



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

For everyone.



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Discover more online at anglianwater.co.uk

Discover how we create value for our stakeholders

Our environment & the planet



See pages 45-53







See pages 61-68





Overview

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

love every drop

2 GUIDED BY OUR MISSION STATEMENT

Water is our business.

We handle with care and we don't cost the earth.

UNDERPINNED BY OUR VALUES

Our purpose is underpinned by our values.

Together we...





Are always expl@ring

DELIVERED BY OUR STRATEGIC AMBITIONS & FIVE-YEAR BUSINESS PLAN

Our strategic ambitions

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



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

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



Find out more on page 21



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

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



Find out more on page 23



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

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



Find out more on page 22



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

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



Find out more on page 24

To make life better for our customers, every single day We take pride in the difference we can make to our customers' lives, working together to Make Today Great

Determination By 2025 we'll deliver our most ambitious

To deliver our identified business priorities We think differently and work smarter to meet our commitments to customers

To create a sustainable future for our region Working to protect and enhance our environment is fundamental to how we operate

4 OUR STAKEHOLDERS

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



Doing the right thing for our environment & the planet

Read more on pages 45-53



Delivering for our customers & communities

Read more on pages 54-60



Going further for our people & partners

> Read more on pages 61-68



Our shareholders are central to our business

Read more on page 69



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



Investors, banks & ratings agencies

Read more on page 70



Regulators

Read more on page 71



National & local government

Read more on page 72





Our five-year Business Plan

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

To deliver our 2020-2025 Final Business Plan ever

Find out more throughout

How we explore, every day, for everyone

Caring for our environment & the planet

Our environment and our planet's natural resources are precious to us and our customers. We're committed to protecting them.

That's why we're determined to find ever more intelligent solutions to reduce our footprint, protect the environment and ensure that water supply meets demand. Effectively, responsibly and sustainably.

Rated by Ofwat as 'Sector-leading' in the regulator's 2020/21 Service and Delivery Report

Challenging year for pollution performance: action plan starting

action plan starting to make an impact

Led the UK water sector at COP26

Named as a European Climate Leader 2022

by the Financial Times

664

environmental schemes delivered



How we explore, every day, for everyone

We go the extra mile for our customers & communities

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

Right now, our customers face a tough time, with the cost of living crisis impacting people and communities across the region, and the lasting impacts of the pandemic meaning more customers are in vulnerable circumstances. We're doing everything we can to offer practical support and a listening ear.

£232 million

package of support to subsidise bills for customers facing affordability challenges from 2020 to 2025

customers this year through our WaterCare service

324,750

Affordability support given to 324,750 customers

Target for 2021/22: 288,958 (met)

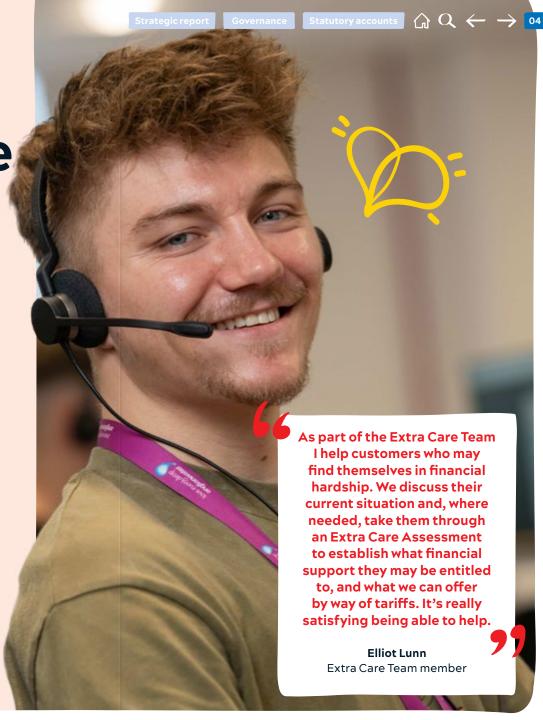
£1.7 million

£1.7 million-worth of potential

unclaimed benefits signposted

24.7%

increase in online services used by customers this year to check work in their area, get updates, report service issues or book appointments



How we explore, every day, for everyone

We give our people & partners⁵ space to grow

Everything we achieve as a business is through our people and our partners.

Their safety, health and happiness is at the heart of everything we do. With strong foundations we'll keep our business resilient and achieve sustainable success together, guided by our purpose and underpinned by our values. Together, we build trust, we do the right thing and we are always exploring.

83% of our people feel connected to our purpose (up by 25 points)

RoSPA Gold Award 2022

Royal Society for the **Prevention of Accidents** (RoSPA) recognition for the 18th consecutive year

Utility Week 'Team of the Year' for IMDS alliance (Anglian Water, Kier and Clancy)

Royal Society for Public Health - Workplace health and wellbeing winner 2021





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

A company with purpose

We were the first major utility to enshrine our purpose in the fabric of our company constitution: our Articles of Association (see page 73).

Our purpose is to bring environmental and social prosperity to the region we serve through our commitment to Love Every Drop. This is a bold idea about the role we want to play in the world. It acts as a north star for our team and is a genuine promise to our customers, partners and shareholders.

This purpose isn't just a set of words that exist to make us feel good. You can see it in action: on the ground, every day, everywhere across the business.

We're constantly challenging ourselves to be the best company we can be, and to make a real and meaningful impact for our customers, communities and the planet.

Long-term shareholders

Anglian Water Services Limited is the principal subsidiary of Anglian Water Group Limited, owned by a consortium of long-term investors representing millions of individual pension holders (see pages 25-26).

Supporting our communities

We've been a leading voice in responsible business for a number of years and were named Business in the Community's Responsible Business of the Year all the way back in 2017. Our £1 million Positive Difference Fund, launched in 2020 to support front-line Covid-19 relief efforts, has benefited more than 100,000 people.

Pioneers in carbon reduction

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

A leading employer

We were named Employer of the Year at the 2020 Utility Week Awards; were awarded the Royal Society for Public Health Workplace health and wellbeing award 2021; and hold the RoSPA (Royal Society for the Prevention of Accidents) gold award for health and safety, our 18th year of RoSPA recognition. We're an inclusive employer, committed to the Social Mobility Pledge; we're also a Disability Confident employer and hold the Armed Forces Covenant Gold award for employing ex-servicemen and women.

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

























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

Planning for the long term

Our four long-term ambitions and 10 outcomes, developed with customers, guide our vision (see 'Business model' pages 19-20).

Making every day great for our customers

Our whole organisation is committed to delivering for our customers; with more than 7.5 million digital interactions in 2021/22 and 91 per cent of our customers rating their interaction with us as 'great'.

Our size and skill means we can achieve real change at scale. When we innovate, it creates waves. And we're always setting new standards in our industry and beyond.

Leading on sustainability

We've held the Queen's Award for Enterprise: Sustainable Development continuously since 2015; our strong track record has helped us forge a leading path in sustainable financing for utilities.

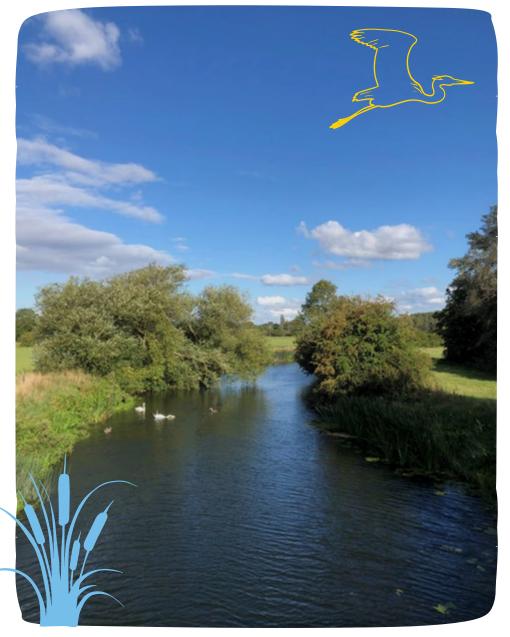
Always exploring

Our size and skill means we can achieve real change at scale. When we innovate, it creates waves. And we're always setting new standards in our industry and beyond. We've pioneered innovation with customers through our Shop Window initiative; we're founder members of Innovate East; and our Water Innovation Network, now into its 12th year, has connected more than 250 companies and explored more than 800 new ideas.

Contributing to global goals

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

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



We plan for the long term and are committed to delivering a flourishing environment in the East of England

Purpose at the heart of everything we do. 💥

Welcome to our 2022 Annual Integrated Report, which sets out the achievements and challenges of the second year of AMP7 (2020-2025). It's been a year that has triggered us to think differently as we cope with external headwinds, and set ourselves up to deliver long-term environmental and social prosperity in line with our purpose.



We've been far from complacent in the face of the challenges we've encountered through the year, and we're already seeing the positive impacts of the actions we've taken both within and beyond Anglian Water.

John Hirst, CBE Chairman

Following a year of excellent performance in 2020/21, which saw us described as 'sector-leading' by our regulator Ofwat in its annual Service Delivery Report, 2021/22 has been tougher.

Although we've seen successes in many areas - leakage, carbon reduction, environmental programme delivery, abstraction reduction and support for vulnerable customers, to name just a few - in others, we've not fared so well.

The lasting impact of severe and persistent flooding at the end of 2020 and beginning of 2021 got this financial year off to a difficult start. We've had to live with the consequences of decisions we'd made to help our customers get through the extreme conditions, and in some areas it has proved difficult to get back on track. Peter Simpson sets out on pages 10-13 how our results in pollutions, internal and external flooding, compliance at our treatment plants, and interruptions to supply, have put us in the unaccustomed position of being in net penalty for the year.

We've been anything but complacent in the face of these challenges, however, and as we hope to demonstrate throughout these pages, we're already seeing the steps we've taken - including setting up a new Quality and Environment Directorate, remodelling our Water Recycling Directorate, and adopting military-style tactics to tackle pollutions - having a very positive impact.

Our colleagues have achieved excellent outcomes in many areas of which we're justly proud: helping hundreds of thousands of customers through the cost of living crisis, keeping our biggest ever year of capital investment on track, hitting the majority of our performance commitment targets, and forging and continuing hundreds of partnerships that will help deliver a strong and sustainable future for the East of England. They've done so while driving a step change in efficiency which was praised by Ofwat in its Service Delivery Report. And to cap it all, they've done so in the face of a global pandemic and all the many other external pressures, such as flooding, Brexit, war in Ukraine and supply chain challenges, which have coloured the year.

Utility of the Year

So, after some of the toughest times we've faced, we were absolutely delighted to have our people's commitment to our purpose recognised with the award (for a second time) of Utility of the Year, our sector's most prestigious accolade.

Throughout all sorts of stormy weather our purpose is what drives us, and that purpose is at the heart of the changes we made at the start of the year to strengthen our capital structure. Through all sorts of stormy weather our purpose is what drives us, and that purpose is at the heart of the changes we made at the start of the year to strengthen our capital structure. In doing so, we were able to reduce gearing in Anglian Water Services to 65 per cent, increasing our financial resilience and reducing risk to our long-term shareholders, on whose continued support we depend.

Our shareholders' support

It is with long-term resilience on many fronts in mind that this year, we return to paying a dividend to shareholders for the first time since 2017. The consortium of long-term shareholders which owns Anglian Water represents the very definition of patient capital, and we couldn't be more grateful for their continued support throughout the past five years. Over that period our owners, who represent millions of pension holders, have reinvested returns, stood by us when times were tough, and wholeheartedly endorsed the changes we made to enshrine environmental and social purpose when we took the groundbreaking step of changing our Articles of Association. I am pleased that we're now in a position to repay their faith in us by sharing our financial returns with them, as the third element in our triple bottom line: customers and communities, environment and shareholders.

Driving environmental and social prosperity in the East of England

The next year will see us support our customers with an unprecedented package of financial assistance, with £65 million set aside for 2022/23 as part of our £232 million package across AMP7 to help those in hardship. In parallel, we'll continue to deliver our £800 million Water Industry National Environment Plan, the industry's most comprehensive programme of environmental improvements. The ability to pay dividends is the hallmark of a successful business. I hope we've demonstrated that we're doing so in the spirit of operating responsibly, balancing the needs of all our stakeholders in order to attract the continued investment which is vital for us to be able to deliver in the vears to come.

With the continued support of our people and shareholders, we're set for a strong year of delivery in 2022/23 and, just as importantly, on strong foundations for the future environmental and social prosperity of the East of England.

John Hirst, CBE

Chairman

Our owners have reinvested returns, stood by us when times were tough, and wholeheartedly endorsed the changes we made to enshrine environmental and social purpose in our Articles of Association.

We've learned lessons this

reshaped the way we approach our protection

and improvement of the

year that have fundamentally

Stepping up in the face of challenge.

In common with many businesses, 2021/22 has been another year marked by uncertainty and challenge. Unusually for Anglian Water, it has also seen a dip in the operational performance all our people strive so hard to deliver.

But with the decisive steps we've taken in response already taking effect, and many successes to celebrate amid the headwinds, we're optimistic for the year ahead.

- → See 'Our environment & the planet' on pages 14-17
- See 'Our performance in context' on pages 43-44



Peter Simpson Chief Executive Officer

environment.

This year - the second of our five-year Business Plan for 2020-2025 - has been marked by very real challenges for Anglian Water.

Some of these were universal, including the cost of living crisis facing our customers, supply chain issues, energy prices and the ongoing pandemic, as we set out on pages 14-16.

But arguably the story that most shaped our year was the knock-on impacts of localised, very intense and prolonged flooding in the East of England over the winter of 2020/21. In fact, we had the wettest December and January since 1915, resulting in five months of work being raised in just five weeks as four billion 'extra' litres of water passed through our network.

Prioritising the welfare of our customers, as we did throughout the incident, led to hold ups in routine work and issues with compliance at water recycling centres (see page 43). So, while the flooding took place before the current reporting vear, it remains relevant because of the challenging backdrop it set as we experienced the knock-on impacts of three months spent in 'incident' mode.

Crucially, too, it was the catalyst for a year of action which has placed us on an even stronger footing for 2022/23.

The year in brief

And despite the tricky backdrop for the year, we've seen success in several key areas - including our best-ever performance on our world-class leakage reduction programme, and fantastic progress on our £800 million Water Industry National Environmental Programme (WINEP), exceeding targets and delivering a cumulative 1,184 schemes since 2020.

In our biggest ever single year of capital investment, we've ploughed £577.7 million into programmes that will increase our resilience to drought and flood, and support growth, while safeguarding and enhancing the environment. The schemes we're delivering, including our smart metering programme (the most ambitious in the industry), the creation of a cuttingedge smart water network and a multitude of abstraction reduction programmes, have enabled us to make industry-leading reductions in the amount of water we take from the environment, protecting precious chalk streams and rivers. As part of that investment we're well underway with delivery of our groundbreaking strategic pipeline - our biggest ever infrastructure programme - to move water around our region to where it's needed most (see page 21).

Further successes include our support for customers who face challenges of affordability and vulnerability. We've delivered more than £32 million of targeted help to almost 325,000 customers in hardship this year alone, and have set aside £65 million for 2022/23.

I'm proud to say we're ahead of target on every performance measure related to support for customers in vulnerable circumstances.

In all the programmes we're delivering, we're maintaining our laser focus on efficiency. The step changes we're making put us on a strong glidepath for AMP8 and long-term shareholder value.

However, in some important metrics, including pollutions, flooding, supply interruptions and burst mains, we haven't reached our targets, which were the tightest we've ever been set. Missed targets in some of our financial performance commitments mean we find ourselves in net penalty for the first time in many years, anticipating some £8.3 million of penalty.

As we entered the year, we soon saw that the levels of performance we would typically deliver weren't within our grasp. There was no room for complacency, or simply pushing ahead with the status quo.

Learning lessons

As a result, over the course of 2021/22 we've taken decisive steps to learn lessons, rethink our ways of working and develop deeper partnerships with others who can help us achieve environmental and social prosperity, in line with our purpose.

We've reshaped our Water Recycling Directorate, appointing a new director, and created a new directorate specifically with responsibility for environment and quality, led by Dr Robin Price, who returns to Anglian from Water Resources East.





5 projects led by Anglian Water partnering on 11 more

£17.3m Ofwat Innovation funding secured - a quarter of the national funding pot

Innovation at the heart of our plans

Innovation is in our DNA, part of what makes us tick. That's been apparent more than ever this year, with a wealth of projects going on both within and beyond Anglian Water to push boundaries in areas ranging from carbon reduction to river water quality, and from leakage reduction to ensuring future water supplies.

Working with fellow water companies, we've been awarded £17.3 million of funding from the Ofwat Innovation Fund to lead five important projects which will unlock learnings the whole sector can share, while partnering on 11 more.

And we've set out our own discoveries and a plan to speed our progress in our Five-point plan for innovation acceleration, published in March 2022 and shared with fellow innovators across our industry. When we innovate, it creates waves.



To find out more see anglianwater.co.uk/innovationacceleration

We've worked on a wealth of market initiatives with the potential to bring huge benefits in terms of biodiversity, improved water quality and carbon sequestration.

We've also adopted a military approach to incident management and given every member of our workforce an additional, secondary role to support us when we face incidents. We've accelerated delivery of our WINEP, which was already ahead of target, and engaged extensively with customers and stakeholders to understand how we can better meet their needs.

During the year, in common with all our fellow water companies, we've also responded to regulatory concerns over compliance with environmental permits at water recycling centres, providing extensive disclosures in response to the joint investigations launched by Ofwat and the Environment Agency (see page 24). We await the outcome of the investigation, but are confident that our water recycling operations are not causing harm to the environment.

The impact of the extended period of appalling weather our region faced continues to be felt, but now in a far more positive way. We learned lessons which have fundamentally reshaped the way we approach our protection and improvement of the environment. It also brought home to us the need to step up and do more, sooner, to address growing public concern about the state of the environment and our relationship with it.

In terms of performance, we're already seeing the positive impact of the steps we've taken this year. The number of pollution incidents in the calendar year to May 2022, for example, is 54 per cent lower than in the corresponding period of 2021, and in a winter during which we faced three named storms with a significant impact in the East of England. In these first big tests of our new structure we've maintained resilient services to our customers throughout.

Working in partnership

Our commitment to our environmental and social purpose is stronger than ever. In pursuit of it, this year, we've recognised more than ever the power of collaboration, which enables us to multiply the impact of every pound we invest for our customers. We've continued to build on the hundreds of partnerships we've forged over many years, and created new ones. Those partnerships extend from the global, addressing climate change on the world stage at COP26, to the hyperlocal, working with environmental and community groups across the East of England to Get River Positive (see page 24), and with charities to offer support through the cost of living crisis.

Throughout this report we share details of our work with others to reach shared goals. Perhaps most notably, we've undertaken productive and meaningful engagement with General Lord Dannatt's Norfolk Strategic Flood Alliance, set up following the major floods of 2020/21. This has borne fruit in terms of new ways of cross-agency working and new planning approaches (see page 16) preparing us better to deal with events like the exceptional rainfall we experienced.



Leading the industry on leakage

Our outstanding leakage performance has long been a key differentiator for Anglian Water, with leakage rates per kilometre at half the industry average. This year we're particularly proud to have delivered our best-ever performance, surpassing the incredibly stretching target set by Ofwat, and delivering the equivalent of five years' worth of reduction in a single year.



Find out more at anglianwater.co.uk/casestudies

Separately, we've also worked with a wealth of partners on initiatives including the development of a new water strategy for Norfolk; a natural capital plan for the East of England; Local Enterprise Networks with farmers and businesses, and the Wendling Beck Alliance. All of these initiatives, many of them focused around the creation of new markets, have the potential to bring huge benefits in terms of biodiversity, improved water quality and carbon sequestration.



The value of partnership has been at the heart of many of the year's successes - and despite our challenges, there have been many of those to celebrate.

Aside from our environmental partnerships, we're now proud to partner with more than 150 groups and charities to better serve our customers. These range from the RNIB to Carers First, a charity for unpaid carers. Our new partnership with ReachOut (see page 56), a unique service which addresses challenges of low engagement and low awareness of the support available for those facing hardship, has helped us reach a record number of customers with affordability support, surpassing the target we were set by Ofwat by 12 per cent.

The value of partnership has been at the heart of many of the year's successes - and despite our challenges, there have been many to celebrate.

Celebrating success

We've worked with several of our fellow water companies and many other partners in shared bids for the Ofwat Innovation Fund, securing £17.3 million funding - a quarter of the total pot (see panel, page 11).

We've demonstrated our leadership in carbon reduction and our ground-breaking approach to climate change adaptation on the global stage at COP26 - the only water company with a formal role at the summit.

We've launched a bold set of commitments to transform the health of our region's rivers with our friends and colleagues at Severn Trent (see 'Get River Positive', pages 24 and 47).

We've worked closely with regulators through the RAPID (Regulators' Alliance for Progressing Infrastructure Development) process to progress our ambitious plans for two new reservoirs, each the size of Grafham Water, to ensure resilient water supplies for the East of England. And we've developed designs and consulted communities on plans for a brand new operationally net zero water recycling plant for the city of Cambridge.

Looking after our people

We want our people to feel happier and healthier as a result of coming to work. This means continuing to ramp up our wellbeing offering, including a virtual Time Out For Life series of events, which more than 5,000 employees attended. We've also focused heavily on inclusion throughout the year, raising awareness on a range of topics, and helping everyone feel comfortable being themselves at work. And of course, the safety of our people is always front and centre of our mind - quite simply the most important thing. This year we rolled out an extensive leadership training programme focused on safety, and we're delighted to have received a RoSPA Gold award again - our sixth gold in a row, representing our 18 years of consecutive recognition in workforce safety.

Throughout this year, the dedication of all my colleagues, day after day, week after week, has been a stand-out positive.

Thank you to colleagues

Throughout this year, the dedication of all my colleagues, day after day, week after week, has been a stand-out positive, and I thank them all for their commitment.

We were particularly thrilled to be awarded Utility of the Year 2021, our sector's highest accolade, by Utility Week, with judges commenting on our 'notably pushing the envelope on environmental matters and development of innovative approaches to sustainable business operations'. This recognition for our work is a welcome and timely reminder that Anglian Water is a purpose-driven company with a reputation for excellence.

I am acutely conscious that we've been tested this year, and found wanting in some important areas. But we've taken the right steps to set ourselves back on track in these areas, and found success in many others.

As we head into the third year of AMP7 (2020-2025) I remain confident that our long-term trajectory is as positive as ever.

Peter Simpson

Chief Executive

Our challenges and opportunities

This year, more than almost any other in living memory, has highlighted the interconnected nature of the challenges we face, both at a company level and at a sectoral, national and global level.

A complex range of very significant nearterm factors, including the ongoing impact of Covid-19, supply chain interruptions, rising inflation, Brexit and escalating energy costs, have combined to make for a very challenging operating environment, and difficult times for our customers and our people. The appalling events in Ukraine and the ensuing sanctions on Russia which began in March 2022 have exacerbated these pressures and brought new ones.

Longer-term, we see challenges, opportunities and further linkages in the areas we set out in our strategic ambitions on pages 21-24. The issues surrounding climate change, population growth, the need to drive up ecological quality and the importance of cutting our carbon emissions are equally entwined: each impacts all of the others.

The year in context

Over the following pages we set out our market context, together with factors which are more specific to Anglian Water. All of these have contributed to a year where our performance has not been at the level we seek to deliver for our customers and our environment.

The year was shaped by all of the external factors above, but perhaps most significantly for us by the lasting impacts of widespread and persistent flooding lasting from December 2020 to March 2021.

However, we make no excuses. We recognise that external context only tells part of the story. In every area of our business we're taking action to manage risk, to learn from our mistakes, and to deliver better for our environment and our communities. It's also important to find opportunity alongside challenge, and through these pages, we set out some of the ways we're doing so.

Focus on environment

Across the water sector, environmental factors have played a big part in the story of the year. The huge lifestyle shift triggered by Covid-19 lockdowns has led to the British public feeling much more connected to their natural environment, shining a spotlight on river water quality and pollutions. Rightly, the public and political discourse, along with the provisions of the Environment Act, have highlighted a need for stakeholders to come together to invest in these areas to restore and enhance the ecological quality of our watercourses.

We're totally aligned with this goal - indeed we first set our strategic ambition to improve ecological quality in collaboration with others in 2007. Since then we've had many successes, including seeing the return of endangered species to our region, delivering many millions of pounds' worth of environmental programmes, and developing a multitude of partnerships to protect and enhance nature across the East of England.

The environmental performance challenges we've faced this year have redoubled our determination to live up to our environmental purpose.

We first set our strategic ambition to improve ecological quality in collaboration with others in 2007 - and we cover some of the many initiatives we're involved in to further that goal throughout this report.





We first set our strategic ambition to improve ecological quality in collaboration with others in 2007

Near-term challenges

Cost of living crisis and affordability concerns

We are currently in the grip of the worst cost of living crisis in the UK since the 1970s. With the Bank of England expecting inflation to rise to around 10 per cent in the fourth quarter of 2022, businesses and households face increasing financial pressure, with no obvious end in sight. The current crisis is particularly severe, since it is being driven by several factors, including government support during the pandemic coming to an end and high demand for energy driving up prices. Despite a rise in wages, when inflationary pressure is taken into account, they have already declined by one per cent, and pressure continues.

While we've not been significantly impacted with debt issues through the pandemic, we're already seeing signs of increased hardship in 2022 and are taking action to support customers in line with our purpose. The full range of help we offer is set out on page 56. With the support of our customers, for which we are truly grateful, we disbursed £32.2 million in reduced tariffs and other assistance in 2021/22, and are making £65 million available for those in need in 2022/23 (£19 million of ring-fenced funding not yet called upon in 2021/22 and a further £46 million for 2022/23). This takes our total support to more than £97 million from 2021 to 2023, which we hope will go some way to ease the pressures on the customers who are struggling most. Across the AMP, our support will total £232 million.

We're also supporting our own people with financial advice and continue to make available our Employee Assistance Fund, set up at the outset of Covid-19 with funds from senior leaders and shareholders.

From a business risk perspective, we've stress tested debt increases and significant inflation fluctuations and no additional mitigations are required.

→ See 'Our customers & communities' on pages 54-60 and 'Our people & partners' on pages 61-68

Supply chain challenges

The pandemic, chaos at ports, shortages of HGV drivers and transportation bottlenecks have all proved challenging for our supply chain during the year, and the issues we're facing are not expected to diminish in 2022. Shortages of certain materials and products will continue. We've undertaken an exercise to understand the level of resilience in our supply chain, and to identify alternative suppliers or de-risk where an alternative is not an option.

Energy costs

A combination of factors, including wider supply chain issues, the costs of decarbonisation and pandemic-related impacts, together with the war in Ukraine, is causing rapid acceleration in energy prices. We are closely monitoring these costs and the impact they will have on our customers and cost base. We have taken actions to fix our wholesale power requirements for this financial year and our Carbon Neutrality and Treasury teams have implemented hedges for the 2022/23 financial year.

War in Ukraine

Russia's invasion of Ukraine has placed further pressure on energy prices and triggered additional logistical issues in getting supplies to and from Europe, as well as a shortage of specialist supplies. We also face a heightened threat of cyber attacks. Potential further implications include higher UK inflation, slowing of economic growth and rising interest rates. We've held a number of investigative workshops to understand the impacts to our business across a range of risks. Alongside actions we've taken to safeguard our supply chain, we've reassessed and taken action to enhance our current security controls, to ensure they remain robust against any potential cyber threat.

We're also mindful of the impact of the war on our people and customers, many of whom have friends and family in Ukraine. In particular we're giving extra consideration to members of our Information Services team who are based in Poland, which has been acutely impacted by the ensuing refugee crisis. In the UK, several colleagues have welcomed refugees into their homes and a group has been set up to offer Ukrainian lessons.



→ See 'Our people & partners' on pages 61-68 and 'Resilience and risk management' on pages 90-103

Near-term challenges continued

Covid-19 and pandemic risk

Covid-19 has had a significant and ongoing effect throughout the 2021/22 financial year. Staff absences, in particular, have been notably higher than in recent years, at 5.82 days per employee, versus an average of 4.5 over the past six years. Covid-19-related absences have been significantly higher in 2021/22 than in the early days of the pandemic. A further concern is the increase in potential absences due to the delayed treatment effects of those with illnesses that were not treated during the pandemic. We continue to monitor absence levels and any potential impact on business operations.

Further impacts include global supply chain challenges (see page 15) and changing patterns of water usage, as a result of more people continuing to work from home.

Many of the lessons learned from the Covid-19 situation have been applied to how we would respond to another global pandemic, or the possibility of a new, more virulent strain of Covid-19 developing, and we continue to monitor for such events taking place.



Recruitment and resourcing

A high volume of vacancies across the UK amid the post-pandemic economic recovery is driving significant competition for talent, making recruitment particularly challenging. We're monitoring this closely, with particular attention on our key and critical roles, and are continuing our extensive efforts to recruit and retain a diverse and effective workforce.

Beyond our direct recruitment activity, we're also working with the All Party Parliamentary Group for the East of England on skills and recruitment, along with other large employers in the East of England.

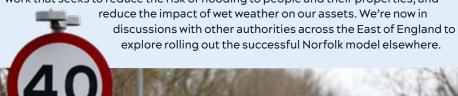
See 'Our people & partners' on pages 61-68

Continuing impact of 2020/21 flooding

As set out elsewhere, we've felt the impact of the severe and persistent flooding of early 2021 throughout the 2021/22 financial year, with increased numbers of pollution incidents and other knock-on impacts to water recycling compliance and routine maintenance.

Alongside the creation of our 'Escaped Sewage Cell' and the acceleration of our investment programme on combined sewer overflows (see page 47), we've worked to strengthen multi-agency incident responses in preparation for future severe weather events.

In particular we've played a key role in the development of the Norfolk Strategic Flood Alliance (NSFA), set up under the leadership of General Lord Dannatt, former head of the British Army. Having such senior, high-profile leadership has been extremely successful in pulling together stakeholders to deliver improvements for communities across Norfolk. We've been responsible for both leading and supporting the work of the NSFA in numerous communities, delivering substantial work that seeks to reduce the risk of flooding to people and their properties, and





Long-term challenges and opportunities

Climate change

Ours is the driest region in the UK, and particularly vulnerable to climate change - low lying, with a long coastline and low rainfall. Water resources are already scarce, and climate change will reduce them further. Yet at the same time we face the threat of more frequent flooding, such as that seen during the winter of late 2020 and early 2021, due to more intense rainfall and rising sea levels. Therefore, reducing our carbon emissions and adapting to the climate emergency is embedded in everything we do. Our investment plans to 2025 are directed at reducing the impacts of drought and flooding, which are our key climate-related risks; we're also mitigating the impacts of climate change through our 2030 net zero goal. We set out our risks and how we're responding to them in our Adaptation Report, the first submitted by any UK organisation as part of the third round of reporting under the Climate Change Act. Our forthcoming Drainage and Wastewater Management Plan to 2050 is available for consultation throughout the summer and will set out in detail our initiatives to manage flood risk.

See 'Our strategic ambitions' on pages 21-24 and 'Climate-related financial disclosures' pages 79-89

Environmental priorities

Our purpose commits us to achieve positive outcomes for the environment as well as society, building on our existing 25-year goal to work with others to improve the ecological health of catchments across our region.

As set out on pages 47 and 72, external pressure to invest in safeguarding and enhancing the environment has increased over the year. We continue to invest many millions of pounds on environmental schemes every year. This year, we've launched our Get River Positive plan, which means we will strive to do no harm to UK rivers and do everything we can to ensure they can thrive.

We've also produced a new Pollution Incident Reduction Plan.

We have by far the largest Water Industry Natural Environment Programme (WINEP) among water companies in England and Wales for AMP7 (2020-2025), a doubling in number of commitments over our last five-year plan. We're also taking forward our Water Resources Management Plan, so that we can both accommodate significant housing growth and reduce the amount of water we abstract from the environment.



Population and economic growth

Our region is one of the fastest growing in the country. Over the past three years, housing growth across the 58 council areas we serve has averaged 42,000 new homes a year. By 2040, the region's population is forecast to grow by a further 940,000 people. The national Housing Delivery Test approach to growth means that each council plans housing based on past building rates rather than the environmental capacity of an area.

Environmental issues, such as local levels of water stress and the risk of flooding, determine where growth goes in each council area, rather than how it is allocated region-wide. Anglian Water is supporting councils to locate growth in sustainable locations, which will minimise the need to build new infrastructure, reducing the carbon impact of our facilities. We continue to work with other water and utility companies to help councils plan for lower carbon growth.

Scarce water resources

The Environment Act 2021 includes a national water use reduction target. This is especially crucial in the East of England, which has been designated as a 'seriously water stressed area'; is the driest region in terms of rainfall and is home to many of the UK's precious chalk streams. We want to keep more water in the environment so that habitats and biodiversity can thrive. We're doing this through the delivery of our 2019 Water Resources Management <u>Plan</u>. Our strategy involves working closely with Water Resources East, delivering behaviour change campaigns, installing smart meters, reducing leakage and working collaboratively with developers to ensure that new housing is as water efficient as possible. This includes trialling the use of 'grey water' and rainwater harvesting technology at a development scale. By the end of the period addressed by the plan, in 2045, we expect that average consumption in our region will be 120 litres per person per day; a reduction of 12 per cent compared with that in 2017/18.

See 'Our environment & the planet' on pages 45-53

Long-term challenges and opportunities continued

Demonstrably acting in the public interest

Talking to our customers and other stakeholders, it's clear they expect us to do more than deliver the basics brilliantly. They expect us to continue to be a force for good, stepping up to help tackle big environmental and social challenges. We were the first water company to enshrine these wider public interest objectives in our Articles of Association. We will continue to demonstrate how our responsible and sustainable approach is not only desirable but core to our success. Working with BSI, the British Standards Institution and the University of Cambridge Institute for Sustainability Leadership, we've developed a Publicly Available Specification (PAS) to allow us, and other businesses, to codify and benchmark our approach as a purposeled responsible business against best practice around the world. We will also track our progress against our Social Contract, published in June 2021.

See 'Holding ourselves to account' on pages 38-39

Planning for the long term

We firmly believe in taking the long view, planning years, and even decades, ahead on issues including water resources, asset maintenance, advances in technology and closing the skills gap. We look to tackle these in collaboration with others, and by shaping our longterm vision in accordance with our 25-year Strategic Direction Statement, published in 2007 and refreshed in 2017. to meet developing priorities. Where possible, we look to lead and shape the regional and national conversation

to secure the action and investment needed for a sustainable future. We're developing our Drainage and Wastewater Management Plan, a 25year strategic plan to improve drainage, flooding, and environmental protection. We've begun work on our new Long-Term Delivery Strategy, which will set out how we will deliver the ambitions we've set for 2050 through our purpose and Strategic Direction Statement.

See 'Our strategic ambitions' on pages 21-24

Our role in markets

We have continued to play an active role in both existing and developing markets. In addition to the business retail market, we've helped to shape both the future direct procurement for customers (DPC) and Regulators Alliance for Progressing Infrastructure Development (RAPID) processes. We remain active in the bioresources and water resources trading markets, engaging and enabling trades as available options arise. We're also involved in developing emerging markets in carbon and biodiversity offsetting within our region, through initiatives such as Local Enterprise Networks and the Wendling Beck Environment Project (see 'Our environment & the planet', pages 45-53). Our priority in these markets is to bring environmental and social benefits to the East of England.

See 'Regulators' on page 71



Statutory accounts $\bigcirc Q \leftarrow \rightarrow$ 19

What drives us

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



Our values

Together, we:





Are always expl@ring

What we do

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



Environment & planet

Customers & communities

People & partners

Shareholders

Investors, banks & ratings agencies

Regulators

National & local government

Read more about the relationships with our stakeholders on pages 45-72

SUSTAINABLE GOALS

The United Nations Sustainable Development Goals influence our thinking and the work we do contributes towards their delivery. We work in the spirit of all 17 goals, but we've mapped our work to the 10 where we have the most material impact.























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

Our long-term ambitions

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

Read more about our progress on pages 21-24



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



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



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

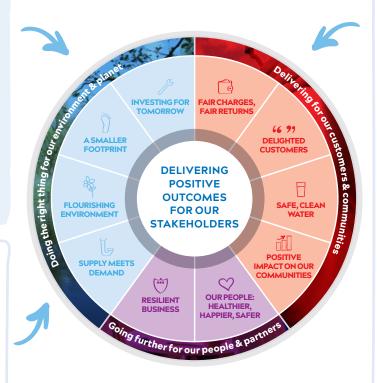
How we're creating value

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



How we make decisions

We balance our six capitals to shape investment decisions

Read more in 'Holding ourselves to account' on pages 38-39

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

Financial

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



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



Social

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



Manufacturing

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

Intellectual

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



Measuring 2021/22 outcomes for our stakeholders



of employees say they are proud to work for Anglian Water (2021: 82%)



Customer Measure of Experience (2021:

83.05/100)



environment programmes delivered (2021: 520)

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



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

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

RISK OF SEVERE RESTRICTIONS IN DROUGHT

Target for 2021/22: 20.5% (met)

RISK OF SEWER FLOODING IN A STORM

0.75%

Target for 2021/22: 9.75% (met)

PERCENTAGE OF POPULATION SUPPLIED BY A SINGLE SUPPLY SYSTEM

22.7%

Target for 2021/22: 21.8% (not met)







Example UN SDG target:

13.1. Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries.

Key achievements



- · Ground broken and first 28 kilometres (Lincoln - Grantham, Norwich - Wymondham) of pipeline laid in Anglian Water's biggest infrastructure project to date
- Strategic Pipeline Alliance project named Digital Initiative of the Year at the British Construction Industry Awards
- Rated A- (leadership category) by CDP for our response to climate change (top 5.5 per cent of submissions globally)

Leading the sector at COP26

We were the only UK water company to secure a formal role at COP26 (see page 52). Our strong track record on climate adaptation saw us invited to co-lead the Water theme in the first ever Resilience Hub at any COP.

Bringing resilient water supplies

We've begun delivery of a vast new network of interconnecting pipelines stretching right across our region. The Strategic Alliance Pipeline programme, being delivered with partners Costain, Farrans, Jacobs and Mott MacDonald Bentley, is our biggest ever infrastructure initiative, designed to secure water supplies for many years to come. By March 2022 we'd laid 28km of pipeline, with hundreds more on schedule for delivery by 2025. A cutting-edge digital twin (a digital replica of the physical asset) will provide real-time data to drive insight, helping us monitor and optimise the network.

Future Fens: Integrated Adaptation

Work continues at pace on our flagship adaptation project, highlighted at COP26. Set up by Anglian Water, Water Resources East and the Environment Agency, the Future Fens: Integrated Adaptation Taskforce was joined in November by a further lead sponsor: Cambridgeshire and Peterborough Combined Authority. Over 75 senior stakeholders are working together to drive climate resilience in the Fens and unlock a wealth of new opportunities for the environment and communities. Taskforce members are now focusing on delivering goals set out in the initiative's shared 10-point manifesto.

CReDo: a climate resilience digital twin

We've been partnering with BT and UK Power Networks on a pioneering Climate Resilience Demonstrator (CReDo) with the National Digital Twin programme (NDTp), run by the Centre for Digital Built Britain. It demonstrates how those who own and operate energy, water and telecoms networks can use secure information sharing to plan for and mitigate the effect of climate-change-related flooding on network performance. See page 84 for more on CReDo.

Working in partnership to reduce flood risk

Working collaboratively with other organisations, we've invested over £1.7 million in flood alleviation and sustainable urban drainage schemes across our region in 2021-22. We've supported district councils, lead local flood authorities, internal drainage boards and the Environment Agency (EA) in reducing the risk, and mitigating the impact, of flooding from all sources. This includes a £600,000 contribution to an EAled scheme to better protect the residents of Great Yarmouth from tidal flooding.

In 2021 we were part of seven successful applications to Defra's £150 million Flood and Coastal Resilience Innovation Programme, Around £45 million will come to our region to help communities we serve to adapt to a changing climate. As we set out on page 16, we've also engaged positively through the Norfolk Strategic Flood Alliance to better support communities at risk of flooding.



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

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

NEW WATER CONNECTIONS MADE

25,292

(2021: 19,922)

NEW WASTEWATER CONNECTIONS MADE

28,818 (2021: 23,227)

DEVELOPER MEASURE OF EXPERIENCE (DMEX)

7th place

Target: 4th place among all water and sewerage companies (not met)







Example UN SDG target:

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

Key achievements

- Enabling Water Smart Communities project awarded £5.5 million through Ofwat Water Breakthrough Challenge
- £63.5 million-worth capital investment schemes delivered to facilitate population growth in our region
- Cambridge Waste Water Treatment Plant relocation proposal progresses through third consultation phase

Supporting housing and infrastructure

Ongoing rapid growth in our region poses major challenges for Anglian Water, but also presents an opportunity to make a positive influence on new developments.

At a national level we've worked closely with General Lord Dannatt and Defra to review the implementation of Schedule 3 of the Flood and Water Management Act 2010, which introduces a new set of arrangements for sustainable drainage systems, whilst removing the automatic right to connect surface water to the public sewer. If implemented, which we hope it is, this will give us more control over the surface water connected to the public sewer, allowing us to better manage flooding and pollution risks.

We also work closely with all our local authorities to ensure that water is a key consideration of their plans. While levels of water supply vary, all our councils are within an area of serious water stress, as designated by the Environment Agency. Our ongoing work with developers to drive implementation of water efficiency measures in new homes helps new residents to value water and reduce their bills.

Water smart communities

We're thrilled to have been awarded £5.5 million of innovation funding by Ofwat to deliver Enabling Water Smart Communities, a ground-breaking project to unlock integrated water management in the UK.

We'll be working with partners including the Universities of East Anglia and Manchester, Thames Water, United Utilities, Ove Arup and the Centre for Local Economic Strategies. Through four development scenarios (private, public. community and water), we'll address how new developments, and the people living in them, can adapt in a sustainable way to three key impacts of climate change - flood risk, water scarcity and risk to water quality. We'll set out new regulatory and policy standards, while improving understanding of cost models and the stewardship of water assets.

Enabling growth in North-East Cambridge

Work has continued this year to progress proposals to relocate our Cambridge Waste Water Treatment Plant to enable the city to grow. Funded by Homes England, this ambitious scheme, designated as a nationally significant infrastructure project, supports Cambridge City and South Cambridgeshire District Council's vision for sustainable growth. If approved, it will free up land for up to 5.600 new homes and a million square feet of commercial space to be built on the last major brownfield site in the city. Moving to a new site will also enable us to meet the needs of Cambridge's growing population for years to come, via a modern, operationally net zero carbon facility. A third stage of consultation with local communities and stakeholders has recently taken place before a Development Consent Order application is submitted towards the end of 2022.

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

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

CAPITAL CARBON Reduction from 2010 baseline

63.1%

2021/22 target: 62% (target met)

GROSS OPERATIONAL CARBON Reduction from 2019/20 baseline

2021/22 target: 4% (target met*)

* Subject to confirmation by Ofwat









Example UN SDG target:

9.4. Upgrade infrastructure and retrofit industries to make them sustainable, with increased resourceuse efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.

Key achievements

- Surpassed both operational and capital carbon targets
- · Published Anglian Water's detailed routemap to reach net zero by 2030
- Years of best practice and learning shared on the global stage at COP26
- £4.2 million Ofwat funding secured for groundbreaking **Triple Carbon Reduction** project
- Named as a European Climate Leader by the Financial Times and Statista
- Awarded Verdantix Innovation Excellence Award for Enterprise Carbon Management

The route to net zero

In a major milestone, in July 2021 we published our detailed Net Zero Strategy to 2030. It sets out how we will reach our carbon goals through a three-step hierarchy of reducing emissions, reducing our demand for energy through efficiencies, decarbonising our electricity supply and, finally, removing or offsetting residual emissions through carbon sequestration projects, primarily within our region. Our Chief Executive Peter Simpson shared our learnings from many years of reducing emissions at COP26, speaking at a number of events, including an Aldersgate Group panel chaired by former Prime Minister the Rt Hon Theresa May MP (see page 52). Our leadership was recognised by a Verdantix Innovation Excellence Award and by reaching the finals of the Net Zero Strategy of the Year category at the edie Sustainability Awards.

Renewable energy

Strong performance on our solar and wind assets and a new agreement with energy provider SSE have contributed to a record renewables performance of 153.7GWh: our third consecutive year of growth, with renewable energy contributing just over 20 per cent of our total consumption. We've contracted with SSF to sleeve 45GWh of renewable energy annually from Keadby wind farm on the borders of our region. Despite a difficult year for combined heat and power output, with digesters offline and major maintenance needed, we ended 2021/22 with two new records: a daily output of 396MWh and a monthly output of 10.93GWh.

Triple carbon reduction project underway

We're thrilled to be leading a pioneering new collaborative project with supply chain partners, academics and fellow water companies. Named 'Triple carbon reduction', it has secured £4.2 million funding from the Ofwat Water Breakthrough Challenge to accelerate progress to our sector-wide 2030 net zero carbon emissions target. The project targets a step change reduction in greenhouse gas emissions and electricity use in wastewater treatment and seeks to provide a new renewable energy source through green hydrogen production.

Electric vehicle transition

Our electric vehicle (EV) transition has proceeded at pace over the year. By the end of the 2021/22 financial year, our fleet included 10 range-extended hybrid vans, 10 Nissan ENV200 fully electric vans, 33 fully electric Vivaro vans and 61 electric cars. These numbers are set to increase significantly over 2022/23, with more than 300 fully electric and hybrid vehicles on order. Our EVs have proved popular with operational colleagues, with 100 per cent of users surveyed saying they wouldn't switch back to diesel-fuelled vehicles. We're now also facilitating colleagues acquiring EVs for their personal use through a new salary sacrifice scheme with Tusker, while 76 per cent of company cars on order are now fully electric.



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

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

SITES OF SPECIAL SCIENTIFIC INTEREST IN FAVOURABLE CONDITION

99%

(National average: 38.23% in 2022)

WATER INDUSTRY NATIONAL ENVIRONMENT PROGRAMME SCHEMES DELIVERED

2021/22 target: 1,006 (target met)









Example UN SDG target:

6.6. Protect and restore water-related ecosystems, including mountains, forests, wetlands, rivers, aguifers and lakes.

Key achievements

- · Created new Quality and **Environment directorate**
- · Launched Get River Positive: a long-term plan for flourishing rivers
- 'Slug it Out' programme brought to successful conclusion
- 3* Environmental Performance Assessment for calendar year 2020 (2021 to be announced July 2022)
- Chief Executive Peter Simpson named as one of the UK's top 100 environmental professionals in ENDS Report Power List

Get River Positive

We first set out our long-term goal to improve ecological quality across our catchments in 2007 and have worked with a wealth of partners over many years to help us do so. This year we've launched an ambitious new partnership with fellow water company Severn Trent, underpinned by five key pledges that set a framework for us to lead the charge in protecting and revitalising rivers in our respective regions. Together, we've committed to ensure our storm overflows and water recycling centres do not harm rivers; to create more opportunities for people to enjoy our regions' rivers; to support others to improve and care for rivers; to enhance our rivers and create new habitats so wildlife can thrive; and to be open and transparent about our performance and our plans (see page 47).

A new Quality and Environment Directorate

Our commitment to driving environmental prosperity in our region lies at the heart of our purpose. 2022 has seen the formation of a brand new Quality and Environment directorate led by Dr Robin Price (see page 45), with a remit to provide leadership and vision on all aspects of quality and the environment. Robin and his team will focus on source to sea water quality management, effective delivery of strategy and plans for 2020-2025, and the development of a long-term environmental vision based on the principles of integration, collaboration and innovation.

'Slug it Out' success

This has been the concluding year of our hugely successful 'Slug it Out' programme. Through it, we've built strong working relationships with hundreds of farmers, and reduced metaldehyde levels in our reservoirs by more than 98 per cent.

Action on pollution

Our long-term ambition is to reach zero pollutions from our assets. This remains an area of challenge for us, and our performance this year has not reached the level we or our customers want to see. In response we've launched an intensive action plan based on the military J-cells model (see page 50) and refocused our Pollution Incident Reduction Plan.

Flow to full treatment

Ofwat and the Environment Agency (EA) launched industry-wide investigations in 2021 into compliance with conditions of environmental permits. While the final outcome of these investigations isn't yet known, we've provided comprehensive information to both regulators and continue to engage positively with them.

Safeguarding our watercourses

Ecological quality in our catchments can be improved by leaving more water in the environment. That's why we're working with the EA to drive significant year-on-year reductions in our abstraction levels. This year alone, we've invested £68.1 million in capital schemes to reduce the amount of water we need to abstract to supply our customers and drive climate resilience.

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

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.

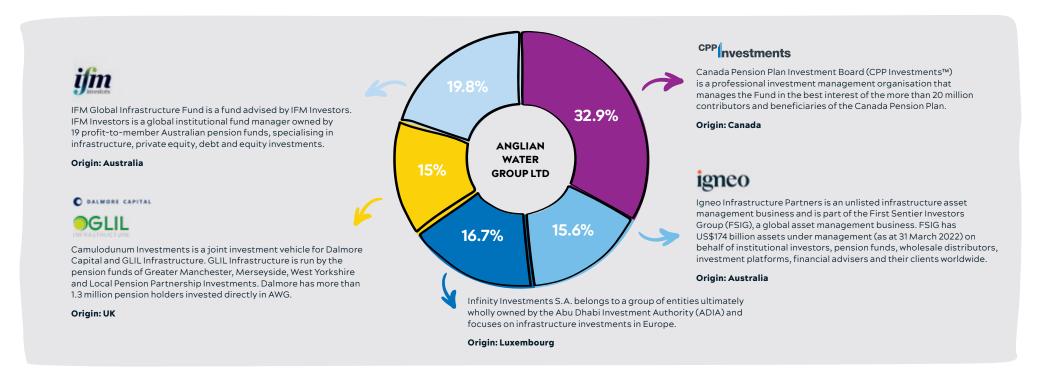
The complete holding company structure is presented in the diagram on page 26 and the principal companies in the structure are explained below. When AWG was acquired by investors in 2006, it became the ultimate parent company of the Group. It is a Jersey-registered company, but it is UK tax resident 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 is to reduce AWS gearing in order to enhance and protect its current solid investment-grade credit ratings. This approach has been designed to enable AWS to borrow at lower rates in order to support the investments that customers have asked us to make. During the 2021/22 financial year, 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 has 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.

AWG Group companies

During the year, Aigrette Financing Limited, and its newly incorporated UK subsidiary, Aigrette Financing (Issuer) Plc, borrowed funds externally and flowed the cash to AWS as increased equity.



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

AWG Parent Co Limited, AWG (UK) Holdings Limited and AWG Group Limited are holding companies that were set up when AWG was a listed group. They are all 100 per cent owned, and currently none of these companies has any external debt. They are all registered in the UK and UK tax resident.

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 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 reduced its gearing with the funds received as equity injections under this 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.



Anglian Water Group Ltd

Osprey Holdco Ltd

Aigrette Financing Ltd

Osprey Investco Ltd

Osprey Acquisitions Ltd

AWG Parent Co Ltd

AWG (UK) Holdings Ltd

AWG Group Ltd



Anglian Water Services Holdings Ltd

Anglian Water Services UK Parent Co Ltd

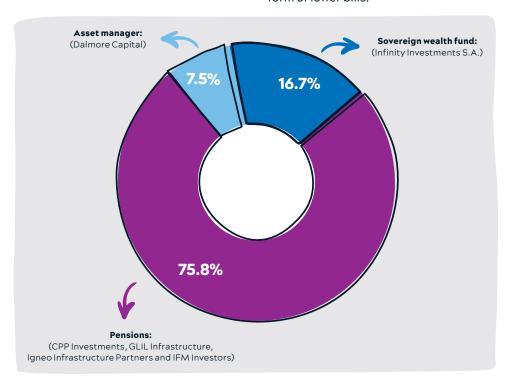
Anglian Water Services Ltd1

Anglian Water Services Financing Plc1

Anglian Water Services Financing Group (AWSFG)

Direct subsidiary

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



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

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

- · we act in the public interest;
- their bills are affordable and provide value for money;
- we're responsible with their money;
- we run our business efficiently, sharing any savings fairly between our customers and our shareholders;
- · while our shareholders (representing millions of individual pension holders) deserve to make a return, our profits are not excessive; and
- · we pay our fair share of tax.
- See 'Financial performance report' on pages 32-37
- See 'Shareholders' on page 69



Sharing the rewards

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.

Attracting investment

Profits are essential to attract private investment, as revenue received through customers' bills alone could only fund a fraction of what we invest each year. Private investment also effectively spreads the cost of extending and improving our assets over their operational life. In this way, tomorrow's customers pay for tomorrow's use of the asset.

We have to provide investors with a reasonable return on their investment. We also believe that in years where we deliver excellent performance, this should be reflected in higher profits. However, profits can rise or fall due to factors not directly related to performance - for instance, the level of interest rates, the rate of inflation or unexpected new legal obligations.

Ofwat sets allowed returns at a fixed real rate plus inflation. This means that when inflation out-turns at a significantly lower rate than assumed at a price determination, this can adversely affect our finances. Conversely, when inflation out-turns at a higher rate, as is the case this year, it can benefit our investors.



We strive to run our business in a responsible and transparent way to maintain the trust and confidence of our customers

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 though our hedging strategy.

Our dividend policy

The Board has an approved dividend policy, under which dividend payments will be aligned to the performance of the business, taking into account commitments to customers and other stakeholders and ensuring that it can finance its operations. Further details can be found on page 35 and our full dividend policy is on our website at anglianwater. co.uk/governance

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, through a wide range of taxes collected and paid. Our taxable profits are less than the profits shown in our accounts. but our effective rate of corporation tax is in line with the statutory rate of corporation tax. This is because of the huge amount of investment we 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 invested f2 billion between 2015 and 2020. This is central to underpinning the growth of the regional economy.

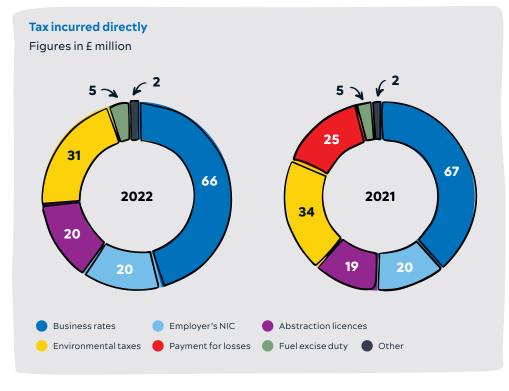
That investment is largely paid for by borrowing, and we have to pay interest on that borrowing. HMRC rules say companies only pay corporation tax on the profits they have remaining after any interest payments are made.

