Osprey Acquisitions Limited
Annual report and consolidated financial statements

for the year ended 31 March 2018

Company number: 05915896

Directors' report

for the year ended 31 March 2018

The Directors present their report and the audited consolidated financial statements of Osprey Acquisitions Limited (the 'company') for the year ended 31 March 2018.

Principal activities, business review and future developments

The principal activities of the company and its subsidiaries (together 'the group') during the year were water supply, treatment and distribution; sewage collection and treatment; and retail services to water and water recycling customers. No changes are envisaged to the group's principal activities. The information that fulfils the requirement of the Strategic Report, including the company's financial risk management objectives and the disclosure requirements regarding greenhouse gas emissions, is set out on pages 6 to 44.

Group results and returns to shareholders

The income statement on page 45 shows the group's results for the year. Dividends of £95.0 million (2017: £96.5 million) were paid during the year. In addition, interim dividends of £10.0 million and £30.8 million, in respect of the year ended 31 March 2019, were approved by the Board on 22 May 2018 and 25 June 2018 and paid on 29 May 2018 and 28 June 2018 respectively. These dividends have not been included as a liability at 31 March 2018.

Directors

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

Stephen Billingham	
Scott Longhurst	
Peter Simpson	
Projesh Banerjea	appointed 22 June 2018
John Barry	appointed 22 March 2018
James Bryce	
Cressida Hogg CBE	resigned 23 May 2018
Mamoun Jamai	appointed 22 June 2018
Manoj Mehta	
Niall Mills	
Robert Napier	
Alexandros Nassuphis	resigned 22 June 2018
Batiste Ogier	
Duncan Symonds	
Philip White	resigned 21 February 2018

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

Directors' indemnities

During the 2017/18 financial year and up until the date of the signing of the financial statements, the group has maintained directors' and officers' liability insurance, which gives appropriate cover for legal action brought against its Directors. The group has also provided an indemnity for its Directors, which is a qualifying third-party indemnity provision for the purpose of section 234 ((2) – (6)) of the Companies Act 2006.

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

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

With the support of the group, employee volunteers, partners and suppliers across the business, our WaterAid Volunteers' Committee successfully fundraised an additional £902,050 for WaterAid (2017: £766,474), the highest amount ever raised by the business.

Political donations
No political donations were made during the year (2017: £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 31 of the Strategic Report and in note 22 of the financial statements.

Customers
Anglian Water actively seeks to engage with present and future customers across its region. Future customers are engaged through school outreach programmes and hosting students at our education centres. A number of elements of our PR19 customer engagement programme will reach children and young people. An Anglian Water touring van will visit a range of locations throughout the summer of 2018, commencing at the primary school where pupils named the road show 'H2O Let's Go'. The road show will visit a range of locations across the Anglian Water and Hartlepool region, including events that will attract families (such as county shows and town festivals) and some events specifically run for young people. An extensive programme of customer engagement has been developed for this AMP, with the aim of generating an ongoing dialogue regarding customer priorities and making the best use of insight from existing contact channels. The programme has been developed in line with the group's ambition to put customers at the heart of its activities, as well as being updated in response to Ofwat's guidance for PR19.

Anglian Water's Business Plan for 2015–2020 was informed by the results of its biggest ever, region-wide consultation on the future of water and water recycling services, and was a step-change from the engagement activity for the previous plan. The customer engagement activity in AMP6 is another significant step forward, to keep pace with technological advances and changing customer expectations. A diverse range of innovative and traditional techniques are being used to engage with customers and to analyse results according to customer circumstances, behaviours and attitudes.

Since 2011, the independent Customer Engagement Forum (CEF) has been in place to advise and challenge Anglian Water on how it has engaged with its customers and how customer views are reflected in its plans. From the start of this AMP, the CEF has also monitored current performance and challenged areas where Anglian Water has not met targets, or has significantly exceeded them. In particular, it has focused on Anglian Water's suite of Outcome Delivery Incentives (ODIs), which are a set of performance measures relating to areas of the business most important to our customers.

The CEF has members from a wide range of backgrounds to represent the interests of household and business customers, communities, the environment and the economy. Anglian Water has also formed a customer board from a representative selection of members from its online community to provide further guidance and directly feed in customers’ views, running alongside the CEF and the Anglian Water Management Board.

Excellent customer service is a high priority and the group recognises employees who provide such service. The Anglian Water Management Board is actively involved in the development of the business’s customer service offering, monitoring the results of the quarterly Service Incentive Mechanism (‘SIM’) survey conducted by Ofwat (itself an ODI), and using Management Board meetings to discuss performance that has resulted in the SIM score at each quarter.

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 management meets 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, appropriate adjustments are made and training given. Career development and promotion of disabled people are, as far as possible, identical to those of other employees.

Events occurring after the reporting period

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

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and consolidated financial statements in accordance with applicable law and regulations.

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

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and the company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

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

The Directors consider that the Annual Report and consolidated financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group and company's performance, business model and strategy.

Statement of Directors' 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, Deloitte LLP, have indicated their willingness to continue in office and are deemed to be reappointed.

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

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

Claire Russell
Company Secretary
29 June 2018

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

Registered in England and Wales No. 05915896

Group overview

Osprey Acquisitions Limited's principal business is Anglian Water Services Limited ('Anglian Water'), the group's regulated water and sewerage company, which supplies water and water recycling services to more than six million customers in the east of England and Hartlepool.

Anglian Water has become the first UK water company to complete the removal of its UK tax-resident Cayman Islands company from its financial structure (see page 16). The removal of the Cayman company is one of a range of commitments made by Anglian Water earlier this year, designed to improve transparency, trust and customer confidence. Anglian Water has also repaid a large inter-company loan to simplify the presentation of its accounts and allow for greater clarity of financial reporting, in particular around actual dividends paid. The changes come after the Board of Anglian Water, in conjunction with its pension fund-backed shareholders, unanimously backed a series of financial and corporate initiatives in March to enhance transparency, trust and customer confidence.

The key performance indicators of the group's principal business is discussed in the Anglian Water section below. In addition, compliance with the group's borrowing covenants is an additional key performance indicator for the group and is discussed on page 31.

Group financial performance

	2018 £m	2017 £m
Revenue	**1,259.6**	1,235.2
Operating profit	**337.3**	354.3
Underlying (loss)/profit before tax (1)	**(24.0)**	48.8
Profit/(loss) before tax	**99.7**	(48.7)
Cash generated from operations	**627.3**	613.6

(1) Excludes the exceptional profit of £4.6 million on disposal of Anglian Water's non-household water and water recycling retail business to Anglian Water Business (National) Limited, a fellow subsidiary of the group's ultimate parent undertaking (2017: £9.5 million profit on disposal of the Celtic Anglian Water joint venture), and fair value gains on derivative financial instruments of £119.1 million (2017: losses of £107.0 million).

On 1 April 2017, Anglian Water sold its non-household water and water recycling retail business to Anglian Water Business (National) Limited, a fellow subsidiary of the group's ultimate parent undertaking, resulting in an exceptional profit of £4.6 million.

Revenue for the year was £1,259.6 million, an increase of £24.4 million from £1,235.2 million in 2017. Anglian Water's revenue increased by 1.8%, reflecting the regulatory tariff increase and modest growth in customer numbers, partially offset by the loss of the retail gross margin for non-household customers following the transfer of those customers on 1 April 2017 to Anglian Water Business (National) Limited, and a small fall in consumption.

Operating profit was £337.3 million, a decrease of £17.0 million from the £354.3 million profit in 2017. Anglian Water's operating profit decreased by £16.8 million, (4.6)%, to £348.5 million, which is consistent with the effect of the regulatory price increase, more than offset by the increases in operating costs and depreciation.

Net finance costs for the period, excluding fair value gains/losses on derivative financial instruments, increased by £55.5 million to £361.3 million (2017: £305.8 million), primarily due to the non-cash impact of higher inflation on index-linked debt in Anglian Water, where year on year RPI 'Retail Prices Index' inflation increased from 2.1% to 3.7%.

Resultant underlying loss before tax was £24.0 million (2017: profit of £48.8 million). After the exceptional profit on the transfer of Anglian Water's non-household water and water recycling retail business to Anglian Water Business (National) Limited (2017: profit on disposal of the Celtic Anglian Water joint venture), and fair value gains/(losses) on derivative financial instruments, the statutory profit before tax was £99.7 million (2017: loss of £48.7 million).

Taxation

Our underlying effective tax rate is higher than the rate of corporation tax due to restriction on interest deductibility as a result of new legislation introduced in April 2017. Our low level of cash tax reflects the fiscal incentives available to all UK companies for sustained high levels of capital investment, the interest we pay to fund that investment and the availability of surplus ACT (corporation tax paid in advance). We are one of the largest private investors in infrastructure in our region, investing more than £2 billion over five years. The Government actively encourages infrastructure investment and grants us capital allowances, which defer some of our corporation tax liabilities until a later period. Our customers directly benefit from the deferral as it helps to keep their bills lower.

The total tax charge for the year of £21.5 million (2017: credit of £68.4 million) comprised a current tax charge of £34.1 million (2017: £92.8 million) and a deferred tax credit of £12.6 million (2017: £161.2 million).

The decrease of £58.7 million in the current tax charge for the year was due to a reduction in profits before taking account of fair value gains/losses on derivative financial instruments, which have no current tax effect. The charge for 2017 also included an adjustment of £42.7 million in respect of prior year items due to disclaiming capital allowances to utilise surplus ACT.

The deferred tax credit has reduced from £161.2 million to £12.6 million. The comparative year included the impact of the reduction in future tax rates used to calculate deferred tax from 18% to 17%, which gave rise to a credit of £53.3 million, and also a credit of £55.6 million for prior year items due to disclaiming capital allowances to utilise surplus ACT and a refinement to the classification of deferred tax balances. Excluding the effect of these two items, the underlying deferred tax credit for the year has reduced from £52.3 million to £12.6 million. The main reason for this decrease was the movement in fair value on financial derivatives, which changed from a loss of £107.0 million last year to a gain of £119.1 million this year.

Cash flow

Cash generated from operations by the group was £627.3 million (2017: £613.6 million), an increase of £13.7 million on the prior year. Of this increase, Anglian Water's operating cash flow was £12.0 million higher than the prior period at £644.0 million (2017: £632.0 million).

Net cash outflow for capital investment was £401.4 million (2017: £307.1 million), which is net of the movement in creditors and accruals in the period. The vast majority of capital expenditure relates to the Anglian Water capital programme where gross regulated capital investment was £460.9 million, broadly in line with management expectations. Net cash outflow from capital expenditure is after grants and contributions of £40.4 million (2017: £39.4 million) received towards the capital programme and refers to the actual cash spend.

Net debt

Net debt increased by £52.2 million to £8,215.3 million in the year to 31 March 2018. During the period new debt of £489.5 million was raised, of which £248.6 million relates to the Green Bond issuance within Anglian Water and £240.0 million refinancing of debt within Osprey Acquisitions. Debt repaid in the period amounted to £493.2 million; in addition, the group paid down £73.9 million of accumulated interest on derivatives.

Pension funding

On 31 March 2018, following a year of consultation with our employee representatives, employees and pension trustees, the defined benefit pension schemes for Anglian Water Group and Hartlepool Water were closed to future accruals for existing members. Around 25% of our current employees are affected by this change and, overall, we have improved the pension offer for all our colleagues and will be spending more on pension contributions than in the past. We are also providing more flexibility around pension contributions and working patterns and the pension changes were part of a wider package of benefits that includes increases in life assurance, flexible medical benefits and opportunities to buy and sell holiday, all designed to reflect the diverse needs of our entire workforce. Members of our defined benefit schemes have their accumulated rights protected, and the group has agreed a package of measures with the Pension Trustees that will ensure the schemes continue to be funded at appropriate levels.

At 31 March 2018 the net pension deficit for the group was £6.5 million (2017: £98.2 million). The reduction in the deficit is largely due to an improved performance in the scheme assets during the year, together with a revision to future life expectancy assumptions. Future additional contributions will continue to be made in line with actuarial advice.

Dividends

Dividends of £95.0 million (2017: £96.5 million) were paid in the year. In addition, interim dividends of £10.0 million and £30.8 million, in respect of the year ended 31 March 2019, were approved by the Board on 22 May 2018 and 25 June 2018 and paid on 29 May 2018 and 28 June 2018 respectively. These dividends have not been included as a liability at 31 March 2018.

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

Climate-related disclosures

The Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD) has developed a voluntary framework for the reporting of climate-related financial risk disclosures for use by lenders, insurers, investors and other stakeholders.

Anglian Water is a supporter of TCFD. We are committed to ensuring our climate change disclosures align with TCFD recommendations, which we see as an endorsement of our focused commitment to climate change mitigation and adaptation activities since 2006.

Those activities are an integral part of our strategy and operations, and information relating to climate change can be found throughout this report. Below, we set out how the disclosures in this report align to the TCFD recommendations, where the relevant information can be found and where you can go for more detailed information.

Governance – the group's governance around climate-related risks and opportunities:

Climate change is one of the biggest risks facing our business (see page 36) and resilience to its effects is a constant theme on the Board's agenda.

As part of Anglian Water's Love Every Drop strategy, the Board has approved ambitious goals to reduce carbon emissions, together with a new long-term target to be carbon neutral by 2050. Our capital and operational carbon performance is reported to the Anglian Water Management Board each month.

The Anglian Water Director of Water Recycling chairs monthly meetings of our Energy and Carbon Steering Group, while the Anglian Water Asset Management Director challenges the operational and capital carbon for all capital delivery schemes through the Totex Investment Group. More information on our governance around climate-related risks and opportunities can be found on pages 36 to 37.

We also report on how we are adapting to the risks and opportunities of climate change in the report we prepare in response to the Government's Adaptation Reporting Power, which can be found on the Anglian Water website at www.anglianwater.co.uk.

Strategy – the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning:

We have a strategy to measure, manage and reduce our carbon emissions, with ambitious goals to reduce capital and operational carbon emissions, and to lead and champion the effective management of the impact of growth and climate change. Details can be found on page 29 and in the Anglian Water annual Greenhouse Gas (GHG) Emissions report, which can be found on the Anglian Water website at www.anglianwater.co.uk.

We have also set out a roadmap to carbon neutrality in 2050, which highlights the key actions we need to take, along with our supply chain and stakeholders, to have a carbon neutral impact in our operations.

The Anglian Water Strategic Direction Statement, which can be found on the Anglian Water website at www.anglianwater.co.uk, highlights adaptation priorities – from immediate flood risks to ensuring future capital investment is designed to be resilient to the impacts of climate change for the next 40 years and beyond.

Risk management – the processes used by the organisation to identify, assess and manage climate-related risks:

Following Defra guidance, and in line with the UK Climate Change Risk Assessment and National Adaptation Programme, we developed a methodology for assessing the climate resilience of Anglian Water assets. Risks identified include extremes of temperature, an increase in spells of dry weather, sea level rise and more frequent wind storms. Possible impacts include supply interruptions, flooding, pollution, odour problems, compliance failures and an increase in leaks and burst pipes. More information about our risk management process and our principal risks can be found on page 32, with climate change specifically addressed on page 36. For more details, please see chapter 5 of the Anglian Water current Climate Change Adaptation Report, which can be found on the Anglian Water website at www.anglianwater.co.uk.

Metrics and targets – the metrics and targets used to assess and manage relevant climate-related risks and opportunities:

Each of our assets is assessed to see if, when and how it is likely to be affected by a changing climate, and what actions can be taken to prevent risk and reduce any loss. There is more detail about the actions we are taking in different parts of our operation in table 11.6 of the Anglian Water Climate Change Adaptation Report, which can be found on the Anglian Water website at www.anglianwater.co.uk.

Our carbon reduction targets are among Anglian Water's Outcome Delivery Incentives (ODIs), which are used to measure our performance against the outcomes we have agreed with our customers. In 2016, Anglian Water became the first organisation globally to be verified against the requirements of the PAS 2080 Carbon Management in Infrastructure standard (see page 29).

Anglian Water has also been certified to ISO 14064 through Achilles Carbon and Energy Management and Reduction Scheme (CEMARS) since 2010. This is external evidence that we have a climate-related strategy in place and that we have shown seven years of continual reductions in GHG emissions.

Our people: happier, healthier and safer

An organisation is only as good as its people. We are committed to looking after our employees' safety, and also believe that work should have a positive impact on their health and wellbeing. People work better and provide a better service to customers if they are happier, healthier and safer.

This year saw the launch of our new three-year health, safety and wellbeing plan, which has been developed in consultation with people from across the business and with outside organisations, including the Health and Safety Executive and Water UK, to make sure it is current and relevant.

The plan has five key outcomes:

- Healthier and safer work environment.
- Health and safety improved through positive engagement and collaboration.
- High-risk activities managed to reduce significant incidents.
- Hazardous processes understood and controlled.
- Clear and simple safety information.

Underpinning our approach is a behavioural change programme: LIFE. This is about moving away from a traditional, compliance-based approach to health and safety – where we took the measures that the rules said we should – towards a culture where we take responsibility for our wellbeing and that of our colleagues.

LIFE is the brand that brings happier, healthier and safer together, encompassing mental and physical health, wellbeing and safety.

Recent months have seen initiatives on mental wellbeing and musculoskeletal health, while LIFE sessions have been held to improve safety by building the strong relationships and encouraging the positive conversations that support a culture of care and concern where people make the right choices.

Diversity

A group-wide diversity policy and Diversity Action Plan was agreed in 2014. This action plan contains a range of actions and targets around the areas of gender, ethnicity, disability and age and includes targets in respect of diversity – gender, ethnicity, age and disability – with the aim of achieving these targets by 2020. During the year, the group broadened the scope of its ambitions to focus on inclusion as well as diversity and created its Diversity & Inclusion Strategy. Its objective is to create a working environment that values difference: where colleagues from all backgrounds can give their best, are treated fairly, valued for their contributions, and where they can develop their careers. Under the Strategy there is a focus on the following four key areas:

Diverse demographics: to ensure that the group is representative of the communities it serves.

Inclusion: to ensure that all employees are respected, treated fairly and valued for their individuality.

Individual action: to take every opportunity to improve diversity and inclusion in the way the group works.

Leadership: the group's leaders will ensure that all employees are aware of good practice and how the group values diversity and inclusion.

During the financial year, the group achieved its target in respect of increasing the number of women in management roles, including the number of women in STEM (science, technology, engineering and mathematics) roles. Some progress has also been made in respect of the ethnicity, age and disability targets, but progress is slow. In order to improve diversity and inclusion, the group has taken a number of actions including increasing engagement with schools, increasing use of social media and working with the Armed Forces Covenant Recognition Scheme. The group works hard to achieve a genuine diversity of employees and continues to refocus its efforts accordingly.

The Board has not set a specific female Board member quota and at 31 March 2018 the company had one female Director, who subsequently resigned on 23 May 2018.

The group is similarly committed to appointing the best available person to any role regardless of gender. Anglian Water employs 94% of the group's employees and a high-level breakdown of Anglian Water's male/female employee split across the business appears on page 17 of the Strategic Report.

An ethical business

We are committed to conducting our business fairly, honestly and openly. We expect all employees, partners, agents and contractors to adopt a high standard of business ethics.

We have a zero tolerance of bribery and corruption. All Directors and senior managers of Anglian Water are fully committed to preventing bribery being committed by any employee, person or business that carries out work or performs services on our behalf (including any subsidiary or associate company within the Anglian Water Group).

We have policies in place that address the risk of bribery and failure to prevent criminal facilitation of tax evasion. In addition, we have policies that set out mandatory standards of conduct in relation to the acceptance of gifts and corporate hospitality as well as political and charitable donations. We also have a whistleblowing policy in place (see page 3 for further information).

All staff must comply with these policies and with the Bribery Act 2010 at all times. A booklet, entitled *Making the right choices*, has been sent to all employees of Anglian Water, setting out the behaviour expected of them and guidance on making the right choices when faced with decisions that might not be central to their role. Topics covered include anti-bribery, fraud, modern slavery, protecting personal information and competition law.

In addition, employees are required to complete online training, including anti-bribery, maintaining a level playing field (which deals with competition law risk) and data protection law. Our data protection training has recently been updated in response to the requirements of the General Data Protection Regulation (GDPR).

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

Business review and key risks
The following pages set out a Strategic Report for each of the main reporting segments of the group at 31 March 2018, and the key risks for the group.

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 6.0 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.

It is our priority to create long-term value for our customers, the regional economy and the communities we serve while running the business in a sustainable and responsible way.

What we do

Our raw material is the water we collect from rivers and underground aquifers and store in our reservoirs.

We treat the water and put it into supply.

The water then comes back to us through our sewerage network before we treat and return it to the environment.

How we are addressing opportunities and challenges

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

Common to the whole water industry:

Markets, structure and financing of the industry

Structural changes currently under way in the water industry will present new challenges and significant opportunities. Following the opening of the market for non-household customers in April 2017, further reform is likely, including in upstream markets, sludge treatment and the provision of new water resources. We are working to secure long-term, stable investment and embrace the opening of markets and other changes as an opportunity to increase efficiency and add value.

In March we announced a series of financial and corporate initiatives to improve transparency, trust and customer confidence. This was in response to recent challenges from Ofwat and the Government. We already hold ourselves to the highest standards of accountability and transparency, but we must acknowledge when there is concern and act accordingly.

Affordability and customer expectations

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

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

Planning for the long-term

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

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

ANGLIAN WATER

Especially acute in the east of England:

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

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

Climate change
Our region is particularly vulnerable to climate change – low lying, with a long coastline and low rainfall. Hotter, drier weather can cause water scarcity and drought. We expect climate change to mean more intense rainfall and rising sea levels, meaning a bigger risk of flooding. We continue to invest in new water resources and to improve the efficiency and connectivity of our network. We are also investing in flood defences at vulnerable sites, working to reduce our carbon footprint and increase the amount of renewable energy we generate.

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

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

Our Love Every Drop strategy

Our short to medium-term objectives
Our strategy is guided by the things our customers have told us are important to them. Our 10 outcomes were developed with customers in 2013 and describe the future we are working towards. We refreshed them in 2017 to stretch ourselves further and reflect how central our people are to delivering everything we do.

Smart business:
- Our people: healthier, happier, safer
- Investing for tomorrow
- Fair charges, fair returns
- Resilient business

Smart communities:
- Positive impact on communities
- Safe, clean water
- Delighted customers

Smart environment:
- Supply meet demand
- A flourishing environment
- A smaller footprint

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Our long-term objectives

We believe that setting long-term goals helps drive us to make major improvements. We have talked to our customers about what matters most to them and about our role in the region. We have agreed four new long-term ambitions to help guide our planning.

- Make the east of England resilient to the risks of drought and flooding.
- Enable sustainable economic and housing growth in the UK's fastest growing region.
- Be a carbon neutral business by 2050.
- Work with others to achieve significant improvement in ecological quality across our catchments.

How we create value

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

The resources we rely on:

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

How we add value:

- Our Love Every Drop culture – Embedding sustainability throughout our business and supply chain.
- Collaborations – With suppliers, academics, and the public, private and charitable sectors to deliver transformational change.
- Innovation and thought leadership – From low carbon technology to behaviour change.
- Strategic future planning – Scenario planning, climate and growth projections, regional balance sheet of natural capital and customer insight.
- Building and managing assets - That are efficient, reliable and resilient.

What we create:

- 93% of the apprentices and 78% of the graduates employed since 2012 are still with Anglian Water.
- Every £100 million we invest creates or secures an estimated 2,000 jobs across our supply chain.
- The average bill is £1.17 a day, of which just 2p is profit.
- Leakage is at a three-year average of 183 Ml/d against a target of 192 Ml/d.
- Our sewage treatment process generated 90 GWh of renewable energy from biogas this year and will produce about 370,000 tonnes of biosolids for agriculture.
- 99% of our SSSI land (Site of Special Scientific Interest) is in favourable condition, compared to an average for England of 38.7%.

Outcomes for customers and the environment:

- Our business model is structured to achieve 10 added-value outcomes for our customers and the environment.

