout the year to ensure their effectiveness. 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 Committee reviews and approves the risk-based internal audit plan each year, with regular meetings to assess progress and reprioritise audits if necessary, to review the Head of Internal Audit'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 Committee.
- All control improvement recommendations are followed up by audits, the reports on which enable monitoring by the 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 presented to the Committee.

Internal audit

The internal audit function is an integral part of the company's internal control framework. With effect from 1 August 2021, the provision of internal audit services has been undertaken by an internal audit team, with support provided by external specialists, as necessary. The work undertaken by the internal audit function provides key insights into the practices, processes, systems and controls of the company. As such, the internal audit plan is approved on an annual basis, at the March Committee meeting. The Head of Internal Audit then provides a detailed update on progress against the plan at each Committee meeting. This update provides insight into the results of the audits, including management plans in place to address any actions.

Each audit is rated by reference to the materiality of any weaknesses in governance, risk management or internal control which have been identified in the process or system that is the subject of the audit. Specific actions are agreed with management to address any weaknesses, together with a timetable for completion of actions. If an audit receives a classification other than that of 'satisfactory' or 'satisfactory with exceptions' the Committee receives the full audit report, reviews the associated actions, tracks progress and requests management to attend Committee meetings and address audit actions, where necessary. Internal audits carried out during the year included Key Financial Controls, Chemical Stock Management, Water Quality Compliance, Asset Health Data Management, Capacity Management, Cyber Security, Developer Charges, ESG Governance, Regulation Governance and Cost Programme. The Committee considers the control environment 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 and comparison to best practice.

The internal audit plan for 2023/24 is aimed at providing depth and quality assurance where it matters to the company, taking into account the top tier risk register, discussions with management, organisational objectives and priorities. Some audits are designed to add greater value and insight to the organisation in real time whilst other audits focus on the delivery of improvements in efficiency and effectiveness. Audits on the 2023/24 internal audit plan include Critical Asset Management, Abstraction Licence and Sludge Treatment Compliance, Supply Chain Sanctions, Operator Self Monitoring Sampling Programme, Business Impact Assessments and Continuity, Financial Spreadsheet Controls, Key Financial Controls and Fraud Effectiveness, Data Security, Recycling Environmental Services, ODI Governance, Weather Event Planning, Reputation Management and a project assurance review of the Cambridge Relocation Project.

Whistleblowing, anti-fraud and anti-bribery processes

Whistleblowing

The Board has delegated responsibility to the Committee for reviewing the adequacy of the arrangements that are in place to enable the company's 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 process 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 (e.g. 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 Chief Financial Officer, Group Legal Director, Group People and Change Director, Head of Employee Relations and Head of Internal Audit (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.

All whistleblowing allegations and the subsequent investigation and conclusion are reported to the Committee.

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.

As part of proposed BEIS Reforms, the company is undertaking a governance, risk and controls review in relation to fraud. As an initial step, all controls have been reviewed and categorised against a standard risk taxonomy, which has enabled senior management to identify those controls which mitigate against the risk of both internal and external fraud.

External auditor

The Committee has primary responsibility for overseeing the relationship with Deloitte LLP (Deloitte), the external auditor, including assessing its performance and audit quality, independence and effectiveness and making a recommendation to the Board in respect of the auditor's appointment or removal. The Committee also reviewed Deloitte's Audit Quality Review Findings and ensured that any relevant recommendations were appropriately actioned. Deloitte was awarded the contract for external audit services in September 2016, following a competitive tender process. Following a tender process during 2021/22, the Committee recommended to the Board that Deloitte be reappointed as external auditor on a four-year contract to commence from September 2023 with the option for four successive one-year extensions. The Board approved Deloitte's reappointment on the terms detailed above at its Board meeting in March 2022.

External auditor independence

There are two main ways in which the Committee assesses the independence of the external auditor.

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. Kate Hadley has held the position of audit engagement partner since 2021, and will serve for a maximum of five audit cycles. Ms Hadley has extensive water and wider sector experience.

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. The fees paid during the year in respect of non-audit services largely related to non-audit-related assurance services. However, if the external auditor were to provide other non-audit services they would need to comply 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 must 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% 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 179. 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 126. The Committee evaluation considered the structure of the Committee and its membership as well as considering questions around financial controls, external and internal audit. The results of the Committee evaluation were considered at the Committee meeting in March 2023; whilst no material shortcomings in the operation of the Committee were highlighted it was agreed that there was further scope to simplify and streamline Committee packs and papers.

This report was approved by the Board of Directors on 7 June 2023.

Zarin Patel

Chair of the Audit Committee

7 June 2023



It is an important part of the Committee's role to review succession planning and the talent pool for the Board, Management Board and other senior roles to identify both talent strengths and gaps."

To ensure compliance with corporate governance best practice I replaced John Hirst as Chair of the Committee in April 2023, and I will lead the search and selection process for a new Chair.

It is an important part of the Committee's role to review succession planning and the talent pool for the Board, Management Board and other senior roles to identify both talent strengths and gaps. As such, I was delighted to be able to meet so many members of the company's talent pipeline from apprentices and graduates to potential board successors at the 'Our Future Workforce' event which was hosted by the company in July. Other Committee members and I were impressed by the different development opportunities available to employees and how the company recognises the importance of building a career in a purpose and values-driven organisation.

Dame Polly Courtice
Nomination Committee Chair

Available to view at:
www.anglianwater.co.uk

- Nomination Committee terms of reference
- Diversity and Inclusion policy
- Gender Pay Gap Report
- Ethnicity Pay Gap Report

Committee members

Chair
Dame Polly Courtice

Other members
John Barry
Natalie Ceeney
Deepu Chintamaneni
John Hirst
Alex Nassuphis
Batiste Ogier
Zarin Patel
Alistair Phillips-Davies

Meetings
Four

Meetings also regularly attended by:
Peter Simpson, Chief Executive Officer; Susannah Clements, Group People and Change Director; and Claire Russell, Company Secretary.

View the Nomination Committee's terms of reference and Whistleblowing policy at anglianwater.co.uk/governance

Chair's letter

This report details the role of the Nomination Committee and the important work it has undertaken during the year, including the matters considered and steps taken by the Committee during the 2022/23 financial year.

During the 2022/23 financial year Paul Whittaker stood down from the Board, on completion of his nine-year term in office. Therefore, during the year the Committee conducted a thorough search and selection process to further enhance the Board. On the completion of the process, the Committee recommended to the Board that two further Independent Non-Executive Directors, Colin Matthews and Alistair Phillips-Davies, be appointed to the Board.

On appointment, Alistair Phillips-Davies was appointed to the Nomination Committee and the membership was further refreshed by the appointment of Deepu Chintamaneni and Alex Nassuphis during the year. I welcome the broad range of professional backgrounds, skills and perspectives they bring to Committee discussions.

At the end of the current financial year both the Chair of the company, John Hirst, and I will be stepping down on the completion of our nine-year terms in office. The Committee has therefore commenced the search and selection process for a new Chair. A new Senior Independent Director will also be appointed prior to the end of 2023/24 financial year.

Composition of the Committee

On 28 September 2022, Alex Nassuphis replaced Niall Mills as a member of the Committee. On 13 October 2022, Paul Whittaker resigned as a member of the Committee. On 23 November 2022, Alistair Phillips-Davies was appointed as a member of the Committee. On 23 March 2023, Deepu Chintamaneni replaced Duncan Symonds as a member of the Committee. On 26 April 2023, Dame Polly Courtice replaced John Hirst as Chair of the Committee.

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 and Committee changes

During the year and up to the date of this report, the Committee considered a number of changes to membership of the Board and Committees and recommended to the Board that the following appointments should be made:

- Alex Nassuphis should be appointed as a member of both the Nomination and Remuneration Committees with effect from 28 September 2022;
- Colin Matthews and Alistair Phillips-Davies should be appointed as Independent Non-Executive Directors with effect from 23 November 2022;
- Alistair Phillips-Davies should be appointed as a member of both the Nomination and Remuneration Committees on his appointment to the Board;
- Colin Matthews should be appointed as a member of the Audit Committee on his appointment to the Board;

- Deepu Chintamaneni should be appointed as a member of both the Nomination and Remuneration Committees with effect from 23 March 2023; and
- Dame Polly Courtice should replace John Hirst as Chair of the Nomination Committee with effect from 26 April 2023.

In October 2022, Paul Whittaker stood down as an Independent Non-Executive Director, on the completion of his nine-year term in office. Therefore, during the 2021/22 financial year, the Committee began a search for a new Independent Non-Executive Director to replace him. The Committee led the search and selection process with the support of Korn Ferry (a global executive recruitment firm, which was appointed after a competitive tendering process, and which does not have any other connection with the company or individual Directors other than supporting the recruitment of Board Directors and senior management appointments). On beginning the search process, the Committee considered the key skills and experience required by an individual appointed to the role, with reference to the previously agreed Board skills matrix. The Committee considered and agreed a specification for the role and delegated the initial selection process to a sub-committee which consisted of four members of the Committee, including the Chair.

Once interviews with short-listed candidates had been completed, the sub-committee reported back to the Committee and recommended that, due to the strength of the candidates available and considering that both the company Chair and Senior Independent Director (SID) would be stepping down at the end of the 2023/24 financial year, two candidates should be appointed. Following the Committee's recommendation, the Board approved the appointment of both Colin Matthews and Alistair Phillips-Davies to the Board with effect from 23 November 2022.

It is expected that the company Chair will step-down at the end of the 2023/24 financial year. Therefore, the search and selection process has commenced to find his successor. The Committee has agreed that the process will be led by the SID, who will chair a small sub-committee and be supported by the Group People and Change Director and Korn Ferry. Initially, the sub-committee will be responsible for preparing and agreeing with the whole Board the specification for the new Chair, to ensure it accurately reflects the company's priorities. Both the Board and Committee will receive regular updates on the recruitment process.

All Independent Non-Executive Directors are appointed for a fixed term of three years. The fixed term can be renewed and, consistent with best practice, would not be extended beyond nine years save in exceptional circumstances.

Inclusion

The Committee recognises that inclusion is vital to Anglian Water’s success, and as such, takes a keen interest in the company’s approach to inclusion. The company’s inclusion approach aims to develop awareness and education, build and grow the company’s Inclusion Community and deliver specific interventions to move the organisation forward. During the year, the Committee had the opportunity to further understand, discuss and challenge this approach. The Committee reviewed progress in respect of a range of initiatives designed to increase the diversity of the company’s workforce as well as progress in respect of agreed inclusion metrics. In addition, they considered and offered insight into the planned inclusion activity for the year and recognised the challenges of increasing inclusion. Areas of achievement over the financial year included:

- Increase in the gender mix of new hires from 35% at March 2022 to 39% in March 2023;
- Launching a pilot initiative in Peterborough to support the recruitment of more individuals from Ethically Diverse Communities (EDC). In 2022, recruitment from EDC in Peterborough increased to 16% (2021: 6%);
- Publication of the company’s first Ethnicity Pay Gap Report;
- 70% of employees sharing their ethnicity demographics, which represents an increase of five percentage points on 2022;

- Achieving Disability Confident Status in November 2022; and
- Sharing the company’s commitment and actions to make its recruitment process more inclusive as part of the Business in the Community’s Opening Doors campaign to East of England based companies.

Although the company is making good progress in increasing its gender mix throughout the organisation, increasing the number of people from EDC in the workforce remains challenging. Therefore, during 2022, the company updated its recruitment training to include more content on diverse hiring, partnered with new diversity job boards and installed a translation and disability tool on its recruitment website, to enable candidates to customise their recruitment journey. During 2023, recruitment training is being developed further to incorporate findings from the company’s Strength in Diversity Initiative and there are plans to undertake further cross-industry collaboration. The Committee endorsed and supported the actions undertaken to further create a more inclusive workplace.

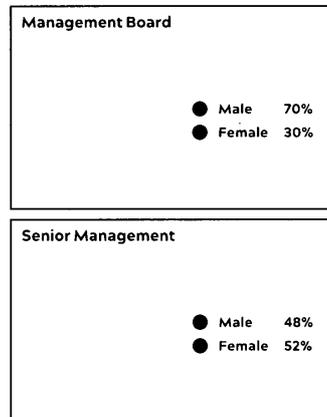
The Financial Conduct Authority has made changes to the rules that apply to listed companies which require disclosure against the following targets:

- At least 40% of the board must be women;
- At least one of the senior board positions (Chair, CEO, SID or CFO) must be a woman; and
- At least one member of the board must be from a non-White ethnic minority background.

The company makes the following disclosures on a voluntary basis. As at 31 March 2023*:

- 33% of the Directors were female. However, 50% of the Independent Non-Executive Directors appointed by the company are female. Four of the Directors are appointed by the company’s ultimate investors, of which one is female;
 - The SID is female; and
 - Two Directors are from a minority ethnic background.
- * There have been no changes to Board composition since 31 March 2023 and the date of this report.

As at 31 March 2023, the gender balance of the Management Board and those employees who directly reported into Management Board members is detailed below:



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.

During the year, the Committee undertook a specific review of how talent was retained and developed across the company as well as a broader review of succession planning. Both reviews enabled the Committee to understand how individuals at all levels within the company’s talent pipeline are encouraged to develop their careers with the company. Opportunities include operational qualifications such as the company’s Licence to Operate scheme as well as externally supported qualifications. The Committee particularly focused on how the company retained and developed those individuals identified as having the potential to succeed Board and Management Board members. During the financial year there were changes to both the Management Board and the wider senior leadership team, and the review gave the Committee the opportunity to understand how individual development plans had supported and aided these senior leadership promotions. 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 also reviewed and supported a thorough external recruitment process for the new Group Treasurer. Fraser Campbell was appointed as Group Treasurer in November 2022.

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. During the year Committee members attended 'Our Future Workforce' market stall event, which provided an opportunity for them to meet with employees who are delivering the company's award-winning people development programmes as well as hearing from employees who have benefited from the opportunities on offer. This event also gave Committee members the opportunity to further understand how the company's inclusion work drives its culture.

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 internal evaluation of the Board and its Committees was conducted during the year, following the external evaluation undertaken in the 2020/21 financial year.

Although a review is undertaken on an annual basis, the Board considers it to be important to keep the actions arising out of the review process under regular review. Therefore, during the year the Board reviewed the progress made against the actions which had arisen following the 2021/22 Board and Committee evaluation to ensure progress was on track.

The 2022/23 Internal Board and Committee evaluation process comprised the following stages:

1. Stage 1: evaluation design:

Questionnaires for the Board, its Committees and each individual Director were developed by the Company Secretary in consultation with the Chair. The questionnaires were developed considering feedback from the 2021/22 evaluation, the company's Corporate Governance Code and strategic matters considered by the Board during the year. Areas of focus 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.

2. Stage 2: evaluation process:

Questionnaires were sent to Board members via a secure anonymous online portal. Once completed, the responses were collated by the Company Secretary and reviewed by the Chair. Draft reports which summarised the findings and included proposed recommendations for discussion were prepared by the Company Secretary. These reports were reviewed by relevant Board and Committee Chairs for feedback and comment before being circulated to the Board and Committee members.

3. Stage 3: discussion and decision:

The reports setting out the findings were presented and discussed at each of the relevant Board and Committee meetings in March 2023.

Overall, it was the collective view of the Directors that the Board and its Committees are operating effectively. No material shortcomings in relation to the operation of the Board and its Committees were highlighted by the evaluation. However, certain areas were identified during the review process as requiring additional focus. The following actions were among those agreed for implementation and monitoring:

- Continue to prepare and plan for the Business Plan for the period 2025-2030;
- Continue to closely focus on key operational challenges, as such at its meeting in April 2023 the Board had the opportunity to consider a number of strategic priorities;
- Continue the work to effectively communicate the company's purpose with key stakeholders;
- Further develop the company's approach to the management of risk; and
- Continue to spend more time meeting with those individuals who are identified in succession plans.

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 Chair. No areas of concern were raised.

As part of the internal review the Chair reviewed the responses to each Director's individual performance questionnaire and conducted one-to-one meetings where necessary. The Chair 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 and signed on their behalf by

Dame Polly Courtice

Chair of the Nomination Committee

7 June 2023

Chair’s statement



I welcome the opportunity to share the Remuneration Committee Report for 2022/23. This has been a year of unprecedented challenge for our sector and business, but also one where the commitment and calibre of our people has shone. This report gives an overview of the remuneration policy and practices for Executive Directors and our wider workforce.”

The year in retrospect

With the increasing impact of climate change, a cost of living crisis, significant inflation, and rising public concern about investment in the water sector, this has not been an easy year for the business.

Water companies have been in the media and public spotlight like never before, as the importance of the water infrastructure and the levels of investment needed have become more apparent. It won’t be a surprise that the remuneration of the senior leaders of water companies has also been under intense scrutiny. Whatever the rights and wrongs of the arguments playing out in public, such attention has a direct impact on Anglian Water’s people. What will be less apparent to most is the impact on staff at all levels who have felt judged for their choice of sector. At the same time, the cost of living crisis has really taken effect.

All our people across the organisation, and their levels of pay, have therefore been of significant focus to both the Board and the Remuneration Committee over the past year.

As a Committee, we recognise customer expectations are changing and, in response to customer feedback, we have decided to alter how we pay for Executive bonuses earned this year to ensure our customers will not foot the bill as detailed on page 129. The Committee has also applied discretion in light of these changing expectations.

Our people

Our people are critical to bringing environmental and social prosperity to the region we serve. We firmly believe that engaged and motivated colleagues also deliver better outcomes for

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customers. Accordingly, we have set out to make Anglian Water a great place to work, reflecting our commitment to supporting our people and wider communities through the cost of living crisis, in the same way we did through the Covid-19 pandemic.

While the sector has been under intense scrutiny, our colleagues have shown remarkable commitment and fortitude, responding ably to a barrage of operational and economic headwinds this year. We recognise the impact this intense spotlight can have on morale, so with both the mental and financial wellbeing of our people front of mind, we have taken a number of actions.

In order to provide comprehensive support for our people as the cost of living crisis took hold, Anglian Water and the Trade Unions met early to agree a pay increase for all employees including the Executive Directors and for Non-Executive Director fees. This was in addition to the 4.6% pay increase applied in April 2022. All eligible employees received a further uplift of 7.7% of their salary but by introducing the pay increase early – effective from February 2023 rather than April, as is typical – the pay increase was spread over 14 months instead of just 12, increasing its value and making it available for employees sooner.

Committee members

Chair

Natalie Ceeney

Other members

- John Hirst (AWG Chair)
- John Barry
- Deepu Chintamaneni
- Polly Courtice
- Alex Nassuphis
- Batiste Ogier
- Zarin Patel
- Alistair Phillips-Davies

Meetings

Six

Meetings also regularly attended by:

Peter Simpson, Chief Executive Officer; Steve Buck, Chief Financial Officer; Susannah Clements, Group People and Change Director; Sally Purbrick, Head of Reward; Claire Russell, Company Secretary; and a Director of Reward, PwC

Composition of the Committee

On 28 September 2022, Alex Nassuphis replaced Niall Mills as a member of the Committee.

On 13 October 2022, Paul Whittaker resigned as a member of the Committee.

On 23 November 2022, Alistair Phillips-Davies was appointed as a member of the Committee.

On 23 March 2023 Deepu Chintamaneni replaced Duncan Symonds as a member of the Committee.

Attendees do not join meetings when their own remuneration is being discussed.

Chair's statement continued

We agreed that this early pay rise should not apply to Executive Directors or Non-Executive Director fees, which were adjusted by 7.7% in April 2023.

Along with this competitive pay increase, we have also invested an additional £400,000 in role progression pay awards for 200 colleagues in key positions to ensure they continue to feel valued as they develop their skills and capabilities.

To reiterate the financial wellbeing support available for all our people, we reminded colleagues of our excellent range of financial support schemes such as 0% interest employee hardship loans, our Covid-19 employee assistance fund (which remained open until 31 March 2023), our Loyalty Savings Scheme and Salary Finance advance pay.

By sharing regular information, such as detail of the Salary Finance products we provide, childcare schemes available, help with budgeting, salary sacrifice options, pensions and company benefits, we have made sure that the right support and tools are in place to empower our colleagues to take control of their finances in the best way for them.

We have also reviewed and streamlined the application process for our hardship loan to help our people access the scheme more easily, and we've given training to line managers to help them support team members who might be experiencing hardship.

For our colleagues who are also Anglian Water customers, we offer an extra helping hand if they are facing hardship, just as we do for other customers. To find out how we have supported our customers through the cost of living crisis see pages 46 to 52.

To overcome any perceived stigma or shame for colleagues seeking help, we created a new confidential application process to encourage more people get the help they need.

Our hugely successful Talk Money Week in October 2022 included a range of webinars offering support and advice to deal with the cost of living challenges. More than 2,000 of our people attended, with 85% saying they felt more in control of their financial wellbeing afterwards.

Ensuring our people are fairly rewarded and well supported is always at the centre of our remuneration discussions, and we continue to monitor the cost of living pressures closely.

Our bonus outcomes

All colleagues in Anglian Water are eligible for some form of bonus, with the majority receiving between 3% and 8% bonus on top of their base salary. This is based on a personal year-end performance rating, reflecting their commitment and hard work in what has been a tough year and challenging AMP so far.

<p>7.7% company-wide salary increase.</p> <p>£400,000 of additional salary increases for in-year development for 200 roles.</p> <p>78 apprentices, graduates and interns joined the business. 18% of our apprentices and 75% of our graduates were women.</p> <p>61% of employees visited our new benefits platform when launched in February.</p>	<p>96% of employees are contributing to the company pension plan.</p> <p>20,540 'moments of recognition' via the GEM system awarded from one staff member to another.</p> <p>2,000+ employees attended financial wellbeing workshops.</p> <p>2,419 employees saving monthly via the loyalty saving scheme.</p> <p>86% of our people agree Anglian Water is an inclusive place to work.</p>
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Chair's statement continued

The 'AWS Performance Contract' consolidates the various performance commitments into a basket of measures aimed at driving better outcomes for customers. The Performance Contract is grouped under three headings: Customer Delivery (53.3%), Customer Efficiency (33.4%) and Environmental and Social initiatives (13.3%). This Performance Contract is the basis for the bonus payment for 520 of our most senior staff. The value of the bonus payment that different employees receive depends upon their role, grade and other factors.

As a leader becomes more senior, the Performance Contract represents a greater proportion of their bonus, reflecting their ability to influence the service the organisation provides to our customers.

We recognise the need to protect customers' bills by only rewarding success therefore, as for Executive Directors, the Performance Contract part of all leaders' bonuses is reduced if targets are not met.

The structure of Executive reward

The bonus scheme (driven by the Performance Contract) forms the basis of the award to the Executive Directors for their performance over the past year. The job of the Remuneration Committee is to assess what the 'formulaic outturn' of the company's reward scheme is, and consider whether discretion is applied, upwards or downwards.

For Executive Directors we consider the mathematical calculation of the reward scheme, their performance against personal objectives, and whether there is a case to apply discretion. This determines the level of any bonus payment.

However, in a business where issues can arise some years after the event, it is important to incentivise and reward senior leaders not just for what they deliver this year, but what happens in subsequent years.

In the water sector, we build infrastructure and deliver services which need to last for a long time and deliver the outcomes we want. Therefore, we need to have the ability to assess whether bonuses awarded to Executives at the time they were made were really warranted in the light of subsequent events.

For Executive Directors, we structure the bonus so that only half of the award is paid immediately, with payment of the other half being deferred in accordance with the rules of our 'Deferred Bonus Plan' (DBP). We can then assess in the years following the award whether performance in the year in question delivered as it should have done. This allows the Remuneration Committee to adjust payments downwards if we see performance that, had we known about it at the time, would have led to a lower bonus. In addition, we have the power under the rules of the DBP to exercise 'malus and clawback' even after these deferred bonuses have been paid out if we see a material issue come to light in subsequent years.

This structure is different from the long-term incentive plans (or LTIPs) used by many other companies, but we believe it is the most appropriate structure for the Anglian Water Services business.

Anglian Water made a change from a traditional LTIP scheme to the DBP in 2019. As a result, for the first two years of the new DBP, the Directors received the first half of their bonus, with only one payment for previous years.

This year (2022/23) is the first year in which two of deferred amounts become payable (being the final tranche of the bonus awarded in 2019 and the second tranche of the bonus awarded in 2020). It therefore means the total pay Executive Directors received in 2022/23 is higher than in the past two years because these elements of their original bonuses are now paying out.

This does not represent a higher bonus opportunity. Instead, it shows that to help ease the DBP in, Executive Directors forewent parts of their bonuses in the last two years.

Finally, this Remuneration Report concerns the regulated water business, Anglian Water Services (AWS). A number of key staff, including the Executive Directors, also have roles within the wider Anglian group. The group includes companies which undertake a range of commercial activities, for example providing services in Ireland. For this reason 30% of the Chief Executive's and 40% of the Chief Financial Officer's remuneration, including bonuses, are paid by Anglian Water group and not by AWS or customers. The total bonus is determined by a single Remuneration Committee to ensure no duplication and then the costs are split between the different companies.

