Osprey Acquisitions Limited
Annual report and consolidated financial statements
for the year ended 31 March 2016

Company number: 05915896

Directors' report

for the year ended 31 March 2016

The Directors present their report and the audited consolidated financial statements of Osprey Acquisitions Limited for the year ended 31 March 2016.

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 and distribution, sewage collection and treatment, and property development. 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 34.

Group results and returns to shareholders

The income statement on page 35 shows the group's results for the year. Dividends of £112.5 million (2015: £91.5 million) have been paid in the year. In addition a first interim dividend of £25.3 million in respect of the year ended 31 March 2017 was approved by the Board on 6 June 2016 and was paid on 10 June 2016. This dividend has not been included as a liability at 31 March 2016.

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	(appointed 1 April 2015)
Scott Longhurst	
Peter Simpson	
James Bryce	
Andrew Cox	(resigned 14 June 2016)
Cressida Hogg CBE	
Werner Kerschl	
Niall Mills	
Robert Napier	(appointed 23 July 2015)
Alexandros Nassuphis	(appointed 25 November 2015)
Batiste Ogier	
Mark Rogers	(resigned 25 November 2015)
Christian Seymour	
Dr Timothy Stone CBE	(resigned 4 June 2015)
Philip White	

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

Directors' indemnities

The company maintains directors' and officers' liability insurance, which gives appropriate cover for legal action brought against its Directors. The company has also provided an indemnity for its Directors, which is a qualifying third-party indemnity provision for the purpose of section 234 ((2) – (6)) of the Companies Act 2006.

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. Part of the funds raised in 2015/16 directly supported the work of WaterAid in two countries, Nepal and Liberia, where we are proud to have close links to the work of the local WaterAid teams. During the year, the group donated £40,000 to WaterAid. In addition to this, the group's ultimate shareholders also made a £50,000 donation to WaterAid, following the receipt of the Queen's Award for Enterprise by Anglian Water Services Limited. With the support of the group, employee volunteers, partners and suppliers across the business, our WaterAid Volunteers' Committee successfully fundraised an extra £624,984 for WaterAid (2015: £523,804), the highest amount ever raised by the business.

Political donations
No political donations were made during the year (2015: £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 26 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 in note 33 of the financial statements.

Statement of Directors’ responsibilities
The Directors are responsible for preparing the Annual Report and the 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 (IFRS) 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;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards 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.

The directors consider that the annual report and accounts, 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.

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 International Financial Reporting Standards 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.

Osprey Acquisitions Limited

Directors' report (continued)

for the year ended 31 March 2016

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

The auditors, PricewaterhouseCoopers LLP, are not able to stay in office as they will be appointed as internal auditors with effect from July 2016. New external auditors will be appointed during the 2016/17 financial year.

Going concern

The directors believe, after due and careful enquiry, that the group and company have sufficient resources to continue in operational existence for the foreseeable future and, therefore, consider it appropriate to adopt the going concern basis in preparing the 2016 financial statements.

Claire Russell
Company Secretary
29 June 2016

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

Registered in England and Wales No. 05915896

Group strategy and financial performance
The group's principal business is Anglian Water, the group's regulated water and sewerage company, which supplies water and water recycling services to over six million domestic and business customers in the east of England and Hartlepool. The group also includes AWG Property, a specialist property development company.

The following pages set out a strategic report for each of the main reporting segments of the group at 31 March 2016, and the key risks for the group.

The key performance indicators of the group's individual businesses are discussed in the Anglian Water and Property sections below. In addition, compliance with the group's borrowing covenants is an additional key performance indicator for the group and is discussed on page 26.

The results for the group for the year to 31 March 2016 show a profit before exceptional items, fair value losses and tax of £54.6 million (2015: £132.1 million) and revenue of £1,193.7 million (2015: £1,254.4 million). The group has net debt at 31 March 2016 of £7,914.5 million (2015: £7,762.5 million). Net cash inflow from operating activities for the year was £622.4 million (2015: £690.4 million).

Taxation
The total tax credit for the year of £136.6 million (2015: £33.0 million) comprised a current tax charge of £8.1 million (2015: £9.5 million) and a deferred tax credit of £144.7 million (2015: £42.5 million).

The main reasons for the deferred tax credit in the current year are the fair value losses on derivatives, together with an adjustment for prior years arising from agreement with HMRC for the transfer of non-qualifying assets, which would previously have qualified for Industrial Building Allowances, being classified as longlife assets. The deferred tax credit has increased from £42.5 million to £144.7 million. The current year includes the impact of the reduction in future tax rates used to calculate deferred tax from 20% to 18% which gives rise to a credit of £120.4 million. Without this, there is a credit in the current year of £24.3 million.

Our relatively low level of taxation reflects the fiscal incentives available for capital investment, and the interest we pay to fund that investment. 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. Customers also benefit from the deferral as it helps to keep their bills lower.

Dividends
Dividends of £112.5 million (2015: £91.5 million) have been paid in the year. 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 requirement of the business is met fully.

Pensions
At 31 March 2016 the net deficit for the group was £3.0 million (2015: £45.9 million). The improved position reflects the deficit reduction contributions made in the year benefitting pension scheme assets, and the beneficial impact of an increase in yields on AA-rated corporate bonds which increased the discount rate and therefore reduced the value placed on the pension liabilities. This has been partially offset by lower than expected asset returns over the year. Future additional contributions will continue to be made in line with actuarial advice.

Gender diversity

Anglian Water employs 98% of the group's employees. Despite being a highly engineering-biased organisation, women are represented at all levels of Anglian Water, accounting for 29% of its technical experts and 25% of its senior managers. Currently, 25% of the Anglian Water Executive Directors are women and female Directors represent 12.5% of the AWS Board. Women make up 31% of its people managers. Overall, 30% of its employees are female and 70% are male. The group is committed to equality, having recently reviewed its diversity and equality policies and is now implementing its diversity plan.

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 and non-household customers across the UK.

We aim to be the leading customer service business in the UK. We will achieve this by engaging with customers, basing our approach on their expectation of excellent service and measuring our performance against the outcomes they want to see. We will provide the vital services that help the economy, the environment and communities to thrive.

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 ***supply*** it to homes, businesses and industry. 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.

Our key ***resources***:

- Our people – Our employees, suppliers and their 'know-how'.
- Financial – Capital, revenue and profits invested in our business.
- Raw 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.

ANGLIAN WATER

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.

What we ***create***:

- Safe, clean drinking water – 99.97% compliance for water quality.
- Energy – 112 GWh generated.
- Water for industry – preparing for competition.
- Skills, jobs and growth – lead sponsor of Greater Peterborough University Technical College.
- Recycled water for the environment – 34 excellent bathing waters.
- Biosolids – developed the biosolids assurance scheme for agriculture.

Our approach is that in any business situation we can ***innovate*** and ***collaborate*** to ***transform*** the end result.

What matters most to our customers

An independent Customer Engagement Forum (CEF) was established to represent the interests of customers, communities, the economy and the environment in the development of our Business Plan. Together, the consultation process and the CEF helped us to decide on the most material issues facing the business and which we need to address over the Asset Management Period (AMP).

We have asked the CEF to continue meeting, consulting and acting as a body that will review and assess the delivery of the Plan over the next five years. That role includes advising and challenging Anglian Water on how it engages with customers and how customer views are reflected in the delivery of the Plan.

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 we are trying to achieve

These are the ***10 outcomes*** we want to achieve for our customers and the environment.

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.

ANGLIAN WATER

- 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.

What affects us

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

Population growth

We supply water to approximately two million households, an increase of 27% since the water industry was privatised in 1989.

Despite this, the total amount of water we supply each day is now slightly less. This is due in large part to long-term reductions in leakage, to the increasing proportion of customers on a water meter and to our installation of water efficiency devices in people's homes.

Our region's population may increase by as much as one million by 2040, increasing demand by 13%. Reducing leakage and using water more efficiently are things that customers expect us to do to maintain the future balance between supply and demand, and we will continue to focus on these areas over the next five years.

Climate change

The Anglian region is the driest in the UK, with average annual rainfall approximately 71% of the long-term average for England.

Climate change threatens to reduce that further, while rising sea levels and extreme storms could threaten low-lying sites. In response, 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 and working to reduce our own impact on climate change through reducing our carbon footprint and increasing the amount of renewable energy generated on our sites.

Customer expectations

Customer expectations have been transformed in recent years, a change accelerated by the rise of social media.

Customers now demand faster, easier, round-the-clock interaction, and digital technology gives them a much more active role in the conversation. They compare our service with that of the top UK brands, and they expect us to be as good, if not better. At the same time, our performance is linked to millions of pounds in either penalty or reward under the new system of Outcome Delivery Incentives (ODIs), with some of the largest potential penalties attached to the Service Incentive Mechanism (SIM), which Ofwat uses to score our customer service against that of other water companies.

Increased competition

From April 2017, all non-household customers will be able to choose their water and/or water recycling retailer.

Our non-household retail arm, Anglian Water Business, will become a separate company, with Anglian Water Services remaining the wholesaler, supplying services to retailers who wish to serve nondomestic customers in our region. We are developing a Wholesale Service Centre, which will be the single point of contact for all the retailers operating in our region.

In addition, the UK Government has asked Ofwat to conduct a cost–benefit analysis of extending retail competition in water to households. Ofwat's assessment is due this summer.

ANGLIAN WATER

The Government and Ofwat have also indicated further market and regulatory reform is likely in future, including in upstream markets, sludge treatment and the provision of new water resources.

Skills gap

We need to ensure we have enough qualified and competent employees. A significant number of our most experienced employees are due to retire within the next decade.

We are taking steps to recruit and develop our existing workforce so we can continue to provide excellent services, build and maintain our assets, and meet the expectations of our customers and regulators.

Our industry-leading Licence to Operate programme ensures high standards of training for existing technicians and new starters, while our apprenticeship and graduate programmes recruit to fill skills gaps, retirement profiles and management positions. Our leading role in the establishment of the Greater Peterborough University Technical College and work with the College of West Anglia also help to create a high level of technical talent in the region as a pipeline into our industry

Regulation

Ofwat is our economic regulator. It controls how much we can charge customers and we have worked closely with Ofwat in producing our Business Plan for 2015–2020. In its Final Determination in December 2014, Ofwat agreed with almost everything proposed, allowing us to deliver on the priorities agreed with our customers.

The **Environment Agency** controls the amount of water we are allowed to take from the environment and the quality of the water we return to it. It has been closely involved in the development of our Water Resource Management Plan and in the thought leadership work on 21st century water supply through the Cambridge Institute for Sustainability Leadership.

The **Drinking Water Inspectorate** ensures the quality of water we supply to our customers.

Our strategy

In 2010, at the beginning of the AMP5 period (2010–15), we saw the need for a new kind of strategy to reshape our business for a fast-changing world. It needed to have a global perspective, and to place communities, the environment and the economy at the heart of our thinking and planning.

We called this new strategy Love Every Drop. Out went traditional, introverted and incremental ways of managing our business. In came a set of bold and far-reaching goals.

Love Every Drop embraces activities and campaigns that involve everyone, including customers, stakeholders, community leaders and young people. In the past five years, it has fundamentally changed how we operate.

It has raised the profile of water with decision makers and enabled us to set even higher standards for our own performance. At the same time, it has helped our customers to better recognise the true value of water and how it supports a growing economy, a flourishing environment and vibrant communities.

Our Business Plan for AMP6 was written on the back of our largest ever customer consultation. It 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.

The Love Every Drop goals we have set will guide us in delivering these outcomes, while our culture of Innovation, Collaboration and Transformation provides the solid foundation on which we will build.

The fundamentals of our business have not changed; the provision of safe, clean drinking water, the protection of our environment and world-class customer service remain paramount.

We must continue to deliver these fundamentals safely, avoiding harm to ourselves, others and the environment. But we will do so much more. The world around us is changing, and we must too. Our Plan will drive the business forward, keeping a firm grip on the leading position we have worked so hard to achieve in the past decade.

ANGLIAN WATER

<u>How we are structured</u>

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

AWG Group Limited

Anglian Water Services Holdings Limited

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 ringfenced 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 and Jean Spencer.

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

Four Non-Executive Directors: James Bryce, Andrew Cox, Werner Kerschl and Niall Mills.

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.

Performance 2015/16

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 2015/16	16 minutes 54 seconds
Actual	8 minutes 12 seconds

Bathing waters

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

Excellent	34 (target 32)
Good	11
Sufficient	2
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	414

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	5,645

Service Incentive Mechanism (SIM)

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

Quantitative	76 SIM points

Qualitative – Average of Ofwat surveys

Actual	4.41 out of 5. Third of all water and sewerage companies.

ANGLIAN WATER

Leakage

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

Megalitres per day (three year average)

Target	192 (for 2015/16)
Actual	189

Serviceability

Above ground / non-infrastructure:

Green	Turbidity (cloudy water)
Green	Failing water recycling centres (by number)
Green	Coliforms (at reservoirs)
Green	Failing water recycling centres (by size)
Amber	Coliforms (at water treatment works)

Below ground / infrastructure:

Green	Interruptions (>12 hours)
Green	Sewer collapses
Green	Burst mains
Green	Sewer blockages
Green	Contacts discolouration
Green	Pollution incidents
Green	Distribution maintenance index
Green	Internal flooding

Pollution incidents

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

Target	371 (for 2015/16)
Actual	144

Water quality contacts

Taste, odour, appearance per thousand customers.

Target	1.42 (for 2015/16)
Actual	1.38

Low pressure

Number of properties not receiving reference level pressure.

We are on track to meet our 2017/18 target and aim to increase pressures at even more properties in 2016/17.

Number of properties

Target	361 (by 2017/18)
Actual	462

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.

ANGLIAN WATER

Satisfied customers

We have responded to changes in the Service Incentive Mechanism (SIM) which measures customer satisfaction with the service they receive by improving our ability to respond to customers' issues faster, to resolve them first time, and to offer a more tailored and personalised service. To do this we have increased the size of our customer care teams, and increased the amount of coaching and training available for them.

Growth in the team has been underpinned by the introduction of a new way of working known as 'My Customer', which gives staff the know-how and the freedom to provide a tailored and personalised service. New ways of gathering real-time feedback from customers also helps customer support teams address issues before they become problems for our customers, while the Digital Customer Service team continues to rapidly grow the number of customer interactions handled via social media channels.

These changes have helped us secure third place in Ofwat's qualitative SIM survey. We surveyed more than 90,000 customers during the year, with more than 80% reporting they were very satisfied with our service. Our 1Customer IT system was a Gold Winner in the Business Transformation category of the SAP United Kingdom and Ireland Quality Awards. We achieved a UK Customer Satisfaction Index score of 72.3%, as measured by the Institute of Customer Service, just outperforming the utility sector score.

Fair charges

We are committed to keeping bills affordable, recognising that household budgets remain under pressure. In 2015/16, customers on average saw their annual bill drop by around 7% in real terms, to £402 per year, or £1.10 per day. In 2016/17 that will rise slightly, by 1.4%, to £411 per year or £1.12 per day. This will pay for £444 million of investment in 2016/17, while still keeping bills lower than they were three years ago. Customers with a water meter will pay less, with the average bill at £378.

The annual, independent Consumer Council for Water survey which questions perceptions of the affordability, fairness and value for money of water bills, showed positive progress in all of these areas. More than 3,000 customers have been accepted onto the new LITE tariff, which discounts the bills of customers in vulnerable circumstances. We run a number of other schemes for customers who struggle to pay their bills, including the Aquacare Plus and Watersure tariffs. Altogether, these schemes are providing assistance to more than 75,000 customers.

In 2015/16, we began to phase out the SoLow tariff, which was originally introduced to help customers moving from a fixed tariff (based on the rateable value of their property) to a metered charge. The subsequent significant growth in the number of households which have a meter fitted means the SoLow tariff is no longer the fairest way to charge for water: a small number of fixed-tariff customers are subsidising a large number of metered customers. We had originally intended to phase out the SoLow tariff over three years, but having listened to feedback from customers affected by the change, we have increased this to six years.

We are committed to metering as the fairest way to charge for water use, encouraging water saving and ensuring customers only pay for what they use. Typically, customers save more than £100 a year when they switch to a meter, and use up to 15% less than non-metered customers. Over the next five years, our Integrated Metering and Developer Services (IMDS) alliance 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. We're using a new approach which we call 'Wave' to target this work geographically, concurrently working on multiple water efficiency projects in a single area, to increase the efficiency of the work and minimise disruption to communities. In the first year of the AMP the programme focused on Norfolk and Buckinghamshire, where we installed 12,000 new meters, exchanged another 45,000, and carried out 16,000 water efficiency home visits. Approximately 86% of our customers' homes now have meters fitted, with 79% using them to measure the amount of water they use and for the calculation of their bill. By the end of AMP6, our target is to have meters installed at 93% of customers' properties, with 88% using it to calculate their bill.

