Anglian Water Group Limited

Annual report and consolidated financial statements

for the year ended 31 March 2023

(Registered under the Companies (Jersey) Law 1991)

Anglian Water Group Limited

Directors' report

for the year ended 31 March 2023

The Directors present their report and the audited consolidated financial statements of Anglian Water Group Limited (the 'Company') for the year ended 31 March 2023.

Principal activities, business review and future developments

The principal activities of the Company and its subsidiaries (together 'the Group') during the year were water supply, treatment and distribution; sewage collection and treatment; and retail services to water and water recycling customers. No changes are envisaged to the Group's principal activities. The Group's principal business is Anglian Water Services Limited ('Anglian Water'). The information that fulfils the requirement of the Strategic Report, including the Company's financial risk management objectives, is set out on pages 7 to 71.

Group results and returns to shareholders

The income statement on page 72 shows the Group's results for the year. Dividends of £91.8 million (2022: £nil) were paid during the year. The Directors are not recommending payment of a final dividend.

Directors

The Directors who held office during the year and to the date of this report, unless otherwise stated, are set out below.

John Hirst	Non-Executive Chairman		
Peter Simpson	Chief Executive Officer		
Steve Buck	Chief Financial Officer		
Non-Executive Directors:			
Jeremy Aflalo	INF	(alternate director)	appointed 21 July 2022
John Barry	CIL		
James Bryce	CPP		
Deepu Chintamaneni	IFM		appointed 23 March 2023
Irina Luckey	CPP	(alternate director)	resigned 21 July 2022
Niall Mills	IIP		
Alexandros Nassuphis	IIP	(alternate director)	
Batiste Ogier	CPP		
Henrik Onarheim	INF		resigned 21 July 2022
Luis Pisco	INF		
Duncan Symonds	IFM		resigned 23 March 2023
David Stirton	IFM	(alternate director)	

CPP	Canada Pension Plan Investment Board
IIP	Igneo Infrastructure Partners
INF	Infinity Investments S.A.
IFM	IFM Investors
CIL	Camulodunum Investments Ltd

Of the directors, (excluding the alternate directors) one director is female and eight are male.

Claire Russell and Intertrust Corporate Services (Jersey) Limited continued to serve as joint Company Secretary throughout the year.

Directors' indemnities

During the 2022/23 financial year and up until the date of the signing of the financial statements, the Group has maintained directors' and officers' liability insurance, which gives appropriate cover for legal action brought against its Directors.

Shareholders

The investors in the Company and their respective Group shareholdings as at 31 March 2023 are as follows:

	Number of shares held		
	Class A no par value ordinary shares	**Class B no par value ordinary shares**	**No par value preference shares**
CPP Investment Board Private Holdings (6)Inc.*	4,453,126	656,246	36,138,583,249
First Sentier Investors	2,411,500	-	17,056,537,602
Infinity Investments S.A.	2,588,500	-	18,308,458,461
Global InfraCo (HK) E. Limited **	3,065,623	-	21,683,149,948
Camulodunum Investments Ltd	2,325,005	-	16,444,758,534
	14,843,754	656,246	109,631,487,794

* an indirect subsidiary of Canada Pension Plan Investment Board
** an indirect subsidiary of IFM Investors

As at the date of this report, the investors in the Company also held unsecured loan notes of £0.01 each in Osprey Holdco Limited, a wholly owned subsidiary of Anglian Water Group Limited, as follows:

	Number of loan notes held
CPP Investment Board Private Holdings (6) Inc.*	15,229,224,556
First Sentier Investors	7,187,825,807
Platinum Atlas ZA 2014 Limited Partnership**	7,715,399,999
Global InfraCo (HK) D. Limited***	9,137,534,734
Camulodunum Investments Ltd	6,930,014,904
	46,200,000,000

* an indirect subsidiary of Canada Pension Plan Investment Board
** an affiliate of Infinity Investments S.A.
*** an indirect subsidiary of IFM Investors

Governance Code

In January 2019, Ofwat published revised Board Leadership, Transparency and Governance Principles (BLTG Principles). These revised BLTG Principles removed the requirement for a Holding Company Governance Code, which had been in place since 2014. The Anglian Water Services Limited Corporate Governance Code 2020 (the 2020 Code) came into effect on 1 October 2020. The 2020 Code only applies to Anglian Water. The 2020 Code incorporates the BLTG Principles and supporting provisions along with most of the provisions contained in the 2018 UK Corporate Governance Code. Only the parts of the UK Corporate Governance Code that cannot sensibly be applied to a company in private ownership, such as the provisions relating to shareholder meetings, have been omitted. Although compliance with the Wates Corporate Governance Principles (in addition to the BLTG Principles) would be sufficient, the Anglian Water Board was keen to adopt more stretching corporate governance requirements found in the 2018 UK Corporate Governance Code. The 2020 Code and the previous Corporate Governance Codes applied by Anglian Water can be found at anglianwater.co.uk/governance.

Information on Anglian Water's compliance against the 2020 Code can be found in its Annual Integrated Report.

Compliance with the 'Walker Guidelines'

For continued transparency, Anglian Water Group Limited has elected to comply with the Guidelines for Enhanced Disclosure by Portfolio Companies and Private Equity Firms published by the Private Equity Reporting Group (the 'Walker Guidelines') (last updated in December 2017), on a voluntary basis.

Political donations and expenditure

No political donations or expenditure were made during the year (2022: £nil).

Research and development

The Group has a continuing policy of undertaking market-focused research and development on process plant, biosolids treatment, sewers and water supply networks, and other water and water recycling related matters.

Financial instruments disclosures

Details are included on pages 24-26 of the Strategic Report and in note 21 of the financial statements.

Employees

The Group keeps employees informed through a range of communication channels including the intranet, weekly Newstream emails and the online employee newspaper Anglian Water News. The Group engages with employees through three recognised trade unions. During the year, the Group broadened its Open House forum from a group of elected employee representatives to a truly open forum in which all employees have direct access to regular interactive sessions with the CEO and senior management.

Anglian Water welcomes job applications from all sectors of society and bases selection decisions on applicants' skills, experience and competence for the role, embedding flexible working practices for anyone with a disability, health condition or family responsibilities that affect how and when they work. In addition, Anglian Water advertises on disability job boards and are a disability confident employer.

Under the Anglian Water Supporting Attendance Policy we make reasonable adjustments for employees who are or become disabled. In addition, the Group is committed to maintaining high standards of accessibility and experience. Therefore, the Group has extended our approach to reasonable adjustments to embrace not just disability, but any special individual need or circumstance.

Employees are offered the opportunity to participate in the AWG Loyalty Savings Scheme. This scheme enables employees to save on a monthly basis and then potentially benefit from the financial performance of the Group and the end of the three-year savings period.

Stakeholder engagement

Details of how Directors across the Group have engaged with customers, suppliers, and other stakeholders including those representing communities and the environment, can be found in the section 172 statement on pages 27-31.

Emissions

Information relating to carbon emissions can be found on page 64-67.

Health and safety

Information relating to health and safety can be found on pages 32-34.

Events occurring after the reporting period

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

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and consolidated financial statements in accordance with applicable law and regulations.

The Companies (Jersey) Law 1991 (the 'Jersey Companies Law') requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the Group and parent company financial statements which are adopted for use within the United Kingdom by virtue of Chapter 2 or 3 of Part 2 of the International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019. The Group financial statements have also been prepared in accordance with International Financial Reporting Standards as issued by the IASB and the Company financial statements have been prepared in accordance with UK adopted international accounting standards and as applied in accordance with the requirements of the Companies (Jersey) Law 1991. Under Company Law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, International Accounting Standard 1 requires that the Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Group's website. Legislation under Jersey Companies Law governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names and functions are listed in the Directors section on page 1 confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted for use within the United Kingdom, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the Company; and
- the Directors' Report and Strategic Report contained in the Annual Report include a fair review of the development and performance of the business and the position of the Group and the Company, together with a description of the principal risks and uncertainties that it faces.

The Directors consider that the Annual Report and consolidated financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and Company's performance, business model and strategy.

Statement of Directors' disclosure of information to Auditor

In the case of each of the persons who are Directors at the time when the report is approved, the following applies:

a) so far as the Director is aware, there is no relevant audit information of which the Company's Auditor is unaware; and
b) he/she has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

Annual General Meeting and appointment of Auditor

Pursuant to Article 87(4) of the Companies (Jersey) Law 1991, Anglian Water Group Limited has dispensed with the obligation to hold an Annual General Meeting and the Company has dispensed with the requirement to lay the annual report and financial statements before the Company in a general meeting.

The Auditor, Deloitte LLP have indicated their willingness to continue in office and are deemed to be reappointed.

Going concern

The Directors believe, after due and careful enquiry, that the Group has sufficient resources to continue in operational existence for the foreseeable future and, therefore, consider it appropriate to adopt the going concern basis in preparing the 2023 financial statements. Further details of this review can be found on pages 81-82.

By order of the Board

Claire Russell
Company Secretary
13 July 2023

Registered Office: 44 Esplanade, St Helier, Jersey JE4 9WG
Registered in Jersey No. 94523

The Directors present the strategic report of the Anglian Water Group Limited ("the Group") for the year ended 31 March 2023. This strategic report should be read in conjunction with the strategic report of Anglian Water Services Limited, which does not form part of this report, which can be found at https://www.anglianwater.co.uk/about-us/our-reports/ and provides a more detailed insight into the regulated business.

Group overview

Anglian Water Group Limited's principal business is Anglian Water Services Limited ('Anglian Water'), the Group's regulated water and sewerage company, which supplies water and water recycling services to almost seven million customers in the East of England and Hartlepool.

The Group also includes Anglian Venture Holdings, which comprises:

- Alpheus Environmental Limited – operates industrial and commercial wastewater treatment works in the UK,
- Celtic Anglian Water Limited – operates water and wastewater treatment works in the Republic of Ireland,
- Tide Services Limited – operates property conveyancing, residential insurances and the provision of web hosted information services for utilities on behalf of other group companies,
- Wave Ltd – a 50:50 joint venture with Northumbrian Water Group Limited to provide water services to non-household customers in the UK,
- OHL Property Holdings Limited - oversees the construction of a new water recycling centre, and
- OHL Piper Limited – a property rental business

Financial and Operational Highlights

Chief Executive, Peter Simpson, commented:

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

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

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

"In achieving substantial smart meter coverage we have helped our customers better understand their water usage and in turn reduce their consumption, conserving water as well as saving them money.

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

Financial highlights

	2023	2022	Change	Change
	£m	£m	£m	%
Revenue	1,549.6	1,452.8	96.8	6.7
EBITDA[1]	800.0	787.8	12.2	1.5
Operating profit	418.3	436.7	(18.4)	(4.2)
Operating cash flow	702.5	743.4	(40.9)	(5.5)
Net debt before derivatives[2]	8,389.1	7,759.3	629.8	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. These measures are not intended to be a substitute for, or superior to, IFRS measurements and have been consistently applied within each year presented in these financial statements.

1 EBITDA is an alternative performance measure as defined in note 32.

2 Net debt excluding derivatives is an alternative performance measure as defined in note 18.

ODI penalty

- Operations were significantly impacted by the extreme weather, including a heatwave and drought, leading to record soil moisture deficits versus the rest of the country. These principally affected three ODIs - Burst Mains, Interruptions to Supply and Leakage, making up the majority of the £22 million penalty incurred. This year we are also in an ODI penalty on leakage, despite making further reductions on our 2022 industry-leading leakage levels.
- Action on our Pollution Reduction Plan includes progress on the installation of 22,000 monitors to provide coverage on 11,000km of high and medium-risk sewers (in addition to event duration monitors on storm overflows) as part of our Dynamic Sewer Visualisation initiative. This uses predictive analytics and will provide greater insight on asset health. Avoidable blockages, 80% of which are caused by fats and unflushable items in our small diameter sewers, are a primary focus. Our partnership with Environmental Compliance and Services (ECAS) to reduce the impact of food serving establishments has now been expanded to include domestic customers.
- While classified as ‘serious’ none of the pollution incidents resulted in the death of fish. Following close review, we know the very narrow watercourses, owing to the heavily drained nature of our region, create an increased vulnerability to serious pollutions and this is something we are looking to address.
- Our self-reporting has continued to improve in 2022/23. Importantly, we made gains on our comparative pollutions performance but this has been offset by our decision to retrospectively report incidents in light of our new monitoring capabilities. We are one of a few companies to take a national lead on this.

