

Preliminary announcement of full-year results for the 12 months ended 31 March 2022

Anglian Water Services Limited (AWS) is a private limited company and regulated monopoly provider of water and water recycling services, serving almost 7 million customers in the East of England. It is the principal subsidiary of Anglian Water Group Limited (AWG).

A fast-paced, purpose-driven company on the front foot in the face of challenge

Chief Executive Peter Simpson commented:

“These results demonstrate a company committed to delivering in the public interest, driving long-term environmental prosperity and rooted in the communities we serve.

“We’ve seen success in many key areas – delivering Anglian Water’s best-ever performance on our world-class leakage reduction programme, accelerating our £800 million environmental programme right across our region by delivering a cumulative 1,184 schemes since 2020, surpassing our carbon targets and providing £32 million of targeted affordability support for customers facing the cost of living crisis. With almost 325,000 customers helped this year alone, we’ve ringfenced £65 million for 2022/23 and a total of £232 million of affordability support for 2020-2025.

“In our biggest ever single year of capital expenditure, we’ve invested £577.7 million into programmes that will increase our resilience to drought and flood, and support growth, while safeguarding and enhancing the environment. The schemes we are delivering, including the most ambitious smart metering programme in the industry, the creation of a cutting-edge smart water network, and a multitude of abstraction reduction programmes, have enabled us to make sector-leading reductions in the amount of water we take from the environment, protecting precious chalk streams and rivers.

“As part of that investment, we are well underway with delivery of our ground-breaking strategic pipeline - our biggest ever infrastructure programme – to move water around our region to where it’s needed most.

“Amid the successes, it’s been a year of very real challenges. Some of these were universal, including supply chain issues and the ongoing pandemic, but the most notable for us were the knock-on impacts of prolonged flooding in the East of England over the first three months of 2021. Prioritising our customers’ vital services and redeploying resources during that period held back some elements of operational performance in the year that followed. We’ve taken decisive steps to correct our course, which are already delivering positive results.

“The dedication of all my colleagues, day after day, week after week, through this difficult year, has been a stand-out positive. We were particularly thrilled to be awarded Utility of the Year 2021 by Utility Week, our sector’s highest accolade – a welcome and timely reminder that this is a purpose-driven company with a reputation for excellence.

“As we head into the third year of AMP7 (2020-2025) I remain confident that our long-term trajectory is a positive one.”

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Overall highlights

- **Largest ever single year programme of capital investment completed on schedule:** £577.7 million invested in the East of England in 2021/22 (31 March 2021: £447.0 million), including £109 million in abstraction reduction to protect chalk streams and rivers; £68.1 million for climate resilience schemes and £63.1 million to address population growth.
- **Accelerated £800 million environmental programme delivery well ahead of schedule:** cumulative total of 1,184 schemes delivered since 2020, including investment in storm tanks, event duration monitors and bathing water quality. As part of the programme we are today announcing the UK's largest ever programme of new wetlands. More than 25 new natural treatment wetlands modelled on award-winning Ingoldisthorpe blueprint will curb the impact of phosphates and nitrates and further improve biodiversity across the region; creation of first three planned to begin early 2023.
- **£32 million of tailored support in 2021/22 to customers facing affordability challenges:** 324,750 people supported this year and unprecedented £65 million package of support set aside for customers in 2022/23 as the cost of living crisis bites. Our total AMP package extends to £232 million as we seek to fulfil our aim of no customers being in water poverty.
- **Net zero carbon programme ahead of schedule:** industry-leading 2030 net zero routemap published as company leads the water sector at COP26.
- **Challenging year for performance against regulatory commitments resulting in net ODI penalty:** Majority on track or ahead of target, including environmental programme delivery, leakage and mains repairs, but targets not met for some key measures including pollutions, flooding and mains bursts, leading to an overall forecast net penalty for 2021/22 of circa £8 million. Across the AMP to date we remain in a net positive position, and anticipate returning to net reward in 2022/23.
- **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 isn't yet known, we have provided comprehensive information to both regulators and continue to engage positively with them.
- **Company financial restructure completed:** shareholder injection of more than £1 billion into Anglian Water, reducing gearing to 65 per cent (31 March 2021: 82 per cent).

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Financial highlights

	March 2022	March 2021 (restated ¹)	Change	Change
	£m	£m	£m	%
Revenue	1,399.8	1,351.8	48.0	3.6
EBITDA ²	788.5	727.3	61.2	8.4
Operating profit	440.8	388.9	51.9	13.3
Adjusted (loss)/profit before tax ³	(17.5)	138.7	(156.2)	(112.6)
Fair value on derivatives	(115.1)	(23.2)	(91.9)	(396.1)
Tax charge	(310.2)	(19.5)	(290.7)	(1,490.8)
Statutory (loss)/profit after tax	(442.8)	96.0	(538.8)	(561.2)
Operating cash flow	749.9	632.8	117.1	18.5
Net capital injection ⁴	1,068.7	£nil	1,068.7	100.0
Net debt before derivatives ⁵	5,621.3	6,649.8	(1,028.5)	(15.5)

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

1 The results, financial position and cash flows for the year ended 31 March 2022 have been restated as a result of the change in accounting policy as discussed in note 1

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

3 Adjusted (loss)/profit before tax is an alternative performance measure as defined in note 6, shown before loss on derivatives of £115.1m (2021: £23.2m).

4 Net position of capital injected into the business less dividends paid.

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

Revenue up £48.0 million (3.6 per cent) as a result of higher developer activity following last year's lockdowns, and income which has been ring-fenced to fund our LITE tariff, which has supported customers through Covid-19 and is being retained to provide additional support through the cost of living crisis.

EBITDA up £61.2 million (8.4 per cent) Revenue movements in combination with strong cash collection and the release of some of the Covid-19 provision, both reducing our bad debt charge, have been offset in part by the impact of inflation on our costs, tankering due to winter 2020/21 wet weather and our work to drive leakage reduction performance. In addition we changed the way in which we deliver boundary box and external meter chamber replacement. As a result of the change in delivery, the costs are now being treated as capital expenditure rather than operational. See pages 29-31 for full details.

Operating profit up £51.9 million (13.3 per cent) as a result of strong EBITDA, offset in part by higher depreciation as our asset base grows as we invest in our assets for the long term.

Adjusted loss before tax of £17.5 million down from profit of £138.7 million (112.6 per cent), primarily driven through higher interest costs on inflation-linked debt due to higher inflation year on year.

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Fair value loss on derivatives up £91.9 million (396.1 per cent), driven by a significant increase to the average levels of forward inflation curves versus the March 2021 period end and change in discounting factor from Libor to Sonia reducing the discount rate on future derivative liabilities. These fair value losses are non-cash in nature and have no material effect on the underlying commercial operations of the business.

Tax charge for the period has increased by £290.7 million due to the increase in deferred tax provisions ahead of the corporation tax rate rise from 19 per cent to 25 per cent which will take effect from April 2023.

Statutory loss after tax of £442.8 million down from a profit of £96.0 million, primarily due to the tax charge in the period and higher interest due to higher inflation.

Net capital injection of £1,068.7 million from shareholders reflects the completion of our restructure which saw £1,165 million invested in the business net of our March 2021 final dividend of £96.3 million.

Operating cash flow up £117.1 million (18.5 per cent) a result of higher operating profit, positive working capital movements and strong customer cash collection.

Net debt before derivatives down £1,028.5 million (15.5 per cent) following the financial restructuring completion which has reduced gearing to 65 per cent.

Capital investment and operational highlights 2021/22

Delivering our 2020-25 Final Determination

- **£577.7 million capital investment in East of England, largest ever single year programme:** Programme highlights for the full year include £109 million of investment in river water quality; £68.1 million of investments in abstraction reduction and climate resilience, and £63.5 million of investments to address population growth. Overall, £269.3 million has been invested in capital maintenance and £308.4 million in capital enhancement.
- **World-class levels of leakage reduction delivered**, surpassing our most stretching target ever, achieving a 6.1 per cent reduction in leakage against performance which was already best-in-class.
- **On track delivery of award-winning smart meter rollout:** 310,321 smart meters installed towards 2025 target of 1.1 million meters, despite supply chain challenges causing temporary pause in programme.
- **Rated 'sector-leading' in Ofwat Service Delivery Report** in November 2021; regulator called out emerging evidence of cost efficiency.
- **First sections of pipeline complete in Anglian Water's biggest ever infrastructure programme:** creating hundreds of kilometres of large-diameter pipelines to enable water to be moved from areas where supplies are more abundant to areas which already face a shortfall.
- **Majority of performance commitments on track amid challenging year:** Regulatory targets met/surpassed across key measures including leakage, Water Industry National Environment Programme (WINEP) delivery, risk of severe restrictions in a drought, abstraction, mains repairs, properties at risk of low pressure, operational and capital carbon reduction, support for customers in vulnerable circumstances

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and management of void properties. However, the ongoing knock-on impacts of the exceptional weather we faced in early 2021, together with supply chain issues, have been challenging, particularly in the context of the toughest targets we have ever been set. Prioritising maintaining services to customers through widespread and persistent flooding has dented our performance in the year that followed, with colleagues and resources diverted from routine duties. We have not hit our performance targets in areas including pollutions, supply interruptions, flooding and reactive mains bursts, incurring regulatory penalties in these areas.

- **Our shareholders' support:** This June, we will return to paying a dividend to the shareholders of Anglian Water Group for the first time since 2017. Over that period they have reinvested returns, stood by us when times were tough, and wholeheartedly endorsed the changes we made to enshrine environmental and social purpose. We are pleased now to be in a position to repay their faith in us by sharing our financial returns with them.

Protecting and enhancing the environment:

Creating a sustainable future for our region

- **Ahead of schedule delivery of our £800 million+ accelerated WINEP**, including increased coverage of event duration monitors and early delivery of storm tank improvement programme, with a cumulative total of 1,184 schemes delivered.
- **Get River Positive partnership launched with Severn Trent** underpinned by pledges to prevent harm to UK rivers and ensure they can thrive, create opportunities for people to enjoy rivers, create new habitats and be transparent about performance and plans.
- **On track to deliver 2030 net zero carbon goal** following publication of detailed routemap in July 2021 and ahead-of-target reductions in operational and capital carbon; company named by Financial Times/Statista as a 2022 European Climate Leader and rated in top 5.5% of companies globally for our response to climate change by CDP.
- **Ahead of regulatory target on abstraction reduction** (376 million litres vs 87 million litre target) following £68.1 million of capital investments in 2021/22, leaving more water in the environment to safeguard precious chalk streams and waterways.
- **Co-lead of water theme at COP26 Resilience Hub with engineering consultancy Mott MacDonald and the Water Pavilion coalition**, the only UK water company with a formal role at the conference.
- **Rapid progress made on flagship Future Fens Integrated Adaptation initiative**, featured at COP26 as blueprint for integrated water management.
- **Seven successful applications to Defra's £150 million Flood and Coastal Resilience Innovation Programme** plus £1.7 million invested in flood alleviation and SuDS retrofit schemes with partners across our region.
- **Anglian Water CEO chairs Catchment Management summit with HRH The Prince of Wales** at Clarence House.
- **98 per cent reduction in metaldehyde levels** following successful seven-year Slug it Out reduction programme; 100 per cent engagement achieved with farmers at our key reservoirs.

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Purpose-led delivery for our people, customers and communities

Making life better for our customers, every single day

- **Facing in to the cost of living challenge:** £32 million of affordability support given to a record 324,750 customers in 2021/22, with support ramped up to £65 million to address anticipated customer hardship in 2022/23; customers in need signposted to £1.7 million of potential unclaimed benefits in year.
- **Going above and beyond:** Customer service team working in partnership with more than 150 charities and other organisations to provide tailored support – up 50 per cent in a year.
- **Record levels of support for customers in vulnerable circumstances:** 9.4 per cent of Anglian’s customers supported through Priority Services Register (regulatory target 3.6 per cent), with regulator’s AMP-wide target surpassed.
- **MyAccount developments enable customers with smart meters to monitor usage up to every hour;** further service improvements include increased functionality for reporting issues.
- **£1 million Positive Difference Fund fully dispensed,** benefiting more than 100,000 people in our region through more than 160 community groups.
- **Led development as lead sponsor of new BSI standard for Purpose-Driven Organisations;** lateral endorsement for purpose-led approach includes Best Use of Purpose as a Business Driver (Strategic Comms Awards) and Business in the Community Responsible Business Tracker result 76 per cent (vs cohort average 45 per cent). Internal survey recorded 83 per cent of staff feel connected with our environmental and social purpose (up 25 per cent year on year).
- **Support for wellbeing:** Winner of Royal Society Award for Public Health Workplace Health and Wellbeing; all colleagues given a wellness day in addition to annual leave to support wellbeing post-pandemic.
- **RoSPA Gold Award for health and safety:** 18th consecutive year of RoSPA recognition.
- **Employee engagement remains strong:** 81 per cent of employees are proud to work at Anglian Water, while 86 per cent agree we are an inclusive place to work.
- **Religious holiday swap policy launched:** employees can now switch out Christian bank holidays to celebrate festivals relating to their own faith.
- **Company-wide inclusion training launched:** mandatory course for all employees developed in collaboration with union colleagues and Inclusion Community.