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Safe, clean water

The delivery of safe, clean drinking water is central to what we do. It underpins the public health of our region, and is a fundamental expectation of customers. We have maintained the excellent quality of the water leaving our treatment works, and once again improved on the measure relating to the maintenance of our networks (the Distribution Maintenance Index, which increased from 99.94% in 2014 to 99.95% in 2015). The quality of the water travelling through our network to homes and businesses (Mean Zonal Compliance) has also improved, up from 99.95% in 2014 to 99.97% in 2015. This year, our overall compliance was 99.7%, despite the inclusion of parameters such as lead and metaldehyde.

Our achievement in these areas is supported by customer action in the home, driven by our Keeping Water Healthy campaign, which encourages customers to safeguard the quality of the water when it enters their own, private pipework. We also remain committed to the national WaterSafe scheme for approved plumbers.

We delivered a good performance at our water treatment works in 2015/16, although the number of failures recorded by the Drinking Water Inspectorate increased from six (2014) to eight (2015). We maintained exceptional water quality in storage points along our network of water mains.

The number of customer complaints about the appearance, taste or odour of their water has dropped from 1.48 per 1,000 customers (2014) to 1.38 (2015). This success is closely related to the drop in the number of burst mains, and our improved ability to keep customers informed using our social media channels, during any interruption to their supply.

During 2015/16 our planned programme to replace lead pipework has targeted Bedford, Peterborough and Norwich, three of our highest priority areas for the campaign. We have replaced more than 2,100 lead pipes in these areas during the year, with an additional 400 replaced for customers either following sampling, or as part of our mains replacement programme.

Our catchment management strategy continues to target a reduction in the amount of metaldehyde entering waterways and reservoirs, or reaching our water treatment works. We continue to work closely with the agricultural sector, recognising its huge importance for the east of England, who we have engaged in a number of large-scale initiatives and trials, including our Slug it Out campaign.

Our newly appointed Catchment Management Team has so far carried out 282 individual farm visits, presented at 67 agricultural events, and been present at 114 agricultural meetings and trade shows. They are now working with agricultural colleges in the region on the Great Farm Challenge, engaging with students on the issues of water quality, catchment sensitive farming, diffuse pollution and soil compaction.

Resilient services

Preventing and repairing leaks remains a core focus for us, knowing that it is of paramount importance for customers and the environment. Our target for reducing the amount of leakage is ambitious: while we already lead the industry with the lowest level of leakage per kilometre of water main we manage, we will go further, aiming to bring it down by more than 10%, or 20 Ml/d, by 2020, compared to our performance in 2014/15. This is significantly more than the target we agreed with Ofwat, and reflects the importance our customers place on this area of our work. In the first year of AMP6, we have exceeded our target, putting us on track to deliver our five-year goal.

This success is down to a number of new initiatives, including new teams whose sole objective is to track down hard-to-find leaks, and predict which pipes need replacing to prevent further bursts. Our Integrated Leakage and Pressure Management programme brings network information together in one place in real-time, making it easier to detect and control leakage, while our Optimised Water Networks strategy prevents bursts through management of pressure in our network. More than 25% of all bursts are now found and fixed before customers are aware of them, and in areas with pressure management, there has been a 32% reduction in bursts, saving more than 8.5 million litres every day.

Despite these significant steps forward, bursts and leaks do still occur. When they do, we are focused on restoring supplies as quickly and safely as possible. Minimising the length of time that any customer's supply is disrupted is the target of an Outcome Delivery Incentive. We have made a good start against a challenging five-year target to reduce the average length of interruption per customer from 19 minutes and

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10 seconds, which was our average between 2010 and 2015, to just 12 minutes by 2020. In 2015/16, the time lost per customer due to water supply interruptions was just 8 minutes and 12 seconds. However, the way our performance against this target is calculated means one single major event could set us back significantly.

We also retained our certification to ISO 22301 (Business Continuity Management), which provides extra assurance for customers and key stakeholders that we can keep our business running during, and following, any disruption.

We completed the transition to our new IRIS telemetry system during 2014/15, creating the largest remote monitoring network of its kind in Europe. The benefits of the new system include more effective, risk-based intelligent alarms, presenting the business with a clearer view of incidents most likely to present a real risk to our operation. Manual filtering of alarms and unnecessary site visits are minimised, while jobs are raised and cancelled more efficiently. We are able to react much faster to problems, with more information quickly made available. We will now use the system to increase our proactivity, pinpointing poorly performing assets and prioritising work more effectively.

Our award-winning Keep It Clear programme continues to develop innovative ways to reduce blockages in our sewerage infrastructure. This year we launched a Love Your Seaside campaign using roadshows, leaflets and social marketing initiatives to target the transient population of holidaymakers and tourists who visit the region each year. Our partnership with interactive learning specialists Mad Science has also been extended to include a pantomime, while 16,000 children and adults have experienced Keep It Clear roadshows and school assemblies.

Our business retail arm, Anglian Water Business (AWB), is advanced in its preparation for the opening of the market to supply non-household customers in April 2017. In April 2015, AWB moved into its own office with separate IT and telephony systems, and is now operating independently of our wholesale operation. Anglian Water Services Limited is also preparing for competition and has established a Wholesale Service Centre, which will be the single point of contact for all retailers.

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.

Supply meets demand

As we serve the fastest growing region in the country, our services play a key role in supporting and enabling that growth. We also have an obligation to protect the many wetland sites and areas of conservation importance in our region. Maintaining this balance between supply and demand has seen us invest in new water resource schemes to secure supplies for customers in our Norwich, Fenland and Bedford supply systems. New boreholes have been drilled in our Norfolk supply systems to secure raw water resources, while extensive maintenance work has been carried out to extend the operational life of others.

We have also prioritised investment in Water Recycling assets in regions where we believe the greatest growth is likely to occur, while at the same time looking for sustainable ways to remove surface water from our network to create additional capacity for growth.

A number of schemes are planned to reduce the environmental impact of water abstraction on rivers and groundwaters. These include work to relocate our abstraction point on the Wensum, in Norwich, moving it away from the section of the river designated as a Special Area of Conservation. Additional schemes also support the implementation of the Eels Regulations, protecting this threatened Red List species as defined by the International Union for Conservation of Nature (IUCN).

During 2015/16, we have been working to influence policy on future reform of the abstraction licencing system. We continue to offer our support to both Defra and the Environment Agency to test their modelling of water allocation in water-stressed catchments, and have played a leading role in shaping the guidelines which will underpin the next round of water resource planning.

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Our greatest contribution to the long-term sustainability of water resources in our region, however, will be made through our Water Resources East Anglia (WREA) initiative, which was launched this year. The scheme is seen as a leading example of a collaborative, multi-sector planning initiative set up to address future supply-demand challenges, with the aim of securing the best possible outcome for as wide a range of stakeholders as possible, in the face of the challenges and uncertainties posed by a growing population and a changing climate.

WREA brings together the region's water companies, farmers, food producers, conservationists and regulators to develop a joint, long-term plan for water stewardship. This year has seen initial meetings of the project, alongside the appointment of an independent chair in Henry Cator OBE. In the coming year more detailed technical planning will be completed, with plans to complete the project in 2017.

We have also been leading a similar plan at a national level. At the request of Rory Stewart, the Parliamentary Under Secretary of State for Environment and Rural Affairs responsible for water, our Regulation Director, Jean Spencer, is chairing a steering group set up to deliver a National Water Resources Long Term Planning Framework, under the auspices of Water UK. The programme, which is examining the resilience of national water supplies over the next 50 years, is due to report in the summer.

We are keen to enable sustainable growth in our region, and have seen a significant rise in the number of developers requesting advice from us using our voluntary, pre-planning capacity service. The service helps developers submit better quality planning applications, while also protecting our existing network and our customers from the risks of flooding, pollution or low water pressure. This is in parallel with our strong, established relationships with Local Enterprise Partnerships (LEPs) in the region. In the coming year we intend to work closely with the New Anglia and Greater Lincolnshire LEPs, using their devolved powers to enable the efficient and timely delivery of development.

A flourishing environment

Our partnership with the Leicestershire and Rutland Wildlife Trust continues to deliver great results for wildlife at Rutland Water. In the last year, the hundredth osprey chick hatched at the site since the species was reintroduced in 2001. Alterations to ways in which we manage the site, including bank protection work and changes to the mowing and grazing regime around the reservoir, have significantly improved the quality of the Site of Special Scientific Interest (SSSIs) at Rutland Water. Overall, Natural England now assess that 98.9% of the land at the 47 SSSIs we manage is in favourable condition, up from 49% in 2014/15.

Our Biodiversity Strategy was reviewed and updated in 2015/16. It is aligned with national nature conservation policy, and shows our commitment to protect our SSSIs, manage other important habitats on our land, and work with others to support conservation projects across the region, especially in wetland habitats. Our 'Biodiversity: Guidance for Operations' booklet, which was Highly Commended in the 2015 Chartered Institute of Ecology and Environmental Management Awards, is enabling our operational colleagues to deliver this strategy.

Our BeachCare scheme, run in partnership with Keep Britain Tidy as an extension of our fifteen-year-old RiverCare programme, was further expanded in 2015/16. We now support voluntary groups to care for their beaches in Great Yarmouth, Shoebury, Southend, East Runton, Cleethorpes, Humberston Fitties and West Mersea.

Protecting the quality of our coastline is of huge importance to us, which is why our Coastal Water Protection Team has been working with councils, the Environment Agency, local businesses and residents' groups to identify and address sources of pollution. For the last 13 years, all 48 of our region's bathing waters met or exceeded the standards set out by the Bathing Water Directive. Standards tightened significantly this year, following the introduction of the revised Bathing Water Directive. Nonetheless, 34 of our beaches achieved the new status of excellent, meaning a quarter of England's best beaches are now in the Anglian Water region. Eleven were classified as good, with two sufficient, and one – Clacton Groyne 41 – poor. We are working with the Environment Agency and the local authority in Clacton to help identify and eradicate the pollution that is leading to this poor assessment.

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A smaller footprint

Reducing the amount of energy we use throughout the construction and operation of our assets while continuing to generate more renewable energy each year begins to illustrate the part we play in tackling the global problems posed by a changing climate. By doing so we can also reduce costs, drive innovation and set a powerful example for others to follow.

Our leading approach in the measurement, management and reduction of both operational and capital carbon continues to deliver considerable financial savings, both within Anglian Water and throughout the supply chain. We follow the principles set out by HM Treasury's Infrastructure Carbon Review in recognising the value of low-carbon solutions in how we build and operate our assets. Chris Newsome, our Asset Management Director, is the Chairman of the Green Construction Board's (GCB) Infrastructure Working Group and member of the GCB, which continues to monitor and report on the progress of the Infrastructure Carbon Review.

In June 2015, we organised a Carbon and Energy Leaders Conference, a first for our industry. Representatives from Anglian Water, our suppliers and partners met to discuss how to work collaboratively to meet our targets for 2020, developing reduced-cost, reduced-carbon solutions.

The need for collaboration throughout the life of a project will be mirrored in a new Publicly Available Specification (PAS2080) which was launched in May 2016. It is a world first, setting the standard for managing carbon in infrastructure. Anglian Water is playing a significant role in both its development, and its promotion across industry.

Annual gross operational carbon emissions have decreased by 5% in 2015/16 in comparison to the 2014/15 baseline decreasing from 455,335 t/CO2e to 432,646 t/CO2e. The main influencing factors include a further increase in renewable generation, a 2% reduction in electricity imported from the grid and decarbonisation of the grid by 7% which was slightly offset by an increase in the emissions factor for methane. 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 5.4% in 2015/16 in comparison to the 2014/15 baseline decreasing from 446,834 t/CO2e to 422,790t/CO2e. Our design engineers and Capital Delivery Teams have delivered a 53% reduction in capital carbon against our 2010 baseline, through focus on design, materials used and installation and commissioning techniques in construction.

For the sixth successive year we achieved CEMARS (Certified Emissions Measurement and Reduction Scheme), evidencing our continued success in consistently delivering carbon reductions. This recognition sits alongside the Carbon Trust Water Standard, with Anglian Water the first water utility to achieve both carbon and water standards.

Our energy strategy continues to see us measure, manage and reduce our energy use, our costs, and the associated carbon emissions, while generating an increasing amount of our own power from renewable energy. This year, we launched our Energy Efficiency Monitoring System (EEMS). Following a major programme of meter installation we can now monitor our energy use much more precisely, making operational interventions and changes to save both cost and carbon.

We self-generate an increasing amount of power from renewable energy. This year we produced 112GWhs, an increase of 12GWhs on last year and around 16% of the electricity we use. Most of this is generated by our Combined Heat and Power engines (CHPs), which are fuelled by the biogas produced at our sludge treatment centres. This year they produced 96GWhs, a threefold increase in output compared to 2010. We also have wind turbines at March and Newton Marsh Water Recycling Centres, and have also entered into strategic partnerships with eight companies who will fund and install solar arrays on our sites. The first five were commissioned and installed this year by HBS New Energies and Lark Energy, four on spare land at water recycling centres, and the fifth on the roof of Hall Water Treatment Works. Together, these arrays will generate at least 1.5GWhs of renewable energy each year.

Following our pioneering development of the Biosolids Assurance Scheme (BAS), in 2015/16 we became the first company to pass a successful audit of its entire sludge treatment and biosolids recycling operation,

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against the new BAS standard. The certification indicates that the food industry can have complete confidence in the quality and safety of the biosolids products that we produce.

We have set ourselves a goal of becoming a zero waste company, and one which gets it right first time, every time. To facilitate this we introduced, in June 2015, an in-house bespoke training system to certify our teams on the management and disposal of waste. This training and certification system has been audited and approved by the Environment Agency, LRQA and UKAS, and replaces previous externally-provided WAMITAB (Waste Management Industry Training and Advisory Board) training for waste permit holders. Being able to provide this training in-house saves money, makes us more resilient, and results in a training programme that is more specific and appropriate for our industry.

Caring for communities

In April 2015 we were granted a Queen's Award for Enterprise: Sustainable Development, the most prestigious sustainability business award. The awarding body indicated that this was because we have embedded sustainability throughout our operations, stating we have adopted a commendable range of initiatives to improve our performance, and improve the sustainability of customers, supply chain organisations and others within the water industry. We will hold this award for the next five years.

We are engaged in a number of initiatives to improve the number, quality and diversity of potential future recruits into the water industry, recognising that the UK is facing a critical shortage of engineers. For instance, we have supported several Women in Engineering initiatives in the last year, working alongside local schools and colleges. We have been supporting Fenland District Council in a bid to tackle the area's deprivation, isolation and unemployment by being a catalyst for change, promoting enterprise and helping build skills, aspirations and opportunities. We are the lead sponsor for the Greater Peterborough University Technical College (GPUTC), helping promote the role it will play in providing world-class technical education with an emphasis on sustainable engineering and construction when it opens to students in September 2016. And we, alongside our civil engineering partners, are co-sponsoring two two-year BTEC courses at the College of West Anglia in Wisbech, to help us find the mechanical and electrical engineers and construction operatives of the future.

We have taken significant steps to support the future of our existing staff, too. Alongside a two-year professional development programme for senior staff, we have been recognised by the Science Council as an Approved Employer, in recognition of our professional development strategy and the range of development programmes we run. We are the first water company to be recognised in this way, and the first company in the UK to be awarded both Approved Employer and Approved Champion status. In the last year, 25 Anglian Water colleagues achieved Chartered Scientist and Chartered Environmentalist status, as accredited by the Science Council and the Society for the Environment.

Our health and safety performance continues to be particularly strong, with a best–ever performance in 2015/16 in terms of the frequency and severity of accidents. Our ultimate goal is no accidents and no harm to people, and we continue to set challenging targets each year as we strive to achieve this.

In December 2015, we pleaded guilty to a prosecution brought by the Health and Safety Executive following incidents in 2013 and 2014 in relation to falls from height. We pleaded guilty as we believe that all accidents are preventable, and the judge commented that our response was "genuine, thorough and positive". We continue to invest heavily in measures that will minimise the chance of a similar accident occurring in the future.