Revenue up £96.8 million (6.7%)

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

EBITDA up £12.2 million (1.5%)

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

Operating profit down £18.4 million (4.2%)

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

Operating cash flow down £40.9 million (5.5%)

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

Net debt before derivatives up to £8,389.1 million (up 8.1%)

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

Reconciliation of operating profit to statutory profit before tax

	Year ended 31 March 2023 £m	Year Ended 31 March 2022 £m
Operating profit	**418.3**	436.7
Net interest excluding indexation	**(233.6)**	(272.5)
Indexation on debt	**(561.4)**	(255.0)
Fair value gains/(losses) on derivatives	**645.3**	(115.1)
Share of joint ventures' loss after tax	**(0.4)**	(2.6)
Statutory profit/(loss) before tax	**268.2**	(208.5)

- Statutory profit has increased by £476.7 million. A result of the fair value gain on derivatives which was driven by the increase in interest rates which, despite the material movement in fair value, have only partially reversed fair value losses experienced over the past 10-years in a falling interest rate environment. This was partially offset by higher indexation costs on inflation-linked debt, consistent with many other utility companies. In addition, net interest was down due to higher interest income and costs associated with the financial restructure in the prior year.

Treasury management

Group financing, including debt, interest costs and foreign exchange, is substantially managed by a central Treasury team reporting to the Chief Financial Officer. Treasury policy continues to be focused on the efficient and effective management of cash and financial resources within the Group.

The activities of the central treasury function include the following:

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

The Group's Board, through the Finance, Treasury and Energy Policy Group, regularly reviews treasury policy, organisation and reporting to ensure continued effectiveness and relevance. More information on treasury management can be found in note 21 of the consolidated financial statements.

Liquidity

As at March 2023 Anglian Water Services has access to £975.0 million of undrawn facilities (March 2022: £600.0 million), to finance working capital and capital expenditure requirements. In addition, it has access to a further £375.0 million of liquidity facilities (March 2022: £375.0 million), consisting of £244.0 million to finance debt service costs and £131.0 million to finance operating expenditure and maintenance capital expenditure in the event that the Company was in an Event of Default on its debt obligations and had insufficient alternative sources of liquidity. See note 1 for further commentary over the liquidity requirements of the Group in relation to going concern.

Osprey Acquisitions Limited Group's borrowing facilities, additionally, consists of a syndicated £250.0 million revolving loan facility for general corporate requirements provided by National Westminster Bank Plc and syndicated to certain other banks.

Borrowing facilities at Aigrette Financing Limited Group comprises an additional £30.0 million revolving loan facility provided by National Westminster Bank Plc.

See note 18 for other movements in net debt. The maturity profile of the Group's borrowings is set out in note 20 of the consolidated financial statements.

Capital structure

The Group's capital structure is largely driven by the requirements of Anglian Water's capital expenditure programme and the need to support Anglian Water's investment grade credit status, which is met by a combination of cash flow and debt issuance at the three levels of the Group structure with covenant tests at the Anglian Water, Osprey Acquisitions Limited, and Aigrette Financing Limited levels. At 31 March 2023 Anglian Water's and Osprey Acquisitions' net debt to capital value ratio (net debt as defined in the Common Terms Agreement expressed as a percentage of Anglian Water's regulated capital value) was 66 per cent (2022: 65 per cent) and 75 per cent (2022: 76 per cent) respectively. At 31 March 2023 Aigrette Financing Limited's net debt to capital value ratio was 82 per cent (2022: 83 per cent). Aigrette Financing Limited's net debt is similarly defined to those of Anglian Water and Osprey Acquisitions, but Aigrette Financing Limited is not subject to a Common Terms Agreement.

Borrowing covenants

The financing within Anglian Water is secured under a Common Terms Agreement with investors. All other group borrowings are raised or guaranteed by the Company, Anglian Water (Osprey) Financing Plc, AWG Parent Co Limited, AWG Group Limited, Aigrette Financing Limited and, in certain instances, subsidiary companies.

The central Treasury function is responsible for monitoring ongoing compliance with the Group's financial covenants, which principally relate to Anglian Water's, Osprey Acquisition's, and Aigrette Financing Limited's ratio of net debt to Regulatory Capital Value and interest coverage. At 31 March 2023, all group companies were compliant with all covenants.

Interest rates

The Group's policy, as agreed by the Board, is to achieve an efficient mix of funding at fixed rates of interest, floating rates of interest and rates indexed to retail prices. This mix also reflects utilisation of interest rate swaps so as to manage the Group's net exposure to interest rate and retail price variations.

Ownership and company structure

Anglian Water Services Limited is a private company limited by shares and is the principal subsidiary of Anglian Water Group Limited (AWG). The AWG Board consists of six investor representatives, the Chief Executive Officer, the Chief Financial Officer and an independent Non-Executive Chair.

AWG Investors
▼
Anglian Water Group Limited
▼
Osprey Holdco Limited
▼
Aigrette Financing Limited
▼
Osprey Investco Limited
▼
Osprey Acquisitions Limited
▼
AWG Parent Co Limited
▼
AWG Group Limited
▼
Anglian Water Services Holdings Limited
▼
Anglian Water Services UK Parent Co Limited
▼
Anglian Water Services Limited [(1)]
▼
Anglian Water Services Financing Plc [(1)]

[ ] Anglian Water Services Financing Group (AWSFG)
▼ Direct subsidiary
(1) Collectively known as the Anglian Water Services Group, for which consolidated financial statements are prepared.

Our corporate structure

AWG is owned by a consortium of committed, long-term investors representing millions of individual pension holders. Details of the consortium, along with details of beneficial ownership of AWG by investor type, are shown on the following page. When AWG was acquired by investors in 2006, it became the ultimate parent company of the Group. It is a Jersey-registered company, but it is UK tax resident and, as such, is liable for tax in the UK. All companies in the AWG Group holding structure are UK tax resident and liable for tax in the UK. Osprey Holdco Limited has issued debt that is held by our shareholders in proportion to their respective shareholdings, and they are entitled to receive an interest payment on the debt annually.

The aim of the Group's financing strategy for AMP7 has been to reduce AWS gearing in order to enhance and protect its current solid investment-grade credit ratings, enabling AWS to borrow at lower rates to support the investments that customers have asked us to make. Earlier in AMP7, three new UK companies (Aigrette Financing Limited, Osprey Investco Limited and Aigrette Financing (Issuer) Plc) were inserted into the Company structure to help deliver the AMP7 financing strategy. The insertion of these companies resulted in a two-tier financing structure sitting above AWS in the AWG Group and enabled the Group to increase its equity investment in AWS.

AWG Group companies

Aigrette Financing Limited and its UK subsidiary Aigrette Financing (Issuer) Plc, have borrowed funds externally in order to increase the equity investment in AWS. Osprey Investco Limited, Osprey Acquisitions Limited and Osprey Acquisitions Limited's subsidiary, Anglian Water (Osprey) Financing Plc, together comprise AWG's 'midco' financing group. The 'midco' financing group has also borrowed funds externally during AMP7 to increase the equity investment in AWS. AWG Parent Co Limited and AWG Group Limited are holding companies that were set up when AWG was a listed group. Both companies are wholly owned subsidiaries, are registered in the UK and are UK tax resident. During the 2022/23 financial year, AWG (UK) Holdings Limited (which was used to be the immediate parent of AWG Group Limited) was removed from the holding structure.

Anglian Water Services Financing Group companies

Anglian Water Services Holdings Limited was put in place in 2002, when Anglian Water's covenanted and ring-fenced debt structure was established. This group of companies (referred to as the Anglian Water Services Financing Group, or AWSFG) protects customers and our bond holders from risk associated with other non-regulated Anglian Water Group companies outside of the ring fence.

This makes us an attractive investment prospect for bond holders, which means we're able to keep financing costs lower, ultimately benefiting our customers in the form of lower bills.

Anglian Water Services UK Parent Co Limited is a second holding company in the ring-fenced structure, also providing protection for customers and investors from the risks of other non-regulated Group companies. All companies within the AWSFG are UK-registered and UK tax resident companies.

Anglian Water Services Limited is the regulated entity that trades as Anglian Water, managing our water and water recycling network and serving almost seven million customers. It is the part of the business that most people think of as 'Anglian Water'.

AWS has reduced its gearing with the funds received as equity investments under the Group's enhanced financing structure.

Anglian Water Services Financing Plc is the financing company that raises money on behalf of Anglian Water Services Limited. We need a plc to raise debt in the UK public bond market. Funds raised by this Company underpin our investment in the region's water and water recycling services.

Details of the consortium of investors that owns AWG are shown below:

- Canada Pension Plan Investment Board (CPP Investments™) (ownership: 32.9%) is a professional investment management organisation that manages the Fund in the best interest of the more than 20 million contributors and beneficiaries of the Canada Pension Plan.
- IFM Global Infrastructure Fund (ownership: 19.8%) is a fund advised by IFM Investors. IFM Investors is a global institutional fund manager owned by 17 profit-to-member Australian pension funds, specialising in infrastructure, private equity, debt and equity investments. IFM invests on behalf of approximately 120 million pensioners from around the world.
- Camulodunum Investments (ownership: 15.0%)is a joint investment vehicle for Dalmore Capital and GLIL Infrastructure. GLIL Infrastructure is run by the pension funds of Greater Manchester, Merseyside, West Yorkshire and Local Pension Partnership Investments. Dalmore has more than 1.3m UK pension holders invested directly in AWG.
- Igneo Infrastructure Partners (ownership: 15.6%) is an unlisted infrastructure asset management business and is part of the First Sentier Investors Group (FSIG), a global asset management business. FSIG has US$148 billion assets under management (as at 31 March 2023) on behalf of institutional investors, pension funds, wholesale distributors, investment platforms, financial advisers and their clients worldwide.
- Infinity Investments S.A. (ownership: 16.7%) belongs to a group of entities ultimately wholly owned by the Abu Dhabi Investment Authority (ADIA) and focuses on infrastructure investments in Europe.

Beneficial ownership by investor type:

- Pensions (CPP Investments, GLIL Infrastructure, Igneo Infrastructure Partners Investors and The IFM Global Infrastructure Fund): 75.8%
- Asset manager (Dalmore Capital): 7.5%
- Sovereign wealth fund (Infinity Investments S.A.): 16.7%

Our business model

What we do

Water is our business. We handle with care and we don't cost the earth. We provide high-quality drinking water and recycle it safely back to the environment, servicing almost seven million customers in the East of England and Hartlepool.

What drives us

Our purpose

Our purpose is to bring environmental and social prosperity to the region we serve through our commitment to Love Every Drop.

Our stakeholders

- Environment & planet
- Customers & communities
- People & partners
- Shareholders
- Investors, banks & ratings agencies
- Regulators
- National & local government

Our long term ambitions

Our ambitions respond to the pressures outlined in our 25-year Strategic Direction Statement.

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

The UN Sustainable Development Goals influence our thinking and the work we do contributes towards their delivery. We work in the spirit of all 17 goals, but we have mapped our work to the 10 where we have the most material impact.

How we are creating value

Our goals for 2020-2025

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

What will help us get there?

- Skilled, trusted and customer-focused people who are happy, healthy and safe
- Maximising opportunities from standardisation and centralisation
- Smart use of information and technology
- World-leading alliances, working as one team
- Collaboration inside and outside the organisation

How we make decisions

We balance our six capitals to shape investment decisions.

1. Natural – The health of the natural systems and resources that we rely on and impact in our region and beyond; the availability and quality of water in our rivers and aquifers; the protection of our soil and biodiversity; and our impact on carbon emissions.
2. Social – The value of our relationships with stakeholders, including customers, communities and other organisations; the impacts we have on people and society (both positive and negative) and the trust they place in us as a result.
3. Financial – The financial health and resilience of the organisation and our access to and use of sustainable finance.
4. Manufacturing – The ability of our infrastructure to provide resilient services to meet the current and future expectations of our customers.
5. People – The knowledge, skills and wellbeing of our people; the health, happiness and safety of our working environment; and our organisational culture and ways of working.
6. Intellectual – The knowledge, systems, processes, data and information we hold, create and share within our business and with our alliance partners.

