Osprey Acquisitions Limited
Annual report and consolidated financial statements
for the year ended 31 March 2017

Company number: 05915896

Directors' report

for the year ended 31 March 2017

The Directors present their report and the audited consolidated financial statements of Osprey Acquisitions Limited for the year ended 31 March 2017.

Principal activities, business review and future developments

The principal activities of the company and its subsidiaries (together 'the group') during the year were water supply, treatment and distribution; sewage collection and treatment; and retail services to water and water recycling customers. No changes are envisaged to the group's principal activities. The information that fulfils the requirement of the Strategic Report, including the company's financial risk management objectives and the disclosure requirements regarding greenhouse gas emissions, is set out on pages 5 to 40.

Group results and returns to shareholders

The income statement on page 41 shows the group's results for the year. Dividends of £96.5 million (2016: £112.5 million) have been paid in the year. In addition, interim dividends of £62.2 million and £16.3 million, in respect of the year ended 31 March 2018, were approved by the Board on 27 March 2017 and 5 June 2017 and paid on 3 April 2017 and 9 June 2017 respectively. These dividends have not been included as a liability at 31 March 2017.

Directors

The Directors who held office during the year and to the date of this report, unless otherwise stated, are set out below.

Stephen Billingham	
Scott Longhurst	
Peter Simpson	
James Bryce	
Andrew Cox	resigned 14 June 2016
Cressida Hogg CBE	
Werner Kerschl	resigned 20 July 2016
Manoj Mehta	appointed 20 July 2016
Niall Mills	
Robert Napier	
Alexandros Nassuphis	
Batiste Ogier	
Christian Seymour	resigned 20 July 2016
Duncan Symonds	appointed 20 July 2016
Philip White	

Claire Russell continued to serve as Company Secretary throughout the year.

Directors' indemnities

During the 2016/17 financial year and up until the date of the signing of the financial statements, the group has maintained directors' and officers' liability insurance, which gives appropriate cover for legal action brought against its Directors. The group 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.

Shareholders
The sole shareholder of the company is Osprey Holdco Limited.

Charitable donations
We continue to provide support to WaterAid, our nominated charity (which transforms lives by improving access to safe water, hygiene and sanitation in the world's poorest communities), and do not offer charitable donations or sponsorships to other charities. During the year, the group donated £40,000 to WaterAid and actively encouraged the participation of its employees in various fundraising activities through a number of initiatives including a sponsored spinathon and the ongoing monthly WaterAid lottery. Volunteering for WaterAid is a key part of the group's Love to Help employee volunteering programme, which allows employees to take time out of the office in support of various good causes.

With the support of the group, employee volunteers, partners and suppliers across the business, our WaterAid Volunteers' Committee successfully fundraised an extra £766,474 for WaterAid (2016: £624,984), the highest amount ever raised by the business.

Political donations
No political donations were made during the year (2016: £nil).

Research and development
The group has a continuing policy of undertaking market-focused research and development on process plant, biosolids treatment, sewers and water supply networks and other water and wastewater-related matters.

Financial instruments disclosures
Details are included on page 30 of the Strategic Report and in note 22 of the financial statements.

Employees
Employees are kept informed of changes in the business and general financial and economic factors influencing the group. This is achieved through a systematic approach to employee communication, which includes regular briefings, presentations and electronic mailings. We produce a regular employee newspaper 'Anglian Water News', which is sent to employees at home. Phonecasts from senior managers and the group's intranet are also widely used as sources of information.

The group values the views of its employees and consults with them and their representatives on a regular basis about matters that may affect them. We recognise three trade unions, with whom we meet regularly for collective bargaining and consultation purposes. We have an active network of health and safety committees at which senior managers meet with trade union representatives to consult on matters affecting health and safety at work. We also operate a further elected employee forum Open House, where senior managers and front-line employees meet regularly to discuss the challenges facing the business and suggestions for change.

The group has a series of policies that both inform and guide all employees on the group's approach to a range of ethical issues. Procedures are in place to deal with allegations of misconduct, harassment, bullying and other inappropriate behaviour. The group has a whistleblowing policy and programme in all its operations whereby employees can, in confidence, report on matters where they feel malpractice is taking place or if health and safety standards are being compromised. Additional areas that are addressed by this procedure include criminal activities, improper or unethical behaviour and damage to the environment. The group also has a series of family-friendly policies, including such initiatives as flexible working hours, home working, sabbaticals and career breaks.

To encourage employee participation in Anglian Water Group's performance, the group operates the AWG Loyalty Savings Scheme, which has been offered every year since 2007 and enables employees to potentially benefit from future financial performance.

The group values diversity within its workforce and has put in place procedures to ensure that it is an equal opportunities employer. All job applications are fully and fairly considered, having regard only to the applicant's aptitudes and abilities relevant to the role. In the event of disability, every effort is made to ensure that employment continues and appropriate adjustments are made and training given. Career development and promotion of disabled people are, as far as possible, identical to those of other employees.

Events occurring after the reporting period
Details of events occurring after the reporting period are included in note 34 of the financial statements.

Statement of Directors' responsibilities
The Directors are responsible for preparing the Annual Report and consolidated 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 elected to prepare the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and applicable law. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and 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 group and the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and the company 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 group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names and functions are listed in the Directors section on page 1 confirm that, to the best of their knowledge:

- the financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the group and the company; and
- the Directors' Report and Strategic Report contained in the Annual Report include a fair review of the development and performance of the business and the position of the group and the company, together with a description of the principal risks and uncertainties that it faces.

The Directors consider that the Annual Report and consolidated financial statements, 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.

Statement of disclosure of information to auditors
In the case of each of the persons who are Directors at the time when the report is approved, the following applies:

a) so far as the Director is aware, there is no relevant audit information of which the company's auditors are unaware; and
b) he/she has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors
During the year, following a review of its internal and external audit functions, a competitive tender process was conducted and the company appointed Deloitte LLP as its new external auditor with effect from 1 September 2016. Deloitte LLP have indicated their willingness to continue in office and in the absence of a notice proposing that the appointment be terminated, the auditors will be deemed to be re-appointed for the next financial year.

Going concern
The Directors have prepared the financial statements on a going concern basis which requires the Directors to have a reasonable expectation that the group and company have adequate resources to continue in operational existence for the foreseeable future. The Directors have considered the forecast revenue and operating cash flows, and the forecast level of capital expenditure, from the underlying operations, and are satisfied that the group and company are able to operate for at least twelve months from the signing of the Annual Report.

Whilst the group is in a net current liability position, as a result of the review, and having made appropriate enquiries of management, the Directors have a reasonable expectation that sufficient funds will be available to meet the group's funding requirement for the twelve months following the date of signing of the balance sheet.

Claire Russell
Company Secretary
30 June 2017

Registered Office: Lancaster House, Lancaster Way,
Ermine Business Park, Huntingdon, Cambridgeshire PE29 6XU

Registered in England and Wales No. 05915896

Group overview
The group's principal business is Anglian Water, the group's regulated water and sewerage company, which supplies water and water recycling services to more than six million customers in the east of England and Hartlepool.

The following pages set out a Strategic Report for each of the main reporting segments of the group at 31 March 2017, and the key risks for the group.

The key performance indicators of the group's individual businesses are discussed in the Anglian Water section below. In addition, compliance with the group's borrowing covenants is an additional key performance indicator for the group and is discussed on page 30.

Group financial performance

	2017 **£m**	2016 £m
Revenue	**1,235.2**	1,193.7
Operating profit	**354.3**	328.8
Underlying profit before tax [1]	**48.8**	54.6
Loss before tax	**(48.7)**	(35.7)
Cash generated from operations	**613.6**	622.4

[1] Excludes the exceptional profit of £9.5 million (2016: £nil) on disposal of a joint venture, and fair value losses on derivatives of £107.0 million (2016: £90.3 million).

The results for the group for the year to 31 March 2017 show a profit before exceptional items, fair value losses and tax of £48.8 million (2016: £54.6 million) and revenue of £1,235.2 million (2016: £1,193.7 million). After exceptional items, and fair value losses on derivatives, the group made a loss before tax of £48.7 million (2016: £35.7 million). The group has net debt at 31 March 2017 of £8,163.1 million (2016: £7,914.5 million). Cash generated from operations during the year was £613.6 million (2016: £622.4 million).

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

The total tax credit for the year of £68.4 million (2016: £136.6 million) comprised a current tax charge of £92.8 million (2016: £8.1 million) and a deferred tax credit of £161.2 million (2016: £144.7 million).

The increase of £84.7 million in the current tax charge for the year was mainly caused by disclaiming capital allowances in both the current and prior year in order to utilise the surplus ACT asset held on the balance sheet.

The deferred tax credit has increased from £144.7 million to £161.2 million. The prior year included the impact of the reduction in future tax rates used to calculate deferred tax from 20% to 18%, which gave rise to a credit of £120.4 million. The current year includes the impact of the Government decision to amend the 18% to 17% and this gives a credit in the current year of £53.3 million. Without the effect of these tax rate changes the deferred tax credit has increased from £24.3 million to £107.9 million. The main reasons for this increase were the deferred tax effect of the capital allowance disclaimers made in the current and prior period in order to utilise surplus ACT, the recognition of £22.8 million of previously unrecognised ACT as well as an increase in the fair value losses on financial derivatives.

Dividends

Dividends of £96.5 million (2016: £112.5 million) have been paid in the year. In addition, interim dividends of £62.2 million and £16.3 million, in respect of the year ended 31 March 2018, were approved by the Board on 27 March 2017 and 5 June 2017 and paid on 3 April 2017 and 9 June 2017 respectively. These dividends have not been included as a liability at 31 March 2017.

The group's dividend policy is to identify the cash available for distribution, allowing for the business's liquidity requirements in respect of funding its operations, the capital programme and servicing its debt for the next 18 months. The dividend policy is also based on ensuring that there is adequate headroom in relation to all of its financial covenants. In assessing the dividend payment, the Directors review the business performance forecasts (currently to the end of the Asset Management Plan period of 31 March 2020) and give consideration to the potential impact of external factors in the economy and regulatory environment on the group and company's forecast cash flows. The Directors consider this cash-based approach provides an acceptable return to the equity investor, while ensuring the liquidity requirements of the business are met fully.

Pensions

At 31 March 2017 the net pension deficit for the group was £98.2 million (2016: £3.0 million). The increase in the deficit is due to the fall in yields on AA-rated corporate bonds, used to discount the pension liabilities, from 3.5% at 31 March 2016 to 2.6% at 31 March 2017, and to a lesser extent the increase in future inflation assumptions over the year. Partially offsetting this are the deficit reduction payments made in the year, and a better than expected return on the pension scheme assets. Future additional contributions will continue to be made in line with actuarial advice.

Gender diversity

The Board has not set a specific female Board member quota, and currently the company has one female Director. Appointments to the Board are based on the diversity of contribution and required competencies, irrespective of gender, age or any other personal characteristics.

During the 2013/14 financial year, a group wide diversity policy and diversity action plan was implemented. The action plan contains a range of actions around the areas of gender, ethnicity, disability and age. In November 2016, the group reviewed the progress of the diversity action plan. Encouraging progress had been made in the areas of gender, ethnicity and age but strategies deployed to recruit individuals with disabilities have proved less successful. The group continues to strive for a genuine diversity of employees and has refocused its efforts accordingly.

Anglian Water employs 98% of the group's employees. Despite being a highly engineering-biased organisation, women are represented at all levels within Anglian Water. As part of our focus on gender diversity, delivered through the implementation of our diversity plan, we are seeing an overall increase in female employees, representing 31% of Anglian Water's total workforce and 32% of its people managers. With a low attrition rate, the profile will not change radically over the next few years, but we are seeing a year-on-year increase in the number of female applicants to traditionally male roles and many of our successors to more senior roles are now identified as female. Currently 25% of the Anglian Water Executive Directors are women.

Modern slavery

The group and company have zero tolerance to modern slavery and human trafficking and have taken appropriate steps to ensure that it does not take place in our business, or any part of our supply chain. Details of the procedures that we have put in place can be found in our Slavery and Human Trafficking Statement, available on the Anglian Water website at www.anglianwater.co.uk/about-us/governance.

ANGLIAN WATER

Business overview

Anglian Water Services Limited (Anglian Water) is the largest water and wastewater company in England and Wales by geographic area.

Anglian Water provides around 1.1 billion litres of drinking water to 4.6 million people every day. The water comes from a variety of sources: reservoirs, underground reserves (aquifers) and abstraction from rivers. Anglian Water receives approximately 900 million litres of used water per day from 5.9 million people and businesses, including customers who receive their water from other companies. The wastewater is treated to a high standard and returned to the environment via rivers or coastal outlets. The organic waste is treated, dried and used in agriculture as a natural fertiliser. As well as providing these wholesale services, Anglian Water provides retail services to household customers within its region.

As our region flourishes it is our priority to support our economy, customers and communities to enable sustainable growth and build resilience.

What we do

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

Our raw material is the water we collect from rivers and underground aquifers and store in our reservoirs. We invest in efficient, low carbon assets and processes – this reduces our carbon footprint and our costs.

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

It then comes back to us through our sewerage network before we treat and return it to the rivers and sea. The sewage arriving at our water recycling centres is turned into renewable energy and biosolids for agriculture, helping address society's growing demand for food and power as well as water.

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

How we add value

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

The resources we rely on:

- Our people – Our employees, suppliers and their 'know-how'.
- Financial – Capital, revenue and profits invested in our business.
- Water – Taken from rivers and aquifers for treatment and supply.
- Used water - Collected, treated and returned to the water cycle.
- Our land – Needed to collect, treat and return water to the environment, but also rich in wildlife and recreational opportunities.
- Manufactured resources – The steel, concrete, glass and other processed materials we use to build and maintain our infrastructure.

How we add value:

- Our Love Every Drop culture – Embedding sustainability at the core of our business.
- Collaborations – With suppliers, academics, the public and private sectors to deliver transformational change.
- Innovation and thought leadership – From low carbon technology to behavioural change.
- Strategic future planning – Scenario planning, climate and growth projections, customer insight.
- Building and managing assets - That are efficient, reliable and resilient.

ANGLIAN WATER

What we create:

- 92% of the apprentices and 91% of graduates employed since 2012 are still with Anglian Water.
- The average bill is £1.15 a day of which just 5p is profit.
- Leakage is at a three-year average of 186 Ml/d, against a target of 192 Ml/d.
- Our sewage treatment process generated 99 GWh of renewable energy from biogas this year and will produce about 396,000 tonnes of biosolids for agriculture.
- 98.8% of our Site of Special Scientific Interest (SSSI) land is in favourable condition, compared to an average for England of 38.6%.
- Every £100 million we invest creates or secures an estimated 2,000 jobs across our business and our supply chain.

What matters most to our stakeholders

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

- Providing safe, clean and reliable water.
- Bills, affordability and profits.
- Leakage.
- Resilience and future challenges.
- Protecting the environment.

What affects us

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

Affordability and customer expectations

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

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

Markets, structure and financing of the industry

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

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

Planning for the long-term

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

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

ANGLIAN WATER

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

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

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

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

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

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

A strategy for today and tomorrow
Our Business Plan is based on 10 outcomes that address the issues that matter most to our customers, and that deliver for them, the region and the environment. Here's how they fit into our Love Every Drop strategy.

Your service:
- Satisfied customers – Ensuring that customers are very satisfied with their service.
- Fair charges – Bills balance fairness, affordability and value for money.
- Safe, clean water – Drinking water is safe, clean and acceptable.
- Resilient services – Our services cope with the effect of disruptive events, in particular increasingly severe weather events.

Our world:
- Supply meets demand – Manage and meet the growth in demand for sustainable and reliable water and water recycling services.
- Flourishing environment – A flourishing environment, for nature and for everyone.
- A smaller footprint – Leading by example on reducing emissions and conserving the world's natural resources.
- Caring for communities – Working responsibly with and for your community.

Getting it right for you:
- Investing for tomorrow – Provide the services our customers expect over the long-term through responsible asset stewardship.
- Fair profits – A financially responsible, efficient business earning fair profits.

ANGLIAN WATER

Our culture

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

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

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

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

Our Love Every Drop goals

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

The outcomes we have agreed with customers

These are the 10 outcomes we have developed with customers, our Board and our independent Customer Engagement Forum. They support customers, the environment, local communities and the economy. Our Outcome Delivery Incentives (ODIs) are the measure of how well we are performing against the outcomes we have promised. We have the opportunity to earn a reward, or pay a penalty, depending on how we perform.

Looking to the long-term

We recently put our updated Strategic Direction Statement (SDS) out for consultation. This sets out our plans and priorities for the next 25 years, together with the following four ambitious, long-term goals we want to achieve:

- Enable sustainable economic and housing growth here in the UK’s fastest growing region.
- Make the East of England resilient to the risks of drought and flooding.
- Be a carbon neutral business by 2050.
- Drive digital transformation across our business; better connecting our customers, people, assets, and information.

We are looking at the feedback from the consultation, with the final statement published in the autumn.

Defining our role in wider society

We are mapping our contribution to wider societal goals by aligning our activities and outcomes to the United Nations Sustainable Development Goals (SDGs). In 2015, the UN developed 17 goals ‘to transform our World, to end poverty, protect the planet, and ensure prosperity for all’. We believe that we can directly contribute to many of their targets and the successful delivery of 10 of these goals.

ANGLIAN WATER

PR19 Customer engagement

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

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

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

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

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

Other groups include customers who are very busy with work, family and other commitments. These groups have little time to give, so we will approach them through their bills, when jobs are carried out at their homes, and at other times when talking to Anglian Water is already part of their daily routine.

ANGLIAN WATER

How we are structured

Our corporate structure

AWG Investors

Anglian Water Group Limited

▼

Osprey Holdco Limited

▼

Osprey Acquisitions Limited

▼

AWG Parent Co Limited

▼

AWG Holdings Limited

▼

AWG (UK) Holdings Limited

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AWG Group Limited

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Anglian Water Services Holdings Limited

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Anglian Water Services Overseas Holdings Limited

▼

Anglian Water Services Limited [1]

▼

Anglian Water Services Financing Plc [1]

Anglian Water Services Financing Group (AWSFG)

▼ Direct subsidiary

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

When Anglian Water Group was acquired by the AWG investors in 2006 (see note 31 'Ultimate parent undertaking and controlling party'), Anglian Water Group Limited became the ultimate parent company of the group. It is a Jersey registered company, but it is UK tax resident and, as such, is liable for tax in the UK. Osprey Holdco Limited has issued debt which is held by our shareholders in proportion to their respective shareholdings, and they receive an interest payment on the debt annually. Osprey Acquisitions Limited has borrowed money from banks and the capital markets (bonds) for use within the group.

AWG Parent Co Limited, AWG Holdings 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% owned, and currently none of these companies has any external debt. Three of the companies are UK registered and tax resident. AWG Holdings Limited is Jersey registered and Irish tax resident.

Anglian Water Services Holdings Limited was put in place in 2002, when Anglian Water's covenanted and ring-fenced debt structure was established. This group of companies (referred to as the Anglian Water Services Financing Group, or AWSFG) protects customers and our bond holders from risk associated with other non-regulated Anglian Water Group companies outside of the ring fence. This makes us an attractive investment prospect for bond holders, which means we are able to keep financing costs lower, ultimately benefiting our customers in the form of lower bills.

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

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

ANGLIAN WATER

Who leads us

The Anglian Water Services Limited Board of Directors consists of:

Four Executive Directors: Peter Simpson, Scott Longhurst, Chris Newsome OBE and Jean Spencer.

Five Independent Non-Executive Directors: Stephen Billingham (Chairman of the Board), Dame Polly Courtice DBE LVO, Steve Good, John Hirst CBE and Paul Whittaker.

Three Non-Executive Directors: James Bryce, Niall Mills and Duncan Symonds.

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

Financial performance

Anglian Water operates on an arm's length basis from other companies within the group. Its activities are regulated by the Water Industry Act 1991 (which consolidated that part of the Water Act 1989 relating to water supply and wastewater) and the conditions of an Instrument of Appointment (the Licence) granted to Anglian Water by the Secretary of State for the Environment on 1 September 1989.

The financial results of Anglian Water are summarised in the table below:

	2017 £m	2016 £m
Revenue	**1,227.0**	1,185.4
Other operating income	**14.8**	13.5
Operating costs	**(565.3)**	(560.6)
Depreciation and amortisation	**(311.2)**	(297.9)
Operating profit	**365.3**	340.4
Finance income	**2.0**	3.6
Finance costs [(1)]	**(283.2)**	(254.9)
Underlying profit before tax	**84.1**	89.1
Fair value losses on derivative financial instruments	**(116.0)**	(89.7)
Loss before tax	**(31.9)**	(0.6)

(1) Shown before fair value losses of £116.0 million (2016: £89.7 million) on derivative financial instruments, and the internal interest received by Anglian Water Services Limited from Anglian Water Services Holdings Limited.

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

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

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

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

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

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

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

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

Net finance costs, before fair value losses on derivative financial instruments, increased from £251.3 million in 2016 to £281.2 million in 2017. This was primarily the result of the non-cash impact of higher inflation on index-linked debt where year on year RPI inflation increased from 1.6% to 3.1%.

There was a non-cash fair value loss of £116.0 million on derivative financial instruments in 2017, compared with a loss of £89.7 million in 2016, due to movements in market expectations of long-term interest, inflation and exchange rates. This fair value loss has no commercial or economic impact on the group's operations or customers. The driving factors for the higher loss in 2017 compared to 2016 was an increase in forward inflation expectations together with a fall in forward interest rates. During the year, forward inflation rates increased by circa 38 basis points (2016: 4 basis point decrease) and forward interest rates fell by 23 basis points (2016: 28 basis point decrease).

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

Successful second year of AMP6 investment programme

AMP6 gross capital expenditure[1] in the appointed business for the year was £381.2 million (£207.1 million on capital maintenance, £174.1 million on capital enhancement), compared to £265.6 million in the first year of AMP6. This level of expenditure is broadly in line with management expectations and reflects a solid performance in the delivery of efficiency, along with some smoothing of delivery programmes to balance peaks and troughs in workload on our supply chain.

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

[1] Excluding capitalised interest and adopted assets.

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

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

Financial needs and resources

In the year to 31 March 2017, Anglian Water sourced £414 million funds in term debt and made long-term debt repayments of £399.1 million. The new funds received during the year comprised four tranches ($150.0 million fixed rate, £55.0 million fixed rate, £20.0 million fixed rate and £35.0 million floating rate) of US Private Placement funding and a £200 million fixed rate Class B sterling public issuance at 2.625%. The US Private Placement debt was raised in the prior year with a delayed drawdown date of 27 April 2016, which means funds were not received until the current year and, therefore, the proceeds did not appear on the 31 March 2016 balance sheet. Debt repayments comprised: a £5.1 million finance lease repayment and the repayment of the €500 million 6.25% Class A bond maturing in June 2016. In addition, Anglian Water drew down £155 million of its £500 million revolving credit facility and repaid £100 million in the year, leaving a net £55 million drawn as at 31 March 2017.

At 31 March 2017, Anglian Water had net borrowings of £6,811.9 million (£6,045.1 million excluding derivatives), an increase of £272.7 million (£211.5 million excluding derivatives) over the prior year. Net borrowings comprised a mixture of fixed, index-linked and variable-rate debt of £6,474.9 million, derivative financial instruments of £766.8 million (excluding energy derivatives of £24.9 million), less cash and deposits of £429.8 million. The increased net borrowings reflect an increase of £222.3 million in loans and associated costs, primarily relating to new debt raised and the impact of inflation on index-linked debt, partially offset by debt repaid; an increase in the derivatives valuation of £61.2 million; and an increase of £10.8 million in cash and deposits (which causes net debt to decrease).

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

Liquidity

Anglian Water's objective is to maintain flexibility, diversification and continuity of funding through access to different markets and debt instruments. At 31 March 2017, Anglian Water held cash, deposits and current asset investments of £429.8 million (2016: £419.0 million). The increase in cash held compared to the prior year reflects the cash generated by the issuance of the £200 million 2.625% fixed rate note in March 2017 in anticipation of refinancing maturities in the coming financial year. The reduction in cash held once this is considered is the result of Anglian Water seeking to lower its level of cash in order to reduce its cost of carry. These resources are maintained to ensure appropriate liquidity and the continuation of Anglian Water's ongoing capital investment programme.

Anglian Water has access to £600.0 million of facilities (2016: £600.0 million), of which £55 million was drawn at 31 March 2017, to finance capital expenditure and working capital requirements. In addition, Anglian Water has access to a further £375.0 million of liquidity facilities (2016: £375.0 million), consisting of £279.0 million to finance debt service costs and £96.0 million to finance operating expenditure and maintenance capital expenditure in the event that Anglian Water was in default on its debt obligations and had insufficient alternative sources of liquidity.