Our taxable profits are also reduced by capital allowances, which the government grants us to encourage infrastructure investment. Accounting profits are reduced by depreciation - the 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.

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.



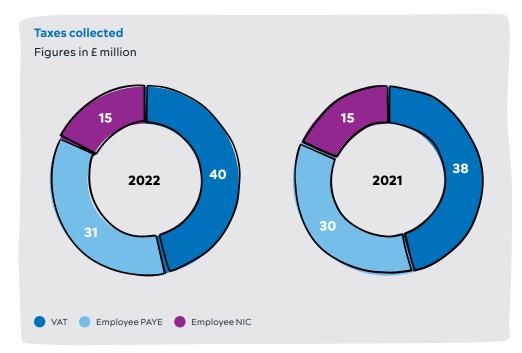
Tax planning and compliance

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.

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're 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're 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, multilayered risk management system, which consists of risk registers for all areas of the business (see pages 90-103). 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 2022 amounted to £230 million (2021: £255 million), of which £86 million was collected on behalf of the authorities for value-added tax (VAT) (£40 million) and employee payroll taxes (£46 million).

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

- Business rates of £66 million paid to local authorities. This is a direct cost to Anglian Water and reduces profit before tax.
- Employment taxes of £66 million, including £46 million of employee Pay As You Earn (PAYE) and National Insurance Contributions (NICs) collected from salaries paid. In addition, employer NICs of £20 million were charged approximately 72 per cent to operating costs, reducing profit before tax, with 28 per cent capitalised to fixed assets.
- VAT of £40 million collected and paid to HMRC. VAT has no material impact on profit before tax.
- Abstraction licences and direct discharges of £20 million. This is a direct cost to Anglian Water and reduces profit before tax.
- Fuel excise duty of £5 million related to transport costs and charged to operating costs, reducing profit before tax.
- Environmental taxes of £31 million charged to operating costs, reducing profit before tax.

Financing our business sustainably

There's no doubt that investor appetite for sustainable financing is strong and growing. In 2021, more than £1.1 trillion in sustainable debt instruments were issued globally, setting a record, and bringing the total market to over £3 trillion.

Green bonds doubled in issuance between 2020 and 2021, with volumes reaching more than £460 billion. Social and sustainability bonds together reached a record £300 billion in issuance in 2021. What was, until recently, a niche market has reached the mainstream.

Sustainable finance at **Anglian Water**

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. Our first £250 million, eight-year bond will mature in August 2025, with a return to investors of 1.625 per cent.

Since 2017, we've raised a total of £1.8 billion of sustainable financing, and we plan to fund our entire remaining capital programme to 2025 using sustainable funding instruments.

Since then, we've raised a total of £1.8 billion of sustainable financing. We raised all of our debt as sustainable finance in 2021/22 and we're planning to continue to do so for the remainder of our debt raising in 2022-2025.

The investments we've financed through our Green Bonds have saved more than 179,000 tonnes of carbon, as measured in 2021. They contribute to five environmental objectives: climate change mitigation; climate change adaptation; biodiversity conservation; pollution prevention and control; and natural resources conservation.

For us, finance and sustainability go hand in hand - and thanks to our long track record of securing external validation of our impact, we have the evidence base that enables us to engage with these progressive funding sources. Together with a growing number of organisations both in the UK and around the world, we have the power to make a real difference.

Sustainable investing

As part of Anglian Water's commitment to sustainability, the funds we've 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're seeking new opportunities to ensure 100 per cent of investments from the ring-fenced account are sustainable investments by the end of 2023. The sustainable investments are offered by our banking partners and are often held against loans funding sustainable projects aimed at achieving the UN SDGs. We're pleased to increase the reach of our impact through these innovative new products.

Our activity in 2021/22

In a water company world first, we issued a £300 million Sustainability-Linked Bond in June 2021 through Anglian Water (Osprey) Financing Plc, linked to achieving our ambitious net zero goals. The transaction was the first to see the interest rates payable for the debt tied to a company achieving its net zero targets: if we fail to achieve our ambitious 2025 transitional carbon goals (including a best-in-class 65 per cent reduction in capital carbon and a 106,905-tonne reduction in operational emissions), we will pay a higher rate of interest for the debt.

For us, finance and sustainability go hand in hand - and thanks to our long track record of securing external validation of our impact, we have the evidence base to facilitate funding our entire programme sustainably.

Related to this issuance was the publishing of our Sustainability-linked Bond Framework, which was reviewed by DNV as a Second Party Opinion and is available on our website. The document governs our approach to sustainability-linked debt such as the bond issuance described here, as well as private placements and debt facilities.

We also issued a total of £100.4 million of Green Bond finance in the 2021/22 financial year.

Funding our WINEP

Our Water Industry National Environment Programme (WINEP) for 2020-2025 will be financed almost entirely with sustainable finance. A recent £25.5 million Green Bond issuance has funded some components of the WINEP programme already, and we're planning to make additional issuances over the rest of the AMP to cover most of the financing. The programme's goals include developing innovative phosphorus reduction methods, reducing our abstraction from local waterways, and protecting and increasing local biodiversity, among others. Funding to date has covered projects to protect local wildlife, including the installation of eel screens, as well as work to restore rare chalk streams.

Projects funded include innovative water abstraction projects, drought and flood resilience schemes and progressive water recycling and water resource management schemes (see 'Green Bonds funding river restoration' on the next page).

Green Bonds funding river restoration and abstraction reduction

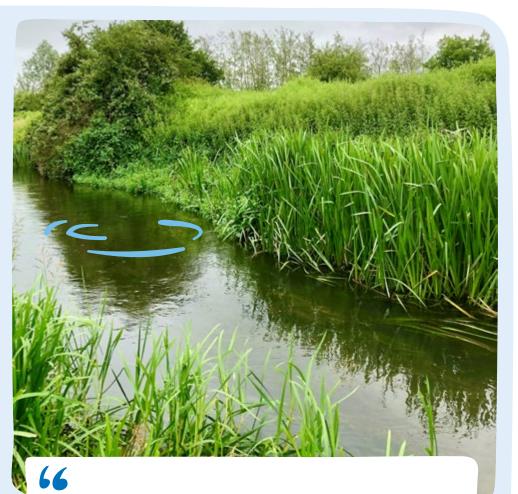
As part of our ongoing commitment to protecting our region's precious environments, such as sites of special scientific interest (SSSIs) and chalk streams, we're continuing to drive a reduction in the amount of water that we abstract from 2020 to 2025. In the Norfolk Broads, we're investing more than £15 million to improve our network connectivity and cease groundwater abstraction close to sites of special scientific interest (SSSIs) such as the Ant Broads and Marshes. This involves increasing the available storage and capacity of our network in order to be able to bring water across from Heigham Water Treatment Works to supply customers in East Norfolk. Through early investment delivery, we've already been able to reduce abstraction by 1.4 million litres a day, and we plan to reduce this by a further 2.7 million litres a day by June 2024. This means that more than four million additional litres of water will remain in the aguifer every day, remaining available to support the unique features and species found on these Fen SSSIs (including Annex I priority habitat, calcareous Fen, and the Fen orchid).

Our chalk streams and other sensitive rivers will also receive a £7 million boost, with up to 117 kilometres of river restoration planned across 16 rivers by 2025. This includes our flagship chalk stream - the River Lark - and several other high-priority rivers across

Norfolk, Suffolk, South Lincolnshire and Bedfordshire. The work, which started in late 2021, will involve reinstating lost habitats, features and processes that allow the rivers to function naturally, support thriving wildlife (including invertebrates, fish and water vole and otter), and be resilient to the challenges of climate change. Site walkovers and initial environmental improvement options have been identified, with plans to move to detailed design and in-river delivery from summer 2022.

An additional £12.5 million will be spent supporting the lowest flows in these rivers, ensuring that the restored habitat will be maintained with flow during the driest summers. Enabling works are ongoing to ensure that these projects are delivered at the same pace as the river restoration programme.

In total, we will be investing almost £35 million in our rivers and other groundwater-dependent ecosystems, bringing environmental prosperity to targeted areas of the region in AMP7. We will continue to work closely with local landowners, stakeholders and regulators to ensure that the benefits of these investments are realised and maximised for local communities.



We hope to see an improvement in the diversity of invertebrate life in the rivers, which is an excellent indicator of overall river health, while also increasing the resilience of the river ecosystems to fluctuations in flows throughout the year.

Martin Bowes, Water Resources Environment Manager

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:

	2022 Total £m	2021 Total £m (restated ³)
Revenue (excluding grants and contributions)	1,299.7	1,276.2
Grants and contributions	100.1	75.6
Operating costs	(612.5)	(605.9)
Charge for bad and doubtful debts	(11.1)	(31.1)
Other operating income	12.3	12.5
EBITDA ¹	788.5	727.3
Depreciation and amortisation	(347.7)	(338.4)
Operating profit	440.8	388.9
Finance income	1.4	2.0
Finance costs ²	(459.7)	(252.2)
Adjusted (loss)/profit before tax ¹	(17.5)	138.7
Finance costs – fair value losses on financial derivatives ²	(115.1)	(23.2)
(Loss)/profit before tax on a statutory basis	(132.6)	115.5
Tax	(310.2)	(19.5)
(Loss)/profit after tax	(442.8)	96.0

- 1 As defined in note 31 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.
- 3 The results, financial position and cash flows for the year ended 31 March 2021 have been restated as a result of the change in accounting policy as discussed in note 1.

Revenue

Revenue, excluding grants and contributions, was £1,299.7 million (2021: £1,276.2 million), an increase of £23.5 million (1.8 per cent) 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, £36.4 million increase.
- The impact of Covid-19 restrictions lifting, net £36.4 million decrease. Household consumption down £49.3 million and non-household consumption up £12.9 million as we trend back to pre-Covid-19 levels of consumption.
- £19.0 million which has been ring-fenced to fund our LITE tariff, which has supported customers through Covid-19 and is being retained to provide additional support through the cost of living crisis.
- Other offsetting increases in revenue of £4.5 million including increases in customer numbers.

Grants and contributions represent the cash and asset contributions made principally by property developers and local authorities for connecting new property developments to the water and sewerage network, and for diverting existing infrastructure. Over the year these have increased by £24.5 million to £100.1 million. This reflects additional income from High Speed 2 (HS2, the planned high-speed rail connection between London and cities in the north of England) and a strong rebound in the housing market.

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 (FD).

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 debts for the year decreased by £13.4 million (2.1 per cent) to £623.6 million. This decrease is explained in the table below:

	Total
Prior year	621.4
Prior year Software-as-a-Service restatement	15.6
Prior year restated	637.0
Funded by FD	
Inflation	22.8
Reduction in Software-as-a-Service in the year	(6.0)
Capitalisation of replacement infrastructure assets	(16.8)
Weather related	
Additional tankering of sludge	2.0
Bad debt provision	
Improved collection	(11.9)
Release of excess Covid-19 provision	(8.1)
Other significant items	
Leakage performance strategy	8.5
Ongoing efficiency challenge	(3.9)
Total decrease	(13.4)
March 2022	623.6

Prior year Software-as-a-Service (SaaS) restatement

As disclosed in note 1, our intangible accounting policy has been amended to reflect the clarification by the International Financial Reporting Interpretations Committee (IFRIC) on the treatment of Software-as-a-Service costs, meaning certain costs that were previously capitalised have been expensed. This has resulted in a prior year increase to operating costs of £15.6 million. These costs naturally fluctuate as systems implementations change year-on-year, incurring a cost in the current year of £9.6 million, a £6.0 million reduction on the previous year.

Inflation

The inflationary increases in our cost base which 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. As a result of the change in delivery, from individual jobs to a scheme of work, the cost of the scheme is above our de-minimus threshold for capitalisation, resulting in the costs being treated as capital expenditure rather than operational.

Additional tankering

The impacts of climate change are fundamental to our business, and our climate-related financial disclosures can be found on pages 79-89. The past two years have seen a number of exceptional weather events. The extremely wet weather at the start of 2021 resulted in increased costs of tankering in the current year as we had to move additional quantities of sludge around the region.

Bad debt provision

The decrease in bad debt is a result of strong cash collection in the year and the reassessment of provision in our debt over 48 months old (£6.0 million), 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 macro-economic factors on our collection performance, as required by IFRS 9. The improving unemployment forecasts, offset in part by the projected cost of living crisis, has resulted in the release of £6.6 million of bad debt provision. Set against last year's increase of £1.5 million, this amounts to a net £8.1 million reduction. Further details can be found in note 2.

Leakage performance strategy

We spent an additional £8.5 million on the Leakage Recovery Project, which was part of the increased investment towards meeting leakage targets for the year, and contributed to a 6.1 per cent reduction in leakage.

Ongoing efficiency challenge

Representing management's ongoing drive to ensure strong cost control and spend being delivered efficiently.

Energy

The market cost of power has fluctuated significantly in the year. The business hedges its costs by locking in wholescale electricity rates in advance, which has mitigated increasing electricity rates in the year; however, we did see a modest increase in gas costs which were not economic to hedge. These were offset by a decrease in consumption and lower non-commodity prices. In the final few months of the year management spent a considerable time reviewing the hedging strategy and will continue to do so over the coming year.

EBITDA

Earnings before net finance costs, taxes, depreciation and amortisation (EBITDA) is defined in note 31 and is the profit from continuing operations before interest, tax, depreciation and amortisation. This has increased by 8.4 per cent to £788.5 million, which is consistent with the effect of the increase in grants and contributions income and reduction in bad debt costs described above.

Depreciation and amortisation

Depreciation and amortisation is up 2.7 per cent to £347.7 million compared with last year, 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 increased by 13.3 per cent to £440.8 million, which is consistent with the increase in EBITDA, partially offset by the increase in depreciation.

Financing costs and profit before tax

Adjusted net finance costs (excluding fair value gains and losses on financial instruments), as defined in note 6 on page 178, increased from £250.2 million in 2021 to £458.3 million in 2022. This was primarily the result of the non-cash impact of higher inflation on index-linked debt which increased by £206.4 million to £255.0 million. This increase was due to an increase in year-on-year average Retail Price Index (RPI) from 1.2 per cent to 5.8 per cent and year-on-year average Consumer Price Index (CPI) from 0.6 per cent to 4.0 per cent.

We have both RPI-linked debt and CPIlinked debt to hedge the Regulated Capital Value (RCV).

There was a fair value loss of £115.1 million on derivative financial instruments in 2022, compared with a loss of £23.2 million in 2021. The fair value losses in the current vear are predominantly non-cash in nature and have no material effect on the underlying commercial operations of the business. The driving factors for the loss in 2022 were primarily due to increases in forward inflation expectations, partially offset by a rise in forward interest rates (decreasing the discounted present value of derivatives). During the year, forward inflation increased by circa 138 basis points and forward interest rates increased by 54 basis points across the curves.

Following the cessation of GBP LIBOR on 31 December 2021, it was replaced by SONIA, which is now used in the valuation of the derivative portfolio. The switch from LIBOR to SONIA discounting resulted in a net decrease in the valuation of the derivative portfolio of £55.0 million. A proportion of this decrease, in relation to derivatives that are not in hedging relationships, is included in fair value losses in the current year.

Adjusted loss before tax (excluding fair value gains and losses on financial instruments), for the year was £17.5 million, compared with a £138.7 million profit in the prior year. This increase primarily reflects the impact of higher inflation on interest costs as mentioned.

Taxation

	Year ended 31 March 2022 £m	Year ended 31 March 2021 (restated) £m
Current tax:		
In respect of the current period	(13.6)	(0.1)
Adjustments in respect of prior periods	(5.1)	(5.4)
Total current tax credit	(18.7)	(5.5)
Deferred tax:		
Origination and reversal of temporary differences	(25.9)	23.4
Adjustments in respect of previous periods	1.2	1.6
Increase in corporation tax rate	353.6	_
Total deferred tax charge	328.9	25.0
Total tax charge on loss on continuing operations	310.2	19.5

We're one of the largest private investors in infrastructure in our region, having invested just over £1 billion in the past 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 2022, other than corporation tax, amounted to £230 million (2021: £255 million), of which £86 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 £18.7 million (2021: £5.5 million). The deferred tax charge has increased by £303.9 million from £25.0 million in 2021 to £328.9 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. In this year there is also a one-off current tax credit due a transitional adjustment on the treatment of software-as-a-service (Saas). The primary reason for the increase in the deferred tax liability is the increase in corporation tax rate from 19 per cent to 25 per cent, due to take effect from April 2023. As our deferred liability will not arise until after the new corporation tax rate comes into force in April 2023, we have to restate the liability using the increased rate of 25 per cent. This results in an increase of £353.6 million.

In advance of the corporation tax rate rise. the government has introduced capital allowance 'superdeductions' which allow companies to accelerate their tax relief on capital expenditure. This has increased the amount of losses available to surrender to other Group companies and therefore increased the current tax credit. It has also created tax losses to carry forward in the company which give rise to a deferred tax credit of £18.8 million (2021: £nil) to offset the deferred tax charge due to the rate rise.

Also reducing the deferred tax charge is an increased deferred tax credit of £21.9 million (2021: £4.4 million) relating to fair value losses. This increase in the overall deferred tax charge is a non-cash tax charge.

In addition, tax forms part of the revenue building block and therefore any future tax charges will be funded through revenues. Further, Ofwat introduced a tax trueup reconciliation in the current AMP to account for changes in tax rates.

In addition to the £310.2 million tax charge on the income statement, there is a charge of £40.7 million (2021: credit of £27.1 million) in the statement of other comprehensive income in relation to tax on actuarial losses on pension schemes, fair value gains on cash-flow hedges and the change in corporation tax mentioned above.

Distributions available to the ultimate investors

A £96.3 million prior year final dividend was paid in the period (2021: £nil), reflecting the company's dividend policy having regard to Anglian Water's purpose and duties under the company's Articles of Association.

In line with the dividend policy described below, the Directors have proposed to pay a final dividend of £169.0 million in June 2022. A deduction of £9.0 million has been made to reflect the outcome delivery incentives (ODI) penalty in the period. This decision is in combination with an equity injection of £1,165.0 million in the 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. It is proposed that our ultimate shareholders will, for the first time since 2017, receive a dividend: £91.8 million. The Board has an approved dividend policy, under which dividend payments will be aligned to the performance of the business, taking into account commitments to customers and other stakeholders and ensuring that the company can finance its operations. Anglian Water aims to attract long-term shareholders who support its long-term ambitions. The support of our shareholders is critical to the success of our business and to securing the investment that Anglian Water needs. Therefore, it is appropriate that our shareholders receive a return on their investment. This is delivered partly through long-term capital growth and partly through dividends.

The company's dividend policy is to identify the cash available for distribution, allowing for the business's liquidity requirements in respect of funding its operations and the capital programme, and servicing its debt for the next 18 months. When considering a dividend, the Directors consider the Business Plan, have regard to Anglian Water's purpose and reflect their duties under the company's Articles of Association.

An assessment is completed by the Board to determine if the payment or part payment of the dividend reflects and/or would compromise the long-term social, financial and operational commitments made to our stakeholders. Following this assessment and depending on the actual performance of Anglian Water, the Board can decide to increase or decrease any dividend payment from the base position.

In assessing the dividend payment, the Directors review the business performance forecasts (currently to the end of the AMP period of 31 March 2025) and give consideration to the potential impact of external factors in the economy and regulatory environment on the company's forecast cash flows.

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

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

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

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

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

Continuing to deliver our AMP7 capital investment programme

2021/22 is the second 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 across the appointed business increasing from £447.0 million to £577.7 million (£269.3 million on capital maintenance, £308.4 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 the previous five-year Business Plan, AMP6.

This has resulted in a £285.9 million increase in the value of property, plant and equipment and intangible assets, net of depreciation.

Financial needs and resources

As part of the company's financial restructure completed in July 2021, a principal aim of which was to stabilise the credit ratings, a total of £1,165.0 million was injected as equity by its immediate shareholders into Anglian Water. Following this, in September 2021, a proportion of these proceeds were used to prepay Anglian Water's Class B debt, comprising:

- \$410 million 5.18 per cent Private Placement due Dec 2021:
- \$160 million 4.99 per cent Private Placement due November 2023; and
- \$47 million 5 per cent Private Placement due October 2022.

A make-whole payment of £14.5 million was made in respect of the early repayment in accordance with the debt terms and conditions. In addition. scheduled repayments were made in respect of the following debt:

- \$160 million 4.52 per cent Private Placement debt repaid in June 2021;
- £33.5 million of amortising payments in respect of European Investment Bank (EIB) index-linked debt repaid in August 2021: and
- £35.0 million repaid in February 2022.

A repayment of £25 million was also made in respect of the remaining outstanding drawings on the £550 million syndicated revolving credit facility, which, in addition to the £50 million bilateral revolving credit facility, had been fully drawn down in March 2020 to provide a short-term liquidity buffer to cover Covid-19 uncertainty and (apart from the £25 million repaid this year), were fully repaid during the prior year.

During the year to 31 March 2022, Anglian Water also received £75 million of funds in respect of two forward-starting, fixed-rate notes with a coupon of 2.14 per cent and maturing in 2036 that were transacted in the prior year and c. £25 million in respect of a biodiversity bond. Anglian Water also received £25.5 million from a US\$35 million private placement which has been swapped to sterling.

At 31 March 2022, Anglian Water had borrowings, net of cash, of £5,621.3 million (£6,783.3 million including the fair valuation of derivatives), a decrease of £1,028.5 million (£707.5 million including the fair value of derivatives) over the prior year. The fair value of derivative financial liabilities was £1,162.0 million, excluding derivative financial assets of £73.4 million in respect of energy derivatives. Net borrowings of £5,621.3 million comprised fixed, index-linked and variable-rate debt of £6,456.2 million, leases of £35.8 million and cash and deposits of £870.7 million. The decrease in net borrowings primarily reflects the impact of the £1,165 million equity injection and the ongoing capital investment programme. Net debt to RCV at year end was 64.8 per cent.

The business generated cash from operations of £749.9 million in the year (2021: £632.8 million). The increase primarily reflects improvements in EBITDA described above, strong customer cash collection, reduced pension scheme contributions in the current year, and the timing of supplier payments and VAT receipts.

The support of our shareholders is critical to the success of our business and to securing the investment that Anglian Water needs.

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 2022, Anglian Water held cash, deposits and current asset investments of £870.7 million (2021: £285.9 million). The increase in cash amounts held is primarily the result of the retention of the surplus from the capital injection of £1,165.0 million and the £100.0 million of new debt proceeds and the scheduled and early debt repayments of £607 million made during the year, and also the net of operational and residual investing and financing cashflows.

As at March 2022 Anglian Water has access to £600.0 million of undrawn facilities (March 2021: £575 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: £400.0 million), consisting of £254.0 million to finance debt service costs and £121.0 million to finance operating expenditure and maintenance capital expenditure in the event that the company was in an Event of Default on its debt obligations and had insufficient alternative sources of liquidity. See note 1 for further commentary over the liquidity requirements of the group in relation to going concern.

Directors are required to act in the way that is considered most likely to promote Anglian Water's purpose.

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, 68.9 per cent (2021: 62.7 per cent) of the company's borrowings were at rates indexed to inflation, 25.1 per cent (2021: 32.1 per cent) were at fixed rates and 6.0 per cent (2021: 6.1 per cent) were at floating rates. At 31 March 2022, the proportion of inflation debt to regulated capital value was 51.4 per cent (2021: 53.4 per cent).

Pension funding

At 31 March 2022, the closed defined benefit scheme, excluding the unfunded pension liability, had an IAS 19 accounting pension surplus (before deferred tax) of £163.4 million, compared to a surplus of £10.0 million at 31 March 2021. This increase in surplus reflects an increase in the corporate bond rate used to discount the scheme's liabilities. During the year a deficit reduction payment of £14.6 million was made by the company, compared with £36.5 million in the prior year.

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/ourreports.



Find out more at Find out more at anglianwater.co.uk/our-reports

Defining our purpose was just the first step. Being accountable for delivering it and embedding it into our culture is even more important.

When we set out our purpose and embedded it into our Articles of Association in 2019, we also committed to judging ourselves against a set of responsible business principles. The Board has agreed that we should monitor our progress in this area by participating in the Business in the Community (BITC) Responsible Business Tracker®. The Responsible Business Tracker® is structured around BITC's Responsible Business Map, and aligned with the United Nations Sustainable Development Goals. The Map represents BITC's view of a responsible business; one that puts creating healthy communities and a healthy environment at the centre of its strategy to achieve long-term value www.bitc.org.uk/the-responsiblebusiness-map/

The metrics within the Responsible Business Tracker have evolved over the last few years, meaning that results are not directly comparable year on year; however, our scores were as follows:

Current year:

76 per cent (up 3 per cent on 2020)

Compared to the cohort average of:

45 per cent

(up 2 per cent on 2020)

We use the detailed report we receive from BITC to agree future areas of focus with the Management Board. It was encouraging to see that the areas identified in 2020, including diversity and inclusion, had progressed significantly by the time of the 2021 tracker assessment (see 'Our people & partners, pages 61-68), scoring 62 per cent in comparison to the cohort average of 48 per cent. Our focus over the next year will be on our value chain; in particular, our procurement team is working on embedding sustainability at the core of our supply chain (see page 68).

As we reported last year, we've also been working with the British Standards Institution on a new Publicly Available Specification (PAS) for embedding purpose in organisations. As the lead sponsor we've worked with BSI and an advisory panel consisting of leading responsible businesses, academics, charities and sustainability organisations to produce PAS 808:2022 'Purposedriven organisations - Worldviews, principles and behaviours for delivering sustainability'. Having gone through a full public consultation in late 2021, the final version is due to be published in July 2022. During this year we will assess ourselves against the specification, ready to include a summary in next year's report.

Holding ourselves to account through benchmarking and assessments against standards is one thing, but it's important that our customers and communities can see we're delivering against our commitments too.

The new PAS 808 will also inform the ongoing work of the Remuneration Committee to put purpose and environmental, social and governance consideration at the heart of remuneration (see pages 132-152).

Holding ourselves to account through benchmarking and assessments against standards is one thing, but it is important that our customers and the communities. we serve are able to see that we're delivering against our commitments too. In June 2021 we launched our Social Contract and our Community Recovery Plan. Progress reports against the commitments in these plans will be reported on our website later this year.

The Better Business Act

We're proud supporters of the Better Business Act coalition (BBA), a business-led campaign supported by more than 1,000 UK companies. The BBA calls for a change to Section 172 of the Companies Act to require every medium and large company in the UK to align their activity with the interests of wider society and the environment, as we already do at Anglian Water. We joined the BBA at the House of Commons in April 2022 to talk to parliamentarians about the steps we've taken and to gather support for the initiative.



Anglian Water colleagues visited parliament and discussed our purpose with MPs including Bill Esterson (third left) and Jonathan Reynolds

We were delighted, in November 2021, to be awarded Best Use of **Purpose as a Business Driver at** the Strategic Comms Awards. **Embedding consideration of our** purpose into decision-making is critical to being able to deliver effectively against it.

We were delighted, in November 2021, to be awarded Best Use of Purpose as a Business Driver at the Strategic Comms Awards. Ensuring that we embed the consideration of our purpose into our decision making is critical to being able to deliver effectively against it. Arguably the greatest potential impact, and therefore the greatest opportunity for this, is within our totex investment process. We've worked through a cross-business steering group to develop a set of six capital metrics - natural, social, financial, manufactured, people and intellectual - (see page 20) which can be used to consider the broadest value when making investment decisions. These have now been incorporated into our value framework, aligned with our benefits realisation process and are being used in our most important investment pathways.

The Six Capitals Steering Group is now focusing on a corporate dashboard which can be used to indicate progression against our purpose at the company level. This will help all our employees to see how they contribute to the successful delivery of environmental and social prosperity in the region we serve.

Working in the spirit of the UN **Sustainable Development Goals**

It is important to us to be able to demonstrate that our activities not only contribute to positive outcomes in our region, but also play a small part in delivering the international objectives of the United Nations (UN) Sustainable Development Goals (SDGs). We're working in the spirit of all 17 goals, but we've mapped our work to the 10 where we have the most material impact at the level of the targets. You can see some of the links between the SDG targets and our delivery throughout the report (and more details on our website), and in the Sustainable Finance Impact Report.



Discover more online at anglianwater.co.uk/UN-SDGs



It's important to us to be able to demonstrate that our activities not only contribute to positive outcomes in our region, but also play a small part in delivering the international objectives of the United Nations (UN) Sustainable Development Goals (SDGs)



It has been hugely impressive to hear how you have, even during these times, been unrelenting in challenging yourselves and progressing further. Anglian Water has continued to raise the bar and remains a great example of a truly responsible business.

Shona Welberry, Relationship Manager, Business in the Community

Performance commitments dashboard

To measure our progress towards our 2020-2025 outcomes, we've been set targets by our regulator Ofwat. These are summarised below, with information on how we monitor our progress, how we've performed this year, and whether rewards or penalties are attached to each commitment.

Fair charges, fair returns					
What are we measuring and how are we measuring it?	Prior year performance (2020/21)	Current year performance (2021/22)	Current year target (2021/22)	Reward or penalty outcome for 2021/22	
Managing void properties The percentage of properties that are falsely identified as void properties. This means that they are occupied and should be charged by the company.	0.21	0.12	0.40	+£1.3m reward	
Value for money A survey of customers by the Consumer Council for Water about the value for money provided by the company.	76% agree we provide good value for money	77% agree we provide good value for money	79% agree we provide good value for money	N/A	

What are we measuring and how are we measuring it?	Prior year performance (2020/21)	Current year performance (2021/22)	Current year target (2021/22)	Reward or penalty outcome for 2021/22
Water quality (Compliance Risk Index) This is the key measure used by the Drinking Water Inspectorate to determine our overall compliance with stringent regulatory drinking water standards.	1.98	4.04*	0.00	-£1.6m penalty*
Water quality contacts The number of complaints from customers about water quality per thousand people served.	1.13	1.03*	1.01	-£0.1m* penalty
Event Risk Index This assessment looks at the company's approach to risk mitigation of water quality events.	6.157	0.972*	15.000	N/A

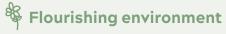
2	target met o	commitment on track	- target not met

66	Delighted o	ustomers
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What are we measuring and how are we measuring it?	Prior year performance (2020/21)	Current year performance (2021/22)	Current year target (2021/22)	or penalty outcome for 2021/22
Customer Measure of Experience (CMeX) Customer survey conducted for Ofwat called CMeX which assesses the experience the company provides to residential customers.	83.05/100 putting us in 7th place	80.43/100 putting us in 9th place	Comparative measure – we aim to perform in the top 25% of companies (4th position or higher)	£0m reward
Developer Measure of Experience (DMeX) Survey conducted for Ofwat called DMeX which assesses the experience the company provides to developer services customers who build new homes.	87.72/100 putting us in 6th place	87.54/100 putting us in 7th place	Comparative measure – we aim to perform in the top 25% of companies (4th position or higher)	+£1.2m reward
Properties at risk of persistent low pressure Number of properties that are affected by persistent low pressure. Persistent low water pressure is an ongoing low pressure problem rather than short-term low pressure caused by a water mains burst or unusual peak in demand for water.	147	58	150	+£0.6m reward
Internal sewer flooding The number of times that properties are flooded internally per 10,000 customer connections to the sewer.	1.33	1.73	1.63	-£1.1m penalty
External sewer flooding The number of times that properties are flooded externally.	3,628	4,181	4,141	-£0.2m penalty
Non-household retailer satisfaction This measure assesses the service provided by the company to non- household retailers.	74.6	90.6	75.7	✓ N/A
Water supply interruptions Average length of supply interruptions per property (for interruptions over three hours).	5m 02s	9m 48s	6m 08s	-£4.2m penalty

Positive impact on communities

What are we measuring and how are we measuring it?	Prior year performance (2020/21)	Current year performance (2021/22)	Current year target (2021/22)	Reward or penalty outcome for 2021/22
Priority services for customers in vulnerable	6.0% reach	9.4% reach	3.6% reach	
circumstances The percentage of customers recorded as requiring priority services due to being in vulnerable circumstances and the	38.8% actual contact	62.2% actual contact	35% actual contact	~
percentage of people contacted to ensure records are kept up to date.	50% attempted contact	100% attempted 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.	54.3%	52.5%	52%	V 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.	319,466	324,750	288,958	✓ N/A
Community investment The percentage increase in beneficiaries of our community investment programmes through which the company adds social value to its communities (compared to 2020/21).	0% (baseline year)	137.5%	1%	✓ 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.	0.02	0.34	0.01	✓ 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.	14	35	92 by 2025	✓ £N/A



	e measuring e we measuring it?	Prior year performance (2020/21)	Current year performance (2021/22)	Current year target (2021/22)	Reward or penalty outcome for 2021/22
incidents	incidents Number of pollution due to escapes from our sewerage per 10,000km of sewer network.	27.65	33.75	23.74	-£4.5m penalty
Number of region rat	vaters attaining 'Excellent' status of recognised bathing waters in our ted 'Excellent' (based on standards e European Bathing Water Directive).	Not assessed	32	33	— £N/A
incentive	ton Incentive Mechanism An to reduce the water we take from rivers or wetlands during very dry	-83MI	-376.07 M/l	-87 M/l	√ +£0m
WINEP	The progress of the company in delivering its agreed Water Industry National Environment Programme	520	1,184	1,006	+£1.1m reward; target met
WINEP delivery	(WINEP) schemes in a timely manner. The number of schemes shown is cumulative across the AMP.	Met	Met	Met	V N/A
towards r	apital This measures progress neeting improvements in natural thin our region.	Not met	Not met	On track	N/A
progress a regiona	collaboration This measures towards the development of I approach to assessing and ng natural capital.	On track	On track	On track	V N/A
progress	eatment capacity This measures towards delivering additional sludge t capacity.	N/A - new for 2021/22	Not assessed	100% by 2025	£N/A

Reward

Supply meets demand

one million litres. Per capita consumption (PCC) A percentage reduction in the average water consumption per household per day for properties in our region. Smart metering delivery The number of smart water meters that are installed at customer. 164 400 310 321 438 559	vard penalty come 2021/22
reduction in the average water consumption per household per day for properties in our region. Smart metering delivery The number of smart water meters that are installed at customer 3% increase increase reduction £N/).2m
water meters that are installed at customer 164,400 310,321 438,559	/A this year*
	/A this year
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. 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.	/A

00ah		
1	A smaller footprint	
II		

What are we measuring and how are we measuring it?	Prior year performance (2020/21)	Current year performance (2021/22)	Current year target (2021/22)	Reward or penalty outcome for 2021/22
Operational carbon Percentage reduction in carbon emissions from day-to-day operations compared to a 2019/20 baseline.	5.1%	9.4%*	4%	✓ N/A
Capital carbon Percentage reduction in carbon emissions from construction activity measured in tonnes of CO ₂ equivalent compared to a 2010 baseline.	61.2%	63.1%	62.0%	✓ N/A

* Subject to confirmation by Ofwat

Investing for tomorrow

What are we measuring and how are we measuring it?	Prior year performance (2020/21)	Current year performance (2021/22)	Current year target (2021/22)	or penalty outcome for 2021/22
Mains repairs Number of repairs made to water mains per 1,000km of total water mains.	130.6	122.2	138.1	√ £0m
Unplanned outage Percentage of maximum water treatment/ works output unavailable during the year.	1.14%	1.72%	2.34%	√ £0m
Sewer collapses Number of sewer collapses per 1,000km of sewers.	6.09	5.44	5.60	£0m
Treatment works compliance Percentage of water and sewage treatment works meeting permits for the quality of water discharged to the environment.	99.29%	98.22%	100%	-£1.1m penalty
Reactive mains bursts Reactive bursts are those that are identified and reported by a customer or third party before they are identified by the company.	4,037	3,322	3,063	N/A

(***) Resilient business

What are we measuring and how are we measuring it?	Prior year performance (2020/21)	Current year performance (2021/22)	Current year target (2021/22)	Reward or penalty outcome for 2021/22
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%	20.5%	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.	0.37%	0.75%	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 increase the number of properties supplied by more than one water treatment works so that if something goes wrong at one works, our customers' water supplies are protected.	22.7%	22.7%	21.8%	£Om
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.	On track	On track	100% by 2025	€N/A

Our performance in context

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

This year (2021/22) is the second of our current five-year regulatory cycle (also known as AMP7, as it is the seventh assetmanagement period since privatisation in 1989). Our performance is measured against a suite of stretching targets known as Performance Commitments (PCs) and is agreed with Ofwat.

Our performance is measured against a suite of stretching targets known as Performance Commitments (PCs) agreed with Ofwat.

Following a strong year in 2020/21, in which we were named as a sectorleading company by Ofwat in its Service Delivery Report, this year has been more challenging. While we've achieved strong performance in many areas (notably, ahead of target delivery of environmental programmes, world-class leakage reduction, and £32 million of support for almost 325,000 customers facing affordability challenges), we have not reached our targets for some key commitments.

We were undoubtedly impacted by the exceptional flooding and wet weather in the winter of 2020/21. It was localised, very intense and prolonged. We made decisions that prioritised customers including pumping out sewers so that customers could shower and flush their toilets, at a point in time when lockdown prevented them going anywhere else.

The consequences of these difficult decisions have resulted in a knock-on impact which has lasted well into the 2021/22 financial year.

Leakage We've recorded our best ever leakage performance for a single year of 173.4Ml/d, which extends our industry-leading performance. On the three-year average basis that we're measured against by Ofwat, this equates to 182.3MI/d and a 6.1 per cent reduction from our 2020/21 baseline. In light of the challenges from Covid-19 and cold weather in 2020/21, we're particularly pleased to have exceeded our stretching regulatory target of a 5.6 per cent reduction.

For example, by making use of assets such as tankers to help and protect customers, rather than using them to manage routine work at our water recycling centres, we put our ability to maintain compliance at some of these sites at risk.

This contributed to treatment works compliance falling in 2021/22 to 98.22 per cent of works meeting permit conditions (99.29 per cent in 2020/21), with 15 works failing this year. This performance has resulted in an underperformance penalty of £1.1 million.

Prioritising our customers during the exceptional wet weather period also resulted in a backlog of routine maintenance jobs. This impacted measures including internal flooding, where we saw a rise from last year's 1.33 incidents per 10,000 connections to 1.73 per 10,000, and external flooding, where we narrowly missed our target, resulting in £0.2 million in underperformance payment.

Pollution incidents per 10,000km of sewer have increased this year, from 27.7 to 33.8. This has resulted in a penalty of £4.5 million for being above the stretching regulatory target of 23.7 incidents per 10,000 kilometres. We're making significant investment in the prevention and resolution of incidents through our Pollution Incident Reduction Plan (see page 50).

Pollution incidents per 10.000km of sewer have also increased this year, from 27.7 to 33.8. This has resulted in a penalty of £4.5 million for being above the stretching regulatory target of 23.7 incidents per 10.000km.

We've made significant investment in planned preventative maintenance which, together with military-style incident management, the creation of secondary incident roles for every member of Anglian Water's workforce, and a calmer winter in 2021/22, is already having a positive impact on our current performance.

Other external factors have also impacted our year, and as a result our performance. For example, the Per Capita Consumption (PCC) measure has needed to be reshaped due to the ongoing impact of Covid-19, with lifestyle changes such as home working markedly increasing PCC since the start of the pandemic.

Water quality contacts

We've achieved our best ever score of 1.03 contacts per 1,000 population served. Unfortunately this still resulted in a small penalty of £0.1 million for marginally missing the stretching target set for us by Ofwat.

Our performance in context continued

As a result. Ofwat has chosen to delay the impact of this PC (and any resulting penalties) until the end of AMP7 while it reflects on how it will take account of the pandemic in its assessment of performance. Our PCC has increased to a three-year average of 138.7 litres per person per day this year, compared to 138.1 in the previous year. On a positive note. there has been a decrease in consumption on a single-year basis (from 146.9 to 136.0 litres), and although it is still above pre-pandemic levels (133.3 in 2019/20), we're working to address this through our industry-leading demand reduction programmes, combined with investment in behavioural change campaigns.

And despite the many challenges we've faced this year, as set out above, we've seen strong performance across a number of areas of the business, most notably on leakage, delivering our bestever single-year reduction, and on our Water Industry National Environment Plan, where we've delivered a number of schemes early, resulting in a reward of £1.1 million. The investments we're making in smart metering, in the creation of our vast interconnecting network of pipelines through the Strategic Pipeline Alliance, and in reducing the amount of water we take from our rivers and chalk streams, are all driving forward our progress towards long-term sustainability.

Sewer collapses have also decreased this year and we have met our regulatory target of 5.6 collapses per 1,000km of sewer, turning out at 5.4 collapses per 1,000km of sewer. This avoids an underperformance penalty.

Performance commitment	2021/22 total reward/penalty £m
Abstraction Incentive Mechanism	0
Customer Measure of Experience (C-Mex)	0
Developer Measure of Experience (D-Mex)	1.2
External sewer flooding	-0.2
Internal sewer flooding	-1.1
Leakage	0.2
Mains repairs	0
Managing void properties	1.3
Percentage of properties supplied by a single source	0
Pollution incidents	-4.5
Properties at risk of consiste low pressure	ent 0.6
Sewer collapses	0
Treatment works complianc	e -1.1
Unplanned outage	0
Water quality contacts	-0.1
Water supply interruptions	-4.2
Water Industry National Environment Plan	1.1
Water quality compliance (Compliance Risk Index)	-1.6
TOTAL	-8.3*

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.

We've made good progress this year on reducing the number of properties affected by low water pressure, through the completion of capital and operational schemes. The number of properties experiencing these issues has reduced from 147 in 2020/21 to 58 in 2021/22. This has earned us an outperformance payment of £0.6 million.

We've also continued to reduce the number of properties that are incorrectly reported as unoccupied. This helps to reduce the charge to our customers, and as a result we've earned an outperformance payment of £1.3 million.

We're also well ahead of target on all areas relating to our support for vulnerable customers, most notably take up of our Priority Services Register, which has already met the AMP-long target set by Ofwat.

In a common theme across the whole industry, however, our performance on the Compliance Risk Index (CRI) - the Drinking Water Inspectorate's headline measure of water quality - has regressed in 2021 to 4.04 (having been 1.98 in 2020), and has resulted in a penalty of £1.6 million. It is, however, important to note that we retain a better than average score for the largest water and sewerage companies on this measure.

A further penalty (£4.2 million) was incurred on interruptions to supply, too, where we achieved 9 minutes and 48 seconds against a target of 6 minutes and 8 seconds. This performance is better than our average over the last ten years, but we have not managed to keep pace with significantly tightened targets this year.

While we've achieved strong performance in many areas (notably ahead of target delivery of environmental programmes, world-class leakage reduction, and £32 million of support for almost 325,000 customers facing affordability challenges), we have not reached our targets for some key commitments.

On the Customer Measure of Experience (CMeX) we've achieved a score in line with the industry average, meaning we do not earn a reward. However, we're just 4.3 points from the top-scoring company, and are focusing our efforts on closing the gap for 2022/23. For the Developer Measure of Experience (DMeX) we have exceeded the industry average, which entitles us to an outperformance payment.

Overall, we know there is more to be done. As set out in the Chief Executive's statement and elsewhere, we've taken decisive action in areas where our performance has not met targets, and are already seeing positive outcomes in key areas such as pollutions after a difficult outlier year. With the majority of measures in positive territory, our overall trajectory remains strong.

Our environment 5 & the planet

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



1,184

Water Industry National Environment Programme schemes delivered by end of year 2 of AMP7

Target for 2021/22: 1,006 (met)



33.75

Number of pollution incidents per 10,000km of sewer network

Target for 2021/22: 23.74 (not met)



-376 megalitres

Abstraction incentive mechanism

Target for 2021/22: -87 megalitres (met)



32

Bathing waters attaining 'Excellent' status

Target for 2021/22: 33 (not met)



Our environment & the planet

How we engage

- Through our Strategic Direction Statement (SDS) for 2020-2045, first published in 2007, with an updated version reviewed and approved by the Board in 2017. It includes the goal to 'work with others to achieve significant improvement in ecological quality across our catchments' (see page 24) and is fully aligned with the government's own 25-Year Environment Plan.
- · Through the plans and strategies we set out, including our Water Resources Management Plan, our new Drainage and Wastewater Management Plan, (out for consultation in summer 2022). our Drought Plan and our Adaptation Report, all of which are issued for public and stakeholder consultation.
- · Through our Get River Positive Commitments, set out on page 47.
- The Board regularly considers environmental matters including water quality, water resources, compliance against the Environment Agency's Environmental Performance Assessment, and renewable energy.

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

What customers and stakeholders tell us

Our customers support our Business Plan for 2020-2025. They want us to invest now to protect our environment for the long term.

In particular, our customers want to see increased investment in infrastructure to support river water quality and prevent pollution. We're investing billions of pounds in capital programmes to ensure our infrastructure is ready to meet the challenges of climate change, population growth and environmental protection.

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

Protecting and enhancing our environment

We take our role as custodians of the environment extremely seriously.

We know how important it is to take the right actions and make the right investments, so that our rivers thrive, and we protect and increase our region's biodiversity. We haven't got everything right this year - but we've taken decisive steps to get back on track, and carried on the good work we were already doing. Our £800 million Water Industry National Environment Plan (WINEP) for 2020-2025 is our most ambitious ever. Boosted by the acceleration of £300 million of investment through our Green Recovery Plan, it is the largest environmental programme of any water company in the UK. We've delivered 664 schemes this year, making a cumulative total of 1,184 since the start of AMP7.

Our WINEP is a targeted programme designed to prevent harm and restore river water quality, delivered in partnership with catchment-based approach partnerships, local Rivers Trusts, environmental groups and landowners. Target areas include tributaries of our region's most iconic chalk streams, such as the River Lark and the River Little Ouse in Suffolk, and the northern tributaries of the River Wissey and the Rivers Heacham and Gaywood in Norfolk. Work delivered this year includes the installation of more storm tanks. increased capacity at water recycling centres, the creation of sustainable drainage solutions and schemes to reduce the risk of spills to the environment.

310,321

customer properties

Target for 2025: 1.1 million (on track)

98.2%

Water and sewage treatment works meeting permits for the quality of water discharged to the environment

Target for 2021/22: 100% (not met)

6.1% reduction

Water lost to leakage

Target for 2021/22: 5.6% (met)

3.4% additional usage

Per capita consumption (PCC)

Target for 2021/22: 2% reduction (not met)

A further focus area is increased monitoring of our sites to boost data on storm spills, with full coverage of Event Duration Monitors (EDMs) targeted for 2023.

As we set out elsewhere, including pages 14 and 72, river water quality has risen up the public and political agenda this year like never before. It's a complex issue, and one that's not solely in the gift of water companies to rectify. Other significant drivers impact water quality, including agriculture and highway run-off, calling for a joined-up approach. Because of this, we're actively working and collaborating with different sectors to create effective and workable plans for rivers, as set out in Water UK's 21st Century Rivers report.

We've signed up with our friends and colleagues at Severn Trent Water to Get River Positive (see page 24). This means we will strive to do no harm to UK rivers and do everything we can to ensure they can thrive.

And we've created a whole new business unit focused on protecting and enhancing the environment (see pages 24 and 45). We will maintain our laser-like focus on river water quality for the rest of this AMP and beyond, and we will carry on doing it in an open, transparent and collaborative way. Put simply, it's the right thing to do - our purpose demands it, our customers want it, and our people and shareholders are wholeheartedly committed to it.

Our five Get River Positive commitments:

- Ensure storm overflows and sewage treatment works 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.

Of course, accurate monitoring and the need for good data is important, but that alone does not bring the insights needed to drive action. Because of this, we're working with internal and external data experts to develop new ways to apply machine learning and advanced algorithms. Getting this right means we can turn the vast amount of information generated by EDMs into insight on where blockages and other issues are occurring before they turn into pollution events.

Our storm water strategy

As part of a £100 million scheme of work, we'll install additional storm water storage at 110 of our water recycling centres by 2025. Being able to store excess water in this way will help reduce the risk of flooding to homes and businesses and provide additional protection to rivers.

But simply building more storm tanks is not a sustainable long-term solution. We're working with partners across the region to ensure that excess rainwater can't find its way into our sewer network.

A recent study this year in March, Cambridgeshire, found that 2,100 properties had their rainwater downpipes directly connected to our foul sewer network, along with 425 highway drains.

Bringing the industry together to talk catchment management

We were fortunate to have the opportunity to discuss the water sector's environmental remit and commitment to catchment management with His Royal Highness The Prince of Wales at a summit held at Clarence House in May 2022. Chaired by Anglian Water CEO Peter Simpson. the event brought together fellow water companies from across the UK, together with senior representatives from the Cambridge Institute for Sustainability Leadership, Water UK, the Duchy of Cornwall and the Sustainable Markets Initiative.

Targeted investment on CSOs

We've delivered the first £48.7 million investment of a £200 million-plus programme to reduce storm spills, increase the capacity of our sewer network and tackle surface water flooding. All of our combined sewer overflows (CSOs) will have monitors fitted by 2023 so we can track their activity and carry out detailed assessments on any high spillers, meaning future investment is targeted where it will have the most environmental benefit.



Our target areas for action in AMP7 include the restoration of tributaries of our region's iconic chalk streams

Local Enterprise Networks: The power of many

Working with Nestle, we've pioneered the emerging Landscape Enterprise Networks (LENs) model in the East of England, on a three-year pilot project aimed at boosting water quality, reducing flood risk, increasing biodiversity and sequestering carbon. LENs helps businesses become more resilient by funding regenerative agriculture practices and, through collaborating with others, generates different benefits from the same landscape. In the first East Anglian trade, our contribution of £100,000 supported shared benefits delivered from a total of nearly £1 million of funding. It was used to pay farmers to make changes to practices in areas including cropping, hedgerows and farm equipment which deliver improvements in our drinking water catchments. Trade two, next year, should see even more investment, from more businesses, into sustainable land management across our region.

Norfolk water strategy

We've formed a partnership with Water Resources East, Norfolk County Council and The Nature Conservancy to create a new strategic approach to water resources in Norfolk. The Norfolk Water Strategy seeks to develop innovative governance arrangements to deliver nature-based solutions at scale.

This will secure good quality, long-term water resources for all water users, while protecting the environment and showcasing the county as an international exemplar for collaborative water management. The core partners are working with a multitude of stakeholders including Norfolk local authorities, the Broads Authority, the Environment Agency, the NFU, Natural England, Norfolk Rivers Trust, Norfolk Wildlife Trust and the Water Management Alliance. Initially funded for two years, the strategy will see naturebased solutions tested and incorporated into an investable, long-term proposition for private and public financing.

Environmental Performance Assessment

The Environment Agency assesses six metrics, including pollutions, to produce our Environmental Performance Assessment (EPA), an annual calendarvear measure. This forms the basis of a star rating for each water company's environmental performance. One star represents poor performance and four stars represent industry leadership. In July 2021 we regained the three-star status we have held for all but one year since the measure began. However, tightened targets, in combination with the impact of wet weather and flooding, mean we anticipate two-star status when 2021's results are announced in July 2022. As set out on pages 47-50, we're taking urgent and decisive steps to set our performance back to its long-term trajectory of improvement.

Wendling Beck - transforming land use for environmental benefit

Creating and enhancing natural capital in our region is a key priority for us. One of the ways we're doing so is by participating in the Wendling Beck Environment Project (WBEP), a pioneering habitat creation, nature recovery and regenerative farming project in the heart of Norfolk.

Wendling Beck is a tributary of the chalk-fed River Wensum and connects almost 800 hectares of land just north of the market town of Dereham. Along the course of the river, the WBEP seeks to create a diverse range of grassland, woodland and wetland habitats, restore river quality and adopt regenerative farming practices, providing a sustainable income for farmers.

Its delivery will create a blueprint to help other 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. It will also help broaden the market for biodiversity offsetting and the sale of ecosystem services in the UK.

The Wendling Beck Alliance (WBA), which oversees the project, sees Anglian Water working alongside four farmers (Dillington Hall Estate Ltd, Gorgate Ltd, JG Bullard and Sparrow Green Ltd), Norfolk Wildlife Trust, Norfolk County Council, The Nature Conservancy, Norfolk Rivers Trust and the Norfolk Farming and Wildlife Advisory Group (FWAG).



© Alex Sidney



Developing a natural capital plan for the East of England

Working with Water Resources East, we've joined forces with Biodiversify, supported by WWF UK and the Coca Cola Foundation, to develop a stakeholder-led natural capital plan for Eastern England. The plan, now in its second iteration, seeks to identify where natural capital action should be prioritised across the landscape in order to deliver outcomes for nature, water and society. It takes account of feedback from a broad range of organisations across the East of England, including 945 discrete objectives and actions from 37 stakeholder organisations, to develop a shared vision for the restoration of nature. It's been developed using Systematic Conservation Planning, the international best-practice approach for landscapelevel management of biodiversity, the environment and natural capital.

This important project also feeds into water resource management plans for the East of England and will help make sure that the changes in water management directly support the recovery of nature.

Tackling invasive species

Invasive non-native species - that is, plants and animals that, with the assistance of humans, travel from their native areas to new regions - pose a threat to the region's environment, to the economy and to us at Anglian Water. That's why we're supporting projects around the region to control or eradicate them, including a catchmentwide approach to tackling Himalayan balsam on the River Wensum. Our Invasive Species Fund is now in its third year and awards grants of between £1,000 and £15,000 to not-for-profit organisations and local authorities.

Planning ahead: long-term resilience for water resources

Every five years we set out via our Water Resources Management Plan (WRMP) how we will manage water supplies in our region to meet current and future needs over a minimum of 25 years. Our current plan, published in 2019, covers the period from 2020 to 2045.

We face four pressing and interlinked challenges - climate change, environmental protection, population growth and the risk of drought (see pages 14-18).

We have to act now or we will move from a strong position of a surplus of 150 million litres of water daily to a deficit of 30 million litres daily by 2025.

