Anglian Water Services Limited

Preliminary results

for the year ended 31 March 2021

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THE QUEEN'S AWARDS FOR ENTERPRISE: SUSTAINABLE DEVELOPMENT 2020

LEADING UTILITIES OF THE WORLD

WINNER Utility Week AWARDS 2020 Employer of the Year

WINNER Utility Week AWARDS 2020 Net Zero Award

Anglian Water Services full-year results 2020/21: strong operational performance through the pandemic, and good further progress on the delivery of our purpose, to bring environmental and social prosperity to the region we serve

Highlights

- Continued strong operational and financial performance and on-track delivery of capital programmes despite Covid-19, with an anticipated £10 million of outperformance rewards for 2020/21 and 81 per cent of performance commitments assessed as on track
- Competition and Markets Authority (CMA) redetermination process concluded; business focused on delivering ambitious Business Plan designed to address macro challenges of climate change and population growth by 2025, while preparing for PR24
- New financing structure announced which will lead to lower leverage for Anglian Water
- Company launches sustainability-linked bond framework to facilitate ground-breaking net zero bonds aligned to newly announced transitional carbon targets to 2025
- Five-point Community Recovery Plan launched today, underpinning support for community recovery post-Covid

Financial highlights

- **Group revenue of £1,351.8 million, a decrease of £68.1 million (4.8 per cent) on 2020** This is consistent with the price reduction for customers following the Final Determination and reduced demand from non-household customers, offset in part by increased demand for household customers due to Covid-19
- **Adjusted profit before tax[1] (PBT) for the period of £142.2 million, up £68.2 million,** primarily the result of the non-cash impact of lower inflation on index-linked debt due to a fall in year-on-year average Retail Price Index (RPI) and Consumer Price Index (CPI). Adjusted PBT excludes fair value losses on derivatives of £23.2 million (2020: £30.4 million). These are volatile non-cash annual movements which distort actual economic performance and therefore should be excluded when assessing underlying profit. Including these fair value movements, **profit before tax for the period is £119.0 million, up £75.4 million**
- **There were no dividend payments in the year (2020: £67.8 million)**. Based on the available free cash flow there was capacity to pay a dividend of £203.6 million. The Directors have proposed to pay a final dividend of £96.3 million
- **No dividends were paid to the shareholders of Anglian Water Group Limited (AWGL), the ultimate parent company, in the year (2020: £nil).** The above dividends do not represent dividends paid to our ultimate shareholders; at this time there is no proposal to pay a dividend to shareholders of AWGL. We are grateful for the ongoing support of our shareholders, who have foregone dividends since June 2017 for the long-term benefit of the company and its customers, in line with our purpose

[1] As defined in the table on page 7

- **No government support requested during pandemic. No employees furloughed** and automatically applied Business Rates Relief, received for our recreation businesses, has been repaid in full
- **A strong start to our £3.0 billion AMP7 capital investment programme.** Gross annual capital expenditure across the business of £448 million (£221 million on capital maintenance, £226 million on capital enhancement and £1 million non-appointed). This is broadly in line with management expectations and achieved despite the challenges of the pandemic
- **£10 million of rewards for outperformance under the Ofwat performance framework.** Our performance is measured against 45 commitments that help us, our regulators Ofwat and our customers understand the progress we are making and what we've delivered
- **Following the CMA Final Redetermination process, weighted Average Cost of Capital (WACC) set at 3.2 per cent on a CPI basis,** balancing risk and reward for our shareholders, who have continued to support us through a period of no dividends
- **New group financing structure being implemented** to enable a reduction in gearing in the company. This will enhance and protect our credit ratings allowing us to borrow at competitive rates to support the investments customers have asked us to make.

Award-winning leadership on environment including net zero and climate change adaptation

- Strong track record on carbon reduction enables the launch of ground-breaking net zero bonds based on new 2025 interim carbon targets: a 30 per cent reduction in operational carbon from a 2018/19 baseline and a 65 per cent reduction in capital carbon from a 2010 baseline
- Detailed routemap to 2030 net zero target for operational carbon and 70 per cent reduction in capital carbon to be launched in July
- Best-ever performance on renewable energy in 2020/21 with 134.4 GWh generated from on-site assets, including new 42,000-panel solar array at Grafham Water, energised in September
- First UK water company to be included on CDP Global A list for its response for climate change, reaching top 3 per cent of 9,600 companies globally
- Anglian Water co-chaired Water UK working group which delivered world-first sector-wide routemap; CEO Peter Simpson continues to co-sponsor industry net zero 2030 commitment
- Ofwat Innovation in Water challenge funding secured to develop whole-life carbon measurement tool in partnership with @One Alliance and Welsh Water
- Company secures three Net Zero Carbon Initiative Awards (Water Industry Awards for 2020 and 2021, Utility Week Awards 2021) and joins Race to Zero as an individual actor
- First company in the UK to submit and publish Climate Change Adaptation report in the third round of the adaptation reporting power
- Five-point plan for green recovery secures £300 million accelerated investment in environmental programmes through Water Industry National Environment Plan (WINEP) at no additional cost to customers, with 'amber' schemes progressed to 'green'

- WINEP includes schemes which will reduce the amount of water abstracted from sensitive areas by 85 million litres per day by 2025, and restore the health of precious and internationally important chalk streams in Anglian Water's region
- 520 environmental schemes delivered in the first year of five-year programme (compared with a total of 1,000 schemes delivered between 2015 and 2020)

A leading employer

- Support for employee health, safety and wellbeing, track record on inclusion and ongoing people development sees Anglian Water named Utility Week Employer of the Year 2020
- No employees furloughed; commitment to recruitment maintained with all job offers honoured, 50 apprentices and six graduates appointed
- Company supports employee wellbeing through pandemic, launching Employee Assistance Fund and providing 24-hour access to virtual GP, Employee Assistance Fund, free subscription to Headspace app and stand-down half-days for 3,000 staff and partners
- New policy sees colleagues offered opportunity to swap Christian religious holidays for religious holidays relating to other faiths
- Annual employee engagement survey records best-ever employee engagement score of 74 per cent, up 2 per cent
- Gender pay gap report published despite requirement being deferred due to the pandemic; Anglian Water reports mean gender pay gap of 5.7 per cent (vs 5.9 per cent in 2019) and median pay gap of 11.6 per cent (vs 11.0 per cent in 2019)

Progress on social purpose and publication of Five-Point Community Recovery Plan

- Five-Point Plan for Community Recovery, published today, sets out Anglian Water's commitments to its social purpose through supporting vulnerable customers; being an inclusive business and driving social mobility; investing in communities; supporting health and fostering wellbeing; and acting with integrity
- £1 million Positive Difference Fund, launched in April 2020, supports more than 100,000 beneficiaries through more than 160 community groups
- Anglian Water Social Contract, founded on 10 company-specific outcomes agreed with customers and five industry-wide Public Interest Commitments, published in June 2021
- Work underway with British Standards Institute and other partners to develop Publicly Available Specification (PAS) for Sustainable Purpose to be published in 2022
- Business in the Community Responsible Business Tracker 2020 – Anglian Water scores 73 per cent versus average energy/utility score of 61 per cent and overall reporting average of 41 per cent
- Anglian Water invited to become founding signatory of the Prince of Wales's global Terra Carta Initiative in January 2021

Focus on customers maintained

- Financial support including payment schemes, instalment plans and concessionary tariffs offered to 319,466 customers facing affordability issues
- ExtraCare team signposts customers to more than £4 million of unclaimed benefits to which they may be entitled
- Sign ups to Priority Services Register up by 112 per cent year on year due to active promotion; register now supports more than 175,000 customers
- Increasing digital delivery of services to customers, with more than six million digital interactions in 2020/21

Operational highlights

- Industry-leading leakage performance maintained and regulatory target exceeded for the 10th year running despite winter weather, with 81 per cent of performance commitments assessed to be on track
- Top quartile performance for internal and external flooding, notwithstanding winter flooding, earning outperformance payments estimated at £6 million
- Best-ever performance on interruptions to supply, earning projected reward of £1 million
- Estimated outperformance payments of £1.1 million each due for Customer Measure of Experience and Developer Measure of Experience
- Properties at risk of low pressure reduced to record low
- Improved performance on pollutions with 20 per cent reduction in number of pollutions year on year; target not yet met
- Per capita consumption target missed with three-year average at 138.1 litres per person per day (provisional) compared to 136.1 in the previous year, following hot weather and lockdown-driven increase in household consumption; potential penalty deferred to end of AMP (2025) until pandemic impact assessed

Looking ahead: driving future resilience and supporting growth

- Smart meter programme underway with 164,406 smart meters delivered in year one
- Strategic Pipeline Alliance begins delivery of £400 million strategic interconnector programme to move water around the region, driving resilience to climate change and reducing abstraction
- Site selected for relocation of Anglian Water's Cambridge Waste Water Treatment Plant to accommodate South Cambridgeshire District Council and Cambridge City Council's vision for sustainable growth in North East Cambridge
- Continuing engagement with the Regulatory Alliance for Progressing Infrastructure Development (RAPID) on proposals for two large-scale multi-sector reservoirs, to be delivered in AMP10 (2035-40)

Anglian Water Services Limited

Financial results for the year ended 31 March 2021

For immediate release, 17 June 2021

Commenting on Anglian Water's preliminary results for the full year to 31 March 2021, Chief Executive Peter Simpson said:

"This past year has been challenging in ways previously unimaginable. Systems designed for a nine-to-five, commuter-orientated and office-based lifestyle have changed beyond recognition to support a home-based, flexibly working, home-schooling society. That is as true for our water supply and recycling networks as it is for the transport arteries of the country, or the high street's retail offering.