All bank facilities and debt capital market issuance are issued pursuant to the Global Secured Medium Term Note Programme dated 30 July 2002 between Anglian Water Services Limited, Anglian Water Services Financing Plc (AWSF) and Deutsche Trustee Company Limited (as agent and trustee for itself and each of

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the finance parties). This agreement provides that any facilities drawn by AWSF will be passed directly on to the Anglian Water Services upon utilisation of the facility.

Interest rates
Anglian Water's policy is to achieve a balanced mix of funding at indexed (to RPI), fixed and floating rates of interest. At the year end, taking into account interest rate swaps, 58.4% (2016: 58.5%) of Anglian Water's borrowings were at rates indexed to RPI, 35.9% (2016: 36.0%) were at fixed rates and 5.7% (2016: 5.5%) were at floating rates.

Operational performance 2016/17
We measure our performance against 32 Outcome Delivery Incentives (ODIs). The following are the 10 that carry the largest potential financial penalties and rewards for our business.

Interruptions to supply
This measures time lost due to water supply interruptions.

Minutes per household

Target 2016/17	14 minutes 30 seconds
Actual	11 minutes 43 seconds

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

Excellent	32 (target 33)
Good	15
Sufficient	1
Poor	1

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

Number of properties (three year average)

Target	448 (by 2019/20)
Actual	430

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

Number of properties (three year average)

Target	6,159 (by 2019/20)
Actual	5,464

Service Incentive Mechanism (SIM)
This measures the level of customer concerns with our service and how well we deal with them.

Overall SIM score 86

Qualitative – Average of Ofwat surveys

Actual 4.40 out of 5

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Leakage

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

Megalitres per day (three year average)

Target	192 (for 2016/17)
Actual	186

Serviceability

Above ground / non-infrastructure

Water:

Green	Turbidity (cloudy water)
Green	Coliforms (at reservoirs)
Green	Coliforms (at water treatment works)

Water recycling:

Green	Failing water recycling centres (by number)
Green	Failing water recycling centres (by size)

Below ground / infrastructure

Water:

Amber	Interruptions (>12 hours)
Amber	Burst mains
Green	Contacts discolouration
Green	Distribution maintenance index

Water recycling:

Green	Sewer collapses
Green	Sewer blockages
Green	Pollution incidents
Green	Internal flooding

Pollution incidents

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

Target	335 (for 2016/17)
Actual	217

Water quality contacts

Taste, odour, appearance per thousand customers.

Target	1.32 (for 2016/17)
Actual	1.38

Low pressure

Number of properties not receiving reference level pressure.

We are on track to meet our 2017/18 target.

Number of properties

Target	361 (by 2017/18)
Actual	460

How we are delivering for customers and the environment

Leakage

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

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

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

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

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

The main planks of our strategy are:

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

Interruptions to supply

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

- Restoration of customer supplies as the priority.
- Detailed investigation into root causes.
- A proactive approach to prevent interruptions.

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

- The number of Restoration Technicians to 18.
- Our fleet of clean water tankers from nine to 17.

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

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

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

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

Customer service

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

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

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

This year, improvements have included:

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

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

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

Water recycling compliance

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

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

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

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

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

Performance review

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

Your service

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

Our outcomes: satisfied customers, fair charges, safe and clean water, and resilient services

We continue to evolve our customer service to keep pace with people's changing needs and rising expectations. Changes over the last year include a new, proactive team to contact customers whose bills rise by more than we would expect, a web chat system that lets us serve many more customers through this increasingly popular channel, and improvements to our telephone system that allows customers to speak to us at a time that best suits them. We will further build on these gains with a new, improved training programme to all our field and office-based staff that interact with customers on a regular basis.

This year has seen the lowest number of written complaints for many years, and customers' rating of our service has continued to improve. This includes the Service Incentive Mechanism (SIM), used by Ofwat to compare the customer service offered by water companies. In what has been a competitive year, we finished sixth in Ofwat's qualitative survey. However, our quantitative score has been strong, and we expect this to leave us well placed when the joint quantitative and qualitative figures are revealed for all companies, later this year. Our own, internal survey of customer satisfaction gathered opinions from more than 100,000 customers. More than 95% said they were satisfied or better with the service they received. We also measure our performance through our membership of the Institute of Customer Service (UKCSI). We have set ourselves the target of being in the upper quartile within the utility sector, and this year we achieved an average UKCSI score of 75.4 – an improvement on last year.

On 1 April 2017, the market opened for non-household customers in England and Wales, allowing them to choose from whom they buy their water and water recycling services. This change created a whole new class

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of customers for us to work with – retailers – and we invested heavily in 2016/17 to prepare our systems and services to provide them with a first class service. We have set out service standards which we will measure ourselves against. We will review these standards regularly, to make sure they continue to be fit for purpose, in line with market requirements and contractual commitments. Our vision is to be the leading provider of wholesale services across the UK water industry.

Anglian Water has been at the forefront of preparations for this change to the market since the new market was first conceived of. Peter Simpson, our Chief Executive, sat on the High Level Group that shaped the creation of the market, much of which was driven by water company research, resources and projects, including very significant contributions from Anglian Water. We remained at the heart of the initiative through Open Water and the development of the Market Operator, MOSL. Since 2015, more than 200 Anglian Water staff have been directly involved in the market reform programme, including the secondment of several senior staff to various positions within MOSL and Open Water. We remain committed to the introduction of competition to the sector where genuine benefit for customers exists.

Recognising that household budgets remain under pressure, we have taken additional steps this year to support those customers who struggle to pay, or who find themselves in vulnerable circumstances. When customer perceptions of the affordability and fairness of our bills is measured against the Consumer Council for Water's independent survey of customer attitudes to water companies, we have made progress this year in all four areas of perceptions of fairness, affordability, and whether our water and water recycling services are value for money.

In our five-year Business Plan to 2020, we committed to keep bills as low as possible, while at the same time delivering an investment programme to maintain and improve essential water and water recycling services. In 2015/16, customers on average saw their annual bill drop by around 7% in real terms – the biggest reduction of any major water company in the UK. In 2017/18, bills are £420 on average, or £1.15p a day. This means prices are still lower than four years ago. In that time we have invested around £1.5 billion to maintain and improve our overall service to customers. In the next year we will invest a further £500 million.

This year saw the number of customers on our social tariff – LITE (Low Income Tariff for Eligible Households) – increase to 6,200. This tariff provides discounts of 20, 40, 60 and 80 per cent for those in need, depending on their financial circumstances. Eligibility is assessed in partnership with Citizens Advice. With most of those benefitting from this support receiving the full 80% discount, we have reached the limit of those we are able to help with the funds available. We went back out to customer consultation in 2016 and received support to increase funding from customers to £2 in 2017/18 and £3 in 2018/19. On this basis, we expect to treble the number of customers accepted on to LITE over the next two years. We are also introducing the tariff to the Hartlepool Water area in 2017/18, as the latest consultation supported a £1 cross-subsidy from Hartlepool customers.

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

We remain committed to metering as the fairest way to charge for water, encouraging water saving and ensuring our customers only pay for what they use. Eighty per cent of our customers now receive a metered bill. During the next five years, we will be installing 86,000 new meters, upgrading another 412,000 and visiting 120,000 customers to offer efficiency tips and install water-saving devices. This year we have made good progress, installing 13,000 new meters and proactively replacing 70,000 more across Norfolk and Milton Keynes.

We have also begun a smart metering trial in our innovation Shop Window in Newmarket. We have fitted smart meters at 7,500 properties in the town centre and are now remotely collecting hourly consumption data, totalling about 145,000 meter readings every day. The data will help customers understand their water use, provided to them through an online customer portal, and help us better understand how our water network operates. It has also alerted some customers to large leaks on their private supply pipes. We will gauge its effectiveness over the coming months to help develop future plans.

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The delivery of safe, clean, high-quality drinking water is central to what we do. It underpins the public health of our region and is a fundamental expectation of customers. The Drinking Water Inspectorate (DWI) measures performance at our treatment works, where we have delivered an excellent performance, with just three coliform failures compared to eight in 2016. The same is true of our storage reservoirs, which store treated water at points around the network and where we achieved 99.99% compliance this year.

Both these results are due to a successful programme of work to improve the inspection process of treated water tanks and storage reservoirs. This year we carried out our highest ever number of inspections of these assets. We are among the highest performing water and water recycling companies in the industry for the DWI measures of Disinfection Control and Reservoir Integrity. In 2016, the DWI audited our water treatment works at Grafham, Great Wratting and Mousehold as part of a wider industry audit of disinfection and UV treatment processes. All three audits were satisfactory, and the Inspectorate cited our good practice in their Quarterly Chief Inspector's Report.

In addition to maintaining excellence at our water treatment works, we have once again exceeded our target for the quality of water travelling through our network to homes and businesses. Mean Zonal Compliance (the key measure used by the DWI to determine compliance with the stringent regulatory drinking water standards for England and Wales) reached 99.97% for the second year in a row. This maintains our performance at the highest level we have achieved for nine years.

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

Our planned lead communication pipe replacement programme has continued, replacing old lead pipes with new plastic ones to help reduce levels of lead in drinking water for our customers. Work has again focused on Bedford, Peterborough and Norwich, three of our highest priority areas for lead. We will continue with our strategy to reduce lead in drinking water and protect water quality in buildings, working with councils to collect lead samples from local authority-owned public buildings. At the same time, we work with local councils and health protection teams to educate our customers on the risks of lead, especially pregnant women and children under six, who are most vulnerable to the risks of consuming lead. Our lead video is played on a loop at antenatal clinics in three of our highest priority areas.

In addition to inspecting our own sites, our team of Water Regulations Inspectors visit thousands of commercial properties every year to check whether their plumbing meets the right standards. This year, the team carried out more than 9,000 inspections, including power stations and a petrochemical site, as well as schools, hospitals and care homes. This year the Water Regulations Team launched a new campaign to educate customers and communities on how to safeguard their drinking water supply, given the large number of sub-standard installations that they encounter during surveys. We continue to support WaterSafe, the approved plumbers scheme, and carry out regular audits of members' work to ensure continued high standards.

A significant focus of our efforts to protect water quality is our continuing programme of work to reduce the amount of metaldehyde entering rivers and reservoirs. Acknowledging the high cost of installing and running advanced oxidation plants – the technology required to remove metaldehyde from drinking water – our team of catchment advisors has been working with farmers to encourage them to shift to an alternative product which can be removed by conventional treatment. We are now in the second year of a voluntary trial called *Slug it Out* that supports farmers around our key reservoirs to switch products.

This year we added Rutland Water to the trial area, which now includes the natural catchments around the reservoirs at Pitsford, Rutland, Ravensthorpe, Hollowell, Alton and Ardleigh. There are 89 farmers in the trial, including all those farming the high-risk land around these reservoirs. Metaldehyde levels in the trial catchments have fallen dramatically, despite remaining high in surrounding areas. The substitute product, ferric phosphate, is deemed to have coped well in a year that saw high slug numbers. Data from the trial will help regulators and policy makers to shape future decisions on the use of metaldehyde in the English countryside.

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Pesticides other than metaldehyde can also find their way into rivers, washed off farmland by heavy rain or blown there by high winds during spraying, and are only able to be removed by costly treatment processes. While use of many pesticides is restricted ahead of rain, winds or high temperature, farmers tell us it can be difficult to get accurate, detailed local weather information. In response, we have installed ten precision weather stations on farms across the region, providing the data to farmers through an app, giving them detailed local weather predictions for the next ten days, including rainfall, wind speed and direction, as well as subsoil factors like temperature and moisture. The stations also provide a real-time forecast of spraying conditions for the next six days, helping farmers reduce the likelihood of pesticide applications before or during unsuitable conditions.

Although most pesticides found on farms are legal, changes in cropping or legislation can result in unused products accumulating in pesticide stores, which pose a potential pollution risk should a spill or accident happen. Following a successful event in Lincolnshire in 2015, we ran a pesticide amnesty in Norfolk during 2016, inviting farmers to anonymously register any unused or unwanted pesticide they had on their farms for collection and disposal by a specialist company. In total, 26 farmers participated and we collected a staggering 1.2 tonnes of farm chemicals, including some that were last available for sale in 2004.

The high quality of the services we provide is underpinned by a commitment to very high levels of resilience within our business. We continue to improve and rehearse a comprehensive set of emergency plans, both unilaterally and as part of local and national networks of emergency responders, to ensure we are as well prepared as possible for any emerging challenge. In 2016/17, the two new Customer Support Units procured last year have been deployed more than 20 times to support everyday events and education as well as for incident management. We have exercised our use of recently purchased emergency flood barriers, working with several Local Resilience Forums (LRFs), and continue to collaborate with the Multi Agency Support Group for the East of England.

All of our multi-agency planning was put to the test in January 2017, when high winds and tides combined to create a storm surge along the east coast. Anglian Water was a key tactical and strategic organisation covering several counties. We aided several counties with their response to the surge and supported them by delivering bottled water supplies to rest centres.

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

We remain committed to reducing leakage as part of our drive to improve the region’s resilience to drought and climate change. We have set ourselves the ambitious target of bringing down leakage by 10.4%, or 20 Ml/d, to 172 Ml/d between 2015 and 2020. This year the total was 185 Ml/d, a very significant amount below our three-year rolling target of 192 Ml/d.

Challenging weather during the year posed significant risks to reaching this target. A warm dry spell from late summer into early autumn dried the soil to an extent not seen since the drought of 2011/12. This caused increased soil movement, leading to a rise in burst pipes. This was followed by a frosty winter and sub-zero temperatures, again leading to a spike in bursts, especially in the east of the region. During this period we reached a peak of 63 burst mains per day compared to an average of 15, the highest number of bursts in one week since the severe winter of 2010/11. The recovery plan we put in place ensured leakage levels had dropped by year end to the record levels we have regularly been achieving in recent years.

Despite the weather, we remain on track to hit our target of 172 Ml/d by 2020, and our strategy continues to see significant savings. This strategy is made up of several initiatives. Optimised Water Networks (OWN) prevents bursts through better management of pressure in the pipes and the delivery of a “calm” network. In the first two years of this AMP, OWN has been responsible for a reduction of just over 6.27 Ml/d in leakage across the region, saving 3.08 Ml/d in the first year and 3.27 Ml/d in the second. The formation of intensive leakage detection teams, equipped with cutting-edge equipment to pinpoint and assess hard-to-find leaks, has saved a total of 3.75 Ml/d this year. And our Integrated Leakage and Pressure Management (ILPM) system brings together information about the network, making it easier to spot and control leakage and to better target our work. This year we implemented phase two of the system, with new and enhanced

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

Our proactive leakage detection work aims to identify issues before customers are aware of them. One of the ways in which this is done is the mass deployment of noise loggers to identify leaks before they become visible. We deploy up to 8,000 noise loggers every day around our network. In 2016/17, we attended to more than 1,630 faults and replaced some 240 failed network flow meters. Our Integrated Maintenance and Repair (IMR) alliance partners, Kier and Clancy Docwra, have 89 two-man teams around the region. This year they fixed more than 4,400 burst mains, an increase of 737 on last year, reflecting the effect of the weather on our network.

We are the first water company to trial thermal imaging drones to detect leaking water pipes. The technique could help reduce the cost and time taken to find leaks and pinpoint their location more precisely by using sensors and a camera to spot changes in soil temperature which could be caused by water escaping from the pipe. The drones cover large distances in a short space of time, with anything picked up by the survey investigated further by a leakage technician on site. Repairs can then be carried out quicker and more precisely, meaning less digging, less money, less water lost and less disruption to customers.

The increase in bursts caused by this year's weather challenges also meant an increased number of interruptions to customers' supplies. However, by the end of the year we have delivered a best-ever performance in relation to our interruptions to supply measure, which is a reflection of the very significant emphasis we place on restoring customers' supplies, ahead of fixing the cause of the interruption. We now have 18 dedicated Restoration Technicians based at three locations around the region, focused on delivering this strategy. As a result of this strategy, we have kept water flowing to 319,000 properties that might otherwise have seen their water cut off due to a burst or other problem. That compares to 160,000 in 2015/16.

After last year's dramatic fall in Category 3 (low impact) pollution incidents, performance remains ahead of target. Challenging weather events led to a number of network and pumping station issues that helped to push numbers up from 144 to 217, still far below the 390 we saw in 2014. Performance is encouraging, and our priorities remain the same: a continued focus on predictive analytics, which allow us to use information on past pollutions to predict where we may have problems in the future, and on proactive mitigation. The number of Category 2 (medium impact) incidents dropped slightly from nine to eight, although there was one Category 1 (high impact) incident during the year. Against a backdrop of record-breaking penalties following prosecutions brought by the Environment Agency, we have recorded our third successive year without any prosecutions. However, we remain highly vigilant, and work tirelessly to guard against complacency in all quarters, as we target our goal of no pollutions.

Our Keep it Clear and Pollution Watch campaigns continue to raise public awareness about the causes of sewage pollution, the impact it has and the signs to look out for. Launched in 2010, our Keep It Clear (KIC) programme aims to change the way people dispose of fats, oils, grease (FOG) and unflushable items such as wipes and sanitary waste, to reduce sewer blockages and protect customers and the environment from the sewer flooding and pollution they can cause. This year we have been working with national retailers and manufacturers to change the labelling on products that are likely to be flushed down toilets. As a result, many leading retailers have now agreed to place prominent, front-of-pack 'do not flush' logos and messages on the packaging of their own-brand products. Sainsbury's alone is labelling 350 lines, including wipes, kitchen rolls and cotton buds. The changes should be in place by the end of March 2018.

Investment to protect homes and properties from sewer flooding has been targeted in areas where properties are vulnerable to flooding caused by storms, and by the failure of assets such as local sewage pumping stations. Households are also being provided with Keep it Clear information packs, explaining the problems that can be caused by sewer blockages and the steps people can take to reduce them and protect themselves from flooding. We are still investing in large-scale engineering solutions where property level protection is not possible. These schemes are being prioritised on the risk of flooding and its possible consequences for our customers.

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

Our outcomes: supply meets demand, a flourishing environment, a smaller footprint, and caring for communities
This year we neared completion of a £28 million scheme at our Grafham Water Treatment Works, including a 40-million litre storage reservoir – the largest pre-cast service reservoir in Europe – which will provide extra security of supply to customers in the west of our region and to accommodate significant growth in the three counties served by the reservoir and treatment works. Innovation in the delivery of the scheme means that the final programme will come in £32 million cheaper and with 61% less embodied carbon than the initial design. One section of the scheme was officially opened by the Duke of Edinburgh in May 2016, 50 years after his original royal visit to open Grafham Water Reservoir in 1966.

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

Preparation of our draft 2019 WRMP is being supported by work with the Water Resources East project (WRE). The WRE is a multi-sector collaboration, which is developing a long-term water resource strategy for the region. Our draft 2019 WRMP will align to outputs from the WRE project. We wanted to see the collaborative, multi-sector approach exemplified by WRE adopted on a national scale. This led us to take the leading role in a major project, undertaking research into the resilience of water supplies over the next 50 years. The resulting document, the Water Resources Long-Term Planning Framework, was published in September 2016 and set out options for maintaining resilient and affordable water supplies in the face of the growing risk of drought in England and Wales. It has been well received, with its findings widely used and referred to in a number of high profile documents.

Our region is one of the driest in the country and experiences periodic episodes of drought. We maintain supplies thanks to resilience schemes put in place after previous droughts, the use of drought legislation to abstract from rivers under low flows and, occasionally, restrictions on the use of hosepipes. Customers have told us that they do not expect to face severe restrictions. Our draft 2019 WRMP will promote investment to remove the threat of rota cuts and standpipes and increasing the resilience of our supply system to the impact of severe drought.

In addition to the impact of low rainfall levels on available water supplies, we are being challenged by the Environment Agency to reduce the amount of water we abstract from the environment under its Restoring Sustainable Abstraction programme. A number of schemes are already underway to address this challenge. We continue to make progress with work to improve the condition of the River Wensum, Coston Fen and a series of coastal marshes that are fed by water from the North Norfolk Chalk aquifer. We are also moving ahead with restoration schemes on the River Nar, Laceby Beck and Skitter Beck, as well as schemes to protect eels by modifying our surface water intakes.

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

Protection of the environment is a principle that underpins all of our work. This includes our management of 47 Sites of Special Scientific Interest (SSSI), covering nearly 3,000 hectares. Of these, 98.8% are judged to be in favourable condition by Natural England. This compares well with England as a whole, where only 38.6% of SSSIs were in favourable condition at March 2017.

Protecting the quality of bathing waters is also of huge importance, both to the environment and to the coastal economy, and the Anglian Water region is home to some of the cleanest beaches and bathing waters

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in the UK. Our Coastal Water Protection Team works with councils, the Environment Agency, local businesses and residents' groups to identify and address sources of pollution. The Environment Agency classifies bathing waters against four standards: Excellent (required for Blue Flag awards), Good, Sufficient and Poor. Results are based on a four-year average to make the data more representative. This year, 32 of our beaches were rated excellent, 15 good, one sufficient, and one poor. This is a slight fall from last year, when 34 waters were classed as excellent. The figures also include a new bathing water at West Runton in Norfolk.

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

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

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

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

Progress continued this year in our drive to minimise our impacts on the environment by cutting our carbon emissions, reducing the energy and materials used to maintain our infrastructure, generating our own renewable energy, increasing the efficiency of our equipment, driving out waste, and finding uses for the by-products of our treatment processes in pursuit of a truly circular economy. By doing so, we also continue to reduce costs, drive innovation and set a powerful example for others to follow. Our longer-term goal is to be a carbon neutral business by 2050.

We follow the principles set out by HM Treasury's Infrastructure Carbon Review to release the value of low-carbon solutions in how we build and operate. Over the five-year period to 2020 our goals are to exceed a seven per cent reduction in real terms in gross operational carbon by 2020 from a 2015 baseline, and to deliver a 60% reduction in capital carbon by 2020 from a 2010 baseline.

Annual gross operational carbon emissions have decreased by 11.5% in 2016/17 in comparison to the 2014/15 baseline, reducing from 455,335 t/CO2e to 403,099 t/CO2e. The main influencing factors include grid electricity demand reduced by 2.3%, an increase in renewable energy generated to 113 GWh's (includes biogas, wind and solar, appointed and non-appointed) and 13.0 GWh's saved through the energy initiative. Other external factors included a 16.4% reduction in grid electricity emission factor and an increase in the methane global warming potential.

Greenhouse gas emission data has been measured and reported in line with the Defra Environmental Reporting Guidelines published in June 2013. Annual net operational carbon emissions have decreased by 12% in 2016/17 in comparison to the 2014/15 baseline reducing from 446,834 t/ CO2e to 393,089 t/CO2e. Our design engineers and capital delivery teams have delivered a 55% reduction in capital carbon against our 2010 baseline, through focus on design, materials used and installation and commissioning techniques in construction.

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

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We self-generate an increasing amount of power from renewable energy. This year, we produced 113 GWh, around 16% of our electricity use. Of this, 99 GWh was generated by our fleet of Combined Heat and Power (CHP) engines, which are fuelled by the biogas produced at our sludge treatment centres. This is an increase on the 88 GWh generated last year. To increase the engines' efficiency and performance, we have expanded our in-house team of specialist engineers and technicians to take over their running from external contractors. Another site is due to come on line at Chelmsford during 2017.

The biosolids produced from our water recycling process are a valuable product for farmers and an important source of income for our company. It is hugely important that the food industry has total confidence in our product. For this reason, Anglian Water led and funded the development of a national Biosolids Assurance Scheme (BAS). All UK Water and Sewerage Companies (WASCs) are implementing the scheme, opening their sludge treatment and biosolids recycling operations to an independent audit against the new BAS standard. By February 2017, around 83% of biosolids were certified, with a target of 100% by the end of this 2017/18.

We remain committed to making a positive difference to the region and communities we serve. Our water parks and nature reserves provide recreation for many thousands of people, conserve and enhance our region's natural riches and help us make a positive difference to the communities we serve. We manage public access to almost 4,000 hectares of parkland, woodland and water, most of it centred on 10 of our 14 reservoirs. The first of our water parks was at Grafham Water in Cambridgeshire, which was 50 years old in June 2016. The anniversary celebrations began with a visit from HRH the Duke of Edinburgh, who officially opened the reservoir back in 1966. This year was also the 20th anniversary of the Rutland Osprey Project. To celebrate, the park played host to the Rutland Osprey Festival 2016 in April. More than 100 school children submitted creative writing, art, poetry and science entries for the Osprey Festival competition.

In summer 2016, Rutland became the first water company-owned site to be accredited under Visit England's Visitor Attraction Quality Assurance Scheme (VAQAS), which focuses on customer service and visitor experience. Rutland was also awarded the Green Flag Award for Innovation for promoting safe, open-water swimming through its inland bathing beach, weekly open-water swimming training sessions and open-water swimming events. In Norfolk, Taverham Mill Nature Reserve and Fishery was awarded the prestigious Green Flag standard for park management for the first time this year, with Rutland, Grafham, Pitsford and Alton Water all retaining theirs.

