Anglian Water Services Limited

# Preliminary announcement of full-year results for the 12 months ended 31 March 2023

**8 June 2023**

## Financial and Operational Highlights

**Chief Executive, Peter Simpson, commented:**

"It has been a challenging year following extreme weather, a cost of living crisis, record inflation and operating in the public eye with increasing concern over the impact of pollutions and the need to upgrade aging Victorian water and sewage infrastructure.

"Our historic investments in leakage, where we have again improved on last year's industry-leading position, meant we kept water flowing, avoided a hosepipe ban and protected the environment by keeping within the amount we are licensed to safely take from rivers and watercourses.

"We supported a record 334,000 vulnerable customers, moving them to a lower tariff and helping them with wider benefits. We also managed our costs by hedging energy and made a record investment of £725 million in the region – significantly above our operating profit – which included installing a further 40 storm tanks; increasing capacity and reducing average spills to the lowest level in the industry (15 versus 29 industry average), ahead of the regulatory target.

"In achieving substantial smart meter coverage, we have helped our customers reduce their consumption by 20 litres a day versus four years ago, conserving water as well as saving them money.

"We still have a lot more to do. We didn't achieve all of our Outcome Delivery Incentive (ODI) targets last year, largely as a result of extreme weather events, which has resulted in a year-end penalty of £22 million. We also know more investment is needed in our infrastructure, which is why we have announced plans for two more reservoirs and more than £1 billion between 2025 and 2030 to upgrade our sewerage system."

**Financial highlights**

| | 2023 | 2022 | Change | Change |
|---|---|---|---|---|
| | £m | £m | £m | % |
| **Revenue** | 1,495 | 1,400 | 95 | 6.8 |
| **EBITDA**[1] | 803 | 789 | 14 | 1.8 |
| **Operating profit** | 424 | 441 | (17) | (3.9) |
| **Operating cash flow** | 711 | 750 | (39) | (5.2) |
| **Net debt before derivatives**[2] | 6,248 | 5,621 | 627 | 11.1 |

*See footnotes on page 3*

**ODI penalty**

- Operations were significantly impacted by the extreme weather, including a heatwave and drought, leading to record soil moisture deficits versus the rest of the country. These principally affected three ODIs - Burst Mains, Interruptions to Supply and Leakage, making up the majority of the £22 million penalty incurred. This year we are also in an ODI penalty on leakage, despite making further reductions on our 2022 industry-leading leakage levels.
- Action on our Pollution Reduction Plan includes progress on the installation of 22,000 monitors to provide coverage on 11,000km of high and medium-risk sewers (in addition to event duration monitors on storm overflows) as part of our Dynamic Sewer Visualisation initiative. This uses predictive

*(ODI penalty continued)*

- analytics and will provide greater insight on asset health. Avoidable blockages, 80% of which are caused by fats and unflushable items in our small diameter sewers, are a primary focus. Our partnership with Environmental Compliance and Services (ECAS) to reduce the impact of food serving establishments has now been expanded to include domestic customers.
- While classified as 'serious' none of the pollution incidents resulted in the death of fish. Following close review, we know the very narrow watercourses, owing to the heavily drained nature of our region, create an increased vulnerability to serious pollutions and this is something we are looking to address.
- Our self-reporting has continued to improve in 2022/23. Importantly, we made gains on our comparative pollutions performance but this has been offset by our decision to retrospectively report incidents in light of our new monitoring capabilities. We are one of a few companies to take a national lead on this.

**Revenue up £95.1 million (6.8%)**

- The increase is, in part, as a result of prices set based on the November 2021 Consumer Price Index (CPIH) inflation of 4.6%, and the impact of changes applied to our tariffs from our revised regulatory settlement following referral to the Competitions and Markets Authority.

**EBITDA up £14.3 million (1.8%)**

- The revenue increase provides some protection against inflationary increases in our cost base. However, as our revenue was set prior to the steep increase in inflation following the Russian invasion of Ukraine (February 2022), our costs rose at a greater rate creating a short-term timing mismatch.
- In addition, the Board agreed to invest £13.9 million with a view to maintaining our leading leakage position as we sought to recover from the climate-related events in the year.
- We have a robust energy hedging programme which means our costs have not risen in line with wholesale prices. We were fully hedged for the year to March 2023 in advance of the most significant market increases. Our hedged prices are materially below the government cap and therefore, as with furlough rates relief during the Covid pandemic, we have not had to make use of Government support for energy price rises.

**Operating profit down £17.1 million (3.9%)**

- In addition to the items described above in relation to EBITDA, our depreciation charge increased in the year reflecting the significant investment in our asset base – a record year of capex at £725 million (£1.7 billion AMP to date), all centred on building a resilient business, delivering environmental improvements, and supporting our customers.

**Operating cash flow down £39.0 million (5.2%)**

- Operating cash was impacted by the rate of increase in operating costs exceeding the rate of increase in revenue due to the short-term timing mismatch of inflationary increases in revenue (as mentioned in relation to EBITDA). In addition, we saw short-term timing differences on working capital and additional pension contributions.

**Net debt before derivatives up to £6,247.9 million (11.1%)**

- Net debt increased as a result of indexation combined with our continuing capital investment programme.

### Dividend

- We have set dividends to reflect performance and build financial resilience. After the balance sheet date, the Board proposed to pay a final dividend of £79.9 million (2022: £169.0 million). The dividend has been adjusted with a £26 million deduction to reflect aspects of underperformance against ODIs, including the ODI penalty incurred. In doing so, we aim to demonstrate how we are operating responsibly and balancing the needs of all our stakeholders, while attracting the continued investment vital for this region and customers now and in years to come.
- There is no proposal to pay a dividend to ultimate shareholders for performance in this period (2022: £91.8 million)

### Reconciliation of operating profit to statutory profit before tax

| | **Year Ended 31 March 2023 £m** | Year Ended 31 March 2022 £m |
|---|---|---|
| Operating profit | **423.7** | 440.8 |
| Interest excluding indexation | **(169.7)** | (204.7) |
| Indexation on debt | **(561.4)** | (255.0) |
| Finance income | **20.6** | 1.4 |
| Adjusted loss before tax (as defined in note 6) | **(286.8)** | (17.5) |
| Fair value gains/(losses) on derivatives | **645.3** | (115.1) |
| Statutory profit/(loss) before tax | **358.5** | (132.6) |

Statutory profit has increased by £491.1 million. A result of the fair value gain on derivatives which was driven by the increase in interest rates which, despite the material movement in fair value, have only partially reversed fair value losses experienced over the past 10-years in a falling interest rate environment. This was partially offset by higher indexation costs on inflation-linked debt consistent with many other utility companies. In addition, net interest was down due to higher interest income and costs associated with the financial restructure in the prior year.

**Footnotes to page 1**

Financial measures or metrics used in this report that are not defined by IFRS are alternative performance measures. The Group uses such measures for performance analysis because they provide additional useful information on the performance and position of the Group. Since the Group defines its own alternative performance measures, these might not be directly comparable to other companies' alternative performance measures. These measures are not intended to be a substitute for, or superior to, IFRS measurements and have been consistently applied within each year presented in these financial statements.

1 EBITDA is an alternative performance measure as defined in note 6

2 Net debt excluding derivatives is an alternative performance measure as defined in note 6.

The above commentary provides a high-level summary of the movements in the table above, more comprehensive commentary can be found on page 10.