More than 1,600 front-line employees have attended a series of health and safety roadshows during the year, following the launch of a new behavioural safety programme, LIFE (Living in an Injury Free Environment), which is widely supported by our partners across the supply chain. We are committed to the health as well as the safety of our colleagues, with an employee wellbeing programme that is shaped around Business in the Community's Workwell initiative.

Twice each year we open ourselves up for detailed external audit by specialists from Lloyds Register Quality Assurance (LRQA), and, as a result, have maintained OHSAS 18001 accreditation for our health and safety system since 2009. We have also been awarded a Gold Medal by the Royal Society for the Prevention of Accidents (RoSPA) for the 12th consecutive year.

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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.

Investing for tomorrow
All four of our alliances have successfully completed their first year of work as part of our new approach to delivering our investment programme over the next 15 years. All have signed up to deliver the outcomes agreed with our customers and the Love Every Drop goals that drive us towards these outcomes. These alliances are unique in the industry, with an unparalleled degree of integration and alignment, and the opportunity for longer term collaboration. They are now one year into an investment programme of more than £2 billion for this AMP.

We invest to ensure our assets remain fit for purpose, and able to deal with the challenges posed by the climate and the changing nature of the population in our region. We were one of the first companies in the world to achieve ISO55001 accreditation, the new international standard in asset management. We retained this accreditation in 2015/16, continuing to demonstrate continuous improvement in our approach to asset management.

Throughout the year we have delivered good performance at our water treatment works (WTWs), and across our network, although there were slightly more water treatment works failures than last year, with eight (2015) compared to six (2014). All measures were well within our reference levels, with the exception of coliforms at WTWs.

The operation of our water recycling centres has continued to improve in 2015, resulting in our best compliance performance to date. We ended the year with six failing works, which is a reduction of three compared to the nine failing sites in 2014. This strong performance is the result of proactive management of our sites and improved visibility of their performance in near-real time. Such close monitoring allows us to respond rapidly to risks at our sites.

The use of predictive analytics to help target our maintenance work is helping to reduce the number of pollution incidents we deal with. The number of Category 3 (least serious) incidents fell dramatically in 2015, from 390 to 144. This change was driven by the use of predictive analytics, proactive work, well targeted planned maintenance, and changes to our reporting protocol, as well as more benign weather during the year. This performance puts us well ahead of our ODI target for 2017/18 of no more than 371 incidents.

There were no Category 1 (most serious) incidents this year, although the number of Category 2 incidents rose slightly from eight to ten. Following rigorous analysis, detailed plans have been drawn up to prevent repeats of these incidents.

We are now actively engaging the public in support of a campaign that will help us spot and deal with pollution incidents more quickly. A dedicated hotline has been set up to answer calls generated by the Pollution Watch campaign, so that we can be quickly respond to potential incidents.

Flooding incidents, both internal and external, are also well within our target parameters for the year. We ended the year with 414 incidents of internal flooding (against a target of 448 by the end of the AMP), and 5,645 external flooding incidents (against an AMP6 target of 6,159). Performance against this ODI will be measured on a three-year rolling average.

Flooding from surface water and sewers is a complex problem, and one of the most challenging scenarios that we and our customers face. We are committed to dealing with it, working in close co-operation with other organisations to reduce the threat. We collaborate with the Environment Agency, Internal Drainage Boards, and 21 Lead Local Flood Authorities (LLFAs) in our region to support flood prevention projects with benefits for our customers. This approach has resulted in £8.4 million of partnership funding being made available for AMP6. Several schemes that will benefit our customers are already being delivered, such as an £800,000 scheme to reduce the risk of flooding in Stamp End, Lincoln. We have contributed our expertise and our funds to this project, which will be delivered in partnership with Lincolnshire County Council, the Environment Agency, and the Witham Third Internal Drainage Board, amongst others.

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Work to adopt Private Pumping Stations has begun, following the transfer of Private Sewers and Laterals into water company ownership in 2011. To make sure the transfer does not result in a sudden and dramatic increase in workload, we have been working to adopt those we can identify before the official transfer date. More than one thousand Private Pumping Stations have been identified, of which approximately 60% are eligible for transfer. A communications campaign is underway to help identify more potentially adoptable assets.

Fair profits

In December 2014, we agreed to Ofwat's Final Determination on our Business Plan for the April 2015 to March 2020 period. We reduced our average bill by 7% in real terms in 2015/16, the largest reduction of all the water and sewerage companies in the industry. Average bills are expected to stay broadly flat, before inflation, for the rest of AMP6.

Keeping bills low while maintaining investment in the things our customers value most was a key aim of our Business Plan. We are proud of our record on efficiency and delivering value to customers. When the industry was privatised in 1989, Anglian Water had one of the highest average bills in the industry. By 2020, our average bill will be lower than the industry average.

Profits are essential to attract private investment, as customers' bills alone could only fund a fraction of what we invest each year. We have to provide investors with a reasonable return on their investment. We also believe excellent performance should be reflected in higher profits. Private investment also effectively spreads the cost of extending and improving our assets over their operational life. In this way, tomorrow's customers pay for tomorrow's use of the asset.

We take our responsibilities as a good corporate citizen very seriously, making significant contributions to the Exchequer each year, through a wide range of taxes collected and paid. Total tax paid or collected in the year to 31 March 2016, other than corporation tax, amounted to £203 million (2015: £174 million) of which £60 million was collected on behalf of the authorities for net value added tax (VAT) and employee payroll taxes. The most significant taxes involved were: business rates of £71 million paid to local authorities; employment taxes of £51 million, including employees' Pay As You Earn (PAYE) and National Insurance Contributions (NIC) collected from salaries paid; VAT of £23 million collected and paid to HMRC; abstraction licences and direct discharges of £18 million; Fuel Excise Duty (FED) of £5 million; and Carbon Reduction Commitment (CRC) of £6 million.

Financial performance

Anglian Water Services Limited operates on an arm's-length basis from other companies within the group. The financial results for Anglian Water are presented on a consolidated basis for the company and its subsidiary company Anglian Water Services Financing Plc.

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

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

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	Year ended 31 March 2016 £m	Year ended 31 March 2015 £m
Revenue	**1,185.4**	1,244.3
Other operating income	**13.5**	12.9
Underlying operating costs [(1)]	**(560.6)**	(523.9)
Depreciation and amortisation	**(297.9)**	(280.7)
Underlying operating profit	**340.4**	452.6
Finance income	**3.6**	4.2
Finance costs [(2)]	**(254.9)**	(274.8)
Underlying profit before tax	**89.1**	182.0

(1) In order to show performance on an underlying basis the fair value losses on energy hedges of £4.8 million (2015: £0.8 million) have been excluded from the table.

(2) Shown before fair value losses of £84.9 million (2015: £212.8 million) on derivative financial instruments.

Revenue for the year was £1,185.4 million, down £58.9 million (4.7%) on last year. This primarily reflects the reduction in customer bills which came into effect on 1 April 2015 in line with the regulatory price setting review, partially offset by customer growth in the region.

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.

Operating costs for the year increased by £36.7 million (7.0%) to £560.6 million (2015: £523.9 million). Almost half of this increase is due to a rise in minor repair costs which used to be capitalised under the old infrastructure renewals accounting rules and has consequently increased volatility in operating costs. The overall increase is explained in the table below.

Increases/(decreases) in operating costs	**£m**
One-off credits in 2014/15 not repeating – principally a non-recurring cash rebate in respect of prior year contributions to the Environment Agency's environmental improvement scheme, and power credits	8.9
Increase in minor repair activities to maintain water and waste water below ground infrastructure	15.6
Additional funding to ensure we meet our Outcome Delivery Targets, and the transfer of funding from capital to operational costs in order to optimise whole life Totex efficiencies	7.2
General inflationary increases	6.9
Power - predominantly price increases	4.4
Operating costs of newly commissioned plant	3.0
Insurance – due principally to some relatively large one-off claims during the year as a result of flooding caused by extreme weather events such as the flooding in Bedford in late summer 2015	2.8
Network contracts – due to the close out of the AMP5 position and revised contractual terms for AMP6	1.9
Reduction in bad debt charge	(1.2)
Efficiency savings achieved	(12.8)
Net increase in operating costs	**36.7**

The bad debt charge for the year was £31.9 million, a reduction of 3.6% compared with last year's charge of £33.1 million. This reflects the impact of the tariff reduction in the year and improved management of customer credit.

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 more efficient asset maintenance programmes.

Depreciation and amortisation is up 6.1% compared with last year, reflecting the impact of the high level of newly commissioned assets which were completed at the end of the previous AMP. This included a significant element of relatively shorter life assets which attract a higher depreciation charge.

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Underlying operating profit has fallen by 24.8% to £340.4 million, which is consistent with the effect of the regulatory price reduction, increased operating costs and depreciation.

Net finance costs, before fair value gains and losses on derivative financial instruments, decreased by 7.1% from £270.6 million in 2015 to £251.3 million in 2016. This was primarily the result of the non-cash impact of lower inflation on index-linked debt, partially offset by a lower proportion of interest capitalised.

There was a non-cash fair value loss of £84.9 million on derivative financial instruments (excluding energy derivatives) in 2016, compared to a loss of £212.8 million in 2015, 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 main factor for the lower loss in 2016 compared to 2015 was the movement in the yield curve for forward interest rates which fell by 28 basis points during the year, compared with a fall of 90 basis points in 2015. During the year, forward inflation rates decreased by circa 4 basis points (2015: a decrease of 40 basis points) and this partially mitigated the impact of the fall in forward interest rates on our inflation swap fair values.

Profit before tax for the year on an underlying basis (i.e. excluding fair value losses on derivative financial instruments) was £89.1 million, compared with £182.0 million in the prior year. This reflects the reduction in operating profit, partially offset by the reduction finance costs (excluding fair value losses on derivatives) due principally to lower RPI.

Successful first year of AMP6 investment programme

AMP6 gross capital expenditure[1] in the appointed business for the year was £265.6 million (£163.2 million on capital maintenance, £102.4 million on capital enhancement), compared to £394.0 million in the last year of AMP5, which included £55.0 million of AMP6 transition expenditure. This level of expenditure is broadly in line with management expectations.

Significant projects worked on during the year include the Grafham Water resilience scheme which involves redirecting water from Rutland Water, and a major refurbishment of the Semer water treatment works in Suffolk. As expected in the first year of a new AMP there were no major schemes completed in the year.

Over the five years of AMP6 we will be investing over £2.1 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 also be investing over £800 million to support protection of customer supply.

An additional £0.6 million was spent on the non-appointed business, in respect of various system and office developments.

Financial needs and resources

In the year to 31 March 2016 Anglian Water sourced £214.7 million of new funds and made debt repayments of £330.5 million. The £214.7 million of new debt raised 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 United States Private Placement funding and a small £0.4 million new finance lease. The United States Private Placement debt was raised with a delayed drawdown date of 27 April 2016 which means funds were not received until after the year-end and therefore the proceeds do not appear on the 31 March 2016 balance sheet. Debt repayments comprised: a £4.7 million finance lease repayment, £75.8 million of inflation linked swap indexation pay-downs, and the repayment of our £250 million 5.25% Class A bond maturing in October 2015.

At 31 March 2016 Anglian Water had net borrowings of £6,539.2 million (£5,833.6 million excluding derivatives), an increase of £162.9 million (£184.4 million excluding derivatives) over the prior year. Net borrowings comprised a mixture of fixed, index-linked and variable-rate debt of £6,252.6 million, derivative financial instruments of £705.6 million (excluding energy derivatives of £45.3 million) and cash and deposits of £419.0 million. The increased net borrowings reflect a decrease of £154.1 million in loans and associated costs, primarily relating to debt repaid but partially offset by the impact of inflation on index-linked debt; a

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[1] Stated on an IFRS basis excluding capitalised interest (£10.9 million), fair value of adopted assets (£11.9 million) and new finance leases (£0.4 million).

ANGLIAN WATER

decrease in the derivatives valuation of £21.5 million; and a decrease of £338.5 million in cash and deposits (which causes net debt to increase).

The business generated a net cash inflow from operating activities of £644.4 million in the year ended 31 March 2016 (2015: £708.1 million). The reduction in operating cash flow is consistent with the reduced revenue and increased operating costs referred to above, partially offset by an improved performance in customer debt collection.

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 2016, Anglian Water held cash, deposits and current asset investments of £419.0 million (2015: £757.5 million). The decrease in cash held compared to the prior year reflects the cash generated by the business being more than offset by distributions and debt repayments during the year as Anglian Water seeks 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 (2015: £500.0 million), which were undrawn at 31 March 2016, to finance capital expenditure and working capital requirements. In addition, Anglian Water has access to a further £375.0 million of liquidity facilities (2015: £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 the finance parties). This agreement provides that any facilities drawn by AWSF will be passed directly on to 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, 58.5% (2015: 56.5%) of Anglian Water's borrowings were at rates indexed to RPI, 36.0% (2015: 34.8%) were at fixed rates and 5.5% (2015: 8.7%) were at floating rates. No new debt indexed to RPI was borrowed during the year.

Looking ahead

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.

We will continue to engage with the market reform agenda, contributing to the development of the non-household customer market, to discussions relating to resilience and abstraction reform, and to all pertinent consultations on the future of the water industry.

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.

PROPERTY

Financial performance and Key Performance Indicators

	Year ended 31 March 2016 £m	Year ended 31 March 2015 £m
Operating loss before exceptional operating costs	**(2.6)**	(8.6)
Exceptional operating costs	**-**	(6.9)
Share of joint ventures operating profit	**1.3**	0.9
Operating cash flow	**(8.5)**	(5.7)
Joint venture off balance sheet debt	**42.0**	61.9

Introduction
During 2015/6, the group's strategy has been to continue to pursue the realisation of value and mitigation of risk from its property investments. This process has allowed the realisation of further value from the sale of certain properties and strategic land assets, reducing joint venture off balance sheet debt by £19.9 million to a level of £42.0 million at year end.

A small but focused management team remains in place to manage the residual property assets and to seek their disposal for the best value at the appropriate time.

Financial performance
AWG Property's revenue was £8.7 million (2015: £10.4 million) and the operating loss before exceptional operating costs was £2.6 million (2015: £8.6 million).

Management
AWG Property has its own Board, which consists of the Managing Director of AWG Property and three further Executive Directors. The Managing Director of AWG Property oversees the day-to-day operations.

Risks
AWG Property faces a variety of business risks. The principal risk is the economic cycle, which property developments tend to follow. The current economic environment presents risks in relation to the financial stability of joint venture partners and maturity of debt funding on individual properties. The AWG Property strategy mitigates these by; ensuring that the assets are able to generate sufficient income to service the interest costs; and having an asset management strategy to add value to which the funding counterparties are also committed. The combination of these is intended to mitigate the requirement to realise value from such assets in an adverse property market.

Pensions
The majority of employees participate in the group defined contribution scheme.

Outlook
AWG Property will focus on the controlled realisation of value from its remaining property portfolio.

OTHER BUSINESS ACTIVITIES

The 'Other' business segment mainly comprises head office, and Celtic Anglian Water which was treated as a joint venture and operates wastewater treatment works in the Republic of Ireland.

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 counter party 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 2016 the group held cash, deposits and current asset investments of £451.5 million (2015: £815.5 million) and had undrawn committed facilities of £1,100 million (2015: £900 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 2016 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 82.2% (2015: 79.2%) and 88.4% (2015: 85.0%) 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 2016, 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 appetite

Osprey Acquisitions Limited is exposed to a variety of uncertainties that could have a material adverse effect on the group's financial condition, its operational performance and its 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, through its principal subsidiary Anglian Water Services Limited, 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.

Principal risks are identified and specific risk tolerance levels set for each risk. These principal risks are discussed below. There may be occasions when risk is accepted, 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.

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 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. In the course of the past year, the Board has also reviewed the top-tier risks and has considered and approved changes in the approach to the management of risk that are designed to further integrate risk management within the business. In the intervening months, top-tier risks are reviewed by the Board on a dynamic basis as part of discussions regarding the delivery of the group's strategic objectives.

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.

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

RISK MANAGEMENT

identification of those risks that are determined to be the business's 'principal risks', as defined in the revised UK Corporate Governance Code.

The Board has met regularly during the year and has discussed 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
Emerging from the top-tier risk register are a number of significant risks (described as principal risks), as detailed below.

Climate change and flooding
Description
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. While we are seeing changing weather patterns affecting day-to-day operations, this risk has not significantly changed over the past year. It is still vital that we prepare for severe weather, both today and in the future.

Mitigation
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.

Flood Emergency Response Plans (FERPs), including evacuation and power-down processes, 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.