We continue to operate at the heart of two education initiatives to develop the technical skills of 14 to 19 year olds and provide opportunity for employment to the next generation. We are the lead sponsor of the Greater Peterborough University Technical College (GPUTC), which opened in September 2016 and aims to provide a world-class technical education with an emphasis on sustainable engineering and construction. The academic and industry sponsors shape the curriculum and offer employer projects that will bring the learning to life. There are currently 141 students, with 121 applicants for the September 2017 intake by the end of February.

Anglian Water and its civil engineering alliance partners are also sponsoring two BTEC courses at the College of West Anglia in Wisbech. These will lead to apprentice programmes and should help us to find mechanical and electrical engineers and construction operatives of the future. The courses currently have 45 students. Students who pass their courses at either institution will be offered an interview for employment with Anglian Water or a partner organisation.

Both of these initiatives play a significant role in the future success of our workforce. Alongside them, our graduate and apprenticeship programmes ensure we have the right skills in the business now. This programme is highly successful, with 92% of apprentices and 91% of graduates employed since 2012 still with the company. There are currently 81 apprentices on our programme, and our intake for 2017 will be the largest to date, with 65 new apprentices being taken on across the business.

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

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

We view the wellbeing of our workforce as fundamental to the success of our business. We believe that work should have a positive, beneficial impact on the people who work for us. For instance, we are determined to take the lead in promoting the importance of mental wellbeing at work and support a number of initiatives aimed at removing the stigma and culture of silence around mental health. Our Chief Executive, Peter Simpson, is Chair of Business In the Community's Wellbeing Taskforce, and we were a sponsor of the charity's first National Employee Mental Wellbeing survey which engaged almost 20,000 people across the UK about this issue. We have supported a variety of mental health initiatives, including the Time to Talk campaign, which reminds people they don't have to be an expert to talk about mental health with colleagues.

The physical safety and wellbeing of our colleagues is no less important. Whatever the job, however urgent the deadline, we never compromise on health or safety. Our approach is set out in our health and safety charter: nothing is so important that we cannot take the time to do it safely; we will never knowingly walk past an unsafe or unhealthy act or condition; and we believe that work should have a positive effect on health and wellbeing and that all accidents or harm are preventable.

We have embedded this approach to safety in our business through the Living in an Injury-Free Environment (LIFE) initiative, a cultural change programme run across our capital delivery alliances with the aim of making health and safety personal, relevant and important. In 2016/17 we have also championed process safety across the industry, having organised a 'Back to Basics' conference, which attracted delegates from across the industry. We are committed to the principle of continuous improvement and to embedding a leading process safety management framework and culture across our business.

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

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

Our time lost to sick absence was an average of 4.39 days per employee, which is the lowest in the industry. Our accident frequency rate (AFR) – the number of reportable accidents for every 100,000 hours worked – continues to be ahead of target, at 0.12. While this is good news, we do not take the position for granted and have been focusing on near misses of the most serious incidents over the last year. Focusing on these incidents gives us a much clearer and more accurate picture of our safety performance, and has allowed us to target areas of concern and high-risk activities to prevent injuries.

Getting it right for you

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

Our outcomes: investing for tomorrow, fair profits

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

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

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

Following the success of the alliancing approach to capital delivery, we have now formed new technology alliances with some of our major IT partners, including Cognizant, Aiimi, Capgemini, DXC and Atos. It's the first agreement of its kind in the IT industry, with senior leaders from each organisation forming cross-partner teams to collaborate on programmes to deliver digital transformation, end user computing and customer engagement, pooling their strengths and specialities.

For the remainder of AMP6, we will continue to invest heavily to increase the resilience of our services and protect customers' supplies in the face of growth and climate change. This includes work to reduce the number of customers who can only be served from a single treated water source, improve our ability to move water around the region, protect our existing supplies through improved detection and repair of leaks, and support growth in our region by working with developers.

Gross capital expenditure for the year was £381.2 million, compared to £266 million in the first year of AMP6. This is broadly in line with management expectations and reflects a solid performance in the delivery of efficiency.

Maintaining the serviceability of our assets is of paramount importance for the future success of the business. Throughout the year, we have delivered good performance at our water treatment works and across our networks against all water non-infrastructure serviceability assessments, although the number of burst mains and interruptions of longer than twelve hours have both exceeded their upper control limits. The number of treatment works coliform failures fell from eight last year to just three in 2016/17. Overall, the year ended with all water recycling measures comfortably within control limits, both for infrastructure and non-infrastructure assets. This year was one of the best for compliance for the quality of water discharged from our water recycling centres. In 2016, we recorded the lowest ever number of failing works – three, compared to six in 2015 and nine the year before. This strong performance is a result of proactive management of our water recycling centres.

In October 2016, we became responsible for many sewage pumping stations which had until then been privately owned. To make sure the transfer did not result in a sudden, dramatic increase in workload, we worked hard to find and adopt as many as we could before the transfer date, running publicity campaigns, adverts, radio commercials, articles and information on customers' bills to help us track down as many pumping stations as possible. To date, we have identified just more than 1,600 pumping stations, 1,254 of which are eligible to transfer. This has increased the number of stations we operate and maintain to more than 6,200. By March 2017, all of these stations had been surveyed and more than 500 had been upgraded. Our priority for the coming year is to complete work at the remaining sites and connect them to our telemetry system, which provides around-the-clock monitoring.

In the last 18 months, flooding has rapidly risen up the Government's agenda, with two national reports calling for changes in the way flood risk management is undertaken in England. The Government published the National Flood Resilience Review (NFRR) in response to the winter floods of 2015/16, to look at the level of protection for critical infrastructure. It does not, however, deal with homes or businesses and also ignores the risks from pluvial flooding caused when drainage systems are unable to remove surface water fast enough during extremely heavy rainfall. This type of flooding is most likely to affect our customers. Indeed, more properties are at risk from this kind of flooding nationally than from river and coastal flooding combined. The NFRR will influence our plans for AMP7. We are currently discussing how we will manage the resilience of our assets in future years and will be seconding an analyst to work with Defra on the outcomes of the review.

In November, the Government published the Future Flood Prevention report. This was the result of the Environment, Food and Rural Affairs Select Committee's enquiry into how England can better prevent serious flooding and improve the resilience of communities at risk from floods. It included three recommendations we had called for as part of our oral evidence to the enquiry. These were to make water and sewerage companies statutory consultees to the planning process, to remove the automatic right of

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developers to connect surface water to the public sewerage system, and to provide clarity about the adoption of sustainable drainage systems (SuDS) on new developments.

In November 2016, we led a study tour to the Netherlands to learn from their experiences of flood risk management. Representatives from more than 20 different organisations were able to see how the Dutch have dealt with flood risk in coastal, urban and rural environments, on new developments and in retrofit schemes. The experience is influencing our thinking and work across the region.

As a monopoly provider of an essential service it is important that our profits are seen as fair. That means striking the right balance between customers and shareholders. Keeping bills low while maintaining investment in the things our customers value most is a key aim of our Business Plan. We know many people have been facing financial challenges in recent years and that whatever we invest is ultimately underpinned by customers' bills, so it is important to show how that money is being spent and how it is delivering value. We have therefore planned and delivered several communications initiatives during 2016/17 to illustrate to customers where their money goes. We continue to focus on delivering campaigns that show the extent of our investment in the future of the region.

Our focus on innovation and our ground breaking approach to our capital delivery alliances has already delivered significant efficiencies in the first two years of this AMP. In line with the approach taken in previous AMPs, and reflecting what customers are telling us during the ongoing customer engagement process, we have decided to invest an additional £100 million over the rest of the AMP to improve our customers' experience when interacting with us; strengthen the management of our networks and the assets that underpin our service to customers; and enhance resilience.

Looking ahead

We published for consultation our revised Strategic Direction Statement (SDS), which sets out our strategy for the next 25 years, in April 2017. Feedback from stakeholders will be incorporated into the final SDS, which will be published later this year. The SDS contains four new ambitions which we will strive to deliver. These are to enable sustainable economic and housing growth in the region we cover, which is the fastest growing region in the UK; to become a carbon neutral business by 2050; to make the east of England resilient to the risks of drought and flooding; and to better serve our customers by driving digital transformation across our business.

During the coming year we will also continue work on the creation of our PR19 business plan which will cover the period from 2020-2025. This will include the most comprehensive public engagement programme that we have ever undertaken. Where this engagement and the insight it generates proves valuable to the immediate, day-to-day running of the business, we will strive to immediately embed it in our standard operations.

We will continue to manage the business, and our external communications, in a manner that gives due regard to the prolonged period of dry weather our region is currently experiencing. Our resources are secure and we see no reason to believe we will need to introduce any restrictions in water use, such as a ban on the use of hosepipes, in 2017. However, we will continue to campaign for the efficient use of water across our customers regardless of the prevailing weather conditions, acknowledging that we operate in the driest part of the UK.

Having made a very strong start to AMP6, we are focused on the continued efficient delivery of our plan for 2015 to 2020, investing in our region, securing good outcomes for customers, while protecting and improving the environment.

Customers remain at the heart of our work and planning, and above all we will continue to focus on delivering excellent operational performance and high levels of customer service. We will ensure stakeholder and customer support for our work programme drives innovation, collaboration, improved efficiency and excellent customer service.

OTHER BUSINESS ACTIVITIES

The 'Other' business segment mainly comprises head office and other group functions, including Property.

Treasury management

Group financing, including debt, interest costs and foreign exchange, is substantially managed by a central treasury team reporting to the Managing Director, Finance & Non Regulated Business. Treasury policy continues to be focused on the efficient and effective management of cash and financial resources within the group.

The central treasury function actively:

- ensures that lenders' covenants are met;
- secures funds through a balanced approach to financial markets and maturities;
- manages interest rates to minimise financial exposures and minimise interest costs;
- invests temporary surplus cash to best advantage at minimal financial risk;
- maintains an excellent reputation with providers of finance and rating agencies;
- promotes management techniques and systems;
- enhances control of financial resources; and
- monitors counterparty credit exposures.

The group's Board, through the Finance, Treasury and Energy Policy Group, regularly reviews treasury policy, organisation and reporting to ensure continued effectiveness and relevance. More information on treasury management can be found in note 22 of the consolidated financial statements.

Liquidity

The group's objective is to maintain flexibility and continuity of funding through access to different markets and debt instruments. At 31 March 2017 the group held cash, deposits and current asset investments of £462.9 million (2016: £451.5 million) and had undrawn committed facilities of £1,285 million (2016: £1,100 million). These resources are maintained to ensure liquidity and the continuation of the group's investment programme. The maturity profile of the group's borrowings is set out in note 22 of the consolidated financial statements.

Capital structure

The group's capital structure is largely driven by the requirements of Anglian Water's capital expenditure programme, which is met by a combination of cash flow and debt issuance with covenant tests at the Anglian Water and Osprey Acquisitions Limited levels. At 31 March 2017 Anglian Water's and Osprey Acquisitions' net debt to capital value ratio (net debt as defined in the Common Terms Agreement expressed as a percentage of Anglian Water's regulated capital value) was 79.0% (2016: 82.2%) and 84.7% (2016: 88.4%) respectively.

Borrowing covenants

The financing within Anglian Water is secured under a common terms agreement with investors. All other group borrowings are raised or guaranteed by the company, Anglian Water (Osprey) Financing Plc, AWG Parent Co Limited, AWG Group Limited and, in certain instances, subsidiary companies. The central treasury function is responsible for monitoring ongoing compliance with the group's financial covenants, which principally relate to Anglian Water's ratio of net debt to Regulatory Capital Value and interest coverage. At 31 March 2017, all group companies were compliant with all covenants.

Interest rates

The group's policy, as agreed by the Board, is to achieve an efficient mix of funding at fixed rates of interest, floating rates of interest and rates indexed to retail prices. This mix also reflects utilisation of interest rate swaps so as to manage the group's net exposure to interest rate and retail price variations.

RISK MANAGEMENT

Risk management

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

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

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

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

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

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

Risk appetite

Osprey Acquisitions Limited is exposed to a variety of uncertainties that could have a material adverse effect on the group's financial condition, operational performance and reputation.

The Board oversees risk management and, as part of this role, it reviews the main elements of our risk management processes and sets the group's risk appetite. Risk appetite establishes the level of risk that the Board is prepared to accept at any given time in order to achieve the group's strategic objectives.

The group has a structured approach to risk assessment, with the Board defining the appetite for risk in respect of all its key risk categories in the context of its obligations to provide an essential and efficient service to its customers and to keep its employees safe. The Board's appetite for risk helps management to determine the mitigating activities required to manage risk likelihood and impact to within acceptable levels.

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

Principal risks are identified and specific risk tolerance levels set for each risk. These principal risks are discussed below. There may be occasions when a level of risk is acceptable, but this is on the basis that risks are well understood and can be appropriately managed. The Board regularly reviews the group's internal controls and risk management processes to support its decision making.

RISK MANAGEMENT

Risk management process

Our risk management process identifies, assesses and manages our risks. These risks are broadly categorised as safety, operational, financial, regulatory, and compliance with current regulations and law. Risks are formally identified and mapped to ensure consistency and completeness.

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

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

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

Principal risks

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

- Water sector reform and other legislation
- Financing our business
- Long-term supply and demand resilience
- Regional growth
- Pollutions
- Failure to deliver our AMP6 plan
- Reputation
- Health and safety
- Talent and succession
- Water quality
- Cyber security.

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

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

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

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

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

RISK MANAGEMENT

Water sector reform and other legislation

Inherent risk description (Amber)

We keep abreast of all new legislation passed by Parliament and ensure we comply with existing laws that affect all businesses, including the Competition Act, the Data Protection Act and the Bribery Act. In addition, the Water Act 2014 enables further competition within the water sector. For example, all business customers have the ability to choose their retail supplier from April 2017. The 2014 Act also makes provision for further upstream reforms. To facilitate the new retail market and enable Ofwat to set more effective incentives for different parts of the value chain, Ofwat has also set separate price controls for retail and wholesale activities. While the unmitigated impact of this risk has not changed over the past year, there remains a level of uncertainty around the risk, particularly with market reform and hence an amber status.

Controls and mitigation (Green)

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

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

We have a clear governance strategy to ensure compliance with the Data Protection Act. We hold personal data on all our customers and employees, which is used for a wide variety of purposes, and we take our responsibilities for protecting that data very seriously, working with and taking guidance from the Information Commissioner's Office (ICO). The legal director chairs our Information Governance Forum, which effectively carries out the role of a Senior Information Risk Officer (SIRO). Each business unit has a representative on the Forum with responsibility for ensuring their business unit complies with the Act.

Training is mandatory for all employees who deal with personal data and enhanced training has been provided to Forum representatives. We also assess the risks that might arise where third parties require access to personal data in order to supply a service to us.

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

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

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

Current risk assessment (Green)

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

Financing our business

Inherent risk description (Amber)

We are funding a totex programme of £5 billion in AMP6 and have a gross borrowings within Anglian Water of £6.5 billion to manage and service. We consider that our risk in financing our business has not increased

RISK MANAGEMENT

over the past year, however the volatility in the financial markets and the Brexit vote has led us to maintain a strong focus on this risk (hence an amber status).

Controls and mitigation (Green)
It is critical that we have robust financing and liquidity management arrangements in place. Revenue from our customers, together with the proceeds of new debt raised, will finance the totex programme. Anglian Water is funded predominantly by debt in the form of long-term bonds and other debt instruments, with equity (shares) making up the balance of its regulatory capital value. We ensure access to a diversified source of debt across a range of maturities to minimise the refinancing risk, and interest rates are predominately fixed, either to RPI or fixed notional levels. Net debt accounts for approximately 79% of Anglian Water's regulatory capital value as at 31 March 2017 as measured in its financial covenants agreed with its debt providers. The debt funding structure was established in 2002 and has resulted in Anglian Water's cost of capital being consistently lower than the industry average, producing lower bills for our customers. Our focus is on maintaining stable credit ratings and a strong liquidity and cash position, which we manage through cash and investments, together with available banking facilities and having a diverse debt portfolio in terms of source and maturity. We manage our financing risks through regular senior level meetings held with banks, ratings agencies and bondholders, along with our internal monitoring of our treasury strategy, liquidity, energy and covenant policies, through our Financing, Treasury & Energy Policy Group.

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

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

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

Our senior-level Climate Change Steering Group assesses the implications for our business and has visibility of the delivery of our mitigation and adaptation strategies. Climate change scenarios are being integrated into the decisions about future investment and our Integrated Drainage Strategy identified investment at 35 sites for AMP6, including investment to protect us against further flood risk. This is in addition to the money we invested at 20 water treatment works in AMP5.

It is still vital that we prepare for severe weather, both today and in the future. Our Resilience Steering Group takes an overview of activities to manage resilience risks whilst our Flood Emergency Response Plans (FERPs) are in place and are regularly reviewed for both Water and Water Recycling higher-risk sites. In addition, we work with other agencies, including the Environment Agency, to understand and use flood risk warning technology.

We continue to invest to deliver our target of reducing leakage by some 20 Ml/d to 172 Ml/d by the end of AMP6, which helps mitigate the impact of extended dry periods. However, the current level of risk of drought is material (hence an amber status).

RISK MANAGEMENT

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

Regional growth
Inherent risk description (Amber)
As one of the fastest-growing areas in the UK, managing the forecast rise in population in our region is one of our most significant long-term challenges.

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

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

Current risk assessment (Green)
Current growth in our region is in line with our AMP6 plan and we have not seen an increase in this risk over the past year although the longer term is more uncertain.

Pollutions
Inherent risk description (Amber)
Leaks, spills and escapes from our network, combined with the overall serviceability of the infrastructure, have the potential to cause pollution, damaging or endangering the natural environment.

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

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

- Spending of around £6 million in the last financial year on planned preventative maintenance to reduce blockages and consequent pollutions.
- A priority, 'blue light' or fast response for areas with historical pollution risk and/or significant environmental sensitivity.
- Investment in new technology for remote monitoring of discharges. This has been installed at key points on the network, both inland and coastal. More than 800 locations are now monitored around the clock.
- Continuing to develop our systems to achieve real-time monitoring and reporting of pollution incidents and to provide a one-stop shop for pollution information, including a reporting app to improve the quality and consistency of information from the field.
- Aligning our internal processes and procedures to meet changes to Environment Agency guidance.
- A 'pollution watch' campaign targeted at the public and river users to encourage earlier engagement with resolution of any potential incident.

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- Making a step change in pollution management by attempting to predict where incidents could occur in our network, with proactive inspections of high-risk assets.

Current risk assessment (Green)
We continued to make good progress over the past year in reducing pollutions and will continue to look to improve our performance for both our Water and Water Recycling assets.

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

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

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

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

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

Examples of projects we have implemented include the following:

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

RISK MANAGEMENT

Current risk assessment (Green)
We continue to make good progress, and our efficiency in delivery has been essential to mitigate the impact of additional costs that were not included in prices, for example the adoption of private pumping stations in 2016. Being successful in AMP6 will require Innovation, Collaboration and Transformation to continue delivering cost efficiencies, while delivering strong performance on our ODIs.

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

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

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

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

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

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

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

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

RISK MANAGEMENT

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

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

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

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

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

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

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

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

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

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

RISK MANAGEMENT

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

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

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

Cyber security
Inherent risk description (Amber)
Cyber risk is a high priority for the business; we are under threat from cyber crime, data theft and IT system failure. We are increasingly dependent on effective IT systems and this risk has the potential to impact all areas of our business including the service we provide to customers. Over the last year the volume and complexity of threats targeting companies in our sector have increased and we have responded accordingly to protect our data and information (hence this risk is amber).

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

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

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

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

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

RISK MANAGEMENT

Significant failings, weaknesses and areas of concern

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

Only risks with a 'red' indicator (see page 32) will be reported as being representative of significant failings and areas of concerns, and as at 31 March 2017 no red risks were reported.

Approval of the Strategic Report

This Strategic Report was approved by the Board of Directors on 30 June 2017 and signed on its behalf by:

Claire Russell
Company Secretary

Group income statement

for the year ended 31 March 2017

Notes		**Year ended 31 March 2017 £m**	Year ended 31 March 2016 (Restated) [1] £m
4	**Revenue**	**1,235.2**	1,193.7
5	Other operating income	**14.8**	13.5
6	Operating costs		
	Operating costs before depreciation and amortisation	**(584.1)**	(580.2)
	Depreciation and amortisation	**(311.6)**	(298.2)
	Total operating costs	**(895.7)**	(878.4)
	Operating profit	**354.3**	328.8
	Finance income	**2.4**	4.1
	Finance costs	**(308.2)**	(280.2)
	Fair value losses on derivative financial instruments	**(107.0)**	(90.3)
8	Net finance costs	**(412.8)**	(366.4)
17	Share of profit of joint ventures	**0.3**	1.9
7	Profit on disposal of joint venture	**9.5**	-
	Loss before tax from continuing operations		
	Profit before exceptional items and fair value losses	**48.8**	54.6
7	Exceptional items	**9.5**	-
	Fair value losses on derivatives	**(107.0)**	(90.3)
	Loss before tax from continuing operations	**(48.7)**	(35.7)
9	Tax	**68.4**	136.6
	Profit for the year	**19.7**	100.9
	Attributable to:		
	Owners of the parent	**19.7**	101.3
	Non-controlling interests	**-**	(0.4)

[1] See note 1 'Accounting policies' for details of the change in classification of the movement in fair value of energy hedges.

Notes 1 to 35 are an integral part of these financial statements.

Osprey Acquisitions Limited

Group statement of comprehensive income

for the year ended 31 March 2017

Notes		**Year ended 31 March 2017 £m**	Year ended 31 March 2016 £m
	Profit for the year	**19.7**	100.9
	Other comprehensive income		
	Items that will not be reclassified to profit or loss		
25	Actuarial (losses)/gains on net retirement benefit obligation	**(112.5)**	26.9
24	Income tax on items that will not be reclassified	**18.6**	(6.8)
		(93.9)	20.1
	Items that may be reclassified subsequently to profit or loss		
	Losses on cash flow hedges	**(22.1)**	(13.6)
	Currency translation differences	**0.3**	0.3
24	Income tax on items that may be reclassified	**2.6**	0.3
		(19.2)	(13.0)
	Other comprehensive (expense)/income for the year, net of tax	**(113.1)**	7.1
	Total comprehensive (expense)/income for the year	**(93.4)**	108.0
	Attributable to:		
	Owners of the parent	**(93.4)**	108.4
	Non-controlling interests	**-**	(0.4)

Osprey Acquisitions Limited

Group balance sheet

at 31 March 2017

Notes		At 31 March 2017 £m	At 31 March 2016 £m
	Non-current assets		
13	Goodwill	**445.8**	445.8
14	Other intangible assets	**139.5**	129.2
15	Property, plant and equipment	**9,525.1**	9,433.9
16	Investment properties	**3.6**	1.8
17	Investments in joint ventures	**-**	3.9
22	Derivative financial instruments	**256.1**	161.9
25	Retirement benefit surpluses	**4.0**	60.1
		10,374.1	10,236.6
	Current assets		
18	Inventories	**20.8**	21.2
19	Trade and other receivables	**434.1**	505.8
17	Investments - cash deposits	**76.0**	281.3
	Cash and cash equivalents	**386.9**	170.2
22	Derivative financial instruments	**13.6**	7.3
		931.4	985.8
32	Assets classified as held for sale	**85.6**	-
		1,017.0	985.8
	Total assets	**11,391.1**	11,222.4
	Current liabilities		
20	Trade and other payables	**(479.6)**	(454.1)
	Current tax liabilities	**(11.5)**	(12.5)
21	Borrowings	**(1,257.5)**	(1,232.5)
22	Derivative financial instruments	**(21.8)**	(19.3)
23	Provisions	**(9.1)**	(8.2)
		(1,779.5)	(1,726.6)
32	Liabilities directly associated with assets held for sale	**(11.2)**	-
		(1,790.7)	(1,726.6)
	Net current liabilities	**(773.7)**	(740.8)
	Non-current liabilities		
21	Borrowings	**(6,597.2)**	(6,414.4)
22	Derivative financial instruments	**(1,043.8)**	(914.3)
24	Deferred tax liabilities	**(794.5)**	(892.6)
25	Retirement benefit obligations	**(102.2)**	(63.1)
23	Provisions	**(13.0)**	(12.2)
20	Other non-current liabilities	**(484.0)**	(443.6)
		(9,034.7)	(8,740.2)
	Total liabilities	**(10,825.4)**	(10,466.8)
	Net assets	**565.7**	755.6
	Capital and reserves		
26	Share capital	**854.2**	854.2
	(Accumulated losses)/retained earnings	**(168.0)**	2.7
27	Hedging reserve	**(120.5)**	(101.0)
	Translation reserve	**-**	(0.3)
	Total equity	**565.7**	755.6

Notes 1 to 35 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 30 June 2017 and signed on its behalf by:

Peter Simpson
Chief Executive

Scott Longhurst
Managing Director, Finance & Non Regulated Business

Osprey Acquisitions Limited

Company balance sheet

at 31 March 2017

Notes		At 31 March 2017 £m	At 31 March 2016 £m
	Non-current assets		
17	Investments	**2,311.8**	2,311.8
24	Deferred tax assets	**0.2**	1.8
22	Derivative financial instruments	**-**	6.7
		2,312.0	2,320.3
	Current assets		
19	Trade and other receivables	**-**	1.6
	Current tax receivables	**8.1**	8.1
17	Investments - cash deposits	**-**	10.0
	Cash and cash equivalents	**19.5**	8.7
22	Derivative financial instruments	**1.1**	-
		28.7	28.4
	Total assets	**2,340.7**	2,348.7
	Current liabilities		
20	Trade and other payables	**(0.3)**	(0.2)
21	Borrowings	**(975.4)**	(736.4)
22	Derivative financial instruments	**(5.6)**	(3.0)
		(981.3)	(739.6)
	Net current liabilities	**(952.6)**	(711.2)
	Non-current liabilities		
21	Borrowings	**(206.0)**	(444.7)
22	Derivative financial instruments	**-**	(17.2)
		(206.0)	(461.9)
	Total liabilities	**(1,187.3)**	(1,201.5)
	Net assets	**1,153.4**	1,147.2
	Capital and reserves		
26	Share capital	**854.2**	854.2
	Retained earnings	**299.2**	293.0
	Total equity	**1,153.4**	1,147.2

Notes 1 to 35 are an integral part of these financial statements.

