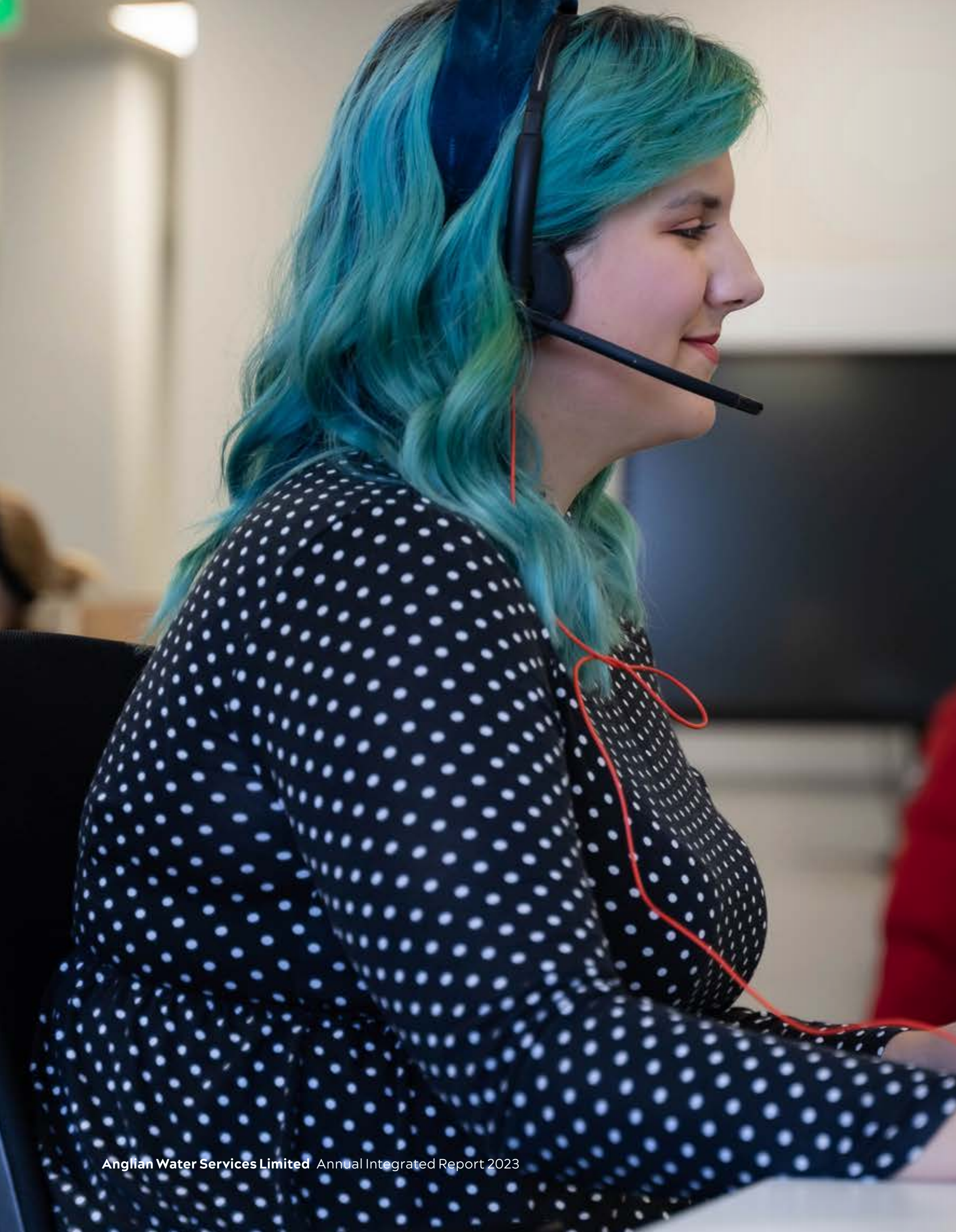


Statutory Accounts

Contents at a glance

Notes		Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
4	**Revenue**	1,494.9	1,399.8
5	Other operating income	16.0	12.3
6	Operating costs		
6	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 gains/losses on derivative financial instruments	(85.8)	(575.2)
7	Net finance costs	(65.2)	(573.4)
	Profit/(loss) before tax from continuing operations		
	Loss before fair value gains/(losses) on derivative financial instruments[1]	(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)
8	Tax charge	(90.2)	(310.2)
	Profit/(loss) for the year from continuing operations	268.3	(442.8)

1 As defined in note 30.

Notes 1 to 31 are an integral part of these financial statements.

Notes		Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
	Profit/(loss) for the year	268.3	(442.8)
	Other comprehensive (expense)/income		
	Items that will not be reclassified to income statement		
22	Actuarial (losses)/gains on retirement benefit deficit	(141.2)	135.7
8	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		
24	Gains on cash flow hedges recognised in equity	27.9	59.3
24	Gains/(losses) on cost of hedging recognised in equity	1.8	(2.6)
24	(Losses)/gains on cash flow hedges transferred to income statement	(31.1)	14.0
24	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)

Notes		At 31 March 2023 £m	At 31 March 2022 £m
	Non-current assets		
11	Other intangible assets	253.9	218.0
12	Property, plant and equipment	10,704.3	10,304.1
19	Derivative financial instruments	194.4	57.8
22	Retirement benefit surplus	84.1	205.2
		11,236.7	10,785.1
	Current assets		
14	Inventories	20.6	16.9
15	Trade and other receivables	564.7	516.5
16	Investments – cash deposits	298.0	392.0
16	Cash and cash equivalents	335.1	478.7
19	Derivative financial instruments	55.8	56.5
		1,274.2	1,460.6
	Total assets	12,510.9	12,245.7
	Current liabilities		
17	Trade and other payables	(676.7)	(582.8)
	Current tax liabilities	(123.9)	(148.6)
18	Borrowings	(584.3)	(476.3)
19	Derivative financial instruments	(53.4)	(10.1)
20	Provisions	(6.8)	(4.7)
		(1,445.1)	(1,222.5)
	Net current (liabilities)/assets	(170.9)	238.1

Notes		At 31 March 2023 £m	At 31 March 2022 £m
	Non-current liabilities		
18	Borrowings	(6,296.7)	(6,015.7)
19	Derivative financial instruments	(893.8)	(1,192.8)
21	Deferred tax liabilities	(1,531.3)	(1,451.9)
22	Retirement benefit deficit	(33.0)	(41.8)
20	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
	Capital and reserves		
23	Share capital	32.0	32.0
	Share premium	1,165.0	1,165.0
	Retained earnings	1,089.7	1,096.3
24	Hedging reserve	17.8	20.4
24	Cost of hedging reserve	1.7	0.3
	Total equity	2,306.2	2,314.0

Notes 1 to 31 are an integral part of these financial statements. The financial statements were approved by the Board of Directors on 07 June 2023 and signed on its behalf by:

Peter Simpson
Chief Executive

Steven Buck
Chief Financial Officer

Company Balance Sheet as at 31 March 2023

Company number: 02366656

Notes		At 31 March 2023 £m	At 31 March 2022 £m
	Non-current assets		
11	Other intangible assets	253.9	218.0
12	Property, plant and equipment	10,711.6	10,304.1
19	Derivative financial instruments	194.4	57.8
22	Retirement benefit surplus	84.1	205.2
		11,236.7	10,785.1
	Current assets		
14	Inventories	20.6	16.9
15	Trade and other receivables	564.7	516.5
16	Investments – cash deposits	298.0	392.0
16	Cash and cash equivalents	328.4	475.8
19	Derivative financial instruments	55.8	56.5
		1,267.5	1,457.7
	Total assets	12,504.2	12,242.8
	Current liabilities		
17	Trade and other payables	(720.1)	(629.1)
	Current tax liabilities	(123.9)	(148.6)
18	Borrowings	(584.3)	(476.3)
19	Derivative financial instruments	(53.4)	(10.1)
20	Provisions	(6.8)	(4.7)
		(1,488.5)	(1,268.8)
	Net current (liabilities)/assets	(221.0)	188.9

Notes		At 31 March 2023 £m	At 31 March 2022 £m
	Non-current liabilities		
18	Borrowings	(6,296.7)	(6,015.7)
19	Derivative financial instruments	(893.8)	(1,192.8)
21	Deferred tax liabilities	(1,531.3)	(1,451.9)
22	Retirement benefit deficit	(33.0)	(41.8)
20	Provisions	(4.8)	(7.0)
		(8,759.6)	(8,709.2)
	Total liabilities	(10,248.1)	(9,978.0)
	Net assets	2,256.1	2,264.8
	Capital and reserves		
23	Share capital	32.0	32.0
	Share premium	1,165.0	1,165.0
	Retained earnings	1,039.6	1,047.1
24	Hedging reserve	17.8	20.4
24	Cost of hedging reserve	1.7	0.3
	Total equity	2,256.1	2,264.8

The Company has not presented its own income statement as permitted by section 408 of the Companies Act 2006. The profit in the year of the Company is £267.4 million (2022: loss of £443.1 million).

Notes 1 to 31 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 07 June 2023 and signed on its behalf by:

Peter Simpson
Chief Executive

Steven Buck
Chief Financial Officer

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)						
22	Actuarial gains on retirement benefit obligations	–	–	135.7	–	–	135.7
8	Income tax charge on items that will not be reclassified	–	–	(25.7)	–	–	(25.7)
24	Gains on cash flow hedges	–	–	–	59.3	–	59.3
24	Losses on cost of hedging	–	–	–	–	(2.6)	(2.6)
24	Amounts on cash flow hedges transferred to income statement	–	–	–	14.0	–	14.0
24	Deferred tax movement on hedging reserves	–	–	–	(15.5)	0.5	(15.0)
		–	–	110.0	57.8	(2.1)	165.7
	Total comprehensive (expense)/income	–	–	(332.8)	57.8	(2.1)	(277.1)
	Issue of shares	–	1,165.0	–	–	–	1,165.0
	Dividends	–	–	(96.3)	–	–	(96.3)
	At 31 March 2022	32.0	1,165.0	1,096.3	20.4	0.3	2,314.0

Notes		Stated capital £m	Share premium £m	Retained earnings £m	Hedging reserve £m	Cost of hedging reserve £m	Total equity £m
	Profit for the year	–	–	268.3	–	–	268.3
	Other comprehensive income/(expense)						
22	Actuarial losses on retirement benefit obligations	–	–	(141.2)	–	–	(141.2)
8	Income tax credit on items that will not be reclassified	–	–	35.3	–	–	35.3
24	Gains on cash flow hedges	–	–	–	27.9	–	27.9
24	Gains on cost of hedging	–	–	–	–	1.8	1.8
24	Amounts on cash flow hedges transferred to income statement	–	–	–	(31.1)	–	(31.1)
24	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
	Dividends	–	–	(169.0)	–	–	(169.0)
	At 31 March 2023	32.0	1,165.0	1,089.7	17.8	1.7	2,306.2

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	–	1,476.5	(37.4)	2.4	1,473.5
	Loss for the year	–	–	(443.1)	–	–	(443.1)
	Other comprehensive income/(expense)						
22	Actuarial gains on retirement benefit obligations	–	–	135.7	–	–	135.7
8	Income tax charge on items that will not be reclassified	–	–	(25.7)	–	–	(25.7)
24	Gains on cash flow hedges	–	–	–	59.3	–	59.3
24	Losses on cost of hedging	–	–	–	–	(2.6)	(2.6)
24	Amounts on cash flow hedges transferred to income statement	–	–	–	14.0	–	14.0
24	Deferred tax movement on hedging reserves	–	–	–	(15.5)	0.5	(15.0)
		–	–	110.0	57.8	(2.1)	165.7
	Total comprehensive (expense)/income	–	–	(333.1)	57.8	(2.1)	(277.4)
	Issue of shares	–	1,165.0	–	–	–	1,165.0
	Dividends	–	–	(96.3)	–	–	(96.3)
	At 31 March 2022	32.0	1,165.0	1,047.1	20.4	0.3	2,264.8

Notes		Stated capital £m	Share premium £m	Retained earnings £m	Hedging reserve £m	Cost of hedging reserve £m	Total equity £m
	Profit for the year	–	–	267.4	–	–	267.4
	Other comprehensive income/(expense)						
22	Actuarial losses on retirement benefit obligations	–	–	(141.2)	–	–	(141.2)
8	Income tax credit on items that will not be reclassified	–	–	35.3	–	–	35.3
24	Gains on cash flow hedges	–	–	–	27.9	–	27.9
24	Gains on cost of hedging	–	–	–	–	1.8	1.8
24	Amounts on cash flow hedges transferred to income statement	–	–	–	(31.1)	–	(31.1)
24	Deferred tax movement on hedging reserves	–	–	–	0.6	(0.4)	0.2
		–	–	(105.9)	(2.6)	1.4	(107.1)
	Total comprehensive income/(expense)	–	–	161.5	(2.6)	1.4	160.3
	Dividends	–	–	(169.0)	–	–	(169.0)
	At 31 March 2023	32.0	1,165.0	1,039.6	17.8	1.7	2,256.1

Notes		Group Year ended 31 March 2023 £m	Group Year ended 31 March 2022 £m	Company Year ended 31 March 2023 £m	Company 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)
	Profit 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	15.0	0.9
	Decrease/(increase) in short-term bank deposits	94.0	(312.0)	94.0	(312.0)

Notes		Group Year ended 31 March 2023 £m	Group Year ended 31 March 2022 £m	Company Year ended 31 March 2023 £m	Company Year ended 31 March 2022 £m
	Net cash used in investing activities	(550.0)	(828.8)	(551.0)	(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)
	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 cashand 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
16	**Cash and cash equivalents at 31 March**	335.1	478.7	328.4	475.8

1. Accounting policies

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

a) Basis of accounting

The group and Company financial statements have been prepared (in accordance with section 474(1) of the Companies Act 2006) under international accounting standards which are adopted for use within the United Kingdom by virtue of Chapter 2 or 3 of Part 2 of the International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019. The group financial statements have also been prepared in accordance with International Financial Reporting Standards as issued by the IASB and the Company financial statements have been prepared in accordance with UK adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006.

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.

Adjusted profit before tax excludes the fair value gains and losses arising on derivative financial instruments and energy derivatives that the group holds as economic hedges. These introduce volatility into the accounts due to the present value of future cash flows, which management believes is not representative of the underlying operational performance of the business.

b) Basis of preparation

The Anglian Water Services group (the group) financial statements comprise a consolidation of the financial statements of Anglian Water Services Limited (the Company) and its subsidiary, Anglian Water Services Financing Plc, at 31 March. Inter-company sales and profit are eliminated fully on consolidation.

Going concern

The Directors have undertaken a detailed review to assess the liquidity requirements of the group compared against the cash and borrowing facilities available to the group, as detailed to the right.

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 relative to RCV.

These updates along with company-specific changes have been incorporated into our latest forecast which was 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.

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 a 10% reduction in EBITDA.
- Debt covenants – The business has significant headroom against Default Events (where class A interest cover ratio is less than 1.6:1) under its securitised covenants with no plausible scenario identified that would cause an Event of Default.

1. Accounting policies continued

b) Basis of preparation continued

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.

Standards, amendments and interpretations effective or adopted

The following standards and amendments are effective in the group's consolidated financial statements:

- IFRIC guidance clarification on treatment of configuration and customisation costs in a cloud computing arrangement;
- Amendments to 'Insurance contracts' – deferral of IFRS9; and
- Amendments to IFRS 16 'Leases' Covid-19 related rent concessions beyond 30 June 2021.

Standards, amendments and interpretations effective or adopted

i IFRIC guidance clarification on treatment of configuration and customisation costs in a cloud computing arrangement

In April 2021, the IFRS Interpretations Committee ('IFRIC') agenda decision on the treatment of configuration and customisation costs in a cloud computing arrangement was ratified by the International Accounting Standards Board. The guidance clarified that in order for an intangible asset to be capitalised in relation to customisation and configuration costs in a software-as-a-service (SaaS) arrangement, it is necessary for there to be a separate intangible asset which meets the definition in IAS 38 Intangible Assets.

The group's previous policy was to capitalise such customisation and configuration costs. The group has therefore changed its accounting in the year that ended 31 March 2022 to align to the agenda decision. The group continues to apply the change in accounting policy.

ii Other amendments

Other amendments effective during the reporting period did not have any significant impact on adoption.