Financing our business
Description
We are funding a totex programme of £5 billion in AMP6 and have a gross debt within Anglian Water of £6.3 billion to manage and service. Despite overall volatility in the financial markets, we consider that our risk in financing our business has not increased over the past year, however it is critical that we have robust financing and liquidity management arrangements in place.

Mitigation
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. Net debt accounts for approximately 82% of Anglian Water's regulatory capital value as at 31 March 2016 on a covenant basis.

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

Regional growth

Description

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. 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.

Mitigation

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 Anglia (WREA) initiative and National Water Resources Long-Term Planning Framework to develop long-term solutions to water resources.

Water sector reform and other legislation

Description

The Water Act 2014 will enable all business customers to choose their retail supplier from April 2017. The Act also makes provision for further upstream reforms.

In preparation for the opening of the market to supply non-household customers in April 2017, Anglian Water's retail arm, Anglian Water Business (AWB), has moved into its own office with separate IT and telephony systems, and is now operating independently of our wholesale operation. Failure to successfully identify and transfer all non-household incumbent customers, and deliver the new billing system within AWB to provide accurate and timely bills to all non-household customers could impact cash flows, with potential breach of covenants, and customer service.

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. We need to keep abreast of all other new legislation passed by Parliament and ensure we comply with existing laws that affects all businesses including the Competition Act and the Bribery Act. The impact of this risk has not changed over the past year. However, we have focused on further mitigation actions to minimise future risks.

Mitigation

We have been extensively and actively involved at all levels of the Non-Household Market Programme to support the design and development of the retail market. We have also been instrumental in creating Market Operator Services Limited (MOSL), a private company that will procure the central IT systems for the new retail market.

A project team has been set up to implement the new billing system within AWB, working with the Anglian Water wholesale business to ensure clean and integrity checked data prior to loading into the AWB system. New business has recently been won by the group in Scotland and those customers are being billed monthly with success, with any issues arising being immediately addressed.

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The creation of a Wholesale Service Centre (WSC) within our Wholesale Services business unit will provide 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 equally, and make sure we are compliant with the new market codes. We have structured our activities so that we comply with Ofwat's four separate price controls.

We carefully manage compliance with current legislation (for example, the Competition Act 1998) and continue to monitor new legislation to ensure that we are fully compliant. 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.

Pollutions

Description

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 Anglian Water, and the fines they attract, make them a significant risk. We have made good progress over the past year in reducing pollutions, however the impact of a pollution on Anglian Water has increased due to the changes in sentencing guidelines.

Mitigation

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 £5.8 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.
- Aligning our internal processes and procedures to meet changes to Environment Agency guidance.
- Reducing blockages, which are responsible for the majority of pollutions. A FOG (fats, oils and greases) and unflushables campaign aimed at changing customer behaviours continues to drive down blockages, resulting in an average of 32% fewer blockages in the 24 areas targeted up to March 2016.
- Making a step change in pollution management by attempting to predict where incidents could occur in our network.

Failure to deliver our AMP6 plan

Description

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

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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.

Mitigation

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 Costal Management and Pollutions.

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

Description

Anglian Water relies on the goodwill of customers and stakeholders. Our Keep it Clear campaign and water efficiency goals are just two of the areas in which we need the help of customers to succeed. Unwanted media attention, be it from traditional or social media, has the potential to damage our reputation and erode that trust.

Mitigation

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 in dealing with the media and in getting our messages across. We have a media training programme in place for

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Anglian Water Services Executive Directors and key individuals identified from our internal messaging matrix.

We carry out daily monitoring of both traditional and social media to identify corporate and brand-related issues. Press cuttings are circulated to employees and we work to raise awareness of the impact adverse media coverage can have and of the need to raise high-risk issues early.

Health and safety

Description

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.

Mitigation

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 Company Health and Safety Committee, so that issues and concerns can be effectively managed.

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

Talent and succession

Description

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. There has not been a change in this inherent risk over the past year.

Mitigation

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.

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Water quality

Description

The supply of safe, clean, high-quality water is central to our business and underpins public health. Failure to uphold the required standards in this most fundamental of services would have serious consequences for our business and for our customers. While there has been more focus on quality standards, we have not seen a change in the inherent risk to our business.

Mitigation

We have extremely robust Policies and Standards for Water Supply Hygiene (POSWSH) in place to maintain water quality at our treatment works and in our network of pipes and water storage points.

There is a rigorous regime of inspections and sampling, alongside an AMP6 capital maintenance programme for enhanced disinfection protection, sample point improvements and replacement of critical instruments.

A monthly Storage Point Delivery Group and weekly senior-manager led conference calls track the progress of external and internal inspection programmes. The Board reviews key targets and quality standards.

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 Water Services Compliance Monitoring Group and Water Quality and Environmental Compliance Group regularly review performance against key water quality parameters.

We also ensure operational and laboratory employees are trained and competent. Our Licence to Operate programme sets benchmarks for competency and provides qualifications awarded by professional bodies such as the Science Council.

Cyber security and data protection

Description

Cyber risk is a high priority for the business; over the last year the volume and complexity of threats targeting companies in our sector have increased and we have responded accordingly to protect our data and information. 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).

Mitigation

We seek to mitigate this risk with a clear cyber strategy and continual improvements to critical governance and technical controls. This approach allows us to identify threats and introduce countermeasures to defend our assets from attack, damage and loss. With the support of regular reviews by external experts who assess both the suitability and 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.

We have a clear governance strategy to ensure compliance with the Data Protection Act. Two Anglian Water Services directors jointly chair 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.

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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 yearend. 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. A red, amber, green (RAG) approach is applied in assessing the risk and the adequacy of the mitigating action, and these are established following assurance throughout the year provided by internal and external audits and formal Board review. A summary of the RAG is shown below:

Red – any mitigating action/s and any business controls are found to require significant improvements to manage the risk.

Amber – any mitigation action/s are behind in delivering the targeted risk level and any business control/s are found to be not fully effective; or the risk is emerging and action is in place to develop the mitigation actions.

Green – any mitigating action/s are on course to meet the targeted risk level and the business control/s are in place and effective.

Only risks with a 'red' indicator will be reported as being representative of significant failings and areas of concerns, and as at 31 March 2016 no red risks were reported.

Approval of the strategic report

This strategic report was approved by the Board of Directors on 29 June 2016 and signed on its behalf by:

Claire Russell
Company Secretary

Osprey Acquisitions Limited

Group income statement

for the year ended 31 March 2016

Notes		Year ended 31 March 2016 £m	Year ended 31 March 2015 £m
4	**Revenue**	**1,193.7**	1,254.4
5	Other operating income	**13.5**	12.9
6	Operating costs		
	Operating costs before depreciation and amortisation	**(580.2)**	(549.7)
	Depreciation and amortisation	**(298.2)**	(280.9)
	Fair value losses on energy hedges	**(4.8)**	(0.8)
7	Exceptional operating costs	**-**	(6.9)
	Total operating costs	**(883.2)**	(838.3)
	Operating profit		
	Underlying operating profit	**328.8**	436.7
	Fair value losses on energy hedges	**(4.8)**	(0.8)
	Exceptional operating costs	**-**	(6.9)
	Operating profit	**324.0**	429.0
	Finance income	**4.1**	6.0
	Finance costs	**(280.2)**	(311.6)
	Fair value losses on derivative financial instruments	**(85.5)**	(208.5)
8	Net finance costs	**(361.6)**	(514.1)
17	Share of profit of joint ventures	**1.9**	1.0
	Loss before tax from continuing operations		
	Profit before exceptional items and fair value losses	**54.6**	132.1
7	Exceptional items	**-**	(6.9)
	Fair value losses on derivatives	**(90.3)**	(209.3)
	Loss before tax from continuing operations	**(35.7)**	(84.1)
9	Tax	**136.6**	33.0
	Profit/(loss) for the year	**100.9**	(51.1)
	Attributable to:		
	Owners of the parent	**101.3**	(51.1)
	Non-controlling interests	**(0.4)**	-

Notes 1 to 34 are an integral part of these financial statements.

Group statement of other comprehensive income

for the year ended 31 March 2016

Notes		**Year ended 31 March 2016 £m**	Year ended 31 March 2015 £m
	Profit/(loss) for the year	**100.9**	(51.1)
	Items that will not be reclassified to profit or loss		
25	Actuarial gains/(losses) on retirement benefit obligations	**26.9**	(1.5)
24	Income tax on items that will not be reclassified	**(6.8)**	0.3
		20.1	(1.2)
	Items that may be reclassified subsequently to profit or loss		
	Losses on cash flow hedges	**(13.6)**	(73.3)
	Currency translation differences	**0.3**	(0.7)
24	Income tax on items that may be reclassified	**0.3**	14.6
		(13.0)	(59.4)
	Total comprehensive income/(expense) for the year	**108.0**	(111.7)
	Attributable to:		
	Owners of the parent	**108.4**	(111.7)
	Non-controlling interests	**(0.4)**	-

Osprey Acquisitions Limited

Group balance sheet

at 31 March 2016

Notes		At 31 March 2016 £m	At 31 March 2015 £m
	Non-current assets		
13	Goodwill	**445.8**	445.8
14	Other intangible assets	**129.2**	117.0
15	Property, plant and equipment	**9,433.9**	9,454.9
16	Investment properties	**1.8**	2.0
17	Investments in joint ventures	**3.9**	3.5
22	Derivative financial instruments	**138.2**	105.9
25	Retirement benefit surpluses	**60.1**	11.3
		10,212.9	10,140.4
	Current assets		
18	Inventories	**21.2**	20.8
19	Trade and other receivables	**505.8**	523.3
17	Investments - cash deposits	**281.3**	112.0
	Cash and cash equivalents	**170.2**	703.5
22	Derivative financial instruments	**7.3**	36.9
		985.8	1,396.5
	Total assets	**11,198.7**	11,536.9
	Current liabilities		
20	Trade and other payables	**(454.1)**	(485.5)
	Current tax liabilities	**(12.5)**	(14.8)
21	Borrowings	**(1,232.5)**	(1,105.4)
22	Derivative financial instruments	**(19.3)**	(16.4)
23	Provisions	**(8.2)**	(6.4)
		(1,726.6)	(1,628.5)
	Net current liabilities	**(740.8)**	(232.0)
	Non-current liabilities		
21	Borrowings	**(6,414.4)**	(6,722.8)
22	Derivative financial instruments	**(890.6)**	(897.6)
24	Deferred tax liabilities	**(892.6)**	(1,030.8)
25	Retirement benefit obligations	**(63.1)**	(57.2)
23	Provisions	**(12.2)**	(17.8)
20	Other non-current liabilities	**(443.6)**	(422.1)
		(8,716.5)	(9,148.3)
	Total liabilities	**(10,443.1)**	(10,776.8)
	Net assets	**755.6**	760.1
	Capital and reserves		
26	Share capital	**854.2**	854.2
	Revaluation reserve	**-**	2,560.2
	Retained earnings/(accumulated losses)	**2.7**	(2,566.4)
27	Hedging reserve	**(101.0)**	(87.7)
	Translation reserve	**(0.3)**	(0.6)
	Equity attributable to owners of the parent	**755.6**	759.7
	Non-controlling interests	**-**	0.4
	Total equity	**755.6**	760.1

Notes 1 to 34 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 29 June 2016 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 2016

Notes		At 31 March 2016 £m	At 31 March 2015 £m
	Non-current assets		
17	Investments	**2,311.8**	2,311.8
24	Deferred tax assets	**1.8**	3.8
22	Derivative financial instruments	**6.7**	11.3
		2,320.3	2,326.9
	Current assets		
19	Trade and other receivables	**1.6**	1.3
	Current tax receivables	**8.1**	10.8
17	Investments - cash deposits	**10.0**	-
	Cash and cash equivalents	**8.7**	22.6
22	Derivative financial instruments	**-**	2.0
		28.4	36.7
	Total assets	**2,348.7**	2,363.6
	Current liabilities		
20	Trade and other payables	**(0.2)**	(0.2)
21	Borrowings	**(736.4)**	(744.8)
22	Derivative financial instruments	**(3.0)**	(5.4)
		(739.6)	(750.4)
	Net current liabilities	**(711.2)**	(713.7)
	Non-current liabilities		
21	Borrowings	**(444.7)**	(444.8)
22	Derivative financial instruments	**(17.2)**	(30.6)
		(461.9)	(475.4)
	Total liabilities	**(1,201.5)**	(1,225.8)
	Net assets	**1,147.2**	1,137.8
	Capital and reserves		
26	Share capital	**854.2**	854.2
	Retained earnings	**293.0**	291.3
27	Hedging reserve	**-**	(7.7)
	Total equity	**1,147.2**	1,137.8

Notes 1 to 34 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 29 June 2016 and signed on its behalf by:

Peter Simpson
Chief Executive

Scott Longhurst
Managing Director, Finance & Non Regulated Business

Osprey Acquisitions Limited

Group statement of changes in equity

for the year ended 31 March 2016

	Share capital £m	Revaluation reserve £m	Retained earnings / (accumulated losses) £m	Hedging reserve £m	Translation reserve £m	**Equity attributable to owners of the parent £m**	Non-controlling interests £m	**Total equity £m**
For the 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	-	-	(112.5)	-	-	**(112.5)**	-	**(112.5)**
At 31 March 2016	**854.2**	**-**	**2.7**	**(101.0)**	**(0.3)**	**755.6**	**-**	**755.6**
For the year ended 31 March 2015								
At 1 April 2014	854.2	2,560.2	(2,422.6)	(29.0)	0.1	**962.9**	0.4	**963.3**
Loss for the year	-	-	(51.1)	-	-	**(51.1)**	-	**(51.1)**
Other comprehensive income for the year	-	-	(1.2)	(58.7)	(0.7)	**(60.6)**	-	**(60.6)**
Total comprehensive income	-	-	(52.3)	(58.7)	(0.7)	**(111.7)**	-	**(111.7)**
Dividends	-	-	(91.5)	-	-	**(91.5)**	-	**(91.5)**
At 31 March 2015	**854.2**	**2,560.2**	**(2,566.4)**	**(87.7)**	**(0.6)**	**759.7**	**0.4**	**760.1**

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

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

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

Company statement of changes in equity

for the year ended 31 March 2016

	Share capital £m	Retained earnings £m	Hedging reserve £m	**Total equity £m**
For the 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	-	(112.5)	-	**(112.5)**
At 31 March 2016	**854.2**	**293.0**	**-**	**1,147.2**
For the year ended 31 March 2015				
At 1 April 2014	854.2	296.6	(9.4)	**1,141.4**
Profit for the year	-	86.2	-	**86.2**
Other comprehensive income for the year	-	-	1.7	**1.7**
Total comprehensive income	-	86.2	1.7	**87.9**
Dividends	-	(91.5)	-	**(91.5)**
At 31 March 2015	**854.2**	**291.3**	**(7.7)**	**1,137.8**

Group and company cash flow statements

for the year ended 31 March 2016

Notes		Group		Company	
		Year ended 31 March 2016 £m	Year ended 31 March 2015 £m	**Year ended 31 March 2016 £m**	Year ended 31 March 2015 £m
	Operating activities				
(a)	Cash generated from/(used in) operations	**622.4**	690.4	**(0.5)**	(0.1)
	Dividends received from joint ventures	**1.3**	1.6	**-**	-
	Income taxes (paid)/received	**(10.4)**	(10.6)	**10.8**	9.4
	Net cash flows from operating activities	**613.3**	681.4	**10.3**	9.3
	Investing activities				
	Purchase of property, plant and equipment	**(260.8)**	(345.6)	**-**	-
	Purchase of intangible assets	**(40.0)**	(51.8)	**-**	-
	Grants and contributions received	**30.8**	32.8	**-**	-
	Proceeds from sale of property, plant and equipment	**4.3**	4.6	**-**	-
	Dividends received from subsidiaries	**-**	-	**147.1**	123.6
	Net cash (used in)/from investing activities	**(265.7)**	(360.0)	**147.1**	123.6
	Financing activities				
	Interest received	**4.4**	4.7	**0.1**	0.1
	Interest paid	**(264.2)**	(254.9)	**(45.8)**	(38.9)
	Issue costs paid	**(4.7)**	(3.9)	**(2.5)**	(1.8)
	Interest element of finance lease rental payments	**(1.5)**	(1.6)	**-**	-
	Increase in amounts borrowed	**211.5**	185.0	**210.0**	-
	Repayment of amounts borrowed	**(464.1)**	(65.0)	**(210.6)**	(0.1)
	Repayment of accreted interest on derivatives	**(75.8)**	-	**-**	-
	Capital element of finance lease rental payments	**(4.7)**	(8.9)	**-**	-
	(Increase)/decrease in short-term bank deposits	**(169.3)**	(31.1)	**(10.0)**	12.5
	Dividends paid	**(112.5)**	(91.5)	**(112.5)**	(91.5)
	Net cash used in financing activities	**(880.9)**	(267.2)	**(171.3)**	(119.7)
	Net (decrease)/increase in cash and cash equivalents	**(533.3)**	54.2	**(13.9)**	13.2
	Cash and cash equivalents at the beginning of the year	**703.5**	649.3	**22.6**	9.4
(b)	**Cash and cash equivalents at 31 March**	**170.2**	703.5	**8.7**	22.6

The notes (a) to (b) form part of these cash flow statements.