Right now, we're taking steps to manage demand by driving water efficiency through behavioural change programmes, reducing leakage and installing smart meters. But we will also invest in the supply side to increase the amount of water available in vulnerable locations. This includes our biggest investment of AMP7 (2020-2025), investing in a series of interconnecting pipes to better join up our network and ensure we make best use of the available resources before developing new ones (see page 21).

The 2019 WRMP is now being implemented, largely by our Alliance partners, including the Strategic Pipeline Alliance.

Longer term, we're developing plans for two new strategic reservoirs, one proposed for Lincolnshire and the second for the Cambridgeshire or Norfolk Fens. Both would be of a similar scale to Grafham Water and, if the need is confirmed, would be commissioned between 2035 and 2040. We're working with Water Resources East and regional stakeholders to maximise opportunities to deliver additional public and private benefits across multiple sectors. Plans for both reservoirs are being progressed through RAPID, the Regulatory Alliance for Progressing Infrastructure Development (see page 71). Having received Gate One approval in December 2021, the projects now move towards Gate Two submissions in November 2022, with initial public consultation due later in the year.

Water recycling compliance

The quality of the water we return to the environment from 718 of our water recycling centres is monitored by the Environment Agency. We had a challenging year for compliance this year in relative terms, with 98.2 per cent of centres meeting their numeric limits on water quality (2021: 99.3 in 2021/22) (see page 42). Every failure is investigated to discover the root cause and to enable us to improve our performance.

Pollution prevention

Pollutions continue to be an area of challenge for us, and we have not met our very stretching calendar year target for 2021 (see pages 24 and 41). We experienced a protracted period of exceptional flooding and rainfall in late 2020 and early 2021, which correlated with an increase in pollutions. As flooding and rain abated, we saw significant improvements in the second and third quarters, with pollutions dropping to eight per cent below the historical average.

Through the work of our Escaped Sewage Cell, which brings together expertise from across our business and uses military planning methods, we're targeting continued improvement in our performance. We're stepping up our root cause analysis to ensure we learn the lessons from every single incident. Comprehensive governance ensures we're holding ourselves to account, scrutinising and constantly challenging ourselves to do better, with Board-level visibility and accountability for performance. We're also undertaking a strategic review as we shape the new Quality and Environment directorate.

Longer term, we're working with stakeholders across the region to create our Drainage and Wastewater Management Plan. This crucial document will set the tone and the intent for the next 25 years, to ensure we have the right scale of investment to drive resilience for our customers and to ensure a thriving environment.

Protecting bathing water quality

Safeguarding the quality of our region's bathing waters is hugely important to us, to the environment, and to the economy of our coastal towns. Our Coastal Water Protection team meets with councils, the Environment Agency, non-governmental organisations, local businesses and residents' groups to identify and address sources of pollution.

The classification of bathing waters was temporarily suspended during the pandemic, meaning that the classifications published in January 2022 were the first since 2019. Thirty-two of our bathing waters were rated as 'Excellent' (required for Blue Flag status), while 13 were rated as good (up two from 11 in 2019), two as sufficient (down from five in 2019), and one rated as poor (versus none in 2019), meaning we narrowly missed our performance commitment target.

A key success has been the introduction of performic acid dosing at Southwold Water Recycling Centre as a low carbon, environmentally friendly and costeffective alternative to ultraviolet treatment to deactivate bacteria. This has seen the classification of the beach at Southwold (The Deans) rise from 'sufficient' to 'good' and was highlighted as a national example of best practice by the Environment Agency when the results were published.

Thirty-two of our bathing waters were rated as 'Excellent' (required for Blue Flag status), while 13 were rated as good (up two from 11 in 2019).

We're carrying out investigations on four sites where classifications have dropped and will be making investment at a site close to Heacham bathing water, which dropped from sufficient to poor, to reduce spills to the environment.

CaSTCo: harnessing citizen science

The Catchment Systems Thinking Cooperative (CaSTCo) is a partnership led by United Utilities, between the Rivers Trust, 12 water companies (including Anglian Water), academia, and environmental charities. The project was awarded £7.1 million through Ofwat's Water Breakthrough Challenge.

Embracing citizen science alongside other monitoring approaches, CaSTCo aims to revolutionise how data on river health is shared and stored. The project, which is already underway in eight demonstration catchments, takes a place-based, community-focused approach to boost the amount and quality of data available to us and our customers.

Caring for rivers and beaches

We're celebrating the 21st anniversary of our partnership with Keep Britain Tidy, through which we empower communities to look after their local coastline and waterways by tackling litter, removing invasive species and restoring rivers. Fifty-three established RiverCare and BeachCare volunteer groups look after stretches of river and beach across our region. We're the sole funder of the programme, investing £150,000 a year and providing equipment, training, insurance, help and advice.

Increasing biodiversity

In delivering our biodiversity net gain commitment we've created or enhanced 116 biodiversity units of habitat on our land, against losses of 29 biodiversity units. as a result of our construction and land management activities since 2020. Our land management progress has included the award of a contract to ecological partner Greenwillows for woodland enhancement and management at our Offord Intake site. We've also been working to support the declining Shrill Carder Bee, implementing changes to the management of grassland habitats at operational sites in the Thames Gateway area.

We've also expanded our Biodiversity Team with the appointment of a second Biodiversity Advisor. Our Biodiversity Advisors' remit extends across our region, supporting teams business-wide to ensure legal compliance in relation to wildlife and nature legislation and delivering land management for biodiversity.

Managing our Sites of Special Scientific Interest (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're very proud of our track record in this area, with 99 per cent of our sites considered to be in favourable condition against a national average of just 38.23 per cent.

In October 2021, we were delighted to be highly commended for 'best practice practical nature conservation for a large site' at the Chartered Institute of Ecology and Environmental Management (CIEEM) Awards for our restoration work at Tetnev Blow Wells. We invested around £200.000 to restore this important wetland habitat by felling three acres of woodland, which was drying out the site, and by creating new wetland features. The wetland is thriving.



Our restoration work at Tetney Blow Wells was highly commended as 'best practice practical nature conservation for a large site' at the Chartered Institute of Ecology and Environmental Management (CIEEM) Awards 2021

Leading on leakage reduction and smart systems

As a frontier company with consistently strong leakage performance, it is incrementally harder year on year to find new ways to reduce leaks. However, we're determined to keep pushing boundaries and are investing millions of pounds in advanced technology, including pressure management and system optimisation, to help us do so.

We're leading the development of new advanced sensor technology from concept to design. We now have more than 7,000 advanced leakage sensors permanently installed on 15 per cent of our vast treated water distribution network. This monitoring system enables us to respond quickly to emerging leakage caused by changes in weather and demands on our system.

Optimisation of our water systems using dynamic control systems developed through our Shop Window ensures that we're operating them in the best possible manner at all times.

The levels of leakage reduction we're tasked with delivering haven't been achieved before in the UK or, as far as we know, globally. We have ended the year having surpassed our performance commitment target of a 5.4 per cent reduction, delivering a 6.1 per cent drop by finding and fixing more than 37,000 leaks. To have achieved such an ambitious target is a remarkable result, given the challenging operational context and supply chain issues that have impacted the water sector.

Getting smart about water efficiency

One of the key tools in our water efficiency armoury is our smart metering programme, through which we've begun upgrading all of our customers' meters. By the year end, we had installed a total of 310,321 smart meters, remaining on track to reach our 1.1 million target for 2025. Shortages of meters due to a global shortage in microchips led to a pause in programme delivery; however, the multiaward-winning programme is accelerating at pace, with more than 1,000 meters a day now being installed. Since the start of the AMP in 2020, more than 78,000 leaks have been identified and more than 46,000 customer leak investigations carried out, leading to a saving of 9.3 megalitres per day. Customers with smart meters can now opt to receive usage data as frequently as every hour through our MyAccount app, helping them stay on track of their water use and their finances.

We have more than 7,000 advanced leakage sensors permanently installed on 15 per cent of our vast treated water distribution network.

Taking to the global stage at COP26

Anglian Water took its place on the world stage in November 2021, with a position in the heart of the action at the 2021 United Nations Climate Change Conference (COP26): the only UK water company with a formal role.

As an organisation driven by environmental and social purpose, we were deeply honoured to be invited to co-lead the water theme in the first ever Resilience Hub. The Hub itself was the home of the UN Race to Resilience, focusing on the urgent need for action to make sure the world can adapt to climate change.

Through the events we co-created with Mott MacDonald and the Water Pavilion, we showcased global best practice and collaborated with people from around the world to generate fresh ideas in response to the water challenge we face.

As an organisation driven by environmental and social purpose we were deeply honoured to be invited to co-lead the water theme in the first ever COP Resilience Hub.

CEO Peter Simpson shared our leadership on net zero and climate adaptation at a total of six events at COP26

Thanks everyone for a really good session; we look forward to working with you all for better futures for low-lying

Professor Andy Large

Director, UKRI GCRF Living Deltas Hub

landscapes going forward.

As part of our role as co-lead we hosted our own interactive hybrid event, Reimagining the future of water: how landscape-scale solutions will win the race to water resilience, which took place in the Blue Zone, in front of a live audience and around the world online.

Chaired by Dr Kala Vairavamoorthy, Executive Director of the International Water Association, an international panel including Anglian Water Chief Executive Peter Simpson, UK Cabinet Minister the Rt Hon Steve Barclay MP, and Environment Agency Chair Emma Howard Boyd CBE, discussed how integrated adaptation, combined with strategic, joined-up financing, is driving crucial change.

It showcased how holistic, nature-based and community-led solutions in lowlying regions in the UK, the Netherlands, Vietnam, Bangladesh and India are making a real difference in the face of a warming climate, and acted as a spur to future international collaboration.

Our own Future Fens: Integrated <u>Adaptation</u> initiative (see page 21) formed the centrepiece of the event.

Following the event, we're building on its success by pursuing the partnership we created at COP with the Living Deltas Hub, collaborating to address the challenges we face in similar geographies but on vastly different scales. While at COP we were also featured by Microsoft (principal partner of COP26) as one of four case studies showcasing climate change best practice.

While at COP Peter Simpson spoke at a number of high-profile events, both in his capacity as Anglian Water Chief Executive and as co-chair of the UK Corporate Leaders Group, including joining a panel chaired by former Prime Minister Theresa May.

I was honoured to be included in the discussion in the Resilience Hub - it was an excellent race round some of the key issues and unearthed a lot of wisdom and learning.

Tony Juniper, CBE Chair, Natural England

Tackling plastic pollution

We've made good progress this year towards meeting our pledge to rid the East of England of plastic pollution by 2030, putting partnerships at the heart of our endeavours.

We supported an Imperial College London MSc project, completed in September 2021, to assess the flows of microplastics through the Grimsby-Pyewipe WRC sewer catchment. The study found that household laundry was the largest contributing source of microplastics by number, mass and concentration of microplastics.

We've also worked with our partner Mott MacDonald to further understand macroplastics in sewers and the presence of plastics at a surface water outfall site in Buckingham. These initiatives help us further our plans on mitigating its effects and inform our customer outreach campaigns on the effects of plastics in local waterways.

Recognising the power of engaging with stakeholders, we wrote to all 75 members of parliament in our region asking them to support MP Fleur Anderson's Private Members' Bill, which tries to put the responsibility on manufacturers by banning wet wipes that contain plastic. We also responded to the Defra consultation on single use plastics with evidence of how they contribute to sewage blockages.

Anglian Water also chairs and funds the secretariat of the East of England Plastics Coalition. This year, the Marine Debris Working Group (a sub-group of

the coalition) has received funding grants to address the removal and recycling of marine debris from the North Norfolk and Wash coastlines. Through our Coalition partnership with the Rivers Trust we've secured funding from the Preventing Plastic Pollution project to scale up the delivery of a reusable wipes trial over the coming year.

To further support our plastic recycling efforts we now have a workwear recycling scheme at over 40 of our sites and offices, enabling staff to drop off old PPE, workwear and hard hats.

Reduce, reuse, recycle

We undertake a zero to landfill approach wherever possible. Across the business and our alliance partners, 84 per cent of waste was recycled or recovered in 2021/22.

By working with our waste management contractors, we can make sure wastes produced at sites (excluding sewage screenings and grit) are recycled or reused rather than disposed of in a landfill wherever possible. Flag Fen Water Recycling Centre (WRC) and Cotton Valley WRC continue to be zero to landfill sites for the third year running.

We undertake a zero to landfill approach wherever possible. Across the business and our alliance partners, 85 per cent of waste was recycled or recovered in 2021/22.



Our customers ⁵ & communities

Understanding what matters most to our customers and communities is crucial to helping us deliver on our purpose in a time of unprecedented change.



324,750 customers

Given affordability support

Target for 2021/22: 288,958 (met)



£1.7 million

worth of potential unclaimed benefits signposted to customers this year through our WaterCare service



24.7%

increase in customers choosing to self serve this year to update their accounts, report service issues or book appointments



£840,293

raised by our Volunteers' Committee and Anglian Water Group for WaterAid this year



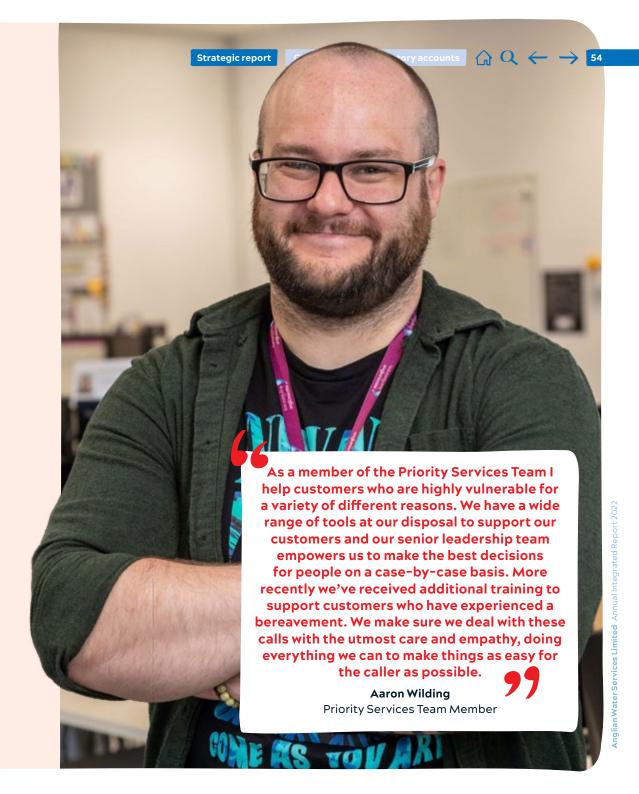
9.4% customers

signed up to Priority Services Register

Target for 2021/22: 3.6% (met)



31,033 people took part in our education programme



How we engage

Through consultation with customers (see 'Fair charges for customers' below; we also consult our customers on key initiatives such as the proposed relocation of our Cambridge Waste Water Treatment Plant (see page 22) and the upcoming Drainage and Wastewater Management Plan (see page 50).

- Directors of both the AWS Board and the Management Board consider and challenge plans involving both shortand long-term strategy in relation to customers and communities; they also engage with presentations from managers on key issues that impact customers and take part in customer workshops. Peter Simpson routinely reports to the Board on customer service performance, and the Board actively debates the root causes of any performance issues and recognises excellent performance.
- Through the Customer Engagement Forum (CEF). Set up in 2011, the CEF has an ongoing role in challenging us on how we engage with customers and monitoring how we perform on our commitments. Its members come from a wide range of backgrounds to

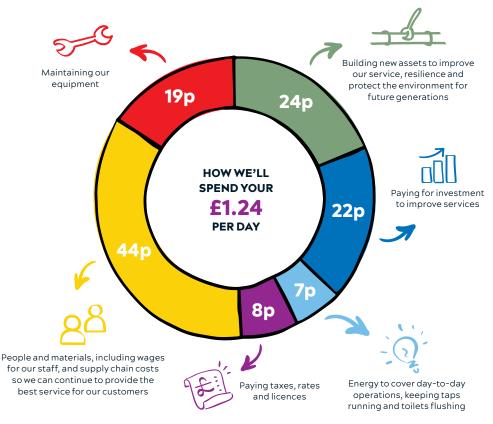
- represent the interests of household and business customers, communities, the environment and the economy.
- · Through our online community of 500 customers, whose views we seek weekly on a wide range of topics, and our Customer Board, which comprises a representative selection of members from the online community to provide further guidance and directly feed in customers' views.
- · Via our own weekly surveys of our customers and the Customer Experience (CMeX), Developer Experience (DMeX) and Retail Experience (RMeX) surveys carried out by Ofwat.
- Through our partnerships with charities and other organisations, through our education and community ambassador programmes, and through Business in the Community.

What they tell us

- Our customers tell us water quality is their highest priority; 87 per cent of those consulted on our Business Plan for 2020-2025 cited it as the most important of our 10 customer outcomes. They also tell us they want us to improve river water quality and prevent pollutions on our waterways. To do this we're investing £800 million from 2020 to 2025 in our Water Industry National Environment Plan – and changing our business structure - to drive real change in our environment. See more on page 46.
- · Our communities tell us they want to see us actively supporting people who are vulnerable and causes which enhance the social prosperity of the region.

Fair charges for customers

Our customers want services that provide value for money, and are fair and affordable. Our Business Plan for 2020-2025, created following engagement with more than half a million customers and stakeholders, includes a significant increase in investment for our customers while reducing bills and returns to our investors. Based on the average household bill in 2022/23, water and sewerage charges will cost £1.24 per day. Below is a breakdown of how we spend that money.



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

Our customers & communities continued

Supporting our customers through the cost of living crisis

We are committed to eradicating water poverty in our region, as we set out through our shared Public Interest Commitment made with our fellow water companies in 2019. We provide a comprehensive package of support to help customers facing affordability challenges, and run proactive communications campaigns throughout the year to encourage those in difficulty to contact us to discuss their circumstances.

Our support is needed now more than ever, as customers face the current cost of living crisis. To drive awareness of the help we can offer, this year we've created a new partnership with ReachOut, a unique service which addresses challenges of low engagement and low awareness of available support. Up to 20 per cent of customers referred to ReachOut have engaged through this partnership, and we've been able to help 324,750 customers over the last 12 months, providing a total of £32.2 million of support in 2021/22. As we enter 2022/23, we're anticipating a rise

in the number of customers in financial difficulty, and we have set aside an unprecedented £65 million of support for the next financial year.

All of our support is captured under our WaterCare banner, to help customers access the help available and to promote our services directly to target groups. We use data analytics to identify and route customer contacts with high affordability risk through to our Extra Care team, where we use our bespoke Benefits Calculator to see if they are claiming all the benefits to which their household is entitled. We've signposted customers to more than £1.7 million-worth of potential unclaimed benefits this year alone, and a total of £6 million since the scheme began in 2019. In some cases our assessment has helped customers access up to £3.000 in benefits to which they didn't realise they may be entitled.

We then look to see what we can do to help customers manage their payments to us, with schemes including payment holidays, affordable instalment plans and forgiveness schemes.

The help we offer also includes tariff schemes, including the Aguacare Plus and WaterSure concessionary tariffs, and our social tariff called LITE, for all of which eligible applicants receive a lower bill.

Our help doesn't stop there: we've also teamed up with councils in our region to distribute nearly £250,000 to those in financial hardship through the new Household Support Fund. The Fund is distributed by councils in England to directly help those who need it most.

We've set aside an unprecedented £65 million of affordability support for customers over the next financial year.

Working in partnership

We now work with more than 170 organisations including charities, local authorities, public health bodies and other utility companies - an increase of more than 50 per cent from last year alone.

We're also part of many local forums, working and steering groups across our region. We see it as our responsibility to learn from our partners to make positive changes for our customers and communities. We run large awareness campaigns across the region to signpost the many ways our customers can access support. This includes taking a grassroots approach to connect with our harder-toreach communities.

£32.2 million

in support provided in 2021/22 to customers with affordability challenges

CMeX 9thplace

Customer measure of experience (comparative metric)

Internal target for 2021/22: 4th place among all companies (not met)

Water quality contacts per 1.000 customers

Target for 2021/22: 1.01 (not met); *outcome provisional pending publication of 2021 data by the Drinking Water Inspectorate)

90.6%

Non-household retailer satisfaction

Target for 2021/22: 75.7% (met)

9m 48s

Water supply interruptions

Target for 2021/22: 6m 08s (not met)





We're working to protect customers against scams - they can call us day or night to check out our credentials, or even set a password through our Priority Services Register to use when a team member visits

Highlights for this year include being the first water company to be part of Scope's Utilities Membership, and the only water company to co-fund Scope's Disability Energy Service with Water Advice, a specialist support service which helps reduce costs and improve services for disabled people. To date, the service has supported 3,316 disabled people and identified estimated annual savings of £511,163.

Priority Services Register

Our Priority Services Register (PSR) plays a vital role in helping us identify and support those with additional needs, which can be anything from sight, hearing, learning or mobility difficulties, to having a baby under 12 months old. The service also provides support to customers with long or shortterm medical needs should there be any interruption to their water supply.

We're proud to report that our efforts to increase the reach of our Priority Services Register are proving very successful. We've exceeded our year-on-year target for the second year in a row. And with reach of 9.4 per cent of households, we have now surpassed Ofwat's sector-wide 2025 target of reaching 7 per cent of households.

Partnerships have helped us reach more eligible people, such as our collaboration with parenting charity NCT, which resulted in almost 7,000 new Priority Services registration requests.

Supporting customers through a bereavement

We know that when people experience the loss of a loved one they are often faced with a lot of practical matters that need resolving alongside the grief and trauma that accompanies a bereavement.

To help with this, we now have a dedicated bereavement line for our customers and their relatives. This line goes directly through to our specialist support team and acts as our 'tell us once' service, changing the customer's file and ensuring the whole business has access to the updated information. We've also partnered with Life Ledger, a free, easy-to-use service that notifies 750 companies of a death from one place, simplifying the admin for bereaved families. Family members can now notify us through this service if they choose.

Reducing customers' effort to receive support from us

We've looked to forge new partnerships with distribution network operators, such as Western Power Distribution, to create a shared source of data of our PSR customers. This means customers can tell us, or our partners, once, to be entered on the register and from there can access a wide range of support.

We've also set up a live two-way data share programme with Cambridgeshire Fire & Rescue Service, which is referring customers to our PSR following a 'Safe and Well' visit. Safe and Well visits are available to those who are most vulnerable in our community and assess key elements of home safety and security, offering practical support and advice. The initiative has been incredibly successful, supporting hundreds of customers to receive additional support from us. We're already exploring extending the partnership with other fire and rescue services in our region.

Protecting customers against scams

More than 50 per cent of people aged 65 and over have been targeted by criminals and scams, yet only five per cent of scams are reported.

We're working to protect our customers against scams and are a founding member of Utilities against Scams. This initiative educates our team and frontline workers such as health and social care professionals to spot signs that a customer could need support and alert organisations who can help.

This year we were also a partner of Operation REPEAT in Lincolnshire, an area with high levels of crime. By training front-line healthcare workers in the district to identify and prevent scams, Operation REPEAT had a reach of up to 20,000 vulnerable customers.

Our dedicated bereavement line means customers only need to 'tell us once'; we can then pass the message on to other organisations.

Make Today Great

We put our customers at the heart of our decision-making and use our ongoing engagement channels, weekly satisfaction surveys, the 'MyAccount' platform and our online community to keep an open dialogue with them throughout the year.

We had more than seven million digital interactions this year, and our customers' expectations of our digital services are rightly higher than ever.

More customers than ever have used our online services this year to update their accounts, report service issues or book appointments, up 24.7 per cent on 2020/21, to over 70 per cent of contacts.

In May 2021 we upgraded our MyAccount app to facilitate smart metering updates. Customers with smart meters can now monitor their water usage, compare to other similar households and stay more in control of their bills, including the option to request their own bills more frequently.

This is alongside our improved 'Report an Issue' function on our website. Reporting an issue online helps our customers notify of us about a range of issues and saves them time calling our customer care line. In turn, we can quickly respond to issues as they occur.

CMeX 9th place Target for 2021/22: top 25% of companies (not met)

We're proud to report that despite a year of challenges, our customers continue to rate our service highly, with 97 per cent of those asked via our internal satisfaction survey scoring satisfied or higher (with 91 per cent very satisfied). However, the comparative customer measure of experience score (CMeX), as measured by Ofwat, was 80.43/100, placing us sixth among our water and sewerage company peers and ninth overall. This is not the position we want to be in, and we will strive to improve next year so that we make every day areat for our customers.

We're investigating how we might help with wider refugee sponsorship and all that goes with it, such as trauma counselling, English lessons and support with finding employment, alongside using the skills and knowledge of our people & partners to help.

Showcasing youth voices at COP26

This year we partnered with WaterAid and local schools in our region to create a film which premiered in the Blue Zone at COP26, where world delegations met to negotiate climate change commitments.

The film, Youth Voices from Nepal and the UK, featured two of our region's schools, West Walton Primary School and University Technical College Norfolk, and students from two schools in Lahan, Nepal, Shree Secondary School and Harinagara Secondary School, who worked with us through The Beacon Project. The students, aged from 11 to 18, challenged us all to consider 'What will you do today for our future?' The work continues to create a legacy, facilitating communication and sharing of knowledge between the four schools.

We also continued our fundraising efforts for WaterAid, with our Volunteers' Committee able to resume hosting our normal calendar of events as Covid-19 restrictions eased. Total funds raised were £800,293 (2021: £334,701) while Anglian Water Group donated a further £40,000.

Development services

Our Development Services Team supports new and existing projects to safely deliver water and water recycling infrastructure, helping customers build homes.

We engage with a diverse range of customers: homeowners extending their properties, builders, architects, contractors and other building enablers, as well as commercial developers working on multi-property projects. We're committed to promoting a healthy and active competitive market and work closely with Self-Lay Providers and New Appointments and Variations (NAVs) across our region to facilitate and enable growth.

We're always looking for new ways to support our customers, and have spent time this year better understanding their needs to enhance the service offerings we provide. This includes using our data to support our customers through their journeys; expanding our communication channels with a two-way SMS platform and providing expert support throughout.

The service we provide our developer customers is measured through the Developer Measurement of Experience (DMeX) which combines qualitative customer satisfaction ratings and quantitative Water UK level of service metrics. Overall this year we achieved seventh place in a league table of our peers.

Community support for Ukraine

As a business, Anglian Water is working with the rest of the industry through Water UK to provide a total of 800,000 litres of bottled water. The UK government is keeping the offer on hold just now, as supplies of bottled water are being stored at the Ukrainian borders, ready to be distributed through aid agencies.

We will continue to work with the rest of the industry, Water UK and the government to take a united approach and offer our support as things evolve.

We're also registered on the official 'Homes for Ukraine' site and have set up internal support groups for people in our business who have applied to host and sponsor a Ukrainian refugee or refugees.

Blended STEM education for students

Our education team has worked hard this year to deliver a mix of virtual and in-person lessons and events to young people and adults in our region. The sessions focus on educating and inspiring students about water sustainability, protecting the environment and climate change.

We also promote the study of STEM (science, technology, engineering and mathematics) subjects and STEM careers in these sessions, alongside breaking down stereotypes. This is part of our long-term plan to encourage diversity and inclusion in our potential future employees. This year our events reached 31,033 students.

530,000+

Since the Education Team was formed in 2007 it has worked with more than 530,000 young people and adults in our region

Alongside this, we've run a range of virtual work experience challenge days for secondary schools to help students access the world of work. We also launched an innovative five-week 'continuous professional development' pilot training programme for secondary teachers in our region. This programme is linked to the national curriculum and focuses on sustainable water, climate change and carbon. A total of 65 teachers registered for the pilot; they estimate that they will share lessons and resources with more than 20,000 students across the region.

The Positive Difference Fund

The second half of our £1 million Anglian Water Positive Difference Fund was distributed to charities and groups across our region this year, in partnership with Community Foundations. The full fund was distributed to more than 160 community groups in the East of England and Hartlepool to provide a wide range of support, from tackling homelessness and isolation to supporting people affected by the digital divide or food poverty. These organisations estimate our funding has helped more than 100,000 people.

Thank you so much for your help. Words cannot express the invaluable support your organisation provided to our community in a time of dire need, and you have our sincerest gratitude.

The Big League CIC Hartlepool

Delivering safe, clean water

Maintaining supplies of high-quality drinking water is our biggest priority, and we engage and invest from source to tap to maintain and improve on our performance. This year was our bestever for acceptability customer contacts, meaning that the number of contacts we received from customers about the appearance, taste and odour of their water was the lowest ever, at 1.03 customer contacts per 1,000 customers (compared with 1.13 customer contacts per 1,000 in 2020/21 and an industry average of 1.22 per 1,000). However, we narrowly missed our very challenging ODI performance commitment, set at 1.01 complaints per 1,000 customers.

This year the provisional Compliance Risk Index (CRI) score for Anglian Water is 4.04. This is higher than our 2020 score of 1.98 and was impacted in 2021 by an increased number of water quality exceedances from our water treatment works in comparison to 2020. To swiftly address this, we've instigated a programme that is aimed at reducing the number of water quality exceedances from our assets. In 2021 the provisional

Event Risk Index (ERI) score calculated by the DWI for Anglian Water was 0.972. This does not include the assessed scores for four events which are still under consideration by the DWI. The 2021 ERI score is a significant improvement over the 2020 figure of 6.16 and reflects our continued efforts to minimise adverse impacts to water quality on the rare occasions when failures do occur.

Two positive technical audits were carried out by the Drinking Water Inspectorate (DWI) as part of its risk-based audit programme. On both occasions the DWI commented on how well site teams represented the company.

We've also achieved good progress with the use of flow cytometry (bacteriological monitoring) at our assets as part of our storage point programme, using both laboratory-based and online instrumentation. We've developed industry-leading dashboards which flag changes at assets to our Water Quality Risk team for investigation, which is a critical step in our shift from reactive to proactive interventions.

Our water parks

Our seven water parks, rich in woodland, parkland, nature reserves and water, are a wonderful resource for those who live in, or spend time in, our region. Between them our parks at Rutland, Grafham, Alton, Pitsford and Hollowell Water, Ravensthorpe Reservoir and Taverham Mill Nature Reserve cover a total of 4,428 hectares. Our five largest parks hold Green Flag status, the benchmark standard for the management of recreational outdoor spaces, as well as retaining Visitor Attraction Quality Assurance Scheme (VAQAS) accreditation from Visit England.

This year our parks received record numbers of visitors as the country began to recover from the pandemic, with an estimated three million visits.

We opened a new Aqua Park and inland Beach at Grafham Water in June 2022 and our parks team take a lead role in providing safe swimming in reservoirs, the development of swim safe venues guidance published by the Visitor Safety Group (VSG) and working with Beyond Swim to certify our parks as safe swimming venues. The sensational discovery of the Rutland Sea Dragon at our Rutland Water Nature Reserve (right) has meant that we're now working to secure the right funding to guarantee its legacy will last into the future and be shared with the local community.

Addressing tomorrow's challenges today

Our region faces some key challenges in ensuring a sustainable water supply into the future. The Anglian Centre for Water Studies works to address these, building on the University of East Anglia's (UEA's) cutting-edge research in Environmental and Social Science with Anglian Water's industry expertise.

The Centre focuses on how the industry can become more resilient to climate change, engage society, inform policy and ensure environmental sustainability, drawing on UEA's strengths in environmental and social sciences.

This year the Centre launched a behavioural change toolkit on best practice in implementing behaviour change. It supported a number of PhD students from the ARIES Doctoral Training Partnership and has broadened the network of universities it is working with, such as the University of Cardiff's Centre for Climate and Social Transformations. Recent research projects focus on issues such as microplastics, CSOs, wetlands and water consumption. The Centre is also integral to three winning Ofwat Innovation Fund bids, collaborating with UEA and the University of Manchester (see page 11).

The Rutland Sea Dragon

Anglian Water made global headlines following the discovery of the fossilised remains of Britain's largest and most complete ichthyosaur - the Rutland Sea Dragon - at our Rutland Water Nature Reserve. We manage the nature reserve in partnership with the Leicestershire and Rutland Wildlife Trust (LRWT), which was carrying out routine landscaping work to improve habitats for the reserve's many rare species when staff discovered the fossil in January 2021.

The ichthyosaur is thought to be the first of its species (Temnodontosaurus trigonodon) found in the country. It is approximately 180 million years old, with a skeleton measuring around 10 metres in length and a skull weighing approximately one tonne. The fossil was unearthed during the summer of 2021 by a team of expert palaeontologists, in partnership with Rutland County Council and LRWT, in a dig that was filmed for BBC Two's Digging for Britain.

To find out what happened next see anglianwater.co.uk/casestudies

Dr Dean Lomax reveals the scale of the sea dragon found at Rutland Water, which is around 10m in length



Our people's & partners

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



Religious holiday swap policy launched in **April 2021**



Company-wide mandatory inclusion training introduced



New inclusive PPE and workwear options available



Strength in Diversity programme launched building short- and long-term diverse talent pipelines



days a week, sampling clean and recycled water to continue to meet regulatory compliance.

We had to make a number of changes so we could work together safely, and while this minimised our risk of Covid-19, it was a really challenging time for all involved in many different ways.

Because of this, it was so important to have our concerns heard using the Love to Listen surveys. We felt we were part of the wider Anglian Water conversation, and we could see that our feedback was taken seriously. I think it helped our leaders better understand the team's experiences so that we could work together to find solutions.

Ben Jobson

Technical Coordinator, South Sampling Team, Strategy & Regulation

Health and safety

The health and safety of our people continues to be of paramount importance. Throughout the year we've ensured our workforce stays safe while returning to offices and sites as Covid-19 restrictions eased. We implemented a number of safety measures, such as mandatory lateral flow tests for those coming back into our offices, to keep everyone safe.

This year our outstanding approach to health and safety was recognised with a prestigious RoSPA Gold Award. We also successfully maintained our ISO45001 accreditation.

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. Following a year of virtual orientations, we're gradually returning to face-toface sessions where possible. We've also increased engagement across the organisation with a new focused campaign, Time Out For LIFE, which encourages group conversations around safety.

Health and safety leadership training is ongoing and we've trained operational front-line managers following sessions of senior leadership training, with very positive feedback and a visible increase in safety support for front-line workers.

The digitalisation of health and safety management has progressed well, with reports generated by Power BI available for all business units and enhancements to our Safe & Well app. A 'Point of Work Risk Assessment' app has been built and trialled, with roll out scheduled in the coming year.

Health and safety key metrics

	2015 /2016	2016 /2017	2017 /2018	2018 /019	2019 /2020	2020 /2021	2021 /2022
Category 1 events*							
 Reporting of Injuries, Diseases and Dangerous Occurrences Regulation (RIDDOR) reportable specified injury accidents RIDDOR reportable non-worker/ 	7	3	10	5	4	7	7
member of the public accidents RIDDOR reportable (potentially life-limiting) occupational diseases Fatalities	·		.0		·	ŕ	ŕ
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	0.11	0.12	0.12	0.12	0.08	0.13	0.13
Sick absence – target 5 days							
 The average number of working days lost per employee due to sickness (†excluding self isolation and shielding) 	4.26	4.39	4.61	4.60	4.54	3.77 [†]	5.82 [†]

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

What they tell us

Our annual Love to Listen survey showed our people remain highly engaged, have a strong connection to our purpose and feel well supported through the challenges of an everchanging and uncertain period.



I love being part of a highperforming company which cares about its customers and the environment in which it exists

Anonymous employee feedback in Love to Listen survey

Awards



Gold Award 2022

Royal Society for the Prevention of Accidents (RoSPA) recognition for the 18th consecutive year

Workplace health and wellbeing winner 2021

Royal Society for Public Health

Highly commended

for the outstanding contribution by an employer to workplace health and safety - Society of Occupational Medicine (SOM) Occupational Health Awards 2021

Best Use of Purpose as a **Business Driver Award 2021**

Strategic Comms Awards

How we engage

- · Through the Board: welfare and development of colleagues and our company culture and values are key areas of focus at every meeting. Non-Executive Director Duncan Symonds is the Non-Executive Director responsible for engaging with the workforce (see page 74).
- Through a range of communications channels including our Lighthouse intranet, our weekly Newstream newsletter and our company newspaper, Anglian Water News.
- Through regular events for front-line managers and leaders, led by our Management Board and held virtually since 2020.



- Through our three recognised trade unions and our employee forum, Open House.
- · Through our health, safety and wellbeing network meetings attended by management and elected safety representatives.



Covid-19 and staff sickness

The impact of Covid-19 continues to be felt by everyone at Anglian Water. We've implemented measures to counter impacts whenever we can, most notably adopting hybrid working where possible, increasing safety measures and responding flexibly as a business in the face of constant change. Through our internal Covid-19 tracing system we identified that approximately 10 per cent of employees with Covid-19 were identified as having long Covid. In April 2021 we developed a 12-week 'Return to Health' programme with IPRS Health which focused on combatting fatigue and increasing energy levels. All outcome measures were improved and the programme successfully helped participants return to normal daily activities as well as improving their overall wellbeing.

Overall staff sickness due to Covid-19 increased from an average of 3.77 days in 2020/21 to 5.82 days this year - to read more see 'Challenges and Opportunities' on pages 14-18.

Love to Listen

Our Love to Listen survey for 2021 showed that employee engagement remains high, despite a challenging year. The survey received an 83 per cent response rate from our people. Key highlights include a 25 point rise in the number of our people who feel connected to our organisational purpose, and an overwhelming majority of employees saying they received the support they needed throughout the Covid-19 pandemic (78 per cent) and that Anglian Water is an inclusive place to work regardless of age, gender, race, disability or sexual orientation (86 per cent).

We identified five key areas to improve at a business level: communication of strategic prioritisation by Management Board, fair performance and reward policies, coordination of data and technology, improved efficiency and collaboration between teams and supporting our line managers to achieve a better work-life balance.

We recognise that these themes are fundamental aspects of how we work as a business and that to achieve significant shifts, in some instances, focus will be needed throughout and beyond the remainder of the 2020-2025 AMP.

However, we've made a number of changes already, such as expanding our quarterly Open House forum to our entire workforce. which helps address our strategic prioritisation challenge. Previously Open House sessions were held with business leaders and elected representatives within each business unit. The new format gives the Management Board the opportunity to communicate with our workforce and allows all our people to take part. ask questions and interact with senior leadership each quarter.

We've also addressed fair performance and reward by embedding new performance ratings and developing our reward and recognition framework to drive optimum performance. We also awarded a 4.6 per cent cost of living increase for all colleagues.

Our data and technology improvements continue, with an ongoing roll-out of field technology improvements. We have also launched a programme to identify ways we can improve data capture, sharing and analysis across the business and improve digital adoption overall.

We are working on a number of fronts to drive greater collaboration between teams and improve efficiency. These include initiatives such as expanding our incident response community, Anglian Water Force, across the entire business so our workforce is equipped to assist us whenever additional support is needed. We're running collaboration pilots between business groups to test new ways of working, alongside agile frontrunner projects, continuing to grow our internal communities and working with our business streams to address and implement improvements identified from the Love to Listen survey.

To support our line managers we're working to identify and implement ways to release capacity in the short term while developing long-term capacity and capability. We will report further on this next year.

We're also undertaking a pilot programme to test whether quarterly employee feedback is a more effective way of monitoring our workplace culture. Currently we hold our Love to Listen survey annually. We will review the results of quarterly testing in 2023.

Love to Listen stats:

78%

of our people agree they have received the support they need during the Covid-19 pandemic (up 1% point on 2020)

83%

of our people say they are proud to play a part in creating environmental and social prosperity in the region we serve (up 25% points on 2020)

86%

of our people say Anglian Water is an inclusive place to work regardless of age, gender, race, disability or sexual orientation (up 11% points on 2020)

of our people are proud to work at Anglian Water (down 1% point on 2020)

Case study: Love to Listen

Our Laboratory Team are a crucial part of our business, responsible for the sampling and analysis of our region's water to ensure our high drinking water standards are maintained.

When Covid-19 hit, the Laboratory Team had to make a number of adjustments in order to continue working safely on-site. Shift working was implemented, teams mixing was paused and social distancing put in place. While these measures helped keep everyone safe, it had a major impact on team morale, which was reflected in the team's Love to Listen scores in 2020. with only 50 per cent saying they felt satisfied with their working environment.

To address this, the management team implemented a number of measures to support their workforce. These were wide-ranging and addressed the team's need for greater connection to the business and its purpose, improved wellbeing and cross-team collaboration.

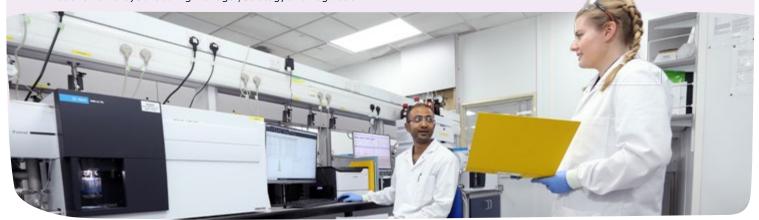
The Laboratory Team were also selected to take part in a Love to Listen pilot which surveyed team members monthly rather than annually to capture overall sentiment throughout the year.

'Town Halls', which are an open forum to communicate with the team about what's happening in the wider business and invite discussion, were introduced. The team were all equipped with new laptops and headsets to access company-wide wellbeing events during their working day. Resourcing challenges were addressed, with the creation of a staff bank to support the wider team. 'Licence to Operate' training was also introduced which offers a clear route for career progression.

As a result, our 2021 Love to Listen survey showed a marked improvement in staff sentiment, with 73 per cent of staff saying they felt satisfied with their working environment - an increase of 23 points from the previous year. Overall wellbeing scores increased from 53 per cent in 2020 to 68 per cent in 2021.

We're working hard to ensure our team feels connected to the wider business, that we're addressing their feedback and doing our best to support them. It's been a tough couple of years but we're feeling positive about what lies ahead.

Nadene Barnard, Scheduling Manager, Strategy and Regulation



Monitoring our culture

Our company culture has evolved over the past four years following an independent 'culture capture' review in 2018. We've defined our purpose and values, incorporated our purpose in our Articles of Association and are embedding these internally through our policies, processes and communications. A framework to monitor our culture has now been developed, enabling us to ensure our purpose and values drive the right outcomes through regular tracking of key cultural indicators. To read more, please see our Section 172 statement on pages 73-76.

Wellbeing at work **Occupational Health innovation**

Over the past two years many routine health screenings were cancelled due to Covid-19. Cardiovascular disease remains the largest risk of morbidity and mortality in the UK for men over 45, which makes up a significant proportion of our workforce. To address this, a 'know your numbers' health screening took place in 2021. Employees could order virtual health checks where blood glucose, cholesterol and BMI were measured and signposting to support given, with on-site face-to-face medicals for our front-line operational staff.

Taking Time Out for LIFE

Launched in early 2021, Time Out for LIFE is our biggest-ever programme of health, safety and wellbeing online events, with everyone in Anglian Water and our alliances invited to take part. The event has gathered momentum across the organisation, with many business areas running their own supplementary sessions to continue supporting their teams. The success of these events resulted in us repeating Time Out for LIFE in May 2022. This year we opened registration to even more of our partners, giving approximately 9,000 employees access to the event.

97 per cent of people who took part in our Time Out for Life events have said they have benefited their health and wellbeing.

Time to Talk

On 3 February 2022 Peter Simpson, Chief Executive, and Richard Boucher, Strategy Development Director, took part in Time to Talk day – an initiative by Mind, the mental health charity, to get the nation talking about mental health. Peter and Richard shared some of their personal stories about health and ability to help end the stigma associated with poor mental health and to create the space for conversation.

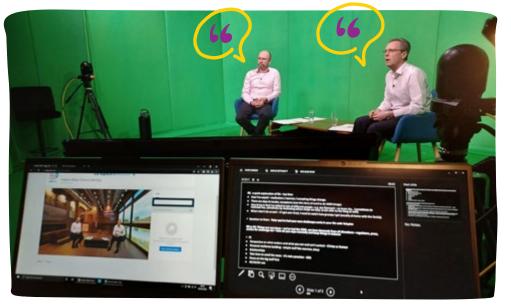


This year we've expanded our existing wellbeing programme to create a plan that focuses on addressing the main causes of employee sickness and health issues. We want people to approach wellbeing with a more positive mindset, so rather than focusing on stress and anxiety, we talk about coping and building resilience. This is supported by a unique set of events focusing on the topics that mean the most to our people.

Feedback on the wellbeing events has been overwhelmingly positive, with our people telling us the sessions have benefited their health and wellbeing.



Vicki Sloan Head of Wellbeing



Peter Simpson and Richard Boucher shared personal stories at an online event on Time to Talk Day

Expanding our inclusion programme

Mandatory inclusion training

We want to ensure Anglian Water is a safe, welcoming environment for everyone. This year, in collaboration with our union colleagues and our Inclusion Community, we launched new mandatory inclusion training. The aim of this e-learning 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. It features real-life (anonymised) experiences from Anglian Water colleagues.

Inclusion policy changes

From April 2021 (the beginning of our holiday year) we changed our annual leave policy to give colleagues the option to swap Christian bank holidays with the dates of the festivals of their own religion. This supports our value of doing the right thing by recognising that not everyone celebrates Christmas or Easter and that there might be a different festival, such as Eid or Diwali, which is more important to our colleagues. We're confident we're one of the first water companies - if not the first - in the UK to offer such a policy.

We've also implemented changes to our domestic violence, transgender and transition, and dress code policies to better reflect the changing needs of our workforce.

National Inclusion Week

In September 2021 we held our third annual Inclusion Week, and achieved a 100 per cent increase in attendance compared with 2020. More than 230 colleagues are now active members of our Inclusion Community, a 30 per cent increase compared with last year.

Digital inclusion

We collaborated with alliance partners and suppliers including Microsoft to make our virtual events fully accessible, alongside making accessibility changes to inclusion content on the company intranet. Colleagues from Microsoft have also worked with us to train our Information Services teams to support digital accessibility for our people.

Strength in Diversity

Strength in Diversity was launched in 2021 and will build long-term talent pipelines, leading to a more inclusive workforce in the next five to ten years. The initiative aims to change the demographic of our workforce to better reflect the communities we serve. This will make our organisation more inclusive, enable more effective decisionmaking, and provide better customer service to our community.

Creating an inclusive workplace

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

Under our Supporting Attendance Policy we make reasonable adjustments for employees who are or become disabled. In addition, we're committed to maintaining high standards of accessibility and experience. Therefore, we extend our approach to reasonable adjustments to embrace not just disability, but any special individual need or circumstance.

Gender and ethnicity pay gap reporting

This year our gender pay gap increased slightly. Our mean gender pay gap increased from 5.7 per cent in 2020 to 7.8 per cent in 2021. Our median gap increased from 11.6 per cent to 12.5 per cent. To read more about our gender pay gap and the steps we're taking to address it, please see page 145 in the Remuneration Report.



We've also been inviting our people to provide information on their ethnic background on a voluntary basis so we can report for the first time whether an ethnic pay gap exists. We've reached the required internal threshold for respondents (more than 65 per cent) and will be preparing a report for publication in autumn 2022, in parallel with our gender pay gap reporting.

Management Board sponsorship

In 2021, as part of our long-term Inclusion Strategy, each member of our Management Board has committed to supporting inclusion by sponsoring one of the key areas of focus: age; gender; health and ability; race and ethnicity; sexuality and gender identity; religion and belief; and social mobility.

As part of their commitment they will champion their area of focus and take part in inclusion activities throughout the year, as well as supporting our plan to deliver change to make us more inclusive.

Recruitment and retention

We've been working hard to recruit and retain our workforce in a very challenging environment this year (see 'Our challenges and opportunities', pages 14-18).

Recruiting our future workforce

We're continuing to invest in recruiting new talent into Anglian Water by identifying those with the right skills, attributes and behaviours to become our highly skilled workforce of the future.

This year we've made a number of changes to our graduate, apprentice and intern interview processes in line with our attraction and selection strategies. We're taking a future-focused view, moving away from assessing candidates' past experiences and instead focusing on future potential.

Changes to our graduate and apprentice recruitment programme include allowing candidates to record video interviews in their own time. This sets candidates up for success by allowing them to prepare and consider their responses to our questions at their own pace, making sure they say what they mean to. This is particularly important for candidates who may be significantly impacted due to nerves and anxiety.

We've also introduced a new 'situational judgement test' for graduates which looks at an individual's ability to weigh up 'real life' managerial situations and decide on appropriate and effective ways of handling them.

This is alongside our ongoing recruitment programme, which includes online insight webinars for prospective candidates, extensive advertising which includes role models from diverse backgrounds in our content, and showcasing job opportunities using social media channels, including LinkedIn groups such as 'Women in Engineering' and 'Women in Science, Engineering & Technology'.

The people, the work culture, the opportunities for your career... it feels good to get out of bed in the morning and start work for Anglian Water ___



Thank you for giving me the tools, training and a fine bunch of people to work with

Anonymous employee feedback in Love to Listen survey

We've also forged a number of partnerships such as with Sanctuary Graduates (which partners with the Social Mobility Foundation), bmejobs.co.uk, lgbtjobs.co.uk and disabilityjob.co.uk, to reach potential candidates from as wide a pool as possible.

This year we recruited six graduates (four men and two women), 37 apprentices (33 men and four women) and 10 interns (five men and five women) to Anglian Water.

apprentices, six graduates and 10 interns recruited in 2021/22, supporting our early careers talent pipeline

Work experience and Kickstart schemes

In 2021, we launched our first-ever work placement scheme to support young people in our region and provide them with the opportunity to gain valuable experience in a number of short-term work placements. Our first intake was a huge success, with all participants gaining valuable on-thejob experience, and as a result, we made permanent job offers to five people in the scheme. We've since launched a second intake of work placements, and plan to continue the scheme into 2022 and beyond.

We've also taken part in the government's Kickstart scheme, which helps 16- to 25-year-olds on universal credit by giving them vital work experience. Five young people joined our Strategic Pipeline Alliance (SPA) project to learn new skills, with three people joining the team permanently after the placement ended (see page 5).

We have also made changes to our staff exit survey, capturing demographics on diversity and inclusion to help us understand if any triggers around inclusion exist for leaving the business. However, we're pleased to note that 76 per cent of people who gave exit feedback would still recommend Anglian Water to friends and family as a great place to work.

A strong supply chain

Our most important supply chain relationships are with our alliance partners, with whom we work to deliver all our capital investment programmes and our information services. More than 3.400 people come together as part of our six alliances to form our extended workforce of more than 8,000.

We're committed to ethical and sustainable procurement and are members of the **Energy and Utility Procurement Skills** Accord and the Supply Chain Sustainability School. We host and attend awareness and collaboration events on many aspects of supply chain management, including the prevention of modern slavery. We've established an official AW Modern Slavery Working Group with members from across the business and our Alliances, who are working to proactively tackle the issue of Modern Slavery, ensure that we're completing effective due diligence across our operations and supply chain processes and implement a Modern Slavery strategy.

Anglian Water has adopted the Chartered Institute of Procurement & Supply (CIPS) Corporate Code of Ethics and we require our suppliers to meet the requirements under the Code within the terms of their contract. All of our procurement professionals have regular training on modern slavery and the processes for risk assessment and auditing.

This year we've devoted particular focus to sustainability within our supply chain, working with our suppliers to help us understand and improve our Scope 3 supply chain carbon emissions and opportunities for innovation, as well as beginning supply chain heatmapping around the sustainability risks and opportunities within each of the major spend categories.

We also held our first in-person WaterConnect engagement event for the Water Innovation Network since 2019, which was attended by more than 170 representatives of supply chain partners, SMEs and start-ups.

3,400

people come together as part of our six alliances to form our extended workforce of more than 8,000 people

of people who gave exit feedback on leaving the company would recommend Anglian Water to friends and family as a great place to work

Southend sewer collapse: Resilience in action

Dozens of our employees and partners came together to help repair a collapsed sewer pipe that feeds Southend-on-Sea's Water Recycling Centre in October 2021. Repairing it was a major engineering challenge, made harder by its depth, size and flow capacity.

Thankfully this type of issue is rare we haven't had an incident like this in a decade, despite having enough sewer pipe to go round the world twice, and more than 1,100 water recycling centres. Our operational teams and alliance partners worked around the clock to construct a live overland sewer network on site in a matter of days, which, supported by a comprehensive tanker operation, ensured that the people of Southend had uninterrupted water recycling services throughout the incident.

The operational team was fully supported on site by our Customer Support teams answering people's questions and giving updates. This was supported by a 24-hour Incident Response Team ensuring we could act swiftly and safely to put things right. We were heartened to also have many people from across the business volunteering their own time to help.

We continue to work closely with the Environment Agency and the local council as our repair effort progresses, with the local community at the forefront of our minds as we aim to have a long-term solution in place as quickly as possible.



Shareholders

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



Our investors own shares in the Group's ultimate parent company Anglian Water Group Limited (AWG) (details of our shareholders can be found on pages 25-26). Representatives from our shareholders engage in a number of ways including:

- · By attending meetings of the company's Board in their capacity as Non-Executive Directors and, as such, participating in discussions and decisions about Anglian Water.
- · By attending meetings of the Board of AWG (which chiefly comprises representatives of our shareholders), which regularly considers and has input into matters of importance to Anglian Water.

- Through conversations with senior management, including the Chief Executive and the Chief Financial Officer.
- · Via written reports, including fullyear and half-year reports, the Annual Integrated Report and the annual Sustainable Finance Impact Report, and by publishing interim and preliminary company results at half year and year end.

What they tell us

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

What really stood out to me was a clear focus on delivering against the company's purpose, and in particular, a deeply-held commitment to doing the best we can for our customers. Innovation was front and centre of all the topics we discussed and there was clear excitement and passion around how that will provide opportunities for continued enhancement of our performance in the future.

John Barry. Non-Executive Director. Anglian Water Services speaking after the event at Thorpe Wood House in November 2021

Our shareholders

Our shareholders have made a significant financial investment in the Group and a number of them represent millions of individual pension investors both in the UK and overseas. Representatives from our shareholders are Non-Executive Directors on the Boards of both Anglian Water and our ultimate parent company, AWG. They bring with them a broad range of skills and experience which is extremely valuable during Board discussions. Further information on the AWS Directors can be found in the biographies on pages 109-111.