Standards, amendments, and interpretations not yet effective and not early adopted

The following standards and amendments have not been adopted in the group's consolidated financial statements as they are not yet effective. These will all be adopted at the beginning of the period they become mandatory:

- IFRS 17 'Insurance contracts' (effective from 1 April 2023, not yet endorsed in the EU or the UK);
- Amendments to IFRS 10 and IAS 28 'Sale or contribution of assets between an investor and its associate or joint venture' (effective date not yet set);
- Amendments to IAS 1 'Classification of liabilities as current or non-current' (effective from 1 January 2023, not yet endorsed in the EU or the UK);
- Amendments to IAS 16 'Property, plant and equipment – proceeds before intended use' (effective from 1 January 2022, not yet endorsed in the EU or the UK);
- Annual Improvements 2018-2020 Cycle – amendments to IFRS 1, IFRS 9 and IAS 41 (effective from 1 January 2022, not yet endorsed in the EU or the UK);
- Amendments to IFRS 3 'References to the Conceptual Framework' (effective from 1 January 2022, not yet endorsed in the EU or the UK);
- Amendments to IAS 37 'Onerous contracts – cost of fulfilling a contract' (effective 1 January 2022, not yet endorsed in the EU or the UK);
- Amendments to IAS 1 and IFRS Practice Statement 2 'Disclosure of accounting policies' (effective from 1 January 2023, not yet endorsed in the EU or the UK);
- Amendments to IAS 8 'Definition of accounting estimates' (effective from 1 January 2023, not yet endorsed in the EU or the UK); and
- Amendments to IAS 12 'Deferred tax related to assets and liabilities arising from single transaction'.

The group does not expect the future application of these amendments to have any significant impact on the consolidated financial statements.

1. Accounting policies continued

c) Foreign currencies

The group's consolidated financial statements are presented in British pound sterling, which is also the parent company's functional currency. Individual transactions denominated in foreign currencies are translated into local currency at the actual exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into local currency at the rates ruling at the balance sheet date. Profits and losses on both individual foreign currency transactions during the period and monetary assets and liabilities are dealt with in the income statement except for transactions where hedge accounting has been applied in accordance with IFRS 9 'Financial instruments'.

d) Segmental reporting

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

e) Revenue recognition

Revenue is recognised to reflect the transfer of goods or services to customers at an amount that reflects the consideration to which the group expects to be entitled to in exchange for those goods or services.

Principal source of income

The group's principal source of income is from customers in respect of the provision of water and water recycling services within Anglian Water, the group's regulated water and sewerage company, at a price determined annually by its regulatory tariffs.

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

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

Related non-volumetric, or standing, charges reflect our obligation to stand-ready to deliver water, as is the case with unmeasured supply (see below) and is accounted for accordingly.

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

Non-household revenue is charged and recognised on the basis of volumes supplied, based on data submitted by the market operator.

Secondary source of income

A secondary source of income for Anglian Water is from grants and contributions in respect of new connections for water and/or sewerage services. Judgement is required when applying IFRS 15 'Revenue from contracts with customers' in determining the customer and the performance obligations to that customer. Specifically, judgement is required as to whether the income is in relation to the provision of the connection to the group's infrastructure, allowing the completion of the construction of the property and it to be approved for sale, or to facilitate the ongoing provision of water and wastewater services to the properties in question. Please see note 2 for further details.

The significant components of grants and contributions, and their treatment, are as follows:

i New connection charges

The group considers the performance obligation to be satisfied on making the connection. Income for new connection charges is therefore recognised as the connection is completed.

ii Self-lay, requisitions and adoption fees

Revenue recognition is consistent with new connection charges (see (i) above).

iii Fair value of assets adopted for £nil consideration

These are principally sewers and pumping stations that a developer has constructed and then contributed to the group, on a £nil consideration basis, in exchange for being relieved of any future liability. Income is recognised on adoption based on the fair value of the asset adopted.

iv Infrastructure charges

Infrastructure charges are a developer's contribution to fund network reinforcement by the group. While these charges are a contribution to reinforcement of the network, they have to be paid by the developer as a condition of obtaining connection to the network and, as such, the group's performance obligation is satisfied by making the connection. As such, the income is recognised as the connection is made.

1. Accounting policies continued

e) Revenue recognition continued

v Diversions

Diversions arise where a highways agency, or other authority, reimburses the group for the majority of the costs incurred in diverting assets that represent an obstruction to the construction or upgrade of roads and railway lines. There is no performance obligation to the agency/authority beyond completing the diversion, therefore income is recognised immediately on completion.

Non-appointed activities

The group also provides additional services which are not categorised as a regulatory appointed activity. These relate to non-water/wastewater services and for use of land for water supply beyond duties imposed by regulation. Activities largely relate to the provision of property searches, referrals for connecting customers to insurance providers, processing of septic tank waste from households not connected to main sewers and from the use of our reservoirs for recreational activity. Revenue is recognised in line with the delivery of each performance obligation which is at a point in time as there is no ongoing obligation past the transaction date.

Other sources of revenue

i Other operating income

The principal sources of other operating income are from the generation of power, the sale of biosolids to farms, rents received and other minor income associated with operating activities.

f) Research and development

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

g) Exceptional items

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

h) Operating profit

Operating profit is stated after charging operational expenses but before finance income and finance costs.

i) Taxation

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates enacted or substantially enacted by the balance sheet date and that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

j) Dividends

Dividends are recognised as a liability in the period in which they are approved or committed. A corresponding amount is recognised directly in equity.

1. Accounting policies continued

k) Intangible assets

Other intangible assets represent computer software and internally generated assets which mainly comprise capitalised development expenditure.

Other intangible assets are shown at cost less subsequent amortisation and any impairment. Amortisation of intangible assets is calculated on a straight-line basis over their estimated useful lives, which are primarily three to 10 years.

Software-as-a-service (SaaS) arrangements

SaaS arrangements are service contracts providing the group with the right to access the cloud provider's application software over the contract period. Costs incurred to configure or customise, and the ongoing fees to obtain access to the cloud provider's application software, are recognised as operating expenses when the services are received.

Some of the costs incurred relate to the development of software code that enhances or modifies, or creates additional capability to, existing on-premise systems and meets the definition of, and the recognition criteria for, an intangible asset. These costs are recognised as intangible software assets and amortised over the useful life of the software on a straight-line basis. The useful lives of these assets are reviewed at least at the end of each financial year, and any change accounted for prospectively as a change in accounting period.

l) Property, plant and equipment

Property, plant and equipment comprises:

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

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

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	15–80 years
Infrastructure assets – water	50–120 years
Infrastructure assets – water recycling	50–160 years
Operational assets	30–80 years
Fixed plant, including meters	12–40 years
Vehicles, mobile plant and equipment	3–10 years

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

m) Leased assets

The group assesses whether a contract is, or contains a lease, at inception of the contract. The group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (defined as leases for individual assets with a value of less than £5,000). For these leases, the group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease, unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the group uses its incremental borrowing rate.

1. Accounting policies continued

m) Leased assets continued

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of the probability in exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate, or a change in expected payment under a guaranteed residual value, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

n) Investments – cash deposits

After initial recognition at fair value, financial investments are held at amortised cost. This is based on the business' practice of acquiring financial assets to collect their contractual cash flows and the simple nature of the investments made, which consist solely of principle payments and interest on the principle outstanding.

o) Inventories

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

p) Financial assets and liabilities

Financial assets and liabilities are recognised in the group's balance sheet when the group becomes a party to the contractual provisions of the instrument. Financial assets are initially classified as at fair value through profit and loss; fair value through other comprehensive income or amortised cost depending on the group's intention in regard to the collection of contractual cash flows (or sale) and whether the financial assets cash flows relate solely to the payment of principal and interest.

The Expected Credit Loss (ECL) model requires the group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets, therefore this is no longer dependent on the group first identifying a credit loss event. This requires consideration of a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- where credit risk is low or has not increased significantly since recognition ('Stage 1'),
- where credit risk is not low or has increased significantly since initial recognition ('Stage 2') and
- where the financial asset is credit impaired (Stage 3).

'12-month expected credit losses' are recognised for Stage 1 while 'lifetime expected credit losses' are recognised for Stage 2.

Expected credit losses are defined as the weighted average of credit losses with the respective risk of default occurring as the weights.

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

The group manages credit risk exposures through a comprehensive counterparty credit risk policy. See the financial instruments disclosures for further details.

1. Accounting policies continued

q) Trade receivables

Trade receivables are initially recognised at their transaction price. If there is objective evidence that the amount receivable is impaired it is written down to its recoverable amount, with the irrecoverable amount being recognised as an expense in operating costs.

The group makes use of a simplified approach in accounting for trade and other receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the trade receivable.

In calculating the expected loss, the group applies expected recovery rates, based on actual historical cash performance and forward-looking information.

The group assesses impairment of trade receivables on a collective basis and where they possess shared credit risk characteristics they have been grouped; these groups are residential, non-household and developer services, and other customers.

In particular, existing or forecast adverse changes in financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations is taken into account when assessing whether credit risk has increased significantly since initial recognition.

The write off policy has been consistently applied throughout 2022/23. Debt is only written off after all available economic options for collecting the debt have been exhausted and the debt has been deemed to be uncollectable or is subject to a settlement agreement or forgiveness scheme. This may be because it is, unrealistic, impractical, inefficient or uneconomic to collect the debt.

Situations where this may arise and where debt may be written off are as follows:

- Where the customer has absconded and attempts to trace the customers whereabouts prove unsuccessful.
- Where the customer has died without leaving an estate or has left an insufficient estate on which to levy execution.
- Where the debt is subject to insolvency proceedings and there are insufficient funds to settle the debt.
- Where the value and/or age of debt make it uneconomic to pursue.
- Where debt becomes statute barred.

We also write off debts following a settlement arrangement on an outstanding balance and for eligible customers on our debt forgiveness scheme (Back on Track) as part of payment matching.

Debt that is still subject to enforcement activity is not written off unless it becomes uneconomic to pursue.

r) Cash and cash equivalents

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

Other short-term deposits with a tenor of more than three months are classified as investments – cash deposits.

s) Borrowings

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

t) Derivative financial instruments

Derivative instruments are used for hedging purposes in line with the group's 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.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. Derivatives are not offset in the financial statements unless the group has both a legally enforceable right and intention to offset. The impact of the Master Netting Agreements on the group's financial position is disclosed in note 19. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not due to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

1. Accounting policies continued

t) Derivative financial instruments continued

The group designates certain derivatives as either a fair value or cash flow hedge in accordance with IFRS 9 'Financial Instruments'. At the inception of the hedge relationship, the group documents the relationship between the hedging instrument and the hedged item, along with how the hedge aligns with the group's risk management strategy. Furthermore, at the inception of the hedge and on an ongoing basis, the group documents whether the hedging instrument is effective in offsetting changes in the fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the group actually hedges and the quantity of the hedging instrument that the group actually uses to hedge that quantity of hedged item.

The group rebalances a hedging relationship in order to comply with the hedge ratio requirements when necessary. In such cases, discontinuation may apply to only part of the hedging relationship. For example, the hedge ratio might be adjusted in such a way that some of the volume of the hedged item is no longer part of a hedging relationship, hence hedge accounting is discontinued only for the volume of the hedged item that is no longer part of the hedging relationship.

In some hedge relationships the group excludes, from the designation, the currency basis spread of cross currency hedging instruments. In such cases the fair value change of the currency basis element of the cross currency interest rate swap is recognised in other comprehensive income and accumulated in the cost of hedging reserve and reclassified from equity to profit or loss on a straight-line basis over the term of the hedging relationship. The treatment for the currency basis element is optional and the option is applied on an individual hedge basis.

Embedded derivatives

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

Derivatives embedded in hybrid contracts with a financial asset host within the scope of IFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured as either amortised cost or fair value as appropriate.

Derivatives embedded in hybrid contracts with hosts that are not financial assets within the scope of IFRS 9 (e.g. financial liabilities) are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss (FVTPL).

If the hybrid contract is a quoted financial liability, instead of separating the embedded derivative, the group generally designates the whole hybrid contract at FVTPL.

An embedded derivative is presented as a non-current asset or non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and is not expected to be realised or settled within 12 months.

The group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively.

i Fair value hedge

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

If a fair value hedge is discontinued, the hedged item is not adjusted for any subsequent movements in the hedged risk. The cumulative amount of fair value adjustment on the hedge item at the point of discontinuation is then amortised to profit or loss over the remaining life of the original hedge based on a recalculated effective interest rate.

If the hedged item is derecognised, the unamortised fair value is recognised immediately in profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss.

1. Accounting policies continued

t) Derivative financial instruments continued

ii Cash flow hedge

The effective portion of changes in the fair value of derivatives designated and qualifying as cash flow hedges is recognised in other comprehensive income and accumulated in the cash flow hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within 'fair value gains/(losses) on derivative financial instruments'.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for example, in the periods when interest income or expense is recognised, or when the forecast hedged cost takes place).

When a cash flow hedge is discontinued, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

iii Derivatives that do not qualify for hedge accounting

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

u) Provisions

A provision is recognised when the group has a present legal or constructive obligation as a result of a past event for which it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. If the effect of time value of money 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. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

v) Retirement benefit obligations

i Defined benefit schemes

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

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

ii Defined contribution schemes

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

2. Key sources of estimation uncertainty and critical accounting judgements

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

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

A key consideration, but not one which the group views as representing a material estimation uncertainty, is climate change. Climate change is a global challenge and an emerging risk not only to the environment but markets, businesses and people throughout the world. Climate change is embedded into everything we do and our long-term strategy effectively identifies, manages and mitigates these key risks. Consideration has been given to the impact of climate-related risks on management's judgements and estimates, including the carrying value of our assets and their useful economic lives (UEL) as a result of our 2030 net zero route map.

2. Key sources of estimation uncertainty and critical accounting judgements continued

Whilst the impact of climate-related risks on the consolidated financial statements for the year is not material, we are aware of the ever-changing risks associated to climate change and will continue to regularly assess these risks against judgements and estimates made in preparation of the group's financial statements.

For further detail, see the strategic ambitions, risk and Taskforce for Climate-related Financial Disclosures sections of the Annual Report.

a) Critical accounting 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 £132.5 million (2022: £108.7 million) of own work capitalised. Judgement is made to ensure these costs relate to relevant assets and that future economic benefit will flow to the group. During the year, the group recognised £53.9 million (2022: £46.1 million) software as intangible assets.

ii Asset lives

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

In assessing the impact of climate change we have considered not just the impact on our asset base as a result of no action but also the impact of our 2030 net zero route map has been incorporated into our normal assessment of asset Useful Economic Lives (UEL). Nothing has been identified within our net zero plan which has the potential to impact on our existing assets base or their net book values. We have also set out the risks posed by climate change and how we will address them in our latest Adaptation Report.

As a result of the impact of severe weather events there is the risk of impairment to our assets. There have been no such adjustments in the current financial year therefore not indicating the need to amend our UEL policy as a result of severe weather events. This will be kept continuously under review to ensure appropriate treatment.

iii Recognition of grants and contributions

a) Income from connections to the water and wastewater network

The group receives income from developers for new connections to the water and wastewater networks either in the form of cash or infrastructure assets. The significant components are as follows:

1) New connection charges £14.2 million (2022: £13.9 million) – developer request for the provision of new connections to the network.
2) Infrastructure charges £18.6 million (2022: £20.1 million) – developers' contribution to offsite network reinforcement as permitted by the Water Industry Act.
3) Self-lay, requisitions and adoption fees £7.1 million (2022: £7.4 million) – providing the developer with assistance in the construction of assets which enable the development to be connected to the network.
4) Adopted assets at nil consideration £46.0 million (2022: £39.2 million) – developer contributes assets on a nil consideration basis that have been installed on a new development.

Judgement is required when applying IFRS 15 'Revenue from contracts with customers' in determining the customer and the performance obligations to that customer. Specifically, judgement is required as to whether the income is in relation to the provision of the connection to the group's infrastructure, allowing the completion of the construction of the property and it to be approved for sale, or to facilitate the ongoing provision of water and wastewater services to the properties in question.

For 1 and 2 above, all communication is between ourselves and the developer/site owner and the agreement is signed by said developer/site owner. The agreements set out components of the charge and what is to be delivered. Our conclusion is therefore that the developer is the customer and our obligation to the developer is met when properties are connected to the network, and therefore this is considered the relevant trigger for income recognition. We believe the ongoing obligation to maintain the connection to the property is a separate contract with the property owner (in most cases the household customer) and separate from the contract with the developer.

For 3 and 4, it is the developer who constructs and transfers the asset, and therefore similar to the above, the agreement is between ourselves and the developer. The occupants of the properties served are unaware of the transaction and indifferent to who is maintaining the asset, they receive no benefit from the transaction.

2. Key sources of estimation uncertainty and critical accounting judgements continued

a) Critical accounting judgements continued

Our obligation is to inspect and adopt the assets. As such, the group considers that the ongoing obligation to maintain the assets is a separate contract with the property owner (in most cases the household customer) and separate from the contract with the developer. Therefore, revenue from these streams should be recognised at a point in time when the contract with the developer is fulfilled; on connection, completion, or adoption.