## Delivery and operational highlights 2022/23

### Investing for the future

- **Largest-ever single year of capital investment[1] at** £725.0 million in 2022/23, totalling £1.7 billion for the AMP so far, and part of a multibillion programme for 2020-2025.
- **Our largest-ever environment investment programme (WINEP) is ahead of schedule:** £93 million was invested this year to deliver 224 obligations as part of a programme worth £811 million this AMP. Schemes delivered this period include 40 storm tanks which added 11,000 cubic metres of capacity to the network, thereby reducing storm spills. So far, 1,401 WINEP schemes have been delivered since 2020, more than 300 of which have been delivered early.
- **Excellent progress made on reducing storm overflow spills by more than half (**down 54%) to the lowest levels in the industry, (15 average spills versus an industry average of 29), building on our success in completely removing 13% of storm overflows from our network since privatisation. This progress comes on our pathway to invest £200 million to reduce spills between 2020 and 2025 – a commitment made at our last price review, PR19. Last month we pledged to go further to tackle overflows with £1 billion investment between 2025 and 2030 (subject to PR24 determination). Recent commitments on storm overflows from the wider industry align with our existing **Get River Positive programme.**

### Securing water supplies

- **Recorded our lowest-ever leakage level** – yet again we have improved on last year's sector leading position, which represents a 38% reduction in leakage since privatisation. The year of extreme weather caused us to narrowly miss our in-year target, which means that, despite being a frontier company, we will incur an ODI penalty, while others with higher leakage levels may not. Swift action and investment to **boost the number of leakage repair teams by a third** minimised water lost during operational issues caused by the extreme weather events.
- **A resilient position through drought** aided by smart metering and water efficiency. This meant we did not need to impose a hosepipe ban nor did we need to resort to drought permits, which would effectively mean over-abstracting from an already stressed environment. In addition, we provided extra water to farmers for irrigation and put additional water back into the environment to support low river flows in summer.
- **Our rapid smart meter roll-out** has helped identify **more than 93,000 customer-side leaks** this period, saving millions of litres of water every day. Averaging 4,500 smart meter installs every week, 233,000 units have been installed this period – 544,000 over the AMP so far meaning nearly 1 in 4 homes now has one fitted. Global microprocessor supply issues on top of challenges through the Covid pandemic have marginally affected our run rate (AMP to date target of 548,000) resulting in a small penalty this year.
- **Best-ever Per Capita Consumption result**, reflecting the success of our smart meter programme and ongoing efforts to engage customers on water efficiency, such as weather-triggered advertising used during the drought**.** Our customers are among the most water efficient in the country, using 20-litres per day less than they did four years ago.

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[1] As defined in note 6

- **We achieved 100% compliance** with our drinking water annual abstraction licences, as a result of the smart meter programme, leakage result and water efficiency of customers. This is a stand-out result given the significant increase in demand for water last summer. We are also making the biggest reductions in abstraction of any water company this AMP (as a proportion of output) and are on track to leave an extra 85 million litres of water in the environment by 2025, despite operating in the driest region with the fastest growing population. Together these actions will help ensure chalk streams have flows they need for good ecological quality.
- **Strategic interconnecting pipeline is on track** for completion with two thirds of planning permission granted and 100% steel purchased to help mitigate supply chain pressures. Not only will it provide sustainable sources of water to protect the environment, on completion, more than 80% of customers will have a dual supply boosting resilience and reducing the risk of water supply interruptions. With our Strategic Pipeline Alliance partners we've developed **an innovative method** to commission the pipeline using a fraction of the water than would be possible through traditional means, which was imperative given the scale of the project.
- **Plans for two new reservoirs announced to secure future water supplies.** A series of customer consultations have been held this period**.** The reservoirs in Lincolnshire and in The Cambridgeshire Fens will allow reduced abstraction, protecting sensitive environments and we anticipate they will create new habitats for wildlife, leisure destinations, opportunities for local businesses and natural spaces for the community.
- **Early investment unlocked** through Ofwat's Accelerated Infrastructure Delivery Plan with the approval of four schemes including smart metering, smart sewers, nutrient neutrality and water re-use.

**<u>Protecting and enhancing the environment</u>**

- **94% of our 48 bathing waters have also achieved 'Good' or 'Excellent' status** as a result of WINEP investment. Investigations with the EA and local authorities continue at sites deemed as 'Sufficient' or 'Poor' although our assets are not the primary cause, and we are planning investment to support improvements at these sites. Investigations have ruled out any of our assets as contributory factors at the site rated 'Poor' (Heacham).
- **Three new inland bathing waters** designated in our region, supported through our Get River Positive initiative. The programme aims to revitalise rivers and ensure our assets are not the reason for any stretch of river not achieving good ecological status, as well as working to reduce the impact of other sectors too.
- **98.8% Special Sites of Scientific Interest in our ownership are in a favourable condition** (vs the national average of 38.6%).
- **Progress towards net zero** with a 63% reduction in capital carbon against a 2010 baseline and 6% reduction in operational carbon against a 2018 baseline. 114 GWh renewable energy generated, just behind our target (122GWh) but still progressing well and supporting our power resilience.

**Delivering on customer priorities and keeping bills low**

- **Strong performance on drinking water quality** with our lowest-ever customer complaints for acceptability (narrowly missing the ODI target), significantly improved Compliance Risk Index score (2.92) which is well ahead of the industry average (5), plus a strong provisional Event Risk Index score of 2.77 against a target of 15 and industry average of 833. Given the volumes of water supplied during the heatwave (peaks of 1.8 billion litres supplied per day) and operationally challenging year, these scores demonstrate our robust processes and operational control. The Event Risk Index score is calculated based on incident type, duration and number of customers affected.
- **£135 million package of support** pledged for 2023/24, building on a £65 million package this period which helped more than334,000 customers.
- **11.4% of customers are now on our Priority Services Register**, well ahead of target and the industry (average 5-6%).
- **Achieved the new British ISO standard 22458: Customer Vulnerability.**
- **Strong financial discipline on Totex[2]** spend shows we are well-positioned to meet future investment needs. Totex is a useful industry comparator of efficiency and capability to deliver capital improvements.

**Acting in line with our Purpose and values**

- **Keeping our people safe and well** with a 25% reduction in serious accidents and near misses versus 2022 – a strong result in a record year of capital investment. The **significantly improved accident frequency rate** is also down 46% to 0.07, compared with 0.13 last year.
- **First water company to achieve the ISO for Psychological Health and Wellbeing for our employees.**
- **Health and safety performance recognised** with a RoSPA Gold Award for the seventh year in a row, and a RoSPA Fleet Safety Gold Medal for the fifth year in a row for managing occupational road risk.
- **BITC's Responsible Business tracker** scored us 80% (76% PY) versus a utility sector average of 64%.

**Enquiries**

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[2] Total expenditure comprising operational expenditure (opex) and capital expenditure (capex)

## Principal risks and uncertainties

Our strategic priorities rely on effective risk management, which involves a thorough evaluation of the main risks we face. These risks relate to our infrastructure's criticality, the significance of our customers and personnel, climate change and environmental concerns, health and safety in our service delivery, cyber security and financial sustainability. We regularly report these risks to the Board.

In addition to these principal risks, we also proactively manage various lower-level business stream risks that contribute to the principal risks. We evaluate principal risks by taking into account a range of factors, including emerging risks and external threats.

The principal risks and uncertainties that the business faces over the remainder of this financial year are listed below:

1. People
2. Health and Safety
3. Customer Proposition
4. Reputation
5. Legal
6. Financial
7. Commercial and Third Party
8. Technology
9. Asset Infrastructure
10. Water Supply and Quality
11. Strategic Execution
12. Environmental
13. Business Resilience

The risks we face are largely in line with those outlined in our annual integrated report and consolidated financial statements for the period ending March 31, 2022. After conducting a recent review of these risks, we have removed the 'Regulatory' principal risk element and will instead account for any regulatory effects under the appropriate principal risk. For detailed descriptions of these risks, please refer to page 94 of our 2021/22 Annual Integrated Report.

There has been significant volatility over the last 12 months, driven by a range of factors including weather patterns, the ongoing cost of living crisis, energy costs and the ongoing effects of the war in Ukraine. We continue to monitor these risks against any potential financial impact and operational disruption. These topics are viewed as scenarios which impact on our principal risks and are therefore not included in our principal risks list, documented above.

We have a robust energy hedging programme which meant that we were fully hedged for the current year before the most significant energy price rises occurred. We continue to undertake activities to diversify our energy hedging in an extremely volatile market. The war in Ukraine has seen a number of challenges experienced in our global supply chain with shortages of certain products and materials. These are expected to continue and in response, identification of alternative suppliers or de-risking where an alternative is not an option, is continuing to take place.

Business and households are facing increasing financial pressure. We are monitoring this risk considering the cost of living crisis and the financial pressures that our customers will be facing and continuing to proactively identify customers struggling to pay their bills to provide both practical and financial support.