During the financial year, Anglian Water concluded a financial restructure which included an injection by shareholders of more than £1 billion of capital. The implementation of the financial structure enabled a reduction in the company's gearing. This was the final stage in a process which began in 2018 to simplify our financial structures to improve transparency, trust and customer confidence and solidify our commitment to put wider public purpose at the heart of our business. Part of the process saw us make fundamental changes to our Articles of Association to lock public interest into the way we run our business, both now and for future generations. This means that environmental and social priorities now sit alongside the need to deliver fair returns for our shareholders. Our external shareholders did not receive a dividend from 2017 until 2022 for the long-term benefit of the company and its customers, in line with our purpose, and we acknowledge their continued support during this period.

Sharing strategy

In November 2021 we held our first faceto-face event for Directors of Anglian Water and AWG (including shareholder representatives) since the beginning of the pandemic. Members of the AWS and AWG Boards visited our Thorpe Wood House office in Peterborough and spent a morning talking to people from right across the business to get a deeper understanding of what we're doing, day in and day out to deliver our stretching targets. Particular focus areas centred around smart water networks; water recycling, environmental excellence and pollution performance; driving a step change in customer experience; productivity and efficiency; driving value from our investment programmes; driving a digital advantage, and innovation.

Feedback from the morning was effusive, with our investors commenting on the passion and dedication of the people they spoke to and on the shared strategic direction and sense of purpose which came through in everything they heard and saw.



Shareholders had the opportunity to discuss strategy with teams from around the business in November 2021

Investors, banks & rating agencies

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

How we engage

- · Through dedicated investor events held at least twice a year to coincide with preliminary and interim company results, occasional additional events and site visits.
- · Through regular face-to-face meetings and telephone and video conference calls with banks, investors and ratings agencies, led by the Chief Executive, Chief Financial Officer and Group Treasurer.

What they tell us

Banks, investors and ratings agencies tell us they value the dialogue we have with them in respect of business, financial and ESG performance. MSCI provides Anglian Water Services with an ESG rating and this year upgraded the company from A to AA rating. The change was in recognition of our industry-leading controls and governance processes. MSCI placed Anglian Water in the 98th percentile globally for corporate governance.



The company has strengthened its business ethics practices by adopting internal controls, audits and employee training on ethical standards. The company also leads its peers on governance, with strong accounting and pay practices.

MSCI ESG rating, April 2022



All of the debt we have raised to fund capital expenditure in the first two years of AMP7 has been sustainable finance

Sustainable financing

We are committed to securing the vast majority of our capital funding sustainably. This year saw the publication of our Sustainability Linked Bond Framework and our 2021 Sustainable Finance Impact Report. In the second year of the AMP we've raised £725.5 million of funds across a number of debt transactions. Investors have financed a wide range of investments under a range of portfolios. This included the Anglian Water Group's first Sustainability-Linked Bond for £300 million, tied to achieving our net zero 2030 targets and 2025 interim targets.

We also issued a £25.5 million equivalent private placement to fund some of the most environmentally important components of the Water Industry National Environment Programme (WINEP) underway now, including the protection of wildlife and restoring the 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 funding needed for the WINEP programme.

Regulators

As a regulated business, we benefit from open and constructive working regulatory relationships with Ofwat, the Environment Agency (EA), the Drinking Water Inspectorate (DWI), Regulators' Alliance for Progressing Infrastructure Development (RAPID) and the new Office for Environmental Protection (OEP)

How we engage

- · Updates from the Director of Strategy and Regulation at each Board meeting plus regular reports on engagement with the EA and the DWI, including details of material pollution and water quality events. The Board takes an active role in understanding the root cause of any significant incidents, together with lessons learned.
- · Board assurance and approval of key regulatory submissions and decisions (see anglianwater.co.uk/siteassets/ household/board-matters.pdf) such as proposed material changes to our Licence, assurance on Business Plan-related submissions or seeking a Redetermination of our Price Control.
- · Introductory meetings between Non-Executive Directors and Ofwat ahead of their appointment, enabling them to have a clear understanding of their responsibilities in this regulated sector as well as attendance at Ofwat's cross-sector non-executive director events.
- · Daily engagement between our economic and environmental regulators and leaders across the business.

- · Peter Simpson maintains an active dialogue with Ofwat's CEO and with his counterparts at both the EA and the DWI. We've also actively engaged with Ofwat's future strategy development.
- Quarterly Directors' meetings with the EA and Ofwat to discuss operational performance and delivery of our strategic investment programme. An annual performance meeting is held to discuss our **Environmental Performance** Assessment (EPA) for the year.
- Shaping code changes and modifications in the business retail market, as well as having representation on the Board of MOSL, the market operator of England's non-household water market.

Why we engage

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

Key areas of engagement in 2021/22

Ofwat: 2025-2030 Business Plan (PR24)

Developing the methodology for the forthcoming PR24 price review has been the principal area of engagement with Ofwat during the year, with active contributions and dialogue between the senior Regulation and Strategy Team through various industry forums, working groups and written submissions. Much of this early discussion has centred around the development of 25-year Long-Term Delivery Strategies which will provide the context for the PR24 Business Plan and bring alignment with wider strategic planning frameworks such as the Water Resources Management Plan (WRMP) and the Drainage and Wastewater Management Plan (DWMP). This long-term focus is fully supported and consistent with the four long-term ambitions set out in our refreshed 2017 Strategic Direction Statement, see pages 21-24.

Regulators' Alliance for Progressing Infrastructure Development (RAPID)

We continue to strengthen working relationships with both RAPID and Ofwat as we progress the development of our future water resource options, both through the development of Regional Plans and the RAPID gateway processes (see pages 8, 14 and 49).

Direct Procurement for Customers (DPC)

We continue to work collaboratively with Ofwat and others to explore the scope of the Middlegate project, which seeks to ensure we have sufficient water available at the top of the strategic grid in North Lincolnshire to enable its operation by 2025.

Environment Agency and Ofwat

During the report year we've continued to work with the EA and Ofwat on a range of topics, including the reform of the Water Industry National Environment Programme (WINEP) for the forthcoming AMP period.

We have also engaged with both regulators on their sector-wide flow to full treatment investigations (see pages 12 and 24).

Office for Environmental Protection (OEP)

Following the establishment of the OEP we continue to engage with its consultation on its strategic objectives. As the OEP becomes operational, we will work proactively with it on priority areas, such as river water quality.



Through RAPID we're progressing plans for two multisector reservoirs, each the size of Grafham Water

National & local government

Engagement with local government, including local authorities, city, town and parish councils, helps us to understand our customers' priorities and hear what is most important. Our business priorities are shaped by these conversations.

How we engage

- · Direct engagement with ministers and senior government officials, including as members of the Aldersgate Group and Broadway Initiative.
- · Responding to government consultations and taking part in policy working groups.
- · Providing evidence to parliamentary select committee inquiries.
- · Meeting and corresponding with elected members in our region - MPs, councillors and the elected mayor and the public scrutiny committees keeping them informed on key issues, responding to constituent issues and answering requests for information.
- Meeting and engaging with MPs and ministers to influence the national agenda on topics such as net zero, river water quality and skills in the East of England.
- · Utilising our convening power to facilitate regional engagement events on regional priorities.

Why we engage

- Water companies have a critical role to play in achieving the government's social and environmental objectives.
- · We are key partners in local growth and development plans



Great visit to Anglian Water to view their Strategic Pipeline Alliance project which will help ensure the availability of water across the Eastern region for years to come.

Rt Hon Rebecca Pow, MP, Minister for the Environment



Environment Act

The Environment Act 2021 is the UK's new framework of environmental laws and protection and provides the UK government with powers to set new binding targets, including for the four primary areas of water, air quality, biodiversity, and waste reduction. We have been and will continue to be proactive in contributing to the conversations with government and other stakeholders to shape these targets going forward. We're championing the need for new investment, and for stronger efforts to be made on tackling the causes of sewer overloading.

River water quality

We share the ambitions of our customers. and their expectation that our rivers should be beautiful places, rich in nature, which is why, together with Severn Trent, we've signed up to five key commitments which form the Get River Positive plan (see page 47). We're absolutely committed to continuing our hard work, bringing the right people together, to get our rivers into shape. We've written to all regional MPs and interested stakeholders to share what this means for them and a programme of tour and site visits is underway to demonstrate the good work we're doing at first hand.

Flooding resilience

We recognise it is vital to collaborate with other Flood Risk Management Authorities (FRMAs) on common flood risk issues. This approach has continued to be very successful in Norfolk. After the extreme weather in 2021 we joined forces with our flooding partners to form the Norfolk Strategic Flooding Alliance (NSFA) (see page 16). Chaired by General Lord Dannatt, this taskforce was brought together to strengthen Norfolk's resilience to flooding. The NSFA is an exemplar of how to integrate the complicated framework of roles and responsibilities for flood risk management.

Engaging with our stakeholders on future plans

As representatives of the communities we serve, we involve our stakeholders in the development of our strategic long term planning, such as our <u>Drainage and</u> Wastewater Management plan, which will be going out for consultation this summer (see pages 73, 83 and 85). As part of the consultation process, our plans are updated to reflect discussions we've had with multiple stakeholders and their feedback.

The Rt Hon Rebecca Pow, MP, visiting Anglian's Strategic Pipeline Alliance project



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 112).

Section 172(2) says that where the purposes of a company consist of purposes other than, or in addition to, benefiting the company's shareholders, the section 172 duties will take effect as if the reference to promoting the success of the company for the benefit

of shareholders 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 as a whole while delivering longterm value for its customers, the region and the communities it serves, and seeking positive outcomes for the environment and society. It follows that the Directors of Anglian Water have a duty to act in a way they consider would be most likely to promote the purpose of the company. The section 172 duties to which the Directors are subject must therefore be considered in the context of this overarching purpose.

The disclosures set out on pages 73-76 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 SDS's four key ambitions are set out in our business model (see 'Our strategic ambitions' on pages 21-24).

We have a statutory obligation to produce a Water Resource Management Plan (WRMP). This plan ensures that we will provide secure water supplies for our customers until 2050, while protecting and enhancing the environment. The Board is required to oversee and scrutinise the development of the plan and to provide 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.

Similarly, we're required to produce a <u>Drainage and Wastewater Management</u> Plan (DWMP) to set out how we will recycle water and reduce the risk of flooding over the years to 2050. Again, the Board will have oversight of the DWMP and will give assurance that the resulting plan is the best value plan for customers and the environment and is based on robust evidence and costing processes.

Our first draft DWMP under this new requirement will be available for public consultation in summer 2022.

Our Board has also approved our longterm viability statement (see pages 104-106) within which the Directors have assessed Anglian Water's prospects over the next 10 years.

Board engagement with stakeholders

Our Board has set out to define discrete stakeholder groups, but it recognises that in many cases they have complementary interests and shared priorities. On occasion, their concerns may even conflict with one another. The Board's duty, in reviewing, challenging and shaping plans, and setting strategic direction, is to consider and balance the impact of its decisions on a wide range of stakeholders. More information on our business model, including how we use six capitals thinking to shape decisions and measure outcomes, can be found on pages 19-20, while information on our key stakeholders can be found throughout this strategic report.

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.



Find out more in 'Our stakeholders' on **pages 45-72**

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. During the year, externally led health and safety training was cascaded to operational leaders in the business. At the Board meeting in March 2022, the Directors also participated in an externally led health and safety training session and were therefore able to understand the nature of the training that has been made

Each year we conduct 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, are brought to and discussed by the Board.

available to operational leaders.

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

Further information on how the Board and management engage with employees, and the impact of that engagement, can be found on page 63.

See 'Our people & partners' on pages 61-68

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. Further information on engagement with customers can be found on page 55.

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 oversight of these key contracts. During the year the Board approved contracts relating to the maintenance of buildings and the sourcing strategy for steel pipes.

→ See 'Our customers & communities' on **pages 54-60**



Q&A with Duncan Symonds Non-Executive Director with responsibility for engaging with the workforce

What does your role involve?

I see myself as the voice of Anglian Water's employees on the Board, making sure their voice is heard and their needs are considered. This year, I had the opportunity to join the Leaders' Forum in May, where senior managers receive a strategic update and have the opportunity to ask questions of the Management Board, In December I attended the quarterly Open House, where subjects discussed included a deep dive into Love to Listen results, the gender pay gap report and wellbeing strategy (see pages 61-68). I also joined the event held in November with fellow Board members, met the current cohort of graduates, joined a meeting of the Future Leaders' Board and attended a company collective meeting with union representatives, where we discussed returning to work post-Covid, health and safety, and mental health.

What have been your key observations so far?

Love to Listen results demonstrate that employees feel a strong connection with Anglian Water's values and purpose (see page 2), and from management's perspective, there is an openness to learn from, and act on, feedback shared by employees.

Have you seen opportunities to share learnings across some of the other organisations you work with?

I'm a firm advocate for regular touchpoints to stay close to how employees are feeling, and for making good use of data and insight. With that in mind, I met with Anglian Water's Head of Engagement and Communities, together with a colleague from IFM Investors, to share our experience of data-led insight. This helped shape a pilot study on more frequent and targeted pulse surveys.

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.

During the year, the Board met with the CEO of the Consumer Council for Water and the then Interim CEO of Ofwat. Both meetings gave the Board the opportunity to understand the perspective of key stakeholders in relation to the challenges facing the sector.

Impact on community and environment

The environment is at the heart of our purpose, and our SDS is fully aligned with the government's own 25-year Environment Plan. The Board regularly considers environmental matters, including river and coastal water quality, abstraction, compliance against the EA's **Environmental Performance Assessment** and pollution reduction schemes. During the year, the Board approved the Demand Management Strategy, which is an integral part of the WRMP (see case study on page 76). Further information on these can be found on pages 45-53.

Our purpose requires us to consider the impact of our operations on our communities. The Board receives regular updates on stakeholder engagement activities. Areas considered during the year included the community engagement work undertaken following the flooding which had occurred in late 2020 and early 2021 and the community consultation undertaken in respect of the second and third phases of the proposed relocation of the Cambridge Waste Water Treatment Plant.



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 38 and 112).

See 'Holding ourselves to account' on pages 38-39

Acting fairly between members

The Anglian Water Group has five shareholders, and all are represented on the Board of our ultimate parent company Anglian Water Group Limited. There are also shareholder representatives on the Anglian Water Board. In this way we ensure that we treat all shareholders fairly and that their views are heard when making key decisions. Further information on our company structure and ownership can be found on pages 25-26, and in Board biographies on pages 109-111.



See 'Our shareholders' on page 69



Case study: Monitoring our company culture

Fostering a strong, positive and inclusive company culture is fundamental to the success of our organisation. We've actively monitored culture for a number of years through our annual Love to Listen employee survey (see pages 63-64), and acted on its findings. We've introduced more touchpoints for engagement, which we reflect in a new quarterly culture dashboard, developed with input from the Board.

Based around our values - together, we build trust, do the right thing and are always exploring - the dashboard reflects a range of cultural indicators, grouped under the following themes: connecting to our purpose; supporting our people; delivering for our customers; creating an inclusive culture, developing our people and driving new thinking. It includes insights from our annual in-depth employee survey alongside more frequently changing metrics, such as latest engagement figures for wellbeing and inclusion events. We're working to develop additional metrics to enable us to identify and respond to trends during the year. These include evaluation of monthly exit feedback from leavers; introduction of monthly feedback from new joiners; a Love to Listen pulse survey taking place each April and a pilot survey of employees at monthly, bi-monthly and quarterly intervals.

Outcome

Considering stakeholders in decision making

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

Approval of the demand management strategy (DMS)

Demand management is a fundamental part of the Water Resources Management Plan (WRMP), mitigating demand growth and reducing the need to build new supply-side options.

As part of the draft WRMP approval process, our Board was asked to approve our DMS, which includes smart metering, leakage reduction and water efficiency measures.

Stakenolder engagement
Our customers have been
engaged throughout the
development of our WRMP.

Stakoholderengagement

We have undertaken qualitative engagement with our Online Community, as well as externally facilitated groups.

We have also undertaken a quantitative survey, reaching 1.400 households and 100 non-household customers.

Our stakeholders have also shaped our plan. We have engaged with the Environment Agency and Ofwat, as well as stakeholders through Water Resources East and our preconsultation.

Stakeholder considerations

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

Leakage remains a priority for our customers and stakeholders, as well as water efficiency and smart meters. Affordability is also a key consideration.

The majority of our customers also told us that they felt customers should pay according to the amount of water they used. This has helped to inform our compulsory metering strategy, while shaping how we will help vulnerable customers.

Outcome

The Board scrutinised the proposed demand management options, their costs and benefits.

The Board had to balance the company's purpose, customer and stakeholder ambition and affordability. This resulted in the Board approving a comprehensive package of demand management options which build on the company's frontier position, whilst being manageable in terms of customer bill impacts, with vulnerable customers particularly in mind.

Our net zero strategy to 2030

For over a decade, Anglian Water has been working towards carbon neutrality. In 2019, water companies in England joined forces to make a pledge to reach net zero on operational emissions by 2030. Following this commitment, Anglian Water developed a detailed company-specific net zero carbon routemap.

Stakeholder considerations

Stakeholder engagement

In developing the water sector routemap, we engaged with Water UK and our water industry peers as the co-sponsors of the water sector's net zero carbon commitment. Additionally, we engaged with not-for profit organisations, financial institutions, including banks, our Directors and investor representatives.

Through specific engagement with Board members we were able to further develop a credible approach to our regional based offsetting strategy. We were also able to reach out to portfolio companies of our equity investors, to understand their approach to carbon neutrality both in the UK and abroad, and to incorporate this learning into the Anglian Water routemap.

In May 2021, the Board considered and challenged the company's proposed net zero carbon emissions strategy, which already incorporated feedback from individual Directors. Following the support of the Board, the routemap was published in July 2021. A copy of this document (which sets out how we aim to reach net zero carbon emissions by 2030) is available on our website: www.anglianwater. co.uk/siteassets/household/ environment/net-zero-2030strategy-2021.pdf

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).

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

- Anglian Water Articles of Association
- · Love Every Drop outcomes
- · Anglian Water Strategic Direction
- Anglian Water Water Resources Management Plan
- Anglian Water Drought Plan
- · Anglian Water Water Recycling Long-Term Plan
- Anglian Water Climate Change Adaptation Report
- Anglian Water Drainage and Wastewater Management Plan (forthcoming)

Current activities and risk management

- · Chairman's welcome pages 8-9
- Chief Executive's statement pages 10-13
- Anglian Water in context: challenges and opportunities
- Our strategic ambitions pages 21-24
- Responsible financing: Sustainable finance pages 30-31
- · Holding ourselves to account pages 38-39
- Our stakeholders: our environment & the planet pages 45-53
- Section 172 statement pages 73-76
- · Climate-related financial disclosures pages 79-89
- Principal risks pages 90-103



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

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 behaviour
- · Diversity and inclusion plan
- Health and Safety policy
- Dignity at work code of conduct
- · Relationships at work policy
- Gender pay gap report
- Whistleblowing policy

Current activities and risk management • Chairman's welcome pages 8-9

- Chief Executive's statement pages 10-13
- Our stakeholders: our people & partners pages 61-68
- Section 172 statement pages 73-76
- Corporate Governance Report pages 112-121
- · Audit Committee Report pages 122-128
- Remuneration Committee Report pages 132-152



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 statement

Current activities and risk management

- Our stakeholders pages 45-72
- Nomination Committee Report pages 129-131

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

- Chairman's welcome pages 8-9
- 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

- Chief Executive's statement pages 10-13
- Anglian Water in context: challenges and opportunities pages 14-18
- Our strategic ambitions pages 21-24
- Holding ourselves to account pages 38-39
- Our stakeholders: our customers & communities pages 54-60
- Section 172 statement pages 73-76



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

Current activities and risk management

- · Doing the right thing code of behaviour
- Anti-bribery policy
- Corporate hospitality policy
- · Whistleblowing policy
- Principal risks: no. 13: Legal and 14: Regulatory, page 101
- Audit Committee Report pages 122-128

Description of principal risks and impact of business activity

Policies, standards and relevant

documents that govern our approach

· Anglian Water in context: challenges and opportunities pages 14-18

Current activities and risk management

- Risk management pages 90-93
- Principal risks pages 94-101
- Business long-term viability statement pages 104-106

Description of the business model

Policies, standards and relevant documents that govern our approach

Current activities and risk management

 Our business model pages 19-20

• 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

Current activities and risk management

- Non-financial performance measured against a set of commitments agreed with Ofwat
- Health and safety measures and targets
- Delivering our outcomes: Performance Commitments dashboard pages 40-42
- Delivering our outcomes: performance in context pages 43-44
- Our stakeholders: our people & partners pages 61-68

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



Making information about climaterelated risks and opportunities available to our stakeholders is key to how we operate.

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

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.

Highlights

- · Ranked by CDP in the Leadership category for our response to climate change for the second consecutive year - putting us in the top five per cent of companies in the world
- Named by the Financial Times and Statista as a **European Climate Leader**
- Co-lead role in first-ever UN Resilience Hub at COP26
- £100.4 million green bonds raised in the year, and a total of £1.8 billion of sustainable financing since 2017
- On track to achieve net zero operational carbon emissions by 2030
- On track to achieve a 70 per cent reduction in capital carbon by 2030
- · Platinum certified by Achilles Carbon Reduce (formerly CEMARS), signifying 10+ consecutive years of carbon reductions

Governance

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

Page	Further references
pages 80-81	 See organisational structure on page 80 See climate-related governance on page 80

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	Furtl	herreferences
→	~	See climate-related strategy on page 82
pages	R	Water Resources Management Plan
82-85	R	Water Recycling Long-Term Plan
	R	Green Bond Impact Report 2020
	R	Sustainable Finance Impact Report 2021
	R	Strategic Direction Statement
	R	Climate Change Adaptation Report
	R	Net Zero Carbon Routemap
	~	See CReDo on page 84

Risk management

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

Page	Furtl	nerreferences
page	→	See climate-related risk management on page 86
86	~	See our approach to risk on pages 90-93
	→	See our principal risks on pages 94-101

Metrics

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

Page	Further references			
pages 88-89	-	See our climate-related metrics and targets on page 88 See our greenhouse gas performance on page 88		
	K	Net Zero Carbon 2030 Routemap Climate Change Adaptation Report		

Climate-related governance

Where we manage climate risks and opportunities

Board of Directors

Remuneration Committee linked to ESG

Audit Committee -Review the company's

Management Board

Climate Change **Steering Group**

Carbon Neutrality Steering Group

Resilience **Steering Group**

Six Capitals Steering Group Finance, Treasury and **Energy Policy Group**

Finance Climate Group

Sustainability **Team**

Carbon Neutrality and Climate **Change Team**

Sustainability Community

Board oversight

The Anglian Water Services (AWS) Board retains overall oversight of climate-related risks and opportunities. The Board held seven scheduled meetings during the year ended 31 March 2022 and discussed key issues facing the business, including climate-related issues. The company's most significant risks are recorded in its top-tier risk register, which is reviewed in detail twice a year by the Board (more frequently if significant issues have arisen). The Board also receives presentations or papers from management regarding the management of key risks, including the overall review of the top-tier risk register. Climate-related risks are included within this 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 (see page 30).

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 sectorwide 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.

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 per cent 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 Board receives presentations or papers from senior management, including the Head of Integrated Assurance, 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 therefore can drive the areas of focus. As such, during the year to March 2022, a specific audit assessing our overall ESG governance structure and process was undertaken. The findings raised from this help to ensure we continue to take a proactive stance on our ESG ambitions.

The role of the Remuneration Committee

The Remuneration Committee plays a key role in ensuring that climate change, and the ESG agenda in general, are given appropriate focus right at the top of the organisation.

A significant portion of variable executive remuneration is already aligned to our purpose, as embodied by ESG measures. For 2022/23 the Committee has decided to go further, increasing the overall weighting given specifically to environmental and social measures. These measures include our performance as a business in operational and embedded carbon. See page 134 of the Remuneration Report for more detail.

The role of management

In general, the Management Board meets three times each month and discusses issues impacting climate change - indeed, these meetings are often shaped by the agendas and outcomes of the groups specified below. The Management Board consists of key decision makers within the organisation (see page 109), who chair many of the groups discussed below.

Climate-related risks are principally managed through the Climate **Change Steering Group, Carbon Neutrality Steering Group and** Resilience Steering Group, each of which meets at least quarterly.

These groups are made up of key subject matter experts and representatives are drawn from across the business. There is membership overlap on the groups in order to ensure effective coordination and cooperation. The members have targets which directly or indirectly relate 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 Change Steering Group is responsible for the development and delivery of our climate change strategy and adaptation approaches and ensures that climate-related risks are being appropriately addressed. In particular, the preparation and management of a risk assessment and action plan informs the Climate Change Adaptation Report that is submitted to government. The group will be integral to the development of our climate adaptation investment plans for the next AMP period and beyond.

The Carbon Neutrality Steering Group is responsible for the development and delivery of our energy and carbon management strategy. The group also developed the net zero carbon 2030 strategy, and this committee reports progress against the 2030 commitments to the Management and AWS Boards.

The Resilience Steering Group 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', pages 19-20, and 'Holding ourselves to account', pages 38-39) 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 climaterelated risk, other groups also play an important role in developing climaterelated approaches.

The Six Capitals Steering Group is developing ways to assign costs to each of the six capitals for the purpose of project appraisal. This group will then feed a summary of performance against the six capitals to the Board on a twiceyearly basis.

The Finance, Treasury and Energy Policy Group also plays an important role in managing transition risks and opportunities and is chaired by Steve Buck, Chief Financial Officer (CFO). 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 CFO, the Group Treasurer, other Management Board Directors and the Head of Carbon Neutrality.

The purpose of the Finance Climate Group 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. Since this is such a rapidly evolving space, it also has the benefit of developing a way to improve the links between finance functions and those delivering climate solutions around the business. The group develops granular information and analysis to aid with the development of specific climate-related solutions.

Anglian Water has also launched a Sustainability Community over a number of internal social media platforms. Through this community, Anglian Water employees and alliance partners can post sustainability-related activities, ask questions and seek feedback from experts on ideas and initiatives. This community has been introduced to make sure that 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.

Climate-related strategy

Climate-related risks, opportunities and impact

Keyrisk	Drivers	Potential impact	Response to risk	Key opportunity	Drivers	Impact on business	Strategy to realise opportunity
Negative impact on our supply/ demand balance and our ability to serve	Hotter, drier summers increasing drought severity and frequency combined	On customers: Increase in interruptions to supply Low water-pressure issues Drought restrictions more commonplace On business:	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 droughts and water shortages (see page 49). This 25-year plan is refreshed every five years. This approach therefore delivers over a short, medium and long-term timeframe. 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	Spend- to-save programme	Increased cost of energy	 Reduced operating costs Reduction in operational and capital carbon Reduce energy consumption 	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
customers Short, medium and long term	with forecast population growth	 Impact on our financial penalty/reward position Increase in operating costs to deal with periods of drought Increase in capital investment required 		Correlation of reducing, carbon reduces cost	Need to reduce carbon footprint and alignment with our net zero targets.	 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
Negative impact on our customers and the environment caused by	of periods of heavy rainfall combined with wetter, warmer winters • Impact on our financial penalty/reward position as well as environmental penalties • Increase in operating costs to deal with heavy rainfall and associated flooding	f Internal and external sewer flooding and impact on customers' homes Increase in interruptions to supply					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.
failure to cope with impact of increased precipitation Short, medium and long term		sustainable and innovative solutions (see page 83). This 25-year plan is refreshed every five years. This approach therefore delivers over a short, medium and long-term timeframe.	Uptake of renewable energy	The rising cost of grid power and the increasing appetite for renewable power	 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 and solar photovoltaic installations at our sites.	
One-off events which	Increased severity and frequency of	On customers: • Increase in interruptions to supply	We manage these risks with business continuity and meticulous emergency			e years and therefore the cli ese periods could be assess	

impact ability frequency of to operate

Short, medium and long term

storms

• Impact on leakage due to freeze-thaw process

On business:

- 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

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.

However, 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 is to 2030.

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, in consultation over summer 2022, 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.

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.

We used climate-related scenario analysis when preparing our 25-year Water Resources Management Plan, which identified the areas in our region which are most vulnerable to climate change.

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 the impacts due to growth and other drivers to understand the total impact on the supply/ demand balance in each WRZ.

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 per cent 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. Up to eight solution options per catchment were costed and benefitassessed 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 (see pages 21-24).

Addressing climate-related supply challenges

South Essex was one of the Water Resource Zones that was identified as being impacted by climate change. In response to the forecast supply/ demand deficit, due to climate change and other drivers, 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 (see page 21).

Adopting cost-effective, resilient solutions

An example of the two lowest-cost solutions produced for one particular catchment is shown below.

In both cases, it was identified that investment in SuDS and upsizing of the catchment would support resilience to climate change. One - the solution ultimately adopted - included the creation of tree pits, bioretention, swales to carry away storm water, and attenuating rain gardens, combined with an attenuation pond, a green or 'living' roof, rain gardens and soakaway.

The solution also involved upsizing assets including a gravity sewer, three pumping stations and associated rising mains, together with the sealing of 15 manholes. The second solution proposed, which factored in a 20 per cent increase in rainfall, only differed in a handful of areas: it recommended a slightly larger upsizing of the sewer (1,853 m as opposed to 1,777 m),marginally larger offline storage (958m² vs 1,036m²) and an increased sluice opening height. Therefore option one was selected, as it offered almost the same degree of resilience but at lower cost.

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 biggest climate-related risks).

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, having issued more than £1 billion-worth of Green Bonds 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 save or avoid 179,723 tonnes of carbon - a 61 per cent reduction from the company's 2010 capital carbon baseline.

Engaging with our value chain

We engage our whole value chain in managing climate change, and our supply chain has been at the heart of the success we've had in managing climate-related risk and reducing carbon. 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's first Mayday Summit. Since then we've worked with our design and construction partners to reduce capital carbon by more than 62 per cent.

An example of how we've engaged with the wider value chain is in working as a member of the Green Construction Board on HM Treasury's Infrastructure Carbon Review. Published in 2013, this document highlighted the importance of working across the value chain, and its principles align with how we engage our supply chain. In fact, in 2016, we became the first organisation to be verified to PAS2080. which is the world's first standard for managing carbon in infrastructure, designed to drive best practice in managing carbon across the supply chain.

We're currently undertaking an Ofwatfunded 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. The project will better enable us to identify carbon 'hot spots' and develop mechanisms to further reduce our impact.

We engage our whole value chain in managing climate change, and our supply chain has been at the heart of the success we've had in managing climate-related risks and reducing carbon.



Partnering on the Climate Resilience Demonstrator (CReDo)

We understand that our assets operate in an inter-related infrastructure system our assets 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 inter-dependencies 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 inter-dependencies 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, UK Power Networks and BT. The project is funded by UK Research and Innovation (UKRI), the University of Cambridge and the Connected Places Catapult 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 inter-related assets fail and how organisations can effectively share data and co-operate to develop holistic climate resilience solutions at an infrastructure system level. It is now progressing to the next phase and we expect that the outputs of this next phase will be incorporated into our resilience planning going forward.

More detail on this project can be found here: What is CReDo? - DT Hub Community (digitaltwinhub.co.uk)

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 monitoring how we perform on commitments. Its members come from a wide range of backgrounds to represent the interests of household and business customers, communities, the environment and the economy;
- 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 took account of 500,000 customer engagements; a majority of customers told us they want us to invest in resilience to climate change now, rather than waiting.

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. This has driven improvements in how we engage with other stakeholders, how we carry out research and how we deliver innovation. The Innovation Discovery Team leads much of our research and development work. It reports to the Chief Engineer and invests about £2.5 million per annum. 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 sources of emissions (see page 88), alongside reducing energy consumption in water recycling and producing hydrogen. This will be one of the team's most important projects, as we will rely on innovation to help us achieve net zero by 2030.

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 10 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 per cent of our consumption by 2025. See page 23 for our progress in 2021/22.

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. It now delivers savings of £2 million each year.

Through our energy-efficiency 'spend-to-save' programme, we design carbon out of the new assets we build and reduce travel emissions, delivering savings of £2 million each year.

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 per cent 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

We have 14 principal risks, each of which is of equal importance. Climate change is a consideration of each of these. Identification of current and emerging climate risks, including risks presented through implementation of change, is undertaken as part of our embedded risk processes utilising expert judgement, historical data, external data and forwardlooking 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.

Where a gap exists between our current position and our appetite, we manage our residual risk exposure through the implementation of controls and actions. Under exceptional circumstances management may explicitly accept the risk exposure in line with the Group's defined Risk Acceptance process. We may also take the decision to transfer or share the risk, e.g. via joint ventures or insurance to reduce our exposure. The potential impacts of all risks are rated using an impact classification matrix which facilitates a consistent approach to the sizing and categorisation of a risk. Some of the risk impact categories are captured in the definitions set out below.

Managing climate-related risks

We have a formal process for managing the delivery of our investment programme. As part of this process, climate resilience assessments are undertaken for each of our investments. Any risks identified are managed using our established governance process, which includes demonstrating at the various approval stages how the proposal will address the identified risk.

In preparing the WRMP, the impact of climate change was identified, 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 development and we will undertake similar stakeholder engagement strategy.

In addition, we're also 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

We operate a risk management system called JCAD. It contains our covenant compliance and is linked to our risk register, which is updated monthly by subject matter experts who take ownership for certain areas of risk to the business (for example flooding/droughts/ environmental prosecutions/financial reporting changes/changes in law). This enables us to identify significant risks to the organisation in terms of financial, reputational, environmental and social risk. This is then consolidated and discussed on a monthly basis, with significant risks brought to the attention of the Management Board and the AWS Board if necessary.

Within this system we define what constitutes substantial financial and strategic impact to the business. A significant impact on cash 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. An example of this could be a major pollution incident involving a prosecution from the EA, changes in accounting standards or legal changes impacting the organisation.

The impact of such an occurrence on the strategic Business Plan is defined in the risk register as 'Strategic Plan totally irrecoverable - too many objectives significantly failed'. An example of this would be failure to achieve key regulatory targets set out in our Outcome Delivery Incentives (ODIs), such as our leakage targets, level of pollution incidents or level of interruptions to supply. There are other external factors also, such as changes in regulatory guidelines.

The definitions provided on the risk register at Anglian Water are:

- Reputation: Adverse national/ international media articles - long term;
- · Regulation: Multiple or significant prosecution/s threatening loss of operating licence;
- · Customer service: Large-scale significant disruption to services - long term (weeks/months);
- Environment: Large-scale impact on environment - long term;
- Resource: Mutual aid and other external support invoked. Incident managed externally (Defra);
- Strategic Business Plan: Strategic Plan totally irrecoverable - too many objectives significantly failed; and
- · Cash impact >£25m.

Climate-related metrics and targets

Metrics used to assess climaterelated risks and opportunities

We maintain a corporate risk register which captures significant risks to the business and individual business units. The risk register identifies and quantifies risks, including climate-related risks. The top-tier risk register includes climate-related risks.

We've developed a process to assess 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 investigate how this might advance carbon reduction. This proved of limited value. Hence, we transformed the thinking of the organisation to recognise that reducing carbon does reduce cost. Setting this expectation alongside ambitious carbon targets (65 per cent capital carbon reduction target by 2025 and 70 per cent 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 the fiveyearly capital investment programme, worth c. £2 billion, 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.



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

Metrics and targets

Our annual report complies with the requirement of LR 9.8.6R by including climate-related financial disclosures consistent with the TCFD recommendations. This table meets the requirements of the Streamlined Energy and Carbon Reporting (SECR) regulations.

	Units	2020/21	2021/22	Inclusions
Energy consumption used to calculate emissions kWh	kWh	1,076,648,591	1,047,019,565	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 CO₂e	13,097	11,936	Fossil fuel combusted, natural gas and biogas
SCOPE 1 - Process and fugitive emissions	Tonnes CO₂e	83,009	81,601	Water and waste water treatment, biogas
SCOPE 1 – Owned transport	Tonnes CO₂e	20,903	20,854	Fleet vehicles and company cars
SCOPE 1 - Total	Tonnes CO ₂ e	117,010	114,390	
SCOPE 2 - Purchased electricity	Tonnes CO ₂ e	151,824	134,894	Grid electricity – location-based electric for vehicles
SCOPE 2 - Total	Tonnes CO ₂ e	151,824	134,894	
SCOPE 3 - Business travel	Tonnes CO ₂ e	140	306	Private cars, public transport
SCOPE 3 – Outsourced transport	Tonnes CO₂e	13,800	12,834	Outsourced tankers
SCOPE 3 - Purchased electricity	Tonnes CO₂e	13,057	11,937	Transmission & distribution
SCOPE 3 – Total significant	Tonnes CO ₂ e	26,996	25,077	We have not included commuting, capital carbon and emissions from use of water in customers' homes.
TOTAL ANNUAL GROSS EMISSIONS	Tonnes CO ₂ e	295,830	274,362	
Exported renewables	Tonnes CO₂e	-6,776	-4,946	Exported renewables REGO certified
Green tariff	Tonnes CO ₂ e	0	0	
TOTAL ANNUAL NET EMISSIONS	Tonnes CO ₂ e	289,054	269,416	
INTENSITY RATIO – water treated	Kg CO₂e per Ml	230.97	203.73	
INTENSITY RATIO – recycled water	Kg CO₂e per Ml	433.46	425.20	
INTENSITY RATIO – recycled water	Kg CO₂e per Ml	224.13	232.61	Full flow to treatment

Methodology: The reporting boundary covers the emissions within the regulated activity of Anglian Water Services Ltd where we have operational control. We have followed the 2020 UK Government environmental reporting guidance. We have used the GHG Protocol Corporate Accounting and Reporting standard (revised edition) and emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2022 to calculate the above disclosures. Where relevant we have also aligned with industry best practice for emissions measurement and reporting. This approach has been verified, since 2011, by Achilles Carbon Reduce (formerly CEMARS) as being measured, managed and reduced in accordance with ISO 14064-1.

Organisational targets to manage climate-related risks and opportunities

Our key short- to medium-term climaterelated targets are as follows:

- Be a net zero carbon business by 2030 as set out in our Net Zero Carbon 2030 Routemap:
- Deliver a 65 per cent reduction in capital carbon by 2025 against our 2010 baseline:
- Deliver a 70 per cent reduction in capital carbon by 2030 against our 2010 baseline;
- Deliver a 10 per cent reduction in operational carbon by 2025 against a 2020 baseline;
- Between 2020 and 2025 ensure that a climate change resilience assessment is completed for all relevant investments.

From 2022/23, a proportion of senior leader remuneration is linked to performance against these climaterelated targets: 2.5 per cent of senior leaders' bonus is linked to the achievement of our annual net zero carbon performance target and 2.5 per cent 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 fastestgrowing region;
- Develop a strategy to further reduce our capital carbon beyond 70 per cent post 2030, with an ambition to be zero carbon well before the national target of 2050:
- 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.

Progress against our operational carbon target of a 10 per cent reduction by 2025 against a 2020 baseline is calculated with the Carbon Accounting Workbook (CAW), using the market-based emissions methodology. This is certified to ISO14064-2 standard through the Achilles Carbon Reduce programme (formerly CEMARS). The CAW is updated annually and has been in use across the water sector for many years. This tool, in conjunction with our energy efficiency targets, service demand targets, renewable energy generation targets etc, is used to set our operational carbon reduction target.

Net zero carbon 2030 progress is calculated with the CAW, using the market-based emissions methodology with the numbers verified as part of our ISO14064-2 standard through the Achilles Carbon Reduce programme (formerly CEMARS). Our net zero carbon 2030 target was set using 2018/19 as a baseline and was developed using the CAW as the basis for forecasting reduction trajectories. Carbon reduction strategies were developed for a host of areas within the business including transport, renewables and water recycling, to arrive at viable and deliverable carbon reduction approaches to set our overall target.

Our process for measuring capital carbon is verified annually against PAS 2080 Carbon Management in Infrastructure. Historic performance, knowledge of our supply chain and emerging and evolving design approaches have contributed to the development of our target.



Power generation from solar assets on or adjacent to our sites plays a key role in our net zero strategy

Maintaining a resilient business and managing our risks

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

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

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

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

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

- Corporate resilience: the ability of an organisation's governance, accountability and assurance processes to help avoid, cope with and recover from disruption and to anticipate trends and variability in its business operations.
- Financial resilience: an organisation's ability to avoid, cope with and recover from disruption to its finances.

• Operational resilience: the ability of an organisation's infrastructure, and the skills to run that infrastructure, to avoid, cope with and recover from disruption in its ability to provide critical services to customers.

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

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

When things don't quite go to plan, we have well-rehearsed policies and procedures which underpin our incident escalation and response mechanism. This is supported by the Anglian Water Force our trained incident response community. We currently have more than 1,200 incident responders from right across the business and our alliance partners who are ready to respond and ensure the business maintains operational and organisational resilience. This year we have launched a new company-wide initiative to give all Anglian Water employees a secondary 'Incident Response Team' role.

During core hours this will mean that we have a response team made up of some 5,500 people (a significant increase on the current 1,200), and out of hours it will mean that there are far more people who will have been trained in incident roles who can choose to stand up and support the business.

Multi-agency and partnership working is fundamental to risk management and resilience. We actively engage across our 13 Local Resilience Forums in planning and risk mitigation to ensure interdependencies are known and mitigations are prepared. We have significantly expanded our exercise programme for the year ahead; the extended programme includes companyspecific and multi-agency exercises.

We collaborate with other water companies across the country through a national Water UK group, which meets to plan for and respond to events and situations such as Brexit, the impacts of war in Ukraine and sanctions on Russia, severe weather, coronavirus and cyber incidents. As part of the industry collaboration, Platinum Incident Management (PIM) and National Incident Management groups continue to sit in response to Covid-19 risk, and the mechanisms for activating these groups will remain in place as we move into a 'post-Covid-19' world.

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

Security is a fundamental part of resilience, and we maintain our security standards across operational assets and ensure that new capital schemes and the Strategic Pipeline Alliance (SPA) project have adequate security in place to protect assets, staff and customers.

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

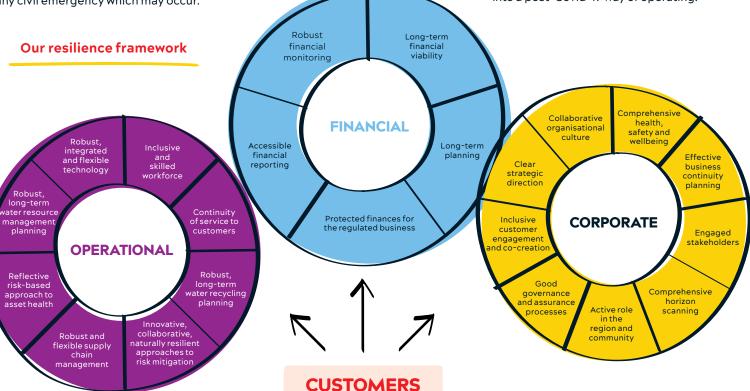
- · At a global level, we consider what are the potential mega trends, and whether we have ensured these are on our horizon when planning for future resilience.
- The National Risk Register also plays a key part in our resilience thinking and helps us prioritise, both in terms of likelihood of occurrence and scale of impact.
- We use an all-hazards approach and challenge ourselves to ensure we look at an end-to-end systems approach to the current risks and ensure preparedness for the shocks and stresses we may face.

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

 We continue to update our processes and procedures in line with the requirements of the Security and Emergency Measures (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.

Over the past year we have established a J-Cell structure within the business to bring together key workstream leads to provide routine visibility of emerging/present threats and to give a supporting strategicmeets-tactical management structure to respond to these threats. Our Silver Command and Gold Command groups have sat regularly throughout the pandemic and optioneering is currently underway to establish which elements of these groups we want to continue utilising as we move into a post-Covid-19 way of operating.



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.





QUALITY

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



ENVIRONMENT

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



ASSET MANAGEMENT

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



RESILIENCE

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



CUSTOMER

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

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.

We will:

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

Risk management

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 Framework Policy which is currently being reviewed and updated, with the scope extended to include enterprise-wide risks. It will be subject to an annual review, with the next review due in 2023. The policy sets out a clear and consistent approach to the management of risk and defines our risk appetite. This is enabled by the Principal Risk Register and several supporting risk management processes and 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.

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.

As part of the roll out of our enhanced risk management programme, we're reviewing and updating our risk appetite statements and alignment of the key risk indicators during 2022.

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

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

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

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

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.

During the reporting year we have revisited our approach to communicating our principal risks, as set out on page 124. This means that while the inherent risks have not changed, there is not a direct read across from last year's principal risk table to the table below.

Principal risk	Current risk profile	Trend	Risk movement	Business outcome	Proximity	Risk profiles
1. Customer proposition		\leftrightarrow	\leftrightarrow	Delighted customers	ST/MT/LT	High risk
2. Environment		1	\leftrightarrow	Flourishing environment	ST/MT/LT	Medium risk
3. Water supply and quality		\leftrightarrow	\leftrightarrow	Safe, clean water	MT	Lowrisk
4. Health and safety		\leftrightarrow	Ψ	Our people: healthier, happier, safer	MT	Risk movement
5. People		\leftrightarrow	\leftrightarrow	Our people: healthier, happier, safer	ST/MT/LT	No change
6. Technology		\leftrightarrow	Ψ.	Investing for tomorrow	MT	Risk increasing
7. Financial		\leftrightarrow	\leftrightarrow	Fair charges, fair returns; resilient business	ST	Risk decreasing
8. Reputation		\leftrightarrow	1	Delighted customers	ST	
9. Asset infrastructure		\leftrightarrow	\leftrightarrow	Investing for tomorrow	ST/MT/LT	Proximity
10. Business resilience		\leftrightarrow	\psi	Resilient business	MT	LT Long term (25 years+) MT Medium term (10 years)
11. Commercial and third party		1	1	Supply meets demand	MT	ST Short term (5 years)
12. Strategic execution		\leftrightarrow	\leftrightarrow	Investing for tomorrow	ST/MT/LT	
13. Legal		\leftrightarrow	\leftrightarrow	Resilient business	ST/MT	
14. Regulation		\leftrightarrow	\leftrightarrow	Resilient business	ST/MT	

Strategic goal:

'To make life better for our customers, every single day'

Our aim:

We want our customers to be delighted with the work we do and the services we provide.

Risk description:

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.

Key driver(s):

The requirement to meet CMeX (Customer Measure of Experience), DMeX (Developer Measure of Experience) as set by Ofwat, and the rising cost of living which could see our customers forced to choose between heating or eating, which may have a negative effect on our customer debt ratio.

To mitigate this risk, we:

- 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 to the BS18477 Customer Vulnerability Framework to help identify and assist vulnerable customers;
- 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.

Opportunity:

Use our customer service feedback to look for new ways to meet everyday challenges to make life better for our customers.





Strategic goal:

'To create a sustainable future for our region'

Our aim:

We are committed to reducing our carbon footprint, protecting the environment and ensuring that water supply meets demand. We will do so effectively, responsibly and sustainably.

Risk description:

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, failure to reduce our carbon footprint, breaching abstraction licences and/or pollutions resulting from our operations.

Risk of failure to deal with the impact of extreme and unpredictable weather events on our assets and infrastructure.

Risk of changes to future water resource, supply and demand due to climate change.

Protecting the environment is one of our key priorities. Following a strategic review we have created a new Directorate for Quality and Environment dedicated to working across industries and sectors, and with local and national government, regulators and non-governmental organisations to jointly move us forward in this area.

Key driver(s):

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.

To mitigate this risk:

- · 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;
- we have implemented the Biosolids Assurance Scheme (BAS), the national quality scheme for recycling of biosolid products.

Opportunity:

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.

Strategic goal:

'To make life better for our customers, every single day'

Our aim:

Delivering safe, clean drinking water is our highest priority.

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.

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.

To mitigate this risk, we have:

- · 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;

- 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;
- regular discussions with the Environment Agency in relation to water supplies.

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.

Work across the industry to deliver winning solutions and drive wider benefits beyond cost efficiencies.

Use Ofwat's Adaptive Planning to help us monitor performance against a range of scenarios which can be adopted depending on future circumstances.





Health and safety 228 Our people, healthier, happier, safer

Strategic goal:

'To deliver our identified business priorities'

Our aim:

We strive to foster our people's health and happiness and keep them safe at all times.

Risk description:

The risk that we endanger the health, safety and wellbeing of our people, operating partners or members of the public.

We recognise the importance of robust management systems and their role in the ongoing success of our business.

Key driver(s):

Stretched resources, Covid-19 fatique and pressure to reduce costs could lead to less focus on following procedures, processes and maintenance.

To mitigate this risk:

- 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;
- ISO45001 management system monitors performance with sixmonthly reviews undertaken by Lloyd's Register as well as through internal audit;
- · safety management is reviewed regularly to ensure that it is suitable and sufficient to manage the hazards we have in our undertakings.

Opportunity:

Work with our employees and alliances to drive positive behaviours built around trust for health, safety and wellbeing.

People Our people, healthier, happier, safer

Strategic goal:

'To deliver our identified business priorities'

Our aim:

We will ensure that we have sufficient capacity of engaged, motivated, diverse and empowered people in our business at the appropriate times, with the right skills and competency.

Risk description:

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.

Key driver(s):

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. To mitigate this risk, we:

- 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;
- · provide a comprehensive range of wellbeing benefits and activities.

Opportunity:

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.







Strategic goal:

'To deliver our identified business priorities'

Our aim:

We will realise opportunities and understand exposures by identifying, assessing, handling, monitoring and reporting technology risk in a timely, efficient and transparent manner to support in the delivery of our goals.

Risk description:

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.

Key driver(s):

Heightened cyber threat as a result of the war between Russia and Ukraine has the potential to weaken our security defences. The speed at which new technologies are evolving could mean that we are not keeping pace with our industry or customer expectations.

To mitigate this risk, we:

- 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;
- are implementing the National Cyber Security Centre (NCSC)'s '10 Steps' framework to enhance our control environment;
- · have an ongoing awareness and education campaign to modify employees' behaviours towards cyber risk.

Opportunity:

Take advantage of new technologies as they become available to help us become more agile and resilient.

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.



Strategic goal:

'To deliver our AMP7 Final Determination'

Our aim:

We will maintain the trust and confidence of our customers while providing fair returns to our shareholders.

Risk description:

The risk that we fail to appropriately finance our business in either the short or the long term.

Key driver(s):

Economic conditions affecting our investments, and the failure to meet our delivery outcomes impacting our potential for earning financial rewards which allow us to invest for the future.

To mitigate this risk:

- revenue from our customers, together with the proceeds of new debt raised, finances the totex (capital expenditure plus operational expenditure) 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;
- we have robust treasury, liquidity and energy and covenant policies which are internally monitored through our Finance. Treasury and Energy Policy Group.

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.

Working with The Pensions Regulator to introduce positive changes for fund schemes will benefit our scheme members, shareholders and customers.





Strategic goal:

'To deliver our identified business priorities'

Our aim:

We will deliver on our promises, proactively maintaining our reputation with our customers, and avoid actions that could negatively impact us, acting swiftly to protect adverse impacts.

Risk description:

The potential for negative publicity, public perception, or events to have an adverse impact on our reputation.

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.

To mitigate this risk:

- · 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, our 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;
- We have well-rehearsed contingency plans and accompanying communications strategies for when things don't quite go right.

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.



Strategic goal:

'To create a sustainable future for our region'

Our aim:

Delivering a continuous service to our customers is at the heart of what we do.

Risk description:

The risk of failing to plan, build, maintain and decommission assets reliably and efficiently to meet the service expectations of our customers.

Key driver(s):

Our significant and ageing 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.

To mitigate this, we:

- · 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;

- have cross-business governance bodies that align to business strategy;
- have a detailed knowledge and understanding of our critical assets;
- work with industry bodies to review the regulatory framework in relation to asset health, to further address longterm risks.

Opportunity:

Trial and implement new technologies and innovation to improve our water treatment processes and network operations, such as leakage detection.

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.

Use the totex outcomes framework and engage with the Ofwat Innovation Fund to drive up performance and facilitate the innovation customers need.





Strategic goal:

'To create a sustainable future for our region'

Our aim:

We strive to have a resilient business, which is ready for whatever challenges we face.

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.

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.

Our approach to ensure we have robust business resilient processes in place is to:

- 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.

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.

Commercial and third-party



Strategic goal:

'To deliver our identified business priorities'

Our aim:

We are committed to maintaining an ethical and sustainable supply chain to meet our investment needs.

Risk description:

The risk of loss, failure or overdependency on one or more of our key suppliers (including alliances) which may interrupt the services that they provide.

Key driver(s):

The rising expectations of customers, increasing regulation and rapidly evolving technology.

To mitigate this, we:

- · 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 macro-economic pressures;
- 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.

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.





Strategic goal:

'To deliver our identified business priorities'

Our aim:

We are committed to working differently and smarter to deliver our commitments to our customers.

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.

Key driver(s):

Internal and external developments such as the Covid-19 pandemic, the energy crisis, and the impact of rising inflation, 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.

To manage our risks, we have taken the following steps:

- · we agree, monitor and manage performance against the Boardapproved plan and targets;
- the Board leads the annual strategy and five-year planning process which considers our performance, competitor positioning and strategic opportunities;
- · we identify and manage emerging risks using established governance processes and forums.

Opportunity:

Use the experience and expertise across the business to design and deliver projects more efficiently and effectively delivering customer-centric solutions.



Strategic goal:

'To deliver our identified business priorities'

Our aim:

We are committed to complying with all laws, and with regulations and standards set by our regulators.

Risk description:

The risk of financial or reputational loss resulting from a failure to comply with applicable legal obligations (including a lack of knowledge or misunderstanding of how the law applies to our business).

Risk of failure to maintain a suitable and sufficient framework to manage applicable legislative obligations.

Key driver(s):

The changing legal and regulatory landscape.

To mitigate this risk, we:

- · 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;
- · have an internal mechanism to ensure that any breaches are identified, reported and investigated in a timely manner;

- employ specialist lawyers who can advise the business on the interpretation and implications of relevant legislation and other legal obligations;
- ensure that all relevant employees undertake appropriate training so that they have a sufficient understanding of key legislation (including the Data Protection Act 2018, the Bribery Act 2010 and the Competition Act 1998);
- · have documented policies, processes and guidelines covering a range of legal scenarios;
- track changes in legislation via our legal register and communicate developments to relevant business units;
- have internal mechanisms (including a whistleblowing process and system) to ensure that any breaches of legislation are identified, reported and investigated in a timely manner.