Our obligations to maintain and reinforce our infrastructure do not constitute performance obligations as these are imposed on us by the regulator. A performance obligation involves a transfer of control of benefit from the seller to the customer; however, maintenance and reinforcement of the infrastructure does not transfer any benefit outside of Anglian Water, because the assets being maintained or reinforced are Anglian Water's own assets. The promise to the customer is to provide water/sewerage services, the promise to the developer is to provide a connection and there is no performance obligation in respect of upkeep of the assets.

b) Diversions

The group also receives income from various authorities which is reimbursing the cost of diverting assets due to them presenting an obstruction to the construction or upgrade of infrastructure such as roads or rail. Diversion income within the year amounted to £6.8 million (2022: £8.1 million).

A similar revenue recognition approach is taken with diversions. The obligation here is that we divert the sewer or water main at the request of the relevant authority or agency, and our obligation is fully met once the diversion is completed, and therefore the contribution is fully recognised as revenue at that point in time.

b) Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the group. Such changes are reflected in the assumptions when they occur.

The key areas involving estimation are discussed below.

i Measured income accrual

For Anglian Water the measured income accrual is an estimation of the amount of main water and wastewater charges unbilled at the year end. The accrual is estimated using a defined methodology based upon weighted average water consumption by tariff, which is calculated based upon historical billing information. The calculation is sensitive to estimated consumption for measured domestic customers. For 2022/23 the average consumption for measured household customers was 97 cubic metres, a fall or rise of two cubic metres (2%) in average annual consumption will reduce or increase revenue by approximately £12.2 million respectively.

ii Retirement benefit actuarial assumptions

The Company operates one defined benefit scheme (which is closed to new members and future accrual), a defined contribution scheme and an unfunded arrangement for former employees. Under IAS 19 'Employee Benefits' the Company has recognised an actuarial loss of £141.2 million (2022: gain of £135.7 million) in respect of the defined benefit scheme which affects other comprehensive income and net assets. The actuarial valuation of the scheme liabilities is reliant on key assumptions which include: the discount rate, salary inflation and life expectancy. The main assumptions and associated sensitivities are set out in note 22 of the financial statements.

c) Other area involving estimation

i Expected credit loss on trade receivables

IFRS 9 requires that historical loss rates are adjusted as appropriate to reflect current conditions and estimates of future economic conditions.

The actual level of receivables collected may differ from the estimated levels of recovery, which could impact operating results positively or negatively.

Management apply judgement when determining impact of the wider economy on future cash collection (macro-economic).

The extent to which future cash collections will be impacted by macro-economic trends is uncertain. Management have estimated the potential impact through scenario analysis considering the correlation between cash collection rates against unemployment rates. Office of National Statistics and Bank of England forecasts for these measures have then been utilised to forecast changes in future cash collection rates.

2. Key sources of estimation uncertainty and critical accounting judgements continued

c) Other area involving estimation continued

The Bank of England forecast at February 2023 now predicts unemployment to peak at 5% in the medium term. Based on management's calculations, this is consistent with predictions at March 2022 the additional provision required against bills raised to the balance sheet date has remained broadly the same, at £6.9 million.

Between the August and February publications, forecast unemployment fell significantly, should it return to the August levels, which showed a peak of 6.2%, or fall by a similar amount again it would increase/decrease the bad debt provision by £6.0 million.

3. Segmental information

The Directors believe that the whole of the group's activities constitute a single class of business.

The group's revenue is wholly generated from within the United Kingdom.

4. Revenue

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Water and water recycling services:		
Anglian Water		
Household – measured	859.9	807.1
Household – unmeasured	223.7	221.3
Non-household – measured	260.6	228.9
Grants and contributions	106.0	100.1
Other	44.7	42.4
	1,494.9	1,399.8

Included in Grants and contributions are adopted assets of £46.0 million (2022: £39.2 million) which are non-cash. Other includes £25.9 million (2022: £25.2 million) of revenue related to non-appointed business activities.

The above analysis excludes other operating income see note 5 and finance income see note 7.

The group derives its revenue from contracts with customers for the transfer of goods and services at a point in time in the above revenue categories, with the exception of Household – unmeasured which is recorded on a straight-line basis throughout the year, see our accounting policy in note 1 for further details.

Revenue recognised which exceeds the amounts billed is recorded as contract asset while payments received prior to delivering the service is recorded as contract liability. Refer below for the movement in contract assets and liabilities:

	Group and Company	
	2023 £m	2022 £m
Contract asset		
At 1 April	310.0	294.1
Amounts billed	(1,099.0)	(1,020.1)
Revenue recognised	1,120.5	1,036.0
At 31 March	331.5	310.0

	Group and Company	
	2023 £m	2022 £m
Contract liability		
At 1 April	(338.3)	(288.6)
Cash received in advance	(1,090.8)	(1,078.1)
Revenue recognised	1,083.6	1,028.4
At 31 March	(345.5)	(338.3)

5. Other operating income

Other operating income comprises principally income from sustainable power generation, biosolid sales and rents received.

6. Operating costs

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Raw materials and consumables	37.3	24.1
Staff costs	280.2	243.4
Research and development	7.9	7.7
Contribution to Anglian Water Assistance Fund	1.5	2.2
Short-term lease costs	3.2	2.8
Hired and contracted services	261.5	233.0
Rates	59.1	66.9
Power	89.7	83.0
Regulatory fees	32.7	28.6
Insurance	10.8	11.9
Vehicles and fuel	16.8	13.0
Other expenses	13.7	9.5
Own work capitalised	(132.5)	(108.7)
Profit on disposal of property, plant and equipment[1]	(3.9)	(4.9)
Operating costs before depreciation, amortisation and charge for bad and doubtful debts	678.0	612.5
Depreciation of property, plant and equipment	332.7	309.7
Amortisation of intangible assets	46.4	38.0
Depreciation and amortisation	379.1	347.7
Charge for bad and doubtful debts	30.1	11.1
Operating costs	1,087.2	971.3

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

During the year the group obtained the following services from the Company's Auditor:

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Fees payable to the company's Auditor for the audit of the consolidated financial statements	0.3	0.3
Fees payable to the Company's Auditor for the audit of the subsidiaries	0.1	0.1
Fees payable to the Company's Auditor for other services		
Audit-related assurance services	0.3	0.3
	0.7	0.7

The Company's Auditor for the year ended 31 March 2023 and 31 March 2022 was Deloitte LLP. Audit related assurance services predominantly relate to regulatory reporting to Ofwat and the review of the group's half-year results.

7. Net finance costs

	Year ended 31 March 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
	(731.1)	(460.1)

7. Net finance costs continued

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
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)	(575.2)
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. See note 19 for details.

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).

8. Taxation

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £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.

8. Taxation continued

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

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

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

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £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	29.3	(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 £m	Year ended 31 March 2022 £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 (credit)/charge	(35.5)	40.7
Total tax (credit)/charge recognised in other comprehensive income	(35.5)	40.7

9. Employee information and Directors' emoluments

a) Employee information

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Staff costs		
Wages and salaries	233.5	204.4
Social security costs	25.1	20.5
Pension costs – defined contribution	21.5	18.5
Pension costs – defined benefit	0.1	–
	280.2	243.4

Staff costs for the year ended 31 March 2023 in the table above are shown inclusive of £101.2 million (2022: £87.7 million) of costs that have been capitalised, as shown within 'own work capitalised' in note 6.

9. Employee information and Directors' emoluments continued

a) Employee information continued

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

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Water Services	1,331	1,277
Water Recycling Services	1,517	1,554
Customer Services	524	524
Asset Management and Other	1,923	1,774
	5,295	5,129

The Company

Group employees are employed by the Company thus has the same number of employees as the group.

b) Directors' emoluments

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Aggregate emoluments	1,033	1,462
Pension costs – defined contribution	–	2

Aggregate emoluments of the Directors comprise salaries, taxable benefits, cash payments in lieu of company pension contributions and amounts payable under annual bonus schemes. No retirement benefits are accrued for Directors (2022: non Directors) under a defined benefit pension scheme. Retirement benefits are accruing to two Directors (2022: two Directors) under a defined contribution pension scheme. In addition to the aggregate emoluments above, certain Directors receive emoluments from other Anglian Water Group Limited Group undertakings.

c) Highest paid Director

More detailed disclosures of the Directors' remuneration can be found in the Remuneration Report on pages 127 to 155.

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Aggregate emoluments	672	913

10. 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 at £3.01 per share). See note 31 for details of dividends declared after the year end.

11. Other intangible assets

	Group and Company		
	Computer Software £m	Internally generated £m	Total £m
Cost			
At 1 April 2021	397.9	157.4	555.3
Additions	46.1	16.0	62.1
Disposals	(2.4)	–	(2.4)
At 31 March 2022	441.6	173.4	615.0
Additions	53.9	28.4	82.3
Disposals	(12.3)	–	(12.3)
At 31 March 2023	483.2	201.8	685.0

11. Other intangible assets continued

	Group and Company		
	Computer Software £m	Internally generated £m	Total £m
Accumulated amortisation			
At 1 April 2021	(260.3)	(100.5)	(360.8)
Charge for the year	(22.8)	(15.2)	(38.0)
Disposals	1.8	–	1.8
At 31 March 2022	(281.3)	(115.7)	(397.0)
Charge for the year	(31.6)	(14.8)	(46.4)
Disposals	12.3	–	12.3
At 31 March 2023	(300.6)	(130.5)	(431.1)
Net book amount			
At 31 March 2023	182.6	71.3	253.9
At 31 March 2022	160.3	57.7	218.0

The internally generated intangible assets mainly comprise capitalised development expenditure.

Included within additions above is £6.4 million (2022: £3.1 million) of interest that has been capitalised on qualifying assets, at an average rate of 8.6% (2022: 4.8%).

Intangible assets with a cost of £12.3 million and net book value of nil were disposed of during the year (2022: £2.4 million) (£0.6 million net book value).

Included within intangible assets above are assets under construction of £121.6 million (2022: £101.4 million). £43.5 million (2022: £24.2 million) of this relates to the SAP replacement project which is expected to go live in 2024. Assets under construction are not subject to amortisation.

12. Property, plant and equipment

	Group and Company					
	Land and buildings £m	Infra-structure assets £m	Operational assets £m	Vehicles, mobile plant and equipment £m	Assets under construction £m	Total £m
Cost						
At 1 April 2021	85.3	7,159.6	6,400.3	941.9	436.2	15,023.3
Additions	–	–	–	–	572.4	572.4
Transfers on commissioning	6.4	122.5	114.4	127.9	(371.2)	–
Disposals	(0.9)	–	(7.3)	(23.5)	–	(31.7)
At 31 March 2022	90.8	7,282.1	6,507.4	1,046.3	637.4	15,564.0
Additions					733.4	733.4
Transfers on commissioning	4.9	164.4	233.7	113.0	(516.0)	–
Disposals	(0.4)	–	(12.9)	(32.5)	–	(45.8)
At 31 March 2023	95.3	7,446.5	6,728.2	1,126.8	854.8	16,251.6
Accumulated depreciation						
At 1 April 2021	(14.7)	(840.8)	(3,491.0)	(635.1)	–	(4,981.6)
Charge for the year	(3.9)	(59.5)	(190.7)	(55.6)	–	(309.7)
Disposals	0.9	–	7.1	23.4	–	31.4
At 31 March 2022	(17.7)	(900.3)	(3,674.6)	(667.3)	–	(5,259.9)
Charge for the year	(4.0)	(62.7)	(202.9)	(63.1)	–	(332.7)
Disposals	0.4	–	12.5	32.4	–	45.3
At 31 March 2023	(21.3)	(963.0)	(3,865.0)	(698.0)	–	(5,547.3)
Net book amount						
At 31 March 2023	74.0	6,483.5	2,863.2	428.8	854.8	10,704.3
At 31 March 2022	73.1	6,381.8	2,832.8	379.0	637.4	10,304.1

Property, plant and equipment at 31 March 2023 includes land of £30.2 million (2022: £28.3 million) which is not subject to depreciation. Included within additions above is £34.4 million (2022: £13.6 million) of interest that has been capitalised on qualifying assets, at an average rate of 8.6% (2022: 4.8%).

12. Property, plant and equipment continued

Right-of-use assets held under leases

Included within the amounts shown above are the following amounts in relation to right-of-use assets held under leases:

	Group and Company				
	Land and buildings £m	Infra-structure assets £m	Operational assets £m	Vehicles, mobile plant and equipment £m	Total £m
At 31 March 2023					
Opening net book value	28.2	4.9	36.9	5.4	75.4
Additions	0.1	–	–	6.0	6.1
Disposals	–	–	–	(0.2)	(0.2)
Depreciation charge	(3.3)	–	(1.3)	(2.3)	(6.9)
Depreciation on disposals	–	–	–	0.2	0.2
Net book value	25.0	4.9	35.6	9.1	74.6
At 31 March 2022					
Opening net book value	27.0	5.0	38.2	3.0	73.2
Additions	4.5	–	–	3.9	8.4
Disposals	(0.8)	–	–	(0.8)	(1.6)
Depreciation charge	(3.3)	(0.1)	(1.3)	(1.5)	(6.2)
Depreciation on disposals	0.8	–	–	0.8	1.6
Net book value	28.2	4.9	36.9	5.4	75.4

13. Investments

The sole subsidiary undertaking is Anglian Water Services Financing Plc, whose principal activity is that of a financing company. The value of the investment is £12,502. It is 100% owned, all in ordinary shares, and is registered, incorporated and operating in the UK at 31 March 2023. The address of its registered office is Lancaster House, Lancaster Way, Ermine Business Park, Huntingdon, Cambridgeshire, PE29 6XU.

14. Inventories

	Group		Company	
	2023 £m	2022 £m	2023 £m	2022 £m
Raw materials and consumables	20.6	16.9	20.6	16.9
	20.6	16.9	20.6	16.9

15. Trade and other receivables

	Group		Company	
	2023 £m	2022 £m	2023 £m	2022 £m
Trade receivables	438.4	406.0	438.4	406.0
Provision for bad and doubtful debts	(258.1)	(236.4)	(258.1)	(236.4)
Net trade receivables	180.3	169.6	180.3	169.6
Loans receivable from group undertakings	1.0	1.4	1.0	1.4
Other amounts receivable	40.3	28.7	40.3	28.7
Prepayments and accrued income	343.1	316.8	343.1	316.8
	564.7	516.5	564.7	516.5

Other amounts receivable includes £18.8 million VAT debtor (2022: £14.7 million) and various other sundry debtors.

Prepayments and accrued income as at 31 March 2023 includes water and water recycling income not yet billed of £331.5 million (2022: £312.4 million). Of the trade receivables, £427.3 million (2022: £398.4 million) relates to residential customers, £0.7 million (2022: £1.1 million) relates to non-household retailer balances, and the remaining balance of £10.4 million (2022: £6.5 million) relates to developer services and other receivables. The majority of non-household customers are billed in arrears and are therefore included within accrued income above.

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

There is no fixed payment date for amounts owed by group undertakings and no interest is applied. Amounts are payable on demand.

15. Trade and other receivables continued

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

Following the introduction of market reform on 1 April 2017, the provision of water and wastewater services to non-household customers was transferred to a relatively small number of 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 £nil receivables (2022: £nil) and £8.2 million of income accrued at 31 March 2023 (2022: £4.9 million).