Climate change is a consideration of each of our principal and emerging risks. The development of our PR24 planning process will define a number of climate scenarios with alternative and adaptive pathways which can be adopted as the climate changes. The hot, dry summer this period has led to the largest soil moisture deficit we've seen, and we have been closely monitoring rainfall, reservoir and aquifer recharge as we progress through the crucial winter months. Significant efforts and additional investments in leakage and supply-side interventions have been in place to secure supplies through a second dry winter (Nov 22-Jan 23) and customer-facing water efficiency campaigns have been running through winter.

## Financial performance

[1] As defined in note 6 financial measures or metrics used in this report that are not defined by IFRS are alternative performance measures. The Group uses such measures for performance analysis because they provide additional useful information on the performance and position of the Group. Since the Group defines its own alternative performance measures, these might not be directly comparable to other companies' alternative performance measures. These measures are not intended to be a substitute for, or superior to, IFRS measurements, and have been consistently applied within each year presented in these financial statements.

[2] In order to show pre-tax performance based on management's view of an underlying basis, the fair value gains and losses on financial derivatives have been shown separately in the table because these are volatile non-cash movements that distort the actual underlying economic performance.

**Income statement**

Anglian Water Services
Income statement

Year ended 31 March

| | *% increase/ (decrease)* | **2023 £m** | **2022 £m** |
|---|---|---|---|
| **Revenue (excl. grants and contributions)** | *6.9%* | **1,388.9** | **1,299.7** |
| Grants and contributions | *5.9%* | 106.0 | 100.1 |
| Other operating income | | 16.0 | 12.3 |
| Operating costs | *13.6%* | (708.1) | (623.6) |
| *% of revenue* | | *51.0%* | *48.0%* |
| **EBITDA** | 1.8% | **802.8** | **788.5** |
| Depreciation and amortisation | *9.0%* | (379.1) | (347.7) |
| *% of revenue* | | *27.3%* | *26.8%* |
| **Operating profit** | *(3.9%)* | **423.7** | **440.8** |
| *Margin* | | *30.5%* | *33.9%* |
| Interest (excluding indexation) | | (169.7) | (205.1) |
| Indexation charge | | (561.4) | (255.0) |
| Finance income | | 20.6 | 1.8 |
| **Adjusted loss before tax (see note 6)** | | **(286.8)** | **(17.5)** |
| Fair value gains/(losses) on derivatives | | 645.3 | (115.1) |
| **Profit/(loss) before tax** | | **358.5** | **(132.6)** |
| Tax | | **(90.2)** | **(310.2)** |
| **Profit/(loss) after tax** | | **268.3** | **(442.8)** |

## Revenue

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

- The price increase for customers following the regulatory pricing formula, £87.7 million increase.
- A net decrease in demand of £13.4 million. Household consumption is down £21.8 million and non-household consumption up £8.4 million as we move back towards pre-Covid 19 levels of consumption.
- Increase in revenue of £8.4m as a result of increase in customer numbers.
- Other increases in revenue of £6.5 million.

Grants and contributions represent the cash and asset contributions made principally by property developers and local authorities for connecting new property developments to the water and sewerage network, and for work on existing infrastructure needed to accommodate development. Over the year, these have increased by £5.9 million to £106.0 million. This is driven by the strong housing market and construction sector in our region.

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

## Other operating income

Other operating income comprises primarily external income from power generation, bio-solid sales to farms, rents received and various other non-core activities; this was consistent with prior years.

**Operating costs (including charge for bad and doubtful debts)**

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

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

Inflation

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

Capitalisation of replacement infrastructure assets

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

Weather related

As a result of the hot summer, the Board agreed to invest £13.9 million with a view to maintaining our industry leading leakage position as we sought to recover from a number of weather-related events throughout the year.

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

Bad debt provision

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

1. An increase in our base bad debt charge of £6.3 million, partly a result of the increase in our revenue and partly due to a return to more typical levels after an exceptionally strong performance in the prior year.

2. The prior year reassessment of provision in our debt over 48 months old, which resulted in a one off £6.0 million provision release in the prior year, as a result of continued positive collection in combination with a change to our write-off policy in April 2020.

3. In addition, we estimate the impact of future macro-economic factors on our collection performance as required by IFRS 9. In March 2022 we released £6.6 million of this provision as the projected impact of Covid-19 on unemployment subsided, thus reducing the charge in that year. The latest forecasts for unemployment are broadly the same as that at March 2022 and therefore we have maintained the same overlay provision as at March 2022, thus having no impact on the income statement.

Power

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

Other significant items

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

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

**EBITDA**

Earnings before interest, taxes, depreciation and amortisation (EBITDA) is defined in note 6 and is the profit from continuing operations before interest, tax, depreciation and amortisation. This has increased by 1.8% to £802.8 million, which is consistent with the effect of the increases described above.

**Depreciation and amortisation**

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

**Operating profit**

Operating profit has decreased by 3.9% to £423.7 million. Whilst there have been significant inflationary costs pressures due to the mismatch in timing with revenue, our proactive energy hedging policy protected the

business. In addition, the Board agreed to invest £13.9 million with a view to maintaining our industry leading leakage position as we sought to recover from a number of weather-related events throughout the year.

**Financing costs and profit before tax**

Adjusted net finance costs, which are finance income net of finance costs before fair value gains and losses on financial instruments, as defined in note 6, increased from £458.3 million in 2022 to £710.5 million in 2023. This was primarily the result of the non-cash impact of higher inflation on index-linked debt which increased by £306.4 million to £561.4 million. This increase was due to an increase in year-on-year average Retail Price Index (RPI) from 5.8% to 12.8% and year-on-year average Consumer Price Index (CPI) from 4.0% to 10.0%. We have both RPI-linked debt and CPI-linked debt to hedge the Regulated Capital Value (RCV). Finance income was £16.0 million, up £14.6 million as we benefited from these higher interest rates on our cash balances.

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

**Taxation**

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

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

Total tax paid or collected in the year to 31 March 2023, other than corporation tax, amounted to £234.0 million (2022: £231.0 million), of which £100.0 million was collected on behalf of the authorities for value added tax (VAT) and employee payroll taxes. All of our taxes are paid as they become due.

The current tax credit for the year was £24.7 million (2022: £18.7million). The deferred tax charge has decreased by £214.0 million from £328.9 million in 2022 to £114.9 million this year.

The current tax credit for both years reflects receipts from other group companies for losses surrendered to those group companies. The tax losses arise mainly because capital allowances exceed the depreciation charged in the accounts, as well as some income not being taxable and the availability of tax relief on pension contributions paid in the year. This is offset by disallowable costs and interest. In the prior year there is also a one-off credit arising on a change of accounting treatment.

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

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

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

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

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

**Distributions available to the ultimate investors**

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

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

**Continuing to deliver our AMP7 capital investment programme**

2022/23 is the third year in the five-year AMP7 investment programme. Over the five years to 2025, we will invest a record £3 billion through our capital investment programme. This spend will help us achieve our Business Plan commitments and includes significant investments to ensure our region is resilient to the impacts of drought, climate change and population growth, alongside our largest ever programme of schemes delivering environmental protection.

Delivery against this investment programme remains strong with gross annual capital expenditure on an accruals basis across the appointed business increasing from £635 million in 2021/22 to £725 million in 2022/23 (£326 million on capital maintenance, £399 million on capital enhancement). This is broadly in line with management expectations and is particularly pleasing given the significant increase in the size of the programme compared to AMP6 in addition to the supply chain impacts from the war in Ukraine and other macroeconomic factors.

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

**Financial needs and resources**

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

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

Repayments of £668.7 million were made in respect of maturing debt, which consisted of a £250 million 5.837% fixed rate debt and £15 million 1.37% index-linked private placement, and amortising payments on EIB index-linked debt.

At 31 March 2023, excluding derivatives, Anglian Water had borrowings net of cash of £6,247.9 million, an increase of £626.6 million over the prior year. Net borrowings comprised a mixture of fixed, index-linked and variable-rate debt of £6,845.1 million, leases of £36.4 million and cash and deposits of £633.1 million. Net debt

increased as a result of indexation on debt as described above combined with our continuing capital investment programme.

The increase in net borrowings, excluding the fair value of derivatives, primarily reflects the higher accretion on index-linked debt.