Strategic goal:

'To deliver our identified business priorities'

Our aim:

We are committed to continuing to have open and constructive relationships with Government and our economic regulator Ofwat.

Risk description:

The risk that regulation could significantly alter our business prospects or delivery of strategic goals.

Key driver(s):

The changing regulatory landscape and our ability to adapt and respond in line with regulatory requirements.

To mitigate this risk, we:

- undertake a horizon scanning process to identify changes in legislation, impacts and mitigating actions in advance of any change;
- have an internal Policy Advisory Committee, a formal subcommittee of the Management Board which oversees our engagement with government and our regulators on policy reforms and regulatory risks;
- monitor performance against regulatory requirements.

Opportunity:

Work in partnership with others to create a regulatory and policy environment in which Anglian, and by extension our customers, communities and the environment, can flourish.

Emerging risks

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. As such, these are continually monitored and reported, a minimum of twice a year, through our existing risk processes.

Emerging risk: Covid-19 and post-pandemic risk

Covid-19 has had a significant and ongoing effect throughout the 2021/22 financial year and is therefore referenced wherever relevant throughout the report.

Related principal risk assessment

- People
- Finance
- Customer proposition
- Business resilience



Time horizon: Short term



Emerging risk: Cost of living crisis and affordability concerns

ONS data shows that growth in UK wages has failed to stay in line with the soaring cost of living, with inflation predicted to reach 10 per cent in Q4 2022. Businesses and households face increasing financial pressure with no obvious end in sight.

Related principal risk assessment

- Customer
- Finance
- People
- Business resilience



Time horizon: Short to medium term



For more information see page 15

Medium term - 10 years Short term - 5 years Long term - 25 years+

Emerging risk: Supply chain challenges

Demand, the pandemic, chaos at ports and transportation bottlenecks caused supply chain issues during 2021 and the issues we are facing are not expected to end in 2022.



Related principal risk assessment

- Business resilience
- Finance
- Strategic execution

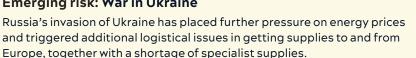
- Asset infrastructure
- Water supply and quality



Time horizon: Short to medium term



Emerging risk: War in Ukraine





Related principal risk assessment

- Business resilience
- Finance
- Strategic execution

- Asset infrastructure
- Water supply and quality





Emerging risk: Energy costs

A combination of factors, including the war in Ukraine, wider supply chain issues, the costs of decarbonisation and pandemic impacts, is causing rapid acceleration in energy prices.



Related principal risk assessment

- Business resilience
- Finance
- People
- Customer



Time horizon: Short to medium term



For more information see page 15

Emerging risk: Recruitment and resourcing

A high volume of vacancies across the UK amid the post-pandemic economic recovery is driving significant competition for talent, making recruitment particularly challenging.



Related principal risk assessment

- People
- Business resilience
- Customer
- Finance



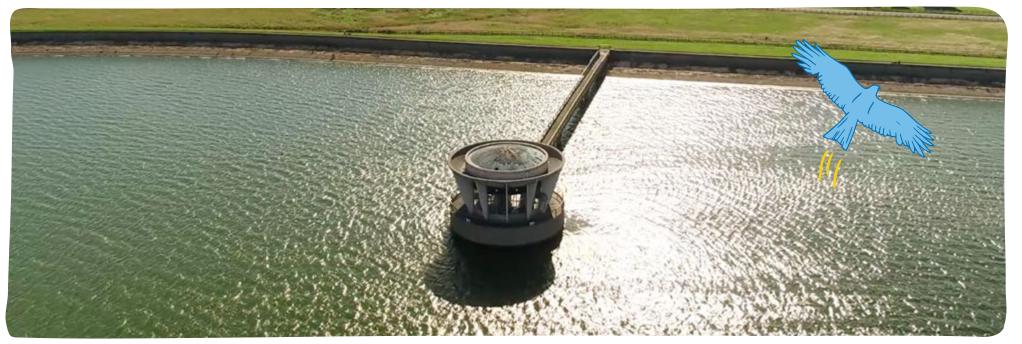
Time horizon: Short term

For more information see page 16

Long term - 25 years+

Medium term - 10 years

Short term - 5 years



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 decisionmaking 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 2022 to March 2032. 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 three years takes us to the end of the current AMP, for which there is reasonable certainty and clarity, with a stretching five-year plan to deliver in line with the Competition and Markets Authority (CMA)'s Final Determination for AMP7.
- The next seven 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 submitted in our PR19 Business Plan submission updated to account for the CMA Redetermination.

- The Board considered whether there are specific, foreseeable risk events relating to the principal risks that are likely to materialise within a 10-year period, and which might be substantial enough to affect the 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 94-101, 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 90-93.

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

Stress testing the Business Plan

In reviewing its financial viability, Anglian Water considers the stringent covenant tests required under its securitised structure to provide comfort to our bondholders that our business is viable to the end of the current AMP period and beyond, and to ensure the availability of debt to finance Anglian Water's investment programme. At each regulatory price review and throughout the AMP, the Board satisfies itself that the agreed five-year business plans ensure adequate covenant headroom throughout the AMP period and beyond. This includes extensive downside scenario testing at both Anglian Water and Group level from severe, plausible and reasonable scenarios chosen because they pose the greatest risk to the business.

The following scenarios have been used individually and in combination to model the impact on the overall performance of the business, the ability of the business to service its debt and the impact on its credit rating:

Principal risk	Scenario	Impact modelled	Potential mitigations required
People Technology Financial Asset infrastructure Business resilience Commercial and third party Strategic execution	Material totex underperformance against the Final Determination allowance	Overspend of 10 per cent across an AMP	No mitigations required
 Customer proposition Environment People Reputation Asset infrastructure Business resilience Strategic execution 	Material Outcome Delivery Incentive (ODI) penalties	Up to £100 million applied in a single year	No mitigations required
EnvironmentWater supply and qualityHealth and safetyPeopleReputationLegalRegulatory	Regulatory fines and legal penalties	Up to 3 per cent of turnover applied in a single year	No mitigations required
• Financial	Unfunded pension liabilities	Up to £15 million applied per annum	No mitigations required
Customer propositionFinancialBusiness resilience	Risks associated with the disruption caused by cost of living crisis, potential reductions in revenue collection	Up to 4 per cent decrease in cash collection	No mitigations required

Principal risk	Scenario	Impact modelled	Potential mitigations required
FinancialReputationStrategic execution	The potential impact of credit rating agencies downgrading the debt for any companies in the Group	2 per cent increase in cost of new debt	No mitigations required
Financial Reputation Strategic execution	Cost of debt increases	2 per cent above base level assumptions across an AMP	No mitigations required
Customer propositionFinancialAsset infrastructureCommercial & third party	Significant inflation fluctuations	1 per cent above and below base level assumptions for each AMP	No mitigations required
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 per cent of RORE in year 4 and 5 plus a financial penalty of 1 per cent of revenue in year 4	No mitigations required
Customer proposition Environment People Technology Financial Reputation Asset infrastructure Business resilience Commercial & third party Strategic execution	Combined scenario based on low inflation, an opex cost shock plus a significant ODI penalty	Inflation 1 per cent below base for the AMP combined with 2.5 per cent opex cost shock in AMP7 and a £50 million ODI penalty in year 4	No mitigations required

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. Our modelled downside scenarios include cost shocks equal to experiencing several of these events in continuous years across the AMP; we are therefore confident that we can withstand the financial impacts of extreme weather events, predicted to increase as a result of climate change.

In April 2019 Ofwat issued Information Notice (IN) 19/07 setting out its expectations for companies in issuing long-term viability statements. In our Annual Performance Report (available on the Anglian Water Services website) we provide additional detail on the processes and assumptions underpinning our longterm viability statement and demonstrate our compliance with IN 19/07.

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 £1,055.0 million.

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 longterm cash-flow model which underpins the financial projections. In addition, our external auditor, Deloitte, reviews this viability statement and the outputs of our stress testing as part of its normal audit procedures. It considers whether these are consistent with the Directors' conclusion with respect to business viability, and if the processes undertaken are sufficient to support the statements made.

Directors' statement

In making this statement, the Directors have assumed that funding for capital expenditure in the form of capital markets or bank debt will be available in all reasonable market conditions. They have also considered the impact of the Group structure, intra-Group transactions and any other Group activities on the viability of the regulated business.

Ofwat published its PR19 Final Determination in December 2019 which formed the basis for setting customer charges in 2021/22. Funding for the remaining years of AMP7 will be set by the CMA Redetermination, which rebalanced the split between operational expenditure (opex) and capital expenditure (capex)

and recognised that long-term investment for resilience requires long-term investors, who deserve a fair return on their commitment. Whilst the delivery of our 2020-25 Business Plan remains challenging, the Redetermination will enable us to deliver the resilience to climate change and population growth that our region needs and continue to operate within our covenant requirements.

Anglian Water Services is an efficient company with a history of 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 2032, and is financially resilient in the face of severe but plausible downside shocks.

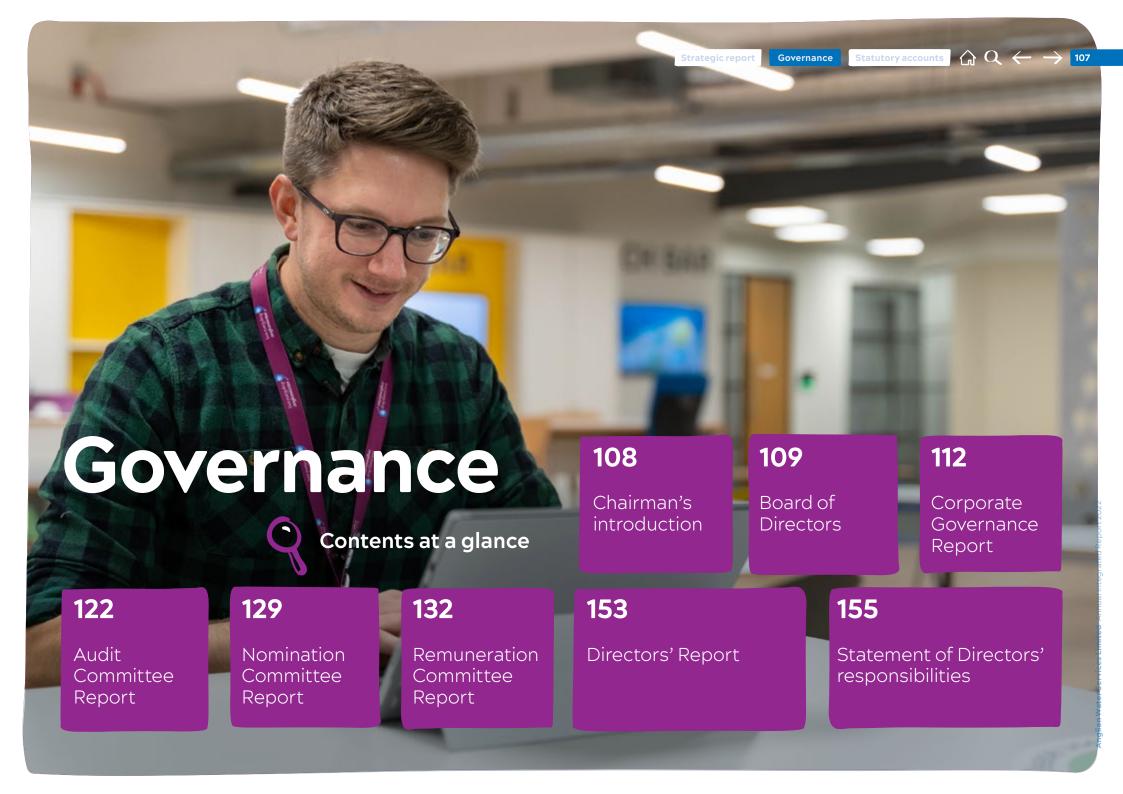
This is based on the reasonable certainty of its future revenue stream, the strength of the balance sheet (in particular the substantial cash balance and strong net assets), the availability of undrawn debt facilities in the unlikely event that debt markets were temporarily restricted, and by reviewing the business plans and strategic models, combined with the robust risk management process and mitigations described above.

This Strategic Report was approved by the Board of Directors and signed on its behalf by

Claire Russell

Company Secretary

14 June 2022





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 2022. This report provides you with a more detailed look at the Board's approach to governance and its key areas of focus this year.

This year we have seen success in several key areas, delivering our bestever performance through our worldclass leakage reduction programme, accelerating environmental programmes, beating our carbon targets and supporting our customers. However, our performance, particularly against environmental targets, has not reached the level we, our customers or our other stakeholders wish to see. That has inevitably shaped our approach to executive and senior management remuneration this year, as we set out in the Remuneration Committee Report on pages 132-152.

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 122-152.

Board evaluation

The Board considers the annual review of the Board, its Committees and Directors to be an essential part of good corporate governance. Following on from last year's external evaluation, this year the Board undertook an internal evaluation: more information on that can be found in the Nomination Committee Report on page 131.

External Auditor

During the year, the Audit Committee led the tender of the external audit contract. After a thorough process, the Audit Committee recommended to the Board that Deloitte be re-appointed as external auditor. Further information can be found in the Audit Committee report on page 126.

Annual Performance Report

As in previous years, the Annual Performance Report is being published as a separate document; see anglianwater. co.uk/about-us/our-reports. This report contains a statement from the Board. which focuses on how Anglian Water has set its long-term ambitions and targets and how the company is delivering for everybody that it serves.

John Hirst, CBE

Chairman

14 June 2022

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-today running of the business and develops long-term strategies for approval by the Board of Directors.

Peter Simpson

Group Chief Executive Officer

Steve Buck

Group Chief Financial Officer

Susannah Clements

Group People and Change Director

Brian Ebdon

Director of Strategic Planning and Performance

Iain Fry

Director of Information Services

Pete Holland

Director of Customer and Wholesale Services

Ciaran Nelson

Director of Brand and Communications

Alex Plant

Director of Strategy and Regulation

Dr Robin Price

Director of Quality and Environment

Ian Rule

Director of Water Services

Claire Russell

Group Legal Director/Company Secretary

Andrew Taylor

Acting Director of Water Recycling

Jason Tucker

Director of Strategic Delivery and Commercial Assurance





Remuneration





Independent Chairman



Appointed

- · Chairman 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 Chairman of the Audit Committee of Hammerson plc between 2004 and 2014. He is a Fellow of the Institute of Chartered Accountants and a member of the Association of Corporate Treasurers.

Other roles

John is Chairman of the British Standards Institution (BSI) and the National Oceanography Centre. He is also a Director of IMIS Global Limited and Afontech Limited. John is Chairman of SUDEP Action and a Trustee of Epilepsy Research UK.

Independent Non-Executive Directors



Appointed

- 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.

Other roles

Polly is Emeritus Director and Senior Ambassador of CISL. She is a Board Adviser to BSI, a Director of Jupiter Green Investment Trust, a member of the Supervisory Board of Mercedes-Benz Group AG and serves on the environmental/sustainability advisory boards for AstraZeneca, Nespresso and Terra Firma Capital Management. She is Deputy Lieutenant for Cambridgeshire.



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 a Non-Executive Director of Ford Credit Europe, Liverpool Victoria Life Company Limited (LV=) and Openreach Limited.

Independent Non-Executive Directors



Appointed

- Chair of the Audit Committee in April 2020
- Independent Non-Executive Director in October 2018

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.

She was an independent member of the Audit & Risk Committee of John Lewis Partnership plc until April 2021.

Other roles

Zarin is currently a Non-Executive Director of Pets at Home Group plc, where she is Chair of the Audit & Risk Committee, and the Senior Independent Director of Post Office Limited. 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.



Appointed

- · Chair of the Remuneration Committee in January 2015 to March 2022
- · Independent Non-Executive Director in October 2013

Skills, competencies and experience

Paul has significant regulatory experience gained during an extensive career in the energy sector. He was formerly Director, UK Regulation at National Grid plc, where he led UK regulatory strategy and price control activities, supported individual UK businesses in their day-to-day regulatory discussions and sat on the boards of the two main UK operating subsidiaries. Immediately prior to that he was Group Head of Strategy.

His career began at British Gas in 1981 and included the privatisation and subsequent liberalisation of the UK gas industry as well as periods working internationally. He joined National Grid when it merged with Lattice in 2002.

Other roles

Paul is an Associate at Oxera LLP.

Executive Directors



Appointed

- CEO of Anglian Water Group in October 2013
- · Managing Director of Anglian Water in 2010 and COO from 2004

Steve Buck Chief Financial Officer

Appointed

· CFO of Anglian Water Group in August 2019

Skills, competencies and experience

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.

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.

Skills, competencies and experience

Steve has spent almost two decades working across the globe in different roles within the utility sector. He has led finance and transformation functions, focusing on delivering for both shareholders and millions of customers in complex and challenging environments.

Between 2008 and 2017 Steve held a number of positions within Centrica (the global energy and services company) including Group Head, Finance and Transformation. Prior to this, he held a number of roles in Thames Water, the largest water and wastewater company in the UK.

Steve is 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.

Non-Executive Directors



Appointed

Non-Executive Director in November 2020

Skills, competencies and experience

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.

Other roles

John is Non-Executive Chairman 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.

John has been a Non-Executive Director of Anglian Water Group Limited since March 2018.



Appointed

· Non-Executive Director in April 2014

Skills, competencies and experience

Niall is the Managing Partner, Global Head of Infrastructure Investments for Igneo Infrastructure Partners (formerly First Sentier Investors). Niall joined First Sentier Investors in 2008, prior to which he worked in industry, holding senior roles across a variety of sectors, including utility companies, rail and airports.

Niall holds an MBA from London Business School, an Institute of Directors Diploma in Company Directorship and a Bachelor of Engineering (Hons) from Sheffield Hallam University. He is a Fellow of the Institution of Civil Engineers.

Other roles

Niall is a Director of AS Utilitas Tallinn and Tallinn Water (AS Tallinna Vesa).

Niall has been a Non-Executive Director of Anglian Water Group Limited since September 2008.



Appointed

Non-Executive Director in November 2021

Skills, competencies and experience

Batiste is a Managing Director within CPP Investments' Real Assets team where he specialises in infrastructure and renewable energy investing. Prior to joining CPP Investments in 2019, Batiste was a Director at First State Investments, with a focus on European infrastructure. During his career, Batiste has overseen multiple investments across water, gas, electricity, transport, communications, wind and solar sectors. Batiste is a Fellow of the Institute of Chartered Accountants in England and Wales (ICEAW).



Appointed

• Non-Executive Director in November 2016

Skills, competencies and experience

Duncan is the Executive Director of Asset Management for the IFM Investors European Infrastructure team, where he is responsible for the identification and implementation of asset management initiatives across IFM Investors' existing portfolio of infrastructure assets, and for the development and execution of transition plans for new investments. Duncan has an extensive track record in the engineering, construction and transportation industries. He is a Fellow of the Institution of Civil Engineers and holds an MBA from Cranfield School of Management.

Other roles

Batiste represents CPP Investments as a Director of Argiva Group Limited and Renewable Power Capital Limited. He is also a member of CPP Investments European Credit Committee.

Batiste has been a Non-Executive Director of Anglian Water Group Limited since May 2021, having been been an alternate Non-Executive Director since July 2019.

Other roles

Duncan also represents IFM Investors as a Director on the board of Global Infraco S.a.r.l.

Duncan has been a Non-Executive Director of Anglian Water Group Limited since January 2022, having been been an alternate Non-Executive Director since July 2016.

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 <u>anglianwater</u>. co.uk/governance. The Company Secretary keeps compliance with the relevant corporate governance standards under review and any changes recommended are subject to approval by the Board.



Anglian Water is committed to the highest standards of corporate governance.





Available to view at anglianwater.co.uk/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 2021, 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 2021, scoring 76 per cent against a cohort average of 45 per cent (see page 38). 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 'Purposedriven organisations - Worldviews, principles and behaviours for delivering sustainability' is expected to be published in July 2022; see pages 38-39 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 company's purpose is one part of our business model (described on pages 19-20) which also includes the company's ambitions and values. The Board is committed to the implementation of the company's business model. By way of illustration, the Board supports the approach to employee bonuses, which depend, in part, on the extent to which employees demonstrate behaviours that are consistent with the company's values.

To ensure that colleagues understand the standards expected of them, the company provides all new starters with a booklet entitled 'Doing the Right Thing'. The booklet summarises key company policies in a clear and concise way to ensure that Anglian Water's values and standards are clear to colleagues from their very first day. Doing the Right Thing is available on the company's website at anglianwater. co.uk/governance. Further information can be found on page 75.

A statement from the Board detailing how the company has set its aspirations and performs for all those it serves can be found in the company's Annual Performance Report.

At its meetings in both May 2021 and March 2022, the Board considered the work undertaken to monitor the company's culture, including how the culture had changed following the 'culture capture' review in 2018 and the evolution of a framework to monitor the company's culture (see page 75). A quarterly dashboard has been developed with a range of cultural indicators that are tracked over time. The dashboard comprises a range of insights from the annual Love to Listen survey (see page 64 for more detail on action taken following the survey) along with more frequently changing metrics such as the latest employee engagement figures for wellbeing and inclusion events. The dashboard is still evolving, and work is being undertaken to develop more frequent metrics to enable the company to identify and respond to trends during the year (see page 75).



Corporate Governance arrangements resulting from the Aligned Debt **Programme**

In 2002, the company established a debt programme that underpins all of its borrowing (including bonds and private placement). All of this borrowing is based on a single set of contractual provisions (a covenant package) and a shared security arrangement that binds all debt providers. The debt programme is 'structured' in that the AWS Financing Group (described below) is separated and ring-fenced; provides security (to the extent allowed by the regulatory framework); and has built-in protections (such as cash management regimes and contractual standstill provisions). The comprehensive package of commitments - or covenants - is contained in a single document that applies to all debt providers, called the Common Terms Agreement or 'CTA'. The debt providers are bound by an intercreditor arrangement contained in a document called the Security Trust and Intercreditor Deed or 'STID'.

The company's debt programme has been designed to align with, and enhance, the regulatory protections contained in the Water Industry Act 1991 and the company's Licence (an Aligned Debt Programme) in order to support and enhance Anglian Water's credit rating. This structure is based on the principle of Regulated Asset Base (RAB)-based financing, which assumes that if the regulated company's operations are confined to

running its regulated business and the company is largely protected from nonregulated 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 RABbased 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 is explained on page 20, the company has developed four key goals for 2020-2025 (AMP7), which are:



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

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 per cent.

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.

Therefore, whilst the Board considers the views of shareholders in its deliberations, it acts independently and in the best interests of the company as a whole. 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 decision to decrease the level of gearing at AWS necessarily entails 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 dividend policy;
- approval of accounting and treasury policy and practices;
- approval of procurement strategy for award of new contracts by the company where the contract value (over the life of the contract) is expected to be in excess of £30 million;
- approval of remuneration policy;
- approval of the total pay received by each Director;
- approval of the appointment of the company's auditors; and
- agreeing to refer any matter (including any proposed Licence modification or Final Determination) to the Competition and Markets Authority.

During the 2021/22 financial year, the following matters required approval by the AWG Board under the terms of the governance matrix:

- remuneration matters, including the vesting of Awards made in 2018 under the terms of the Long-Term Incentive Plan and the granting of new awards under the Deferred Bonus Scheme:
- the company's capital structure;
- the procurement strategy for a number of high-value contracts;
- the appointment of a new Non-Executive Director and changes to Committee membership; and
- the revised AMP7 Business Plan.

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 Chairman



Paul Whittaker Independent Non-Executive Director



Peter Simpson Chief Executive Officer



John Barry Non-Executive Director



Steve Buck Chief Financial Officer



Niall Mills Non-Executive Director



Dame Polly Courtice Senior Independent Non-Executive Director



Batiste Ogier Non-Executive Director (appointed 24 November 2021)



Natalie Ceeney Independent Non-Executive Director

Non-Executive Director



Duncan Symonds Non-Executive Director



At the date of these financial statements. in addition to the Independent Chairman John Hirst, there were four Independent Non-Executive Directors, two Executive Directors and four Non-Executive Directors. None of the Directors has a formally approved alternate.

The company's Chairman is also the Chairman of the company's ultimate parent company, AWG. The 2020 Code does not prohibit chairmanship of other companies in the Group, and on appointment as Chairman, the Board considered John Hirst (who was appointed as Chairman with effect from 1 April 2020) to be independent in judgement and character, notwithstanding the existence of his other directorships.

John Hirst is independent of investors and management and has no relationship with any of the company's shareholders, except for his chairmanship of AWG. None of the other situations listed in provision 2.3 of the 2020 Code, which might otherwise call into question independence, apply.

The independence of all the Independent Non-Executive Directors was considered by the Board at its meeting in January 2022. The Board concluded that all the Independent Non-Executive Directors remain independent of management and are not party to any business or other relationship that could materially interfere with the exercise of their independent judgement in accordance with the 2020 Code.

The Chairman and each of the Independent Non-Executive Directors have letters of appointment with the company rather than service contracts, which include the expected time commitment of the appointment. Copies of these letters can be found at anglianwater.co.uk/governance.

Where Directors have concerns about the operation of the Board or the management of the company that cannot be resolved, these would be recorded in the Board minutes, but no such concerns have been raised.

The following Director resigned from the Board during the year:

Zarin Patel

Independent



James Bryce Non-Executive Director (resigned 24 November 2021)

Board structure and effectiveness

Ofwat Principle: The Board of the Appointee and their committees are competent, well run, and have sufficient independent membership, ensuring they can make high-quality decisions that address diverse customer and stakeholder needs

It is the company's policy that the roles of the Chairman and Chief Executive Officer are separate, with their roles and responsibilities clearly divided. A document that clearly sets out the respective responsibilities of the Chairman and the Chief Executive Officer (which was approved by the Board) can be found at anglianwater.co.uk/ governance. The Chairman's commitment to the company and to its ultimate parent company is usually six to eight days per month. His other significant commitments are disclosed in his biography on page 109. The Board considers that these commitments do not hinder his ability to discharge his responsibilities to the company effectively.

The Board has appointed Dame Polly Courtice as the Senior Independent Non-Executive Director, A document setting out the role and duties of the Senior Independent Non-Executive Director has been agreed by the Board and can be found at anglianwater.co.uk/governance.

No Director may vote on any contract or arrangement between the company and any other Anglian Water Group company if he/she is also a Director of that Anglian Water Group company.

In accordance with the relevant provisions of the Companies Act 2006, all the Directors are required to disclose details of all conflicts of interest to the Board. On appointment to the Board, all Directors are required to declare all their interests; any new interests held by Directors are considered at the start of each Board meeting and, where relevant, interests are declared prior to any substantive discussions. In addition, a further review of all Directors' interests is undertaken annually. The Board has approved a protocol for dealing with conflicts of interests, which is available on the company's website.



Available to view 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 John Hirst.

Remuneration Committee

Details of the terms of reference of the Remuneration Committee, its membership, activities, the company's remuneration policy and the remuneration paid to Directors during the year are contained in the Directors' Remuneration Report. The majority of the members of the Remuneration Committee are independent. 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 Chairman is responsible for ensuring that Directors receive timely, accurate and clear information. To ensure adequate time is available for Board discussion and to enable informed decision making. briefing papers are prepared and circulated to Directors in the week prior to scheduled Board meetings. All Non-Executive Directors are encouraged to make further enquiries as they feel appropriate of the Executive Directors and senior management. In addition, Board Committees are provided with sufficient resources and the power to coopt 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.

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Board composition and roles

Independent Chairman

John Hirst

Responsible for leading the Board and for its overall effectiveness in directing the company. Ensuring Board members are aware of, and understand, the views of key stakeholders. Helps set the tone from the top in terms of the purpose, goal, vision and values for the whole organisation. Responsible for ensuring that the Directors receive accurate, timely and clear information.

Chief Executive Officer

Peter Simpson

Responsible for the leadership and dayto-day functioning of the company, with a scope covering operations, finance, regulation, asset management, customer services, information services, human resources, corporate communications and legal.

Chief Financial Officer

Steve Buck

Supports the Chief Executive in developing and implementing strategy, and in relation to the financial and operational performance of the company.

Senior Independent Non-Executive Director

Dame Polly Courtice

Responsible for providing a sounding board for the Chairman and to serve as an intermediary for other Directors where necessary. Available to shareholders of the company if they have concerns that contact through the normal channels of Chairman, Chief Executive Officer or other Executive Directors has failed to resolve, or for which such contact is inappropriate.

Independent Non-Executive Directors

Natalie Ceeney/Zarin Patel/ **Paul Whittaker**

Responsible for bringing independence to the Board and its decision-making process. They particularly provide constructive challenge and strategic guidance, offer specialist advice and hold management to account.

Non-Executive Directors

John Barry/Niall Mills **Batiste Ogier/Duncan Symonds***

Responsible for providing constructive challenge to the Board's decisionmaking processes. Further information on Mr Symonds' engagement with the workforce during the year can be found on page 74.

* Non-Executive Director responsible for engaging with the workforce

During the year, the Chairman held a meeting with the Independent Non-Executive Directors without the presence of the Executive Directors.

All new Directors receive a thorough induction programme on appointment, which includes receiving a full background information pack, making visits to operational sites (Covid-19 restrictions permitting) 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 Batiste Ogier, who was appointed as a Director during the financial year, attend a pre-appointment meeting with representatives from Ofwat.

The company offers the Directors inhouse training as necessary to aid their professional development and awareness of business and sector-specific issues.

In addition, the company offers to fund participation on externally provided training courses. All Directors are entitled to receive, at the company's expense, independent professional advice on any matters relating to their responsibilities as a Director.

Periodically, the Board visits different business locations to enable the Directors to meet with a range of employees, and to update and maintain their knowledge of and familiarity with the company's operations. Due to the restrictions in place because of Covid-19, the Board was unable to visit any operational sites during the financial year. However, in November 2021 an in-person event was held at the company's offices in Peterborough, which gave Directors the opportunity to listen to presentations and engage with experts from around the business who hosted a series of 'market stalls'. These 'market stalls' covered subjects including smart water networks, water recycling, environmental excellence and pollution performance (see page 69). Operational leaders within the company have received specialist health and safety training, and during the year the Directors attended a session with the training provider to further understand the impact the training had made across the business.

Information on the annual evaluation of the performance of the Board and the Chairman can be found in the Nomination Committee Report.



See the 'Nomination Committee Report'

on pages 129-131

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: customer, 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 a new Independent Non-Executive Director (see page 130). 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 109-111.

	Independent Chairman	Executive	Directors	Indep	Independent Non-Executive Directors			Non-Executive Directors				
	John Hirst	Peter Simpson	Steve Buck	Natalie Ceeney	Polly Courtice	Zarin Patel	Paul Whittaker	John Barry	Batiste Ogier	Niall Mills	Duncan Symonds	Total
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 2022. In addition, the Board held two scheduled meetings between 31 March 2022 and the date of signing this report, which all Directors attended. The Board received regular reports on business and financial performance, regulatory issues, health and safety performance, employee issues and the management of key business risks. The Chairs of the Audit. Nomination and Remuneration Committees also provided reports on matters discussed by those respective committees since the previous Board meeting.

Board and Committee attendance

The attendance by individual Directors at scheduled meetings of the Board and Committees during the year ended 31 March 2022 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; the prospectus renewal; financing matters including bond issues and the annual renewal of the liquidity facility; a liability management exercise; equity injections and the provision of a statutory certificate to Ofcom, pursuant to which the company is permitted to install electronic equipment in the public highway.

Further meetings of the Audit, Nomination and Remuneration Committees were held on 25 May 2022. All members attended, other than Niall Mills who was unable to attend.

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	4/4	4/4	5/5
John Barry	7/7	-	3/4	3/4
Steve Buck*	7/7	4/4	-	4/5
Natalie Ceeney	7/7	4/4	4/4	5/5
Dame Polly Courtice	7/7	-	4/4	5/5
Niall Mills	6/7	-	4/4	5/5
Batiste Ogier	3/3	-	3/3	3/3
Zarin Patel	7/7	4/4	4/4	4/4
Peter Simpson*	7/7	4/4	2/4	4/5
Duncan Symonds	7/7	_	4/4	5/5
Paul Whittaker	7/7	4/4	4/4	5/5

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

Former Director who served during the year	Board	Audit Committee	Nomination Committee	Remuneration Committee
James Bryce	4/4	-	2/2	2/2

Risk management and internal control

Detailed disclosure in relation to the company's approach to managing risk is included in the Strategic Report on pages 90-103, along with details of the company's principal risks and an assessment of the future viability of the business.

The company also has in place systems and procedures for exercising control and managing risk in respect of financial reporting and the preparation of consolidated accounts. These include:

- The formulation and deployment of company accounting policies and procedures.
- Policies governing the maintenance of accounting records, transaction reporting and key financial control procedures.
- Monthly operational review meetings, which include, as necessary, reviews of internal financial reporting issues and financial control monitoring.
- Ongoing training and development of appropriately qualified and experienced financial reporting personnel.

For the year ended 31 March 2022, 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 formal controls questionnaire completed by the business twice a year and reviewed by the Head of Integrated Assurance, with the conclusions being highlighted to 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 IMS internal audit programme follows a risk-based approach. Inputs include critical business processes and current areas of focus, legal and regulatory compliance requirements, events and incidents, and management system requirements. Our Integrated Management System Framework Policy is published on our website: https://www.anglianwater. co.uk/siteassets/household/about-us/ integrated-management-systemframework-policy-22.pdf

- An internal audit programme, the provision of which moved during the year from being outsourced to PricewaterhouseCoopers LLP to being overseen by the newly appointed Head of Integrated Assurance. 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-assuranceframework-2022.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 performancerelated 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 2021/22 financial year.

This report was approved by the Board of Directors on 14 June 2022.

Claire Russell

Company Secretary

14 June 2022



Committee members

Chair

Zarin Patel

Other members

Natalie Ceeney Paul Whittaker

Meetings

Four

Read directors' biographies on pages 109-111

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; Phil Smith, Head of Integrated Assurance (Group Internal Audit and Risk), and Claire Russell, Company Secretary.



Introductory letter

As Chair of the Audit Committee, I am pleased to present the Committee's report for the year ended 31 March 2022. 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.

During the year the Committee conducted a competitive tender process for the company's external auditor. Following this detailed process, which considered audit quality, sector experience and value for money, as well as innovation, the Committee recommended to the Board that Deloitte be reappointed as external auditor. On the completion of the 2020/21 audit, Kate Hadley replaced James Leigh as Deloitte's lead audit partner, along with a refreshed audit team.

Historically, provision of internal audit services has been undertaken by an external provider. However, during the year the delivery of internal audit services has transitioned to an in-house team led by the Head of Integrated Assurance.

> responsibilities delegated to it by the Board over the course of the year, and the key topics it considered in doing so.

My colleagues and I are fully supportive of this transition. We have reviewed progress over the course of the year and have met with Phil Smith, Head of Integrated Assurance, without other members of management present, to understand his initial insights on the company's internal control environment.

We considered the Department for Business, Energy and Industrial Strategy's consultation on restoring trust in audit and corporate governance and we welcome some of the proposed changes. We have commenced the enhancement of our internal financial reporting controls, and we intend to develop and publish our Audit and Assurance Policy within the 2023 Annual Integrated Report.

As TCFD reporting becomes mandatory this year (albeit the company has been reporting on its climate strategy for some time), the Committee reviewed the quantitative assessment of climaterelated risks and ESG metrics.

I and my colleagues welcome engagement with regulators and other external bodies. During the year, the Financial Reporting Council wrote to the company following a limited scope review of the company's Annual Integrated Report and accounts to 31 March 2021.

The FRC requested clarity in relation to the company's approach to applying IFRS15 (Revenue Recognition) to the recognition of grants and contributions. Following an exchange of letters, the FRC accepted the company's treatment. The FRC also welcomed the company's proposal to expand its disclosure to help users better understand the rationale for selecting the company's accounting policy in respect of revenue recognition for such services. The accounting policy can be found in note 1e on pages 167-168 and the additional disclosure around the significant judgement on the recognition of grants and contributions on pages 174-175.

I would like to extend my thanks to Committee colleagues for their work and support during the year, particularly in relation to the audit tender process. As Independent Non-Executive Directors, my fellow Committee members and I have no hesitation in seeking a full explanation from management or the auditor on any matter we feel necessary.

Zarin Patel

Audit Committee Chair



Role of the Committee

The principal role of the Audit Committee is to examine matters relating to the financial affairs of the company and to provide effective oversight and governance of the company's internal control and risk management processes, which exist to identify, assess, mitigate and manage risk. Internal audit supports the Audit Committee in evaluating the design and effectiveness of internal controls and risk mitigation strategies implemented by management.

The Committee's primary functions are to:

- Monitor the integrity of the financial statements, including significant financial reporting issues and the significant accounting judgements and estimates they contain.
- Review the annual and interim results and, where requested by the Board, review the content of the Annual Integrated Report as a whole, including the mandatory disclosures on the Taskforce for Climate-related Financial Disclosures (TCFD) on pages 79-89.
- · 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 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 a Chartered Accountant and was formerly Chief Financial Officer of the BBC. She is currently a Board Member and Chair of the Audit & Risk Committee of HM Treasury, is Chair of the Audit & Risk Committee of Pets at Home Group PLC and Chair of the Audit Committee at the National Trust. Zarin Patel is therefore considered by the Board to have recent and relevant financial experience.

Natalie Ceeney has considerable financial services experience, having worked for the Financial Ombudsman Service and been a member of HSBC's UK executive team. She is currently also a member of the Audit Committees of FCE Bank plc (Ford Credit Europe) and Liverpool Victoria Life Company Limited (LV=). Paul Whittaker held a number of regulatory roles at National Grid. All members of the Committee are considered to have competence relevant to the sector in which the company operates.

Representatives from the company's external auditor attend all or part of the Committee's meetings. Meetings are also attended by the Head of Integrated Assurance. In addition, members of the Committee met separately with representatives of the external auditor and the Head of Integrated Assurance, without management being present. The Company Secretary is Secretary to the Audit Committee.

The Committee Chair regularly holds separate one-to-one meetings with the Chief Financial Officer, the Head of Integrated Assurance and representatives from the company's external auditor outside the Committee's meetings to better understand any issues or areas for concern.

Main activities during the year **Financial reporting**

· Reviewed and discussed management's reports on the final results (for the vear ended 31 March 2021) and the interim results (for half-year ended 30 September 2021). As part of this process the Committee considered key issues and areas of judgement in

relation to the financial statements (including the calculation of the measured income accrual, the calculation of the bad debt provision. retirement benefit calculation, depreciation of property, plant and equipment, recognition of grants and contributions and classification of costs between operating and capital expenditure) and the integrity of the audit process. Following this robust review, the Committee recommended that the Board approve both the annual and interim results. In respect of the Annual Integrated Report 2021, the Committee recommended to the Board that the report was fair, balanced and understandable, and provided the information necessary for shareholders to assess the company's performance, business model and strategy.

- As detailed on page 124, the Committee considered the results for the year ended 31 March 2022 at its meeting in May 2022.
- Reviewed management's procedures and judgements in applying the findings of the International Financial Reporting Council's (IFRC) ruling on the treatment of implementation costs in relation to Software-as-a-Service (SaaS) contracts. In March 2022 management presented a paper to the Committee setting out the detailed review undertaken and the draft findings. The Committee reviewed the procedures undertaken and judgements made to ensure these were both robust and appropriate based on the Committee's understanding of IFRC's guidance and subsequent supporting papers from the large accountancy firms.

- Considered the company's going concern and long-term viability statements. The Committee supported the Board in its assessment of both viability and going concern by considering whether, in the challenging but plausible risk scenarios identified, including the continuing impact of Covid-19, 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 2032. The Committee reviewed papers presented by management on its assessment of the company's going concern and longer-term financial viability based on budgets, business plans and cash flow forecasts and the stress testing performed based on the company's principal risks and the specific risks relating to Covid-19 and the current macro-economic environment. The Committee considered the appropriateness of the scenarios modelled, the feasibility of management to deliver any required mitigations and the level of disclosure proposed, and satisfied itself that the going concern basis of preparation is appropriate and that the company is
- Reviewed the mandatory TCFD disclosures in respect of the year ended 31 March 2022.

its assessment period.

financially viable over the duration of

• At the end of the year the Committee 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 (further information can be found in the Risk management and internal control section below).

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.

External audit

- · Reviewed the proposed audit plan for the 2021/22 statutory audit, including key audit risks and level of materiality applied by the external auditor, audit reports from them on the financial statements and the areas of particular focus for the 2021/22 audit (further information can be found in the External auditor section below).
- Assessed the effectiveness of the external auditor (including relevant Audit Quality Reviews from the FRC) and made a recommendation to the Board on the reappointment of Deloitte as the external auditor for the financial year ended 31 March 2022.

- · Agreed the statutory audit fee for the vear ended 31 March 2022.
- In respect of the 2021/22 year-end statutory audit, the Committee reviewed progress made by the external auditor against the agreed audit strategy.
- Recommended to Board the commencement of the external audit tender and on the completion of the tender process recommended the appointment of Deloitte LLP to the Board (further information can be found below).

Internal audit (further information on the internal audit function can be found below)

- During the year, the Committee reviewed progress against the 2021/22 internal audit plan and agreed the scope of the internal audit plan for 2022/23.
- Reviewed and supported progress made in transitioning from an external to an in-house audit function.
- Approved the Internal Audit Charter for the creation of the in-house internal audit function. The Internal Audit Charter provides a basis for management and the Committee to use in evaluating the operations of the Group Internal Audit function.

The Committee supported the Board in its assessment of both viability and going concern by considering whether, in the challenging but plausible risk scenarios presented, the company had adequate liquid resources.

Other

- Reviewed and supported the company's approach to cyber security and IT disaster recovery, the purpose of which was to provide an update to the Committee on enhancements made to managing these particular risks across the organisation.
- Considered and supported the proposal for enhancing and embedding an Enterprise Risk Management Framework (more information can be found on pages 90-103):
- Introduction of Principal Risk Areas to focus on key strategic risks and consolidation of the existing top-tier risk register;
- Development of an Enterprise Risk Management Policy to further standardise risk management across the business:
- Introduction of risk appetite statements that are actively used in decision making; and
- Improved and insightful risk reporting, utilising key risk indicators to proactively manage risk.
- Monitored whistleblowing allegations and the associated investigations undertaken by management (further information can be found in the Whistleblowing, anti-fraud and antibribery processes section below).

- Considered actual and potential material litigation.
- Reviewed the key procedures undertaken and judgements made, as well as approving an updated accounting policy.
- Considered the results of the Committee evaluation which was undertaken as part of the wider Board evaluation.

All business discussed by the Committee during the course of the year was reported to the Board.

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.

Risk management and internal control

Detailed disclosure regarding the company's approach to assessing and managing emerging and principal risks is included in the Strategic Report (see pages 90-103), followed by details of the company's principal risks and an assessment of the future viability of the business. The Audit Committee reviews the effectiveness of the company's risk management and internal control systems throughout the year to ensure their 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 internal auditor's recommendations and to monitor progress in implementing those recommendations.
- The external auditor reports annually on the findings of its review of the internal control environment to the 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 collated by the Head of Integrated Assurance and presented to the Committee.

Whistleblowing, anti-fraud and anti-bribery processes Whistleblowing

The Committee is responsible for reviewing the adequacy and security of the company's arrangements for its employees, alliance partners and contractors to raise concerns, in confidence, about possible wrongdoing. The Committee is also responsible for ensuring that these arrangements support appropriate and independent investigation of such matters and that follow-up actions are undertaken where necessary. The Group has a whistleblowing 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 Group Legal Director, Group Financial Controller, Group People and Change Director and Head of Integrated Assurance (or other nominated persons where those representatives are inappropriate) to decide whether there are grounds for further investigation. If so, allegations are then escalated to an appropriate designated person for investigation.

Under the policy, the whistleblower must be notified within 10 days of the decision to carry out an investigation or not. An official written record will be kept regarding each stage of the procedure. Wherever possible, the individual's identity will remain confidential. However, it is inevitable that in certain circumstances, to investigate the matter properly and effectively, the source of the information may have to be revealed. Should this be the case, the individual will be told prior to their name being released and will be offered advice and support.

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.

Internal audit

With effect from 1 August 2021, the provision of internal audit services has been undertaken by the Head of Integrated Assurance and through the recruitment of an internal audit team, with specialist support provided by PricewaterhouseCoopers (PwC). During the year the Committee reviewed and supported progress made in transitioning to the new in-house internal audit function. This included approving the Internal Audit Charter, which provides a basis for management and the Committee to use in evaluating the operations of the Group Internal Audit function. The Head of Integrated Assurance reports jointly to the Chief Financial Officer and the Chair of the Committee. Prior to 1 August 2021, the provision of internal audit services was outsourced to PwC.

The company's internal audit plan is approved on an annual basis and progress is reviewed by the Committee during the year. The Audit Plan for 2021/22 was developed by PwC, following discussions with management. The Committee reviewed and approved the Audit Plan for 2021/22 in March 2021.

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. Internal audits carried out

during the year included Programme Benefit Monitoring, Reservoir and Dam Inspections, Compliance Monitoring, Brydon Readiness, Cyber Security, IT Disaster Recovery, Payroll Controls, Modern Slavery, Treasury Risk and Control Assurance, Sludge Management, Purchase to Pay Controls, and the Vulnerable Customer Strategy. The Committee considers the internal audit process to be effective by virtue of the active contribution of the Committee to the development of the annual internal audit plan, the regular monitoring of progress against the plan and continued discussions with the internal audit function.

The internal audit plan for 2022/23 was approved by the Committee at its meeting in March 2022. The plan is designed to review a range of principal risk areas and was developed using a number of key inputs, including the regulatory environment, major projects and programmes and assurance activity. It is structured over an 18-month timescale and will involve a range of different audit types. 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 plan include Asset Health Management, Net Zero Carbon plans, Pollution Reduction Management, Water Quality Compliance and governance reviews of strategic programmes including the SAP upgrade and the Strategic Pipeline Alliance.

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. Deloitte was awarded the contract for external audit services in September 2016, following a competitive tender process. The contract was for a four-year term which could be extended for up to a further four years, either annually or for any alternative period. The initial four-year contract expired in August 2020 and was extended in March 2020 until August 2021. It was subsequently extended, after careful consideration, for a further year until August 2022.

During the 2021/22 financial year, with the agreement of the Board, the Committee undertook a tender of the external audit contract. A selection panel was established consisting of members of both the Committee (including the Chair) and the AWG Audit Committee, the Chief Financial Officer and senior representatives from the finance, procurement and legal functions. The breadth of the panel ensured that a wide range of views were taken into account and a considerable amount of financial expertise supported the Committee during the process. The tender process was also managed by procurement and supported by the legal function to ensure compliance with the Utilities Contracts Regulations 2016. The Committee received regular updates on the progress of the tender from the Chair of the Committee. The selection panel received proposals from three of the 'Big Four' audit firms, with each proposal consisting of written tender documents followed by face-toface presentations. When determining the award, the selection panel assessed proposals against criteria set out in the request for proposal (RFP) which included audit quality, sector experience (within both the water and wider utility sector) and value for money. Bidders were also challenged to provide innovative ways to deliver efficiency and add value. After careful consideration 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.

Effectiveness of the external auditor

The Committee, on behalf of the Board, is responsible for the relationship with the auditor, and part of that role is to examine the effectiveness of the statutory audit process. At the Committee meeting in November 2021, Deloitte presented its proposed audit strategy for the 2021/22 year-end audit. Its report included the proposed scope of the audit, including its view of materiality; significant risks to the audit process and its response to these risks; and other areas of audit focus.

Meetings are held throughout the year between the Committee members and key members of the audit engagement team, without management present, to encourage open and transparent feedback.

The Committee also considered relevant Audit Quality Reviews from the FRC and monitored Deloitte's implementation of these as relevant to the audit of the company. After careful consideration the Committee approved the audit strategy. Deloitte provided an update in relation to the audit plan at the Committee's meeting in March 2022, providing an opportunity for the Committee to monitor progress.

In addition, meetings are held throughout the year between the Committee members and key members of the audit engagement team, without management present, in order to encourage open and transparent feedback by both parties. Members of the Deloitte team also meet with management at regular intervals during the annual audit process. To assess Deloitte's ongoing independence and objectivity in the audit process, the Audit Committee also reviews annually the scope and value of all non-audit-related work conducted by Deloitte on behalf of the company. Further information on non-audit services is detailed below. For the year ended 31 March 2022, the Committee was satisfied with the performance, objectivity, audit quality and independence of Deloitte as the external auditor.

External auditor independence

There are two main ways in which the Committee assesses the independence of the external auditor.

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. In line with this requirement, Kate Hadley replaced James Leigh as the lead audit partner, along with a refreshed team, on the completion of the 2020/21 audit. 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 nonaudit services, only work permitted by the Financial Reporting Council's (FRC) 'whitelist' may be undertaken by the external auditors, and the level of nonaudit fees is restricted to 70 per cent or less of the average of the previous three years' audit fees.

The fees paid to the external auditor during the year are set out in note 6 to the financial statements on page 177. 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 131. 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 2022; whilst no material shortcomings in the operation of the Committee were highlighted it was agreed that further consideration could be given to the areas of risk and cyber security, as well as other selected key risk topics.

Annual Integrated Report

At the request of the Board, the Committee considers whether, in its opinion, this Annual Integrated Report (AIR), taken as a whole, is fair, balanced and understandable and whether it provides the information necessary for shareholders to assess the company's position, performance, business model and strategy. To make this assessment, the Committee considered a financial reporting update in March 2022, which included updates on certain key judgements such as energy and bad debt and certain accounting policies such as Software-as-a-Service. The Committee then received copies of the AIR during the drafting process to enable sufficient time for comment and review and to ensure overall balance and consistency. In addition, the Committee reviewed a paper presented by management which set out the requirements of TCFD as applied to the company and the proposed disclosure to be included. At the Committee meeting in May 2022, Deloitte presented the results of its audit work and presented its findings on significant risks. These were considered by the Committee (see below for more information). On the recommendation of the Committee, the Board approved the AIR and the associated Statement of Directors' Responsibilities which can be found on page 155.

Key issues in relation to the financial statements

The Committee considers a range of key issues in relation to the financial statements. These issues tend to relate to the judgements and accounting estimates management has to make in preparing the financial statements. As such, they are presented to the Committee in the form of a report prepared by management called the Key Issues and Areas of Judgement Report.

Bad debt provision: The Committee reviewed the assumptions underpinning the provision for bad debts and how this is consistent with recent debtrecovery 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. Further information can be found in notes 2(c) and 16 of the financial statements. Following approval from the Committee, management enhanced the methodology in relation to collection of balances greater than 48 months post due and will continue to review the level of collection of these balances over the coming year.

The Committee considers a range of key issues in relation to the financial statements. These tend to relate to the judgements and accounting estimates management has to make in preparing the statements, and are presented in the Key Issues and **Areas of Judgement Report.**

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 2022. 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 40.1 per cent of measured household revenue. While the methodology for calculating this accrual is well established, judgement is required in terms of the level of customer consumption. The value of the measured income accrual is disclosed in note 16 of the financial statements.

Retirement benefit obligations: The Group operates a defined benefit pension scheme, which was closed to future accrual on 31 March 2018. The Committee reviews the key assumptions that underpin the actuarial valuation of the scheme in accordance with IAS 19 'Employee benefits'. Further information can be found in note 2(b) of the financial statements.

Classification of costs between operating and capital expenditure: The Committee considered the policy for classifying operating and capital expenditure, and the basis on which overheads are capitalised. Further information can be found in notes 1(I) and 2(a) of the financial statements.

Depreciation of property, plant and equipment: The Committee considered the range of asset lives applied when calculating the depreciation charge. Further information can be found in note 2(a) of the financial statements.

Software-as-a-Service: The Committee received an update on the IFRS Interpretations Committee (IFRIC) ruling on the accounting for implementation costs of Software-as-a-Service.

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 Annual Integrated Report (AIR). More information can be found in notes 1(e) and 2(a) of the financial statements. The Committee welcomes the FRC's acceptance of the accounting policy and time taken to review our responses.

The Audit Committee notes that the review was based on our AIR and does not benefit from detailed knowledge of our business or an understanding of the underlying transactions entered into. It is, however, conducted by staff of the FRC who have an understanding of the relevant legal and accounting framework.

We also note that the FRC provides no assurance that our AIR is correct in all material respects: the FRC's role is not to verify the information provided but to consider compliance with reporting requirements. The letters are written on the basis that the FRC (which includes the FRC's officers, employees and agents) accepts no liability for reliance on them by the company or any third party, including but not limited to investors and shareholders.

This report was approved by the Board of Directors on 14 June 2022.

Zarin Patel

Chair of the Audit Committee

14 June 2022



Committee members

Chair

John Hirst

Other Members

John Barry **Natalie Ceeney** Dame Polly Courtice Niall Mills **Batiste Ogier** Zarin Patel **Duncan Symonds** Paul Whittaker

Meetings

Four

Read directors' biographies on pages 109-111

Meetings also regularly attended by:

Peter Simpson, Chief Executive Officer; Susannah Clements, Group People and Change Director; and Claire Russell, Company Secretary.

Composition of the committee

On 24 November 2021, Batiste Ogier replaced James Bryce as a member of the Committee. On 20 July 2021, John Barry and Natalie Ceeney were appointed as members of the Committee.

Chairman'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 2021/22 financial year.

During the 2022/23 financial year, it is expected that Paul Whittaker will stand down as an Independent Non-Executive Director, on completion of his nine-year term in office. Therefore, the Committee has begun the search and selection process for a new Independent Non-Executive Director. The membership of the Committee was also refreshed during the year, with John Barry, Natalie Ceeney and Batiste Ogier joining the Committee during the year. I welcome the broad range of professional backgrounds, skills and perspectives they bring to Committee discussions.

I view the evaluation of our Board and its Committees as an important part of corporate governance. Following on from last year's external evaluation, this year we conducted a thorough internal evaluation and I'm pleased to report the Board and its individual Directors continue to operate effectively.



Available to view at: www.anglianwater.co.uk

- Nomination Committee terms of reference
- Diversity and Inclusion policy
- Gender Pay Gap Report

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, the Committee undertook a review of talent and succession across the organisation during the year. The review also considered the diversity of the talent pipeline. During the year the Committee also considered the company's approach to inclusion and reviewed progress in the areas of developing gender and ethnic diversity across the organisation.