Innovation and collaboration driving long-term resilience in East of England

Delivering our identified business priorities

- **£17.3 million share of Ofwat Innovation Fund:** Anglian awarded 25 per cent of the total pot, the most awarded to any water company, leading five projects and partnering on 11 more.
- **New multi-sector reservoirs set to serve 750,000 people:** Gateway funding secured through RAPID (the Regulators’ Alliance for Progressing Infrastructure Delivery) to progress our ambitious plans for two new multi-sector reservoirs to supply 250 million litres of water a day by the mid to late 2030s.

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- **Planning for new operationally net zero water recycling centre for Cambridge:** third phase of community consultation completed April 2022; relocation from existing site to free space for 5,600 new homes; new centre scheduled to open 2028 pending planning consent.
- **Ambitious innovation acceleration plan launched:** Driving action on rivers, carbon reduction, leakage and optimisation, water resources, and climate change adaptation and resilience.

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Chief Executive Management Report

Our purpose and strategy

Our purpose, which guides every decision we make every day, is to bring environmental and social prosperity to the region we serve through our commitment to love every drop. In pursuit of our purpose, our long-term strategy is guided by four 25-year strategic ambitions:

- Make the East of England resilient to the risks of drought and flooding;
- Enable sustainable economic and housing growth in the UK's fastest-growing region;
- By 2030, be a net zero carbon business and reduce the carbon in building and maintaining our assets by 70 per cent;
- Work with others to achieve significant improvements in ecological quality across our catchments.

To help us progress towards those ambitions, we have set four goals for 2020-2025:

- To make life better for our customers, every single day;
- To deliver our 2020-2025 Final Determination;
- To deliver our identified business priorities;
- To create a sustainable future for our region.

Below, we set out how we are delivering against these goals and ambitions.

Capital investment and operational highlights 2021/22: delivering our 2020-25 Final Determination

Completion of largest ever single year capital investment programme (£577.7 million) and on-track delivery across 68 per cent of performance commitments:

The £577.7 million programme of capital investment we have delivered in 2021/22 includes significant investments to ensure our region is resilient to the impacts of drought, climate change and population growth, alongside our largest ever programme of schemes delivering environmental protection. Programme highlights for the full year include £109 million of investment in river water quality; £68.1 million of investments in abstraction reduction and climate resilience and £63.5 million of investments to address population growth.

Operationally, it has been a challenging year in several areas, primarily triggered by the ongoing impact of widespread and persistent flooding in early 2021, compounded by supply chain challenges, including shortages of HGV drivers and difficulty in securing supplies of chemicals. During the flooding we made decisions which prioritised customers' use of their facilities, redeploying teams and tankers from routine work. This caused knock-on operational challenges which persisted throughout the year, and led to us missing tightened targets in areas including pollutions, compliance at water recycling centres, flooding and supply interruptions.

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The impact of this period continues to be felt, but in a much more positive way. We have learned valuable lessons and taken decisive steps to increase our resilience, develop regional partnerships and reorganise our business structures, as we set out in these results.

Despite the challenges of the year, we have met or exceeded targets across key measures including leakage, WINEP delivery, risk of severe restrictions in a drought, abstraction reduction, mains repairs, properties at risk of low pressure, operational and capital carbon reduction and management of void properties.

Our leakage performance has seen us deliver a remarkable 6.1 per cent decrease in leakage against levels that were already industry leading. We are well ahead of target on our support for customers in vulnerable circumstances, and have already surpassed the industry-wide target of 7 per cent set for AMP7, having stretched ourselves to go beyond regulatory recommendations.

Ofwat's Service Delivery Report: Ofwat published its annual Service Delivery Report in November 2021, which assesses water company performance against outcome delivery and financial performance. Despite the challenges we faced in the reporting year, Anglian Water was highlighted as one of three 'sector-leading' companies, with top performance in reducing leakage and sewer flooding. Our support for vulnerable customers was also highlighted as a particular strength.

Company financial restructure concluded in July: The restructure of our Group, together with the injection by our shareholders of more than £1 billion of capital, was the final stage in a process which began in 2018 to simplify our financial structures to improve transparency, trust and customer confidence and solidify our commitment to put wider public purpose at the heart of our business. The process saw us announce fundamental changes to our Articles of Association, which enshrined a commitment for directors to consider the needs of the environment and communities alongside the need for shareholders to make a fair return on their investment.

Early delivery of environmental schemes: We are ahead of schedule on the delivery of our accelerated WINEP, which will see us invest more than £800 million in environmental improvements in the five years from 2020 to 2025. We have successfully completed and submitted for sign-off 664 WINEP obligations for 2021/22. This is in addition to the 520 delivered in 2020/21, and not only means that we have successfully delivered 100 per cent of the WINEP programme required for the Environmental Performance Assessment, but also that we have earned £1.1 million of reward in 2021/22 as a result of the schemes we have delivered early. The majority of the schemes delivered were event duration monitors, which contribute to our commitment to have 100 per cent coverage of our storm overflows by December 2023. As a result of the monitors installed this year, we are now at 72 per cent coverage. We have also delivered early more than 50 per cent of our AMP7 storm tank improvement programme.

Smart metering programme accelerating following supply chain challenges: By year end, we had installed a total of 310,321 smart meters, remaining on track to reach our 1.1 million target for 2025. Shortages of meters due to a global shortage in microchips led to a pause in programme delivery; however, the multi-award-winning programme is accelerating at pace, with more than 1,000 meters a day now being installed. Since the start of the AMP in 2020, more than 78,000 leaks have been identified and more than 46,000 customer leak investigations carried out, leading to a saving of 9.3 megalitres per day. Customers with smart meters can now opt to receive usage data as frequently as every hour, helping them stay on track of their water use and their finances.

Boots on the ground delivering our biggest ever infrastructure programme: Together with our partners in the Strategic Pipeline Alliance (Costain, Farrans, Jacobs and Mott MacDonald Bentley), we are connecting up our

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water-scarce region to enable water to be moved from areas where supplies are more abundant to areas which already face a shortfall. The entire scheme, which includes the creation of hundreds of kilometres of large diameter interconnecting pipelines, is supported by a digital twin which will mirror the physical infrastructure, giving us real-time data to monitor the network and insights that will help us optimise the delivery of our service to customers. The scheme was awarded Digital Initiative of the Year at this year's British Construction Industry Awards and shortlisted for the same award at the Utility Week Awards.

Leading the pack on Ofwat Innovation Fund: Over the year we have secured a £17.3 million share of the Ofwat Innovation Fund, taking 25 per cent of the total pot, the most awarded to any water company. We are leading five projects and partnering on 11 more. Our Safe Smart Systems project, awarded £7.5 million, is focused on achieving autonomous control in water systems across the UK. Triple Carbon Reduction (awarded £3.8 million) will use novel technologies to target a step change reduction in greenhouse gas emissions and electricity use in used water treatment and provide a new renewable energy source through green hydrogen production.

Delivering on our net zero carbon ambitions: In July 2021 we published our industry-leading detailed Net Zero Strategy to 2030. It sets out how we will reach our carbon goals through a three-step hierarchy of reducing emissions, decarbonising our electricity supply and, finally, removing or offsetting residual emissions through carbon sequestration projects, primarily within our region. We have met both our operational and our capital carbon targets for the year.

Five-point Plan for Innovation Acceleration: Launched in March 2022, our sector-leading *Five-point plan for innovation acceleration* sets out how we are accelerating innovation to respond to some of the biggest challenges facing the region: reaching net zero by 2030; delivering healthy rivers; futureproofing water resources; cutting leakage and optimising infrastructure; and adapting to climate change and building resilience to its impacts.

Ground-breaking leakage technology deployed: We have become the first water company in the UK to deploy leakage technology in live water mains, enabling us to identify leaks without interrupting our customers' supply. The technology uses multi-sensor, low voltage conductivity and acoustic technology, as well as high-resolution closed-circuit television (CCTV), to listen for and find leaks from inside the water pipes.

Award-winning delivery: We were thrilled in March to be named Utility Week's Utility of the Year 2021. Judges cited our "notably pushing the envelope on environmental matters and development of innovative approaches to sustainable business operations". We are also shortlisted for 13 awards, almost double the number of any other water company, at the 2022 Water Industry Awards (to be announced 29 June) including Groundbreaker Award, Pollution Mitigation Initiative of the Year and Net Zero Carbon Initiative of the Year.

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 isn't yet known, we have provided comprehensive information to both regulators and continue to engage positively with them.

Our shareholders' support: It is with long-term resilience on many fronts in mind that this year, we return to paying a dividend to shareholders for the first time since 2017. The consortium of long-term shareholders which owns Anglian Water represents the very definition of patient capital, and we couldn't be more grateful for their

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continued support throughout the past five years. Over that period our owners, who represent millions of pension holders, have reinvested returns, stood by us when times were tough, and wholeheartedly endorsed the changes we made to enshrine environmental and social purpose when we took the ground-breaking step of changing our Articles of Association. We are pleased now to be in a position to repay their faith in us by sharing our financial returns with them, as the third element in our triple bottom line: customers and communities, environment and shareholders.

Enabling sustainable economic and housing growth in the UK's fastest-growing region

Plans taking shape for brand new low-carbon water recycling centre for Cambridge: We undertook our third phase of community consultation from February to April 2022, inviting feedback on our plans for an operationally net zero carbon, energy neutral water recycling centre for Cambridge. Funded by Homes England, the proposed relocation of our existing water recycling centre at Milton, in North East Cambridge, supports Cambridge City and South Cambridgeshire District Council's vision for sustainable growth. A Nationally Significant Infrastructure Project, the new centre is set to be one of the largest waste water infrastructure projects in a generation, and will provide vital services for the community and environment, recycling water and nutrients, producing green energy, and helping Greater Cambridge to grow sustainably. If approved, the new facility is expected to open in 2028.

Progression of new reservoirs proposed for the East of England: We have secured Gateway funding through RAPID (the Regulators' Alliance for Progressing Infrastructure Delivery) to progress our ambitious plans for the proposed South Lincolnshire Reservoir and Fens Reservoir, addressing long-term water resilience for our region's growing population. The two new multi-sector reservoirs are set to supply 250 million litres of water a day by the mid to late 2030s, serving at least 750,000 people and meeting the needs of homes, businesses and agriculture.

Our environment and the planet: creating a sustainable future for our region and improving ecological quality

Get River Positive: 2021 was the year the world woke up to an issue we have long been wrestling with – the quality and overall health of our rivers in the face of more extreme weather, a changing climate and a growing population. The public, our stakeholders and the government rightly set the bar even higher in terms of the environmental standards expected from the water industry, telling us in no uncertain terms that significant investment and new approaches (including on combined sewer overflows) are needed to improve water quality in our rivers and seas. That is why in March 2022, together with Severn Trent, we launched the Get River Positive plan with its five commitments:

1: Ensure storm overflows and sewage treatment works do not harm rivers

Based on Environment Agency measures (RNAGS), our operations will not be the reason for unhealthy rivers by 2030. We will reduce spills from storm overflows to an average of 20 per year by 2025; eliminate all serious pollutions from our assets by 2025, and commit to reducing less serious pollutions by at least 45 per cent.

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2: Create more opportunities for everyone to enjoy our region's rivers

Within 10 years, 90 per cent of the population in these regions will live within an hour's drive of a bathing site, and we will create more opportunities for canoeists, anglers and recreational events.

We have already identified more than 20 potential inland bathing water locations across the Anglian Water region, and we will work with local river groups and communities to prioritise at least two for early implementation. We will also continue to promote the use of our existing inland bathing water at our Rutland Water reservoir and will look for opportunities to further increase recreational access to our reservoir sites.

3: Support others to improve and care for rivers

Together with Severn Trent, we launched a new deal for farmers this spring to incentivise regenerative farming practices and provide access to green financing. Our further commitments including campaigning for the removal of the automatic right to connect for new developments, championing the bill to ban wet wipes and using convening powers to help others address their contribution to river health.

We will work with farmers and landowners in the Anglian Water region, seeking to form a new strategic partnership with the NFU and CLA, working together to tackle river health, including point source and diffuse pollution and abstraction issues across Eastern England.

We will continue to invest in landscape-scale initiatives in places such as Norfolk, the River Lark in Suffolk, and across the Fens, seeking to improve the river environment whilst enabling the agri-food sector to flourish.

Later this year, we will launch a fund for river groups and communities to support citizen science to enhance the monitoring of rivers in our region. By 2024, we will engage with every river group and local Rivers Trust in our region to identify and seek to cost the actions required to eliminate all RNAGs, working in partnership with farmers and landowners, highways authorities and others.

We will also champion the development and promotion of a revised Catchment Declaration, seeking to draw the broadest possible range of partners to the table for action.

We were fortunate to have the opportunity to discuss the water sector's environmental remit and commitment to catchment management with His Royal Highness The Prince of Wales at a summit held at Clarence House in May 2022. Chaired by Anglian Water Chief Executive Peter Simpson, the event brought together fellow water companies from across the UK, together with senior representatives from the Cambridge Institute for Sustainability Leadership, Water UK, the Duchy of Cornwall and the Sustainable Markets Initiative.

4: Enhance our rivers and create new habitats so wildlife can thrive

We will work in partnership with others to ensure the successful re-introduction of iconic species such as salmon, the burbot and beavers into the landscape of Eastern England. Working with Water Resources East, we are using tools such as Systematic Conservation Planning to support ours and others' decision-making around investment in natural capital interventions.