Notes to the cash flow statements

for the year ended 31 March 2016

a) Cash generated from operations

	Group		Company	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Operating profit/(loss)	**324.0**	429.0	**(0.2)**	(0.3)
Adjustments for:				
Amortisation of deferred grants and contributions	**(13.5)**	(12.9)	**-**	-
Depreciation and amortisation	**298.2**	280.9	**-**	-
Profit on sale of property, plant and equipment	**(3.7)**	(1.5)	**-**	-
Fair value losses on energy hedges	**4.8**	0.8	**-**	-
Difference between pension charge and cash contributions	**(17.1)**	(29.6)	**-**	-
Net movement in provisions	**(5.2)**	(3.3)	**-**	-
Working capital:				
(Increase)/decrease in inventories	**(0.4)**	4.2	**-**	-
Decrease/(increase) in trade and other receivables	**17.1**	(26.3)	**(0.3)**	-
Increase in trade and other payables	**18.2**	49.1	**-**	0.2
	34.9	27.0	**(0.3)**	0.2
Cash generated from/(used in) operations	**622.4**	690.4	**(0.5)**	(0.1)

b) Analysis of net debt

	Cash and cash equivalents £m	Current asset investments £m	Borrowings £m	Derivative financial instruments [1] £m	**£m**
The group					
At 1 April 2015	703.5	112.0	(7,828.2)	(749.8)	**(7,762.5)**
Cash flows	(533.3)	169.3	295.8	73.7	**5.5**
Interest	-	-	10.9	(23.4)	**(12.5)**
Issue costs relating to new borrowings	-	-	4.7	-	**4.7**
Amortisation of issue costs	-	-	(5.3)	-	**(5.3)**
Amortisation of fair value adjustments	-	-	17.2	-	**17.2**
Indexation of borrowings and RPI swaps	-	-	(33.7)	(10.9)	**(44.6)**
Fair value gains and losses	-	-	(53.7)	(8.7)	**(62.4)**
Exchange movements	-	-	(54.6)	-	**(54.6)**
At 31 March 2016	**170.2**	**281.3**	**(7,646.9)**	**(719.1)**	**(7,914.5)**
Net debt at 31 March 2016 comprises:					
Non-current assets	-	-	-	138.2	**138.2**
Current assets	170.2	281.3	-	7.3	**458.8**
Current liabilities	-	-	(1,232.5)	(12.1)	**(1,244.6)**
Non-current liabilities	-	-	(6,414.4)	(852.5)	**(7,266.9)**
	170.2	**281.3**	**(7,646.9)**	**(719.1)**	**(7,914.5)**

(1) Derivative financial instruments exclude the liability of £45.3 million (2015: £21.4 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 £281.3 million (2015: £112.0 million) of short-term cash deposits with an original maturity of more than three months.

At 31 March 2016, £151.7 million (2015: £647.5 million) of the group's cash and cash equivalents and £267.3 million (2015: £110.0 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 £0.4 million (2015: £0.8 million) of the group's cash and cash equivalents was held as collateral for outstanding loan notes. In addition, £0.3 million (2015: £2.2 million) of the group's cash and cash equivalents and £4.0 million (2015: £2.0 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 investments £m	Borrowings £m	Derivative financial instruments £m	**£m**
The company					
At 1 April 2015	22.6	-	(1,189.6)	(22.7)	**(1,189.7)**
Cash flows	(13.9)	10.0	0.6	9.4	**6.1**
Interest	-	-	7.9	0.3	**8.2**
Issue costs relating to new borrowings	-	-	2.5	-	**2.5**
Amortisation of issue costs	-	-	(2.5)	-	**(2.5)**
Fair value gains and losses	-	-	-	(0.5)	**(0.5)**
At 31 March 2016	**8.7**	**10.0**	**(1,181.1)**	**(13.5)**	**(1,175.9)**
Net debt at 31 March 2016 comprises:					
Non-current assets	-	-	-	6.7	**6.7**
Current assets	8.7	10.0	-	-	**18.7**
Current liabilities	-	-	(736.4)	(3.0)	**(739.4)**
Non-current liabilities	-	-	(444.7)	(17.2)	**(461.9)**
	8.7	**10.0**	**(1,181.1)**	**(13.5)**	**(1,175.9)**

1. Accounting policies

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

a) Basis of accounting

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

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.

1. Accounting policies (continued)

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.

e) Revenue recognition

Revenue comprises the fair value of 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.

1. Accounting policies (continued)

h) Taxation

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

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

i) Dividends

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

j) Intangible assets

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.

1. Accounting policies (continued)

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.

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.

1. Accounting policies (continued)

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.

q) 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. 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.

1. Accounting policies (continued)

s) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

t) Derivative financial instruments

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

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

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

i *Fair value hedge*

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

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

ii *Cash flow hedge*

The effective portion of changes in the fair value of derivatives designated and qualifying as cash flow hedges 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.

1. Accounting policies (continued)

u) Provisions

A provision is recognised when the group has a present legal or constructive obligation as a result of a past event for which it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. 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.

v) Retirement benefit obligations

i *Defined benefit schemes*
For defined benefit schemes, pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit credit method and are discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liabilities. The current service cost, which is the increase in the present value of the liabilities of the group's defined benefit pension schemes expected to arise from employee service in the period, is charged to operating costs. The net interest on the schemes' net assets/(liabilities) is included in other finance charges. Actuarial gains and losses are recognised in the statement of comprehensive income.

Pension schemes' surpluses, to the extent that they are considered recoverable, or deficits, are recognised in full and presented on the face of the balance sheet.

ii *Defined contribution schemes*
The cost of defined contribution schemes is charged to the income statement in the period in which the contributions become payable.

1. Accounting policies (continued)

w) New standards, amendments and interpretations not yet adopted

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

IFRS 9 'Financial Instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted subject to EU endorsement. The group is currently assessing the impact of IFRS 9.

IFRS 15 'Revenue from Contracts with Customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted subject to EU endorsement. The group is currently assessing the impact of IFRS 15.

IFRS 16 'Leases' will replace the current guidance in IAS 17 for annual periods beginning on or after 1 January 2019, subject to EU endorsement. Under IAS 17, lessees are required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 will require lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The group is currently assessing the impact of IFRS 16 on its leases of land and buildings; the impact on leases of other assets is not expected to be material.

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 judgments

The group uses estimates and makes judgments in the preparation of its financial statements. The areas where the most judgment is required are highlighted 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 £5.1 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 judgment (see note 19 for details of the doubtful debts provision).

iii *Complex supplier arrangements*

Anglian Water has collaborative incentivised arrangements in place for all of its capital delivery routes, and elements of its operating costs. Each partner has a separate framework agreement, based on four delivery routes. Within each route, the partners and Anglian Water are rewarded by an element of return coming from outperformance of target costs. The incentive arrangements are operated on a programme pool basis, with gain-share or pain-share arising on completion of each scheme. Payments are made from the relevant programme pool on an annual basis, after being moderated by partner performance.

2. Key assumptions and significant judgments (continued)

iv *Retirement benefit obligations*
The group operates a number of defined benefit schemes (which are closed to new members) as well as defined contribution schemes. Under IAS 19 'Employee Benefits' the group has recognised a net pension deficit of £3.0 million (2015: £45.9 million). The main assumptions and associated sensitivities are set out in note 25 of the financial statements.

v *Goodwill impairment*
Goodwill is tested annually for impairment based on a fair value less cost to sell methodology. In performing these tests assumptions are made in respect of both the 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 (see note 13).

vi *Property, plant and equipment*
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 the technological change, prospective economic utilisation and the physical condition of the assets.

vii *Financial instruments*
The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques.

The group uses its judgement to select the most appropriate valuation method for each instrument to estimate expected future cash flows, and apply discount rates that reflect counterparty credit risk. The valuation techniques are described in detail in note 22.

viii *Taxation*
The group's tax charge is based on the profit for the year and tax rates in force at the balance sheet date. Estimation of the tax charge involves an assessment of the potential tax treatment of certain items which will only be resolved once finally agreed with the tax authorities. See notes 9 and 24 for further analysis of the group's tax charge.

3. Segmental information

By class of business for the year ended 31 March 2016

At 31 March 2016 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.
- Property; commercial and residential property developer.
- Head Office and Other; comprises head office, and Celtic Anglian Water which was treated as a joint venture and operates wastewater treatment works in the Republic of Ireland.

There has been no change in the basis of segmentation or in the basis of measurement of segmental profit or loss in the year.

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.

	Anglian Water £m	Property £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	(2.3)	(9.0)	-	**613.5**
Other operating income	13.5	-	-	-	**13.5**
Depreciation and amortisation	(297.9)	(0.3)	-	-	**(298.2)**
Share of joint ventures operating profit	-	1.3	1.6	-	**2.9**
	340.4	**(1.3)**	**(7.4)**	**-**	**331.7**
Cash flows					
Operating cash flow	644.4	(8.5)	(13.5)	-	**622.4**
Capital expenditure net of grants received	(265.4)	(0.3)	-	-	**(265.7)**
Net debt	(5,833.6)	(123.9)	(1,237.9)	-	**(7,195.4)**

See page 55 for reconciliation of segmental information.

3. Segmental information (continued)

By class of business for the year ended 31 March 2015

	Anglian Water £m	Property £m	Head Office and Other £m	Inter-segment eliminations £m	**Total £m**
Revenue					
External	1,244.3	10.1	-	-	**1,254.4**
Inter segment	-	0.3	-	(0.3)	**-**
	1,244.3	**10.4**	**-**	**(0.3)**	**1,254.4**
Segment result					
EBITDA (earnings before interest, tax, depreciation and amortisation)	720.4	(8.5)	(7.2)	-	**704.7**
Other operating income	12.9	-	-	-	**12.9**
Depreciation and amortisation	(280.7)	(0.1)	(0.1)	-	**(280.9)**
Share of joint ventures operating profit	-	0.9	1.7	-	**2.6**
	452.6	**(7.7)**	**(5.6)**	**-**	**439.3**
Cash flows					
Operating cash flow	708.1	(5.7)	(12.0)	-	**690.4**
Capital expenditure net of grants received	(358.3)	(1.5)	(0.2)	-	**(360.0)**
Net debt	(5,649.2)	(118.0)	(1,245.5)	-	**(7,012.7)**

See page 55 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.

	2016 £m	2015 £m
Revenue		
United Kingdom	**1,193.7**	1,254.4
Other countries	**-**	-
	1,193.7	1,254.4
Segment result		
United Kingdom	**330.3**	437.6
Other countries	**1.4**	1.7
	331.7	439.3
Non-current assets		
United Kingdom	**10,209.0**	10,136.9
Other countries	**3.9**	3.5
	10,212.9	10,140.4

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

3. Segmental information (continued)

Reconciliation of segmental information

	2016 £m	2015 £m
Segment result	**331.7**	439.3
Fair value losses on energy hedges	**(4.8)**	(0.8)
Exceptional operating costs	**-**	(6.9)
Finance income	**4.1**	6.0
Finance costs	**(280.2)**	(311.6)
Fair value losses on derivative financial instruments	**(85.5)**	(208.5)
Share of joint ventures interest payable	**(1.3)**	(1.4)
Share of joint ventures tax	**0.3**	(0.2)
Loss before tax from continuing operations	**(35.7)**	(84.1)
Total operating cash flow by segment	**622.4**	690.4
Dividends received from joint ventures	**1.3**	1.6
Income taxes paid	**(10.4)**	(10.6)
Net cash flows from operating activities	**613.3**	681.4
Purchase of property, plant and equipment	**(260.8)**	(345.6)
Purchase of intangible assets	**(40.0)**	(51.8)
Grants and contributions received	**30.8**	32.8
Proceeds from sale of property, plant and equipment	**4.3**	4.6
Capital expenditure spend by segment	**(265.7)**	(360.0)
Cash and cash equivalents	**170.2**	703.5
Cash deposits	**281.3**	112.0
Borrowings due within one year	**(1,232.5)**	(1,105.4)
Borrowings due after more than one year	**(6,414.4)**	(6,722.8)
Net debt by segment	**(7,195.4)**	(7,012.7)
Derivative financial instruments	**(719.1)**	(749.8)
Net debt	**(7,914.5)**	(7,762.5)

4. Revenue

	2016 £m	2015 £m
Water and sewerage services		
Anglian Water	**1,185.4**	1,244.3
Property revenue	**8.3**	10.1
	1,193.7	1,254.4

5. Other operating income

Other operating income comprises the amortisation of grants and contributions.

6. Operating costs

	2016 **£m**	2015 £m
Raw materials and consumables	**17.4**	18.1
Staff costs (see note 10)	**202.1**	186.4
Charge for bad and doubtful debts (see note 19)	**31.9**	33.1
Operating lease rentals		
Properties	**9.6**	10.5
Plant and equipment	**0.2**	0.5
Research and development expenditure	**2.4**	0.9
Other operating costs	**376.1**	351.8
Own work capitalised	**(55.8)**	(50.1)
Profit on sale of property, plant and equipment [1]	**(3.7)**	(1.5)
Operating costs before depreciation and amortisation	**580.2**	549.7
Depreciation of property, plant and equipment	**268.5**	256.3
Amortisation of intangible assets	**29.7**	24.6
Depreciation and amortisation	**298.2**	280.9
Fair value losses on energy hedges	**4.8**	0.8
Exceptional operating costs	**-**	6.9
Operating costs	**883.2**	838.3

[1] 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:

	2016 **£m**	2015 £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	**0.4**	0.3
Audit-related assurance services	**0.1**	0.1
Other taxation advisory services	**0.1**	0.1
Other assurance services	**0.1**	-
Other non-audit services	**0.1**	0.4
	0.8	0.9

The fees paid to the auditors for audit-related assurance services relate to regulatory reporting to Ofwat, and review of the group’s half-year results. Other assurance services relate to the annual offering circular update to enable the ongoing issue of listed debt. Other non-audit services relate to advisory work in relation to pensions and, in the prior year, advisory work in relation to International Financial Reporting Standards.

7. Exceptional items

	2016 £m	2015 £m
Exceptional operating costs		
Property costs	**-**	(6.9)

Property costs:
AWG Property has historically invested in a number of commercial joint ventures, through the provision of loans subordinated to external bank funding. The recovery of these loans is at least partly dependent on sufficient time period being available to maximise the recoverable value. As at 31 March 2015 the group did not have sufficient confidence that these loans would be extended on acceptable terms, and reflecting the independent valuation of these properties, £4.9 million was written off the amount recoverable from the joint ventures. In addition, during the year ended 31 March 2015 AWG Property incurred a loss of £2.0 million on the early disposal, in order to mitigate future cash outflows, of two of its properties.