The profit for the year of the company was £102.7 million (2016: £114.2 million).

The financial statements were approved by the Board of Directors on 30 June 2017 and signed on its behalf by:

Peter Simpson
Chief Executive

Scott Longhurst
Managing Director, Finance & Non Regulated Business

Group statement of changes in equity

for the year ended 31 March 2017

	Share capital £m	Revaluation reserve £m	(Accumulated losses)/ retained earnings £m	Hedging reserve £m	Translation reserve £m	**Equity attributable to owners of the parent £m**	Non-controlling interests £m	**Total equity £m**
Year ended 31 March 2017								
At 1 April 2016	854.2	-	2.7	(101.0)	(0.3)	**755.6**	-	**755.6**
Profit for the year	-	-	19.7	-	-	**19.7**	-	**19.7**
Cumulative exchange differences recycled to the income statement	-	-	-	-	0.4	**0.4**	-	**0.4**
Other comprehensive income for the year	-	-	(93.9)	(19.5)	(0.1)	**(113.5)**	-	**(113.5)**
Total comprehensive income	-	-	(74.2)	(19.5)	0.3	**(93.4)**	-	**(93.4)**
Dividends (see note 12)	-	-	(96.5)	-	-	**(96.5)**	-	**(96.5)**
At 31 March 2017	**854.2**	**-**	**(168.0)**	**(120.5)**	**-**	**565.7**	**-**	**565.7**
Year ended 31 March 2016								
At 1 April 2015	854.2	2,560.2	(2,566.4)	(87.7)	(0.6)	759.7	0.4	760.1
Profit for the year	-	-	101.3	-	-	101.3	(0.4)	100.9
Other comprehensive income for the year	-	-	20.1	(13.3)	0.3	7.1	-	7.1
Total comprehensive income	-	-	121.4	(13.3)	0.3	108.4	(0.4)	108.0
Capital reduction	-	(2,560.2)	2,560.2	-	-	-	-	-
Dividends (see note 12)	-	-	(112.5)	-	-	(112.5)	-	(112.5)
At 31 March 2016	854.2	-	2.7	(101.0)	(0.3)	755.6	-	755.6

The revaluation reserve arose on transition to IFRS at 1 April 2013, when the group elected to measure the infrastructure and operational assets of Anglian Water at their fair value and to use that fair value as their deemed cost at that date.

During the year ended 31 March 2016, Anglian Water Services Limited, a wholly owned subsidiary undertaking, undertook a bonus issue of 2,560,200,000 ordinary shares out of its revaluation reserve. Following this bonus issue Anglian Water Services Limited completed a capital reduction exercise, creating £2,560.2 million of distributable reserves.

The hedging reserve represents the cumulative effective portion of gains or losses arising on changes in the fair value of hedging instruments (see note 27).

Company statement of changes in equity

for the year ended 31 March 2017

	Share capital £m	Retained earnings £m	Hedging reserve £m	**Total equity £m**
Year ended 31 March 2017				
At 1 April 2016	854.2	293.0	-	**1,147.2**
Profit for the year	-	102.7	-	**102.7**
Total comprehensive income	-	102.7	-	**102.7**
Dividends (see note 12)	-	(96.5)	-	**(96.5)**
At 31 March 2017	**854.2**	**299.2**	**-**	**1,153.4**
Year ended 31 March 2016				
At 1 April 2015	854.2	291.3	(7.7)	1,137.8
Profit for the year	-	114.2	-	114.2
Other comprehensive income for the year	-	-	7.7	7.7
Total comprehensive income	-	114.2	7.7	121.9
Dividends (see note 12)	-	(112.5)	-	(112.5)
At 31 March 2016	854.2	293.0	-	1,147.2

Group and company cash flow statements

for the year ended 31 March 2017

Notes		Group		Company	
		Year ended 31 March 2017 £m	Year ended 31 March 2016 £m	**Year ended 31 March 2017 £m**	Year ended 31 March 2016 £m
	Operating activities				
(a)	Cash generated from operations	**613.6**	622.4	**0.1**	(0.5)
	Dividends received from joint ventures	**-**	1.3	**-**	-
	Income taxes (paid)/received	**(9.5)**	(10.4)	**8.1**	10.8
	Net cash flows from operating activities	**604.1**	613.3	**8.2**	10.3
	Investing activities				
	Purchase of property, plant and equipment	**(302.1)**	(260.8)	**-**	-
	Purchase of intangible assets	**(47.1)**	(40.0)	**-**	-
	Grants and contributions received	**39.4**	30.8	**-**	-
	Proceeds from sale of property, plant and equipment	**2.7**	4.3	**-**	-
	Interest received	**3.0**	4.4	**0.3**	0.1
	Dividends received from subsidiaries	**-**	-	**127.4**	147.1
	Disposal of subsidiary	**14.0**	-	**-**	-
	Net cash (used in)/from investing activities	**(290.1)**	(261.3)	**127.7**	147.2
	Financing activities				
	Interest paid	**(271.0)**	(264.2)	**(37.5)**	(45.8)
	Issue costs paid	**(5.5)**	(4.7)	**(1.0)**	(2.5)
	Interest element of finance lease rental payments	**(1.3)**	(1.5)	**-**	-
	Increase in amounts borrowed	**571.0**	211.5	**-**	210.0
	Repayment of amounts borrowed	**(494.2)**	(464.1)	**(0.1)**	(210.6)
	Repayment of accreted interest on derivatives	**-**	(75.8)	**-**	-
	Capital element of finance lease rental payments	**(5.1)**	(4.7)	**-**	-
	Decrease/(increase) in short-term bank deposits	**205.3**	(169.3)	**10.0**	(10.0)
	Dividends paid (see note 12)	**(96.5)**	(112.5)	**(96.5)**	(112.5)
	Net cash used in financing activities	**(97.3)**	(885.3)	**(125.1)**	(171.4)
	Net increase/(decrease) in cash and cash equivalents	**216.7**	(533.3)	**10.8**	(13.9)
	Cash and cash equivalents at the beginning of the year	**170.2**	703.5	**8.7**	22.6
(b)	**Cash and cash equivalents at 31 March**	**386.9**	170.2	**19.5**	8.7

Notes (a) and (b) are an integral part of this condensed cash flow statement.

The group has changed its presentation of interest received in the cash flow statement. Previously interest received was considered to be a financing activity, however it is now considered more appropriate to show interest received as an investing activity to better reflect the nature of the interest received.

Notes to the cash flow statements

for the year ended 31 March 2017

a) Cash generated from operations

	Group		Company	
	2017 **£m**	2016 (Restated) [1] £m	**2017** **£m**	2016 £m
Operating profit	**354.3**	328.8	**(0.2)**	(0.2)
Adjustments for:				
Amortisation of deferred grants and contributions	**(14.8)**	(13.5)	**-**	-
Depreciation and amortisation	**311.6**	298.2	**-**	-
Profit on sale of property, plant and equipment	**(2.5)**	(3.7)	**-**	-
Difference between pension charge and cash contributions	**(17.1)**	(17.1)	**-**	-
Net movement in provisions	**1.5**	(5.2)	**-**	-
Working capital:				
Increase in inventories	**(1.5)**	(0.4)	**-**	-
(Increase)/decrease in trade and other receivables	**(12.2)**	17.1	**0.3**	(0.3)
(Decrease)/increase in trade and other payables	**(5.7)**	18.2	**-**	-
	(19.4)	34.9	**0.3**	(0.3)
Cash generated from operations	**613.6**	622.4	**0.1**	(0.5)

[1] See note 1 'Accounting policies' for details of the change in classification of the movement in fair value of energy hedges.

b) Analysis of net debt

	Cash and cash equivalents £m	Current asset investments £m	Borrowings £m	Derivative financial instruments [1] £m	**Net debt** **£m**
The group					
At 1 April 2016	170.2	281.3	(7,646.9)	(719.1)	**(7,914.5)**
Cash flows	216.7	(205.3)	(44.0)	6.5	**(26.1)**
Interest	-	-	14.3	4.8	**19.1**
Issue costs relating to new borrowings	-	-	5.8	-	**5.8**
Amortisation of issue costs	-	-	(4.9)	-	**(4.9)**
Amortisation of fair value adjustments	-	-	17.2	-	**17.2**
Indexation of borrowings and RPI swaps	-	-	(61.4)	(14.1)	**(75.5)**
Fair value gains and losses	-	-	(69.4)	(49.4)	**(118.8)**
Exchange movements	-	-	(65.4)	-	**(65.4)**
At 31 March 2017	**386.9**	**76.0**	**(7,854.7)**	**(771.3)**	**(8,163.1)**
Net debt at 31 March 2017 comprises:					
Non-current assets	-	-	-	256.1	**256.1**
Current assets	386.9	76.0	-	13.5	**476.4**
Current liabilities	-	-	(1,257.5)	(15.5)	**(1,273.0)**
Non-current liabilities	-	-	(6,597.2)	(1,025.4)	**(7,622.6)**
	386.9	**76.0**	**(7,854.7)**	**(771.3)**	**(8,163.1)**

[1] Derivative financial instruments exclude the liability of £24.6 million (2016: £45.3 million) in respect of the fair value of energy hedges, as these are not classified as part of net debt.

b) Analysis of net debt (continued)

Current asset investments above comprise £76.0 million (2016: £281.3 million) of short-term cash deposits with an original maturity of more than three months.

At 31 March 2017, £354.8 million (2016: £151.7 million) of the group's cash and cash equivalents and £75.0 million (2016: £267.3 million) of the short-term deposits were held in the Anglian Water Services Holdings Limited group. In order for these amounts to be made available to the rest of the group, Anglian Water Services Limited must satisfy certain covenants, which were put in place on 30 July 2002 following a financial restructuring, prior to declaring dividends. A further £0.3 million (2016: £0.4 million) of the group's cash and cash equivalents was held as collateral for outstanding loan notes. In addition, £3.4 million (2016: £0.3 million) of the group's cash and cash equivalents and £1.0 million (2016: £4.0 million) of the short-term deposits were held by Rutland Insurance Limited (the group's insurance captive) in order to maintain its required solvency ratio.

	Cash and cash equivalents £m	Current asset receivables £m	Borrowings £m	Derivative financial instruments £m	**Net debt £m**
The company					
At 1 April 2016	8.7	10.0	(1,181.1)	(13.5)	**(1,175.9)**
Cash flows	10.8	(10.0)	0.1	4.4	**5.3**
Issue costs relating to new borrowings	-	-	1.1	-	**1.1**
Amortisation of issue costs	-	-	(1.5)	-	**(1.5)**
Fair value gains and losses	-	-	-	4.6	**4.6**
At 31 March 2017	**19.5**	**-**	**(1,181.4)**	**(4.5)**	**(1,166.4)**
Net debt at 31 March 2017 comprises:					
Current assets	19.5	-	-	1.1	**20.6**
Current liabilities	-	-	(975.4)	(5.6)	**(981.0)**
Non-current liabilities	-	-	(206.0)	-	**(206.0)**
	19.5	**-**	**(1,181.4)**	**(4.5)**	**(1,166.4)**

1. Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all of the years presented, except as described in the paragraph below.

In accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' the group has changed its accounting policy in respect of the classification of the movement in fair value of energy hedges. Previously such movements were separately disclosed within operating costs on the face of the income statement as a non-underlying gain or loss. However, these hedging arrangements are similar in nature to the other cash flow hedges the group has in place, where the gain or loss relating to the ineffective portion of these arrangements is charged to finance costs. It is therefore considered more appropriate to adopt a consistent treatment for energy hedges and take the movements in fair value to finance costs. On realisation, the hedged values of energy costs are included within operating profit. The impact of this change in accounting policy has been to decrease operating profit for the year ended 31 March 2017 by £7.0 million (2016: increase operating profit by £4.8 million) with a corresponding decrease/increase in fair value losses on derivative financial instruments within net finance costs. There is no impact on either the (loss)/profit for the year or on any balance sheet item.

a) Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and interpretations issued by the IFRS Interpretations Committee (IFRICs), as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of property, plant and equipment, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit and loss.

b) Basis of preparation

The group financial statements comprise a consolidation of the financial statements of the company and all its subsidiary undertakings at 31 March. The results of companies acquired or disposed of are consolidated from the effective date of acquisition or to the effective date of disposal. Intra-group sales and profit are eliminated fully on consolidation.

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the fair values, as at the acquisition date, of assets transferred by the group and liabilities incurred by the group to the former owners of the acquiree in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

When the consideration transferred by the group in a business combination includes asset or liability resulting from a contingent consideration arrangement, the contingent consideration is measured at its fair value, as at the acquisition date, and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

When a business combination is achieved in stages, the group's previously-held interests in the acquired entity is remeasured to its acquisition date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

1. Accounting policies (continued)

b) Basis of preparation (continued)

The Directors have undertaken a detailed review to assess the liquidity requirements of the group compared against the cash and facilities available to the group, and have a reasonable expectation that the group and company have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Joint ventures

Joint ventures are those entities over whose activities the group has the ability to exercise joint control, established by contractual agreement. The group’s interests in jointly controlled enterprises are accounted for by the equity method of accounting and are initially recognised at cost.

The consolidated financial statements include the group's share of the total recognised income and expense of the jointly controlled enterprises on an equity accounting basis, from the date that joint control commences until the date that joint control ceases.

To the extent that joint ventures have net liabilities and a contractual commitment exists for the group to settle those net liabilities, the aggregate amount is added back to investments and offset firstly against loans and trading balances with the joint venture, with any excess transferred to provisions.

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 IAS 39 ‘Financial Instruments’.

On consolidation, the income statements of overseas subsidiaries are translated at the average exchange rates for the period and the balance sheets at the exchange rates at the balance sheet date. The exchange differences arising as a result of translating income statements at average rates and restating opening net assets at closing rates are taken to the translation reserve.

On disposal of a foreign operation, the deferred cumulative amount of exchange differences recognised in equity relating to that particular foreign operation shall be recognised in the income statement.

d) Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

1. Accounting policies (continued)

e) Revenue recognition

Revenue comprises the fair value of the consideration receivable for the sale of goods and services, net of value added tax, rebates and discounts and after eliminating sales within the group. Revenue is recognised as follows:

i Water and sewerage services – revenue includes an estimation of the amount of mains water and sewerage charges unbilled at the period end. The revenue accrual is estimated using a defined methodology based upon weighted average water consumption by tariff, which is calculated based upon historical billing information.

ii Property development – revenue from sale of development properties, which are not held for the long-term, is recorded when a legally binding contract for the sale of the development has been entered into and legal completion has taken place before the period-end. Revenue includes sales of directly held work in progress and interests in special purpose subsidiaries and joint ventures if the substance of the transaction is the sale of the underlying property.

iii Services contracts – revenue from service contracts is recognised by reference to the stage of completion, as measured by reference to services performed to date as a percentage of total services to be performed.

iv Interest income – recognised on a time-proportion basis using the effective interest method.

v Dividend income – recognised when the right to receive payment is established.

f) Research and development

Research expenditure is charged to profit and loss in the period in which it is incurred. Expenditure relating to development projects is capitalised 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 which individually or, if of a similar type, in aggregate need to be disclosed by virtue of their size or nature to enable a reader of the financial statements to understand the results for a particular period.

h) Taxation

Current income tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates enacted or substantially enacted by the balance sheet date and which 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 and surplus Advance Corporation Tax are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

i) Dividends

Dividends are recognised as a liability in the period in which they are approved or committed. Interim dividends are recognised in the period in which they are paid or when the company has a constructive or legal commitment to pay the dividend.

1. Accounting policies (continued)

j) Intangible assets

i *Goodwill*

On the acquisition of a subsidiary undertaking, fair values are attributed to the net identifiable assets or liabilities acquired. Goodwill represents the difference between the fair value of the purchase consideration and the fair value of the net assets acquired. Goodwill is tested annually for impairment.

ii *Other intangible assets*

Other intangible assets are shown at cost less subsequent amortisation and any impairment. Amortisation of intangible assets is calculated on a straight line basis over their estimated useful lives, which are primarily three to ten years.

k) Property, plant and equipment

Property, plant and equipment comprises:

- Land and buildings – comprising land and non-operational buildings.
- Infrastructure assets – comprising a network of systems consisting of mains and sewers, impounding and pumped raw water storage reservoirs, sludge pipelines and sea outfalls.
- Operational assets – comprising structures at sites used for water and wastewater treatment, pumping or storage, where not classed as infrastructure, along with associated fixed plant.
- Vehicles, mobile plant and equipment.
- Assets under construction.

All property, plant and equipment is shown at cost less subsequent depreciation and any impairment. Cost includes expenditure directly attributable to the acquisition or construction of the items.

Items of property, plant and equipment that are transferred to the group from customers or developers are initially recognised at fair value. The corresponding credit is recorded as deferred income and released to other income over the expected useful lives of the related assets.

Borrowing costs incurred for the construction of qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement as incurred.

Freehold land is not depreciated, nor are assets in the course of construction until commissioned. Depreciation of other assets is calculated at rates expected to write off the cost less the estimated residual value of the relevant assets on a straight line basis over their estimated useful lives, which are primarily as follows:

Non-operational buildings	30 – 60 years
Infrastructure assets – Water	50 – 120 years
Infrastructure assets – Water Recycling	50 – 160 years
Operational assets	30 – 80 years
Fixed plant, including meters	12 – 40 years
Vehicles, mobile plant and equipment	3 – 10 years

Property, plant and equipment is assessed for impairment, in accordance with IAS 36 'Impairment of Assets', if events or changes in circumstances indicate that the carrying value may not be recoverable.

1. Accounting policies (continued)

l) Grants and contributions

Grants and contributions comprise government grants, infrastructure and connection charges, sewer adoption charges, deficit contributions for requisitioned water and wastewater infrastructure under the Water Acts, non-domestic deficit contributions, other capital and revenue contributions, and contributions for infrastructure diversions.

Capital grants and contributions are credited to a deferral account within creditors and are released to other income evenly over the expected useful life of the related assets.

Deficit contributions are also credited to a deferral account within creditors, and are recognised as other income in line with the expected expenditure they are intended to compensate.

Contributions for diversion are allocated between compensation for the loss of the asset given up, treated in accordance with the asset disposal policy, and capital contribution towards the cost of the replacement asset according to the nature of the diversion.

m) Investment properties

Investment properties are initially recognised at cost. Subsequently, buildings are depreciated over their useful life and land is held at cost and not depreciated.

n) Leased assets

Leases of property, plant and equipment which transfer substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased asset and the present value of the minimum lease payments, with the corresponding rental obligations, net of finance charges, shown as an obligation to the lessor. Lease payments are treated as consisting of a capital element and a finance charge; the capital element reducing the obligation to the lessor and the interest element being charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Rental costs arising under operating leases, net of any incentives received from the lessor, are charged to the income statement on a straight-line basis over the period of the lease.

For the purpose of lease classification, the land and buildings elements of a lease are considered separately.

o) Investments

After initial recognition at cost (being the fair value of the consideration paid), investments classified as held for trading or available-for-sale are measured at fair value, with gains or losses recognised in income or equity respectively. When an available-for-sale investment is disposed of, or impaired, the gain or loss previously recognised in equity is taken to the income statement.

Other investments are classified as held to maturity when the group has the positive intention and ability to hold to maturity and there is a set maturity date. Investments held for an undefined period are excluded from this classification. Such investments, and those held to maturity, are subsequently measured at amortised cost using the effective interest method, with any gains or losses being recognised in the income statement.

p) Inventories

Raw materials are stated at cost less any provision necessary to recognise damage and obsolescence. Work in progress is valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

1. Accounting policies (continued)

q) Trade receivables

Trade receivables are measured at fair value on initial recognition. If there is objective evidence that the amount receivable is impaired it is written down to its recoverable amount, with the irrecoverable amount being recognised as an expense in operating costs.

For Anglian Water, the bad debt provision is calculated by applying expected recovery rates, based on actual historical cash collection performance, to the aged debt profile. In the remaining subsidiary undertakings, specific provisions are made for those debts on which recovery is regarded as doubtful.

r) Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents comprise cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturity dates of three months or less and outstanding bank overdrafts.

s) Assets held for sale

Where an asset or group of assets (a disposal group) is available for immediate sale and the sale is highly probable and expected to occur within one year, the disposal group is deemed held for sale. At this point the gross assets and gross liabilities of the disposal group are shown separately as held for sale. The value of the disposal group is measured at the lower of the carrying amount and fair value less costs to sell.

t) 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.

u) Derivative financial instruments

Derivative instruments are used for hedging purposes in line with the group's risk management policy and no speculative trading in financial instruments is undertaken.

Derivatives are initially recognised at fair value and subsequently re-measured at fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates certain derivatives as either a fair value or cash flow hedge in accordance with IAS 39 'Financial Instruments: Recognition and Measurement'.

At the inception of the hedging transaction the group documents the relationship between the hedging instrument and the hedged item, as well as its risk management objectives and strategy for undertaking various hedging transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, on whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

i *Fair value hedge*

Changes in the fair value of derivatives designated and qualifying as fair value hedges are recorded in the income statement within 'fair value gains/(losses) on derivative financial instruments', together with changes in the fair value of the hedged asset or liability attributable to the hedged risk.

If a fair value hedge no longer meets the criteria for hedge accounting, the hedged item is not adjusted for any subsequent movements in the hedged risk. The amount that the hedged item was adjusted by will be amortised to profit or loss over the remaining life of the original hedge based on a recalculated effective interest rate.

1. Accounting policies (continued)

u) Derivative financial instruments (continued)

ii *Cash flow hedge*

The effective portion of changes in the fair value of derivatives designated and qualifying as cash flow hedges are recognised in equity. 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 sale that is hedged takes place).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

iii *Derivatives that do not qualify for hedge accounting*

Certain derivative instruments, principally index-linked swaps and swaptions, do not qualify for hedge accounting. Such derivatives are classified at fair value through profit or loss, and changes in fair value are recognised immediately in the income statement.

v) 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. The group's policy on specific areas is as follows:

i *Onerous lease costs*

Provision is made for the expected future costs of property and other leases to the extent that these costs are not expected to be of future benefit to the business, net of any recoveries from sub-leases.

ii *Closure costs*

Once irrevocable decisions have been made to close an operation, provisions are made to reflect the extent to which obligations, including redundancy costs, have been incurred that are not expected to be covered by future profits of the operation. Provisions include only the direct costs of termination and any operating losses up to the date of the termination, after taking account of the aggregate profit, if any, to be recognised from the future profits of the operation.

1. Accounting policies (continued)

w) 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.

x) New standards, amendments and interpretations not yet adopted

At the date of approval of these financial statements the following Standards were in issue but not yet effective:

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. The standard will be effective for the group's financial statements for the year ending 31 March 2019 and the group has no plans to early adopt. The standard simplifies the classification and measurement models for financial assets, as required by IAS 39, and introduces a model with two classification categories: amortised cost and fair value. Classification is driven by the business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The accounting and presentation for financial liabilities and for derecognising financial instruments is relocated from IAS 39 without any significant changes. Finally the standard introduces amendments to the impairment of financial assets and hedge accounting. The group is currently assessing the impact of IFRS 9 on its financial statements and at this stage it is not yet practicable to quantify the impact IFRS 9 will have on the financial statements.