Throughout 2022, we are engaging with local communities and river groups to understand issues which matter most to them in local catchments, and will work with them to develop action plans and investment proposals.

We will play our part in reaching the water industry's commitment to plant 11 million trees by 2030.

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5: Be open and transparent about our performance and our plans

By April 2023, we will share our proposals for the Water Industry National Environment Programme (WINEP) with every river group and local Rivers Trust in the Anglian region, and will look to develop partnerships and funding opportunities within and also beyond this programme. In 2022 we will convene an expert panel, including key academics and thought-leaders, to oversee our river health strategy, providing scrutiny and challenge of our work, and identifying research opportunities for further improvement. We will continue to ensure that executive and senior management remuneration is linked to environmental outcomes.

We look forward to reporting back on the progress of these initiatives during the year.

A new Quality and Environment Directorate: Our commitment to driving environmental prosperity in our region lies at the heart of our purpose. 2022 has seen the formation of a new Quality and Environment directorate led by Dr Robin Price, with a remit to provide leadership and vision on all aspects of quality and the environment. The new directorate's focus is on source to sea water quality management, effective delivery of strategy and plans for 2020-2025, and the development of a long-term vision based on the principles of integration, collaboration and innovation.

Targeted investment on CSOs: We continue to invest in our infrastructure and will increase the rate of installation of Event Duration Monitors (EDMs) to achieve 100 per cent coverage of CSOs by December 2023. This will further improve our understanding of how our networks are performing and create a sound platform on which to plan investment. This investment builds on the recent hydraulic modelling risk assessment for all CSOs and the installation of 794 EDMs to date.

Action on pollution: Our continuous programme of investment and strategic delivery has seen the number of category 1-3 pollutions in our region reduced by more than half in 10 years. This was recognised with 3* performance in the most recent Environmental Performance Assessment, announced in July 2021, judging us as a good company. Our long-term ambition is to reach zero pollutions from our assets. However, this remains an area of challenge for us, and our performance this year has not reached the level we or our customers want to see. In response we have launched an intensive action plan based on military command models and refocused our Pollution Incident Reduction Plan.

In the first quarter of 2022, pollutions were 54 per cent lower than the corresponding period of 2021, a clear reflection of the effect the exceptionally wet winter of 2021 had on our results. The calendar year measure means performance in Y2 was significantly impacted by wet weather events, with the number of pollutions recorded in Q1 of 2021 112 per cent higher than our five-year historical average. As flooding and rain abated, we saw big improvements, with pollutions dropping to 15% below our five-year average for the remaining three quarters. Serious pollutions remain a challenge and are a key focus for our Get River Positive initiative, launched in collaboration with Severn Trent earlier this year.

Reducing abstraction from our region's watercourses: Ecological quality in our catchments can be improved by leaving more water in the environment. That's why we are working with the Environment Agency to drive

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significant year-on-year reductions in our abstraction levels. This year alone, we have invested £68.1 million in capital schemes to reduce the amount of water we need to abstract to supply our customers and drive climate resilience.

Wendling Beck: Transforming land use for environmental benefit: Creating and enhancing natural capital in our region is a key priority for us. One of the ways we are doing so is by participating in the Wendling Beck Environment Project (WBEP), a pioneering habitat creation, nature recovery and regenerative farming project in the heart of Norfolk. Along the course of the chalk-fed River Wensum, the WBEP seeks to create a diverse range of grassland, woodland and wetland habitats, restore river quality and adopt regenerative farming practices. In doing so, the project aims to transform land use for environmental benefit, while also providing a sustainable income for farmers, together with amenities and learning opportunities for the local community and visitors. Its delivery will create a blueprint to help other farmers, landowners, environmental NGOs, and private companies across the UK evolve the way land is used towards a model that is more environmentally and financially resilient, and will also help broaden the market for biodiversity offsetting and the sale of ecosystem services in the UK.

The Wendling Beck Alliance (WBA), which oversees the project, sees Anglian Water working alongside four farmers (Dillington Hall Estate Ltd, Gorgate Ltd, JG Bullard and Sparrow Green Ltd), Norfolk Wildlife Trust, Norfolk County Council, The Nature Conservancy, Norfolk Rivers Trust and the Norfolk Farming and Wildlife Advisory Group (FWAG).

LENs: The power of many: Given our long track record of achieving environmental progress through collaboration, we were keen to explore the potential of the emerging Landscape Enterprise Network (LENs) model, which helps businesses become more resilient by funding regenerative agriculture practices and, through collaborating with others, generates different benefits from the same landscape. It enables businesses to work together to buy services from farmers which are delivered through changes in land management aimed at boosting water quality, reducing flood risk, increasing biodiversity and sequestering carbon. Working with Nestle, we have pioneered the LENs approach in the East of England on a three-year pilot project. In the first East Anglian trade, our contribution of £100,000 supported shared benefits delivered from a total of nearly £1 million of funding, and was used to pay farmers to make changes to practices in areas including cropping, hedgerows and farm equipment which deliver improvements in our drinking water catchments. Trade two, next year, should see even more investment, from more businesses, into sustainable land management across our region.

A natural capital plan for the East of England: Working with Water Resources East, we have joined forces with Biodiversify, supported by WWF UK and the Coca Cola Foundation, to develop a natural capital plan for Eastern England to identify where natural capital action should be prioritised to outcomes for nature, water and society. This also feeds into water resource management plans for the East of England and will help make sure that the changes in water management directly support the recovery of nature.

Norfolk water strategy: Norfolk is one of the parts of our region where water resources are under most pressure from the impacts of climate change. It's not a challenge we can tackle alone — so we have formed a partnership with Water Resources East, Norfolk County Council and The Nature Conservancy to create a new strategic approach to water resources in the county. The Norfolk Water Strategy seeks to use nature-based solutions to

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secure good quality, long-term water resources for all water users, while protecting the environment and showcasing the county as an international exemplar for collaborative water management. The core partners are working with a multitude of stakeholders including Norfolk local authorities, the Broads Authority, the Environment Agency, the NFU, Natural England, Norfolk Rivers Trust, Norfolk Wildlife Trust and the Water Management Alliance. Initially funded for two years, the strategy will see nature-based solutions tested and amalgamated into an investable, long-term proposition for private and public financing.

CaSTCo: harnessing citizen science: The Catchment Systems Thinking Cooperative (CaSTCo) is a partnership led by United Utilities, between the Rivers Trust, 12 water companies (including Anglian Water), academia, and environmental charities. The project was awarded £7.1 million through Ofwat's Water Breakthrough Challenge. Embracing citizen science alongside other monitoring approaches, CaSTCo aims to revolutionise how data on river health is shared and stored. The project, which is already underway in eight demonstration catchments, takes a place-based, community-focused approach to the restoration of the UK's rivers.

'Slug it Out' success: This has been the concluding year of our hugely successful 'Slug it Out' programme, which formed the foundations of our pioneering approach to catchment management. The programme began in 2015 to stamp out the use of the now-banned pesticide metaldehyde on land in our region. Through it, we have built strong working relationships, founded on mutual trust, with hundreds of farmers, and reduced metaldehyde levels in our reservoirs by more than 98 per cent, protecting water quality at source.

Biodiversity and habitat restoration: In delivering our biodiversity net gain commitment we have created or enhanced 116 biodiversity units of habitat on our land against losses of 29 biodiversity units as a result of our construction and land management activities since 2020. Our land management progress has included the award of a contract to ecological partner Greenwillows for woodland enhancement and management at our Offord Intake site. We have also been working to support the declining Shril Carder Bee, implementing changes to the management of grassland habitats at operational sites in the Thames Gateway area. We have expanded our Biodiversity Team with the appointment of a second Biodiversity Advisor. Our Biodiversity Advisors' remit extends across our region, supporting teams business-wide to ensure legal compliance in relation to wildlife and nature legislation and delivering land management for biodiversity.

Leading response to climate change: progress towards our 2030 net zero carbon goal

Renewable energy: Strong performance on our solar and wind assets and a new agreement with energy provider SSE have contributed to record renewable use of 153.7GWhs: our third consecutive year of growth, contributing just over 20 per cent of our total consumption. We have contracted with SSE to sleeve 45GWh renewable energy annually from Keadby wind farm on the borders of our region. Despite a difficult year for combined heat and power output, with digesters offline and major maintenance needed, we ended 2021/22 with two new records: a daily output of 396MWh and a monthly output of 10.93GWh.

Triple carbon reduction project underway: We are thrilled to be leading a pioneering new collaborative project with supply chain partners, academics and fellow water companies. Named 'Triple carbon reduction', it has secured £4.2 million funding from the Ofwat Water Breakthrough Challenge to accelerate progress to our sector-

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wide 2030 net zero carbon emissions target. The project targets a step change reduction in greenhouse gas emissions and electricity use in wastewater treatment and seeks to provide a new renewable energy source through green hydrogen production.

Electric vehicle transition: Our electric vehicle (EV) transition has proceeded at pace over the year. By the end of the 2021/22 financial year, our fleet included 10 range-extended hybrid vans, 10 Nissan ENV200 fully electric vans, 33 fully electric Vivaro vans and 61 electric cars. These numbers are set to increase significantly over 2022/23, with more than 300 fully electric and hybrid vehicles on order. Our EVs have proved popular with operational colleagues, with 100 per cent of users surveyed saying they wouldn't switch back to diesel-fuelled vehicles. We are now also facilitating colleagues acquiring EVs for their personal use through a new salary sacrifice scheme with Tusker, while 76 per cent of company cars on order are now fully electric with a further 15 per cent hybrid.

Making the East of England resilient to the risks of drought and flood

Continuing impact of 2020/21 flooding: As set out above, we have felt the impact of early 2021's severe and persistent flooding throughout the 2021/22 financial year, with increased numbers of pollutions and other knock-on impacts to water recycling compliance and routine maintenance. Alongside the creation of our Escaped Sewage Cell and the acceleration of our investment programme on combined sewer overflows, we have worked to strengthen multi-agency incident responses in preparation for future severe weather events.

In particular we have played a key role in the development of the Norfolk Strategic Flood Alliance (NSFA), set up under the leadership of General Lord Dannatt, former head of the armed forces. We have been responsible for both leading and supporting the work of the NSFA in numerous communities, delivering substantial work that seeks to reduce the risk of flooding to people and their properties, and reduce the impact of wet weather on our assets. We are now in discussions with other authorities across the East of England to explore rolling out the successful Norfolk model elsewhere.

Driving climate resilience: Work continues at pace on our flagship adaptation project Future Fens: Integrated Adaptation, led by a Taskforce set up by Anglian Water, Water Resources East and the Environment Agency and now joined by the Cambridgeshire and Peterborough Combined Authority. The Taskforce now numbers more than 75 senior stakeholders from different sectors all working together to drive resilience to climate change in the Fens and unlock a wealth of new opportunities for the environment and communities. The taskforce members are now focusing on delivering goals set out in the initiative's shared 10-point manifesto, published directly after COP26.

CReDO: a climate resilience digital twin: We have been partnering with BT and UK Power Networks on a first-of-its-kind project with the National Digital Twin programme (NDTp) run by the Centre for Digital Built Britain. The pioneering Climate Resilience Demonstrator (CReDo) demonstrates how those who own and operate energy, water and telecoms networks can use secure information sharing to plan for and mitigate the effect of climate-change-related flooding on network performance. The project is funded by UK Research and Innovation (UKRI), the University of Cambridge and the Connected Places Catapult.

Working in partnership to reduce flood risk: Working collaboratively with other organisations, we have invested over £1.7m in flood alleviation and SuDS retrofit schemes across our region in 2021—22. We have supported district councils, lead local flood authorities, internal drainage boards and the Environment Agency (EA) in reducing the risk, and mitigating the impact, of flooding from all sources. This includes a £600,000 contribution to

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an EA-led scheme to better protect the residents of Great Yarmouth from tidal flooding. In 2021 we were part of seven successful applications to Defra's £150 million Flood and Coastal Resilience Innovation Programme. Around £45 million will come to our region to help communities we serve to adapt to a changing climate. The projects we are involved in include the management of surface water, groundwater and coastal erosion risks, alongside catchment-scale interventions.

Water Smart Communities: We are thrilled to have been awarded £5.35 million of innovation funding by Ofwat to deliver *Enabling Water Smart Communities*, a ground-breaking project to unlock integrated water management in the UK. We will be working with partners including the Universities of East Anglia and Manchester, Thames Water, United Utilities, Ove Arup and the Centre for Local Economic Strategies. Through four development scenarios (private, public, community and water), we will address how new developments, and the people living in them, can adapt in a sustainable way to three key impacts of climate change – flood risk, water scarcity and water quality. We will set out new regulatory and policy standards, while improving understanding of cost models and the stewardship of water assets.

Our customers and communities: making life better for our customers every single day

Supporting customers through the cost of living crisis: We are committed to eradicating water poverty in our region, as we set out through our shared Public Interest Commitment made with our fellow water companies in 2019. Our support is needed now more than ever, as customers face the current cost of living crisis. To drive awareness of the help we can offer, this year we have created a new partnership with ReachOut, a unique service which addresses challenges of low engagement and low awareness of available support. Up to 20 per cent of customers referred to ReachOut have engaged through this partnership, and we have been able to help 324,750 customers over the last 12 months, providing a total of £32 million of support in 2021/22.

As we enter 2022/23, we are anticipating a rise in the number of customers in financial difficulty, and we have set aside an unprecedented £65 million of support for the next financial year as part of an overall package of £232 million from 2020 to 2025.