Chair's statement continued

Business highlights in 2022/23

Strong performance has been achieved in a range of areas that are important to customers:

- **Excellent drinking water quality**
- **Reduced storm overflow spills**
- **Record help for vulnerable customers**
- **Secure water supplies with no drought permits and no hosepipe ban**
- **Excellent bathing water quality**
- **Reduced carbon**
- **Biodiversity net gain of 281%**
- **Strong financial discipline on Totex and kept customer bills low**

Delivering on customer priorities

Securing water supplies and providing safe, clean drinking water has always been at the top of our customers' priorities (see page 12). As well as demonstrating our resilience through the drought and minimising impact on customers, we maintained excellent drinking water quality and achieved what we expect to be a sector-leading result. Our provisional Event Risk Index score and lowest-ever water quality contacts are evidence of the robust operational management and compliance we have in place, especially given the peak volumes of water put into supply every day during the heatwave, and the number of weather-related operational issues the business had to respond to. See page 13.

Additional rigour

Providing additional rigour to remuneration governance, this year the Committee introduced a new data-driven audit risk report to inform its views on bonus outcomes at the end of the performance period. This includes a view of any emerging risks and issues, and an assessment of whether short-term outcomes have been achieved at the expense of longer-term investment objectives. It ensures that the Committee can take into consideration all aspects of the company's performance when awarding pay, not only those elements which were included in the remuneration targets at the start of the year.

Our company performance reflected in bonuses

We have set our Performance Contract to reflect the priorities of customers: safe clean drinking water, reducing leakage, keeping bills down, looking after the environment, protecting the most vulnerable in society and responding to climate change. On a number of the Customer Delivery measures we have not done as well as we would wish, and therefore that element of the bonus has not been awarded. On other measures we have delivered outperformance, and we believe it is right that these elements of the bonus contract are honoured.

As referenced, many people across Anglian Water have these measures in their bonuses and have worked tirelessly this year to achieve for customers.

As a principle, we believe where there is outperformance, or upper quartile performance, we should reward it.

Reflecting this, we have awarded the bonus against two sets of measures – our Customer Efficiency (Totex) measure and our Environmental and Social measure.

Our Customer Efficiency measure covers Totex (capital and operational expenditure), and is important because it determines whether we are investing enough for customers or whether we are overspending (which puts customer bills up).

In a tough year, we performed well against our targets, investing record sums in long-term infrastructure (£725 million in 2022/23) but managing within our total budget, driving efficiency to do so.

Our Environmental and Social measure is also important. Our carbon targets are part of our challenging net zero commitment. Biodiversity Net Gain demonstrates how we are not just restoring, but enhancing the environment as part of our capital delivery programme, and our measure of how many customers we help who are struggling to pay is a key part of our commitment to support people through the cost of living crisis and help the most vulnerable in society.

We are rightly proud of our achievements in these areas, and therefore these elements of the bonus will be awarded.

The Customer Delivery element of the Performance Contract, however, will not pay out. This is the largest element of the Performance Contract, and contains a number of metrics including leakage and pollutions. For some of these we performed above target, and in some we expect to be industry-leading. However, we did not perform sufficiently well against all, which is why this part of the bonus will not be awarded. See page 140 for details of the company's performance against its Outcome Delivery Incentive metrics.

Chair's statement continued

Our Performance Contract	
 Customer Delivery: 53.3% – not awarded	 Environmental and Social initiatives: 13.3% – awarded
 Customer Efficiency: 33.4% – awarded	Total payable bonus for AWS performance: 46.7% of maximum

Deferred Bonus Plan outcomes from previous years

The DBP operating since 2019 provides the Committee with the ability to reduce and recover sums paid for past awards should they deem it appropriate in light of recent performance.

Deferred payments from 2019 and 2020 are scheduled for payment in 2022/23. Therefore, the Committee has evaluated the extent to which these deferred elements should be paid.

Following an assessment of performance against the targets set, the Committee recommended to the Board that a reduction of 10% be applied to both the 2019 and 2020 deferred bonus payments, reflecting prior years' Compliance Risk Index, environmental reflecting prior years' performance on Compliance Risk Index, environmental performance and sewage treatment. The Board agreed to this reduction.

This brings the payable bonus relating to the AWS Performance Contract element of the 2019 DBP award down to 67.2%. The Performance Contract element of the 2020 award has been reduced to 66.3%. A schedule of Deferred Bonus Plan payments is available on page 150.

Alongside other companies in the sector, we are currently being investigated by Ofwat regarding discharges from certain water recycling centres. We have cooperated fully and await the result of this investigation. We do not believe it is necessary to reflect this in the calculation of remuneration this year while the outcome of the investigation is still pending. The structure of our DBP is precisely designed to ensure we have the means to recover monies in future years should the Committee deem it necessary once the investigation is concluded.

Consolidated bonus outcomes for Executive Directors in 2022/23

Having determined the 'formulaic outturn', the Remuneration Committee considered at length whether the two Executive Directors, our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), should be paid according to this formula, or whether discretion should be used to reduce the award.

In its discussions, the Committee was very aware of the public concern regarding water company performance and remuneration of senior Executives. There are stakeholders arguing vocally that no water company leaders should receive bonuses. At the same time, the job of Executive Directors of a company is to act in a way which promotes the success of the company for the long term. This means we need to be able to recruit and retain talented leaders who might otherwise work elsewhere, and to be fair in the way we reward our people. Each company will decide what is right for their staff, based on their performance – and not all companies are the same.

One of the benefits of a diverse Board is that we have a range of different views to bring to these discussions, and I can assure our customers and stakeholders that we considered all of these perspectives extremely carefully.

The Remuneration Committee agreed that a 'formulaic performance outturn' for the CEO would result in a 46.7% payout of the AWS Performance Contract element of his bonus (representing 75% of his total bonus opportunity) and 85% payout on the personal objectives part of his bonus (representing 25% of his bonus opportunity). In total, this would represent 56.3% of his maximum bonus being paid.

However, the Committee also agreed that, in the light of underperformance on some key elements of the company's performance (particularly pollution events), they would exercise 'downwards discretion' to bring this total percentage down to 47.5% bonus eligibility, by reducing his personal objectives award to 50% of the maximum available.

There was significant debate around this, with the Committee agreeing that the CEO was a very able leader who had achieved the vast majority of his objectives. However, our overriding rationale for the Committee's decision was that the CEO remuneration needed to align to the experience of the company's wider stakeholder group, regardless of his personal performance.

Chair's statement continued

Furthermore, the Committee agreed the personal element of the bonus the CEO would otherwise receive in 2023, as well as being reduced to 50%, would not be paid. Instead, a new award of the same amount would only be paid once a key target was met, namely achieving full monitoring of all storm overflows by 31 December, 2023. This therefore reduces the immediate bonus payment to the CEO to 35% of the maximum.

Achieving full monitoring of storm overflows is a core objective for the business, and the Committee determined it would support customer and regulatory confidence in the company if achievement of this important target was visibly and directly tied to the CEO's award.

The adjustments applied by the Committee this year have seen the total bonus payable to the CEO for the 2022/23 DBP reduced from a maximum of £1,725,900 to £604,065 with £302,033 paid this year, and the remainder held back for later tranches.

For the CFO, the Remuneration Committee determined that the same formulaic outturn would result in the same 46.7% payout on the corporate performance element of his bonus (representing 75% of his total bonus opportunity) and 83% payout on the personal objectives part of his bonus (representing 25% of his opportunity). In total, this would represent 55.8% of his maximum bonus being paid.

The Committee decided not to exercise downwards discretion on the grounds that the operational aspects of the company's performance are not under the CFO's control.

The CFO's maximum of £927,153 was reduced to a payment of £517,660, with £258,830 paid this year, and the remainder held back for future tranches.

This year, in light of the concerns expressed by some stakeholders, the Remuneration Committee recommended to the Board that the payment due to the Executive Directors in respect of the 2022 DBP award should not be paid for out of income from customer bills, and the Board accepted this recommendation.

Chair's statement continued

The performance conditions for next year (2023/24) are:

<p>Environment</p> <p>35%</p> <p>(including pollutions, leakage, storm overflow spills, biodiversity net gain and carbon, both operational and embedded carbon)</p>	<p>Customer Delivery</p> <p>30%</p> <p>(including CMEx, internal flooding, external flooding, DMeX, and vulnerable customer support)</p>
<p>Customer Efficiency and Resilience</p> <p>30%</p> <p>(Totex, operating cash flow)</p>	<p>BITC Responsible Business Tracker</p> <p>5%</p> <p>(based on the rating we achieve for the year)</p>

Looking ahead to 2023/24

As a purpose-driven company, we want to continue rewarding our people when they do the right thing and deliver for our customers and the environment. Equally, retaining the best talent to meet the challenges we are facing now and into the future is vital to achieve the best outcomes for our region. We have taken this into consideration for our 2023/24 remuneration plans, and have sought to strike a fair balance between driving performance outcomes, alongside ensuring any failures to deliver are not rewarded.

As a result, we are introducing new performance conditions for the AWS Performance Contract in 2023/24 and will continue to take a holistic view when measuring and awarding bonuses.

Each measure will be assessed independently and no payment will be made unless a threshold target is achieved. A stretch target will also be determined for each condition which, if achieved, the full bonus for the measure will be awarded.

Whilst remuneration remains closely linked to performance for customers, the further changes to the measures in this year's award demonstrates a strong alignment between reward for employees and the delivery of our purpose. Our 2023/24 targets are stretching in relation to the rest of the industry and also reflect the priorities expressed by Ofwat.

In summary, we have listened to stakeholders, customers and regulators and taken action to reflect their feedback.

Natalie Ceeney
 Chair of the Remuneration Committee
 8 June 2023

Chair's statement continued

Q&A with Natalie Ceeney

Q How can you justify your approach to reward in light of your environmental performance?

A Executive pay is always contentious, and when a company or industry is in the spotlight it becomes even more so. But the answer is rarely as simple as 'cut the pay'. Water companies need to attract and retain talented people at all levels, and if one company, or one sector, pays people less than they can earn for a similar job elsewhere, they are likely to lose good people. As a company we must balance the need to meet public and customer expectations about pay with the need to reward staff fairly, and be able to recruit and retain talent to run the company well.

We operate in a competitive market for talent at all levels, from field-based engineers to software engineers, finance professionals and managers. We therefore aim to pay our staff within the range of what they could get elsewhere – never at the top, but also, given we are one of the larger water companies, not at the bottom either.

We regularly benchmark our pay, particularly for our most senior executives, to ensure we keep pay in the right range.

We also believe some of our senior staff's pay should be put 'at risk' and be paid based on performance. In other words, to achieve the salary level they expect, they need to hit stretching targets. This means we can balance fixed base salaries with variable pay, and decide at the end of the year how much variable pay to award. 'Bonuses' are therefore not just about performance above and beyond expectations, but about releasing pay when targets are met. It can appear politically attractive to 'stop bonuses' if anything ever goes wrong, but the reality is such an approach could require us to raise people's base pay as a result, so people were still paid on a level with the wider market. This is something we have reflected in our feedback to Ofwat's consultation.

It is true we have not reached the standards expected by our customers and ourselves in some key areas of our work, and in particular on pollution events. For that reason, we have reduced bonuses significantly for our staff and Executives alike this year. But water companies are complex businesses, and while we haven't done as well as we would want in some areas, we have done extremely well or hit targets in others. We're strong performers in areas such as water resource management, leakage, storm overflow reduction and providing help for vulnerable customers.

We strongly believe that where our people have outperformed our targets, or the sector, this outperformance should be recognised and rewarded.

That's why this year, we stand by our decision to award part of the bonus. However, we have also taken alternative steps regarding who pays for the bonus to reflect public opinion and to ensure that the bonuses are not paid for out of income from customer bills.

Getting the balance right is never easy, and reaching this year's conclusions on pay and reward has taken a lot of debate and soul searching.

Q What is your approach to the future remuneration for Executives?

A With the sector in the spotlight, and remuneration contentious, we understand why Ofwat has launched its consultation on executive remuneration. We have listened carefully to the proposals and responded (in April 2023) outlining the rigorous conditions and processes we already have in place as a Committee, which we believe demonstrate that we are already working in a way which is consistent with Ofwat's desired approach for the future.

We have been very thoughtful about how best to drive performance through our pay mechanisms, and take our responsibilities very seriously in this regard.

Our rigorous application of the 'pay at risk' approach led to a significantly reduced bonus in 2021/22, as we did not achieve the results we had aimed for. Last year, we reduced the quantum of the deferred bonus as a result of the company's performance, and we have taken a similarly rigorous approach this year – applying our conditions and claw back options where it is absolutely right to do so.

As we have demonstrated, both as a company and a Remuneration Committee, we agree variable pay should be a reward for strong performance. We believe that variable pay (as opposed to just a guaranteed base salary) is a powerful mechanism for driving performance, not just at the executive levels of the organisation but throughout our company.

To ensure that complex businesses such as water companies are delivering for all stakeholders, it is necessary to ensure they have strong capable leadership. This requires remuneration packages to be competitive with those of other potential employers. So while bonuses should be a reward for success, there are real dangers in seeking to impose a wholly different standard within the water industry than elsewhere. It is imperative the water industry continues to attract colleagues at all levels of the highest calibre to ensure these systemically critical and complex businesses are run well, now and in future.

In our response to Ofwat, we agreed that the key to transparency and understanding is being clearer about what bonuses are paid for out of income from customer bills and what is paid for from other revenues and group businesses. We have taken steps to set this out in more detail in this year's remuneration report on page 138.

We take remuneration extremely seriously and hope the information and context we have provided will ensure any rule changes made by Ofwat in future are in the long-term interests of the sector, and create positive long-term outcomes for customers and the environment.

Remuneration at a glance

External advisors

To ensure the company's remuneration practices are in line with best practice, the Committee undertook a review of its independent external remuneration advisors and reappointed PricewaterhouseCoopers LLP (PwC) as their main advisor for ongoing support. A senior representative from PwC agrees areas of focus with the Chair of the Committee and attends all meetings. PwC also provides specialist internal audit support and advisory services to the group.

In addition to PwC, FIT Remuneration Consultants were also engaged to undertake additional independent benchmarking and insight on executive pay. Specifically, they took the lead role in a review of the Deferred Bonus Plan to ensure it aligned reward for Executives with achievement of stretched company performance for key customer and environmental initiatives.

Support for the Committee

In addition to the external advisors, the CEO, CFO, Group People and Change Director, and the Head of Reward also attend meetings, by invitation, to provide advice and respond to specific questions. Such attendances specifically excluded any matter concerning their own remuneration. The Company Secretary acts as secretary to the Committee.

Committee performance and effectiveness

An annual review of the Committee's performance was undertaken as part of the Board evaluation process, detailed on page 108 to 111. The key findings of the evaluation were discussed at a meeting of the Committee on 23 March 2023. No material shortcomings in the operation of the Committee were highlighted.

Key areas of Remuneration Committee focus in 2022/23

A summary of the matters reviewed throughout the year by the Committee is set out below:

Executive and senior remuneration

- Performed an external benchmarking exercise to review the overall remuneration for the Executive Directors. As a result of the review undertaken by the advisors and our policy to pay mid-market, the Committee approved an increase to the base pay for Executive Directors in line with the wider workforce.
- Discussed and approved the changes to the rules and awards under the Deferred Bonus Plan (i), strengthening the link between executive reward and company performance against stretching customer and environmental initiatives (ii), with further scope added for the Committee to apply discretion to Executive bonuses in future years.
- Approved the outturn of the 2021 Deferred Bonus Plan, with recommendation confirmed by the Board.
- Approved the 2022 Co-Investment Plan participation.
- Reviewed and approved personal objectives for Executive Directors.
- Reviewed Executive Directors' performance and remuneration.
- Considered the draft outturn of the 2022 Deferred Bonus Plan in February 2023. Final sign off was ratified once the year-end numbers were made available in May 2023.
- Considered the draft outturn of the secondary performance conditions for the second tranche of the 2020 Deferred Bonus Plan and third tranche of the 2019 Deferred Bonus Plan. Final sign off was ratified once the year-end numbers were made available in May 2023.

Our workforce

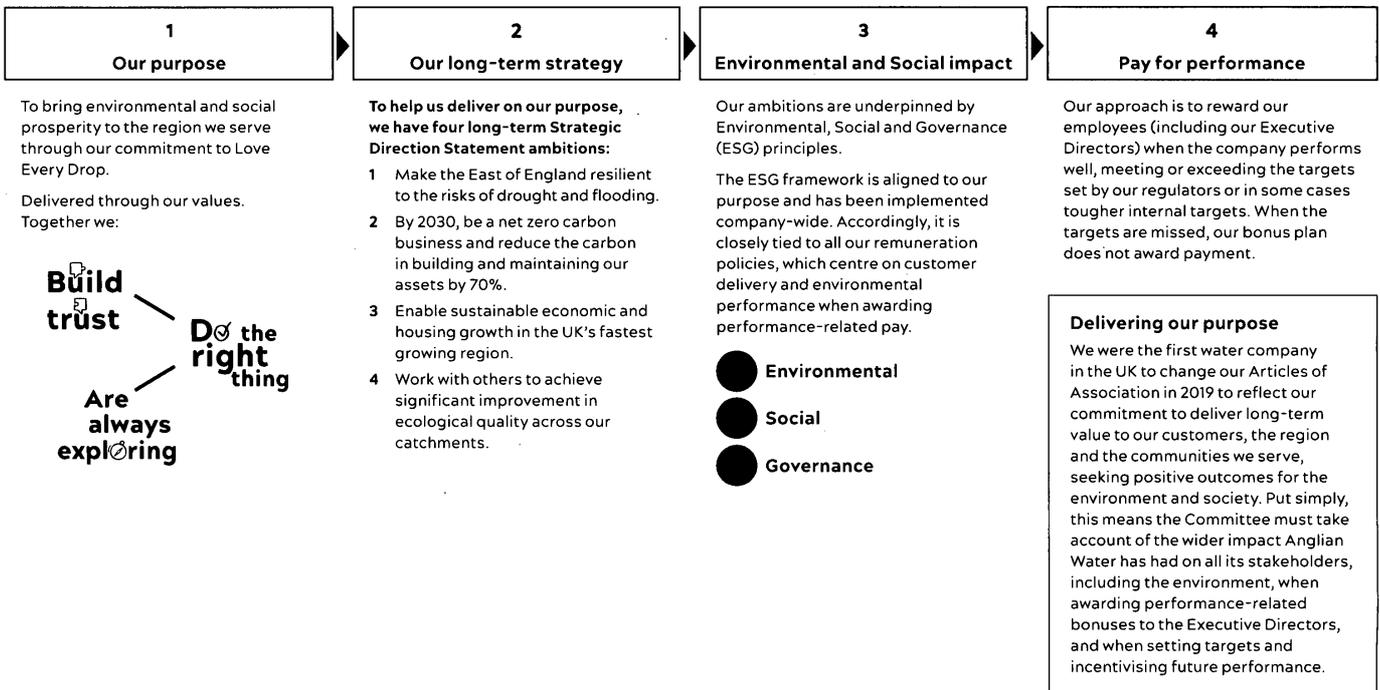
- Reviewed and approved the outturn for the Loyalty Saving Scheme and launch of the new scheme.
- Supported Management Board on its decision to bring forward the pay award for the wider workforce and Executives.
- Reviewed employee benefits, including support provided for all employees during the cost of living crisis.
- Received updates on the plan to move away from a personal bonus for most employees to the launch of a new company-wide bonus linked to the company purpose in 2023/24.

Committee governance

- Established a new approach to review the wider context of Anglian Water's performance, so that the Remuneration Committee could take into account every key element of the company's performance when making remuneration decisions.
- Reviewed and approved the 2021/22 Directors' Remuneration Report and agreed the framework for 2022/23 Report.
- Considered the structure of the Deferred Bonus Plan to be granted in 2023, including the introduction of further environmental and social initiatives in addition to those already included.
- Reviewed the role and scope of the Remuneration Committee to include broader oversight of the wider workforce.

Remuneration at a glance continued

Alignment to purpose and strategy



Remuneration at a glance continued

Remuneration in 2022/23

£255 million Paid to employees.	7.7% Salary increase.
100% Employees eligible for bonus.	3.9% Average benefit increase.

Total AWS CEO remuneration

£974,000 Total remuneration – AWS related.
-16.5% Change in remuneration funded by AWS compared to 2021/22.

The 2022 DBP award will not be paid for out of income from customer bills

Performance

330,000+ Customers supported this year through financial assistance and our vulnerable customer support.	Times Top 50 Employer for Gender Equality.
£135 million Support package to help customers and colleagues through the cost of living crisis in 2023/24.	£725 million Our biggest-ever year of capital investment.
11.4% Customers on Priority Services Register versus a national average of circa 5%.	63% Capital carbon saving against 2010 baseline.



I see our people working hard behind the scenes every day, coming to work to improve the environment and serve customers. To do so in the face of such unrelenting scrutiny on us and on our sector shows real dedication, and I thank them for their commitment to make us a better business and achieve all we aspire to for this region.”

Peter Simpson
Chief Executive

Remuneration at a glance continued

Policy summary

The primary objective of the remuneration policy is to ensure competitive reward packages are offered that will attract, retain and motivate talented and experienced senior Executives to run the business effectively in the best long-term interest of all stakeholders, and to promote the success of the company.

Within these arrangements, a significant proportion of reward is based on performance against demanding targets aligned to customer outcomes, only paid when targets are met.

ESG embedded in our reward framework for all employees

The reward framework for our workforce reflects our wider business, which places ESG at the heart of our decision-making. This is mirrored in reward elements such as the Performance Contract, alongside standard reward policies and benefits, for instance private healthcare for all employees, double-matched contributions into our company pension scheme, and the Payroll Giving charity scheme available to our people. We publish yearly reports updating on our social progress, such as this year's Gender Pay Gap report, and more recently, our Ethnicity Pay Gap report. For more information see page 145 to 147.

Deferred Bonus Plan 2022/23 at a glance

A detailed summary of the stretching targets set by the Committee for the 2022/23 Deferred Bonus Plan is set out below, showing linkage to the environmental and social aspects of our purpose and whether or not they were met.

Customer Performance Commitments	Environmental, social or both	Bonus target met?	Regulatory target met?
Abstraction incentive mechanism	🌿	—	—
Bathing waters attaining excellent status	🌿❤️	—	—
Customer Measure of Experience (CMeX)	❤️	—	—
Developer Measure of Experience (DMeX)	❤️	—	✓
External sewer flooding	🌿	—	—
Internal sewer flooding	❤️	—	—
Leakage	🌿❤️	—	—
Main repairs	❤️	—	—
Managing void properties	❤️	✓	✓
Percentage of population supplied by single supply system	N/A	✓	—
Pollution incidents	🌿❤️	—	—
Properties at risk of persistent low pressure	❤️	✓	✓
Sewer collapses	🌿❤️	✓	✓
Smart metering delivery	🌿❤️	—	—
Treatment works compliance	🌿	—	—
Unplanned outage	❤️	✓	✓
Water Industry National Environment Plan (WINEP)	🌿	✓	✓
Water quality compliance (CRI)	🌿❤️	—	—
Water quality contacts	🌿❤️	✓	—
Water supply interruptions	❤️	—	—

 Environmental measure  Requirement met? Yes
 Social measure  Requirement met? No

For CMeX and DMeX results, there was no penalty so recorded as target met.

AWS and AWG contributions to bonus payments

As outlined earlier, the 2022/23 DBP award will not be paid for out of income from customer bills.

Traditionally, Anglian Water Services (AWS) pays for the majority (70% for the CEO and 60% for the CFO) and therefore for this element of the award, the conditions that need to be met are directly linked to performance of AWS.

The remaining part is paid for by Anglian Water group (AWG) (30% for the CEO and 40% for the CFO), and is therefore linked to performance outcomes of the group's subsidiary companies, and overarching group objectives.

Due to the structure of the Deferred Bonus Plan, AWS customers only ever pay for 60% or 70% of the bonus awarded via this incentive scheme.

In light of the concerns expressed by some stakeholders, the Remuneration Committee recommended to the Board that the payment due to the Executive Directors in respect of the 2022/23 DBP award should not be paid for out of income from customer bills, and the Board accepted this recommendation.

Remuneration at a glance continued

2022/23 outcomes for the Deferred Bonus Plan

The AWS portion of the 2022/23 Deferred Bonus Plan award is directly linked to company performance. Referred to as the Performance Contract, this consolidates the various performance commitments. This Performance Contract forms part of the bonus schemes for around 500 of the most senior staff and managers, aligning the goals of our people to delivering for customers. Accordingly, it reflects the elements that customers have told us are most important to them. It is made up of three key initiatives as outlined to the right.