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Financing our business

Our corporate structure

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 (AWSH)

Anglian Water Services UK Parent Co Limited (AWS UK Parent Co)

Anglian Water Services Limited [1] (AWS)

Anglian Water Services Financing Plc [1] (AWS Finco)

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 investors in 2006, Anglian Water Group Limited became the ultimate parent company of the Group (see note 31 'Ultimate parent undertaking and controlling party'). 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 that 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 UK Parent Co Limited (AWS UK Parent Co) is a second holding company in the ring-fenced structure, also providing protection for customers and investors from the risks of other non-regulated group companies. It is a UK registered company. In May 2018, it replaced the previous second holding company, Anglian Water Services Overseas Holdings Limited (AWSOH), which was a Cayman Islands registered company. The changes were made as part of our commitment to improve the transparency of our financial structures).

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.

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Our restructuring explained

Anglian Water has become the first UK water company to complete the removal of its Cayman Islands company from its financial structure.

The removal of the Cayman Islands company is one of a range of commitments Anglian Water made earlier this year to improve transparency, trust and customer confidence. Anglian Water has also repaid an inter-company loan to simplify the presentation of its accounts and allow for greater clarity of financial reporting, in particular around actual dividends paid.

The changes come after the Board of Anglian Water, in conjunction with its pension fund-backed shareholders, unanimously backed a series of financial and corporate initiatives to improve transparency, trust and customer confidence.

Anglian Water Services Financing Group: Before and after restructuring

The inter-company loan has been repaid, and lender consent and Court approval has been received for the Cayman Islands holding company to be removed from the structure and replaced with a UK holding company. We have now completed the final administrative processes to remove the company from the ring-fenced financing group and the company will be liquidated later this financial year.

Repayment of the inter-company loan

History: As part of Anglian Water Services Limited's (AWS) securitisation in 2002, two new holding companies were set up to protect customers and lenders from unrelated risks associated with other non-regulated AWG group companies. These new holding companies were Anglian Water Services Holdings Limited (AWSH) and Anglian Water Services Overseas Holdings Limited (AWSOH). At that time, as part of establishing the structure, an inter-company loan was put in place between AWSH and AWS. AWS has paid dividends each year, not available for onward distribution to shareholders, which flowed up to AWSH to enable AWSH to immediately pay interest on the loan back to AWS of an amount equal to the dividend paid up. This purely mechanical "cash round trip" process did not result in any reduction of AWS's cash, but it has complicated the presentation of the AWS accounts.

Action taken: On 29 March 2018, AWS paid a one-off non-distributable restructuring dividend of £1,602.6 million, which flowed up to AWSH, and AWSH used the proceeds to immediately repay the inter-company loan. There was no net cash impact for any of the companies involved, as all cash was immediately returned to AWS. In future, the presentation in the AWS accounts of dividends paid will therefore be much more straightforward.

Removal of the Cayman Islands company

History: Our Cayman Islands registered company, AWSOH, has always been UK tax resident, and the group has never sought or gained any tax advantage from the structure or its location. The company was set up in 2002 to facilitate the securitisation. Subsequent changes to UK legislation mean we would not need to set up an overseas company if we were setting up the securitisation structure today.

Action taken: As the two holding company structure has advantages for our lenders and customers, the simplest and most effective way of removing our Cayman Islands company was to replace it with a UK company. This has now been accomplished by the insertion of AWS UK Parent Co into the AWS Financing Group, and the transfer of AWSOH out of the Financing Group. AWSOH will be liquidated later this financial year.

There was no financial impact to AWS as a consequence of the removal of the Cayman Islands company, and no change to the cash balances or financial strength of the AWS Financing Group.

Our leadership team

The Anglian Water Services Limited Board of Directors consists of:

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

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

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

The Executive Directors also sit on the Anglian Water 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.

Gender diversity

The law requires any company with more than 250 employees to publish its gender pay gap. Anglian Water's mean gender pay gap on 5 April 2017 was 10.1%, and its median gender pay gap was 16.9%.

This compares with a national mean pay gap of 17% and a median figure of 18%. This is the average difference between the pay of men and women working for an organisation. It is not the same as equal pay. The law says men and women must be paid the same for doing equivalent work. If they are not, then their employer must justify why not. We pay men and women the same rates for performing the same roles.

The primary reason for the gender gap in pay is that, traditionally, the water industry has been a male dominated sector and women are under-represented. Many of our employees have been with Anglian Water a long time. This shows we are a good employer with a loyal and knowledgeable workforce. That collected knowledge helps us provide excellent customer service.

However, the slow turnover of staff does limit the opportunity for new recruits, including women, to move into more senior roles. It is something we are looking to address by educating and inspiring women to consider science, technology, engineering and maths (STEM) as career options, working to achieve an equal number of men and women across our trainee schemes, and by creating a flexible working environment.

The number of women in STEM and operational management roles has increased by 66 in the last year, with the total gender split across Anglian Water now 32% women and 68% men. Our talent pool – people identified as potential successors to more senior roles – is now 46% female, and we have continued to promote flexibility, with the number of men in part-time roles increasing by more than 80% since 2014.

We support Women in Engineering Day, holding events and this year posting testimonials from our female engineers to our Facebook site to encourage more women to follow in their footsteps. We invited a group of female students from Greater Peterborough University Technical College into our laboratories for Women and Girls in Science Day in February. In the past year, we have seen 9,638 girls in local schools and at a range of different events.

Financial performance

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

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

	2018 £m	2017 £m
Revenue	**1,248.9**	1,227.0
Other operating income	**16.1**	14.8
Operating costs	**(581.0)**	(565.3)
Depreciation and amortisation	**(335.5)**	(311.2)
Operating profit	**348.5**	365.3
Finance income (1)	**1.6**	2.0
Finance costs (2)	**(344.1)**	(283.2)
Underlying profit before tax (3)	**6.0**	84.1
Profit on disposal of business (4)	**4.6**	-
Fair value gains/(losses) on derivative financial instruments	**117.6**	(116.0)
Profit/(loss) before tax	**128.2**	(31.9)

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(1) Excludes the internal interest received by Anglian Water Services Limited from Anglian Water Services Holdings Limited which eliminates within the ring-fenced Anglian Water Services Financing Group.

(2) Shown before fair value gains of £117.6 million (2017: losses of £116.0 million) on derivative financial instruments.

(3) In order to show performance on an underlying basis, the profit on disposal of business and the fair value gains and losses on derivative financial instruments have been excluded from underlying profit before tax.

(4) On 1 April 2017, Anglian Water sold its non-household water and water recycling retail business to Anglian Water Business (National) Limited, a fellow subsidiary of the group’s ultimate parent undertaking, for a profit of £4.6 million.

Total revenue for the year was £1,248.9 million, an increase of £21.9 million (1.8%) on last year. This primarily reflects the regulatory tariff increase and modest growth in customer numbers, partially offset by the loss of the retail gross margin for non-household customers, following the transfer of those customers on 1 April 2017 to Anglian Water Business (National) Limited, and a small fall in consumption.

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

Operating costs for the year increased by £15.7 million (2.8%) to £581.0 million. This increase is explained in the following table:

Increases/(decreases) in operating costs (before depreciation and amortisation)	**£m**
General inflationary increases	13.7
Providing more effective solutions through operational maintenance, rather than capital investment	12.5
Decrease in minor repair activities to maintain water and wastewater below ground infrastructure	(9.2)
Increase in energy prices	7.4
Increase in pension costs	4.7
Operating costs of newly commissioned plant	3.5
Increase in self-insurance claims, principally due to the severe winter weather	3.0
Reinvestment of capital expenditure efficiencies in operational maintenance solutions	2.8
Net efficiency savings achieved	(14.6)
2016/17 operating costs of the non-household business not repeating following the transfer of the business on 1 April 2017	(8.1)
Net increase in operating costs	**15.7**

During the year we identified a number of capital projects which could be replaced with more cost effective operational solutions. This had the effect of increasing operating costs by £12.5 million.

Pension costs increased by £4.7 million compared with last year, comprising a £3.0 million increase in respect of the current service cost, and £1.7 million associated with the closure of the defined benefit schemes to future accruals at the end of the year. The principal reason for closing the defined benefit schemes is that the continuing future service costs have become unsustainable compared to the allowed future costs for pension provision. On 1 April 2018 the defined benefit schemes were replaced with a new high quality defined contribution scheme which offers all employees an equitable and more flexible scheme.

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

Depreciation is up 7.8% compared with last year, consistent with the impact of newly commissioned assets in the year, and a reduction in the useful life of various operational assets.

Operating profit has decreased by 4.6% to £348.5 million, which is consistent with the effect of the regulatory price increase, more than offset by the increases in operating costs and depreciation.

Net finance costs, excluding the fair value gains and losses on derivative financial instruments, increased from £281.2 million in 2017 to £342.5 million in 2018. This was primarily the result of the non-cash impact of higher inflation on index-linked debt where year on year RPI inflation increased from 2.1% to 3.7%.

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There was a non-cash fair value gain of £117.6 million on derivative financial instruments in 2018, compared with a loss of £116.0 million in 2017. This shift was due to movements in market expectations of long-term interest, inflation and exchange rates. These fair value gains and losses have no commercial or economic impact on Anglian Water's operations or customers. The driving factors for the gain in 2018 compared to the loss in 2017 were a fall in forward inflation expectations together with an increase in forward interest rates. During the year, forward inflation rates fell by circa 13 basis points (2017: increase of 38 basis points) and forward interest rates increased by 19 basis points (2017: decrease of 23 basis points).

Underlying profit before tax for the year was £6.0 million, compared with £84.1 million in the prior year. This reduction reflects the decrease in operating profit, and the increase in finance costs (excluding fair value gains/losses on derivative financial instruments) due principally to higher RPI.

Successful third year of AMP6 investment programme

AMP6 gross capital expenditure[1] in the appointed business for the year was £460.9 million (£235.8 million on capital maintenance, £225.1 million on capital enhancement), compared to £381.2 million in the second year of AMP6. This level of expenditure is broadly in line with management expectations and includes £23.5 million of capital maintenance spend in respect of our commitment to re-invest £100 million of efficiencies over the AMP which was announced in 2017. A further £65 million of re-investment in resilience was announced in March 2018 and work is already underway; this will, amongst other benefits, improve the security of supply in south Lincolnshire by 2020.

One of the major projects worked on during the year was the Heigham Water Treatment Works Membrane scheme which will deliver significant improvements to water supply resilience. Another is the ground-breaking work at Ingoldisthorpe water recycling centre to install a nitrifying sand filter which will enhance and protect biodiversity whilst reducing operational costs. We have worked in close collaboration with both the Environment Agency (EA) and local Rivers Trust in delivering this project. Both of these projects were financed by our first green bond which was raised in the summer.

Good progress has been made on meeting the EA's challenging targets for the removal of ammonia from waste water discharged into water courses. A range of solutions are being used to obtain EA consents for discharges including: use of new technology at Great Dunmow; a lower build approach at Stanbridgeford and a reuse and optimisation approach at Dunstable.

Over the 2015–2020 five-year period we will be investing over £2 billion through our investment programme, delivering our business plan in terms of both regulatory outputs and in support of our ODIs.

Financial needs and resources

In the year to 31 March 2018, Anglian Water sourced £250 million of funds in term debt (£248.6 million net of debt issue costs) and made long-term debt repayments of £327.3 million. The new funds of £250 million were the result of the well-received Green Bond issued in the year, the proceeds of which will be used to finance our capital expenditure. Debt repayments comprised: a £5.7 million finance lease repayment, the repayment of the £150 million 5.5% Class B and £25.5 million 4.2% Class B bonds maturing in October 2017, £17.2 million of amortising redemptions on EIB loans and the repayment of £55 million of the £600 million revolving credit facilities in the year, leaving the facilities undrawn as at 31 March 2018. In addition, Anglian Water paid down £73.9 million of accumulated indexation on the portfolio of index-linked RPI instruments following a restructuring of three long-term RPI swaps.

At 31 March 2018, Anglian Water had borrowings net of cash of £6,896.4 million (£6,164.6 million excluding derivatives), an increase of £84.5 million (£119.5 million excluding derivatives) over the prior year. Net borrowings comprised a mixture of fixed, index-linked and variable-rate debt of £6,451.7 million, derivative financial instruments of £731.8 million (excluding energy derivatives of £9.1 million), and cash and deposits of £287.1 million.

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[1] Excluding capitalised interest, and adopted assets acquired at £nil consideration.

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The business generated a net cash inflow from operating activities of £644.0 million in the year ended 31 March 2018 (2017: £632.0 million). The increase primarily reflects the increased revenues in the year and improved working capital, partially offset by higher operational costs.

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 2018, Anglian Water held cash, deposits and current asset investments of £287.1 million (2017: £429.8 million). The reduction in cash held is the result of Anglian Water seeking to lower its level of cash in order to reduce its cost of carry. These resources are maintained to ensure appropriate liquidity and the continuation of Anglian Water's ongoing capital investment programme.

Anglian Water has access to £600.0 million of facilities (2017: £600.0 million), which were undrawn at 31 March 2018, to finance capital expenditure and working capital requirements. In addition, Anglian Water has access to a further £390.0 million of liquidity facilities (2017: £375.0 million), consisting of £279.0 million to finance debt service costs and £111.0 million to finance operating expenditure and maintenance capital expenditure in the event that Anglian Water is in default on its debt obligations and has 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 Limited upon utilisation of the facility.

Interest rates

Anglian Water's policy is to achieve a balanced mix of funding to inflation linked, fixed and floating rates of interest. At the year end, taking into account interest rate swaps, 58.5% (2017: 58.4%) of Anglian Water's borrowings were at rates indexed to inflation, 35.0% (2017: 35.9%) were at fixed rates and 6.5% (2016: 5.7%) were at floating rates. At 31 March 2018, the proportion of inflation debt to regulated capital value was 47.9%.

Outcome performance 2017/18

We measure our performance against 32 performance commitments, or 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 2017/18	12 minutes 0 seconds
Actual	7 minutes 24 seconds

Bathing waters

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

Excellent	31 (target 33)
Good	12
Sufficient	5
Poor	1

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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	396

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	4,824

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

Overall SIM score 88

Qualitative – Average of Ofwat surveys
Actual 4.52 out of 5

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

Megalitres per day (three year average)

Target	192 (by 2017/18)
Actual	183

Serviceability
Above ground / non-infrastructure

Water:

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

Water recycling:

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

Below ground / infrastructure

Water:

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

Water recycling:

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

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

Target	298 (by 2017/18)
Actual	219

Water quality contacts
Taste, odour, appearance per thousand customers.

Target	1.23 (by 2017/18)
Actual	1.23

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Low pressure
Number of properties not receiving reference level pressure.

Number of properties	
Target	361 (by 2017/18)
Actual	297

Operational performance
Our Business Plan for AMP6, 2015-2020, was written following consultation with more than 50,000 customers. It was based around 10 outcomes that address the issues that matter most to our customers, and that deliver for them, the region and the environment. As a result, our plan had the highest level of customer acceptability of any in the industry. We have recently updated these outcomes to stretch ourselves further and to reflect how central our people are to delivering everything we do. Here, we report on progress against these ten outcomes.

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.

Smart business
Innovating by exploring new ways to operate more sustainably, and helping customers, business partners and employees to embrace our Love Every Drop strategy.

Our outcomes:
- ***Our people: healthier, happier, safer***
- ***Investing for tomorrow***
- ***Fair charges, fair returns***
- ***Resilient business***

Anglian Water and its successes are built on the efforts of our people. We are determined to be an employer of choice in our region, with a workforce that reflects the diverse nature of the communities we serve.

In December, we were named the best UK-based company to work for in the Glassdoor 'Best Places to Work' list for 2018. Anglian Water was second overall in the prestigious awards, beaten only by US global tech giant, Google. The announcement came only months after our Chief Executive, Peter Simpson, was crowned Best CEO in Glassdoor's ratings, with a 98% approval rating from those who left a review.

Peter Simpson, was also named Wellbeing Visionary at the inaugural REBA Wellbeing awards, in recognition of his work to improve employee wellbeing within UK organisations.

This year saw the launch of our new, three-year health, safety and wellbeing plan, which has been developed in consultation with people from across the business and with outside organisations, including the Health and Safety Executive and Water UK, to make sure it is current and relevant.

Underpinning our approach is a behavioural change programme: LIFE. This is about moving away from a traditional, compliance based approach to health and safety – where we took the measures that the rules said we should – to a culture where we take responsibility for our wellbeing and that of our colleagues.

We have maintained OHSAS 18001 accreditation for our health and safety system since 2009, and were once again awarded a gold medal by the Royal Society for the Prevention of Accidents. This places our health and safety performance among the very best in the industry.

Our time lost to sick absence was an average of 4.61 days per employee. Our accident frequency rate (AFR) – the number of reportable accidents for every 100,000 hours worked – continues to be ahead of target, at 0.12.

We remain at the heart of two education initiatives to develop the technical skills of 14 to 19 year olds and provide opportunity for employment to the next generation. We are the lead sponsor of the Greater Peterborough University Technical College, which opened in September 2016 and aims to provide a world-

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class technical education with an emphasis on sustainable engineering and construction. With our civil engineering alliance partners, we are also sponsoring two BTEC courses at the College of West Anglia in Wisbech.

We work with a number of professional bodies to ensure that Continuing Professional Development is embedded in our organisation. This is exemplified by our work with the Institute of Water, with whom we have many employees chartered as scientists and environmentalists, and by the professional development programmes in place with CIWEM, the Institution of Mechanical Engineers (IMechE) and the Institution of Engineering and Technology (IET).

We continually enhance what we offer our workforce, and in February we launched Boost Benefits, which allows employees to create a personalised reward package based on choice and flexibility that works for them at different stages of life.

Our capital expenditure programme is focused on maintaining and improving our assets and services, on ensuring we can deal with growth, and on meeting water quality and environmental standards. This AMP, we have committed to a £2 billion programme of investment, which continues to be delivered by the five delivery alliances we put in place at the start of this AMP, alongside our newest alliance which delivers our IS programme. Together, these alliances will help provide our services until 2030.

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

In the remainder of AMP6 we will continue to invest heavily to increase the resilience of our services and protect customers' supplies. This will include work to: improve our ability to move water around the region; protect our existing supplies through improved detection and repair of leaks; support growth in our region and work with developers; and ensure a continuous supply for our customers. There will also be continued investment to safeguard customers' supply in vulnerable areas of our region, both alone and in partnership with other water companies.

Gross capital expenditure for the year was £460.9 million, compared to £381.2 million in the second year of AMP6. This is broadly in line with management expectations and reflects a solid performance in the delivery of efficiency.

Maintaining the serviceability of our assets is of paramount importance for the future success of the business.

Throughout the year, we have delivered good performance at our water treatment works and across our networks. This included just four works coliform failures, following improvements to our treated water tank inspections. Overall the year ended with all water recycling measures within control limits, both for Water Recycling Centres (WRCs) and for our sewerage network.

The Environment Agency reviews sample results from 755 of our WRCs to assess the quality of the water we return to the environment. This year we had eight failing works, which is higher than the exceptional performance of 2016, but still an improvement on where we were at the beginning of AMP6.

The management of surface water has a key role to play in meeting the challenges we face from climate change and growth. Successful management of surface water can provide headroom in our network to cope with growth, while mitigating the risks from climate change and urban creep.

With this in mind, we have launched a new 25-year surface water management programme. This builds on our AMP6 experience, and will see us managing rainwater closer to where it lands through the use of Sustainable Drainage Systems (SuDS). We have set ourselves a number of challenging targets, including the use of SuDS, where appropriate, sustainable and cost effective, to manage 100% of the unwanted surface water flows that are currently sent to water recycling centres and pumping stations; and to significantly enhance the communities we work with by delivering substantial environmental benefits.

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We announced a series of financial and corporate initiatives to improve transparency, trust and customer confidence. Together, they will bring more clarity to our finances, increase investment in services, reduce dividends and borrowing, and place public interest firmly at the heart of our business.

Anglian Water has always raised its debt through UK registered companies, and its debt is listed on the London Stock Exchange. Our latest fundraising – a £250 million, eight-year bond – was done through a listing on the Green Bond segment of the London Stock Exchange. We were the first UK utility company to issue a Green Bond.

Thanks to the sustainable way of doing business enshrined in our Love Every Drop strategy, we did not have to change any of our day-to-day processes to qualify for the bond. The money raised will finance a range of activities, including innovative water abstraction projects, drought and flood resilience schemes, and progressive water recycling and water resource management projects.

In our five-year Business Plan to 2020, we committed to keep bills as low as possible, while at the same time delivering an investment programme to maintain and improve essential water and sewerage services. In 2015/16, customers on average saw their annual bill drop by around 9% – the biggest reduction of any major water company in the UK, and twice the industry average. In 2018/19 bills are £429 on average, or £1.17 a day. This means prices are still lower than five years ago. In that time we have invested around £2 billion to maintain and improve our overall service to customers. In the next year we will invest a further £415 million.

Our social tariff, LITE (Low Income Tariff for Eligible Households), is administered in partnership with the Citizens Advice Bureau and Orbit. On average, we receive over 1,000 referrals per month, with 70% of eligible applicants receiving the maximum discount of 80%. Our partnerships have been able to assist customers with far more than their water bill. Customers have benefited from a wide range of assistance, ranging from free legal advice and support back into employment, to help in obtaining grants to pay for school uniforms.

We operate a number of other tariff schemes for vulnerable customers, including the AquaCare Plus and WaterSure tariffs. Altogether, these schemes are providing assistance to over 120,000 customers.

We remain committed to metering as the fairest way to charge for water, encouraging water saving and ensuring our customers only pay for what they use. 82% of our customers already receive a metered bill. Last year, teams from our Integrated Metering and Developer Services (IMDS) alliance continued work on our programme to install 86,000 new meters, upgrade another 412,000 and visit 120,000 customers to offer efficiency tips and install water-saving devices. In the last year we have made good progress, installing 15,000 new meters and proactively replacing 80,000 more.

We are now running a second smart metering trial in Norwich, installing 12,000 smart meters across the city. These are in addition to the 7,500 we fitted in our Innovation Shop Window in Newmarket in 2016/17. The meters remotely collect hourly consumption data, which helps customers understand their water use, and helps us to better understand how our water network operates.

The high quality of the services we provide is underpinned by a commitment to very high levels of resilience within our business. We continue to improve and rehearse a comprehensive set of emergency plans, both unilaterally and as part of local and national networks of emergency responders, to ensure we are as well prepared as possible for any emerging challenge.

This year we launched our Anglian Water Force Campaign to increase the number of volunteers we can call on to help colleagues and customers during an incident. As a result, we now have more than 700 employees across Anglian Water and partner organisations that are prepared to be involved in incident response.

All of our preparation, contingency planning, training and investment paid dividends in early March, when the UK was hit by the weather system that became known as the Beast from the East.

This brought heavy snow and sub-zero temperatures, which were followed by a rapid thaw. This led to an exceptional spike in bursts and leaks across the company’s network and on many customers’ private pipework. This in turn caused a sudden surge in demand on our water treatment works, reaching levels similar to that seen on a hot summer’s day.

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Our incident management processes and contingency plans worked well. The Incident Room opened on 28 February to ensure we were prepared for the events to come through scenario modelling; proactive communications with customers, Local Resilience Forums, and partner agencies; increased monitoring; preparation of alternative supplies and the postponement of planned work.

Despite the unprecedented nature of the challenge, our planning and investment over recent years meant services recovered quickly. Almost no business customers were significantly affected and only 163 homes were off water for more than 12 hours, mainly in the Cromer area. Over 99.6% of our customers experienced no impact at all, and where problems did occur they were quickly rectified.

We remain committed to reducing leakage as part of our drive to improve the region's resilience to drought and climate change. We have set ourselves the ambitious target of bringing down leakage by 10.4%, or 20 Ml/d, to 172 Ml/d between 2015 and 2020. This year the total was 183 Ml/d, a very significant amount below our three-year rolling target of 192 Ml/d.

As mentioned above, the bad weather experienced in late February and early March proved a significant challenge. Changing temperature and accompanying ground movement associated with the deep freeze and rapid thaw led to a spike in bursts of a scale not seen since the winter of 2010/11. We were able to get on top of the situation much faster than in 2010/11, thanks in large part to the investment and planning that has been put in place since.