All of our support is captured under our WaterCare banner, to help customers access the help available and to promote our services directly to target groups. We use data analytics to identify and route customer contacts with high affordability risk through to our Extra Care team, where we use our bespoke Benefits Calculator to see if they are claiming all the benefits to which their household is entitled. We have signposted customers to more than £1.7 million-worth of potential unclaimed benefits this year alone, and a total of £6 million since the scheme began in 2019. In some cases our assessment has helped customers access up to £3,000 in benefits to which they didn't realise they may be entitled. We then look to see what we can do to help customers manage their payments to us, with schemes including payment holidays, affordable instalment plans and forgiveness schemes. The help we offer also includes tariff schemes, including the Aquacare Plus and WaterSure concessionary tariffs, and our social tariff called LITE, for all of which eligible applicants receive a lower bill. Our help doesn't stop there: we have also teamed up with councils in our region to distribute nearly £250,000 to those in financial hardship through the new Household Support Fund. The Fund is distributed by councils in England to directly help those who need it most.

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Fair charges for customers: Our customers want services that provide value for money, and are fair and affordable. Our Business Plan for 2020—2025, created following engagement with more than half a million customers and stakeholders, includes a significant increase in investment for our customers while reducing bills and returns to our investors. Based on the average household bill in 2022/23, water and sewerage charges will cost £1.24 per day (compared to £1.16 per day in 2021/22).

Commitments to customers outlined in Social Contract: Our longstanding commitment to operating in the public interest was cemented with the publication of our Social Contract in June 2021. The contract, developed in partnership with customers, is framed around 10 outcomes, driving towards the delivery of our purpose: to bring environmental and social prosperity to the region we serve.

Working in partnership: We now work with more than 150 organisations including charities, local authorities, public health bodies and other utility companies – an increase of 50 per cent from last year alone. Highlights for this year include being the first (and currently only) water company to be part of Scope’s Utilities Membership, which helps reduce costs and improve services for disabled people, working with the Rural Service Network to combat digital exclusion and partnering with the NCT to reach new and expectant parents to signpost how we can support them through our Priority Services Register.

Priority Services Register: Our Priority Services Register (PSR) plays a vital role in helping us identify and support those with additional needs, which can be anything from sight, hearing, learning or mobility difficulties, to having a baby under 12 months old. The service also provides support to customers with long or short-term medical needs should there be any interruption to their water supply. We have exceeded our year-on-year registration target for the second year in a row and now have the highest percentage of customers registered for the PSR in the water industry.

Make Today Great: We put our customers at the heart of our decision making and use our ongoing engagement channels, weekly satisfaction surveys, the ‘MyAccount’ platform and our online community to keep an open dialogue with them throughout the year. In May 2021 we launched our enhanced MyAccount. Customers with smart meters can now monitor their water usage, compare to other similar households and stay more in control of their bills, including the option to set bill payments monthly, weekly or annually. One million customers had signed up by June 2021. This is alongside our improved ‘Report an Issue’ function on our website. Reporting an issue online helps customers notify of us about a range of issues and saves them time calling our customer care line. In turn, we can quickly respond to issues as they occur. More customers than ever have used our online services this year to update their accounts, report service issues or book appointments, up 24.7 per cent on 2020/21 to over 70 per cent of contacts. Despite a year of challenges, our customers continue to rate our service highly, with 97 per cent of those asked rating the service received as satisfactory or better (as measured by our internal satisfaction survey).

Supporting customers through a bereavement: We have introduced a dedicated bereavement line for our customers and relatives. This line goes directly through to our specialist support team and acts as our ‘tell us once’ service, changing the customer’s file and ensuring the whole business has access to the updated information. We

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have also partnered with Life Ledger, a free, easy-to-use service that notifies 750 companies of a death from one place, simplifying the admin for bereaved families.

Development services: Our Development Services team engages with a diverse range of customers: homeowners extending their properties, builders, architects, contractors and other building enablers and commercial developers working on multi-property projects. We are committed to promoting a healthy and active competitive market and work closely with Self-Lay Providers and NAVs (New Appointments and Variations) across our region to facilitate and enable growth. We are always looking for new ways to support our customers, and have spent time this year better understanding their needs to enhance the service offerings we provide. This includes using our data to support our customers through their journeys, expanding our communication channels with a two-way SMS platform and providing expert support throughout. The service we provide our developer customers is measured through the Developer Measurement of Experience (DMeX) which combines qualitative customer satisfaction ratings and quantitative Water UK level of service metrics. Overall this year we achieved 7th place in a league table of our peers.

Delivering safe, clean water: We engage and invest from source to tap to maintain and improve on our drinking water performance, historically one of our strongest areas. This year was our best-ever for acceptability customer contacts, meaning that the number of contacts we received from customers about the appearance, taste and odour of their water is the lowest ever, at 1.03 customer contacts per 1,000 customers (compared with 1.13 customer contacts per 1,000 in 2020/21, and an industry average of 1.22 per 1,000). However, we narrowly missed our very challenging ODI performance commitment, set at 1.01 complaints per 1,000 customers. This year the provisional Compliance Risk Index (CRI) score for Anglian Water is 4.04. This is higher than our 2020 score of 1.98 and was impacted in 2021 by an increased number of water quality exceedances from our water treatment works in comparison to 2020. To swiftly address this, we have instigated a programme that is aimed at reducing the number of water quality exceedances from our assets. In 2021 the provisional Event Risk Index (ERI) score calculated by the DWI for Anglian Water was 0.972. This does not include the assessed scores for four events which are still under consideration by the DWI. The 2021 ERI score is a significant improvement over the 2020 figure of 6.16 and reflects our continued efforts to minimise adverse impacts to water quality on the rare occasions when failures do occur. We have achieved good progress with the use of flow cytometry (bacteriological monitoring) at our assets as part of our storage point programme, using both laboratory-based and online instrumentation. We have also developed industry-leading dashboards which flag changes at assets to our Water Quality Risk team for investigation, which is a critical step in our shift from reactive to proactive interventions.

Five-point plan for Community Recovery published June 2021: The plan outlines our purpose-led support for communities, focused on supporting vulnerable customers, being an inclusive business and increasing social mobility, investing in communities, supporting health and fostering wellbeing, and acting with integrity.

£1 million Positive Difference Fund fully dispensed: The second tranche of our £1 million Positive Difference Fund, set up at the start of the pandemic, was dispensed through 15 Community Foundations, providing grants of up to £20,000. Through the fund we have supported more than 100,000 people through 160 community groups, in areas including tackling homelessness and isolation, supporting people affected by the digital divide and addressing food poverty.

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Community support for Ukraine: Anglian Water is working with the rest of the water sector through Water UK to provide a total of 800,000 litres of bottled water. We will continue to work with the rest of the industry, Water UK and the government to take a united approach and offer our support as the situation evolves. We are also registered on the official 'Homes for Ukraine' site and have set up internal support groups for people in our business who have applied to host and sponsor a Ukrainian refugee or refugees. We are investigating how we might help with wider refugee sponsorship and all that goes with it, such as trauma counselling, English lessons and support with finding employment, alongside using the skills and knowledge of our people and partners to help.

Supporting STEM in the East of England: Our Education Team has worked hard this year to deliver a mix of virtual and in-person lessons and events to young people and adults in our region, educating and inspiring students about water sustainability, protecting the environment and climate change. We also promote the study of STEM (science, technology, engineering and mathematics) subjects and STEM careers in these sessions, alongside breaking down stereotypes. This is part of our long-term plan to encourage diversity and inclusion in our potential future employees. This year our events reached 31,033 students. Alongside this, we have run a range of virtual work experience challenge days for secondary schools to help students access the world of work.

Our people and partners: delivering our identified business priorities

Health and safety: The health and safety of our people continues to be of paramount performance. Throughout the year we have ensured our workforce stays safe while returning to offices and sites as Covid-19 restrictions eased. We implemented safety measures such as mandatory LFT tests for those coming back into our offices to keep everyone safe. This year our outstanding approach to health and safety was recognised with a further RoSPA Gold Award, our 18th year of RoSPA recognition. We also successfully maintained our ISO45001 accreditation.

We have continued to focus on behavioural safety through our Safe LIFE campaign, which focuses on the behaviours and choices we all make on a day-to-day basis. Following a year of virtual orientations, we are gradually returning to face-to-face sessions where possible. We have also increased engagement across the organisation with a new focused campaign, Time Out 4 LIFE, which encourages group conversations around safety.

Covid-19 and staff sickness: We have implemented measures to keep our people safe and limit Covid impacts, most notably adopting hybrid working where possible, increasing safety measures and responding flexibly as a business in the face of constant change. Through our internal Covid-19 tracing system we identified that approximately 10 per cent of employees with Covid were identified as having long Covid. In April 2021 we developed a 12-week 'Return to Health' programme with IPRS Health which focused on combatting fatigue and increasing energy levels. All outcome measures were improved, and the programme successfully helped participants return to normal daily activities as well as improving their overall wellbeing. Overall staff sickness increased from an average of 3.77 in 2020/21 to 5.82 days this year, largely as a result of Covid.

Support for colleagues throughout Covid-19 pandemic recognised: In October, we were awarded the Royal Society for Public Health's *Health and Wellbeing in Workplaces Award 2021*.

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Love to Listen: Our Love to Listen all-employee survey for 2021 showed that employee engagement remains high, despite a challenging year. Key highlights include a 25 point rise in the number of our people who feel connected to our organisational purpose, and an overwhelming majority of employees saying they received the support they needed throughout the Covid-19 pandemic and that we are an inclusive place to work regardless of age, gender, race, disability or sexual orientation.

Mandatory inclusion training: We want to ensure Anglian Water is a safe, welcoming environment for everyone. This year, in collaboration with our union colleagues and our Inclusion Community, we launched new mandatory inclusion training. The aim of this e-learning course is to help our people better understand inclusion and feel more comfortable talking about inclusion to improve relationships with our colleagues, customers and stakeholders. It features real-life (anonymised) experiences from Anglian Water colleagues.

National Inclusion Week: In September 2021 we held our third annual Inclusion Week, and achieved a 100 per cent increase in attendance compared with 2020. More than 230 colleagues are now active members of our Inclusion Community, a 30 per cent increase compared with last year.

Management Board sponsorship: In 2021, as part of our long-term Inclusion strategy, each member of our Management Board has committed to supporting inclusion by sponsoring one of the key areas of focus: age, gender, race and ethnicity, sexuality and gender identity, religion and belief and social mobility. As part of their commitment, they will champion their area of focus and take part in inclusion activities throughout the year, as well as supporting our plan to deliver change to make us more inclusive.

Gender and ethnicity pay gap reporting: This year our gender pay gap increased slightly. Our mean gender pay gap increased from 5.7 per cent in 2020 to 7.8 in 2021. Our median gap increased from 11.6 per cent to 12.5 per cent. We have also been inviting our people to provide information on their ethnic background on a voluntary basis so we can report for the first time whether an ethnic pay gap exists. We have reached the required internal threshold for respondents (more than 65 per cent) and will be preparing a report for publication in autumn 2022, in parallel with our gender pay gap reporting.

Acting in the public interest: striving towards our Purpose

Company financial restructure concluded in July 2021: The restructure of our Group, together with the injection by our shareholders of more than £1 billion of capital, was the final stage in a process which began in 2018 to simplify our financial structures to improve transparency, trust and customer confidence and solidify our commitment to put wider public purpose at the heart of our business. The process saw us announce fundamental changes to our Articles of Association which enshrined a commitment for directors to consider the needs of the environment and communities alongside the need for shareholders to make a fair return on their investment.

BITC Responsible Business Tracker: When we set out our purpose and embedded it into our Articles of Association in 2019, we also committed to judging ourselves against a set of responsible business principles. One

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of the ways we do this is through participation in the Business in the Community Responsible Business Tracker, aligned with the UN Sustainable Development Goals. Our score for 2021 was 76 per cent (73 per cent in 2020) compared to the cohort average of 45 per cent (43 per cent in 2020). We use the detailed report we receive from BITC to agree future areas of focus with the Management Board. Areas identified in 2020, including diversity and inclusion, had progressed significantly in the last year, scoring 62 per cent in comparison to the cohort average of 48 per cent. Our focus over the next year will be on our work in the value chain. Our procurement team is working on embedding sustainability at the core of our supply chain.

Working with BSI to create new international standard: We have also been working with the British Standards Institute on a new Publicly Available Specification for embedding purpose in organisations. As the lead sponsor we have worked with BSI and an advisory panel consisting of leading responsible businesses, academics, charities and sustainability organisations to produce PAS 808:2022 “Purpose-driven organizations – Worldviews, principles and behaviours for delivering sustainability”. Having gone through a full public consultation in late 2021, the final version will be published in summer 2022.

Progressing six capitals approach: We have worked through a cross-business steering group to develop a set of six capital metrics (natural, social, financial, manufactured, people and intellectual) which can be used to consider the broadest value when making investment decisions. These have now been incorporated into our value framework, aligned with our benefits realisation process and are being used in our most important investment pathways.

Better Business Act: We are proud supporters of the Better Business Act coalition (BBA), a business-led campaign supported by more than 1,000 UK companies. The BBA calls for a change to Section 172 of the Companies Act to require every medium and large company in the UK to align their activity with the interests of wider society and the environment, as we do at Anglian Water. We joined the BBA at the House of Commons in April 2022 to talk to parliamentarians about the steps we have taken and to gather support for the initiative.