John Hirst

Nomination Committee Chair

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.

66 The Committee recognises that inclusion is vital to the success of the organisation, and as such, takes a close interest in the company's approach to inclusion and diversity.

Main activities in the year **Board and Committee changes**

During the year the Committee considered a number of changes to membership of the Board and Committees and recommended to the Board that the following changes should be made:

- both John Barry and Natalie Ceeney should be appointed as members of the Nomination Committee (20 July 2021):
- both John Barry and Zarin Patel should be appointed as members of the Remuneration Committee (20 July 2021);
- · Batiste Ogier should replace James Bryce on the Board and as a member of both the Nomination and Remuneration Committees (24 November 2021); and
- Natalie Ceeney should replace Paul Whittaker as Chair of the Remuneration Committee (22 March 2022).

Paul Whittaker is expected to stand down as an Independent Non-Executive Director, on or prior to the nine-year anniversary of his appointment (which will be on 14 October 2022). During the 2021/22 financial year, the Committee began a search for a new Independent Non-Executive Director to replace him. The Committee is leading 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. In addition, the Committee requested that any long list should be equally split between male and female candidates, and that at least 15 per cent of the candidates should originate from a black and minority ethnic (BAME) background.

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 extend beyond nine years save in exceptional circumstances. During the vear, the Committee considered and recommended that Zarin Patel should be appointed for a second three-year term to 30 October 2024.

Inclusion

The Committee recognises that inclusion is vital to Anglian Water's success, and as such, takes a close interest in the company's approach to inclusion. During the year, the Committee had the opportunity to further understand, discuss and challenge the company's approach to this area. The Committee reviewed the strategic framework, the company's approach to inclusion and key inclusion achievements, and reviewed progress made in the areas of gender and ethnicity. 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. Areas of achievement over the financial year included:

- 86 per cent of people agreeing that Anglian Water is an inclusive place to work;
- 65 per cent of employees sharing their ethnicity demographics, which represents an increase of 32 percentage points;
- Offering employees who practise a religion other than Christianity the option to swap Christian religious bank holidays for a religious festival from their faith (Anglian Water has been nominated as a finalist in the Water Industry Awards: Diversity & Inclusion Initiative):
- Funding British Sign Language training for 40 employees; and
- · Launching a comprehensive inclusion training module which is mandatory for all employees (see page 66).

The Committee considered specific data in relation to gender and ethnicity, reviewing the gender and ethnicity split among new hires and at different levels of seniority across the business. In response to the challenges of increasing diversity, the Strength in Diversity project was launched in 2021. Its aims include:

- Establishing strong long-term connections across educational settings and community groups in a small number of towns across the region;
- Building long-term talent pipelines, which will lead to a more diverse workforce in the next five to ten years;

- Applying the learnings from the company's work in Wisbech, which centres around providing opportunities for school leavers to develop skills in a college setting, and apprenticeships; and
- Considering broader ways to support communities.

In considering the Inclusion Strategy, which it endorsed, the Committee also considered the challenges and constraints of improving inclusion and reflected that the strategy aimed to improve inclusion over the longer term.

At Board level, the Committee has not set a specific female Board member quota. However, as at 31 March 2022, 27.3% of the Board were female.

As at 31 March 2022, the gender balance of the Management Board and those employees who directly reported into Management Board members is detailed below:

Management Board



Senior Management



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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 also undertook a review of talent and succession planning across the company. The aim of the review was to give the Committee insight into how talent across the organisation was identified, in terms of those employees who were early in their careers through to those individuals with potential to be Management Board candidates. 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. Development opportunities include leadership training and technical development opportunities as well as a specific development programme for those considered as having potential to be a member of the Management Board.

The Committee considered the diversity of the talent pipeline, recognising both the strengths and challenges associated with this, with a focus on gender and ethnic diversity and the impact of an ageing workforce. The Committee also considered progress made against the development and performance questions contained within the Love to Listen survey, with positive increases in perceptions of diversity seen for the 2021 survey when compared to the 2020 survey.

In terms of senior roles, the Committee reviewed and supported the external recruitment process for the new Group Treasurer.

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.

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.

The 2021/22 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 Chairman. The questionnaires were developed considering feedback from the 2020/21 external survey, 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 Chairman. 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 2022.

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:

- · Planning for the Business Plan for the period 2025-2030;
- Continuing the work to effectively communicate the company's purpose with external stakeholders;

- Providing the Board with more visibility of the company's response to cyber risk; and
- Board members 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 Chairman. No areas of concern were raised.

As part of the internal review the Chairman reviewed the responses to each Director's individual performance questionnaire and conducted one-to-one meetings where necessary. The Chairman 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

John Hirst

Chair of the Nomination Committee

14 June 2022

Chair's statement



Committee members

Chair

Natalie Ceeney

Other members

John Barry Dame Polly Courtice John Hirst Niall Mills Zarin Patel **Duncan Symonds** Paul Whittaker **Batiste Ogier**

Meetings

Five



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.

Composition of the committee

On 22 March 2022, Paul Whittaker stepped down as Chair of the Committee and was replaced by Natalie Ceeney. Paul Whittaker remains on the Committee.

On 24 November 2021, James Bryce stepped down as a member of the Committee and was replaced by Batiste Ogier. On 20 July 2021, John Barry and Zarin Patel were appointed as members of the Committee. Attendees do not join meetings when their own remuneration is being discussed.

I welcome the opportunity to share my first report detailing the work of the Remuneration Committee (the Committee), since taking over the role of Chair. This report gives an overview of the remuneration policy and practices for the Executive Directors and our wider workforce.

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The year in retrospect

This has been a particularly challenging year for Anglian Water, with both internal and external factors shaping our year. Our performance, particularly against environmental targets, has not reached the level we, our customers or our other stakeholders want to see. That has inevitably shaped our approach to executive and senior management remuneration this year, as we set out below. While recognising the total commitment of the Directors and the entire workforce, we are clear that reward must be aligned to performance.

Our people

Our people are critical to bringing environmental and social prosperity to the region we serve and we believe that engaged and motivated people deliver better outcomes for customers. So we have set out to make Anglian Water a great place to work, reflecting our commitment to supporting our wider communities through the second year of the pandemic and supporting our colleagues as price inflation increased, along with the continuing challenges of Covid-19.

Our colleagues have shown remarkable fortitude and flexibility throughout the past two years, facing unprecedented weather conditions and the restrictions of Covid-19. To recognise this contribution and to support our focus on both physical and mental wellbeing, every person in the company has been awarded a 'wellbeing day' to take in the next year.

We have also seen great uncertainty in the labour market, with scarce skills and rapidly changing wage rates in certain sectors as a result of both Covid-19 and Brexit. The company has responded by supporting changes in the way that work is carried out, such as flexible working and remote working, and by ensuring salaries remain competitive.

Roles such as HGV drivers or front-line technicians have been benchmarked to ensure that the company continues to pay at the median for salaries (in line with our remuneration policy). In addition, the company continues to provide a comprehensive package of wider benefits such as pensions, life assurance and health insurance for all our people.

Following the huge success of our 'Time Out For Life' events in 2021, where more than 3,000 colleagues spent half a day focusing on our mantra of 'Happier, Healthier, Safer', the decision has been taken to make these an annual event.

Finally, recognising the increasing cost of living, the annual salary uplift payable from April 2022, which applies to all employees, including the Executive Directors, and to Non-Executive Director fees, was 4.6 per cent, which reflects CPIH in November 2021 and is consistent with the increase in average customer bills.

We have also continued to support our people, most notably through the Covid-19 Assistance Fund, set up with donations from employees, with Peter Simpson making the biggest single donation: £212,000. These awards have really helped employees as they struggled with personal financial hardship as a direct result of Covid-19. We have provided a strong wellbeing offering for our people through services including access to our Employee Assistance Programme and flexible hybrid working where role-appropriate for employees, with a particular focus on supporting those with caring responsibilities.



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Chair's statement continued

Our people

apprentices and interns joined the business in 2021/22

83%

of our people feel proud to play a part in creating environmental and social prosperity in the region we serve*

86%

of our people agree Anglian Water is an inclusive place to work*

> 3,000

Employees attended Time Out for Life sessions in 2022

74%

of our people feel they have opportunities to learn and develop*

* Results from our internal Love to Listen survey 2022 We are the first water company in the UK to change our Articles of Association to reflect our commitment to the communities we serve. As such, I am particularly proud that our actions during the Covid-19 pandemic showed that we have continued to deliver on our purpose.

Our bonus outcomes

All colleagues in Anglian Water receive some form of bonus, with around 250 colleagues in the Leaders' Bonus Scheme and over 2,000 colleagues, mostly those who directly deliver service to customers. in the Personal Development Review (PDR) scheme. Expenditure on the PDR scheme increased this year, reflecting managers' assessment of colleagues' commitment and hard work during what has been a tough year.

The Leaders' Bonus Scheme, in common with the Deferred Bonus Plan (which applies to the Executive Directors and the 50 most senior leaders), is made up of two parts: personal objectives and what is known internally as the 'Performance Contract'. The Performance Contract is designed to deliver outcomes for customers - customer efficiency and customer delivery. As a leader becomes more senior, the performance contract represents a greater proportion of their bonus, reflecting their ability to influence the service that the organisation provides to our customers. Despite the hard work of everyone across the company, we have faced some difficult headwinds during the past 12 months. As a result of these challenging conditions (including experiencing twice the average rainfall in December 2020) our performance

for customers has been below the level that we would typically deliver. This is particularly evident in relation to environmental performance and pollution incidents. We have undertaken root and branch reviews in the areas where performance has been off-target, and are delivering targeted actions to get back on track (see 'Strategic ambitions', pages 21-24, 'Our environment and the planet', pages 45-53, and 'Our performance in context', pages 43-44).

Our Performance Contract (70 per cent of Executives' Maximum Bonus) covers a range of the issues that customers have told us are most important (see page 55). Unusually for a bonus scheme, underperformance in one area can negate overperformance in another area. Despite strong performance in relation to leakage and the Water Industry National Environment Plan (WINEP), some of the customer-focused targets included in our 2021/22 Performance Contract (such as those in relation to pollution and flooding) have not been achieved. As a result of this underperformance, no payment will be made in relation to the Customer Delivery element of our Performance Contract. All senior leaders who participate in the Deferred Bonus Plan will lose 45 per cent of their potential bonuses.

In common with the senior leaders of the organisation, Directors' bonuses were between 49.5 per cent and 51.5 per cent respectively, significantly below the levels paid in previous years. The total remuneration for the Executive Directors has reduced by 34 per cent, when compared to the previous year.

This outcome reflects, in part, the decision made in 2019 to replace an LTIP that paid out 50 per cent of bonus awards after three years with a Deferred Bonus Plan that defers 25 per cent of the payment for three years and a further 25 per cent for four years. In order to transition to this new arrangement, the maximum bonus achievable for Executive Directors was reduced by 15 per cent in 2021/22 and by 10 per cent on 2022/23. The total potential variable remuneration payable to Executive Directors in 2021/22 therefore reduced significantly.

The Directors' personal performance (30 per cent of Executives' Maximum Bonus) is linked to the performance of the Group, where stretch targets were exceeded. Further details of performance across specific measures can be found on pages 40-42.

The Remuneration Committee has also evaluated the extent to which the deferred element of the 2019 Deferred Bonus Plan (DBP) should be paid. Whilst the Committee was cognisant of the 'double jeopardy' of deducting from two schemes for the same results, the Committee felt that it was right to reduce this payment in light of our environmental performance. Our performance was not maintained in the second year of the period, and it is therefore likely we will receive a 2-star Environmental Performance Assessment rating when the results are published later this summer.

The focus now turns to making next year a great year; continuing to strive to deliver on Anglian Water's purpose to look after the things that matter - our people, our customers and the environment.

Chair's statement continued

Other key decisions

As reported in last year's Remuneration Report, a full review of Peter Simpson's remuneration was undertaken during the year. The Committee reviewed benchmark data provided by our remuneration consultants to ensure they had the relevant information to make their decision. Benchmark data was provided for the most directly comparable companies to Anglian Water, i.e.

- Similarly-sized water companies (as measured by revenue)
- UK utilities companies a wider comparator group, within the same broad sector, comprising utility companies of a similar size to Anglian Water (as measured by revenues)
- Wider comparator group benchmarking against FTSE 250 companies (excluding financial services).

Following the review it was clear that since taking on much broader accountabilities across the Group in recent years, Peter Simpson's remuneration was below the relevant comparator market across salary, pension and maximum bonus levels. Peter's package was brought in line with the median for the comparator group, consistent with our policy for the wider workforce.

Peter Simpson's new remuneration arrangements broadly place him in a median position across the most relevant comparator companies. From 1 September 2021, Peter Simpson's base salary increased to £550,000.

As his remit extends well beyond the regulated water company, 30 per cent of his salary is charged to other parts of the Group.

Therefore, the element paid for by the water company is £385,000. Peter's fuel allowance also ceased, in line with our commitment to reach net zero carbon. In line with policy agreed by the Committee, his pension allowance decreased to 12 per cent of the base salary, to bring it in line with the wider employee base. Peter's salary was uplifted by 4.6 per cent in April, in alignment with the wider workforce, and the value of the 2022 Deferred Bonus Plan award was increased to 300 per cent, as a result of the benchmarking review above.

Looking ahead to 2022/23

Although a significant proportion of executive variable remuneration is already aligned to our purpose, with 45 per cent of executive bonus outcomes linked to ESG measures, the Committee felt we wanted to go further. As part of our annual review, we have looked externally to inform our thinking and have decided to introduce four further environmental and social measures which we believe will help us achieve our Purpose.

Whilst remuneration remains closely linked to performance for customers, the introduction of these new measures demonstrates a strong alignment between employees' reward and the delivery of our purpose. The changes this year are only a first step, and we plan to further enhance the weighting of bonuses aligned to our purpose.

Our four new ESG measures (2022/23): an additional 10% of maximum bonus



Capital carbon

The carbon in building and maintaining our assets.



Operational carbon

The carbon used in the day-to-day running of our business, including energy and transport.



Helping customers who are struggling to pay

The number of customers who receive financial support through our financial support schemes.

A further review of FSG measures will be informed by the recent development of the BSI PAS 808 for purpose-driven organisations, which we have led (see

This is the third year of the DBP, and it is timely to step back and review all aspects of senior and executive remuneration. As Chair of the Remuneration Committee, I have commissioned an independent group of consultants to work with me and



Biodiversity net gain

To leave the natural environment in a measurably better state than before our intervention.

pages 38 and 112).

the Committee to review all aspects of our approach to remuneration, to ensure that our policy continues to reflect our commitment to customers and to the environment.

Natalie Ceeney

Chair of the Remuneration Committee

14 June 2022

Chair's statement continued

Q&A with Natalie Ceeney



What are you doing to support your workforce through the cost-of-living crisis?

We know it's an uncertain time for everyone and we're supporting our workforce in a variety of ways. Firstly, from 1 April 2022 our employees will receive an increase of 4.6 per cent to their base pay. This increase also applies to overtime and contractual allowances such as standby and call-out. We're totally committed to paying good salaries for the work our people perform, and we go even further, reminding employees of all the support we offer them (and in some cases their families) through targeted communications, employee webinars and our standout annual 'Time Out for Life' event.

We offer extra financial support in the form of our Employee Assistance Programme, a confidential service which helps with finances and debt;

Salary Finance, which offers free financial education and salary-linked benefits; the Employee Hardship loan, which supports our people when they need it most; and our Covid-19 Employee Assistance Fund, which supports colleagues who've been financially impacted by the effects of the pandemic.

This is all over and above our extensive range of existing benefits, and we remain committed to supporting the financial, physical and mental wellbeing of everyone who works with us at Anglian Water.

How confident are you that there is a clear link between performancerelated pay at executive and senior management level and performance for customers?

I'm confident it's really clear: we've put performance for customers at the heart of our bonus structure for Executive Directors and senior leaders at Anglian Water. The Leaders' Bonus Scheme and the Deferred Bonus Plan are made up of two elements: personal performance and the Performance Contract (see page 139), which is specifically designed to reflect how we've delivered for customers and how efficiently we've done so.

In years where our performance for customers has surpassed both our regulatory targets and the even more stretching targets we set internally,

this translates into Directors and leaders. receiving a greater percentage of their potential bonus. That's not been the case this year, and our performance hasn't met the level of service our customers and the environment deserve. In this instance it is entirely right that bonuses should be significantly lower and I am confident that the performance of AWS is reflected in the significantly lower bonus payments to Executive Directors. As we explain on page 140, some of the personal objectives of the Executive Directors relate to the performance of other Group companies (and that those companies performed well in 21/22). Anglian Water pays for 70 per cent of Peter Simpson's bonus and 60 per cent of Steve Buck's bonus.

What's driven your approach to rewards related to environmental performance this year?

As we've set out elsewhere in this Remuneration Committee Report, and in the strategic report, key elements of our environmental performance in 2021/22, including on pollution and flooding, haven't reached the levels our customers, stakeholders and regulators expect from us.

We're very clear that poor performance shouldn't be rewarded. As such, our underperformance in these key areas cancels out strong performance in other areas such as leakage.

This means the performance measures element of the bonus scheme won't pay out at all this year, and all senior leaders who participate in the Deferred Bonus Plan will lose 45 per cent of their potential bonuses. The Remuneration Committee has also decided to make a deduction from the deferred element of the 2019 Deferred Bonus Plan in light of this dip in performance. More details of these decisions can be found on page 140.



During my time as Chair I'm keen to build on all the great work the Committee has already done to align our reward policies for senior leaders with our purpose and strategy. Although a lot of progress has been made already, it's important that we continue to challenge our approach and learn from others. It's also important that our overall offering for our senior leaders has an appropriate level of at-risk earnings and a balance of metrics in our deferred bonus plan, reflecting the needs of all our stakeholders.

At the same time, it's crucial that we continue to make sure our reporting is always transparent for all our stakeholders' needs.

Remuneration at a glance

External advisors

To ensure that the company's remuneration practices are in line with best practice, the Committee has appointed independent external remuneration advisors, PricewaterhouseCoopers LLP (PwC). There are no connections between our advisors and either Anglian Water Services, other Group companies or other relevant parties.

Support for the Committee

The Group CEO, Group 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 131. The key findings of the evaluation relating to the Committee were discussed at a meeting of the Committee on 22 March 2022. No material shortcomings in the operation of the Committee were highlighted.

Key areas of remuneration focus in 2021/22

A summary of the matters reviewed throughout the year by the Committee is set out below:

Senior and executive remuneration

- · Performed an external benchmarking exercise to review the overall remuneration for the Group CEO. As a result of the review undertaken by the advisors, the Committee approved a number of changes to his remuneration
- · Approved the outturn of the 2018 LTIP with recommendation confirmed by the Board
- Approved the outturn of the 2020 Deferred Bonus Plan with recommendation confirmed by the Board

- Approved the 2021 Co-Investment Plan participation
- Discussed and approved the changes to the rules and awards under the Deferred Bonus Plan
- Reviewed and approved personal objectives for Executive Directors
- · Reviewed Executive Directors' performance and remuneration
- · Approved the payment for the second tranche of the 2019 Deferred Bonus Scheme*

Our workforce

- Reviewed and approved the outturn for the Loyalty Saving Scheme and launch of the new scheme
- · Summarised information on pay award for the wider workforce and executive alignment
- Considered a review of employee benefits which included updates on the approach taken to the provision of company cars and pensions

Committee governance

- Reviewed and approved the 2020/21 Directors' Remuneration Report and agreed the framework for the 2021/22 Report
- · Considered the structure of the Deferred Bonus Plan to be granted in 2022, including the introduction of further environmental and social measures in addition to those already included
- On the recommendation of the Nomination Committee and approval of the Board, the Committee noted Natalie Ceeney's appointment as Chair of the Committee, replacing Paul Whittaker
- Initial discussion and feedback on the revised role and scope of the Remuneration Committee to include broader discussion on the wider workforce
- Draft outturn was presented to the Committee in March 2022. Final sign off was ratified once the year-end numbers were made available in May 2022.

Alignment to purpose and strategy



Our purpose

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



Environmental and social impact

Our company-wide implementation of ESG metrics is closely tied to all our remuneration policies and benefits.



Environmental





Governance

2

Our strategy

Long-term Strategic Direction Statement ambitions:

- 1 Make the East of England resilient to the risks of drought and flooding
- 2 By 2030, be a net zero carbon business and reduce the carbon in building and maintaining our assets by 70%
- 3 Enable sustainable economic and housing growth in the UK's fastest growing region
- 4 Work with others to achieve significant improvement in ecological quality across our catchments



Pay for performance

Our agreed approach is to reward our employees (including our Executive Directors) when the company performs well, meeting or exceeding the targets set by our regulators or in some cases tougher internal targets. When the targets are missed, our bonus schemes do not pay out.

Policy summary

The primary objective of the remuneration policy is to ensure that competitive reward packages are offered that will attract, retain and motivate talented and experienced senior executives to run the business effectively, and to promote the success of the company.

Within these arrangements, a significant proportion of reward is based on performance against demanding targets aligned to customer outcomes.

Link to reward



Environmental

- **Environmental targets** embedded within Deferred Bonus Scheme
- Totex measures embedded within Deferred Bonus Scheme
- Electric and hybrid only choice on company car fleet and CO₃ cap for those who receive a cash allowance as alternative to a company car
- Employee Cycle to Work scheme
- On-site vehicle charging points
- Selected a new supplier for electric fleet salary sacrifice scheme available for all employees, live May 2022
- Trial underway for use of electric fleet for commercial vehicles



- · Social targets embedded within Deferred Bonus Scheme
- Flexible benefits offering
- · Gender pay reporting
- Employee volunteering
- Covid-19 Employee Assistance
- Employee Hardship Loans
- Learning and development opportunities for all
- Employee recognition
- Response to Covid-19 to ways of working and support available
- · Private healthcare for all employees
- · Charity-giving schemes direct from payroll with employer matched contributions
- · Full use of apprenticeship levy
- Intern programme
- · Double-matched contributions into company pension scheme
- · Mental health self-referral
- · Loyalty Saving Scheme



- Deferral period within Deferred Bonus Scheme
- · Malus/clawback provisions within bonus schemes
- · Linkage of measures within Deferred Bonus directly to Ofwat commitments
- External independent input to remuneration benchmarking
- · Internal presentations/ updates on gender pay to trade unions and wider workforce

Remuneration across the Group

£223 million

paid to employees

100%

employees eligible for bonus

11.2%

5.3%

average benefit increase

average salary increase

CEO remuneration

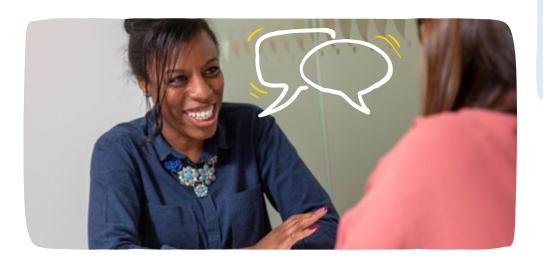
£1.305 million -37%

total remuneration

change in remuneration

49.5%

bonus



Performance

325,000

Number of customers who are struggling to pay their bills supported by us

£150,000

for employees impacted financially as a result of Covid-19, assisted via fund

£1 million

Positive Difference Fund to support communities through Covid-19 fully disbursed, benefiting 100,000 people

664

environmental schemes delivered

9.4%*

Operational carbon saving against 2019/20 baseline

* subject to confirmation by Ofwat

£518.3 million

capital investment in the East of England



Throughout this year, the dedication of all my colleagues, day after day, week after week, has been a stand-out positive, and I thank them all for their commitment.

Peter Simpson, Chief Executive

2021 outcomes (Deferred **Bonus Plan Award**)

A detailed summary of performance against the stretching targets set by the Committee for the 2021 Deferred Bonus Plan Award is set out to the right. An element of the Award is linked to the achievement of personal objectives. For the element which relates to company performance, this is split as detailed below.

Customer delivery: a basket of measures delivering service to customers - 45.5 per cent

The performance commitments to our customers that contribute to this measure are listed on the right and have been consolidated into a basket of measures. Each of the performance commitments has an associated penalty and/or reward set by the regulator. This year strong performance on several areas was outweighed by underperformance on a small number of key measures (such as pollution and flooding). Therefore no payment is due under this element of the Plan.

Some of the metrics shown in the table on the right relate to internal targets which aim to deliver even better service to our customers than those set by our regulator - hence they may show as not having been met, despite having met our regulatory target.

l or both met?	rget Regulatory target met?
	✓
' • —	
V –	✓
P –	✓
–	
> -	
' 🔷 🗸	✓
V	✓
V	✓
√A —	_
· • —	_
V	✓
•	✓
· • —	
–	
V	✓
–	✓
' • —	
' —	
V –	
ment met? Yes	
ment met? No	
n	

Customer efficiency: A measure of financial efficiency shared with customers - 24.5 per cent

This measure relates to the 'totex gap', which means the gap between the amount of totex spent during the performance period and the amount allowed by Ofwat in respect of the performance period. This measure is designed to incentivise a reduction of this gap, which will benefit customers in future years, and ensure that customers' bills stay low within this AMP.

Personal objectives - 30 per cent

In addition to the customer-focused performance measures, payments to Executive Directors were also dependent upon the achievement of personal objectives focusing on their broader roles across the Group assigned to them by the Board, and performance is assessed by the Chairman (for Peter Simpson) and the CEO (for Steve Buck). The Remuneration Committee discusses the assessment and agrees the final award. These objectives account for 30 per cent of their maximum variable remuneration, and are funded by Anglian Water Group Ltd, not by Anglian Water Services, as the objectives are targeted at strategic goals and targets which relate to the wider Group, its strategy and structure.

The Directors' personal performance bonuses are linked to the performance of the Group, where stretch targets were exceeded. The Committee has discretion to amend company and personal objectives during the year.

When assessing performance against company and personal objectives, the Committee considers any other results or factors it deems relevant, and applies its overall judgement in recommending final bonus outcomes to the Board. The Committee did not make any adjustments to the in-year performance measures.

2019 Deferred Bonus Plan (payable 2022/23)

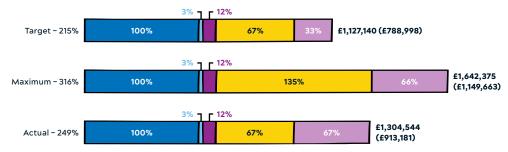
As reported in the 2020 Remuneration Report, following an assessment of the extent to which the relevant targets had been achieved, the Committee recommended to the Board that 70.7 per cent of corporate element of the 2019 award should be paid to all participants in the Plan including Executive Directors. Under the rules of the Plan, the second payment tranche (35 per cent of the initial award) is due for payment at the end of the second performance period which comes to an end on 31 March 2022.

In relation to the deferred elements of the award, the Committee is also entitled to reduce payments in circumstances where there have been issues in respect of service, quality, health and safety, reputation, and financial or regulatory performance. The Committee may also claw back bonus already paid where, in its judgement, there has been serious misconduct. Having considered the dip in our environmental performance during 2021/22, the Committee decided to reduce the performance outturn by 5 per cent to reflect this. The Committee felt that the level of the reduction was appropriate given the deterioration in service received by our customers and wider stakeholders. The base value of the 2019 awards under the Plan is uplifted by CPIH over the performance period. This increase is 7.27 per cent, in line with the rules of the Plan.

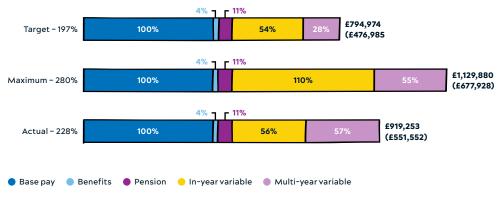
Fixed and variable remuneration outcomes for Executive Directors

The table below shows the proportion of payments related to variable and long-term performance for 2021/22. As explained above, the bonus arrangement is designed only to pay out if all the customer delivery and customer efficiency thresholds are met alongside personal performance targets. The graph therefore shows the percentage of base salary which could be earned for both target and maximum performance levels, as well as the actual outcome for 2021/2022.

Peter Simpson



Steve Buck



Note: The figures in brackets show the amount of total remuneration costs that will be paid in 2021/22 by Anglian Water Services (AWS), with the rest paid for by other parts of the AWG Group. Seventy per cent of Peter Simpson's remuneration and 60 per cent of Steve Buck's will be paid by AWS.

Achievement of personal objectives





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Remuneration at a glance continued

Achievement of deferred bonus outcome

Peter Simpson	Weighting for 2021/22 (as % of maximum bonus)	Met or not met	Outcome (as % of maximum)
Customer delivery	45.50%	•	0.00%
Customer efficiency	24.50%		24.50%
Company total	70.00%		24.50%
Personal objectives	30.00%		25.00%
Total % award payable	100.00%		49.50%
Maximum award as % of salary	135.00%		66.83%
Maximum award payable	•		£682,124
Bonus paid	•		£337,651

Steve Buck	Weighting for 2021/22 (as % of maximum bonus)	Met or not met	Outcome (as % of maximum)
Customer delivery	45.50%	•	0.00%
Customer efficiency	24.50%		24.50%
Company total	70.00%		24.50%
Personal objectives	30.00%		27.00%
Total % award payable	100.00%		51.50%
Maximum award as % of salary	110.00%		56.65%
Maximum award payable	•		£443,190
Bonus paid	•		£228,243

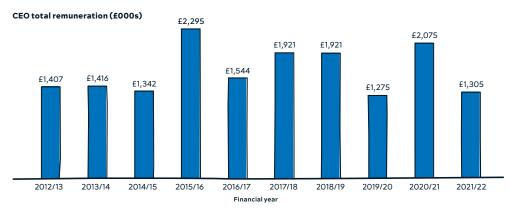
Met target Partially met Missed targets

Single total remuneration figure (audited)

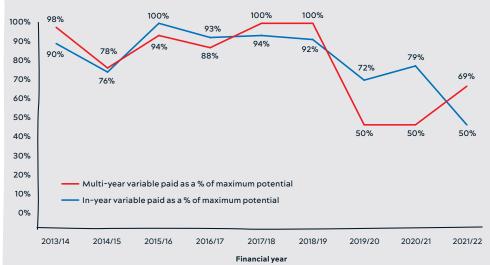
	Base	e pay	Taxa bene	ible fits ¹	Pension i cash i	_	Otl boni		In-year (Bor	variable nus)³	Multi-yea (Deferre	ır variable d bonus)		otal eration		of 2021/22 ion paid by
	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22	AWS	AWG
Peter Simpson	505,277	531,365	15,829	16,466	72,559	64,074	550,000	0	540,092	337,651	390,890	354,987	2,074,647	1,304,544	913,181	391,363
Steve Buck	395,000	402,900	140,679	14,671	38,998	42,498	375,000	0	365,753	228,243	0	230,941	1,315,430	919,253	551,552	367,701
Total Executive Directors	900,277	934,265	156,508	31,137	111,557	106,572	925,000	0	905,845	565,894	390,890	585,928	3,390,077	2,223,797	1,464,733	759,064

- 1 Benefits include private health insurance, car allowance, private fuel and life assurance for all Executive Directors. Steve Buck's figure for 2020/21 also includes £123,815 relocation expenses that were reimbursed in line with policy agreed as part of his appointment.
- 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 in-year variable (bonus) relates to the first tranche (50 per cent) of the 2021 Deferred Bonus Plan Award. Full details can be found on pages 139-140. The multi-year variable (Deferred bonus) is the 2018 LTIP (paid in 2021) and the second tranche (35 per cent) of the 2019 Deferred Bonus Plan Award (paid in 2022).
- 4 Seventy per cent of Peter Simpson's remuneration and 60 per cent of Steve Buck's will be paid by AWS, with the remaining proportion paid by other parts of the AWG Group.

Change in CEO remuneration



Change in percentage of award of CEO performance-related pay



Note: The Annual Bonus and LTIP were replaced by the Deferred Bonus Scheme at the start of 2019. 2020/21 LTIP payments are based on the 2018 LTIP award which was the final award under this Plan.

Employee remuneration, amounts paid in dividends, and capital expenditure for the years ended 31 March 2021 and 31 March 2022.

	2020/21	2021/22	% change
Remuneration paid to employees ¹	£212.4m	£223.0m	5.0
Dividend paid outside the AWS financing group net of equity injection ²	nil	£96.3m	100.0
Capital investment ³ (cash)	£424.1m	£518.3m	22.2

- 1 Remuneration paid to employees has increased by 5.0 per cent which reflects both an increase in the overall headcount and the impact of a number of salary increases to reflect development within role across the wider workforce.
- 2 A £96.3 million prior year final dividend was paid in the period (2021: £nil), reflecting the company's dividend policy having regard to Anglian Water's purpose and duties under the company's Article of Association.
- 3 Capital investment is higher in 2021/22 reflecting a strong continuation of our AMP7 investment programme during which time we will invest a record £3.0 billion.

Company remuneration at Anglian Water

Our remuneration elements

	Base salary	Pension	Benefits	Performance bonus	Loyalty Saving Scheme (LSS)
Executive Directors (2)	Salaries are set to attract and retain employees at all levels, considering appropriate experience, skills and competencies relative to the	The company operates a generous matched Defined Contribution scheme for all employees. Employee contributions are double	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	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	To encourage employees to make regular savings and aid retention, we offer the opportunity to participate in our LSS. Not only does this help
Senior management (250)	role. All permanent employees are paid at levels which are at least in line with those recommended by the Living Wage Foundation, with the	matched to a maximum of six per cent of salary, meaning that if an employee contributes six per cent, Anglian Water contributes 12 per cent. Employees	majority of our benefits offering is consistent throughout the workforce. We have a significant focus on wellbeing benefits, including but not limited	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.	employees financial wellbeing it delivers greater engagement and retention by enabling all colleagues to benefit when the company makes a positive
Employees (5,000)	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.	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.	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. A third of our employees made a benefits selection in addition to pension during the annual window alone; the further option exists to change some benefits every month, as circumstances require.	All our permanent employees have the opportunity to earn a personal bonus, typically up to a maximum of eight per cent 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.	growth in value. 800 employees enrolled in the 2021 scheme. Employees can save up to £500 each month across all three schemes at any time. Each scheme lasts for three years.

Company remuneration at Anglian Water continued

Percentage change in CEO remuneration compared with other employees

The following table shows the percentage change in the base pay, taxable benefits and annual bonus of the CEO in relation to other employees for the years 2020/21 to 2021/22, and follows the relevant guidelines. 'Other employees' are the employees of both Anglian Water Services and AWG Group Limited who have been employed for the full 2021/22 year. This group includes members of the company's Management Board.

	% change in CEO remuneration, 2020/21 vs 2021/22	% change in remuneration for other employees, 2020/21 vs 2021/22
Base pay ¹	5.2	5.3
Taxable benefits²	4.0	11.2
Deferred/Other bonus³	-25.6	-21.7

- 1. For the CEO, the increase in base pay was agreed by the Remuneration Committee from September 2021 as reported on page 134. For the wider workforce, the increase reflects the company-wide increase from April 2021 of 2% plus further in-year increases as a result of development within role and impact of new starters to the company.
- 2. The small increase in taxable benefits for the CEO is owing to the difference in fuel allowance paid in 2021/22 in comparison to 2020/21 when travel was significantly reduced due to the impact of Covid-19. For the wider workforce the increase in taxable benefits is owing to a significant increase in healthcare costs where, due to Covid-19, these doubled when compared to 2020/21 and in addition a higher volume of recognition through the company system in 2021/22.
- 3. For the CEO and wider workforce the decrease can be explained following the payout of the company performance element of the bonus scheme being significantly lower than previous years. This impacts both the CEO and around 300 senior managers across the business whose bonus is made up of both personal and company performance. For the majority of employees across the organisation there is no change.

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 of each year

	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2018/19	66 to 1	50 to 1	40 to 1
2019/20	41 to 1	31 to 1	25 to 1
2020/21	65 to 1	50 to 1	40 to 1
2021/22	44 to 1	33 to 1	26 to 1

Percentile comparison for CEO and the wider workforce

	CEO	25th percentile employee	Median employee	75th percentile employee
Salary	531,365	26,984	33,930	44,323
Total pay and benefits	1,304,544	30,267	39,341	49,386

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 parttime or have joined part-way through the year. An adjustment has also been made for the hourly working employees to represent full-time working.

The company believes that the median pay ratio is consistent with its overall policies relating to remuneration, and how these apply to the CEO and Anglian Water employees. In general, the pay and bonus policies that are applied across the Group show that, as employees progress into more senior roles, they become eligible for an increase in overall remuneration through eligibility for bonus schemes.

Company remuneration at Anglian Water continued

Gender and ethnicity pay gap reporting

Gender pay gap reporting legislation came into force in April 2017 and requires all UK employers with 250 or more employees to publish annual information illustrating pay differences between male and female employees.

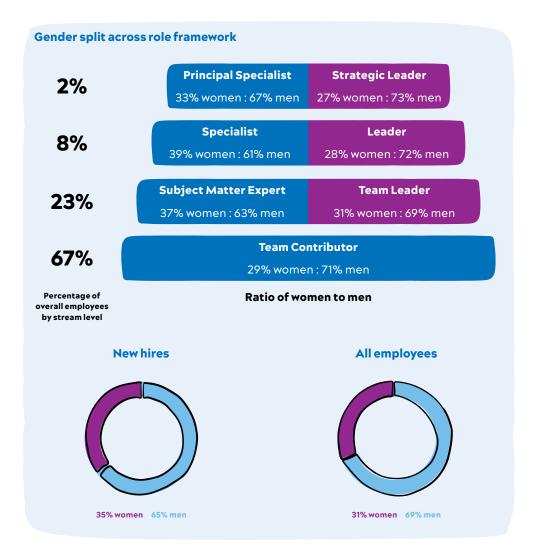
At Anglian Water we want everyone to feel included, regardless of their background. This applies to all areas across our inclusion agenda, not simply gender. We reported our gender pay gap in November 2021, in line with statutory requirements. The data was based on figures from 5 April 2021 and showed a median gap of 12.5 per cent (last year: 11.6 per cent) and a mean gap of 7.8 per cent (last year: 5.7 per cent).

As reported in detail in our full Gender Pay Gap Report, like other companies in our sector, we have a higher proportion of men in more senior roles, and operational roles which attract premiums for 24/7 working. We are working hard to close the gap, and pleased that across our new hires we are seeing a higher proportion of women joining our wider workforce and making progress with internal succession to more senior roles.

The Committee is regularly updated on the progress being made to strengthen all areas of our diversity. Our mean gender bonus gap of 17.8 per cent is influenced not only by a higher proportion of men in senior roles, but also by more of our female employees working part-time, and men with longer service history who receive recognition payments for meeting service milestones. Our full Gender Pay Gap Report can be found on the Anglian Water website. In it Jason Tucker, our Management Board lead for gender, highlights the range of activities we carry out, from educating school children on the variety of roles the water industry can offer, to our early careers schemes and our internal talent and development programmes.

At Anglian Water, we believe that a holistic approach needs to be taken when it comes to the gender pay gap. Pay is important but cannot be judged in isolation. We are committed to being an excellent employer for our female employees throughout their career with us.

We plan to deliver our first Ethnicity Pay Gap Report later in 2022, in advance of new legislative requirements, recognising that being transparent in our data will support a more inclusive workplace.



Company remuneration at Anglian Water continued

Workforce engagement

Whilst undertaking its role in setting and applying the remuneration policy for Executives, the Committee considers broader remuneration across the wider workforce. While the Committee does not directly consult with employees as part of the process of reviewing executive pay, the Committee does receive updates and feedback from various employee consultation and engagement channels, and takes these into account when reviewing executive pay. The approach to setting pay and bonus levels for Executives is consistent with that applied to the wider workforce, and seeks to appoint at median levels within a narrow salary band.

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, the company operates a number of communities, including but not limited to Open House (see page 63) and the Inclusion Community. Again, these meet frequently with both employer and company representatives, and where appropriate bring external guests and speakers to share learning and insight. This approach allows the development of new ways of working and policies built with engagement from across the workforce. A recent example includes the deployment of a new approach to performance management which has been adopted across the entire workforce, including the Executives, in 2021/22.

In line with the 2020 Code, the Board has appointed Duncan Symonds as the designated Non-Executive Director responsible for engagement with the workforce. Further information on the activities undertaken by Duncan Symonds during the year can be found in the Section 172 statement on pages 73-76.



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 2022, and any changes for the year ending 31 March 2023.

link to strategy	performance metrics	for 2021/22	Changes for 2022/23
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: Role, experience and performance Average change in broader workforce salary Total organisational salary budgets. Salaries are benchmarked against the FTSE 250 and	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 4.6%.

B Benefits
To increase
theeconomic

security of employees, and recruit and retain employees.

Directors are entitled to private medical insurance, 3% of base salary car allowance, private fuel and life assurance.

other comparable utility

companies.

Peter Simpson:

As part of the review of the Remuneration for Peter Simpson, he ceased to receive the private fuel benefit from October 2021.

Steve Buck: 3.6% of base salary No change.

Element and link to strategy	Operation and performance metrics	Maximum potential for 2021/22	Changes for 2022/23	Element and link to strategy	Operation and performance metrics	Maximum potential for 2021/22	Changes for 2022/23
C Pension To attract and retain high-calibre individuals by providing good- quality pension arrangements.	AWS operates a defined contribution pension arrangement consistent across the wider workforce. Following the introduction of the annual and lifetime allowances, where the level of pension saving would exceed the allowances, a cash payment in lieu of company contribution to pension may be made.	Peter Simpson received a contribution of 12.8% of base salary up to a cap of £138,885 and a cash payment of 15% of base salary above this cap until 31 August 2021. In line with corporate governance best practice, a change was made to align his pension arrangements with the wider workforce of 12% of base pay. This amount is received in cash. In line with the wider workforce Steve Buck receives a total contribution of 12% of base salary, some of which he received in cash, and some of which is paid into his pension scheme.	No change.	Deferred Bonus Scheme To reward achievement of annual financial and strategic business targets and delivery of personal objectives.	Payment determined by the Committee following the year end. Company targets set and reviewed annually; these comprise a basket of financial and nonfinancial metrics, plus personal objectives. Awards for 2021/22 are based 70% on company performance and 30% on personal objectives. Personal objectives relate to areas of the business over which the individual has influence. The Committee has the discretion to reduce bonus payouts in the event of material issues in relation to service, health and safety, quality, reputation and financial or regulatory performance.	Peter Simpson: 2021 Award maximum: 135% of base salary Target: 67.5% of base salary 2019 Award maximum: 94.5% of base salary Target: 47.25% of base salary Steve Buck: 2021 Award maximum: 110% of base salary Target: 55% of base salary 2019 Award maximum: 77% of base salary Target: 38.5% of base salary	Following the benchmarking exercise undertaken by the Committee and detailed in the Chair's statement, it was agreed that Peter Simpson's Deferred Bonus Plan Award should be increased to 300% of base salary with payment of 50% of the Award (150%) payable 12 months after the Award. The balance between personal performance and company performance has been reset to 25% personal and 75% company. This was to incorporate a further four environmental and social measures in addition to those already reflected in the company performance element. These are explained further on pages 134 and 148.

Release of fixed and variable pay awarded in 2022/23

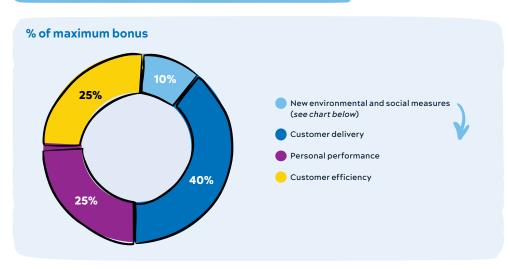
The tables below illustrate the balance of pay and time period of each element of the policy for Executive Directors.

		22/23	23/24	24/25	25/26
	A Base salary	100%			
Fixed pay	B Benefits	100%			
	© Pension	100%			
Variable pay	Deferred Bonus Scheme (malus and clawback provisions apply)	50% 25% 25% 			

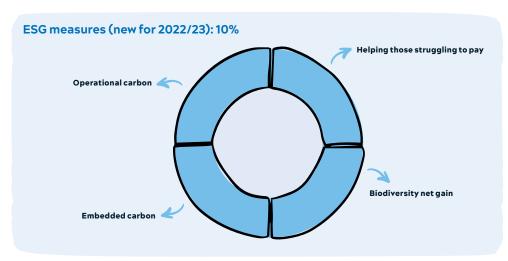
Deferred Bonus Plan to be awarded 2022/23

The chart on page 148 describes how the Deferred Bonus Plan will be implemented in 2022.

As mentioned earlier in the report, although a significant proportion of executive variable remuneration is already aligned to 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 measures.



The four new environmental and social measures are broken down further below.



Operating for performance	Customer delivery (basket of measures delivering service to customers)	Customer efficiency	NEW – Environmental and social measures	Personal performance	Maximum outturn (% of salary)
Group CEO	120%	75%	30%	75%	300%
Group CFO	88%	55%	22%	55%	220%

Illustrations of application of the remuneration policy

At the end of the initial performance period, performance will be assessed and the appropriate payment relating to the first tranche (50 per cent) will be made. The remaining half will be deferred and paid out in two equal tranches, two years and three years after the first payment, and therefore three and four years after the performance period began. In addition to the initial performance criteria, these payments will also be dependent on a number of secondary performance conditions set out below:

- · Our assets must be maintained in good condition;
- · Good water quality must be maintained;
- The company must maintain good environmental performance;
- There must be no material damage to the reputation of the company; and
- There must be no significant deterioration in health and safety performance.

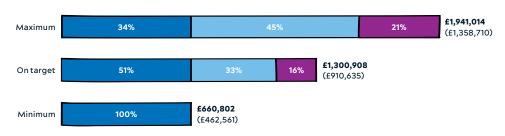
The charts opposite show the weighting as a percentage of base pay for the total potential remuneration which could be payable by AWS and AWG to the Executive Directors in various performance scenarios under the proposed remuneration policy in 2022/23.

In these charts:

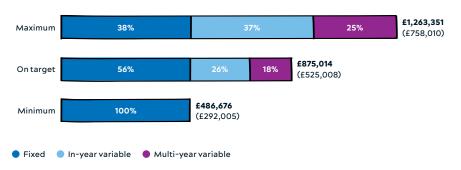
- Fixed remuneration is the minimum payable and is made up of base pay for 2022/23 plus the value of cash in lieu of pension and benefits.
- The deferred bonus is split into Year 1 (2023), Year 3 (2025) and Year 4 (2026) payments
- The 'on target' bar in the charts shows the percentage of fixed remuneration that could be earned for achieving threshold levels of performance plus the minimum threshold performance for the deferred bonus.
- · Maximum performance would result in the maximum deferred bonus payment; however, this has been calculated without any allowance for CPIH. The maximum award may therefore be higher, as it will be adjusted by CPIH over the period. The maximum bars in all the charts include the Deferred Bonus award granted in 2022/23, which is due to vest in subsequent years.
- As per the scheme rules, the second tranche of the 2020 Deferred Bonus Plan award is due to vest in 2023. The payment reflected in these charts will change in line with the CPIH and will take account of performance during the Secondary Performance Period which is not known at this time.

Total maximum remuneration for 2022/23

Peter Simpson



Steve Buck



Note: The figures in brackets show the amount of total remuneration costs that will be paid in 2021/22 by Anglian Water Services (AWS), with the rest paid for by other parts of the AWG Group. Seventy per cent of Peter Simpson's remuneration and 60 per cent of Steve Buck's will be paid by AWS

Policy on recruitment and loss of office

Component	Policy on recruitment	Policy on exit
General	The Committee expects any new Executive Director to be engaged on terms consistent with the policy described in this report. The Committee also recognises that where it is in the interests of the company to secure the services of a particular individual, it may be necessary to take account of that individual's existing employment and/or their personal circumstances. In making any decision on the remuneration package for a new recruit, the Committee would seek to balance company interests with the requirements of the new recruit and would strive not to pay more than is necessary to achieve the recruitment.	No Executive Director has any contractual rights to compensation for loss of office, apart from payment of salary and benefits in lieu of notice, where appropriate. The Committee's policy is that, in the event of a Director's contract being terminated, poor performance will not be rewarded. When calculating any termination payment, the Committee takes into account a range of factors, including the Executive Director's obligation to mitigate their own loss.
Base salary, pension and benefits	Salary 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.	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.
Deferred bonus plan	Typically, where an eligible employee starts with the company, they will receive a reduced award based on their start date.	The rules of the Deferred Bonus Plan apply in respect of the deferred element of awards (including those made in 2019, 2020 and 2021) 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.

Service contracts

All Executive Directors appointed to the Board are currently employed on service contracts of no fixed term, with a notice period of 12 months by the company and six months by the individual. Each Executive Director is entitled to pension provision and certain contractual benefits, details of which are summarised in the policy. Each Executive Director also participates in bonus or incentive arrangements at the sole discretion of the Committee. Currently, each Executive Director participates in the Deferred Bonus Scheme which is described further in the relevant sections of this report.

	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 2022, John Barry, Niall Mills, Batiste Ogier and Duncan Symonds represent the ultimate owners of the company. Consequently, they do not have letters of appointment or service contracts, nor do they receive a fee from the company for their services.

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.

Chairman and Independent Non-Executive Directors

Terms of appointment

The Chairman and the Independent Non-Executive Directors have letters of appointment rather than service contracts. Copies of these letters of appointment are available on the Anglian Water website at anglianwater.co.uk/governance.

Appointment and expiry of current terms for the Chair and Independent Non-Executive Directors

	Date of first appointment	Date of expiry of current terms
Polly Courtice	1 April 2015	31 March 2024
John Hirst	1 April 2015	31 March 2024
Paul Whittaker	14 October 2013	13 October 2022
Natalie Ceeney	25 April 2018	24 April 2024
Zarin Patel	31 October 2018	30 October 2024

These appointments may be terminated with six months' notice by either party. No compensation is payable to the Chairman or Non-Executive Directors if the appointment is terminated early.

Policy for determination of fees

The fees for the Independent Non-Executive Directors are reviewed by the Chairman, and any changes are approved by the Board. Under the Articles of Association of the company, increases to the fees of the Non-Executive Directors require a resolution by the shareholders of the company. Non-Executive Directors do not vote on their own remuneration.

The Chairman's fee is set by the Board, based on a recommendation from the Remuneration Committee. The Chairman is not involved in setting his own remuneration.

Element and link to strategy	Operation	Maximum potential for 2021/22	Changes for 2022/23
To attract high-calibre individuals to these roles and reflect the level of responsibility and time commitment involved.	For the Chairman and Non-Executive Directors, the Board's policy is to pay fees in line with those paid by other UK companies of a comparable size. Fees may include additional payments to Non-Executive Directors who act as Senior Independent Non-Executive Director or chair Board Committees, to reflect the significant additional responsibilities attached to these duties. The Chairman and the Non-Executive Directors do not participate in any of the company's incentive or pension schemes.	N/A	All Non- Executive Directors' fees increased by 4.6% in line with the company- wide pay deal.

Element and link to strategy	Operation	Maximum potential for 2021/22	Changes for 2022/23
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 re	Total remuneration all AWG £		
		2021/22		
	Fees	Benefits ¹	Total	Total
John Hirst ¹	306,000	-	306,000	300,000
Stephen Billingham²	-	-	-	150,232
Polly Courtice	72,930	-	72,930	71,500
Paul Whittaker	62,746	-	62,746	61,800
Zarin Patel	62,730	-	62,730	61,500
Natalie Ceeney	52,819	71	52,890	51,500
Total Non-Executive Directors	557,226	71	557,297	696,532

1 60 per cent of John Hirst's costs are met by Anglian Water Services Limited with the remainder paid by Anglian Water Group.

2 Stephen Billingham retired on 31 March 2020. The fees received were as part of his payment in lieu of notice.

AWG Co-investment plan

A new Co-investment Plan (the 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 respect of which interest is payable, calculated annually and applied to the principal sum invested. The rate of interest is aligned to the total shareholder returns and may increase or decrease over the investment period.

Executive Director	Amount invested 2021/22	over AMP7 2020–2022
Peter Simpson	£493,000	£790,000

This report was approved by the Board of Directors on 14 June 2022.

Natalie Ceeney

Chair of the Remuneration Committee

14 June 2022

Statutory accounts $Q \leftarrow \rightarrow$ 153

The Directors present their report and the audited financial statements of Anglian Water Services Limited (the company) for the year ended 31 March 2022.

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 25-26.

The information that fulfils the requirement of the Strategic Report, including a summary of the Group's performance, future prospects, key performance indicators and principal risks and uncertainties, is included in the Strategic Report and Financial Performance sections on pages 1-106.

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 112-121.

Details of the corporate governance arrangements resulting from the securitisation of the company in 2002 can be found on page 113 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 4.9 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 6.4 million people and businesses, including customers who receive their water from other companies. The used water is treated to a high standard and returned to the environment via rivers or coastal outlets.

The organic waste is treated, dried and used in agriculture as a natural fertiliser. As well as providing these wholesale services, the company provides retail services to household customers within its region.

Results and dividends

The Group income statement on page 157 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. No dividends were paid to the ultimate shareholders in the year.

Risk management

Detailed information about the company's risk management processes, including its approach to financial risks, can be found on pages 90-103.

Health and safety

Details are included on page 62 and page 96.

Directors

Current Directors of the company are listed on pages 109-111 together with their biographical details. Details of Board changes that took place up to the date of this report are detailed on page 116.

Directors' indemnities

During the 2021/22 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 (2021: £nil).

Emissions

Information relating to climate-related disclosures, including carbon emissions, can be found on pages 79-89.

Future developments

The Directors expect the activities as detailed in the Strategic Report to continue for the foreseeable future without material change.

Research and development

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

Employees

Information on the company's policy on employing people with disabilities and about how employees are kept informed and consulted can be found in 'Our people & partners' on pages 61-68. 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 73-76.

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 73-76.

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 financial statements. Further details of this review can be found on page 164.

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
- 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

14 June 2022

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 iurisdictions.