Financial performance

The financial results have been prepared in accordance with International Financial Reporting Standards (IFRS). Alterative performance measures (APMs) used in this report have been defined in note 32 to the financial statements.

Segmental reporting

The key performance indicators of the Group's individual businesses are discussed in the "Anglian Water, Anglian Venture Holdings, and Head Office and Other" sections below. This strategic report should be read in conjunction with the strategic report of Anglian Water Services Limited, which does not from part of this report, which can be found at https://www.anglianwater.co.uk/about-us/our-reports/ and provides a more detailed insight into the regulated business.

EBITDA is defined in note 32 as the profit from continuing operations before interest, tax, depreciation and amortisation. The segment result comprises operating profit. In addition, compliance with the Group's borrowing covenants is an additional key performance indicator for the Group.

For the year ended 31 March 2023

	Anglian Water £m	Anglian Venture Holdings £m	Head Office and Other £m	Inter-segment eliminations £m	Total £m
Revenue					
External	1,494.9	54.4	0.3	-	**1,549.6**
Inter-segment	-	9.4	-	(9.4)	**-**
	1,494.9	**63.8**	**0.3**	**(9.4)**	**1,549.6**
Segment result					
EBITDA	802.8	9.1	(11.9)	-	**800.0**
Depreciation and amortisation	(379.1)	(2.8)	0.2	-	**(381.7)**
Share of joint venture's operating profit	-	2.1	-	-	**2.1**
	423.7	**8.4**	**(11.7)**	**-**	**420.4**
Cash flows					
Operating cash flow	710.9	5.5	(13.9)	-	**702.5**
Capital expenditure	(660.0)	(0.3)	0.4	-	**(659.9)**
Net debt excluding derivative financial instruments	(6,247.9)	(1.7)	(2,139.5)	-	**(8,389.1)**

For the year ended 31 March 2022

	Anglian Water £m	Anglian Venture Holdings £m	Head Office and Other £m	Inter-segment eliminations £m	Total £m
Revenue					
External	1,399.8	53.0	-	-	1,452.8
Inter-segment	-	7.9	24.6	(32.5)	-
	1,399.8	60.9	24.6	(32.5)	1,452.8
Segment result					
EBITDA	788.5	10.3	(11.0)	-	787.8
Depreciation and amortisation	(347.7)	(2.9)	(0.5)	-	(351.1)
Share of joint venture's operating loss	-	(0.4)	-	-	(0.4)
Inter-segment	-	-	9.5	(9.5)	-
	440.8	7.0	(2.0)	(9.5)	436.3
Cash flows					
Operating cash flow	749.9	14.7	(21.2)	-	743.4
Capital expenditure	(518.2)	(0.6)	-	-	(518.8)
Net debt excluding derivative financial instruments	(5,621.3)	3.8	(2,141.8)	-	(7,759.3)

ANGLIAN WATER FINANCIAL RESULTS

Pages 18-26 below set out the financial performance of Anglian Water, the principal business in the Group, followed by that of Anglian Venture Holdings (AVH) and Head Office and Other on pages 26-27.

Anglian Water's financial results are summarised in the table below:

	2023 Total £m	2022 Total £m
Revenue (excluding grants and contributions)	**1,388.9**	1,299.7
Grants and contributions	**106.0**	100.1
Operating costs	**(678.0)**	(612.5)
Charge for bad and doubtful debts	**(30.1)**	(11.1)
Other operating income	**16.0**	12.3
EBITDA[1]	**802.8**	788.5
Depreciation and amortisation	**(379.1)**	(347.7)
Operating profit	**423.7**	440.8
Finance income	**20.6**	1.8
Finance costs[2]	**(731.1)**	(460.1)
Adjusted loss before tax[1]	**(286.8)**	(17.5)
Finance costs - fair value gains/(losses) on financial derivatives[2]	**645.3**	(115.1)
Profit/(loss) before tax on a statutory basis	**358.5**	(132.6)
Tax	**(90.2)**	(310.2)
Profit/(loss) after tax	**268.3**	(442.8)

1 As defined in note 32. Financial measures or metrics used in this report that are not defined by IFRS are alternative performance measures. The Group uses such measures for performance analysis because they provide additional useful information on the performance and position of the Group. Since the Group defines its own alternative performance measures, these might not be directly comparable to other companies' alternative performance measures. These measures are not intended to be a substitute for, or superior to, IFRS measurements and have been consistently applied within each year presented in these financial statements.

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

Revenue

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

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

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

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

Other operating income

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

Operating costs (including charge for bad and doubtful debts)

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

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

Inflation

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

Capitalisation of replacement infrastructure assets

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

Weather related

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

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

Bad debt provision

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

1. An increase in our base bad debt charge of £6.3 million, partly a result of the increase in our revenue and partly due to a return to more typical levels after an exceptionally strong performance in the prior year.
2. The prior year reassessment of provision in our debt over 48 months old, which resulted in a one off £6.0 million provision release in the prior year, as a result of continued positive collection in combination with a change to our write-off policy in April 2020.
3. In addition, we estimate the impact of future macro-economic factors on our collection performance as required by IFRS 9. In March 2022 we released £6.6 million of this provision as the projected impact of Covid-19 on unemployment subsided, thus reducing the charge in that year. The latest forecasts for unemployment are broadly the same as that at March 2022 and therefore we have maintained the same overlay provision as at March 2022, thus having no impact on the income statement. Further details can be found in note 2.

Power

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

Other significant items

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

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

EBITDA

Earnings before interest, taxes, depreciation and amortisation (EBITDA) is defined in note 32 and is the profit from continuing operations before interest, tax, depreciation and amortisation. This has increased by 1.8% to £802.8 million, which is consistent with the effect of the increases described above.

Depreciation and amortisation

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

Operating profit

Operating profit has decreased by 3.9% to £423.7 million. Whilst there have been significant inflationary costs pressures due to the mismatch in timing with revenue, our proactive energy hedging policy protected the business. In addition, the Board agreed to invest £13.9 million with a view to maintaining our industry leading leakage position as we sought to recover from a number of weather-related events throughout the year.

Financing costs and profit before tax

Adjusted net finance costs, which are finance income net of finance costs before fair value gains and losses on financial instruments, as defined in note 32, increased from £458.3 million in 2022 to £710.5 million in 2023. This was primarily the result of the non-cash impact of higher inflation on index-linked debt which increased by £306.4 million to £561.4 million. This increase was due to an increase in year-on-year average Retail Price Index (RPI) from 5.8% to 12.8% and year-on-year average Consumer Price Index (CPI) from 4.0% to 10.0%. We have both RPI-linked debt and CPI-linked debt to hedge the Regulated Capital Value (RCV). Finance income was £16.0 million, up £14.6 million as we benefited from these higher interest rates on our cash balances.

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

Taxation

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

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

Total tax paid or collected in the year to 31 March 2023, other than corporation tax, amounted to £234 million (2022: £231 million), of which £100 million was collected on behalf of the authorities for value added tax (VAT) and employee payroll taxes. All of our taxes are paid as they become due.

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

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

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

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

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

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

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

Continuing to deliver our AMP7 capital investment programme

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

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

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

Financial needs and resources

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

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

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

At 31 March 2023, excluding derivatives, Anglian Water had borrowings net of cash of £6,247.9 million, an increase of £626.6 million over the prior year. Net borrowings comprised a mixture of fixed, index-linked and variable-rate debt of £6,845.1 million, leases of £36.4 million and cash and deposits of £633.1 million. Net debt increased as a result of indexation on debt as described above combined with our continuing capital investment programme.

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

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

The business generated cash from operations of £710.8 million in the period (2022: £749.9 million). The decrease primarily reflects short-term timing differences on working capital more than offsetting improvements in EBITDA described above.

Liquidity

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

As at March 2023 Anglian Water has access to £975.0 million of undrawn facilities (March 2022: £600.0 million), to finance working capital and capital expenditure requirements. In addition, Anglian Water has access to a further £375.0 million of liquidity facilities (March 2022: £375.0 million), consisting of £244.0 million to finance debt service costs and £131.0 million to finance operating expenditure and maintenance capital expenditure in the event that the Company was in an Event of Default on its debt obligations and had insufficient alternative sources of liquidity. See note 1 for further commentary over the liquidity requirements of the Group in relation to going concern.

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

Interest rates

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

Pension funding

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

ANGLIAN VENTURE HOLDINGS FINANCIAL RESULTS

Anglian Venture Holdings has its own Board, which consists of six Directors: Richard Boucher, Steven Buck, Anthony Donnelly, Claire Russell, Peter Simpson and Wayne Young.

Financial performance

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Revenue	**63.8**	60.9
Operating profit	**6.3**	7.4
Share of joint ventures operating loss	**2.1**	(0.4)
Segment result	**8.4**	7.0
Operating cash flow	**5.5**	14.7

Anglian Venture Holdings generated revenue of £63.8 million (2022: £60.9 million) and an operating profit of £6.3million (2022: £7.4 million) as set out below.

	Revenue		**Operating profit/(loss)**	
	2023 £m	2022 £m	**2023 £m**	2022 £m
Alpheus Environmental	**11.7**	8.1	**1.0**	1.0
Celtic Anglian Water	**39.5**	36.6	**2.8**	3.6
Tide Services	**6.7**	6.6	**0.2**	0.2
Anglian Venture Holdings	**2.1**	-	**0.9**	0.2
OHL Land Holdings	-	6.3	-	1.0
OHL Piper Ltd	**1.9**	1.4	**1.9**	1.4
Property	**1.9**	1.9	**(0.2)**	-
AVH Solar Ltd	-	-	**(0.3)**	-
Inter-segment eliminations	**-**	-	**-**	-
	63.8	60.9	**6.3**	7.4
Share of joint ventures operating profit/(loss)				
Wave			**2.1**	(0.4)
Segment result			**8.4**	7.0

Revenue for the year increased from £60.9 million to £63.8 million, with operating profits of £6.3 million compared to £7.4 million in 2022. In addition, the Group's share of the Wave joint venture's operating profit was £2.1 million compared to a loss of £0.4 million in the prior year. The decrease in operating profit excluding Wave reflects lower profits in Celtic Anglian Water due to higher energy prices. In the year Wave improved its operating margins with an increased focus on reducing margin leakage.

HEAD OFFICE AND OTHER FINANCIAL RESULTS

The decrease in revenue, EBITDA and operating cash flow outside of Anglian Water has been driven by the sale of a number of properties to the wider AWG Group in the prior year. The properties were transferred at a fair value of £24.4 million. At the point of sale, the net book value was £12.3 million with prepayments written off of £2.8 million, generating a prior year profit in the Osprey Group of £9.3 million. The transfer of properties was a one-off transaction in prior year and no such transaction occurred in 2022/23.

SECTION 172 STATEMENT

As the ultimate parent company of Anglian Water Services Limited, the Company has elected to disclose a section 172 statement on a voluntary basis, outlining how the directors promote the successes of the Company.

As Anglian Water Services Limited accounts for the vast majority of the Group, the day-to-day operation of the business is predominantly managed by employees of Anglian Water Services Limited. Due to this relationship, the Group's values and reputation are highly integrated with that of Anglian Water Services Limited and therefore interested parties should read the disclosure below, which is an extract from the Anglian Water Services Limited annual integrated report (AIR). As such, all references below refer to Anglian Water Services Limited.

Engaging with our stakeholders

In July 2019, with the approval of our Board and shareholders, we became the first major utility company to amend our Articles of Association to enshrine, for the long term, the principles set out in section 172 of the Companies Act 2006 and our long-standing commitment to working in the public interest.

Section 172(2) states that, where the purposes of a company consist of purposes other than, or in addition to, benefiting the Company's shareholders, the section 172 duties will take effect as if the reference to promoting the success of the Company for the benefit of shareholders were a reference to achieving those alternative purposes. Anglian Water's purpose (as set out in its Articles of Association) is to conduct its business and operations for the benefit of members, while delivering long-term value for its customers, the region and the communities it serves, seeking positive outcomes for the environment and society. It follows that the Directors of Anglian Water have a duty to act in a way they consider would be most likely to promote the purpose of the Company. The section 172 duties to which the Directors are subject must therefore be considered in the context of this overarching purpose.

The disclosures set out demonstrate how the Board has had regard to the matters set out in Section 172(1) (a) to (f), which are now enshrined in Anglian Water's Articles of Association, and include cross-references to other sections of the report for further information.