"The pandemic triggered huge change in customer consumption of water: the combined impact of stay-at-home orders and hot weather saw demand soar, stretching our network capacity to its limits. We have put more than 1.4 billion litres into the network in a single day just eight times in the past 14 years; seven of those were in 2020. Water recycling was impacted too: peak usage shifted during the day, with different and often smaller water recycling centres carrying the weight of a population that wasn't travelling into urban centres. This was followed by both the wettest winter since 1915, which saw pockets of persistent flooding spread out over significant areas of our region, and a prolonged series of sub-zero overnight temperatures, a combination which resulted in increased ground movement leading to 63 per cent more bursts than during 2018's Beast from the East.

"Alongside the challenges of Covid-19 and dramatic weather patterns – a further reminder of the urgency of tackling climate change – we have also facilitated the Competition and Markets Authority (CMA)'s redetermination of our five-year Business Plan to 2025. We have emerged with clarity on our position for the remaining four years of our plan, and with a strong foundation for future resilience and growth. We remain grateful to the CMA for its careful consideration of the points we raised.

"The challenges we have faced have not found us wanting. We have delivered strongly; maintaining our services to customers and with 81 per cent of our stretching performance commitments assessed to be on track, despite targets having been set before the onset of the worst global pandemic in 100 years. Notable successes include maintaining our industry-leading performance on leakage, exceeding our target for the 10th year running; delivering our best-ever performance on interruptions to supply and meeting the industry target on internal and external flooding despite the wet weather.

"In the circumstances, to be reporting a likely outperformance reward of £10 million (2020: £9.5 million) is a performance of which we are very proud.

"On capital investment, too, we were not deflected by the challenges of weather and pandemic, delivering our full planned year one capital programme and investing £448 million in our region. Our smart meter programme is well underway; we have completed 520 environmental schemes through our Water Industry National Environment Plan, the largest in the sector; and later this month we will break ground on our strategic interconnector programme. This scheme, our largest infrastructure programme ever, will see hundreds of kilometres of large diameter pipeline installed by 2025 to bring water from the north of our region, where supplies are more abundant, down to the south and east where water is already scarce.

"Nonetheless, there remain areas where we see potential to improve. We will push to better our position in the Customer Measure of Experience league table, seeking to regain our position as industry leaders for customer service. We will also continue our focus on tackling and preventing pollutions, building on the strategy developed in our recently published Pollution Impact Reduction Plan.

Financial results for the year ended 31 March 2021

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“In the coming year we will maintain our focus on our environmental and social purpose, which is undimmed despite the challenges of the pandemic. It is almost two years since we changed our Articles of Association – the fabric of our company constitution – to enshrine what we think of as our triple bottom line: our commitment to delivering for customers and communities and for the environment as well as for the owners of the business.

“That triple bottom line has been much in evidence this year, through our support for the health and wellbeing of our people, which saw us named Utility Week’s Employer of the Year; through the delivery of our £1 million Positive Difference Fund, and the launch of our social contract; through our continued action on climate change and environmental recovery; and through the careful stewardship of the business, which enabled us to retain our stable credit ratings. We are also, as we announce today, implementing a new financing structure for the Group to enable a future reduction in the gearing of Anglian Water Services Ltd in order to maintain its solid investment grade credit ratings in the interest of customers and investors, the environment and long-term viability. Throughout the year we have been immensely grateful for the steadfast and patient support of our shareholders in challenging times.

“Despite the pandemic we have delivered our best-ever performance on renewable energy and shown leadership through our co-sponsorship of the water sector-wide Net Zero 2030 Routemap and the publication of the first Climate Change Adaptation Report submitted by any organisation in the latest round of reporting. We have supported environmental recovery through the commitments made in our five-point plan for a green recovery, published last September, which secured £300 million of accelerated investment in our Water Industry National Environment Plan at no additional cost to customers.

“And we are today launching our five-point plan for community recovery, a sister publication to our green recovery plan, which sets out our track record and the commitments we are making to our communities. It includes support for vulnerable customers; investment in communities, including the Positive Difference Fund and our STEM-focused education programme; commitment to inclusion and social mobility; support for health and wellbeing for our communities and our own people; and, finally, our approach to running an ethical, responsible business.

“The common thread in all these activities is acting in the public interest. We will continue to do so as we embark on the remaining four years of our Business Plan.”

Year end management report

for the year ended 31 March 2021

FINANCIAL PERFORMANCE

The financial results are summarised in the table below:

	2021 Total £m	2020 Total £m
Revenue (excluding grants and contributions)	**1,276.2**	1,330.6
Grants and contributions	**75.6**	89.3
Operating costs	**(590.3)**	(624.6)
Charge for bad and doubtful debts	**(31.1)**	(40.7)
Other operating income	**12.5**	13.0
EBITDA [1]	**742.9**	767.6
Depreciation and amortisation	**(351.3)**	(368.5)
Operating profit	**391.6**	399.1
Finance income	**2.0**	4.8
Adjusted finance costs [2]	**(251.4)**	(329.9)
Adjusted profit before tax [1]	**142.2**	74.0
Finance costs - fair value losses on financial derivatives [2]	**(23.2)**	(30.4)
Profit before tax on a statutory basis	**119.0**	43.6
Tax charge	**(20.2)**	(120.4)
Profit/(loss) for the year	**98.8**	(76.8)

[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 ('APMs'). These measures are not intended to be a substitute for, or superior to, IFRS measurements.

[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 economic performance.

Revenue

Revenue, excluding grants and contributions, for the year was £1,276.2 million (2020: £1,330.6 million), a decrease of £54.4 million (4.1 per cent) on last year. The decrease in revenue is as a result of the following factors:

- The price reduction for customers following the Final Determination, £71.0 million decrease.
- The impact of Covid-19, net £23.6 million increase. Household consumption up £58.2 million and non-household consumption down £34.6 million.
- Other offsetting decreases in revenue of £7.0 million.

Grants and contributions represent the cash and asset contributions made principally by property developers and local authorities for connecting new property developments to the water and sewerage network, and for diverting existing infrastructure. Over the year these have decreased by £13.7 million to £75.6 million; although there was a strong rebound in the housing market later in the year, there was an impact in the first lockdown.

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). Due to the impact of Covid-19 on consumption and grants and contributions, reflected above, we raised £5.7 million of wholesale revenue over and above the amount set in the FD. This will be returned to customers in 2022/23 through lower bills.

Other operating income

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

Operating costs (including charge for bad and doubtful debts)

Operating costs including charges for bad and doubtful debt for the year decreased by £43.9 million (6.6 per cent) to £621.4 million. This decrease is explained in the table below:

March 2020 total	665.3
Non-recurring items	
2019 summer flooding costs	(3.0)
2020 restructuring costs	(5.0)
2020 Covid-19 bad debt provision	(12.0)
Funded by FD	
General inflation	4.3
Innovation Fund	4.4
Weather related incidents	
Impact of hot summer	1.5
2020 winter flooding costs	3.0
Covid-19	
Covid-19 related materials, travel and fuel	(6.0)
Increase in energy cost/usage due to increased consumption	3.0
Impact of Covid-19 on bad debt	6.5
Management actions	
Reduction in bad debt (non Covid-19)	(4.2)
Continuous improvement and mitigating actions	(36.4)
March 2021 total	**621.4**

The inflationary increases and Innovation Fund costs formed part of the Final Determination and are therefore offset in revenues.

The past two years have seen a number of exceptional weather events, resulting in a net year-on-year increase in operating costs of £1.5 million.

Covid-19 has impacted the business in a number of areas. We have also seen a change in where we incur costs. We have seen reduced costs in relation to travel and expenditure, but these have been offset by increased spend on energy usage at our operational sites to manage increased customer demand.

The increase in bad debt charge due to Covid-19 of £6.5 million relates to the additional £1.5 million provision recorded in March 2021 in relation to the expected impact Covid-19 will have on unemployment and in turn our customers' ability to pay outstanding bills. This has increased from £12.0 million recorded in 2020 to £13.5 million as at March 2021. In addition, in the year, Covid-19 has resulted in increased household revenue which has an increased risk when compared to non-household revenue. This has resulted in an increase in our bad debt charge of £5.0 million. These increases have been partially offset by a reduction in our base charge of £4.2 million.

The decrease in operating costs of £36.4 million reflects significant management action in the period to mitigate an incorrect allocation between operational expenditure (opex) and capital expenditure (capex) in the PR19 Final Determination. This error was subsequently corrected by the CMA Redetermination. In the meantime, mitigation has involved taking difficult decisions, such as undertaking less optimal capital solutions while we were unable to fully optimise totex whole life cost solutions in our investment decisions.

EBITDA

EBITDA is defined as the profit from continuing operations before interest, tax, depreciation and amortisation. This has decreased by 3.2 per cent to £742.9 million, which is consistent with the effect of the regulatory price decreases outweighing the increases in consumption and decreases in operating costs.

Depreciation and amortisation

Depreciation and amortisation is down 4.7 per cent compared with last year, primarily as a result of additional depreciation on certain sludge assets in the prior year which resulted in them being fully depreciated.

Operating profit

Operating profit has decreased by 1.9 per cent to £391.6 million, which is consistent with the decrease in EBITDA partially offset by the decrease in depreciation.