Each of the Directors, whose names and functions are listed in the Board of Directors sections on pages 109-111, 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

14 June 2022



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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Not	tes	Year ended 31 March 2022 £m	Year ended 31 March 2021 (restated) £m
	Revenue	1,399.8	1,351.8
5	Other operating income	12.3	12.5
6	Operating costs		
	Operating costs before depreciation, amortisation and charge for bad and doubtful debts	(612.5)	(605.9)
	Depreciation and amortisation	(347.7)	(338.4)
	Charge for bad and doubtful debts	(11.1)	(31.1)
	Total operating costs	(971.3)	(975.4)
	Operating profit	440.8	388.9
	Finance income	1.4	2.0
	Finance costs, including fair value losses on derivative financial instruments	(574.8)	(275.4)
7	Net finance costs	(573.4)	(273.4)
	Profit before tax from continuing operations		
	(Loss)/Profit before fair value losses on derivative financial instruments ¹	(17.5)	138.7
	Fair value losses on derivative financial instruments	(115.1)	(23.2)
	(Loss)/Profit before tax from continuing operations	(132.6)	115.5
8	Tax charge	(310.2)	(19.5)
	(Loss)/Profit for the year from continuing operations	(442.8)	96.0

1 As defined in note 31

Notes 1 to 32 are an integral part of these financial statements.

The results, financial position and cash flows for the year ended 31 March 2021 have been restated as a result of the change in accounting policy as discussed in note 1.

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Note	s	Year ended 31 March 2022 £m	Year ended 31 March 2021 (restated) £m
	(Loss)/Profit for the year	(442.8)	96.0
	Other comprehensive income/(expense)		
	Items that will not be reclassified to income statement		
23	Actuarial gains/(losses) on retirement benefit deficit	135.7	(162.7)
8	Income tax on items that will not be reclassified	(25.7)	30.9
		110.0	(131.8)
	Items that may be reclassified subsequently to income statement		
25	Gains on cash flow hedges recognised in equity	59.3	8.2
25	(Losses)/gains on cost of hedging recognised in equity	(2.6)	2.1
25	Losses on cash flow hedges transferred to income statement	14.0	10.2
25	Gains on cost of hedging transferred to income statement	-	(0.5)
25	Income tax on items that may be reclassified	(15.0)	(3.8)
		55.7	16.2
	Other comprehensive income/(expense) for the year, net of tax	165.7	(115.6)
	Total comprehensive expense for the year	(277.1)	(19.6)

Notes

12

Non-current assets Other intangible assets

Net current assets/(liabilities)

Note	s	At 31 March 2022 £m	At 31 March 2021 (restated) £m	At 1 April 2020 (restated) £m
	Non-current liabilities			
19	Borrowings	(6,015.7)	(6,282.8)	(6,702.3)
20	Derivative financial instruments	(1,192.8)	(1,004.6)	(996.0)
22	Deferred tax liabilities	(1,451.9)	(1,082.3)	(1,084.4)
23	Retirement benefit deficit	(41.8)	(44.8)	(41.6)
21	Provisions	(7.0)	(9.4)	(10.5)
		(8,709.2)	(8,423.9)	(8,834.8)
	Total liabilities	(9,931.7)	(9,766.7)	(10,664.5)
	Net assets	2,314.0	1,522.4	1,542.0
	Capital and reserves			
24	Share capital	32.0	32.0	32.0
	Share premium	1,165.0	-	_
	Retained earnings	1,096.3	1,525.4	1,561.2
25	Hedging reserve	20.4	(37.4)	(52.3)
25	Cost of hedging reserve	0.3	2.4	1.1
	Total equity	2,314.0	1,522.4	1,542.0

Notes 1 to 32 are an integral part of these financial statements. The financial statements
were approved by the Board of Directors on 14 June 2022 and signed on its behalf by:

Peter S	impson
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1April 2020

(restated)

£m

168.9

31 March 2021

(restated)

194.5

31 March 2022

£m

218.0

238.1

(457.3)

(221.8)

Steven Buck

Chief Executive

Chief Financial Officer

Company number: 02366656

Notes	5	At 31 March 2022 £m	At 31 March 2021 (restated) £m	At 1April 2020 (restated) £m
	Non-current assets			
12	Other intangible assets	218.0	194.5	168.9
13	Property, plant and equipment	10,304.1	10,041.7	9,940.3
20	Derivative financial instruments	57.8	112.6	317.8
23	Retirement benefit surplus	205.2	54.8	171.6
		10,785.1	10,403.6	10,598.6
	Current assets	······	······································	
15	Inventories	16.9	13.9	12.4
16	Trade and other receivables	516.5	500.9	530.6
17	Investments – cash deposits	392.0	80.0	319.0
17	Cash and cash equivalents	475.8	180.7	729.0
20	Derivative financial instruments	56.5	84.8	16.8
		1,457.7	860.3	1,607.8
	Total assets	12,242.8	11,263.9	12,206.4
	Current liabilities			
18	Trade and other payables	(629.1)	(514.9)	(569.4)
	Current tax liabilities	(148.6)	(167.3)	(198.2)
19	Borrowings	(476.3)	(652.9)	(1,023.0)
20	Derivative financial instruments	(10.1)	(24.8)	(81.4)
21	Provisions	(4.7)	(6.6)	(6.2)
		(1,268.8)	(1,366.5)	(1,878.2)
	Net current assets/(liabilities)	188.9	(506.2)	(270.4)

Note	s	At 31 March 2022 £m	At 31 March 2021 (restated) £m	At 1 April 2020 (restated) £m
	Non-current liabilities			
19	Borrowings	(6,015.7)	(6,282.8)	(6,702.3)
20	Derivative financial instruments	(1,192.8)	(1,004.6)	(996.0)
22	Deferred tax liabilities	(1,451.9)	(1,082.3)	(1,084.4)
23	Retirement benefit deficit	(41.8)	(44.8)	(41.6)
21	Provisions	(7.0)	(9.4)	(10.5)
		(8,709.2)	(8,423.9)	(8,834.8)
	Total liabilities	(9,978.0)	(9,790.4)	(10,713.0)
	Net assets	2,264.8	1,473.5	1,493.4
	Capital and reserves			
24	Share capital	32.0	32.0	32.0
	Share premium	1,165.0	_	-
	Retained earnings	1,047.1	1,476.5	1,512.6
25	Hedging reserve	20.4	(37.4)	(52.3)
25	Cost of hedging reserve	0.3	2.4	1.1
	Total equity	2,264.8	1,473.5	1,493.4

The company has not presented its own income statement as permitted by section 408 of the Companies Act 2006. The loss for the year, dealt with in the financial statements of the company, is £443.1 million (2021: profit of £95.7 million).

Notes 1 to 32 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 14 June 2022 and signed on its behalf by:

Peter Simpson

Steven Buck

Chief Executive

Chief Financial Officer

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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 2020 (as previously reported)	32.0	_	1,600.4	(52.3)	1.1	1,581.2
•••••	Change in accounting policy	-	-	(39.2)	_	-	(39.2)
	At 1 April 2020 (restated)	32.0	-	1,561.2	(52.3)	1.1	1,542.0
	Profit for the year	_	_	96.0	_	-	96.0
	Other comprehensive (expense)/inco	ome				•	
23	Actuarial losses on retirement benefit obligations	-	-	(162.7)	_	-	(162.7)
8	Income tax credit on items that will not be reclassified	-	-	30.9	_	-	30.9
25	Gains on cash flow hedges	-	-	_	8.2	-	8.2
25	Gains on cost of hedging	-	-	-	-	2.1	2.1
25	Amounts on cash flow hedges transferred to income statement	-	-	-	10.2	(0.5)	9.7
25	Deferred tax movement on hedging reserves	-	-	-	(3.5)	(0.3)	(3.8)
		-	-	(131.8)	14.9	1.3	(115.6)
	Total comprehensive (expense)/income	-	_	(35.8)	14.9	1.3	(19.6)
	At 31 March 2021 (restated)	32.0		1,525.4	(37.4)	2.4	1,522.4

Notes		Stated capital £m	Share premium £m	Retained earnings £m	Hedging reserve £m	Cost of hedging reserve £m	Total equity £m
	Loss for the year	_	_	(442.8)	_	-	(442.8)
	Other comprehensive income/(exper	nse)					
23	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)
25	Gains on cash flow hedges	-	-	_	59.3	-	59.3
25	Losses on cost of hedging	-	-	_	_	(2.6)	(2.6)
25	Amounts on cash flow hedges transferred to income statement	-	-	-	14.0	-	14.0
25	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

capital

£m

Share Retained

£m

(443.1)

135.7

(25.7)

110.0

(333.1)

(96.3)

- 1,165.0

32.0 1,165.0 1,047.1

Total

equity

(443.1)

135.7

(25.7)

59.3

(2.6)

14.0

(15.0)

165.7

(2.1) (277.4)

- 1,165.0

0.3 2,264.8

(96.3)

£m

Cost of

hedging

reserve

(2.6)

0.5

(2.1)

Hedging

reserve

£m

59.3

14.0

(15.5)

57.8

57.8

20.4

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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 2020 (as previously reported)	32.0	_	1,551.8	(52.3)	1.1	1,532.6
	Change in accounting policy	-	_	(39.2)	_	-	(39.2)
	At 1 April 2020 (restated)	32.0	-	1,512.6	(52.3)	1.1	1,493.4
	Profit for the year	-	_	95.7	_	_	95.7
	Other comprehensive (expense)/inco	ome				•	
23	Actuarial losses on retirement benefit obligations	-	-	(162.7)	_	-	(162.7)
8	Income tax credit on items that will not be reclassified	_	_	30.9	_	-	30.9
25	Gains on cash flow hedges	-	-	-	8.2	-	8.2
25	Gains on cost of hedging	-	-	-	-	2.1	2.1
25	Amounts on cash flow hedges transferred to income statement	_	_	-	10.2	(0.5)	9.7
25	Deferred tax movement on hedging reserves	-	-	_	(3.5)	(0.3)	(3.8)
		-	-	(131.8)	14.9	1.3	(115.6)
	Total comprehensive (expense)/income	-	_	(36.1)	14.9	1.3	(19.9)

32.0

- 1,476.5

(37.4)

At 31 March 2021 (restated)

Statutory accounts	(

	Gre	oup	Company		
otes	Year ended 31 March 2022 £m	Year ended 31 March 2021 (restated) £m	Year ended 31 March 2022 £m	Year ended 31 March 2021 (restated) £m	
Operating activities					
Operating profit	440.8	388.9	440.8	388.9	
Adjustments for:					
Depreciation and amortisation	n 347.7	338.4	347.7	338.4	
Assets adopted for £nil consideration	(39.2)	(29.3)	(39.2)	(29.3)	
Profit on disposal of property, plant and equipment	(4.9)	(1.5)	(4.9)	(1.5)	
Difference between pension charge and cash contributions	(18.1)	(39.3)	(18.1)	(39.3)	
Net movement in provisions	(4.3)	0.6	(4.3)	0.6	
Working capital:					
Increase in inventories	(3.0)	(1.5)	(3.0)	(1.5	
(Increase)/decrease in trade and other receivables	(15.8)	29.3	(15.8)	29.3	
Increase/(decrease) in trade and other payables	46.7	(52.8)	69.5	(77.6)	
Cash generated from operatio	ns 749.9	632.8	772.7	608.0	
Income taxes paid¹	_	(25.4)	-	(25.4	
Net cash flows from operating activities	749.9	607.4	772.7	582.6	
Investing activities					
Purchase of property, plant and equipment	(465.2)	(338.8)	(465.2)	(338.8)	
Purchase of intangible assets	(58.8)	(58.8)	(58.8)	(58.8	
Proceeds from disposal of property, plant and equipment	5.8	1.8	5.8	1.8	
Interest received	1.4	2.0	0.9	1.7	
(Increase)/decrease in short-term bank deposits	(312.0)	239.0	(312.0)	239.0	
Net cash used in investing activ	vities (828.8)	(154.8)	(829.3)	(155.1	

		Group		Com	pany
Notes		Year ended 31 March 2022 £m	Year ended 31 March 2021 (restated) £m	Year ended 31 March 2022 £m	Year ended 31 March 2021 (restated) £m
	Financing activities				
	Interest paid	(222.3)	(218.8)	(222.3)	(218.8)
	Debt issue costs paid	(1.5)	(2.9)	(1.5)	(2.9)
	Borrowings premiums received	-	7.7	-	7.7
	Interest paid on leases	(1.2)	(1.0)	(1.2)	(1.0)
	Proceeds from amounts borrowed	100.5	242.6	100.5	242.6
	Repayment of amounts borrowed	(656.4)	(928.8)	(656.4)	(928.8)
	Receipt of principal on derivatives	75.9	-	75.9	(63.5)
	Repayment of principal on derivatives	-	(63.5)	-	-
	Repayment of principal on leases	(12.0)	(11.1)	(12.0)	(11.1)
	Dividends paid	(96.3)	-	(96.3)	-
	Proceeds from issue of ordinary shares	1,165.0	-	1,165.0	_
	Net cash from/(used in) financing activities	351.7	(975.8)	351.7	(975.8)
	Net increase/(decrease) in cash and cash equivalents	272.8	(523.2)	295.1	(548.3)
	Cash and cash equivalents at 1 April	205.9	729.1	180.7	729.0
17	Cash and cash equivalents at 31 March	478.7	205.9	475.8	180.7

¹ Income taxes paid are all inter-company payments to AWG Group Limited.

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 financial statements have also been prepared in accordance with International Financial Reporting Standards as issued by the IASB.

The financial statements have been prepared under the historical cost convention, as modified by financial assets and financial liabilities (including derivative instruments) at fair value through profit and loss.

Adjusted profit before tax excludes the fair value gains and losses arising on derivative financial instruments and energy derivatives that the Group holds as economic hedges. These introduce volatility into the accounts due to the present value of future cash flows, which management believes is not representative of the underlying operational performance of the business.

b) Basis of preparation

The Anglian Water Services Group (the Group) financial statements comprise a consolidation of the financial statements of Anglian Water Services Limited (the company) and its subsidiary, Anglian Water Services Financing Plc, at 31 March. Inter-company sales and profit are eliminated fully on consolidation.

Going concern

The Directors have undertaken a detailed review to assess the liquidity requirements of the Group compared against the cash and borrowing facilities available to the Group, as detailed below.

In line with the assessment at March 2021, 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:

- Our plans now reflect the CMA FD as adjusted by the 'Interim Determination of K' (IDOK) and revised Opex and Capex forecasts as part of our reforecasting process.
- Financial restructuring has been completed in 2021/22 and as a consequence of the equity injection of c. £1.2 billion, net debt and leverage in AWS has reduced significantly.

- The risks around Covid-19 for 2021/22 have moderated substantially as a consequence of the government support to individuals and businesses and consequently the downside scenarios have reduced. The strong recovery of the economy, together with low unemployment and high job vacancies, has reduced the risk of downside impacts to cash collection. There is, however, increased risk due to the cost of living crisis we are now facing, as well as the long-term impacts of climate adaptation.
- · Higher inflation is improving gearing relative to the Regulated Capital Value (RCV).
- Our ODI performance has now been reflected in our forecasts.

We have identified three stretching scenarios to enable the tracking of the macroeconomic impacts on the business. These scenarios, low, medium and severe, focus on the impact of the cost of living crisis and higher unemployment as well as further disruptions due to Covid-19 including change in non-household demand.

The downside outcomes were assessed for liquidity and impacts on debt covenants that form a fundamental part of the single debt platform. Anglian Water Services Limited has a single debt platform (sometimes known as a 'common terms' or 'CTA' debt platform) that has been structured so as to align with, and enhance, the regulatory protections contained in the Water Industry Act 1991 and Anglian Water's Licence (an 'Aligned Debt Programme'). Aligned Debt Programmes operate on a single covenant package and shared security and intercreditor arrangement that binds all debt providers.

Given the Competition and Markets Authority (CMA) Final Determination improving returns from the challenging Ofwat Final Determination, together with improved headrooms resulting from the recent refinancing, headroom to accommodate severe downside shocks has improved. In assessing going concern the Directors have considered a number of perspectives as follows:

- · Liquidity AWS holds sufficient liquidity to cover the going concern period.
- 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 Final Determination.
- Interest cover ratios 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. We also have comfortable headroom against Trigger Events and whilst undesirable, a Trigger Event would not impact on the going concern assumption.
- Macro-economic factors a base case has been projected into our forecasts in our analysis. We are also modelling worst case scenarios, which demonstrate that we do not hit Event of Default levels on our covenants. The scenarios and impacts modelled are summarised in the long-term viability statement on pages 104-106.
- Long-term viability the downside scenarios run show that the viability of the business is strengthened as a result of the CMA Final Determination and the successful implementation of our financial restructuring.

b) Basis of preparation continued

Going concern continued

Based on the above, the Directors believe that the business has sufficient liquidity to meet its liabilities as they fall due and it is therefore appropriate for the accounts to be prepared on a going concern basis.

Standards, amendments and interpretations effective or adopted

The following standards and amendments are effective in the Group's consolidated financial statements:

- Amendments to IFRS 9. IAS 39 and IFRS 7 'Interest rate benchmark reform':
- 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.

i IFRS 9, IAS 39 and IFRS 7 'Interest rate benchmark reform'

In the prior year, the Group adopted Phase 1 of the Interest Rate Benchmark Reform -Amendments to IFRS 9, IAS 39 and IFRS 7. These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments are amended as a result of the interest rate benchmark reform.

In the current year, the Group adopted Phase 2 of the Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39 and IFRS 7. Adopting these amendments enables the Group to reflect the effects of transitioning from interbank offered rates (IBOR) to alternative benchmark interest rates (also referred to as 'risk free rates' or RFRs) without giving rise to accounting impacts that would not provide useful information to users of financial statements.

As a result of the Phase 2 amendments:

- · When the contractual terms of the Group's bank borrowings are amended as a direct consequence of the interest rate benchmark reform, and the new basis for determining the contractual cash flows is economically equivalent to the basis immediately preceding the change, the Group changes the basis for determining the contractual cash flows prospectively by revising the effective interest rate. If additional changes are made, which are not directly related to the reform, Phase 2 amendments wouldn't be applied to the other changes.
- When changes are made to the hedging instruments, hedged item and hedged risk as a result of the interest rate benchmark reform, the Group updates the hedge documentation without discontinuing the hedging relationship and, in the case of a cash flow hedge, the amount accumulated in the cash flow hedge reserve is deemed to be based on the new RFR.

Both the Phase 1 and Phase 2 amendments are relevant to the Group because it applies hedge accounting to a proportion of its interest rate benchmark exposures. In the current period, modifications in response to the reform have been made to all of the Group's eligible derivative and non-derivative financial instruments and the Group has no further exposure to IBOR.

ii 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 policy to align to the agenda decision. A detailed assessment was conducted to identify the impact to align the current year financial statements to this conclusion and to restate comparative periods.

b) Basis of preparation continued

Standards, amendments and interpretations effective or adopted continued

The following tables summarise the impact of the change in policy on the financial statements of the Group.

Condensed Restated Income Statement

_	Year ended 31 March 2021				
		Change in Accounting			
	As published £m	policy £m	Restated £m		
Continuing operations					
Operating costs					
Operating costs before depreciation and amortisation	(590.3)	(15.6)	(605.9)		
Depreciation and amortisation	(351.3)	12.9	(338.4)		
Operating profit	391.6	(2.7)	388.9		
Finance costs including fair value losses on derivative financial instruments	(274.6)	(0.8)	(275.4)		
Profit before tax from continuing operations					
Profit before fair value losses on derivative financial instruments	142.2	(3.5)	138.7		
Profit before tax from continuing operations	119.0	(3.5)	115.5		
Tax	(20.2)	0.7	(19.5)		
Profit for the year	98.8	(2.8)	96.0		

Condensed Group Balance Sheet at 1 April 2020

	A	t 1 April 2020	
	As published	Change in Accounting policy	Restated
	£m	£m	£m
Non-current assets			
Intangible assets	217.3	(48.4)	168.9
Non-current liabilities			
Deferred tax liabilities	(1,093.6)	9.2	(1,084.4)
Net assets	1,581.2	(39.2)	1,542.0
Capital and reserves			
Retained earnings	1,600.4	(39.2)	1,561.2
Total equity	1,581.2	(39.2)	1,542.0

Condensed Group Balance Sheet at 31 March 2021

	At 31 March 2021			
	Change in Accounting			
	As published £m	policy £m	Restated £m	
Non-current assets				
Intangible assets	257.4	(62.9)	194.5	
Current liabilities				
Trade and other payables	(502.2)	11.0	(491.2)	
	•			
Non-current liabilities				
Deferred tax liabilities	(1,092.2)	9.9	(1,082.3)	
Net assets	1,564.4	(42.0)	1,522.4	
Capital and reserves				
Retained earnings	1,567.4	(42.0)	1,525.4	
Total equity	1,564.4	(42.0)	1,522.4	

In addition, as a result of the above, cash generated from operating activities increased by £26.5 million with a corresponding increase in cash used in investing activities.

b) Basis of preparation continued

Standards, amendments and interpretations effective or adopted continued iii Other amendments

Other amendments effective during the reporting period did not have any significant impact on adoption.

Standards, amendments and interpretations not yet effective and not early-adopted The following standards and amendments have not been adopted in the Group's consolidated financial statements as they are not yet effective. 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 IAS1'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.

c) Foreign currencies

Individual transactions denominated in foreign currencies are translated into local currency at the actual exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into local currency at the rates ruling at the balance sheet date. Profits and losses on both individual foreign currency transactions during the period and monetary assets and liabilities are dealt with in the income statement except for transactions where hedge accounting has been applied in accordance with IFRS 9 'Financial instruments'.

d) Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

e) Revenue recognition

Revenue is recognised to reflect the transfer of goods or services to customers at an amount that reflects the consideration to which the group expects to be entitled to in exchange for those goods or services.

Principal source of income

The Group's principal source of income is from customers in respect of the provision of water and water recycling services within Anglian Water, the Group's regulated water and sewerage company, at a price determined annually by its regulatory tariffs.

The majority of Anglian Water's household customers have meters, but there are a significant number who are not metered. This is relevant to how the Group recognises the income over the year, since the unmeasured customers are billed at a flat rate based on the rateable value of the property, which reflects their right to an ongoing supply of water, while measured customers are billed in line with their usage, which tends to be seasonal.

Under IFRS 15, the performance obligation for measured customers has been assessed as the provision of water and sewerage services, and the performance obligation is met as water is supplied to the property. Accordingly for the variable element, revenue is recognised as water is supplied, based on volumes supplied at the relevant reporting date.

Related non-volumetric, or standing, charges reflect our obligation to stand ready to deliver water, as is the case with unmeasured supply (see below), and is accounted for accordingly.

e) Revenue recognition continued

Principal source of income continued

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 £nil consideration

These are principally sewers and pumping stations that a developer has constructed and then contributed to the Group, on a finil 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.

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 the 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, the 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 sources 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.

j) Dividends

Dividends are recognised as a liability in the period in which they are approved or committed. Interim dividends are recognised in the period in which they are paid or when the company has a constructive or legal commitment to pay the dividend.

k) Intangible assets

Other intangible assets 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 estimate.

I) 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.

I) Property, plant and equipment continued

Borrowing costs incurred for the construction of qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement as incurred.

Freehold land is not depreciated, nor are assets in the course of construction until commissioned. Depreciation of other assets is calculated at rates expected to write off the cost less the estimated residual value of the relevant assets on a straight-line basis over their estimated useful lives, which are primarily as follows:

Non-operational buildings 30-60 years Infrastructure assets - water 50-120 years Infrastructure assets - water recycling 50-160 years Operational assets 30-80 years Fixed plant, including meters 12-40 years Vehicles, mobile plant and equipment 3-10 years

Items of property, plant and equipment that have no further operational use are treated as having been decommissioned and are written off immediately to profit or loss. In addition, property, plant and equipment is assessed for impairment, in accordance with IAS 36 'Impairment of assets', if events or changes in circumstances indicate that the carrying value may not be recoverable.

m) Leased assets

The Group assesses whether a contract is, or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low-value assets (defined as leases for individual assets with a value of less than £5,000). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease, unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate

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 right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

n) Investments - cash deposits

After initial recognition at fair value, financial investments are held at amortised cost. This is based on the business's practice of acquiring financial assets to collect their contractual cash flows and the simple nature of the investments made, which consist solely of principle payments and interest on the principle outstanding.

The Expected Credit Loss (ECL) model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets, therefore this is no longer dependent on the Group first identifying a credit loss event. This requires consideration of a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

n) Investments - cash deposits continued

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 (ECL) are defined as the weighted average of credit losses with the respective risk of default occurring as the weights.

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

The Group manages credit risk exposures through a comprehensive counterparty credit risk policy. See the financial instruments disclosures for further details.

o) Inventories

Raw materials are stated at cost less any provision necessary to recognise damage and obsolescence. Work in progress is valued at the lower of cost and net realisable value. 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 regards to the collection of contractual cash flows (or sale) and whether the financial assets cash flows relate solely to the payment of principal and interest.

q) Trade receivables

Trade receivables are initially recognised at their transaction price. If there is objective evidence that the amount receivable is impaired it is written-down to its recoverable amount, with the irrecoverable amount being recognised as an expense in operating costs.

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

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

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

In particular, existing or forecast adverse changes in financial or economic conditions that are expected to cause significant decrease in 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 2021/22. 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 customer's 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; and
- · 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 riskmanagement policy and no speculative trading in financial instruments is undertaken.

Derivatives are initially recognised at fair value and subsequently remeasured at fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. Derivatives are not offset in the financial statements unless the Group has both a legally enforceable right and intention to offset. The impact of the master netting agreements on the Group's financial position is disclosed in note 20. A derivative is presented as a noncurrent asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not due to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

The Group designates certain derivatives as either a fair value or cash flow hedge in accordance with IFRS 9 'Financial Instruments'. At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with how the hedge aligns with the Group's risk-management strategy. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is effective in offsetting changes in the fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

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

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

In some hedge relationships the Group excludes, from the designation, the currency basis spread of cross currency hedging instruments. In such cases the fair value change of the currency basis element of the cross currency interest rate swap is recognised in other comprehensive income and accumulated in the cost of hedging reserve and reclassified from equity to profit or loss on a straight-line basis over the term of the hedging relationship. The treatment for the currency basis element is optional and the option is applied on an individual hedge basis.

t) Derivative financial instruments continued

Embedded derivatives

An embedded derivative is a component of a hybrid contract that also includes a nonderivative host with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

Derivatives embedded in hybrid contracts with a financial asset host within the scope of IFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured as either amortised cost or fair value as appropriate.

Derivatives embedded in hybrid contracts with hosts that are not financial assets within the scope of IFRS 9 (e.g. financial liabilities) are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value. through profit or loss (FVTPL).

If the hybrid contract is a quoted financial liability, instead of separating the embedded derivative, the Group generally designates the whole hybrid contract at FVTPL.

An embedded derivative is presented as a non-current asset or non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and is not expected to be realised or settled within 12 months.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively.

i Fair value hedge

Changes in the fair value of derivatives designated and qualifying as fair value hedges are recorded in the income statement within 'fair value gains/(losses) on derivative financial instruments', together with changes in the fair value of the hedged asset or liability attributable to the hedged risk.

If a fair value hedge is discontinued, the hedged item is not adjusted for any subsequent movements in the hedged risk. The cumulative amount of fair value adjustment on the hedge item at the point of designation is then amortised to profit or loss over the remaining life of the original hedge based on a recalculated effective interest rate.

ii Cash flow hedge

The effective portion of changes in the fair value of derivatives designated and qualifying as cash flow hedges is recognised in other comprehensive income and accumulated in the cash flow hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within 'fair value gains/(losses) on derivative financial instruments'.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for example, in the periods when interest income or expense is recognised, or when the forecast hedged cost takes place).

When a cash flow hedge is discontinued, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

iii Derivatives that do not qualify for hedge accounting

Certain derivative instruments, principally index-linked swaps, do not qualify for hedge accounting. Such derivatives are classified at fair value through profit 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 is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability.

v) Retirement benefit obligations

i Defined benefit schemes

For defined benefit schemes, pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit credit method and are discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liabilities. The current service cost, which is the increase in the present value of the liabilities of the Group's defined benefit pension schemes expected to arise from employee service in the period, is charged to operating costs. The net interest on the schemes' net assets/(liabilities) is included in other finance charges. Actuarial gains and losses are recognised in the statement of comprehensive income.

Pension schemes' surpluses, to the extent that they are considered recoverable, or deficits, are recognised in full and presented on the face of the balance sheet.

ii Defined contribution schemes

The cost of defined contribution schemes is charged to the income statement in the period in which the contributions become payable.

2. Key assumptions and significant judgements

In preparing these consolidated financial statements, the Directors have made judgements, estimates and assumptions that affect the application of the Group's accounting policies, which are described in note 1, and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised in the period in which the estimate is revised if the revision only affects that period, or in the period of the revision and future periods if the revision affects both the current and future periods.

A key consideration, but not one which the Group views as representing a material estimation uncertainty, is climate change. Climate change is a global challenge and an emerging risk not only to the environment but to markets, businesses and people throughout the world. Climate change is embedded into everything we do and the risks associated are fully integrated in our strategy and our risk-management processes as well as heavily considered in preparation of long-term plans and delivery of individual investments. As a business we took a leading role in working with other water companies in developing a routemap to zero carbon and have committed to achieving net zero carbon by 2030. We have also set out the risks posed by climate change and how we will address them in our latest Adaptation Report.

For further detail, see the strategic ambitions, risk and Taskforce for Climate-related Financial Disclosures sections of this report.

a) Significant judgements

The areas where the most critical judgements have been applied are as follows:

i Capitalised expenditure

Additions to intangible assets, and to property, plant and equipment, include £108.7 million (2021: £101.7 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 £46.1 million (2021: £37.3 million) SaaS arrangements as intangible assets.

Judgement is made over the capitalisation of customisation and configuration activities undertaken in implementing these SaaS arrangements. This may entail the development of software code that enhances or modifies, or creates additional capability to the existing on-premise software to enable it to connect with the cloud-based software applications (referred to as bridging modules or APIs). Judgement was applied in determining whether the additional code meets the definition of, and the recognition criteria for, an intangible asset in IAS 38 Intangible Assets.

Costs incurred to configure or customise the cloud provider's application software are recognised as operating expenses when the services are received. In a contract where the cloud provider provides both the SaaS configuration and customisation, and the SaaS access over the contract term, judgement is applied to determine whether these services are distinct from each other or not, and therefore, whether the configuration and customisation costs incurred are expensed as the software is configured or customised (i.e. upfront), or over the SaaS contract term.

Specifically, where the configuration and customisation activities significantly modify or customise the cloud software, these activities are not distinct from the access to the cloud software over the contract term. Judgement has been applied in determining whether the degree of customisation and modification of the cloud-based software is significant.

ii Asset lives

The property, plant and equipment used in the Group is primarily the infrastructure and operational assets of the regulated water business. Infrastructure and operational assets have estimated useful lives of between 30 and 160 years and the depreciation charge is clearly sensitive to the lives allocated to the various types of asset. Asset lives are reviewed regularly and changed where necessary to reflect the current view on their remaining lives in light of technological change, prospective economic utilisation and the physical condition of the assets. Although considered during the review of asset lives, the Group does not view the uncertainty around the potential future impact of climate change to indicate that the current useful life policy needs revising. Climate change, and the environment in general, are heavily embedded in the planning stage of asset construction to mitigate future risk.

iii Recognition of grants and contributions

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 £13.9 million (2021: £12.3 million) developer request for the provision of new connections to the network.
- 2) Infrastructure charges £20.1 million (2021: £19.4 million) developers' contribution to offsite network reinforcement as permitted by the Water Industry Act.
- 3) Self-lay, requisitions and adoption fees £7.4 million (2021: £6.5 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 £39.2 million (2021: £29.3 million) developer contributes assets on a nil consideration basis that have been installed on a new development.

2. Key assumptions and significant judgements continued

a) Significant judgements continued

iii Recognition of grants and contributions continued

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.

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 £8.1 million (2021: £7.5 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 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 2021/22 the average consumption for measured household customers was 100 cubic metres. A fall or rise of two cubic metres (two per cent) in average annual consumption will reduce or increase revenue by approximately £11.2 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 gain of £135.7 million (2021: loss of £162.7 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 23 of the financial statements.

2. Key assumptions and significant judgements continued

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 company starts by evaluating the estimated recoverability of trade receivables and records a provision for doubtful receivables based on experience, primarily cash collection history and then adjusts, as necessary, for forward looking factors such as a change in economic conditions.

The actual level of receivables collected may differ from the estimated levels of recovery, which could impact operating results positively or negatively.

Management apply three key judgements when determining the estimated bad debt provision:

1. Look-back period - the period that is used when determining our cash collection performance.

A four year cash collection look-back period has been utilised. Management have considered the impact on the bad debt provision and the relative sensitivity of utilising a five year or a three year period. Utilising the cash collection rates for the previous three years would reduce the bad debt charge by £0.1 million, whilst utilising the previous five years would have a negligible effect.

2. Assessment of the 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 and real wage growth. Office of National Statistics and Bank of England forecasts for these measures have then been utilised to forecast changes in future cash collection rates.

An increase in peak unemployment rates by 1 per cent in the year to March 2023 would increase the bad debt provision by £2.1 million.

A decrease in real wage growth of 1 per cent in the year to March 2023 would increase the bad debt provision by £1.3 million.

3. Point at which we fully provide for outstanding debt

Debtors are fully provided for once they reach six years overdue. This period has increased from four years in the prior year following a review of cash collection rates for aged debt and includes an estimation of the recovery profile for debtors aged between four and six years overdue. Different methods for profiling collection rates could be applied which would change the total provision recorded.

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 2022 £m	Year ended 31 March 2021 £m
Water and water recycling services:		
Anglian Water		
Household - measured	807.1	813.4
Household – unmeasured	221.3	219.8
Non-household - measured	228.9	206.3
Grants and contributions	100.1	75.6
Other	42.4	36.7
	1,399.8	1,351.8

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 recognised on a straight line basis throughout the year, see our accounting policy in note 1 for further details.

Other includes £25.2 million (2021: £20.4 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.

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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 2022 £m	Year ended 31 March 2021 (restated) £m
Raw materials and consumables	24.1	21.9
Staff costs	243.4	233.6
Research and development	7.7	7.6
Contribution to Anglian Water Assistance Fund	2.2	1.2
Short-term lease costs	2.8	2.8
Hired and contracted services	233.0	232.8
Rates	66.9	67.4
Power	83.0	83.2
Regulatory fees	28.6	27.0
Insurance	11.9	8.8
Vehicles and fuel	13.0	11.2
Other expenses	9.5	11.6
Own work capitalised	(108.7)	(101.7)
Profit on disposal of property, plant and equipment ¹	(4.9)	(1.5)
Operating costs before depreciation, amortisation and charge for bad and doubtful debts	612.5	605.9
Depreciation of property, plant and equipment	309.7	302.5
Amortisation of intangible assets	38.0	35.9
Depreciation and amortisation	347.7	338.4
Charge for bad and doubtful debts	11.1	31.1
Operating costs	971.3	975.4

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 2022 £m	Year ended 31 March 2021 £m
Fees payable to the company's Auditor for the audit of the company and the consolidated financial statements	0.4	0.3
Fees payable to the company's Auditor for other services:		
Audit-related assurance services	0.3	0.2
	0.7	0.5

The company's Auditor for the year ended 31 March 2022 and 31 March 2021 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 2022 £m	Year ended 31 March 2021 £m
Finance income		
Interest income on short-term bank deposits	1.4	2.0
	1.4	2.0
Finance costs		
Interest expense on bank loans and overdrafts	(2.7)	(3.3)
Interest expense on other loans including financing expenses	(213.8)	(213.2)
Indexation of loan stock	(255.0)	(48.6)
Amortisation of debt issue costs	(4.1)	(4.2)
Interest on leases	(1.2)	(1.0)
Unwinding of discount on provision	-	(0.1)
Defined benefit pension scheme interest	0.4	3.4
Total finance costs	(476.4)	(267.0)
Less: amounts capitalised on qualifying assets	16.7	14.8
	(459.7)	(252.2)

7. Net finance costs continued

	Year ended 31 March 2022 £m	Year ended 31 March 2021 £m
Fair value losses on derivative financial instruments		
Fair value gains on energy hedges	-	2.3
Hedge ineffectiveness on cash flow hedges ¹	0.5	1.4
Hedge ineffectiveness on fair value hedges²	0.4	2.3
Amortisation of adjustment to debt in fair value hedge	(0.1)	(0.1)
Derivative financial instruments not designated as hedges	(104.1)	(16.6)
Recycling of de-designated cash flow hedge relationship	(11.8)	(12.5)
	(115.1)	(23.2)
Finance costs, including fair value losses on derivative financial instruments	(574.8)	(275.4)
Net finance costs	(573.4)	(273.4)

- 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 20 for details.
- 2 Hedge ineffectiveness on fair value hedges comprises fair value losses on hedging instruments of £67.6 million (2021: loss of £60.8 million), offset by fair value gains of £67.9 million on hedged risks (2021: gains of £63.1 million).

8. Taxation

	Year ended 31 March 2022 £m	Year ended 31 March 2021 (restated) £m
Current tax:		
In respect of the current period	(13.6)	(0.1)
Adjustments in respect of prior periods	(5.1)	(5.4)
Total current tax credit	(18.7)	(5.5)
Deferred tax:		
Origination and reversal of temporary differences	(25.9)	23.4
Adjustments in respect of previous periods	1.2	1.6
Increase in corporation tax rate	353.6	_
Total deferred tax charge	328.9	25.0
Total tax charge on loss on continuing operations	310.2	19.5

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 current year there is also a one-off credit arising on a change of accounting treatment.

The Finance Bill 2021 introduced legislation to increase the main rate of UK corporation tax from 19 per cent to 25 per cent, effective 1 April 2023. As the deferred tax liability is expected to arise after that date, deferred tax balances as at 31 March 2021 have been remeasured at a rate of 25 per cent.

The deferred tax charge for this year mainly reflects the effect of this rate change and capital allowances claimed in excess of the depreciation charge in the accounts, offset by a credit on losses carried forward to future years. The prior-year charge mainly reflects capital allowances claimed in excess of the depreciation charge in the accounts.

The Finance Bill 2021 also introduced increased tax relief for capital expenditure incurred in the period up to 1 April 2023. This has increased both the current and the deferred tax credits 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 per cent (2021: 19 per cent) to the profit before tax from continuing operations as follows:

	Year ended 31 March 2022 £m	Year ended 31 March 2021 (restated) £m
(Loss)/profit before tax from continuing operations	(132.6)	115.5
(Loss)/profit before tax from continuing operations at the standard rate of corporation tax in the UK of 19% (2021: 19%)	(25.2)	21.9
Effects of recurring items:		······································
Items not deductible for tax purposes		
Depreciation and losses on assets not eligible for tax relief	0.9	0.9
Disallowable expenditure	1.1	0.5
	(23.2)	23.3
Effects of non-recurring items:		
Increase in corporation tax rate	353.6	-
Effects of capital allowance super deduction	(7.6)	-
Effects of differences between rates of current and deferred tax	(8.7)	-
Adjustments in respect of prior periods	(3.9)	(3.8)
Tax charge for the year	310.2	19.5

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 2022 £m	Year ended 31 March 2021 £m
34.5	(30.9)
17.6	3.8
(8.8)	-
(2.6)	-
40.7	(27.1)
40.7	(271)
	31 March 2022 £m 34.5 17.6 (8.8) (2.6)

9. Employee information and Directors' emoluments

a) Employee information

	Year ended 31 March 2022 £m	Year ended 31 March 2021 £m
Staff costs		
Wages and salaries	204.4	194.9
Social security costs	20.5	21.2
Pension costs - defined contribution	18.5	17.5
	243.4	233.6

Staff costs for the year ended 31 March 2022 in the table above are shown gross of £87.7 million (2021: £83.0 million) of costs that have been capitalised, as shown within 'own work capitalised' in note 6.

9. Employee information and Directors' emoluments continued

Average monthly number of full-time equivalent persons (including Executive Directors) employed by the Group:

	Year ended 31 March 2022	Year ended 31 March 2021
Water services	1,277	989
Water recycling services	1,554	1,552
Customer services	524	518
Asset management and other	1,774	1,823
	5,129	4,882

b) Directors' emoluments

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Aggregate emoluments	1,462	1,908
Pension costs - defined contribution	2	2
Benefits received under long-term incentive plans	-	141

Aggregate emoluments of the Directors comprise salaries, taxable benefits, cash payments in lieu of company pension contributions and amounts payable under annual bonus schemes. Retirement benefits are accruing to zero Directors (2021: zero Directors) under a defined benefit pension scheme. Retirement benefits are accruing to two Directors (2021: 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 132-152

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Aggregate emoluments	913	1,198
Benefits received under long-term incentive plans	-	141

10. (Loss)/profit of the parent company

The company does not present its own income statement as permitted by section 408 of the Companies Act 2006. The loss for the year, dealt with in the financial statements of the company, is £443.1 million (2021: profit of £95.7 million).

11. Dividends

	Year ended 31 March 2022 £m	Year ended 31 March 2021 £m
Paid by the Group:		
Previous year final dividend	96.3	-
	96.3	_

During the year ended 31 March 2022, dividends of £96.3 million (£3.01 per share) were paid by the company to its immediate parent undertaking, Anglian Water Services UK Parent Co Limited (2021: fnil). See note 32 for details of dividends declared after the year-end.

12. Other intangible assets

	Group and company			
	Computer Software £m	Internally generated £m	Total £m	
Cost				
At 1 April 2020 (as previously reported)	431.1	133.0	564.1	
Change in accounting policy	(70.3)	_	(70.3)	
At 1 April 2020 (restated)	360.8	133.0	493.8	
Additions (restated)	37.1	24.4	61.5	
At 31 March 2021 (restated)	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	

12. Other intangible assets continued

	Group and company			
	Computer Software £m	Internally generated £m	Total £m	
Accumulated amortisation				
At 1 April 2020 (as previously reported)	(264.5)	(82.3)	(346.8)	
Change in accounting policy	21.9	_	21.9	
At 1 April 2020 (restated)	(242.6)	(82.3)	(324.9)	
Charge for the year (restated)	(17.7)	(18.2)	(35.9)	
At 31 March 2021 (restated)	(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)	
Net book amount				
At 31 March 2022	160.3	57.7	218.0	
At 31 March 2021 (restated)	137.6	56.9	194.5	

As discussed in note 1, computer software has been restated as a result of the IFRIC guidance clarification on treatment of configuration and customisation costs in a cloud-computing arrangement resulting in a change of our accounting policies over capitalisation.

The internally generated intangible assets mainly comprise capitalised development expenditure.

Included within additions above is £3.1 million (2021: £3.6 million) of interest that has been capitalised on qualifying assets, at an average rate of 4.8 per cent (2021: 4.4 per cent).

Intangible assets with a cost of £2.4 million and net book value £0.5 million were disposed of during the year (2021: none).

Included within intangible assets above are assets under construction of £101.4 million (2021: (restated) £91.2 million), which are not yet subject to amortisation.

13. Property, plant and equipment

			Group an	d company		
	Land and buildings £m	Infra- structure assets £m	Operational assets	Vehicles, mobile plant and equipment £m	Assets under construction £m	Total £m
Cost						
At 1 April 2020	83.8	7,061.3	6,238.9	890.9	370.7	14,645.6
Additions	-	-	-	-	404.2	404.2
Transfers on commissioning	1.5	98.3	164.3	74.6	(338.7)	-
Disposals	-	-	(2.9)	(23.6)	-	(26.5)
At 31 March 2021	85.3	7,159.6	6,400.3	941.9	436.2	15,023.3
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
Accumulated depreciation					· 	. •
At 1 April 2020	(11.1)	(782.7)	(3,304.4)	(607.1)	-	(4,705.3)
Charge for the year	(3.6)	(58.1)	(189.5)	(51.3)	-	(302.5)
Disposals	-	-	2.9	23.3	-	26.2
At 31 March 2021	(14.7)	(840.8)	(3,491.0)	(635.1)	-	(4,981.6)
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)
Net book amount			•••••	· •·······		***************************************
At 31 March 2022	73.1	6,381.8	2,832.8	379.0	637.4	10,304.1
At 31 March 2021	70.6	6,318.8	2,909.3	306.8	436.2	10,041.7

Property, plant and equipment at 31 March 2022 includes land of £28.3 million (2021: £28.3 million) which is not subject to depreciation. Included within additions above is £13.6 million (2021: £12.0 million) of interest that has been capitalised on qualifying assets, at an average rate of 4.8 per cent (2021: 4.4 per cent).

13. 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 rightof-use assets held under leases:

	Group and company					
	Land and buildings £m	Infra- structure assets £m	Operational assets £m	Vehicles, mobile plant and equipment £m	Total £m	
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	
At 31 March 2021						
Opening net book value	29.4	5.0	39.5	4.0	77.9	
Additions	0.8	-	-	0.4	1.2	
Depreciation charge	(3.2)	-	(1.3)	(1.4)	(5.9)	
Net book value	27.0	5.0	38.2	3.0	73.2	

14. Investments

The sole subsidiary undertaking is Anglian Water Services Financing Plc, whose principal activity is that of a financing company. The value of the investment is £12,502. It is 100 per cent owned, all in ordinary shares, and is registered, incorporated and operating in the UK at 31 March 2022. The address of its registered office is Lancaster House, Lancaster Way, Ermine Business Park, Huntingdon, Cambridgeshire, PE29 6XU.

15. Inventories

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
Raw materials and consumables	16.9	13.9	16.9	13.9
	16.9	13.9	16.9	13.9

16. Trade and other receivables

	Gro	oup	Com	pany
	2022 £m	2021 £m	2022 £m	2021 £m
Trade receivables	406.0	397.8	406.0	397.8
Provision for bad and doubtful debts	(236.4)	(233.6)	(236.4)	(233.6)
Net trade receivables	169.6	164.2	169.6	164.2
Loans receivable from Group undertakings	1.4	0.1	1.4	0.1
Other amounts receivable	28.7	35.7	28.7	35.7
Prepayments and accrued income	316.8	300.9	316.8	300.9
	516.5	500.9	516.5	500.9

Other amounts receivable includes £14.7 million VAT debtor (2021: £21.0 million) and various other sundry debtors.

16. Trade and other receivables continued

Prepayments and accrued income as at 31 March 2022 includes water and water recycling income not yet billed of £312.4 million (2021: £294.1 million). Of the trade receivables, £398.4 million (2021: £372.2 million) relates to residential customers, £1.1 million (2021: £16.4 million) relates to non-household retailer balances, and the remaining balance of £6.5 million (2021: £9.2 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.

The Group manages its risk from trading through the effective management of customer relationships. Concentrations of credit risk with respect to household trade receivables are limited due to the Anglian Water customer base consisting of a large number of unrelated households. The Water Industry Act 1991 (as amended by the Water Industry Act 1999) prohibits the disconnection of a water supply and the limiting of supply with the intention of enforcing payment for certain premises including domestic dwellings. However, allowance is made by the water regulator in the price limits at each price review for a proportion of debt deemed to be irrecoverable. The Directors believe there is no further credit risk provision required in excess of the allowance for doubtful receivables.

Following the introduction of market reform on 1 April 2017, the provision of water and wastewater services to non-household customers was transferred to a relatively small number of licensed retailers. Anglian Water bills the retailers on a monthly basis, and they are contractually obliged to pay in full within one month and therefore the credit risk is limited to one month's revenue relating to non-household customers. The principal retailer that Anglian Water transacts with is Wave Ltd, with £nil receivables (2021: £14.2 million) and £4.9 million of income accrued at 31 March 2022 (2021: £5.4 million).

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

	Group and	d company
	2022 £m	2021 £m
At 1 April	233.6	212.0
Charge for bad and doubtful debts	11.1	31.1
Amounts written off during the year	(8.8)	(9.9)
Amounts recovered during the year	0.5	0.4
At 31 March	236.4	233.6

17. Analysis of net debt

		Group				
		_	Liabilities from fina	ncing activities		
	Cash and cash equivalents¹ £m	Current asset investments - cash deposits £m	Borrowings £m	Derivative financial instruments ² £m	Total £m	
At 1 April 2020	729.1	319.0	(7,725.3)	(738.2)	(7,415.4)	
Cash flows						
Interest paid	(218.8)	-	31.5	(5.4)	(192.7)	
Issue costs paid	(2.9)	-	2.9	-	-	
Borrowings premium received	7.7		(7.7)		-	
Interest on leases	(1.0)	-	-	-	(1.0)	
Increase in amounts borrowed	242.6	-	(242.6)	-	_	
Repayment of amounts borrowed	(928.8)	-	928.8	-	-	
Repayment of principal on derivatives	(63.5)	-	-	63.5	-	
Repayment of principal on leases	(11.1)	-	11.1	-	_	
Non-financing cash flows ³	452.6	(239.0)	_	-	213.6	
	(523.2)	(239.0)	724.0	58.1	19.9	
Movement in interest accrual on debt	-	-	3.0	-	3.0	
New lease agreements	-	-	(1.2)	-	(1.2)	
Amortisation of issue costs	-	_	(4.2)	-	(4.2)	
Indexation of borrowings and RPI swaps	-	_	(32.0)	(16.6)	(48.6)	
Fair value gains and losses and foreign exchange	-	_	100.0	(144.3)	(44.3)	
At 31 March 2021	205.9	80.0	(6,935.7)	(841.0)	(7,490.8)	

17. Analysis of net debt continued

			Group		
			Liabilities from fina	ncing activities	
	Cash and cash equivalents ¹ £m	Current asset investments – cash deposits £m	Borrowings £m	Derivative financial instruments ² £m	Total £m
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 flows³	(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)
Net debt at 31 March 2022 comprises:					
Non-current assets	-	_	-	30.3	30.3
Current assets	478.7	392.0	-	8.4	879.1
Current liabilities	-	-	(476.3)	(10.1)	(486.4)
Non-current liabilities	-	-	(6,015.7)	(1,190.6)	(7,206.3)
	478.7	392.0	(6,492.0)	(1,162.0)	(6,783.3)

- 1 Included within cash and cash equivalents is £8.5 million (2021: £4.4 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 £73.4 million (2021: asset of £9.0 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 £749.9 million (2021: £607.4 million), less net cash used in investing activities of £828.8 million (2021: £154.8 million) and dividends paid of £96.3 million (2021: £nil million).

	Group and company		
	2022 £m	2021 £m	
Non-current assets	27.5	3.9	
Current assets	48.1	5.1	
Non-current liabilities	(2.2)	-	
	73.4	9.0	

	Company					
			Liabilities from fin			
	Net cash and cash equivalents ¹ £m	Current asset investments – cash deposits £m	Borrowings £m	Derivative financial instruments ² £m	Total £m	
At 1 April 2020	729.0	319.0	(7,725.3)	(738.2)	(7,415.5)	
Cash flows						
Interest paid	(218.8)	-	31.5	(5.4)	(192.7)	
Issue costs paid	(2.9)	-	2.9	-	-	
Interest on leases	(1.0)	-	-	-	(1.0)	
Borrowings premium received	7.7		(7.7)			
Increase in amounts borrowed	242.6	-	(242.6)	-	-	
Repayment of amounts borrowed	(928.8)	-	928.8	-	-	
Repayment of principal on derivatives	(63.5)	-	-	63.5	-	
Repayment of principal on leases	(11.1)	-	11.1	-	-	
Non-financing cash flows³	427.5	(239.0)	-	-	188.5	
	(548.3)	(239.0)	724.0	58.1	(5.2)	
Movement in interest accrual on debt	-	–	3.0	- -	3.0	
New lease agreements	-	_	(1.2)	-	(1.2)	
Amortisation of issue costs	-	-	(4.2)	-	(4.2)	
Indexation of borrowings and RPI swaps	-	-	(32.0)	(16.6)	(48.6)	
Fair value gains and losses and foreign exchange		-	100.0	(144.3)	(44.3)	
At 31 March 2021	180.7	80.0	(6,935.7)	(841.0)	(7,516.0)	

17. Analysis of net debt continued

			Company		
			Liabilities from fin		
	Net cash and cash equivalents ¹ £m	Current asset investments - cash deposits £m	Borrowings £m	Derivative financial instruments ² £m	Total £m
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 flows³	(152.9)	312.0	-	-	159.1
	295.1	312.0	598.4	(78.9)	1,126.6
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)
Net debt at 31 March 2022 comprises:					
Non-current assets	-	-	_	30.3	30.3
Current assets	475.8	392.0	-	8.4	876.2
Current liabilities	-	-	(476.3)	(10.1)	(486.4)
Non-current liabilities	-	-	(6,015.7)	(1,190.6)	(7,206.3)
	475.8	392.0	(6,492.0)	(1,162.0)	(6,786.2)

- 1 Included within cash and cash equivalents is £8.5 million (2021: £4.4 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 £73.4 million (2021: asset of £9.0 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 £772.7 million (2021: £582.6 million), less net cash used in investing activities of £829.3 million (2021: £155.1 million) and dividends paid of £96.3 million (2021: £nil million).

18. Trade and other payables

	Gro	oup	Com	pany
	2022 £m	2021 (restated) £m	2022 £m	2021 (restated) £m
Trade payables	42.4	40.4	42.4	40.4
Capital creditors and accruals	130.9	104.9	130.9	104.8
Receipts in advance	338.3	288.6	338.3	288.6
Amounts owed to group undertakings	0.7	1.2	47.0	24.9
Other taxes and social security	5.2	4.8	5.2	4.8
Accruals and deferred income	60.2	47.5	60.2	47.5
Other payables	5.1	3.8	5.1	3.8
	582.8	491.2	629.1	514.9

Receipts in advance includes £291.0 million (2021: £238.5 million) relating to amounts received from customers for water and sewerage charges in respect of bills that fall due in the following year.

Accruals and deferred income is made up of £57.9 million accruals (2021: £41.0 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.