Making long-term decisions

The Company's long-term strategy is driven by our 25-year Strategic Direction Statement (SDS), first published in 2007 and refreshed in November 2017, when the Board reviewed and approved an updated version covering 2020–2045. The four key ambitions within our SDS are shown in our business model on page 14. We have a statutory obligation to produce a Water Resource Management Plan (WRMP). During the year, we published our draft WRMP for the period 2025-2050 for consultation. This plan sets out how we will manage the water supplies in our region to meet our future needs, ensuring our customers remain on resilient water supplies and preventing deterioration to the environment. The Board oversaw and scrutinised the development of the plan and provided assurance that the Company has met its obligations in developing the WRMP and that it is the best value plan, based on sound and robust evidence and costing processes.

Similarly, we're required to produce a Drainage and Wastewater Management Plan (DWMP) to set out how we will manage and recycle water in our region over the next 25 years. The draft DWMP was published in June 2022 for consultation. In it, we address the triple challenge we face from our rapidly changing climate, a fast-growing population, and the need to protect our region's precious chalk streams and rivers. Again, the Board had oversight of the DWMP and gave assurance that the resulting plan is the best value plan for customers and the environment and is based on robust evidence and costing processes.

During the year the Board also considered the development of the Company's Long-term Delivery Strategy (LTDS), which will be aligned with our existing strategic frameworks including the WRMP, DWMP and our Water Industry National Environment Plan (WINEP) as well as the Government's long-term objectives, in order to create a coherent strategy to 2050.

Our Board has also approved our long-term viability statement (included in the AWS preliminary results announcement) within which the Directors have assessed Anglian Water's prospects over the next ten years.

Board engagement with stakeholders

Our Board has set out to define discrete stakeholder groups, but it recognises that in many cases they have complementary interests and shared priorities. On occasion, their concerns may even conflict with one another. The Board's duty, in reviewing, challenging and shaping plans, and setting strategic direction, is to consider and balance the impact of its decisions on a wide range of stakeholders. More information on our business model, including how we use six capitals thinking to shape decisions and measure outcomes, can be found on pages 14-15 while information on our key stakeholders can be found throughout this strategic report and below.

We've developed an annual stakeholder engagement strategy, approved by the Board and designed both to demonstrate how we're delivering on our purpose and to increase the breadth and depth of understanding of the value Anglian Water delivers. The Board regularly engages in the delivery of the stakeholder strategy.

There are some issues which are of such importance that the Board judges that it should engage directly with relevant stakeholders. However, much of our engagement happens at an operational level.

Where the Board has not engaged directly with stakeholders, it receives regular reports from management, so that the Directors can understand and take account of the key issues to which they must have regard.

Having regard to employees' interests

The welfare and development of our employees, and the Company's culture and values, are key areas of focus for the Board and its committees, and employee-related issues are covered at every Board meeting. Areas considered by the Board range from health, safety and wellbeing to inclusion, employee engagement and succession planning. The Board meets with the Head of Safety on a quarterly basis, which enables the Board to monitor key safety trends and to challenge performance where appropriate.

In September 2022, we conducted our Love to Listen survey to seek and act on the views of our employees. The results of the survey, together with plans to address its findings, are discussed by the Board. In line with the Anglian Water Services Corporate Governance Code 2020, the Board has appointed John Barry as the Non-Executive Director responsible for engaging with the workforce.

Anglian Water offers employees the opportunity to participate in the AWG Loyalty Savings Scheme. This scheme enables employees to save on a monthly basis and then potentially benefit from the financial performance of the Company at the end of the three-year savings period.

During the year three 'market stalls' events were held, which gave the Directors and employees the opportunity to engage with each other and discuss in detail a variety of important matters effecting the Company.

Fostering business relationships with suppliers, customers and others

Engagement with customers and communities is fundamental to the development of our strategy and plans. The Board oversaw all aspects of the planning process for our Business Plan for 2020–2025, including the customer engagement strategy, and is already fully engaged with the planning process for the Business Plan for 2025–2030. During the year the Board approved certain actions to mitigate the increase in customer bills including concessionary tariffs, and instalment plans. The overall package of support totalled £135 million.

Our most important supply chain relationships are with our alliance partners, who play a crucial role in the delivery of our infrastructure and services. The Board receives an update into the capital investment programmes at each Board meeting. This update provides an opportunity for the Directors to review and challenge progress across the different investment programmes.

In addition, under Anglian Water's Scheme of Delegation, the Board must approve contracts with suppliers above a certain value; this ensures that there is the appropriate level oversight of these key contracts. During the year the Board approved procurement strategies for the renewable assets' framework and polymers. Each year the Board also approves Anglian Water's Modern Slavery and Human Trafficking Statement, which details the steps that we have undertaken to ensure that slavery and human trafficking is not taking place in any part of the business or within Anglian Water's supply chain.

The Board also engages with our different regulators including Ofwat, the Environment Agency and the Drinking Water Inspectorate. In September 2022, the Board and members of Ofwat's senior leadership team, including Chief Executive, David Black attended an event at Grafham Water which gave attendees the opportunity to engage with and discuss in detail issues relevant for planning for AMP8.

Another important stakeholder group are our debt investors, banks and rating agencies. Engagement is key to understand their requirements, demonstrate our long-term sustainable vision and help them to understand what makes Anglian Water a sound investment. We regularly engage with our debt investors through dedicated investor events held at least twice a year to coincide with the preliminary and interim results. In September 2022, we also held a Capital Markets Day at Milton Water Recycling Centre. During the day a trading update was presented and delegates were given the opportunity to tour the site, so that they further understood treatment processes and environmental water quality.

Impact on community and environment

The environment is at the heart of our purpose, and our SDS is fully aligned with the government's own 25-year Environment Plan. In July 2021, we published our net zero strategy to 2030. This routemap, which was fully supported by the Board, sets out how we aim to reach net zero carbon emissions by 2030. As referred to above, the Board considered both the draft WRMP and DRMP during the year. The Board regularly considers environmental matters, including abstraction, compliance against the EA's Environmental Performance Assessment, the progress of our WINEP, the water resource position and pollution reduction schemes. During the year, the Board considered updates on the water resources situation both at a regional and national level and the proposed WINEP for the period 2025-2030.

Throughout the year the Board has monitored the progress of both Ofwat's and the Environment Agency's investigations into sewage treatment works compliance. The Board has also supported the continued focus on reducing storm spills together with the deployment of smart technology and machine learning at pace to help predict and prevent pollutions. Our purpose requires us to consider the impact of our operations on our communities. The Board receives regular updates on stakeholder engagement activities. During the year the Board authorised the submission of the Development Consent Order planning application to the Planning Inspectorate in the relation to the Cambridge Waste Water Treatment Plan Relocation Project.

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Maintaining high standards of business conduct

We seek to maintain high standards in all that we do as a business. We have robust risk management and internal control processes, both of which are reviewed by the Board or the relevant Board committee. Our code of conduct, 'Doing the Right Thing', applies to all employees and sets out what is expected from our people in different situations.

Anglian Water also holds itself to account against a set of Responsible Business Principles which are approved by the Board.

Acting fairly between members

The Anglian Water Group is owned by a consortium of five long-term investors representing millions of long-term pension holders both in the UK and overseas. These shareholders are represented on the Board of our ultimate parent company Anglian Water Group Limited. There are also shareholder representatives on the Anglian Water Board. In this way we ensure that we treat all shareholders fairly and that their views are heard when making key decisions. These directors bring with them a broad range of skills and experience which is extremely valuable during Board discussions. Our shareholders have made a long-term commitment to our organisation and have a shared interest in and responsibility for its success. It's vital, therefore, that we engage them in strategic planning and share our progress and results with them.

Bill Impact Mitigation

We know that the cost of living crisis is making life more difficult for our customers than ever before. During the year under review, our Board considered its impact on our most vulnerable customers and what the business could do to support them with their water bill.

NON-FINANCIAL REPORTING STATEMENT

As Anglian Water Services Limited accounts for the vast majority of the Group, the day-to-day operation of the business is predominantly managed by employees of Anglian Water Services Limited. Due to this relationship, the Group's values and reputation are highly integrated with that of Anglian Water Services Limited and therefore interested parties should read the disclosure below, which is an extract from the Anglian Water Services Limited annual integrated report (AIR) www.anglianwater.co.uk/about-us/our-reports. As such, all references below refer to Anglian Water Services Limited.

Our Articles of Association requires us to publish the information contained in a non-financial information statement (as defined in sections 414CB of the Companies Act 2006). We integrate this information throughout this report and so the table below is designed to help you find key elements on non-financial matters. Links to policies, standards and relevant documents can be found at https://www.anglianwater.co.uk/about-us/our-purpose/environmental-social-and-corporate-governance/.

Reporting requirement	Policies and standards which govern our approach	Current activities and risk management (AIR reference)
Environmental matters Our commitment to protecting and enhancing our environment is enshrined in the Articles of Association of Anglian Water through our stated purpose: To bring environmental and social prosperity to the region we serve through our commitment to Love Every Drop.	Anglian Water Articles of Association Love Every Drop outcomes Anglian Water Strategic Direction Statement Anglian Water Water Resources Management Plan Anglian Water Drought Plan Anglian Water Water Recycling Long Term Plan Anglian Water Climate Change Adaptation Report Anglian Water Drainage and Wastewater Management Plan Pollution Incident Response Plan	• Chair's welcome pages 4-5 • Chief Executive's statement pages 6-8 • Anglian Water: Year in context: pages 10-16 • Our strategic ambitions, page 17 • Responsible financing: Sustainable finance, pages 22-25 • Holding ourselves to account pages 18-19 • Our stakeholders: our environment & the planet, pages 40-46 • Section 172 statement, pages 66-69 • Climate-related financial disclosures, pages 72-84 • Principal risks, pages 85-97
Employees Our approach to our employees is guided by the values that drive our continued progress: Together, we build trust; we do the right thing; we are always exploring.	Values framework Doing the right thing – code of behaviour Diversity and inclusion plan Health and safety policy Dignity at work code of conduct Relationships at work policy Gender pay gap report Whistleblowing policy	• Chairman's welcome pages 4-5 • Chief Executive's statement pages 6-8 • Our stakeholders: our people & partners, pages 54-65 • Section 172 statement, pages 66-69 • Corporate Governance Report pages 108-117 • Audit Committee Report pages

Reporting requirement	Policies and standards which govern our approach	Current activities and risk management (AIR reference)
	Ethnicity pay gap report	118-124 • Remuneration Committee Report pages 129-154
Human rights Our policies and processes are underpinned by our values; in particular: we do the right thing.	Doing the right thing – code of behaviour Dignity at work code of conduct Data protection policy Information retention policy Privacy policy Modern slavery statement Human Rights Policy	• Our stakeholders: 40-65 • Nomination Committee Report pages 125-128
Social matters Our commitment to serving our customers and our communities is enshrined in the Articles of Association of Anglian Water through our stated purpose: To bring environmental and social prosperity to the region we serve through our commitment to Love Every Drop.	Anglian Water Articles of Association Public Interest Commitment Social contract Employee volunteering guidelines – love to help Anglian Water Strategic Direction Statement	• Chair's welcome pages 4-5 • Chief Executive's statement pages 6-8 • Anglian Water in context: challenges and opportunities pages 10-16 • Our strategic ambitions, page 17 • Holding ourselves to account pages 18-19 • Our stakeholders: our customers & community, pages 47-53 • Section 172 statement, pages 66-69
Anti-corruption and bribery Our policies and processes are underpinned by our values; in particular: we do the right thing.	Doing the right thing – code of behaviour Anti-bribery policy Corporate hospitality policy Whistleblowing policy	• Principal risks: no. 13: Legal page 95-97 • Audit Committee Report pages 118-124
Description of principal risks and impact of business activity	Anglian Water year in review 10-16	• Risk management, pages 85-88 • Principal risks pages 89-97 • Business long-term viability statement pages 98-101
Description of the business model	Our business model, page 9	• Board statement of Company direction and performance, Annual Performance Report (available at www.anglianwater.co.uk/about-us/our-reports)
Non-financial key performance	Non-financial performance	• Delivering our outcomes:

Reporting requirement	Policies and standards which govern our approach	Current activities and risk management (AIR reference)
indicators	measured against a set of commitments agreed with Ofwat Health and safety measures and targets Environmental performance assessment	performance commitments dashboard, pages 32-39 • Delivering our outcomes: performance in context, pages 33-39 • Our stakeholders: our people & partners, pages 54-65

A copy of our code of conduct (‘Doing the right thing’), together with our Whistleblowing policy, our Anti-bribery policy and our current Slavery and Human Trafficking Statement can be found on our website at https://www.anglianwater.co.uk/about-us/who-we-are/our-suppliers/. Our customer privacy notice can be found at https://www.anglianwater.co.uk/about-us/legal/privacy-notice/.