IFRS 15 'Revenue from Contracts with Customers'

This standard will be mandatory for the group's financial statements for the year ending 31 March 2019, and the group does not currently have any plans to early adopt.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This is achieved by a five-step model to be applied to all contracts with customers, except for contracts that are within the scope of other standards such as leases and financial instruments, as summarised below.

i. Identify the contract(s) with a customer.
ii. Identify the performance obligations in the contract.
iii. Determine the transaction price.
iv. Allocate the transaction price to the performance obligations in the contract.
v. Recognise revenue when (or as) the entity satisfies a performance obligation.

1. Accounting policies (continued)

x) New standards, amendments and interpretations not yet adopted (continued)

The group's principal source of income is from customers in respect of the provision of water and sewerage services. These services are provided on an ongoing basis, and for Anglian Water at a price determined annually by its regulatory tariffs, all of which is reflected in the group's current income recognition policy. We do not expect the new standard to impact our current income recognition policy for this principal revenue type.

A secondary source of income for Anglian Water is from developer contributions in respect of new connections for water and/or sewerage services, which comprise around 1% of total revenues. These contributions are initially credited to deferral account and then released to 'other operating income' over the expected useful life of the related assets. However, Ofwat is currently consulting on how developer contributions will be calculated for future years, so it is not possible to draw any firm conclusions on the potential impact of the new standard in this area at this time.

IFRS 16 'Leases'
IFRS 16 'Leases' will replace the current guidance in IAS 17. The standard will be effective for the group's financial statements for the year ending 31 March 2020, subject to EU endorsement. The group currently has no plans to early adopt this standard.

IFRS 16 requires lessees to recognise on the balance sheet a lease liability, reflecting future lease payments, and a 'right-of-use asset' for the majority of leases, thereby removing the distinction currently made between finance and operating leases under IAS 17. Leases of a short duration, and those for individual assets of a low underlying value, are excluded from this requirement and lease payments on such agreements will continue to be expensed through the income statement.

On adoption of IFRS 16 the group expects to bring substantially all leases currently treated as operating leases, being primarily leases of office buildings and vehicles, on to the balance sheet and is assessing the financial impact of this change.

Other standards and interpretations
There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the group.

2. Key assumptions and significant judgements

In preparing these consolidated financial statements, the Directors have made judgements, estimates and assumptions that affect the application of the group's accounting policies, which are described in note 1, and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised in the period in which the estimate is revised if the revision only affects that period, or in the period of the revision and future periods if the revision affects both the current and future periods.

2. Key assumptions and significant judgements (continued)

a) Significant judgements

The areas where the most critical judgements have been applied are as follows.

i *Capitalised expenditure*

Additions to intangible assets, and to property, plant and equipment, include £58.4 million (2016: £55.8 million) of own work capitalised. Judgement is made to ensure these costs relate to relevant assets and that future economic benefit will flow to the group. Judgement is also made as to whether certain costs constitute repairs and maintenance or the enhancement of assets.

ii *Depreciation*

The property, plant and equipment used in the group is primarily the infrastructure and operational assets of the regulated water business. 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.

iii *Deferred tax*

The deferred tax liability is stated net of Advance Corporation Tax (ACT) recoverable of £83.6 million (2016: £145.1 million). The Directors have assessed the recoverability of this amount and concluded that it is recoverable.

iv *Retirement benefit surpluses*

Defined benefit pension schemes in a net surplus position at the balance sheet date are shown as retirement benefit surpluses within non-current assets on the balance sheet. In recognising any surplus the group has assessed whether it is entitled to a refund from the plan or a reduction in future contributions to the plan.

b) Areas involving estimation

The key areas involving estimation are discussed below.

i *Measured income accrual*

For Anglian Water the measured income accrual is an estimation of the amount of main water and wastewater charges unbilled at the year end. The accrual is estimated using a defined methodology based upon weighted average water consumption by tariff, which is calculated based upon historical billing information. The calculation is sensitive to estimated consumption for measured domestic customers (a fall of one cubic metre in average annual consumption will reduce revenue by approximately £5.2 million).

ii *Bad debts*

For Anglian Water, the bad debt provision is calculated by applying expected recovery rates, based on actual historical cash collection performance, to the aged debt profile. The determination of the appropriate level of provision is therefore inherently open to estimation (see note 19 for details of the doubtful debts provision).

3. Segmental information

By class of business for the year ended 31 March 2017

At 31 March 2017 the group was organised into the following main businesses:

- Anglian Water; regulated water, water recycling and environmental service provider to domestic and industrial customers in eastern England and Hartlepool.
- Head Office and Other; comprises head office and other group functions, including Property.

The group has changed the structure of its internal organisation resulting in a change to the reported segments, with the former 'Property' segment now included within 'Head Office and Other'. The corresponding information for the year ended 31 March 2016, included in these financial statements, has been restated on a consistent basis. There has been no change in the basis of the measurement of segmental profit or loss in the period.

No operating segments have been aggregated to form the above reportable operating segments.

The Directors consider the Board to be the group's chief operating decision maker in relation to segment reporting in accordance with IFRS 8 'Operating Segments'. Segmental performance is evaluated based on both profit and loss and cash flows, see tables below. Segmental assets and liabilities do not form part of the Board's performance assessment and, as such, are not included in the segmental information.

Inter-segment revenues and profits are fully eliminated on consolidation and are shown separately in the following tables. Segment result comprises operating profit plus share of joint ventures operating profit.

	Anglian Water £m	Head Office and Other £m	Inter-segment eliminations £m	**Total £m**
Revenue				
External	1,227.0	8.2	-	**1,235.2**
Inter segment	-	0.5	(0.5)	**-**
	1,227.0	**8.7**	**(0.5)**	**1,235.2**
Segment result				
EBITDA (earnings before interest, tax, depreciation and amortisation)	661.7	(10.6)	-	**651.1**
Other operating income	14.8	-	-	**14.8**
Depreciation and amortisation	(311.2)	(0.4)	-	**(311.6)**
Share of joint ventures operating profit	-	0.9	-	**0.9**
	365.3	**(10.1)**	**-**	**355.2**
Cash flows				
Operating cash flow	632.0	(18.4)	-	**613.6**
Capital expenditure net of grants received	(306.9)	(0.2)	-	**(307.1)**
Net debt	(6,045.1)	(1,346.7)	-	**(7,391.8)**

See page 62 for reconciliation of segmental information.

3. Segmental information (continued)

By class of business for the year ended 31 March 2016

	Anglian Water £m	Head Office and Other £m	Inter-segment eliminations £m	Total £m
Revenue				
External	1,185.4	8.3	-	1,193.7
Inter segment	-	0.4	(0.4)	-
	1,185.4	8.7	(0.4)	1,193.7
Segment result				
EBITDA (earnings before interest, tax, depreciation and amortisation)	624.8	(11.3)	-	613.5
Other operating income	13.5	-	-	13.5
Depreciation and amortisation	(297.9)	(0.3)	-	(298.2)
Share of joint ventures operating profit	-	2.9	-	2.9
	340.4	(8.7)	-	331.7
Cash flows				
Operating cash flow	644.4	(22.0)	-	622.4
Capital expenditure net of grants received	(265.4)	(0.3)	-	(265.7)
Net debt	(5,833.6)	(1,361.8)	-	(7,195.4)

See page 62 for reconciliation of segmental information.

By geographical segment

The geographic information below analyses the group's revenue, segment result and non-current assets by geographical location.

	2017 £m	2016 £m
Revenue		
United Kingdom	**1,235.2**	1,193.7
Other countries	**-**	-
	1,235.2	1,193.7
Segment result		
United Kingdom	**354.6**	330.3
Other countries	**0.6**	1.4
	355.2	331.7
Non-current assets		
United Kingdom	**10,374.1**	10,232.7
Other countries	**-**	3.9
	10,374.1	10,236.6

In presenting the above information, segment revenue has been based on the geographic location of customers.

3. Segmental information (continued)

Reconciliation of segmental information

	2017 £m	2016 (Restated) [1] £m
Segment result	**355.2**	331.7
Finance income	**2.4**	4.1
Finance costs	**(308.2)**	(280.2)
Fair value losses on derivative financial instruments	**(107.0)**	(90.3)
Share of joint ventures interest expense	**(0.6)**	(1.3)
Share of joint ventures tax	**-**	0.3
Profit on disposal of joint venture	**9.5**	-
Loss before tax from continuing operations	**(48.7)**	(35.7)
Total operating cash flow by segment	**613.6**	622.4
Dividends received from joint ventures	**-**	1.3
Income taxes paid	**(9.5)**	(10.4)
Net cash flows from operating activities	**604.1**	613.3
Purchase of property, plant and equipment	**(302.1)**	(260.8)
Purchase of intangible assets	**(47.1)**	(40.0)
Grants and contributions received	**39.4**	30.8
Proceeds from sale of property, plant and equipment	**2.7**	4.3
Capital expenditure spend by segment	**(307.1)**	(265.7)
Cash and cash equivalents	**386.9**	170.2
Cash deposits	**76.0**	281.3
Borrowings due within one year	**(1,257.5)**	(1,232.5)
Borrowings due after more than one year	**(6,597.2)**	(6,414.4)
Net debt by segment	**(7,391.8)**	(7,195.4)
Derivative financial instruments [2]	**(771.3)**	(719.1)
Net debt	**(8,163.1)**	(7,914.5)

(1) See note 1 ‘Accounting policies’ for details of the change in classification of the movement in fair value of energy hedges.

(2) Derivative financial instruments exclude the liability of £24.6 million (2016: £45.3 million) in respect of the fair value of energy hedges, as these are not classified as part of net debt.

4. Revenue

	2017 £m	2016 £m
Water and sewerage services		
Anglian Water	**1,227.0**	1,185.4
Property revenue	**8.2**	8.3
	1,235.2	1,193.7

The above analysis excludes other operating income (see note 5) and finance income (see note 8).

5. Other operating income

Other operating income comprises amortisation of grants and contributions of £14.8 million (2016: £13.5 million).

6. Operating costs

	2017 £m	2016 (Restated) [1] £m
Raw materials and consumables	**17.0**	17.4
Staff costs (see note 10)	**211.9**	202.1
Charge for bad and doubtful debts (see note 19)	**30.0**	31.9
Operating lease rentals		
Properties	**8.7**	9.6
Plant and equipment	**0.3**	0.2
Research and development expenditure	**2.5**	2.4
Other operating costs	**374.6**	376.1
Own work capitalised	**(58.4)**	(55.8)
Profit on sale of property, plant and equipment [2]	**(2.5)**	(3.7)
Operating costs before depreciation and amortisation	**584.1**	580.2
Depreciation of property, plant and equipment	**276.7**	268.5
Amortisation of intangible assets	**34.8**	29.7
Depreciation of investment properties	**0.1**	-
Depreciation and amortisation	**311.6**	298.2
Operating costs	**895.7**	878.4

(1) See note 1 'Accounting policies' for details of the change in classification of the movement in fair value of energy hedges.

(2) The profit on sale of property, plant and equipment relates to various sales of surplus land and assets.

During the year the group obtained the following services from the company's auditors:

	2017 £m	2016 £m
Fees payable to the company's auditors for the audit of the company and the consolidated financial statements	**-**	-
Fees payable to the company's auditors for other services		
The audit of the company's subsidiaries	**0.3**	0.4
Audit-related assurance services	**0.1**	0.1
Other taxation advisory services	**-**	0.1
Other assurance services	**-**	0.1
Other non-audit services	**0.3**	0.1
	0.7	0.8

The company's auditor during the year ended 31 March 2017 was Deloitte LLP. The fees payable to the company's auditor include £0.3 million for consulting services which were commissioned by the company and completed by Deloitte LLP prior to their appointment as auditors. The comparative figures in the table above relate to fees payable to PricewaterhouseCoopers LLP, the auditors of the company during the year ended 31 March 2016. The audit related assurance services relate to regulatory reporting to Ofwat and review of the group's half year results.

7. Exceptional items

	2017 £m	2016 £m
Profit on disposal of joint venture		
Proceeds received from sale of joint venture	**14.0**	-
Less: amount disposed of as a joint venture	**(4.2)**	-
Reclassification of accumulated exchange differences	**(0.3)**	-
	9.5	-

On 9 June 2016 the group disposed of its 50% shareholding in Celtic Anglian Water Limited to a fellow subsidiary of Osprey Holdco Limited, the company's immediate parent undertaking.

8. Net finance costs

	2017 £m	2016 (Restated) [(1)] £m
Finance income		
Interest income on short-term bank deposits	**2.4**	4.1
	2.4	4.1
Finance costs		
Interest expense on other loans including financing expenses	**(253.3)**	(255.5)
Indexation	**(75.5)**	(44.6)
Amortisation of issue costs	**(4.9)**	(5.3)
Interest expense on finance leases	**(1.3)**	(1.4)
Amortisation of fair value adjustments	**17.2**	17.2
Unwinding of discount on onerous lease obligation provision (see note 23)	**(0.2)**	(0.4)
Defined benefit pension scheme interest income/(charge) (see note 25)	**0.2**	(1.1)
Total finance costs	**(317.8)**	(291.1)
Less: amounts capitalised on qualifying assets	**9.6**	10.9
	(308.2)	(280.2)
Fair value losses on derivative financial instruments		
Fair value gains/(losses) on energy hedges	**7.0**	(4.8)
Hedge ineffectiveness on cash flow hedges	**0.8**	(1.3)
Hedge ineffectiveness on fair value hedges [(2)]	**4.0**	(4.1)
Amortisation of adjustment to debt in fair value hedge	**0.1**	0.1
Derivative financial instruments not designated as hedges	**(117.9)**	(68.3)
Recycling of de-designated cash flow hedge relationship	**(1.0)**	(11.9)
	(107.0)	(90.3)
Net finance costs	**(412.8)**	(366.4)

(1) See note 1 'Accounting policies' for details of the change in classification of the movement in fair value of energy hedges.

(2) Hedge ineffectiveness on fair value hedges comprises fair value gains on hedging instrument of £46.5 million (2016: £15.3 million), offset by fair value losses of £42.5 million on hedged risks (2016: £19.4 million).

9. Taxation

	2017 £m	2016 £m
Current tax:		
In respect of the current year	**50.1**	9.0
Adjustments in respect of prior periods	**42.7**	(0.9)
Total current tax charge	**92.8**	8.1
Deferred tax:		
Origination and reversal of temporary differences	**(52.3)**	(11.9)
Adjustments in respect of prior periods	**(55.6)**	(12.4)
Reduction in corporation tax rate	**(53.3)**	(120.4)
Total deferred tax credit	**(161.2)**	(144.7)
Total tax credit on loss from continuing operations	**(68.4)**	(136.6)

The current tax adjustment in respect of prior periods for 2017 relates to capital allowance disclaimers made in earlier years. In 2016 the credit related to the agreement of prior year tax computations.

The deferred tax adjustments in respect of prior periods for 2017 relate to the effect of these capital allowance disclaimers and the recognition of surplus Advance Corporation Tax that had not previously not been recognised. In 2016 the adjustment related to adjustments to prior year capital allowance claims.

The impact of the reduction in the corporation tax rate on deferred tax in the year ended 31 March 2016 reflects the change announced in the Summer Budget 2015, and included in the Finance Bill 2015, whereby deferred tax reversing after 1 April 2017 would be recognised at a rate of 19% and deferred tax reversing after 1 April 2020 would be recognised at a rate of 18%, as opposed to the current rate of 20%, resulting in all relevant deferred tax balances being re-measured.

The impact of the reduction in the corporation tax rate on deferred tax in the year ended 31 March 2017 reflects the further change to the UK corporation tax rate which reduces the rate by a further 1% to 17% from 1 April 2020. To reflect reversals during the period to 31 March 2020 we have used a composite rate of 17.08% to re-measure the deferred tax balances.

The tax credit on the group's loss before tax differs from the notional amount calculated by applying the rate of UK corporation tax of 20% (2016: 20%) to the loss before tax from continuing operations as follows:

	2017 £m	2016 £m
Loss before tax from continuing operations	**(48.7)**	(35.7)
Loss before tax from continuing operations at the standard rate of corporation tax in the UK of 20% (2016: 20%)	**(9.7)**	(7.1)
Effects of recurring items:		
Items not deductible for tax purposes	**1.8**	3.8
Items not taxable	**(2.3)**	(0.7)
	(10.2)	(4.0)
Effects of non-recurring items:		
Reduction in corporation tax rate	**(53.3)**	(120.4)
Effects of differences between rates of current and deferred tax	**8.1**	1.5
Joint ventures results reported net of tax	**(0.1)**	(0.4)
Adjustments in respect of prior periods	**(12.9)**	(13.3)
Tax credit for the year	**(68.4)**	(136.6)

9. Taxation (continued)

In addition to the tax credited to the income statement, the following amounts of tax relating to components of other comprehensive income were recognised:

	2017 £m	2016 £m
Deferred tax:		
Defined benefit pension schemes	**(19.2)**	4.9
Cash flow hedges	**(3.8)**	(2.5)
Reduction in corporation tax rate	**1.8**	4.1
Total deferred tax (credit)/charge recognised in other comprehensive income	**(21.2)**	6.5

10. Employee information and Directors' emoluments

a) Employee information

	2017 £m	2016 £m
Staff costs		
Wages and salaries	**177.7**	168.7
Social security costs	**18.0**	15.7
Pension costs - defined contribution (see note 25)	**8.2**	7.2
Pension costs - defined benefit (see note 25)	**8.0**	10.5
	211.9	202.1

Staff costs for the year ended 31 March 2017 include £44.9 million (2016: £48.9 million) of costs that have been capitalised within 'own work capitalised'.

Average monthly number of full-time equivalent persons (including Executive Directors) employed by the group:

	2017	2016 (Restated) [1]
Anglian Water	**4,462**	4,432
Other	**111**	34
	4,573	4,466

[1] See note 3 for details of the change in reported segments.

The company
The company has no employees (2016: none).

10. Employee information and Directors' emoluments (continued)

b) Directors' emoluments

	2017 £'000	2016 £'000
Aggregate emoluments	**2,553**	2,636
Pension costs – defined contribution	**11**	11
Benefits received under long-term incentive plans	**871**	2,286

Aggregate emoluments of the Directors comprise salaries, taxable benefits and amounts payable under annual bonus schemes. Retirement benefits are accruing to one Director (2016: one) under defined benefit schemes and two Directors (2016: two) under money purchase schemes.

	2017 £'000	2016 £'000
Highest paid director		
Aggregate emoluments	**1,156**	1,147
Pension costs – defined contribution	**7**	5
Benefits received under long-term incentive plans	**436**	1,142

11. Profit of the parent company

The company has not presented its own income statement as permitted by section 408 of the Companies Act 2006. The profit for the year, dealt with in the financial statements of the company, is £102.7 million (2016: £114.2 million).

12. Dividends

Interim dividends paid during the year

	2017 £m	2016 £m
Paid on:		
8 December 2016	**71.2**	-
10 June 2016	**25.3**	-
10 December 2015	**-**	81.8
10 June 2015	**-**	30.7
	96.5	112.5

In addition, interim dividends of £62.2 million and £16.3 million, in respect of the year ended 31 March 2018, were approved by the Board on 27 March 2017 and 5 June 2017 and paid on 3 April 2017 and 9 June 2017 respectively. These dividends have not been included as a liability at 31 March 2017.

13. Goodwill

	Group	
	2017	2016
	£m	£m
Cost		
At the beginning of the year and at 31 March	**935.4**	935.4
Accumulated impairment		
At the beginning of the year and at 31 March	**(489.6)**	(489.6)
Net book amount		
At 31 March	**445.8**	445.8

On transition to reporting under International Financial Reporting Standards (IFRS) the group, in accordance with IFRS 1 'First-time Adoption of International Financial Reporting Standards', elected not to apply IFRS 3 'Business Combinations' retrospectively to past business combinations. Accordingly, the carrying amount of goodwill in accordance with previous GAAP of £935.4 million at 1 April 2013, being the date of transition to IFRS, was treated as the deemed cost of goodwill under IFRS. In addition an impairment review, on the basis set out below, was undertaken at the date of transition. As a consequence of the decision to measure the infrastructure and operational assets of Anglian Water at their fair value, which increased net assets by £2,560.2 million, net of deferred tax, an impairment to goodwill of £489.6 million was recorded.

Allocation of goodwill

All goodwill is allocated to the Anglian Water business segment, the group's UK regulated water, water recycling and environmental service provider.

Impairment testing of goodwill allocated to Anglian Water

The recoverable amount of the Anglian Water segment is determined based on a fair value less cost to sell methodology. This calculation uses a multiple of Regulatory Capital Value (RCV) with reference to the recent transactions that have taken place in the sector and the market value of the listed companies in the sector. The basis applied has been deemed appropriate as it is consistent with the economic value as assessed by management and other market participants.

The current comparable transactions in the sector indicate that current multiples are 1.25x, although these have been between 1.2x and 1.4x RCV in recent years. The implied multiples for the listed water companies are also around 1.25x based on current market capitalisation.

Adopting a current market average RCV multiple of 1.25x at 31 March 2017, results in headroom of £753 million (2016: 1.25x, £222 million). The headroom at 31 March 2017 is eliminated at an RCV multiple of 1.15x (2016: 1.22x).

Goodwill is also assessed using forecast discounted cash flows which also demonstrates that there is headroom above the carrying value.

14. Other intangible assets

	Computer software £m	Internally generated £m	Total £m
The group			
Cost			
At 1 April 2015	340.8	107.5	**448.3**
Additions	24.7	17.2	**41.9**
At 31 March 2016	365.5	124.7	**490.2**
Additions	35.1	13.1	**48.2**
Disposals	(0.3)	(65.3)	**(65.6)**
Transferred to disposal group (see note 32)	(3.2)	-	**(3.2)**
At 31 March 2017	**397.1**	**72.5**	**469.6**
Accumulated amortisation			
At 1 April 2015	(258.6)	(72.7)	**(331.3)**
Charge for the year	(18.5)	(11.2)	**(29.7)**
At 31 March 2016	(277.1)	(83.9)	**(361.0)**
Charge for the year	(21.6)	(13.2)	**(34.8)**
Disposals	0.3	65.3	**65.6**
Transferred to disposal group (see note 32)	0.1	-	**0.1**
At 31 March 2017	**(298.3)**	**(31.8)**	**(330.1)**
Net book amount			
At 31 March 2017	**98.8**	**40.7**	**139.5**
At 31 March 2016	88.4	40.8	129.2

Included within additions above is £1.1 million (2016: £1.8 million) of interest that has been capitalised on qualifying assets, at an average rate of 4.3% (2016: 4.5%).

Included within intangible assets above are assets under construction of £26.1 million (2016: £19.8 million) which are not yet subject to amortisation.

The company

The company has no intangible assets (2016: none).

15. Property, plant and equipment

	Land and buildings £m	Infra-structure assets £m	Operational assets £m	Vehicles, mobile plant and equipment £m	Assets under construction £m	Total £m
The group						
Cost						
At 1 April 2015	52.1	6,354.9	5,359.7	809.8	368.6	**12,945.1**
Additions	0.3	-	-	-	247.6	**247.9**
Transfers on commissioning	2.4	110.1	237.9	50.7	(401.1)	**-**
Disposals	(0.3)	-	(0.2)	(20.7)	-	**(21.2)**
At 31 March 2016	54.5	6,465.0	5,597.4	839.8	215.1	**13,171.8**
Additions	-	-	-	(0.1)	368.7	**368.6**
Transfers on commissioning	0.6	101.4	106.2	56.6	(264.8)	**-**
Disposals	-	-	(4.9)	(69.4)	-	**(74.3)**
Transferred to disposal group (see note 32	-	-	-	(0.6)	-	**(0.6)**
At 31 March 2017	**55.1**	**6,566.4**	**5,698.7**	**826.3**	**319.0**	**13,465.5**
Accumulated depreciation						
At 1 April 2015	(6.6)	(510.3)	(2,412.6)	(560.7)	-	**(3,490.2)**
Charge for the year	(0.7)	(52.5)	(170.6)	(44.7)	-	**(268.5)**
Disposals	0.3	-	-	20.5	-	**20.8**
At 31 March 2016	(7.0)	(562.8)	(2,583.2)	(584.9)	-	**(3,737.9)**
Charge for the year	(0.7)	(53.4)	(175.1)	(47.5)	-	**(276.7)**
Disposals	-	-	4.9	69.2	-	**74.1**
Transferred to disposal group (see note 32	-	-	-	0.1	-	**0.1**
At 31 March 2017	**(7.7)**	**(616.2)**	**(2,753.4)**	**(563.1)**	**-**	**(3,940.4)**
Net book amount						
At 31 March 2017	**47.4**	**5,950.2**	**2,945.3**	**263.2**	**319.0**	**9,525.1**
At 31 March 2016	47.5	5,902.2	3,014.2	254.9	215.1	9,433.9

Property, plant and equipment at 31 March 2017 includes land of £28.8 million (2016: £28.6 million) which is not subject to depreciation. The group's interests in land and buildings are almost entirely freehold.