19. Loans and other borrowings

	Group		Company	
_	2022 £m	2021 £m	2022 £m	2021 £m
£250 million 5.837% fixed rate 2022	259.7	259.3	259.7	259.3
£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	253.1	256.6	253.1	256.6
£75 million 3.666% index-linked 2024	132.8	127.0	132.8	127.0
£200 million 3.07% index-linked 2032	352.1	336.4	352.1	336.4
£60 million 3.07% index-linked 2032	106.1	102.2	106.1	102.2
IFRS 16 leases	35.8	39.5	35.8	39.5
£402 million 2.4% index-linked 2035	671.4	629.2	671.4	629.2
£50 million 1.7% index-linked 2046	79.0	75.5	79.0	75.5
£50 million 1.7% index-linked 2046	79.5	75.7	79.5	75.7
£40 million 1.7146% indexation bond 2056	63.9	60.7	63.9	60.7
£50 million 1.6777% indexation bond 2056	79.8	75.9	79.8	75.9
£60 million 1.7903% indexation bond 2049	95.6	91.1	95.6	91.1
£100 million 1.3784% indexation bond 2057	159.5	151.6	159.5	151.6
£50 million 1.3825% indexation bond 2056	79.7	75.7	79.7	75.7
£100 million Class A wrapped floating rate bonds	100.0	99.9	100.0	99.9
£75 million 1.449% indexation bond 2062	111.4	109.0	111.4	109.0
£50 million 1.52% indexation bond 2055	74.3	72.6	74.3	72.6
£110 million Class A unwrapped floating rate bonds 2043	110.0	110.0	110.0	110.0
£25 million 6.875% private placements 2034	25.0	25.0	25.0	25.0
£130 million 2.262% indexation bond 2045	188.4	173.8	188.4	173.8
US\$160 million 4.52% private placements 2021	<u>-</u>	118.4	_	118.4
US\$410 million 5.18% private placements 2021	<u>-</u>	302.1	_	302.1
EIB £75 million 0.53% index-linked term facility 2027 ¹	50.4	55.8	50.4	55.8
EIB £75 million 0.79% index-linked term facility 2027	50.4	55.8	50.4	55.8
£250 million 4.5% fixed rate 2027	253.3	253.0	253.3	253.0
£15 million 1.37% index-linked private placements 2022	19.9	18.3	19.9	18.3
Subtotal carried forward	3,842.2	4,161.2	3,842.2	4,161.2

19. Loans and other borrowings continued

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
Subtotal brought forward	3,842.2	4,161.2	3,842.2	4,161.2
£50 million 2.05% index-linked private placements 2033	66.1	61.0	66.1	61.0
£31.9 million 3.983% private placements 2022	32.5	32.5	32.5	32.5
£73.3 million 4.394% private placements 2028	72.1	77.5	72.1	77.5
£22.3 million 3.983% private placements 2022	22.7	22.7	22.7	22.7
US\$47 million 5% private placements 2022	-	34.9	-	34.9
EIB £150 million 0% index-linked term facility 2028²	117.3	126.4	117.3	126.4
£200 million Class B 4.5% fixed rate 2026	200.3	207.6	200.3	207.6
£35 million 1.141% index-linked bond 2042	45.2	41.7	45.2	41.7
US\$170 million 3.84% private placements 2023	133.0	132.9	133.0	132.9
£93 million 3.537% private placements 2023	94.4	94.3	94.4	94.3
US\$160 million 4.99% private placements 2023	_	117.8	_	117.8
EIB £65 million 0.41% index-linked term facility 2029	57.6	60.8	57.6	60.8
EIB Tranche 2 £125 million 0.1% 2029³	117.3	122.9	117.3	122.9
EIB Tranche 3 £60 million 0.01% 2030⁴	59.8	62.1	59.8	62.1
RCF £550 million	(2.2)	23.0	(2.2)	23.0
RCF £50 million bilaterals	(0.1)	(0.1)	(0.1)	(0.1)
US\$150 million 3.29% private placements 2026	113.7	113.7	113.7	113.7
£55 million 2.93% fixed rate private placements 2026	55.4	55.4	55.4	55.4
£20 million 2.93% fixed rate private placements 2026	20.1	20.0	20.1	20.0
£35 million floating rate private placements 2031	34.8	34.7	34.8	34.7
£200 million Class B 2.6225% fixed rate 2027	196.8	202.3	196.8	202.3
£250 million green bond 1.625% 2025	242.8	256.9	242.8	256.9
£300 million green bond 2.75% 2029	300.4	300.1	300.4	300.1
£25 million 3.0% fixed rate 2031	25.0	24.9	25.0	24.9
US\$53 million 3.053% fixed rate 2029	40.4	38.4	40.4	38.4
£85 million 2.88% fixed rate 2029	84.9	84.8	84.9	84.8
Subtotal carried forward	5,972.5	6,510.4	5,972.5	6,510.4

	Gr	oup	Company	
	2022 £m	2021 £m	2022 £m	2021 £m
£65 million 2.87% fixed rate 2029	65.5	65.4	65.5	65.4
£65 million CPI 0.835% 2040	68.6	65.2	68.6	65.2
JPY 7 billion 0.855% fixed rate 2039	43.7	45.8	43.7	45.8
EDC £100 million 1.588% fixed rate 2028	100.3	100.2	100.3	100.2
£50 million 1.76% fixed rate 2035	50.0	49.9	50.0	49.9
JPY 7 billion 0.85% fixed rate 2040	35.2	39.3	35.2	39.3
JR £26.1 million CPI 0.01% 2035	31.4	29.9	31.4	29.9
BPPT £26.1 million CPI 0.01% 2035	31.2	29.7	31.2	29.7
£35 million 2.14% fixed rate 2036 ⁵	32.0	(0.3)	32.0	(0.3)
£40 million 2.14% fixed rate 2036 ⁵	36.6	(0.3)	36.6	(0.3)
US\$35 million 1.16% private placements 2026	24.6	_	24.6	_
Liquidity facilities	0.4	0.5	0.4	0.5
Total loans and other borrowings	6,492.0	6,935.7	6,492.0	6,935.7
Included in:				
Current liabilities	476.3	652.9	476.3	652.9
Non-current liabilities	6,015.7	6,282.8	6,015.7	6,282.8
Of which are leases:				
Current liabilities	6.8	12.6	6.8	12.6
Non-current liabilities	29.0	26.9	29.0	26.9

- 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.
- 5 These instruments were transacted in March 2021 with debt cash proceeds received in April 2021 after the current period-end.

19. Loans and other borrowings continued

The value of the capital and interest elements of the index-linked loans is linked to movements in inflation. The increase in the capital value of index-linked loans during the year of £170.2 million (2021: £32.0 million) has been taken to the income statement as part of interest payable.

These loans are shown net of issue costs and premiums of £19.7 million (2021: £22.1 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 2022, this charge applies to £6,456.4 million (2021: £6,896.3 million) of the debt listed above.

With the exception of issue costs capitalised and leases, all of the company's borrowings are payable to Anglian Water Services Financing Plc, but on terms set out above.

Loans and other borrowing liabilities disclosed within borrowings on the balance sheet are the only instruments designated as fair value hedge items by the Group. The table below details the impact of fair value hedge adjustments on the instruments subject to fair value hedge accounting:

	Group and company					
	Carrying value £m	Proportion hedged %	Accumulated hedge adjustment ² £m	Discounted hedge adjustment £m		
At 31 March 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	-		

		Group	and company	
	Carrying value £m	Proportion hedged %	Accumulated hedge adjustment ² £m	Discounted hedge adjustment £m
£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	-
At 31 March 2021				
US\$150 million 3.29% private placements 2026	113.7	76	(4.1)	-
US\$160 million 4.52% private placements 2021	118.4	100	(1.0)	_
US\$170 million 3.84% private placements 2023	132.9	94	(7.6)	-
£200 million Class B 2.6225% fixed rate 2027	202.3	41	(2.2)	_
£200 million Class B 4.5% fixed rate 2026	207.6	50	(8.0)	_
£246 million 6.293% fixed rate 2030	256.6	20	(1.7)	_
£250 million green bond 1.625% 2025	256.9	100	(6.0)	_
£73.3 million 4.394% private placements 2028	77.5	100	(2.7)	_
US\$410 million 5.18% private placements 2021 ¹	302.1	-	0.1	0.1
JPY 7 billion 0.85% fixed rate 2040	39.3	100	6.3	_
£35 million 2.14% fixed rate 2036	(0.3)	100	0.3	_
£40 million 2.14% fixed rate 2036	(0.3)	100	0.3	_
	1,706.7		(26.3)	0.1

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

20. Financial instruments

Financial assets by category

			Group		
	A	Derivatives	Assets at amortised		
	Assets at fair value through	used for		Investments at	
	profit and loss	hedging		amortised cost	Tota
	£m	£m	£m	£m	£m
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 instrume	ents				
Current	4.7	51.8	-	-	56.5
Non-current	-	57.8	-	-	57.8
	4.7	109.6	988.4	392.0	1,494.7
At 31 March 2021			······································	·· ·· ································	
Investments	•		•	•	
Current - cash deposits	-	-	-	80.0	80.0
Cash and cash equivalents					
Current	-	-	205.9	-	205.9
Trade and other receivables					
Current	-	-	494.1	-	494.1
Derivative financial instrume	ents				
Current	10.4	74.4	-	-	84.8
Non-current	37.6	75.0	_	-	112.6
	48.0	149.4	700.0	80.0	977.4

			Company		
	Assets at fair value through profit and loss £m	Derivatives used for hedging £m	Assets at amortised cost and cash equivalents £m		Total £m
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 instrume	ents				
Current	4.7	51.8	-	-	56.5
Non-current	-	57.8	-	-	57.8
	4.7	109.6	985.5	392.0	1,491.8
At 31 March 2021					
Investments					
Current – cash deposits	_	-	-	80.0	80.0
Cash and cash equivalents					
Current	-	-	180.7	-	180.7
Trade and other receivables					
Current	-	-	494.1	-	494.1
Derivative financial instrume	ents				
Current	10.4	74.4	-	-	84.8
Non-current	37.6	75.0	-	-	112.6
	48.0	149.4	674.8	80.0	952.2

Trade and other receivables above exclude prepayments.

Financial liabilities by category

		Group					
	Liabilities at fair value through profit and loss £m	Derivatives used for hedging £m	Other liabilities held at amortised cost £m	Total £m			
At 31 March 2022							
Borrowings							
Current	_	-	476.3	476.3			
Non-current	-	_	6,015.7	6,015.7			
Trade and other payables			•				
Current	_	-	244.5	244.5			
Derivative financial instruments							
Current	10.1	_	_	10.1			
Non-current	1,145.9	46.9	-	1,192.8			
	1,156.0	46.9	6,736.5	7,939.4			
At 31 March 2021							
Borrowings			•				
Current	-	_	652.9	652.9			
Non-current	_	-	6,282.8	6,282.8			
Trade and other payables							
Current	_	-	202.6	202.6			
Derivative financial instruments							
Current	17.6	7.2	-	24.8			
Non-current	985.8	18.8	-	1,004.6			
	1,003.4	26.0	7,138.3	8,167.7			

	Company					
	Liabilities at fair value through profit and loss £m	Derivatives used for hedging £m	Other liabilities held at amortised cost £m	Total £m		
At 31 March 2022						
Borrowings						
Current	_	_	476.3	476.3		
Non-current	_	-	6,015.7	6,015.7		
Trade and other payables						
Current	_	_	290.8	290.8		
Derivative financial instruments						
Current	10.1	_	_	10.1		
Non-current	1,145.9	46.9	-	1,192.8		
	1,156.0	46.9	6,782.8	7,985.7		
At 31 March 2021			······································			
Borrowings			••••••••••••			
Current	_	-	652.9	652.9		
Non-current	_	-	6,282.8	6,282.8		
Trade and other payables						
Current	_	-	226.3	226.3		
Derivative financial instruments						
Current	17.6	7.2	-	24.8		
Non-current	985.8	18.8	-	1,004.6		
	1,003.4	26.0	7,162.0	8,191.4		

Trade and other payables above exclude receipts in advance.

Derivative financial instruments

	Group and company					
	202	2	202	1		
	Assets £m	Liabilities £m	Assets £m	Liabilities £m		
Designated as cash flow hedges						
Interest rate swaps	0.5	(2.9)	-	(10.6)		
Cross currency interest rate swaps	5.2	(8.9)	67.3	(8.9)		
Energy swaps	75.6	(2.2)	9.0	_		
	81.3	(14.0)	76.3	(19.5)		
Designated as fair value hedges		······	······································			
Interest rate swaps	1.0	(21.4)	24.0	(0.3)		
Cross currency interest rate swaps	27.3	(11.5)	49.1	(6.2)		
	28.3	(32.9)	73.1	(6.5)		
Derivative financial instruments designated as hedges	109.6	(46.9)	149.4	(26.0)		
Derivative financial instruments not designated as hedges						
Interest rate swaps	-	(173.9)	34.5	(233.5)		
RPI swaps	-	(654.8)	-	(568.3)		
CPI swaps	4.7	(327.3)	13.5	(201.6)		
Total derivative financial instruments	114.3	(1,202.9)	197.4	(1,029.4)		
Derivative financial instruments can be analysed as follows:						
Current	56.5	(10.1)	84.8	(24.8)		
Non-current	57.8	(1,192.8)	112.6	(1,004.6)		

114.3

(1,202.9)

197.4

(1,029.4)

At 31 March 2022, the fixed interest rates vary from 2.84 per cent to 5.04 per cent, floating rates vary from SONIA plus 11.20 bps to SONIA plus 326.36 bps, RPI-linked interest rates vary from 1.27 per cent to 2.97 per cent plus RPI and CPI-linked interest rates vary from (1.21) per cent plus CPI to 1.69 per cent plus CPI. Gains and losses recognised in other comprehensive income and accumulated in the cash flow hedge reserve on interest rate and cross-currency interest rate swap contracts will be continuously released to the income statement within finance costs, in line with the repayment of the related borrowings. Gains and losses recognised in other comprehensive income and accumulated in the cash flow hedge reserve on energy hedges will be released to the income statement within operating costs, in line with the expiry of the power season to which the gains and losses relate.

In accordance with IFRS 9, the Group has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. There were no amounts recorded in the income statement for gains or losses on embedded derivatives for the year ended 31 March 2022 (2021: £nil).

Leases

The minimum lease payments in respect of all leases fall due as follows:

	Group and company		
	2022 £m	2021 £m	
Within one year	5.7	12.6	
Between two and five years	18.0	15.0	
After five years	20.5	20.5	
	44.2	48.1	
Future finance charges on leases	(8.4)	(8.6)	
Present value of lease liabilities	35.8	39.5	

Fair value of financial assets and liabilities

		Group				
	202	22	20:	21		
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m		
Cash and cash equivalents	478.7	478.7	205.9	205.9		
Current asset investments – cash deposits	392.0	392.0	80.0	80.0		
Borrowings						
Current	(476.3)	(491.0)	(652.9)	(605.0)		
Non-current	(6,015.7)	(7,860.4)	(6,282.8)	(7,883.6)		
Interest and cross currency interest rate swaps – assets						
Current	3.7	3.7	75.0	75.0		
Non-current	30.3	30.3	99.9	99.9		
Interest and cross currency interest rate swaps – liabilities						
Current	(0.3)	(0.3)	(15.3)	(15.3)		
Non-current	(218.3)	(218.3)	(244.2)	(244.2)		
RPI swaps – liabilities						
Current	(9.8)	(9.8)	(9.5)	(9.5)		
Non-current	(645.0)	(645.0)	(558.8)	(558.8)		
CPI swaps – assets						
Current	4.7	4.7	4.7	4.7		
Non-current	-	-	8.8	8.8		
CPI swaps – liabilities						
Non-current	(327.3)	(327.3)	(201.6)	(201.6)		
Net debt	(6,783.3)	(8,642.7)	(7,490.8)	(9,043.7)		
Energy derivatives – assets						
Current	48.1	48.1	5.1	5.1		
Non-current	27.5	27.5	3.9	3.9		
Energy derivatives – liabilities						
Non-current	(2.2)	(2.2)	_	_		
	(6,709.9)	(8,569.3)	(7,481.8)	(9,034.7)		

Cc		

	Company				
	202	22	202	21	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m	
Cash and cash equivalents	475.8	475.8	180.7	180.7	
Current asset investments – cash deposits	392.0	392.0	80.0	80.0	
Borrowings					
Current	(476.3)	(491.0)	(652.9)	(605.0)	
Non-current	(6,015.7)	(7,860.4)	(6,282.8)	(7,883.6)	
Interest and cross currency interest rate swaps – assets					
Current	3.7	3.7	75.0	75.0	
Non-current	30.3	30.3	99.9	99.9	
Interest and cross currency interest rate swaps – liabilities					
Current	(0.3)	(0.3)	(15.3)	(15.3)	
Non-current	(218.3)	(218.3)	(244.2)	(244.2)	
RPI swaps – liabilities					
Current	(9.8)	(9.8)	(9.5)	(9.5)	
Non-current	(645.0)	(645.0)	(558.8)	(558.8)	
CPI swaps – assets			<u>.</u>		
Current	4.7	4.7	4.7	4.7	
Non-current	_	_	8.8	8.8	
CPI swaps – liabilities					
Non-current	(327.3)	(327.3)	(201.6)	(201.6)	
Net debt	(6,786.2)	(8,645.6)	(7,516.0)	(9,068.9)	
Energy derivatives – assets	•		•		
Current	48.1	48.1	5.1	5.1	
Non-current	27.5	27.5	3.9	3.9	
Energy derivatives – liabilities					
Non-current	(2.2)	(2.2)	-	-	
	(6,712.8)	(8,572.2)	(7,507.0)	(9,059.9)	

The fair value of loans and other borrowings represents the market value of publicly traded debt instruments or, if in respect of debt not publicly traded, the cost which the Group would incur if it elected to repay these borrowings before their maturity dates, calculated by discounting future cash flows at prevailing rates including credit spreads experienced on publicly traded debt instruments.

The fair value of interest rate derivative financial instruments is determined 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.

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	l company
	2022 £m	2021 £m
At 1 April	(188.2)	(111.0)
Net loss for the period	(156.4)	(93.5)
Settlements	21.9	16.3
At 31 March	(322.7)	(188.2)

Gains and losses in the period are recognised in the income statement.

The impact (on a post-tax basis) on the income statement of reasonably possible changes in the CPI inflation rate assumptions used in valuing instruments classified as level 3 within the fair value hierarchy are as follows:

	Group and company		
	2022 £m	2021 £m	
Gain/(loss)			
1% increase in inflation rates	(203.2)	(188.7)	
1% decrease in inflation rates	162.6	150.6	

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

Control of treasury

The treasury team, which reports directly to the Chief Financial Officer, substantially manages the financing, including debt, interest costs and foreign exchange, for the Group. Treasury policy continues to be focused on the efficient and effective management of cash and financial resources within the Group. The activities of the treasury function include the following:

- ensure that lenders' covenants are met;
- secure funds through a balanced approach to financial markets and maturities;
- manage interest rates to minimise financial exposures and minimise interest costs;
- invest temporary surplus cash to best advantage at minimal financial risk;
- maintain an excellent reputation with providers of finance and rating agencies;
- · enhance control of financial resources; and
- monitor counterparty credit exposure.

Financing structure

The Group's regulated water and water recycling business, Anglian Water Services Limited, is funded predominantly by debt in the form of long-term bonds and other debt instruments through its financing subsidiary Anglian Water Services Financing Plc. At 31 March 2022, 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 64.8 per cent (2021: 82.0 per cent).

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 overleaf.

		Group and 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 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	_			
USD	-	1.5	1.3	-			

	Group and 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 2021		,			
Foreign currency borrowings – hedged item					
JPY	-	-	14,000.0	-	14,000.0
USD	570.0	377.0	203.0	-	1,150.0
Cross currency interest rate swap – cashflow hedge					
JPY	-	-	(7,000.0)	-	(7,000.0)
USD	(410.0)	(217.8)	(89.0)	-	(716.8)
Cross currency interest rate swap – fair value hedge					
JPY	-	_	(7,000.0)	-	(7,000.0)
USD	(160.0)	(159.2)	(114.0)	-	(433.2)
Net currency exposure	_	-	-	-	-
Weighted average spot rate			•		
JPY	-	_	138.3	-	
USD	1.6	1.6	1.4	-	

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 per cent of RCV for index-linked debt and between five per cent and 15 per cent for floating rate debt, with the remaining being fixed rate. Within these hedging levels, the Group endeavours to obtain the finest rates (lowest borrowing and finest depositing rates) consistent with ensuring that the relevant treasury objectives are met in full, i.e. the provision of adequate finance for Anglian Water Services Group at all times and maintaining security of principal on investments.

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk, which is partially offset by cash held at variable rates. Borrowings issued at fixed rate expose the Group to fair value interest rate risk. Treasury manages its interest rate risk by monitoring market rates in relation to the debt (and investment) portfolios, analysing the effect of likely movements in interest rates and taking action as deemed appropriate, within the hedging limits outlined above.

The table below summarises the impact of derivatives on interest rate and inflation risks within the debt portfolio:

	Group and company					
	Debt position £m	Swap impact £m	Post swap position £m	Effective interest rate %		
At 31 March 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)			
At 31 March 2021						
Fixed	(3,598.0)	1,478.0	(2,120.0)	5.1		
Floating	(270.0)	(146.0)	(416.0)	1.3		
Index-linked	(2,872.8)	(1,388.9)	(4,261.7)	3.5		
Leases	(29.0)	_	(29.0)	2.6		
	(6,769.8)	(56.9)	(6,826.7)			

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							
_	Within one	Between one and	Between five and	After 25	Mark to		nterest rate ghted average)	
	year £m	five years £m	25 years £m	years £m	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)			

	Group and company						
_	Within	Between one and	Between five and	After 25	Markto	Interest rate (weighted averag	
	year £m	five years £m	25 years £m	years £m	market *	payable	receivable
At 31 March 2021							
Interest rate swaps							***************************************
Floating to fixed rate	269.6	225.5	74.0	200.0	(166.3)	4.4	0.8
Floating from fixed rate	50.0	800.5	279.5	_	58.2	0.4	1.4
Fixed to fixed interest rate swaps	_	100.2	581.3	-	(77.8)	3.7	2.3
Inflation swaps			······································	······································	······································		•••••
Floating to RPI	25.0	150.0	225.0	165.9	(568.2)	3.1	0.7
Fixed to CPI	_	_	365.9	300.0	(92.2)	0.8	3.6
Floating to CPI	_	_	50.4	100.0	(96.0)	1.2	0.6
Cross currency swaps			······································	······································	······································		•
JPY	-	-	101.2	-	(15.2)	2.0	0.9
USD	359.8	240.7	144.3	-	116.4	2.8	4.6
Total	704.4	1,516.9	1,821.6	765.9	(841.1)		

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
	2022 £m	2021 £m
Increase/(decrease) in equity		
1% increase in interest rates	20.6	(1.0)
1% decrease in interest rates	(22.5)	(2.5)
Increase/(decrease) in profit before tax		
1% increase in interest rates	282.6	255.6
1% decrease in interest rates	(370.5)	(340.3)

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

The following assumptions were made in calculating the interest rate sensitivity analysis:

- · cash flow and fair value hedge relationships remain effective;
- the main fair value sensitivity to interest rates is in relation to inflation-linked derivatives;
- · cash flow sensitivity is calculated on floating interest rate net debt; and
- · all other factors are held constant.

Debt instruments

The following analysis shows the impact of a one per cent change in RPI and a one per cent change in CPI over the 12 month period to the reporting date on index-linked debt instruments.

The finance cost of the Group's index-linked debt instruments and derivatives varies with changes in inflation rather than interest rates. These instruments form an economic hedge with the Group's revenues and regulatory assets, which are linked to RPI and CPIH inflation. Inflation risk is reported monthly to the Finance, Treasury and Energy Policy Group, which manages inflation risk by identifying opportunities to amend the economic hedge currently in place where deemed necessary.

The sensitivity at 31 March of the Group's profit before tax to changes in RPI and CPI on debt and derivative instruments is set out in the following tables:

	Group and company		
	2022 £m	2021 £m	
Increase/(decrease) in profit before tax			
1% increase in RPI inflation	(22.0)	(21.9)	
1% decrease in RPI inflation	22.0	21.9	

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

RPI-linked derivatives

The fair values of the Group's RPI-linked derivatives are based on estimated future cash flows, discounted to the reporting date, and these will be impacted by an increase or decrease in RPI rates as shown in the following table. The sensitivity to CPI rates has been included in the level 3 disclosure and as such has not been repeated.

	Group and	Group and company		
	2022 £m	2021 £m		
Increase/(decrease) in profit before tax				
1% increase in RPI	(232.7)	(220.2)		
1% decrease in RPI	190.1	173.4		

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

Progress towards implementation of alternative benchmark interest rates

During the year, the Group actively transitioned all its legacy LIBOR-linked contracts to RFR-linked contracts on a bilateral basis with each counterparty. This was done on an economically equivalent basis by agreeing the transition spread with each counterparty.

All floating rate financial assets and liabilities transacted in the current year are linked to RFRs such as SONIA. The Group is expected to cease to apply the amendments to IFRS 9 next year as the uncertainty arising from the interest rate benchmark reforms with respect to the timing and the amount of the underlying cash flows that the Group is exposed to ends.

iii) Commodity price risk

The Group recovers its electricity costs through revenue, set in real terms by Ofwat, to cover costs for each five-year regulatory pricing period. To the extent that electricity prices remain floating over this period, this exposes the Group to volatility in its operating cash flow. The Group's policy is to manage this risk either through forward purchases to fix the cost of future blocks of electricity with the contracted energy supplier, through the purchase of wholesale electricity swaps with financial counterparties, or through direct generation. Where swap contracts are utilised, the Group designates the swaps in cash flow hedge relationships.

		Group and company					
	Within one year MW	Between one and five years MW	Between five and 25 years MW	Mark to market £m			
At 31 March 2022							
Electricity swap	51.7	111.4	10.8	73.5			
At 31 March 2021							
Electricity swap	60.0	123.4	-	9.0			

Hedge ineffectiveness primarily results from counterparty credit risk (which is present in the derivative but cannot be modelled as part of the hedged risk).

Assuming all energy hedges were in effective hedging relationships, a 10 per cent increase/decrease in commodity prices would have the following impact:

	Group and company		
	2022 £m	2021 £m	
Increase/(decrease) in equity			
10% increase in original prices	11.9	4.2	
10% decrease in original prices	(11.9)	(4.2)	

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

b) Credit risk

Credit risk arises principally from trading and treasury activities. From a trading perspective, the Group has no significant concentrations of credit risk due to minimising the risk through the effective management of customer relationships and through the collateralisation inherent in the licensing of business retail activities. The Group's largest trade receivable balance is in Anglian Water Services Limited, whose operating licence prevents the disconnection of water supply to domestic customers even where bills are unpaid. Irrecoverable debt is taken into consideration as part of the price review process by Ofwat, and therefore no additional provision is considered necessary in excess of the provision for doubtful debts included in note 16.

Placements of cash on deposit expose the Group to credit risk against the counterparties concerned. The Group has credit protection measures in place within agreements that provide protection in the event of counterparty rating downgrade or default. The Group only places cash deposits with banks of upper investment grade (as measured by reputable rating agencies) and also seeks to diversify exposure such that concentration with individual banks is avoided. The credit rating applied to all counterparties is reviewed monthly and on an ongoing basis.

All cash and cash deposits are held with institutions with a minimum of two short-term ratings of P1/A1/F1 or higher, or in the case of money market funds with a minimum of two ratings of Aaam MR1+/AAAm/AAAmmf or higher.

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

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

Group policy requires that transactions are only executed with counterparties which are both (a) from the lending group and (b) rated at least A- (long-term) or A1 (short-term) by Standard & Poor's, Moody's or Fitch.

		Group and company					
	Gross carrying amounts £m	Gross amounts offset £m	Net amount presented in the balance sheet £m	Offsetting not presented in the balance sheet £m	Net amount £m		
At 31 March 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)		
At 31 March 2021	·····•		· · · · · · · · · · · · · · · · · · ·	<u></u>	<u></u>		
Derivative financial assets	217.4	(20.0)	197.4	(113.8)	83.6		
Derivative financial liabilities	(1,049.4)	20.0	(1,029.4)	113.8	(915.6)		

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		
	2022 £m	2021 £m	
Cash and cash equivalents	478.7	205.9	
Trade and other receivables	516.5	500.9	
Investments – cash deposits	392.0	80.0	
Derivative financial assets	114.3	197.4	

	Company		
	2022 £m	2021 £m	
Cash and cash equivalents	475.8	180.7	
Trade and other receivables	516.5	500.9	
Investments - cash deposits	392.0	80.0	
Derivative financial assets	114.3	197.4	

c) Capital risk management

The prime responsibility of the Group's treasury function is the efficient and effective management of financial resources within the Group, i.e. the provision of adequate finance and liquidity at all times while maintaining security of principal. This involves focus on efficiency, quality and effective control to improve cash flow certainty and profitability. The treasury function will actively seek opportunities to raise debt, to reduce the cost of funding and the cost of hedging interest rate and foreign exchange risk while maintaining a risk-averse position in its liquidity management and in its control of currency and interest rate exposures.

Recognising the level of gearing in the Group, and the long-term nature of the Group's asset base, the Group is primarily funded from the debt capital markets. It is the Group's policy to maintain sufficient cash and/or borrowing facilities to meet short-term commitments and to provide working capital support/flexibility in treasury operations in the event of short-term difficulties in the capital markets. The treasury team actively maintain a good financial reputation with rating agencies, investors, lenders and other creditors, and aims to maintain the relevant key financial ratios used by the credit rating agencies to determine the respective credit ratings.

d) Liquidity risk

The Group's objective is to maintain flexibility, diversification and continuity of funding through access to different markets and debt instruments. Daily cash management is undertaken to calculate cash position and dealing requirements, and weekly and monthly cash forecasts are prepared to demonstrate short/medium-term liquidity, covenant compliance and to inform investment strategy. Regular meetings are held with cash forecasters to understand cash variances and challenge latest forecasts. Consolidated cash forecasts are presented to the Finance, Treasury and Energy Policy Group on a monthly basis.

The Group maintains sufficient liquidity to cover 12 months' working capital requirements, and the non-regulated businesses are run on a cash-positive basis. Internal policy is to maintain 18 months' liquidity in terms of capital expenditure and operating costs in Anglian Water Services Limited, and to refinance maturing debt at least three months in advance, to ensure covenant compliance.

The Group has the following undrawn committed borrowing facilities available at 31 March in respect of which all conditions precedent had been met at that date:

	Group and company		
	2022 £m	2021 £m	
Expires:			
Within one year	375.0	400.0	
Between two and five years	600.0	575.0	
	975.0	975.0	

The Group's borrowing facilities of £975.0 million (2021: £1,000.0 million) comprise Class A and Class B debt service reserve facilities totalling £254.0 million provided by Barclays Bank Plc, HSBC Bank Plc, Sumitomo Mitsui Banking Corporation, JP Morgan Chase N.A. and Lloyds TSB Bank Plc; a £121.0 million operating and capital maintenance expenditure reserve facility provided by Barclays Bank Plc, BNP Paribas Plc, Lloyds TSB Bank Plc, Bank of Nova Scotia and Commonwealth Bank Of Australia; a syndicated £550.0 million authorised loan facility for working capital and capital expenditure requirements provided by Barclays Bank Plc and syndicated to certain other banks; and a bilateral facility of £50.0 million with Bank of China Limited for general corporate purposes.

The table below analyses the Group's financial liabilities and derivative financial instruments into relevant maturity groupings based on the remaining period at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, including interest payable:

			Group		
	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 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)
At 31 March 2021		······································			
Trade and other payables	(202.6)	-	-	-	(202.6)
Borrowings	(636.9)	(2,536.5)	(6,112.0)	(2,584.1)	(11,869.5)
Derivative financial instruments (net settled)	(10.4)	(99.3)	(817.2)	(635.8)	(1,562.6)
Derivative financial instruments (gross settled outflow)	(382.2)	(279.8)	(287.8)	-	(949.8)
Derivative financial instruments (gross settled inflow)	449.8	320.3	256.9	-	1,027.0
Leases	(12.6)	(15.0)	(16.7)	(3.9)	(48.1)
	(794.8)	(2,610.2)	(6,976.8)	(3,223.7)	(13,605.6)

			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 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)
At 31 March 2021					
Trade and other payables	(226.3)	-	-	-	(226.3)
Borrowings	(636.9)	(2,536.5)	(6,112.0)	(2,584.1)	(11,869.5)
Derivative financial instruments (net settled)	(10.4)	(99.3)	(817.2)	(635.8)	(1,562.6)
Derivative financial instruments (gross settled outflow)	(382.2)	(279.8)	(287.8)	-	(949.8)
Derivative financial instruments (gross settled inflow)	449.8	320.3	256.9	-	1,027.0
Leases	(12.6)	(15.0)	(16.7)	(3.9)	(48.1)
	(818.5)	(2,610.2)	(6,976.8)	(3,223.7)	(13,629.3)

21. Provisions

	Group and company				
	Legal and other £m	Coupon enhancement £m	Restructuring £m	Total £m	
At 1 April 2020	5.5	6.5	4.7	16.7	
Additional provisions recognised	6.0	-	-	6.0	
Unused amounts reversed	(0.4)	-	-	(0.4)	
Unwinding of discount	-	0.1	-	0.1	
Utilised in the year	(0.6)	(1.4)	(4.4)	(6.4)	
At 31 March 2021	10.5	5.2	0.3	16.0	
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	

Maturity analysis of total provisions:

	Group and	l company
	2022 £m	2021 £m
Current	4.7	6.6
Non-current	7.0	9.4
	11.7	16.0

Provisions for legal and other claims includes legal claims and potential pollution fines, all of which are expected to crystallise over a period of approximately two years.

As part of the Anglian Water securitisation that took place in 2002, the bond that formed part of the transfer of debt from Anglian Water Plc to Anglian Water Services Financing Plc were restructured with enhanced coupon rates. A provision was created in Anglian Water Services Limited for the future additional cash flows caused by the enhanced coupon, discounted back to the balance sheet date and expected to be utilised over the next 20 years.

22. Deferred tax

			Group and co	mpany		
	Accelerated tax depreciation £m	Financial instruments £m	Retirement benefit obligation £m	Tax losses carried forward £m	Other £m	Total £m
At 1 April 2020	1,230.3	(165.4)	24.7	-	(5.2)	1,084.4
Charged/(credited) directly to income statement	24.0	(4.1)	8.1	_	(3.0)	25.0
Charged directly to other comprehensive income	_	3.8	(30.9)	_	_	(27.1)
At 31 March 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

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

23. Net retirement benefit deficit

Pension arrangements for the majority of the company's UK employees are of the funded defined benefit type through the AWG Pension Scheme (AWGPS) Main section and Hartlepool section (a defined benefit scheme for the employees of the former Hartlepool Water Limited, where the pension scheme was transferred on 1 April 2000 which is now a section of the AWGPS). The defined benefit pension arrangements are closed to new pension accrual with effect from 31 March 2018.

The company also manages an unfunded pension arrangement which has been valued by independent actuaries to take account of the requirements of IAS19 as at 31 March 2022. The provision for unfunded pension obligations relates to the cost of enhancements of former employees, over and above their entitlement in the company's pension schemes. The majority of these employees ceased their employment following redundancy programmes principally between 10 and 20 years ago. These pension enhancements are payable until the death of these former employees (or their dependants) and payments are expected to be made over approximately 25 years.

The assets and liabilities relating to the defined benefit scheme for the employees of the former Hartlepool Water Limited are held in a segregated section of the AWGPS. Hartlepool Water Limited was acquired in July 1997, with trade and assets transferred to Anglian Water on 1 April 2000. However, as the Trustees assess the funding requirements of the Hartlepool section separately from the rest of AWGPS, the Hartlepool section has been separately disclosed in the tables below.

Within these schemes, employees are entitled to retirement benefits based on their final salary and length of service at the time of leaving, or closure of, the schemes, payable on attainment of retirement age (or earlier death).

On 31 March 2018, following a period of consultation with representatives of all employees, the defined benefit sections of the AWGPS (including the Hartlepool section) were closed for future accruals. From 1 April 2018 all employees now have the option to participate in a new high-quality defined contribution scheme which offers an equitable scheme with more flexible benefits.

Full valuations as at 31 March 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 2022.

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 £14.6 million (2021: £36.5 million) deficit reduction payments. There were no deficit reduction payments (2021: 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 2023 employers' contributions are expected to be £0.1 million.

The weighted average duration of the defined benefit obligation for AWGPS (excluding Hartlepool) is 19 years, for the Hartlepool section of AWGPS is 18 years, and for the unfunded scheme is 12 years.

There is one defined contribution scheme which operates predominantly in the UK, and contributions to this scheme amounted to £18.5 million (2021: £17.5 million).

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		
	2022	2021	
	% pa	% pa	
Discount rate	2.7	2.1	
Inflation rate			
RPI	3.7	3.1	
CPI	3.3	2.7	
Increases to deferred benefits during deferment			
RPI	3.7	3.1	
CPI	3.3	2.7	
Increases to inflation related pensions in payment ¹			
RPI	3.5	3.1	
СРІ	3.2	2.7	
	years	years	
Longevity at age 65 for current pensioners			
Men	22.3	22.5	
Women	24.6	24.6	
Longevity at age 65 for future pensioners ²			
Men	23.6	23.8	
Women	26.0	26.1	

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

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					
	Change in assumption	AWGPS £m	Hartlepool £m	Unfunded pensions £m	Total £m		
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	+/−1year	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.

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.

² The life expectancy shown for future pensioners is for those reaching 65 in 2041.

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

Life expectancy

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

d) Amounts recognised in comprehensive income

	Group and company			
	AWGPS £m	Hartlepool £m	Unfunded pensions £m	Total £m
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/(losses) 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

	Group and company				
	AWGPS £m	Hartlepool £m	Unfunded pensions £m	Total £m	
2021					
Amounts credited/(charged) to finance costs:					
Interest income on scheme assets	34.3	0.5	-	34.8	
Interest cost on scheme liabilities	(30.1)	(0.4)	(0.9)	(31.4)	
Net interest income/(expense)	4.2	0.1	(0.9)	3.4	
Amounts credited/(charged) to the income statement	4.2	0.1	(0.9)	3.4	
Amounts credited/(charged) to other comprehensive income:					
Return on plan assets (excluding amounts included in net interest)	61.6	(4.1)	-	57.5	
Actuarial gains arising from:					
Changes in financial assumptions	(211.9)	(2.8)	(5.1)	(219.8)	
Experience adjustments	(0.4)	_	-	(0.4)	
Net charge to other comprehensive income	(150.7)	(6.9)	(5.1)	(162.7)	

e) Amounts recognised in the balance sheet

	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 deficit	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 £164.4 million.

	Group and company			
_	AWGPS £m	Hartlepool £m	Unfunded pensions £m	Total £m
2021				
Equities	168.6	-	-	168.6
Corporate bonds	606.0	_	_	606.0
Government bonds	1,500.1	0.5	-	1,500.6
Property	64.8	-	-	64.8
Alternatives	87.3	-	-	87.3
Pooled LDI investments (with def of LDI)	70.6	-	-	70.6
Derivatives	(7.6)	-	-	(7.6)
Repurchases	(1,108.5)	-	-	(1,108.5)
Cash and cash equivalents	163.4	1.2	-	164.6
Insurance contract	-	18.5		18.5
Total assets	1,544.7	20.2	-	1,564.9
Present value of scheme liabilities	(1,491.6)	(18.5)	(44.8)	(1,554.9)
Liability arising from minimum funding requirement	-	-	-	-
Net pension surplus	53.1	1.7	(44.8)	10.0
Comprising:	······································			
Pension schemes with a net surplus, included in non-current assets	53.1	1.7	-	54.8
Pension schemes with a net deficit, included in non-current liabilities	_	_	(44.8)	(44.8)
	53.1	1.7	(44.8)	10.0

f) Reconciliation of fair value of scheme assets

	Group and company			
	AWGPS £m	Hartlepool £m	Unfunded pensions £m	Total £m
At 1 April 2020	1,474.3	24.5	-	1,498.8
Interest income on scheme assets	34.3	0.5	-	34.8
Employers' contributions	36.5	-	2.8	39.3
Benefits paid	(62.0)	(0.7)	(2.8)	(65.5)
Return on plan assets (excluding interest income)	61.6	(4.1)	_	57.5
At 31 March 2021	1,544.7	20.2	-	1,564.9
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

g) Reconciliation of scheme liabilities

	Group and company			
	AWGPS £m	Hartlepool £m	Unfunded pensions £m	Total £m
At 1 April 2021	(1,311.2)	(16.0)	(41.6)	(1,368.8)
Interest cost on scheme liabilities	(30.1)	(0.4)	(0.9)	(31.4)
Benefits paid	62.0	0.7	2.8	65.5
Actuarial gains	(212.3)	(2.8)	(5.1)	(220.2)
At 31 March 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 losses	114.9	0.6	1.1	116.6
At 31 March 2022	(1,344.4)	(17.0)	(41.8)	(1,403.2)

24. Share capital and premium

	Group and company		
	2022 £m	2021 £m	
Share Capital Authorised, issued and fully paid			
32 million ordinary shares of £1 each	32.0	32.0	
Share premium	1,165	-	

On 29 April 2021 the Companies immediate parent purchased 1£1 Ordinary share for £110.0 million.

On 13 July 2021 the Companies immediate parent purchased 1£1 Ordinary share for £1,055 million.

25. Hedging reserve

	Group and company	
	2022 £m	2021 £m
At 1 April	(37.4)	(52.3)
Gains on cash flow energy hedges	64.3	11.3
Amounts transferred to the income statement	2.9	(2.3)
Losses on cash flow hedges	(54.4)	(66.6)
Amounts transferred to the income statement from discontinuation of cash flow hedges	11.1	12.5
Exchange movement on hedging instruments related to debt in cash flow hedges	49.4	63.5
Deferred tax movement on cash flow hedges	(15.5)	(3.5)
At 31 March	20.4	(37.4)

Cost of hedging reserve

	Group and	Group and company	
	2022 £m	2021 £m	
At 1 April	2.4	1.1	
Amounts transferred to the income statement	-	(0.5)	
(Losses)/gains on cash flow hedges	(2.6)	2.1	
Deferred tax movement on cash flow hedges	0.5	(0.3)	
At 31 March	0.3	2.4	

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

The table below provides additional information in relation to the annual movements and cumulative closing positions on the cash flow hedge reserves.

	Group and company					
	Annual movements		Cumulative reserves			
	Hedged item gain/(loss) £m	Hedge ineffectiveness gain/(loss) £m	Total hedge reserves continuing £m	Total hedge reserves discontinued £m	Deferred tax on hedge reserves £m	Total hedge reserves £m
At 31 March 2022						
Cash flow hedge of interest rate risk	10.2	0.5	75.9	(48.4)	(6.8)	20.7
At 31 March 2021					· •······	
Cash flow hedge of interest rate risk	(58.7)	1.4	19.4	(63.0)	8.6	(35.0)

26. Capital commitments

The Group has a substantial long-term investment programme within Anglian Water, which includes expenditure to meet regulatory requirements, shortfalls in performance and condition, and to provide for new demand and growth. The commitments shown below reflect the value outstanding of orders placed at 31 March.

	Group and c	Group and company	
	2022 £m	2021 £m	
Property, plant and equipment	112.1	69.8	
Intangible assets	25.7	46.0	
	137.8	115.8	

27. Lease arrangements

The Group leases various items of property, plant and equipment. Right-of-use assets are included within property, plant and equipment on the balance sheet, further details can be found in note 13. Lease liabilities are included within borrowings on the balance sheet, further details can be found in note 19.

	Group and co	Group and company	
	2022 £m	2021 £m	
Additions to right-of-use assets	8.4	1.2	
Depreciation charge for right-of-use assets	(6.2)	(5.9)	
Carrying amount of right-of-use assets	75.4	73.2	
Interest expense on lease liabilities	(1.2)	(1.0)	
Expense relating to short-term leases	2.8	2.8	
Total cash outflow for leases comprising interest and capital payments	(13.2)	(12.1)	
Reconciliation of lease liability			
Contractual undiscounted cash flows	44.2	48.1	
Effect of discounting	(8.4)	(8.6)	
Lease liability	35.8	39.5	

The Group leases certain items of plant and equipment, as well as vehicles, under shortterm leases. At 31 March 2022, the Group had £0.2 million (2021: £0.1 million) outstanding commitments in respect of future minimum lease payments under non-cancellable short-term leases. The Group does not typically lease low-value assets and therefore no material costs were incurred individually or in aggregate in relation to such assets.

Leases recognised as debt under IFRS 16 can be analysed as follows:

		Group and company	/
	Interest £m	IFRS debt £m	Permitted indebtedness £m
At 31 March 2022			
Vehicles operating leases	-	5.2	-
Property operating leases	0.8	30.5	30.5
Existing finance leases	0.4	_	_

	Gr	oup and company	
	Interest £m	IFRS debt £m	Permitted indebtedness £m
At 31 March 2021			
Vehicles operating leases	-	2.8	_
Property operating leases	0.8	29.0	29.0
Existing finance leases	0.2	7.7	_

Permitted indebtedness is a category of debt within the Group which captures leases previously considered as operating leases which do not qualify as secured creditors. All interest has been paid/(received) in the year.

28. Contingencies

The company, as part of the Anglian Water Services Financing Group, guarantees unconditionally and irrevocably all the borrowings and derivatives of Anglian Water Services Financing Plc, which at 31 March 2022 amounted to £7,709.5 million (2021: £7,921.6 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 2022 (2021: £nil).

The Group has received indications of claims from four groups of property search companies who, pursuant to the Environmental Information Regulations, assert that certain information that Anglian Water Services Limited provided to them should have been provided free of charge. In April 2020, circa 100 property search companies (an amalgamation of two of the four groups) served proceedings on all of the Water and Sewerage Undertakers in England and Wales, including Anglian Water Services Limited. Anglian Water Services, in common with its co-defendants, has filed a robust defence. 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 to be material to the financial standing of the company.

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 isn't 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.

29. Ultimate parent undertaking and controlling party

Anglian Water Services Limited is incorporated and domiciled in the UK.

The company's immediate parent undertaking is Anglian Water Services UK Parent Co Limited, a company registered in England and Wales.

The Directors consider Anglian Water Group Limited, a company registered in Jersey, to be the ultimate parent undertaking. Anglian Water Group Limited is itself owned and ultimately controlled by a consortium of investors consisting of Canada Pension Plan Investment Board (CPP InvestmentsTM), 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.

30. Related party transactions

a) Transactions with shareholders

The consortium of investors owning Anglian Water Group Limited are considered to be related parties of the company as they each have the ability to influence the financial and operating policies of both the company and the group.

During the year to 31 March 2022, there were no transactions, (2021: £nil) 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 132-152.

	Group and company	
	2022 £m	2021 £m
Short-term employee benefits	5.1	5.6
Post-employment benefits	0.5	0.4
Other long-term benefits	-	0.9
	5.6	6.9

(c) Parent company

The company's related party transactions are summarised below:

	2022 £m	2021 £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	6.6	6.8
Management fees paid to		
Subsidiaries	0.3	0.3
Interest paid to		
Subsidiaries	471.6	266.1
Dividends paid to		
Parent company	96.3	-

	Group	
	2022 £m	2021 £m
Trade and other receivables due from		
Fellow subsidiaries of Anglian Water Group Limited	1.4	0.1
Trade and other payables due to		
Subsidiaries	46.4	23.7
Fellow subsidiaries of Anglian Water Group Limited	0.7	1.2
Loans and other borrowings due to		
Subsidiaries	6,508.8	6,892.2

31. 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 157).

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 157).

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 157).

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 17 (pages 184-187) and below.

	Group	
	2022 £m	2021 £m
Net cash and cash equivalents	478.7	205.9
Current asset investments	392.0	80.0
Borrowings	(6,492.0)	(6,935.7)
Derivatives	(1,088.6)	(832.0)
Less: energy derivatives	(73.4)	(9.0)
Net debt	(6,783.3)	(7,490.8)

32. Events after the balance sheet date

On 25 May 2022, the Board agreed to recommend a final dividend for 2021/22 of £169.0 million (£5.28 per share) to the company's sole member, which was paid 23 June 2022.

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 2022 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); and
- 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 and parent company cash flow statements; and
- the related notes 1 to 32.

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 as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the company for the year are disclosed in note 6 to the financial statements. We confirm that the nonaudit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters

The key audit matters that we identified in the current year were:

- Bad debt provisioning; and
- Derivative accounting

Within this report, key audit matters are identified as follows:

Similar level of risk

Materiality

The materiality that we used for the group financial statements was £22.0m (2021: £22.3m) which was determined on the basis of 3% of EBITDA (2021: 3% of EBITDA).

Scoping

The group comprises Anglian Water Services Limited (the regulated water and water recycling business) and its only subsidiary company Anglian Water Services Financing Plc (the Group's financing entity). We performed full scope audit procedures, which accounted for 100% of the Group's net assets and 100% of Group's EBITDA.

Significant changes in

Revenue recognition - estimating metered household revenue was identified as a key audit matter in the prior year but is not considered a key audit our approach matter in the current year. This is due to a history of accurate estimation and a reduction in the level of judgement associated with this item following a normalisation of billing patterns post Covid-19.

> No other significant changes were noted to the key audit matters or our overall audit approach as compared to the prior year.

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 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



description

Key audit matter At 31 March 2022, the bad debt provision was £236m (2021: £234m). The bad debt charge of £11.1m represented 1.1% of total household turnover (2021: £31.3m and 3.0% of total household turnover), as disclosed in note 16 to the financial statements.

> A proportion of the group's customers do not or cannot pay their water bills, which results in the need for a provision to be made for the risk of non-payment of the customer balance. The bad debt provision is material, a key area of estimation uncertainty within the group and an area of scrutiny by Ofwat.

> Provisions are made against the group's trade receivables based on historical cash collection rates for debt over a 4 year period, which is considered by management to be representative of collection risk on the whole population of household debtors. A top-up to the provision has been recorded to reflect anticipated changes to cash collection as a result of the anticipated impact of macro-economic uncertainties on customers' ability to pay bills, particularly unemployment rates.

The key audit matter, which is also a potential fraud risk, is focused on the estimation of the household bad debt provision, including whether the experience of cash collection in historical periods provides an appropriate expectation of future credit losses under IFRS 9 'Financial Instruments'.

In response to an expected deterioration in future cash collection due to the economic disruption caused by macro-economic uncertainties, such as inflation rates, rates of economic growth and wage inflation, the bad debt provision at 31 March 2022 includes an additional £6.9m (2021: £13.5m) to reflect that future cash collection may not be consistent with historical cash collection trends. Management determined this additional provision considering a range of external data points, including the correlation between unemployment rates and cash collections.

The Audit Committee have also considered this as a key issue, and it is discussed in the Audit Committee Report on page 128. 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).

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, and tested, relevant controls within the bad debt provision estimation process;
- assessed the accuracy of information within the aged debt report to determine whether the customer debt is accurately categorised based on information contained within the group's billing system;
- assessed that the provision, including the additional provision due to macro-economic uncertainties, has been calculated in line with the policy of the group through testing the mechanical accuracy of the provision and reviewing its consistency with IFRS 9 'Financial Instruments':
- inspected management's bad debt policy and specifically challenged whether the recoverability assumptions are reflective of current cash collection rates:
- assessed whether any discrepancies exist between the provision recognised and provision indicated by current cash collection ratios and other macroeconomic indicators that may impact the ability of customers to make payments;
- assessed the accuracy and completeness of the cash collection trends used in the provision rate calculation by reconciling billing and SAP data and performing sample testing on cash collections both during the year and post period end; and
- engaged our IT analytics team to perform a recalculation on the debtor ageing.

Key observations

Based on the work performed above, we are satisfied that the bad debt provision, including the potential impact of macro-economic uncertainties, is reasonable and in accordance with the requirements of IFRS 9.

5.2. Derivative accounting



description

Key audit matter The group and the parent company have a total net derivative liability of £1,088.6m (2021: £832.0m), disclosed in note 20 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, with the involvement of our financial instruments specialists, we have performed the following procedures:

obtained an understanding of, and tested, relevant controls around the valuation techniques used in determining the fair value of derivatives;

performed valuation testing, through independent recalculation, of a sample of complex derivative financial instruments, including an assessment of the credit risk adjustment;

inspected the hedge documentation and tested hedge effectiveness against the criteria documented; and

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.

Group financial statements

Parent company financial statements

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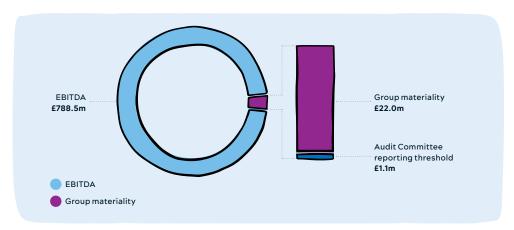
6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£22.0m (2021: £22.3m)	£19.9m (2021: £22.2m)
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 (2021: £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 32 of the Finance Review section. The substantial majority of the group's operations are carried out by the parent company.	



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group illiancial statements	Parent company financial statements
Performance materiality	70% (2021: 70%) of group materiality	70% (2021: 70%) of parent company materiality
Basis and rationale for determining performance materiality	 In determining performance materiality, we considered the following factors: 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 (2021: £1.1m), 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% (2021: 100%) of the group's total assets and EBITDA. All procedures were carried out directly by the Group audit team.

7.2. Our consideration of the control environment

Our work in relation to the group's internal control environment involved testing of the group's key reporting system. We, with the involvement of our IT specialists, obtained an understanding of, and tested, relevant General Information Technology Controls (GITCs) within the group's key reporting system, including the access controls, change management controls and controls around segregation of duties.

We also tested the relevant controls within the household revenue, capital expenditure, 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 have identified three climate-related key risks as described on page 82. Management have considered climate change in their preparation of long-term plans and delivery of individual investments as described on pages 104-106. These do not have an impact on our key audit matters in the current year.

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, with the involvement of our climate change and sustainability specialists, reading disclosures included in the Strategic Report on pages 79-89, as well considering whether they are materially consistent with the financial statements and our knowledge obtained in the audit.

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 followina:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, financial instruments valuations, pensions and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the areas of bad debt provisioning, estimating metered household revenue and classification of costs between capital and operating expenses. 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.



11.2. Audit response to risks identified

As a result of performing the above, we identified bad debt provisioning as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- · reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements:
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- · reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC and Ofwat;
- in addressing the risk of fraud in revenue, specifically the estimation of consumption for measured household customers, challenging management's consumption assumption through independent testing of the estimation algorithm and through consideration of the historical accuracy of management's forecasting;
- · in addressing the risk of fraud in the classification of costs between capital and operating, 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 this matter.

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the audit committee, we were appointed by the board of directors on 1 September 2016 to audit the financial statements for the year ending 31 March 2017 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is six years, covering the years ending 31 March 2017 to 31 March 2022.

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

14 June 2022





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