GENDER AND ETHNICITY PAY GAP REPORTING

Gender pay gap reporting legislation came into force in April 2017 and requires all UK employers with 250 or more employees to publish annual information illustrating pay differences between male and female employees. As such, all references below refer to Anglian Water Services Limited and it should be read in conjunction with the full disclosure within the AWS Annual Integrated Report.

<u>Gender pay gap</u>

At Anglian Water we want everyone to feel included, regardless of their background. This applies to all areas across our inclusion agenda, not only gender.

As reported in detail in our full Gender Pay Gap Report 2022, our workforce composition as of April 2022 was 32 per cent women and 68 per cent men. Our mean gender pay gap for the period was 9.5 per cent, while our median gender pay gap was 16.4 per cent, showing a slight increase on our 2021 figures.

Like other companies in our sector, we have a very low attrition rate, with many male employees spending their entire working career with us. This impacts the opportunity for a significant change in the headline composition of our people in the short term, and it also continues to impact our gender pay gap. The increase this year was also affected by nationwide challenges throughout 2021/22 such as the shortage of Large Goods Vehicle (LGV) Drivers, for whom we reviewed our offering and increased pay to retain people in these critical roles – 93 per cent are filled by men.

Despite recruiting a higher number of women (42 per cent in 2022, verses 35 per cent in 2021), many of those new appointments were in more junior (or part-time) positions. And while around 1,600 of our employees are in technical roles with skills-linked pay progression, just 17 per cent of women fill these posts.

We’re working to address our gender pay gap in a range of ways:

- Setting short (annual) and mid-term (to 2025) targets to improve gender equity across the business.

- For 2023 we are targeting 36 per cent of new hires to be women, and 36 per cent of senior manager positions to be held by women. By the end of 2025, both targets raise to 38 per cent.
- Addressing gender bias (unconscious or otherwise) in each stage of recruitment across the business, including placement and presentation of advertising, imagery, wording of job descriptions and encouraging a mix of genders for interview panels
- Ensuring we are an attractive employer for women, with supportive policies and procedures such as enhanced maternity leave, shared parental leave, flexible working and part-time working
- Actively encouraging young women to apply for our apprenticeship and graduate programmes through dedicated outreach and recruitment drives with schools, colleges and universities
- Ensuring pay and reward processes are transparent and free from bias. Our reward team monitors pay according to gender, investigating any gaps in excess of 5 per cent

As a result of our efforts we're seeing more women hired across the business. In 2022:

- 43 per cent of new hires were women
- 46 per cent of senior hires were women, which will help improve our gender pay gap figures in 2023
- 13 per cent of women who joined our business are in STEM-related roles
- We have seen an increase in the overall number of women graduates joining our business, from 33 per cent in 2021 to 71 per cent in 2022, helping grow our future senior talent pool
- The number of women apprentices increased from 10 per cent in 2021 to 24 per cent in 2022.
- In 2022, 71 per cent of our graduates were women and 18 per cent of our apprentices

We are pleased to see the focus and initiatives to improve the gender balance of our business have been recognised externally, with Anglian Water named as one of the Times Top 50 Employers for Gender Equality 2023.

Ethnicity pay gap

Although not yet a statutory requirement, we published our first-ever Ethnicity Pay Gap report, in February 2023 as part of our commitment to transparency and improvement.

Unlike gender pay gap reporting, ethnicity pay gap reporting is completed on a voluntary basis and therefore there is limited data available to allow us to compare ourselves to other organisations. Similarly, due to the self-reporting of ethnicity, the employee data we have available to report on only accounts for 70 per cent who have voluntarily disclosed their ethnicity. In 2022/23 the mean ethnicity pay gap was 6.1 per cent and the median is 4.6 per cent.

We continue to engage with our people and encourage them to share their ethnic identity so we can have greater clarity on the demographic of our workforce in future years. Accordingly, the true figures for the median and mean ethnicity pay gap may differ slightly.

In calculating our ethnicity pay gap, we have used the same principles that are applied to statutory gender pay gap reporting. The ethnicity pay gap shows the difference in the average pay between people from Ethnically Diverse Communities (EDC), which includes people who are Black, Asian and Mixed Race, compared to White employees (including those that identify as White Other).

Steps we're taking to close the ethnicity pay gap

We want to close our ethnicity pay gap and increase the diversity of our employees at Anglian Water, so we are taking the following action in 2023/24:

- Actively recruiting for a diverse workforce and setting diversity hire targets
- Making changes to our recruitment advertising strategy, such as:
    - Changing where we advertise to ensure our roles are seen by a range of potential candidates
    - Ensuring our imagery represents people from a variety of backgrounds.
    - Using web accessibility and translation software (Recite me) to ensure our careers site is accessible.
- Directing hiring managers to undertake unconscious bias training as part of our Recruitment and Interviewing Skills training course and requesting that wherever possible interview panels include a diverse mix of ethnicities and genders.
- Closely monitoring the ethnicity split at application as well as at various stages within the assessment and selection pipeline (particularly for early careers) to ensure we are attracting from as wide a talent pool as possible.
- Publishing key policies on our careers website, such as our flexible working policy, parental leave policy and transgender and transition policy.

ANGLIAN WATER PERFROMANCE COMMITMENTS DASHBOARD

Ofwat uses a subset of performance commitments, referred to as Outcome Delivery Incentives (ODIs) to measure our progress through the Asset Management Plan (AMP) period. These performance commitments are summarised below, with information on how we monitor our progress, how we've performed this year, and whether rewards or penalties are attached to each*.

Operations were significantly impacted by the extreme weather over the year leading to record soil moisture deficits. This principally affected three ODIs - Burst Mains, Interruptions to Supply and Leakage - and accounted for the majority of the total penalty.

Against some measures, such as pollutions, we have not met the high standards we set for ourselves. In others, like leakage, we find ourselves in the situation of being at the forefront of our sector but still in penalty, when other poorer performers with higher levels of leakage may not be in the same position.

Overall, we have performed well in a number of areas that are of utmost importance to our customers, such as water quality (ERI and customer acceptability), water efficiency (PCC), leakage, environmental protection (abstraction, bathing water quality and WINEP delivery), carbon reduction, and helping the most vulnerable, keeping bulls affordable and providing good value for money (including Totex).

* Please note, the total is calculated in 2017/18 prices and does not match the sum of the individual performance.

Resilient business

What are we measuring?	How are we measuring it?	Prior year performance (2021/22)	Current year performance (2022/23)	Current year target (2022/23)	Reward or penalty outcome for 2022/23
Risk of severe restrictions in drought	The percentage of properties at risk of service restrictions in the event of a 1-in-200-year drought.	5.2%	5.2%	22.0%	N/A
Risk of sewer flooding in a storm	The percentage of properties that we serve that are at risk of sewer flooding during an extreme wet weather event.	0.75%	0.74%	9.75%	N/A
Percentage of population supplied by single supply system	Percentage of population served by a single supply system. Our goal is to reduce the number of properties served by a single supply system, so that if something goes wrong at one works, our customers' water supplies are protected.	22.7%	22.3%	21.8%	£0
Cyber security	Percentage of risks mitigated against the cyber threat to operational technology (OT) and to comply with the network and information systems (NIS) regulations.	Ongoing	Ongoing	100% by 2025	N/A

Risk of severe restrictions in drought: Our twin-track strategy to balance supply and demand, plus decades of investment in resilience, was evidenced this year when we did not need a temporary usage ban (commonly referred to as a hosepipe ban) during the drought. Our progress in building a more integrated and resilient network is clear, given the record soil moisture deficits and peak temperatures seen in this region through the year. See also 'Supply meets demand' performance commitments.

Risk of sewer flooding in a storm: This measure is based on modelling that predicts the likelihood of flooding in our network in a 1-in-50 year storm. Targeted investment such as £100 million for storm tanks at water recycling centres and sustainable drainage solutions (between 2020 and 2025) has also helped increased storm capacity (More in Flourishing Environment).

Percentage of population supplied by a single supply system: This measure is linked to the delivery of our strategic interconnector grid (more in supply meets demand), which on completion will provide more than 80% of customers with a dual supply system. We have reprofiled delivery based on supply chain issues earlier in the AMP, but the project remains on track for completion in 2025.

Cyber security: We operate a robust cyber security function that delivers protective security services across all of its information technology and operational technology services using a hybrid delivery model of inhouse cyber professionals combined with an outsourced 24/7 Managed Security Services, managed by Airbus. We operate a programme of continual improvement and risk reduction with the oversight of the Risk and Audit Committee.

A Smaller footprint

What are we measuring?	How are we measuring it?	Prior year performance (2021/22)	Current year performance (2022/23)	Current year target (2022/23)	Reward or penalty outcome for 2022/23
Operational carbon	Percentage reduction in carbon emissions from day-to-day operations compared to a 2019/20 baseline.	9.4%	6%	6%	N/A
Capital carbon	Percentage reduction in carbon emissions from construction activity measured in tonnes of CO_2 equivalent compared to a 2010 baseline.	63.1%	63.2%	63.0%	N/A

We continued our work to reduce operational and capital carbon, in line with our ambition to be a net zero carbon business by 2030, and in line with our Purpose to deliver environmental prosperity in our region. Find out more in our TCFD report on pages 49 – 67.

Supply meets demand

What are we measuring?	How are we measuring it?	Prior year performance (2021/22)	Current year performance (2022/23)	Current year target (2022/23)	Reward or penalty outcome for 2022/23
Leakage	A percentage reduction in the amount of water lost to leakage across the region in megalitres per day (Ml/d). One megalitre is a million litres.	6.1% reduction	7.5% reduction	8.5% reduction	-£1.33 million
Per capita consumption (PCC)	A percentage reduction in the average water consumption per household per day for properties in our region.	3.4% increase	2.5% increase*	3.2% reduction	N/A
Smart metering delivery	The number of smart water meters that are installed at customer properties.	310,321	543,686	657,838	N/A
Internal interconnector delivery	The number of megalitres per day extra capacity delivered to ensure that customers in the region have sufficient water in the future.	1.5Ml/d	6.5 ML/d	0 Ml/d	N/A

Leakage: For the first time since 2010, we missed our regulated leakage target, owing to the weather impacts both in summer and winter. At 179.5 Ml/d, our three year rolling leakage continues to improve and is now 7.5% below 2019/20 levels and builds on our industry leading leakage performance last year. This year we find ourselves in an ODI penalty while also being sector-leading.

Smart metering delivery: We are rolling out smart meters at a rapid rate - an average of 4,500 installations every week. Since the start of the AMP, we've installed more than 543,000 smart meters, 233,365 this year alone. Smart meters improve accuracy, allowing us to assess leaks using real, measured data. This leads to more robust reporting and more efficient targeting of leak detection activities, as current leakage calculation methods rely on assumptions and allowances for customer night usage. The installation programme has been affected slightly by issues with microprocessor availability, which has delayed deliveries of smart meters and caused us to miss the in-year target. We remain on course to complete installations in one million homes by 2025.

Per capita consumption: Provisional PCC* figures show a reduction of around 5% on a single-year basis, showing a reduction to 129.3 litres down from 136 litres in 2021/22. This is a significant reduction on the 146.9 litres in 2020/21, when the Covid pandemic saw water usage increase as a result of more hand-washing and people staying at home. This is our best-ever annual score on the single-year measure since it was introduced by Ofwat in 2017/18. The three-year rolling average which we have to report on for this performance commitment is still impacted by higher usage following the Covid pandemic. Customers have been supported to use less water through behavioural change campaigns, smart metering and our associated 'My Account' app. In addition, smart meters have helped pinpoint 93,000 customer-side leaks, saving customers water and money.