Financing costs and profit before tax

Adjusted finance costs (calculated as finance costs less fair value gains and losses on financial instruments) decreased from £329.9 million in 2020 to £251.4 million in 2021. This was primarily the result of the non-cash impact of lower inflation on index-linked debt (£65.9 million) which was due to a fall in year-on-year average Retail Price Index (RPI) from 2.6 per cent to 1.2 per cent and year-on-year average Consumer Price Index (CPI) from 1.7 per cent to 0.6 per cent.

There was a fair value loss of £23.2 million on derivative financial instruments in 2021, compared with a loss of £30.4 million in 2020. The fair value losses in the current year are all non-cash in nature and have no material effect on the underlying commercial operations of the business. The driving factors for the loss in 2021 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 63 basis points and forward interest rates increased by 28 basis points across the curves.

Adjusted profit before tax (excluding fair value gains and losses on financial instruments), as shown in the table on page 7, for the year was £142.2 million, compared with £74.0 million in the prior year. This increase primarily reflects the impact of lower inflation on interest costs as mentioned.

Taxation

Our adjusted effective tax rate of 20.0 per cent is in line with the rate of corporation tax. The adjusted effective tax rate is calculated as tax charge for the year, £20.2 million, excluding adjustments for prior periods, £3.8 million (as per note 4) and tax on fair value of derivatives, £4.4 million (£23.2 million at 19 per cent) as a percentage of adjusted profit before tax. We are one of the largest private investors in infrastructure in our region, investing more than £2 billion from 2015-2020. 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 2021, other than corporation tax, amounted to £255 million (2020: £270 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 £5.5 million (2020: £14.5 million). The deferred tax charge has decreased by £109.2 million from £134.9 million in 2020 to £25.8 million this year.

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

The deferred tax charge for this year mainly reflects capital allowances claimed in excess of the depreciation charge in the accounts; this is consistent with the prior year.

In 2020 there was a charge relating to a reversal of the corporation tax rate which was originally expected to reduce from 19 per cent to 17 per cent effective from 1 April 2020. The deferred tax balances at 31 March 2019 were therefore measured using the rate of 17 per cent.

This reduction in corporation tax rate was reversed in March 2020 and so those deferred tax balances were re-measured using the rate of 19 per cent and gave rise to a charge of £113.8 million in 2020.

In the March 2021 Budget, it was announced that legislation will be introduced in the Finance Bill 2021 to increase the main rate of UK corporation tax from 19 per cent to 25 per cent, effective 1 April 2023. As substantive enactment is after the balance sheet date, deferred tax balances as at 31 March 2021 continue to be measured at a rate of 19 per cent.

If the amended tax rate had been used, the deferred tax liability would have been £345 million higher.

Our relatively low level of cash tax reflects the fiscal incentives available to all UK companies for sustained high levels of capital investment and the interest we pay to fund that investment.

Year end management report

for the year ended 31 March 2021

A strong start to our AMP7 investment programme

2020/21 marks the first year in the five-year AMP7 investment programme, during which time 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 has started strongly with gross annual capital expenditure across the business of £448 million (£221 million on capital maintenance, £226 million on capital enhancement and £1 million non-appointed). This is broadly in line with management expectations and is particularly pleasing given the significant challenges posed by the ongoing pandemic throughout the year.

Financial needs and resources

In respect of financing, the Group continues to develop its funding profile to provide an economic hedge against the regulatory transition from RPI to CPIH-linked revenues, and to align financing with the Group's focus on sustainability.

During the year to 31 March 2021, Anglian Water received £242.6 million of new funds in term debt under its sustainable financing programme to finance ongoing capital investment. Included in this amount was £65 million from a forward-starting CPI-linked bond, transacted in 2018 with proceeds received on 3 April 2020. In addition, two forward-starting, fixed-rate notes totalling £75 million were also transacted in the year with amounts settled on 28 April 2021. As a result of this timing these amounts were not included in debt on balance sheet at the period end.

Debt repayments in the period consisted of £1,003.4 million, primarily due to settling a 4.125% index-linked bond (£263.8 million) and repayment of £575 million on the revolving credit facilities. In the prior year these revolving credit facilities totalling £600 million were fully drawn to provide a short-term liquidity buffer in light of the Covid-19 uncertainty, however, were repaid during the year as expectations on materially adverse impacts to cash flows were reduced. Other debt amounts repaid during the period related to scheduled redemption amounts on EIB amortising debt (£65 million), principal accretion settlements on index-linked swaps and lease repayments as they fell due.

As at March 2021 Anglian Water has access to £575.0 million of undrawn facilities (2020: £50.0 million), to finance working capital and capital expenditure requirements. In addition, Anglian Water has access to a further £400.0 million of liquidity facilities (2020: £400.0 million), consisting of £279.0 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.

The business generated cash from operations of £659.3 million in the year (2020: £686.0 million). The decrease primarily reflects additional pension scheme contributions, timing of supplier payments and VAT receipts.

Distributions available to the ultimate investors

There were no dividend payments in the year (2020: £67.8 million). Based on the available free cash flow there was capacity to pay a dividend of £203.6 million. The Directors have proposed to pay a final dividend of £96.3 million.

These dividends do not represent dividends paid to our ultimate shareholders; at this time there is no proposal to pay a dividend to shareholders of Anglian Water Group Limited (AWGL), the ultimate parent company. No dividends were paid to the shareholders of AWGL in the year (2020: £nil).

This decision is in combination with an equity injection of £110.0 million in April 2021 in line with our de-gearing target. In addition, the Group is considering a new financing structure in order to enable a substantial equity injection into the Company, leading to a future reduction in gearing. Through these capital injections the company continues to benefit from the strong support of shareholders, who have foregone dividends since June 2017 for the long-term benefit of the company and its customers, in line with our purpose.

The Board has an approved dividend policy, under which dividend payments will be aligned to the performance of the business, taking into account commitments to customers and other stakeholders and ensuring that it 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, our shareholders are entitled to an appropriate return on their investment. This is delivered partly through long-term capital growth and partly through dividends.

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 will consider the Business Plan, have regard to Anglian Water's purpose and to their duties under the company's Articles of Association.

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

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

The overall amount of the company's ordinary dividends will not exceed the free cash flow (defined as operating cash flow less interest and capital maintenance payments) generated by Anglian Water, and in practice will be limited by its current and forecast financial covenants. 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.

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 2021, the Anglian Water Services Group held cash, deposits and current asset investments of £285.9 million (2020: £1,048.1 million). The decrease in cash amounts held is primarily the result of the company repaying £575 million of its £600 million revolving credit facilities that were drawn down in the prior year in light of uncertainty on impacts to cash flows related to the Covid-19 pandemic. While a degree of uncertainty still remains, the expected impacts to cash flows and ability to raise additional debt finance to service the company's capital expenditure programme has been reduced.

Anglian Water has access to £975 million of undrawn liquidity facilities (2020: £450.0 million), consisting of £575 million for general corporate purposes, £279.0 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 default on its debt obligations and had insufficient alternative sources of liquidity. All bank facilities and debt capital market issuance are issued pursuant to the Global Secured Medium Term Note Programme dated 30 July 2002 between the company, AWSF and Deutsche Trustee Company Ltd (as agent and trustee for itself and each of the finance parties). This agreement provides that any facilities drawn by AWSF will be passed directly on to the company upon utilisation of the facility.

Interest rates

The company's policy, as agreed by the Board, is to achieve a balanced mix of funding to inflation-linked, fixed and floating rates of interest. At the year end, taking into account interest rate swaps, 62.7 per cent (2020: 52.1 per cent) of the company's borrowings were at rates indexed to inflation, 31.2 per cent (2020: 34.0 per cent) were at fixed rates and 6.1 per cent (2020: 13.9 per cent) were at floating rates. At 31 March 2021, the proportion of inflation debt to regulated capital value was 53.4 per cent (2020: 50.0 per cent).

Pension funding

At 31 March 2021, the closed defined benefit scheme, excluding the unfunded pension liability, had an IAS 19 accounting pension surplus (before deferred tax) of £54.8 million, compared to a surplus of £171.6 million at 31 March 2020. This decrease in surplus reflects a decrease in the corporate bond rate used to discount the scheme's liabilities. During the year a deficit reduction payment of £36.5 million was made by the company, compared with £15.1 million in the prior year.

In addition the company has an unfunded pension liability of £44.8 million (2020: £41.6 million).

Long-term viability statement

Background
The Directors are responsible for ensuring the resilience and viability of Anglian Water's water and water recycling services to meet the needs of its customers in the long term. This means the company 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 company 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 company 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 company'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 and viability
The Directors have assessed Anglian Water's financial prospects over the next 10 years from April 2021 to March 2031. A 10-year period has been chosen to ensure that our Business Plan for the current AMP does not impact the longer-term viability of the company:

- The first four 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 Competition and Markets Authority (CMA) Final Determination for AMP7.
- The next six 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 (2025-2030) align to the AMP8 forecasts submitted in our PR19 Business Plan submission, which have been 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 company'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 company in the full annual integrated report, 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. This process is described in more detail in the full annual integrated report, to be published in July.