In summary, whilst a number of environmental initiatives were achieved, such as abstraction compliance, WINEP delivery, and storm overflow spill reduction, there was underperformance on other initiatives, such as pollutions. This underperformance means the entirety of the Customer Delivery measure has not been awarded.

The Committee agreed that performance for Customer Efficiency (which relates to Total Expenditure), and Environmental and Social Initiatives were both met in full, accounting for 33.4% and 13.3% of the Performance Contract, meaning therefore only 46.7% of the AWS Performance Contract will be awarded.

Customer Delivery



Measuring company performance against our ODI targets including:

- CMeX position (a key industry measure of customer service that positions us relative to other water companies)
- Internal flooding (the number of times properties are flooded internally per 10,000 customer connections to the sewer)
- Pollutions (reducing the number of pollution incidents from our sewer network)
- Leakage (reducing the amount of water lost throughout our region everyday to leaks)
- DMeX position (an industry measure which assesses the experience the company provides to developers who build new homes, and positions us relative to other water companies)
- Vulnerable customer support (the percentage of vulnerable customers on our Priority Services Register)

Customer Efficiency



- Total Expenditure (TOTEX) performance (a measure of performance based on whether we are underinvesting or overspending compared with the amount allowed by Ofwat. This measure is important as an incentive, as hitting the target ensures we are investing at the correct level and making good on our promise of investment and bills to customers)

Environmental and Social initiatives



- Reduction in capital carbon (the carbon we create in building or maintaining our assets)
- Reduction in operational carbon (the carbon used in the day-to-day running of our business, including energy and transport)
- Biodiversity net gain (leaving the natural environment in a measurably better state than before our intervention)
- Helping customers struggling to pay (the number of customers who receive financial support from us)

Remuneration at a glance continued

Performance outcomes for 2022/23 Deferred Bonus Plan

The tables below show the maximum CEO and CFO bonus relating to AWS company performance for the 2022/23 DBP broken down over the three measures, Customer Efficiency, Customer Delivery, and Environmental and Social initiatives, alongside personal performance relating to group targets. The bonus payable in 2022/23 is the first tranche representing half of the maximum, with the further 50% payable in later years. It is this first tranche that is represented below.

Achievement of deferred bonus outcomes

	Met or Not Met	Weighting for 2022/23 (as % of maximum bonus)	Outcome (as % of maximum)
CEO Peter Simpson			
AWS Performance Contract			
Customer Delivery	X	40%	0%
Customer Efficiency	✓	25%	25%
Environmental and Social initiatives	✓	10%	10%
Total	—	75%	35%
Personal Objectives			
	—	25%	0%
Total % award payable		100%	35.0%
Maximum award as % of salary	—	150%	52.5%
Bonus payable in 2022/23			£302,033

✓ Met target — Partially met X Missed target

Achievement of deferred bonus outcomes

	Met or Not Met	Weighting for 2022/23 (as % of maximum bonus)	Outcome (as % of maximum)
CFO Steve Buck			
AWS Performance Contract			
Customer Delivery	X	40%	0%
Customer Efficiency	✓	25%	25%
Environmental and Social initiatives	✓	10%	10%
Total	—	75%	35%
Personal Objectives			
	—	25%	20.8%
Total % award payable		100%	55.8%
Maximum award as % of salary	—	110%	61.4%
Bonus payable in 2022/23			£258,830

✓ Met target — Partially met X Missed target

Remuneration at a glance continued

Executive Director's personal objectives for the group

In addition to their customer-focused performance measures and accountabilities for the regulated water company, AWS, payments to the Executive Directors were also dependent upon the achievement of personal objectives that reflect their broader duties across the Anglian Water group.

Typically, Anglian Water group would pay for 30% of the remuneration for the CEO and 40% for the CFO. In light of the concerns expressed by some stakeholders, the Remuneration Committee recommended to the Board that the payment due to the Executive Directors in respect of the 2022/23 DBP award should not be paid for out of income from customer bills, and the Board accepted this recommendation.

Performance outcomes for 2022/23 Deferred Bonus Plan – Personal performance

Peter Simpson	Met or Not Met	Weighting for 2022/23 (as % of maximum bonus)	Outcome (as % of maximum)	£ Payable
Achievement of personal objectives – 25%				
Long-term group strategy development	✓			
Financial strategy and growth planning	✓			
Development of the AWG brand and external relationships	✓			
Developing leadership and succession	—			
Growth of subsidiary, non-appointed businesses	✓			
Total % award payable prior to deduction		25%	21.3%	£183,377
Deduction by the Committee ¹		-	8.8%	-£75,508
Total payment due following deduction		25%	12.5%	£107,869
Decision by the Committee to reduce to zero ²		-	12.5%	£107,869
Total payable		25%	0%	£0

1 The CEO bonus was reduced in light of specific operational underperformance, such as pollutions.

2 In addition to applying a deduction, the Committee also decided to withhold the personal element of the bonus due for payment totalling £107,869. Instead a new award of the same amount will only be paid once a key target is met, namely achieving full monitoring of storm overflows by 31 December, 2023.

✓ Met target — Partially met ✗ Missed target

Performance outcomes relating to personal objectives for Executive Directors

At the start of the year, stretching personal objectives were agreed by the Committee and set by the Board to reflect additional group duties. Peter Simpson's performance was assessed by the Chair (John Hirst) and Steve Buck's performance was assessed by the CEO (Peter Simpson). The Committee discussed the assessments and agreed the final outcomes detailed in the table below.

The tables below show the maximum bonus relating to personal performance relating to group targets. The bonus payable in 2022/23 is the first tranche representing half of the maximum with the remaining 50% payable in later years.

Performance outcomes for 2022/23 Deferred Bonus Plan – Personal performance

Steve Buck	Met or Not Met	Weighting for 2022/23 (as % of maximum bonus)	Outcome (as % of maximum)	£ Payable
Achievement of personal objectives – 25%				
Long-term group strategy development	✓			
Financial strategy and growth planning	✓			
Capital restructuring and simplification	✓			
Group cost effectiveness review	✓			
Developing financial leadership & succession	—			
Strong financial controls	✓			
Growth of subsidiary, non-appointed businesses	✓			
Total payable		25%	20.8%	£96,578 ¹

1 This amount is included in the Bonus Payable total on the 'Achievement of deferred bonus outcomes' table on page 140.

✓ Met target — Partially met ✗ Missed target

Remuneration at a glance continued

Single total remuneration figure (audited)

The table below outlines all remuneration for the Executive Directors, encompassing AWS and the wider group. The 2022/23 first DBP payment illustrated below will not be paid for out of income from customer bills.

	Base pay		Taxable benefits ¹		Pension including cash in lieu ²	
	2021/22	2022/23	2021/22	2022/23	2021/22	2022/23
Peter Simpson	531,365	575,300	16,466	15,335	64,074	60,683
Steve Buck	402,900	421,433	14,671	13,997	42,498	46,692
Total Executive Directors	934,265	996,733	31,137	29,332	106,572	107,375

	First DBP payment ³		Second and Third DBP payment ⁴		Total remuneration	
	2021/22	2022/23	2021/22	2022/23	2021/22	2022/23
Peter Simpson	337,651	302,033	354,987	437,891	1,304,543	1,391,241
Steve Buck	228,243	258,830	230,941	292,361	919,253	1,033,313
Total Executive Directors	565,894	560,863	585,928	730,252	2,223,796	2,424,554

1 Benefits include private health insurance, car allowance and life assurance for all Executive Directors. Steve Buck's total remuneration in 2020/21 included assistance with relocation costs of £123,815 paid within that year. Subsequently in 2022/23 HMRC has reimbursed stamp duty to the value £37,934 which Steve has repaid to Anglian Water Services. This adjustment has not been included in the above numbers as it relates to 2020/21.

2 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.

3 The AWS bonus awarded to Executives for the 2022 DBP award will not be paid for out of income from customer bills.

The First DBP payment relates to the first portion (50%) of the 2022/23 Deferred Bonus Plan Award. The Second or Third DBP payment is the third portion (15%) of the 2019/20 Deferred Bonus Plan Award (paid in 2023) plus the second portion (25%) of the 2020/21 Deferred Bonus Plan Award.

4 In most years 70% of Peter Simpson's remuneration and 60% of Steve Buck's is paid by AWS, with the remaining proportion paid by other parts of the group. In light of the concerns expressed by some stakeholders, the Remuneration Committee recommended to the Board that the payment due to the Executive Directors in respect of the 2022 DBP award should not be paid for out of income from customer bills, and the Board accepted this recommendation.

Total remuneration increase in 2022/23:

The AWS remuneration for the CEO reduced by 16.5% this year. Overall, the CEO has seen a total increase of 6.6%.

The overall increase in remuneration for the CEO is the result of a pay increase in 2020/21 which takes full effect this year, a bonus increase which is paid as a percentage of base pay, and finally the impact of three years of Deferred Bonus Plan payments unwinding in this one year.

Bonus overview 2022/23:

Peter Simpson earned a bonus of £302,033 in 2022/23, which will not be paid for out of income from customer bills. This represents 35% of this year's maximum bonus award.

Remuneration at a glance continued

Change in CEO total remuneration over AMP7 (2020–2023) compared to other employees

Executive remuneration throughout AMP7 has been set to link closely with what matters for our customers, with a high percentage of total remuneration linked to performance-related outcomes. When performance has been achieved, bonuses have been paid; where performance targets have not been achieved, payments have been reduced, in some cases to zero.

Change in percentage of bonus awarded for AWS company performance

The table below shows the percentage payout for company performance against the AWS performance measures in the Deferred Bonus Plan. Where the Committee used its discretion and made deductions these have been reflected accordingly.

CEO performance-related pay over AMP7 (2020–2023)

The table below shows the remuneration for the CEO, including fixed and performance pay relating to AWS company performance over the AMP to date.

Change in CEO remuneration over AMP7 (2020–2023) for AWS company performance

- CEO remuneration includes salary, benefits and bonus.
- Performance pay includes all payments made under the Deferred Bonus Plan. This includes the first tranche for 2022/23, the second tranche for 2021/22, and the third tranche for 2019/20. The 2022/23 DBP award will not be paid for out of income from customer bills.
- Fixed pay includes pay and benefits. Further breakdown can be found on page 142.

Notes: This chart shows the outturn for company performance in relation to the DBP awarded each year for the AMP to date. It excludes deferred payments relating to the 2019 and 2020 DBP. The 46.7% earned in 2022/23 will not be paid for out of income from customer bills.

Company remuneration at Anglian Water

Our remuneration elements

	Base salary	Pension	Benefits	Performance bonus	Loyalty Saving Scheme
Executive Directors	Salaries are set to attract and retain employees at all levels, considering appropriate experience, skills and competencies relative to the role. All permanent employees are paid at levels which are at least in line with those recommended by the Living Wage Foundation, with the exception of apprentices, where other arrangements are in place to ensure they are paid in line with government apprentice rates, as a minimum. The apprentice rates of pay increase every year as their skills and experience develop.	The company operates a generous matched Defined Contribution scheme for all employees. Employee contributions are double-matched to a maximum of 6% of salary, meaning that if an employee contributes 6%, Anglian Water contributes 12%. Employees are invited to understand more about their pension arrangement throughout the year as part of our focus on financial wellbeing. This also includes information on how they can choose where their funds are invested, including opportunities for investments in sustainable companies. Where employees wish to withdraw from the scheme, to protect pension allowances, a cash contribution is paid as an alternative arrangement, which is reduced compared to pension contributions to reflect National Insurance due.	All employees are eligible to select a flexible benefits package to meet their needs. Following the introduction of our new role framework in 2019, the majority of our benefits offering is consistent throughout the workforce. We have a significant focus on wellbeing benefits, including but not limited to: private healthcare for all employees, with the option to purchase additional cover for family members; salary-sacrifice pension; cycle-to-work scheme and the opportunity to buy and sell annual leave. 61% of employees reviewed their benefits during the annual window alone; the further option exists to change some benefits every month, as circumstances require.	Employees either have an award under the Deferred Bonus Plan (operated by invitation) or the Annual Performance Bonus. For both schemes, the same set of company measures is set, which aligns the performance of eligible employees to those measures which are most important to the environment, our customers and long-term value creation for our shareholders. All our permanent employees have the opportunity to earn a personal bonus, typically up to a maximum of 8% of their salary. As part of our performance management process, employees and managers discuss performance against a set of personal objectives and measures, reflecting how they demonstrate and embody the company's values. A small number of employees, typically apprentices on a formal training scheme, are not eligible for a bonus and instead receive regular increases to their salary. Around 500 employees receive a bonus based on performance across a number of measures most appropriate at a team level, in addition to their personal performance.	To encourage employees to make regular savings and aid retention, we offer the opportunity to participate in our Loyalty Saving Scheme. Not only does this help employees financial wellbeing, it delivers greater engagement and retention by enabling all colleagues to benefit when the company makes a positive growth in value. Around 800 employees enrol annually in the scheme, with 2,400 contributing in active schemes at any given time. Employees can save up to £500 each month across all three schemes at any time. Each scheme lasts for three years.
Senior management					
Employees					

Company remuneration at Anglian Water continued

CEO's total remuneration in comparison to the 25th, 50th (median) and 75th percentile full-time equivalent remuneration of AWG employees effective from 31 March each year

	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2020/21	65 to 1	50 to 1	40 to 1
2021/22	44 to 1	33 to 1	26 to 1
2022/23	46 to 1	34 to 1	27 to 1

Percentile comparison for CEO and the wider workforce

	CEO	25th percentile employee	Median employee	75th percentile employee
Salary	575,300	28,255	39,111	47,960
Total pay and benefits	1,391,241	29,943	40,540	51,210

Note: Salary includes base salary, basic hours (for hourly paid individuals) and holiday pay.

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 above rely on estimated figures for the 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 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.

Gender pay gap

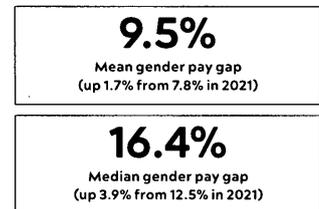
We want everyone to feel included, regardless of their background. This applies to all areas across our inclusion agenda, not only gender.

As reported in detail in our full Gender Pay Gap Report 2022, our workforce composition as of April 2022 was 32% women and 68% men. Our mean gender pay gap for the period was 9.5%, while our median gender pay gap was 16.4%, showing a slight increase on our 2021 figures.

Like other companies in our sector, we have a very low attrition rate, with many male employees spending their entire working career with us. This impacts the opportunity for a significant change in the headline composition of our people in the short term, and it also continues to impact our gender pay gap. The increase this year was also affected by nationwide challenges throughout 2021/22 such as the shortage of Large Goods Vehicle (LGV) drivers, for whom we reviewed our offering and increased pay to retain people in these critical roles – 93% of which are filled by men.

Despite recruiting a higher number of women (42% in 2022, versus 35% in 2021), many of those new appointments were in more junior (or part-time) positions. And while around 1,600 of our employees are in technical roles with skills-linked pay progression, just 17% of women fill these posts.

What is our gender pay gap for 2022?



Gender split across Anglian Water employees:



New hires in 2022 gender split:



Senior hires in 2022 gender split:



Company remuneration at Anglian Water continued

We're taking steps to address our gender pay gap

These include:

- Setting short-term (annual) and mid-term (to 2025) targets to improve gender equity across the business
 - For 2023 we are targeting 36% of new hires to be women, and 36% of senior manager positions to be held by women. By the end of 2025, both targets rise to 38%
- Addressing gender bias (unconscious or otherwise) in each stage of recruitment across the business, including placement and presentation of advertising, imagery, wording of job descriptions and encouraging a mix of genders for interview panels
- Ensuring we are an attractive employer for women, with supportive policies and procedures such as enhanced maternity leave, shared parental leave, flexible working and part-time working
- Actively encouraging young women to apply for our apprenticeship and graduate programmes through dedicated outreach and recruitment drives with schools, colleges and universities
- Ensuring pay and reward processes are transparent and free from bias. Our reward team monitors pay according to gender, investigating any gaps in excess of 5%

As a result of our efforts we're seeing more women hired across the business. In 2022:

- 43% of new hires were women
- 46% of senior hires were women, which will help improve our gender pay gap figures in 2023
- 13% of women who joined our business are in STEM-related roles
- We have seen an increase in the overall number of women graduates joining our business, from 33% in 2021 to 71% in 2022, helping grow our future senior talent pool
- The number of women apprentices increased from 10% in 2021 to 24% in 2022
- In 2022, 71% of our graduates and 18% of our apprentices were women

We are pleased to see the focus and initiatives to improve the gender balance of our business has been recognised externally, with Anglian Water named as one of the Times Top 50 Employers for Gender Equality 2023.

Ethnicity pay gap

Although not yet a statutory requirement, we published our first-ever Ethnicity Pay Gap Report in February 2023 as part of our commitment to transparency and improvement.

Unlike gender pay gap reporting, ethnicity pay gap reporting is completed on a voluntary basis and therefore there is limited data available to allow us to compare ourselves to other organisations. Similarly, due to the self-reporting of ethnicity, the employee data we have available to report on only accounts for 70% who have voluntarily disclosed their ethnicity. In 2022/23 the mean ethnicity pay gap was 6.1% and the median was 4.6%.

We continue to engage with our people and encourage them to share their ethnic identity so we can have greater clarity on the demographic of our workforce in future years. Accordingly, the true figures for the median and mean ethnicity pay gap may differ slightly.

In calculating our ethnicity pay gap, we have used the same principles that are applied to statutory gender pay gap reporting. The ethnicity pay gap shows the difference in the average pay between people from Ethnically Diverse Communities (EDC), which includes people who are Black, Asian and Mixed Race, compared to White employees (including those that identify as White Other).

What is our gender pay gap for 2022?



Overall ethnicity split across Anglian Water employees:



Overall ethnicity split in our region according to the 2021 Census:



Ethnicity split of new hires in 2022:



Ethnicity split of senior hires in 2022:



* did not disclose ethnicity.

Company remuneration at Anglian Water continued

Steps we're taking to close the ethnicity pay gap

We want to close our ethnicity pay gap and increase the diversity of our employees at Anglian Water, so we are taking the following action in 2023/24:

- Actively recruiting for a diverse workforce and setting diversity hire targets
- Making changes to our recruitment advertising strategy, such as:
 - Changing where we advertise to ensure our roles are seen by a range of potential candidates
 - Ensuring our imagery represents people from a variety of backgrounds.
 - Using web accessibility and translation software (Recite me) to ensure our careers site is accessible
- Directing hiring managers to undertake unconscious bias training as part of our Recruitment and Interviewing Skills training course and requesting that wherever possible interview panels include a diverse mix of ethnicities and genders
- Closely monitoring the ethnicity split at application as well as at various stages within the assessment and selection pipeline (particularly for early careers) to ensure we are attracting from as wide a talent pool as possible
- Publishing key policies on our careers website, such as our flexible working policy, parental leave policy and transgender and transition policy

Workforce engagement

Whilst undertaking its role in setting and applying the remuneration policy for Executives, the Committee considers broader remuneration across the wider workforce. The Committee receives regular updates and feedback from various employee consultation and engagement channels, alongside summaries of activities across the wider workforce throughout the year. It takes this information into account to ensure the approach to setting pay and bonus levels for Executives is consistent with that applied to the wider workforce.

Senior management meets regularly with lead representatives from the trade unions to discuss and review relevant policies, in addition to formal consultation and negotiations where applicable. In addition to the trade unions, Anglian Water operates a number of communities, including but not limited to our regular workforce engagement event, Open House, and the Inclusion Community.

These communities meet frequently, with invitations sent to all employees (more than 600 employees attended the most recent event). This approach allows us to discover and build new ways of working, alongside the development of policies built with engagement from across the workforce.

“
We operate a number of workforce communities which allow us to discover and build new ways of working, alongside the development of policies built with engagement from across the workforce.”

Company remuneration at Anglian Water continued

New performance rating system and alignment of employee and Executive Director bonus measures

We continue to listen to our people and act on their feedback. This year our employee survey, Love to Listen, showed that people felt the reward system could be improved to make it fairer and more consistent across teams. In response, we have developed a new system, simplifying performance rating levels.

We've also announced for 2023/24 a new company purpose award, which brings the majority of our people together under one scheme, and aligns the reward of our wider workforce to a selection of the same measures as Executives. The award replaces the previous bonus arrangements rewarding employees individually for their personal performance and instead is designed to reward colleagues for working collaboratively together to drive company performance. Each year, an appropriate set of measures will be agreed as a consolidation of our top priorities aligned to our purpose. For 2023/24 these include delivering for our customers, measured through our CMeX rating, pollution performance, and through Totex - ensuring all employees contribute to our financial performance and resilience. A minimum of 3% bonus up to a maximum of 5% has been guaranteed for the year ahead as we transition to the new bonus arrangements. Full details of the measures and targets can be found on page 150.

New ISO for employee health and wellbeing

This year, Anglian Water became the first UK water company to achieve the international standard for health and wellbeing, achieving ISO 45003 certification - Psychological health and safety at work. The new ISO shows we clearly prioritise our people, creating an environment where our they feel safe and supported to be themselves and perform to their best.

New pay progression frameworks

Formal pay progression frameworks are in place across a wide number of roles across the company, from contact centre agents to field-based engineers - typically where we have a large number of employees performing the same role. The frameworks ensure we continue to reward our employees fairly and consistently in alignment with the external market. In 2022, we introduced a further 16 frameworks and invested an additional £400,000 of salary costs across 200 employees to recognise their development.

Directors' remuneration policy

This part of the Remuneration Committee report sets out the remuneration policy for Anglian Water Services Limited (AWS) for the year that ended 31 March 2023, and any changes for the year ending 31 March 2024.

Element and link to strategy	Operation and performance metrics	Maximum potential for 2022/23	Changes for 2023/24
A Base salary			
To attract and retain Executive Directors with appropriate experience, skills and competencies relative to the role.	Reflects individual experience and role. Usually reviewed annually and fixed for 12 months from 1 April. Decision influenced by: <ul style="list-style-type: none"> Role, experience and performance Average change in broader workforce salary Total organisational salary budgets Salaries are independently benchmarked against the FTSE 250 and other comparable utility companies 	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.	Peter Simpson's and Steve Buck's salary increased in line with the wider workforce by 7.7% from April 2023. The increase for the wider workforce was paid early in February 2023.
B Benefits			
To increase the economic security of employees, and recruit and retain employees.	Directors are entitled to private medical insurance, car allowance and life assurance. Directors are also entitled the same benefits received by the wider workforce.	Peter Simpson: 2.7% of base salary Steve Buck: 3.3% of base salary	As part of the implementation of a CO ₂ cap on emissions for all company cars and those who receive a cash allowance in lieu of a car, both Peter Simpson and Steve Buck continue to receive a cash allowance as they each confirmed compliance with the company-wide policy.

Directors' remuneration policy continued

Element and link to strategy	Operation and performance metrics	Maximum potential for 2022/23	Changes for 2023/24
C Pension			
To attract and retain high-calibre individuals by providing good-quality pension arrangements.	<p>AWS operates a defined contribution pension arrangement consistent across the wider workforce.</p> <p>Following the introduction of the annual and lifetime allowances, where the level of pension saving would exceed the allowances, a cash payment in lieu of company contribution to pension may be made.</p>	<p>In line with corporate governance best practice both Executive Directors' pension arrangements align to the wider workforce of 12% of base pay.</p> <p>Peter Simpson: This amount is received in cash.</p> <p>Steve Buck receives part of his pension arrangements in cash, and part paid into his pension scheme.</p>	<p>No change to policy, however with the change to the lifetime and annual allowances, both Executive Directors, in line with the wider workforce, may wish to change at any time the balance between pension contributions and cash.</p>

Element and link to strategy	Operation and performance metrics	Maximum potential for 2022/23	Changes for 2023/24
D Deferred Bonus Plan			
To reward achievement of annual financial and strategic business targets and delivery of personal objectives aligned to AWG Group targets outside Anglian Water Services.	<p>Payment determined by the Committee following the year end.</p> <p>The plan includes deferral of 50% of the award value until three and four years from the initial grant.</p> <p>Company targets are set and reviewed annually; these comprise of a number of key financial and non-financial metrics to deliver customer and environmental outcomes, plus personal objectives aligned to AWG Group activities. Awards for 2022/23 were based on 75% company performance and 25% on AWG Group personal objectives which are funded by AWG Group.</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, remove or recover bonus payouts in the event of material issues including but not limited to those in relation to service, health and safety, quality, reputation and financial or regulatory performance.</p>	<p>Peter Simpson: 2022/23 Award maximum: 150% of base salary 2020 Award maximum: 67.5% of base salary 2019 Award maximum: 40.5% of base salary</p> <p>Steve Buck: 2022/23 Award maximum: 110% of base salary 2020 Award maximum: 55% of base salary 2019 Award maximum: 33% of base salary</p>	<p>The weightings on personal objectives and company performance have been adjusted to 30% personal and 70% company. This allows for an appropriate weighting for Group accountabilities outside of the regulated water company. In light of the concerns expressed by some stakeholders, the Remuneration Committee recommended to the Board that the payment due to the Executive Directors in respect of the 2022 DBP award should not be paid for out of income from customer bills, and the Board accepted this recommendation.</p>

Company remuneration at Anglian Water continued

Deferred Bonus Plan to be awarded in 2023/24

Following the independent review of executive remuneration by FIT Consultants earlier in the year, it was agreed that the overall structure of the total remuneration remained appropriate, in terms of both quantum and structure (i.e. fixed, versus performance-linked pay covering both short and long-term measures). As in previous years, the Committee considered whether performance conditions remain appropriate and also whether the weightings associated with key measures were aligned with stakeholder expectations. In line with the remuneration policy, the Committee is clear that targets should be stretching to incentivise outperformance and payment must not be made where threshold performance standards have not been met. Having discussed various proposals across a number of meetings, the Committee determined that each measure will be allocated a threshold target where no bonus will be paid if this level is not achieved. In addition, a stretch target has been set against which the Committee can assess performance at the end of the year.