This success is further endorsement of our leakage and pressure management strategy. This strategy is made up of several initiatives. Optimised Water Networks (OWN) prevents bursts through better management of pressure in the pipes and the delivery of a "calm" network. In the first three years of this AMP, OWN has been responsible for a reduction of just over 8.75 Ml/d in leakage across the region, saving 6.35 Ml/d in the first two years and a further 2.40 Ml/d in the third. The formation of intensive leakage detection teams, equipped with cutting-edge equipment to pinpoint and assess hard-to-find leaks, has saved a total of 3.35 ML/d this year. In addition, our Integrated Leakage and Pressure Management (ILPM) system brings together information about the network, making it easier to spot and control leakage and to better target our work.

Our proactive leakage detection work aims to identify issues before customers are aware of them. One of the ways in which this is done is the mass deployment of noise loggers to identify leaks before they become visible. In 2017/18, we attended to more than 1,512 faults and replaced 106 failed network flow meters. Our Integrated Maintenance and Repair (IMR) alliance partners, Kier and Clancy Docwra, have 89 two-man teams around the region. This year they fixed more than 4,027 burst mains.

When supplies are interrupted through a burst or other problem, our priority is to restore that supply rather than immediately fixing the cause. This customer first approach has seen big reductions in the amount of time people are left without water. We have once again delivered a best-ever performance in relation to our interruptions to supply measure. This is testament to our approach, to our work with other parts of the business to tackle the causes of interruptions, and to the effective management of events when they occur. Our efforts also complement the pressure management and other proactive work being done to prevent problems happening in the first place.

The number of Category 3 (low impact) pollution incidents was very close to last year at 219, meaning that we remain ahead of target and far below the 390 such incidents in 2014. Our priorities remain the same: a continued focus on predictive analytics, to use information on past pollutions to predict where we may have problems in the future, and on proactive mitigation.

The number of Category 2 (medium impact) incidents dropped slightly to eight, although there was one Category 1 (high impact) incident during the year. Against a continuing backdrop of major penalties following prosecutions brought by the Environment Agency, we have recorded our fourth successive year without any prosecutions. However, we remain highly vigilant, and work tirelessly to guard against complacency in all quarters, as we target our goal of no pollutions.

Our Keep it Clear and Pollution Watch campaigns continue to raise public awareness about the causes of sewage pollution, the impact it has and the signs to look out for. Launched in 2010, Keep It Clear (KIC) aims to change the way people dispose of fats, oils, grease (FOG) and unflushable items such as wipes and

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sanitary waste, to reduce sewer blockages and protect customers and the environment from the sewer flooding and pollution they can cause. This year we visited more than 2,000 properties in high risk areas, offering advice and gathering information on people's waste disposal habits. In the first six months, we saw an 84% reduction in blockages in the areas targeted. We have also worked with SwiftComply, offering free kitchen FOG audits to food premises to make compliance with waste disposal regulations simple and straightforward.

This has been our best year to date for the number of internal and external flooding incidents from our sewer network. This performance is very encouraging, although extreme weather remains a threat, as all incidents of sewer flooding count towards our performance, regardless of the cause.

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

Smart communities
Collaborating and engaging with customers, colleagues, and business partners and inspiring them to take positive steps towards achieving our vision for a sustainable future.

Our outcomes:
- ***Positive impact on communities***
- ***Safe, clean water***
- ***Delighted customers***

For many years we have been active in the Prince of Wales' Responsible Business Network, Business in the Community (BITC), and last July we were honoured to be given the title of Responsible Business of the Year. This was given for our work to embed sustainability throughout Anglian Water and our work across different sectors to tackle shared problems. The title is also a responsibility in its own right, and comes with an expectation that we will work with BITC to leave the nation in a better position after 12 months.

We believe our collaborative approach to tackling the problems of pressure on water resources, deprived communities and the need for increasing innovation, can be adapted and used by businesses all over the UK. We produced three guidebooks to share our experiences, which were published as part of BITC's Responsible Business Week in April 2018.

Alongside our on-going education programme, we attended a large number of events around our region this year, including the Norwich Science Festival. But we want to get even closer to our customers, and this year saw the development of our Community Ambassadors programme. Community Ambassadors go out and talk to customers at their local community groups. They are able to discuss the key issues affecting water and to gather customers' opinions. Together with our online customer community and our new Customer Board, the programme allows us to put customers' views at the heart of our thinking.

We have led the way in providing safe access to reservoirs for swimming. This year Rutland Water teamed up with British Triathlon and the Royal Lifesaving Society UK to become the first SH_2OUT accredited venue in the UK. SH_2OUT is an exciting programme that has been developed to promote open water swimming and safety within the sport.

Rutland Water retained accreditation through Visit England's Visitor Attraction Quality Assurance Scheme (VAQAS), while all our parks retained Green Flag Status, which recognises and rewards well-managed parks and green spaces.

The delivery of safe, clean, high-quality drinking water is central to what we do. It underpins the public health of our region and is a fundamental expectation of customers.

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The Drinking Water Inspectorate (DWI) measures performance at our treatment works, where we have delivered another excellent performance, with just four coliform failures. The same is true of our storage reservoirs, which store treated water at points around the network and where we achieved 99.99% compliance this year.

Both these results are due to a successful programme of work to improve the inspection process of treated water tanks and storage reservoirs. We have adopted a risk-based approach to the frequency of these inspections and as a result, we continue to be among the highest performing water and sewerage companies in the industry for the DWI measures of Disinfection Control and Reservoir Integrity.

In addition to maintaining excellence at our water treatment works, we have once again exceeded our target for the quality of water travelling through our network to homes and businesses. Our Mean Zonal Compliance remains ahead of target at 99.96%. This is the key measure used by the DWI to determine compliance with the stringent regulatory drinking water standards for England and Wales.

We have seen a big fall in the number of contacts we receive from customers about the appearance, taste and odour of their water this year. Performance is our best ever, with a total of just 1.23 contacts per thousand customers thanks to a continued focus on supporting customers through social media and reacting to every cluster of two or more complaints in order to solve any issues quickly.

Our planned lead communication pipe replacement programme has continued, replacing old lead pipes with new plastic ones to help reduce levels of lead in drinking water for our customers. Work has again focused on Bedford and Norwich, two of our highest priority areas for lead. We continue to protect water quality in public buildings, working with councils to collect lead samples from local authority owned sites, inspect water fittings and test for lead. We also work to educate customers, providing information to health professionals and promoting our message to our target audiences, primarily families with young children.

A significant focus of our efforts to protect water quality is our continuing programme of work to reduce the amount of metaldehyde entering rivers and reservoirs. We have continued our Slug it Out trials with farmers surrounding some of our key reservoirs, to reduce the amount of metaldehyde from slug pellets entering the water. At the same time, we are funding research into the length of time metaldehyde persists in the environment and any on-going effects on water quality.

Pesticides other than metaldehyde can also find their way into surface and groundwater. Accidental spills of these chemicals when filling farm equipment are believed to be the source of up to 70% of such pollutions. To address this, we have been providing farmers with tough, portable drip trays, which allow any spilled chemicals to be easily returned to their container.

Other initiatives this year have included: supporting farmers in trialling different ways to reduce the loss of pesticides and nitrates from their land; working with agricultural students to teach them about water quality and how to protect it; running pesticide amnesties, where we anonymously collect and safely dispose of unused or no longer licenced chemicals; and sharing our data and models of high risk land with agriculture, outdoor meat producers and others.

Our customer service is constantly evolving to keep pace with people’s changing needs and rising expectations. This year saw the launch of our new, online account management site, My Account. Customers can use the portal to view their bills and usage online, make payments, set up Direct Debits and submit meter readings. Within three months of its launch 180,000 people had registered and feedback has been hugely positive. We also extended our call centre opening hours into the evenings, Saturday afternoons and Sundays, to make it easier for customers to get in touch at times that are convenient for them.

The number of written complaints we receive about our service continued to fall this year, to its lowest ever level, while customers’ rating of our service has continued to improve. This includes the Service Incentive Mechanism (SIM), used by Ofwat to compare the customer service offered by water companies. We finished the year in the top spot in Ofwat’s qualitative survey, which is based on ratings from customers who contacted us throughout the year. This is up from sixth place last year. We expect this to leave us well placed when the joint quantitative and qualitative figures are revealed for all companies, later this year.

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Our own, internal survey of customer satisfaction gathered opinions from over 100,000 people. More than 89% said they were very satisfied with our service. We also measure our performance through our membership of the Institute of Customer Service (UKCSI). This year we achieved an average UKCSI score of 77.5 – an improvement on last year and a score which placed us sixth out of the 25 utility companies surveyed in both the July and January surveys.

Smart environment
Transforming behaviours by playing a leading role in reshaping how society values and uses water, and reducing our combined impact on the world around us.

Our outcomes:
- ***Supply meets demand***
- ***A flourishing environment***
- ***A smaller footprint***

Throughout this year we have been preparing our draft Water Resource Management Plan (WRMP), which outlines how we will maintain a sustainable balance between water supplies and demand over the next 25 years. It sets out an ambitious, cost beneficial demand management strategy to ensure the reliability, sustainability and affordability of water resources over the long-term. The draft plan was put out for consultation between March and June.

Our region is one of the driest in the country and experiences periodic episodes of drought. We maintain supplies thanks to resilience schemes put in place after previous droughts, and the use of temporary restrictions. Customers have told us that they do not expect to face the more severe forms of restrictions, and we believe the investment proposed in our draft WRMP will remove the threat of rota cuts and standpipes and increase the resilience of our supply system to the impact of severe drought.

Alongside the draft WRMP, we have also been preparing our first Water Recycling Long-Term Plan. This will improve our understanding of what is needed to protect this vital service from the risks from climate change, severe flooding and strategic growth. The work has been well received by the Environment Agency and by local authorities. We will now be consulting on the document to make sure it meets the needs of our partners.

We own and manage a great deal of land, much of it of value to wildlife. This includes 47 SSSIs, covering nearly 3,000 hectares. Of these, 99% are judged to be in favourable condition by Natural England. This compares well with England as a whole, where only 38.7% of SSSIs were in favourable condition at March 2018.

Over the last year we have been working to improve our understanding of the wildlife on our sites and in the wider region, and of the benefits it brings us. We asked the University of East Anglia to build a register of our region’s natural capital – the important benefits that flow from habitats and wildlife, including the water we drink, clean air to breathe, soil to grow our crops and insects to pollinate them. This ground-breaking approach is helping us – and everyone else – to see where the most important natural assets are and where they face the most pressures. That’s invaluable when we are working with local authorities, developers, environmental and community groups and others.

Closer to home, we have been producing biodiversity scores for each of our operational sites. The detailed understanding this provides should help us to better protect biodiversity on our sites, especially when we undertake construction work.

Protecting the quality of bathing waters is of huge importance, both to the environment and to the coastal economy. Our Coastal Water Protection team works with councils, the Environment Agency, local businesses and residents’ groups to identify and address sources of pollution.

The Environment Agency classifies bathing waters against four standards: Excellent (required for Blue Flag awards), Good, Sufficient and Poor. Results are based on a four-year average to make the data more representative. This year, 31 of our bathing waters were rated excellent, 12 good, five sufficient and one

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poor. Clacton Groyne 41 remains the only bathing water in the region to be classed as poor and has a long-running issue with water quality. Recent investigations show the source of bacterial pollution may be a combination of private sewerage systems and roosting birds.

We are working with the Environment Agency and the local authority to reduce all potential pollution risks. We know that in the majority of cases, declining results have not been as a result of our assets, so our focus is working closely with others to tackle third-party pollution. Nevertheless, we continue to invest where we have seen potential impact from our network.

To better pinpoint potential sources of bacteria in bathing waters we have been working with the Centre for Research in Environment and Health at Aberystwyth University. They have been running a programme of intensive sampling at all times of day, tidal state and weather. The results will help to shape our investment needs for PR19, and means that any decisions to spend customers' money will be based on solid evidence.

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

We follow the principles set out by HM Treasury's Infrastructure Carbon Review to release the value of low carbon solutions in how we build and operate. Over the five-year period to 2020 our goals are to exceed a 7% reduction in real terms in gross operational carbon by 2020 from a 2015 baseline, and to deliver a 60% reduction in capital carbon by 2020 from a 2010 baseline.

Annual gross operational carbon emissions have decreased by 19.6% in 2017/18 in comparison to the 2014/15 baseline, reducing from 455,335 t/CO2e to 366,000 t/CO2e. The main influencing factors being a significant reduction in grid electricity emission factor, and a decrease in the volume of fuel oil consumed.

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 19.8% in 2017/18 in comparison to the 2014/15 baseline, reducing from 446,833 t/CO2e to 358,284 t/CO2e.

Our design engineers and capital delivery teams have delivered a 57% reduction in capital carbon against our 2010 baseline, through focus on design, materials used and installation and commissioning techniques in construction.

We have retained verification against PAS 2080 Carbon Management in Infrastructure this year, showing that we have the right leadership and governance for effective carbon management. We were the first organisation in the world to be verified against the standard in 2016.

An increasing amount of renewable energy is generated on our sites. This year, 106 GWh of renewable power was produced from biogas, wind and solar. This represents 15% of our electricity use. Of this, we generated 90 GWh using our fleet of Combined Heat and Power (CHP) engines, which are fuelled by the biogas produced at our sludge treatment centres. This is a reduction on the 99 GWh generated last year. To increase the engines' efficiency and performance, we have expanded our in-house team of specialist engineers and technicians to take over their running from external contractors.

We took a big step towards in our move to a more circular economy by developing a process and pricing regime for selling Final Effluent to industry and agriculture. Final Effluent is the water we return to the environment from our Water Recycling Centres after treatment. This can instead be sold to retailers supplying farms and businesses that need large amounts of water, but do not need it treated to the standard required for drinking. Once the correct quality and regulatory checks have been carried out, it is sent out by pipe or tanker for uses including irrigation and cooling.

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Looking ahead

As we prepare to submit our business plan for 2020-2025, we have dug deeper than ever into the thoughts, views and priorities of our customers. Hundreds of thousands of customers have helped ensure our plan reflects their priorities. Our PR19 commitments will be very well matched to what customers tell us matters to them.

This has never been more important as we seek to balance the ongoing challenges of affordability and vulnerability with the need to invest for a resilient future.

We are operating in challenging times for both the sector and society. However, we are taking all appropriate steps to ready the business for a tough price determination, ensuring we deliver for customers, shareholders and the environment.

OTHER BUSINESS ACTIVITIES

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

Treasury management

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

The activities of the central Treasury function include the following:

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

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

Liquidity

The group's objective is to maintain flexibility and continuity of funding through access to different markets and debt instruments. At 31 March 2018 the group held cash, deposits and current asset investments of £331.0 million (2017: £462.9 million) and had undrawn committed facilities of £1,115.0 million (2017: £1,285 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 2018 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 78.1% (2017: 79.0%) and 83.4% (2017: 84.7%) 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 2018, all group companies were compliant with all covenants.

Interest rates

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

RISK MANAGEMENT

Risk management

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

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

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

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

The most significant or principal risks are escalated from the business unit risk registers to be recorded in our top-tier risk register, which is reviewed in detail twice a year by the Board. In the course of the past year, the Anglia Water Management Board has also reviewed the top-tier risks and has considered the effectiveness of our embedded processes in the approach to the management of risk that are designed to further integrate risk management within the business.

To provide the 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 Management Board wishes to keep on the 'radar'. This overview is reviewed on a monthly basis by management to ensure we have identified and created coverage of all significant risks in the business, and can readily identify new risks, see any changes in risks, review our progress in delivering mitigation actions and maintain relevant business controls. This Map will remain dynamic as new risks emerge or there are significant changes to our mitigation actions or controls.

Risk appetite

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

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

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

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

RISK MANAGEMENT

Risk management process

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

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

The Board has met regularly during the year and has assessed the level of risk that it is willing to accept in respect of Anglian Water's strategic priorities 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 are externally tested. This assurance is delivered through business resilience planning and scenario testing, health and safety audits and compliance, internal and external audit activities, external certification, governance and compliance activities.

Principal risks

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

- Water sector reform and other legislation
- Financing our business
- Pensions
- Regional growth
- Long-term supply and demand resilience
- Pollutions
- Failure to deliver our AMP6 plan
- Preparing for ODI changes in AMP7
- Brexit
- Customer
- Health and safety
- Talent and succession
- Cyber security
- Water quality.

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

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

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

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

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

RISK MANAGEMENT

Water sector reform and other legislation

Unmitigated risk description (Amber)

We keep abreast of all new legislation passed by Parliament and ensure we comply with existing laws that affect all businesses, including the Competition Act and the Bribery Act. We also ensure we comply with the Data Protection Act and have prepared for the introduction of the General Data Protection Regulation (GDPR), which came into force in May this year. In addition, the Water Act 2014 enables further competition within the water sector. For example, all business customers now have the option to choose their retail supplier. The 2014 Act also makes provision for further upstream reforms. To facilitate the new retail market and 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 believe we are in a good position in terms of water sector reform and other legislation. We have a significant programme of work in place to mitigate the risks associated with GDPR compliance. While many of the deliverables associated with this programme were in place by May 2018, we anticipate that further work will be required to ensure that appropriate technical measures are embedded. On this basis, we have classed the current risk as amber. We will continue to monitor, test and audit compliance with current and new legislation to maintain a high level of assurance and to highlight any areas requiring action.

Controls and mitigation (Green)

We carefully manage compliance with current legislation and continue to monitor new legislation. Where possible, we seek to influence forthcoming legislation. To manage 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.

We continue to be actively involved in the development of market reform across our industry and played a key role in the development of the non-household retail market. Following the opening of this market, our focus is now on ensuring that all retailers receive the same levels of customer service. Our Wholesale Services business unit provides a single point of contact for all non-household retailers into Anglian Water and ensures that we comply with the new market codes.

In anticipation of implementation of GDPR we set up a project to focus on improvements to our management of personal data. This project has four key work streams (including one which focuses on education, communication, policies and procedures, roles & responsibilities reports & dashboards and updating our information asset register) and is monitored by a steering group chaired by the Group Legal Director – who is also our Data Protection Officer.

A new training package has been developed to cover GDPR requirements, and is mandatory for all employees. Data & Compliance Champions identified across the business regularly attend workshops designed to ensure wider business understanding and support for data related activities. A Privacy Impact Assessment (PIA) process is in place to assess the impact on data protection compliance when new systems are planned, projects require sign-off by our Legal team.

In response to the Criminal Finances Act, we have undertaken a risk assessment and identified areas of the business and activities which are at greatest risk of facilitating tax evasion. A number of mitigations are already in place and we have ensured that higher risk individuals receive appropriate training.

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

Anglian Water's anti-bribery strategy is supported by the ISO 37001 Anti Bribery management system, with processes aligned with the Integrated Management System (IMS) framework. This system, externally certificated by LRQA, helps to ensure processes and controls are effective in ensuring ongoing compliance with anti-bribery legislation.

All senior managers are required to confirm that employees within their business unit have taken appropriate steps to comply with the policies that deal with the legislative risks set out above, including,

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completing training where required to do so and, in the case of our anti-bribery strategy, complying with our gifts and corporate hospitality policy.

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

Financing our business
Unmitigated risk description (Amber)
We are funding a totex programme of £5 billion in AMP6 and have gross debt within Anglian Water of £6.5 billion to manage and service. Recognising recent challenges from Government and our economic regulator, we are showing this risk as increasing; however we have responded to these challenges with a commitment to reduce shareholder dividends and leverage and have improved the transparency and clarity of our financial structure. The volatility in the financial markets and the continued uncertainty around the Brexit process and other world events lead us to continue to maintain a strong focus on this risk (hence an amber status).

Controls and mitigation (Green)
It is critical that we have robust financing and liquidity management arrangements in place. Revenue from our customers, together with the proceeds of new debt raised, will finance the totex programme. Our debt comprises long-term public and private bonds and other debt instruments, with equity (shares) making up the balance of our regulatory capital value. We ensure access to a diversified source of debt across a range of maturities to minimise the refinancing risk, and interest rates are predominately fixed, either to the Retail Price Index (RPI) or fixed notional levels.

Net debt accounts for approximately 78% of Anglian Water's regulatory capital value as at 31 March 2018, as measured in our financial covenants agreed with our debt providers. 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 bond holders, along with internal monitoring of our treasury strategy and liquidity, energy and covenant policies through our Finance, Treasury and Energy Policy Group.

Current risk assessment (Green)
Due to a combination of continued political and regulatory uncertainty and the potential impact of Brexit, risk has increased. This has been mitigated by decisive Board and shareholder action to enhance our financial robustness through significantly reducing dividends paid to shareholders and reducing debt. We will continue to monitor external factors that may impact the business, and will also test and audit compliance with legislation as well as our finance contracts to maintain a strong level of assurance and to highlight any areas requiring action.

Pensions
Unmitigated risk description (Amber)
The risk is that the funding levels in the Anglian Water Group Pension Scheme (AWGPS) deteriorate, requiring the group to inject additional funds. The last triennial valuation was on 31 March 2017 and we have since agreed a revised funding plan with the Trustees that will continue through to 2026. Due to continuing low interest rates and gilt returns, the deficit is higher than at the 2014 valuation. However, the risk has been mitigated as the pension scheme is no longer open to future accrual. This means no additional years of service causing additional liabilities are going to be added. The liability continues to be subject to risks such as lower investment returns, low discount rates and longevity.

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Controls and mitigation (Green)
Following an extensive consultation with our employees, employee representatives and Trustees, the AWGPS was closed to future accrual from 1 April 2018. We have agreed a deficit recovery plan with the Trustees and work is under way to mitigate risks further, such as volatility caused by higher levels of inflation and lower levels of interest rates. Further interest rate and inflation hedging and de-risking of return-seeking assets through equity sales were undertaken prior to March 2018, and quarterly increases over the next five years have been agreed together with 'calls to action' in the event of market movements, causing a significant change to the recovery plan.

The Strategic Pensions Group has been established to agree an investment strategy between the group and Trustees. The long-term aspiration is for the pension scheme to have a portfolio of assets that can fully match future cash flows with an acceptable level of risk and return, at an affordable cost. The aim is for the scheme to be self-sufficient by 2026.

Current risk assessment (Green)
Current changes to the Anglian Water pension schemes will see this risk stabilise, hence its Green status.

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

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

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

Current risk assessment (Green)
Current growth in our region is in line with our AMP6 and AMP7 plans. We have not seen an increase in this risk over the past year, although the longer term is more uncertain.

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

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

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Leadership on climate change adaptation continues to be provided by our Climate Change Steering Group working alongside our Resilience Steering Group. Adapting to a changing climate remains at the heart of our updated Strategic Direction Statement 2020–2045, and this year we have developed A Framework for Resilience that will allow us to test our current and future plans to ensure we become increasingly resilient to climate change.

More than 20 years ago, we started incorporating climate change in our WRMPs, and in March 2018 we published, for consultation, a draft of our latest WRMP. The plan ensures we are resilient against the median climate change scenario and severe drought. Through the consultation we are also seeking support from our customers for £500 million of investment, which would further mitigate the impact of climate change, drought and future environmental challenges.

We believe that climate change is increasing the risk of flooding of our sites and from our sewers. Therefore, we are continuing to collaborate with other stakeholders to understand the impact of climate change and mitigate these risks. For example, we recently committed to put up £1.5 million for matched funding to get more partner flood schemes off the ground. During the year, we also completed 35 sites identified for flood protection in the 2015–2020 period, and continued to allow for climate change in the design of our catchments.

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

We continue to invest to deliver our target of reducing leakage by some 20 Ml/d to 172 Ml/d by the end of AMP6, which helps mitigate the impact of extended dry periods. Our draft WRMP outlines our ambitious future demand management strategy, including £250 million of investment in AMP7 to continue to drive down leakage, install smart meters across our region and roll out our water-saving measures.

The level of risk associated with climate change and drought in the long-term is material and hence our assessment of this risk is Amber.