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

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

**Liquidity**

The company's objective is to maintain flexibility, diversification and continuity of funding through access to different markets and debt instruments. At 31 March 2023, Anglian Water held cash, deposits and current asset investments of £633.1 million (March 2022: £870.7 million). The decrease in cash amounts held is reflective of the higher debt repayments than new debt issuances in the period, the payment of the March 2022 final dividend and also the net of operational and residual investing and financing cashflows.

As at March 2023 Anglian Water has access to £975.0 million of undrawn facilities (March 2022: £600.0 million), to finance working capital and capital expenditure requirements. In addition, Anglian Water has access to a further £375.0 million of liquidity facilities (March 2022: £375.0 million), consisting of £244.0 million to finance debt service costs and £131.0 million to finance operating expenditure and maintenance capital expenditure in the event that the company was in an Event of Default on its debt obligations and had insufficient alternative sources of liquidity.

All bank facilities and debt capital market issuance are issued pursuant to the Global Secured Medium Term Note Programme dated 30 July 2002 between the company, Anglian Water Services Financing Plc (AWSF) and Deutsche Trustee Company Ltd (as agent and trustee for itself and each of the finance parties). This agreement provides that any facilities drawn by AWSF will be passed directly on to the company upon utilisation of the facility.

**Interest rates**

The company's policy, as agreed by the Board, is to achieve a balanced mix of funding to inflation-linked, fixed and floating rates of interest. At the year end, taking into account interest rate swaps, 66.6% (March 2022: 68.9%) of the company's borrowings were at rates indexed to inflation, 26.2% (March 2022: 25.1%) were at fixed rates and 7.2% (March 2022: 6.0%) were at floating rates. At 31 March 2023, the proportion of inflation debt to regulated capital value was 47.9% (2022: 51.4%).

**Pension funding**

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

**Long-term viability statement**

*Background*
The Directors are responsible for ensuring the resilience or viability of the Group's water and water recycling services to meet the needs of its customers in the long term. This means the Group must be able to avoid, manage and recover from disruptions to its operations and finances.

The Directors' review of the longer-term prospects and viability of the Group is an extension of our business planning process, which includes financial forecasting, a robust risk management assessment, regular budget reviews and scenario planning. This activity is strengthened by a culture throughout the Group of review and challenge. Our vision and business strategy aim to make sure that our operations are resilient and our finances are sustainable and robust.

As part of Anglian Water's approach to defining risk appetite, each year the Directors review our specific risk tolerance levels and consider whether our decision-making behaviours over the past year have been consistent with these risk levels. The Directors confirmed that the Group's behaviours over the past year had been in line with our risk appetite.

*Look-forward period*
As one of the 10 regional water and sewerage services companies operating in the UK, Anglian Water's prices are set by the industry regulator Ofwat for five-year Asset Management Plan (AMP) periods, which support the Group's underlying costs. This provides the basis for future tariffs, revenues, costs and cash flows over the current AMP (April 2020 to March 2025).

*Assessment of prospects*
The Directors have assessed Anglian Water's financial prospects over the next 10 years from April 2023 to March 2033. A 10-year period has been chosen to ensure that our business plan for the current AMP does not impact on the longer-term viability of the Group:

- The first two years takes us to the end of the current AMP, for which there is reasonable certainty and clarity, with a stretching five-year plan to deliver in line with the CMA Final Determination for AMP7.
- The next eight years of the period are outside the current AMP and therefore subject to the final outcome of the following five-year price reviews, PR24 and PR29, for which uncertainty exists. Our assumptions for AMP8 align to the AMP8 forecasts that we plan to submit in our PR24 Business Plan.
- The Board considered whether there are specific, foreseeable risk events relating to the principal risks that are likely to materialise within a 10-year period, and which might be substantial enough to affect the Group's viability and therefore should be taken into account when setting the assessment period. These events were modelled appropriately within our downside scenarios.
- The Board has considered the impact of the wider activities of other Group companies and transactions and of the overall Group structure.

- The Board considers the maturity profiles of debt and the availability of new finance over 10 years as part of its review of financial modelling and forecasting, as well as considering the credit ratings of the debt.
- Finally, we take note of the Water Industry Act, which requires Ofwat to ensure that water companies can (in particular through securing reasonable returns on their capital) finance the proper carrying out of their statutory duties.

*Principal risks*
We have set out the details of the principal risks facing the Group on page 7, described in relation to our ability to deliver our 10-year outcomes. We identify our principal risks through a robust assessment that includes a continuous cycle of bottom-up reporting and review, and top-down feedback and horizon scanning. Through this assessment, priorities are elevated appropriately and transparently.

The Directors regularly review business plans that show projected cash flows for the current AMP period, and long-term cash flow modelling projections which extend into AMP8 and beyond. This includes reviewing the expected outcome relating to the principal risks with this impact included in our business plans.

*Stress testing the business plan*
In reviewing its financial viability, Anglian Water considers the stringent covenant tests required under its securitised structure to provide comfort to our bondholders that our business is viable to the end of the current AMP period and beyond, and to ensure the availability of debt to finance Anglian Water's investment programme. At each regulatory price review and throughout the AMP, the Board satisfies itself that the agreed five-year business plans ensure adequate covenant headroom throughout the AMP period and beyond. This includes extensive downside scenario testing at both Anglian Water and Group level from severe, plausible and reasonable scenarios chosen because they pose the greatest risk to the business. The following scenarios have been used individually and in combination to model the impact on the overall performance of the business, the ability of the business to service its debt and the impact on its credit rating.

The tables below sets out, for each of the scenario, whether the impact modelled would require the business to implement mitigating actions to avoid a Trigger event, as described in note 1, or in the case of the business maintaining sufficient headroom, no mitigations are required.

| **Principal risk** | **Scenario** | **Impact modelled** | **Potential mitigations required** |
|---|---|---|---|
| People<br>Technology<br>Financial<br>Asset infrastructure<br>Business resilience<br>Commercial & third party<br>Strategic execution | Material totex underperformance against the Final Determination allowance | Overspend of 10 per cent across an AMP<br>Capex overspend of 5 per cent<br>Opex overspend of 5 per cent | No mitigations required<br>No mitigations required<br>No mitigations required |
| Customer proposition<br>Environment | Material Outcome Delivery Incentive (ODI) penalties | Up to £105 million applied in years 4 and 5 | No mitigations required |

| | | | |
|---|---|---|---|
| People<br>Reputation<br>Asset infrastructure<br>Business resilience<br>Strategic execution | | | |
| Environment<br>Water supply and quality<br>Health and safety<br>People<br>Reputation<br>Legal | Regulatory fines and legal penalties | Up to 6 per cent of turnover applied in a single year | Mitigations required |
| Financial | Unfunded pension liabilities | Up to £15 million applied per annum | No mitigations required |
| Customer proposition<br>Financial<br>Business resilience | Risks associated with the disruption caused by cost of living crisis, potential reductions in revenue collection | Up to 5 per cent decrease in cash collection<br><br>20 per cent increase in bad debt | Mitigations required<br><br>No mitigations required |
| Financial<br>Reputation<br>Strategic execution | The potential impact of credit rating agencies downgrading the debt for any companies in the Group | 2 per cent increase in cost of new debt | No mitigations required |
| Financial<br>Reputation<br>Strategic execution | Cost of debt increases | 2 per cent above base level assumptions across an AMP | No mitigations required |
| Customer proposition<br>Financial<br>Asset infrastructure<br>Commercial & third party | Significant inflation fluctuations | 1 per cent above and below base level assumptions for each AMP<br><br>2 per cent below base level for each AMP | No mitigations required<br><br>No mitigations required |
| Customer proposition<br>Environment<br>People<br>Technology<br>Financial<br>Reputation<br>Asset infrastructure | Combined scenario based on totex underperformance for a whole AMP, along with a significant ODI penalty and a revenue penalty | Overspend of 10% across an AMP, combined with an ODI penalty of 1.5% of RORE in year 4 and 5 plus a financial penalty of 1% of revenue in year 4 | No mitigations required |

| | | | |
|---|---|---|---|
| Business resilience<br>Commercial & third party<br>Strategic execution | | | |
| Customer proposition<br>Financial<br>Asset infrastructure<br>Commercial & third party<br>Reputation<br>Strategic execution | Combined scenario based on low inflation and high cost of debt | Inflation 2 per cent below base level for the AMP combined with cost of debt 2 per cent above base level assumptions across an AMP | No mitigations required |
| Customer proposition<br>Environment<br>People<br>Technology<br>Financial<br>Reputation<br>Asset infrastructure<br>Business resilience<br>Commercial & third party<br>Strategic execution | Combined scenario based on low inflation, an opex cost shock plus a significant ODI penalty | Inflation 1 per cent below base for the AMP combined with 2.5% opex cost shock in AMP7 and a £50 million ODI penalty in year 4 | No mitigations required |

In deciding on appropriate downside scenarios and corresponding stress tests, management have considered the required modelling set out by Ofwat as part of the financial resilience testing for PR24. Management have taken the view that where the PR24 scenarios were more severe it would be prudent to align to these, this also provides consistency with our PR24 Business Plan submission.