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

	Group and Company	
	2023 £m	2022 £m
At 1 April	236.4	233.6
Charge for bad and doubtful debts	30.1	11.1
Amounts written off during the year	(8.6)	(8.8)
Amounts recovered during the year	0.2	0.5
At 31 March	258.1	236.4

16. Analysis of net debt

	Group				
			Liabilities from financing activities		
	Cash and cash equivalents[1] £m	Current asset investments – cash deposits £m	Borrowings £m	Derivative financial instruments[2] £m	Total £m
At 1 April 2021	205.9	80.0	(6,935.7)	(841.0)	(7,490.8)
Cash flows					
Interest paid	(222.3)	–	29.0	(3.0)	(196.3)
Issue costs paid	(1.5)	–	1.5	–	–
Interest on leases	(1.2)	–	–	–	(1.2)
Increase in amounts borrowed	100.5	–	(100.5)	–	–
Repayment of amounts borrowed	(656.4)	–	656.4	–	–
Repayment of principal on derivatives	75.9	–	–	(75.9)	–
Repayment of principal on leases	(12.0)	–	12.0	–	–
Proceeds from issue of ordinary shares	1,165.0	–	–	–	1,165.0
Non-financing cash flows[3]	(175.2)	312.0	–	–	136.8
	272.8	312.0	598.4	(78.9)	1,104.3
Movement in interest accrual on debt	–	–	7.3	–	7.3
New lease agreements	–	–	(8.2)	–	(8.2)
Amortisation of issue costs	–	–	(4.1)	–	(4.1)
Indexation of borrowings and RPI swaps	–	–	(170.2)	(84.8)	(255.0)
Fair value gains and (losses) and foreign exchange	–	–	20.5	(157.3)	(136.8)
At 31 March 2022	478.7	392.0	(6,492.0)	(1,162.0)	(6,783.3)

16. Analysis of net debt continued

	Group				
			Liabilities from financing activities		
	Cash and cash equivalents[1] £m	Current asset investments – cash deposits £m	Borrowings £m	Derivative financial instruments[2] £m	Total £m
At 31 March 2022	478.7	392.0	(6,492.0)	(1,162.0)	(6,783.3)
Cash flows					
Interest paid	(200.6)	–	27.6	(3.5)	(176.5)
Issue costs paid	(0.7)	–	1.0	–	0.3
Interest on leases	(0.9)	–	–	–	(0.9)
Increase in amounts borrowed	740.8	–	(740.8)	–	–
Repayment of amounts borrowed	(668.8)	–	668.8	–	–
Repayment of principal on leases	(5.3)	–	5.3	–	–
Non-financing cash flows[3]	(8.1)	(94.0)	–	–	(102.1)
	(143.6)	(94.0)	(38.1)	(3.5)	(279.2)
Movement in interest accrual on debt	–	–	4.9	–	4.9
New lease agreements	–	–	(5.9)	–	(5.9)
Amortisation of issue costs	–	–	(3.2)	–	(3.2)
Indexation of borrowings and RPI swaps	–	–	(363.0)	(198.4)	(561.4)
Fair value gains and losses and foreign exchange	–	–	16.3	666.2	682.5
At 31 March 2023	335.1	298.0	(6,881.0)	(697.7)	(6,945.6)
Net debt at 31 March 2023 comprises:					
Non-current assets	–	–	–	182.9	182.9
Current assets	335.1	298.0	–	37.4	670.5
Current liabilities	–	–	(584.3)	(31.5)	(615.8)
Non-current liabilities	–	–	(6,296.7)	(886.5)	(7,183.2)
	335.1	298.0	(6,881.0)	(697.7)	(6,945.6)

1 Included within cash and cash equivalents is £7.6 million (2022: £8.5 million) of cash which is ring fenced to be used to fund projects awarded by Ofwat in relation to their innovation fund.

2 Derivative financial instruments exclude the asset of £0.7 million (2021: asset of £73.4 million) in respect of the fair value of energy hedges, as these are not classified as part of net debt.

3 Non-financing cash flows comprise: net cash flows from operating activities of £710.9 million (2022: £749.9 million), less net cash used in investing activities of £550.0 million (2022: £828.8 million) and dividends paid of £169.0 million (2022: £96.3 million).

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

	Group and Company	
	2023 £m	2022 £m
Non-current assets	11.5	27.5
Current assets	18.4	48.1
Current liabilities	(21.9)	–
Non-current liabilities	(7.3)	(2.2)
	0.7	73.4

	Company				
			Liabilities from financing activities		
	Net cash and cash equivalents[1] £m	Current asset investments – cash deposits £m	Borrowings £m	Derivative financial instruments[2] £m	Total £m
At 1 April 2021	180.7	80.0	(6,935.7)	(841.0)	(7,516.0)
Cash flows					
Interest paid	(222.3)	–	29.0	(3.0)	(196.3)
Issue costs paid	(1.5)	–	1.5	–	–
Interest on leases	(1.2)	–	–	–	(1.2)
Increase in amounts borrowed	100.5	–	(100.5)	–	–
Repayment of amounts borrowed	(656.4)	–	656.4	–	–
Repayment of principal on derivatives	75.9	–	–	(75.9)	–
Repayment of principal on leases	(12.0)	–	12.0	–	–
Proceeds from issue of ordinary shares	1,165.0	–	–	–	1,165.0
Non-financing cash flows[3]	(152.9)	312.0	–	–	159.1
	295.1	312.0	598.4	(78.9)	1,126.6

16. Analysis of net debt continued

	Company				
			Liabilities from financing activities		
	Net cash and cash equivalents[1] £m	Current asset investments – cash deposits £m	Borrowings £m	Derivative financial instruments[2] £m	Total £m
Movement in interest accrual on debt	–	–	7.3	–	7.3
New lease agreements	–	–	(8.2)	–	(8.2)
Amortisation of issue costs	–	–	(4.1)	–	(4.1)
Indexation of borrowings and RPI swaps	–	–	(170.2)	(84.8)	(255.0)
Fair value gains and losses and foreign exchange	–	–	20.5	(157.3)	(136.8)
At 31 March 2022	475.8	392.0	(6,492.0)	(1,162.0)	(6,786.2)
Cash flows					
Interest paid	(200.6)	–	27.6	(3.5)	(176.5)
Issue costs paid	(0.7)	–	1.0	–	0.3
Interest on leases	(0.9)	–	–	–	(0.9)
Increase in amounts borrowed	740.8	–	(740.8)	–	–
Repayment of amounts borrowed	(668.8)	–	668.8	–	–
Repayment of principal on leases	(5.2)	–	5.2	–	–
Non-financing cash flows[3]	(12.0)	(94.0)	–	–	(106.0)
	(147.4)	(94.0)	(38.2)	(3.5)	(283.1)
Movement in interest accrual on debt	–	–	4.9	–	4.9
New lease agreements	–	–	(5.7)	–	(5.7)
Amortisation of issue costs	–	–	(3.2)	–	(3.2)
Indexation of borrowings and RPI swaps	–	–	(363.0)	(198.4)	(561.4)
Fair value gains and losses and foreign exchange	–	–	16.3	666.2	682.5
At 31 March 2023	328.4	298.0	(6,880.9)	(697.7)	(6,952.2)

	Company				
			Liabilities from financing activities		
	Net cash and cash equivalents[1] £m	Current asset investments – cash deposits £m	Borrowings £m	Derivative financial instruments[2] £m	Total £m
Net debt at 31 March 2023 comprises:					
Non-current assets	–	–	–	182.9	182.9
Current assets	328.4	298.0	–	37.4	663.8
Current liabilities	–	–	(584.3)	(31.5)	(615.7)
Non-current liabilities	–	–	(6,296.7)	(886.5)	(7,183.2)
	328.4	298.0	(6,881.0)	(697.7)	(6,952.2)

1 Included within cash and cash equivalents is £7.6 million (2022: £8.5 million) of cash which is ring fenced to be used to fund projects awarded by Ofwat in relation to their innovation fund.

2 Derivative financial instruments exclude the asset of £0.7 million (2022: asset of £73.4 million) in respect of the fair value of energy hedges, as these are not classified as part of net debt.

3 Non-financing cash flows comprise: net cash flows from operating activities of £708.1 million (2022: £772.4 million), less net cash used in investing activities of £551.1 million (2022: £829.3 million) and dividends paid of £169.0 million (2022: £96.3 million).

17. Trade and other payables

	Group		Company	
	2023 £m	2022 £m	2023 £m	2022 £m
Trade payables	31.4	42.4	31.4	42.4
Capital creditors and accruals	189.5	130.9	189.5	130.9
Receipts in advance	345.5	338.3	345.5	338.3
Amounts owed to group undertakings	1.0	0.7	44.3	47.0
Other taxes and social security	6.4	5.2	6.4	5.2
Accruals and deferred income	89.7	60.2	89.8	60.2
Other payables	13.2	5.1	13.2	5.1
	676.7	582.8	720.1	629.1

17. Trade and other payables continued

Receipts in advance includes £301.7 million (2022: £291.0 million) relating to amounts received from customers for water and sewerage charges in respect of bills that fall due in the following year.

Accruals and deferred income is made up of £82.5 million accruals (2022: £57.9 million) with the remainder attributable to the deferred income.

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

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

There is no fixed payment date for amounts owed to group undertakings and no interest is applied. Amounts are payable on demand.

18. Loans and other borrowings

	Group		Company	
	2023 £m	2022 £m	2023 £m	2022 £m
£250 million 5.837% fixed rate 2022	–	259.7	–	259.7
£200 million 6.875% fixed rate 2023	208.4	208.4	208.4	208.4
£200 million 6.625% fixed rate 2029	202.7	202.7	202.7	202.7
£246 million 6.293% fixed rate 2030	250.3	253.1	250.3	253.1
£75 million 3.666% index-linked 2024	149.4	132.8	149.4	132.8
£200 million 3.07% index-linked 2032	396.6	352.1	396.6	352.1
£60 million 3.07% index-linked 2032	111.5	106.1	111.5	106.1
IFRS 16 leases	36.4	35.8	36.4	35.8
£402 million 2.4% index-linked 2035	496.8	671.4	496.8	671.4
£50 million 1.7% index-linked 2046	88.9	79.0	88.9	79.0
£50 million 1.7% index-linked 2046	89.0	79.5	89.0	79.5
£40 million 1.7146% indexation bond 2056	72.1	63.9	72.1	63.9
£50 million 1.6777% indexation bond 2056	90.1	79.8	90.1	79.8
£60 million 1.7903% indexation bond 2049	107.7	95.6	107.7	95.6
£100 million 1.3784% indexation bond 2057	178.7	159.5	178.7	159.5

	Group		Company	
	2023 £m	2022 £m	2023 £m	2022 £m
£50 million 1.3825% indexation bond 2056	89.3	79.7	89.3	79.7
£100 million Class A wrapped floating rate bonds	100.6	100.0	100.6	100.0
£75 million 1.449% indexation bond 2062	121.1	111.4	121.1	111.4
£50 million 1.52% indexation bond 2055	81.0	74.3	81.0	74.3
£110 million Class A unwrapped floating rate bonds 2043	110.4	110.0	110.4	110.0
£25 million 6.875% private placements 2034	25.0	25.0	25.0	25.0
£130 million 2.262% indexation bond 2045	213.2	188.4	213.2	188.4
EIB £75 million 0.53% index-linked term facility 2027[1]	45.6	50.4	45.6	50.4
EIB £75 million 0.79% index-linked term facility 2027[1]	45.6	50.4	45.6	50.4
£250 million 4.5% fixed rate 2027	253.6	253.3	253.6	253.3
£15 million 1.37% index-linked private placements 2022	–	19.9	–	19.9
£50 million 2.05% index-linked private placements 2033	74.8	66.1	74.8	66.1
£31.9 million 3.983% private placements 2022	–	32.5	–	32.5
£73.3 million 4.394% private placements 2028	66.2	72.1	66.2	72.1
£22.3 million 3.983% private placements 2022	–	22.7	–	22.7
EIB £150 million 0% index-linked term facility 2028[2]	110.5	117.3	110.5	117.3
£200 million 4.5% fixed rate 2026	194.8	200.3	194.8	200.3
£35 million 1.141% index-linked bond 2042	51.1	45.2	51.1	45.2
US$170 million 3.84% private placements 2023	138.8	133.0	138.8	133.0
£93 million 3.537% private placements 2023	94.5	94.4	94.5	94.4
EIB £65 million 0.41% index-linked term facility 2029[3]	55.8	57.6	55.8	57.6
EIB Tranche 2 £125 million 0.1% 2029[3]	114.9	117.3	114.9	117.3
EIB Tranche 3 £60 million 0.01% 2030[4]	59.1	59.8	59.1	59.8
RCF £550 million	(1.7)	(2.2)	(1.7)	(2.2)
RCF £50 million bilaterals	(0.1)	(0.1)	(0.1)	(0.1)
US$150 million 3.29% private placements 2026	118.4	113.7	118.4	113.7
£55 million 2.93% fixed rate private placements 2026	55.5	55.4	55.5	55.4
£20 million 2.93% fixed rate private placements 2026	20.1	20.1	20.1	20.1
Sub-total carried forward	4,716.7	5,047.4	4,716.7	5,047.4

18. Loans and other borrowings continued

	Group 2023 £m	Group 2022 £m	Company 2023 £m	Company 2022 £m
Sub-total brought forward	4,716.7	5,047.4	4,716.7	5,047.4
£35 million floating rate private placements 2031	34.8	34.8	34.8	34.8
£200 million 2.6225% fixed rate 2027	191.7	196.8	191.7	196.8
£250 million Green Bond 1.625% 2025	233.8	242.8	233.8	242.8
£300 million Green bond 2.75% 2029	300.4	300.4	300.4	300.4
£25 million 3.0% fixed rate 2031	25.0	25.0	25.0	25.0
US$53 million 3.053% fixed rate 2029	43.0	40.4	43.0	40.4
£85 million 2.88% fixed rate 2029	84.9	84.9	84.9	84.9
£65 million 2.87% fixed rate 2029	65.5	65.5	65.5	65.5
£65 million CPI 0.835% 2040	75.9	68.6	75.9	68.6
JPY 7 billion 0.855% fixed rate 2039	42.7	43.7	42.7	43.7
EDC £100 million 1.588% fixed rate 2028	100.3	100.3	100.3	100.3
£50 million 1.76% fixed rate 2035	50.0	50.0	50.0	50.0
JPY 7 billion 0.85% fixed rate 2040	32.6	35.2	32.6	35.2
JR £26.1 million CPI 0.01% 2035	33.4	31.4	33.4	31.4
BPPT £26.1 million CPI 0.01% 2035	33.2	31.2	33.2	31.2
£35 million 2.14% fixed rate 2036	26.3	32.0	26.2	32.0
£40 million 2.14% fixed rate 2036	29.9	36.6	29.9	36.6
US$35 million 1.16% private placements 2026	25.6	24.6	25.6	24.6
C$ 350 million 4.525% Maple 2032	209.1	–	209.1	–
£266 million 6.07% private placement 2037	272.4	–	272.4	–
£100 million CPIH index linked 3.017% 2040 loan	103.0	–	103.0	–
£75 million floating loan 2029	75.6	–	75.6	–
£75 million floating loan 2032	75.6	–	75.6	–
RCF £325 million	(0.7)	–	(0.7)	–
Liquidity facilities	0.3	0.4	0.3	0.4
Total loans and other borrowings	6,881.0	6,492.0	6,881.0	6,492.0

	Group 2023 £m	Group 2022 £m	Company 2023 £m	Company 2022 £m
Included in:				
Current liabilities	584.3	476.3	584.3	476.3
Non-current liabilities	6,296.7	6,015.7	6,296.7	6,015.7
Of which are leases:				
Current liabilities	5.4	6.8	5.4	6.8
Non-current liabilities	31.0	29.0	31.0	29.0

1 These instruments are amortising from 2017 until the date of maturity shown.
2 This instrument is amortising from 2018 until the date of maturity shown.
3 These instruments are amortising from 2019 until the date of maturity shown.
4 This instrument is amortising from 2020 until the date of maturity shown.

The value of the capital and interest elements of the index-linked loans is linked to movements in inflation. The increase in the capital value of index-linked loans during the year of £363.0 million (2022: £170.2 million) has been taken to the income statement as part of interest payable.

These loans are shown net of issue costs and premiums of £14.1 million (2022: £19.7 million). The issue costs and premiums are amortised at the effective interest rate based on the carrying amount of debt over the life of the underlying instruments.

A security agreement dated 30 July 2002 between Anglian Water Services Financing Plc, Anglian Water Services Limited, Anglian Water Services Overseas Holdings Limited, Anglian Water Services Holdings Limited and Deutsche Trustee Company Limited (as Agent and Trustee for itself and each of the Finance Parties to the Global Secured Medium Term Note Programme) created a fixed and floating charge over the assets of Anglian Water Services Limited to the extent permissible under the Water Industry Act 1991. In addition, there is a fixed charge over the issued share capital of Anglian Water Services Financing Plc, Anglian Water Services Limited and Anglian Water Services UK Parent Limited. At 31 March 2023, this charge applies to £6,845.0 million (2022: £6,456.4 million) of the debt listed above.

With the exception of issue costs capitalised and leases, all of the Company's borrowings are payable to Anglian Water Services Financing Plc, but on terms set out above.

Loans and other borrowing liabilities disclosed within borrowings on the balance sheet are the only instruments designated as fair value hedge items by the group.