Internal interconnector delivery: Delivered through our partners that make up the Strategic Pipeline Alliance, our new interconnector pipeline will bring water from areas where there is a natural surplus, leaving more water in environmentally sensitive areas. Efforts to overcome supply chain challenges mean we are now 100% purchased on steel and have planning permission granted for about two-thirds of the route, giving us confidence of delivery.

Flourishing environment

What are we measuring?	How are we measuring it?	Prior year performance (2021/22)	Current year performance (2022/23)	Current year target (2022/23)	Reward or penalty outcome for 2022/23
Pollution incidents	Number of pollution incidents due to escapes from our sewerage network per 10,000 km of sewer network.	33.75	33.36	23.00	-£4.61 million
Bathing waters attaining 'Excellent' status	Number of recognised bathing waters in our region rated 'Excellent' (based on standards set by the European Bathing Water Directive).	32	32	34	N/A
Abstraction Incentive Mechanism	An incentive to reduce the water we take from sensitive rivers or wetlands during very dry periods.	-376 Ml	17 Ml	-87 Ml	-£0.05 million
WINEP	The progress of the Company in delivering its agreed Water Industry National Environment Programme (WINEP) schemes in a timely manner.	1,184	1,399	1,126	+ £2.24 million
WINEP delivery		Met	Not met	Met	N/A

What are we measuring?	How are we measuring it?	Prior year performance (2021/22)	Current year performance (2022/23)	Current year target (2022/23)	Reward or penalty outcome for 2022/23
Natural capital	This measures progress towards meeting improvements in natural capital within our region.	Fail	Fail	On track	N/A
Regional collaboration	This measures progress towards the development of a regional approach to assessing and considering natural capital.	On track	On track	On track	N/A
Sludge treatment capacity	This measures progress towards delivering additional sludge treatment capacity.	0%	0%	100% by 2025	N/A

Pollution incidents: Serious pollutions reduced this year from 14 in 2021/22 to 11, but we remain significantly off target. While classified as 'serious', none of the pollution incidents in the period resulted in the death of fish. Following close review, we know the very narrow watercourses, owing to the heavily drained nature of our region, create an increased vulnerability for serious pollutions. This is something we are looking to address. Our Category 1-3 pollutions per 10,000km sewer totalled at 33.36. In 2021/22, the total was similar at 33.75. Our performance remains off target and improving our pollutions performance is an absolute priority. This year, our self-reporting has continued to improve. The progress we are making on our Pollution Incident Reduction Plan will give us greater insight on asset health, but it will take time for the cumulative benefit to feed through to our results.

Bathing waters attaining 'Excellent' status: 94% of our coastal bathing waters were rated as 'Excellent' or 'Good': 32 were rated as 'Excellent', eligible for Blue Flag status, 13 were rated as good, two as sufficient, and one poor. Investigations at the poor site have ruled out our assets as the cause. Despite being a strong result equal to last year, a decline in Norfolk bathing water quality has caused us to miss the in-year target. A recent 'Source Apportionment' study found our assets are not the primary cause for this decline.

Water Industry National Environment Programme (WINEP): Our WINEP is one of the biggest environmental investment programme in the sector, worth £811 million between 2020-2025. So far more than 300 schemes have been delivered early. We have worked hard again this year to deliver another significant tranche of obligations ahead of schedule. This includes our work to investigate and remediate storm spills, and, deliver nine flow-to-full-treatment (FFT) schemes this year, four of which were delivered early.

Abstraction Incentive Mechanism: The Abstraction Incentive Mechanism exists to encourage additional, temporary reduction in abstraction at four particular sites and in dry conditions, when this is operationally feasible. This year we were able to make reductions at two sites, with no change at a third site. At a fourth site we did not have an opportunity to reduce abstraction as a neighbouring source was out of service and we therefore missed our target this year. This measure is unrelated to our 100% compliance on annual abstraction licences, which, cited elsewhere in the report, was important to safeguard the environment through the drought. At the same time we are proceeding at pace with our strategic pipeline, which will enable us to reduce abstraction by 31,025 Ml per year, the largest commitment on abstraction reduction in the industry, as outlined in our Water Resources Management Plan.

Natural Capital: This performance commitment captures improvements made through four sub-measures; water quantity, ground water quality, surface water quality and biodiversity. We must be on track across all four to be on target. This year, our progress against sub-measures for biodiversity net gain and surface water quality were ahead of target, and we were on target for ground water quality. However, the water quantity sub-measure, which tracks the rolling three-year average for the total volume of water put into supply in relation to our regional population, was higher than the target, owed to household water use being higher than predicted, although we are now seeing that reduce.

Delighted customers

What are we measuring?	How are we measuring it?	Prior year performance (2021/22)	Current year performance (2022/23)	Current year target (2022/23)	Reward or penalty outcome for 2022/23
Customer Measure of Experience (CMeX)	Customer survey conducted for Ofwat called CMeX which assesses the experience the Company provides to residential customers.	80.4/100, putting us in 9th place	78.8/100, putting us in 10th place	This is a comparative measure — we aim to perform in the top 25% of companies (4th position or higher)	-£0.29 million
Developer Measure of Experience (DMeX)	Survey conducted for Ofwat called DMeX which assesses the experience the Company provides to developer services customers who build new homes.	87.54/100, putting us in 7th place	87.3/100, putting us in 9th place	This is a comparative measure — we aim to perform in the top 25% of companies (4th position or higher)	£0

What are we measuring?	How are we measuring it?	Prior year performance (2021/22)	Current year performance (2022/23)	Current year target (2022/23)	Reward or penalty outcome for 2022/23
Properties at risk of persistent low pressure	Number of properties that are affected by persistent low pressure. Persistent low water pressure is an ongoing low pressure problem rather than short-term low pressure caused by a water mains burst or unusual peak in demand for water.	58	53	150	+ £0.6 million
Internal sewer flooding	The number of times that properties are flooded internally per 10,000 customer connections to the sewer.	1.73	1.69	1.58	- £1.2 million
External sewer flooding	The number of times that properties are flooded externally.	4,181	4,673	4,091	- £2.4 million
Non-household retailer satisfaction	This measure assesses the service provided by the Company to non-household retailers.	90.2	86.7	76.9	n/a
Water supply interruptions	Average length of supply interruptions per property (for interruptions over 3 hours).	9m 47s	14m 35s	5m 45s	-£10.13 million

Customer Measure of Experience (CMeX): Disappointingly, we have slipped to 10th place in the CMeX ranking this year, which is just below the average position for the industry. This means we will incur a penalty of around £0.3 million. Customers preferences are changing, with a growing desire to interact and transact digitally. To deliver this, we have consciously allowed our digital channels to grow, making the experiences as effortless for customers as possible. Due to the varying survey and contact channels used and the known differences in satisfaction rates, the current CMeX methodology favours non-digital contacts, such as a phone call. Due to the range of digital channels we offer, more than 60% of our contacts are now via a digital channel. As a result our CMeX score is disproportionately lower than if the volume of our digital contacts was less. We stand by our decision to respond to customer feedback and act on what they have told us is important. We are pleased to be working with the industry and Ofwat to identify what changes may be needed for CMeX to adapt to the changing customer demand.

Developer Measure of Experience (DMeX): We are a median company (9th) this year, Meaning we receive no penalty or reward.

Internal Sewer flooding: The self-cleansing nature of sewer pipes means a dry year can also lead to more blockages and flooding. The drought, coupled with the scale and features of our sewer network, created the perfect conditions for blockages to accumulate in many locations. As a result, we did not meet our target and will incur a penalty. We are working on combatting this by enhancing our jetting programme and through our Dynamic Sewer Visualisation programme.

Water supply interruptions: A significant proportion of our total penalty this year is a result of our interruptions to supply. Almost half of the score for the year was incurred during the summer heatwave and drought period. As customers are on water 99.99% of the time, their willingness to invest bill money in this area has been and remains low.

Properties at persistent risk of low pressure: We have continued to reduce the number of properties at risk of persistent low pressure, removing five properties from our low pressure register this year. A combination of investment and operational investigations means we are ahead of target for 2022/23.

Fair charges, fair returns

What are we measuring?	How are we measuring it?	Prior year performance (2021/22)	Current year performance (2022/23	Current year target (2022/23)	Reward or penalty outcome for 2022/23
Managing void properties	The percentage of properties that are falsely identified as void properties. This means that they are occupied and should be charged by the Company.	0.12	0.10	0.35	+£1.18 million reward
Value for money	A survey of customers by the Consumer Council for Water about the value for money provided by the Company.	77% agree we provide good value for money	81% agree we provide value for money	81% agree we provide good value for money	n/a

Value for money: We regularly engage with our customers on key issues such as value for money. This year, we reinstated our customer Board, which facilitates two-way conversations on our performance, where we have explained how we are maximising billpayers' money to deliver environmental and social benefits within the region.

The average Anglian Water customer bill is £1.35 per day, pegged down by our efforts to keep bills low. Since privatisation, our bills have risen little more than 10% (excluding inflation), against an industry average increase of 40%. Where we have needed to increase charges, we have matched this with a strong package of support for vulnerable customers. We maintain the fairest way to bill our customers is to charge for what they use, and 83% of customers do so, based on meter readings, aiding water efficiency.

Safe, clean water

What are we measuring?	How are we measuring it?	Prior year performance (2021/22)	Current year performance (2022/23)	Current year target (2022/23)	Reward or penalty outcome for 2022/23
Water quality (Compliance Risk Index)	This is the key measure used by the Drinking Water Inspectorate to determine our overall compliance with stringent regulatory drinking water standards.	4.04	2.92*	0.00	-£1.1 million
Water quality contacts	The number of complaints from customers about water quality per thousand people served.	1.03	1.01	0.93	-£0.2 million
Event Risk Index	This assessment looks at the Company's approach to risk mitigation of water quality events.	0.972	2.77*	15	n/a

*Our current year performance is subject to finalisation.

Compliance Risk Index: This year our Compliance Risk Index score is 2.92. Whilst we missed our target and we aren't where we want to be, our 2022/23 score reflects a 29% improvement on 2021/22. Furthermore, our score is well ahead of the 2022/23 provisional industry average of 5. This reflects the success of our improvement programmes targeted in the areas of coliform and E.coli detections at Water Treatment Works' finals and storage points, and taste and odour detections at customers' taps.

Event Risk Index: Our provisional score for 2022/23 of 2.77 is well within our target significantly below the provisional industry average. It reflects our robust processes to minimise impact on customers during planned work and our reactive response.

Water quality contacts: This is our best-ever result. Although we have narrowly missed the ODI, in the face of the operational challenges this year, to receive such a low level of complaints demonstrates our robust processes to minimise customer impact.

Positive impact on communities

What are we measuring?	How are we measuring it?	Prior year performance (2021/22)	Current year performance (2022/23)	Current year target (2022/23)	Reward or penalty outcome for 2022/23
Priority services for customers in vulnerable circumstances	The percentage of customers recorded as requiring priority services due to being in vulnerable circumstances and the percentage of people contacted to ensure records are kept up to date.	9.4% reach 62.2% actual contact 100% attempted contact	11.4% reach 62.4% actual contact 100% attempted contact	6.1% reach 35% actual contact 90% attempted contact	n/a
Customers aware of the PSR	Percentage of customers made aware of our Priority Services Register (PSR) and how they can benefit from being on it.	52.5%	61.8%	56.5%	n/a
Helping those struggling to pay	The number of customers who are struggling to pay their water bill and who receive financial support through one of the Company's financial support schemes.	324,750	344,483	292,577	n/a
Community investment	The percentage increase in community investment programmes through which the Company adds social value to its communities (compared to 2020/21).	137.5%	104%	2.0%	n/a
Customer trust	The improvement in Company score for a survey of customers by the Consumer Council for Water about the trust that customers place in the Company.	0.34	0.09	0.02	n/a

What are we measuring?	How are we measuring it?	Prior year performance (2021/22)	Current year performance (2022/23)	Current year target (2022/23)	Reward or penalty outcome for 2022/23
BSI Standard for Inclusive Service	To maintain certification for the British Standard for Inclusive Service Provision (BS 18477).	Maintained	Maintained	Maintained	n/a
Partnership working on pluvial and fluvial flood risk	Investments delivered working in partnership with other organisations to protect infrastructure from flooding	35	49	92 by 2025	n/a

Priority services for customers in vulnerable circumstances: We are significantly ahead of target on all areas relating to our support for vulnerable customers, including, most notably, take-up of our Priority Services Register, which has already met the full AMP target. Now, 11.4% of customers are signed-up to the PSR against a national average of 5%.