8. Net finance costs

	2016 £m	2015 £m
Finance income		
Interest income on short-term bank deposits	**4.1**	6.0
	4.1	6.0
Finance costs		
Interest payable on bank loans and overdrafts	**-**	(0.9)
Interest payable on other loans including financing expenses	**(255.5)**	(264.4)
Indexation	**(44.6)**	(72.1)
Amortisation of issue costs	**(5.3)**	(4.9)
Interest payable on finance leases	**(1.4)**	(1.6)
Amortisation of fair value adjustments	**17.2**	17.2
Unwinding of discount on onerous lease obligation provision	**(0.4)**	(1.0)
Defined benefit pension scheme interest charge	**(1.1)**	(2.5)
Total finance costs	**(291.1)**	(330.2)
Less: amounts capitalised on qualifying assets	**10.9**	18.6
	(280.2)	(311.6)
Fair value losses on derivative financial instruments		
Hedge ineffectiveness on cash flow hedges	**(1.3)**	(0.6)
Hedge ineffectiveness on fair value hedges	**(4.1)**	1.8
Amortisation of adjustment to debt in fair value hedge	**0.1**	-
Restructuring costs on derivatives	**-**	(4.8)
Derivative financial instruments not designated as hedges	**(68.3)**	(204.9)
Recycling of de-designated cash flow hedge relationship	**(11.9)**	-
	(85.5)	(208.5)
Net finance costs	**(361.6)**	(514.1)

9. Taxation

	2016 £m	2015 £m
Current tax:		
In respect of the current year	**9.0**	9.5
Adjustments in respect of prior periods	**(0.9)**	-
Total current tax charge	**8.1**	9.5
Deferred tax:		
Origination and reversal of temporary differences	**(11.9)**	(23.2)
Adjustments in respect of prior periods	**(12.4)**	(19.3)
Reduction in corporation tax rate	**(120.4)**	-
Total deferred tax credit	**(144.7)**	(42.5)
Total tax credit on loss from continuing operations	**(136.6)**	(33.0)

The current tax adjustment in respect of prior periods relates to the agreement of prior year tax computations. The deferred tax adjustments in respect of prior periods, for both 2016 and 2015, relate to adjustments to prior year capital allowance claims.

The reduction in corporation tax rate reflects the change announced in the Summer Budget 2015, and included in the Finance Bill 2015, whereby deferred tax reversing after 1 April 2017 will be recognised at a rate of 19% and deferred tax reversing after 1 April 2020 will 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.

A further change to the UK corporation tax rate has been announced which proposes to reduce the rate by a further 1% to 17% from 1 April 2020. The Finance Act which includes this change had not been substantively enacted at the balance sheet date and therefore the rate change has not been recognised in these financial statements. If this change had been enacted before the balance sheet date, the impact on the financial statements for the year ended 31 March 2016 would have been a further reduction in the deferred tax liability and a corresponding credit to the income statement of approximately £60 million.

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% (2015: 21%) to the loss before tax from continuing operations as follows:

	2016 £m	2015 £m
Loss before tax from continuing operations	**(35.7)**	(84.1)
Loss before tax from continuing operations at the standard rate of corporation tax in the UK of 20% (2015: 21%)	**(7.1)**	(17.7)
Effects of:		
Items not deductible for tax purposes	**3.8**	4.5
Items not taxable	**(0.7)**	(0.3)
Reduction in corporation tax rate	**(120.4)**	-
Different UK tax rates on some earnings	**1.5**	-
Joint ventures results reported net of tax	**(0.4)**	(0.2)
Adjustments in respect of prior periods	**(13.3)**	(19.3)
Tax credit for the year	**(136.6)**	(33.0)

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:

	2016 **£m**	2015 £m
Deferred tax:		
Defined benefit pension schemes	**4.9**	(0.3)
Cash flow hedges	**(2.5)**	(14.6)
Reduction in corporation tax rate	**4.1**	-
Total deferred tax charge/(credit) recognised in other comprehensive income	**6.5**	(14.9)

10. Employee information and Directors' emoluments

a) Employee information

	2016 **£m**	2015 £m
Staff costs		
Wages and salaries	**168.7**	156.6
Social security costs	**15.7**	14.5
Pension costs - defined contribution (see note 25)	**7.2**	6.4
Pension costs - defined benefit (see note 25)	**10.5**	8.9
	202.1	186.4

Staff costs for the year ended 31 March 2016 include £48.9 million (2015: £48.6 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:

	2016	2015
Anglian Water	**4,432**	4,188
AWG Property	**8**	10
Other	**26**	26
	4,466	4,224

The company
The company has no employees (2015: none).

10. Employee information and Directors' emoluments (continued)

b) Directors' emoluments

	2016 £'000	2015 £'000
Aggregate emoluments	**2,636**	2,339
Pension costs – defined contribution	**11**	11
Benefits received under long-term incentive plans	**2,286**	748

Aggregate emoluments of the Directors comprise salaries, taxable benefits and amounts payable under annual bonus schemes. Retirement benefits are accruing to one Director (2015: one) under defined benefit schemes and two Directors (2015: two) under money purchase schemes.

	2016 £'000	2015 £'000
Highest paid director		
Aggregate emoluments	**1,147**	1,001
Pension costs – defined contribution	**5**	6
Benefits received under long-term incentive plans	**1,142**	374

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 £114.2 million (2015: £86.2 million).

12. Dividends

Interim dividends paid during the year

	2016 £m	2015 £m
Paid on:		
10 December 2015	**81.8**	-
10 June 2015	**30.7**	-
10 December 2014	**-**	35.0
10 June 2014	**-**	56.5
	112.5	91.5

In addition, a first interim dividend of £25.3 million in respect of the year ended 31 March 2017 was approved by the Board on 6 June 2016 and was paid on 10 June 2016. This dividend has not been included as a liability at 31 March 2016.

13. Goodwill

	Group	
	2016	2015
	£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 charged to retained earnings on transition.

Impairment testing of goodwill

All goodwill is allocated to the Anglian Water business segment, the group's UK regulated water, water recycling and environmental service provider. 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 1.20x and 1.4x RCV in recent years. The implied multiples for the listed companies are also around 1.25x based on current market capitalisation.

Adopting a current market average RCV multiple of 1.25x at 31 March 2016, results in headroom of £222 million (2015: 1.25x, £210 million). The headroom at 31 March 2016 is eliminated at an RCV multiple of 1.22x (2015: 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 2014	303.5	88.9	**392.4**
Additions	37.3	18.6	**55.9**
At 31 March 2015	340.8	107.5	**448.3**
Additions	24.7	17.2	**41.9**
At 31 March 2016	**365.5**	**124.7**	**490.2**
Accumulated amortisation			
At 1 April 2014	(242.4)	(64.3)	**(306.7)**
Charge for the year	(16.2)	(8.4)	**(24.6)**
At 31 March 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)**
Net book amount			
At 31 March 2016	**88.4**	**40.8**	**129.2**
At 31 March 2015	82.2	34.8	117.0

Internally generated intangible assets mainly comprise capitalised development expenditure.

Included within additions above is £1.8 million (2015: £4.2 million) of interest that has been capitalised on qualifying assets.

Included within intangible assets above are assets under construction of £19.8 million (2015: £18.0 million) which are not yet subject to amortisation.

The company
The company has no intangible assets (2015: 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 2014	48.3	6,206.7	5,121.7	769.5	437.2	**12,583.4**
Additions	5.5	-	-	-	370.8	**376.3**
Transfers on commissioning	1.0	148.2	240.2	50.0	(439.4)	**-**
Disposals	(2.7)	-	(2.2)	(9.7)	-	**(14.6)**
At 31 March 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**
Accumulated depreciation						
At 1 April 2014	(6.7)	(458.7)	(2,251.9)	(528.5)	-	**(3,245.8)**
Charge for the year	(0.5)	(51.6)	(162.6)	(41.6)	-	**(256.3)**
Disposals	0.6	-	1.9	9.4	-	**11.9**
At 31 March 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)**
Net book amount						
At 31 March 2016	**47.5**	**5,902.2**	**3,014.2**	**254.9**	**215.1**	**9,433.9**
At 31 March 2015	45.5	5,844.6	2,947.1	249.1	368.6	9,454.9

Property, plant and equipment at 31 March 2016 includes land of £28.6 million (2015: £27.1 million) which is not subject to depreciation. The group's interests in land and buildings are almost entirely freehold.

Included within additions above is £9.1 million (2015: £14.4 million) of interest that has been capitalised on qualifying assets.

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:

	2016 £m	2015 £m
Net book amount at 31 March	**51.6**	54.4

The company

The company has no property, plant and equipment (2015: none).

16. Investment properties

	Group	
	2016	2015
	£m	£m
Cost		
At the beginning of the year	**2.6**	2.6
Disposals	**(0.2)**	-
At 31 March	**2.4**	2.6
Accumulated depreciation		
At the beginning of the year and at 31 March	**(0.6)**	(0.6)
Net book amount		
At 31 March	**1.8**	2.0

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 (2015: none).

17. Investments

	Group		Company	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Non-current				
Joint ventures	**3.9**	3.5	**-**	-
Subsidiary undertakings	**-**	-	**2,311.8**	2,311.8
	3.9	3.5	**2,311.8**	2,311.8
Current				
Cash deposits	**281.3**	112.0	**10.0**	-
	281.3	112.0	**10.0**	-

17. Investments (continued)

a) Joint ventures

	Group	
	2016	2015
	£m	£m
At the beginning of the year	**3.5**	4.1
Profit for the year	**1.9**	1.0
Dividends paid	**(1.3)**	(1.6)
Amounts offset against trade balances	**-**	0.5
Transfer to provisions (see note 23)	**(0.5)**	-
Exchange adjustments	**0.3**	(0.5)
At 31 March	**3.9**	3.5

The result for the year of joint ventures arises from continuing operations and is stated after operating profits of £2.9 million (2015: £2.6 million), less interest payable of £1.3 million (2015: £1.4 million) and a tax credit of £0.3 million (2015: charge of £0.2 million).

Set out below is an analysis of the group's principal joint ventures at 31 March 2016, none of which are material to the group. A full listing of joint ventures can be found in note 34.

Undertaking	**Country of incorporation**	**Activity**	**Proportion of shares held**
Celtic Anglian Water Limited	Ireland	Water and wastewater treatment	50%
Property joint ventures:			
Excel Centre Aberdeen Limited	Scotland	Property development	50%

These undertakings principally operate in their country of incorporation, and are held by subsidiaries of Osprey Acquisitions Limited.

The accounting year-end for the above undertakings is 31 March, with the exception of Excel Centre Aberdeen Limited which has a year-end of 31 May. The class of shares held is ordinary shares of £1 each, except for Celtic Anglian Water Limited which has ordinary shares of €1.27 each.

The joint ventures have no significant contingent liabilities to which the group is exposed. The group has issued guarantees of £6.6 million (2015: £6.6 million) in relation to its joint ventures.

b) Subsidiary undertakings

	Shares in subsidiary undertakings £m
The company	
Cost	
At 1 April 2014, at 31 March 2015 and at 31 March 2016	**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 34.

18. Inventories

	Group 2016 £m	Group 2015 £m
Raw materials and consumables	**9.0**	8.9
Work in progress	**12.2**	11.9
	21.2	20.8

The company

The company has no inventories (2015: none).

19. Trade and other receivables

	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Trade receivables	**403.5**	422.1	**-**	-
Provision for impairment	**(197.8)**	(197.3)	**-**	-
Net trade receivables	**205.7**	224.8	**-**	-
Loans receivable from group undertakings	**0.3**	0.3	**-**	-
Loans receivable from subsidiaries	**-**	-	**0.3**	-
Amounts receivable from joint ventures				
Trade balances	**1.0**	0.9	**-**	-
Loans	**4.2**	4.2	**-**	-
Other amounts receivable	**12.5**	16.9	**-**	-
Prepayments and accrued income	**282.1**	276.2	**1.3**	1.3
	505.8	523.3	**1.6**	1.3

Prepayments and accrued income as at 31 March 2016 includes water and sewerage income not yet billed of £268.7 million (2015: £262.3 million).

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 2016 £m	Group 2015 £m
Provision at the beginning of the year	**197.3**	190.5
Charge for bad and doubtful debts	**31.9**	33.1
Amounts written off during the year	**(31.4)**	(26.3)
At 31 March	**197.8**	197.3

19. Trade and other receivables (continued)

Included in trade receivables are balances with a carrying amount of £134.2 million (2015: £143.2 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.

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

	Group	
	2016	2015
	£m	£m
Within one year	**95.8**	103.9
Between one and two years	**19.2**	19.8
Between two and three years	**9.4**	9.5
Between three and four years	**3.9**	4.4
After four years	**5.9**	5.6
	134.2	143.2

Included in the provision for impairment of trade receivables are provisions of £0.3 million (2015: £0.3 million) against specific trade receivables. The age of the impaired receivables was as follows:

	Group	
	2016	2015
	£m	£m
After four years	**0.3**	0.3
	0.3	0.3

20. Trade and other payables

	Group		Company	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Current				
Trade payables	**91.6**	145.7	**-**	-
Receipts in advance	**266.1**	251.3	**-**	-
Other taxes and social security	**4.0**	3.8	**-**	-
Accruals and deferred income	**62.1**	61.9	**0.2**	0.2
Other payables	**16.6**	10.0	**-**	-
Deferred grants and contributions	**13.7**	12.8	**-**	-
	454.1	485.5	**0.2**	0.2
Non-current				
Other payables	**-**	6.0	**-**	-
Deferred grants and contributions	**443.6**	416.1	**-**	-
	443.6	422.1	**-**	-

Receipts in advance includes £238.5 million (2015: £224.5 million) relating to amounts received from customers for water and sewerage charges in respect of bills that fall due in the following year.

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

	Notes	Group 2016 £m	Group 2015 £m
£250 million 5.837% fixed rate 2022	d f	**266.9**	268.0
£200 million 6.875% fixed rate 2023	d f	**223.3**	225.4
£200 million 6.625% fixed rate 2029	d f	**219.4**	220.7
£246 million 6.293% fixed rate 2030	d f	**277.4**	278.9
£250 million 5.25% fixed rate 2015	b d f h	**-**	261.8
£150 million 5.5% fixed rate 2017/2040 (1)	b d e f	**158.4**	160.9
£150 million 4.125% index-linked 2020	c d f	**249.7**	250.4
£75 million 3.666% index-linked 2024	c d f	**122.7**	122.8
£200 million 3.07% index-linked 2032	c d f	**344.9**	344.7
£60 million 3.07% index-linked 2032	c d f	**104.6**	104.5
Finance leases	b d f h	**38.7**	42.9
£402 million 2.4% index-linked 2035	c d f	**570.8**	565.7
£50 million 1.7% index-linked 2046	c d f	**74.7**	74.2
£50 million 1.7% index-linked 2046	c d f	**75.0**	74.4
£40 million 1.7146% indexation bond 2056	c d f	**62.5**	62.2
£50 million 1.6777% indexation bond 2056	c d f	**77.5**	77.1
£60 million 1.7903% indexation bond 2049	c d f	**92.7**	92.3
£100 million 1.3784% indexation bond 2057	c d f	**134.1**	132.4
£50 million 1.3825% indexation bond 2056	c d f	**67.0**	66.1
£100 million Class A wrapped floating rate bonds	d f	**100.1**	100.0
£75 million 1.449% indexation bond 2062	c d f	**96.4**	94.7
£50 million 1.52% indexation bond 2055	c d f	**64.1**	63.0
JPY 15 billion 2.925% fixed rate bond 2018/2037	a b d f	**102.1**	87.2
£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	**33.9**	29.7
€500 million 6.25% fixed rate bond 2016	a d f h	**415.1**	379.0
£25 million 6.875% private placements 2034	d f	**25.0**	24.9
EIB £50 million 1.626% index-linked term facility 2019	c d f	**61.2**	60.5
EIB £50 million 1.3% index-linked term facility 2020	c f	**60.3**	59.6
£130 million 2.262% indexation bond 2045	c d f	**153.0**	151.6
US$160 million 4.52% private placements 2021	a b d f	**125.7**	120.7
US$410 million 5.18% private placements 2021	a b d f	**289.5**	284.4
EIB £75 million 0.53% index-linked term facility 2027 (2)	c d f	**82.0**	81.0
EIB £75 million 0.79% index-linked term facility 2027 (2)	c d f	**82.0**	81.0
£250 million 4.5% fixed rate 2027	d f	**251.6**	251.4
£15 million 1.37% index-linked private placements 2022	c d f	**16.0**	15.8
£50 million 2.05% index-linked private placements 2033	c d f	**53.7**	53.1
£25.5 million 4.195% private placements 2017	d f	**26.0**	25.9
£31.9 million 3.983% private placements 2022	d f	**32.4**	32.3
£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	**33.4**	32.3
EIB £150 million 0% index-linked term facility 2028 (3)	c d f	**159.1**	157.3
£200 million Class B 4.5% fixed rate 2026	b d f	**207.1**	204.6
£35 million 1.141% index-linked bond 2042	c d f	**36.7**	36.3
US$170 million 3.84% private placements 2023	a b d f	**130.3**	123.1
£93 million 3.537% private placements 2023	d f	**94.1**	94.0
US$160 million 4.99% private placements 2023	a b d f	**112.6**	109.0
EIB £65 million 0.41% index-linked term facility 2029 (4)	c d f	**66.9**	66.0
EIB £125 million 0.1% index-linked term facility 2029 (5)	c d f	**127.4**	125.8
EIB £60 million 0.01% index-linked term facility 2030 (5)	c d f	**60.8**	60.1
US$150 million 3.29% private placements 2026 (6)	a b d f	**1.1**	-
£55 million 2.93% fixed rate private placements 2025 (6)	d f	**(0.3)**	-
£20 million 2.93% fixed rate private placements 2025 (6)	d f	**(0.1)**	-
Sub-total carried forward		**6,466.9**	6,637.1

21. Loans and other borrowings (continued)

	Notes	Group 2016 £m	Group 2015 £m
Sub-total brought forward		**6,466.9**	6,637.1
£35 million floating rate private placements 2031 [6]	d f	**(0.2)**	-
£100 million term facility	b d g	**(1.5)**	98.2
£350 million Class B 7.0% fixed rate bond 2018	d g	**241.1**	361.8
£210 million Class B 5.0% fixed rate bond 2023	d g	**212.3**	-
Loan notes	h	**0.4**	0.8
£729 million interest free loan [7]		**728.8**	728.8
Other loans	d f h	**(0.9)**	1.5
Total loans and other borrowings		**7,646.9**	7,828.2
Included in:			
Current liabilities		**1,232.5**	1,105.4
Non-current liabilities		**6,414.4**	6,722.8

	Notes	Company 2016 £m	Company 2015 £m
£100 million term facility	b d g	**(1.5)**	98.2
£350 million Class B 7.0% fixed rate bond 2018	d g	**241.1**	361.8
£210 million Class B 5.0% fixed rate bond 2023	d g	**212.3**	-
Loan notes	h	**0.4**	0.8
£729 million interest free loan [7]		**728.8**	728.8
Total loans and other borrowings		**1,181.1**	1,189.6
Included in:			
Current liabilities		**736.4**	744.8
Non-current liabilities		**444.7**	444.8

(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) The proceeds of these instruments were not received until 27 April 2016.