Current risk assessment (Amber)
We are seeing changing severe weather patterns with greater challenges to continue service to customers. Our operational incident room has been open more in the last year than ever to manage these events and ensure customer impact is minimal. We are investing more to ensure resilience in our supply system and will continue to prepare to mitigate risks from severe weather events. Long-term supply demand issues will also be high on the radar, and planning will continue to ensure we are well prepared and have adopted a series of measures to reduce the potential impact.

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

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

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

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- Spending of around £6 million in the last financial year on planned preventative maintenance to reduce blockages and consequent pollutions.
- A priority, 'blue light' or fast response for areas with historical pollution risk and/or significant environmental sensitivity.
- Investment in new technology for remote monitoring of discharges. This has been installed at key points on the network, both inland and coastal. More than 800 locations are now monitored around the clock.
- Continuing to develop our systems to achieve real-time monitoring and reporting of pollution incidents and to provide a one-stop shop for pollution information, including a reporting app to improve the quality and consistency of information from the field.
- Aligning our internal processes and procedures to meet changes to Environment Agency guidance.
- Extension of our Pollution Watch campaign targeted at the public and river users to encourage earlier engagement with resolution of any potential incident.
- Making a step change in pollution management by attempting to predict where incidents could occur in our network, with proactive inspections of high-risk assets.
- Investment in flow monitoring on rising mains and smart pump control across 250 high-priority pumping stations.

Current risk assessment (Green)
We made good progress over the past year in reducing pollutions, and will continue to look to improve our performance for both our water and water recycling assets.

Failure to deliver our AMP6 plan
Unmitigated risk description (Green)
The delivery of our AMP6 plan, our commitments to our customers and the quality and efficiency of our operations are 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.

Controls and mitigation (Green)
Delivery of our outcomes (and delivery of the ODIs) has required us to adapt our business strategies. We have a detailed programme of investment and improvements to processes, assets and infrastructure to fulfil our customer requirements and improve their experience. 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.

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 Six Sigma 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.

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- Developing a range of initiatives to ensure that we maximise our use of standard products and build off-site options to reduce both cost and time on site.
- Investment in the delivery of our ODIs to maximise success for our customers. For example, Interruptions to Supply, Leakage, Catchment and Coastal Management and Pollutions.
- Further developing our Shop Window to innovate and drive investment for an improved customer experience and to meet some of our goals for water efficiency in the future.

Current risk assessment (Green)
We continue to make good progress. 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 ensuring strong performance on our ODIs.

Preparing for ODI changes in AMP7
Ofwat's final methodology for PR19 was published in December 2017. It sets out a very challenging framework for companies during AMP7, with an indicative Weighted Average Cost of Capital of 2.4%, the lowest by some margin ever set by a UK regulator, and very stretching expectations of performance. In April 2018, Ofwat published a further consultation "Putting the Sector Back in Balance" which proposed a number of changes to the Final Methodology, including proposals to share financing outperformance. Together, these changes saw ratings agency Moody's move Anglian Water and a number of other companies to a "negative outlook" rating in May. 2018

Unmitigated risk description (Amber)
Ofwat's final methodology sets out the regulatory expectations for companies' ODIs for AMP7.

These include:
- The expectation that a higher percentage of return of regulatory equity (RORE) should be associated with ODI performance in AMP7 compared to AMP6.
- Conversely, companies failing to achieve their ODI targets should expect to receive higher underperformance payments (penalties).
- The likelihood of an increase in the incentives around Asset Health measures (formerly Serviceability).
- Expectations that companies' proposed performance commitments levels for ODIs in AMP7 should be considered stretching, influenced both by heightened expectations and reflecting on rewards paid out to some companies in AMP6.
- Expectations for some core common measures on I2S, pollution incidents and internal sewer flooding to be set at the forecast future upper-quartile level.
- Rewards and penalties for ODIs should by default be financial in nature and be paid 'in-period' rather than at the end of the AMP.
- The likelihood of 'enhanced' rewards and penalties for either exceptional frontier shifting performance or, conversely, very poor service.

While there is the opportunity to earn higher rewards for exceptional performance, AMP7 will see an increased challenge around ODI targets.

Controls and mitigation (Amber)
The central core mitigation is the development of the PR19 Business Plan submission. The production of a high quality, well-evidenced and assured submission will provide confidence to Ofwat that our proposals are robust and align with regulatory expectations.

In setting our outcomes, we have implemented a dedicated workstream as part of the PR19 programme. The workstream is responsible for the development of our outcomes to ensure that they both reflect customer priorities, are based on high-quality valuation and cost evidence, and also that they reflect the current and future business focuses. For example, linking back to our long-term ambitions as set out in our 2017 Strategic Direction Statement. A key part of our ODI strategy is to target a net reward in AMP7; including targeting enhanced rewards on leakage reflecting our sector leading performance.

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The strength of our submission will be reflected in both the Initial Assessment of Business Plans and Final Determination.

The higher the quality of our plan, the less risk there will be that we need to make adjustments to our ODIs, either in terms of the level of commitment or the incentives rates, which could materially change the level of challenge in achieving these ODIs in AMP7.

Current risk assessment (Amber)
We are confident in the PR19 business delivering a suite of robust proposals, recognising that Ofwat has a significant role in finalising the final shape of our ODI levels and incentives.

Brexit
Unmitigated risk description (Amber)
The UK's withdrawal from the European Union is the single biggest constitutional and legal exercise in decades. Unmitigated, there is potential for far-reaching implications for the business, including:

- Potential implications for the supply chain, including increased costs if there are new tariffs on goods, and delays from customs checks and duties.
- Restricted access to finance from the European Investment Bank, as the UK has signalled it no longer wishes to be a member but wishes to explore a future relationship.
- Restricted access to EU labour markets. At present, Anglian Water's exposure to this risk is low, given that only 1% of our directly employed workforce originates from the EU. The skills shortage facing Anglian Water owes more to an ageing workforce rather than a migrant workforce. However, there will likely be restrictions on future labour market access when freedom of movement ends.
- Potential risk that some domestic policy issues may not be addressed until after Brexit negotiations have concluded, given the resources being dedicated to Brexit.
- Political instability linked to Brexit, such as an early general election.

Controls and mitigation (Amber)
Continual high-level assessment of the risks and opportunities from Brexit has been undertaken at Management Board meetings since the 2016 referendum. This has been complemented by an increased focus on engaging with politicians and policymakers to ensure we establish Anglian Water as an influential stakeholder and that our messaging and priorities are being received. This includes a much more proactive participation in the parliamentary and governmental policymaking process through submissions to more Government consultations, parliamentary select committee inquiries, and face-to-face engagements with senior figures. This approach has been successful, particularly with Defra's embrace of our resilience messaging and the implementation of the 'twin track' approach to managing water resources in the long-term, and our first invitation to give oral evidence to a Commons Select Committee since 2016.

Practically speaking, we are using Brexit as an opportunity to innovate and explore alternative solutions to the risks. Examples of this include:

- Becoming the first public utility to issue Green Bonds to finance our portfolio of capital projects. This offers a new avenue of finance on terms not dissimilar to those offered by the European Investment Bank.
- Our involvement in the regional skills agenda continues to grow, through the Greater Peterborough University Technical College, College of West Anglia and our own Community Education Team, as we seek to address the skills gap with homegrown talent. Additionally, our graduate and apprenticeship programmes are expanding to meet the skills challenge.
- We continue to demonstrate Anglian Water's leadership as a responsible business. In addition to winning BITC's Responsible Business of the Year 2017 and being named a Leading Utility of the World, we recently made a series of corporate governance changes to demonstrate our commitment to acting in the public interest. These include reducing shareholder dividends, simplifying our corporate structure and changing the composition of the Anglian Water Board so that independent directors are in the majority.

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- These changes have been accompanied by an increased focus on engaging with politicians from beyond the governing party to demonstrate the merits of private investment and responsible corporate governance in the water sector.

Current risk assessment (Green)
We are in a better place than we were 12 months ago, with much more clarity around the immediate consequences of Brexit and the stability offered thus far to the end of the AMP but with less clarity beyond this point. There is still more to be done to assess and mitigate the risks of Brexit but it also presents us with some unique opportunities to put water at the heart of public policy in a way we could not have done previously. For example, we are excited about the potential we have to shape and influence the replacement of the Common Agricultural Policy at the UK level. There are real potential benefits that could be delivered here for water quality, the environment, public water supply and agriculture.

Customer
Unmitigated risk description (Green)
Our success depends on customers and stakeholders thinking well of us, so the credibility and reputation with them is all important. Our Keep it Clear campaign and water efficiency goals are just two of the areas in which we rely on the help and goodwill of customers to succeed. Unwanted media attention – from print, broadcast or social media – has the potential to damage our reputation and erode that trust.

Some of the largest potential penalties are attached to the Service Incentive Mechanism (SIM), which Ofwat uses to score our customer service against that of other water companies. At the same time, we will also be judged by our customers, who compare our service with that of the top UK brands. They expect us to be as good, if not better. So there is also a reputational risk in failing to keep pace with growing customer expectations, hence our extensive investment to ensure a good customer experience.

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

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

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

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.

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

Many elements will build on the plans we have this year; putting the customer at the heart of what we do and building a strong and efficient business where our people feel empowered and inspired by where they work. We are also thinking about setting ourselves up for the next AMP from 2020 and beyond, including new challenges and opportunities such as the new Customer and Developer Services satisfaction measures (CMEX and DMEX) and smart metering.

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Health and safety

Unmitigated risk description (Amber)

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

Controls and mitigation (Green)

The health and safety of our workforce, partners and the general public is a key priority. We are committed to looking after our employees' safety and believe that work should have a positive impact on their health and wellbeing. The Management Board reviews health and safety performance and associated actions monthly, immediately reporting any significant incidents to the Board. Performance is also monitored through our OHSAS 18001 Certificated Safe and Well Management System, with six monthly external reviews by LRQA as well as through our internal audit programme.

Our management systems track near-misses and actions from audits, inspections and accident/incident investigations, as well as providing access to current policies and procedures and safe systems of work. Throughout the business we have a series of health, safety and wellbeing networks that report to the director-led group health, safety and wellbeing stakeholders so that best practice is shared and any issues or concerns can be effectively managed.

Underpinning our approach is LIFE, a philosophy that focuses on health, safety and wellbeing and reflects our vision of happier, healthier and safer employees. LIFE is about moving from a traditional compliance-based approach to a culture where we take responsibility for our health, safety and wellbeing and that of our colleagues. It will create a culture of care and concern where we look out for each other and make the right choices. This is a long-term commitment – to date, we have run numerous health and wellbeing campaigns focusing on the happier and healthier pillars of LIFE, which includes mental and physical health. We have also held LIFE sessions where over 3,000 people, including personnel from our alliance partners, have attended focusing on the safer element.

We launched a three-year health, safety and wellbeing plan, which has been developed with stakeholders across the business, initiatives from outside the business such as Water UK and the HSE, and our own health and safety information, ensuring we are focusing on current and relevant areas and potential high risks. We have also invested in IT technology to improve our health and safety management system for incident reporting.

Current risk assessment (Green)

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

Talent and succession

Unmitigated risk description (Green)

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

Controls and mitigation (Green)

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

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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.

Pension freedoms and the publicity around them may mean that more experienced members of staff with specialist knowledge may consider early or partial retirement. A proactive approach to identifying those staff has been undertaken, and succession plans are well advanced to mitigate any impact that this may have.

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

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

Cyber security
Unmitigated risk description (Amber)
Cyber risk is a high priority for the business; over the last year the volume and complexity of threats targeting companies in our sector have continued to increase with publicly acknowledged nation state actors operating in the utilities sector in both the UK and US. We have responded accordingly to protect our data and information (hence this risk is Amber).

Controls and mitigation (Amber)
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.

In addition to enhancing technical controls, an ongoing awareness and education campaign continues to modify employees' behaviours towards cyber risk, with regular checks to test people's understanding. Additional vetting of new employees and an extension to our supplier risk assessment have been implemented to support our security improvements.

Current risk assessment (Amber)
With cyber risk increasing, we are mitigating this risk with further training along with cultural and system changes within the business. We are keeping abreast of the ever-shifting cyber landscape and actively adapting our controls to minimise risk. However the overall and increasing risk is at Amber.

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

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

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Regular audits are carried out both internally and externally. Water Services processes are externally assessed annually by LRQA to ISO 9001 quality management and ISO 22301 business continuity management system standards.

UKAS audits our laboratory as part of ISO 17025. A comprehensive internal audit programme is signed off each year by Anglian Water's Director of Water Services and the senior leadership team, and is delivered by members of the Water Quality and the Risk and Systems teams.

Following some potentially serious incidents in the water industry (not within Anglian Water) regarding the quality of chemicals obtained from third-party suppliers, part of the 2017/18 Water Quality Internal Audit programme required the audit of all suppliers of potable water treatment chemicals. Audits were conducted in collaboration with the Water Quality team, Integrated Supply Chain, Risk and Systems, and LRQA. Generally, good compliance was witnessed, with corrective actions successfully progressed to closure. The outputs from these audits have given us much greater understanding of our risk position with chemical suppliers and are being used to inform our ongoing risk-based audit programme.

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

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

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

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

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

Only risks with a 'red' indicator will be reported as being representative of significant failings and areas of concerns, and as at 31 March 2018 no red risks were reported.

Approval of the Strategic Report
This Strategic Report was approved by the Board of Directors on 29 June 2018 and signed on its behalf by:

Claire Russell
Company Secretary

Osprey Acquisitions Limited

Group income statement

for the year ended 31 March 2018

Notes		Year ended 31 March 2018 £m	Year ended 31 March 2017 £m
4	**Revenue**	**1,259.6**	1,235.2
5	Other operating income	**16.1**	14.8
6	Operating costs		
	Operating costs before depreciation and amortisation	**(602.6)**	(584.1)
	Depreciation and amortisation	**(335.8)**	(311.6)
	Total operating costs	**(938.4)**	(895.7)
	Operating profit	**337.3**	354.3
	Finance income	**1.9**	2.4
	Finance costs	**(363.2)**	(308.2)
	Fair value gains/(losses) on derivative financial instruments	**119.1**	(107.0)
8	Net finance costs	**(242.2)**	(412.8)
32	Profit on disposal of business	**4.6**	-
17	Share of profit of joint ventures	**-**	0.3
7	Profit on disposal of joint venture	**-**	9.5
	Profit/(loss) before tax from continuing operations		
	(Loss)/profit before exceptional items and fair value losses	**(24.0)**	48.8
	Exceptional items - profits on disposal	**4.6**	9.5
	Fair value gains/(losses) on derivatives	**119.1**	(107.0)
	Profit/(loss) before tax from continuing operations	**99.7**	(48.7)
9	Tax	**(21.5)**	68.4
	Profit for the year	**78.2**	19.7
	Attributable to:		
	Owners of the parent	**78.2**	19.7

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

Group statement of comprehensive income

for the year ended 31 March 2018

Notes		**Year ended 31 March 2018 £m**	Year ended 31 March 2017 £m
	Profit for the year	**78.2**	19.7
	Other comprehensive income		
	Items that will not be reclassified to profit or loss		
25	Actuarial gains/(losses) on net retirement benefit obligation	**80.2**	(112.5)
24	Income tax on items that will not be reclassified	**(13.7)**	18.6
		66.5	(93.9)
	Items that may be reclassified subsequently to profit or loss		
27	Gains/(losses) on cash flow hedges recognised in equity	**16.4**	(20.8)
27	Gains/(losses) on cash flow hedges transferred to profit or loss	**1.9**	(1.3)
	Currency translation differences	**-**	0.3
24	Income tax on items that may be reclassified	**(3.1)**	2.6
		15.2	(19.2)
	Other comprehensive income/(expense) for the year, net of tax	**81.7**	(113.1)
	Total comprehensive income/(expense) for the year	**159.9**	(93.4)
	Attributable to:		
	Owners of the parent	**159.9**	(93.4)

Osprey Acquisitions Limited

Group balance sheet

at 31 March 2018

Notes		At 31 March 2018 £m	At 31 March 2017 £m
	Non-current assets		
13	Goodwill	**445.8**	445.8
14	Other intangible assets	**168.4**	139.5
15	Property, plant and equipment	**9,659.1**	9,525.1
16	Investment properties	**1.8**	3.6
22	Derivative financial instruments	**89.6**	256.1
25	Retirement benefit surpluses	**60.1**	4.0
		10,424.8	10,374.1
	Current assets		
18	Inventories	**19.9**	20.8
19	Trade and other receivables	**482.0**	434.1
	Current tax receivables	**0.1**	-
17	Investments - cash deposits	**42.8**	76.0
	Cash and cash equivalents	**288.2**	386.9
22	Derivative financial instruments	**48.5**	13.6
		881.5	931.4
32	Assets classified as held for sale	**-**	85.6
		881.5	1,017.0
	Total assets	**11,306.3**	11,391.1
	Current liabilities		
20	Trade and other payables	**(539.1)**	(479.6)
	Current tax liabilities	**-**	(11.5)
21	Borrowings	**(959.0)**	(1,257.5)
22	Derivative financial instruments	**(16.4)**	(21.8)
23	Provisions	**(8.0)**	(9.1)
		(1,522.5)	(1,779.5)
32	Liabilities directly associated with assets held for sale	**-**	(11.2)
		(1,522.5)	(1,790.7)
	Net current liabilities	**(641.0)**	(773.7)
	Non-current liabilities		
21	Borrowings	**(6,855.5)**	(6,597.2)
22	Derivative financial instruments	**(862.6)**	(1,043.8)
24	Deferred tax liabilities	**(835.6)**	(794.5)
25	Retirement benefit obligations	**(66.6)**	(102.2)
23	Provisions	**(9.4)**	(13.0)
20	Other non-current liabilities	**(523.5)**	(484.0)
		(9,153.2)	(9,034.7)
	Total liabilities	**(10,675.7)**	(10,825.4)
	Net assets	**630.6**	565.7
	Capital and reserves		
26	Share capital	**854.2**	854.2
	Accumulated losses	**(118.3)**	(168.0)
27	Hedging reserve	**(105.3)**	(120.5)
	Total equity	**630.6**	565.7

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

The financial statements were approved by the Board of Directors on 29 June 2018 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 2018

Notes		At 31 March 2018 £m	At 31 March 2017 £m
	Non-current assets		
17	Investments	**2,311.8**	2,311.8
24	Deferred tax assets	**-**	0.2
		2,311.8	2,312.0
	Current assets		
19	Trade and other receivables	**0.1**	-
	Current tax receivables	**6.5**	8.1
	Cash and cash equivalents	**11.4**	19.5
22	Derivative financial instruments	**-**	1.1
		18.0	28.7
	Total assets	**2,329.8**	2,340.7
	Current liabilities		
20	Trade and other payables	**-**	(0.3)
21	Borrowings	**(734.2)**	(975.4)
22	Derivative financial instruments	**-**	(5.6)
		(734.2)	(981.3)
	Net current liabilities	**(716.2)**	(952.6)
	Non-current liabilities		
21	Borrowings	**(445.9)**	(206.0)
		(445.9)	(206.0)
	Total liabilities	**(1,180.1)**	(1,187.3)
	Net assets	**1,149.7**	1,153.4
	Capital and reserves		
26	Share capital	**854.2**	854.2
	Retained earnings	**295.5**	299.2
	Total equity	**1,149.7**	1,153.4

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

The profit for the year of the company was £91.3 million (2017: £102.7 million).

The financial statements were approved by the Board of Directors on 29 June 2018 and signed on its behalf by:

Peter Simpson
Chief Executive

Scott Longhurst
Managing Director, Finance & Non Regulated Business

Group statement of changes in equity

for the year ended 31 March 2018

	Share capital £m	(Accumulated losses)/ retained earnings £m	Hedging reserve £m	Translation reserve £m	**Total equity £m**
Year ended 31 March 2018					
At 1 April 2017	854.2	(168.0)	(120.5)	-	**565.7**
Profit for the year	-	78.2	-	-	**78.2**
Other comprehensive income for the year	-	66.5	15.2	-	**81.7**
Total comprehensive income	-	144.7	15.2	-	**159.9**
Dividends (see note 12)	-	(95.0)	-	-	**(95.0)**
At 31 March 2018	**854.2**	**(118.3)**	**(105.3)**	**-**	**630.6**
Year ended 31 March 2017					
At 1 April 2016	854.2	2.7	(101.0)	(0.3)	755.6
Profit for the year	-	19.7	-	-	19.7
Cumulative exchange differences recycled to the income statement	-	-	-	0.4	0.4
Other comprehensive income for the year	-	(93.9)	(19.5)	(0.1)	(113.5)
Total comprehensive expense	-	(74.2)	(19.5)	0.3	(93.4)
Dividends (see note 12)	-	(96.5)	-	-	(96.5)
At 31 March 2017	854.2	(168.0)	(120.5)	-	565.7

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).