Best Use of Purpose as a Business Driver: We were delighted in November 2021 to be awarded Best Use of Purpose as a Business Driver at the Strategic Comms Awards, with judges remarking that: “the clarity of Anglian Water’s vision was really apparent; purpose shines through in all of their actions”. Ensuring that we embed the consideration of our purpose into our decision making is critical to effectively being able to deliver against it. Our annual integrated report was also named Best Annual Report 2021 at the same awards, recognising our commitment to purpose and transparency.

Principal risks and uncertainties

Risk management

Managing risk in line with our strategy

Our management team, with oversight from the Anglian Water Services (AWS) Board, is responsible for developing our strategy. Our strategic planning process aims to ensure we have developed clear objectives and targets, and identified the actions needed to deliver on our commitments, including the management of risk.

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Risk management approach

We have an established Risk Management Framework Policy which was updated in June 2022 with the scope extended to include enterprise-wide risks. It will be subject to an annual review, with the next review due in 2023. The Policy sets out a clear and consistent approach to the management of risk and defines our risk appetite. This is enabled by the Principal Risk Register and several supporting risk management processes and activities.

Our risk management framework enables the identification, assessment and effective management of business risks, both individually and in aggregation. The consequences and likelihood of these risks are determined and ranked using a scoring matrix aligned to our risk appetite. This ensures that a consistent approach is taken when assessing overall impact to Anglian Water and our customers.

Risk appetite

Risk appetite defines the opportunities and associated risks which Anglian Water is willing to accept in the pursuit of achieving its strategic objectives.

As part of the roll out of our enhanced risk management programme, we are reviewing and updating our risk appetite statements and alignment of the key risk indicators during 2022.

Anglian Water is exposed to a variety of uncertainties that could have a material adverse effect or impact on our financial condition, our operational performance, our business resilience, and our reputation.

We have a structured approach to risk assessment, with the Board reviewing and challenging management's assessment of risk, together with the mitigation measures in place to manage principal risks in the context of our obligations to keep employees safe and provide an essential and efficient service to customers. The Board's assessment of risk determines what level of risk it is willing to accept, which helps senior management to understand the mitigating activities required to control risk likelihood and impact to acceptable levels.

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

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

Principal risks

The Board has a responsibility to disclose 'significant failings and weaknesses or areas of concern that have not been resolved by year end'. The Board's interpretation of this requirement is that there is a need to disclose any control failure or omission that, if unchecked, has the potential to result in significant financial, operational, or reputational damage to the business. No such control failures or weaknesses have been identified in 2021/22.


We carefully assess the principal risks facing us. These risks centre around the criticality of our infrastructure; the importance of our customers and our people, climate change and the environment, health and safety in our service delivery, cyber security, and our ability to finance our business appropriately, and are reported regularly to the Board, as set out below.

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In addition to the principal risks, we also actively manage several low-level business stream risks which feed into our principal risks. Principal risks are assessed considering a combination of factors including emerging risks and external threats.

During the reporting year we have revisited our approach to communicating our principal risks. This means that while the inherent risks have not changed, there is not a direct read across from last year’s principal risk table below.

Principal risk	Current risk profile	Trend	Risk movement	Business outcome	Proximity
1. Customer proposition		↔	↔	Delighted customers	ST/MT/LT
2. Environment		↑	↔	Flourishing environment	ST/MT/LT
3. Water supply and quality		↔	↔	Safe, clean water	MT
4. Health and safety		↔	↓	Our people: healthier, happier, safer	MT
5. People		↔	↔	Our people: healthier, happier, safer	ST/MT/LT
6. Technology		↔	↓	Investing for tomorrow	MT
7. Financial		↔	↔	Fair charges, fair returns; resilient business	ST
8. Reputation		↔	↑	Delighted customers	ST
9. Asset infrastructure		↔	↔	Investing for tomorrow	ST/MT/LT
10. Business resilience		↔	↓	Resilient business	MT
11. Commercial and third party		↑	↑	Supply meets demand	MT
12. Strategic execution		↔	↔	Investing for tomorrow	ST/MT/LT
13. Legal		↔	↔	Resilient business	ST/MT
14. Regulation		↔	↔	Resilient business	ST/MT

Risk movement

- ↔ No change
- ↑ Risk increasing
- ↓ Risk decreasing

-  Medium risk
-  Low risk

Proximity

- LT Long term (25 years+)
- MT Medium term (10 years)
- ST Short term (5 years)

Further details of the principal risks can be found in the Risk section of the Anglian Water strategic report, to be published in July.

Preliminary announcement of full-year results (continued)

for the 12 months ended 31 March 2022

Emerging risks

Cost of living crisis:

We are currently in the grip of the worst cost of living crisis in the UK since the 1970s. With the Bank of England expecting inflation to rise to around 10 per cent in the fourth quarter of 2022, businesses and households face increasing financial pressure and no obvious end in sight. The current crisis is particularly severe, since it is being driven by several factors, including government support during the pandemic coming to an end and high demand for energy driving up prices. Despite a real term rise in wages, when inflationary pressure is taken into account, wages have already declined by 1 per cent, and pressure continues.

While we have not been significantly impacted with debt issues through the pandemic, we are already seeing signs of increased hardship in 2022 and are taking action to support customers in line with our purpose. With the support of our customers, for which we are truly grateful, we dispensed £32.7 million in reduced tariffs and other assistance in 2021/22 and are making £65 million available for those in need in 2022/23 (£19 million of ring-fenced funding not yet called upon in 2021/22 and a further £46 million for 2022/23). This takes our total support to £232 million, which we hope will go some way to ease the pressures on the customers who are struggling most.

We are also supporting our own people with financial advice and continue to offer our Employee Assistance Fund, set up at the outset of Covid-19 with funds from senior leaders and shareholders.

From a business risk perspective, we have stress tested debt increases and significant inflation fluctuations with no additional mitigations required.

War in Ukraine: Russia's invasion of Ukraine has placed further pressure on energy prices and triggered additional logistical issues in getting supplies to and from Europe, and a shortage of specialist supplies. We also face a heightened threat of cyber attacks. Potential further implications include heightened UK inflation, slowing of growth and rising interest rates. We have undertaken several investigative workshops to understand the impacts to our business across a range of risks. Alongside actions we have taken to safeguard our supply chain, we have reassessed and taken action to enhance our current security controls, to ensure they remain robust against any potential cyber threat.

We are also mindful of the impact of the war on our people and customers, many of whom have friends and family in Ukraine, as well as in neighbouring countries such as Poland which have been affected by the ensuing refugee crisis.

Energy costs: A combination of factors, including the war in Ukraine, wider supply chain issues, the costs of decarbonisation and pandemic impacts, is causing rapid acceleration in energy prices. We are closely monitoring these costs and the impact they will have on our customers and cost base. We have taken actions to fix our wholesale power requirements for this financial year and our Carbon Neutrality and Treasury teams have implemented hedges for the 2022/23 financial year.

Supply chain challenges: Demand, the pandemic, chaos at ports and transportation bottlenecks caused supply chain issues during 2021 and the issues we are facing are not expected to go away in 2022. Shortages of certain materials and products will continue, with the potential to get worse as a result of the war between Russia and Ukraine. We have undertaken an exercise to understand the level of resilience in our supply chain against the backdrop of the war and to identify alternative suppliers or de-risk where there an alternative is not an option.

Preliminary announcement of full-year results (continued)

for the 12 months ended 31 March 2022

Covid-19 and pandemic risk: Covid-19 has had a significant and ongoing effect throughout the 2021/22 financial year. Staff absences, in particular, have been notably higher than in recent years, at 5.82 days per employee versus an average of 4.5 over the past six years. Covid absences have been significantly higher in 2021/22 than in the early days of the pandemic. A further concern is the increase in potential absences due to the delayed treatment effects of those with illnesses that were not treated during the pandemic. We continue to monitor absence levels and any potential impact on business operations.

Further impacts include global supply chain challenges and changing patterns of water usage, as a result of many people who formerly commuted to work continuing to work from home.

Many of the lessons learned from the Covid-19 situation have been applied to how we would respond to another global pandemic, or the possibility of a new, more virulent strain of Covid developing, and we continue to monitor for such events taking place.

Recruitment and resourcing: A high volume of vacancies across the UK amid the post-pandemic economic recovery is driving significant competition for talent, making recruitment particularly challenging. We are monitoring this closely, with particular attention on our key and critical roles, and continuing our extensive efforts to recruit and retain a diverse and effective workforce.

Preliminary announcement of full-year results for the 12 months ended 31 March 2022



Financial performance

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

Financial results

The financial results are summarised in the table below:

	2022	2021
	Total	Total
	£m	£m
		(restated)
Revenue (excluding grants and contributions)	1,299.7	1,276.2
Grants and contributions	100.1	75.6
Operating costs	(612.5)	(605.9)
Charge for bad and doubtful debts	(11.1)	(31.1)
Other operating income	12.3	12.5
EBITDA ¹	788.5	727.3
Depreciation and amortisation	(347.7)	(338.4)
Operating profit	440.8	388.9
Finance income	1.4	2.0
Finance costs ²	(459.7)	(252.2)
Adjusted (loss)/profit before tax¹	(17.5)	138.7
<i>Finance costs - fair value losses on financial derivatives²</i>	<i>(115.1)</i>	<i>(23.2)</i>
<i>(Loss)/profit before tax on a statutory basis</i>	<i>(132.6)</i>	<i>115.5</i>
<i>Tax</i>	<i>(310.2)</i>	<i>(19.5)</i>
(Loss)/profit after tax	(442.8)	96.0

1 Financial measures or metrics used in this report that are not defined by IFRS are alternative performance measures. The Group uses such measures for performance analysis because they provide additional useful information on the performance and position of the Group. Since the Group defines its own alternative performance measures, these might not be directly comparable to other companies' alternative performance measures. These measures are not intended to be a substitute for, or superior to, IFRS measurements. As defined in note 6 on page [57].

2 In order to show pre-tax performance based on management's view of an underlying basis, the fair value gains and losses on financial derivatives have been shown separately in the table because these are volatile non-cash movements that distort the actual underlying economic performance and are not included in internal performance monitoring or targets.

Preliminary announcement of full-year results for the 12 months ended 31 March 2022

Revenue

Revenue, excluding grants and contributions, for the year was £1,299.7 million (2021: £1,276.2 million), an increase of £23.5 million (1.8 per cent) on last year. The increase in revenue is as a result of the following factors:

- The price increase for customers following the regulatory pricing formula, £36.4 million increase.
- The impact of Covid-19 restrictions lifting, net £36.4 million decrease. Household consumption down £49.3 million and non-household consumption up £12.9 million as we trend back to pre-Covid-19 levels of consumption.
- £19.0 million which has been ring-fenced to fund our LITE tariff, which has supported customers through Covid-19 and is being retained to provide additional support through the cost of living crisis.
- Other offsetting increases in revenue of £4.5 million including increases in customer numbers.

Grants and contributions represent the cash and asset contributions made principally by property developers and local authorities for connecting new property developments to the water and sewerage network, and for diverting existing infrastructure. Over the year these have increased by £24.5 million to £100.1 million. This reflects additional income from High Speed 2 (HS2, the planned high-speed rail connection between London and cities in the north of England) and a strong rebound in the housing market.

The money we can raise from bills, along with how much we are allowed to invest in our service, is decided every five years through Ofwat's price-setting process and set out in our Final Determination (FD).

Other operating income

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

Preliminary announcement of full-year results for the 12 months ended 31 March 2022

Operating costs (including charge for bad and doubtful debts)

Operating costs including charges for bad and doubtful debt for the year decreased by £13.4 million (2.1 per cent) to £623.6 million. This decrease is explained in the table below:

	Total
Prior year	621.4
Prior year Software as a Service restatement	15.6
Prior year restated	637.0
 Funded by FD	
Inflation	22.8
Reduction in Software as a Service in the year	(6.0)
Capitalisation of replacement infrastructure assets	(16.8)
 Weather related	
Additional sludge transportation	2.0
 Bad debt provision	
Improved collection	(11.9)
Release of excess Covid-19 provision	(8.1)
 Other significant items	
Leakage performance strategy	8.5
Ongoing efficiency challenge	(3.9)
Total decrease	(13.4)
March 2022	623.6

Prior year Software as a Service (SaaS) restatement

As disclosed in note 1, our intangible asset accounting policy has been amended to reflect the clarification by the International Financial Reporting Interpretations Committee (IFRIC) on the treatment of Software as a Service costs, meaning certain costs that were previously capitalised have been expensed. This has resulted in a prior year increase to operating costs of £15.6m. These costs naturally fluctuate as systems implementations change year on year, incurring a cost in the current year of £9.6m, a £6.0m reduction on the previous year.

Inflation

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

Preliminary announcement of full-year results (continued)

for the 12 months ended 31 March 2022

Capitalisation of replacement infrastructure assets

In order to improve efficiency, there was a change in the way we deliver boundary box and external meter chamber replacement. As a result of the change in delivery, which has moved from individual jobs to a scheme of work, the cost of the scheme is above our de-minimus threshold for capitalisation, resulting in the costs being treated as capital expenditure rather than operational.