Release of fixed and variable pay awarded

The tables below illustrate the balance of pay and time period of each element of the policy for Executive Directors.

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Fixed Pay									
Salary and Benefits					●				
Variable Pay									
Deferred Bonus Award – 2019		●	●	●	●				
Deferred Bonus Award – 2020		●	●	●	●				
Deferred Bonus Award – 2021			●	●	●	●	●		
Deferred Bonus Award – 2022 ¹				●	●	●	●		
Deferred Bonus Award – 2023					●	●	●	●	

¹ As stated earlier, in addition to the deferral of 50% of the bonuses to be paid in later year, a new bonus award of £216,000 relating to delivery of targets for monitoring of storm overflows will be introduced for the CEO. 50% will be paid should the targets be met in 2023/24 with the remaining 50% paid in tranches in 2025 and 2026.

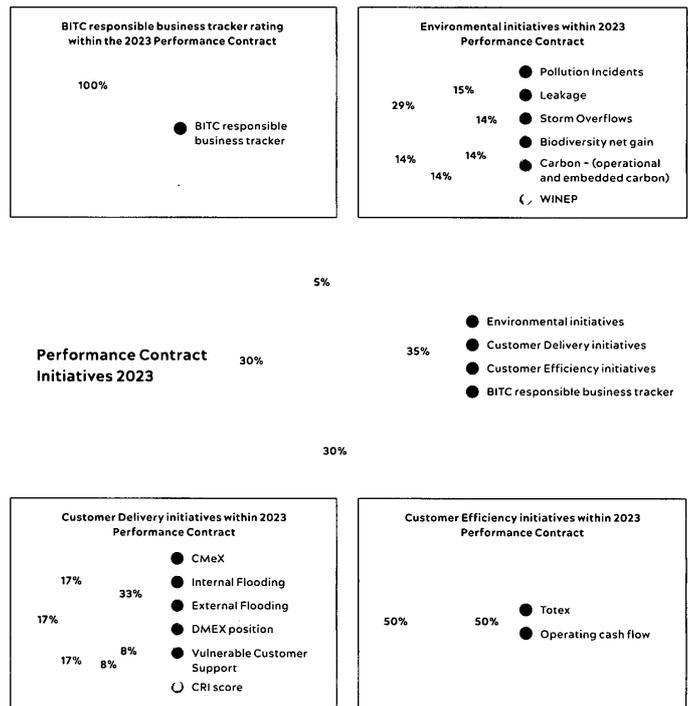
- Grant of award ● Subsequent performance periods
- Paid 1 Tranche one paid 2 Tranche two paid 3 Tranche three paid

Deferred Bonus Plan to be awarded 2023/24

The chart below describes how the AWS portion of the Deferred Bonus Plan will be implemented in 2023/24.

As mentioned earlier in the report, although a significant proportion of Executive variable remuneration is already aligned with our purpose (which includes delivering for customers and the environment) the Committee decided to go further, increasing the overall weighting given specifically to Environmental and Social initiatives.

% of maximum bonus relating to Performance Contract



Company remuneration at Anglian Water continued**Illustration of application of the remuneration policy**

At the end of the first performance period (31 March 2024), performance will be assessed and the appropriate payment relating to the first tranche of the DBP (50%) will be made, as per the table on page 150. The Committee has the ability to apply discretion and to take into account both financial and non-financial performance during the performance period together with any other relevant circumstances which justify a reduction in the value of the award. The remaining half will be deferred and paid out in two equal tranches, three years and four years after the date of award. In addition to the initial performance criteria, these payments will also be dependent on a number of secondary performance conditions:

- 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
- There must be no significant deterioration in health and safety performance

Total maximum AWS remuneration for 2023/24

The charts opposite show the weighting as a percentage of base pay for the total potential remuneration which could be payable by AWS to the Executive Directors in various performance scenarios under the remuneration policy in 2023/24.

In these charts:

- Fixed remuneration is the minimum payable and is made up of base pay for 2023/24 plus the value of cash in lieu of pension and benefits
- Payments due in relation to the 2022/23 Deferred Bonus Plan Award are split into Year 1 (2023/24), Year 3 (2025/26) and Year 4 (2026/27) 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 uplift within the scheme rules. The maximum payment may therefore be higher as it will, if appropriate, be uplifted over the period. The maximum bars in all the charts include the Deferred Bonus award granted in 2023/24, which is due to vest in subsequent years
- As per the scheme rules, the final tranche of the 2020/21 Deferred Bonus Plan and the second tranche of the 2021/22 award is due to vest in 2023/24. The payment reflected in these charts will change in line with CPIH and will take account of performance during the Secondary Performance Period, which is not known at this time

Total maximum remuneration for 2023/24 funded by AWS

Company remuneration at Anglian Water continued

Component	Policy on recruitment	Policy on exit
General	<p>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.</p> <p>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.</p>	<p>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.</p>
Base salary, pension and benefits	<p>Salary is paid from date of joining along with some benefits. Employees are automatically enrolled into our pension scheme following two full calendar months of service. Employees can select to join the pension scheme from the date of joining if they wish.</p>	<p>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.</p>
Deferred Bonus Plan	<p>Typically, where an eligible employee starts with the company, they will receive a reduced award based on their start date.</p>	<p>The rules of the Deferred Bonus Plan apply in respect of the deferred element of awards (across all including those made since 2019), and contain provisions which allow for payment of a portion of the award where the Director is a 'Good Leaver' to reflect the Director's actual period of service in that financial year. In accordance to Plan rules the Committee has discretion to also make further payments.</p>

Company remuneration at Anglian Water continued

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 Plan which is described further in the relevant sections of this report.

	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 2023, John Barry, Deepu Chintamaneni, Alex Nassuphis and Batiste Ogier 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.

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 any approved Non-Executive appointments. Neither of the Executive Directors currently hold an external Non-Executive Directorship.

Independent Chair and Independent Non-Executive Directors' Terms of appointment

The Chair 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

Appointment and expiry of current terms for the Independent Chair and Independent Non-Executive Directors

	Date of first appointment	Date of expiry of current terms
John Hirst	1 April 2015	31 March 2024
Natalie Ceeney	25 April 2018	24 April 2024
Polly Courtice	1 April 2015	31 March 2024
Colin Matthews	23 November 2022	22 November 2025
Zarin Patel	31 October 2018	30 October 2024
Alistair Phillips-Davies	23 November 2022	22 November 2025

These appointments may be terminated with six months' notice by either party. No compensation is payable to the Chair or Non-Executive Directors if the appointment is terminated early.

Company remuneration at Anglian Water continued

Policy for determination of fees

The fees for the Independent Non-Executive Directors are reviewed by the Chair, 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 Chair's fee is set by the Board, based on a recommendation from the Remuneration Committee. The Chair is not involved in setting his own remuneration.

Element and link to strategy	Operation	Maximum potential for 2022/23	Changes for 2023/24
A Fees	For the Chair 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 Chair and the Non-Executive Directors do not participate in any of the company's incentive or pension schemes.	N/A	Following an external benchmarking exercise by PwC it was agreed that all Non-Executive Directors' fees increased by 7.7% from April 2023 in line with the company-wide pay deal.
B Benefits	The company covers the cost of travel between the Directors' homes and the 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.

Single total remuneration figure for Non-Executive Directors (audited)

	Total fees all AWG £			
	2022/23			2021/22
	Fees	Benefits	Total	
John Hirst ¹	320,076	315	320,391	306,000
Alistair Phillips-Davies ²	19,583	-	19,583	-
Colin Matthews ²	19,583	125	19,711	-
Natalie Ceeney	65,935	527	66,462	52,890
Paul Whittaker ³	29,435	-	29,435	62,746
Polly Courtice	65,935	-	65,935	72,930
Zarin Patel	65,935	-	65,935	62,730
Total Non-Executive Directors	586,482	967	587,449	557,297

¹ 60% of John Hirst's remuneration is met by Anglian Water Services with the remainder paid by Anglian Water Group.

² Colin Matthews and Alistair Phillips-Davies were appointed on 23 November 2022.

³ Paul Whittaker stepped down from the Board on 13 October 2022, on completion of his nine-year term in office.

Company remuneration at Anglian Water continued

AWG Co-investment plan

A new Co-investment Plan was approved by the Remuneration Committee in May 2020 and is designed to operate annually throughout AMP7. 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 that 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. The cost of the interest paid is funded by AWG Group Ltd

Executive Director	Amount invested 2022/23	Total invested over AMP7 2020-2023
Peter Simpson	£210,000	£1,000,000

This report was approved by the Board of Directors on 8 June 2023.

Natalie Ceeny

Chair of the Remuneration Committee

8 June 2023

The Directors present **their report and the audited financial statements** of Anglian Water Services Limited (the company) for the year ended 31 March 2023.

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, Igneo Infrastructure Partners, Infinity Investments S.A., IFM Investors and Camulodunum Investments Ltd. The company's ownership structure is detailed on pages 20 and 21.

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 26 to 99.

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 106 to 115.

Details of the corporate governance arrangements resulting from the securitisation of the company in 2002 can be found on page 107 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 1.2 billion litres of drinking water to 5.0 million people every day. The water comes from a variety of sources: reservoirs, underground reserves (aquifers) and abstraction from rivers. The company receives approximately one billion litres of used water per day from 6.5 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.

In addition to providing services to household customers, the company also provides wholesale services to retailers within its region.

Results and dividends

The group income statement on page 160 shows the Group's results and profit for the year. Details on dividends can be found in notes 11 and 32 of the financial statements.

Risk management

Detailed information about the company's risk management processes, including its approach to financial risks, can be found on pages 83 to 95.

Health and safety

Details are included on page 55 and page 87.

Directors

Current Directors of the company are listed on pages 102 to 105 together with their biographical details. Details of Board changes that took place up to the date of this report are detailed on page 110.

Directors' indemnities

During the 2022/23 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 (2022: £nil).

Emissions

Information relating to climate-related disclosures, including carbon emissions, can be found on pages 71 to 82.

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 and company-specific research on matters such as, biosolids treatment, sewers, water supply networks, emerging contaminants and other water- and water recycling-related matters.

Employees

Information on people and partners, page 54. The company's policy on employing people with disabilities and about how employees are kept informed and consulted can be found in our People section, page 53. 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 65 to 68.

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 65 to 68.

Events occurring after the reporting period

Details of events occurring after the reporting period are included in note 32 of the group financial statements.

Going concern

The Directors believe, after due and careful enquiry, that the company has sufficient resources to continue in operational existence for the foreseeable future and, therefore, consider it appropriate to adopt the going concern basis in preparing the 2022/23 financial statements. Further details of this review can be found on page 122.

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.

Approved by the Board

Claire Russell
Company Secretary



7 June 2023

Registered Office:

Anglian Water Services Limited
Lancaster House
Lancaster Way
Ermine Business Park
Huntingdon
Cambridgeshire
PE29 6XU

Registered in England and Wales
No 2366656

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 section 474(1) of the Companies Act 2006) under international accounting standards which are adopted for use within the United Kingdom by virtue of Chapter 2 or 3 of Part 2 of the International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019. The financial statements have also been prepared in accordance with International Financial Reporting Standards as issued by the IASB. 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 102 to 105, confirm that, to the best of their knowledge:

- the group financial statements, which have been prepared in accordance with IFRSs as adopted for use within the United Kingdom, 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

7 June 2023

“

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.

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Group Income Statement for the year ended 31 March 2023Strategic Report Governance **Statutory accounts**

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Notes	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m	
4	Revenue	1,494.9	1,399.8
5	Other operating income	16.0	12.3
6	Operating costs		
6	Operating costs before depreciation, amortisation and charge for bad and doubtful debts	(678.0)	(612.5)
	Depreciation and amortisation	(379.1)	(347.7)
	Charge for bad and doubtful debts	(30.1)	(11.1)
	Total operating costs	(1,087.2)	(971.3)
	Operating profit	423.7	440.8
	Finance income	20.6	1.8
	Finance costs, including fair value gains/losses on derivative financial instruments	(85.8)	(575.2)
7	Net finance costs	(65.2)	(573.4)
	Profit/(loss) before tax from continuing operations		
	Loss before fair value gains/(losses) on derivative financial instruments ¹	(286.8)	(17.5)
	Fair value gain/(loss) on derivative financial instruments	645.3	(115.1)
	Profit/(loss) before tax from continuing operations	358.5	(132.6)
8	Tax charge	(90.2)	(310.2)
	Profit/(loss) for the year from continuing operations	268.3	(442.8)

¹ As defined in note 30.

Notes 1 to 31 are an integral part of these financial statements.

Group Balance Sheet as at 31 March 2023

Strategic Report Governance Statutory accounts

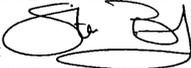
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Notes	At 31 March 2023 £m	At 31 March 2022 £m	
Non-current assets			
11	Other intangible assets	253.9	218.0
12	Property, plant and equipment	10,704.3	10,304.1
19	Derivative financial instruments	194.4	57.8
22	Retirement benefit surplus	84.1	205.2
		11,236.7	10,785.1
Current assets			
14	Inventories	20.6	16.9
15	Trade and other receivables	564.7	516.5
16	Investments – cash deposits	298.0	392.0
16	Cash and cash equivalents	335.1	478.7
19	Derivative financial instruments	55.8	56.5
		1,274.2	1,460.6
	Total assets	12,510.9	12,245.7
Current liabilities			
17	Trade and other payables	(676.7)	(582.8)
	Current tax liabilities	(123.9)	(148.6)
18	Borrowings	(584.3)	(476.3)
19	Derivative financial instruments	(53.4)	(10.1)
20	Provisions	(6.8)	(4.7)
		(1,445.1)	(1,222.5)
	Net current (liabilities)/assets	(170.9)	238.1

Notes	At 31 March 2023 £m	At 31 March 2022 £m	
Non-current liabilities			
18	Borrowings	(6,296.7)	(6,015.7)
19	Derivative financial instruments	(893.8)	(1,192.8)
21	Deferred tax liabilities	(1,531.3)	(1,451.9)
22	Retirement benefit deficit	(33.0)	(41.8)
20	Provisions	(4.8)	(7.0)
		(8,759.6)	(8,709.2)
	Total liabilities	(10,204.7)	(9,931.7)
	Net assets	2,306.2	2,314.0
Capital and reserves			
23	Share capital	32.0	32.0
	Share premium	1,165.0	1,165.0
	Retained earnings	1,089.7	1,096.3
24	Hedging reserve	17.8	20.4
24	Cost of hedging reserve	1.7	0.3
	Total equity	2,306.2	2,314.0

Notes 1 to 31 are an integral part of these financial statements. The financial statements were approved by the Board of Directors on 07 June 2023 and signed on its behalf by:

Peter Simpson  Chief Executive

Steven Buck  Chief Financial Officer

Company Balance Sheet as at 31 March 2023

Company number: 02366656

Strategic Report Governance Statutory accounts

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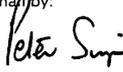
Notes	At 31 March 2023 £m	At 31 March 2022 £m	
Non-current assets			
11	Other intangible assets	253.9	218.0
12	Property, plant and equipment	10,711.6	10,304.1
19	Derivative financial instruments	194.4	57.8
22	Retirement benefit surplus	84.1	205.2
		11,236.7	10,785.1
Current assets			
14	Inventories	20.6	16.9
15	Trade and other receivables	564.7	516.5
16	Investments – cash deposits	298.0	392.0
16	Cash and cash equivalents	328.4	475.8
19	Derivative financial instruments	55.8	56.5
		1,267.5	1,457.7
	Total assets	12,504.2	12,242.8
Current liabilities			
17	Trade and other payables	(720.1)	(629.1)
	Current tax liabilities	(123.9)	(148.6)
18	Borrowings	(584.3)	(476.3)
19	Derivative financial instruments	(53.4)	(10.1)
20	Provisions	(6.8)	(4.7)
		(1,488.5)	(1,268.8)
	Net current (liabilities)/assets	(221.0)	188.9

Notes	At 31 March 2023 £m	At 31 March 2022 £m	
Non-current liabilities			
18	Borrowings	(6,296.7)	(6,015.7)
19	Derivative financial instruments	(893.8)	(1,192.8)
21	Deferred tax liabilities	(1,531.3)	(1,451.9)
22	Retirement benefit deficit	(33.0)	(41.8)
20	Provisions	(4.8)	(7.0)
		(8,759.6)	(8,709.2)
	Total liabilities	(10,248.1)	(9,978.0)
	Net assets	2,256.1	2,264.8
Capital and reserves			
23	Share capital	32.0	32.0
	Share premium	1,165.0	1,165.0
	Retained earnings	1,039.6	1,047.1
24	Hedging reserve	17.8	20.4
24	Cost of hedging reserve	1.7	0.3
	Total equity	2,256.1	2,264.8

The Company has not presented its own income statement as permitted by section 408 of the Companies Act 2006. The profit in the year of the Company is £267.4 million (2022: loss of £443.1 million).

Notes 1 to 31 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 07 June 2023 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 2023

Strategic Report Governance Statutory accounts

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Notes	Stated capital £m	Share premium £m	Retained earnings £m	Hedging reserve £m	Cost of hedging reserve £m	Total equity £m
At 1 April 2021	32.0	-	1,525.4	(37.4)	2.4	1,522.4
Loss for the year	-	-	(442.8)	-	-	(442.8)
Other comprehensive income/(expense)						
22 Actuarial gains on retirement benefit obligations	-	-	135.7	-	-	135.7
8 Income tax charge on items that will not be reclassified	-	-	(25.7)	-	-	(25.7)
24 Gains on cash flow hedges	-	-	-	59.3	-	59.3
24 Losses on cost of hedging	-	-	-	-	(2.6)	(2.6)
24 Amounts on cash flow hedges transferred to income statement	-	-	-	14.0	-	14.0
24 Deferred tax movement on hedging reserves	-	-	-	(15.5)	0.5	(15.0)
	-	-	110.0	57.8	(2.1)	165.7
Total comprehensive (expense)/income	-	-	(332.8)	57.8	(2.1)	(277.1)
Issue of shares	-	1,165.0	-	-	-	1,165.0
Dividends	-	-	(96.3)	-	-	(96.3)
At 31 March 2022	32.0	1,165.0	1,096.3	20.4	0.3	2,314.0

Notes	Stated capital £m	Share premium £m	Retained earnings £m	Hedging reserve £m	Cost of hedging reserve £m	Total equity £m
Profit for the year	-	-	268.3	-	-	268.3
Other comprehensive income/(expense)						
22 Actuarial losses on retirement benefit obligations	-	-	(141.2)	-	-	(141.2)
8 Income tax credit on items that will not be reclassified	-	-	35.3	-	-	35.3
24 Gains on cash flow hedges	-	-	-	27.9	-	27.9
24 Gains on cost of hedging	-	-	-	-	1.8	1.8
24 Amounts on cash flow hedges transferred to income statement	-	-	-	(31.1)	-	(31.1)
24 Deferred tax movement on hedging reserves	-	-	-	0.6	(0.4)	0.2
	-	-	(105.9)	(2.6)	1.4	(107.1)
Total comprehensive income/(expense)	-	-	162.4	(2.6)	1.4	161.2
Dividends	-	-	(169.0)	-	-	(169.0)
At 31 March 2023	32.0	1,165.0	1,089.7	17.8	1.7	2,306.2

Company Statement of Changes in Equity for the year ended 31 March 2023

Strategic Report Governance **Statutory accounts**

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Notes	Stated capital £m	Share premium £m	Retained earnings £m	Hedging reserve £m	Cost of hedging reserve £m	Total equity £m
At 1 April 2021	32.0	-	1,476.5	(37.4)	2.4	1,473.5
Loss for the year	-	-	(443.1)	-	-	(443.1)
Other comprehensive income/(expense)						
22 Actuarial gains on retirement benefit obligations	-	-	135.7	-	-	135.7
8 Income tax charge on items that will not be reclassified	-	-	(25.7)	-	-	(25.7)
24 Gains on cash flow hedges	-	-	-	59.3	-	59.3
24 Losses on cost of hedging	-	-	-	-	(2.6)	(2.6)
24 Amounts on cash flow hedges transferred to income statement	-	-	-	14.0	-	14.0
24 Deferred tax movement on hedging reserves	-	-	-	(15.5)	0.5	(15.0)
	-	-	110.0	57.8	(2.1)	165.7
Total comprehensive (expense)/income	-	-	(333.1)	57.8	(2.1)	(277.4)
Issue of shares	-	1,165.0	-	-	-	1,165.0
Dividends	-	-	(96.3)	-	-	(96.3)
At 31 March 2022	32.0	1,165.0	1,047.1	20.4	0.3	2,264.8

Notes	Stated capital £m	Share premium £m	Retained earnings £m	Hedging reserve £m	Cost of hedging reserve £m	Total equity £m
Profit for the year	-	-	267.4	-	-	267.4
Other comprehensive income/(expense)						
22 Actuarial losses on retirement benefit obligations	-	-	(141.2)	-	-	(141.2)
8 Income tax credit on items that will not be reclassified	-	-	35.3	-	-	35.3
24 Gains on cash flow hedges	-	-	-	27.9	-	27.9
24 Gains on cost of hedging	-	-	-	-	1.8	1.8
24 Amounts on cash flow hedges transferred to income statement	-	-	-	(31.1)	-	(31.1)
24 Deferred tax movement on hedging reserves	-	-	-	0.6	(0.4)	0.2
	-	-	(105.9)	(2.6)	1.4	(107.1)
Total comprehensive income/(expense)	-	-	161.5	(2.6)	1.4	160.3
Dividends	-	-	(169.0)	-	-	(169.0)
At 31 March 2023	32.0	1,165.0	1,039.6	17.8	1.7	2,256.1

Cash Flow Statement for the year ended 31 March 2023

Strategic Report Governance Statutory accounts

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Notes	Group		Company		Notes	Group		Company		
	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m		Year ended 31 March 2023 £m	Year ended 31 March 2022 £m	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m	
	Operating activities					Net cash used in investing activities				
	423.7	440.8	423.7	440.8		(550.0)	(828.8)	(551.0)	(829.3)	
	Adjustments for:					Financing activities				
	Depreciation and amortisation					Interest paid	(200.6)	(222.3)	(200.6)	(222.3)
	379.1	347.7	379.1	347.7		Debt issue costs paid	(0.7)	(1.5)	(0.7)	(1.5)
	Assets adopted for Enil consideration					Interest paid on leases	(0.9)	(1.2)	(0.9)	(1.2)
	(46.0)	(39.2)	(46.0)	(39.2)		Proceeds from amounts borrowed	740.8	100.5	740.8	100.5
	Profit on disposal of property, plant and equipment					Repayment of amounts borrowed	(668.8)	(656.4)	(668.8)	(656.4)
	(3.9)	(4.9)	(3.9)	(4.9)		Receipt of principal on derivatives	-	75.9	-	75.9
	Difference between pension charge and cash contributions					Repayment of principal on leases	(5.3)	(12.0)	(5.2)	(12.0)
	(24.5)	(18.1)	(24.5)	(18.1)		Dividends paid	(169.0)	(96.3)	(169.0)	(96.3)
	Net movement in provisions					Proceeds from issue of ordinary shares	-	1,165.0	-	1,165.0
	(0.1)	(4.3)	(0.1)	(4.3)		Net cash (used in)/from financing activities	(304.5)	351.7	(304.4)	351.7
	Working capital:					Net (decrease)/increase in cash and cash equivalents	(143.6)	272.8	(147.4)	295.1
	Increase in inventories					Cash and cash equivalents at 1 April	478.7	205.9	475.8	180.7
	(3.7)	(3.0)	(3.7)	(3.0)		Cash and cash equivalents at 31 March	335.1	478.7	328.4	475.8
	Increase in trade and other receivables									
	(48.0)	(15.8)	(48.0)	(15.8)						
	Increase in trade and other payables									
	34.3	46.7	31.4	69.5						
	Net cash flows from operating activities									
	710.9	749.9	708.0	772.7						
	Investing activities									
	Purchase of property, plant and equipment									
	(588.6)	(465.2)	(588.6)	(465.2)						
	Purchase of intangible assets									
	(75.8)	(58.8)	(75.8)	(58.8)						
	Proceeds from disposal of property, plant and equipment									
	4.4	5.8	4.4	5.8						
	Interest received									
	16.0	1.4	15.0	0.9						
	Decrease/(increase) in short-term bank deposits									
	94.0	(312.0)	94.0	(312.0)						

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 section 474(1) of the Companies Act 2006) under international accounting standards which are adopted for use within the United Kingdom by virtue of Chapter 2 or 3 of Part 2 of the International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019. The group financial statements have also been prepared in accordance with International Financial Reporting Standards as issued by the IASB and the Company financial statements have been prepared in accordance with UK adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006.