Osprey Acquisitions Limited

Company statement of changes in equity

for the year ended 31 March 2018

	Share capital £m	Retained earnings £m	**Total equity £m**
Year ended 31 March 2018			
At 1 April 2017	854.2	299.2	**1,153.4**
Profit for the year	-	91.3	**91.3**
Total comprehensive income	-	91.3	**91.3**
Dividends (see note 12)	-	(95.0)	**(95.0)**
At 31 March 2018	**854.2**	**295.5**	**1,149.7**
Year ended 31 March 2017			
At 1 April 2016	854.2	293.0	1,147.2
Profit for the year	-	102.7	102.7
Total comprehensive income	-	102.7	102.7
Dividends (see note 12)	-	(96.5)	(96.5)
At 31 March 2017	854.2	299.2	1,153.4

Osprey Acquisitions Limited

Group and company cash flow statements

for the year ended 31 March 2018

Notes		Group		Company	
		Year ended 31 March 2018 £m	Year ended 31 March 2017 £m	**Year ended 31 March 2018 £m**	Year ended 31 March 2017 £m
	Operating activities				
(a)	Cash generated from operations	**627.3**	613.6	**(0.5)**	0.1
	Income taxes (paid)/received	**(8.8)**	(9.5)	**8.1**	8.1
	Net cash flows from operating activities	**618.5**	604.1	**7.6**	8.2
	Investing activities				
	Disposal of business, net of cash disposed (see note 32)	**79.0**	14.0	**-**	-
	Purchase of property, plant and equipment	**(379.0)**	(302.1)	**-**	-
	Purchase of intangible assets	**(64.4)**	(47.1)	**-**	-
	Grants and contributions received	**40.4**	39.4	**-**	-
	Proceeds from disposal of property, plant and equipment	**1.6**	2.7	**-**	-
	Interest received	**1.9**	3.0	**0.2**	0.3
	Dividends received from subsidiaries	**-**	-	**117.6**	127.4
	Net cash (used in)/from investing activities	**(320.5)**	(290.1)	**117.8**	127.7
	Financing activities				
	Interest paid	**(252.8)**	(271.0)	**(36.7)**	(37.5)
	Issue costs paid	**(3.7)**	(5.5)	**(2.0)**	(1.0)
	Interest element of finance lease rental payments	**(0.8)**	(1.3)	**-**	-
	Increase in amounts borrowed	**489.5**	571.0	**240.0**	-
	Repayment of amounts borrowed	**(487.5)**	(494.2)	**(239.8)**	(0.1)
	Repayment of accumulated interest on derivatives	**(73.9)**	-	**-**	-
	Capital element of finance lease rental payments	**(5.7)**	(5.1)	**-**	-
	Decrease in short-term bank deposits	**33.2**	205.3	**-**	10.0
	Dividends paid (see note 12)	**(95.0)**	(96.5)	**(95.0)**	(96.5)
	Net cash used in financing activities	**(396.7)**	(97.3)	**(133.5)**	(125.1)
	Net (decrease)/increase in cash and cash equivalents	**(98.7)**	216.7	**(8.1)**	10.8
	Cash and cash equivalents at the beginning of the year	**386.9**	170.2	**19.5**	8.7
(b)	**Cash and cash equivalents at 31 March**	**288.2**	386.9	**11.4**	19.5

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

Notes to the cash flow statements

for the year ended 31 March 2018

a) Cash generated from operations

	Group		Company	
	2018	2017	**2018**	2017
	£m	£m	**£m**	£m
Operating profit	**337.3**	354.3	**(0.1)**	(0.2)
Adjustments for:				
Amortisation of deferred grants and contributions	**(16.1)**	(14.8)	**-**	-
Depreciation and amortisation	**335.8**	311.6	**-**	-
Profit on disposal of property, plant and equipment	**(0.9)**	(2.5)	**-**	-
Disposal of investment properties	**1.8**	-	**-**	-
Difference between pension charge and cash contributions	**(13.8)**	(17.1)	**-**	-
Net movement in provisions	**(4.9)**	1.5	**-**	-
Working capital:				
Decrease/(increase) in inventories	**0.9**	(1.5)	**-**	-
(Increase)/decrease in trade and other receivables	**(47.9)**	(12.2)	**(0.1)**	0.3
Increase/(decrease) in trade and other payables	**35.1**	(5.7)	**(0.3)**	-
	(11.9)	(19.4)	**(0.4)**	0.3
Cash generated from operations	**627.3**	613.6	**(0.5)**	0.1

Notes to the cash flow statements (continued)

for the year ended 31 March 2018

b) Analysis of net debt

	Cash and cash equivalents £m	Current asset investments £m	Liabilities from financing activities Borrowings £m	Liabilities from financing activities Derivative financial instruments [1] £m	**Net debt £m**
The group					
At 1 April 2016	170.2	281.3	(7,646.9)	(719.1)	**(7,914.5)**
Cash flows					
Interest paid	(271.0)	-	27.7	6.5	
Issue costs paid	(5.5)	-	5.5	-	
Interest element of finance lease rental payments	(1.3)	-	-	-	
Increase in amounts borrowed	571.0	-	(571.0)	-	
Repayment of amounts borrowed	(494.2)	-	494.2	-	
Capital element of finance lease rental payments	(5.1)	-	5.1	-	
Decrease in short-term bank deposits	205.3	(205.3)	-	-	
Non-financing cash flows [2]	217.5	-	-	-	
	216.7	(205.3)	(38.5)	6.5	**(20.6)**
Movement in interest accrual on debt	-	-	14.3	4.8	**19.1**
Amortisation of issue costs	-	-	(4.9)	-	**(4.9)**
Amortisation of fair value adjustments	-	-	17.2	-	**17.2**
Indexation of borrowings and RPI swaps	-	-	(61.4)	(14.1)	**(75.5)**
Fair value gains and losses	-	-	(69.4)	(49.4)	**(118.8)**
Exchange movements	-	-	(65.4)	-	**(65.4)**
Other non-cash movements	-	-	0.3	-	**0.3**
At 31 March 2017	386.9	76.0	(7,854.7)	(771.3)	**(8,163.1)**
Cash flows					
Interest paid	(252.8)	-	25.6	6.2	
Issue costs paid	(3.7)	-	3.7	-	
Interest element of finance lease rental payments	(0.8)	-	-	-	
Increase in amounts borrowed	489.5	-	(489.5)	-	
Repayment of amounts borrowed	(487.5)	-	487.5	-	
Repayment of accumulated interest on derivatives	(73.9)	-	-	73.9	
Capital element of finance lease rental payments	(5.7)	-	5.7	-	
Decrease in short-term bank deposits	33.2	(33.2)	-	-	
Non-financing cash flows [2]	203.0	-	-	-	
	(98.7)	(33.2)	33.0	80.1	**(18.8)**
Movement in interest accrual on debt	-	-	3.8	0.7	**4.5**
Amortisation of issue costs	-	-	(6.4)	-	**(6.4)**
Amortisation of fair value adjustments	-	-	17.1	-	**17.1**
Indexation of borrowings and RPI swaps	-	-	(110.7)	(26.2)	**(136.9)**
Fair value gains and losses	-	-	49.0	(15.1)	**33.9**
Exchange movements	-	-	54.4	-	**54.4**
At 31 March 2018	**288.2**	**42.8**	**(7,814.5)**	**(731.8)**	**(8,215.3)**
Net debt at 31 March 2018 comprises:					
Non-current assets	-	-	-	88.8	**88.8**
Current assets	288.2	42.8	-	47.8	**378.8**
Current liabilities	-	-	(959.0)	(12.5)	**(971.5)**
Non-current liabilities	-	-	(6,855.5)	(855.9)	**(7,711.4)**
	288.2	**42.8**	**(7,814.5)**	**(731.8)**	**(8,215.3)**

b) Analysis of net debt (continued)

(1) Derivative financial instruments exclude the liability of £9.1 million (2017: £24.6 million) in respect of the fair value of energy hedges, as these are not classified as part of net debt.

(2) Non-financing cash flows comprise: net cash flows from operating activities of £618.5 million (2017: £604.1 million), less net cash used in investing activities of £320.5 million (2017: £290.1 million) and dividends paid of £95.0 million (2017: £96.5 million).

The group has adopted the disclosure requirements of the Amendments to IAS 7 'Statement of Cash Flows' within the above table. There has been no change to the net cash flows reported by the group, however the prior year comparatives in the above table have been represented to comply with amended disclosure requirements.

Energy hedges, excluded from net debt, are included within derivative financial instruments as follows:

	2018 **£m**	2017 £m
Non-current assets	**0.8**	-
Current assets	**0.7**	0.1
Current liabilities	**(3.9)**	(6.3)
Non-current liabilities	**(6.7)**	(18.4)
	(9.1)	(24.6)

Current asset investments above comprise £42.8 million (2017: £76.0 million) of short-term cash deposits with an original maturity of more than three months.

At 31 March 2018, £247.1 million (2017: £354.8 million) of the group's cash and cash equivalents and £40.0 million (2017: £75.0 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 £0.3 million (2017: £0.3 million) of the group's cash and cash equivalents was held as collateral for outstanding loan notes. In addition, £1.4 million (2017: £3.4 million) of the group's cash and cash equivalents and £2.8 million (2017: £1.0 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.

Notes to the cash flow statements (continued)

for the year ended 31 March 2018

b) Analysis of net debt (continued)

	Cash and cash equivalents £m	Current asset receivables £m	Liabilities from financing activities: Borrowings £m	Liabilities from financing activities: Derivative financial instruments £m	**Net debt £m**
The company					
At 1 April 2016	8.7	10.0	(1,181.1)	(13.5)	**(1,175.9)**
Cash flows					
Interest paid	(37.5)	-	-	4.4	
Issue costs paid	(1.0)	-	1.0	-	
Repayment of amounts borrowed	(0.1)	-	0.1	-	
Decrease in short-term bank deposits	10.0	(10.0)	-	-	
Non-financing cash flows	39.4	-	-	-	
	10.8	(10.0)	1.1	4.4	**6.3**
Amortisation of issue costs	-	-	(1.5)	-	**(1.5)**
Fair value gains and losses	-	-	-	4.6	**4.6**
Other non-cash movements	-	-	0.1	-	**0.1**
At 31 March 2017	19.5	-	(1,181.4)	(4.5)	**(1,166.4)**
Cash flows					
Interest paid	(36.7)	-	-	4.4	
Issue costs paid	(2.0)	-	2.0	-	
Increase in amounts borrowed	240.0	-	(240.0)	-	
Repayment of amounts borrowed	(239.8)	-	239.8	-	
Non-financing cash flows	30.4	-	-	-	
	(8.1)	-	1.8	4.4	**(1.9)**
Movement in interest accrual on debt	-	-	2.2	3.0	**5.2**
Amortisation of issue costs	-	-	(2.7)	-	**(2.7)**
Fair value gains and losses	-	-	-	(2.9)	**(2.9)**
At 31 March 2018	**11.4**	**-**	**(1,180.1)**	**-**	**(1,168.7)**
Net debt at 31 March 2018 comprises:					
Current assets	**11.4**	**-**	**-**	**-**	**11.4**
Current liabilities	-	-	(734.2)	-	**(734.2)**
Non-current liabilities	-	-	(445.9)	-	**(445.9)**
	11.4	**-**	**(1,180.1)**	**-**	**(1,168.7)**

1. Accounting policies

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

The group has adopted the disclosure requirements of the Amendments to IAS 7 'Statement of Cash Flows' within note (b) to the cash flow statements 'Analysis of net debt'. The group has chosen not to take advantage of the option available when first applying the amendments and, as such, has provided comparative information.

a) Basis of accounting

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

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

b) Basis of preparation

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

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

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

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

1. Accounting policies (continued)

b) Basis of preparation (continued)

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

Joint ventures

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

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

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

c) Foreign currencies

Individual transactions denominated in foreign currencies are translated into local currency at the actual exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into local currency at the rates ruling at the balance sheet date. Profits and losses on both individual foreign currency transactions during the period and monetary assets and liabilities are dealt with in the income statement except for transactions where hedge accounting has been applied in accordance with IAS 39 'Financial Instruments'.

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

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

d) Segmental reporting

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

1. Accounting policies (continued)

e) Revenue recognition

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

- i Water and sewerage services – revenue includes an estimation of the amount of mains water and sewerage charges unbilled at the period end. The revenue accrual is estimated using a defined methodology based upon weighted average water consumption by tariff, which is calculated based upon historical billing information.
- ii Property development – revenue from sale of development properties, which are not held for the long-term, is recorded when a legally binding contract for the sale of the development has been entered into and legal completion has taken place before the period-end. Revenue includes sales of directly held work in progress and interests in special purpose subsidiaries and joint ventures if the substance of the transaction is the sale of the underlying property.
- iii Services contracts – revenue from service contracts is recognised by reference to the stage of completion, as measured by reference to services performed to date as a percentage of total services to be performed.
- iv Interest income – recognised on a time-proportion basis using the effective interest method.
- v Dividend income – recognised when the right to receive payment is established.

f) Research and development

Research expenditure is charged to profit and loss in the period in which it is incurred. Expenditure relating to development projects is capitalised as equipment or intangible assets and is written off over the expected useful life of the asset.

g) Exceptional items

Exceptional items are one-off items which individually or, if of a similar type, in aggregate need to be disclosed by virtue of their size or nature to enable a reader of the financial statements to understand the results for a particular period.

h) Taxation

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates enacted or substantially enacted by the balance sheet date and which are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets and surplus Advance Corporation Tax are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

i) Dividends

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

1. Accounting policies (continued)

j) Intangible assets

i *Goodwill*

On the acquisition of a subsidiary undertaking, or business combination, 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 *Right to operate intangible assets*

The 'right to operate' intangible assets arose on acquisition of a subsidiary undertaking, representing the fair value of the contracts acquired, and are shown at cost less subsequent amortisation and any impairment. Amortisation is calculated on a straight line basis over the length of the individual contracts to which the intangible assets relate.

iii *Other intangible assets*

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

k) Property, plant and equipment

Property, plant and equipment comprises:

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

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

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

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

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

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

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

1. Accounting policies (continued)

k) Property, plant and equipment (continued)

Items of property, plant and equipment that have no further operational use are treated as having been decommissioned and are written off immediately to profit or loss. In addition, property, plant and equipment is assessed for impairment, in accordance with IAS 36 'Impairment of Assets', if events or changes in circumstances indicate that the carrying value may not be recoverable.

l) Grants and contributions

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

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

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

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

m) Investment properties

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

n) Leased assets

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

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

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

o) Investments

After initial recognition at cost (being the fair value of the consideration paid), investments which are 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.

1. Accounting policies (continued)

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) Trade receivables

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

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

r) Cash and cash equivalents

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

s) Assets held for sale

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

t) Borrowings

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

u) Derivative financial instruments

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

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

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

1. Accounting policies (continued)

u) Derivative financial instruments (continued)

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.

v) Provisions

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

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.

1. Accounting policies (continued)

w) Retirement benefit obligations

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

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

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

x) New standards, amendments and interpretations not yet adopted

At the date of preparation of these financial statements, a number of new number standards were in issue but not yet effective. The following standards, once adopted, are expected to have a material impact on the group's consolidated financial statements:

IFRS 9 'Financial Instruments'

The group will apply IFRS 9 from 1 April 2018. The full impact of adopting IFRS 9 on the group's consolidated financial statements will depend on the financial instruments that the group has during the year ending 31 March 2019 as well as on economic conditions and judgements made as at the year end. The group has performed a preliminary assessment of the potential impact of adopting IFRS 9 based on the financial instruments and hedging relationships at the date of initial application of IFRS 9, being 1 April 2018.

Classification and measurement

With respect to the classification and measurement of financial assets, the number of categories of financial assets under IFRS 9 has been reduced compared to IAS 39 'Financial Instruments – Recognition and Measurement'. Under IFRS 9 the classification of financial assets is based both on the business model within which the asset is held and the contractual cash flow characteristics of the asset. There are three principal classification categories for financial assets that are debt instruments:

i. amortised cost;
ii. fair value through other comprehensive income (FVTOCI); and
iii. fair value through profit or loss (FVTPL).

Equity investments within the scope of IFRS 9 are measured at fair value with gains and losses recognised in profit or loss unless an irrevocable election is made to recognise gains or losses in other comprehensive income. Under IFRS 9, derivatives embedded in financial assets are not bifurcated but instead the whole hybrid contract is assessed for classification.

Under IFRS 9, financial assets can be designated as at FVTPL to mitigate an accounting mismatch.

In respect of the classification and measurement of financial liabilities, changes in the fair value of a financial liability designated as at FVTPL due to credit risk are presented in other comprehensive income unless such presentation would create or enlarge an accounting mismatch in profit or loss.

There will be no financial impact due to the changes in the classification and measurement of the following financial assets held by the group: trade receivables, money market deposits, liquidity funds, cash at bank, and derivative financial assets.

There will be no change in the accounting for any financial liabilities as no liabilities are held at FVTPL.

1. Accounting policies (continued)

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

Impairment
The impairment model under IFRS 9 reflects expected credit losses, as opposed to only incurred credit losses under IAS 39. Under the impairment approach in IFRS 9, it is not necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date.

The new impairment model will apply to the group's financial assets that are debt instruments measured at amortised costs

In respect of trade receivables, the group has carried out an analysis of the impairment (or bad debt) charge and economic measures over a six year period. The group has concluded that there is no material impact on the bad debt charge as a result of applying IFRS 9.

The application of the expected credit loss model of IFRS 9 will result in greater recognition of credit losses for short-term deposits held with banks. At the date of initial application of IFRS 9, the overall impact is expected to be a decrease in retained earnings of less than £0.1 million. No further impact from impairment is expected to cash or other financial investments.

Hedge accounting
On initial application of IFRS 9, an entity may choose, as its accounting policy, to continue to apply the hedge accounting requirements of IAS 39 instead of the hedge accounting requirements of IFRS 9. The group has elected to apply the IFRS 9 hedge accounting requirements because they align more closely with the group's risk management policies.

An assessment of the group's hedging relationships under IAS 39 has been performed, and it has been determined that the existing hedge relationships would qualify as continuing hedging relationships under IFRS 9. However the transition provisions allow variations in elections on transition where new cost of hedging provisions apply. Accordingly the group has made the following elections as at transition:

- For fair value hedges of sterling debt issuance, the hedges continue with no change and therefore no subsequent financial impact.
- For fair value or cash flow hedges of foreign currency debt, the hedges will continue with IFRS 9 cost of hedging applied on a cross-currency basis from the inception of the hedge designation.
- The cross-currency basis and the movement in cross-currency basis are not currently material to the group, however this election best reflects the treatment of currency basis as a cost associated with hedging.
- For pre-issuances hedges of forecast future debt issuances, the hedges will be de-designated and re-designated under IFRS 9 to allow the application of the hedge to aggregate exposures. This would be relevant where foreign currency debt issuances swapped to sterling are more competitive than sterling markets and will allow the hedge to apply to such post swap positions. There will be no immediate impact on the financial statements at transition.
- For commodity hedges of energy costs, the hedges will be de-designated and re-designated under IFRS 9 to take advantage of the ability to hedge the energy price component of energy costs. This is expected to reduce the ineffectiveness reported on commodity hedges prospectively by allowing the hedge relationship to better reflect the economic risk being hedged. There will be no immediate impact on the financial statements at transition.

1. Accounting policies (continued)

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

IFRS 15 'Revenue from Contracts with Customers'

This standard will be mandatory for the group's financial statements from 1 April 2018 and, once adopted, will have a material impact on the group's financial statements in respect of developer contributions as discussed below.

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

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

Sources of income

The group's principal source of income is from customers in respect of the provision of water and sewerage services within Anglian Water, the group's regulated water and sewerage company, at a price determined annually by its regulatory tariffs. Within Anglian Water, revenue is currently split between household, 78%, wholesale non-household, 19% and other 3%.

The majority of Anglian Water's household customers have meters, but there are a significant number who are not metered. This is relevant to how we recognise the income over the year, since the unmeasured customers are billed at a flat rate based on the rateable value of the property which reflects their right to an ongoing supply of water, while measured customers are billed in line with their usage, which tends to be seasonal. Historically, revenue has been recorded on this basis.

Under IFRS 15, the performance obligation for measured customers has been assessed as the provision of water and sewerage services, and the performance obligation is met as water is supplied to the property. Accordingly, revenue will continue to be recognised as water is supplied, based on volumes supplied at the relevant reporting date.

In respect of unmeasured customers, the performance obligation has been assessed as standing ready to provide water and sewerage services when required by our customers, and accordingly revenue will be recognised under IFRS 15 as the stand-ready obligation is fulfilled over time. Accordingly, revenue from unmeasured customers will continue to be recognised on a time basis under IFRS 15.

For measured customers their bill comprises a charge for usage and a fixed standing charge based on the rateable value of the property. While we currently recognise the variable element of revenue based on estimated usage, the fixed element of the bill income is recognised on a time basis. Under IFRS 15 this approach is not appropriate as there is only one performance obligation, which means both the fixed and variable elements of the bill will be recognised on a usage basis. This has no impact on annual revenues, but will marginally increase revenue in the first six months of the year by less than £5 million.

Non-household revenue is charged based on usage, based on data submitted by the market operator. IFRS 15 will not impact recognition of this income.

Under the recognition rules of IFRS 15, income should only be recognised if it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. We have considered recent data that supports our conclusion that de-recognition of income is not appropriate on the grounds of past payment record and current credit worthiness. Our view is that for all occupied properties it is more probable than not that we will collect the income, and therefore it is appropriate to continue to recognise the income. The exception to this is where properties are unoccupied and in these cases income is not recognised.

1. Accounting policies (continued)

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

Developer contributions

A secondary source of income for Anglian Water is from developer contributions (grants and contributions) in respect of new connections for water and/or sewerage services. Currently these contributions are initially credited to a deferral account and then released to 'other operating income' over the expected useful life of the related assets.

Discussion is ongoing within the water industry on the treatment of developer contributions under IFRS 15, and if this results in a more appropriate treatment then the group may revisit its current assessment of the impact of IFRS 15 on developer contributions as set out below.

The significant components of developer contributions are as follows:

	Value contributed 2018 £m	Released to other operating income 2018 £m	Deferred credit March 2018 £m
New connection charges	10.4	2.4	146.8
Self-lay, requisitions and adoption fees	8.3	1.4	86.2
Fair value of assets adopted for nil consideration	20.9	0.6	89.7
Infrastructure charges	17.0	11.7	216.8
Diversions	6.4	-	-
	63.0	**16.1**	**539.5**

i *New connection charges*
The group has concluded that the developer is the customer, and that the group's performance obligation is satisfied by making the connection. On this basis it is appropriate to recognise the income immediately rather than over the expected useful life of the related assets.

ii *Self-lay, requisitions and adoption fees*
The group has reached the same conclusion as for new connection charges.

iii *Fair value of assets adopted for nil consideration*
These are principally sewers and pumping stations that a developer has constructed and then contributed to the group, on a nil consideration basis, in exchange for being relieved of any future liability. Contributed assets were specifically covered by IFRIC 18 'Transfers of Assets from Customers' which encouraged recognition of the credit that arises over the life of the related asset. However, with the advent of IFRS 15, which supersedes the guidance in IFRIC18, the group has concluded that immediate recognition, rather than deferral, is appropriate since the group does not have any performance obligation to the developer post adoption.

iv *Infrastructure charges*
Infrastructure charges are a developer's contribution to fund network reinforcement by the group. While these charges are a contribution to reinforcement of the network, they have to be paid by the developer as a condition of obtaining connection to the network and, as such, the group has concluded that the developer is the customer, and that the group's performance obligation is satisfied by making the connection. On this basis it is appropriate to recognise the income immediately rather than over the expected useful life of the related assets.

1. Accounting policies (continued)

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

v *Diversions*
Diversions are where a highways agency, or other authority, reimburses the group for the majority of the costs incurred in diverting assets that represent an obstruction to the construction or upgrade of roads and railway lines. Under IFRS 15, the group has concluded that the contributions should be recognised immediately as revenue since there is no performance obligation to the agency/authority beyond completing the diversion.

The overall impact of the changes to the recognition of developer contributions on the March 2018 income statement would be to increase revenue by £63.0 million, while reducing other operating income by £16.1 million to £nil. In addition, there would be an increase to reserves at March 2018 of £539.5 million arising from the immediate recognition of previously deferred income balances. While the above change in accounting will have an impact on the group's tax charge, this cannot be quantified at this stage as it is dependent on the overall tax position for the year to 31 March 2019. In particular, there will be a one-off tax charge in respect of the recognition on transition of previously deferred income balances, which will be offset by utilisation of surplus Advance Corporation Tax.

The impact on the March 2018 cash flow statement would be to reclassify developer contributions (grants and contributions received) of £40.4 million from investing activities to operating activities.

IFRS 16 'Leases'
IFRS 16 will replace the current guidance in IAS 17 and IFRIC 4. IFRS 16 requires lessees to recognise on the balance sheet a lease liability, reflecting future lease payments, and a 'right-of-use asset' for the majority of leases, thereby removing the distinction currently made between finance and operating leases under IAS 17. The standard will be effective for the group's financial statements for the year ending 31 March 2020, and the group currently has no plans to early adopt this standard.

At 31 March 2018, the group's future minimum lease payments under non-cancellable operating leases was £30.1 million in respect of properties, mainly office buildings, and £1.9 million in respect of plant and equipment, primarily vehicles.

On adoption of IFRS 16 the group expects to bring substantially all leases currently treated as operating leases on to the balance sheet and is continuing to assess the financial impact of this change, as well as reviewing system options for recoding lease contracts.

On the balance sheet, property, plant and equipment will be increased by the value of the right-to-use asset, with an increase in borrowings reflecting the future lease payments. In the income statement the group will record an interest expense on the lease liability and depreciation on the right-of-use asset. In comparison with operating leases under IAS 17, this will change not only the allocation of expenses but also the total amount of expenses recognised for each period of the lease term. The combination of a straight-line depreciation of the right-of-use asset and the effective interest rate method applied to the lease liability will result in a higher total charge to the income statement in the initial years of the lease, and decreasing expenses during the latter part of the lease term. IFRS 16 will also impact the cash flow statement because operating lease payments, previously included within cash generated from operations, will be included within financing activities, split between interest paid and the capital element of lease rental payments.

IFRS 16 allows lessees to apply the standard either retrospectively in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', or using a modified retrospective approach where the cumulative effect of adoption is recognised at the date of initial application. The group is expecting to use the modified retrospective approach, and will consider the practical expedients available.

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

2. Key assumptions and significant judgements

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

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

a) Significant judgements

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

i *Capitalised expenditure*
Additions to intangible assets, and to property, plant and equipment, include £66.8 million (2017: £58.4 million) of own work capitalised. Judgement is made to ensure these costs relate to relevant assets and that future economic benefit will flow to the group. Judgement is also made as to whether certain costs constitute repairs and maintenance or the enhancement of assets.

ii *Depreciation*
The property, plant and equipment used in the group is primarily the infrastructure and operational assets of the regulated water business. Infrastructure and operational assets have estimated useful lives of between 30 and 160 years and the depreciation charge is clearly sensitive to the lives allocated to the various types of asset. Asset lives are reviewed regularly and changed where necessary to reflect the current view on their remaining lives in light of technological change, prospective economic utilisation and the physical condition of the assets.

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

b) Areas involving estimation

The key areas involving estimation are discussed below.

i *Measured income accrual*
For Anglian Water the measured income accrual is an estimation of the amount of main water and wastewater charges unbilled at the year end. The accrual is estimated using a defined methodology based upon weighted average water consumption by tariff, which is calculated based upon historical billing information. The calculation is sensitive to estimated consumption for measured domestic customers (a fall of one cubic metre in average annual consumption will reduce revenue by approximately £5.4 million).