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 with individual and combined impacts, as set out in the table, 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:

Scenario	Impact modelled	Potential mitigations required
Material total expenditure (totex) underperformance against the Final Determination allowance	Overspend of 10 per cent across an AMP	No mitigations required
Material Outcome Delivery Incentive (ODI) penalties	Up to £100 million applied in a single year	No mitigations required
Regulatory fines and legal penalties	Up to 3 per cent of turnover applied in a single year	No mitigations required
Unfunded pension liabilities	Up to £15 million applied per annum	No mitigations required
Risks associated with the disruption caused by Covid-19, potential reductions in revenue collection	Up to 7 per cent decrease in cash collection	No mitigations required
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
Cost of debt increases	2 per cent above base level assumptions across an AMP	No mitigations required
Significant inflation fluctuations	1 per cent above and below base level assumptions for each AMP	No mitigations required
Combined scenario based on totex underperformance for a whole AMP, along with a significant ODI penalty	Overspend of operating costs of £15 million per annum and £50 million ODI penalty in a single year	No mitigations required
Combined scenario based on totex underperformance and lower inflation	Overspend of totex by 2.8 per cent over AMP combined with inflation 1 per cent below base	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 2020/2021. 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, incase 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 company'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 company'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 and in April 2021 of £110.0 million. In addition, subsequent to the year end, the Group is implementing a new financing structure in order to enable a substantial equity injection into the company, leading to a future reduction in gearing.

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

The Board formally reviews the output of the stress testing twice a year.

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

Ofwat published its PR19 Final Determination in December 2019. This will form 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. While 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.

Ofwat's Final Determination included a reduced cost of capital which remains a significant challenge to our financeability in year 2 of AMP7, while later years benefit from the adjustments made by the CMA which improve our financeability. To mitigate this, a number of initiatives have been undertaken to increase our headroom in 2021/22 such that the business can accommodate moderate to severe downside shocks in that year. As well as incorporating the impacts of Covid-19 into our base forecasts, we also conducted modelling of worst-case scenarios, including the likely recessionary impact on the wider economy. As a result of the initiatives in 2021/22, and the adjustments from the CMA process in later years, the viability of the business is not significantly affected by these downside scenarios and no downside scenarios require mitigations.

Anglian Water Services is an efficient company with a history of outperformance and 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 2031, 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.

Performance in context

We measure our performance against 41 commitments that help us, our regulators Ofwat and our customers understand the progress we are making and what we have delivered.

This year (2020/21) is the first of our latest five-year regulatory cycle (also known as AMP7, as it is the seventh asset management period since privatisation of 1989). It saw the introduction of a suite of stretching targets for our performance, known as Performance Commitments (PCs). This, coupled with the ongoing Covid-19 pandemic and extreme weather patterns, has made it a very challenging year.

Despite these challenges we have seen strong performance across all areas of the business. We have outperformed our interruptions to supply PC target, scoring 5 minutes and 2 seconds against a target of 6 minutes and 30 seconds and earning an outperformance payment of £1 million.

We have also earned outperformance payments for performing in the top quartile among our peers in flooding. The number of properties affected by internal flooding was at 1.33 incidents per 10,000 connections, which is lower than the industry target of 1.68 and earns us £3.6 million. For external flooding, there were 3,628 incidents this year, which is below our regulatory target of 4,191 incidents and earns us £2.4 million in outperformance payment. Our region was severely impacted by wet weather over the winter period, which saw groups of customers in geographically discrete areas of our region flooded for a prolonged period, primarily due to the sheer volume of surface water and groundwater flooding. The severity and duration of flooding impacted both flooding measures; however, the impact was mitigated due to our ongoing investment in flood prevention measures and our proactive response, working with local flood authorities to go above and beyond our statutory duties.

Per capita consumption (PCC) has been badly impacted by the Covid-19 pandemic. People staying at home to work has meant that domestic consumption has increased and this has had a particularly notable impact in the East of England, since a lot of our customers usually commute out of our region to work in London during the day. As a result PCC has increased to a three-year average of 138.1 litres per person per day this year, compared to 136.1 in the previous year. This would normally result in a significant penalty; however, Ofwat has decided to delay the impact of this PC until the end of AMP7 while it decides whether it should take account of the pandemic in its assessment of performance.

Leakage has also been impacted by the Covid-19 increase in demand, as well as by notably cold weather over the winter leading to an increase in burst mains. In light of these challenges, we are particularly pleased to have marginally exceeded our stretching regulatory target of a 1.4 per cent reduction.

Pollution incidents per 1,000km of sewer have fallen this year from 34.6 to 27.7, with significant investment in prevention and resolution of incidents through our Pollution Incident Reduction Plan; however, they have not yet fallen sufficiently to avoid a penalty of £1.4 million for being above the stretching regulatory target of 24.5.

We have delivered a number of Water Industry Environment Plan (WINEP) schemes this year, and this has resulted in a reward of £3.0 million.

We have made ongoing investment this year to reduce the number of properties served by a single supply, resulting in an outperformance payment of £0.6 million this year as we have performed ahead of our target. Our water quality contacts commitment shows a small penalty of £0.1 million for marginally missing the target, primarily as a direct result of increased demand due to Covid-19.

On both the Customer Measure of Experience and Developer Measure of Experience, we have achieved a score above average, which entitles us to an outperformance payment of c. £1.1 million for each.

Performance commitment	**Total reward/penalty 2020/21 £m**
Interruptions to supply	1.0
Leakage	0.1
Per capita consumption	-1.9
Internal sewer flooding	3.6
Pollution incidents	-1.4
External sewer flooding	2.4
Sewer collapses	-1.2
Low pressure	0.0
Customer Measure of Experience (CMeX)	1.1
Developer Measure of Experience (DMeX)	1.1
WINEP	3.0
Void properties	1.4
Single supplies	0.6
Water quality contacts	-0.1
Total	**9.7**

Our environment and the planet

Our progress towards net zero carbon by 2030 continues at pace. We have played a leading role this year in the development of the water sector's ground-breaking routemap to net zero, with our CEO Peter Simpson co-sponsoring the goal and Anglian Water co-chairing the routemap working group. The routemap was described as 'one of the most significant steps taken by any industry in the world' by UK Climate Action Champion Nigel Topping.

We have also met our own 2020/21 carbon reduction targets, achieving a 61.2 per cent reduction in capital carbon against a 2010 baseline and a 5.1 per cent reduction in operational carbon against a 2019/20 baseline. Our leadership on carbon reduction has been recognised by three awards: Net Zero Carbon Initiative of the Year 2020 and 2021 at the Water Industry awards for our Ingoldisthorpe treatment wetland and our renewables programme respectively, and a further Net Zero Carbon Initiative Award at the 2021 Utility Week Awards for our greenhouse partnership with Oasthouse Ventures. In a world first, the two greenhouses, one in Norfolk, the other in Suffolk, are heated by warm water, the natural by-product of the water recycling process. Together, they are capable of producing up to 12 per cent of the UK's tomatoes, with a carbon footprint 75 per cent lower than a traditional greenhouse. This remarkable engineering feat provides a blueprint for sustainable, low carbon food production to meet the challenge of delivering net zero.

In 2020/21 we've delivered another record-breaking year for renewable energy generation. We generated 7.2GWh from the growing portfolio of 14 solar PV installations at our sites – an increase from 3GWh in 2020 – and completed the largest solar photovoltaic array on Anglian Water land to date at Grafham Water. By next year we expect to generate more than 16GWh from solar. Our biggest source of renewable energy remains our fleet of combined heat and power engines (CHP) which generated a massive 114GWh this year. We are exploring energy storage through our pathfinder project at Little Melton to shape future energy strategies.

All water companies are now completing their own detailed routemaps to net zero by July 2021. Ours will feature a blend of technology-led solutions, accelerating action on renewable energy and understanding process emissions; demand-led solutions, driving energy efficiency and making the most of biogas; and nature-based solutions, including in-region carbon sequestration and treatment wetlands. Our Innovate East events, held in partnership with Essex and Suffolk Water and Yorkshire Water, are helping develop leading-edge thinking to contribute to our roadmap.

In parallel with our mitigation strategy, we have also maintained our focus on adaptation to climate change. In only our second year of reporting we reached CDP's global A list for our response to climate change, placing us in the top 3 per cent of 9,600 companies and one of only 21 UK companies to do so.

We submitted our Climate Change Adaptation Report (CCAR) for the third round of the adaptation reporting power in December 2020, nine months ahead of the deadline and the first organisation to submit its response. Prior to completing the final draft, we issued the report for consultation, the first time we have done so. The report, and the risks and actions contained within it, was drafted with input from stakeholders across our business as well as specialists in adaptation from consultants WSP. Inputs from the consultation were also incorporated into the final document. The report includes an assessment of our physical and transition climate-related risks, a description of how we are managing these risks and metrics to track our performance.

An example of our holistic approach to adaptation is the Future Fens: Integrated Adaptation initiative led by Anglian Water in partnership with Water Resources East, the Environment Agency and a wealth of other partners. This ambitious programme will drive resilience to climate change in the Fens by combining flood risk management (including upgraded coastal defences, barriers and barrages) with new open water transfers and multi-user reservoirs to unlock economic growth, new housing projects and improved transport links, as well as benefiting nature and tourism. We hope that the programme will be showcased as an international exemplar of innovative approaches to adaptation at November's global COP26 Summit.

Our commitment to carbon reduction, and to evidencing our achievements through robust external measurement, has enabled us to raise £227 million of Green Bond funding in 2020/21, funding projects which contribute to five environmental objectives: climate change mitigation; climate change adaptation; biodiversity conservation; pollution prevention and control and natural resources conservation. Projects funded include innovative water abstraction projects, drought and flood resilience schemes and progressive water recycling and water resource management schemes.