Included within additions above is £8.5 million (2016: £9.1 million) of interest that has been capitalised on qualifying assets, at an average rate of 4.3% (2016: 4.5%).

Assets held under finance leases

Included within the amounts shown above are the following amounts in relation to property, plant and equipment held under finance leases, the majority of which is included in operational assets:

	2017 £m	2016 £m
Net book amount at 31 March	**48.9**	51.6

The company

The company has no property, plant and equipment (2016: none).

16. Investment properties

	Group	
	2017	2016
	£m	£m
Cost		
At the beginning of the year	**2.4**	2.6
Additions	**1.9**	-
Disposals	**-**	(0.2)
At 31 March	**4.3**	2.4
Accumulated depreciation		
At the beginning of the year	**(0.6)**	(0.6)
Charge for the year	**(0.1)**	-
At 31 March	**(0.7)**	(0.6)
Net book amount		
At 31 March	**3.6**	1.8

Investment properties are accounted for using the cost model, in line with the accounting policy for property, plant and equipment.

The fair value of investment properties is not materially different from their book value.

The company

The company has no investment properties (2016: none).

17. Investments

	Group		Company	
	2017	2016	**2017**	2016
	£m	£m	**£m**	£m
Non-current				
Joint ventures	**-**	3.9	**-**	-
Subsidiary undertakings	**-**	-	**2,311.8**	2,311.8
	-	3.9	**2,311.8**	2,311.8
Current				
Cash deposits	**76.0**	281.3	**-**	10.0
	76.0	281.3	**-**	10.0

17. Investments (continued)

a) Joint ventures

	Group	
	2017	2016
	£m	£m
At the beginning of the year	**3.9**	3.5
Profit for the year	**0.3**	1.9
Dividends paid	**-**	(1.3)
Disposal	**(4.2)**	-
Transfer to provisions	**-**	(0.5)
Exchange adjustments	**-**	0.3
At 31 March	**-**	3.9

The profit for the year of joint ventures comprises the group's share of the results of its joint ventures as follows: operating profits of £0.9 million (2016: £2.9 million), less an interest expense of £0.6 million (2016: £1.3 million), and a tax charge of £nil (2016: credit of £0.3 million).

On 9 June 2016 the group disposed of its 50% holding in Celtic Anglian Water Limited to a fellow subsidiary of Osprey Holdco Limited, the company's immediate parent undertaking.

A full listing of group's joint ventures can be found in note 35, none of which are material to the group.

The joint ventures have no significant contingent liabilities to which the group is exposed. The group has issued guarantees of £nil (2016: £6.6 million) in relation to its joint ventures.

b) Subsidiary undertakings

	Shares in subsidiary undertakings £m
The company	
Cost	
At 1 April 2015, at 31 March 2016 and at 31 March 2017	**2,311.8**

The Directors are of the opinion that the value of the investments is supported by the underlying assets.

Subsidiary undertakings are listed in note 35.

18. Inventories

	Group	
	2017	2016
	£m	£m
Raw materials and consumables	**9.3**	9.0
Work in progress	**11.5**	12.2
	20.8	21.2

Work in progress comprises the cost of properties held for development.

The company
The company has no inventories (2016: none).

19. Trade and other receivables

	Group		Company	
	2017	2016	**2017**	2016
	£m	£m	**£m**	£m
Trade receivables	**328.7**	403.5	**-**	-
Provision for impairment	**(185.3)**	(197.8)	**-**	-
Net trade receivables	**143.4**	205.7	**-**	-
Loans receivable from group undertakings	**0.3**	0.3	**-**	-
Amounts receivable from subsidiaries	**-**	-	**-**	0.3
Amounts receivable from joint ventures				
Trade balances	**0.9**	1.0	**-**	-
Loans	**0.7**	4.2	**-**	-
Other amounts receivable	**16.8**	12.5	**-**	-
Prepayments and accrued income	**272.0**	282.1	**-**	1.3
	434.1	505.8	**-**	1.6

Prepayments and accrued income as at 31 March 2017 includes water and sewerage income not yet billed of £260.5 million (2016: £268.7 million). In addition, at 31 March 2017, £45.1 million of accrued income has been included within assets classified as held for sale (see note 32).

The carrying values of trade and other receivables are reasonable approximations of their fair values.

The group manages its risk from trading through the effective management of customer relationships. By far the most significant business unit of the group is Anglian Water Services, which represents 99% of the group's revenue and 99% of its net trade receivables. Concentrations of credit risk with respect to trade receivables are limited due to the Anglian Water Services customer base consisting of a large number of unrelated households and businesses. The Water Industry Act 1991 (as amended by the Water Industry Act 1999) prohibits the disconnection of a water supply and the limiting of supply with the intention of enforcing payment for certain premises including domestic dwellings. However, allowance is made by the water regulator in the price limits at each price review for a proportion of debt deemed to be irrecoverable. Considering the above, the Directors believe there is no further credit risk provision required in excess of the allowance for doubtful receivables. None of the other business units are individually significant to the group.

The movement on the doubtful debts provision, all of which relates to trade receivables, was as follows:

	Group	
	2017	2016
	£m	£m
Provision at the beginning of the year	**197.8**	197.3
Charge for bad and doubtful debts	**30.0**	31.9
Amounts written off during the year	**(40.8)**	(31.4)
Transferred to disposal group	**(1.7)**	-
At 31 March	**185.3**	197.8

Included in trade receivables are balances with a carrying amount of £112.9 million (2016: £134.2 million) that were past due at the reporting date but for which no specific provision has been made as the collective impairment recorded against such assets is considered to be sufficient allowance for the risk of non-collection of such balances. In addition, at 31 March 2017, £30.7 million of balances past due at the reporting date have been included within assets classified as held for sale (see note 32).

19. Trade and other receivables (continued)

The aged analysis of receivables that were past due at the reporting date but not individually impaired is as follows:

	Group	
	2017	2016
	£m	£m
Within one year	**77.0**	95.8
Between one and two years	**17.3**	19.2
Between two and three years	**8.8**	9.4
Between three and four years	**3.4**	3.9
After four years	**6.4**	5.9
	112.9	134.2

Included in the provision for impairment of trade receivables are provisions of £nil (2016: £0.3 million) against specific trade receivables. The age of the impaired receivables was as follows:

	Group	
	2017	2016
	£m	£m
After four years	**-**	0.3
	-	0.3

20. Trade and other payables

	Group		Company	
	2017	2016	**2017**	2016
	£m	£m	**£m**	£m
Current				
Trade payables	**36.3**	34.4	**-**	-
Capital creditors and accruals	**89.8**	57.2	**-**	-
Receipts in advance	**262.3**	266.1	**-**	-
Other taxes and social security	**4.2**	4.0	**-**	-
Accruals and deferred income	**63.6**	62.1	**0.3**	0.2
Other payables	**8.5**	16.6	**-**	-
Deferred grants and contributions	**14.9**	13.7	**-**	-
	479.6	454.1	**0.3**	0.2
Non-current				
Deferred grants and contributions	**484.0**	443.6	**-**	-
	484.0	443.6	**-**	-

Receipts in advance includes £227.8 million (2016: £238.5 million) relating to amounts received from customers for water and sewerage charges in respect of bills that fall due in the following year. In addition, at 31 March 2017, £10.2 million of amounts received from customers in respect of bills that fall due in the following year has been included within liabilities directly associated with assets held for sale (see note 32).

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 is not materially different from their fair values.

21. Loans and other borrowings

		Group	
	Notes	**2017 £m**	2016 £m
£250 million 5.837% fixed rate 2022	d f	**265.7**	266.9
£200 million 6.875% fixed rate 2023	d f	**221.3**	223.3
£200 million 6.625% fixed rate 2029	d f	**218.0**	219.4
£246 million 6.293% fixed rate 2030	d f	**276.7**	277.4
£150 million 5.5% fixed rate 2017/2040 (1)	b d e f h	**155.6**	158.4
£150 million 4.125% index-linked 2020	c d f	**250.5**	249.7
£75 million 3.666% index-linked 2024	c d f	**123.4**	122.7
£200 million 3.07% index-linked 2032	c d f	**347.0**	344.9
£60 million 3.07% index-linked 2032	c d f	**105.3**	104.6
Finance leases	b d f h	**33.7**	38.7
£402 million 2.4% index-linked 2035	c d f	**581.9**	570.8
£50 million 1.7% index-linked 2046	c d f	**75.5**	74.7
£50 million 1.7% index-linked 2046	c d f	**76.0**	75.0
£40 million 1.7146% indexation bond 2056	c d f	**63.2**	62.5
£50 million 1.6777% indexation bond 2056	c d f	**78.5**	77.5
£60 million 1.7903% indexation bond 2049	c d f	**93.8**	92.7
£100 million 1.3784% indexation bond 2057	c d f	**136.6**	134.1
£50 million 1.3825% indexation bond 2056	c d f	**68.3**	67.0
£100 million Class A wrapped floating rate bonds	d f	**100.0**	100.1
£75 million 1.449% indexation bond 2062	c d f	**97.6**	96.4
£50 million 1.52% indexation bond 2055	c d f	**65.0**	64.1
JPY 15 billion 2.925% fixed rate bond 2018/2037	a b d f	**112.7**	102.1
£110 million Class A unwrapped floating rate bonds 2043	d f	**110.1**	110.1
JPY 5 billion 3.22% fixed rate bond 2019/2038	a b d f	**37.5**	33.9
€500 million 6.25% fixed rate bond 2016	a d f h	**-**	415.1
£25 million 6.875% private placements 2034	d f	**25.0**	25.0
EIB £50 million 1.626% index-linked term facility 2019	c d f	**62.9**	61.2
EIB £50 million 1.3% index-linked term facility 2020	c f	**61.9**	60.3
£130 million 2.262% indexation bond 2045	c d f	**157.0**	153.0
US$160 million 4.52% private placements 2021	a b d f	**137.3**	125.7
US$410 million 5.18% private placements 2021	a b d f	**331.4**	289.5
EIB £75 million 0.53% index-linked term facility 2027 (2)	c d f h	**84.2**	82.0
EIB £75 million 0.79% index-linked term facility 2027 (2)	c d f h	**84.2**	82.0
£250 million 4.5% fixed rate 2027	d f	**251.9**	251.6
£15 million 1.37% index-linked private placements 2022	c d f	**16.5**	16.0
£50 million 2.05% index-linked private placements 2033	c d f	**55.2**	53.7
£25.5 million 4.195% private placements 2017	d f h	**26.0**	26.0
£31.9 million 3.983% private placements 2022	d f	**32.4**	32.4
£73.3 million 4.394% private placements 2028	d f	**74.7**	74.7
£22.3 million 3.983% private placements 2022	d f	**22.6**	22.6
US$47 million 5% private placements 2022	a b d f	**38.2**	33.4
EIB £150 million 0% index-linked term facility 2028 (3)	c d f	**163.4**	159.1
£200 million Class B 4.5% fixed rate 2026	b d f	**209.8**	207.1
£35 million 1.141% index-linked bond 2042	c d f	**37.7**	36.7
US$170 million 3.84% private placements 2023	a b d f	**142.1**	130.3
£93 million 3.537% private placements 2023	d f	**94.1**	94.1
US$160 million 4.99% private placements 2023	a b d f	**129.0**	112.6
EIB £65 million 0.41% index-linked term facility 2029 (4)	c d f	**68.7**	66.9
EIB £125 million 0.1% index-linked term facility 2029 (5)	c d f	**130.8**	127.4
EIB £60 million 0.01% index-linked term facility 2030 (5)	c d f	**62.5**	60.8
US$150 million 3.29% private placements 2026	a b d f	**117.1**	1.1
£55 million 2.93% fixed rate private placements 2025	d f	**54.8**	(0.3)
£20 million 2.93% fixed rate private placements 2025	d f	**19.9**	(0.1)
£35 million floating rate private placements 2031	d f	**34.5**	(0.2)
Sub-total carried forward		**6,419.7**	6,466.7

21. Loans and other borrowings (continued)

	Notes	Group 2017 £m	Group 2016 £m
Sub-total brought forward		**6,419.7**	6,466.7
£500 million revolving credit facility 2022	d f	**52.6**	(2.2)
£200 million Class B 2.6225% fixed rate 2027	b d f	**197.8**	-
£350 million Class B 7.0% fixed rate bond 2018	d g h	**241.9**	241.1
£210 million Class B 5.0% fixed rate bond 2023	d g	**212.5**	212.3
Loan notes	h	**0.3**	0.4
£729 million interest free loan [6]	h	**728.8**	728.8
Unamortised issue costs relating to undrawn facilities	d f g	**(2.4)**	(1.8)
Other loans	h	**3.5**	1.6
Total loans and other borrowings		**7,854.7**	7,646.9
Included in:			
Current liabilities		**1,257.5**	1,232.5
Non-current liabilities		**6,597.2**	6,414.4

	Notes	Company 2017 £m	Company 2016 £m
£350 million Class B 7.0% fixed rate bond 2018	d g h	**241.9**	241.1
£210 million Class B 5.0% fixed rate bond 2023	d g	**212.5**	212.3
Loan notes	h	**0.3**	0.4
£729 million interest free loan [6]	h	**728.8**	728.8
Unamortised issue costs relating to undrawn facilities	d g	**(2.1)**	(1.5)
Total loans and other borrowings		**1,181.4**	1,181.1
Included in:			
Current liabilities		**975.4**	736.4
Non-current liabilities		**206.0**	444.7

(1) The coupon for this instrument will increase to floating rate three month LIBOR plus 3.5% effective October 2017. The bond contains an issuer call option whereby the bond can be redeemed on 10 October 2017 and on any interest payment date from 10 January 2018 for 100% of the nominal amount of the bond.

(2) These instruments are amortising from 2017 until the date of maturity shown.

(3) This instrument is amortising from 2018 until the date of maturity shown.

(4) This instrument is amortising from 2019 until the date of maturity shown.

(5) These instruments are amortising from 2020 until the date of maturity shown.

(6) This loan is due to the immediate parent undertaking.

21. Loans and other borrowings (continued)

a) The group has entered into swap agreements to hedge the risk of currency fluctuations in relation to the US dollar, Euro and Japanese Yen borrowings.

b) The group has entered into swap agreements that convert its debt into either floating rate, fixed rate or index-linked debt in accordance with the group's hedging policy.

c) The value of the capital and interest elements of the index-linked loans is linked to movements in the Retail Price Index. The increase in the capital value of index-linked loans during the year of £61.4 million (2016: £33.7 million) has been taken to the income statement as part of interest payable.

d) These loans are shown net of issue costs of £38.7 million (2016: £37.8 million). The issue costs are amortised at the effective interest rate based on the carrying amount of debt over the life of the underlying instruments.

e) Legal maturity of these instruments is the second of the two years quoted. Coupon 'step-up' is in the first of the years quoted in accordance with the pricing terms agreed at issue.

f) A security agreement dated 30 July 2002 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 was created over the assets of Anglian Water Services Limited to the extent permissible under the Water Industry Act 1991. In addition there is a fixed charge over the issued share capital of Anglian Water Services Financing Plc, Anglian Water Services Limited and Anglian Water Services Overseas Holdings Limited. At 31 March 2017 this charge applies to £6,669.8 million (2016: £6,464.2 million) of the debt listed above.

g) A security agreement dated 31 January 2011 between Anglian Water (Osprey) Financing Plc, Osprey Acquisitions Limited and Deutsche Trustee Company Limited (as agent and trustee for itself and each of the Finance Parties to the Guaranteed Secured Medium Term Note Programme) created a fixed and floating charge over the assets of Anglian Water (Osprey) Financing Plc and Osprey Acquisitions Limited. In addition there is a fixed charge over the issued share capital of Anglian Water (Osprey) Financing Plc and AWG Parent Co Limited. At 31 March 2017 this charge applies to £454.4 million (2016: £453.4 million) of the debt listed above.

h) Amounts repayable wholly or partly within one year.

22. Financial instruments

Financial assets by category

	Assets at fair value through profit and loss £m	Derivatives used for hedging £m	Loans and receivables £m	Held to maturity investments £m	Total £m
The group					
At 31 March 2017					
Investments					
Current - cash deposits	-	-	-	76.0	**76.0**
Cash and cash equivalents					
Current	-	-	386.9	-	**386.9**
Trade and other receivables					
Current	-	-	504.6	-	**504.6**
Derivative financial instruments					
Current	2.9	10.7	-	-	**13.6**
Non-current	12.7	243.4	-	-	**256.1**
	15.6	**254.1**	**891.5**	**76.0**	**1,237.2**
At 31 March 2016					
Investments					
Current - cash deposits	-	-	-	281.3	281.3
Cash and cash equivalents					
Current	-	-	170.2	-	170.2
Trade and other receivables					
Current	-	-	492.4	-	492.4
Derivative financial instruments					
Current	1.5	5.8	-	-	7.3
Non-current	15.8	146.1	-	-	161.9
	17.3	151.9	662.6	281.3	1,113.1

Trade and other receivables above exclude prepayments, and include amounts shown within assets classified as held for sale (see note 32).

The prior year position for derivative assets and derivative liabilities has been restated to more accurately reflect derivative netting principles.

22. Financial instruments (continued)

Financial assets by category (continued)

	through profit and loss £m	Loans and receivables £m	Held to maturity investments £m	Total £m
The company				
At 31 March 2017				
Investments				
Non-current	-	-	2,311.8	**2,311.8**
Cash and cash equivalents				
Current	-	19.5	-	**19.5**
Current tax receivables				
Current	-	8.1	-	**8.1**
Derivative financial instruments				
Current	1.1	-	-	**1.1**
	1.1	**27.6**	**2,311.8**	**2,340.5**
At 31 March 2016				
Investments				
Current - cash deposits	-	-	10.0	10.0
Non-current	-	-	2,311.8	2,311.8
Cash and cash equivalents				
Current	-	8.7	-	8.7
Trade and other receivables				
Current	-	0.3	-	0.3
Current tax receivables				
Current	-	8.1	-	8.1
Derivative financial instruments				
Non-current	6.7	-	-	6.7
	6.7	17.1	2,321.8	2,345.6

22. Financial instruments (continued)

Financial liabilities by category

	Liabilities at fair value through profit and loss £m	Derivatives used for hedging £m	Other liabilities held at amortised cost £m	Total £m
The group				
At 31 March 2017				
Borrowings				
Current	-	-	1,257.5	**1,257.5**
Non-current	-	-	6,597.2	**6,597.2**
Trade and other payables				
Current	-	-	203.4	**203.4**
Derivative financial instruments				
Current	18.0	3.8	-	**21.8**
Non-current	910.9	132.9	-	**1,043.8**
	928.9	**136.7**	**8,058.1**	**9,123.7**
At 31 March 2016				
Borrowings				
Current	-	-	1,232.5	1,232.5
Non-current	-	-	6,414.4	6,414.4
Trade and other payables				
Current	-	-	174.3	174.3
Derivative financial instruments				
Current	18.2	1.1	-	19.3
Non-current	763.0	151.3	-	914.3
	781.2	152.4	7,821.2	8,754.8

Trade and other payables above exclude receipts in advance and deferred grants and contributions, and include amounts shown within liabilities directly associated with assets held for sale (see note 32).

The prior year position for derivative assets and derivative liabilities has been restated to more accurately reflect derivative netting principles.

22. Financial instruments (continued)

Financial liabilities by category (continued)

	Liabilities at fair value through profit and loss £m	Other liabilities held at amortised cost £m	Total £m
The company			
At 31 March 2017			
Borrowings			
Current	-	975.4	**975.4**
Non-current	-	206.0	**206.0**
Trade and other payables			
Current	-	0.3	**0.3**
Derivative financial instruments			
Current	5.6	-	**5.6**
	5.6	**1,181.7**	**1,187.3**
At 31 March 2016			
Borrowings			
Current	-	736.4	736.4
Non-current	-	444.7	444.7
Trade and other payables			
Current	-	0.2	0.2
Derivative financial instruments			
Current	3.0	-	3.0
Non-current	17.2	-	17.2
	20.2	1,181.3	1,201.5

22. **Financial instruments** (continued)

Derivative financial instruments

	2017 Assets £m	2017 Liabilities £m	2016 Assets £m	2016 Liabilities £m
The group				
Designated as cash flow hedges				
Interest rate swaps	**-**	**(115.3)**	-	(118.7)
Cross currency interest rate swaps	**102.4**	**-**	48.9	-
Energy swaps	**0.1**	**(21.4)**	-	(33.7)
	102.5	**(136.7)**	48.9	(152.4)
Designated as fair value hedges				
Interest rate swaps	**14.5**	**-**	(3.1)	-
Cross currency interest rate swaps	**137.1**	**-**	106.1	-
	151.6	**-**	103.0	-
Derivative financial instruments designated as hedges	**254.1**	**(136.7)**	151.9	(152.4)
Derivative financial instruments not designated as hedges:				
Interest rate swaps and swaptions	**15.6**	**(241.0)**	17.3	(208.3)
RPI swaps	**-**	**(684.6)**	-	(561.3)
Energy swaps	**-**	**(3.3)**	-	(11.6)
Total derivative financial instruments	**269.7**	**(1,065.6)**	169.2	(933.6)
Derivative financial instruments can be analysed as follows:				
Current	**13.6**	**(21.8)**	7.3	(19.3)
Non-current	**256.1**	**(1,043.8)**	161.9	(914.3)
	269.7	**(1,065.6)**	169.2	(933.6)

The prior year position for derivative assets and derivative liabilities has been restated to more accurately reflect derivative netting principles.

	2017 Assets £m	2017 Liabilities £m	2016 Assets £m	2016 Liabilities £m
The company				
Derivative financial instruments not designated as hedges:				
Interest rate swaps and swaptions	**1.1**	**(5.6)**	6.7	(20.2)
Total derivative financial instruments	**1.1**	**(5.6)**	6.7	(20.2)
Derivative financial instruments can be analysed as follows:				
Current	**1.1**	**(5.6)**	-	(3.0)
Non-current	**-**	**-**	6.7	(17.2)
	1.1	**(5.6)**	6.7	(20.2)

22. Financial instruments (continued)

Derivative financial instruments (continued)

The ineffective portion recognised in the income statement that arises from cash flow hedges amounts to a gain of £0.8 million (2016: loss of £1.3 million). The ineffective portion recognised in the income statement that arises from fair value hedges amounts to a gain of £4.0 million (2016: loss of £4.1 million).

The notional principal amount, plus RPI, of the outstanding interest rate swap contracts, including the GBP leg of cross-currency interest rate swap contracts below, at 31 March 2017 was £4,717.4 million (2016: £4,634.9 million) and there were no outstanding swaptions at 31 March 2017 (2016: £300.0 million).

The notional foreign currency principal amount of the outstanding cross currency interest rate swap contracts at 31 March 2017 was USD 1,097.0 million (2016: USD 1,097.0 million), EUR nil (2016: EUR 500.0 million), JPY 20.0 billion (2016: JPY 20.0 billion).

At 31 March 2017 the fixed interest rates vary from 2.840% to 5.985%, floating rates vary from 0.337% (LIBOR plus 0.0 bps) to 3.166% (LIBOR plus 267.5 bps) and index-linked interest rates vary from 1.270% to 2.970% plus RPI. Gains and losses recognised in the hedging reserve in equity on interest rate and cross currency interest rate swap contracts will be continuously released to the income statement within finance costs in line with the repayment of the related borrowings, or in the case of highly probable forecast transactions the release from the reserve will occur over the period during which the hedged forecast transaction affects the income statement. Gains and losses recognised in the hedging reserve in equity on energy hedges will be released to the income statement within finance costs in line with the expiry of the power season to which the gains and losses relate.

In accordance with IAS 39 the group has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. There were no amounts recorded in the income statement for gains or losses on embedded derivatives for the year ended 31 March 2017 (2016: £nil).