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

3. Segmental information

By class of business for the year ended 31 March 2018

At 31 March 2018 the group was organised into the following main businesses:

- Anglian Water; regulated water and water recycling services provider to customers in the east of England and Hartlepool.
- Head Office and Other; comprises head office and other group functions, including Property.

There has been no change in the basis of segmentation or in the 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. The segment result comprises operating profit plus share of joint ventures operating profit.

	Anglian Water £m	Head Office and Other £m	Inter-segment eliminations £m	**Total £m**
Revenue				
External	1,248.9	10.7	-	**1,259.6**
Inter segment	-	0.4	(0.4)	**-**
	1,248.9	**11.1**	**(0.4)**	**1,259.6**
Segment result				
EBITDA (earnings before interest, tax, depreciation and amortisation)	667.9	(7.7)	(3.2)	**657.0**
Other operating income	16.1	-	-	**16.1**
Depreciation and amortisation	(335.5)	(0.3)	-	**(335.8)**
	348.5	**(8.0)**	**(3.2)**	**337.3**
Cash flows				
Operating cash flow	644.0	(16.7)	-	**627.3**
Capital expenditure net of grants received	(398.3)	(0.8)	(2.3)	**(401.4)**
Net debt excluding derivative financial instruments	(6,164.6)	(1,318.9)	-	**(7,483.5)**

See page 71 for reconciliation of segmental information.

3. **Segmental information** (continued)

By class of business for the year ended 31 March 2017

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

See page 71 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.

	2018 £m	2017 £m
Revenue		
United Kingdom	**1,259.6**	1,235.2
Other countries	**-**	-
	1,259.6	1,235.2
Segment result		
United Kingdom	**337.4**	354.6
Other countries	**(0.1)**	0.6
	337.3	355.2
Non-current assets		
United Kingdom	**10,424.8**	10,374.1
Other countries	**-**	-
	10,424.8	10,374.1

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

3. Segmental information (continued)

Reconciliation of segmental information

	2018 £m	2017 £m
Segment result	**337.3**	355.2
Finance income	**1.9**	2.4
Finance costs	**(363.2)**	(308.2)
Fair value gains/(losses) on derivative financial instruments	**119.1**	(107.0)
Share of joint ventures interest expense	**-**	(0.6)
Profit on disposal of business	**4.6**	-
Profit on disposal of joint venture	**-**	9.5
Profit/(loss) before tax from continuing operations	**99.7**	(48.7)
Total operating cash flow by segment	**627.3**	613.6
Income taxes paid	**(8.8)**	(9.5)
Net cash flows from operating activities	**618.5**	604.1
Purchase of property, plant and equipment	**(379.0)**	(302.1)
Purchase of intangible assets	**(64.4)**	(47.1)
Grants and contributions received	**40.4**	39.4
Proceeds from disposal of property, plant and equipment	**1.6**	2.7
Capital expenditure spend by segment	**(401.4)**	(307.1)
Cash and cash equivalents	**288.2**	386.9
Cash deposits	**42.8**	76.0
Borrowings due within one year	**(959.0)**	(1,257.5)
Borrowings due after more than one year	**(6,855.5)**	(6,597.2)
Net debt by segment	**(7,483.5)**	(7,391.8)
Derivative financial instruments [1]	**(731.8)**	(771.3)
Net debt	**(8,215.3)**	(8,163.1)

[1] Derivative financial instruments exclude the liability of £9.1 million (2017: £24.6 million) in respect of the fair value of energy hedges, as these are not classified as part of net debt.

4. Revenue

	2018 £m	2017 £m
Water and sewerage services		
Anglian Water	**1,248.9**	1,227.0
Property revenue	**10.7**	8.2
	1,259.6	1,235.2

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

5. Other operating income

Other operating income comprises amortisation of grants and contributions of £16.1 million (2017: £14.8 million).

6. Operating costs

	2018 **£m**	2017 £m
Raw materials and consumables	**18.2**	17.0
Staff costs (see note 10)	**221.4**	211.9
Charge for bad and doubtful debts (see note 19)	**28.9**	30.0
Operating lease rentals		
Properties	**7.9**	8.7
Plant and equipment	**0.4**	0.3
Research and development expenditure	**2.3**	2.5
Other operating costs	**391.2**	374.6
Own work capitalised	**(66.8)**	(58.4)
Profit on disposal of property, plant and equipment [1]	**(0.9)**	(2.5)
Operating costs before depreciation and amortisation	**602.6**	584.1
Depreciation of property, plant and equipment	**298.3**	276.7
Amortisation of intangible assets	**37.5**	34.8
Depreciation of investment properties	**-**	0.1
Depreciation and amortisation	**335.8**	311.6
Operating costs	**938.4**	895.7

[1] The profit on disposal of property, plant and equipment relates to various sales of surplus land and assets.

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

	2018 **£m**	2017 £m
Fees payable to the company's auditors for the audit of the company and the consolidated financial statements	**-**	-
Fees payable to the company's auditors for other services		
The audit of the company's subsidiaries	**0.3**	0.3
Audit-related assurance services	**0.2**	0.1
Other non-audit services	**0.3**	0.3
	0.8	0.7

The company's auditor during the year ended 31 March 2018 was Deloitte LLP. Audit related assurance services predominantly relate to regulatory reporting to Ofwat and the review of the Group's half-year results. Other non-audit services include £0.3 million for consulting services that relate to supporting management in strategy development for asset management and operational activities as well as providing treasury accounting advice.

7. Profit on disposal of joint venture

On 9 June 2016 the group disposed of its 50% shareholding in Celtic Anglian Water Limited to a fellow subsidiary of Osprey Holdco Limited, the company's immediate parent undertaking, recognising a profit of £9.5 million.

8. Net finance costs

	2018 £m	2017 £m
Finance income		
Interest income on short-term bank deposits	**1.9**	2.4
	1.9	2.4
Finance costs		
Interest expense on other loans including financing expenses	**(251.4)**	(253.3)
Indexation	**(136.9)**	(75.5)
Amortisation of issue costs	**(6.4)**	(4.9)
Interest expense on finance leases	**0.4**	(1.3)
Amortisation of fair value adjustments	**17.1**	17.2
Unwinding of discount on onerous lease obligation provision (see note 23)	**(0.2)**	(0.2)
Defined benefit pension scheme interest (see note 25)	**(2.3)**	0.2
Total finance costs	**(379.7)**	(317.8)
Less: amounts capitalised on qualifying assets	**16.5**	9.6
	(363.2)	(308.2)
Fair value gains/(losses) on derivative financial instruments		
Fair value gains on energy hedges	**7.3**	7.0
Hedge ineffectiveness on cash flow hedges	**(1.2)**	0.8
Hedge ineffectiveness on fair value hedges [1]	**(0.8)**	4.0
Amortisation of adjustment to debt in fair value hedge	**1.7**	0.1
Derivative financial instruments not designated as hedges	**115.8**	(117.9)
Recycling of de-designated cash flow hedge relationship	**(3.7)**	(1.0)
	119.1	(107.0)
Net finance costs	**(242.2)**	(412.8)

(1) Hedge ineffectiveness on fair value hedges comprises fair value gains on hedging instrument of £72.7 million (2017: £46.5 million), offset by fair value losses of £73.5 million on hedged risks (2017: £42.5 million).

9. Taxation

	2018 £m	2017 £m
Current tax:		
In respect of the current year	**36.2**	50.1
Adjustments in respect of prior periods	**(2.1)**	42.7
Total current tax charge	**34.1**	92.8
Deferred tax:		
Origination and reversal of temporary differences	**(13.9)**	(52.3)
Adjustments in respect of prior periods	**1.8**	(55.6)
Reduction in corporation tax rate	**(0.5)**	(53.3)
Total deferred tax credit	**(12.6)**	(161.2)
Total tax charge/(credit) on profit/(loss) from continuing operations	**21.5**	(68.4)

The current tax charge for the year reflects the disclaiming of capital allowances to utilise the surplus Advance Corporation Tax (ACT) asset held on the balance sheet. This surplus ACT asset is expected to be fully utilised by March 2019.

The current tax adjustment in respect of prior periods for 2017 related to capital allowance disclaimers made in earlier years.

The deferred tax adjustments in respect of prior periods for 2018 relates to the agreement of prior year tax computations. In 2017 the adjustment related to the effect of the capital allowance disclaimers, and the recognition of surplus ACT that had not previously not been recognised.

The corporation tax rate will reduce from 19% to 17% with effect from 1 April 2020. To reflect reversals during the period to 31 March 2020 we have used a composite rate of 17.07% (2017: 17.08%) to re-measure all relevant deferred tax balances.

The tax charge/(credit) on the group's profit/(loss) before tax differs from the notional amount calculated by applying the rate of UK corporation tax of 19% (2017: 20%) to the profit/(loss) before tax from continuing operations as follows:

	2018 £m	2017 £m
Profit/(loss) before tax from continuing operations	**99.7**	(48.7)
Profit/(loss) before tax from continuing operations at the standard rate of corporation tax in the UK of 19% (2017: 20%)	**18.9**	(9.7)
Effects of recurring items:		
Items not deductible for tax purposes		
Depreciation and losses on assets not eligible for tax relief	**0.5**	1.2
Disallowable expenditure	**1.9**	0.6
Interest restriction	**0.3**	-
Items not taxable	**(0.4)**	(0.4)
Joint ventures results reported net of tax	**-**	(0.1)
	21.2	(8.4)
Effects of non-recurring items:		
Profit on disposal of business subject to statutory exemption	**(0.8)**	(1.9)
Reduction in corporation tax rate	**(0.5)**	(53.3)
Effects of differences between rates of current and deferred tax	**1.9**	8.1
Adjustments in respect of prior periods	**(0.3)**	(12.9)
Tax charge/(credit) for the year	**21.5**	(68.4)

9. Taxation (continued)

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

	2018 £m	2017 £m
Deferred tax:		
Defined benefit pension schemes	**13.7**	(19.2)
Cash flow hedges	**3.1**	(3.8)
Reduction in corporation tax rate	**-**	1.8
Total deferred tax charge/(credit) recognised in other comprehensive income	**16.8**	(21.2)

10. Employee information and Directors' emoluments

a) Employee information

	2018 £m	2017 £m
Staff costs		
Wages and salaries	**183.5**	177.7
Social security costs	**17.7**	18.0
Pension costs - defined contribution (see note 25)	**9.1**	8.2
Pension costs - defined benefit (see note 25)	**11.1**	8.0
	221.4	211.9

Staff costs for the year ended 31 March 2018 include £48.0 million (2017: £44.9 million) of costs that have been capitalised within 'own work capitalised'.

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

	2018	2017
Anglian Water	**4,600**	4,462
Other	**127**	111
	4,727	4,573

The company
The company has no employees (2017: none).

10. Employee information and Directors' emoluments (continued)

b) Directors' emoluments

	2018 £'000	2017 £'000
Aggregate emoluments	**2,785**	2,553
Pension costs – defined contribution	**-**	11
Benefits received under long-term incentive plans	**1,557**	871

Aggregate emoluments of the Directors comprise salaries, taxable benefits and amounts payable under annual bonus schemes.

	2018 £'000	2017 £'000
Highest paid director		
Aggregate emoluments	**1,190**	1,156
Pension costs – defined contribution	**-**	7
Benefits received under long-term incentive plans	**777**	436

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, was £91.3 million (2017: £102.7 million).

12. Dividends

Interim dividends paid during the year

	2018 £m	2017 £m
Paid on:		
28 December 2017	**6.5**	-
7 December 2017	**10.0**	-
9 June 2017	**16.3**	-
3 April 2017	**62.2**	-
8 December 2016	**-**	71.2
10 June 2016	**-**	25.3
	95.0	96.5

In addition, interim dividends of £10.0 million and £30.8 million, in respect of the year ended 31 March 2019, were approved by the Board on 22 May 2018 and 25 June 2018 and paid on 29 May 2018 and 28 June 2018 respectively. These dividends have not been included as a liability at 31 March 2018.

13. Goodwill

	Group	
	2018	2017
	£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

Allocation of goodwill

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

Impairment testing of goodwill allocated to Anglian Water

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

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

Adopting a current market average RCV multiple of 1.25x at 31 March 2018, results in headroom of £1,016 million (2017: 1.25x, £753 million). The headroom at 31 March 2018 is eliminated at an RCV multiple of 1.12x (2017: 1.15x).

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 2016	365.5	124.7	**490.2**
Additions	35.1	13.1	**48.2**
Disposals	(0.3)	(65.3)	**(65.6)**
Transferred to disposal group	(3.2)	-	**(3.2)**
At 31 March 2017	397.1	72.5	**469.6**
Additions	45.7	20.7	**66.4**
Disposals	(101.8)	-	**(101.8)**
At 31 March 2018	**341.0**	**93.2**	**434.2**
Accumulated amortisation			
At 1 April 2016	(277.1)	(83.9)	**(361.0)**
Charge for the year	(21.6)	(13.2)	**(34.8)**
Disposals	0.3	65.3	**65.6**
Transferred to disposal group	0.1	-	**0.1**
At 31 March 2017	(298.3)	(31.8)	**(330.1)**
Charge for the year	(23.5)	(14.0)	**(37.5)**
Disposals	101.8	-	**101.8**
At 31 March 2018	**(220.0)**	**(45.8)**	**(265.8)**
Net book amount			
At 31 March 2018	**121.0**	**47.4**	**168.4**
At 31 March 2017	98.8	40.7	139.5

The internally generated intangible assets mainly comprise capitalised development expenditure.

Included within additions above is £2.0 million (2017: £1.1 million) of interest that has been capitalised on qualifying assets, at an average rate of 5.0% (2017: 4.3%).

The continual development of our IT infrastructure and software resulted in the disposal during the year of intangible assets with an original cost, and accumulated amortisation, of £101.8 million (£nil net book value).

Included within intangible assets above are assets under construction of £64.1 million (2017: £26.1 million) which are not yet subject to amortisation.

The company

The company has no intangible assets (2017: 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 2016	54.5	6,465.0	5,597.4	839.8	215.1	**13,171.8**
Additions	-	-	-	(0.1)	368.7	**368.6**
Transfers on commissioning	0.6	101.4	106.2	56.6	(264.8)	**-**
Disposals	-	-	(4.9)	(69.4)	-	**(74.3)**
Transferred to disposal group	-	-	-	(0.6)	-	**(0.6)**
At 31 March 2017	55.1	6,566.4	5,698.7	826.3	319.0	**13,465.5**
Additions	-	-	-	0.1	432.9	**433.0**
Transfers on commissioning	0.1	130.2	130.9	45.1	(306.3)	**-**
Disposals	(0.1)	(2.7)	(31.9)	(67.5)	-	**(102.2)**
At 31 March 2018	**55.1**	**6,693.9**	**5,797.7**	**804.0**	**445.6**	**13,796.3**
Accumulated depreciation						
At 1 April 2016	(7.0)	(562.8)	(2,583.2)	(584.9)	-	**(3,737.9)**
Charge for the year	(0.7)	(53.4)	(175.1)	(47.5)	-	**(276.7)**
Disposals	-	-	4.9	69.2	-	**74.1**
Transferred to disposal group	-	-	-	0.1	-	**0.1**
At 31 March 2017	(7.7)	(616.2)	(2,753.4)	(563.1)	-	**(3,940.4)**
Charge for the year [1]	(0.7)	(56.3)	(192.1)	(49.2)	-	**(298.3)**
Disposals	-	2.7	31.9	66.9	-	**101.5**
At 31 March 2018	**(8.4)**	**(669.8)**	**(2,913.6)**	**(545.4)**	**-**	**(4,137.2)**
Net book amount						
At 31 March 2018	**46.7**	**6,024.1**	**2,884.1**	**258.6**	**445.6**	**9,659.1**
At 31 March 2017	47.4	5,950.2	2,945.3	263.2	319.0	9,525.1

(1) The depreciation charge for 2018 includes £10.7 million (2017: £nil) in respect of the write-off of redundant plant and equipment.

Property, plant and equipment at 31 March 2018 includes land of £28.8 million (2017: £28.8 million) which is not subject to depreciation. The group's interests in land and buildings are almost entirely freehold.

Included within additions above is £14.5 million (2017: £8.5 million) of interest that has been capitalised on qualifying assets, at an average rate of 5.0% (2017: 4.3%).

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:

	2018 £m	2017 £m
Net book amount at 31 March	**46.6**	48.9

The company

The company has no property, plant and equipment (2017: none).

16. Investment properties

	Group 2018 £m	2017 £m
Cost		
At the beginning of the year	**4.3**	2.4
Additions	**-**	1.9
Disposals	**(2.4)**	-
At 31 March	**1.9**	4.3
Accumulated depreciation		
At the beginning of the year	**(0.7)**	(0.6)
Charge for the year	**-**	(0.1)
Disposals	**0.6**	-
At 31 March	**(0.1)**	(0.7)
Net book amount		
At 31 March	**1.8**	3.6

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 (2017: none).

17. Investments

	Group		Company	
	2018 £m	2017 £m	2018 £m	2017 £m
Non-current				
Joint ventures	**-**	-	**-**	-
Subsidiary undertakings	**-**	-	**2,311.8**	2,311.8
	-	-	**2,311.8**	2,311.8
Current				
Cash deposits	**42.8**	76.0	**-**	-
	42.8	76.0	**-**	-

a) Joint ventures

	Group 2018 £m	2017 £m
At the beginning of the year	**-**	3.9
Profit for the year	**-**	0.3
Disposal	**-**	(4.2)
At 31 March	**-**	-

17. Investments (continued)

a) Joint ventures (continued)

The prior year profit for the year of joint ventures comprises the group's share of the results of its joint ventures as follows: operating profits of £0.9 million, less an interest expense of £0.6 million.

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

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

The joint ventures have no significant contingent liabilities to which the group is exposed.

b) Subsidiary undertakings

	Shares in subsidiary undertakings £m
The company	
Cost	
At 1 April 2016, at 31 March 2017 and at 31 March 2018	**2,311.8**

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

Subsidiary undertakings are listed in note 35.

18. Inventories

		Group
	2018 £m	2017 £m
Raw materials and consumables	**10.0**	9.3
Work in progress	**9.9**	11.5
	19.9	20.8

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

The company

The company has no inventories (2017: none).

19. Trade and other receivables

	Group		Company	
	2018	2017	**2018**	2017
	£m	£m	**£m**	£m
Trade receivables	**335.9**	328.7	**-**	-
Provision for impairment	**(183.1)**	(185.3)	**-**	-
Net trade receivables	**152.8**	143.4	**-**	-
Loans receivable from group undertakings	**-**	0.3	**-**	-
Amounts receivable from joint ventures				
Trade balances	**0.5**	0.9	**-**	-
Loans	**-**	0.7	**-**	-
Other amounts receivable	**15.7**	16.8	**0.1**	-
Prepayments and accrued income	**313.0**	272.0	**-**	-
	482.0	434.1	**0.1**	-

Prepayments and accrued income at 31 March 2018 include water and sewerage income not yet billed of £302.0 million (2017: £260.5 million). In addition, at 31 March 2017, £45.1 million of accrued income had been included within assets classified as held for sale (see note 32).

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

The group manages its risk from trading through the effective management of customer relationships. By far the most significant business unit of the group is Anglian Water, which represents 99% of the group's revenue and 100% of its net trade receivables. Concentrations of credit risk with respect to household trade receivables are limited due to the Anglian Water customer base consisting of a large number of unrelated households. The Water Industry Act 1991 (as amended by the Water Industry Act 1999) prohibits the disconnection of a water supply and the limiting of supply with the intention of enforcing payment for certain premises including domestic dwellings. However, allowance is made by the water regulator in the price limits at each price review for a proportion of debt deemed to be irrecoverable. Considering the above, the Directors believe there is no further credit risk provision required in excess of the allowance for doubtful receivables.

Following the introduction of market reform on 1 April 2017, the provision of water and waste water services to non-household customers was transferred to a relatively small number of licenced retailers. Anglian Water bills the retailers on a monthly basis, and they are contractually obliged to pay in full within one month and therefore the credit risk is limited to one month's revenue relating to non-household customers. The principal retailer that Anglian Water transacts with is Wave Ltd, with £20.9 million of income accrued at 31 March 2018.

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	
	2018	2017
	£m	£m
Provision at the beginning of the year	**185.3**	197.8
Charge for bad and doubtful debts	**28.9**	30.0
Amounts written off during the year	**(31.1)**	(40.8)
Transferred to disposal group	**-**	(1.7)
At 31 March	**183.1**	185.3

Included in trade receivables are balances with a carrying amount of £108.2 million (2017: £112.9 million) that were past due at the reporting date but for which no specific provision has been made as the collective impairment recorded against such assets is considered to be sufficient allowance for the risk of non-collection of such balances. In addition, at 31 March 2017, £30.7 million of balances past due at the reporting date were included within assets classified as held for sale (see note 32).

19. Trade and other receivables (continued)

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

	Group	
	2018	2017
	£m	£m
Within one year	**74.3**	77.0
Between one and two years	**16.5**	17.3
Between two and three years	**8.3**	8.8
Between three and four years	**3.2**	3.4
After four years	**5.9**	6.4
	108.2	112.9

20. Trade and other payables

	Group		Company	
	2018	2017	**2018**	2017
	£m	£m	**£m**	£m
Current				
Trade payables	**29.8**	36.3	**-**	-
Capital creditors and accruals	**115.6**	89.8	**-**	-
Receipts in advance	**292.9**	262.3	**-**	-
Other taxes and social security	**5.5**	4.2	**-**	-
Accruals and deferred income	**69.7**	63.6	**-**	0.3
Other payables	**9.6**	8.5	**-**	-
Deferred grants and contributions	**16.0**	14.9	**-**	-
	539.1	479.6	**-**	0.3
Non-current				
Deferred grants and contributions	**523.5**	484.0	**-**	-
	523.5	484.0	**-**	-

Receipts in advance includes £252.9 million (2017: £227.8 million) relating to amounts received from customers for water and sewerage charges in respect of bills that fall due in the following year. In addition, at 31 March 2017, £10.2 million of amounts received from customers in respect of bills that fall due in the following year were included within liabilities directly associated with assets held for sale (see note 32).

Amounts relating to capital creditors and accruals have been separately presented in the above table to aid consistency with the presentation required by Ofwat in the Annual Performance Report of Anglian Water Services Limited.

The Directors consider that the carrying values of trade and other payables is not materially different from their fair values.