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain financial assets and liabilities (including derivative instruments) at fair value. The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses for the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates.

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 borrowing facilities available to the group, as detailed to the right.

The review included a range of downside outcomes as a result of the macro-economic environment. Key updates since the previous assessment are as follows:

- There continues to be considerable market volatility particularly in terms of energy costs, interest rates and inflation.
- Higher inflation is improving gearing relative to RCV.

These updates along with company-specific changes have been incorporated into our latest forecast which was approved by the Board. This forecast forms our base going concern assessment which looks at liquidity, profitability and debt covenants.

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.

The CTA introduces two terms, a Trigger Event and an Event of Default. The intention of a Trigger Event is that it is an early warning event designed to reinforce credit worthiness and to protect the Company and its finance creditors from an Event of Default occurring and consequently it is not considered to be a going concern event. It does not enable creditors to destabilise the Company through enforcing their security.

We have identified three stretching scenarios to stress test our base forecast. These scenarios, low, medium and severe focus on the impact of the cost-of-living crisis and higher unemployment, the impacts of higher inflation and interest rates, as well as specific risks to the business, such as our ability to meet our stretching renewable energy generation targets. In addition, this year the scenarios consider the impact on our cash collection as a result of a cyber-attack.

In assessing Going Concern, the Directors have considered a number of perspectives, including liquidity, profitability and debt covenants and tested these against both the base scenario and the three downside scenarios.

- Liquidity – AWS holds sufficient liquidity to cover the going concern period even under the most severe downside scenario.
- Profitability – The revenues of the business are underpinned by the regulatory model and the business has a detailed plan in place to deliver in line with the CMA FD. Our most severe scenario represents a 10% reduction in EBITDA.
- Debt covenants – The business has significant headroom against Default Events (where class A interest cover ratio is less than 1.6:1) under its securitised covenants with no plausible scenario identified that would cause an Event of Default.

1. Accounting policies continued**b) Basis of preparation** continued

While both the medium and severe scenarios indicate the potential for a Trigger Event, the Directors do not consider this possibility to constitute a material uncertainty related to going concern. As noted, a Trigger Event is not considered a going concern event and whilst it would result in dividend lock-up and prevent the business from raising new debt we have sufficient liquidity during the going concern period in this event even when including planned debt repayments.

Based on the above, the Directors believe that the business has sufficient liquidity to meet its liabilities as they fall due.

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:

- IFRIC guidance clarification on treatment of configuration and customisation costs in a cloud computing arrangement;
- Amendments to 'Insurance contracts' – deferral of IFRS9; and
- Amendments to IFRS 16 'Leases' Covid-19 related rent concessions beyond 30 June 2021.

Standards, amendments and interpretations effective or adopted**i IFRIC guidance clarification on treatment of configuration and customisation costs in a cloud computing arrangement**

In April 2021, the IFRS Interpretations Committee ('IFRIC') agenda decision on the treatment of configuration and customisation costs in a cloud computing arrangement was ratified by the International Accounting Standards Board. The guidance clarified that in order for an intangible asset to be capitalised in relation to customisation and configuration costs in a software-as-a-service (SaaS) arrangement, it is necessary for there to be a separate intangible asset which meets the definition in IAS 38 Intangible Assets.

The group's previous policy was to capitalise such customisation and configuration costs. The group has therefore changed its accounting in the year that ended 31 March 2022 to align to the agenda decision. The group continues to apply the change in accounting policy.

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. These will all be adopted at the beginning of the period they become mandatory:

- IFRS 17 'Insurance contracts' (effective from 1 April 2023, not yet endorsed in the EU or the UK);
- Amendments to IFRS 10 and IAS 28 'Sale or contribution of assets between an investor and its associate or joint venture' (effective date not yet set);
- 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); and
- Amendments to IAS 12 'Deferred tax related to assets and liabilities arising from single transaction'.

The group does not expect the future application of these amendments to have any significant impact on the consolidated financial statements.

1. Accounting policies continued**c) Foreign currencies**

The group's consolidated financial statements are presented in British pound sterling, which is also the parent company's functional currency. 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.

Secondary source of income

A secondary source of income for Anglian Water is from grants and contributions in respect of new connections for water and/or sewerage services. Judgement is required when applying IFRS 15 'Revenue from contracts with customers' in determining the customer and the performance obligations to that customer. Specifically, judgement is required as to whether the income is in relation to the provision of the connection to the group's infrastructure, allowing the completion of the construction of the property and it to be approved for sale, or to facilitate the ongoing provision of water and wastewater services to the properties in question. Please see note 2 for further details.

The significant components of grants and contributions, and their treatment, are as follows:

i New connection charges

The group considers the performance obligation to be satisfied on making the connection. Income for new connection charges is therefore recognised as the connection is completed.

ii Self-lay, requisitions and adoption fees

Revenue recognition is consistent with new connection charges (see (i) above).

iii Fair value of assets adopted for Enil consideration

These are principally sewers and pumping stations that a developer has constructed and then contributed to the group, on a Enil consideration basis, in exchange for being relieved of any future liability. Income is recognised on adoption based on the fair value of the asset adopted.

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's performance obligation is satisfied by making the connection. As such, the income is recognised as the connection is made.

1. Accounting policies continued**e) Revenue recognition** continued**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. There is no performance obligation to the agency/authority beyond completing the diversion, therefore income is recognised immediately on completion.

Non-appointed activities

The group also provides additional services which are not categorised as a regulatory appointed activity. These relate to non-water/wastewater services and for use of land for water supply beyond duties imposed by regulation. Activities largely relate to the provision of property searches, referrals for connecting customers to insurance providers, processing of septic tank waste from households not connected to main sewers and from the use of our reservoirs for recreational activity. Revenue is recognised in line with the delivery of each performance obligation which is at a point in time as there is no ongoing obligation past the transaction date.

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 substantially enacted by the balance sheet date and that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

j) Dividends

Dividends are recognised as a liability in the period in which they are approved or committed. A corresponding amount is recognised directly in equity.

1. Accounting policies continued

k) Intangible assets

Other intangible assets represent computer software and internally generated assets which mainly comprise capitalised development expenditure.

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.

Software-as-a-service (SaaS) arrangements

SaaS arrangements are service contracts providing the group with the right to access the cloud provider's application software over the contract period. Costs incurred to configure or customise, and the ongoing fees to obtain access to the cloud provider's application software, are recognised as operating expenses when the services are received.

Some of the costs incurred relate to the development of software code that enhances or modifies, or creates additional capability to, existing on-premise systems and meets the definition of, and the recognition criteria for, an intangible asset. These costs are recognised as intangible software assets and amortised over the useful life of the software on a straight-line basis. The useful lives of these assets are reviewed at least at the end of each financial year, and any change accounted for prospectively as a change in accounting period.

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	15–80 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.

1. Accounting policies continued**m) Leased assets** 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).
- 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 group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

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.

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. Cost is calculated using the weighted average cost method. 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 regard to the collection of contractual cash flows (or sale) and whether the financial assets cash flows relate solely to the payment of principal and interest.

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.

1. Accounting policies continued**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.

In particular, existing or forecast adverse changes in financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations is taken into account when assessing whether credit risk has increased significantly since initial recognition.

The write off policy has been consistently applied throughout 2022/23. Debt is only written off after all available economic options for collecting the debt have been exhausted and the debt has been deemed to be uncollectable or is subject to a settlement agreement or forgiveness scheme. This may be because it is, unrealistic, impractical, inefficient or uneconomic to collect the debt.

Situations where this may arise and where debt may be written off are as follows:

- Where the customer has absconded and attempts to trace the customers whereabouts prove unsuccessful.
- Where the customer has died without leaving an estate or has left an insufficient estate on which to levy execution.
- Where the debt is subject to insolvency proceedings and there are insufficient funds to settle the debt.
- Where the value and/or age of debt make it uneconomic to pursue.
- Where debt becomes statute barred.

We also write off debts following a settlement arrangement on an outstanding balance and for eligible customers on our debt forgiveness scheme (Back on Track) as part of payment matching.

Debt that is still subject to enforcement activity is not written off unless it becomes uneconomic to pursue.

r) Cash and cash equivalents

In the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturity dates of three months or less, and outstanding bank overdrafts.

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.

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 19. 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.

1. Accounting policies continued

t) Derivative financial instruments continued

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 discontinuation is then amortised to profit or loss over the remaining life of the original hedge based on a recalculated effective interest rate.

If the hedged item is derecognised, the unamortised fair value is recognised immediately in profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss.

1. Accounting policies continued**t) Derivative financial instruments continued****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 and 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 of time value of money 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. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

v) Retirement benefit obligations**i Defined benefit schemes**

For defined benefit schemes, pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit credit method and are discounted at the current rate of return on a high-quality corporate bond of equivalent term and currency to the liabilities. The current service cost, which is the increase in the present value of the liabilities of the group's defined benefit pension schemes expected to arise from employee service in the period, is charged to operating costs. The net interest on the schemes' net assets/(liabilities) is included in other finance charges. Actuarial gains and losses are recognised in the statement of comprehensive income.

Pension schemes' surpluses, to the extent that they are considered recoverable, or deficits, are recognised in full and presented on the face of the balance sheet.

ii Defined contribution schemes

The cost of defined contribution schemes is charged to the income statement in the period in which the contributions become payable.

2. Key sources of estimation uncertainty and critical accounting 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. Consideration has been given to the impact of climate-related risks on management's judgements and estimates, including the carrying value of our assets and their useful economic lives (UEL) as a result of our 2030 net zero route map.

2. Key sources of estimation uncertainty and critical accounting judgements continued

Whilst the impact of climate-related risks on the consolidated financial statements for the year is not material, we are aware of the ever-changing risks associated to climate change and will continue to regularly assess these risks against judgements and estimates made in preparation of the group's financial statements.

For further detail, see the strategic ambitions, risk and Taskforce for Climate-related Financial Disclosures sections of the Annual Report.

a) Critical accounting 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 £132.5 million (2022: £108.7 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. During the year, the group recognised £53.9 million (2022: £46.1 million) software as intangible assets.

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.

In assessing the impact of climate change we have considered not just the impact on our asset base as a result of no action but also the impact of our 2030 net zero route map has been incorporated into our normal assessment of asset Useful Economic Lives (UEL). Nothing has been identified within our net zero plan which has the potential to impact on our existing assets base or their net book values. We have also set out the risks posed by climate change and how we will address them in our latest Adaptation Report.

As a result of the impact of severe weather events there is the risk of impairment to our assets. There have been no such adjustments in the current financial year therefore not indicating the need to amend our UEL policy as a result of severe weather events. This will be kept continuously under review to ensure appropriate treatment.

iii Recognition of grants and contributions

a) Income from connections to the water and wastewater network

The group receives income from developers for new connections to the water and wastewater networks either in the form of cash or infrastructure assets. The significant components are as follows:

- 1) New connection charges £14.2 million (2022: £13.9 million) – developer request for the provision of new connections to the network.
- 2) Infrastructure charges £18.6 million (2022: £20.1 million) – developers' contribution to offsite network reinforcement as permitted by the Water Industry Act.
- 3) Self-lay, requisitions and adoption fees £7.1 million (2022: £7.4 million) – providing the developer with assistance in the construction of assets which enable the development to be connected to the network.
- 4) Adopted assets at nil consideration £46.0 million (2022: £39.2 million) – developer contributes assets on a nil consideration basis that have been installed on a new development.

Judgement is required when applying IFRS 15 'Revenue from contracts with customers' in determining the customer and the performance obligations to that customer. Specifically, judgement is required as to whether the income is in relation to the provision of the connection to the group's infrastructure, allowing the completion of the construction of the property and it to be approved for sale, or to facilitate the ongoing provision of water and wastewater services to the properties in question.

For 1 and 2 above, all communication is between ourselves and the developer/site owner and the agreement is signed by said developer/site owner. The agreements set out components of the charge and what is to be delivered. Our conclusion is therefore that the developer is the customer and 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.

For 3 and 4, it is the developer who constructs and transfers the asset, and therefore similar to the above, the agreement is between ourselves and the developer. The occupants of the properties served are unaware of the transaction and indifferent to who is maintaining the asset, they receive no benefit from the transaction.

2. Key sources of estimation uncertainty and critical accounting judgements continued

a) Critical accounting judgements continued

Our obligation is to inspect and adopt the assets. As such, the group considers that the ongoing obligation to maintain the assets is a separate contract with the property owner (in most cases the household customer) and separate from the contract with the developer. Therefore, revenue from these streams should be recognised at a point in time when the contract with the developer is fulfilled; on connection, completion, or adoption.

Our obligations to maintain and reinforce our infrastructure do not constitute performance obligations as these are imposed on us by the regulator. A performance obligation involves a transfer of control of benefit from the seller to the customer; however, maintenance and reinforcement of the infrastructure does not transfer any benefit outside of Anglian Water, because the assets being maintained or reinforced are Anglian Water's own assets. The promise to the customer is to provide water/sewerage services, the promise to the developer is to provide a connection and there is no performance obligation in respect of upkeep of the assets.

b) Diversions

The group also receives income from various authorities which is reimbursing the cost of diverting assets due to them presenting an obstruction to the construction or upgrade of infrastructure such as roads or rail. Diversion income within the year amounted to £6.8 million (2022: £8.1 million).

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) Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the group. Such changes are reflected in the assumptions when they occur.

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. For 2022/23 the average consumption for measured household customers was 97 cubic metres, a fall or rise of two cubic metres (2%) in average annual consumption will reduce or increase revenue by approximately £12.2 million respectively.

ii 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 £141.2 million (2022: gain of £135.7 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 22 of the financial statements.

c) Other area involving estimation

i Expected credit loss on trade receivables

IFRS 9 requires that historical loss rates are adjusted as appropriate to reflect current conditions and estimates of future 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 apply judgement when determining impact of the wider economy on future cash collection (macro-economic).

The extent to which future cash collections will be impacted by macro-economic trends is uncertain. Management have estimated the potential impact through scenario analysis considering the correlation between cash collection rates against unemployment rates. Office of National Statistics and Bank of England forecasts for these measures have then been utilised to forecast changes in future cash collection rates.

2. Key sources of estimation uncertainty and critical accounting judgements continued

c) Other area involving estimation continued

The Bank of England forecast at February 2023 now predicts unemployment to peak at 5% in the medium term. Based on management's calculations, this is consistent with predictions at March 2022 the additional provision required against bills raised to the balance sheet date has remained broadly the same, at £6.9 million.

Between the August and February publications, forecast unemployment fell significantly, should it return to the August levels, which showed a peak of 6.2%, or fall by a similar amount again it would increase/decrease the bad debt provision by £6.0 million.

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 2023 £m	Year ended 31 March 2022 £m
Water and water recycling services:		
Anglian Water		
Household – measured	859.9	807.1
Household – unmeasured	223.7	221.3
Non-household – measured	260.6	228.9
Grants and contributions	106.0	100.1
Other	44.7	42.4
	1,494.9	1,399.8

Included in Grants and contributions are adopted assets of £46.0 million (2022: £39.2 million) which are non-cash. Other includes £25.9 million (2022: £25.2 million) of revenue related to non-appointed business activities.

The above analysis excludes other operating income see note 5 and finance income see note 7.

The group derives its revenue from contracts with customers for the transfer of goods and services at a point in time in the above revenue categories, with the exception of Household – unmeasured which is recorded on a straight-line basis throughout the year, see our accounting policy in note 1 for further details.

Revenue recognised which exceeds the amounts billed is recorded as contract asset while payments received prior to delivering the service is recorded as contract liability. Refer below for the movement in contract assets and liabilities:

	Group and Company	
	2023 £m	2022 £m
Contract asset		
At 1 April	310.0	294.1
Amounts billed	(1,099.0)	(1,020.1)
Revenue recognised	1,120.5	1,036.0
At 31 March	331.5	310.0

	Group and Company	
	2023 £m	2022 £m
Contract liability		
At 1 April	(338.3)	(288.6)
Cash received in advance	(1,090.8)	(1,078.1)
Revenue recognised	1,083.6	1,028.4
At 31 March	(345.5)	(338.3)

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 2023 £m	Year ended 31 March 2022 £m
Raw materials and consumables	37.3	24.1
Staff costs	280.2	243.4
Research and development	7.9	7.7
Contribution to Anglian Water Assistance Fund	1.5	2.2
Short-term lease costs	3.2	2.8
Hired and contracted services	261.5	233.0
Rates	59.1	66.9
Power	89.7	83.0
Regulatory fees	32.7	28.6
Insurance	10.8	11.9
Vehicles and fuel	16.8	13.0
Other expenses	13.7	9.5
Own work capitalised	(132.5)	(108.7)
Profit on disposal of property, plant and equipment ¹	(3.9)	(4.9)
Operating costs before depreciation, amortisation and charge for bad and doubtful debts	678.0	612.5
Depreciation of property, plant and equipment	332.7	309.7
Amortisation of intangible assets	46.4	38.0
Depreciation and amortisation	379.1	347.7
Charge for bad and doubtful debts	30.1	11.1
Operating costs	1,087.2	971.3

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 2023 £m	Year ended 31 March 2022 £m
Fees payable to the company's Auditor for the audit of the consolidated financial statements	0.3	0.3
Fees payable to the Company's Auditor for the audit of the subsidiaries	0.1	0.1
Fees payable to the Company's Auditor for other services		
Audit-related assurance services	0.3	0.3
	0.7	0.7

The Company's Auditor for the year ended 31 March 2023 and 31 March 2022 was Deloitte LLP. Audit related assurance services predominantly relate to regulatory reporting to Ofwat and the review of the group's half-year results.

7. Net finance costs

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Finance income		
Interest income on short-term bank deposits	16.0	1.4
Unwinding of discount on provision	0.1	-
Defined benefit pension scheme interest	4.5	0.4
	20.6	1.8
Finance costs		
Interest expense on bank loans and overdrafts	(4.4)	(2.7)
Interest expense on other loans including financing expenses	(202.0)	(213.8)
Indexation of loan stock	(561.4)	(255.0)
Amortisation of debt issue costs	(3.2)	(4.1)
Interest on leases	(0.9)	(1.2)
Total finance costs	(771.9)	(476.8)
Less: amounts capitalised on qualifying assets	40.8	16.7
	(731.1)	(460.1)

7. Net finance costs continued

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Fair value losses on derivative financial instruments		
Hedge ineffectiveness on cash flow hedges ¹	-	0.5
Hedge ineffectiveness on fair value hedges ²	0.3	0.4
Amortisation of adjustment to debt in fair value hedge	-	(0.1)
Derivative financial instruments not designated as hedges	654.2	(104.1)
Recycling of de-designated cash flow hedge relationship	(9.2)	(11.8)
	645.3	(115.1)
Finance costs, including fair value losses on derivative financial instruments	(85.8)	(575.2)
Net finance costs	(65.2)	(573.4)

- 1 Hedge ineffectiveness on cash flow hedges results from instances where the movement in the fair value of the derivative exceeds the movement in the hedged risk. See note 19 for details.
- 2 Hedge ineffectiveness on fair value hedges comprises fair value losses on hedging instruments of £35.2 million (2022: loss of £67.6 million), offset by fair value gains of £35.5 million on hedged risks (2022: gains of £67.9 million).

8. Taxation

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Current tax:		
In respect of the current period	(25.4)	(13.6)
Adjustments in respect of prior periods	0.7	(5.1)
Total current tax credit	(24.7)	(18.7)
Deferred tax:		
Origination and reversal of temporary differences	113.0	(25.9)
Adjustments in respect of previous periods	1.9	1.2
Increase in corporation tax rate	-	353.6
Total deferred tax charge	114.9	328.9
Total tax charge on loss on continuing operations	90.2	310.2

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. This is offset by disallowable costs and interest. In the prior year there is also a one-off credit arising on a change of accounting treatment.

The deferred tax charge for this year mainly reflects capital allowances claimed in excess of the depreciation charge, a charge on the fair value gains on derivatives, offset by a credit on losses carried forward to future years. The prior year charge mainly reflects the effect of a corporation tax rate change from 19% to 25% that comes into effect on the 1 April 2023 but was legislated for in the Finance Bill 2021, capital allowances claimed in excess of the depreciation charge in the accounts offset by a credit on losses carried forward into future years.

The Finance Bill 2021 also introduced increased tax relief for capital expenditure incurred in the period up to 1 April 2023. This has increased the deferred tax charge in this year.

8. Taxation continued

The current and deferred tax adjustments in respect of previous periods for both years relate mainly to the agreement of prior year tax computations.

The amounts included for tax liabilities in the financial statements include estimates and judgements. If the computations subsequently submitted to HMRC include different amounts then these differences are reflected as an adjustment in respect of prior years in the subsequent financial statements.

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% (2022: 19%) to the profit before tax from continuing operations as follows:

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Profit/(loss) before tax from continuing operations	358.5	(132.6)
Profit/(loss) before tax from continuing operations at the standard rate of corporation tax in the UK of 19% (2022: 19%)	68.1	(25.2)
Effects of recurring items:		
Depreciation and losses on assets not eligible for tax relief	1.0	0.9
Disallowable expenditure	0.6	1.1
	69.7	(23.2)
Effects of non-recurring items:		
Increase in corporation tax rate	-	353.6
Effects of capital allowance super deduction	(10.8)	(7.6)
Effects of differences between rates of current and deferred tax	29.3	(8.7)
Adjustments in respect of prior periods	2.6	(3.9)
Tax charge for the year	90.2	310.2

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 2023 £m	Year ended 31 March 2022 £m
Deferred tax:		
Defined benefit pension schemes	(35.3)	34.5
Cash flow hedges	(0.2)	17.6
Increase in corporation tax rate – pension	-	(8.8)
Increase in corporation tax rate – hedges	-	(2.6)
Total deferred tax (credit)/charge	(35.5)	40.7
Total tax (credit)/charge recognised in other comprehensive income	(35.5)	40.7

9. Employee information and Directors' emoluments**a) Employee information**

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Staff costs		
Wages and salaries	233.5	204.4
Social security costs	25.1	20.5
Pension costs – defined contribution	21.5	18.5
Pension costs – defined benefit	0.1	-
	280.2	243.4

Staff costs for the year ended 31 March 2023 in the table above are shown inclusive of £101.2 million (2022: £87.7 million) of costs that have been capitalised, as shown within 'own work capitalised' in note 6.

9. Employee information and Directors' emoluments continued**a) Employee information** continued

Average monthly number of full-time equivalent persons (including Executive Directors) employed by the group:

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Water Services	1,331	1,277
Water Recycling Services	1,517	1,554
Customer Services	524	524
Asset Management and Other	1,923	1,774
	5,295	5,129

The Company

Group employees are employed by the Company thus has the same number of employees as the group.

b) Directors' emoluments

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Aggregate emoluments	1,033	1,462
Pension costs – defined contribution	–	2

Aggregate emoluments of the Directors comprise salaries, taxable benefits, cash payments in lieu of company pension contributions and amounts payable under annual bonus schemes. No retirement benefits are accrued for Directors (2022: non Directors) under a defined benefit pension scheme. Retirement benefits are accruing to two Directors (2022: 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.

c) Highest paid Director

More detailed disclosures of the Directors' remuneration can be found in the Remuneration Report on pages 127 to 155.

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Aggregate emoluments	672	913

10. Dividends

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Paid by the group:		
Previous year final dividend	169.0	96.3
	169.0	96.3

During the year ended 31 March 2023, dividends of £169.0 million (£5.28 per share) were paid by the Company to its immediate parent undertaking, Anglian Water Services UK Parent Co Limited (2022: £96.3 million at £3.01 per share). See note 31 for details of dividends declared after the year end.