22. Financial instruments (continued)

Derivative financial instruments (continued)

The effective interest rates at the balance sheet dates were as follows:

	2017	2016
Borrowings - GBP	**5.1%**	3.8%
Borrowings - USD	**3.9%**	3.8%
Borrowings - EUR	**-**	7.0%
Borrowings - JPY	**1.4%**	1.5%

The weighted average interest rates at the balance sheet dates were as follows:

	2017	2016
Fixed	**6.3%**	5.9%
Floating	**1.2%**	1.4%
Indexed	**4.3%**	2.7%

Finance leases

The minimum lease payments under finance leases fall due as follows:

	Group	
	2017 £m	2016 £m
Within one year	**6.2**	6.0
Between two and five years	**28.5**	27.6
After five years	**0.6**	8.5
	35.3	42.1
Future finance charges on finance leases	**(1.6)**	(3.4)
Present value of finance lease liabilities	**33.7**	38.7

Fair value of financial assets and liabilities

	2017		2016	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
The group				
Cash and cash equivalents	**386.9**	**386.9**	170.2	170.2
Current asset investments - cash deposits	**76.0**	**76.0**	281.3	281.3
Borrowings				
Current	**(1,257.5)**	**(1,284.6)**	(1,232.5)	(1,217.9)
Non-current	**(6,597.2)**	**(8,359.0)**	(6,414.4)	(7,817.7)
Derivative financial instruments, excluding RPI and energy hedging				
Current	**6.5**	**6.5**	3.3	3.3
Non-current	**(93.2)**	**(93.2)**	(161.1)	(161.1)
RPI swaps				
Current	**(8.5)**	**(8.5)**	(8.1)	(8.1)
Non-current	**(676.1)**	**(676.1)**	(553.2)	(553.2)
Net debt	**(8,163.1)**	**(9,952.0)**	(7,914.5)	(9,303.2)
Energy hedging derivatives	**(24.6)**	**(24.6)**	(45.3)	(45.3)
Other financial liabilities	**-**	**(0.3)**	-	(6.5)
	(8,187.7)	**(9,976.9)**	(7,959.8)	(9,355.0)

22. Financial instruments (continued)

Fair value of financial assets and liabilities (continued)

The fair value of loans and other borrowings represents the market value of publicly traded debt instruments or, if in respect of debt not publicly traded, the cost which the group would incur if it elected to repay these borrowings before their maturity dates, calculated by discounting future cash flows at prevailing rates including credit spreads experienced on publicly traded debt instruments.

The fair value of interest rate derivative financial instruments is determined by calculating the net realisable value that would have arisen if these contracts terminated at 31 March with reference to estimated future cash flows and observable yield curves. The fair value of cross currency interest rate derivatives is determined using discounted cash flow analysis, with the foreign currency legs calculated with reference to observable foreign interest rate yield curves and the observable foreign exchange rate as at 31 March. The fair value of the group's energy derivatives is calculated using discounted cash flow analysis, with reference to observable market prices at 31 March.

The fair value of interest rate swaptions, as included within derivative financial instruments above, represents the cost which the group would incur if it elected to terminate these contractual arrangements before their maturity dates, calculated by discounting future cash flows at prevailing rates.

Fair values of other non-current investments, non-current trade and other receivables, provisions and non-current trade and other payables have been estimated as not materially different from book value.

Derivative transactions expose the group to credit risk against the counterparties concerned. Anglian Water has credit protection measures in place within agreements which provide protection in the event of counterparty rating downgrade or default. The group only enters into derivative transactions with banks of high credit standing (as measured by reputable rating agencies) and also seeks to diversify exposure such that concentration with individual banks is avoided.

In accordance with IFRS13 'Fair Value Measurement' the financial instruments carried at fair value on the balance sheet have been classified as level 2 for fair valuation purposes, being valued by reference to valuation techniques using observable inputs other than quoted prices in active markets that are observable for the asset or liability either directly or indirectly. The future cash flows have been discounted at a rate that reflects credit risk.

Control of treasury

The treasury team, which reports directly to the Managing Director, Finance & Non Regulated Business, substantially manages the financing, including debt, interest costs and foreign exchange for the group. Treasury policy continues to be focused on the efficient and effective management of cash and financial resources within the group. The treasury function will actively endeavour to:

- ensure that lenders' covenants are met;
- secure funds through a balanced approach to financial markets and maturities;
- manage interest rates to minimise financial exposures and minimise interest costs;
- invest temporary surplus cash to best advantage at minimal financial risk;
- maintain an excellent reputation with providers of finance and rating agencies;
- promote management techniques and systems;
- enhance control of financial resources; and
- monitor counterparty credit exposure.

22. Financial instruments (continued)

Financing structure

The group's regulated water and water recycling business, Anglian Water Services Limited, is funded predominately by debt in the form of long-term bonds and other debt instruments through its financing subsidiary Anglian Water Services Financing Plc. At 31 March 2017 Anglian Water Services' net debt to capital value ratio (net debt as defined in the Common Terms Agreement expressed as a percentage of Anglian Water Services' regulated capital value) was 79.0% (2016: 82.2%).

The group has also raised finance within the company through its financing subsidiary Anglian Water (Osprey) Financing Plc.

Borrowing covenants

With the exception of asset-based funding, the group's borrowings are raised by the company, Anglian Water (Osprey) Financing Plc and Anglian Water Services Financing Plc. The treasury function monitors compliance against all financial obligations and it is the group's policy to manage the balance sheet so as to ensure operation within covenant restrictions.

Management of financial risk

Financial risks faced by the group include funding, interest rate, contractual, currency, liquidity and credit risks. The group regularly reviews these risks and has approved written policies covering treasury strategy and the use of financial instruments to manage risks.

A Finance, Treasury and Energy Policy Group, including the Managing Director, Finance & Non Regulated Business and the Group Treasurer, meets monthly with the specific remit of reviewing treasury matters.

The group aims to meet its funding requirements primarily through accessing a range of financial markets such as public bond markets, private placements, bank loans and finance leases. Surplus cash is invested in short-term bank deposits, commercial paper, certificates of deposit, treasury bills and AAA rated money funds.

The group also enters into derivative transactions (comprising currency, index-linked, interest rate and energy swaps) to manage the interest rate and currency risks arising from the treasury policy. These transactions hedge risks to which the group is exposed as follows:

Fair value hedges

Fair value hedges principally consist of interest rate and cross-currency swaps that are used to protect against changes in the fair value of fixed-rate financial instruments due to movements in market interest rates.

Cash flow hedges

Exposure arises from the variability in future interest and currency cash flows on assets and liabilities which bear interest at variable rates or are in a foreign currency. Interest rate and cross-currency swaps are maintained, and designated as cash flow hedges, where they qualify, to manage this exposure. In addition forward energy and interest rate contracts are also used to hedge anticipated future electricity and interest cash flows.

Derivative financial instruments not designated as hedges

The group does not utilise derivatives for trading purposes but due to the complex nature of hedge accounting under IAS 39 a subset of the derivative portfolio does not qualify for hedge accounting. These principally relate to RPI swaps, interest rate swaps, swaptions and energy swaps.

To ensure continued effectiveness and relevance, the Board carries out a formal annual review of the treasury strategy, organisation and reporting.

22. Financial instruments (continued)

a) Market risk

i) Foreign currency

The group has currency exposures resulting from debt raised in currencies other than sterling and very small purchases in foreign currencies. The group's foreign exchange policy allows for a range of hedge instruments, including forward foreign exchange, swaps and options, to hedge such exposures. All hedges are undertaken for commercial reasons with the objective of minimising the impact of exchange rate fluctuations on net assets and profits. The group has no material unhedged monetary assets and liabilities denominated in a currency different from the local currency of the particular operation, and has no material net exposure to movements in currency rates.

ii) Interest rate

The group's policy for the management of interest rate risk is to achieve a balanced mix of funding at indexed (to RPI), fixed and floating rates of interest. To guard against adverse movements in interest rates having a detrimental impact on the business and to enable covenanted obligations and credit ratings to be met, hedging levels for Anglian Water Services are maintained between 30% and 60% for fixed rate debt, between 30% and 55% for index-linked debt, and between 5% and 15% for floating rate debt. Within these hedging levels, the group endeavours to obtain the finest rates (lowest borrowing and finest depositing rates) consistent with ensuring that the relevant treasury objectives are met in full i.e. the provision of adequate finance for Anglian Water Services at all times and maintaining security of principal.

The group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk which is partially offset by cash held at variable rates. Borrowings issued at fixed rates expose the group to fair value interest rate risk. Treasury manages its interest rate risk by monitoring market rates in relation to the debt (and investment) portfolios, analysing the effect of likely movements in interest rates and taking action as required, within the hedging limits outlined above.

The group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the group calculates the impact on profit and loss of a defined interest rate shift.

The sensitivity of the group's profits and equity, including the impact on derivative financial instruments, to changes in interest rates at 31 March is as follows:

	2017 £m	2016 £m
Increase/(decrease) in profit before tax and in pre-tax equity		
1% increase in interest rates	**251.5**	312.4
1% decrease in interest rates	**(406.3)**	(428.8)

The following assumptions were made in calculating the interest rate sensitivity analysis:

- cash flow and fair value hedge relationships remain effective;
- the main fair value sensitivity to interest rates is in relation to RPI-linked derivatives and swaptions which are not hedge accounted;
- cash flow sensitivity is calculated on floating interest rate net debt; and
- all other factors are held constant.

22. Financial instruments (continued)

iii) Inflation rate risk

The finance cost of the group's index-linked debt instruments and derivatives varies with changes in RPI rather than interest rates. These instruments form an economic hedge with the group's revenues and regulatory assets, which are also linked to RPI inflation. Inflation risk is reported monthly to the Finance, Treasury and Energy Policy Group, which manages inflation risk by identifying opportunities to amend the economic hedge currently in place where deemed necessary, in line with the parameters for Anglian Water Services' index-linked debt of between 30% and 55% of total debt.

The sensitivity at 31 March of the group's profit before taxation and pre-tax equity to changes in RPI on debt and derivative instruments is set out in the following tables:

Debt instruments

The analysis below shows the impact of a one per cent change in RPI over the 12 month period to the reporting date on index-linked debt instruments. It should be noted, however, that there is a time lag by which current RPI changes impact on the income statement. The portfolio of index-linked debt is calculated on a lag basis which varies from three to fourteen months and the index-linked principal and interest adjustments impacting the income statement at the reporting date are therefore mostly fixed and based on the annual RPI change from three to fourteen months earlier.

	2017 £m	2016 £m
Increase/(decrease) in profit before tax and in pre-tax equity		
1% increase in RPI	**(27.7)**	(27.6)
1% decrease in RPI	**27.6**	27.4

RPI-linked derivatives

The fair values of the group's RPI-linked derivatives are based on estimated future cash flows, discounted to the reporting date, and these will be impacted by an increase or decrease in RPI rates as shown in the following table.

	2017 £m	2016 £m
Increase/(decrease) in profit before tax and in pre-tax equity		
1% increase in RPI	**(297.3)**	(190.0)
1% decrease in RPI	**203.7**	133.4

iv) Commodity price risk

The group is allowed a fixed amount of revenue by Ofwat, in real terms, to cover electricity costs for each five year regulatory pricing period. To the extent that electricity prices remain floating over this period, this exposes the group to volatility in its operating cash flow. The group's policy is to manage this risk either through forward purchases to fix the cost of future blocks of electricity with the contracted energy supplier, or through the purchase of wholesale electricity swaps with financial counterparties.

The group has used a combination of forwards contracts and electricity swap contracts to substantially fix the price of its anticipated electricity usage out to the end of AMP6.

Assuming all energy hedges were in effective hedging relationships, a 10% increase/decrease in commodity prices would have the following impact:

	2017 £m	2016 £m
Increase/(decrease) in profit before tax and in pre-tax equity		
10% increase in commodity prices	**9.4**	6.7
10% decrease in commodity prices	**(9.4)**	(6.7)

22. Financial instruments (continued)

b) Credit risk

Credit risk arises principally from trading and treasury activities. From a trading perspective, the group has no significant concentrations of credit risk due to minimising the risk through the effective management of customer relationships. 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 19.

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 which provide protection in the event of counterparty rating downgrade or default. The group only places cash deposits with banks of high credit standing (as measured by reputable rating agencies) and also seeks to diversify exposure such that concentration with individual banks is avoided. The 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 which do not meet the criteria for offsetting on the balance sheet but could be settled net in the event of default of either party have been reflected in the offsetting column below.

Group policy requires that transactions are only executed with counterparties which are both (a) from the lending group and (b) rated at least A- (long-term) or A1 (short-term) by Standard & Poor's, Moody's or Fitch.

	Gross carrying amounts £m	Gross amounts offset £m	Net amount presented in the balance sheet £m	Offsetting not presented in the balance sheet £m	Net amount £m
At 31 March 2017					
Derivative financial assets	322.6	(52.9)	**269.7**	(154.8)	**114.9**
Derivative financial liabilities	(1,118.5)	52.9	**(1,065.6)**	154.8	**(910.8)**
At 31 March 2016					
Derivative financial assets	212.5	(43.3)	169.2	(94.4)	74.8
Derivative financial liabilities	(976.9)	43.3	(933.6)	94.4	(839.2)

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. The prior year position for derivative assets and derivative liabilities has been restated to more accurately reflect derivative netting principles.

22. Financial instruments (continued)

b) Credit risk (continued)

At 31 March 2017 the maximum exposure to credit risk for the group is represented by the carrying amount of each financial asset in the group balance sheet, including amounts shown within assets classified as held for sale:

	2017 £m	2016 £m
Cash and cash equivalents	**386.9**	170.2
Trade and other receivables	**504.6**	492.4
Investments - cash deposits	**76.0**	281.3
Derivative financial assets	**269.7**	169.2

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 whilst maintaining security of principal. This involves focus on efficiency, quality and effective control to improve cash flow 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 whilst maintaining a risk-averse position in its liquidity management and in its control of currency and interest rate exposures.

Recognising the high level of gearing in the group and the long-term nature of the group's asset base, the group is primarily funded from the debt capital markets. It is the group's policy to maintain sufficient cash and/or borrowing facilities to meet short-term commitments and to provide working capital support/flexibility in treasury operations in the event of short-term difficulties in the capital markets. The treasury team actively 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 6 months in advance, to ensure covenant compliance.

The group has the following undrawn committed borrowing facilities available at 31 March 2017 in respect of which all conditions precedent had been met at that date:

		Group
	2017 £m	2016 £m
Within one year	**375.0**	375.0
Between one and two years	**240.0**	-
Between two and five years	**670.0**	725.0
	1,285.0	1,100.0

22. Financial instruments (continued)

d) Liquidity risk (continued)

The group's borrowing facilities comprise Class A and Class B debt service reserve facilities totalling £279 million provided by Barclays Bank Plc, HSBC Bank Plc, Sumitomo Mitsui Banking Corporation, Abbey National Treasury Services Plc and Lloyds TSB Bank Plc; a £96 million operating and capital maintenance expenditure reserve facility provided by Barclays Bank Plc, BNP Paribas Plc, Lloyds TSB Bank Plc, Abbey National Treasury Services Plc and Commonwealth Bank Of Australia; a syndicated £500 million authorised loan facility for working capital and capital expenditure requirements provided by Barclays Bank Plc and syndicated to certain other banks; and two bilateral facilities of £50 million each with Bank of China Limited and Sumitomo Mitsui Banking Corporation for general corporate purposes; a £125 million undrawn bank facility syndicated to certain banks, with Royal Bank of Scotland Plc acting as agent; and an additional £240 million syndicated facility to manage refinancing risk.

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, and include amounts shown within liabilities directly associated with assets held for sale:

	Within one year £m	Between one and five years £m	Between five and 25 years £m	After 25 years £m	Total £m
At 31 March 2017					
Trade and other payables	(203.4)	-	-	-	**(203.4)**
Borrowings	(1,403.5)	(2,120.3)	(6,764.4)	(3,470.7)	**(13,758.9)**
Derivative financial instruments	(14.3)	(55.1)	(774.7)	(755.2)	**(1,599.3)**
Finance leases	(5.7)	(27.5)	(0.5)	-	**(33.7)**
	(1,626.9)	**(2,202.9)**	**(7,539.6)**	**(4,225.9)**	**(15,595.3)**
At 31 March 2016					
Trade and other payables	(174.3)	-	-	-	(174.3)
Borrowings	(1,377.5)	(1,858.0)	(6,963.0)	(3,521.0)	(13,719.5)
Derivative financial instruments	(3.8)	(40.8)	(73.2)	(894.7)	(1,012.5)
Finance leases	(6.0)	(27.6)	(8.5)	-	(42.1)
	(1,561.6)	(1,926.4)	(7,044.7)	(4,415.7)	(14,948.4)

23. Provisions

	Onerous leases £m	Business closures and disposals £m	Legal and other £m	Total £m
The group				
At 1 April 2016	16.1	1.0	3.3	**20.4**
Charge/(credit) for the year	6.1	(0.4)	2.9	**8.6**
Unwinding of discount	0.2	-	-	**0.2**
Utilised in the year	(6.2)	-	(0.9)	**(7.1)**
At 31 March 2017	**16.2**	**0.6**	**5.3**	**22.1**

Maturity analysis of total provisions:

	2017 £m	2016 £m
Current	**9.1**	8.2
Non-current	**13.0**	12.2
	22.1	20.4

The onerous lease provision is in respect of property leases where the unavoidable obligations under the contracts exceed the expected economic benefits to be received from them. The provision is discounted and is expected to be utilised over the next seven years.

Business closure and disposal provisions relate to exit costs which are expected to crystallise over a period of two years.

Provisions for legal and other claims include £5.3 million (2016: £2.9 million) in respect of legal claims and potential pollution fines, and £nil (2016: £0.4 million) for uncertain warranty and certification costs, all of which are expected to crystallise over a period of approximately two years.

The company
The company has no provisions for liabilities (2016: none).

24. Deferred tax

	Accelerated tax depreciation £m	Financial instruments £m	Retirement benefit obligation £m	Surplus ACT asset £m	Other £m	Total £m
The group						
At 1 April 2015	1,381.3	(190.7)	(9.2)	(145.1)	(5.5)	**1,030.8**
(Credited)/charged directly to the income statement	(150.7)	2.1	1.9	-	2.0	**(144.7)**
Charged/(credited) directly to other comprehensive income	-	(0.3)	6.8	-	-	**6.5**
At 31 March 2016	1,230.6	(188.9)	(0.5)	(145.1)	(3.5)	**892.6**
(Credited)/charged directly to the income statement	(137.2)	(3.0)	2.3	(22.8)	(0.5)	**(161.2)**
Credited directly to other comprehensive income	-	(2.6)	(18.6)	-	-	**(21.2)**
Offset against corporation tax liability	-	-	-	84.3	-	**84.3**
At 31 March 2017	**1,093.4**	**(194.5)**	**(16.8)**	**(83.6)**	**(4.0)**	**794.5**

Deferred tax assets and liabilities have been offset in accordance with IAS 12 'Income Taxes'.

The deferred tax liability is stated net of Advance Corporation Tax (ACT) recoverable. If changes in the tax legislation were introduced which restricted the ability of companies to use ACT, this asset may no longer be recoverable and in this event, an additional tax charge of £83.6 million would arise.

The group has the following deferred tax assets that are not recognised in the financial statements:

	Group	
	2017 £m	2016 £m
Surplus ACT	**-**	22.8
Tax losses carried forward	**0.8**	1.4
	0.8	24.2

The surplus ACT was written off in subsidiary undertakings in prior years. It has been recognised in the accounts this year as its recoverability is now considered to be likely. The tax losses carried forward relate to losses which are not eligible for group relief. As they exist in companies where future profits are uncertain and no deferred tax liabilities exist, no asset has been recognised.

The company

The company has the following deferred tax asset:

	Financial instruments £m	Total £m
The company		
At 1 April 2015	(3.8)	**(3.8)**
Charged directly to the income statement	0.1	**0.1**
Charged directly to other comprehensive income	1.9	**1.9**
At 31 March 2016	(1.8)	**(1.8)**
Charged directly to the income statement	1.6	**1.6**
At 31 March 2017	**(0.2)**	**(0.2)**

25. Net retirement benefit obligation

Pension arrangements for just under half of the group's employees are of the funded defined benefit type, through the AWG Pension Scheme ('AWGPS'). On 31 March 2017, the assets and liabilities relating to the defined benefit scheme for the employees of the former Hartlepool Water Limited, which was acquired on 1 April 2000, were transferred into a segregated section of the AWGPS. Within these schemes, employees are entitled to retirement benefits based on their final salary and length of service at the time of leaving the schemes, payable on attainment of retirement age (or earlier death).

The group also has pension obligations to former employees through the Morrison Pension & Life Assurance Plan ('MPLAP'). In addition, pensions in payment to a number of former employees are unfunded.

The administration and investment of the pension funds are maintained separately from the finances of the group.

The defined benefit arrangements are open to future accrual (with the exception of the MPLAP scheme) but closed to new members, who are eligible instead for entry to the group's defined contribution schemes. For closed schemes, under the projected unit method, the current service cost will increase as the members of the scheme approach retirement.

A full valuation as at 31 March 2014 was completed for AWGPS, and as at 1 April 2014 for MPLAP, the results of which have been used as a basis for the IAS 19 disclosures as at 31 March 2017.

Following a comprehensive review process, in 2011 the group implemented significant changes to the AWGPS defined benefit employee pension scheme to ensure the long-term sustainability of the pension scheme.

The group has a plan in place with the schemes' trustees to address the funding deficit by 2026, through a series of annual deficit recovery contributions.

The group contributed 12.8% (2016: 15.5%) of pensionable pay plus £10.6 million (2016: £10.0 million) per annum to AWGPS during the year. Contributions to MPLAP were £5.5 million (2016: £5.5 million) during the year. In the year to 31 March 2018 employers' contributions are expected to be £22.4 million, including contributions to AWGPS of 12.8% of pensionable pay plus £7.9 million of deficit reduction payments.

The weighted average duration of the defined benefit obligation for AWGPS (excluding Hartlepool) is 21 years, for the Hartlepool section of AWGPS is 20 years, for MPLAP is 25 years, and for the unfunded scheme is 12 years.

The group also operates a number of defined contribution schemes in the UK, and contributions to these schemes amounted to £8.2 million (2016: £7.2 million).

25. Net retirement benefit obligation (continued)

a) Principal actuarial assumptions

The liabilities of the pension schemes have been valued using the projected unit method and using the following assumptions:

	2017 % pa	2016 % pa
Discount rate	**2.6**	3.5
Inflation rate		
RPI	**3.3**	3.0
CPI	**2.3**	2.0
Increase to deferred benefits during deferment		
RPI	**3.3**	3.0
CPI	**2.3**	2.0
Increases to inflation related pensions in payment (1)		
RPI	**3.2**	2.9
CPI	**2.3**	2.1
General salary increases (2)	**2.5 / 4.3**	2.5 / 4.0

	2017 years	2016 years
Longevity at age 65 for current pensioners		
Men	**22.8**	23.0
Women	**24.9**	25.1
Longevity at age 65 for future pensioners (3)		
Men	**24.5**	24.9
Women	**26.8**	27.0

(1) For RPI pension increases capped at 5% per annum.

(2) As a result of changes made to the benefits earned in the AWGPS that came into effect from 1 April 2012, pensionable pay/earnings increases for employees that are members of the AWGPS are restricted to be no greater than the lower of RPI and 2.5% per annum each year (for accruing benefits only). As the future pensionable pay/earnings increases (4.3% per annum) and RPI price inflation (3.3% per annum) are both above 2.5% per annum at 31 March 2017, the 2.5% cap on future pensionable salary increases is assumed to apply. Benefits earning to 31 March 2012 are no longer linked to pensionable pay/earnings and increase in line with RPI up to a maximum of 3.5% per annum over the period from 1 April 2012 to retirement or earlier leaving.

(3) The life expectancy shown for future pensioners is for those reaching 65 in 2037.

b) Sensitivity analysis

The following table sets out the sensitivity of the liabilities within the schemes to changes in the financial and demographic assumptions.

	Change in assumption	AWGPS £m	Hartlepool £m	MPLAP £m	Unfunded pensions £m	Total £m
Discount rate						
Discount rate	+/- 0.5% pa	-171 / +200	-2 / +3	-31 / +36	-3 / +3	-207 / +242
Rate of RPI inflation	+/- 0.5% pa	+120 / -110	+2 / -1	+7 / -6	+3 / -3	+132 / -120
Life expectancy	+/- 1 year	+51 / -50	+1 / -1	+12 / -11	+2 / -2	+66 / -64

25. Net retirement benefit obligation (continued)

b) Sensitivity analysis (continued)

Changes to market conditions that influence the assumptions above may also have an impact on the value of the schemes' investment holdings. The extent to which these are managed is discussed in section c) below. The sensitivities in the table above have been calculated by changing the key assumption and leaving all others fixed, with the exception of the RPI inflation assumption, which has a corresponding impact on CPI inflation, pension increases and salary increases due to the way the assumptions are derived.

c) Risk and risk management

The group's defined benefit pension schemes, in common with the majority of such schemes in the UK, have a number of areas of risk. These areas of risk, and the ways in which the group manages them, are set out below.

The risks are considered below from both a funding perspective (which drives the cash commitments of the group) and from an accounting perspective, i.e. the extent to which such risks affect the amounts recorded in the group's financial statements.

Asset volatility

For the purpose of setting the contribution requirements, the calculation of the value of the liabilities uses a discount rate set with reference to government bond yields, with allowance for additional return to be generated from the investment portfolio. Under IAS 19, the defined benefit obligation is calculated using a discount rate set with reference to corporate bond yields.