Additional sludge transportation

The past two years have seen a number of exceptional weather events. The extremely wet weather at the start of 2021 resulted in increased costs of tankering in the current year as we had to move extra sludge volumes around the region.

Bad debt provision

The decrease in bad debt is a result of strong cash collection in the year and the reassessment of provision in our debt over 48 months old (£6.0 million), as a result of continued positive collection in combination with a change to our write-off policy in April 2020. In addition we estimate the impact of future macro-economic factors on our collection performance as required by IFRS 9. The improving unemployment forecasts, offset in part by the projected cost of living crisis has resulted in the release of £6.6 million of bad debt provision. Set against last year's increase of £1.5 million, this amounts to a net £8.1 million reduction. Further details can be found in note 2.

Leakage performance strategy

In addition to the above, we spent an additional £8.5 million in relation to the Leakage Recovery Project, which was part of the increased investment towards meeting leakage targets for the year and contributed to a 6.1 per cent reduction.

Ongoing efficiency challenge

Representing managements ongoing drive to ensure strong cost control and spend being delivered efficiently.

Energy

The market cost of power has fluctuated significantly in the year. The business hedges its costs by locking in wholesale electricity rates in advance, which has mitigated increasing electricity rates in the year, however we did see a modest increase in gas costs which were not economic to hedge but these were offset by a decrease in consumption and lower non-commodity prices. In the final few months of the year management spent considerable time reviewing the hedging strategy and will continue to do so over the coming year.

Preliminary announcement of full-year results (continued)

for the 12 months ended 31 March 2022

EBITDA

Earnings before interest, taxes, depreciation and amortisation (EBITDA) is defined in note 6 on page [58] and is the profit from continuing operations before interest, tax, depreciation and amortisation. This has increased by 8.4 per cent to £788.5 million, which is consistent with the effect of the increase in grants and contributions income and reduction in bad debt costs described above.

Depreciation and amortisation

Depreciation and amortisation is up 2.7 per cent to £347.7 million compared with last year, primarily as a result of higher fixed asset balances as we construct and commission assets in line with our capital investment programme.

Operating profit

Operating profit has increased by 13.3 per cent to £440.8 million, which is consistent with the increase in EBITDA partially offset by the increase in depreciation.

Financing costs and profit before tax

Adjusted net finance costs (excluding fair value gains and losses on financial instruments), as defined in note 6, increased from £250.2 million in 2021 to £458.3 million in 2022. This was primarily the result of the non-cash impact of higher inflation on index-linked debt which increased by £206.4 million to £255.0 million. This increase was due to an increase in year-on-year average Retail Price Index (RPI) from 1.2 per cent to 5.8 per cent and year-on-year average Consumer Price Index (CPI) from 0.6 per cent to 4.0 per cent. We have both RPI-linked debt and CPI-linked debt to hedge the Regulated Capital Value (RCV).

There was a fair value loss of £115.1 million on derivative financial instruments in 2022, compared with a loss of £23.2 million in 2021. The fair value losses in the current year are predominantly non-cash in nature and have no material effect on the underlying commercial operations of the business. The driving factors for the loss in 2022 were primarily due to increases in forward inflation expectations, partially offset by a rise in forward interest rates (decreasing the discounted present value of derivatives). During the year, forward inflation increased by circa 138 basis points and forward interest rates increased by 54 basis points across the curves.

Following the cessation of GBP LIBOR on 31 December 2021, GBP LIBOR was replaced by SONIA, which is now used in the valuation of the derivative portfolio. The switch from LIBOR to SONIA discounting resulted in a net decrease in the valuation of the derivative portfolio of £55.0 million. A proportion of this decrease, in relation to derivatives that are not in hedging relationships, is included in fair value losses in the current year.

Adjusted loss before tax (excluding fair value gains and losses on financial instruments) for the year was £36.5 million, compared with a £138.7 million profit in the prior year. This increase primarily reflects the impact of higher inflation on interest costs as mentioned.

Preliminary announcement of full-year results (continued)

for the 12 months ended 31 March 2022

Taxation

	Year ended 31 March 2022	Year ended 31 March 2021 (restated)
	£m	£m
Current tax:		
In respect of the current period	(13.6)	(0.1)
Adjustments in respect of prior periods	(5.1)	(5.4)
Total current tax credit	(18.7)	(5.5)
Deferred tax:		
Origination and reversal of temporary differences	(25.9)	23.4
Adjustments in respect of previous periods	1.2	1.6
Recognition of previously unrecognised tax losses	-	-
Change in recognised deductible temporary differences	-	-
Increase in corporation tax rate	353.6	
Total deferred tax charge	328.9	25.0
Total tax charge on loss on continuing operations	310.2	19.5

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

Total tax paid or collected in the year to 31 March 2022, other than corporation tax, amounted to £231 million (2021: £255 million), of which £83 million was collected on behalf of the authorities for value added tax (VAT) and employee payroll taxes. All of our taxes are paid as they become due.

Current and deferred tax

The current tax credit for the year was £18.7 million (2021: £5.5 million). The deferred tax charge has increased by £303.9 million from £25.0 million in 2021 to £328.9 million this year.

The current tax credit for both years reflects receipts from other Group companies for losses surrendered to those Group companies. The tax losses arise mainly because capital allowances exceed the depreciation charged in the accounts, as well as some income not being taxable and the availability of tax relief on pension contributions paid

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in the year. In this year there is also a one-off current tax credit due a transitional adjustment on the treatment of software as a service (Saas).

The primary reason for the increase in the deferred tax liability is the increase in corporation tax rate from 19 per cent to 25 per cent which is due to take effect from April 2023. As our deferred liability will not arise until after the new corporation tax rate is in force in April 2023, we have to restate the liability using the increased rate of 25 per cent. This results in an increase of £353.6 million.

In advance of the corporation tax rate rise, the Government has introduced capital allowance ‘superdeductions’ which allow companies to accelerate their tax relief on capital expenditure. This has increased the amount of losses available to surrender to other group companies and therefore increased the current tax credit. It has also created tax losses to carry forward in the company which give rise to a deferred tax credit of £18.8 million (2021: £nil) to offset the deferred tax charge due to the rate rise.

Also reducing the deferred tax charge is an increased deferred tax credit of £21.9 million (2021: £4.4 million) relating to fair value losses. This increase in the overall deferred tax charge is a non-cash tax charge.

In addition, tax forms part of the revenue building block and therefore any future tax charges will be funded through revenues. Further, Ofwat introduced a tax true-up reconciliation in the current AMP to account for changes in tax rates.

In addition to the £310.2 million tax charge on the income statement, there is a charge of £40.7 million (2021: credit of £27.1 million) in the statement of other comprehensive income in relation to tax on actuarial losses on pension schemes, fair value gains on cash flow hedges and the change in corporation tax mentioned above.

Distributions available to the ultimate investors

A £96.3 million prior year final dividend was paid in the period (2021: £nil), reflecting the Company's dividend policy having regard to Anglian Water's purpose and duties under the company's Article of Association.

In line with the dividend policy described below, the Directors have proposed to pay a final dividend of £169.0 million. A deduction of £9.0 million has been made to reflect the ODI penalty in the period. This decision is in combination with an equity injection of £1,165.0 million in the period and results in a net equity injection for the AMP of £899.7 million. Through these capital injections the company continues to benefit from the strong support of shareholders. It is proposed that our ultimate shareholders will, for the first time since 2017, receive a dividend: £91.8 million.

The Board has an approved dividend policy, under which dividend payments are aligned to the performance of the business, taking into account commitments to customers and other stakeholders and ensuring that the company can finance its operations. Anglian Water aims to attract long-term shareholders who support its long-term ambitions. The support of our shareholders is critical to the success of our business and to securing the investment that Anglian Water needs. Therefore, it is appropriate that our shareholders receive an appropriate return on their investment. This is delivered partly through long-term capital growth and partly through dividends.

Preliminary announcement of full-year results (continued)

for the 12 months ended 31 March 2022

The company's dividend policy is to identify the cash available for distribution, allowing for the business's liquidity requirements in respect of funding its operations and the capital programme, and servicing its debt for the next 18 months. When considering a dividend, the Directors consider the Business Plan, have regard to Anglian Water's purpose and reflect their duties under the company's Articles of Association.

An assessment is completed by the Board to determine if the payment or part payment of the dividend reflects and/or would compromise the long-term social, financial and operational commitments made to our stakeholders. Following this assessment and depending on the actual performance of Anglian Water, the Board can decide to increase or decrease any dividend payment from the base position. 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.

The dividend policy is also based on ensuring that there is adequate headroom in relation to all of Anglian Water's obligations to lenders, including commitments to comply with certain financial covenants. In particular, Anglian Water has committed to lenders that it will only pay dividends when key financial ratios are satisfied. Additionally, the policy sets out to ensure that key credit rating agency credit metrics required to support the capital structure as determined by the Board can be satisfied.

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.

The Board therefore considers if the payment or part payment of the dividend reflects or is consistent with the long-term social, financial and operational commitments made to stakeholders, including customers, employees and pension fund holders. In considering this issue, the Board has 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 the customer measure of experience (CMeX) and the developer measure of experience (DMeX)).
- 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).
- Wider social and environmental commitments (including, but not limited to, commitments in relation to vulnerable customers, sustainable abstraction, and community investment).

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for the 12 months ended 31 March 2022

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 is limited by its current and forecast financial covenants. Special dividends may also be paid in addition to ordinary dividends, but these too are limited by specific financial covenant constraints. This policy is consistent with Condition F of the Licence. The full dividend policy is available on the Anglian Water website.

Continuing to deliver our AMP7 capital investment programme

2021/22 is the second year in the five-year AMP7 investment programme. Over the five years to 2025, we will invest a record £3.0 billion through our capital investment programme. This spend will help us achieve our Business Plan commitments and includes significant investments to ensure our region is resilient to the impacts of drought, climate change and population growth, alongside our largest ever programme of schemes delivering environmental protection.

Delivery against this investment programme remains strong with gross annual capital expenditure across the appointed business increasing from £447.0 million to £577.7 million (£269.3 million on capital maintenance, £308.4 million on capital enhancement). This is broadly in line with management expectations and is particularly pleasing given the significant increase in the size of the programme compared to AMP6.

This has resulted in a £285.9 million increase in Property, plant and equipment and intangible assets, net of depreciation.

Financial needs and resources

As part of the Company financial restructure completed in July 2021, a principal aim of which was to stabilise the credit ratings, a total of £1,165m was injected as equity by its immediate shareholders into Anglian Water. Following this, in September 2021, a proportion of these proceeds were used to prepay Anglian Water's Class B debt, comprising:

- \$410 million 5.18% Private Placement due Dec 2021;
- \$160 million 4.99% Private Placement due November 2023; and
- \$47 million 5% Private Placement due October 2022.

A make-whole payment of £14.5 million was paid in respect of the early repayment in accordance with the debt terms and conditions. In addition, scheduled repayments were made in respect of the following debt:

- \$160 million 4.52% Private Placement debt repaid in June 2021;
- £33.5 million of amortising payments in respect of EIB Index Linked debt repaid in August 2021 and
- £35.0 million repaid in February 2022.

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A repayment of £25 million was also made in respect of the remaining outstanding drawings on the £550 million syndicated revolving credit facility, which, in addition to the £50 million bilateral revolving credit facility, had been fully drawn down in March 2020 to provide a short-term liquidity buffer to cover Covid-19 uncertainty and apart from the £25 million repaid this year, were fully repaid during the prior year.

During the year to 31 March 2022, Anglian Water also received £75 million of funds in respect of two forward-starting, fixed-rate notes with a coupon of 2.14% and maturing in 2036 that were transacted in the prior year and c. £25 million in respect of a bio-diversity bond. Anglian Water also received £25.5 million from a US\$35 million private placement which has been swapped to sterling.

At 31 March 2022, Anglian Water had borrowings net of cash of £5,621.3 million (£6,783.3 million including the fair valuation of derivatives), a decrease of £1,028.5 million (£707.5 million including the fair value of derivatives) over the prior year. The fair value of derivative financial liabilities was £1,162.0 million, excluding derivative financial assets of £73.4 million in respect of energy derivatives. Net borrowings of £5,621.3 million comprised fixed, index-linked and variable-rate debt of £6,456.2 million, leases of £35.8 million and cash and deposits of £870.7 million. The decrease in net borrowings primarily reflects the impact of the £1,165 million equity injection and the ongoing capital investment programme. Net debt to RCV at year end was 64.8%.

The business generated cash from operations of £749.9 million in the year (2021: £632.8 million). The increase primarily reflects improvements in EBITDA described above, strong customer cash collection, reduced pension scheme contributions in the current year, and the timing of supplier payments and VAT receipts.

Liquidity

The company's objective is to maintain flexibility, diversification and continuity of funding through access to different markets and debt instruments. At 31 March 2022, Anglian Water held cash, deposits and current asset investments of £870.7 million (2021: £285.9 million). The increase in cash amounts held is primarily the result of the retention of the surplus from the capital injection of £1,165.0 million and the £100.0 million of new debt proceeds and the scheduled and early debt repayments of £607 million made during the year, and also the net of operational and residual investing and financing cashflows.

As at March 2022 Anglian Water has access to £600.0 million of undrawn facilities (March 2021: £575 million), to finance working capital and capital expenditure requirements. In addition, Anglian Water has access to a further £375.0 million of liquidity facilities (March 2021: £400.0 million), consisting of £254.0 million to finance debt service costs and £121.0 million to finance operating expenditure and maintenance capital expenditure in the event that the company was in an Event of Default on its debt obligations and had insufficient alternative sources of liquidity. See note 1 for further commentary over the liquidity requirements of the group in relation to going concern.