In October 2020 we published our Sustainability Financing Framework for 2020–2025, which expands the scope of our sustainable transactions to encompass not just Green Bonds but also Social and Sustainability Bonds, private placements and loans, and leases. This opens a new realm of funding opportunities, with the option to secure funding based on meeting social targets related to 'affordable basic infrastructure' as well as environmental ones related to sustainable water and wastewater management; climate change adaptation; environmentally sustainable management of living natural resources, and land use.

Preventing pollution is a fundamental part of our remit. Through the ongoing delivery of our nine-step Pollution Incident Reduction Plan, we have achieved a 20 per cent reduction in the volume of pollutions this year and anticipate returning to 3* Environmental Performance Assessment status in July. We are also increasing monitoring of storm overflows to assess how best to target investment to benefit the environment and engaging with the Government's Storm Overflows Taskforce to accelerate progress, share best practice and technology and develop long-term solutions.

The quality of the water we return to the environment from our 718 water recycling centres is monitored by the Environment Agency. We have delivered our best-ever performance on compliance this year, with 99.3 per cent of centres meeting numeric limits on water quality. However, every failure is investigated to discover root cause and improve our performance.

Protecting the quality of coastal bathing waters is of huge importance, both to the environment and to the economy of our region's seaside towns. Our Coastal Water Protection team works with councils, the Environment Agency, local businesses and residents' groups to identify and address sources of pollution. Our 2019 scores against the four standards set out for bathing waters were as follows: 32 of our bathing waters were rated as 'Excellent' (required for Blue Flag awards); 11 were rated as 'Good' and five as 'Sufficient'.

This followed a judicial review in Anglian Water's favour of a downgrading triggered by samples taken by the Environment Agency during unprecedented rainfall and flooding in June 2019. New classifications were not made for 2020 due to the Covid-19 pandemic.

One of the crucial ways in which we are working to protect the environment is by reducing the amount of water we abstract from sensitive areas by 85 million litres per day by 2025, and working to restore the health of the precious and internationally important chalk streams in our region.

A particular area of focus is the River Lark, in Suffolk, where we have agreed with the Environment Agency that by March 2025, we will significantly tighten the 'Hands Off Flow' level, which means we will act sooner and leave more water in the river. This will allow for flows to be protected, particularly at times of drier weather.

To allow this to happen we are creating a connection to our new strategic grid to move water from the north of our region, where supply is more abundant, to areas of water shortage. During this period, we will also be completing river restoration and river support schemes on rivers within the wider Lark catchment, including the River Linnet.

We have joined forces with local MP Jo Churchill, together with the River Lark Catchment Partnership Group (for which we have funded a catchment study), the Cam and Ely Ouse Catchment Partnership (Cam-EO) and local landowners, farmers and businesses to protect this unique chalk stream habitat.

Reductions in our abstraction licences make it all the more important to maintain our supply/demand balance, ensuring we have enough water to meet demand, while encouraging our customers to use less.

We have installed 164,406 smart meters in the first year of our award-winning installation programme, which will now ramp up even further with a goal of 1.1 million installations by 2025. The meters remotely collect hourly consumption data, helping customers to understand and reduce their water use through our upgraded MyAccount customer portal, and helping us to better understand how our water network operates, identifying customer-side leaks as well as monitoring patterns of usage.

Together with our partners in the Strategic Pipeline Alliance (SPA) – Costain, Farrans, Jacobs and Mott MacDonald Bentley – we are delivering the biggest infrastructure programme in Anglian Water history. By 2025 we will create a new network of hundreds of kilometres of vast interconnecting pipelines, and upgrade existing infrastructure to allow water to be moved around our water-scarce region, from areas where supplies are more abundant to areas that have a shortfall, helping us secure water supplies across our region for many years to come.

SPA is supported by cutting-edge digital infrastructure – a digital twin – which will mirror the physical infrastructure, providing real time data to drive insight, monitoring and help us optimise the network.

We are also developing proposals for two new multi-purpose, multi-sector reservoirs, one proposed for Lincolnshire and the second for Cambridgeshire or Norfolk, which, if confirmed, will be commissioned between 2035 and 2040. Both reservoirs are expected to be facilitated through the Regulatory Alliance for Progressing Infrastructure Development (RAPID) and are likely to be of a similar scale to Grafham Water.

One of the key ways in which we are addressing water supply challenges is by working constantly to reduce the amount of water which leaks from our network.

Ofwat has set stretching targets for our performance on leakage which will require us to make a 16.4 per cent reduction by 2025 from our industry-leading 2020 leakage baseline. As a frontier company it is incrementally harder year on year to find new ways to better our performance. However, we are determined to meet this challenge and are investing millions of pounds in advanced technology to help us do so.

This year we have continued to roll out our world-leading network of 'smart' fixed network hydrophones which listen for new leaks so we can tackle them proactively, before customers need to tell us about them.

We have also been exploring fibre-optic technology, machine learning, electroscanning to assess the condition of pipes and the volume of leaks, satellites to detect leaks from space and drones to find leaks using thermal imaging – all in pursuit of the significant further reductions we and our customers so want to see.

In a year of Covid lockdowns and extreme weather which saw us coping with nearly triple the number of burst mains we had to contend with last year, we are very proud to have maintained our industry-leading performance, exceeding our regulatory target for the 10th year running.

Our customers and communities

Our approach to dealing with the impact of Covid-19 has at all times been driven by our social and environmental purpose and our values, leading us to look beyond the continuing supply of essential services, to our wider role as a core member of our community.

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 2021/22, water and sewerage charges will cost £1.16 per day.

We recognise that the Covid-19 pandemic has had a serious impact on many of our customers' household finances. We have mounted proactive communications campaigns to encourage those in difficulty to contact us to discuss their circumstances. We also understand that Covid-19 aside, affordability will vary across time for the same household and can be driven by different circumstances. We have transformed the service that we offer customers who are struggling to pay, applying experience from across our business in order to target support most effectively.

Using data analytics we route customer contacts with high affordability risk through to our ExtraCare team, where we check to see if they are claiming all benefits to which their household is entitled. This year we have signposted customers to more than £4 million-worth of potential unclaimed benefits.

Our customers remain influential in our decision making through our ongoing engagement channels, weekly satisfaction surveys, the 'My Account' platform and our online community.

With over six million digital interactions this year, our customers have demanded even more from our digital services. More than 38,000 customers have used our new online service where they can check work in their area, get updates, report service issues or book appointments.

We are also enhancing our online MyAccount to work alongside our new smart metering programme. Due to go live in early summer 2021, customers will be able to monitor their water usage, compare to other similar households and stay more in control of their bills.

Throughout this changeable and challenging period, our customers continue to rate our service highly, with more than 96 per cent rating the service received as satisfactory or better (as measured by our internal satisfaction survey).

Maintaining supplies of high-quality drinking water is our biggest priority, and we engage and invest from source to tap to maintain and improve on our performance.

Two new regulatory measures, the Event Risk Index (ERI) and Compliance Risk Index (CRI), first introduced by the Drinking Water Inspectorate (DWI) in 2017, were formally adopted as performance commitments this year. We anticipate our best-ever year for ERI and a strong score for CRI, maintaining our position as one of the strongest-performing water companies. Final scores from the DWI are expected in early July. Last year's figures were 8.28 for ERI (vs industry average of 782.79) and 1.75 for CRI (vs industry average of 2.85). It has been a particularly challenging year for managing water quality, largely in light of record levels of demand due to lockdowns and home working. A further difficulty was the suspension of normal water sampling during lockdown, and we were grateful that colleagues stepped up to volunteer their homes for sampling.

We were pleased to see the DWI calling out our Water in Buildings programme, focused on addressing the risks to customers from incorrect plumbing in their homes, as an example of best practice. We have also come together with national stakeholders through our chairship of the industry's Lead Strategy Board to find ways to remove lead from our water. And in a bid to find new ways to communicate water quality messages to customers, we have made increased use of digital channels, for example to highlight the need for commercial properties to flush their pipes when reopening after lockdown, and to raise customer awareness of how to cope with hard water.

The service we provide to our developer customers is measured via 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 5th place in a league table of our water and sewerage company peers. We are constantly exploring new ways to support our developer customers including, this year, creating a new Technical Extra Care team and using data and insights to set clearer expectations on timings with customers.

The number of organisations, charities, local authorities, public health and other utility companies that we are proud to call partners continues to grow, now at over 100. Their expert knowledge helps to test our services, ensuring they are inclusive and accessible for all. From running targeted social campaigns in areas of high deprivation, to promotion on pharmacy bags across our whole region, working with partners has given us a reach of almost 800,000 customers in potentially vulnerable situations. Having partners from a domestic abuse charity (Leeway), carers support charity (Carers First), and charities which support customers with hearing and sight impairments (Lincolnshire Sensory Services and Blind Veterans), as well as British Gas, deliver specialised training to our Priority Services Team helped ensure we are providing appropriate and tailored support to our customers.

A significant element of our support for local communities through the pandemic has been the launch of the £1 million Anglian Water Positive Difference Fund. The Fund has been administered through 15 Community Foundations across our region, using their extensive local expertise and knowledge to target support where it is most needed. The first half of the fund, made available in the summer, provided emergency funds benefiting more than 83,000 people through more than 120 community groups. It supported the most vulnerable in our communities through activities like providing hot meals for people sleeping rough, adapting services for autistic children and vulnerable adults, befriending for people with dementia, and combatting coronavirus fraud. The remaining half was allocated in March 2021, providing a smaller number of high-impact grants of up to £20,000 to support community groups' recovery from the challenges of the pandemic. In total it is estimated that the Positive Difference Fund will support more than 100,000 people across more than 160 community organisations.

