

AWS DIVIDEND POLICY

POLICY DATE AND REVIEW

1. This Dividend policy has been approved by the Board of Anglian Water Services Limited (the “Company”) and is effective from 9 June 2021. All dividends must be declared and paid in accordance with this policy. The policy will be reviewed by the Board at least annually. Any changes in the policy will be clearly signalled in the Company’s Annual Performance Report.

SUMMARY AND REPORTING AND CALCULATION OF DIVIDENDS

2. The dividend policy of the Company is to pay a dividend aligned to the performance of the business taking into account commitments to customers and other stakeholders and ensuring that it is able to finance its Appointed Business. The dividend policy has been designed to allow shareholders to earn an appropriate return from an investment in the Company, whilst not impairing the Company’s longer term financeability.
3. The Company aims to attract long term investors who support the Company’s long term ambitions. The support of ultimate owners of the Company (the “Investors”) is critical to the success of the Company’s business and to securing the investment that it needs. The Investors are entitled to a return on their investment. This is delivered partly through long-term capital growth and partly through dividends.
4. The base dividend is set in reference to the Company’s annual business plan (the “Plan”) which is based on the allowed return set by the regulator adjusted to reflect the Company’s actual capital structure and performance. Within the Plan the Company identifies the cash available for distribution, allowing for the business’s liquidity requirements in respect of funding its operations, the capital programme, servicing its debt for the next 18 months and maintaining appropriate headroom to its key credit metrics to ensure that its ability to raise finance is not impaired. The dividend will be considered at a properly constituted board meeting and directors will make decisions in relation to both the Plan and in relation to any dividend payments having regard to Company’s purpose (set out below) and to their duties under the Company’s Articles of Association.
5. The ability of the Company to pay dividends is constrained by its obligations to lenders. These obligations include commitments to comply with certain financial covenants. In particular, the Company has committed to lenders that it will only pay dividends when key financial ratios are satisfied.
6. Dividends can be increased or lowered from this base position depending on the actual performance of the Company. An assessment will be completed by the Board to determine if the payment or part payment of the dividend reflects and/or would compromise the commitment made by the Directors of the Company to have regard to the long-term social, financial and operational commitments made to Company’s stakeholders.

7. The dividend policy is also based on ensuring that (i) there is adequate headroom in relation to all of the applicable financial covenants (referred to above) and (ii) key Credit Rating Agency credit metrics required to support the capital structure as determined by the Board can be satisfied. In assessing the dividend payment, the Directors review the business performance forecasts (currently to the end of the AMP period of 31 March 2025) and give consideration to the potential impact of external factors in the economy and regulatory environment on the Company's forecast cash flows.
8. The Directors consider this cash-based approach provides a more appropriate consideration of the needs of our customers, employees, pensions schemes and other stakeholders whilst ensuring the liquidity requirements of the business are met fully. This approach is consistent with Licence Condition P of the Licence which requires that dividends paid must not impair the Company's ability to finance its Appointed Business.
9. In order to ensure that the Company does not risk breaching its commitments to lenders, the overall amount of the Company's ordinary dividends will not exceed the free cash flow (defined as operating cash flow less interest and capital maintenance payments) generated by Anglian Water, and in practice will be limited by its current and forecast financial covenants.
10. A decision to pay or declare a dividend will also require an assessment of the long term financial resilience of the Company as per the financeability section below.
11. Finally, the Board should test any proposed dividend payments against legal and regulatory requirements and restrictions including both the Licence requirement to the effect that dividends are expected to reward efficiency and the management of economic risk and financial covenants
12. The dividends declared or paid in a year are to be reported in the Annual Performance Report of the Company. This should include how they relate to the policy and any changes in the policy.
13. Dividends are approved only after considering the overall performance of the business along with the commitments to other stakeholders.
14. The base dividend is set in reference to the Plan which is based on the allowed return set by the regulator adjusted to reflect our actual capital structure. Within the Plan the Company identifies the cash available for distribution, allowing for the business's liquidity requirements in respect of funding its operations, the capital programme, servicing its debt for the next 18 months.

COMMITMENTS TO STAKEHOLDERS

15. In its Articles of Association, the Company has committed to conduct its business and operations for the benefit of members as a whole while delivering long term value for its customers, the region and the communities it serves and seeking positive outcomes for the environment and society. In making decisions (including decisions in relation to dividend payments), directors are required to act in the way that is considered most likely to promote the purpose of the company. In doing so, directors must have regard

(among other things) to the likely consequences of any decision in the long term, the interests of the company's employees, relationships with suppliers, customers and others and the impact of the Company's operations on the community and the environment.

16. The Board will therefore consider if the payment or part payment of the dividend reflects or would be consistent with the long-term social, financial and operational commitments made to stakeholders, including customers, employees and pensioners. In considering this issue, the Board will have regard to the suite of Performance Commitments that the Company has made which include targets in relation to:

- performance for customers (including, but not limited, to C-MEX and D-MEX);
- operational commitments which are of importance to customers (including, but not limited to, commitments in relation to Leakage, Per Capita Consumption, Water Quality, Interruptions to Supply and Risk of Low Pressure); and
- wider social and environmental commitments (including, but not limited to, commitments in relation to vulnerable customers, Sustainable abstraction, and Community investment.

The Board also takes into consideration the obligations of the Company to its employees including (but not limited to) the obligation to make appropriate investment in health and safety and to ensure that there is appropriate funding of the Company's pension scheme.

FINANCEABILITY TEST

17. In assessing the dividend to be paid, the Board will:

- ensure that sufficient liquidity is maintained after a dividend payment to enable the business to, for at least 18 months, meet its financial obligations and finance its operations, including the payment of its creditors as they fall due;
- ensure that the Company has sufficient distributable reserves when determining both whether a dividend should be declared and its value. This will consider the latest balance sheet position and forecasts for the remainder of the AMP;
- assess the long-term viability of the Company. This is assessed through the viability tests maintained by the Company, reviewing the cash facilities available to the Company;
- ensure that the Company maintains ratios that are consistent with an investment grade credit rating; and
- maintain the headroom target set for gearing as measured by the Regulated Asset Ratio covenant and the Interest Cover Ratio covenant over the remainder of the AMP.

LICENCE CONDITION REQUIREMENTS

18. Licence Condition P provides that: “The Appointee shall declare or pay dividends only in accordance with a dividend policy which, has been approved by the Board of the Appointee and which complies with the following principles:

- The dividends declared or paid will not impair the ability of the Appointee to finance the Appointed Business; and
- Under a system of incentive regulation dividends would be expected to reward efficiency and the management of economic risk.”

SPECIAL DIVIDEND

19. In exceptional circumstances, special dividends may be paid in addition to ordinary dividends A special dividend can be approved by the Board in circumstances where the source of funding for such a dividend is other than free cashflow generated in the year.