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

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Interest rates

The company's policy, as agreed by the Board, is to achieve a balanced mix of funding to inflation-linked, fixed and floating rates of interest. At the year end, taking into account interest rate swaps, 68.9 per cent (2021: 62.7 per cent) of the company's borrowings were at rates indexed to inflation, 25.1 per cent (2021: 32.1 per cent) were at fixed rates and 6.0 per cent (2021: 6.1 per cent) were at floating rates. At 31 March 2022, the proportion of inflation debt to regulated capital value was 51.4 per cent (2021: 53.4 per cent).

Pension funding

At 31 March 2022, the closed defined benefit scheme, excluding the unfunded pension liability, had an IAS 19 accounting pension surplus (before deferred tax) of £163.4 million, compared to a surplus of £10.0 million at 31 March 2021. This increase in surplus reflects an increase in the corporate bond rate used to discount the scheme's liabilities. During the year a deficit reduction payment of £14.6 million was made by the company, compared with £36.5 million in the prior year.

Long-term viability statement

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

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

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

Look-forward period

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

Assessment of prospects

The Directors have assessed Anglian Water's financial prospects over the next 10 years from April 2022 to March 2032. A 10-year period has been chosen to ensure that our business plan for the current AMP does not impact on the longer-term viability of the Group:

- The first three years takes us to the end of the current AMP, for which there is reasonable certainty and clarity, with a stretching five-year plan to deliver in line with the CMA Final Determination for AMP7.

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- The next seven years of the period are outside the current AMP and therefore subject to the final outcome of the following five-year price reviews, PR24 and PR29, for which uncertainty exists. Our assumptions for AMP8 align to the AMP8 forecasts submitted in our PR19 Business Plan submission updated to account for the CMA Redetermination.
- The Board considered whether there are specific, foreseeable risk events relating to the principal risks that are likely to materialise within a 10-year period, and which might be substantial enough to affect the Group's viability and therefore should be taken into account when setting the assessment period. These events were modelled appropriately within our downside scenarios.
- The Board has considered the impact of the wider activities of other Group companies and transactions and of the overall Group structure.
- The Board considers the maturity profiles of debt and the availability of new finance over 10 years as part of its review of financial modelling and forecasting, as well as considering the credit ratings of the debt.
- Finally, we take note of the Water Industry Act, which requires Ofwat to ensure that water companies can (in particular through securing reasonable returns on their capital) finance the proper carrying out of their statutory duties.

Principal risks

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

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

Stress testing the business plan

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

**Preliminary announcement of full-year results
for the 12 months ended 31 March 2022**



Principal risk	Scenario	Impact modelled	Potential mitigations required
People Technology Financial Asset infrastructure Business resilience Commercial & third party Strategic execution	Material totex underperformance against the Final Determination allowance	Overspend of 10 per cent across an AMP	No mitigations required
Customer proposition Environment People Reputation Asset infrastructure Business resilience Strategic execution	Material Outcome Delivery Incentive (ODI) penalties	Up to £100 million applied in a single year	No mitigations required
Environment Water supply and quality Health and safety People Reputation Legal Regulatory	Regulatory fines and legal penalties	Up to 3 per cent of turnover applied in a single year	No mitigations required
Financial	Unfunded pension liabilities	Up to £15 million applied per annum	No mitigations required
Customer proposition Financial Business resilience	Risks associated with the disruption caused by cost of living crisis, potential reductions in revenue collection	Up to 4 per cent decrease in cash collection	No mitigations required
Financial Reputation Strategic execution	The potential impact of credit rating agencies downgrading the debt for any companies in the Group	2 per cent increase in cost of new debt	No mitigations required
Financial Reputation Strategic execution	Cost of debt increases	2 per cent above base level assumptions across an AMP	No mitigations required
Customer proposition Financial Asset infrastructure Commercial & third party	Significant inflation fluctuations	1 per cent above and below base level assumptions for each AMP	No mitigations required
Customer proposition Environment People	Combined scenario based on totex underperformance for a whole AMP, along with combined with an ODI	Overspend of 10% across an AMP,	No mitigations required

Preliminary announcement of full-year results (continued)

for the 12 months ended 31 March 2022

Technology Financial Reputation Asset infrastructure Business resilience Commercial & third party Strategic execution	a significant ODI penalty and a revenue penalty	penalty of 1.5% of RORE in year 4 and 5 plus a financial penalty of 1% of revenue in year 4	
Customer proposition Environment People Technology Financial Reputation Asset infrastructure Business resilience Commercial & third party Strategic execution	Combined scenario based on low inflation, an opex cost shock plus a significant ODI penalty	Inflation 1 per cent below base for the AMP combined with 2.5% opex cost shock in AMP7 and a £50 million ODI penalty in year 4	No mitigations required

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

In April 2019 Ofwat issued Information Notice IN 19/07 setting out its expectations for companies in issuing long-term viability statements. In our Annual Performance Report (available on the Anglian Water Services website) we provide additional detail on the processes and assumptions underpinning our long-term viability statement and demonstrate our compliance with IN 19/07.

Mitigating actions

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

Evidence of the shareholders’ support for equity injections is provided by the equity injections made in October 2018 of £22.0 million, April 2021 of £110.0 million and July 2021 of £1,055.0 million.

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

Preliminary announcement of full-year results (continued)

for the 12 months ended 31 March 2022

consideration in terms of medium-term liquidity. The Board formally reviews the output of the stress testing twice a year.

Benefits of the securitised structure

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

Assurance

Robust internal assurance is provided by the Board reviewing and challenging the stress test scenarios selected and the risk mitigation strategies. The Directors also obtain annual independent third-party assurance on the integrity of the long-term cash flow model which underpins the financial projections. In addition, our external auditor, Deloitte, reviews this viability statement and the outputs of our stress testing as part of its normal audit procedures. It considers whether these are consistent with the Directors' conclusion with respect to business viability, and if the processes undertaken are sufficient to support the statements made.

Directors' statement

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

Owat published its PR19 Final Determination in December 2019 which formed the basis for setting customer charges in 2021/22. Funding for the remaining years of AMP7 will be set by the CMA Redetermination, which rebalanced the split between operational expenditure (opex) and capital expenditure (capex) and recognised that long-term investment for resilience requires long-term investors, who deserve a fair return on their commitment. Whilst the delivery of our 2020-25 Business Plan remains challenging, the Redetermination will enable us to deliver the resilience to climate change and population growth that our region needs and continue to operate within our covenant requirements.

Anglian Water Services is an efficient company with a history of outperformance. The Directors can be satisfied that the business has a reasonable expectation of being able to continue in operation and meet its liabilities as they fall due at least to March 2032, and is financially resilient in the face of severe but plausible downside shocks.

This is based on the reasonable certainty of its future revenue stream, the strength of the balance sheet (in particular the substantial cash balance and strong net assets), the availability of undrawn debt facilities in the unlikely event that debt markets were temporarily restricted, and by reviewing the business plans and strategic models, combined with the robust risk management process and mitigations described above.

Anglian Water Services Limited
Group income statement
for the year ended 31 March 2022



Notes	Year ended 31 March 2022 £m	Year ended 31 March 2021 (restated) £m
Revenue	1,399.8	1,351.8
Other operating income	12.3	12.5
Operating costs		
Operating costs before depreciation, amortisation and charge for bad and doubtful debts	(612.5)	(605.9)
Depreciation and amortisation	(347.7)	(338.4)
Charge for bad and doubtful debts	(11.1)	(31.1)
Total operating costs	(971.3)	(975.4)
Operating profit	440.8	388.9
Finance income	1.4	2.0
Finance costs, including fair value losses on derivative financial instruments	(574.8)	(275.4)
3 Net finance costs	(573.4)	(273.4)
Profit before tax from continuing operations		
(Loss)/Profit before fair value losses on derivative financial instruments ¹	(17.5)	138.7
Fair value losses on derivative financial instruments	(115.1)	(23.2)
(Loss)/Profit before tax from continuing operations	(132.6)	115.5
4 Tax charge	(310.2)	(19.5)
(Loss)/Profit for the year from continuing operations	(442.8)	96.0

¹ As defined in note [6]

The results, financial position and cash flows for the year ended 31 March 2021 have been restated as a result of the change in accounting policy as discussed in note 1.

Anglian Water Services Limited
Group statement of comprehensive income
for the year ended 31 March 2022



Notes	Year ended 31 March 2022 £m	Year ended 31 March 2021 (restated) £m
(Loss)/Profit for the year	(442.8)	96.0
Other comprehensive income/(expense)		
Items that will not be reclassified to income statement		
Actuarial gains/(losses) on retirement benefit deficit	135.7	(162.7)
4 Income tax on items that will not be reclassified	(25.7)	30.9
	110.0	(131.8)
Items that may be reclassified subsequently to income statement		
Gains on cash flow hedges recognised in equity	59.3	8.2
(Losses)/gains on cost of hedging recognised in equity	(2.6)	2.1
Losses on cash flow hedges transferred to income statement	14.0	10.2
Gains on cost of hedging transferred to income statement	-	(0.5)
Income tax on items that may be reclassified	(15.0)	(3.8)
	55.7	16.2
Other comprehensive income/(expense) for the year, net of tax	165.2	(115.6)
Total comprehensive expense for the year	(277.1)	(19.6)

Anglian Water Services Limited
Group balance sheet
for the year ended 31 March 2022



	At 31 March 2022 £m	At 31 March 2021 (restated) £m	At 1 April 2020 (restated) £m
Non-current assets			
Other intangible assets	218.0	194.5	168.9
Property, plant and equipment	10,304.1	10,041.7	9,940.3
Derivative financial instruments	57.8	112.6	317.8
Retirement benefit surplus	205.2	54.8	171.6
	10,785.1	10,403.6	10,598.6
Current assets			
Inventories	16.9	13.9	12.4
Trade and other receivables	516.5	500.9	530.6
Investments - cash deposits	392.0	80.0	319.0
Cash and cash equivalents	478.7	205.9	729.1
Derivative financial instruments	56.5	84.8	16.8
	1,460.6	885.5	1,607.9
Total assets	12,245.7	11,289.1	12,206.5
Current liabilities			
Trade and other payables	(582.8)	(491.2)	(520.9)
Current tax liabilities	(148.6)	(167.3)	(198.2)
Borrowings	(476.3)	(652.9)	(1,023.0)
Derivative financial instruments	(10.1)	(24.8)	(81.4)
Provisions	(4.7)	(6.6)	(6.2)
	(1,222.5)	(1,342.8)	(1,829.7)
Net current assets/(liabilities)	238.1	(457.3)	(221.8)
Non-current liabilities			
Borrowings	(6,015.7)	(6,282.8)	(6,702.3)
Derivative financial instruments	(1,192.8)	(1,004.6)	(996.0)
Deferred tax liabilities	(1,451.9)	(1,082.3)	(1,084.4)
Retirement benefit deficit	(41.8)	(44.8)	(41.6)
Provisions	(7.0)	(9.4)	(10.5)
	(8,709.2)	(8,423.9)	(8,834.8)
Total liabilities	(9,931.7)	(9,766.7)	(10,664.5)
Net assets	2,314.0	1,522.4	1,542.0

Continued on the next page.