21. Loans and other borrowings

	Notes	Group 2018 £m	2017 £m
£250 million 5.837% fixed rate 2022	d f	**264.5**	265.7
£200 million 6.875% fixed rate 2023	d f	**219.2**	221.3
£200 million 6.625% fixed rate 2029	d f	**216.7**	218.0
£246 million 6.293% fixed rate 2030	d f	**273.9**	276.7
£150 million 5.5% fixed rate 2017/2040 (1)	b d e f h	**-**	155.6
£150 million 4.125% index-linked 2020	c d f	**256.4**	250.5
£75 million 3.666% index-linked 2024	c d f	**126.4**	123.4
£200 million 3.07% index-linked 2032	c d f	**355.5**	347.0
£60 million 3.07% index-linked 2032	c d f	**107.9**	105.3
Finance leases	b d f h	**27.8**	33.7
£402 million 2.4% index-linked 2035	c d f	**603.2**	581.9
£50 million 1.7% index-linked 2046	c d f	**77.8**	75.5
£50 million 1.7% index-linked 2046	c d f	**78.0**	76.0
£40 million 1.7146% indexation bond 2056	c d f	**65.1**	63.2
£50 million 1.6777% indexation bond 2056	c d f	**80.8**	78.5
£60 million 1.7903% indexation bond 2049	c d f	**96.5**	93.8
£100 million 1.3784% indexation bond 2057	c d f	**141.2**	136.6
£50 million 1.3825% indexation bond 2056	c d f	**70.6**	68.3
£100 million Class A wrapped floating rate bonds 2057	d f	**100.0**	100.0
£75 million 1.449% indexation bond 2062	c d f	**100.1**	97.6
£50 million 1.52% indexation bond 2055	c d f	**66.7**	65.0
JPY 15 billion 2.925% fixed rate bond 2018/2037	a b d f	**103.1**	112.7
£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	**35.2**	37.5
£25 million 6.875% private placements 2034	d f	**25.0**	25.0
EIB £50 million 1.626% index-linked term facility 2019	c d f	**65.4**	62.9
EIB £50 million 1.3% index-linked term facility 2020	c f	**64.2**	61.9
£130 million 2.262% indexation bond 2045	c d f	**163.0**	157.0
US$160 million 4.52% private placements 2021	a b d f	**118.7**	137.3
US$410 million 5.18% private placements 2021	a b d f	**296.9**	331.4
EIB £75 million 0.53% index-linked term facility 2027 (2)	c d f h	**78.6**	84.2
EIB £75 million 0.79% index-linked term facility 2027 (2)	c d f h	**78.6**	84.2
£250 million 4.5% fixed rate 2027	d f	**252.1**	251.9
£15 million 1.37% index-linked private placements 2022	c d f	**17.1**	16.5
£50 million 2.05% index-linked private placements 2033	c d f	**57.3**	55.2
£25.5 million 4.195% private placements 2017	d f h	**-**	26.0
£31.9 million 3.983% private placements 2022	d f	**32.4**	32.4
£73.3 million 4.394% private placements 2028	d f	**74.8**	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	**34.2**	38.2
EIB £150 million 0% index-linked term facility 2028 (3)	c d f	**169.5**	163.4
£200 million Class B 4.5% fixed rate 2026	b d f	**206.1**	209.8
£35 million 1.141% index-linked bond 2042	c d f	**39.2**	37.7
US$170 million 3.84% private placements 2023	a b d f	**123.5**	142.1
£93 million 3.537% private placements 2023	d f	**94.2**	94.1
US$160 million 4.99% private placements 2023	a b d f	**115.6**	129.0
EIB £65 million 0.41% index-linked term facility 2029 (4)	c d f	**71.3**	68.7
EIB £125 million 0.1% index-linked term facility 2029 (5)	c d f	**135.8**	130.8
EIB £60 million 0.01% index-linked term facility 2030 (5)	c d f	**64.9**	62.5
US$150 million 3.29% private placements 2026	a b d f	**102.9**	117.1
£55 million 2.93% fixed rate private placements 2025	d f	**54.8**	54.8
£20 million 2.93% fixed rate private placements 2025	d f	**20.0**	19.9
£35 million floating rate private placements 2031	d f	**34.5**	34.5
£500 million revolving credit facility 2022	d f	**-**	52.6
Sub-total carried forward		**6,189.9**	6,472.3

21. Loans and other borrowings (continued)

	Notes	Group 2018 £m	Group 2017 £m
Sub-total brought forward		**6,189.9**	6,472.3
£200 million Class B 2.6225% fixed rate 2027	b d f	**197.3**	197.8
£250 million Green Bond 1.625% fixed rate 2025	b d f	**244.4**	-
£350 million Class B 7.0% fixed rate bond 2018	d g h	**-**	241.9
£210 million Class B 5.0% fixed rate bond 2023	d g	**212.8**	212.5
£240 million Class B 4.0% fixed rate bond 2026	d g	**238.7**	-
Loan notes	h	**0.3**	0.3
£729 million interest free loan (6)	h	**728.8**	728.8
Unamortised issue costs relating to undrawn facilities	d f g	**(2.4)**	(2.4)
Other loans	h	**4.7**	3.5
Total loans and other borrowings		**7,814.5**	7,854.7
Included in:			
Current liabilities		**959.0**	1,257.5
Non-current liabilities		**6,855.5**	6,597.2

	Notes	Company 2018 £m	Company 2017 £m
£350 million Class B 7.0% fixed rate bond 2018	d g h	**-**	241.9
£210 million Class B 5.0% fixed rate bond 2023	d g	**212.8**	212.5
£240 million Class B 4.0% fixed rate bond 2026	d g	**238.7**	-
Loan notes	h	**0.3**	0.3
£729 million interest free loan (6)	h	**728.8**	728.8
Unamortised issue costs relating to undrawn facilities	d	**(0.5)**	(2.1)
Total loans and other borrowings		**1,180.1**	1,181.4
Included in:			
Current liabilities		**734.2**	975.4
Non-current liabilities		**445.9**	206.0

(1) This instrument contained an issuer call option whereby the bond was redeemed on 10 October 2017 for 100% of the nominal amount of the bond.

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

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

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

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

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

21. Loans and other borrowings (continued)

a) The group has entered into swap agreements to hedge the risk of currency fluctuations in relation to the US dollar 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 RPI. The increase in the capital value of index-linked loans during the year of £110.7 million (2017: £61.4 million) has been taken to the income statement as part of interest payable.

d) These loans are shown net of issue costs of £37.4 million (2017: £38.7 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 2018 this charge applies to £6,629.7 million (2017: £6,669.8 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 2018 this charge applies to £451.5 million (2017: £454.4 million) of the debt listed above.

h) Amounts repayable wholly or partly within one year.

22. Financial instruments

Financial assets by category

	Assets at fair value through profit and loss £m	Derivatives used for hedging £m	Loans and receivables £m	Held to maturity investments £m	Total £m
The group					
At 31 March 2018					
Investments					
Current - cash deposits	-	-	-	42.8	**42.8**
Cash and cash equivalents					
Current	-	-	288.2	-	**288.2**
Trade and other receivables					
Current	-	-	471.0	-	**471.0**
Derivative financial instruments					
Current	2.5	46.0	-	-	**48.5**
Non-current	7.6	82.0	-	-	**89.6**
	10.1	**128.0**	**759.2**	**42.8**	**940.1**
At 31 March 2017					
Investments					
Current - cash deposits	-	-	-	76.0	76.0
Cash and cash equivalents					
Current	-	-	386.9	-	386.9
Trade and other receivables					
Current	-	-	504.6	-	504.6
Derivative financial instruments					
Current	2.9	10.7	-	-	13.6
Non-current	12.7	243.4	-	-	256.1
	15.6	254.1	891.5	76.0	1,237.2

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

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 2018				
Investments				
Non-current	-	-	2,311.8	**2,311.8**
Cash and cash equivalents				
Current	-	11.4	-	**11.4**
Trade and other receivables				
Current	-	0.1	-	**0.1**
Current tax receivables				
Current	-	6.5	-	**6.5**
	-	**18.0**	**2,311.8**	**2,329.8**
At 31 March 2017				
Investments				
Non-current	-	-	2,311.8	2,311.8
Cash and cash equivalents				
Current	-	19.5	-	19.5
Current tax receivables				
Current	-	8.1	-	8.1
Derivative financial instruments				
Current	1.1	-	-	1.1
	1.1	27.6	2,311.8	2,340.5

Trade and other receivables above exclude prepayments.

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 2018				
Borrowings				
Current	-	-	959.0	**959.0**
Non-current	-	-	6,855.5	**6,855.5**
Trade and other payables				
Current	-	-	230.2	**230.2**
Derivative financial instruments				
Current	14.7	1.7	-	**16.4**
Non-current	755.9	106.7	-	**862.6**
	770.6	**108.4**	**8,044.7**	**8,923.7**
At 31 March 2017				
Borrowings				
Current	-	-	1,257.5	1,257.5
Non-current	-	-	6,597.2	6,597.2
Trade and other payables				
Current	-	-	203.4	203.4
Derivative financial instruments				
Current	18.0	3.8	-	21.8
Non-current	910.9	132.9	-	1,043.8
	928.9	136.7	8,058.1	9,123.7

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

	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 2018				
Borrowings				
Current	-	-	734.2	**734.2**
Non-current	-	-	445.9	**445.9**
	-	**-**	**1,180.1**	**1,180.1**
At 31 March 2017				
Borrowings				
Current	-	-	975.4	975.4
Non-current	-	-	206.0	206.0
Trade and other payables				
Current	-	-	0.3	0.3
Derivative financial instruments				
Current	5.6	-	-	5.6
	5.6	-	1,181.7	1,187.3

Trade and other payables above exclude receipts in advance.

22. Financial instruments (continued)

Derivative financial instruments

	2018 Assets £m	2018 Liabilities £m	2017 Assets £m	2017 Liabilities £m
The group				
Designated as cash flow hedges				
Interest rate swaps	**-**	**(96.7)**	-	(115.3)
Cross-currency interest rate swaps	**38.9**	**(1.3)**	102.4	-
Energy swaps	**-**	**-**	0.1	(21.4)
	38.9	**(98.0)**	102.5	(136.7)
Designated as fair value hedges				
Interest rate swaps	**8.9**	**(7.7)**	14.5	-
Cross-currency interest rate swaps	**80.2**	**(2.7)**	137.1	-
	89.1	**(10.4)**	151.6	-
Derivative financial instruments designated as hedges	**128.0**	**(108.4)**	254.1	(136.7)
Derivative financial instruments not designated as hedges:				
Interest rate swaps and swaptions	**8.6**	**(221.4)**	15.6	(241.0)
RPI swaps	**-**	**(538.6)**	-	(684.6)
Energy swaps	**1.5**	**(10.6)**	-	(3.3)
Total derivative financial instruments	**138.1**	**(879.0)**	269.7	(1,065.6)
Derivative financial instruments can be analysed as follows:				
Current	**48.5**	**(16.4)**	13.6	(21.8)
Non-current	**89.6**	**(862.6)**	256.1	(1,043.8)
	138.1	**(879.0)**	269.7	(1,065.6)

	2018 Assets £m	2018 Liabilities £m	2017 Assets £m	2017 Liabilities £m
The company				
Derivative financial instruments not designated as hedges:				
Interest rate swaps and swaptions	**-**	**-**	1.1	(5.6)
Total derivative financial instruments	**-**	**-**	1.1	(5.6)
Derivative financial instruments can be analysed as follows:				
Current	**-**	**-**	1.1	(5.6)

22. Financial instruments (continued)

Derivative financial instruments (continued)

The ineffective portion recognised in the income statement arising from cash flow hedges was a loss of £1.2 million (2017: gain of £0.8 million). The ineffective portion recognised in the income statement arising from fair value hedges was a loss of £0.8 million (2017: gain of £4.0 million).

The notional principal amount, plus RPI, of the outstanding interest rate swap contracts, including the GBP leg of cross-currency interest rate swap contracts below, at 31 March 2018 was £4,242.1 million (2017: £4,717.4 million).

The notional foreign currency principal amount of the outstanding cross-currency interest rate swap contracts at 31 March 2018 was USD 1,097.0 million (2017: USD 1,097.0 million), JPY 20.0 billion (2017: JPY 20.0 billion).

At 31 March 2018 the fixed interest rates vary from 2.840% to 5.985%, floating rates vary from 0.7118% (LIBOR plus 0.0 bps) to 3.166% (LIBOR plus 267.5 bps) and index-linked interest rates vary from 0.8557% 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 2018 (2017: £nil).

22. Financial instruments (continued)

Derivative financial instruments (continued)

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

	2018	2017
Borrowings - GBP	**6.2%**	5.1%
Borrowings - USD	**4.0%**	3.9%
Borrowings - JPY	**1.2%**	1.4%

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

	2018	2017
Fixed	**5.8%**	6.3%
Floating	**2.0%**	1.2%
Indexed	**5.8%**	4.3%

Finance leases

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

	Group	
	2018	2017
	£m	£m
Within one year	**6.5**	6.2
Between two and five years	**22.1**	28.5
After five years	**0.4**	0.6
	29.0	35.3
Future finance charges on finance leases	**(1.2)**	(1.6)
Present value of finance lease liabilities	**27.8**	33.7

Fair value of financial assets and liabilities

	2018		2017	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
The group				
Cash and cash equivalents	**288.2**	**288.2**	386.9	386.9
Current asset investments - cash deposits	**42.8**	**42.8**	76.0	76.0
Borrowings				
Current	**(959.0)**	**(961.5)**	(1,257.5)	(1,284.6)
Non-current	**(6,855.5)**	**(8,188.0)**	(6,597.2)	(8,359.0)
Derivative financial instruments, excluding RPI swaps and energy hedging				
Current	**43.7**	**43.7**	6.5	6.5
Non-current	**(236.9)**	**(236.9)**	(93.2)	(93.2)
RPI swaps				
Current	**(8.4)**	**(8.4)**	(8.5)	(8.5)
Non-current	**(530.2)**	**(530.2)**	(676.1)	(676.1)
Net debt	**(8,215.3)**	**(9,550.3)**	(8,163.1)	(9,952.0)
Energy hedging derivatives	**(9.1)**	**(9.1)**	(24.6)	(24.6)
Other financial liabilities	**-**	**-**	-	(0.3)
	(8,224.4)	**(9,559.4)**	(8,187.7)	(9,976.9)

22. Financial instruments (continued)

Fair value of financial assets and liabilities (continued)

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

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

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

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

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

In accordance with IFRS 13 'Fair Value Measurement' the financial instruments carried at fair value on the balance sheet have been classified as level 2 for fair valuation purposes, being valued by reference to valuation techniques using observable inputs other than quoted prices in active markets that are observable for the asset or liability either directly or indirectly. The future cash flows have been discounted at a rate that reflects credit risk.

Control of treasury

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

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

22. Financial instruments (continued)

Financing structure
The group's regulated water and water recycling business, Anglian Water Services Limited, is funded predominately by debt in the form of long-term bonds and other debt instruments through its financing subsidiary Anglian Water Services Financing Plc. At 31 March 2018 Anglian Water's net debt to capital value ratio (net debt as defined in the Common Terms Agreement expressed as a percentage of Anglian Water's regulated capital value) was 78.1% (2017: 79.0%).

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

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

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

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

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

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

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

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

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

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

22. Financial instruments (continued)

a) Market risk

i) Foreign currency

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

ii) Interest rate

The group's policy for the management of interest rate risk is to achieve a balanced mix of funding at indexed (to RPI), fixed and floating rates of interest. To guard against adverse movements in interest rates having a detrimental impact on the business, and to enable covenanted obligations and credit ratings to be met, hedging levels for Anglian Water 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 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:

	2018 **£m**	2017 £m
Increase/(decrease) in profit before tax and in pre-tax equity		
1% increase in interest rates	**200.9**	251.5
1% decrease in interest rates	**(327.0)**	(406.3)

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 until March 2020 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's index-linked debt of between 30% and 55% of total debt.

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

Debt instruments

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

	2018 **£m**	2017 £m
Increase/(decrease) in profit before tax and in pre-tax equity		
1% increase in RPI	**(25.3)**	(27.7)
1% decrease in RPI	**25.2**	27.6

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.

	2018 **£m**	2017 £m
Increase/(decrease) in profit before tax and in pre-tax equity		
1% increase in RPI	**(485.8)**	(297.3)
1% decrease in RPI	**208.3**	203.7

iv) Commodity price risk

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

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

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

	2018 **£m**	2017 £m
Increase/(decrease) in profit before tax and in pre-tax equity		
10% increase in commodity prices	**8.4**	9.4
10% decrease in commodity prices	**(8.4)**	(9.4)

22. Financial instruments (continued)

b) Credit risk

Credit risk arises principally from trading and treasury activities. From a trading perspective, the group has no significant concentrations of credit risk due to minimising the risk through the effective management of customer relationships. The group's largest trade receivable balance is in Anglian Water Services Limited, whose operating licence prevents the disconnection of water supply to domestic customers even where bills are unpaid. Irrecoverable debt is taken into consideration as part of the price review process by Ofwat, and therefore no additional provision is considered necessary in excess of the provision for doubtful debts included in note 19.

Placements of cash on deposit expose the group to credit risk against the counterparties concerned. The group has credit protection measures in place within agreements which provide protection in the event of counterparty rating downgrade or default. The group only places cash deposits with banks of high credit standing (as measured by reputable rating agencies) and also seeks to diversify exposure such that concentration with individual banks is avoided. The credit rating applied to all counterparties is reviewed monthly and on an ongoing basis.

All cash and cash deposits are held with institutions with a minimum of two short-term ratings of P1/A1/F1 or higher, or in the case of money market funds with a minimum of two ratings of Aaam MR1+/AAAm/AAAmmf or higher.

In the case of derivatives, the following table sets out the group's financial assets and liabilities and the impact of any enforceable master netting arrangements.

Financial assets and liabilities on different transactions are only reported net if the transactions are with the same counterparty, a legal right of offset exists and the cash flows are intended to be settled on a net basis. Amounts which do not meet the criteria for offsetting on the balance sheet but could be settled net in the event of default of either party have been reflected in the offsetting column below.

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

	Gross carrying amounts £m	Gross amounts offset £m	Net amount presented in the balance sheet £m	Offsetting not presented in the balance sheet £m	Net amount £m
At 31 March 2018					
Derivative financial assets	184.1	(46.0)	**138.1**	(84.9)	**53.2**
Derivative financial liabilities	(925.0)	46.0	**(879.0)**	84.9	**(794.1)**
At 31 March 2017					
Derivative financial assets	322.6	(52.9)	269.7	(154.8)	114.9
Derivative financial liabilities	(1,118.5)	52.9	(1,065.6)	154.8	(910.8)

Gross amounts offset represent equal and opposite transactions with the same counterparties and same terms on which no settlements are paid. Offsetting not presented in the balance sheet reflects the extent to which derivative assets and liabilities could be offset with the same counterparty in the event of counterparty default.

22. Financial instruments (continued)

b) Credit risk (continued)

At 31 March 2018 the maximum exposure to credit risk for the group is represented by the carrying amount of each financial asset in the group balance sheet including, for the prior year, amounts shown within assets classified as held for sale:

	2018 £m	2017 £m
Cash and cash equivalents	**288.2**	386.9
Trade and other receivables	**471.0**	504.6
Investments - cash deposits	**42.8**	76.0
Derivative financial assets	**138.1**	269.7

c) Capital risk management

The prime responsibility of the group's Treasury function is the efficient and effective management of financial resources within the Group, i.e. the provision of adequate finance and liquidity at all times while maintaining security of principal. This involves focus on efficiency, quality and effective control to improve cash flow and profitability. The Treasury function will actively seek opportunities to raise debt, to reduce the cost of funding and the cost of hedging interest rate and foreign exchange risk while maintaining a risk-averse position in its liquidity management and in its control of currency and interest rate exposures.

Recognising the level of gearing in the group, and the long-term nature of the group's asset base, the group is primarily funded from the debt capital markets. It is the group's policy to maintain sufficient cash and/or borrowing facilities to meet short-term commitments and to provide working capital support/flexibility in treasury operations in the event of short-term difficulties in the capital markets. The Treasury team actively maintain a good financial reputation with rating agencies, investors, lenders and other creditors, and aims to maintain the relevant key financial ratios used by the credit rating agencies to determine the respective credit ratings.

d) Liquidity risk

The group's objective is to maintain flexibility, diversification and continuity of funding through access to different markets and debt instruments. Daily cash management is undertaken to calculate cash position and dealing requirements, and weekly and monthly cash forecasts are prepared to demonstrate short/medium-term liquidity, covenant compliance and to inform investment strategy. Regular meetings are held with cash forecasters to understand cash variances and challenge latest forecasts. Consolidated cash forecasts are presented to the Finance, Treasury and Energy Policy Group on a monthly basis.

The group maintains sufficient liquidity to cover 12 months working capital requirements, and the non-regulated businesses are run on a cash-positive basis. Internal policy is to maintain 18 months liquidity in terms of capital expenditure and operating costs in Anglian Water Services Limited, and to refinance maturing debt at least 6 months in advance, to ensure covenant compliance.

The group has the following undrawn committed borrowing facilities available at 31 March 2018 in respect of which all conditions precedent had been met at that date:

		Group
	2018 £m	2017 £m
Within one year	**390.0**	375.0
Between one and two years	**125.0**	240.0
Between two and five years	**600.0**	670.0
	1,115.0	1,285.0

22. Financial instruments (continued)

d) Liquidity risk (continued)

The group's borrowing facilities of £1,115.0 million (2017: £1,340.0 million) 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 £111 million operating and capital maintenance expenditure reserve facility provided by Barclays Bank Plc, BNP Paribas Plc, Lloyds TSB Bank Plc, Abbey National Treasury Services Plc and Commonwealth Bank Of Australia; a syndicated £500 million authorised loan facility for working capital and capital expenditure requirements provided by Barclays Bank Plc and syndicated to certain other banks; and two bilateral facilities of £50 million each with Bank of China Limited and Sumitomo Mitsui Banking Corporation for general corporate purposes; and a £125 million bank facility syndicated to certain banks, with Royal Bank of Scotland Plc acting as agent.

The table below analyses the group's financial liabilities and derivative financial instruments into relevant maturity groupings based on the remaining period at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, including interest payable, and include amounts shown within liabilities directly associated with assets held for sale:

	Within one year £m	**Between one and five years £m**	**Between five and 25 years £m**	**After 25 years £m**	**Total £m**
At 31 March 2018					
Trade and other payables	(230.2)	-	-	-	**(230.2)**
Borrowings	(1,094.0)	(2,343.1)	(6,605.1)	(3,384.9)	**(13,427.1)**
Derivative financial instruments	35.9	(75.5)	(933.7)	(761.4)	**(1,734.7)**
Finance leases	(6.1)	(21.4)	-	-	**(27.5)**
	(1,294.4)	**(2,440.0)**	**(7,538.8)**	**(4,146.3)**	**(15,419.5)**
At 31 March 2017					
Trade and other payables	(203.4)	-	-	-	(203.4)
Borrowings	(1,403.5)	(2,120.3)	(6,764.4)	(3,470.7)	(13,758.9)
Derivative financial instruments	(14.3)	(55.1)	(774.7)	(755.2)	(1,599.3)
Finance leases	(5.7)	(27.5)	(0.5)	-	(33.7)
	(1,626.9)	(2,202.9)	(7,539.6)	(4,225.9)	(15,595.3)

23. Provisions

	Onerous leases £m	Business closures and disposals £m	Legal and other £m	Total £m
The group				
At 1 April 2017	16.2	0.6	5.3	**22.1**
Additional provisions recognised	-	-	5.5	**5.5**
Unused amounts reversed	(0.3)	(0.6)	(2.1)	**(3.0)**
Unwinding of discount	0.2	-	-	**0.2**
Utilised in the year	(6.4)	-	(1.0)	**(7.4)**
At 31 March 2018	**9.7**	**-**	**7.7**	**17.4**

Maturity analysis of total provisions:

	2018 £m	2017 £m
Current	**8.0**	9.1
Non-current	**9.4**	13.0
	17.4	22.1

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 six years.

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

Provisions for legal and other claims of £7.7 million (2017: £5.3 million) are in respect of legal claims and potential pollution fines, all of which are expected to crystallise over a period of approximately two years.

The company

The company has no provisions for liabilities (2017: 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 2016	1,230.6	(188.9)	(0.5)	(145.1)	(3.5)	**892.6**
(Credited)/charged directly to the income statement	(137.2)	(3.0)	2.3	(22.8)	(0.5)	**(161.2)**
Credited directly to other comprehensive income	-	(2.6)	(18.6)	-	-	**(21.2)**
Offset against corporation tax liability	-	-	-	84.3	-	**84.3**
At 31 March 2017	1,093.4	(194.5)	(16.8)	(83.6)	(4.0)	**794.5**
(Credited)/charged directly to the income statement	(37.9)	23.4	2.1	-	(0.2)	**(12.6)**
Charged directly to other comprehensive income	-	3.1	13.7	-	-	**16.8**
Offset against corporation tax liability	-	-	-	36.9	-	**36.9**
At 31 March 2018	**1,055.5**	**(168.0)**	**(1.0)**	**(46.7)**	**(4.2)**	**835.6**

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 £46.7 million would arise.

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

	Group	
	2018 £m	2017 £m
Corporate interest restrictions	**0.3**	-
Tax losses carried forward	**0.8**	0.8
	1.1	0.8

New legislation was introduced from April 2017, restricting the amount of interest that a company can offset against its tax liabilities in any year. Any amounts restricted are available to carry forward against future tax liabilities, so long as the company has the capacity to do so. The Directors believe it is uncertain that the group will have the capacity to utilise this disallowed interest, and therefore the group has not recognised a deferred tax asset in respect of these restrictions.