As part of our stress tests for the downside scenarios we have considered the potential impacts of cost shocks resulting from climate change.  Such cost shocks include the 'Beast from the East' extreme cold weather event, followed by a rapid thaw, experienced in early 2018, and the extreme wet weather events experienced in our region in the summer of 2019 and winter of 2020/21. The cost impacts of these events (including longer term recovery impacts such as leakage reduction), were in the order of £7 million for 'Beast from the East' and £3 million for each extreme wet weather event. During the current year, as a result of a number of weather related incidents, the Board agreed to investing £13.9 million with a view to maintaining our industry leading leakage position.  Our modelled downside scenarios include cost shocks equal to experiencing several of these events in continuous years across the AMP; we are therefore confident that we can withstand the financial impacts of extreme weather events, predicted to increase as a result of climate change.

*Mitigating actions*
For each sensitivity and combined scenario, we identify, where required, the appropriate mitigations against the potential risks. In the event that the situations used for stress testing were to result in an unacceptable level of deterioration in the Group's financial metrics, management's principal actions would include further reducing the level of shareholder distributions, potential shareholder equity injections, reviewing the financing structure and identifying further opportunities to reduce the Group's cost base or reduce financing costs.

Evidence of the shareholders' support for equity injections is provided by the equity injections made in October 2018 of £22.0 million, April 2021 of £110.0 million and July 2021 of £1,065.0 million, although ongoing support would require equity returns sufficient to attract the significant levels of new capital investment.

As a further mitigation we have a significant portfolio of insurance cover in place to provide protection against many catastrophic scenarios such as dam failure, pluvial and fluvial flood, terrorism, and public and employer's liability. There would still be a short-term liquidity impact from such events due to the time it would take between incurring the expenditure and recovering this through the insurance claim; however, it is an important consideration in terms of medium-term liquidity. The Board formally reviews the output of the stress testing twice a year.

*Benefits of the securitised structure*
The highly covenanted nature of our financing arrangements (often described as a whole business securitisation) enhances our financial resilience by imposing a rigorous governance framework. This requires continuous monitoring and reporting of our financial and operating performance by senior management, through a well-established business process, to ensure compliance with our financing arrangements, and provides an additional layer of control over how we transact with our stakeholders, including suppliers, business partners, customers, shareholders and lenders, compared to the regulatory frameworks by which we are governed.

*Assurance*
Robust internal assurance is provided by the Board reviewing and challenging the stress test scenarios selected and the risk mitigation strategies. The Directors also obtain annual independent third-party assurance on the integrity of the long-term cash flow model which underpins the financial projections.

*Directors' statement*
In making this statement, the Directors have assumed that funding for capital expenditure in the form of capital markets or bank debt will be available in all reasonable market conditions. They have also considered the impact of the Group structure, intra-Group transactions and any other Group activities on the viability of the regulated business.

In addition, the Directors have made assumptions about the ability to attract equity investment into the sector to fund the required capital investment. This viability statement assumes that Ofwat will maintain sufficient financeability as required by the Water Industry Act, including an equity return sufficient to attract the significant levels of new capital investment in AMP8 and AMP9.

Anglian Water Services is an efficient company with a history of both operational and financial outperformance. The Directors can be satisfied that the business has a reasonable expectation of being able to continue in operation and meet its liabilities as they fall due at least to March 2033, and is financially resilient in the face of severe but plausible downside shocks.

This is based on the reasonable certainty of its future revenue stream and an acceptable PR24 determination that meets the requirement to maintain sufficient financeability as required by the Water Industry Act, the strength of the balance sheet (in particular the substantial cash balance and strong net assets), the availability of undrawn debt facilities in the unlikely event that debt markets were temporarily restricted, and by reviewing the business plans and strategic models, combined with the robust risk management process and mitigations described above.

Anglian Water Services Limited

# Group income statement

for the year ended 2023

| Notes | | **Year ended 31 March 2023** | Year ended 31 March 2022 |
|---|---|---|---|
| | | **£m** | £m |
| | **Revenue** | **1,494.9** | 1,399.8 |
| | Other operating income | **16.0** | 12.3 |
| | Operating costs | | |
| | Operating costs before depreciation, amortisation and charge for bad and doubtful debts | **(678.0)** | (612.5) |
| | Depreciation and amortisation | **(379.1)** | (347.7) |
| | Charge for bad and doubtful debts | **(30.1)** | (11.1) |
| | Total operating costs | **(1,087.2)** | (971.3) |
| | **Operating profit** | **423.7** | 440.8 |
| | Finance income | **20.6** | 1.8 |
| | Finance costs, including fair value losses on derivative financial instruments | **(85.8)** | (575.2) |
| 3 | Net finance costs | **(65.2)** | (573.4) |
| | Profit before tax from continuing operations | | |
| | Loss before fair value gains/(losses) on derivative financial instruments | **(286.8)** | (17.5) |
| | Fair value gain/(loss) on derivative financial instruments | **645.3** | (115.1) |
| | **Profit/(Loss) before tax from continuing operations** | **358.5** | (132.6) |
| 4 | Tax charge | **(90.2)** | (310.2) |
| | **Profit/(Loss) for the year from continuing operations** | **268.3** | (442.8) |

Anglian Water Services Limited

# Group statement of comprehensive income

for the year ended 2023

| Notes | | **Year ended 31 March 2023** | Year ended 31 March 2022 |
|---|---|---|---|
| | | **£m** | £m |
| | **Profit/(Loss) for the year** | **268.3** | (442.8) |
| | **Other comprehensive (expense)/income** | | |
| | **Items that will not be reclassified to income statement** | | |
| | Actuarial (losses)/gains on retirement benefit deficit | **(141.2)** | 135.7 |
| 4 | Income tax on items that will not be reclassified | **35.3** | (25.7) |
| | | **(105.9)** | 110.0 |
| | **Items that may be reclassified subsequently to income statement** | | |
| | Gains on cash flow hedges recognised in equity | **27.9** | 59.3 |
| | Gains/(losses) on cost of hedging recognised in equity | **1.8** | (2.6) |
| | (Losses)/gains on cash flow hedges transferred to income statement | **(31.1)** | 14.0 |
| | Income tax on items that may be reclassified | **0.2** | (15.0) |
| | | **(1.2)** | 55.7 |
| | **Other comprehensive (expense)/income for the year, net of tax** | **(107.1)** | 165.7 |
| | **Total comprehensive income/(expense) for the year** | **161.2** | (277.1) |