11. Other intangible assets

	Group and Company		Total £m
	Computer Software £m	Internally generated £m	
Cost			
At 1 April 2021	397.9	157.4	555.3
Additions	46.1	16.0	62.1
Disposals	(2.4)	–	(2.4)
At 31 March 2022	441.6	173.4	615.0
Additions	53.9	28.4	82.3
Disposals	(12.3)	–	(12.3)
At 31 March 2023	483.2	201.8	685.0

11. Other intangible assets continued

	Group and Company		Total £m
	Computer Software £m	Internally generated £m	
Accumulated amortisation			
At 1 April 2021	(260.3)	(100.5)	(360.8)
Charge for the year	(22.8)	(15.2)	(38.0)
Disposals	1.8	-	1.8
At 31 March 2022	(281.3)	(115.7)	(397.0)
Charge for the year	(31.6)	(14.8)	(46.4)
Disposals	12.3	-	12.3
At 31 March 2023	(300.6)	(130.5)	(431.1)
Net book amount			
At 31 March 2023	182.6	71.3	253.9
At 31 March 2022	160.3	57.7	218.0

The internally generated intangible assets mainly comprise capitalised development expenditure.

Included within additions above is £6.4 million (2022: £3.1 million) of interest that has been capitalised on qualifying assets, at an average rate of 8.6% (2022: 4.8%).

Intangible assets with a cost of £12.3 million and net book value of nil were disposed of during the year (2022: £2.4 million) (£0.6 million net book value).

Included within intangible assets above are assets under construction of £121.6 million (2022: £101.4 million). £43.5 million (2022: £24.2 million) of this relates to the SAP replacement project which is expected to go live in 2024. Assets under construction are not subject to amortisation.

12. Property, plant and equipment

	Group and Company					Total £m
	Land and buildings £m	Infra- structure assets £m	Operational assets £m	Vehicles, mobile plant and equipment £m	Assets under construction £m	
Cost						
At 1 April 2021	85.3	7,159.6	6,400.3	941.9	436.2	15,023.3
Additions	-	-	-	-	572.4	572.4
Transfers on commissioning	6.4	122.5	114.4	127.9	(371.2)	-
Disposals	(0.9)	-	(7.3)	(23.5)	-	(31.7)
At 31 March 2022	90.8	7,282.1	6,507.4	1,046.3	637.4	15,564.0
Additions	-	-	-	-	733.4	733.4
Transfers on commissioning	4.9	164.4	233.7	113.0	(516.0)	-
Disposals	(0.4)	-	(12.9)	(32.5)	-	(45.8)
At 31 March 2023	95.3	7,446.5	6,728.2	1,126.8	854.8	16,251.6
Accumulated depreciation						
At 1 April 2021	(14.7)	(840.8)	(3,491.0)	(635.1)	-	(4,981.6)
Charge for the year	(3.9)	(59.5)	(190.7)	(55.6)	-	(309.7)
Disposals	0.9	-	7.1	23.4	-	31.4
At 31 March 2022	(17.7)	(900.3)	(3,674.6)	(667.3)	-	(5,259.9)
Charge for the year	(4.0)	(62.7)	(202.9)	(63.1)	-	(332.7)
Disposals	0.4	-	12.5	32.4	-	45.3
At 31 March 2023	(21.3)	(963.0)	(3,865.0)	(698.0)	-	(5,547.3)
Net book amount						
At 31 March 2023	74.0	6,483.5	2,863.2	428.8	854.8	10,704.3
At 31 March 2022	73.1	6,381.8	2,832.8	379.0	637.4	10,304.1

Property, plant and equipment at 31 March 2023 includes land of £30.2 million (2022: £28.3 million) which is not subject to depreciation. Included within additions above is £34.4 million (2022: £13.6 million) of interest that has been capitalised on qualifying assets, at an average rate of 8.6% (2022: 4.8%).

12. Property, plant and equipment continued**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 2023					
Opening net book value	28.2	4.9	36.9	5.4	75.4
Additions	0.1	-	-	6.0	6.1
Disposals	-	-	-	(0.2)	(0.2)
Depreciation charge	(3.3)	-	(1.3)	(2.3)	(6.9)
Depreciation on disposals	-	-	-	0.2	0.2
Net book value	25.0	4.9	35.6	9.1	74.6
At 31 March 2022					
Opening net book value	27.0	5.0	38.2	3.0	73.2
Additions	4.5	-	-	3.9	8.4
Disposals	(0.8)	-	-	(0.8)	(1.6)
Depreciation charge	(3.3)	(0.1)	(1.3)	(1.5)	(6.2)
Depreciation on disposals	0.8	-	-	0.8	1.6
Net book value	28.2	4.9	36.9	5.4	75.4

13. 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% owned, all in ordinary shares, and is registered, incorporated and operating in the UK at 31 March 2023. The address of its registered office is Lancaster House, Lancaster Way, Ermine Business Park, Huntingdon, Cambridgeshire, PE29 6XU.

14. Inventories

	Group		Company	
	2023 £m	2022 £m	2023 £m	2022 £m
Raw materials and consumables	20.6	16.9	20.6	16.9
	20.6	16.9	20.6	16.9

15. Trade and other receivables

	Group		Company	
	2023 £m	2022 £m	2023 £m	2022 £m
Trade receivables	438.4	406.0	438.4	406.0
Provision for bad and doubtful debts	(258.1)	(236.4)	(258.1)	(236.4)
Net trade receivables	180.3	169.6	180.3	169.6
Loans receivable from group undertakings	1.0	1.4	1.0	1.4
Other amounts receivable	40.3	28.7	40.3	28.7
Prepayments and accrued income	343.1	316.8	343.1	316.8
	564.7	516.5	564.7	516.5

Other amounts receivable includes £18.8 million VAT debtor (2022: £14.7 million) and various other sundry debtors.

Prepayments and accrued income as at 31 March 2023 includes water and water recycling income not yet billed of £331.5 million (2022: £312.4 million). Of the trade receivables, £427.3 million (2022: £398.4 million) relates to residential customers, £0.7 million (2022: £1.1 million) relates to non-household retailer balances, and the remaining balance of £10.4 million (2022: £6.5 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.

There is no fixed payment date for amounts owed by group undertakings and no interest is applied. Amounts are payable on demand.

15. Trade and other receivables continued

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 licenced retailers. Anglian Water bills the retailers on a monthly basis, and they are contractually obliged to pay in full within one month and therefore the credit risk is limited to one month's revenue relating to non-household customers.

The principal retailer that Anglian Water transacts with is Wave Ltd, with £nil receivables (2022: £nil) and £8.2 million of income accrued at 31 March 2023 (2022: £4.9 million).

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

	Group and Company	
	2023 £m	2022 £m
At 1 April	236.4	233.6
Charge for bad and doubtful debts	30.1	11.1
Amounts written off during the year	(8.6)	(8.8)
Amounts recovered during the year	0.2	0.5
At 31 March	258.1	236.4

16. Analysis of net debt

	Group				Total £m
	Cash and cash equivalents ¹ £m	Current asset investments - cash deposits £m	Liabilities from financing activities	Derivative financial instruments ² £m	
At 1 April 2021	205.9	80.0	(6,935.7)	(841.0)	(7,490.8)
Cash flows					
Interest paid	(222.3)	-	29.0	(3.0)	(196.3)
Issue costs paid	(1.5)	-	1.5	-	-
Interest on leases	(1.2)	-	-	-	(1.2)
Increase in amounts borrowed	100.5	-	(100.5)	-	-
Repayment of amounts borrowed	(656.4)	-	656.4	-	-
Repayment of principal on derivatives	75.9	-	-	(75.9)	-
Repayment of principal on leases	(12.0)	-	12.0	-	-
Proceeds from issue of ordinary shares	1,165.0	-	-	-	1,165.0
Non-financing cash flows ³	(175.2)	312.0	-	-	136.8
	272.8	312.0	598.4	(78.9)	1,104.3
Movement in interest accrual on debt	-	-	7.3	-	7.3
New lease agreements	-	-	(8.2)	-	(8.2)
Amortisation of issue costs	-	-	(4.1)	-	(4.1)
Indexation of borrowings and RPI swaps	-	-	(170.2)	(84.8)	(255.0)
Fair value gains and (losses) and foreign exchange	-	-	20.5	(157.3)	(136.8)
At 31 March 2022	478.7	392.0	(6,492.0)	(1,162.0)	(6,783.3)

16. Analysis of net debt continued

	Group				
	Cash and cash equivalents ¹ £m	Current asset investments - cash deposits £m	Liabilities from financing activities		Total £m
			Borrowings £m	Derivative financial instruments ² £m	
At 31 March 2022	478.7	392.0	(6,492.0)	(1,162.0)	(6,783.3)
Cash flows					
Interest paid	(200.6)	-	27.6	(3.5)	(176.5)
Issue costs paid	(0.7)	-	1.0	-	0.3
Interest on leases	(0.9)	-	-	-	(0.9)
Increase in amounts borrowed	740.8	-	(740.8)	-	-
Repayment of amounts borrowed	(668.8)	-	668.8	-	-
Repayment of principal on leases	(5.3)	-	5.3	-	-
Non-financing cash flows ³	(8.1)	(94.0)	-	-	(102.1)
	(143.6)	(94.0)	(38.1)	(3.5)	(279.2)
Movement in interest accrual on debt	-	-	4.9	-	4.9
New lease agreements	-	-	(5.9)	-	(5.9)
Amortisation of issue costs	-	-	(3.2)	-	(3.2)
Indexation of borrowings and RPI swaps	-	-	(363.0)	(198.4)	(561.4)
Fair value gains and losses and foreign exchange	-	-	16.3	666.2	682.5
At 31 March 2023	335.1	298.0	(6,881.0)	(697.7)	(6,945.6)
Net debt at 31 March 2023 comprises:					
Non-current assets	-	-	-	182.9	182.9
Current assets	335.1	298.0	-	37.4	670.5
Current liabilities	-	-	(584.3)	(31.5)	(615.8)
Non-current liabilities	-	-	(6,296.7)	(886.5)	(7,183.2)
	335.1	298.0	(6,881.0)	(697.7)	(6,945.6)

1 Included within cash and cash equivalents is £7.6 million (2022: £8.5 million) of cash which is ring fenced to be used to fund projects awarded by Ofwat in relation to their innovation fund.

2 Derivative financial instruments exclude the asset of £0.7 million (2021: asset of £73.4 million) in respect of the fair value of energy hedges, as these are not classified as part of net debt.

3 Non-financing cash flows comprise: net cash flows from operating activities of £710.9 million (2022: £749.9 million), less net cash used in investing activities of £550.0 million (2022: £828.8 million) and dividends paid of £169.0 million (2022: £96.3 million).

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

	Group and Company	
	2023 £m	2022 £m
Non-current assets	11.5	27.5
Current assets	18.4	48.1
Current liabilities	(21.9)	-
Non-current liabilities	(7.3)	(2.2)
	0.7	73.4

	Company				
	Net cash and cash equivalents ¹ £m	Current asset investments - cash deposits £m	Liabilities from financing activities		Total £m
			Borrowings £m	Derivative financial instruments ² £m	
At 1 April 2021	180.7	80.0	(6,935.7)	(841.0)	(7,516.0)
Cash flows					
Interest paid	(222.3)	-	29.0	(3.0)	(196.3)
Issue costs paid	(1.5)	-	1.5	-	-
Interest on leases	(1.2)	-	-	-	(1.2)
Increase in amounts borrowed	100.5	-	(100.5)	-	-
Repayment of amounts borrowed	(656.4)	-	656.4	-	-
Repayment of principal on derivatives	75.9	-	-	(75.9)	-
Repayment of principal on leases	(12.0)	-	12.0	-	-
Proceeds from issue of ordinary shares	1,165.0	-	-	-	1,165.0
Non-financing cash flows ³	(152.9)	312.0	-	-	159.1
	295.1	312.0	598.4	(78.9)	1,126.6

16. Analysis of net debt continued

	Company				
	Net cash and cash equivalents ¹ £m	Current asset investments - cash deposits £m	Liabilities from financing activities		Total £m
			Borrowings £m	Derivative financial instruments ² £m	
Movement in interest accrual on debt	-	-	7.3	-	7.3
New lease agreements	-	-	(8.2)	-	(8.2)
Amortisation of issue costs	-	-	(4.1)	-	(4.1)
Indexation of borrowings and RPI swaps	-	-	(170.2)	(84.8)	(255.0)
Fair value gains and losses and foreign exchange	-	-	20.5	(157.3)	(136.8)
At 31 March 2022	475.8	392.0	(6,492.0)	(1,162.0)	(6,786.2)
Cash flows					
Interest paid	(200.6)	-	27.6	(3.5)	(176.5)
Issue costs paid	(0.7)	-	1.0	-	0.3
Interest on leases	(0.9)	-	-	-	(0.9)
Increase in amounts borrowed	740.8	-	(740.8)	-	-
Repayment of amounts borrowed	(668.8)	-	668.8	-	-
Repayment of principal on leases	(5.2)	-	5.2	-	-
Non-financing cash flows ³	(12.0)	(94.0)	-	-	(106.0)
	(147.4)	(94.0)	(38.2)	(3.5)	(283.1)
Movement in interest accrual on debt	-	-	4.9	-	4.9
New lease agreements	-	-	(5.7)	-	(5.7)
Amortisation of issue costs	-	-	(3.2)	-	(3.2)
Indexation of borrowings and RPI swaps	-	-	(363.0)	(198.4)	(561.4)
Fair value gains and losses and foreign exchange	-	-	16.3	666.2	682.5
At 31 March 2023	328.4	298.0	(6,880.9)	(697.7)	(6,952.2)

	Company				
	Net cash and cash equivalents ¹ £m	Current asset investments - cash deposits £m	Liabilities from financing activities		Total £m
			Borrowings £m	Derivative financial instruments ² £m	
Net debt at 31 March 2023 comprises:					
Non-current assets	-	-	-	182.9	182.9
Current assets	328.4	298.0	-	37.4	663.8
Current liabilities	-	-	(584.3)	(31.5)	(615.7)
Non-current liabilities	-	-	(6,296.7)	(886.5)	(7,183.2)
	328.4	298.0	(6,881.0)	(697.7)	(6,952.2)

1 Included within cash and cash equivalents is £7.6 million (2022: £8.5 million) of cash which is ring fenced to be used to fund projects awarded by Ofwat in relation to their innovation fund.

2 Derivative financial instruments exclude the asset of £0.7 million (2022: asset of £73.4 million) in respect of the fair value of energy hedges, as these are not classified as part of net debt.

3 Non-financing cash flows comprise: net cash flows from operating activities of £708.1 million (2022: £772.4 million), less net cash used in investing activities of £551.1 million (2022: £829.3 million) and dividends paid of £169.0 million (2022: £96.3 million).

17. Trade and other payables

	Group		Company	
	2023 £m	2022 £m	2023 £m	2022 £m
Trade payables	31.4	42.4	31.4	42.4
Capital creditors and accruals	189.5	130.9	189.5	130.9
Receipts in advance	345.5	338.3	345.5	338.3
Amounts owed to group undertakings	1.0	0.7	44.3	47.0
Other taxes and social security	6.4	5.2	6.4	5.2
Accruals and deferred income	89.7	60.2	89.8	60.2
Other payables	13.2	5.1	13.2	5.1
	676.7	582.8	720.1	629.1

17. Trade and other payables continued

Receipts in advance includes £301.7 million (2022: £291.0 million) relating to amounts received from customers for water and sewerage charges in respect of bills that fall due in the following year.

Accruals and deferred income is made up of £82.5 million accruals (2022: £57.9 million) with the remainder attributable to the deferred income.

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.

18. Loans and other borrowings

	Group		Company	
	2023 £m	2022 £m	2023 £m	2022 £m
£250 million 5.837% fixed rate 2022	-	259.7	-	259.7
£200 million 6.875% fixed rate 2023	208.4	208.4	208.4	208.4
£200 million 6.625% fixed rate 2029	202.7	202.7	202.7	202.7
£246 million 6.293% fixed rate 2030	250.3	253.1	250.3	253.1
£75 million 3.666% index-linked 2024	149.4	132.8	149.4	132.8
£200 million 3.07% index-linked 2032	396.6	352.1	396.6	352.1
£60 million 3.07% index-linked 2032	111.5	106.1	111.5	106.1
IFRS 16 leases	36.4	35.8	36.4	35.8
£402 million 2.4% index-linked 2035	496.8	671.4	496.8	671.4
£50 million 1.7% index-linked 2046	88.9	79.0	88.9	79.0
£50 million 1.7% index-linked 2046	89.0	79.5	89.0	79.5
£40 million 1.7146% indexation bond 2056	72.1	63.9	72.1	63.9
£50 million 1.6777% indexation bond 2056	90.1	79.8	90.1	79.8
£60 million 1.7903% indexation bond 2049	107.7	95.6	107.7	95.6
£100 million 1.3784% indexation bond 2057	178.7	159.5	178.7	159.5

	Group		Company	
	2023 £m	2022 £m	2023 £m	2022 £m
£50 million 1.3825% indexation bond 2056	89.3	79.7	89.3	79.7
£100 million Class A wrapped floating rate bonds	100.6	100.0	100.6	100.0
£75 million 1.449% indexation bond 2062	121.1	111.4	121.1	111.4
£50 million 1.52% indexation bond 2055	81.0	74.3	81.0	74.3
£110 million Class A unwrapped floating rate bonds 2043	110.4	110.0	110.4	110.0
£25 million 6.875% private placements 2034	25.0	25.0	25.0	25.0
£130 million 2.262% indexation bond 2045	213.2	188.4	213.2	188.4
EIB £75 million 0.53% index-linked term facility 2027 ¹	45.6	50.4	45.6	50.4
EIB £75 million 0.79% index-linked term facility 2027 ¹	45.6	50.4	45.6	50.4
£250 million 4.5% fixed rate 2027	253.6	253.3	253.6	253.3
£15 million 1.37% index-linked private placements 2022	-	19.9	-	19.9
£50 million 2.05% index-linked private placements 2033	74.8	66.1	74.8	66.1
£31.9 million 3.983% private placements 2022	-	32.5	-	32.5
£73.3 million 4.394% private placements 2028	66.2	72.1	66.2	72.1
£22.3 million 3.983% private placements 2022	-	22.7	-	22.7
EIB £150 million 0% index-linked term facility 2028 ²	110.5	117.3	110.5	117.3
£200 million 4.5% fixed rate 2026	194.8	200.3	194.8	200.3
£35 million 1.141% index-linked bond 2042	51.1	45.2	51.1	45.2
US\$170 million 3.84% private placements 2023	138.8	133.0	138.8	133.0
£93 million 3.537% private placements 2023	94.5	94.4	94.5	94.4
EIB £65 million 0.41% index-linked term facility 2029 ³	55.8	57.6	55.8	57.6
EIB Tranche 2 £125 million 0.1% 2029 ³	114.9	117.3	114.9	117.3
EIB Tranche 3 £60 million 0.01% 2030 ⁴	59.1	59.8	59.1	59.8
RCF £550 million	(1.7)	(2.2)	(1.7)	(2.2)
RCF £50 million bilaterals	(0.1)	(0.1)	(0.1)	(0.1)
US\$150 million 3.29% private placements 2026	118.4	113.7	118.4	113.7
£55 million 2.93% fixed rate private placements 2026	55.5	55.4	55.5	55.4
£20 million 2.93% fixed rate private placements 2026	20.1	20.1	20.1	20.1
Sub-total carried forward	4,716.7	5,047.4	4,716.7	5,047.4

18. Loans and other borrowings continued

	Group		Company	
	2023 £m	2022 £m	2023 £m	2022 £m
Sub-total brought forward	4,716.7	5,047.4	4,716.7	5,047.4
£35 million floating rate private placements 2031	34.8	34.8	34.8	34.8
£200 million 2.6225% fixed rate 2027	191.7	196.8	191.7	196.8
£250 million Green Bond 1.625% 2025	233.8	242.8	233.8	242.8
£300 million Green bond 2.75% 2029	300.4	300.4	300.4	300.4
£25 million 3.0% fixed rate 2031	25.0	25.0	25.0	25.0
US\$53 million 3.053% fixed rate 2029	43.0	40.4	43.0	40.4
£85 million 2.88% fixed rate 2029	84.9	84.9	84.9	84.9
£65 million 2.87% fixed rate 2029	65.5	65.5	65.5	65.5
£65 million CPI 0.835% 2040	75.9	68.6	75.9	68.6
JPY 7 billion 0.855% fixed rate 2039	42.7	43.7	42.7	43.7
EDC £100 million 1.588% fixed rate 2028	100.3	100.3	100.3	100.3
£50 million 1.76% fixed rate 2035	50.0	50.0	50.0	50.0
JPY 7 billion 0.85% fixed rate 2040	32.6	35.2	32.6	35.2
JR £26.1 million CPI 0.01% 2035	33.4	31.4	33.4	31.4
BPPT £26.1 million CPI 0.01% 2035	33.2	31.2	33.2	31.2
£35 million 2.14% fixed rate 2036	26.3	32.0	26.2	32.0
£40 million 2.14% fixed rate 2036	29.9	36.6	29.9	36.6
US\$35 million 1.16% private placements 2026	25.6	24.6	25.6	24.6
C\$ 350 million 4.525% Maple 2032	209.1	-	209.1	-
£266 million 6.07% private placement 2037	272.4	-	272.4	-
£100 million CPIH index linked 3.017% 2040 loan	103.0	-	103.0	-
£75 million floating loan 2029	75.6	-	75.6	-
£75 million floating loan 2032	75.6	-	75.6	-
RCF £325 million	(0.7)	-	(0.7)	-
Liquidity facilities	0.3	0.4	0.3	0.4
Total loans and other borrowings	6,881.0	6,492.0	6,881.0	6,492.0

	Group		Company	
	2023 £m	2022 £m	2023 £m	2022 £m
Included in:				
Current liabilities	584.3	476.3	584.3	476.3
Non-current liabilities	6,296.7	6,015.7	6,296.7	6,015.7
Of which are leases:				
Current liabilities	5.4	6.8	5.4	6.8
Non-current liabilities	31.0	29.0	31.0	29.0

1 These instruments are amortising from 2017 until the date of maturity shown.
2 This instrument is amortising from 2018 until the date of maturity shown.
3 These instruments are amortising from 2019 until the date of maturity shown.
4 This instrument is amortising from 2020 until the date of maturity shown.

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 £363.0 million (2022: £170.2 million) has been taken to the income statement as part of interest payable.

These loans are shown net of issue costs and premiums of £14.1 million (2022: £19.7 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.

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 Limited. At 31 March 2023, this charge applies to £6,845.0 million (2022: £6,456.4 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.

18. Loans and other borrowings continued

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 ¹ £m	Discounted hedge adjustment £m
At 31 March 2023				
US\$150 million 3.29% private placements 2026	118.4	76	4.5	-
US\$170 million 3.84% private placements 2023	138.8	94	1.4	-
£200 million 2.6225% fixed rate 2027	191.7	41	8.9	-
£200 million 4.5% fixed rate 2026	194.8	50	5.3	-
£246 million 6.293% fixed rate 2030	250.3	20	4.8	-
£250 million Green Bond 1.625% 2025	233.8	100	17.8	-
£73.3 million 4.394% private placements 2028	66.2	100	8.6	-
JPY 7 billion 0.85% fixed rate 2040	32.6	100	9.9	-
£35 million 2.14% fixed rate 2036	26.3	100	9.0	-
£40 million 2.14% fixed rate 2036	29.9	100	10.2	-
US\$35 million 1.16% private placements 2026	25.6	100	2.6	-
	1,308.4		83.0	-
At 31 March 2022				
US\$150 million 3.29% private placements 2026	113.7	76	1.5	-
US\$160 million 4.52% private placements 2021	-	100	-	-
US\$170 million 3.84% private placements 2023	133.0	94	(1.5)	-
£200 million 2.6225% fixed rate 2027	196.8	41	3.5	-
£200 million 4.5% fixed rate 2026	200.3	50	(0.5)	-
£246 million 6.293% fixed rate 2030	253.1	20	1.9	-
£250 million Green Bond 1.625% 2025	242.8	100	8.5	-
£73.3 million 4.394% private placements 2028	72.1	100	2.7	-
JPY 7 billion 0.85% fixed rate 2040	35.2	100	8.3	-
£35 million 2.14% fixed rate 2036	32.0	100	3.0	-
£40 million 2.14% fixed rate 2036	36.6	100	3.5	-
US\$35 million 1.16% private placements 2026	24.6	100	1.8	-
	1,340.2		32.7	-

¹ The accumulated hedge adjustment noted above is included within the carrying value of each instrument. The movement in the accumulated hedge adjustment is shown within fair value losses on derivative financial instruments in the income statement.