18. Loans and other borrowings continued

The table below details the impact of fair value hedge adjustments on the instruments subject to fair value hedge accounting:

	Group and Company			
	Carrying value £m	Proportion hedged %	Accumulated hedge adjustment[1] £m	Discounted hedge adjustment £m
At 31 March 2023				
US$150 million 3.29% private placements 2026	118.4	76	4.5	–
US$170 million 3.84% private placements 2023	138.8	94	1.4	–
£200 million 2.6225% fixed rate 2027	191.7	41	8.9	–
£200 million 4.5% fixed rate 2026	194.8	50	5.3	–
£246 million 6.293% fixed rate 2030	250.3	20	4.8	–
£250 million Green Bond 1.625% 2025	233.8	100	17.8	–
£73.3 million 4.394% private placements 2028	66.2	100	8.6	–
JPY 7 billion 0.85% fixed rate 2040	32.6	100	9.9	–
£35 million 2.14% fixed rate 2036	26.3	100	9.0	–
£40 million 2.14% fixed rate 2036	29.9	100	10.2	–
US$35 million 1.16% private placements 2026	25.6	100	2.6	–
	1,308.4		83.0	–
At 31 March 2022				
US$150 million 3.29% private placements 2026	113.7	76	1.5	–
US$160 million 4.52% private placements 2021	–	100	–	–
US$170 million 3.84% private placements 2023	133.0	94	(1.5)	–
£200 million 2.6225% fixed rate 2027	196.8	41	3.5	–
£200 million 4.5% fixed rate 2026	200.3	50	(0.5)	–
£246 million 6.293% fixed rate 2030	253.1	20	1.9	–
£250 million Green Bond 1.625% 2025	242.8	100	8.5	–
£73.3 million 4.394% private placements 2028	72.1	100	2.7	–
JPY 7 billion 0.85% fixed rate 2040	35.2	100	8.3	–
£35 million 2.14% fixed rate 2036	32.0	100	3.0	–
£40 million 2.14% fixed rate 2036	36.6	100	3.5	–
US$35 million 1.16% private placements 2026	24.6	100	1.8	–
	1,340.2		32.7	–

1 The accumulated hedge adjustment noted above is included within the carrying value of each instrument. The movement in the accumulated hedge adjustment is shown within fair value losses on derivative financial instruments in the income statement.

19. Financial instruments

Financial assets by category

	Group				
	Assets at fair value through profit and loss £m	Derivatives used for hedging £m	Assets at amortised cost and cash equivalents £m	Investments at amortised cost £m	Total £m
At 31 March 2023					
Investments					
Current – cash deposits	–	–	–	298.0	298.0
Cash and cash equivalents					
Current	–	–	335.1	–	335.1
Trade and other receivables					
Current	–	–	553.1	–	553.1
Derivative financial instruments					
Current	7.9	47.9	–	–	55.8
Non-current	129.1	65.3	–	–	194.4
	137.0	113.2	888.2	298.0	1436.4
At 31 March 2022					
Investments					
Current – cash deposits	–	–	–	392.0	392.0
Cash and cash equivalents					
Current	–	–	478.7	–	478.7
Trade and other receivables					
Current	–	–	509.7	–	509.7
Derivative financial instruments					
Current	4.7	51.8	–	–	56.5
Non-current	–	57.8	–	–	57.8
	4.7	109.6	988.4	392.0	1,494.7

Trade and other receivables above exclude prepayments.

19. Financial instruments continued

Financial assets by category continued

	Company				
	Assets at fair value through profit and loss £m	Derivatives used for hedging £m	Assets at amortised cost and cash equivalents £m	Investments at amortised cost £m	Total £m
At 31 March 2023					
Investments					
Current – cash deposits	–	–	–	298.0	298.0
Cash and cash equivalents					
Current	–	–	328.4	–	328.4
Trade and other receivables					
Current	–	–	553.1	–	553.1
Derivative financial instruments					
Current	7.9	47.9	–	–	55.8
Non-current	129.1	65.3	–	–	194.4
	137.0	113.2	881.5	298.0	1,429.7
At 31 March 2022					
Investments					
Current – cash deposits	–	–	–	392.0	392.0
Cash and cash equivalents					
Current	–	–	475.8	–	475.8
Trade and other receivables					
Current	–	–	509.7	–	509.7
Derivative financial instruments					
Current	4.7	51.8	–	–	56.5
Non-current	–	57.8	–	–	57.8
	4.7	109.6	985.5	392.0	1,491.8

Financial liabilities by category

	Group			
	Liabilities at fair value through profit and loss £m	Derivatives used for hedging £m	Other liabilities held at amortised cost £m	Total £m
At 31 March 2023				
Borrowings				
Current	–	–	584.3	584.3
Non-current	–	–	6,296.7	6,296.7
Trade and other payables				
Current	–	–	324.8	324.8
Derivative financial instruments				
Current	24.6	28.8	–	53.4
Non-current	807.7	86.1	–	893.8
	832.3	114.9	7,205.8	8,153.0
At 31 March 2022				
Borrowings				
Current	–	–	476.3	476.3
Non-current	–	–	6,015.7	6,015.7
Trade and other payables				
Current	–	–	239.3	239.3
Derivative financial instruments				
Current	10.1	–	–	10.1
Non-current	1,145.9	46.9	–	1,192.8
	1,156.0	46.9	6,731.3	7,934.2

Trade and other payables above exclude receipts in advance.

19. Financial instruments continued

Financial liabilities by category continued

	Company			
	Liabilities at fair value through profit and loss £m	Derivatives used for hedging £m	Other liabilities held at amortised cost £m	Total £m
At 31 March 2023				
Borrowings				
Current	–	–	584.3	584.3
Non-current	–	–	6,296.7	6,296.7
Trade and other payables				
Current	–	–	368.2	368.2
Derivative financial instruments				
Current	24.6	28.8	–	53.4
Non-current	807.7	86.1	–	893.8
	832.3	114.9	7,249.2	8,196.4
At 31 March 2022				
Borrowings				
Current	–	–	476.3	476.3
Non-current	–	–	6,015.7	6,015.7
Trade and other payables				
Current	–	–	285.6	285.6
Derivative financial instruments				
Current	10.1	–	–	10.1
Non-current	1,145.9	46.9	–	1,192.8
	1,156.0	46.9	6,777.6	7,980.5

Derivative financial instruments

	Group and Company			
	2023		2022	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Designated as cash flow hedges				
Interest rate swaps	31.3	(0.6)	0.5	(2.9)
Cross currency interest rate swaps	16.0	(6.2)	5.2	(8.9)
Energy swaps	29.9	(29.2)	75.6	(2.2)
	77.2	(36.0)	81.3	(14.0)
Designated as fair value hedges				
Interest rate swaps	0.9	(64.1)	1.0	(21.4)
Cross currency interest rate swaps	35.1	(14.8)	27.3	(11.5)
	36.0	(78.9)	28.3	(32.9)
Derivative financial instruments designated as hedges	113.2	(114.9)	109.6	(46.9)
Derivative financial instruments not designated as hedges				
Interest rate swaps	0.4	(104.9)	–	(173.9)
RPI swaps	121.9	(505.0)	–	(654.8)
CPI swaps	14.7	(222.4)	4.7	(327.3)
Total derivative financial instruments	250.2	(947.2)	114.3	(1,202.9)
Derivative financial instruments can be analysed as follows:				
Current	55.8	(53.4)	56.5	(10.1)
Non-current	194.4	(893.8)	57.8	(1,192.8)
	250.2	(947.2)	114.3	(1,202.9)

19. Financial instruments continued

Derivative financial instruments continued

At 31 March 2023, the fixed interest rates vary from 2.84% to 4.75%, floating rates vary from SONIA plus 11.20 bps to SONIA plus 326.36 bps, RPI-linked interest rates vary from 1.27% to 2.97% plus RPI and CPI-linked interest rates vary from 1.21% plus CPI to 1.69% plus CPI. Gains and losses recognised in other comprehensive income and accumulated in the cash flow hedge reserve on interest rate and cross-currency interest rate swap contracts will be continuously released to the income statement within finance costs in line with the repayment of the related borrowings. Gains and losses recognised in other comprehensive income and accumulated in the cash flow hedge reserve on energy hedges will be released to the income statement within operating costs in line with the expiry of the power season to which the gains and losses relate.

The Company

The Company has no derivative financial instruments (2022: none).

In accordance with IFRS 9, the group has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. There were no amounts recorded in the income statement for gains or losses on embedded derivatives for the year ended 31 March 2023 (2022: £nil).

Leases

The minimum lease payments in respect of all leases fall due as follows:

	Group and Company	
	2023 £m	2022 £m
Within one year	6.5	5.7
Between two and five years	21.2	18.0
After five years	17.0	20.5
	44.7	44.2
Future finance charges on leases	(8.3)	(8.4)
Present value of lease liabilities	36.4	35.8

Fair value of financial assets and liabilities

	Group			
	2023		2022	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Cash and cash equivalents	335.1	335.1	478.7	478.7
Current asset investments – cash deposits	298.0	298.0	392.0	392.0
Borrowings				
Current	(584.3)	(586.4)	(476.3)	(491.0)
Non-current	(6,296.7)	(6,785.9)	(6,015.7)	(7,860.4)
Interest and cross currency interest rate swaps – assets				
Current	30.0	30.0	3.7	3.7
Non-current	53.7	53.7	30.3	30.3
Interest and cross currency interest rate swaps – liabilities				
Current	(10.7)	(10.7)	(0.3)	(0.3)
Non-current	(179.9)	(179.9)	(218.3)	(218.3)
RPI swaps – assets				
Current	1.9	1.9	–	–
Non-current	120.0	120.0	–	–
RPI swaps – liabilities				
Current	(20.3)	(20.3)	(9.8)	(9.8)
Non-current	(484.7)	(484.7)	(645.0)	(645.0)
CPI swaps – assets				
Current	5.5	5.5	4.7	4.7
Non-current	9.2	9.2	–	–
CPI swaps – liabilities				
Current	(0.5)	(0.5)	–	–
Non-current	(221.9)	(221.9)	(327.3)	(327.3)
Net debt	(6,945.6)	(7,436.9)	(6,783.3)	(8,642.7)

19. Financial instruments continued

Fair value of financial assets and liabilities continued

	Group			
	2023		2022	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Energy derivatives – assets				
Current	18.4	18.4	48.1	48.1
Non-current	11.5	11.5	27.5	27.5
Energy derivatives – liabilities				
Current	(21.9)	(21.9)	–	–
Non-current	(7.3)	(7.3)	(2.2)	(2.2)
	(6,944.9)	(7,436.2)	(6,709.9)	(8,569.3)

	Company			
	2023		2022	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Cash and cash equivalents	328.4	328.4	475.8	475.8
Current asset investments – cash deposits	298.0	298.0	392.0	392.0
Borrowings				
Current	(584.3)	(586.4)	(476.3)	(491.0)
Non-current	(6,296.7)	(6,785.9)	(6,015.7)	(7,860.4)
Interest and cross currency interest rate swaps – assets				
Current	30.0	30.0	3.7	3.7
Non-current	53.7	53.7	30.3	30.3
Interest and cross currency interest rate swaps – liabilities				
Current	(10.7)	(10.7)	(0.3)	(0.3)
Non-current	(179.9)	(179.9)	(218.3)	(218.3)
RPI swaps – assets				
Current	1.9	1.9	–	–
Non-current	120.0	120.0	–	–
RPI swaps – liabilities				
Current	(20.3)	(20.3)	(9.8)	(9.8)
Non-current	(484.7)	(484.7)	(645.0)	(645.0)
CPI swaps – assets				
Current	5.5	5.5	4.7	4.7
Non-current	9.2	9.2	–	–
CPI swaps – liabilities				
Current	(0.5)	(0.5)	–	–
Non-current	(221.9)	(221.9)	(327.3)	(327.3)
Net debt	(6,952.3)	(7,443.6)	(6,786.2)	(8,645.6)
Energy derivatives – assets				
Current	18.4	18.4	48.1	48.1
Non-current	11.5	11.5	27.5	27.5
Energy derivatives – liabilities				
Current	(21.9)	(21.9)	–	–
Non-current	(7.3)	(7.3)	(2.2)	(2.2)
	(6,951.6)	(7,442.9)	(6,712.8)	(8,572.2)

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

The fair value of interest rate derivative financial instruments is determined using discounted cash flow methodology with reference to discounted estimated future cash flows using observable yield curves. The fair value of cross-currency interest rate derivatives is determined using discounted cash flow methodology, with the foreign currency legs calculated with reference to observable foreign interest rate yield curves and the foreign exchange rate as at 31 March. The fair value of the group's energy derivatives is calculated using discounted cash flow analysis, with reference to observable market energy prices at 31 March.

19. Financial instruments continued

Fair value of financial assets and liabilities continued

Fair values of other non-current investments, non-current trade and other receivables and non-current trade and other payables have been estimated as being materially equal to carrying value.

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

In accordance with IFRS 13 'Fair Value Measurement', the financial instruments carried at fair value on the balance sheet have been classified as either level 2 or level 3 for fair valuation purposes. Both classifications are valued by reference to valuation techniques using observable inputs other than quoted prices in active markets. Level 2 instruments are valued using inputs that are observable for the asset or liability either directly or indirectly. The level 3 instrument valuation relates to CPI-linked transactions where inputs are obtained from a less liquid market. In both cases, valuations have been obtained by discounting the estimated future cash flows at a rate that reflects credit risk.

There have been no transfers between level 1, level 2 and level 3 fair value measurements in the year. The group's policy is to recognise transfers into and out of the different fair value hierarchy levels at the date of the event or change in circumstances that caused the transfer occurred.

Level 3 derivative financial instruments

Level 3 derivative financial instruments comprise CPI-linked inflation swaps which are traded based on a spread to liquid RPI inflation markets often referred to as 'the wedge'. As the market for CPI swaps is still developing, the wedge is not currently observable in a liquid market and as such these swaps have been classified as level 3 instruments.

Movements in the year to 31 March for assets and liabilities measured at fair value using level 3 valuation inputs are presented below:

	Group and Company	
	2023 £m	2022 £m
At 1 April	(322.7)	(188.2)
Net gain/(loss) for the period	94.4	(156.4)
Settlements	20.6	21.9
At 31 March	(207.7)	(322.7)

Gains and losses in the period are recognised in the income statement in Net Finance Costs line.

The impact (on a post-tax basis) on the income statement of reasonably possible changes in the CPI inflation rate assumptions used in valuing instruments classified as level 3 within the fair value hierarchy are as follows:

	Group and Company	
	2023 £m	2022 £m
Gain/(loss)		
1% increase in inflation rates	(143.6)	(203.2)
1% decrease in inflation rates	122.1	162.6

Given the long-term maturity of the financial instruments that make up the portfolio, despite high levels of inflation in the current environment, one % has been used for sensitivity analysis as this represents a reasonable alternative market movement, as well as a useful benchmark change in the long term.

Control of treasury

The treasury team, which reports directly to the Chief Financial Officer, substantially manages the financing, including debt, interest costs and foreign exchange for the group. Treasury policy continues to be focused on the efficient and effective management of cash and financial resources within the group. The activities of the treasury function include the following:

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

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 2023, 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 65.6% (2022: 64.8%).

19. Financial instruments continued

Borrowing covenants

The group's borrowings are raised by Anglian Water Services Financing Plc. The Treasury function monitors compliance against all financial obligations and it is the group's policy to manage the balance sheet so as to ensure operation within covenant restrictions. There were no covenant breaches in the year.

Management of financial risk

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

A Finance, Treasury and Energy Policy Group, including the Chief Financial Officer and the Group Treasurer, meets monthly with the specific remit of reviewing treasury matters. Relevant treasury matters are reported to the board.

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

The group also enters into derivative transactions (comprising currency, index-linked, interest rate and energy swaps) to economically manage the interest, currency and commodity risks to which the group is exposed.

a) Market risk

i) Foreign currency

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

Where exposures arise out of debt issuances in currencies other than sterling, this risk is hedged using cross currency interest rate swaps on the date the debt issuance is contracted. The Group assesses the economic relationship by comparing the currency cash flows on the underlying debt item with the currency cash flows on the hedge instrument to ensure an exact offset of the specific foreign currency flows of the debt is achieved. This results in a notional hedge ratio of one for all foreign currency hedge relationships. Both cash flow hedge accounting and fair value hedge accounting are applied to manage foreign currency risks as appropriate and detailed below.

	Group and Company			
	Within one year m	Between one and five years m	Between five and 25 years m	Total m
At 31 March 2023				
Foreign currency borrowings – hedged item				
JPY	–	–	14,000.0	14,000.0
USD	170.0	185.0	53.0	408.0
CAD	–	–	350.0	350.0
Cross currency interest rate swap – cashflow hedge				
JPY	–	–	(7,000.0)	(7,000.0)
USD	(10.8)	(36.0)	(53.0)	(99.8)
CAD	–	–	(350.0)	(350.0)
Cross currency interest rate swap – fair value hedge				
JPY	–	–	(7,000.0)	(7,000.0)
USD	(159.2)	(149.0)	–	(308.2)
Net currency exposure	–	–	–	–
Weighted average spot rate				
JPY	–	–	138.3	–
USD	1.5	1.4	1.3	–
CAD	–	–	1.6	–

19. Financial instruments continued

Management of financial risk continued

	Group and Company			
	Within one year m	Between one and five years m	Between five and 25 years m	Total m
At 31 March 2022				
Foreign currency borrowings – hedged item				
JPY	–	–	14,000.0	14,000.0
USD	–	355.0	53.0	408.0
Cross currency interest rate swap – cashflow hedge				
JPY	–	–	(7,000.0)	(7,000.0)
USD	–	(46.8)	(53.0)	(99.8)
Cross currency interest rate swap – fair value hedge				
JPY	–	–	(7,000.0)	(7,000.0)
USD	–	(308.2)	–	(308.2)
Net currency exposure	–	–	–	–
Weighted average spot rate				
JPY	–	–	138.3	138.3
USD	–	1.5	1.3	2.8

Hedge ineffectiveness on currency hedging primarily results from situations where we have taken the economic decision (in line with Treasury policy) to change our fixed and floating portfolio mix. Where this has required existing hedged positions to be changed, the existing hedge is de-designated and the replacement hedge will generate effectiveness. This ineffectiveness represents the difference between the amortisation of the effective balance of the hedge on the date of de-designation (released on a straight line basis) and the dynamic change in the value of the derivative as it trends to zero. In addition, ineffectiveness can result from counterparty credit risk (which is present in the derivative but cannot be modelled as part of the hedged risk).