Anglian Water Services Limited

# Group balance sheet

As at 31 March 2023

| Notes | | At 31 March 2023 | At 31 March 2022 |
|---|---|---|---|
| | | £m | £m |
| | **Non-current assets** | | |
| | Other intangible assets | **253.9** | 218.0 |
| | Property, plant and equipment | **10,704.3** | 10,304.1 |
| | Derivative financial instruments | **194.4** | 57.8 |
| | Retirement benefit surplus | **84.1** | 205.2 |
| | | **11,236.7** | 10,785.1 |
| | **Current assets** | | |
| | Inventories | **20.6** | 16.9 |
| | Trade and other receivables | **564.7** | 516.5 |
| | Investments - cash deposits | **298.0** | 392.0 |
| | Cash and cash equivalents | **335.1** | 478.7 |
| | Derivative financial instruments | **55.8** | 56.5 |
| | | **1,274.2** | 1,460.6 |
| | **Total assets** | **12,510.9** | 12,245.7 |
| | **Current liabilities** | | |
| | Trade and other payables | **(676.7)** | (582.8) |
| | Current tax liabilities | **(123.9)** | (148.6) |
| | Borrowings | **(584.3)** | (476.3) |
| | Derivative financial instruments | **(53.4)** | (10.1) |
| | Provisions | **(6.8)** | (4.7) |
| | | **(1,445.1)** | (1,222.5) |
| | **Net current (liabilities)/assets** | **(170.9)** | 238.1 |
| | **Non-current liabilities** | | |
| | Borrowings | **(6,296.7)** | (6,015.7) |
| | Derivative financial instruments | **(893.8)** | (1,192.8) |
| | Deferred tax liabilities | **(1,531.3)** | (1,451.9) |
| | Retirement benefit deficit | **(33.0)** | (41.8) |
| | Provisions | **(4.8)** | (7.0) |
| | | **(8,759.6)** | (8,709.2) |
| | **Total liabilities** | **(10,204.7)** | (9,931.7) |
| | **Net assets** | **2,306.2** | 2,314.0 |

***Continued on the next page.***

Anglian Water Services Limited

# Group balance sheet (continued)

As at 31 March 2023

| Notes | | At 31 March 2023 | At 31 March 2022 |
|---|---|---|---|
| | | **£m** | £m |
| | **Capital and reserves** | | |
| | Share capital | **32.0** | 32.0 |
| | Share premium | **1,165.0** | 1,165.0 |
| | Retained earnings | **1,089.7** | 1,096.3 |
| | Hedging reserve | **17.8** | 20.4 |
| | Cost of hedging reserve | **1.7** | 0.3 |
| | **Total equity** | **2,306.2** | 2,314.0 |

Anglian Water Services Limited

# Group statement of changes in equity
## for the year ended 31 March 2023

| Note | | Stated capital £m | Share premium £m | Retained earnings £m | Hedging reserve £m | Cost of hedging reserve £m | Total equity £m |
|---|---|---|---|---|---|---|---|
| | At 1 April 2021 | 32.0 | - | 1,525.4 | (37.4) | 2.4 | 1,522.4 |
| | Loss for the year | - | - | (442.8) | - | - | (442.8) |
| | Other comprehensive income/(expense) | | | | | | |
| | Actuarial gains on retirement benefit obligations | - | - | 135.7 | - | - | 135.7 |
| | Income tax charge on items that will not be reclassified | - | - | (25.7) | - | - | (25.7) |
| | Gains on cash flow hedges | - | - | - | 59.3 | - | 59.3 |
| | Losses on cost of hedging | - | - | - | - | (2.6) | (2.6) |
| | Amounts on cash flow hedges transferred to income statement | - | - | - | 14.0 | - | 14.0 |
| | Deferred tax movement on hedging reserves | - | - | - | (15.5) | 0.5 | (15.0) |
| | | - | - | 110.0 | 57.8 | (2.1) | 165.7 |
| | Total comprehensive (expense)/income | - | - | (332.8) | 57.8 | (2.1) | (277.1) |
| | Issue of shares | - | 1,165.0 | - | - | - | 1,165.0 |
| 5 | Dividends | - | - | (96.3) | - | - | (96.3) |
| | At 31 March 2022 | 32.0 | 1,165.0 | 1,096.3 | 20.4 | 0.3 | 2,314.0 |
| | Profit for the year | - | - | 268.3 | - | - | 268.3 |
| | Other comprehensive income/(expense) | | | | | | |
| | Actuarial losses on retirement benefit obligations | - | - | (141.2) | - | - | (141.2) |
| | Income tax credit on items that will not be reclassified | - | - | 35.3 | - | - | 35.3 |
| | Gains on cash flow hedges | - | - | - | 27.9 | - | 27.9 |
| | Gains on cost of hedging | - | - | - | - | 1.8 | 1.8 |
| | Amounts on cash flow hedges transferred to income statement | - | - | - | (31.1) | - | (31.1) |
| | Deferred tax movement on hedging reserves | - | - | - | 0.6 | (0.4) | 0.2 |
| | | - | - | (105.9) | (2.6) | 1.4 | (107.1) |
| | Total comprehensive income/(expense) | - | - | 162.4 | (2.6) | 1.4 | 161.2 |
| 5 | Dividends | - | - | (169.0) | - | - | (169.0) |
| | **At 31 March 2023** | **32.0** | **1,165.0** | **1,089.7** | **17.8** | **1.7** | **2,306.2** |

Anglian Water Services Limited

# Cash flow statement

for the year ended 31 March 2023

| Notes | | Stated capital £m | Share premium £m | Retained earnings £m | Hedging reserve £m | Cost of hedging reserve £m | Total equity £m |
|---|---|---|---|---|---|---|---|
| | At 1 April 2021 | 32.0 | - | 1,525.4 | (37.4) | 2.4 | 1,522.4 |
| | Loss for the year | - | - | (442.8) | - | - | (442.8) |
| | Other comprehensive income/(expense) | | | | | | |
| | Actuarial gains on retirement benefit obligations | - | - | 135.7 | - | - | 135.7 |
| | Income tax charge on items that will not be reclassified | - | - | (25.7) | - | - | (25.7) |
| | Gains on cash flow hedges | - | - | - | 59.3 | - | 59.3 |
| | Losses on cost of hedging | - | - | - | - | (2.6) | (2.6) |
| | Amounts on cash flow hedges transferred to income statement | - | - | - | 14.0 | - | 14.0 |
| | Deferred tax movement on hedging reserves | - | - | - | (15.5) | 0.5 | (15.0) |
| | | - | - | 110.0 | 57.8 | (2.1) | 165.7 |
| | Total comprehensive (expense)/income | - | - | (332.8) | 57.8 | (2.1) | (277.1) |
| | Issue of shares | - | 1,165.0 | - | - | - | 1,165.0 |
| 5 | Dividends | - | - | (96.3) | - | - | (96.3) |
| | At 31 March 2022 | 32.0 | 1,165.0 | 1,096.3 | 20.4 | 0.3 | 2,314.0 |
| | Profit for the year | - | - | 268.3 | - | - | 268.3 |
| | Other comprehensive income/(expense) | | | | | | |
| | Actuarial losses on retirement benefit obligations | - | - | (141.2) | - | - | (141.2) |
| | Income tax credit on items that will not be reclassified | - | - | 35.3 | - | - | 35.3 |
| | Gains on cash flow hedges | - | - | - | 27.9 | - | 27.9 |
| | Gains on cost of hedging | - | - | - | - | 1.8 | 1.8 |
| | Amounts on cash flow hedges transferred to income statement | - | - | - | (31.1) | - | (31.1) |
| | Deferred tax movement on hedging reserves | - | - | - | 0.6 | (0.4) | 0.2 |
| | | - | - | (105.9) | (2.6) | 1.4 | (107.1) |
| | Total comprehensive income/(expense) | - | - | 169.2 | (2.6) | 1.4 | 168.0 |
| 5 | Dividends | - | - | (169.0) | - | - | (169.0) |
| | **At 31 March 2023** | **32.0** | **1,165.0** | **1,089.7** | **17.8** | **1.7** | **2,306.2** |