We were also instrumental, through our regional leadership of Business in the Community (BITC), in setting up the National Business Response Network (NBRN), a virtual notice board that promotes a brokerage service between BITC members and organisations in the community that need help.

Education has always played a fundamental role in our community outreach; our education team has reached more than 500,000 young people since it was formed in 2007, educating and inspiring school and college students about water and the environment, and promoting study and careers in science, technology and mathematics (STEM) subjects. The team was determined not to let Covid-19 stand in the way of its activity and rapidly switched to online delivery, producing a suite of 12 online lessons to support our region's parents which has achieved more than 7,000 unique views. Virtual interactive lessons have included water and water-recycling sessions for primary schools and an engineering challenge for secondary schools, while virtual work experience and mock interviews have ensured young people can still experience life in the workplace. A total of 19,141 young people have benefited from live interactive sessions.

With a constantly shifting set of circumstances, it has been a challenging year for our parks team, who would usually welcome some two and a half million visitors a year to the 4,428 hectares of parkland, woodland, nature reserves and water at our seven water parks. The team have worked hard to keep the parks and their facilities open whenever safe to do so, recognising that these beautiful green spaces are a source of wellbeing for our local communities, and adapting spaces and services to make them Covid-safe.

Anglian Water has a longstanding partnership with the charity WaterAid, which transforms lives by improving access to clean water, decent toilets and good hygiene in the world's poorest communities: more important than ever during the pandemic. The Beacon Project, led by Anglian Water and our Alliances, supported Covid-19 relief efforts by providing handwashing stations, extending water supply times and donating PPE in Lahan in Nepal.

With no ability to meet in person, fundraising has been difficult this year. Nonetheless the Volunteers' Committee has hosted virtual 'lockdown' quizzes and a cycling challenge, as well as continuing with payroll giving and the WaterAid Lottery. Total funds raised were £ 334,701 (2020: £1,366,274), while Anglian Water Group donated a further £40,000.

Our people and partners

We are particularly grateful for the support of our people and partners in this most challenging of years, and delighted in return that our support for them was recognised earlier this year with the Utility Week award for Employer of the Year.

The Covid-19 crisis is unlike any incident we have previously prepared for, despite our industry-leading resilience team and ISO 22301 accreditation for business continuity. Although the provision of our vital services to our customers was never in doubt, we have had to adapt as an organisation to maintain our service delivery.

The crisis has lasted beyond all our expectations, but our employees have risen to the challenge, adapting quickly to new ways of working and, for those on the frontline, risking continued public contact to ensure that we keep safe, clean water flowing for all of our customers.

We have offered support for our people's physical and mental wellbeing throughout the crisis through our Employee Assistance Programme, Virtual GP and free subscriptions to the Headspace app. We also introduced an Employee Assistance Fund, funded by senior leaders and contributions from colleagues, to support colleagues whose households may be experiencing financial difficulty. Communications were a priority, and we enhanced our communication channels with a series of business update videos from the Management Board, regular live virtual forums for leaders and our new intranet, Lighthouse.

Our annual Love to Listen survey showed our people remain highly engaged (with a score of 74 per cent, up 2 per cent), have a strong connection to our purpose and feel well supported through the challenges of Covid-19. Their feedback provides invaluable insight on how we can improve and we have identified six company-wide themes for action.

While our field-based colleagues have remained on the frontline delivering vital services to customers, our office-based people tell us they want to continue working flexibly after Covid-19, coming to our buildings primarily to connect and collaborate. Through our Ways of Working programme we're adapting our buildings to create more space for that to happen, and creating operational hubs that offer good meeting facilities within easier travelling distance, helping us to travel less and reduce our carbon footprint.

The introduction of Microsoft 365 has given us the tools to connect and collaborate through lockdown; our Digital Adoption programme is enabling our people to make the most of these, creating a step change in our digital capabilities.

We have continued to run LIFE Orientations (our behavioural safety programme) virtually; we also worked with an external provider to deliver effective health and safety leadership to our key leaders, resulting in an increase in support for the front line.

As we entered 2021, recognising what a difficult year it has been, we arranged a month of Time Out for Life events for colleagues to spend half a day focusing on their own health, safety and wellbeing. More than 3,000 people attended.

We have maintained our ISO 45001 standard for health and safety following an extensive audit process. We also undertook a review and held stand-down events in response to the tragic events at Wessex Water's Avonmouth plant. Our accident frequency rate and the number of reportable accidents have both risen this year, and we are taking steps to address this.

Health and safety key metrics	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Category 1 events* - Reporting of Injuries, Diseases and Dangerous Occurrences Regulation (RIDDOR) reportable specified injury accidents - RIDDOR reportable non-worker/member of the public accidents - RIDDOR reportable (potentially life limiting) occupational diseases - Fatalities	7	3	10	5	4	7
Accident frequency rate (AFR) The number of reportable accidents in every 100,000 hours worked. Our AFR includes data from our own employees and our contractors	0.11	0.12	0.12	0.12	0.08	0.13
Sick absence – 4.5 days The average number of working days lost per employee due to sickness	4.26	4.39	4.61	4.60	4.54	3.77

* In 2019 we made changes to the way we report on the more serious events. To ensure we have a more objective and refined way of reporting and measuring performance, we revised the event types that are now classified as Category 1 events. To ensure consistency of reporting, we have revised the previous years' Category 1 figures in line with the current reporting criteria so that we are comparing like for like.

We are also maintaining and extending our focus on inclusion and diversity, an integral part of being a responsible business. We value diversity of thought and believe having people from different backgrounds and with different experiences stimulates innovation and improves the ways in which we work.

One of the successes of our inclusion strategy has been the launch of our Inclusion Community, connecting more than 160 people from across the organisation. We held our second Inclusion Week in October 2020, and regularly invite external speakers such as Sue Sanders, the founder of LGBT+ History Month, to talk to our people.

And while employers do not have to report gender pay gaps this year, we believe it is important to continue our focus on eliminating the gap. Our mean gender pay gap improved, from 5.9 per cent in 2019 to 5.7 per cent in 2020; while our median gap rose slightly to 11.6 per cent from 11.0 per cent. This continues to compare favourably with the national average mean and median gaps, both at 16.5 per cent in 2019/20. This year more than half our interns are women, and 50 per cent of our senior manager hires. Our STEM-focused education programme plays a key role in attracting a more diverse workforce to Anglian Water.

We continue to invest in building the balanced and highly skilled workforce of the future, from our apprentice and graduate programmes to continuing professional development and Licence to Operate training even for our most experienced people. We have maintained our commitment to early careers opportunities through Covid-19, with 50 new apprentices joining in October, and six joiners to our Graduate scheme. Our Future Leaders Board, sponsored by directors, plays an active role in future planning, innovation and decision making.

Our most important supply chain relationships are with our alliance partners, with whom we work to deliver all our capital investment programmes and our information services. More than 3,000 people come together as part of our six alliances to form our extended workforce of 8,000.

We are committed to ethical and sustainable procurement and are members of the Energy and Utility Procurement Skills Accord and the Supply Chain Sustainability School. In this most challenging of years, we have supported our supply chain through Covid-19 and held our first ever virtual Supplier Awards, bringing together 200 members of our supply chain from 100 companies to celebrate our shared achievements. We also held our first virtual WaterConnect engagement event for the Water Innovation Network, which was attended by more than 270 representatives of supply chain partners, SMEs and start-ups.

As well as dealing with the impacts of Covid-19, our resilience was tested by the wettest December and January in the East of England since 1915. The sheer volume of ground and surface water, with several rivers overtopping their banks, meant we faced isolated pockets of flooding across the Great Ouse Catchment, in Lincolnshire, Norfolk and Northamptonshire over many weeks. This resulted in an unprecedented volume of customer issues and flooding reports – more than 30,000 jobs, or five times the normal workload. Our incident team 'stood up' for more than 11 weeks, supported by our Alliance partners and operational teams; our response saw 400 technicians and 127 tankers deployed, with more than 200 Anglian Water Force volunteers stepping up to cover 500 incident shifts. We received more than 250 stakeholder enquiries and undertook constant proactive management, company-wide coordination and stakeholder engagement, holding meetings with regional MPs and local authority representatives and leading tactical coordination groups and local flood cells. Thankfully, due to our response, most customers saw no impact to services; drinking water was maintained throughout and water recycling services were swiftly restored to the majority of those affected. Our tactical management of the incident was underpinned by decades of strategic planning, risk management and investment in resilience.

Supporting growth in our region

Ongoing rapid growth in our region poses major challenges for Anglian Water, but also presents an opportunity to make a positive influence on new developments. We were delighted that our planning team was awarded Best In-House Planning Team 2020 at the Royal Town Planning Institute Awards for Planning Excellence.

A key priority is the work we are undertaking with South Cambridgeshire District Council and Cambridge City Council to support their vision for sustainable growth by moving our Cambridge Waste Water Treatment Plant to a new location. This ambitious project, for which a site has now been selected, following customer consultation, would free up land for up to 5,600 of the 8,000 homes planned for North-East Cambridge.