Helping those struggling to pay: We supported in excess of 330,000 customers with a £65 million cost-of-living package, and announced £135 million in support for 2023/24.

Community Investment: In our pursuit to bring social prosperity to our region, in 2022/23, we directly reached or supported an estimated 58,267 people through our community investment activities, delivered by ourselves and through our Alliance partners. Our ODI target is 2%, we outperformed, achieving 104%.

Partnership working on pluvial and fluvial flood risk: Our flood partnership approach has resulted in 49 outputs being achieved collaboratively so far this AMP. One example is our continued engagement through the Norfolk Strategic Flood Alliance, supporting a catchment-based approach to protect Norfolk communities and infrastructure against the risks of inland and coastal flooding, as well as drought. Our work is one part of the puzzle to deliver an ambitious multi-agency approach that reduces risk, rather than focusing on response. Our partnership match-funding and outputs delivered increase sharply in years four and five of this AMP, so we are confident we remain on track to deliver our commitment of 92 outputs.

Investing for tomorrow

What are we measuring?	How are we measuring it?	Prior year performance (2021/22)	Current year performance (2022/23)	Current year target (2022/23)	Reward or penalty outcome for 2022/23
Mains repairs	Number of repairs made to water mains per 1,000 km of total water mains.	122.2	173.2	136.2	-£4.4 million
Unplanned outage	Percentage of maximum water treatment works output unavailable during the year.	1.72%	1.91%	2.34%	Met (penalty applied if unmet)
Sewer collapses	Number of sewer collapses per 1,000 km of sewers.	5.44	5.2*	5.50	Met (penalty applied if unmet)
Treatment works compliance	Percentage of water and sewage treatment works meeting permits for the quality of water discharged to the environment.	98.22%	98.57%	100%	-0.6million
Reactive mains bursts	Reactive bursts are those that are identified and reported by a customer or third party before they are identified by the Company.	3,322	5,140	3,063	n/a

*Our current year performance is subject to finalisation.

Main repairs (and reactive mains bursts): Climate-related events in both summer and winter impacted burst mains performance. In our heavily drained region with clay and other soil types, underground assets are particularly susceptible to ground movement, especially in dramatically changing environments experienced this year. Our teams worked hard to minimise the impact on customers, and deploying our Anglian Water Force incident teams where needed. In Ely, the only community that was significantly impacted through the whole period, we were praised by customers for our quick response. Our records show that December 2022 saw our highest ever burst main repairs recorded since 2011/12.

Treatment works compliance: Our compliance improved from 98.2% (2021) to 98.6% in 2022 and we recorded fewer failing treatment works. This continues to be a significant area of focus.

Sewer collapses: Sewer collapses is a measure of the health of our water recycling network. We have delivered an improved level of performance this year by focussing our investment on our highest risk sewers and rising mains.

Unplanned outages: Unplanned outages are a measure of the health of our water treatment assets. It is the percentage of capacity (peak week production capacity) unavailable throughout the year. We have maintained a low level of outage this year.

CLIMATE-RELATED FINANCIAL DISCLOSURES

As Anglian Water Services Limited is the only company within the Group with over 500 employees and with turnover greater than £500 million it is the sole Company required to report under Task Force for Climate-Related Financial Disclosures (TCFD). As such, all references below refer to Anglian Water Services Limited and it should be read in conjunction with the full disclosure within the AWS Annual Integrated Report (AIR).

Making information about climate-related risks and opportunities available to our stakeholders is key to how we operate.

That is why, since 2017, we've made disclosures under the recommendations of the Task Force for Climate-Related Financial Disclosures (TCFD), adopting them well ahead of their mandatory introduction.

We continue to improve our climate-related disclosures year on year as we keep abreast of the latest requirements and best practice. We believe that our approach is consistent with 10 of the 11 TCFD recommendations.

The area we will continue to work on for 2023/24 is: Strategy, Part B - Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning. This is specifically around our plans for transitioning to a low-carbon economy and the quantification of future financial impacts.

Introduction

Sustainability is at the heart of everything we do – our Company purpose 'is to bring environmental and social prosperity to the region we serve through our commitment to Love Every Drop' – and we fundamentally understand the links between the provision of water supply and water recycling services and the environment.

This understanding that the health of the environment both influences, and is impacted by, our operations has driven our successful adoption of a host of climate-related commitments and targets over many years. Our approach is set out throughout this section of the report.

Our annual report complies with the requirement of LR 9.8.6R by including climate-related financial disclosures.

Highlights

- Named by the Financial Times and Statista as a European Climate Leader
- £490.8 million green bonds raised in the year, and a total of £2.6 billion of sustainable financing since 2017
- On track to achieve net zero operational carbon emissions by 2030
- On track to achieve a 70 per cent reduction in capital carbon by 2030
- Platinum certified by Achilles Carbon Reduce (formerly CEMARS), signalling 10+ consecutive years of carbon reductions

Governance

Disclose the organisation's governance around climate-related risks and opportunities

Page	Further references
pages 51-54	• See organisational structure on page 51 • See climate-related governance on page 51

Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material

Page	Further references
pages 54-62	• See climate-related strategy on page 54 • Water Resources Management Plan • Water Recycling Long-Term Plan • Sustainable Finance Impact Report 2021 (due for update in July 2023) • Strategic Direction Statement • Climate Change Adaptation Report • Net Zero Carbon Routemap • See CReDo on pages 60-61

Risk management

Disclose how the organisation identifies, assesses and manages climate-related risks

Page	Further references
page 63-69	• See climate-related risk management on page 63 • See our approach to risk on page 68 • See our principal risks on page 69

Metrics & targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material

Page	Further references
pages 64-65	• See our climate-related metrics and targets on pages 64-65 • See our greenhouse gas performance on pages 64-65 • Net Zero Carbon 2030 Routemap • Climate Change Adaptation Report

Climate-related governance

Where we manage climate risks and opportunities

- Board of Directors
- Remuneration Committee – Remuneration policy linked to ESG
- Audit Committee – Review the Company's top-tier risks
- Management Board
- Climate Change and Carbon Steering Group
- Resilience Steering Group
- Six Capitals Steering Group
- Finance, Treasury and Energy Policy Group
- Finance Climate Group
- Sustainability Team
- Carbon Neutrality and Climate Change Team
- Sustainability Community

Board oversight

The Anglian Water Services (AWS) Board retains overall oversight of climate-related risks and opportunities. In the course of its meetings, the Board discussed climate-related issues when relevant, for example reviewing the draft Water Resources Management Plan and dealing with demand issues during the dry, hot summer. Climate-related risks are included within the Company's top-tier risk register and managed through risk management and internal control systems. The Board led the business to be one of the first utilities to raise finance through a Green Bond, in 2017, which the business was able to do due to the governance structure we have in place as an organisation.

In December 2020, Anglian Water published its latest Climate Change Adaptation Report, which was driven and overseen by the Board. The Board has also driven and supported the commitment for the Company to be net zero carbon by 2030; indeed, our Chief Executive Peter Simpson was co-sponsor of the sector-wide Water UK commitment (www.water.org.uk/routemap2030/).

This net zero 2030 commitment covers our Scope 1 and 2 emissions, together with those Scope 3 emissions we're required to report. The board monitors progress through review of performance commitments, as do the committees noted below.

In addition, we've also committed to reducing our capital carbon emissions – those Scope 3 emissions arising as a consequence of building and maintaining our assets – by 70 per cent against a 2010 baseline by 2030. We're currently developing our strategy to further reduce these emissions post 2030.

Peter Simpson is co-chair of the UK Corporate Leaders Group (CLG UK), part of the University of Cambridge Institute for Sustainability Leadership, while our Senior Independent Non-Executive Director, Dame Polly Courtice, is the Institute's Founding Director and now Emeritus Director. CLG UK provides a strong voice to support UK leadership on climate change and draws together business leaders from a wide range of sectors. Many AWS Board members sit on external bodies such as Business in the Community (BITC), where Peter Simpson chairs the East of England Leadership Team. In May 2022 Peter Simpson was included in the ENDS Report power list of the 100 most influential environmental professionals in the UK.

The role of the Audit Committee

The Audit Committee plays a key role in monitoring the integrity of the Company's financial reporting, reviewing the material financial judgements and assessing the internal control environment. The Committee provides effective oversight of both financial and non-financial disclosures, including climate-related financial disclosures. The Committee receives presentations or papers from senior management, including the Group Risk manager, regarding the management of key risks, including the overall review of the top-tier risk register, which is formally presented bi-annually. The Committee also approves our annual internal audit plan and therefore can drive the areas of focus.

The role of the Remuneration Committee

The Remuneration Committee plays a key role in ensuring that climate change, and the ESG agenda in general, are given appropriate focus right at the top of the organisation.

A portion of variable executive remuneration is already aligned to our purpose, as embodied by ESG measures. For 2022/23 the Committee has decided to go further, increasing the overall weighting given specifically to environmental and social measures. These measures include our performance as a business in operational and embedded carbon.

The role of management

During the year we have appointed our first Chief Sustainability Officer role. This new role will work with and challenge our Board, ensuring decisions are guided by our purpose framework.

In general, the Management Board meets three times each month and discusses issues impacting climate change – indeed, these meetings are often shaped by the agendas and outcomes of the groups specified below. The Management Board consists of our CEO and CFO, along with key decision makers within the organisation, who chair many of the groups discussed below.

These groups are made up of key subject matter experts and representatives are drawn from across the business. There is membership overlap on the groups in order to ensure effective coordination and cooperation. The members have annual objectives which directly or indirectly relate to climate change. These groups are chaired by a member of the Management Board; through them, targets are set and action plans developed to ensure climate-related risks and carbon are measured, managed and reduced.

The Climate and Carbon Steering Group has been created by combining the Carbon Neutrality Steering Group and the Climate Change Steering Group. By creating a single group all employees responsible for climate change mitigation and adaptation are present. We believe that this group will better deliver insight into and progress against climate change mitigation and adaptation. This new group meets monthly with time set aside in each meeting for 'deep dives' into specific themes, such as electric vehicle strategy, process emissions reductions, etc chosen to most appropriately address climate-related risks. The Group is chaired by a member of the management board and 2 other management board members attend ensuring that this group is integrated with the overall strategy of the business. Periodic updates are provided to management board when required, for example our Net Zero Carbon 2030 performance update.

Strategy documents are currently being developed in line with our net zero 2030 targets. These will be reviewed by this group to ensure consistency in approach and measurement against plans.

This group will be integral to the development of our climate adaptation investment plans for the next AMP period, as well as the preparation of our next Climate Change Adaptation Report to be submitted to government and progress against our 2030 carbon commitments to the Management and AWS Boards

The Resilience Steering Group, chaired by the CEO, is responsible for assessing and improving Anglian Water's resilience to shocks and stresses (e.g. acute and chronic risks). Anglian Water has introduced six capitals thinking (see 'Business model', page 14) and integrated them in the governance process for all project appraisals in the organisation, so that all six capitals – natural, financial, social, manufacturing, people and intellectual – are considered when making decisions between available options.

In addition to the groups above, which take the principal role in managing climate-related risk, other groups also play an important role in developing climate-related approaches.

The Six Capitals Steering Group has developed a methodology to assign values to measures across each of the six capitals and their contributing factors allowing for project appraisals to consider value in the broadest possible sense.

Anglian Water has developed a methodology for capturing and reporting on this data allowing for reports on performance against the six capitals to be included in a wider purpose dashboard that can/will be reported to the Board on a regular basis.

The Finance, Treasury and Energy Policy Group also plays an important role in managing transition risks and opportunities and is chaired by Steve Buck, Chief Financial Officer (CFO). Through this group, options are discussed around raising sustainable finance and potential projects aimed at generating our own energy (such as a recent solar initiative at Grafham, which went on to be approved by the Board). The group's members include the CFO, the Group Treasurer, other Management Board Directors and the Head of Carbon Neutrality.

The purpose of the Finance Climate Group is to create a central team within finance to coordinate, collate and share best practice on financial planning and reporting with regards to sustainability, carbon and climate-change issues. The Group has improved the link between finance functions, and those delivering climate solutions around the business, through ensuring appropriate representation across the different areas.