The tax losses carried forward relate to losses which are not eligible for group relief. As they exist in companies where future profits are uncertain and no deferred tax liabilities exist, no asset has been recognised.

The company

The company has the following deferred tax asset:

	Financial instruments £m	Total £m
The company		
At 1 April 2016	(1.8)	**(1.8)**
Charged directly to the income statement	1.6	**1.6**
At 31 March 2017	(0.2)	**(0.2)**
Charged directly to the income statement	0.2	**0.2**
At 31 March 2018	**-**	**-**

25. Net retirement benefit obligation

Pension arrangements for approximately 25% of the group's employees are of the funded defined benefit type, through the Anglian Water Group Pension Scheme ('AWGPS'). On 31 March 2017, the assets and liabilities relating to the defined benefit scheme for the employees of the former Hartlepool Water Limited, which was acquired on 1 April 2000, were transferred into a segregated section of the AWGPS. However, as the Trustees assess the funding requirements of the Hartlepool section separately from the rest of AWGPS, the Hartlepool section has been separately disclosed in the tables below.

On 31 March 2018, following a period of consultation with representatives of all employees, the defined benefit sections of the AWGPS (including the Hartlepool section) were closed for future accruals. From 1 April 2018 all employees will participate in a new high quality defined contribution scheme which offers an improved, equitable and more flexible scheme.

Within these schemes, employees are entitled to retirement benefits based on their final salary and length of service at the time of leaving, or closure of, the schemes, payable on attainment of retirement age (or earlier death).

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.

Full valuations as at 31 March 2017 have been completed for the AWGPS (including the Hartlepool section) scheme, 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 2018.

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

The group contributed 12.8% (2017: 12.8%) of pensionable pay plus £10.8 million (2017: £10.6 million) per annum to AWGPS during the year. Contributions to MPLAP were £5.5 million (2017: £5.5 million) during the year. In the year to 31 March 2019 employers' contributions are expected to be £26.6 million, including contributions to AWGPS of 12.8% of pensionable pay plus £12.5 million of deficit reduction payments.

The weighted average duration of the defined benefit obligation for AWGPS (excluding Hartlepool) is 21 years, for the Hartlepool section of AWGPS is 20 years, for MPLAP is 23 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 £9.1 million (2017: £8.2 million).

25. Net retirement benefit obligation (continued)

a) Principal actuarial assumptions

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

	2018 % pa	2017 % pa
Discount rate	**2.6**	2.6
Inflation rate		
RPI	**3.3**	3.3
CPI	**2.3**	2.3
Increase to deferred benefits during deferment		
RPI	**3.3**	3.3
CPI	**2.3**	2.3
Increases to inflation related pensions in payment [1]		
RPI	**3.2**	3.2
CPI	**2.3**	2.3
General salary increases [2]	**n/a**	2.5 / 4.3

	2018 years	2017 years
Longevity at age 65 for current pensioners		
Men	**22.5**	22.8
Women	**24.6**	24.9
Longevity at age 65 for future pensioners [3]		
Men	**23.9**	24.5
Women	**25.9**	26.8

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

(2) As at 31 March 2018 the AWGPS, including the Hartlepool section, closed to accrual of benefit and benefits are no longer linked to future salary; therefore a salary increase assumption is no longer required for 2018.

For the prior year, as a result of changes made to the benefits earned in the AWGPS that came into effect from 1 April 2012, pensionable pay/earnings increases for employees that are members of the AWGPS are restricted to be no greater than the lower of RPI and 2.5% per annum each year (for accruing benefits only). As the future pensionable pay/earnings increases (4.3% per annum) and RPI price inflation (3.3% per annum) were both above 2.5% per annum at 31 March 2017, the 2.5% cap on future pensionable salary increases was assumed to apply at that date. 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 2038.

b) Sensitivity analysis

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

	Change in assumption	**AWGPS £m**	**Hartlepool £m**	**MPLAP £m**	**Unfunded pensions £m**	**Total £m**
Discount rate						
Discount rate	+/- 0.5% pa	-160 / +186	-2 / +2	-29 / +34	-3 / +3	-194 / +225
Rate of RPI inflation	+/- 0.5% pa	+126 / -113	+1 / -1	+7 / -6	+3 / -3	+137 / -123
Life expectancy	+/- 1 year	+48 / -47	+1 / -1	+9 / -8	+2 / -2	+60 / -58

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 Consumer Prices Index ('CPI') inflation, pension increases and salary increases due to the way the assumptions are derived.

c) Risk and risk management

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

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

Asset volatility

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

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

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

Change in bond yields

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

Price inflation

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

Life expectancy

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

25. Net retirement benefit obligation (continued)

d) Amounts recognised in comprehensive income

	AWGPS £m	Hartlepool £m	MPLAP £m	Unfunded pensions £m	Total £m
2018					
Amount charged to staff costs within operating profit:					
Current service cost	(9.1)	(0.3)	-	-	**(9.4)**
Administration expenses	-	(0.1)	(0.9)	-	**(1.0)**
Loss/gain on curtailment	(2.5)	1.8	-	-	**(0.7)**
Total operating charge (see note 10)	**(11.6)**	**1.4**	**(0.9)**	**-**	**(11.1)**
Amount (expensed)/credited to finance costs:					
Interest income on scheme assets	40.5	0.8	6.2	-	**47.5**
Interest cost on scheme liabilities	(41.2)	(0.7)	(6.7)	(1.2)	**(49.8)**
Net interest (expense)/income (see note 8)	**(0.7)**	**0.1**	**(0.5)**	**(1.2)**	**(2.3)**
Amounts (charged)/credited to the income statement	**(12.3)**	**1.5**	**(1.4)**	**(1.2)**	**(13.4)**
Amounts credited/(charged) to other comprehensive income					
Return on plan assets (excluding amounts included in net interest)	53.9	(0.3)	(4.1)	-	**49.5**
Actuarial gains/(losses) arising from:					
Changes in financial assumptions	21.4	0.3	3.5	0.7	**25.9**
Experience adjustments	5.8	0.1	(0.8)	(0.3)	**4.8**
Net credit to other comprehensive income	**81.1**	**0.1**	**(1.4)**	**0.4**	**80.2**
2017					
Amount charged to staff costs within operating profit:					
Current service cost	(6.6)	(0.2)	-	-	(6.8)
Administration expenses	(0.2)	(0.1)	(0.9)	-	(1.2)
Total operating charge (see note 10)	(6.8)	(0.3)	(0.9)	-	(8.0)
Amount credited/(expensed) to finance costs:					
Interest income on scheme assets	46.3	0.8	7.6	-	54.7
Impact of restriction on surplus	-	-	(0.8)	-	(0.8)
Interest cost on scheme liabilities	(44.0)	(0.8)	(7.4)	(1.5)	(53.7)
Net interest income/(expense) (see note 8)	2.3	-	(0.6)	(1.5)	0.2
Amounts charged to the income statement	(4.5)	(0.3)	(1.5)	(1.5)	(7.8)
Amounts (charged)/credited to other comprehensive income:					
Return on plan assets (excluding amounts included in net interest)	219.7	6.2	19.9	-	245.8
Actuarial (losses)/gains arising from:					
Changes in financial assumptions	(348.7)	(4.8)	(55.6)	(6.6)	(415.7)
Changes in demographic assumptions	16.1	0.2	3.6	0.7	20.6
Experience adjustments	12.1	0.2	1.2	0.4	13.9
Change arising from minimum funding requirement	-	-	22.9	-	22.9
Net (charge)/credit to other comprehensive income	(100.8)	1.8	(8.0)	(5.5)	(112.5)

25. Net retirement benefit obligation (continued)

e) Amounts recognised in the balance sheet

	AWGPS £m	Hartlepool £m	MPLAP £m	Unfunded pensions £m	Total £m
2018					
Equities	140.0	3.5	48.3	-	**191.8**
Corporate bonds	878.7	-	41.3	-	**920.0**
Government bonds	460.3	23.3	34.4	-	**518.0**
Property	108.7	-	-	-	**108.7**
Alternatives	95.1	-	109.5	-	**204.6**
Other	(50.8)	0.5	2.5	-	**(47.8)**
Total assets	1,632.0	27.3	236.0	-	**1,895.3**
Present value of scheme liabilities	(1,578.2)	(21.0)	(255.4)	(47.2)	**(1,901.8)**
Net pension (obligation)/surplus	**53.8**	**6.3**	**(19.4)**	**(47.2)**	**(6.5)**
Comprising:					
Pension schemes with a net surplus, included in non-current assets	53.8	6.3	-	-	**60.1**
Pension schemes with a net obligation, included in non-current liabilities	-	-	(19.4)	(47.2)	**(66.6)**
	53.8	**6.3**	**(19.4)**	**(47.2)**	**(6.5)**
2017					
Equities	272.3	4.7	85.7	-	362.7
Corporate bonds	665.9	-	65.1	-	731.0
Government bonds	308.2	23.6	8.6	-	340.4
Property	111.0	-	2.2	-	113.2
Alternatives	(44.8)	-	75.6	-	30.8
Other	263.3	1.9	5.8	-	271.0
Total assets	1,575.9	30.2	243.0	-	1,849.1
Present value of scheme liabilities	(1,606.8)	(26.2)	(265.1)	(49.2)	(1,947.3)
Net pension (obligation)/surplus	(30.9)	4.0	(22.1)	(49.2)	(98.2)
Comprising:					
Pension schemes with a net surplus, included in non-current assets	-	4.0	-	-	4.0
Pension schemes with a net obligation, included in non-current liabilities	(30.9)	-	(22.1)	(49.2)	(102.2)
	(30.9)	4.0	(22.1)	(49.2)	(98.2)

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

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

25. Net retirement benefit obligation (continued)

f) Reconciliation of fair value of scheme assets

	AWGPS £m	Hartlepool £m	MPLAP £m	Unfunded pensions £m	Total £m
At 1 April 2016	1,333.1	25.1	219.4	-	**1,577.6**
Interest income on scheme assets	46.3	0.8	7.6	-	**54.7**
Administration costs	(0.2)	(0.1)	(0.9)	-	**(1.2)**
Employers' contributions	16.1	0.7	5.5	2.8	**25.1**
Members' contributions	4.3	-	-	-	**4.3**
Benefits paid	(43.4)	(2.5)	(8.5)	(2.8)	**(57.2)**
Return on plan assets (excluding interest income)	219.7	6.2	19.9	-	**245.8**
At 31 March 2017	1,575.9	30.2	243.0	-	**1,849.1**
Interest income on scheme assets	40.5	0.8	6.2	-	**47.5**
Administration costs	-	(0.1)	(0.9)	-	**(1.0)**
Employers' contributions	15.9	0.7	5.5	2.8	**24.9**
Members' contributions	4.0	-	-	-	**4.0**
Benefits paid	(58.2)	(4.0)	(13.7)	(2.8)	**(78.7)**
Return on plan assets (excluding interest income)	53.9	(0.3)	(4.1)	-	**49.5**
At 31 March 2018	**1,632.0**	**27.3**	**236.0**	**-**	**1,895.3**

g) Reconciliation of scheme liabilities

	AWGPS £m	Hartlepool £m	MPLAP £m	Unfunded pensions £m	Total £m
At 1 April 2016	(1,274.8)	(23.3)	(215.4)	(45.0)	**(1,558.5)**
Current service cost	(6.6)	(0.2)	-	-	**(6.8)**
Interest cost on scheme liabilities	(44.0)	(0.8)	(7.4)	(1.5)	**(53.7)**
Members' contributions	(4.3)	-	-	-	**(4.3)**
Benefits paid	43.4	2.5	8.5	2.8	**57.2**
Actuarial loss	(320.5)	(4.4)	(50.8)	(5.5)	**(381.2)**
At 31 March 2017	(1,606.8)	(26.2)	(265.1)	(49.2)	**(1,947.3)**
Current service cost	(9.1)	(0.3)	-	-	**(9.4)**
(Loss)/gain on curtailment	(2.5)	1.8	-	-	**(0.7)**
Interest cost on scheme liabilities	(41.2)	(0.7)	(6.7)	(1.2)	**(49.8)**
Members' contributions	(4.0)	-	-	-	**(4.0)**
Benefits paid	58.2	4.0	13.7	2.8	**78.7**
Actuarial gain	27.2	0.4	2.7	0.4	**30.7**
At 31 March 2018	**(1,578.2)**	**(21.0)**	**(255.4)**	**(47.2)**	**(1,901.8)**

26. Share capital

	Group and Company	
	2018	2017
	£m	£m
Allotted, issued and fully paid		
85,415,751,649 ordinary shares of 1 pence each	**854.2**	854.2

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

27. Hedging reserve

	Group	
	2018	2017
	£m	£m
At the beginning of the year	**(120.5)**	(101.0)
Gains on cash flow energy hedges	**8.3**	13.7
Amounts transferred to the income statement	**(1.8)**	(2.3)
(Losses)/gains on cash flow hedges	**(46.3)**	30.9
Amounts transferred to the income statement from discontinuation of cash flow hedges	**3.7**	1.0
Exchange movement on hedging instruments related to debt in cash flow hedges	**54.4**	(65.4)
Deferred tax movement on cash flow hedges	**(3.1)**	2.6
At 31 March	**(105.3)**	(120.5)

The company

The company has no hedging reserve (2017: none).

28. Capital commitments

The group has a substantial long-term investment programme within Anglian Water, which includes expenditure to meet regulatory requirements, shortfalls in performance and condition, and to provide for new demand and growth. The commitments shown below reflect the value outstanding of orders placed at 31 March 2018.

	Group	
	2018	2017
	£m	£m
Property, plant and equipment	**76.1**	89.2
Intangible assets	**32.7**	20.1
	108.8	109.3

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

The company

The company has no such commitments (2017: 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 2018 the group had the following outstanding commitments in respect of future minimum lease payments under non-cancellable operating leases:

	Group	
	2018	2017
	£m	£m
Within one year	**7.0**	9.4
Between one and five years	**16.2**	18.5
After five years	**8.3**	11.0
	31.5	38.9

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

	Group	
	2018	2017
	£m	£m
The group		
Within one year	**0.8**	3.0
Between one and five years	**1.8**	2.1
After five years	**-**	0.3
	2.6	5.4

The company

The company has no such commitments (2017: none).

b) Leases as lessor

The group leases out its investment properties. During the year to 31 March 2018 rental income of £0.9 million (2017: £0.5 million) was included within revenue.

30. Contingencies

The group has entered into a number of performance bonds 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 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 2018, the group had £46.7 million (2017: £83.6 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.

Anglian Water received indications of claims from two groups of property search companies in 2016 and a further two in 2018. The four company groups, pursuant to the Environmental Information Regulations, assert that certain information that we provided to them should have been provided free of charge. This is an industry-wide issue and at this stage the Directors consider the amount to be uncertain, but not to be material to the financial standing of the group.

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

31. Ultimate parent undertaking and controlling party

Osprey Acquisitions Limited is incorporated and domiciled in England and Wales. The company’s immediate parent undertaking is Osprey Holdco Limited, a company registered in England and Wales.

The Directors consider Anglian Water Group Limited, a company registered in Jersey, to be the ultimate parent undertaking. Anglian Water Group Limited is itself owned and controlled by a consortium of investors consisting of the Canada Pension Plan Investment Board, Colonial First State Global Asset Management (‘Colonial First State’), IFM Investors, Camulodunum Investments Ltd (‘CIL’), and Infinity Investments S.A. (‘Infinity’). 3i sold its holding in Anglian Water Group Limited to CIL on 21 February 2018 and Colonial First State sold part of its holding to Infinity on 22 June 2018.

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. Business disposals and disposal group held for sale

a) Business disposals

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

The following table summarises the assets and liabilities disposed, the profit on disposal, and the net cash inflow arising on disposal:

	2018 £m
Net assets disposed	
Intangible assets	**3.1**
Property, plant and equipment	**0.5**
Trade and other receivables	**82.0**
Trade and other payables	**(11.2)**
	74.4
Profit on disposal	
Consideration received	**79.0**
Net assets disposed	**(74.4)**
	4.6
Net cash inflow arising on disposal	
Cash consideration received	**79.0**

b) Disposal group held for sale

At 31 March 2017, and in accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', the following assets and liabilities relating to the non-household water and water recycling retail business of Anglian Water Services Limited, valued at their carrying amount, were classified as a disposal group held for sale:

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

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

33. Related party transactions

a) Transactions with shareholders

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

During the year to 31 March 2018, the Commonwealth Bank of Australia, the parent company of Colonial First State Global Asset Management one of the consortium of investors owning Anglian Water Group Limited, agreed to the extension of its participation in the £500 million revolving credit facility with an allocation of £45 million, and continued to participate in the Operation and Maintenance facility with an allocation of £25 million. The fees earned on these facilities totalled £8,750.

During the year to 31 March 2017, the Commonwealth Bank of Australia agreed to the extension of its participation in the £500 million revolving credit facility with an allocation of £45 million, and continued to participate in the Operation and Maintenance facility with an allocation of £25 million. The fees earned on these facilities totalled £76,250.

During the year to 31 March 2018 there were no other transactions 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 £0.8 million (2017: £1.7 million) was invested by Key Management, a return of £0.4 million (2017: £0.3 million) was earned, and the group repaid £nil (2017: £0.1 million) as part of this scheme. At 31 March 2018 £4.7 million (2017: £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 £2.2 million (2017: £0.1 million).

Remuneration of key management personnel

	2018 £m	2017 £m
Short-term employee benefits	**6.0**	5.7
Post-employment benefits	**0.6**	0.5
Other long-term benefits	**2.7**	1.8
	9.3	8.0

c) Transactions with joint ventures

During the year the group did not trade with its joint ventures (2017: sales of goods/services to joint ventures were £0.2 million). At 31 March 2018, the following amounts were due from other joint ventures:

- Trading balances of £0.5 million (2017: £0.9 million); and
- Loans of £nil (2017: £0.7 million).

33. Related party transactions (continued)

d) Parent company

The company's related party transactions are summarised below:

	2018 £m	2017 £m
Management fees paid to		
Subsidiaries	**(0.1)**	(0.1)
Interest paid to		
Subsidiaries	**(27.4)**	(27.3)
Dividends received from		
Subsidiaries	**117.6**	127.4
Dividends paid to		
Parent company	**(95.0)**	(96.5)

	2018 £m	2017 £m
Current tax receivables due from		
Subsidiaries	**6.5**	8.1
Loans and other borrowings due to		
Parent company	**(728.8)**	(728.8)
Subsidiaries	**(451.5)**	(452.3)

34. Events after the balance sheet date

There have been no events between the balance sheet date, and the date on which the financial statements were approved by the Board, which would require adjustment to the financial statements or any additional disclosures.

35. Group undertakings

The group's subsidiary undertakings at 31 March 2018 are shown below. Unless otherwise disclosed, all subsidiary undertakings are incorporated in the UK, are 100% owned, and with a share class of ordinary shares.

	Registered office	Percentage holding
Owned directly by Osprey Acquisitions Limited		
Anglian Water (Osprey) Financing Plc	a	
AWG Parent Co Limited	a	
All subsidiary undertakings		
Alexander Morrison Limited	b	
Ambury Developments Limited	a	
Anglian Water (Osprey) Financing Plc	a	
Anglian Water Business Limited	b	
Anglian Water Direct Limited	a	
Anglian Water Facilities Management Holdings (UK) Limited	a	
Anglian Water Fleet Management Holdings (UK) Limited	a	
Anglian Water International Holdings Limited	a	
Anglian Water Overseas Holdings Limited	a	
Anglian Water Property Holdings (UK) Limited	a	
Anglian Water Services Financing Plc	a	
Anglian Water Services Holdings Limited	a	
Anglian Water Services Limited	a	
Anglian Water Services Overseas Holdings Limited	d	
AW Creative Technologies Limited	a	
AW Licensing Limited	a	
AWG (UK) Holdings Limited	a	
AWG Business Centres Limited	a	
AWG Central Services Limited	a	
AWG Group Limited	a	
AWG Holdings Limited	e	
AWG Land Holdings Limited	a	
AWG Land Investments Limited	b	
AWG Outlet Centers Limited	b	
AWG Parent Co Limited	a	
AWG Property Developments (Ireland) Limited	f	
AWG Property Director Limited	a	
AWG Property Limited	b	
AWG Property Solutions Limited	a	
AWG Residential Limited	b	
AWG Shelf 11 Limited	b	
Cambuslang Retail Portfolio Limited	b	
Chester (1995) Limited	a	97%
CS Amenities Limited	a	
CS Management Company (2002) Limited	a	
DMWS 819 Limited	b	
DMWS 822 Limited	b	
DMWS 823 Limited	b	
DMWS 824 LLP (1)	b	
Eastland Developments Limited	a	
Edmund Homes Limited	a	

35. Group undertakings (continued)

	Registered office	Percentage holding
All subsidiary undertakings (continued)		
Farm Gas Limited	a	
Graham Street Airdrie Retail Portfolio Limited	b	
H2GO Limited	a	
Macrocom (743) Limited	b	
Morco (3) Limited	b	
Morrison Biggs Wall Limited	a	
Morrison Caspian Limited	b	
Morrison Glosha Limited	b	
Morrison Holdings Limited	a	
Morrison International Developments Limited	b	
Morrison International Limited	b	
Morrison Lema Homes Limited	b	
Morrison Leneghan Irl Limited	g	60%
Morrison Properties Limited	b	
Morrison Property Investments Limited	b	
Morrison Rail Limited	b	
Morrison Shand Construction Limited	a	
Morrison Ventures Limited	b	
NVB Rathdowney Limited	h	
Osprey Acquisitions Limited	a	
Rutland Insurance Limited	i	
Shand Construction Limited	a	
Shawlands Developments [(1)]	b	
Valuetype Limited	a	
Vector Morrison (Ghana) Limited	j	60%
Wave Environmental Limited	a	
Wave Holdings Limited	b	
Wave Utilities Limited	b	
Wave Water Limited	b	

35. Group undertakings (continued)

	Registered office	Percentage holding
Joint ventures		
124 St Vincent Street (Glasgow) LLP (1) (2)	k	50%
AWG Mitchell Investments (Tannochside) Limited (3)	b	50%
AWG Outlets (Rathdowney) Limited	f	50%
Castlemilk Retail LLP (1) (2)	k	50%
City Road Properties (Chester) Limited	a	50%
Crowwood Grange Estates Limited	b	50%
Excel Centre Aberdeen Limited (2)	k	50%
Gwent Euro Park Management Company Limited	a	42%
Hollowstone Limited	a	50%
Kings Waterfront Properties Limited	a	50%
Leith Walk Properties Limited (2)	k	50%
Morrison Gwent Limited	a	50%
Morrison Residential Properties Limited	b	50%
Ocean Point Developments Limited (2)	k	50%
Palacecraig Street Coatbridge Limited (2)	k	50%
Rathdowney Shopping Centre Management Company Limited	f	50%
Spreevale Limited	l	50%

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

(2) In administration.

(3) This company was dissolved on 8 May 2018.

Registered offices

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

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

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

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

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

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

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

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

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

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

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

l) 15 Clanwilliam Terrace, Dublin 2, Ireland.

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

Independent auditor’s report to the members of Osprey Acquisitions Limited

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the group’s and of the parent company’s affairs as at 31 March 2018 and of the group’s profit 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 and IFRSs as issued by the International Accounting Standards Board (IASB);
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Osprey Acquisitions Limited (the ‘parent company’) and its subsidiaries (the ‘group’) which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated and parent company cash flow statements; and
- the related notes 1 to 35.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors’ use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group’s or parent company’s ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor’s report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Other information (continued)
In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors
As explained more fully in the directors’ responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group’s and the parent company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council’s website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

Use of our report
This report is made solely to the company’s members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company’s members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company’s members as a body, for our audit work, for this report, or for the opinions we have formed.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:
- the information given in the strategic report and the directors’ report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors’ report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors’ report.

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

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

James Leigh (Senior Statutory Auditor)
For and on behalf of Deloitte LLP, Statutory Auditor
2 New Street Square
London
EC4A 3BZ
29 June 2018