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19. 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 2023					
Investments					
Current - cash deposits	-	-	-	298.0	298.0
Cash and cash equivalents					
Current	-	-	335.1	-	335.1
Trade and other receivables					
Current	-	-	553.1	-	553.1
Derivative financial instruments					
Current	7.9	47.9	-	-	55.8
Non-current	129.1	65.3	-	-	194.4
	137.0	113.2	888.2	298.0	1436.4
At 31 March 2022					
Investments					
Current - cash deposits	-	-	-	392.0	392.0
Cash and cash equivalents					
Current	-	-	478.7	-	478.7
Trade and other receivables					
Current	-	-	509.7	-	509.7
Derivative financial instruments					
Current	4.7	51.8	-	-	56.5
Non-current	-	57.8	-	-	57.8
	4.7	109.6	988.4	392.0	1,494.7

Trade and other receivables above exclude prepayments.

19. 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 2023					
Investments					
Current – cash deposits	-	-	-	298.0	298.0
Cash and cash equivalents					
Current	-	-	328.4	-	328.4
Trade and other receivables					
Current	-	-	553.1	-	553.1
Derivative financial instruments					
Current	7.9	47.9	-	-	55.8
Non-current	129.1	65.3	-	-	194.4
	137.0	113.2	881.5	298.0	1,429.7
At 31 March 2022					
Investments					
Current – cash deposits	-	-	-	392.0	392.0
Cash and cash equivalents					
Current	-	-	475.8	-	475.8
Trade and other receivables					
Current	-	-	509.7	-	509.7
Derivative financial instruments					
Current	4.7	51.8	-	-	56.5
Non-current	-	57.8	-	-	57.8
	4.7	109.6	985.5	392.0	1,491.8

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 2023				
Borrowings				
Current	-	-	584.3	584.3
Non-current	-	-	6,296.7	6,296.7
Trade and other payables				
Current	-	-	324.8	324.8
Derivative financial instruments				
Current	24.6	28.8	-	53.4
Non-current	807.7	86.1	-	893.8
	832.3	114.9	7,205.8	8,153.0
At 31 March 2022				
Borrowings				
Current	-	-	476.3	476.3
Non-current	-	-	6,015.7	6,015.7
Trade and other payables				
Current	-	-	239.3	239.3
Derivative financial instruments				
Current	10.1	-	-	10.1
Non-current	1,145.9	46.9	-	1,192.8
	1,156.0	46.9	6,731.3	7,934.2

Trade and other payables above exclude receipts in advance.

19. 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 2023				
Borrowings				
Current	-	-	584.3	584.3
Non-current	-	-	6,296.7	6,296.7
Trade and other payables				
Current	-	-	368.2	368.2
Derivative financial instruments				
Current	24.6	28.8	-	53.4
Non-current	807.7	86.1	-	893.8
	832.3	114.9	7,249.2	8,196.4
At 31 March 2022				
Borrowings				
Current	-	-	476.3	476.3
Non-current	-	-	6,015.7	6,015.7
Trade and other payables				
Current	-	-	285.6	285.6
Derivative financial instruments				
Current	10.1	-	-	10.1
Non-current	1,145.9	46.9	-	1,192.8
	1,156.0	46.9	6,777.6	7,980.5

Derivative financial instruments

	Group and Company			
	2023		2022	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Designated as cash flow hedges				
Interest rate swaps	31.3	(0.6)	0.5	(2.9)
Cross currency interest rate swaps	16.0	(6.2)	5.2	(8.9)
Energy swaps	29.9	(29.2)	75.6	(2.2)
	77.2	(36.0)	81.3	(14.0)
Designated as fair value hedges				
Interest rate swaps	0.9	(64.1)	1.0	(21.4)
Cross currency interest rate swaps	35.1	(14.8)	27.3	(11.5)
	36.0	(78.9)	28.3	(32.9)
Derivative financial instruments designated as hedges	113.2	(114.9)	109.6	(46.9)
Derivative financial instruments not designated as hedges				
Interest rate swaps	0.4	(104.9)	-	(173.9)
RPI swaps	121.9	(505.0)	-	(654.8)
CPI swaps	14.7	(222.4)	4.7	(327.3)
Total derivative financial instruments	250.2	(947.2)	114.3	(1,202.9)
Derivative financial instruments can be analysed as follows:				
Current	55.8	(53.4)	56.5	(10.1)
Non-current	194.4	(893.8)	57.8	(1,192.8)
	250.2	(947.2)	114.3	(1,202.9)

19. Financial instruments continued**Derivative financial instruments** continued

At 31 March 2023, the fixed interest rates vary from 2.84% to 4.75%, floating rates vary from SONIA plus 11.20 bps to SONIA plus 326.36 bps, RPI-linked interest rates vary from 1.27% to 2.97% plus RPI and CPI-linked interest rates vary from 1.21% plus CPI to 1.69% 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.

The Company

The Company has no derivative financial instruments (2022: none).

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 2023 (2022: Enil).

Leases

The minimum lease payments in respect of all leases fall due as follows:

	Group and Company	
	2023 £m	2022 £m
Within one year	6.5	5.7
Between two and five years	21.2	18.0
After five years	17.0	20.5
	44.7	44.2
Future finance charges on leases	(8.3)	(8.4)
Present value of lease liabilities	36.4	35.8

Fair value of financial assets and liabilities

	Group			
	2023		2022	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Cash and cash equivalents	335.1	335.1	478.7	478.7
Current asset investments – cash deposits	298.0	298.0	392.0	392.0
Borrowings				
Current	(584.3)	(586.4)	(476.3)	(491.0)
Non-current	(6,296.7)	(6,785.9)	(6,015.7)	(7,860.4)
Interest and cross currency interest rate swaps – assets				
Current	30.0	30.0	3.7	3.7
Non-current	53.7	53.7	30.3	30.3
Interest and cross currency interest rate swaps – liabilities				
Current	(10.7)	(10.7)	(0.3)	(0.3)
Non-current	(179.9)	(179.9)	(218.3)	(218.3)
RPI swaps – assets				
Current	1.9	1.9	-	-
Non-current	120.0	120.0	-	-
RPI swaps – liabilities				
Current	(20.3)	(20.3)	(9.8)	(9.8)
Non-current	(484.7)	(484.7)	(645.0)	(645.0)
CPI swaps – assets				
Current	5.5	5.5	4.7	4.7
Non-current	9.2	9.2	-	-
CPI swaps – liabilities				
Current	(0.5)	(0.5)	-	-
Non-current	(221.9)	(221.9)	(327.3)	(327.3)
Net debt	(6,945.6)	(7,436.9)	(6,783.3)	(8,642.7)

19. Financial instruments continued

Fair value of financial assets and liabilities continued

	Group			
	2023		2022	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Energy derivatives – assets				
Current	18.4	18.4	48.1	48.1
Non-current	11.5	11.5	27.5	27.5
Energy derivatives – liabilities				
Current	(21.9)	(21.9)	-	-
Non-current	(7.3)	(7.3)	(2.2)	(2.2)
	(6,944.9)	(7,436.2)	(6,709.9)	(8,569.3)
	Company			
	2023		2022	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Cash and cash equivalents	328.4	328.4	475.8	475.8
Current asset investments – cash deposits	298.0	298.0	392.0	392.0
Borrowings				
Current	(584.3)	(586.4)	(476.3)	(491.0)
Non-current	(6,296.7)	(6,785.9)	(6,015.7)	(7,860.4)
Interest and cross currency interest rate swaps – assets				
Current	30.0	30.0	3.7	3.7
Non-current	53.7	53.7	30.3	30.3
Interest and cross currency interest rate swaps – liabilities				
Current	(10.7)	(10.7)	(0.3)	(0.3)
Non-current	(179.9)	(179.9)	(218.3)	(218.3)
RPI swaps – assets				
Current	1.9	1.9	-	-
Non-current	120.0	120.0	-	-

	Company			
	2023		2022	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
RPI swaps – liabilities				
Current	(20.3)	(20.3)	(9.8)	(9.8)
Non-current	(484.7)	(484.7)	(645.0)	(645.0)
CPI swaps – assets				
Current	5.5	5.5	4.7	4.7
Non-current	9.2	9.2	-	-
CPI swaps – liabilities				
Current	(0.5)	(0.5)	-	-
Non-current	(221.9)	(221.9)	(327.3)	(327.3)
Net debt	(6,952.3)	(7,443.6)	(6,786.2)	(8,645.6)
Energy derivatives – assets				
Current	18.4	18.4	48.1	48.1
Non-current	11.5	11.5	27.5	27.5
Energy derivatives – liabilities				
Current	(21.9)	(21.9)	-	-
Non-current	(7.3)	(7.3)	(2.2)	(2.2)
	(6,951.6)	(7,442.9)	(6,712.8)	(8,572.2)

The fair value of loans and other borrowings represents the market value of publicly traded debt instruments or, if in respect of debt not publicly traded, the cost which the group would incur if it elected to repay these borrowings before their maturity dates, calculated by discounting future cash flows at prevailing rates including credit spreads experienced on publicly traded debt instruments.

The fair value of interest rate derivative financial instruments is determined using discounted cash flow methodology 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.

19. Financial instruments continued**Fair value of financial assets and liabilities** 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	
	2023 £m	2022 £m
At 1 April	(322.7)	(188.2)
Net gain/(loss) for the period	94.4	(156.4)
Settlements	20.6	21.9
At 31 March	(207.7)	(322.7)

Gains and losses in the period are recognised in the income statement in Net Finance Costs line.

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	
	2023 £m	2022 £m
Gain/(loss)		
1% increase in inflation rates	(143.6)	(203.2)
1% decrease in inflation rates	122.1	162.6

Given the long-term maturity of the financial instruments that make up the portfolio, despite high levels of inflation in the current environment, one % has been used for sensitivity analysis as this represents a reasonable alternative market movement, as well as a useful benchmark change in the long term.

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.

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 2023, 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 65.6% (2022: 64.8%).

19. Financial instruments continued**Borrowing covenants**

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.

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 2023				
Foreign currency borrowings – hedged item				
JPY	-	-	14,000.0	14,000.0
USD	170.0	185.0	53.0	408.0
CAD	-	-	350.0	350.0
Cross currency interest rate swap – cashflow hedge				
JPY	-	-	(7,000.0)	(7,000.0)
USD	(10.8)	(36.0)	(53.0)	(99.8)
CAD	-	-	(350.0)	(350.0)
Cross currency interest rate swap – fair value hedge				
JPY	-	-	(7,000.0)	(7,000.0)
USD	(159.2)	(149.0)	-	(308.2)
Net currency exposure				
	-	-	-	-
Weighted average spot rate				
JPY	-	-	138.3	-
USD	1.5	1.4	1.3	-
CAD	-	-	1.6	-

19. Financial instruments continued

Management of financial risk continued

	Group and Company			Total m
	Within one year m	Between one and five years m	Between five and 25 years m	
At 31 March 2022				
Foreign currency borrowings - hedged item				
JPY	-	-	14,000.0	14,000.0
USD	-	355.0	53.0	408.0
Cross currency interest rate swap - cashflow hedge				
JPY	-	-	(7,000.0)	(7,000.0)
USD	-	(46.8)	(53.0)	(99.8)
Cross currency interest rate swap - fair value hedge				
JPY	-	-	(7,000.0)	(7,000.0)
USD	-	(308.2)	-	(308.2)
Net currency exposure				
	-	-	-	-
Weighted average spot rate				
JPY	-	-	138.3	138.3
USD	-	1.5	1.3	2.8

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 foreign currency basis spread accumulated in the cash flow hedge 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% of RCV for index-linked debt and between 5% and 15% 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.

19. Financial instruments continued**Management of financial risk** continued

The table below summarises the impact of derivatives on interest rate and inflation risks within the debt portfolio:

	Group and Company			Effective interest rate %
	Debt position £m	Swap impact £m	Post swap position £m	
At 31 March 2023				
Fixed	(3,393.6)	1,505.0	(1,888.6)	5.1
Floating	(395.0)	(122.8)	(517.8)	4.2
Index-linked	(3,073.0)	(1,722.1)	(4,795.1)	14.1
Leases	(27.1)	-	(27.1)	2.6
	(6,888.7)	(339.9)	(7,228.6)	
At 31 March 2022				
Fixed	(3,203.3)	1,504.0	(1,699.3)	5.4
Floating	(245.0)	(121.9)	(366.9)	2.2
Index-linked	(2,974.6)	(1,523.7)	(4,498.3)	7.8
Leases	(30.6)	-	(30.6)	2.5
	(6,453.5)	(141.6)	(6,595.1)	

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 those 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 £m	Between one and five years £m	Between five and 25 years £m	After 25 years £m	Mark to market £m	payable	receivable
At 31 March 2023							
Interest rate swaps							
Floating to fixed rate	-	99.0	450.0	-	1.3	2.8	2.3
Floating from fixed rate	-	731.2	148.3	-	(76.1)	2.8	1.8
Fixed to fixed interest rate swaps	-	218.8	362.5	-	(54.3)	3.5	1.7
Inflation swaps							
Floating to RPI	-	150.0	225.0	190.9	(391.1)	3.5	3.0
Fixed to CPI	-	-	565.9	100.0	(165.1)	0.9	3.6
Floating to CPI	-	-	150.4	-	(42.5)	0.8	2.8
Cross currency swaps							
JPY	-	-	101.2	-	(16.7)	3.2	0.9
USD	110.5	129.7	40.1	-	47.0	3.4	3.5
CAD	-	-	224.8	-	(0.3)	3.8	4.5
Total	110.5	1,328.7	2,268.2	290.9	(697.8)		

19. Financial instruments continued

Management of financial risk continued

	Group and Company					Interest rate (weighted average)	
	Within one year £m	Between one and five years £m	Between five and 25 years £m	After 25 years £m	Mark to market £m	payable	receivable
At 31 March 2022							
Interest rate swaps							
Floating to fixed rate	17.9	25.0	524.0	-	(109.0)	2.9	0.2
Floating from fixed rate	17.9	650.0	229.5	-	(19.8)	0.6	1.7
Fixed to fixed interest rate swaps	-	100.0	481.3	-	(66.2)	3.5	1.7
Inflation swaps							
Floating to RPI	-	150.0	225.0	190.9	(656.3)	3.2	1.1
Fixed to CPI	-	-	565.9	100.0	(230.7)	0.9	3.6
Floating to CPI	-	-	150.4	-	(91.9)	0.7	0.9
Cross currency swaps							
JPY	-	-	101.2	-	(19.7)	2.1	0.9
USD	-	240.3	40.1	-	31.5	1.8	3.5
Total	35.8	1,165.3	2,317.4	290.9	(1,162.1)		

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	
	2023 £m	2022 £m
Increase/(decrease) in equity		
1% increase in interest rates	15.2	20.6
1% decrease in interest rates	(17.0)	(22.5)
Increase/(decrease) in profit before tax		
1% increase in interest rates	169.0	282.6
1% decrease in interest rates	(217.8)	(370.5)

Given the long-term maturity of the financial instruments that make up the portfolio, despite high levels of inflation in the current environment, one % has been used for sensitivity analysis as this represents a reasonable alternative market movement, as well as a useful benchmark change in the long term.

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 % change in RPI and a one % 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.

19. Financial instruments continued**Management of financial risk** continued

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	
	2023 £m	2022 £m
Increase/(decrease) in profit before tax		
1% increase in inflation	(22.8)	(22.0)
1% decrease in inflation	22.8	22.0

Given the long-term maturity of the financial instruments that make up the portfolio, despite high levels of inflation in the current environment, one % has been used for sensitivity analysis as this represents a reasonable alternative market movement, as well as a useful benchmark change in the long term.

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	
	2023 £m	2022 £m
Increase/(decrease) in profit before tax		
1% increase in RPI	(143.2)	(232.7)
1% decrease in RPI	132.3	190.1

Given the long-term maturity of the financial instruments that make up the portfolio, despite high levels of inflation in the current environment, one % has been used for sensitivity analysis as this represents a reasonable alternative market movement, as well as a useful benchmark change in the long term.

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			Mark to market £m
	Within one year MW	Between one and five years MW	Between five and 25 years MW	
At 31 March 2023				
Electricity swap	92.7	85.5	4.0	0.7
At 31 March 2022				
Electricity swap	51.7	111.4	10.8	73.5

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% increase/decrease in commodity prices would have the following impact:

	Group and Company	
	2023 £m	2022 £m
Increase/(decrease) in equity		
10% increase in original prices	10.3	11.9
10% decrease in original prices	(10.3)	(11.9)

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

19. Financial instruments continued**Management of financial risk** continued**b) Credit risk**

Credit risk arises principally from trading and treasury activities. From a trading perspective, the group has no significant concentrations of credit risk due to minimising the risk through the effective management of customer relationships and through the collateralisation inherent in the licensing of business retail activities. The group's largest trade receivable balance is in Anglian Water Services Limited, whose operating licence prevents the disconnection of water supply to domestic customers even where bills are unpaid. Irrecoverable debt is taken into consideration as part of the price review process by Ofwat, and therefore no additional provision is considered necessary in excess of the provision for doubtful debts included in note 15.

Placements of cash on deposit expose the group to credit risk against the counterparties concerned. The group has credit protection measures in place within agreements that provide protection in the event of counterparty rating downgrade or default. The group only places cash deposits with banks of 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.

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	Net amount presented in the balance sheet £m	Offsetting not presented in the balance sheet £m	Net amount £m
At 31 March 2023				
Derivative financial assets	250.2	250.2	(93.1)	157.1
Derivative financial liabilities	(947.2)	(947.2)	93.1	(854.1)
At 31 March 2022				
Derivative financial assets	114.3	114.3	(84.3)	30.0
Derivative financial liabilities	(1,202.9)	(1,202.9)	84.3	(1,118.6)

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	
	2023 £m	2022 £m
Cash and cash equivalents	335.1	478.7
Trade and other receivables	564.7	516.5
Investments - cash deposits	298.0	392.0
Derivative financial assets	250.2	114.3
	Company	
	2023 £m	2022 £m
Cash and cash equivalents	328.4	475.8
Trade and other receivables	564.7	516.5
Investments - cash deposits	298.0	392.0
Derivative financial assets	250.2	114.3

19. Financial instruments continued**Management of financial risk** continued**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. The Group does not have any externally imposed capital requirements.

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	
	2023 £m	2022 £m
Expires:		
Within one year	375.0	375.0
Between two and five years	975.0	600.0
	<u>1,350.0</u>	<u>975.0</u>

The Group's borrowing facilities of £1,350.0 million (2022: £975.0 million) comprise Class A debt service reserve facilities totalling £244.0 million provided by Barclays Bank Plc, HSBC Bank Plc, Sumitomo Mitsui Banking Corporation, JP Morgan Chase N.A. and Lloyds TSB Bank Plc; a £131.0 million operating and capital maintenance expenditure reserve facility provided by Barclays Bank Plc, BNP Paribas Plc, Lloyds TSB Bank Plc and Bank of Nova Scotia; two syndicated loan facilities totalling £875.0 million for working capital and capital expenditure requirements managed by Barclays Bank Plc in the role of facility agent and syndicated to a pool of relationship banks; a bilateral facility of £50 million with MUFG Bank and a bilateral facility of £50.0 million with Bank of China Limited for general corporate purposes.

The table below analyses the Group's financial liabilities and derivative financial instruments into relevant maturity groupings based on the remaining period at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, including interest payable.

19. Financial instruments continued

Management of financial risk continued

d) Liquidity risk

	Group				
	Within one year £m	Between one and five years £m	Between five and 25 years £m	After 25 years £m	Total £m
At 31 March 2023					
Trade and other payables	(331.2)	-	-	-	(331.2)
Borrowings	(719.7)	(2,439.5)	(6,488.5)	(2,802.3)	(12,450.0)
Derivative financial instruments (net settled)	(11.7)	(403.8)	(776.7)	(194.2)	(1,386.4)
Derivative financial instruments (gross settled outflow)	(131.5)	(189.7)	(444.0)	-	(765.2)
Derivative financial instruments (gross settled inflow)	159.5	209.0	391.8	-	760.3
Leases	(6.5)	(21.2)	(13.3)	(3.7)	(44.7)
	(1,041.1)	(2,845.2)	(7,330.7)	(3,000.2)	(14,217.2)
At 31 March 2022					
Trade and other payables	(244.5)	-	-	-	(244.5)
Borrowings	(590.1)	(2,328.8)	(6,475.1)	(2,789.3)	(12,183.3)
Derivative financial instruments (net settled)	(64.7)	(323.3)	(1,032.5)	(514.7)	(1,935.2)
Derivative financial instruments (gross settled outflow)	(10.2)	(273.9)	(180.4)	-	(464.5)
Derivative financial instruments (gross settled inflow)	11.5	299.3	141.2	-	452.0
Leases	(5.7)	(18.0)	(16.7)	(3.8)	(44.2)
	(903.7)	(2,644.7)	(7,563.5)	(3,307.8)	(14,419.7)

	Company				
	Within one year £m	Between one and five years £m	Between five and 25 years £m	After 25 years £m	Total £m
At 31 March 2023					
Trade and other payables	(374.6)	-	-	-	(374.6)
Borrowings	(719.7)	(2,439.5)	(6,488.5)	(2,802.3)	(12,450.0)
Derivative financial instruments (net settled)	(11.7)	(403.8)	(776.7)	(194.2)	(1,386.4)
Derivative financial instruments (gross settled outflow)	(131.5)	(189.7)	(444.0)	-	(765.2)
Derivative financial instruments (gross settled inflow)	159.5	209.0	391.8	-	760.3
Leases	(6.5)	(21.2)	(13.3)	(3.7)	(44.7)
	(1,084.5)	(2,845.2)	(7,330.7)	(3,000.2)	(14,260.6)
At 31 March 2022					
Trade and other payables	(290.8)	-	-	-	(290.8)
Borrowings	(590.1)	(2,328.8)	(6,475.1)	(2,789.3)	(12,183.3)
Derivative financial instruments (net settled)	(64.7)	(323.3)	(1,032.5)	(514.7)	(1,935.2)
Derivative financial instruments (gross settled outflow)	(10.2)	(273.9)	(180.4)	-	(464.5)
Derivative financial instruments (gross settled inflow)	11.5	299.3	141.2	-	452.0
Leases	(5.7)	(18.0)	(16.7)	(3.8)	(44.2)
	(950.0)	(2,644.7)	(7,563.5)	(3,307.8)	(14,466.0)

20. Provisions

	Group and Company				Total £m
	Legal and other £m	Coupon enhancement £m	Restructuring £m		
At 1 April 2021	10.5	5.2	0.3		16.0
Additional provisions recognised	1.9	-	-		1.9
Unused amounts reversed	(0.4)	-	-		(0.4)
Utilised in the year	(4.5)	(1.0)	(0.3)		(5.8)
At 31 March 2022	7.5	4.2	-		11.7
Additional provisions recognised	5.5	-	-		5.5
Unused amounts reversed	(1.7)	-	-		(1.7)
Unwinding of discount	-	(0.1)	-		(0.1)
Utilised in the year	(2.8)	(1.0)	-		(3.8)
At 31 March 2023	8.5	3.1	-		11.6

Maturity analysis of total provisions:

	Group and Company	
	2023 £m	2022 £m
Current	6.8	4.7
Non-current	4.8	7.0
	11.6	11.7

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. In making these provisions management use past experience to estimate the expected liability.

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.

21. Deferred tax

	Group and Company						Total £m
	Accelerated tax depreciation £m	Financial instruments £m	Retirement benefit obligation £m	Tax losses carried forward £m	Other £m		
At 1 April 2021	1,254.3	(165.7)	1.9	-	(8.2)		1,082.3
Charged/(credited) directly to income statement	412.7	(78.5)	13.8	(18.8)	(0.3)		328.9
Charged directly to other comprehensive income	-	15.0	25.7	-	-		40.7
At 31 March 2022	1,667.0	(229.2)	41.4	(18.8)	(8.5)		1,451.9
Charged/(credited) directly to income statement	171.2	161.4	6.7	(225.5)	1.1		114.9
Charged directly to other comprehensive income	-	(0.2)	(35.3)	-	-		(35.5)
At 31 March 2023	1,838.2	(68.0)	12.8	(244.3)	(7.4)		1,531.3

Financial modelling of future income streams indicate that there will be taxable profits available in future years against which these deferred tax assets can be recognised.

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

22. 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 2023. 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.

22. Net retirement benefit deficit continued

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 2020 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 2023.

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.

During the year, the group contributed £21.7 million (2022: £14.6 million) deficit reduction payments. There were no deficit reduction payments (2022: none) for the Hartlepool Section due to the funding position on the funding basis at the 31 March 2020 valuation.

In the year to 31 March 2024 employers' contributions are expected to be £nil.

The weighted average duration of the defined benefit obligation for AWGPS (excluding Hartlepool) is 18 years, for the Hartlepool section of AWGPS is 17 years, and for the unfunded scheme is 11 years.

There is one defined contribution scheme which operates predominantly in the UK, and contributions to this scheme amounted to £20.1 million (2022: £18.5 million). There is £nil outstanding balance on the defined contribution scheme at year end (2022: £nil).