Fair valuation movements related to foreign currency basis which forms part of the pricing of cross currency interest rate swaps are treated as a cost of hedging for all foreign currency hedge designations within the group. As such, it is excluded from hedge relationships and is only a source of ineffectiveness where hedge accounting has been interrupted.

The changes in fair value of foreign currency basis spread accumulated in the cash flow hedge reserve, are amortised to profit or loss on a rational basis over the term of the hedging relationship.

ii) Interest rate and inflation rate risk

The group's policy for the management of interest rate risk is to achieve a balanced mix of funding at indexed (to RPI or CPI), fixed and floating rates of interest. To guard against the adverse movements in interest rates having a detrimental impact on the business and to enable covenanted obligations and credit ratings to be met, the overall underlying debt portfolio is maintained at between 45 and 55% of RCV for index-linked debt and between 5% and 15% for floating rate debt, with the remaining being fixed rate. Within these hedging levels, the group endeavours to obtain the finest rates (lowest borrowing and finest depositing rates) consistent with ensuring that the relevant treasury objectives are met in full, i.e. the provision of adequate finance for Anglian Water Services group at all times and maintaining security of principal on investments.

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

19. Financial instruments continued

Management of financial risk continued

The table below summarises the impact of derivatives on interest rate and inflation risks within the debt portfolio:

	Group and Company			
	Debt position £m	Swap impact £m	Post swap position £m	Effective interest rate %
At 31 March 2023				
Fixed	(3,393.6)	1,505.0	(1,888.6)	5.1
Floating	(395.0)	(122.8)	(517.8)	4.2
Index-linked	(3,073.0)	(1,722.1)	(4,795.1)	14.1
Leases	(27.1)	–	(27.1)	2.6
	(6,888.7)	(339.9)	(7,228.6)	
At 31 March 2022				
Fixed	(3,203.3)	1,504.0	(1,699.3)	5.4
Floating	(245.0)	(121.9)	(366.9)	2.2
Index-linked	(2,974.6)	(1,523.7)	(4,498.3)	7.8
Leases	(30.6)	–	(30.6)	2.5
	(6,453.5)	(141.6)	(6,595.1)	

Where exposures arising out of debt issuances are swapped this risk is hedged using cross currency interest rate swaps, interest rate swaps or inflation swaps. The group assesses the economic relationship by comparing the cash flows on the underlying debt instrument with the offsetting cash flows on the hedge to ensure an exact offset of the specified notional value of the debt is achieved. This results in a notional hedge ratio of one for all interest rate hedge relationships. Both cash flow hedge accounting and fair value hedge accounting are applied as appropriate. Derivatives that do not qualify for hedge accounting primarily consist of those relationships which swap debt into inflation.

The table below outlines the group's exposures to interest rates from derivative swaps in isolation (excluding offsetting debt instrument cashflows).

	Group and Company						
	Within one year £m	Between one and five years £m	Between five and 25 years £m	After 25 years £m	Mark to market £m	Interest rate (weighted average) payable	Interest rate (weighted average) receivable
At 31 March 2023							
Interest rate swaps							
Floating to fixed rate	–	99.0	450.0	–	1.3	2.8	2.3
Floating from fixed rate	–	731.2	148.3	–	(76.1)	2.8	1.8
Fixed to fixed interest rate swaps	–	218.8	362.5	–	(54.3)	3.5	1.7
Inflation swaps							
Floating to RPI	–	150.0	225.0	190.9	(391.1)	3.5	3.0
Fixed to CPI	–	–	565.9	100.0	(165.1)	0.9	3.6
Floating to CPI	–	–	150.4	–	(42.5)	0.8	2.8
Cross currency swaps							
JPY	–	–	101.2	–	(16.7)	3.2	0.9
USD	110.5	129.7	40.1	–	47.0	3.4	3.5
CAD	–	–	224.8	–	(0.3)	3.8	4.5
Total	110.5	1,328.7	2,268.2	290.9	(697.8)		

19. Financial instruments continued

Management of financial risk continued

	Group and Company						
	Within one year £m	Between one and five years £m	Between five and 25 years £m	After 25 years £m	Mark to market £m	Interest rate (weighted average) payable	Interest rate (weighted average) receivable
At 31 March 2022							
Interest rate swaps							
Floating to fixed rate	17.9	25.0	524.0	–	(109.0)	2.9	0.2
Floating from fixed rate	17.9	650.0	229.5	–	(19.8)	0.6	1.7
Fixed to fixed interest rate swaps	–	100.0	481.3	–	(66.2)	3.5	1.7
Inflation swaps							
Floating to RPI	–	150.0	225.0	190.9	(656.3)	3.2	1.1
Fixed to CPI	–	–	565.9	100.0	(230.7)	0.9	3.6
Floating to CPI	–	–	150.4	–	(91.9)	0.7	0.9
Cross currency swaps							
JPY	–	–	101.2	–	(19.7)	2.1	0.9
USD	–	240.3	40.1	–	31.5	1.8	3.5
Total	35.8	1,165.3	2,317.4	290.9	(1,162.1)		

Hedge ineffectiveness on interest rate hedging primarily results from situations where we have taken the economic decisions, in line with policy, to change our fixed and floating portfolio mix. Where this has required existing hedged positions to be changed, the existing hedge is de-designated and the replacement hedge will generate ineffectiveness. This ineffectiveness represents the difference between the amortisation of the effective balance of the hedge on the date of de-designation (released on a straight-line basis) and the dynamic change in the value of the derivative as it trends to zero. In addition, ineffectiveness can result from counterparty credit risk (which is present in the derivative but cannot be modelled as part of the hedged risk).

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

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

	Group and Company	
	2023 £m	2022 £m
Increase/(decrease) in equity		
1% increase in interest rates	15.2	20.6
1% decrease in interest rates	(17.0)	(22.5)
Increase/(decrease) in profit before tax		
1% increase in interest rates	169.0	282.6
1% decrease in interest rates	(217.8)	(370.5)

Given the long-term maturity of the financial instruments that make up the portfolio, despite high levels of inflation in the current environment, one % has been used for sensitivity analysis as this represents a reasonable alternative market movement, as well as a useful benchmark change in the long term.

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

- cash flow and fair value hedge relationships remain effective;
- the main fair value sensitivity to interest rates is in relation to inflation-linked derivatives;
- cash flow sensitivity is calculated on floating interest rate net debt; and
- all other factors are held constant.

Debt instruments

The following analysis shows the impact of a one % change in RPI and a one % change in CPI over the 12-month period to the reporting date on index-linked debt instruments.

The finance cost of the group's index-linked debt instruments and derivatives varies with changes in inflation rather than interest rates. These instruments form an economic hedge with the group's revenues and regulatory assets, which are linked to RPI and CPI-H inflation.

19. Financial instruments continued

Management of financial risk continued

Inflation risk is reported monthly to the Finance, Treasury and Energy Policy group, which manages inflation risk by identifying opportunities to amend the economic hedge currently in place where deemed necessary. The sensitivity at 31 March of the group's profit before tax to changes in RPI and CPI on debt and derivative instruments is set out in the following tables:

	Group and Company 2023 £m	Group and Company 2022 £m
Increase/(decrease) in profit before tax		
1% increase in inflation	(22.8)	(22.0)
1% decrease in inflation	22.8	22.0

Given the long-term maturity of the financial instruments that make up the portfolio, despite high levels of inflation in the current environment, one % has been used for sensitivity analysis as this represents a reasonable alternative market movement, as well as a useful benchmark change in the long term.

RPI-linked derivatives

The fair values of the group's RPI-linked derivatives are based on estimated future cash flows, discounted to the reporting date, and these will be impacted by an increase or decrease in RPI rates as shown in the following table. The sensitivity to CPI rates has been included in the level 3 disclosure and as such has not been repeated.

	Group and Company 2023 £m	Group and Company 2022 £m
Increase/(decrease) in profit before tax		
1% increase in RPI	(143.2)	(232.7)
1% decrease in RPI	132.3	190.1

Given the long-term maturity of the financial instruments that make up the portfolio, despite high levels of inflation in the current environment, one % has been used for sensitivity analysis as this represents a reasonable alternative market movement, as well as a useful benchmark change in the long term.

iii) Commodity price risk

The group recovers its electricity costs through revenue, set in real terms by Ofwat, to cover costs for each five-year regulatory pricing period. To the extent that electricity prices remain floating over this period, this exposes the group to volatility in its operating cash flow. The group's policy is to manage this risk either through forward purchases to fix the cost of future blocks of electricity with the contracted energy supplier, through the purchase of wholesale electricity swaps with financial counterparties, or through direct generation. Where swap contracts are utilised, the group designates the swaps in cash flow hedge relationships.

	Group and Company			
	Within one year MW	Between one and five years MW	Between five and 25 years MW	Mark to market £m
At 31 March 2023				
Electricity swap	92.7	85.5	4.0	0.7
At 31 March 2022				
Electricity swap	51.7	111.4	10.8	73.5

Hedge ineffectiveness primarily results from counterparty credit risk (which is present in the derivative but cannot be modelled as part of the hedged risk).

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

	Group and Company 2023 £m	Group and Company 2022 £m
Increase/(decrease) in equity		
10% increase in original prices	10.3	11.9
10% decrease in original prices	(10.3)	(11.9)

10% has been used for sensitivity analysis as this represents a reasonable alternative market movement, as well as a useful benchmark change.

19. Financial instruments continued

Management of financial risk 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 and through the collateralisation inherent in the licensing of business retail activities. The group's largest trade receivable balance is in Anglian Water Services Limited, whose operating licence prevents the disconnection of water supply to domestic customers even where bills are unpaid. Irrecoverable debt is taken into consideration as part of the price review process by Ofwat, and therefore no additional provision is considered necessary in excess of the provision for doubtful debts included in note 15.

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

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

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

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

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

	Group and Company			
	Gross carrying amounts £m	Net amount presented in the balance sheet £m	Offsetting not presented in the balance sheet £m	Net amount £m
At 31 March 2023				
Derivative financial assets	250.2	250.2	(93.1)	157.1
Derivative financial liabilities	(947.2)	(947.2)	93.1	(854.1)
At 31 March 2022				
Derivative financial assets	114.3	114.3	(84.3)	30.0
Derivative financial liabilities	(1,202.9)	(1,202.9)	84.3	(1,118.6)

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

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

	Group	
	2023 £m	2022 £m
Cash and cash equivalents	335.1	478.7
Trade and other receivables	564.7	516.5
Investments – cash deposits	298.0	392.0
Derivative financial assets	250.2	114.3

	Company	
	2023 £m	2022 £m
Cash and cash equivalents	328.4	475.8
Trade and other receivables	564.7	516.5
Investments – cash deposits	298.0	392.0
Derivative financial assets	250.2	114.3

19. Financial instruments continued

Management of financial risk continued

c) Capital risk management

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

Recognising the level of gearing in the Group, and the long-term nature of the Group's asset base, the Group is primarily funded from the debt capital markets. It is the Group's policy to maintain sufficient cash and/or borrowing facilities to meet short-term commitments and to provide working capital support/flexibility in treasury operations in the event of short-term difficulties in the capital markets. The treasury team actively maintain a good financial reputation with rating agencies, investors, lenders and other creditors, and aims to maintain the relevant key financial ratios used by the credit rating agencies to determine the respective credit ratings. The Group does not have any externally imposed capital requirements.

The Group's objective is to maintain flexibility, diversification and continuity of funding through access to different markets and debt instruments. Daily cash management is undertaken to calculate cash position and dealing requirements, and weekly and monthly cash forecasts are prepared to demonstrate short/medium-term liquidity, covenant compliance and to inform investment strategy.

Regular meetings are held with cash forecasters to understand cash variances and challenge latest forecasts. Consolidated cash forecasts are presented to the Finance, Treasury and Energy Policy Group on a monthly basis.

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

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

	Group and Company	
	2023 £m	2022 £m
Expires:		
Within one year	375.0	375.0
Between two and five years	975.0	600.0
	1,350.0	975.0

The Group's borrowing facilities of £1,350.0 million (2022: £975.0 million) comprise Class A debt service reserve facilities totalling £244.0 million provided by Barclays Bank Plc, HSBC Bank Plc, Sumitomo Mitsui Banking Corporation, JP Morgan Chase N.A. and Lloyds TSB Bank Plc; a £131.0 million operating and capital maintenance expenditure reserve facility provided by Barclays Bank Plc, BNP Paribas Plc, Lloyds TSB Bank Plc and Bank of Nova Scotia; two syndicated loan facilities totalling £875.0 million for working capital and capital expenditure requirements managed by Barclays Bank Plc in the role of facility agent and syndicated to a pool of relationship banks; a bilateral facility of £50 million with MUFG Bank and a bilateral facility of £50.0 million with Bank of China Limited for general corporate purposes.

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

19. Financial instruments continued

Management of financial risk continued

d) Liquidity risk

	Group				
	Within one year £m	Between one and five years £m	Between five and 25 years £m	After 25 years £m	Total £m
At 31 March 2023					
Trade and other payables	(331.2)	–	–	–	(331.2)
Borrowings	(719.7)	(2,439.5)	(6,488.5)	(2,802.3)	(12,450.0)
Derivative financial instruments (net settled)	(11.7)	(403.8)	(776.7)	(194.2)	(1,386.4)
Derivative financial instruments (gross settled outflow)	(131.5)	(189.7)	(444.0)	–	(765.2)
Derivative financial instruments (gross settled inflow)	159.5	209.0	391.8	–	760.3
Leases	(6.5)	(21.2)	(13.3)	(3.7)	(44.7)
	(1,041.1)	(2,845.2)	(7,330.7)	(3,000.2)	(14,217.2)
At 31 March 2022					
Trade and other payables	(244.5)	–	–	–	(244.5)
Borrowings	(590.1)	(2,328.8)	(6,475.1)	(2,789.3)	(12,183.3)
Derivative financial instruments (net settled)	(64.7)	(323.3)	(1,032.5)	(514.7)	(1,935.2)
Derivative financial instruments (gross settled outflow)	(10.2)	(273.9)	(180.4)	–	(464.5)
Derivative financial instruments (gross settled inflow)	11.5	299.3	141.2	–	452.0
Leases	(5.7)	(18.0)	(16.7)	(3.8)	(44.2)
	(903.7)	(2,644.7)	(7,563.5)	(3,307.8)	(14,419.7)

	Company				
	Within one year £m	Between one and five years £m	Between five and 25 years £m	After 25 years £m	Total £m
At 31 March 2023					
Trade and other payables	(374.6)	–	–	–	(374.6)
Borrowings	(719.7)	(2,439.5)	(6,488.5)	(2,802.3)	(12,450.0)
Derivative financial instruments (net settled)	(11.7)	(403.8)	(776.7)	(194.2)	(1,386.4)
Derivative financial instruments (gross settled outflow)	(131.5)	(189.7)	(444.0)	–	(765.2)
Derivative financial instruments (gross settled inflow)	159.5	209.0	391.8	–	760.3
Leases	(6.5)	(21.2)	(13.3)	(3.7)	(44.7)
	(1,084.5)	(2,845.2)	(7,330.7)	(3,000.2)	(14,260.6)
At 31 March 2022					
Trade and other payables	(290.8)	–	–	–	(290.8)
Borrowings	(590.1)	(2,328.8)	(6,475.1)	(2,789.3)	(12,183.3)
Derivative financial instruments (net settled)	(64.7)	(323.3)	(1,032.5)	(514.7)	(1,935.2)
Derivative financial instruments (gross settled outflow)	(10.2)	(273.9)	(180.4)	–	(464.5)
Derivative financial instruments (gross settled inflow)	11.5	299.3	141.2	–	452.0
Leases	(5.7)	(18.0)	(16.7)	(3.8)	(44.2)
	(950.0)	(2,644.7)	(7,563.5)	(3,307.8)	(14,466.0)

20. Provisions

	Group and Company			
	Legal and other £m	Coupon enhancement £m	Restructuring £m	Total £m
At 1 April 2021	10.5	5.2	0.3	16.0
Additional provisions recognised	1.9	–	–	1.9
Unused amounts reversed	(0.4)	–	–	(0.4)
Utilised in the year	(4.5)	(1.0)	(0.3)	(5.8)
At 31 March 2022	7.5	4.2	–	11.7
Additional provisions recognised	5.5	–	–	5.5
Unused amounts reversed	(1.7)	–	–	(1.7)
Unwinding of discount	–	(0.1)	–	(0.1)
Utilised in the year	(2.8)	(1.0)	–	(3.8)
At 31 March 2023	8.5	3.1	–	11.6

Maturity analysis of total provisions:

	Group and Company	
	2023 £m	2022 £m
Current	6.8	4.7
Non-current	4.8	7.0
	11.6	11.7

Provisions for legal and other claims includes legal claims and potential pollution fines, all of which are expected to crystallise over a period of approximately two years. In making these provisions management use past experience to estimate the expected liability.