(7) 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 £33.7 million (2015: £55.1 million) has been taken to the income statement as part of interest payable.

d) These loans are shown net of issue costs of £37.8 million (2015: £38.4 million). The issue costs are amortised at the effective interest rate based on the carrying amount of debt over the life of the underlying instruments.

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

f) A security agreement dated 30 July 2002 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 2016 this charge applies to £6,464.2 million (2015: £6,637.1 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 2016 this charge applies to £451.9 million (2015: £460.0 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 2016					
Investments					
Current	-	-	-	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	122.4	-	-	**138.2**
	17.3	**128.2**	**662.6**	**281.3**	**1,089.4**
At 31 March 2015					
Investments					
Current	-	-	-	112.0	112.0
Cash and cash equivalents					
Current	-	-	703.5	-	703.5
Trade and other receivables					
Current	-	-	509.4	-	509.4
Derivative financial instruments					
Current	2.0	34.9	-	-	36.9
Non-current	11.3	94.6	-	-	105.9
	13.3	129.5	1,212.9	112.0	1,467.7

Trade and other receivables above exclude prepayments. The prior year table has been presented on a similar basis.

22. **Financial instruments** (continued)

Financial assets by category (continued)

	Assets at fair value through profit and loss £m	Loans and receivables £m	Held to maturity investments £m	Total £m
The company				
At 31 March 2016				
Investments				
Current	-	-	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**
At 31 March 2015				
Investments				
Non-current	-	-	2,311.8	2,311.8
Cash and cash equivalents				
Current	-	22.6	-	22.6
Current tax receivables				
Current	-	10.8	-	10.8
Derivative financial instruments				
Current	2.0	-	-	2.0
Non-current	11.3	-	-	11.3
	13.3	33.4	2,311.8	2,358.5

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 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	127.6	-	**890.6**
	781.2	**128.7**	**7,821.2**	**8,731.1**
At 31 March 2015				
Borrowings				
Current	-	-	1,105.4	1,105.4
Non-current	-	-	6,722.8	6,722.8
Trade and other payables				
Current	-	-	221.4	221.4
Non-current	-	-	6.0	6.0
Derivative financial instruments				
Current	13.8	2.6	-	16.4
Non-current	760.5	137.1	-	897.6
	774.3	139.7	8,055.6	8,969.6

Trade and other payables above exclude receipts in advance and deferred grants and contributions. The prior year table has been presented on a similar basis.

22. Financial instruments (continued)

Financial liabilities by category (continued)

	Liabilities at fair value through profit and loss £m	Derivatives used for hedging £m	Other liabilities held at amortised cost £m	Total £m
The company				
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**
At 31 March 2015				
Borrowings				
Current	-	-	744.8	744.8
Non-current	-	-	444.8	444.8
Trade and other payables				
Current	-	-	0.2	0.2
Derivative financial instruments				
Current	3.8	1.6	-	5.4
Non-current	21.2	9.4	-	30.6
	25.0	11.0	1,189.8	1,225.8

22. Financial instruments (continued)

Derivative financial instruments

	2016 Assets £m	2016 Liabilities £m	2015 Assets £m	2015 Liabilities £m
The group				
Designated as cash flow hedges				
Interest rate swaps	**-**	**(95.0)**	-	(91.6)
Cross currency interest rate swaps	**25.2**	**-**	22.6	(34.7)
Energy swaps	**-**	**(33.7)**	-	(13.4)
	25.2	**(128.7)**	22.6	(139.7)
Designated as fair value hedges				
Interest rate swaps	**(3.1)**	**-**	26.6	-
Cross currency interest rate swaps	**106.1**	**-**	80.3	-
	103.0	**-**	106.9	-
Derivative financial instruments designated as hedges	**128.2**	**(128.7)**	129.5	(139.7)
Derivative financial instruments not designated as hedges:				
Interest rate swaps and swaptions	**17.3**	**(208.3)**	13.3	(193.8)
RPI swaps	**-**	**(561.3)**	-	(572.5)
Energy swaps	**-**	**(11.6)**	-	(8.0)
Total derivative financial instruments	**145.5**	**(909.9)**	142.8	(914.0)
Derivative financial instruments can be analysed as follows:				
Current	**7.3**	**(19.3)**	36.9	(16.4)
Non-current	**138.2**	**(890.6)**	105.9	(897.6)
	145.5	**(909.9)**	142.8	(914.0)

	2016 Assets £m	2016 Liabilities £m	2015 Assets £m	2015 Liabilities £m
The company				
Designated as cash flow hedges				
Interest rate swaps	**-**	**-**	-	(11.0)
	-	**-**	-	(11.0)
Derivative financial instruments designated as hedges	**-**	**-**	-	(11.0)
Derivative financial instruments not designated as hedges:				
Interest rate swaps and swaptions	**6.7**	**(20.2)**	13.3	(25.0)
Total derivative financial instruments	**6.7**	**(20.2)**	13.3	(36.0)
Derivative financial instruments can be analysed as follows:				
Current	**-**	**(3.0)**	2.0	(5.4)
Non-current	**6.7**	**(17.2)**	11.3	(30.6)
	6.7	**(20.2)**	13.3	(36.0)

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 loss of £1.3 million (2015: £0.6 million). The ineffective portion recognised in the income statement that arises from fair value hedges amounts to a loss of £4.1 million (2015: gain of £1.8 million).

The notional principal amount of the outstanding interest rate swap contracts at 31 March 2016 was £4,634.9 million (2015: £4,559.3 million) and outstanding swaptions at 31 March 2016 were £300.0 million (2015: £300.0 million).

The notional foreign currency principal amount of the outstanding cross currency interest rate swap contracts at 31 March 2016 was USD 1,097.0 million (2015: USD 947.0 million), EUR 500.0 million (2015: EUR 500.0 million), JPY 20.0 billion (2015: JPY 20.0 billion).

At 31 March 2016 the fixed interest rates vary from 2.341% to 6.972%, floating rates vary from 0.589% (LIBOR plus 0.0 bps) to 3.417% (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 2016 (2015: £nil).

22. Financial instruments (continued)

Derivative financial instruments (continued)

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

	2016	2015
Borrowings - GBP	**3.8%**	4.2%
Borrowings - USD	**3.8%**	2.9%
Borrowings - EUR	**7.0%**	7.0%
Borrowings - JPY	**1.5%**	1.4%

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

	2016	2015
Fixed	**5.9%**	5.8%
Floating	**1.4%**	1.4%
Indexed	**2.7%**	3.9%

Finance leases

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

	Group	
	2016 £m	2015 £m
Within one year	**6.0**	4.7
Between two and five years	**27.6**	26.0
After five years	**8.5**	15.5
	42.1	46.2
Future finance charges on finance leases	**(3.4)**	(3.3)
Present value of finance lease liabilities	**38.7**	42.9

Fair value of financial assets and liabilities

	2016		2015	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
The group				
Cash and cash equivalents	**170.2**	**170.2**	703.5	703.5
Cash deposits	**281.3**	**281.3**	112.0	112.0
Borrowings				
Current	**(1,232.5)**	**(1,217.9)**	(1,105.4)	(1,109.6)
Non-current	**(6,414.4)**	**(7,817.7)**	(6,722.8)	(7,926.1)
Derivative financial instruments				
Current	**3.3**	**3.3**	30.4	30.4
Non-current	**(161.1)**	**(161.1)**	(207.7)	(207.7)
RPI swaps				
Current	**(8.1)**	**(8.1)**	(8.0)	(8.0)
Non-current	**(553.2)**	**(553.2)**	(564.5)	(564.5)
Net debt	**(7,914.5)**	**(9,303.2)**	(7,762.5)	(8,970.0)
Energy hedging derivatives	**(45.3)**	**(45.3)**	(21.4)	(21.4)
Other financial liabilities	**-**	**(6.5)**	-	(5.0)
	(7,959.8)	**(9,355.0)**	(7,783.9)	(8,996.4)

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 publically 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 IFRS 7 '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 for identical assets and liabilities. The future cash flows have been discounted at a rate that reflects credit risk.

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 2016 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 82.2% (2015: 79.2%).

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

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 counter party credit exposure.

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.

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:

	2016 £m	2015 £m
Increase/(decrease) in profit before tax and in equity		
1% increase in interest rates	**312.4**	316.7
1% decrease in interest rates	**(428.8)**	(649.2)

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 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.

	2016 **£m**	2015 £m
Increase/(decrease) in profit before tax and in equity		
1% increase in RPI	**(27.6)**	(22.8)
1% decrease in RPI	**27.4**	22.8

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.

	2016 **£m**	2015 £m
Increase/(decrease) in profit before tax and in equity		
1% increase in RPI	**(190.0)**	(171.0)
1% decrease in RPI	**133.4**	116.1

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 fix the price of 96% 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:

	2016 **£m**	2015 £m
Increase/(decrease) in profit before tax and in equity		
10% increase in commodity prices	**6.7**	8.2
10% decrease in commodity prices	**(6.7)**	(8.2)

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.

The table below shows the counterparty by rating type and the balances on deposit.

	2016 £m	2015 £m
Counterparty		
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	**451.5**	815.5

In the case of derivatives, any current positive value from a group perspective is at risk, however there is potential for the value to become increasingly positive in the future as market rates move. Group policy requires that transactions are only executed with counter parties which are both (a) from the lending group (b) rated at least A- (long-term) or A1 (short-term) by Standard & Poor's, Moody's or Fitch.

At 31 March 2016 the maximum exposure to credit risk for the group is represented by the carrying amount of each financial asset in the group balance sheet:

	2016 £m	2015 £m
Cash and cash equivalents	**170.2**	703.5
Trade and other receivables	**492.4**	509.4
Investments - cash deposits	**281.3**	112.0
Derivative financial assets	**145.5**	142.8

22. Financial instruments (continued)

c) Capital risk management

The prime responsibility of the group's treasury function is the efficient and effective management of financial resources within the Group, i.e. the provision of adequate finance and liquidity at all times 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 2016 in respect of which all conditions precedent had been met at that date:

	Group	
	2016	2015
	£m	£m
Within one year	**375.0**	375.0
Between two and five years	**725.0**	525.0
	1,100.0	900.0

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 new bilateral facilities of £50 million each with Bank of China Limited and Sumitomo Mitsui Banking Corporation for general corporate purposes; and a £125 million undrawn bank facility syndicated to certain banks, with Royal Bank of Scotland Plc acting as agent.

22. Financial instruments (continued)

d) Liquidity risk (continued)

The table below analyses the group's financial liabilities and net-settled derivative financial instruments into relevant maturity groupings based on the remaining period at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, including interest payable:

	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 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)**
At 31 March 2015					
Trade and other payables	(221.4)	(6.0)	-	-	(227.4)
Borrowings	(1,335.3)	(2,037.9)	(7,015.5)	(3,754.1)	(14,142.8)
Derivative financial instruments	(77.7)	(17.5)	(258.1)	(973.8)	(1,327.1)
Finance leases	(3.7)	(19.0)	(10.2)	-	(32.9)
	(1,638.1)	(2,080.4)	(7,283.8)	(4,727.9)	(15,730.2)

23. Provisions

	Onerous leases £m	Business closures and disposals £m	Legal and other £m	Joint venture net liabilities £m	Total £m
The group					
At 1 April 2015	22.2	1.1	0.4	0.5	**24.2**
Charge for the year	0.1	-	1.8	-	**1.9**
Transfer from trade and other payables	-	-	1.5	-	**1.5**
Transfer to/from investments	-	-	-	(0.5)	**(0.5)**
Unwinding of discount	0.4	-	-	-	**0.4**
Utilised in the year	(6.6)	(0.1)	(0.4)	-	**(7.1)**
At 31 March 2016	**16.1**	**1.0**	**3.3**	**-**	**20.4**

Maturity analysis of total provisions:

	2016 £m	2015 £m
Current	**8.2**	6.4
Non-current	**12.2**	17.8
	20.4	24.2

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 eight years.

Business closure and disposal provisions relate to exit costs, principally the disposal of the international businesses, and the restructuring of the Property business, which are expected to crystallise over a period of two years.

Provisions for legal and other claims include £2.9 million in respect of legal claims and potential pollution fines, and £0.4 million (2015: £0.4 million) for uncertain warranty and certification costs, all of which are expected to crystallise over a period of approximately two years.

The provision for joint venture liabilities represents the aggregate amount of net liabilities in joint ventures at the balance sheet date. The amounts have been transferred from investments in order to separate the gross amounts of investments with net liabilities from those with net assets as prescribed in the accounting policy note 1(b). Movements in the group's share of joint venture assets and liabilities are disclosed in note 17.

The company

The company has no provisions for liabilities (2015: 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 2014	1,387.4	(136.5)	(14.3)	(142.5)	(5.9)	**1,088.2**
(Credited)/charged directly to the income statement	(6.1)	(39.6)	5.4	(2.6)	0.4	**(42.5)**
Credited directly to other comprehensive income	-	(14.6)	(0.3)	-	-	**(14.9)**
At 31 March 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**

	Accelerated tax depreciation £m	Financial instruments £m	Retirement benefit obligation £m	Surplus ACT asset £m	Other £m	Total £m
The company						
At 1 April 2014	-	(5.1)	-	-	-	**(5.1)**
Charged directly to the income statement	-	0.8	-	-	-	**0.8**
Charged directly to other comprehensive income	-	0.5	-	-	-	**0.5**
At 31 March 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)**

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 £145.1 million would arise.

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

	Group	
	2016 £m	2015 £m
Surplus ACT	**22.8**	22.8
Tax losses carried forward	**1.4**	1.6
	24.2	24.4

The surplus ACT of £22.8 million was written off in subsidiary undertakings in prior years and will not be recognised in the balance sheet until its recoverability becomes probable. 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.

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') and various other smaller arrangements. 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 2016.

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 15.5% (2015: 12.5%) of pensionable pay plus £10.0 million (2015: £23.3 million) per annum to AWGPS during the year. Contributions to MPLAP were £5.5 million (2015: £5.5 million) during the year. In the year to 31 March 2017 employers' contributions are expected to be £27.6 million, including contributions to AWGPS of 15.5% of pensionable pay plus £10 million of deficit reduction payments.

The weighted average duration of the defined benefit obligation for AWGPS is 19 years, for MPLAP is 24 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 £7.2 million (2015: £6.4 million).