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	
	2023 % pa	2022 % pa
Discount rate	4.7	2.7
Inflation rate		
RPI	3.4	3.7
CPI	2.9	3.3
Increases to deferred benefits during deferment		
RPI	3.4	3.7
CPI	2.9	3.3
Increases to inflation related pensions in payment ¹		
RPI	3.2	3.5
CPI	2.9	3.2
	years	years
Longevity at age 65 for current pensioners - (years)		
Men	21.9	22.3
Women	24.4	24.6
Longevity at age 65 for future pensioners - (years) ²		
Men	23.2	23.6
Women	25.8	26.0

¹ For RPI pension increases capped at 5% per annum.

² The life expectancy shown for future pensioners is for those reaching 65 in 2043.

22. Net retirement benefit deficit continued**b) Sensitivity analysis**

The following table sets out the sensitivity of the liabilities within the schemes to changes in the financial and demographic assumptions.

	Group and Company				Total £m
	Change in assumption	AWGPS £m	Hartlepool £m	Unfunded pensions £m	
At 31 March 2023					
Discount rate	+/- 0.5 % pa	-68/76	-	-2/2	-70/78
Rate of RPI inflation	+/- 0.5 % pa	57/-56	-	2/-1	59/-57
Life expectancy	+/- 1 year	32/-33	-	1/-1	33/-34
At 31 March 2022					
Discount rate	+/- 0.5 % pa	-112/127	-1/2	-2/3	-115/132
Rate of RPI inflation	+/- 0.5 % pa	106/-97	1/-1	3/-2	110/-100
Life expectancy	+/- 1 year	56/-55	1/-1	2/-2	59/-58

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 in the long term.

c) Risk and risk management

The group's defined benefit pension schemes, in common with the majority of such schemes in the UK, have a number of areas of risk. These areas of risk, and the ways in which the group manages them, are set out below.

The risks are considered below from both a funding perspective (which drives the cash commitments of the group) and from an accounting perspective, i.e. the extent to which such risks affect the amounts recorded in the group's financial statements.

Asset volatility

For the purpose of setting the contribution requirements, the calculation of the value of the liabilities uses a discount rate set with reference to government bond yields, with allowance for additional return to be generated from the investment portfolio. Under IAS 19, the defined benefit obligation is calculated using a discount rate set with reference to corporate bond yields.

The schemes hold a proportion of their assets in return-seeking funds. The return on these assets may be volatile and are not correlated to the value of the liabilities. This means that the deficit may be volatile in the shorter term, which may lead to an increase in the contribution requirements and an increase in the net defined benefit liability recorded on the balance sheet.

The group believes that return-seeking assets offer an appropriate level of return over the long-term for the level of risk that is taken. The schemes' other assets are well diversified by investing in a range of asset classes including government bonds and corporate bonds. The allocation to growth assets is monitored to ensure it remains appropriate given the schemes' long-term objectives.

Change in bond yields

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

Price inflation

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

Life expectancy

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

22. Net retirement benefit deficit continued

d) Amounts recognised in comprehensive income

	Group and Company			
	AWGPS £m	Hartlepool £m	Unfunded pensions £m	Total £m
2023				
Amounts (charged)/credited to finance costs				
Interest income on scheme assets	41.0	0.2	-	41.2
Interest cost on scheme liabilities	(35.5)	(0.1)	(1.1)	(36.7)
Net interest income/(expense)	5.5	0.1	(1.1)	4.5
Amounts credited/(charged) to the income statement	5.5	0.1	(1.1)	4.5
Amounts (charged)/credited to other comprehensive income				
Return on plan assets (excluding amounts included in net interest)	(492.8)	(3.3)	-	(496.1)
Actuarial gains/(losses) arising from:				
Changes in financial assumptions	416.3	2.3	9.5	428.1
Changes in demographic assumptions	-	-	-	-
Experience adjustments	(70.9)	-	(2.3)	(73.2)
Net (charge)/credit to other comprehensive income	(147.4)	(1.0)	7.2	(141.2)

	Group and Company			
	AWGPS £m	Hartlepool £m	Unfunded pensions £m	Total £m
2022				
Amounts credited/(charged) to finance costs:				
Interest income on scheme assets	31.9	0.4	-	32.3
Interest cost on scheme liabilities	(30.7)	(0.4)	(0.8)	(31.9)
Net interest income/(expense)	1.2	-	(0.8)	0.4
Amounts credited/(charged) to the income statement	1.2	-	(0.8)	0.4
Amounts credited/(charged) to other comprehensive income:				
Return on plan assets (excluding amounts included in net interest)	19.8	(0.7)	-	19.1
Actuarial gains arising from:				
Changes in financial assumptions	41.1	-	(0.3)	40.8
Experience adjustments	73.8	0.6	1.4	75.8
Net credit/(charge) to other comprehensive income	134.7	(0.1)	1.1	135.7

22. Net retirement benefit deficit continued

e) Amounts recognised in the balance sheet

	Group and Company			
	AWGPS £m	Hartlepool £m	Unfunded pensions £m	Total £m
2023				
Equities	79.7	-	-	79.7
Corporate bonds	281.9	-	-	281.9
Government bonds	1,081.1	0.6	-	1,081.7
Property	63.6	-	-	63.6
Alternatives	78.4	-	-	78.4
Pooled LDI investments (with def of LDI)	69.3	-	-	69.3
Derivatives	(47.8)	-	-	(47.8)
Repurchases	(692.8)	-	-	(692.8)
Cash and cash equivalents	147.2	-	-	147.2
Total assets	1,060.6	0.6	-	1,061.2
Present value of scheme liabilities	(977.1)	-	(33.0)	(1,010.1)
Net pension surplus	83.5	0.6	(33.0)	51.1
Comprising:				
Pension schemes with a net surplus, included in non-current assets	83.5	0.6	-	84.1
Pension schemes with a net deficit, included in non-current liabilities	-	-	(33.0)	(33.0)
	83.5	0.6	(33.0)	51.1

	Group and Company			
	AWGPS £m	Hartlepool £m	Unfunded pensions £m	Total £m
2022				
Equities	167.5	-	-	167.5
Corporate bonds	575.4	-	-	575.4
Government bonds	1,494.5	0.5	-	1,495.0
Property	76.6	-	-	76.6
Alternatives	75.2	-	-	75.2
Pooled LDI investments (with def of LDI)	70.9	-	-	70.9
Derivatives	(7.1)	-	-	(7.1)
Repurchases	(1,149.3)	-	-	(1,149.3)
Cash and cash equivalents	244.3	1.1	-	245.4
Insurance contract	-	17.0	-	17.0
Total assets	1,548.0	18.6	-	1,566.6
Present value of scheme liabilities	(1,344.4)	(17.0)	(41.8)	(1,403.2)
Net pension surplus	203.6	1.6	(41.8)	163.4
Comprising:				
Pension schemes with a net surplus, included in non-current assets	203.6	1.6	-	205.2
Pension schemes with a net deficit, included in non-current liabilities	-	-	(41.8)	(41.8)
	203.6	1.6	(41.8)	163.4

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. Most of the assets have quoted prices in active markets, but there are corporate bonds, alternative investments and insurance contracts, which are unquoted amounting to £235.0 million (2022: £164.4 million).

22. 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 2021	1,544.7	20.2	-	1,564.9
Interest income on scheme assets	31.9	0.4	-	32.3
Employers' contributions	14.6	-	2.7	17.3
Benefits paid	(63.0)	(1.3)	(2.7)	(67.0)
Return on plan assets (excluding interest income)	19.8	(0.7)	-	19.1
At 31 March 2022	1,548.0	18.6	-	1,566.6
Interest income on scheme assets	41.0	0.2	-	41.2
Employers' contributions	21.8	-	2.7	24.5
Benefits paid	(57.4)	(0.2)	(2.7)	(60.3)
Settlements/Transfers	-	(14.7)	-	(14.7)
Return on plan assets (excluding interest income)	(492.8)	(3.3)	-	(496.1)
At 31 March 2023	1,060.6	0.6	-	1,061.2

g) Reconciliation of scheme liabilities

	Group and Company			
	AWGPS £m	Hartlepool £m	Unfunded pensions £m	Total £m
At 1 April 2021	(1,491.6)	(18.5)	(44.8)	(1,554.9)
Interest cost on scheme liabilities	(30.7)	(0.4)	(0.8)	(31.9)
Benefits paid	63.0	1.3	2.7	67.0
Actuarial gains	114.9	0.6	1.1	116.6
At 31 March 2022	(1,344.4)	(17.0)	(41.8)	(1,403.2)
Gain on curtailment/settlement	-	14.7	-	14.7
Interest cost on scheme liabilities	(35.5)	(0.1)	(1.1)	(36.7)
Benefits paid	57.4	0.1	2.7	60.2
Actuarial losses	345.4	2.3	7.2	354.9
At 31 March 2023	(977.1)	-	(33.0)	(1,010.1)

The £14.7 million settlement shown against the Hartlepool section relates to the full buyout of this section with an insurer which completed in June 2022.

23. Share capital and premium

	Group and Company	
	2023 £m	2022 £m
Share capital		
Authorised, issued and fully paid		
32 million ordinary shares of £1 each	32.0	32.0

24. Hedging reserve

	Group	
	2023 £m	2022 £m
At 1 April	20.4	(37.4)
(Losses)/gains on energy cash flow hedges	(32.9)	64.3
Gains/(losses) on other cash flow hedges	49.7	(54.4)
Amounts transferred to the income statement	(40.0)	2.9
Amounts transferred to the income statement from discontinuation of cash flow hedges	8.9	11.1
Exchange movement on hedging instruments related to debt in cash flow hedges	11.1	49.4
Deferred tax movement on cash flow hedges	0.6	(15.5)
At 31 March	17.8	20.4

Cost of hedging reserve

	Group	
	2023 £m	2022 £m
At 1 April	0.3	2.4
Gains/(losses) on cash flow hedges	1.8	(2.6)
Deferred tax movement on cash flow hedges	(0.4)	0.5
At 31 March	1.7	0.3

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					
	Annual movements		Cumulative reserves			
	Hedged item gain/(loss) £m	Hedge ineffectiveness gain/(loss) £m	Total hedge reserves continuing £m	Total hedge reserves discontinued £m	Deferred tax on hedge reserves £m	Total hedge reserves £m
At 31 March 2023						
Cash flow hedge of interest rate risk	(26.1)	-	65.2	(39.2)	(6.5)	19.5
At 31 March 2022						
Cash flow hedge of interest rate risk	10.2	0.5	75.9	(48.4)	(6.8)	20.7

25. 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	
	2023 £m	2022 £m
Property, plant and equipment	215.8	112.1
Intangible assets	26.3	25.7
	242.1	137.8

26. 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 12. Lease liabilities are included within borrowings on the balance sheet, further details can be found in note 18.

	Group	
	2023 £m	2022 £m
Additions to right-of-use assets	6.1	8.4
Depreciation charge for right-of-use assets	(6.9)	(6.2)
Carrying amount of right-of-use assets	74.6	75.4
Interest expense on lease liabilities	(0.9)	(1.2)
Expense relating to short-term leases	3.2	2.8
Total cash outflow for leases comprising interest and capital payments	(6.2)	(13.2)
Reconciliation of lease liability		
Contractual undiscounted cash flows	44.7	44.2
Effect of discounting	(8.3)	(8.4)
Lease liability	36.4	35.8

The group leases certain items of plant and equipment, as well as vehicles, under short-term leases. At 31 March 2023, the group had £0.1 million (2022: £0.2 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		
	Interest £m	IFRS debt £m	Permitted indebtedness £m
At 31 March 2023			
Vehicles operating leases	0.2	8.9	-
Property operating leases	0.7	27.1	27.1
At 31 March 2022			
Vehicles operating leases	-	5.2	-
Property operating leases	0.8	30.5	30.5
Existing finance leases	0.4	-	-

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. There are no material lease payments with variable payment features.

27. 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 2023 amounted to £8,080.1 million (2022: £7,709.5 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 2023 (2022: £nil).

In April 2020, circa 100 property search companies served proceedings on all the Water and Sewerage Undertakers in England and Wales, including Anglian Water Services. The claimants assert that companies – including Anglian Water Services – should have provided certain information to the search companies free of charge pursuant to the Environmental Information Regulations. Anglian Water Services, in common with its co-defendants, has filed a robust defence. This is an industry-wide issue and at this stage the Directors consider, based on current legal advice, that the claim is unlikely to succeed and, in any event, would not be material to the financial standing of the Company. During the period to 31 March 2023, there has been no change to the group's position.

27. Contingencies continued

Flow to full treatment: Ofwat and the Environment Agency launched industry-wide investigations in 2021 into compliance with conditions of environmental permits. While the final outcome of these investigations is not yet known, we've provided comprehensive information to both regulators and continue to engage positively with them.

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.

28. 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, to be the ultimate parent undertaking and the controlling party. Anglian Water Group Limited is itself owned and ultimately controlled by a consortium of investors consisting of Canada Pension Plan Investment Board (CPP Investments™), IFM Global Infrastructure Fund, Camulodunum Investments, First Sentier Investors and Infinity Investments S.A.

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.

29. Related party transactions**a) Transactions with shareholders**

The consortium of investors owning Anglian Water Group Limited are considered to be related parties of the Company as they each have the ability to influence the financial and operating policies of both the Company and the group.

During the year to 31 March 2023, there were no transactions, (2022: Enil) 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 127 to 155.

	Group	
	2023 £m	2022 £m
Short-term employee benefits	5.1	5.1
Post-employment benefits	0.4	0.5
	5.5	5.6

c) Parent company

The Company's related party transactions are summarised below:

	Group	
	2023 £m	2022 £m
Sale of goods/services to		
Fellow subsidiaries of Anglian Water Group Limited	0.2	0.2
Purchase of goods/services from		
Fellow subsidiaries of Anglian Water Group Limited	8.9	6.6
Management fees paid to		
Subsidiaries	0.4	0.3
Interest paid to		
Subsidiaries	765.1	471.6
Dividends paid to		
Parent company	169.0	96.3

	Group	
	2023 £m	2022 £m
Trade and other receivables due from		
Fellow subsidiaries of Anglian Water Group Limited	1.0	1.4
Trade and other payables due to		
Subsidiaries	43.4	46.4
Fellow subsidiaries of Anglian Water Group Limited	1.0	0.7
Loans and other borrowings due to		
Subsidiaries	6,942.0	6,508.8

30. Alternate performance measures

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 and have been consistently applied within each year presented in these financial statements.

a) EBITDA

Calculated as profit before net finance costs, tax, depreciation, and amortisation to give a measure of the Company's overall financial performance. Each element of this APM is shown on the face of the income statement (page 160).

	Group	
	2023 £m	2022 £m
EBITDA	802.8	788.5
Net finance income/(costs)	(65.2)	(573.4)
Tax charge	(90.2)	(310.2)
Depreciation & amortisation	(379.1)	(347.7)
Profit/(Loss) for the period	268.3	(442.8)

b) Adjusted finance costs

Calculated as net finance costs excluding fair value gains/(losses) on derivative financial instruments. These fair value gains/(losses) are volatile, non-cash movements that distort the actual underlying economic performance (page 160) Adjusted profit before tax/Profit before fair value gains/(losses).

	Group	
	2023 £m	2022 £m
Net Finance costs excluding fair value gains/(losses) on derivative financial instruments	(710.5)	(458.3)
Fair value gains/(losses) on derivative financial instruments	645.3	(115.1)
Net Finance costs, including fair value gains/(losses) on derivative financial instruments	(65.2)	(573.4)

c) Adjusted profit before tax/Profit before fair value gains/(losses)

Calculated as profit before tax excluding fair value gains/(losses) on derivative financial instruments. The calculation is shown on the face of the income statement. These fair value gains/(losses) are volatile, non-cash movements that distort the actual underlying economic performance (page 160).

	Group	
	2023 £m	2022 £m
Adjusted profit before tax/Profit before fair value gains/(losses)	(286.8)	(90.8)
Tax charge	(90.2)	(289.1)
Fair value gains/(losses) on derivative financial instruments	645.3	(115.1)
Profit/(loss) for the period	268.3	(495.0)

d) Net debt

Net debt comprises borrowings, net cash and cash equivalents, and derivative financial instruments (excluding those in respect of fair value energy hedges). This measure is used because it provides additional useful information in respect of the financing of the business. See note 16 and below.

	Group	
	2023 £m	2022 £m
Net cash and cash equivalents	335.1	478.7
Current asset investments	298.0	392.0
Borrowings	(6,881.0)	(6,492.0)
Net debt excluding derivatives	(6,247.9)	(5,621.3)
Derivatives	(697.0)	(1,088.6)
Less: energy derivatives	(0.7)	(73.4)
Net debt	(6,945.6)	(6,783.3)

30. Alternate performance measures continued**e) Interest cover**

Interest cover is the ability of the Company to pay interest on its outstanding debt out of operating cash flows. The table below shows the operating cash value less RCV depreciation, compared to the net interest paid during the year to show the interest cover.

	Group	
	2023 £m	2022 £m
Operating cash	710.9	749.9
RCV run off	(423.5)	(413.4)
	287.4	336.5
Interest cash	(184.6)	(220.9)
Net interest (income)/costs excluded under CTA	(0.6)	17.9
Interest cover	1.6	1.7

f) Capital investment

Capital investment is the total property, plant, and equipment, and intangibles additions less capitalised interest, adopted assets, and capital additions in the non-appointed business. This is used as a measure to help us monitor how we are achieving our Business Plan commitments.

	Group	
	2023 £m	2022 £m
Property, plant and equipment additions	733.4	572.4
Intangible assets addition	82.3	62.1
Capitalised interest	(40.8)	(16.7)
Adopted assets	(46.0)	(39.2)
Non-appointed business	(1.4)	(0.9)
Items shown as stock	(2.5)	-
Capital investment	725.0	577.7

g) Free cash flow

Free cash flow is used in determining cash conversion and is calculated as cash from operating activities, less net interest of cash deposits, less capital maintenance.

	Group	
	2023 £m	2022 £m
Operating cash	710.9	749.9
Interest on cash	(184.6)	(220.9)
Less: net interest (income)/costs excluded under CTA	(0.6)	17.9
Capital maintenance	(326.2)	(269.2)
Free cash flow	199.5	277.7

31. Events after the balance sheet date

On 5 June 2023, the Board agreed to recommend a final dividend for 2022/23 of £79.9 million (£2.50 per share) to the Company's sole member which is to be paid 15 June 2023.

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.

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 2023 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
- the parent company financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the group income statement;
- the group statement of comprehensive income;
- the group and parent company balance sheets;
- the group and parent company statements of changes in equity;
- the group cash flow statement; and
- the related notes 1 to 31.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law, United Kingdom adopted international accounting standards and IFRSs as issued by the IASB. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006.

2. Basis for opinion

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

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the group and parent company for the year are disclosed in note 6 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard 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; 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	<p>The materiality that we used for the group financial statements was £23.7m (2022: £22.0m) which was determined on the basis of 3% of EBITDA (2022: 3% of EBITDA).</p>
Scoping	<p>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 the group's EBITDA.</p>
Significant changes in our approach	<p>No 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 sophistication of the model used to prepare the forecasts, testing of the clerical accuracy of those forecasts and assessing the historical accuracy of forecasts prepared by Management;
- Assessing the assumptions used in establishing Management's base case, including comparison of key assumptions to independent data sources where relevant;
- Evaluating liquidity, including in the scenario where future financing is restricted;
- Evaluating the external financing to establish and assess the covenant requirements attached to this financing;
- Assessing the amount of headroom in the forecasts (cash and covenants); and
- Evaluating the sensitivity analysis including downside risks to reflect the macro-economic conditions, as prepared by Management.

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 2023, the bad debt provision was £258.1m (2022: £236.4m). The bad debt charge of £30.1m represented 2.8% of total household turnover (2022: £11.1m and 1.1% of total household turnover).

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. A top-up to the provision is recorded to reflect expected deterioration in future cash collection compared to historical cash collection rates as a result of the anticipated impact of macro-economic uncertainties on customers' ability to pay bills, such as high inflation and their impact on the cost of living crisis.

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'.

The bad debt provision at 31 March 2023 includes a top-up provision of £6.9m (2022: £6.9m) to reflect that future cash collection may not be consistent with historical cash collection trends. Management determined this top-up provision considering a range of external data points, including the correlation between unemployment rates and cash collections.

The Audit Committee have also considered this as a key issue, and it is disclosed 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(q). The closing bad debt provision as at 31 March 2023 is disclosed in note 15 and the year-on-year bad debt charge is discussed in the CFO report on page 27.

5. Key audit matters continued

5.1. Bad debt provisioning continued

How the scope of our audit responded to the key audit matter

In response to this matter, we have performed the following procedures:

- obtained an understanding of relevant controls within the bad debt provision estimation process;
- utilised data analytics to perform a recalculation of debtor ageing to verify the accuracy of information within the aged debt report in order to assess whether customers are accurately categorised based on information within Management's financial reporting system;
- challenged the base bad debt provision by agreeing the recoverability assumptions to cash collection rates and tested the mechanical accuracy of the calculation;
- assessed whether any discrepancies exist between the provision recognised and that supported by other macro-economic indicators that may impact the ability of customers to make payments;
- assessed whether the provision has been calculated in line with the policy of the group and with IFRS 9 'Financial Instruments'; and
- assessed the accuracy and completeness of the cash collection trends used in the provision rate calculation by reconciling billing and SAP data and tested a sample of cash collections both during the year and post period end.

Key observations

Based on the work performed above, we are satisfied that the bad debt provision is reasonable and in accordance with the requirements of IFRS 9.

5.2. Derivative accounting

Key audit matter description

The group and the parent company have a total net derivative liability of £697m (2022: £1,088.6m), disclosed in note 19 to the financial statements, including interest rate swaps, index-linked swaps, cross currency swaps and contracts to fix energy prices.

IFRS 9 'Financial Instruments' requires derivatives to be accounted for at fair value with movements recognised as profit or loss, unless designated as hedge relationships. Where possible, Management have elected to apply hedge accounting.

We identified a key audit matter relating to the valuation of derivatives and the related credit risk adjustments, which can be both complex and judgemental. We have focused in particular on the risk of error arising on the valuation of the index-linked swaps due to their complexity.

The relevant accounting policy adopted is disclosed in note 1(t).

How the scope of our audit responded to the key audit matter

In response to this matter, we have performed the following procedures involving our financial instruments specialists where appropriate:

- obtained an understanding of, and tested, relevant controls around the valuation techniques used in determining the fair value of derivatives;
- tested the valuation, 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; and
- assessed banking agreements and the application of hedge accounting under IFRS 9 in relation to new debt instruments and debt repayments.

Additionally we have 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	£23.7m (2022: £22.0m)	£23.6m (2022: £21.9m)
Basis for determining materiality	In both years, we considered 3% of EBITDA as a benchmark for determining materiality. As aggregation risk is mitigated by our auditing 100% of the group's net assets, revenue and profits, the parent company materiality was set at £0.1m (2022: £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 26 in the Financial Performance Report. 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% (2022: 70%) of group materiality	70% (2022: 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; the limited number of changes to the business and the limited turnover of Management and key accounting personnel during the year; and the history of a low number of corrected and uncorrected misstatements identified in previous periods. 	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the committee all audit differences in excess of £1.1m (2022: £1.1), 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% (2022: 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. With the involvement of our IT specialists, we 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, certain aspects of treasury 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.

7.3. Our consideration of climate-related risks

As a part of our audit procedures, we have obtained Management's climate-related risk assessment and held discussions with Management to understand the process of identifying climate-related risks and opportunities, the determination of mitigating actions and the impact on the group's financial statements. Management embed climate related risks within each principal risk as described on pages 83 to 93. Management have considered climate change in their preparation of the Strategic Direction Statement and the Water Resources Management Plan as described on page 77. The risks identified do not have an impact on our key audit matters in the current year. Management have determined that the impact of climate related risks on the financial statements for the year is not material, as described in note 2 to the financial statements.

We performed our own qualitative risk assessment of the potential impact of climate change on the group's account balances and classes of transaction. Our procedures included reading disclosures included in the Strategic Report on page 71, as well as considering whether they are materially consistent with the financial statements and our knowledge obtained in the audit. We involved climate change and sustainability specialists in assessing these disclosures.

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: www.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, the internal audit function and the Audit Committee about their own identification and assessment of the risks of irregularities, including those that are specific to the group's sector;

- 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;
 - 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 and classification of costs as capital expenditure. 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, 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.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud continued

11.2. Audit response to risks identified

As a result of performing the above, the key audit matter relating to bad debt provisioning was identified as a potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the procedures addressing the key audit matter 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 respect of the inappropriate capitalisation of costs, testing a sample of capital projects by agreeing 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 these matters.

15. Other matters which we are required to address

15.1 Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by 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 seven years, covering the years ending 31 March 2017 to 31 March 2023.

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.

Kate Hadley

Senior statutory auditor

For and on behalf of Deloitte LLP

Statutory Auditor

Birmingham, United Kingdom

07 June 2023