As part of the Anglian Water securitisation that took place in 2002, the bond that formed part of the transfer of debt from Anglian Water Plc to Anglian Water Services Financing Plc were restructured with enhanced coupon rates. A provision was created in Anglian Water Services Limited for the future additional cash flows caused by the enhanced coupon, discounted back to the balance sheet date and expected to be utilised over the next 20 years.

21. Deferred tax

	Group and Company					
	Accelerated tax depreciation £m	Financial instruments £m	Retirement benefit obligation £m	Tax losses carried forward £m	Other £m	Total £m
At 1 April 2021	1,254.3	(165.7)	1.9	–	(8.2)	1,082.3
Charged/(credited) directly to income statement	412.7	(78.5)	13.8	(18.8)	(0.3)	328.9
Charged directly to other comprehensive income	–	15.0	25.7	–	–	40.7
At 31 March 2022	1,667.0	(229.2)	41.4	(18.8)	(8.5)	1,451.9
Charged/(credited) directly to income statement	171.2	161.4	6.7	(225.5)	1.1	114.9
Charged directly to other comprehensive income	–	(0.2)	(35.3)	–	–	(35.5)
At 31 March 2023	1,838.2	(68.0)	12.8	(244.3)	(7.4)	1,531.3

Financial modelling of future income streams indicate that there will be taxable profits available in future years against which these deferred tax assets can be recognised.

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

22. Net retirement benefit deficit

Pension arrangements for the majority of the Company's UK employees are of the funded defined benefit type through the AWG Pension Scheme ("AWGPS") Main section and Hartlepool section (a defined benefit scheme for the employees of the former Hartlepool Water Limited, where the pension scheme was transferred on 1 April 2000 which is now a section of the AWGPS). The defined benefit pension arrangements are closed to new pension accrual with effect from 31 March 2018.

The Company also manages an unfunded pension arrangement which has been valued by independent actuaries to take account of the requirements of IAS19 as at 31 March 2023. The provision for unfunded pension obligations relates to the cost of enhancements of former employees, over and above their entitlement in the Company's pension schemes. The majority of these employees ceased their employment following redundancy programmes principally between 10 and 20 years ago. These pension enhancements are payable until the death of these former employees (or their dependants) and payments are expected to be made over approximately 25 years.

22. Net retirement benefit deficit continued

The assets and liabilities relating to the defined benefit scheme for the employees of the former Hartlepool Water Limited are held in a segregated section of the AWGPS. Hartlepool Water Limited was acquired in July 1997, with trade and assets transferred to Anglian Water on 1 April 2000. However, as the Trustees assess the funding requirements of the Hartlepool section separately from the rest of AWGPS, the Hartlepool section has been separately disclosed in the tables below.

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

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

Full valuations as at 31 March 2020 have been completed for the AWGPS Main and Hartlepool sections, the results of which have been used as a basis for the IAS 19 'Employee Benefits' disclosures as at 31 March 2023.

The group has a plan in place with the scheme's trustees to address the funding deficit for the Main Section of the AWGPS by 2026, through a series of annual deficit recovery contributions.

During the year, the group contributed £21.7 million (2022: £14.6 million) deficit reduction payments. There were no deficit reduction payments (2022: none) for the Hartlepool Section due to the funding position on the funding basis at the 31 March 2020 valuation.

In the year to 31 March 2024 employers' contributions are expected to be £nil.

The weighted average duration of the defined benefit obligation for AWGPS (excluding Hartlepool) is 18 years, for the Hartlepool section of AWGPS is 17 years, and for the unfunded scheme is 11 years.

There is one defined contribution scheme which operates predominantly in the UK, and contributions to this scheme amounted to £20.1 million (2022: £18.5 million). There is £nil outstanding balance on the defined contribution scheme at year end (2022: £nil).

a) Principal actuarial assumptions

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

	Group and Company	
	2023 % pa	2022 % pa
Discount rate	4.7	2.7
Inflation rate		
RPI	3.4	3.7
CPI	2.9	3.3
Increases to deferred benefits during deferment		
RPI	3.4	3.7
CPI	2.9	3.3
Increases to inflation related pensions in payment[1]		
RPI	3.2	3.5
CPI	2.9	3.2
	years	years
Longevity at age 65 for current pensioners – (years)		
Men	21.9	22.3
Women	24.4	24.6
Longevity at age 65 for future pensioners – (years)[2]		
Men	23.2	23.6
Women	25.8	26.0

1 For RPI pension increases capped at 5% per annum.
2 The life expectancy shown for future pensioners is for those reaching 65 in 2043.

22. Net retirement benefit deficit continued

b) Sensitivity analysis

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

	Group and Company				
	Change in assumption	AWGPS £m	Hartlepool £m	Unfunded pensions £m	Total £m
At 31 March 2023					
Discount rate	+/− 0.5 % pa	−68/76	–	−2/2	−70/78
Rate of RPI inflation	+/− 0.5 % pa	57/−56	–	2/−1	59/−57
Life expectancy	+/− 1 year	32/−33	–	1/−1	33/−34
At 31 March 2022					
Discount rate	+/− 0.5 % pa	−112/127	−1/2	−2/3	−115/132
Rate of RPI inflation	+/− 0.5 % pa	106/−97	1/−1	3/−2	110/−100
Life expectancy	+/− 1 year	56/−55	1/−1	2/−2	59/−58

Changes to market conditions that influence the assumptions above may also have an impact on the value of the schemes' investment holdings. The extent to which these are managed is discussed in section (c) below. The sensitivities in the table above have been calculated by changing the key assumption and leaving all others fixed, with the exception of the RPI inflation assumption, which has a corresponding impact on Consumer Prices Index ('CPI') inflation, pension increases and salary increases due to the way the assumptions are derived. These changes in assumptions represent a reasonable alternative range, as well as a useful benchmark change in the long term.

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.

22. Net retirement benefit deficit continued

d) Amounts recognised in comprehensive income

	Group and Company			
	AWGPS £m	Hartlepool £m	Unfunded pensions £m	Total £m
2023				
Amounts (charged)/credited to finance costs				
Interest income on scheme assets	41.0	0.2	–	41.2
Interest cost on scheme liabilities	(35.5)	(0.1)	(1.1)	(36.7)
Net interest income/(expense)	5.5	0.1	(1.1)	4.5
Amounts credited/(charged) to the income statement	5.5	0.1	(1.1)	4.5
Amounts (charged)/credited to other comprehensive income				
Return on plan assets (excluding amounts included in net interest)	(492.8)	(3.3)	–	(496.1)
Actuarial gains/(losses) arising from:				
Changes in financial assumptions	416.3	2.3	9.5	428.1
Changes in demographic assumptions				–
Experience adjustments	(70.9)	–	(2.3)	(73.2)
Net (charge)/credit to other comprehensive income	(147.4)	(1.0)	7.2	(141.2)

	Group and Company			
	AWGPS £m	Hartlepool £m	Unfunded pensions £m	Total £m
2022				
Amounts credited/(charged) to finance costs:				
Interest income on scheme assets	31.9	0.4	–	32.3
Interest cost on scheme liabilities	(30.7)	(0.4)	(0.8)	(31.9)
Net interest income/(expense)	1.2	–	(0.8)	0.4
Amounts credited/(charged) to the income statement	1.2	–	(0.8)	0.4
Amounts credited/(charged) to other comprehensive income:				
Return on plan assets (excluding amounts included in net interest)	19.8	(0.7)	–	19.1
Actuarial gains arising from:				
Changes in financial assumptions	41.1	–	(0.3)	40.8
Experience adjustments	73.8	0.6	1.4	75.8
Net credit/(charge) to other comprehensive income	134.7	(0.1)	1.1	135.7

22. Net retirement benefit deficit continued

e) Amounts recognised in the balance sheet

	Group and Company			
	AWGPS £m	Hartlepool £m	Unfunded pensions £m	Total £m
2023				
Equities	79.7	–	–	79.7
Corporate bonds	281.9	–	–	281.9
Government bonds	1,081.1	0.6	–	1,081.7
Property	63.6	–	–	63.6
Alternatives	78.4	–	–	78.4
Pooled LDI investments (with def of LDI)	69.3	–	–	69.3
Derivatives	(47.8)	–	–	(47.8)
Repurchases	(692.8)	–	–	(692.8)
Cash and cash equivalents	147.2	–	–	147.2
Total assets	1,060.6	0.6	–	1,061.2
Present value of scheme liabilities	(977.1)	–	(33.0)	(1,010.1)
Net pension surplus	83.5	0.6	(33.0)	51.1
Comprising:				
Pension schemes with a net surplus, included in non-current assets	83.5	0.6	–	84.1
Pension schemes with a net deficit, included in non-current liabilities	–	–	(33.0)	(33.0)
	83.5	0.6	(33.0)	51.1

	Group and Company			
	AWGPS £m	Hartlepool £m	Unfunded pensions £m	Total £m
2022				
Equities	167.5	–	–	167.5
Corporate bonds	575.4	–	–	575.4
Government bonds	1,494.5	0.5	–	1,495.0
Property	76.6	–	–	76.6
Alternatives	75.2	–	–	75.2
Pooled LDI investments (with def of LDI)	70.9	–	–	70.9
Derivatives	(7.1)	–	–	(7.1)
Repurchases	(1,149.3)	–	–	(1,149.3)
Cash and cash equivalents	244.3	1.1	–	245.4
Insurance contract	–	17.0	–	17.0
Total assets	1,548.0	18.6	–	1,566.6
Present value of scheme liabilities	(1,344.4)	(17.0)	(41.8)	(1,403.2)
Net pension surplus	203.6	1.6	(41.8)	163.4
Comprising:				
Pension schemes with a net surplus, included in non-current assets	203.6	1.6	–	205.2
Pension schemes with a net deficit, included in non-current liabilities	–	–	(41.8)	(41.8)
	203.6	1.6	(41.8)	163.4

The scheme assets do not include any of the group's own financial instruments, nor any property occupied by, nor other assets used by, the group. Most of the assets have quoted prices in active markets, but there are corporate bonds, alternative investments and insurance contracts, which are unquoted amounting to £235.0 million (2022: £164.4 million).

22. Net retirement benefit deficit continued

f) Reconciliation of fair value of scheme assets

	Group and Company			
	AWGPS £m	Hartlepool £m	Unfunded pensions £m	Total £m
At 1 April 2021	1,544.7	20.2	–	1,564.9
Interest income on scheme assets	31.9	0.4	–	32.3
Employers' contributions	14.6	–	2.7	17.3
Benefits paid	(63.0)	(1.3)	(2.7)	(67.0)
Return on plan assets (excluding interest income)	19.8	(0.7)	–	19.1
At 31 March 2022	1,548.0	18.6	–	1,566.6
Interest income on scheme assets	41.0	0.2	–	41.2
Employers' contributions	21.8	–	2.7	24.5
Benefits paid	(57.4)	(0.2)	(2.7)	(60.3)
Settlements/Transfers	–	(14.7)	–	(14.7)
Return on plan assets (excluding interest income)	(492.8)	(3.3)	–	(496.1)
At 31 March 2023	1,060.6	0.6	–	1,061.2

g) Reconciliation of scheme liabilities

	Group and Company			
	AWGPS £m	Hartlepool £m	Unfunded pensions £m	Total £m
At 1 April 2021	(1,491.6)	(18.5)	(44.8)	(1,554.9)
Interest cost on scheme liabilities	(30.7)	(0.4)	(0.8)	(31.9)
Benefits paid	63.0	1.3	2.7	67.0
Actuarial gains	114.9	0.6	1.1	116.6
At 31 March 2022	(1,344.4)	(17.0)	(41.8)	(1,403.2)
Gain on curtailment/settlement	–	14.7	–	14.7
Interest cost on scheme liabilities	(35.5)	(0.1)	(1.1)	(36.7)
Benefits paid	57.4	0.1	2.7	60.2
Actuarial losses	345.4	2.3	7.2	354.9
At 31 March 2023	(977.1)	–	(33.0)	(1,010.1)

The £14.7 million settlement shown against the Hartlepool section relates to the full buyout of this section with an insurer which completed in June 2022.

23. Share capital and premium

	Group and Company 2023 £m	2022 £m
Share capital		
Authorised, issued and fully paid		
32 million ordinary shares of £1 each	32.0	32.0

24. Hedging reserve

	Group 2023 £m	2022 £m
At 1 April	20.4	(37.4)
(Losses)/gains on energy cash flow hedges	(32.9)	64.3
Gains/(losses) on other cash flow hedges	49.7	(54.4)
Amounts transferred to the income statement	(40.0)	2.9
Amounts transferred to the income statement from discontinuation of cash flow hedges	8.9	11.1
Exchange movement on hedging instruments related to debt in cash flow hedges	11.1	49.4
Deferred tax movement on cash flow hedges	0.6	(15.5)
At 31 March	17.8	20.4

Cost of hedging reserve

	Group 2023 £m	2022 £m
At 1 April	0.3	2.4
Gains/(losses) on cash flow hedges	1.8	(2.6)
Deferred tax movement on cash flow hedges	(0.4)	0.5
At 31 March	1.7	0.3

The hedging reserve represents the cumulative effective portion of gains and losses arising on the change in fair value of hedging instruments, excluding those fair value movements identified as costs of hedging within the specific hedge relationship. The cost of hedging reserve captures the movement in the fair value of the cost of hedging component.

The table below provides additional information in relation to the annual movements and cumulative closing positions on the cash flow hedge reserves.

	Group: Annual movements		Cumulative reserves			
	Hedged item gain/(loss) £m	Hedge ineffectiveness gain/(loss) £m	Total hedge reserves continuing £m	Total hedge reserves discontinued £m	Deferred tax on hedge reserves £m	Total hedge reserves £m
At 31 March 2023						
Cash flow hedge of interest rate risk	(26.1)	–	65.2	(39.2)	(6.5)	19.5
At 31 March 2022						
Cash flow hedge of interest rate risk	10.2	0.5	75.9	(48.4)	(6.8)	20.7

25. Capital commitments

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

	Group 2023 £m	2022 £m
Property, plant and equipment	215.8	112.1
Intangible assets	26.3	25.7
	242.1	137.8

26. Lease arrangements

The Group leases various items of property, plant and equipment. Right-of-use assets are included within property, plant and equipment on the balance sheet, further details can be found in note 12. Lease liabilities are included within borrowings on the balance sheet, further details can be found in note 18.

	Group	
	2023 £m	2022 £m
Additions to right-of-use assets	6.1	8.4
Depreciation charge for right-of-use assets	(6.9)	(6.2)
Carrying amount of right-of-use assets	74.6	75.4
Interest expense on lease liabilities	(0.9)	(1.2)
Expense relating to short-term leases	3.2	2.8
Total cash outflow for leases comprising interest and capital payments	(6.2)	(13.2)
Reconciliation of lease liability		
Contractual undiscounted cash flows	44.7	44.2
Effect of discounting	(8.3)	(8.4)
Lease liability	36.4	35.8

The group leases certain items of plant and equipment, as well as vehicles, under short-term leases. At 31 March 2023, the group had £0.1 million (2022: £0.2 million) outstanding commitments in respect of future minimum lease payments under non-cancellable short-term leases. The group does not typically lease low value assets and therefore no material costs were incurred individually or in aggregate in relation to such assets.

Leases recognised as debt under IFRS 16 can be analysed as follows:

	Group		
	Interest £m	IFRS debt £m	Permitted indebtedness £m
At 31 March 2023			
Vehicles operating leases	0.2	8.9	–
Property operating leases	0.7	27.1	27.1
At 31 March 2022			
Vehicles operating leases	–	5.2	–
Property operating leases	0.8	30.5	30.5
Existing finance leases	0.4	–	–

Permitted indebtedness is a category of debt within the group which captures leases previously considered as operating leases which do not qualify as secured creditors. All interest has been paid/(received) in the year. There are no material lease payments with variable payment features.

27. Contingencies

The Company, as part of the Anglian Water Services Financing Group, guarantees unconditionally and irrevocably all the borrowings and derivatives of Anglian Water Services Financing Plc, which at 31 March 2023 amounted to £8,080.1 million (2022: £7,709.5 million). The borrowings of Anglian Water Services Holdings Limited and Anglian Water Services UK Parent Co Limited are also guaranteed unconditionally and irrevocably by the Company. Anglian Water Services Holdings Limited and Anglian Water Services UK Parent Co Limited had no outstanding indebtedness at 31 March 2023 (2022: £nil).