Anglian Water Services Limited
 Group balance sheet (continued)
 for the year ended 31 March 2022



	At 31 March 2022 £m	At 31 March 2021 (restated) £m	At 31 March 2020 (restated) £m
Capital and reserves			
Share capital	32.0	32.0	32.0
Share premium	1,165.0	-	-
Retained earnings	1,096.3	1,525.4	1,561.2
Hedging reserve	20.4	(37.4)	(52.3)
Cost of hedging reserve	0.3	2.4	1.1
Total equity	2,314.0	1,522.4	1,542.0

Anglian Water Services Limited
Group statement of changes in equity
for the year ended 31 March 2022



Notes	Stated capital £m	Share premium £m	Retained earnings £m	Hedging reserve £m	Cost of hedging reserve £m	Total equity £m
At 1 April 2020 (as previously reported)	32.0	-	1,600.4	(52.3)	1.1	1,581.2
Change in accounting policy	-	-	(39.2)	-	-	(39.2)
At 1 April 2020 (restated)	32.0	-	1,561.2	(52.3)	1.1	1,542.0
Profit for the year	-	-	96.0	-	-	96.0
Other comprehensive (expense)/income						
Actuarial losses on retirement benefit obligations	-	-	(162.7)	-	-	(162.7)
4 Income tax charge on items that will not be reclassified	-	-	30.9	-	-	30.9
Gains on cash flow hedges	-	-	-	8.2	-	8.2
Gains on cost of hedging	-	-	-	-	2.1	2.1
Amounts on cash flow hedges transferred to income statement	-	-	-	10.2	(0.5)	9.7
4 Deferred tax movement on hedging reserves	-	-	-	(3.5)	(0.3)	(3.8)
	-	-	(131.8)	14.9	1.3	(115.6)
Total comprehensive (expense)/income	-	-	(35.8)	14.9	1.3	(19.6)
At 31 March 2021 (restated)	32.0	-	1,525.4	(37.4)	2.4	1,522.4
Loss for the year	-	-	(442.8)	-	-	(442.8)
Other comprehensive income/(expense)						
Actuarial gains on retirement benefit obligations	-	-	135.7	-	-	135.7
4 Income tax charge on items that will not be reclassified	-	-	(25.7)	-	-	(25.7)
Gains on cash flow hedges	-	-	-	59.3	-	59.3
Losses on cost of hedging	-	-	-	-	(2.6)	(2.6)
Amounts on cash flow hedges transferred to income statement	-	-	-	14.0	-	14.0
4 Deferred tax movement on hedging reserves	-	-	-	(15.5)	0.5	(15.0)
	-	-	110.0	57.8	(2.1)	165.7
Total comprehensive (expense)/income	-	-	(332.8)	57.8	(2.1)	(277.1)
Issue of shares	-	1,165.0	-	-	-	1,165.0
5 Dividends	-	-	(96.3)	-	-	(96.3)
At 31 March 2022	32.0	1,165.0	1,096.3	20.4	0.3	2,314.0

Anglian Water Services Limited
Group cash flow statement
for the 12 months ended 31 March 2022

Notes	Year ended 31 March 2022 £m	Year ended 31 March 2021 (restated) £m
Operating activities		
Operating profit	440.8	388.9
Adjustments for:		
Depreciation and amortisation	347.7	338.4
Assets adopted for £nil consideration	(39.2)	(29.3)
Profit on disposal of property, plant and equipment	(4.9)	(1.5)
Difference between pension charge and cash contributions	(18.1)	(39.3)
Net movement in provisions	(4.3)	0.6
Working capital:		
Increase in inventories	(3.0)	(1.5)
(Increase)/decrease in trade and other receivables	(15.8)	29.3
Increase/(decrease) in trade and other payables	46.7	(52.8)
Cash generated from operations	749.9	632.8
Income taxes paid ⁽¹⁾	-	(25.4)
Net cash flows from operating activities	749.9	607.4
Investing activities		
Purchase of property, plant and equipment	(465.2)	(338.8)
Purchase of intangible assets	(58.8)	(58.8)
Proceeds from disposal of property, plant and equipment	5.8	1.8
Interest received	1.4	2.0
(Increase)/decrease in short-term bank deposits	(312.0)	239.0
Net cash used in investing activities	(828.8)	(154.8)
Financing activities		
Interest paid	(222.3)	(218.8)
Debt issue costs paid	(1.5)	(2.9)
Borrowings premiums received	-	7.7
Interest paid on leases	(1.2)	(1.0)
Proceeds from amounts borrowed	100.5	242.6
Repayment of amounts borrowed	(656.4)	(928.8)
Receipt of principal on derivatives	75.9	-
Repayment of principal on derivatives	-	(63.5)
Repayment of principal on leases	(12.0)	(11.1)
5 Dividends paid	(96.3)	-
Proceeds from issue of ordinary shares	1,165.0	-
Net cash from/(used in) financing activities	351.7	(975.8)
Net increase/(decrease) in cash and cash equivalents	272.8	(523.2)
Cash and cash equivalents at 1 April	205.9	729.1
Cash and cash equivalents at 31 March	478.7	205.9

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

1. Accounting policies

The consolidated financial information for the Group is for the year ended 31 March 2021 and has been prepared in accordance with International Financial Reporting Standards (IFRS), and on the basis of accounting policies consistent with those used for the audited financial statements of Anglian Water Services Limited at 31 March 2022. The results have been extracted from the financial statements of the Group for the year ended 31 March 2022, which will be published at a later date.

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 below.

In line with the assessment at March 2021, 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:

- Our plans now reflect the CMA FD as adjusted by the “Interim Determination of K” (IDOK) and revised opex and capex forecasts as part of our re-forecasting process.
- Financial restructuring has been completed in 2021/22 and as a consequence of the equity injection of c. £1.2bn, net debt and leverage in AWS has reduced significantly.
- The risks around COVID-19 for 2021/22 have moderated substantially as a consequence of the government support to individuals and businesses and consequently the downside scenarios have reduced. The strong recovery of the economy together with low unemployment and high job vacancies has reduced the risk of downside impacts to cash collection. There is however increased risk due to the cost of living crisis we are now facing.
- Higher inflation is improving gearing relative to RCV.
- Our ODI performance has now been reflected in our forecasts.

We have identified three stretching scenarios to enable the tracking of the macro-economic impacts on the business, these scenarios, low, medium and severe focusing on the impact of the cost of living crisis and higher unemployment as well as further disruptions due Covid-19 including change in non-household demand.

The downside outcomes were assessed for liquidity and impacts on debt covenants that form a fundamental part of the single debt platform. 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.

Given the CMA FD improving returns from the challenging Ofwat FD, together with improved headrooms resulting from the recent refinancing, headroom to accommodate severe downside shocks has improved and therefore has looked at Going Concern from a number of perspectives:

- Liquidity – AWS holds sufficient liquidity to cover the going concern period.

Notes to the financial statement (continued)

for the 12 months ended 31 March 2022

- 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.
- Interest cover ratios – The business has significant headroom against Default Events (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. We also have comfortable headroom against Trigger Events and whilst undesirable, a Trigger Event would not impact on the going concern assumption.
- Macro-economic factors – a base case has been projected into our forecasts in our analysis. We are also modelling worst case scenarios, which demonstrate that we do not hit Event of Default levels on our covenants. The scenarios and impacts modelled are summarised in the long term viability statement within the AIR.
- Long-term viability – the downside scenarios run show that the viability of the business is strengthened as a result of the CMA FD and the successful implementation of our financial restructuring.

Standards, amendments and interpretations effective or adopted

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 policy to align to the agenda decision. A detailed assessment was conducted to identify the impact to align the current year financial statements to this conclusion and to restate comparative periods.

The following tables summarise the impact of the change in policy on the financial statements of the Group.

Notes to the financial statement (continued)

for the 12 months ended 31 March 2022

1. Accounting policies (continued)

Condensed Restated Income Statement

Year ended 31 March 2021

	As published	Change in Accounting policy	Restated
	£m	£m	£m
Continuing operations			
Operating costs			
Operating costs before depreciation and amortisation	(590.3)	(15.6)	(605.9)
Depreciation and amortisation	(351.3)	12.9	(338.4)
Operating profit	391.6	(2.7)	388.9
Finance costs including fair value losses on derivative financial instruments	(274.6)	(0.8)	(275.4)
Profit before tax from continuing operations			
Profit before fair value losses on derivative financial instruments	142.2	(3.5)	138.7
Profit before tax from continuing operations	119.0	(3.5)	115.5
Tax	(20.2)	0.7	(19.5)
Profit for the year	98.8	(2.8)	96.0

Condensed Group Balance Sheets

At 1 April 2020

	As published	Change in Accounting policy	Restated
	£m	£m	£m
Non-current assets			
Intangible assets	217.3	(48.4)	168.9
Non-current liabilities			
Deferred tax liabilities	(1,093.6)	9.2	(1,084.4)
Net assets	1,581.2	(39.2)	1,542.0
Capital and reserves			
Retained earnings	1,600.4	(39.2)	1,561.2
Total equity	1,581.2	(39.2)	1,542.0

Notes to the financial statement (continued)

for the 12 months ended 31 March 2022

1. Accounting policies (continued)

At 31 March 2021

	As published £m	Change in Accounting policy £m	Restated £m
Non-current assets			
Intangible assets	257.4	(62.9)	194.5
Current liabilities			
Trade and other payables	(502.2)	11.0	(491.2)
Non-current liabilities			
Deferred tax liabilities	(1,092.2)	9.9	(1,082.3)
Net assets	<u>1,564.4</u>	<u>(42.0)</u>	<u>1,522.4</u>
Capital and reserves			
Retained earnings	<u>1,567.4</u>	<u>(42.0)</u>	<u>1,525.4</u>
Total equity	<u>1,564.4</u>	<u>(42.0)</u>	<u>1,522.4</u>

2. Segmental Information

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

Notes to the financial statement (continued)

for the 12 months ended 31 March 2022

3. Net finance costs

	Year ended 31 March 2022 £m	Year ended 31 March 2021 £m
Finance income		
Interest income on short-term bank deposits	1.4	2.0
	1.4	2.0
Finance costs		
Interest expense on bank loans and overdrafts	(2.7)	(3.3)
Interest expense on other loans including financing expenses	(213.8)	(213.2)
Indexation of loan stock	(255.0)	(48.6)
Amortisation of debt issue costs	(4.1)	(4.2)
Interest on leases	(1.2)	(1.0)
Unwinding of discount on provision	-	(0.1)
Defined benefit pension scheme interest	0.4	3.4
Total finance costs	(476.4)	(267.0)
Less: amounts capitalised on qualifying assets	16.7	14.8
	(459.7)	(252.2)
Fair value losses on derivative financial instruments		
Fair value gains on energy hedges	-	2.3
Hedge ineffectiveness on cash flow hedges ⁽¹⁾	0.5	1.4
Hedge ineffectiveness on fair value hedges ⁽²⁾	0.4	2.3
Amortisation of adjustment to debt in fair value hedge	(0.1)	(0.1)
Derivative financial instruments not designated as hedges	(104.1)	(16.6)
Recycling of de-designated cash flow hedge relationship	(11.8)	(12.5)
	(115.1)	(23.2)
Finance costs, including fair value losses on derivative financial instruments	(574.8)	(275.4)
Net finance costs	(573.4)	(273.4)

⁽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 20 for details.

⁽²⁾ Hedge ineffectiveness on fair value hedges comprises fair value losses on hedging instruments of £67.6 million (2021: loss of £60.8 million), offset by fair value gains of £67.9 million on hedged risks (2021: gains of £63.1 million).

Notes to the financial statement (continued)

for the 12 months ended 31 March 2022

4. Taxation

	Year ended 31 March 2022 £m	Year ended 31 March 2021 (restated) £m
Current tax:		
In respect of the current period	(13.6)	(0.1)
Adjustments in respect of prior periods	(5.1)	(5.4)
Total current tax credit	(18.7)	(5.5)
Deferred tax:		
Origination and reversal of temporary differences	(25.9)	23.4
Adjustments in respect of previous periods	1.2	1.6
Increase in corporation tax rate	353.6	-
Total deferred tax charge	328.9	25.0
Total tax charge on loss on continuing operations	310.2	19.5

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 current year there is also a one-off credit arising on a change of accounting treatment.

The Finance Bill 2021 introduced legislation to increase the main rate of UK corporation tax from 19 per cent to 25 per cent, effective 1 April 2023. As the deferred tax liability is expected to arise after that date, deferred tax balances as at 31 March 2021 have been re-measured at a rate of 25 per cent.

The deferred tax charge for this year mainly reflects the effect of this rate change and capital allowances claimed in excess of the depreciation charge in the accounts, offset by a credit on losses carried forward to future years. The prior year charge mainly reflects capital allowances claimed in excess of the depreciation charge in the accounts.

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

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

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

Notes to the financial statement (continued)

for the 12 months ended 31 March 2022

4. Taxation (continued)

The tax charge on the group's profit before tax differs from the notional amount calculated by applying the rate of UK corporation tax of 19 per cent (2021: 19 per cent) to the profit before tax from continuing operations as follows:

	Year ended 31 March 2022 £m	Year ended 31 March 2021 (restated) £m
(Loss)/profit before tax from continuing operations	(132.6)	115.5
(Loss)/profit before tax from continuing operations at the standard rate of corporation tax in the UK of 19% (2021: 19%)	(25.2)	21.9
Effects of recurring items:		
Items not deductible for tax purposes		
Depreciation and losses on assets not eligible for tax relief	0.9	0.9
Disallowable expenditure	1.1	0.5
	(23.2)	23.3
Effects of non-recurring items:		
Increase in corporation tax rate	353.6	-
Effects of capital allowance super deduction	(7.6)	-
Effects of differences between rates of current and deferred tax	(8.7)	-
Adjustments in respect of prior periods	(3.9)	(3.8)
Tax charge for the year	310.2	19.5

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 2022 £m	Year ended 31 March 2021 £m
Deferred tax:		
Defined benefit pension schemes	34.5	(30.9)
Cash flow hedges	17.6	3.8
Increase in corporation tax rate - pension	(8.8)	-
Increase in corporation tax rate - hedges	(2.6)	-
Total deferred tax charge/(credit)	40.7	(27.1)
Total tax charge/(credit) recognised in other comprehensive income	40.7	(27.1)

Notes to the financial statement (continued)

for the 12 months ended 31 March 2022

5. Dividends

	Year ended 31 March 2022 £m	Year ended 31 March 2021 £m
Paid by the group:		
Previous year final dividend	96.3	-
	96.3	-

During the year ended 31 March 2022, dividends of £96.3 million (£3.01 per share) were paid by the company to its immediate parent undertaking, Anglian Water Services UK Parent Co Limited (2021: £nil).

6. Alternate performance measures

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

a) EBITDA

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

b) Adjusted finance costs

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

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 3).

d) Net debt

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

Anglian Water Services Limited

Notes to the financial statement (continued)

for the 12 months ended 31 March 2022

	2022	Group
	£m	2021
		£m
Net cash and cash equivalents	478.7	205.9
Current asset investments	392.0	80.0
Borrowings	(6,492.0)	(6,935.7)
Derivatives	(1,088.6)	(832.0)
Less: energy derivatives	(73.4)	(9.0)
Net Debt	(6,783.3)	(7,490.8)