The schemes hold a proportion of their assets in return-seeking funds. The return on these assets may be volatile and are not correlated to the value of the liabilities. This means that the deficit may be volatile in the shorter term, which may lead to an increase in the contribution requirements and an increase in the net defined benefit liability recorded on the balance sheet.

The group believes that return-seeking assets offer an appropriate level of return over the long-term for the level of risk that is taken. The schemes' other assets are well diversified by investing in a range of asset classes including government bonds and corporate bonds. The allocation to growth assets is monitored to ensure it remains appropriate given the schemes' long-term objectives.

Change in bond yields

A fall in bond yields increases the value placed on the liabilities for reporting purposes and for setting the group's contribution requirements. However, in this scenario the schemes' investment in corporate and government bonds and liability-driven investments is expected to increase and therefore offset some of the increase in the value placed on the liabilities.

Price inflation

The majority of the schemes' benefit obligations are linked to inflation and higher out-turn inflation will lead to a higher benefit obligation (although in most cases caps on the level of inflationary increases are in place to protect the plan against extreme inflation). A significant proportion of the schemes' assets do not provide a direct hedge against changes in inflation as they are either fixed-interest in nature (corporate bonds and government bonds), or have an indirect link to inflation (equities).

Life expectancy

The majority of the schemes' obligations are to provide benefits for the life of the member and, as such, the schemes' liabilities are sensitive to these assumptions. This is particularly significant where the longer duration and inflation-linked nature of the payments result in higher sensitivity to changes in life expectancy. The schemes do not contain a hedge against increases in future life expectancy.

25. Net retirement benefit obligation (continued)

d) Amounts recognised in comprehensive income

	AWGPS £m	Hartlepool £m	MPLAP £m	Unfunded pensions £m	Total £m
2017					
Amount charged to staff costs within operating profit:					
Current service cost	(6.6)	(0.2)	-	-	**(6.8)**
Administration expenses	(0.2)	(0.1)	(0.9)	-	**(1.2)**
Total operating charge (see note 10)	**(6.8)**	**(0.3)**	**(0.9)**	**-**	**(8.0)**
Amount credited/(expensed) to finance costs:					
Interest income on scheme assets	46.3	0.8	7.6	-	**54.7**
Impact of restriction on surplus	-	-	(0.8)	-	**(0.8)**
Interest cost on scheme liabilities	(44.0)	(0.8)	(7.4)	(1.5)	**(53.7)**
Net interest income/(expense) (see note 8)	**2.3**	**-**	**(0.6)**	**(1.5)**	**0.2**
Amounts charged to the income statement	**(4.5)**	**(0.3)**	**(1.5)**	**(1.5)**	**(7.8)**
Amounts (charged)/credited to other comprehensive income					
Return on plan assets (excluding amounts included in net interest)	219.7	6.2	19.9	-	**245.8**
Actuarial (losses)/gains arising from:					
Changes in financial assumptions	(348.7)	(4.8)	(55.6)	(6.6)	**(415.7)**
Changes in demographic assumptions	16.1	0.2	3.6	0.7	**20.6**
Experience adjustments	12.1	0.2	1.2	0.4	**13.9**
Change arising from minimum funding requirement	-	-	22.9	-	**22.9**
Net (charge)/credit to other comprehensive income	**(100.8)**	**1.8**	**(8.0)**	**(5.5)**	**(112.5)**
2016					
Amount charged to staff costs within operating profit:					
Current service cost	(7.6)	(0.2)	-	-	(7.8)
Administration expenses	(1.8)	-	(0.9)	-	(2.7)
Total operating charge (see note 10)	(9.4)	(0.2)	(0.9)	-	(10.5)
Amount (expensed)/credited to finance costs:					
Interest income on scheme assets	42.7	0.8	7.2	-	50.7
Interest cost on scheme liabilities	(42.2)	(0.8)	(7.3)	(1.5)	(51.8)
Net interest (expense)/income (see note 8)	0.5	-	(0.1)	(1.5)	(1.1)
Amounts charged to the income statement	(8.9)	(0.2)	(1.0)	(1.5)	(11.6)
Amounts credited/(charged) to other comprehensive income:					
Return on plan assets (excluding amounts included in net interest)	(30.6)	(0.4)	(8.8)	-	(39.8)
Actuarial gains/(losses) arising from:					
Changes in financial assumptions	59.4	0.6	15.3	2.1	77.4
Changes in demographic assumptions	9.4	0.2	1.6	0.3	11.5
Experience adjustments	(0.3)	0.3	(0.1)	-	(0.1)
Change arising from minimum funding requirement	-	-	(22.1)	-	(22.1)
Net credit/(charge) to other comprehensive income	37.9	0.7	(14.1)	2.4	26.9

25. Net retirement benefit obligation (continued)

e) Amounts recognised in the balance sheet

	AWGPS £m	Hartlepool £m	MPLAP £m	Unfunded pensions £m	Total £m
2017					
Equities	272.3	4.7	85.7	-	**362.7**
Corporate bonds	665.9	-	65.1	-	**731.0**
Government bonds	308.2	23.6	8.6	-	**340.4**
Property	111.0	-	2.2	-	**113.2**
Alternatives	(44.8)	-	75.6	-	**30.8**
Other	263.3	1.9	5.8	-	**271.0**
Total assets	1,575.9	30.2	243.0	-	**1,849.1**
Present value of scheme liabilities	(1,606.8)	(26.2)	(265.1)	(49.2)	**(1,947.3)**
Net pension (obligation)/surplus	**(30.9)**	**4.0**	**(22.1)**	**(49.2)**	**(98.2)**
Comprising:					
Pension schemes with a net surplus, included in non-current assets	-	4.0	-	-	**4.0**
Pension schemes with a net obligation, included in non-current liabilities	(30.9)	-	(22.1)	(49.2)	**(102.2)**
	(30.9)	**4.0**	**(22.1)**	**(49.2)**	**(98.2)**
2016					
Equities	315.2	3.7	71.6	-	390.5
Corporate bonds	566.0	-	56.7	-	622.7
Government bonds	312.2	-	40.6	-	352.8
Property	113.4	-	1.0	-	114.4
Alternatives	(88.0)	21.4	44.1	-	(22.5)
Other	114.3	-	5.4	-	119.7
Total assets	1,333.1	25.1	219.4	-	1,577.6
Present value of scheme liabilities	(1,274.8)	(23.3)	(215.4)	(45.0)	(1,558.5)
Liability arising from minimum funding requirement [1]	-	-	(22.1)	-	(22.1)
Net pension (obligation)/surplus	58.3	1.8	(18.1)	(45.0)	(3.0)
Comprising:					
Pension schemes with a net surplus, included in non-current assets	58.3	1.8	-	-	60.1
Pension schemes with a net obligation, included in non-current liabilities	-	-	(18.1)	(45.0)	(63.1)
	58.3	1.8	(18.1)	(45.0)	(3.0)

[1] The liability, at 31 March 2016, arising from the minimum funding requirement represents the discounted value of future committed contributions for schemes with a surplus that cannot be recovered through refunds or a reduction in future contributions.

Pension schemes in a net surplus position at the balance sheet date are shown as retirement benefit surpluses within non-current assets on the balance sheet.

The scheme assets do not include any of the group’s own financial instruments, nor any property occupied by, nor other assets used by, the group.

25. Net retirement benefit obligation (continued)

f) Reconciliation of fair value of scheme assets

	AWGPS £m	Hartlepool £m	MPLAP £m	Unfunded pensions £m	Total £m
At 1 April 2015	1,344.7	24.5	229.3	-	**1,598.5**
Interest income on scheme assets	42.7	0.8	7.2	-	**50.7**
Administration costs	(1.8)	-	(0.9)	-	**(2.7)**
Employers' contributions	18.5	0.8	5.5	2.8	**27.6**
Members' contributions	3.4	0.1	-	-	**3.5**
Benefits paid	(43.8)	(0.7)	(12.9)	(2.8)	**(60.2)**
Return on plan assets (excluding interest income)	(30.6)	(0.4)	(8.8)	-	**(39.8)**
At 31 March 2016	1,333.1	25.1	219.4	-	**1,577.6**
Interest income on scheme assets	46.3	0.8	7.6	-	**54.7**
Administration costs	(0.2)	(0.1)	(0.9)	-	**(1.2)**
Employers' contributions	16.1	0.7	5.5	2.8	**25.1**
Members' contributions	4.3	-	-	-	**4.3**
Benefits paid	(43.4)	(2.5)	(8.5)	(2.8)	**(57.2)**
Return on plan assets (excluding interest income)	219.7	6.2	19.9	-	**245.8**
At 31 March 2017	**1,575.9**	**30.2**	**243.0**	**-**	**1,849.1**

g) Reconciliation of scheme liabilities

	AWGPS £m	Hartlepool £m	MPLAP £m	Unfunded pensions £m	Total £m
At 1 April 2015	(1,333.9)	(24.0)	(237.8)	(48.7)	**(1,644.4)**
Current service cost	(7.6)	(0.2)	-	-	**(7.8)**
Interest cost on scheme liabilities	(42.2)	(0.8)	(7.3)	(1.5)	**(51.8)**
Members' contributions	(3.4)	(0.1)	-	-	**(3.5)**
Benefits paid	43.8	0.7	12.9	2.8	**60.2**
Actuarial gain	68.5	1.1	16.8	2.4	**88.8**
At 31 March 2016	(1,274.8)	(23.3)	(215.4)	(45.0)	**(1,558.5)**
Current service cost	(6.6)	(0.2)	-	-	**(6.8)**
Interest cost on scheme liabilities	(44.0)	(0.8)	(7.4)	(1.5)	**(53.7)**
Members' contributions	(4.3)	-	-	-	**(4.3)**
Benefits paid	43.4	2.5	8.5	2.8	**57.2**
Actuarial loss	(320.5)	(4.4)	(50.8)	(5.5)	**(381.2)**
At 31 March 2017	**(1,606.8)**	**(26.2)**	**(265.1)**	**(49.2)**	**(1,947.3)**

26. Share capital

	Group and Company	
	2017	2016
	£m	£m
Allotted, issued and fully paid		
85,415,751,649 ordinary shares of 1 pence each	**854.2**	854.2

There were no movements in the number of shares allotted, issued and fully paid in either the current or preceding year.

27. Hedging reserve

	Group		Company	
	2017	2016	**2017**	2016
	£m	£m	**£m**	£m
At the beginning of the year	**(101.0)**	(87.7)	**-**	(7.7)
Gains/(losses) on cash flow energy hedges	**13.7**	(19.0)	**-**	-
Amounts transferred to the income statement	**(2.3)**	1.3	**-**	-
Gains on cash flow hedges	**30.9**	46.8	**-**	-
Amounts recycled to the income statement from de-designation of cash flow hedge relationships	**1.0**	11.9	**-**	9.6
Exchange movement on debt in cash flow hedges	**(65.4)**	(54.6)	**-**	-
Deferred tax movement on cash flow hedges	**2.6**	0.3	**-**	(1.9)
At 31 March	**(120.5)**	(101.0)	**-**	-

28. Capital commitments

The group has a substantial long-term investment programme in 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 2017.

	Group	
	2017	2016
	£m	£m
Property, plant and equipment	**89.2**	100.5
Intangible assets	**20.1**	11.1
	109.3	111.6

There were no capital commitments relating to the group's share of joint ventures.

The company

The company has no such commitments (2016: none).

29. Lease commitments

a) Operating lease commitments

The group leases certain properties and various items of plant and equipment, as well as vehicles, under operating leases. In addition the group sub-lets a number of leased properties.

At 31 March 2017 the group had the following outstanding commitments in respect of future minimum lease payments under non-cancellable operating leases:

	Group	
	2017	2016
	£m	£m
Within one year	**9.4**	10.6
Between one and five years	**18.5**	24.2
After five years	**11.0**	14.0
	38.9	48.8

The total future minimum sublease payments expected to be received under non-cancellable operating leases were:

	Group	
	2017	2016
	£m	£m
The group		
Within one year	**3.0**	3.9
Between one and five years	**2.1**	3.9
After five years	**0.3**	0.7
	5.4	8.5

The company

The company has no such commitments (2016: none).

b) Leases as lessor

The group leases out its investment properties. During the year to 31 March 2017 rental income of £0.5 million (2016: £0.2 million) was included within revenue.

30. Contingencies

The group has entered into a number of performance bonding and guarantee arrangements in the normal course of business. Provision is made for any amounts that the Directors consider may become payable under such arrangements. The group has also issued guarantees in respect of its joint ventures of £nil (2016: £6.6 million).

The group has entered into a variety of restructuring and re-financing initiatives over time to optimise the efficiency of its balance sheet and organisation in order to create value for customers and shareholders. Extensive professional advice has been taken which supports the view that all group restructurings have been correctly treated for accounting and tax purposes and therefore, since any risk here is very low, no provisions for tax liabilities are considered to be necessary. At 31 March 2017, the group had £83.6 million (2016: £145.1 million) of recoverable ACT recorded in the balance sheet. This ACT is expected to be recovered in full over time and therefore no provision is considered appropriate in respect of this asset.

In 2016 the group received indications of claims from two 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. This is an industry wide issue and at this stage the Directors consider the claim to be uncertain, but not to be material to the financial standing of the company.

As is normal for a company of this size and nature it is subject to a number of other claims, disputes and litigation. The Directors consider an appropriate position has been taken in reflecting such items in these financial statements.

31. Ultimate parent undertaking and controlling party

Osprey Acquisitions Limited is incorporated and domiciled in England and Wales. The company's immediate parent undertaking is Osprey Holdco 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 controlled by a consortium of investors consisting of the Canada Pension Plan Investment Board, Colonial First State Global Asset Management, IFM Investors, and 3i.

Osprey Holdco 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 can be obtained from the Company Secretary, Lancaster House, Lancaster Way, Ermine Business Park, Huntingdon, Cambridgeshire PE29 6XU.

32. Disposal group held for sale

At 31 March 2017, an agreement was in place for Anglian Water Services Limited to sell its non-household water and water recycling retail business to Anglian Water Business (National) Limited, a fellow subsidiary of the group's ultimate parent undertaking.

The sale was completed on 1 April 2017 for proceeds of £79.0 million, resulting in a profit on sale of £4.6 million which will be recognised in the 2017/18 financial statements.

In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' the following assets and liabilities, valued at their carrying amount, have been classified as a disposal group held for sale at 31 March 2017:

	2017 £m
Assets classified as held for sale	
Intangible assets	**3.1**
Property, plant and equipment	**0.5**
Trade and other receivables	**82.0**
	85.6
Liabilities directly associated with assets held for sale	
Trade and other payables due within one year	**(11.2)**
	(11.2)

There was no cumulative income or expense recognised directly in other comprehensive income relating to the above disposal group.

The disposal group is included within the Anglian Water segment (see note 3).

33. Related party transactions

a) Transactions with shareholders

The consortium of investors owning Anglian Water Group Limited are considered to be related parties of the company as they each have the ability to influence the financial and operating policies of both the company and the group.

During the year to 31 March 2017, the Commonwealth Bank of Australia, the parent company of Colonial First State Global Asset Management one of the consortium of investors owning Anglian Water Group Limited, agreed to the extension of its participation in the £500 million revolving credit facility with an allocation of £45 million, and continued to participate in the Operation and Maintenance facility with an allocation of £25 million. The fees earned on these facilities totalled £76,250.

During the year to 31 March 2016, Anglian Water Services Financing Plc entered into a USD fixed to GBP floating rate cross currency interest rate swap agreement with a notional USD principal of £36.0 million and a notional GBP principal of £25.0 million, on normal commercial terms, through the Commonwealth Bank of Australia. In addition to this the Commonwealth Bank of Australia renewed its participation in the £500 million revolving credit facility with an allocation of £45 million, and in the Operation and Maintenance facility with an allocation of £25 million. The fees earned on these facilities totalled £243,481.

During the year to 31 March 2017 there were no other transactions (2016: none) with the shareholders of the ultimate parent undertaking.

b) Transactions with Key Management

A scheme is in place to encourage investment in the group by Key Management on an equivalent basis as the consortium of shareholders. During the year £1.7 million (2016: £1.5 million) was invested by Key Management, a return of £0.3 million (2016: £0.1 million) was earned, and the group repaid £0.1 million (2016: £3.5 million) as part of this scheme. At 31 March 2017 £3.5 million (2016: £1.6 million) was loaned to the group by Key Management under this scheme. At the balance sheet date Key Management also held various bonds issued by the group totalling £0.1 million (2016: £0.1 million).

Remuneration of key management personnel

	2017 £m	2016 £m
Short-term employee benefits	**5.7**	5.8
Post-employment benefits	**0.5**	0.6
Other long-term benefits	**1.8**	3.1
	8.0	9.5

33. Related party transactions (continued)

c) Transactions with joint ventures

The group's transactions with joint ventures are summarised below:

	2017 **£m**	2016 £m
Sale of goods/services	**0.2**	0.2
Management fees received	**-**	0.3
Dividends received	**-**	1.3

Year-end trading balances with joint ventures were as follows:

	2017 **£m**	2016 £m
Amounts receivable from joint ventures	**0.9**	1.0
Amounts payable to joint ventures	**-**	-

The following loans to related parties were made to fund the ongoing development activities of joint venture companies.

	2017 **£m**	2016 £m
At the beginning of the year	**4.2**	4.2
Additions	**0.3**	-
Repayments	**(0.3)**	-
Amounts provided	**(3.5)**	-
At 31 March	**0.7**	4.2

d) Parent company

The company's related party transactions are summarised below:

	2017 **£m**	2016 £m
Management fees paid to		
Subsidiaries	**(0.1)**	(0.1)
Interest paid to		
Subsidiaries	**(27.3)**	(27.4)
Dividends received from		
Subsidiaries	**127.4**	147.1
Dividends paid to		
Parent company	**(96.5)**	(112.5)

	2017 **£m**	2016 £m
Current tax receivables due from		
Subsidiaries	**8.1**	8.1
Loans and other borrowings due to		
Parent company	**(728.8)**	(728.8)
Subsidiaries	**(452.3)**	(451.9)

34. Events after the balance sheet date

On 1 April 2017 Anglian Water Services Limited sold its non-household water and water recycling retail business to Anglian Water Business (National) Limited, a fellow subsidiary of the group's ultimate parent undertaking (see note 32).

Other than 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.

35. Group undertakings

The group's subsidiary undertakings at 31 March 2017 are shown below. Unless otherwise disclosed, all subsidiary undertakings are incorporated in the UK, are 100% owned, and with a share class of ordinary shares.

	Registered office	Percentage holding
Owned directly by Osprey Acquisitions Limited		
Anglian Water (Osprey) Financing Plc	a	
AWG Parent Co Limited	a	
All subsidiary undertakings		
Alexander Morrison Limited	b	
Ambury Developments Limited	a	
Anglian Portfolio Management Limited	b	
Anglian Water (Osprey) Financing Plc	a	
Anglian Water Business Limited	b	
Anglian Water Direct Limited	a	
Anglian Water Facilities Management Holdings (UK) Limited	a	
Anglian Water Fleet Management Holdings (UK) Limited	a	
Anglian Water International Holdings Limited	a	
Anglian Water Overseas Holdings Limited	d	
Anglian Water Property Holdings (UK) Limited	a	
Anglian Water Services Financing Plc	a	
Anglian Water Services Holdings Limited	a	
Anglian Water Services Limited	a	
Anglian Water Services Overseas Holdings Limited	a	
AW Creative Technologies Limited	a	
AW Licensing Limited	a	
AWG (UK) Holdings Limited	a	
AWG Business Centres Limited	a	
AWG Cambuslang Rental Portfolio Limited	b	
AWG Central Services Limited	a	
AWG Group Limited	a	
AWG Holdings Limited	e	
AWG Land Holdings Limited	a	
AWG Land Investments Limited	b	
AWG Outlet Centers Limited	b	
AWG Parent Co Limited	a	
AWG Property Developments (Ireland) Limited	f	
AWG Property Director Limited	a	
AWG Property Limited	b	
AWG Property Solutions Limited	a	
AWG Residential Limited	b	
AWG Shelf 11 Limited	b	
Chester (1995) Limited	a	96.6%
CS Amenities Limited	a	
CS Management Company (2002) Limited	a	
Eastland Developments Limited	a	
Edmund Homes Limited	a	

35. Group undertakings (continued)

	Registered office	Percentage holding
All subsidiary undertakings (continued)		
Farm Gas Limited	a	
H2GO Limited	a	
Macrocom (743) Limited	b	
Morco (3) Limited	b	
Morrison Biggs Wall Limited	a	
Morrison Caspian Limited	b	
Morrison Glosha Limited	b	
Morrison Holdings Limited	a	
Morrison International Developments Limited	b	
Morrison International Limited	b	
Morrison Lema Homes Limited	b	
Morrison Leneghan Irl Limited	g	60.0%
Morrison Properties Limited	b	
Morrison Property Investments Limited	b	
Morrison Rail Limited	b	
Morrison Shand Construction Limited	a	
Morrison Ventures Limited	b	
Northwood (Residential) Limited	h	
NVB Rathdowney Limited	i	
Osprey Acquisitions Limited	a	
Osprey Holdco Limited	a	
Rutland Insurance Limited	j	
Shand Construction Limited	a	
Shawlands Developments (1)	b	
Valuetype Limited	a	
Vector Morrison (Ghana) Limited	k	60.0%
Wave Environmental limited	a	
Wave Holdings Limited	b	
Wave Utilities Limited	b	
Wave Water Limited	b	

35. Group undertakings (continued)

	Registered office	Percentage holding
Joint ventures		
124 St Vincent Street (Glasgow) LLP (1) (2)	l	50.0%
AWG Mitchell Investments (Tannochside) Limited	b	50.0%
AWG Outlets (Rathdowney) Limited	f	50.0%
Cambuslang Retail Portfolio Limited	b	50.0%
Castlemilk Retail LLP (1) (2)	l	50.0%
City Road Properties (Chester) Limited	a	50.0%
Crowwood Grange Estates Limited	b	50.0%
DMWS 819 Limited	b	50.0%
DMWS 822 Limited	b	50.0%
DMWS 823 Limited	b	50.0%
DMWS 824 LLP (1)	b	50.0%
Excel Centre Aberdeen Limited (2)	l	50.0%
Graham Street Airdrie Retail Portfolio Limited	b	50.0%
Gwent Euro Park Management Company Limited	a	41.6%
Hollowstone Limited	a	50.0%
Kings Waterfront Properties Limited	a	50.0%
Leith Walk Properties Limited (2)	l	50.0%
Morrison Gwent Limited	a	50.0%
Morrison Residential Properties Limited	b	50.0%
Ocean Point Developments Limited (2)	l	50.0%
Palacecraig Street Coatbridge Limited (2)	l	50.0%
Rathdowney Shopping Centre Management Company Limited	f	50.0%
Shawlands Retail Limited	b	50.0%
Spreevale Limited	m	50.0%

(1) The principal place of business of these companies is the same as the registered office address.

(2) In administration.

Registered offices

a) Lancaster House, Lancaster Way, Ermine Business Park, Huntingdon, Cambridgeshire, PE29 6XU, United Kingdom.

b) 47 Melville Street, Edinburgh, EH3 7HL, United Kingdom.

c) Suite 8, Northwood House, Northwood Business Campus, Santry, Dublin 9, Ireland.

d) M&C Corporate Services Limited, Ugland House, PO Box 309, Georgetown, Grand Cayman, Cayman Islands.

e) Queensway House, Hilgrove Street, St Helier, JE1 1ES, Jersey, Channel Islands.

f) 1 Stokes Place, St Stephens Green, Dublin 2, Ireland.

g) 6th Floor, Southbank House, Barrow Street, Dublin 4, Ireland.

h) Dargan House, 21/23 Fenian Street, Dublin 2, Ireland.

i) Rathdowney Shopping Outlet, Johnston Road, Rathdowney, Co Laois, Ireland.

j) St Martin's House, Le Bordage, St Peter Port, Guernsey, GY1 4AU, Channel Islands.

k) Volga House, North Industrial Area, P.O. Box 6143, Accra North, Ghana.

l) 101 Rose Street, South Lane, Edinburgh, EH2 3JG, United Kingdom.

m) 15 Clanwilliam Terrace, Dublin 2, Ireland.

For all companies, the registered office is located in the country of incorporation.

Independent auditors' report to the members of Osprey Acquisitions Limited

We have audited the financial statements of Osprey Acquisitions Limited for the year ended 31 March 2017 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group and Company Balance Sheets, the Group and Company Statements of Changes in Equity, the Group and Company Cash Flow Statements and the related notes 1 to 35. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2017 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Independent auditors' report to the members of Osprey Acquisitions Limited (continued)

Opinion on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- 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; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

James Leigh (Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
30 June 2017