25. Net retirement benefit obligation (continued)

a) Principal actuarial assumptions

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

	2016 % pa	2015 % pa
Discount rate	**3.5**	3.2
Inflation rate		
RPI	**3.0**	3.0
CPI	**2.0**	2.0
Increase to deferred benefits during deferment		
RPI	**3.0**	3.0
CPI	**2.0**	2.0
Increases to inflation related pensions in payment [(1)]		
RPI	**2.9**	2.9
CPI	**2.1**	2.1
General salary increases [(2)]	**2.5 / 4.0**	2.5 / 4.0

	2016 years	2015 years
Longevity at age 65 for current pensioners		
Men	**23.0**	23.2
Women	**25.1**	25.5
Longevity at age 65 for future pensioners [(3)]		
Men	**24.9**	25.0
Women	**27.0**	27.5

(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 (4.0% per annum) and RPI price inflation (3.0% per annum) are both above 2.5% per annum at 31 March 2016, 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 2036.

b) Sensitivity analysis

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

	Change in assumption	**AWGPS £m**	**Total other funded schemes £m**	**Unfunded pensions £m**	**Total £m**
At 31 March 2016					
Discount rate	+/- 0.5% pa	-111 / +127	-25 / +29	-2 / +3	-138 / +159
Rate of RPI inflation	+/- 0.5% pa	+118 / -104	+15 / -13	+3 / -2	+136 / -119
Life expectancy	+/- 1 year	+43 / -41	+12 / -11	+2 / -1	+57 / -53

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	Total other funded schemes £m	Unfunded pensions £m	Total £m
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)**	**(1.1)**	**-**	**(10.5)**
Net interest expense (see note 8)	0.5	(0.1)	(1.5)	**(1.1)**
Amounts charged to the income statement	**(8.9)**	**(1.2)**	**(1.5)**	**(11.6)**
Amounts credited/(charged) to other comprehensive income				
Return on plan assets (excluding amounts included in net interest)	(30.6)	(9.2)	-	**(39.8)**
Actuarial gains arising from changes in financial assumptions	59.4	15.9	2.1	**77.4**
Actuarial gains arising from changes in demographic assumptions	9.4	1.8	0.3	**11.5**
Actuarial (losses)/gains arising from experience adjustments	(0.3)	0.2	-	**(0.1)**
Change arising from minimum funding requirement	-	(22.1)	-	**(22.1)**
Net credit/(charge) to other comprehensive income	**37.9**	**(13.4)**	**2.4**	**26.9**
2015				
Amount charged to staff costs within operating profit:				
Current service cost	(7.1)	(0.1)	-	(7.2)
Administration expenses	(1.2)	(0.5)	-	(1.7)
Total operating charge (see note 10)	(8.3)	(0.6)	-	(8.9)
Net interest expense (see note 8)	(0.1)	(0.4)	(2.0)	(2.5)
Amounts charged to the income statement	(8.4)	(1.0)	(2.0)	(11.4)
Amounts (charged)/credited to other comprehensive income:				
Return on plan assets (excluding amounts included in net interest)	168.6	19.1	-	187.7
Actuarial losses arising from changes in financial assumptions	(165.0)	(48.4)	(3.6)	(217.0)
Adjustments for restrictions on the defined benefit asset	-	27.8	-	27.8
Net (charge)/credit to other comprehensive income	3.6	(1.5)	(3.6)	(1.5)

25. Net retirement benefit obligation (continued)

e) Amounts recognised in the balance sheet

	AWGPS £m	Total other funded schemes £m	Unfunded pensions £m	Total £m
2016				
Equities	315.2	75.3	-	**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)	65.5	-	**(22.5)**
Other	114.3	5.4	-	**119.7**
Total assets	1,333.1	244.5	-	**1,577.6**
Present value of scheme liabilities	(1,274.8)	(238.7)	(45.0)	**(1,558.5)**
Liability arising from minimum funding requirement [1]	-	(22.1)	-	**(22.1)**
Net pension (obligation)/surplus	**58.3**	**(16.3)**	**(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	**(16.3)**	**(45.0)**	**(3.0)**
2015				
Equities	318.8	77.4	-	396.2
Corporate bonds	712.8	55.2	-	768.0
Government bonds	153.9	60.9	-	214.8
Property	91.8	0.9	-	92.7
Alternatives	136.9	11.7	-	148.6
Other	(69.5)	47.7	-	(21.8)
Total assets	1,344.7	253.8	-	1,598.5
Present value of scheme liabilities	(1,333.9)	(261.8)	(48.7)	(1,644.4)
Net pension (obligation)/surplus	10.8	(8.0)	(48.7)	(45.9)
Comprising:				
Pension schemes with a net surplus, included in non-current assets	10.8	0.5	-	11.3
Pension schemes with a net obligation, included in non-current liabilities	-	(8.5)	(48.7)	(57.2)
	10.8	(8.0)	(48.7)	(45.9)

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

Pension schemes in a net surplus position at the balance sheet date, principally AWGPS, have been shown as retirement benefit surpluses within non-current assets on the balance sheet. This is a change from the 31 March 2015 financial statements where they were included within retirement benefit obligations in non-current liabilities. The March 2015 group balance sheet included in these consolidated financial statements has been updated to ensure comparability, with no impact on net assets.

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	Total other funded schemes £m	Unfunded pensions £m	Total £m
At 1 April 2014	1,136.3	225.4	-	**1,361.7**
Interest income on scheme assets	48.7	9.7	-	**58.4**
Administration costs	(1.2)	(0.5)	-	**(1.7)**
Employers' contributions	29.5	6.3	2.8	**38.6**
Members' contributions	3.6	-	-	**3.6**
Benefits paid	(40.8)	(6.2)	(2.8)	**(49.8)**
Return on plan assets (excluding interest income)	168.6	19.1	-	**187.7**
At 31 March 2015	1,344.7	253.8	-	**1,598.5**
Interest income on scheme assets	42.7	8.0	-	**50.7**
Administration costs	(1.8)	(0.9)	-	**(2.7)**
Employers' contributions	18.5	6.3	2.8	**27.6**
Members' contributions	3.4	0.1	-	**3.5**
Benefits paid	(43.8)	(13.6)	(2.8)	**(60.2)**
Return on plan assets (excluding interest income)	(30.6)	(9.2)	-	**(39.8)**
At 31 March 2016	**1,333.1**	**244.5**	**-**	**1,577.6**

g) Reconciliation of scheme liabilities

	AWGPS £m	Total other funded schemes £m	Unfunded pensions £m	Total £m
At 1 April 2014	(1,150.2)	(210.6)	(45.9)	**(1,406.7)**
Current service cost	(7.1)	(0.1)	-	**(7.2)**
Interest cost on scheme liabilities	(48.8)	(8.9)	(2.0)	**(59.7)**
Members' contributions	(3.6)	-	-	**(3.6)**
Benefits paid	40.8	6.2	2.8	**49.8**
Actuarial loss	(165.0)	(48.4)	(3.6)	**(217.0)**
At 31 March 2015	(1,333.9)	(261.8)	(48.7)	**(1,644.4)**
Current service cost	(7.6)	(0.2)	-	**(7.8)**
Interest cost on scheme liabilities	(42.2)	(8.1)	(1.5)	**(51.8)**
Members' contributions	(3.4)	(0.1)	-	**(3.5)**
Benefits paid	43.8	13.6	2.8	**60.2**
Actuarial gain	68.5	17.9	2.4	**88.8**
At 31 March 2016	**(1,274.8)**	**(238.7)**	**(45.0)**	**(1,558.5)**

26. Share capital

	Group and Company	
	2016	2015
	£m	£m
Allotted, issued and fully paid		
85,415,751,649 ordinary shares of 1 pence each	**854.2**	854.2

27. Hedging reserve

	Group		Company	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
At the beginning of the year	**(87.7)**	(29.0)	**(7.7)**	(9.4)
Losses on cash flow energy hedges	**(19.0)**	(8.6)	**-**	-
Amounts transferred to the income statement	**1.3**	12.6	**-**	-
Gains/(losses) on cash flow hedges	**46.8**	(104.0)	**-**	2.2
Amounts recycled to the income statement from de-designation of cash flow hedge relationship	**11.9**	-	**9.6**	-
Exchange movement on debt in cash flow hedges	**(54.6)**	26.7	**-**	-
Deferred tax movement on cash flow hedges	**0.3**	14.6	**(1.9)**	(0.5)
At 31 March	**(101.0)**	(87.7)	**-**	(7.7)

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 2016.

	Group	
	2016	2015
	£m	£m
Property, plant and equipment	**100.5**	69.9
Intangible assets	**11.1**	8.2
	111.6	78.1

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

The company

The company has no such commitments (2015: 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 2016 the group had the following outstanding commitments in respect of future minimum lease payments under non-cancellable operating leases:

		Group
	2016	2015
	£m	£m
Within one year	**10.6**	10.9
Between one and five years	**24.2**	31.3
After five years	**14.0**	17.8
	48.8	60.0

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

		Group
	2016	2015
	£m	£m
The group		
Within one year	**3.9**	3.6
Between one and five years	**3.9**	5.6
After five years	**0.7**	1.1
	8.5	10.3

The company

The company has no such commitments (2015: none).

b) Leases as lessor

The group leases out its investment properties. During the year to 31 March 2016 rental income of £0.2 million (2015: £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 £6.6 million (2015: £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 2016, the group had £145.1 million (2015: £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 December 2015, Ofwat concluded its long running investigation of Anglian Water's conduct in relation to the Fairfield development by issuing a "No grounds for Action" decision. Ofwat has therefore concluded that Anglian Water has not abused its dominant position and, accordingly, that there has been no infringement of the Competition Act 1998.

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 the UK. 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. 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 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, the parent company of Colonial First State Global Asset Management one of the consortium of investors owning Anglian Water Group Limited. 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 2015, Anglian Water Services Financing Plc entered into a fixed to fixed swap agreement with a notional principal of £31.3 million, on normal commercial terms, through 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. In addition to this the Commonwealth Bank of Australia participated in a new £500 million revolving credit facility with an allocation of £45 million, and renewed its participation in the Class Operation and Maintenance facility. The fees earned on these facilities totalled £188,750.

During the year to 31 March 2016 there were no other transactions (2015: 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 £1.5 million (2015: £nil) was invested by Key Management, a return of £0.1 million (2015: £0.3 million) was earned, and the group repaid £3.5 million (2015: £2.5 million) as part of this scheme. At 31 March 2016 £1.6 million (2015: £3.5 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 (2015: £0.1 million).

Remuneration of key management personnel

	2016 £m	2015 £m
Short-term employee benefits	**5.8**	4.9
Post-employment benefits	**0.6**	0.5
Other long-term benefits	**3.1**	1.5
	9.5	6.9

32. Related party transactions (continued)

c) Transactions with joint ventures

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

	2016 £m	2015 £m
Sale of goods/services	**0.2**	0.4
Management fees received	**0.3**	0.3
Dividends received	**1.3**	1.7

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

	2016 £m	2015 £m
Amounts receivable from joint ventures	**1.0**	0.9
Amounts payable to joint ventures	**-**	-

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

	2016 £m	2015 £m
At the beginning of the year	**4.2**	9.8
Additions	**-**	0.4
Repayments	**-**	(0.2)
Amounts provided	**-**	(5.8)
At 31 March	**4.2**	4.2

d) Parent company

The company's related party transactions are summarised below:

	2016 £m	2015 £m
Management fees paid to		
Subsidiaries	**(0.1)**	(0.1)
Interest paid to		
Subsidiaries	**(27.4)**	(40.2)
Dividends received from		
Subsidiaries	**147.1**	123.6
Dividends paid to		
Parent company	**(112.5)**	(91.5)

	2016 £m	2015 £m
Current tax receivables due from		
Subsidiaries	**8.1**	10.8
Loans and other borrowings due to		
Parent company	**(728.8)**	(728.8)
Subsidiaries	**(451.9)**	(460.0)

33. Events after the balance sheet date

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

34. Group undertakings

The group's subsidiary undertakings at 31 March 2016 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.

	Percentage holding	Country of incorporation
Owned directly by Osprey Acquisitions Limited		
Anglian Water (Osprey) Financing Plc		
AWG Parent Co Limited		
All subsidiary undertakings		
Alexander Morrison Limited		
Ambury Developments Limited		
Anglian Portfolio Management Limited		
Anglian Water (Ireland) Limited		Ireland
Anglian Water (Osprey) Financing Plc		
Anglian Water Business Limited		
Anglian Water Direct Limited		
Anglian Water Facilities Management Holdings (UK) Limited		
Anglian Water Fleet Management Holdings (UK) Limited		
Anglian Water International Holdings Limited		
Anglian Water International Limited		
Anglian Water Overseas Holdings Limited		
Anglian Water Property Holdings (UK) Limited		
Anglian Water Services Financing Plc		
Anglian Water Services Holdings Limited		
Anglian Water Services Limited		
Anglian Water Services Overseas Holdings Limited		Cayman Islands
AW Creative Technologies Limited		
AW Licensing Limited		
AWG (UK) Holdings Limited		
AWG Business Centres Limited		
AWG Cambuslang Rental Portfolio Limited		
AWG Central Services Limited		
AWG Group Limited		
AWG Holdings Limited		Jersey
AWG Land Holdings Limited		
AWG Land Investments Limited		
AWG Outlet Centers Limited		
AWG Parent Co Limited		
AWG Property Developments (Ireland) Limited		Ireland
AWG Property Director Limited		
AWG Property Limited		
AWG Property Solutions Limited		
AWG Rails Services Limited		
AWG Residential Limited		
AWG Shelf 11 Limited		
Chester (1995) Limited	96.62%	
City Road Properties (Chester) Limited		
CS 3000 Limited		
CS Amenities Limited		
CS Management Company (2002) Limited		
Eastland Developments Limited		
Edmund Homes Limited		
Farm Gas Limited		
Gwent Euro Park Management Company Limited	99.83%	
H2GO Limited		
Hamilton Park Developments (Plot 7C) Limited		

34. Group undertakings (continued)

All subsidiary undertakings (continued)	Percentage holding	Country of incorporation
Leith Walk Properties Limited		
Macrocom (743) Limited		
Morco (3) Limited		
Morco (8) Limited		
Morco 2 Limited		
Morrison (Oldco) Limited		
Morrison Biggs Wall Limited		
Morrison Caspian Limited		
Morrison Glosha Limited		
Morrison Holdings Limited		
Morrison International Developments Limited		
Morrison International Limited		
Morrison Lema Homes Limited		
Morrison Leneghan Ireland Limited	60.00%	Ireland
Morrison Project Investments Limited		
Morrison Properties Limited		
Morrison Property Investments Limited		
Morrison Rail Limited		
Morrison Shand Construction Limited		
Morrison Ventures Limited		
Northwood (Residential) Limited		Ireland
NVB Rathdowney Limited		Ireland
Rutland Insurance Limited		Guernsey
Shand Construction Limited		
Shawlands Developments		
Spreevale Limited		Ireland
Valuetype Limited		
Vector Morrison (Ghana) Limited	60.00%	Ghana

Joint ventures	Percentage holding	Country of incorporation
124 St Vincent Street (Glasgow) LLP	50%	
AWG Mitchell Investments (Tannochside) Limited	50%	
AWG Outlets (Rathdowney) Limited	50%	Ireland
Cambuslang Retail Portfolio Limited	50%	
Castlemilk Retail LLP	50%	
Celtic Anglian Water Limited	50%	Ireland
Crowwood Grange Estates Limited	50%	
CS 3000 Limited	50%	
DMWS 819 Limited	50%	
DMWS 822 Limited	50%	
DMWS 823 Limited	50%	
DMWS 824 LLP	50%	
Excel Centre Aberdeen Limited	50%	
Graham Street Airdrie Retail Portfolio Limited	50%	
Hollowstone Limited	50%	
Kings Waterfront Properties Limited	50%	
Leith Walk Properties Limited	50%	
Morrison Gwent Limited	50%	
Morrison Residential Properties Limited	50%	
Morrison Veolia Limited	50%	
Ocean Point Developments Limited	50%	
Palacecraig Street Coatbridge Limited	50%	
Rathdowney Shopping Centre Management Company Limited	50%	Ireland
Shawlands Retail Limited	50%	

Independent auditors' report to the members of Osprey Acquisitions Limited

Report on the financial statements

Our opinion

In our opinion:

- Osprey Acquisitions Limited's group financial statements and company financial statements (the 'financial statements') give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2016 and of the group's profit and the group's and the company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

What we have audited

The financial statements, included within the Annual report and consolidated financial statements (the 'Annual Report'), comprise:

- the group and company balance sheets as at 31 March 2016;
- the group income statement and group statement of other comprehensive income for the year then ended;
- the group and company cash flow statements for the year then ended;
- the group and company statements of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law and, as regards the company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion:

- 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.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' responsibilities set out on page 3, 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) ('ISAs (UK & Ireland)'). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

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.

John Maitland (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham

29.6.16.