Anglian Water Services Limited

# Cash flow statement

for the year ended 31 March 2023

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **Year ended 31 March 2023 £m** | Year ended 31 March 2022 £m | **Year ended 31 March 2023 £m** | Year ended 31 March 2022 £m |
| | **Operating activities** | | | | |
| | Operating profit | **423.7** | 440.8 | **423.7** | 440.8 |
| | Adjustments for: | | | | |
| | Depreciation and amortisation | **379.1** | 347.7 | **379.1** | 347.7 |
| | Assets adopted for £nil consideration | **(46.0)** | (39.2) | **(46.0)** | (39.2) |
| | (Loss) on disposal of property, plant and equipment | **(3.9)** | (4.9) | **(3.9)** | (4.9) |
| | Difference between pension charge and cash contributions | **(24.5)** | (18.1) | **(24.5)** | (18.1) |
| | Net movement in provisions | **(0.1)** | (4.3) | **(0.1)** | (4.3) |
| | Working capital: | | | | |
| | Increase in inventories | **(3.7)** | (3.0) | **(3.7)** | (3.0) |
| | (Increase) in trade and other receivables | **(48.0)** | (15.8) | **(48.0)** | (15.8) |
| | Increase in trade and other payables | **34.3** | 46.7 | **31.4** | 69.5 |
| | **Net cash flows from operating activities** | **710.9** | 749.9 | **708.0** | 772.7 |
| | **Investing activities** | | | | |
| | Purchase of property, plant and equipment | **(588.6)** | (465.2) | **(588.6)** | (465.2) |
| | Purchase of intangible assets | **(75.8)** | (58.8) | **(75.8)** | (58.8) |
| | Proceeds from disposal of property, plant and equipment | **4.4** | 5.8 | **4.4** | 5.8 |
| | Interest received | **16.0** | 1.4 | **14.9** | 0.9 |
| | Decrease/(increase) in short-term bank deposits | **94.0** | (312.0) | **94.0** | (312.0) |
| | **Net cash used in investing activities** | **(550.0)** | (828.8) | **(551.1)** | (829.3) |
| | **Financing activities** | | | | |
| | Interest paid | **(200.6)** | (222.3) | **(200.6)** | (222.3) |
| | Debt issue costs paid | **(0.7)** | (1.5) | **(0.7)** | (1.5) |
| | Interest paid on leases | **(0.9)** | (1.2) | **(0.9)** | (1.2) |
| | Proceeds from amounts borrowed | **740.8** | 100.5 | **740.8** | 100.5 |
| | Repayment of amounts borrowed | **(668.8)** | (656.4) | **(668.8)** | (656.4) |
| | Receipt of principal on derivatives | **-** | 75.9 | **-** | 75.9 |
| | Repayment of principal on leases | **(5.3)** | (12.0) | **(5.2)** | (12.0) |
| 5 | Dividends paid | **(169.0)** | (96.3) | **(169.0)** | (96.3) |
| | Proceeds from issue of ordinary shares | **-** | 1,165.0 | **-** | 1,165.0 |
| | **Net cash (used in)/from financing activities** | **(304.5)** | 351.7 | **(304.4)** | 351.7 |
| | **Net (decrease)/increase in cash and cash equivalents** | **(143.6)** | 272.8 | **(147.4)** | 295.1 |
| | **Cash and cash equivalents at 1 April** | **478.7** | 205.9 | **475.8** | 180.7 |
| | **Cash and cash equivalents at 31 March** | **335.1** | 478.7 | **328.4** | 475.8 |

[(1)] Income taxes paid are all inter-company payments to AWG Group Limited.

**1. Accounting policies**

The financial statements for the Group for the year ended 31 March 2023 have been prepared in accordance with international financial reporting standards (IFRS) and are in conformity with the requirements of the Companies Act 2006 and United Kingdom adopted International Financial Reporting Standards ('IFRS'). The consolidated financial information set out in this announcement does not constitute the Company's statutory accounts, within the meaning of section 430 of the Companies Act 2006, for the years ended 31 March 2023 or 2022, but is derived from those accounts. While the financial information included within this announcement has been prepared in accordance with the recognition and measurement criteria of IFRS, it does not comply with the disclosure requirements of IFRS. The results have been extracted from the full financial statements of the Group for the year ended 31 March 2023 that comply with International Financial Reporting Standards, which will be published at a later date. The auditors have reported on those accounts; their reports were unqualified and did not contain statements under section 498(2) or (3) of the Companies Act 2006. The auditors have consented to the publication of the Preliminary Announcement having completed their procedures under APB bulletin 2008/2.

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain financial assets and liabilities (including derivative instruments) at fair value.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses for the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates.

**Going concern**

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, as detailed below.

The review included a range of downside outcomes as a result of the macro-economic environment. Key updates since the previous assessment are as follows:

- There continues to be considerable market volatility particularly in terms of energy costs, interest rates and inflation.
- Higher inflation is improving gearing[3] relative to RCV.

These updates along with company specific changes have been incorporated into our latest forecast which has been approved by the Board. This forecast forms our base going concern assessment which looks at liquidity, profitability and debt covenants.

Anglian Water Services Limited has a single debt platform (sometimes known as a “common terms” or “CTA” debt platform) that has been structured so as to align with, and enhance, the regulatory protections contained in the Water Industry Act 1991 and Anglian Water’s Licence (an “Aligned Debt Programme”). Aligned Debt Programmes operate on a single covenant package and shared security and intercreditor arrangement that binds all debt providers.

[3] Net debt as defined by the Common Terms Agreement (CTA) with our lenders, expressed as a percentage of estimated RCV

**1. Accounting policies** (continued)

The CTA introduces two terms, a Trigger Event and an Event of Default. The intention of a Trigger Event is that it is an early warning event designed to reinforce credit worthiness and to protect the Company and its finance creditors from an Event of Default occurring and consequently it is not considered to be a going concern event. It does not enable creditors to destabilise the Company through enforcing their security.

We have identified three stretching scenarios to stress test our base forecast. These scenarios, low, medium and severe focus on the impact of the cost-of-living crisis and higher unemployment, the impacts of higher inflation and interest rates, as well as specific risks to the business, such as our ability to meet our stretching renewable energy generation targets. In addition, this year the scenarios consider the impact on our cash collection as a result of a cyber-attack.

In assessing Going Concern the Directors have considered a number of perspectives, including liquidity, profitability and debt covenants and tested these against both the base scenario and the three downside scenarios.

- Liquidity – AWS holds sufficient liquidity to cover the going concern period even under the most severe downside scenario.
- Profitability – The revenues of the business are underpinned by the regulatory model and the business has a detailed plan in place to deliver in line with the CMA FD. Our most severe scenario represents an 10 per cent reduction in EBITDA.
- Debt covenants – The business has significant headroom against Default Events (where class A interest cover ratio[4] is less than 1.6:1) under its securitised covenants with no plausible scenario identified that would cause an Event of Default.

While both the medium and severe scenarios indicate the potential for a Trigger Event, the Directors do not consider this possibility to constitute a material uncertainty related to going concern. As noted, a Trigger Event is not considered a going concern event and whilst it would result in dividend lock-up and prevent the business from raising new debt we have sufficient liquidity during the going concern period in this event even when including planned debt repayments.

Based on the above, the Directors believe that the business has sufficient liquidity to meet its liabilities as they fall due.

For these reasons, the Directors believe it appropriate to continue to adopt the going concern basis in preparing the financial statements.

**2. Segmental Information**

The Directors believe that the whole of the Group's activities constitute a single class of business. The Group's revenue is wholly generated from within the United Kingdom.

[4] As defined in note 6

## 3. Net finance costs

| | **Year ended 31 March 2023 £m** | Year ended 31 March 2022 £m |
|---|---|---|
| **Finance income** | | |
| Interest income on short-term bank deposits | **16.0** | 1.4 |
| Unwinding of discount on provision | **0.1** | - |
| Defined benefit pension scheme interest | **4.5** | 0.4 |
| | **20.6** | 1.8 |
| **Finance costs** | | |
| Interest expense on bank loans and overdrafts | **(4.4)** | (2.7) |
| Interest expense on other loans including financing expenses | **(202.0)** | (213.8) |
| Indexation of loan stock | **(561.4)** | (255.0) |
| Amortisation of debt issue costs | **(3.2)** | (4.1) |
| Interest on leases | **(0.9)** | (1.2) |
| Total finance costs | **(771.9)** | (476.8) |
| Less: amounts capitalised on qualifying assets | **40.8** | 16.7 |
| | **(722.0)** | (460.1) |
| **Fair value losses on derivative financial instruments** | | |
| Hedge ineffectiveness on cash flow hedges (1) | **-** | 0.5 |
| Hedge ineffectiveness on fair value hedges (2) | **0.3** | 0.4 |
| Amortisation of adjustment to debt in fair value hedge | **-** | (0.1) |
| Derivative financial instruments not designated as hedges | **654.2** | (104.1) |
| Recycling of de-designated cash flow hedge relationship | **(9.2)** | (11.8) |
| | **645.3** | (115.1) |
| **Finance costs, including fair value losses on derivative financial instruments** | **(85.8)** | (574.8) |
| **Net finance costs** | **(65.2)** | (573.4) |

(1) Hedge ineffectiveness on cash flow hedges results from instances where the movement in the fair value of the derivative exceeds the movement in the hedged risk.