In April 2020, circa 100 property search companies served proceedings on all the Water and Sewerage Undertakers in England and Wales, including Anglian Water Services. The claimants assert that companies – including Anglian Water Services – should have provided certain information to the search companies free of charge pursuant to the Environmental Information Regulations. Anglian Water Services, in common with its co-defendants, has filed a robust defence. This is an industry-wide issue and at this stage the Directors consider, based on current legal advice, that the claim is unlikely to succeed and, in any event, would not to be material to the financial standing of the Company. During the period to 31 March 2023, there has been no change to the group's position.

27. Contingencies continued

Flow to full treatment: Ofwat and the Environment Agency launched industry-wide investigations in 2021 into compliance with conditions of environmental permits. While the final outcome of these investigations is not yet known, we've provided comprehensive information to both regulators and continue to engage positively with them.

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

28. Ultimate parent undertaking and controlling party

Anglian Water Services Limited is incorporated and domiciled in the UK.

The Company's immediate parent undertaking is Anglian Water Services UK Parent Co Limited, a company registered in England and Wales.

The Directors consider Anglian Water Group Limited, a company registered in Jersey, to be the ultimate parent undertaking and the controlling party. Anglian Water Group Limited is itself owned and ultimately controlled by a consortium of investors consisting of Canada Pension Plan Investment Board (CPP Investments™), IFM Global Infrastructure Fund, Camulodunum Investments, First Sentier Investors and Infinity Investments S.A.

Osprey Acquisitions Limited is the parent company of the smallest group to consolidate the financial statements of the Company, and Anglian Water Group Limited is the parent company of the largest group to consolidate the financial statements of the Company. Copies of the Anglian Water Group Limited financial statements and Osprey Acquisitions Limited's financial statements can be obtained from the Company Secretary at the registered address: Anglian Water Services Limited, Lancaster House, Lancaster Way, Ermine Business Park, Huntingdon, Cambridgeshire, PE29 6XU.

29. 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 2023, there were no transactions, (2022: £nil) with the shareholders.

b) Remuneration of key management personnel

Key management personnel comprise all the Directors and members of the Management Board during the year. The remuneration of Directors is included within the amounts disclosed below. Further information about the Directors' remuneration is provided in the Directors' Remuneration Report on pages 127 to 155.

	Group	
	2023 £m	2022 £m
Short-term employee benefits	5.1	5.1
Post-employment benefits	0.4	0.5
	5.5	5.6

c) Parent company

The Company's related party transactions are summarised below:

	2023 £m	2022 £m
Sale of goods/services to		
Fellow subsidiaries of Anglian Water Group Limited	0.2	0.2
Purchase of goods/services from		
Fellow subsidiaries of Anglian Water Group Limited	8.9	6.6
Management fees paid to		
Subsidiaries	0.4	0.3
Interest paid to		
Subsidiaries	765.1	471.6
Dividends paid to		
Parent company	169.0	96.3

	Group	
	2023 £m	2022 £m
Trade and other receivables due from		
Fellow subsidiaries of Anglian Water Group Limited	1.0	1.4
Trade and other payables due to		
Subsidiaries	43.4	46.4
Fellow subsidiaries of Anglian Water Group Limited	1.0	0.7
Loans and other borrowings due to		
Subsidiaries	6,942.0	6,508.8

30. Alternate performance measures

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

a) EBITDA

Calculated as profit before net finance costs, tax, depreciation, and amortisation to give a measure of the Company's overall financial performance. Each element of this APM is shown on the face of the income statement (page 160).

	Group	
	2023 £m	2022 £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)

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 160) Adjusted profit before tax/Profit before fair value gains/(losses).

	Group	
	2023 £m	2022 £m
Net Finance costs excluding fair value gains/(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 gains/(losses) on derivative financial instruments	(65.2)	(573.4)

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

Calculated as profit before tax excluding fair value gains/(losses) on derivative financial instruments. The calculation is shown on the face of the income statement. These fair value gains/(losses) are volatile, non-cash movements that distort the actual underlying economic performance (page 160).

	Group	
	2023 £m	2022 £m
Adjusted profit before tax/Profit before fair value gains/(losses)	(286.8)	(90.8)
Tax charge	(90.2)	(289.1)
Fair value gains/(losses) on derivative financial instruments	645.3	(115.1)
Profit/(loss) for the period	268.3	(495.0)

d) Net debt

Net debt comprises borrowings, net cash and cash equivalents, and derivative financial instruments (excluding those in respect of fair value energy hedges). This measure is used because it provides additional useful information in respect of the financing of the business. See note 16 and below.

	Group	
	2023 £m	2022 £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)

30. Alternate performance measures continued

e) Interest cover

Interest cover is the ability of the Company to pay interest 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 £m	2022 £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

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 £m	2022 £m
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)	-
Capital investment	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 £m	2022 £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

31. Events after the balance sheet date

On 5 June 2023, the Board agreed to recommend a final dividend for 2022/23 of £79.9 million (£2.50 per share) to the Company's sole member which is to be paid 15 June 2023.

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

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of Anglian Water Services Limited (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2023 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
- the parent company financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the group income statement;
- the group statement of comprehensive income;
- the group and parent company balance sheets;
- the group and parent company statements of changes in equity;
- the group cash flow statement; and
- the related notes 1 to 31.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law, United Kingdom adopted international accounting standards and IFRSs as issued by the IASB. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006.

2. Basis for opinion

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

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the group and parent company for the year are disclosed in note 6 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Bad debt provisioning; and • Derivative accounting Within this report, key audit matters are identified as follows: ! Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used for the group financial statements was £23.7m (2022: £22.0m) which was determined on the basis of 3% of EBITDA (2022: 3% of EBITDA).
Scoping	The group comprises Anglian Water Services Limited (the regulated water and water recycling business) and its only subsidiary company Anglian Water Services Financing Plc (the group's financing entity). We performed full scope audit procedures, which accounted for 100% of the group's net assets and 100% of the group's EBITDA.
Significant changes in our approach	No significant changes were noted to the key audit matters or our overall audit approach as compared to the prior year.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the Directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- Understanding Management's process to model the impact of going concern and agreeing relevant data points in the model to supporting documentation;
- Assessing the sophistication of the model used to prepare the forecasts, testing of the clerical accuracy of those forecasts and assessing the historical accuracy of forecasts prepared by Management;
- Assessing the assumptions used in establishing Management's base case, including comparison of key assumptions to independent data sources where relevant;
- Evaluating liquidity, including in the scenario where future financing is restricted;
- Evaluating the external financing to establish and assess the covenant requirements attached to this financing;
- Assessing the amount of headroom in the forecasts (cash and covenants); and
- Evaluating the sensitivity analysis including downside risks to reflect the macro-economic conditions, as prepared by Management.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Bad debt provisioning

Key audit matter description

At 31 March 2023, the bad debt provision was £258.1m (2022: £236.4m). The bad debt charge of £30.1m represented 2.8% of total household turnover (2022: £11.1m and 1.1% of total household turnover).

A proportion of the group's customers do not or cannot pay their water bills, which results in the need for a provision to be made for the risk of non-payment of the customer balance. The bad debt provision is material, a key area of estimation uncertainty within the group and an area of scrutiny by Ofwat.

Provisions are made against the group's trade receivables based on historical cash collection rates. A top-up to the provision is recorded to reflect expected deterioration in future cash collection compared to historical cash collection rates as a result of the anticipated impact of macro-economic uncertainties on customers' ability to pay bills, such as high inflation and their impact on the cost of living crisis.

The key audit matter, which is also a potential fraud risk, is focused on the estimation of the household bad debt provision, including whether the experience of cash collection in historical periods provides an appropriate expectation of future credit losses under IFRS 9 'Financial Instruments'.

The bad debt provision at 31 March 2023 includes a top-up provision of £6.9m (2022: £6.9m) to reflect that future cash collection may not be consistent with historical cash collection trends. Management determined this top-up provision considering a range of external data points, including the correlation between unemployment rates and cash collections.

The Audit Committee have also considered this as a key issue, and it is disclosed in the Audit Committee Report on page 119. It is also included as an area involving estimation in note 2 to the financial statements, and the relevant accounting policy adopted is disclosed in note 1(q). The closing bad debt provision as at 31 March 2023 is disclosed in note 15 and the year-on-year bad debt charge is discussed in the CFO report on page 27.

5. Key audit matters continued

5.1. Bad debt provisioning continued

How the scope of our audit responded to the key audit matter

In response to this matter, we have performed the following procedures:

- obtained an understanding of relevant controls within the bad debt provision estimation process;
- utilised data analytics to perform a recalculation of debtor ageing to verify the accuracy of information within the aged debt report in order to assess whether customers are accurately categorised based on information within Management's financial reporting system;
- challenged the base bad debt provision by agreeing the recoverability assumptions to cash collection rates and tested the mechanical accuracy of the calculation;
- assessed whether any discrepancies exist between the provision recognised and that supported by other macro-economic indicators that may impact the ability of customers to make payments;
- assessed whether the provision has been calculated in line with the policy of the group and with IFRS 9 'Financial Instruments'; and
- assessed the accuracy and completeness of the cash collection trends used in the provision rate calculation by reconciling billing and SAP data and tested a sample of cash collections both during the year and post period end.

Key observations

Based on the work performed above, we are satisfied that the bad debt provision is reasonable and in accordance with the requirements of IFRS 9.

5.2. Derivative accounting

Key audit matter description

The group and the parent company have a total net derivative liability of £697m (2022: £1,088.6m), disclosed in note 19 to the financial statements, including interest rate swaps, index-linked swaps, cross currency swaps and contracts to fix energy prices.

IFRS 9 'Financial Instruments' requires derivatives to be accounted for at fair value with movements recognised as profit or loss, unless designated as hedge relationships. Where possible, Management have elected to apply hedge accounting.

We identified a key audit matter relating to the valuation of derivatives and the related credit risk adjustments, which can be both complex and judgemental. We have focused in particular on the risk of error arising on the valuation of the index-linked swaps due to their complexity.

The relevant accounting policy adopted is disclosed in note 1(t).

How the scope of our audit responded to the key audit matter

In response to this matter, we have performed the following procedures involving our financial instruments specialists where appropriate:

- obtained an understanding of, and tested, relevant controls around the valuation techniques used in determining the fair value of derivatives;
- tested the valuation, through independent recalculation, of a sample of complex derivative financial instruments, including an assessment of the credit risk adjustment;
- inspected the hedge documentation and tested hedge effectiveness against the criteria documented; and
- assessed banking agreements and the application of hedge accounting under IFRS 9 in relation to new debt instruments and debt repayments.

Additionally we have reviewed the disclosures required by IFRS 7 'Financial Instruments: Disclosures' and IFRS 13 'Fair Value Measurement' to assess whether they are compliant with the standard and observed industry practice.

Key observations

We are satisfied that derivative financial instruments have been accounted for appropriately and that the valuations adopted are reasonable.

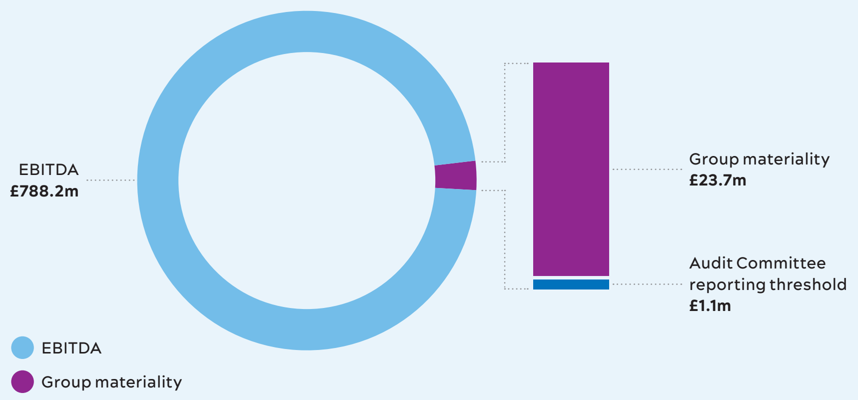
6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£23.7m (2022: £22.0m)	£23.6m (2022: £21.9m)
Basis for determining materiality	In both years, we considered 3% of EBITDA as a benchmark for determining materiality. As aggregation risk is mitigated by our auditing 100% of the group's net assets, revenue and profits, the parent company materiality was set at £0.1m (2022: £0.1m) lower than group materiality.	
Rationale for the benchmark applied	We have used EBITDA as the benchmark for materiality as this is deemed a key driver of business value, is a critical component of the financial statements and is a focus for users of the financial statements. EBITDA is disclosed on page 26 in the Financial Performance Report. The substantial majority of the group's operations are carried out by the parent company.	



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent company financial statements
Performance materiality	70% (2022: 70%) of group materiality	70% (2022: 70%) of parent company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: • our consideration of the group's control environment, including our control reliance approach across several business cycles; • no significant deficiencies noted in the functioning of the key business operations; • the limited number of changes to the business and the limited turnover of Management and key accounting personnel during the year; and • the history of a low number of corrected and uncorrected misstatements identified in previous periods.	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the committee all audit differences in excess of £1.1m (2022: £1.1), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level.

Anglian Water Services Limited and Anglian Water Services Financing Plc were subject to full-scope audits and together account for 100% (2022: 100%) of the group's total assets and EBITDA. All procedures were carried out directly by the group audit team.

7.2. Our consideration of the control environment

Our work in relation to the group's internal control environment involved testing of the group's key reporting system. With the involvement of our IT specialists, we obtained an understanding of, and tested, relevant General Information Technology Controls (GITCs) within the group's key reporting system, including the access controls, change Management controls and controls around segregation of duties.

We also tested the relevant controls within the household revenue, capital expenditure, certain aspects of treasury and operating expenses business processes, which are supported by the group's key reporting system. We performed a walkthrough and inquiry of Management to test the design and implementation of the relevant controls within each of the business processes. We tested, on a sample basis, the operating effectiveness of these controls.

We were able to adopt a controls reliance approach for each of these business processes, including automated controls in these business processes and no significant control deficiencies were identified as a result of our work.

7.3. Our consideration of climate-related risks

As a part of our audit procedures, we have obtained Management's climate-related risk assessment and held discussions with Management to understand the process of identifying climate-related risks and opportunities, the determination of mitigating actions and the impact on the group's financial statements. Management embed climate related risks within each principal risk as described on pages 83 to 93. Management have considered climate change in their preparation of the Strategic Direction Statement and the Water Resources Management Plan as described on page 77. The risks identified do not have an impact on our key audit matters in the current year. Management have determined that the impact of climate related risks on the financial statements for the year is not material, as described in note 2 to the financial statements.

We performed our own qualitative risk assessment of the potential impact of climate change on the group's account balances and classes of transaction. Our procedures included reading disclosures included in the Strategic Report on page 71, as well considering whether they are materially consistent with the financial statements and our knowledge obtained in the audit. We involved climate change and sustainability specialists in assessing these disclosures.

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of Directors

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

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

10. Auditor's responsibilities for the audit of the financial statements

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

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

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- results of our enquiries of Management, the internal audit function and the Audit Committee about their own identification and assessment of the risks of irregularities, including those that are specific to the group's sector;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, financial instruments, valuations, pensions and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the areas of bad debt provisioning and classification of costs as capital expenditure. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Environment Agency regulations, pensions legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included the group's operating licence and the regulatory solvency requirements.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud continued

11.2. Audit response to risks identified

As a result of performing the above, the key audit matter relating to bad debt provisioning was identified as a potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the procedures addressing the key audit matter above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of Management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC and Ofwat;
- in addressing the risk of fraud in respect of the inappropriate capitalisation of costs, testing a sample of capital projects by agreeing the costs incurred to third-party documentation and assessing the appropriateness of the classification in accordance with the capitalisation policy; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

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

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the Directors' Report.

13. Opinion on other matter prescribed by our engagement letter

In our opinion, the part of the Director's Remuneration Report to be audited has been properly prepared in accordance with the provisions of the Companies Act 2006 that would have applied were the company a quoted company.

14. Matters on which we are required to report by exception

14.1. Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

14.2 Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made.

We have nothing to report in respect of these matters.

15. Other matters which we are required to address

15.1 Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by Board of Directors on 1 September 2016 to audit the financial statements for the year ending 31 March 2017 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is seven years, covering the years ending 31 March 2017 to 31 March 2023.

15.2 Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

16. Use of our report

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

Kate Hadley

Senior statutory auditor
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom

07 June 2023

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Anglian Water Services Limited
Lancaster House
Lancaster Way
Ermine Business Park
Huntingdon
Cambridgeshire
PE29 6XU

anglianwater.co.uk

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