We have convened a utilities alliance across the Ox-Cam Arc to create joined-up delivery plans that will help reduce costs and carbon and attract inbound investment, as well as creating water-efficient homes and infrastructure. The alliance, comprising Anglian Water, Thames Water, UK Power Networks, Western Power Distribution, Cadent and Openreach, was welcomed by Chancellor Rishi Sunak, who praised its members' "commitment to joined-up delivery of infrastructure in a key area of the UK's economy".

Acting in the public interest

We have made a set of commitments to our customers through our Social Contract, in a two-way engagement founded on our 10 customer outcomes and the Public Interest Commitments. The contract was developed in consultation with customers and employees; it not only sets out our commitments to delivering a more sustainable future but also highlights how our customers and communities can get play a part in reaching this goal. The contract is co-signed with the chair of our Customer Advisory Board, whose role is to advise, support and challenge our Management Board on these issues.

Working with the British Standards Institute (BSI), the Cambridge Institute for Sustainability Leadership and with sponsorship from the BSI, KPMG and the Department for Digital, Culture, Media and Sport, we are developing a Publicly Available Specification (PAS) on Sustainable Purpose that will allow us and other businesses to codify and benchmark our approach as a purpose-led responsible business against best practice around the world.

Pending the creation of the PAS, we measure our progress as a responsible business through Business in the Community's Responsible Business Tracker. Our overall score in the 2019/20 tracker was 73 per cent, significantly ahead of the average score of our sector and the average of all reporting companies.

In January 2021 our CEO Peter Simpson was invited to becoming a founding signatory of the Prince of Wales's global Terra Carta initiative, which sets out to provide a roadmap for acceleration towards an ambitious and sustainable future; to harness the power of Nature combined with the transformative power, innovation and resources of the private sector.

Anglian Water Services Limited

Group income statement

for the year ended 31 March 2021

Notes		Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
	Revenue	**1,351.8**	1,419.9
	Other operating income	**12.5**	13.0
	Operating costs		
	Operating costs before depreciation, amortisation and charge for bad and doubtful debts	**(590.3)**	(624.6)
	Depreciation and amortisation	**(351.3)**	(368.5)
	Charge for bad and doubtful debts	**(31.1)**	(40.7)
	Total operating costs	**(972.7)**	(1,033.8)
	Operating profit	**391.6**	399.1
	Finance income	**2.0**	4.8
	Finance costs, including fair value losses on derivative financial instruments	**(274.6)**	(360.3)
3	Net finance costs	**(272.6)**	(355.5)
	Profit before tax from continuing operations		
	Profit before fair value losses on derivative financial instruments	**142.2**	74.0
	Fair value losses on derivative financial instruments	**(23.2)**	(30.4)
	Profit before tax from continuing operations	**119.0**	43.6
4	Tax charge	**(20.2)**	(120.4)
	Profit/(loss) for the year from continuing operations	**98.8**	(76.8)

Group statement of comprehensive income

for the year ended 31 March 2021

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Profit/(loss) for the year	**98.8**	(76.8)
Other comprehensive (expense)/income		
Items that will not be reclassified to income statement		
Actuarial (losses)/gains on retirement benefit deficit	**(162.7)**	108.4
Income tax on items that will not be reclassified	**30.9**	(18.8)
	(131.8)	89.6
Items that may be reclassified subsequently to income statement		
Gains on cash flow hedges recognised in equity	**8.2**	22.9
Gains/(losses) on cost of hedging recognised in equity	**2.1**	(0.6)
Losses on cash flow hedges transferred to income statement	**10.2**	3.9
Gains on cost of hedging transferred to income statement	**(0.5)**	(0.4)
Income tax on items that may be reclassified	**(3.8)**	(3.1)
	16.2	22.7
Other comprehensive (expense)/income for the year, net of tax	**(115.6)**	112.3
Total comprehensive (expense)/income for the year	**(16.8)**	35.5

Anglian Water Services Limited

Group balance sheet

for the year ended 31 March 2021

	At 31 March 2021 £m	At 31 March 2020 £m
Non-current assets		
Other intangible assets	**257.4**	217.3
Property, plant and equipment	**10,041.7**	9,940.3
Derivative financial instruments	**112.6**	317.8
Retirement benefit surplus	**54.8**	171.6
	10,466.5	10,647.0
Current assets		
Inventories	**13.9**	12.4
Trade and other receivables	**500.9**	530.6
Investments - cash deposits	**80.0**	319.0
Cash and cash equivalents	**205.9**	729.1
Derivative financial instruments	**84.8**	16.8
	885.5	1,607.9
Total assets	**11,352.0**	12,254.9
Current liabilities		
Trade and other payables	**(502.2)**	(520.9)
Current tax liabilities	**(167.3)**	(198.2)
Borrowings	**(652.9)**	(1,023.0)
Derivative financial instruments	**(24.8)**	(81.4)
Provisions	**(6.6)**	(6.2)
	(1,353.8)	(1,829.7)
Net current liabilities	**(468.3)**	(221.8)
Non-current liabilities		
Borrowings	**(6,282.8)**	(6,702.3)
Derivative financial instruments	**(1,004.6)**	(996.0)
Deferred tax liabilities	**(1,092.2)**	(1,093.6)
Retirement benefit deficit	**(44.8)**	(41.6)
Provisions	**(9.4)**	(10.5)
	(8,433.8)	(8,844.0)
Total liabilities	**(9,787.6)**	(10,673.7)
Net assets	**1,564.4**	1,581.2
Capital and reserves		
Share capital	**32.0**	32.0
Retained earnings	**1,567.4**	1,600.4
Hedging reserve	**(37.4)**	(52.3)
Cost of hedging reserve	**2.4**	1.1
Total equity	**1,564.4**	1,581.2

Group statement of changes in equity

for the year ended 31 March 2021

	Stated capital £m	Retained earnings £m	Hedging reserve £m	Cost of hedging reserve £m	**Total equity £m**
At 1 April 2019	32.0	1,655.4	(75.9)	2.0	1,613.5
Loss for the year	-	(76.8)	-	-	(76.8)
Other comprehensive income/(expense)					
Actuarial gains on retirement benefit obligations	-	108.4	-	-	108.4
Income tax charge on items that will not be reclassified	-	(18.8)	-	-	(18.8)
Gains on cash flow hedges	-	-	22.9	-	22.9
Losses on cost of hedging	-	-	-	(0.6)	(0.6)
Amounts on hedging reserves transferred to income statement	-	-	3.9	(0.4)	3.5
Deferred tax movement on hedging reserves	-	-	(3.2)	0.1	(3.1)
	-	89.6	23.6	(0.9)	112.3
Total comprehensive income/(expense)	-	12.8	23.6	(0.9)	35.5
Dividends	-	(67.8)	-	-	(67.8)
At 31 March 2020	32.0	1,600.4	(52.3)	1.1	1,581.2
Profit for the year	-	98.8	-	-	98.8
Other comprehensive (expense)/income					
Actuarial losses on retirement benefit obligations	-	(162.7)	-	-	(162.7)
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 hedging reserves transferred to income statement	-	-	10.2	(0.5)	9.7
Deferred tax movement on hedging reserves	-	-	(3.5)	(0.3)	(3.8)
	-	(131.8)	14.9	1.3	(115.6)
Total comprehensive (expense)/income	-	(33.0)	14.9	1.3	(16.8)
At 31 March 2021	**32.0**	**1,567.4**	**(37.4)**	**2.4**	**1,564.4**

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

Anglian Water Services Limited

Group cash flow statement

for the year ended 31 March 2021

Notes		Year ended 31 March 2021 £m	Group Year ended 31 March 2020 £m
	Operating activities		
	Operating profit	**391.6**	399.1
	Adjustments for:		
	Depreciation and amortisation	**351.3**	368.5
	Assets adopted for £nil consideration	**(29.3)**	(37.1)
	Profit on disposal of property, plant and equipment	**(1.5)**	(2.3)
	Difference between pension charge and cash contributions	**(39.3)**	(18.5)
	Net movement in provisions	**0.6**	5.2
	Working capital:		
	Increase in inventories	**(1.5)**	(0.8)
	Decrease/(increase) in trade and other receivables	**29.3**	(45.5)
	(Decrease)/Increase in trade and other payables	**(41.9)**	17.4
	Cash generated from operations	**659.3**	686.0
	Income taxes paid [1]	**(25.4)**	(40.3)
	Net cash flows from operating activities	**633.9**	645.7
	Investing activities		
	Purchase of property, plant and equipment	**(338.8)**	(391.3)
	Purchase of intangible assets	**(85.3)**	(61.2)
	Proceeds from disposal of property, plant and equipment	**1.8**	2.3
	Interest received	**2.0**	4.8
	Decrease/(increase) in short-term bank deposits	**239.0**	(22.0)
	Net cash used in investing activities	**(181.3)**	(467.4)
	Financing activities		
	Interest paid	**(218.8)**	(229.3)
	Debt issue costs paid	**(2.9)**	(2.6)
	Borrowings premiums received	**7.7**	-
	Interest paid on leases	**(1.0)**	(0.7)
	Increase in amounts borrowed	**242.6**	815.9
	Repayment of amounts borrowed	**(928.8)**	(220.3)
	Repayment of principal on derivatives	**(63.5)**	(25.1)
	Receipt of principal on derivatives	**-**	34.7
	Repayment of principal on leases	**(11.1)**	(11.3)
5	Dividends paid	**-**	(67.8)
	Net cash (used in)/from financing activities	**(975.8)**	293.5
	Net (decrease)/increase in cash and cash equivalents	**(523.2)**	471.8
	Cash and cash equivalents at 1 April	**729.1**	257.3
	Cash and cash equivalents at 31 March	**205.9**	729.1

[1] Income taxes paid are all inter-company with 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 2021. The results have been extracted from the financial statements of the Group for the year ended 31 March 2021, 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 facilities available to the group, as detailed below.