(2) Hedge ineffectiveness on fair value hedges comprises fair value losses on hedging instruments of £35.2 million (2022: loss of £67.6 million), offset by fair value gains of £35.5 million on hedged risks (2022: gains of £67.9 million).

## 4. Taxation

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

The current tax credit for both years reflects receipts from other group companies for losses surrendered to those group companies. The tax losses arise mainly because capital allowances exceed the depreciation charged in the accounts, as well as some income not being taxable and the availability of tax relief on pension contributions paid in the year. This is offset by disallowable costs and interest. In the prior year there is also a one-off credit arising on a change of accounting treatment.

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

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

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

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

**4. Taxation** (continued)

The tax charge on the group's profit before tax differs from the notional amount calculated by applying the rate of UK corporation tax of 19 per cent (2022: 19 per cent) to the profit before tax from continuing operations as follows:

| | **Year ended 31 March 2023** | Year ended 31 March 2022 |
|---|---|---|
| | **£m** | £m |
| Profit/(loss) before tax from continuing operations | **358.5** | (132.6) |
| Profit/(loss) before tax from continuing operations at the standard rate of corporation tax in the UK of 19% (2022: 19%) | **68.1** | (25.2) |
| Effects of recurring items: | | |
| Depreciation and losses on assets not eligible for tax relief | **1.0** | 0.9 |
| Disallowable expenditure | **0.6** | 1.1 |
| | **69.7** | (23.2) |
| Effects of non-recurring items: | | |
| Increase in corporation tax rate | **-** | 353.6 |
| Effects of capital allowance super deduction | **(10.8)** | (7.6) |
| Effects of differences between rates of current and deferred tax | **28.7** | (8.7) |
| Adjustments in respect of prior periods | **2.6** | (3.9) |
| **Tax charge for the year** | **90.2** | 310.2 |

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

| | **Year ended 31 March 2023** | Year ended 31 March 2022 |
|---|---|---|
| | **£m** | £m |
| **Deferred tax:** | | |
| Defined benefit pension schemes | **(35.3)** | 34.5 |
| Cash flow hedges | **(0.2)** | 17.6 |
| Increase in corporation tax rate - pension | **-** | (8.8) |
| Increase in corporation tax rate - hedges | **-** | (2.6) |
| **Total deferred tax charge/(credit)** | **(35.5)** | 40.7 |
| **Total tax (credit)/charge recognised in other comprehensive income** | **(35.5)** | 40.7 |

## 5. Dividends

| | **Year ended 31 March 2023 £m** | Year ended 31 March 2022 £m |
|---|---|---|
| Paid by the group: | | |
| Previous year final dividend | **169.0** | 96.3 |
| | **169.0** | 96.3 |

During the year ended 31 March 2023, dividends of £169.0 million (£5.28 per share) were paid by the company to its immediate parent undertaking, Anglian Water Services UK Parent Co Limited (2022: £96.3 million (£3.01 per share)).

## 6. Alternate performance measures

Financial measures or metrics used in this report that are not defined by IFRS are alternative performance measures. The Group uses such measures for performance analysis because they provide additional useful information on the performance and position of the Group. Since the Group defines its own alternative performance measures, these might not be directly comparable to other companies' alternative performance measures. These measures are not intended to be a substitute for, or superior to, IFRS measurements and have been consistently applied within each year presented in these financial statements.

a) EBITDA

Calculated as profit before interest, tax, depreciation, and amortisation to give a measure of the company’s overall financial performance. Each element of this APM is shown on the face of the income statement.

| | **Group** | |
|---|---|---|
| | **2023** | 2022 |
| | **£m** | £m |
| **EBITDA** | **802.8** | 788.5 |
| Net finance income/(costs) | **(65.2)** | (573.4) |
| Tax charge | **(90.2)** | (310.2) |
| Depreciation & amortisation | **(379.1)** | (347.7) |
| Profit/(Loss) for the period | **268.3** | (442.8) |

## 6. **Alternate performance measures** (continued)

### b) Adjusted finance costs

Calculated as net finance costs excluding fair value gains/(losses) on derivative financial instruments. These fair value gains/(losses) are volatile, non-cash movements that distort the actual underlying economic performance (page 3).

| | Group | |
|---|---|---|
| | **2023** | 2022 |
| | **£m** | £m |
| **Net Finance costs excluding fair value (losses) on derivative financial instruments** | **(710.5)** | (458.3) |
| Fair value gains/(losses) on derivative financial instruments | **645.3** | (115.1) |
| Net Finance costs, including fair value (losses) on derivative financial instruments | **(65.2)** | (573.4) |

### c) Adjusted profit before tax and/or Profit before fair value gains/(losses)

Calculated as profit before tax excluding fair value gains/(losses) on derivative financial instruments. The calculation is shown on the face of the income statement. These fair value gains/(losses) are volatile, non-cash movements that distort the actual underlying economic performance (page 3).

| | Group | |
|---|---|---|
| | **2023** | 2022 |
| | **£m** | £m |
| **Adjusted profit before tax and/or Profit before fair value gains/(losses)** | **(286.8)** | (17.5) |
| Tax charge | **(90.2)** | (310.2) |
| Fair value gains/(losses) on derivative financial instruments | **645.3** | (115.1) |
| Profit/(loss) for the period | **268.3** | (442.8) |

## 6. **Alternate performance measures** (continued)

d) Net debt

Net debt comprises borrowings, net cash and cash equivalents, and derivative financial instruments (excluding those in respect of fair value energy hedges). This measure is used because it provides additional useful information in respect of the financing of the business. See below.

| | **Group** | |
|---|---|---|
| | **2023** | 2022 |
| | **£m** | £m |
| Net cash and cash equivalents | **335.1** | 478.7 |
| Current asset investments | **298.0** | 392.0 |
| Borrowings | **(6,881.0)** | (6,492.0) |
| Net debt excluding derivatives | **(6,247.9)** | (5,621.3) |
| | | |
| Derivatives | **(697.0)** | (1,088.6) |
| Less: energy derivatives | **(0.7)** | (73.4) |
| Net debt | **(6,945.6)** | (6,783.3) |

e) Interest cover

Interest cover is the ability of the Company to pay interest of on its outstanding debt out of operating cash flows. The table below shows the operating cash value less RCV depreciation, compared to the net interest paid during the year to show the interest cover.

| | **Group** | |
|---|---|---|
| | **2023** | 2022 |
| | **£m** | £m |
| Operating cash | **710.9** | 749.9 |
| RCV run off | **(423.5)** | (413.4) |
| | **287.4** | 336.5 |
| Interest cash | **(184.6)** | (220.9) |
| Net interest (income)/costs excluded under CTA | **(0.6)** | 17.9 |
| Interest cover | **1.6** | 1.7 |

## 6. Alternative performance measures (continued)

### f) Capital investment

Capital investment is the total property, plant, and equipment, and intangibles additions less capitalised interest, adopted assets, and capital additions in the non-appointed business. This is used as a measure to help us monitor how we are achieving our Business Plan commitments.

| | Group | |
|---|---|---|
| | **2023** | 2022 |
| | **£m** | £m |
| **Capital investment** | | |
| Property, plant and equipment additions | **733.4** | 572.4 |
| Intangible assets addition | **82.3** | 62.1 |
| Capitalised interest | **(40.8)** | (16.7) |
| Adopted assets | **(46.0)** | (39.2) |
| Non-appointed business | **(1.4)** | (0.9) |
| Items shown as stock | **(2.5)** | - |
| | **725.0** | 577.7 |

### g) Free cash flow

Free cash flow is used in determining cash conversion and is calculated as cash from operating activities, less net interest of cash deposits, less capital maintenance.

| | Group | |
|---|---|---|
| | **2023** | 2022 |
| | **£m** | £m |
| Operating cash | **710.9** | 749.9 |
| Interest on cash | **(184.6)** | (220.9) |
| Less: net interest (income)/costs excluded under CTA | **(0.6)** | 17.9 |
| Capital maintenance | **(326.2)** | (269.2) |
| Free cash flow | **199.5** | 277.7 |