The review included a range of downside outcomes as a result of Covid-19 against the redetermination issued by the CMA in March 2021.

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.

Under this structure, the failure to meet certain metrics can cause a Trigger Event (which would restrict the Group from paying dividends until such metric was remedied) and, in some circumstances, an Event of Default. There were no Trigger Events (or Events of Default) present at year end. As part of the Going Concern downside testing, no scenario resulted in an Event of Default from anticipated impacts to the financial ratios.

In considering going concern the Directors have therefore considered:

- The liquidity of the group:
  - Anglian Water Services Limited – the group has significant cash balances and deposits, totalling £285.9 million (2020: £1,048.1 million), the reduction primarily due to the repayment of £575 million on the syndicated and bilateral revolving credit facilities. At the beginning of the year these general purpose facilities totalling £600 million were fully drawn to provide a short-term liquidity buffer in light of the Covid-19 uncertainty, however, they were repaid during the year as expectations on materially adverse impacts to cash flows were reduced.
  - Anglian Water has access to £575.0 million of undrawn facilities (2020: £50.0 million), to finance working capital and capital expenditure requirements as noted above. In addition, Anglian Water has access to a further £400.0 million of liquidity facilities (2020: £400.0 million), consisting of £279.0 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.

1. Accounting policies (continued)

- The challenges presented by the PR19 Final Determination (FD) and the ability of the business to mitigate this risk through a cost reduction programme – at the end of AMP6 the business conducted an organisational model review to enable the investment delivery process to drive better value solutions. As part of the commitment to continuous improvement and to deliver ongoing efficiency, there is a cost reduction programme. The confidence of delivery of this programme was assessed as part of the going concern review as, whilst the redetermination was favourable, we continue to live with the FD for year 2 of the AMP only benefitting from the redetermination from 2022/23.
- Profitability – this is an efficient group with a history of outperformance. The revenues of the business are underpinned by the regulatory model and the business has a stretching 5-year plan to deliver in line with the redetermination.
- Interest and dividend cover ratios – the business has significant headroom against Default Events under its securitised covenants with no plausible scenario identified that would cause a Default Event. Whilst undesirable a Trigger Event, if it happened, would not impact on the going concern assumption for the reasons noted below.
- Covid-19 – as well as incorporating the impacts of Covid-19 into our base forecasts, we also conducted modelling of worst-case scenarios, including the likely recessionary impact on the wider economy. These demonstrate that we do not hit Default levels on our covenants with sufficient liquidity to support the business if we enter a Trigger Event. The downside outcomes included assumptions in relation to:
    - the timing of re-opening of the economy
    - potential tier restrictions re-introduced later in the year
    - a range of unemployment rates
    - rates of business failure
    - withdrawal of Government support.

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

Whilst our most severe scenario did indicate the potential for a Trigger Event for Anglian Water Services Limited, the Directors do not consider this possibility to constitute a material uncertainty related to going concern. This is due to the intention of a Trigger Event being that it is an early warning event designed to reinforce credit worthiness and to protect the group and its finance creditors from an Event of Default occurring. It does not enable creditors to destabilise the group through enforcing their security.

The focus in this period will be on ensuring that the business continues to have sufficient liquidity to operate. The following mitigations ensure that the business remains a going concern through the period required to rectify a Trigger Event:

1. Accounting policies (continued)

- The business has significant cash balances at 31 March 2021 to continue to operate the business, cope with the downside scenario and deliver the capital programme. This shows over £800m of cash and Working Capital Facility at September 2022, sufficient to cover the severe downside scenario.
- Additional facilities totalling £250m are available at OAL which can be injected into AWS to provide further liquidity support which would enable the severe scenario to be mitigated beyond September 2022.
- The business would have control over the timing of delivery of the capital programme to further improve the liquidity position as required.

An Event of Default would be far more serious than a Trigger Event and could have a significant impact on the ability of the business to operate as a going concern. In addition to the above mitigations the business has the following comfort:

- The severe downside scenario which is viewed as extremely remote does not result in an Event of Default, demonstrating that we have significant headroom.
- The Default covenant with the tightest headroom is based on deducting actual maintenance capital expenditure and therefore the business has significant control over the timing of this delivery to provide additional headroom if required.

Conclusion

In summary the business has both sufficient liquidity and headroom to covenants to meet its liabilities as they fall due. In severe downside scenarios there is potential for a trigger event although this is not considered a Going Concern issue. In these scenarios there is significant headroom to default and therefore, for these reasons, the Directors believe it appropriate to continue to adopt the going concern basis in preparing the financial statements.

2. Segmental Information

The Directors believe that the whole of the Group’s activities constitute a single class of business.

The Group’s revenue is wholly generated from within the United Kingdom.

3. Net finance costs

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Finance income		
Interest income on short-term bank deposits	**2.0**	4.8
	2.0	4.8
Finance costs		
Interest expense on bank loans and overdrafts	**(3.3)**	(0.1)
Interest expense on other loans including financing expenses	**(213.2)**	(226.7)
Indexation of loan stock	**(48.6)**	(114.5)
Amortisation of debt issue costs	**(4.2)**	(3.9)
Interest on leases	**(1.0)**	(0.7)
Unwinding of discount on provision	**(0.1)**	(2.1)
Defined benefit pension scheme interest	**3.4**	0.3
Total finance costs	**(267.0)**	(347.7)
Less: amounts capitalised on qualifying assets	**15.6**	17.8
	(251.4)	(329.9)
Fair value losses on derivative financial instruments		
Fair value gains/(losses) on energy hedges	**2.3**	(1.8)
Hedge ineffectiveness on cash flow hedges[1]	**1.4**	0.5
Hedge ineffectiveness on fair value hedges[2]	**2.3**	(2.0)
Amortisation of adjustment to debt in fair value hedge	**(0.1)**	(0.3)
Derivative financial instruments not designated as hedges	**(16.6)**	(18.8)
Recycling of de-designated cash flow hedge relationship	**(12.5)**	(8.0)
	(23.2)	(30.4)
Finance costs, including fair value losses on derivative financial instruments	**(274.6)**	(360.3)
Net finance costs	**(272.6)**	(355.5)

[1] Hedge ineffectiveness on cash flows hedges results from instances where the movement in the fair value of the derivative exceeds the movement in the hedged risk.

[2] Hedge ineffectiveness on fair value hedges comprises fair value losses on hedging instruments of £60.8 million (2020: gains of £52.8 million), offset by fair value gains of £63.1 million on hedged risks (2020: losses of £54.8 million).

4. Taxation

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Current tax:		
In respect of the current period	**(0.1)**	(11.4)
Adjustments in respect of prior periods	**(5.4)**	(3.1)
Total current tax credit	**(5.5)**	(14.5)
Deferred tax:		
Origination and reversal of temporary differences	**24.1**	21.1
Adjustments in respect of previous periods	**1.6**	-
Reversal of decrease in corporation tax rate	**-**	113.8
Total deferred tax charge	**25.7**	134.9
Total tax charge on profit on continuing operations	**20.2**	120.4

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.

The deferred tax charge for both years mainly reflects capital allowances claimed in excess of the depreciation charge in the accounts.

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

In 2020 there was a charge relating to a reversal of the corporation tax rate which was originally expected to reduce from 19 per cent to 17 per cent effective from 1 April 2020. The deferred tax balances at 31 March 2019 were therefore measured using the rate of 17 per cent. This reduction in corporation tax rate was reversed in March 2020 and so those deferred tax balances were re-measured using the rate of 19 per cent and gave rise to a charge in 2020.

In the March 2021 Budget it was announced that legislation will be introduced in Finance Bill 2021 to increase the main rate of UK corporation tax from 19 per cent to 25 per cent, effective 1 April 2023. As substantive enactment is after the balance sheet date, deferred tax balances as at 31 March 2021 continue to be measured at a rate of 19 per cent.

If the amended tax rate had been used, the deferred tax liability would have been £345 million higher.

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 (2020: 19 per cent) to the profit before tax from continuing operations as follows:

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Profit before tax from continuing operations	**119.0**	43.6
Profit before tax from continuing operations at the standard rate of corporation tax in the UK of 19% (2020: 19%)	**22.6**	8.3
Effects of recurring items:		
Items not deductible for tax purposes		
Depreciation and losses on assets not eligible for tax relief	**0.9**	0.8
Disallowable expenditure	**0.5**	0.6
	24.0	9.7
Effects of non-recurring items:		
Reversal of decrease in corporation tax rate	**-**	113.8
Adjustments in respect of prior periods	**(3.8)**	(3.1)
Tax charge for the year	**20.2**	120.4

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 2021 £m	Year ended 31 March 2020 £m
Deferred tax:		
Defined benefit pension schemes	**(30.9)**	20.6
Cash flow hedges	**3.8**	4.9
Reversal of decrease in corporation tax rate - pension	**-**	(1.8)
Reversal of decrease in corporation tax rate - hedges	**-**	(1.8)
Total deferred tax (credit)/charge	**(27.1)**	21.9
Total tax (credit)/charge recognised in other comprehensive income	**(27.1)**	21.9

5. Dividends

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Paid by the group:		
Previous year final dividend	**-**	67.8
	-	67.8