The group prioritises the finance sustainability projects to enable finance and the business to achieve its goals. Our CFO is invited to attend once a year to update to progress and prioritisation.

Anglian Water has also launched a Sustainability Community where all Anglian Water employees and alliance partners can post sustainability-related activities, ask questions and seek feedback from experts on ideas and initiatives. This community ensures engagement with and input into the climate change, carbon and sustainability agenda is open to all; while we have a structure in place for managing and monitoring climate-related issues we're aware that ideas to address these issues can come from a host of sources. This community aims to harness these ideas and the widespread commitment to sustainability across Anglian Water and our partners, so that the collective knowledge of our whole organisation is maximised.

Following the success of the Sustainability Community, which is open to all our people, in the current year we launched the Sustainability Centre of Excellence. This is a consultative and collaborative forum for those leading on sustainability and purpose through the organisation to identify synergies, maximise impact and increase transparency.

Climate-related strategy

Climate-related risks, opportunities and impact

As stated in our latest Adaptation Report (published in 2020), climate change in our region will lead to less rainfall in summer and more in winter. Drier summers and a limited capacity to store an increase in winter rainfall means that there will be less water available through the year. Climate change is also likely to increase the demand for water among both household and non-household customers in a drier, warmer climate. Left unmanaged, this combination of reducing supply and increasing demand results in one of our most significant climate-related risks. We have been assessing the impact of climate change on water resources since the 1990s. We have seen more extremes in weather conditions over the recent years and this is a trend we expect to continue. Our next adaption report is due to be published in 2024.

Our governance structure has allowed us to identify climate-related opportunities in various forums across the organisation. These are centralised and reviewed within the Climate and Carbon Steering Group.

Key risk	Drivers	Potential impact	Response to risk
Negative impact on our supply/demand balance and our ability to serve customers **Short, medium and long term**	Hotter, drier summers increasing drought severity and frequency combined with forecast population growth	On customers: • Increase in interruptions to supply • Low water-pressure issues • Drought restrictions more commonplace On business: • Impact on our financial penalty/reward position • Increase in operating costs to deal with periods of drought • Increase in capital investment required	We maintain a 25-year Water Resources Management Plan (WRMP) which quantifies the need and recommends investment to maintain the supply/demand balance to avoid water shortages in the context of drought and population growth. This 25-year plan is refreshed every five years to incorporate short, medium and long term actions, the next is due for publication later in 2023. This approach therefore delivers over a short, medium and long-term timeframe. We have recently completed a study into climate vulnerable mains – that is mains vulnerable to bursts as a consequence of drought induced soil shrinkage and will be developing an investment program accordingly. We are just embarking on a study investigating the impact of extreme summer temperatures on our assets to develop resilience strategies
Negative impact on our customers and the environment caused by failure to cope with impact of increased precipitation **Short, medium and long**	Increased frequency of periods of heavy rainfall combined with wetter, warmer winters	On customers: • Internal and external sewer flooding and impact on customers' homes • Increase in interruptions to supply	We maintain a 25-year Water Recycling Long-Term Plan (WRLTP) which assesses the risks to our water recycling infrastructure and promotes the use of sustainable and innovative solutions. This 25-year plan is refreshed every five years, the

Key risk	Drivers	Potential impact	Response to risk
term		On business: • Impact on our financial penalty/reward position as well as environmental penalties • Increase in operating costs to deal with heavy rainfall and associated flooding • Increase in capital investment required.	next is due for publication later in 2023. This approach therefore delivers over a short, medium and long-term timeframe.
One-off events which impact ability to operate **Short, medium and long term**	Increased severity and frequency of storms	On customers: • Increase in interruptions to supply • Impact on leakage due to freeze-thaw process On business: • Physical damage to assets and infrastructure impacting ability to operate in an area • Increase in operating costs during and after the event • Increase in capital investment following the event	We manage these risks with business continuity and meticulous emergency response planning. We have well-rehearsed policies, plans and procedures to ensure we minimise any risk to customers and the environment. This allows us to react to incidents in the short term while we plan for the medium and longer-term timeframes.

Key opportunity	Drivers	Impact on business	Strategy to realise opportunity
Energy consumption reduction programme **Short and medium term**	Increased cost of energy	• Reduced operating costs • Reduction in operational and capital carbon • Reduced energy consumption • Reduced reliance on grid power thus increasing grid resilience	We have a dedicated initiative to identify opportunities to reduce energy, carbon and cost. Funding is made available for this initiative, providing it pays back in five years or fewer. We also consider investments which may pay back over a longer period of time.

Key opportunity	Drivers	Impact on business	Strategy to realise opportunity
Correlation of reducing, carbon reduces cost **Short and medium term**	Need to reduce carbon footprint and alignment with our net zero targets.	• Reduced capital investment required on projects • Reduction in operational and capital carbon	Our strategy is consistent with the international standard for capital carbon management, PAS 2080, with which we assisted BSI in its development. PAS 2080 aims to achieve a systematic process for infrastructure delivery in which carbon management under the direct control of the value chain is the main focus.
Uptake of renewable energy **Short, medium and long term**	The rising cost of grid power and the increasing appetite for renewable power	• Reduced operating costs • Increase in green energy consumption • Reduction in energy required to be imported and opportunities to export	Investment in the optimisation of our combined heat and power (CHP) programme, biomethane programme and solar photovoltaic installations at our sites.

Our investment periods cover five years and have therefore used a five year horizon to define short term. The development of these five-year investment plans is undertaken in the context of a much longer timeframe. For example, the WRMP is a 25-year plan and our net zero carbon commitment published in 2021 is to 2030, therefore 5-25 years has been used to define medium term with anything longer than this defined as long term.

Impacts are variable across the geography of our region and therefore approaches are developed in this context. For example, our Strategic Pipeline Alliance (SPA) Project was developed to transport water from the north of the Anglian Water region where there are Water Resource Zones (WRZ) in surplus, to the south where there are WRZ in deficit thus delivering water resilience to the whole region.

We also consider customer meter penetration and leakage rates as opportunities to drive reduced water consumption.

Financial Impact

During the year, climate related weather events have led to a negative financial impact on the business. The Board agreed to invest £13.9 million with a view to maintaining our industry leading leakage position as we sought to recover from a number of weather-related events throughout the year. The first six months of the year saw very little rainfall and as a result we saw exceptionally dry ground conditions. This was then compounded by two freezing cold spells in winter, followed by a rapid rise in temperatures. Rapid freeze-thaw conditions led to ground movements that interfere with our infrastructure.

These weather events also negatively impacted our performance commitments. The overall penalty in the year totalled £22 million, the adverse weather experienced within the year largely contributed to this. See more in our Performance Commitments Dashboard, pages 36 to 48, which discusses our Ofwat targeted performance commitments.

Organisational resilience and scenario planning

Anglian Water's overall resilience to climate-related risk is addressed in a host of ways, but most specifically through our Water Resources Management Plan (WRMP), Water Recycling Long-Term Plan (WRLTP) and Strategic Direction Statement. The forthcoming Drainage and Waste Water Management Plan, to be published later in 2023, will provide further key strategic input.

We also publish a Climate Change Adaptation Report (CCAR), have developed and published a Net Zero Carbon 2030 Routemap, and have developed robust and long-standing partnerships with our supply chain to address climate resilience and low carbon delivery. For the detailed scenario analysis, refer to the linked documents.

For detailed analysis and conclusion, refer to the long-term viability statement on pages 98-101 in the AIR.

Water Resources Management Plan (WRMP)

In preparing our current 25-year WRMP we used climate-related scenario analysis. The approach is consistent with the Environment Agency's 2017 methodology for 'Estimating impacts of climate change on water supply'. In producing our supply forecast we used the 11 Spatially Coherent Projections (SCPs) in UK Climate Projection 09 (UKCP09) for each high, medium and low scenario. Our next WRMP is due for publication later in 2023.

The results of the climate change scenario analysis identified that two of our 28 Water Resource Zones (WRZ) were particularly vulnerable to climate change, and that there would be a material impact on the supply/demand balance in another five WRZs due to climate change. These supply/demand impacts were combined with the impacts due to growth and other drivers to understand the total impact on the supply/demand balance in each WRZ and therefore to better develop resilience strategies for the WRZs.

Water Recycling Long-Term Plan (WRLTP)

As described in our current 25-year WRLTP, climate change scenarios form part of our hydraulic modelling standards for assessing growth risk to service from our water recycling infrastructure. We used UKCP09 high emission scenarios for 2025, 2045 and 2065 to support the assessment of climate risk in our investment programme, which included up to a 20 per cent increase in rainfall. These time horizons were chosen to allow engineers to align climate change with the design life of the solution. For example, a pumping station may only be viable for 20 years, while a pipeline will typically have a much longer design life.

The WRLTP describes how the inherent uncertainties in planning for growth and climate change necessitated the use of scenario planning. In response, we've taken a risk-based approach to developing an appropriate investment strategy at Anglian Water. We've followed a Bronze, Silver, Gold risk-based process to assess risk of detriment and to prioritise investment for over a thousand catchments and Water Recycling Centres (WRCs), to give us an integrated long-term strategy.

This approach gives an understanding of the level of risk climate change may present and solutions were costed and benefit-assessed at high level, including natural capital assessment of sustainable urban drainage solutions (SuDs). The solution of greatest cost benefit was promoted for investment in the period 2020-2025. These solutions help us deliver against our long-term goals, including the ambitions to make the East of England resilient to the impacts of flooding and to enable sustainable economic and housing growth.

Adopting cost-effective, resilient solutions

Two of the lowest cost solutions to build climate resilience in a particular catchment, which had features including XYZ, included investment in SuDS and upsizing of the catchment. The SuDS project included the creation of tree pits, bioretention, swales to carry away storm water, and attenuating rain gardens, combined with an attenuation pond, a green or 'living' roof, rain gardens and soakaway.

The upsizing solution involved upsizing assets including a gravity sewer, three pumping stations and associated rising mains, together with the sealing of 15 manholes. The second solution proposed, which factored in a 20 per cent increase in rainfall, only differed in a handful of areas: it recommended a slightly larger upsizing of the sewer (1,853m as opposed to 1,777m), marginally larger offline storage (958m2 vs 1,036m2) and an increased sluice opening height. Therefore option one was selected, as it offered almost the same degree of resilience but at lower cost.

Addressing climate-related supply challenges

South Essex was one of the Water Resource Zones identified as being at risk of water supply and demand issues, as a result of climate change Anglian Water has started to build a new network of hundreds of kilometres of vast interconnected pipelines. This huge infrastructure project – our biggest to date – will, by 2025, enable us to transfer water from areas where there is surplus (Lincolnshire) to the South Essex WRZ and other areas where deficits have been identified.

Strategic Direction Statement

Our Strategic Direction Statement (SDS), first published in 2007 and refreshed in 2017, sets out our long-term goals 'to be a net zero carbon business by 2030' and 'to make the East of England resilient to the risks of drought and flooding' (our biggest climate-related risks).

Our annual Greenhouse Gas Report charts the decline in intensity factors used to indicate the decarbonisation of our services. Our strategy is described in more detail in the SDS, and our Climate Change Adaptation Report describes how climate change is embedded into everything we do. We're also leading the way in green financing, having issued more than £1 billion-worth of Green Bonds since we became the first European utility company to issue a sterling Green Bond in 2017.

The investments made through the Green Bonds issued to date are expected to support a 63% reduction from the company's 2010 capital carbon baseline.

Engaging with our value chain

Our engagement with our supply chain on climate change was launched back in 2007 when we invited our key partners to HRH The Prince of Wales's first Mayday Summit. Since then we've worked with our design and construction partners to reduce capital carbon by more than 63 per cent.

In February 2023 we brought our value chain together to discuss climate change resilience, climate change adaptation and our journey to net zero carbon. Our 'Climate for Change' event had over 100 attendees with Chris Stark, Chief Executive of the Committee for Climate Change, kicking off the day with a 'call to arms'. As a result of the event, a number of collaborative workstreams will be taken forward. Collaboration is an enabler to the complexities of adapting to climate change.

An example of value chain collaboration is our Ofwat-funded research project to better understand whole life carbon - that is the carbon associated with constructing, operating, maintaining and the end of life of our assets. Whole Life Carbon will integrate carbon and cost models into a single digital approach, enabling users to consider options to avoid constructing new assets through re-using existing infrastructure or selecting lower carbon materials. The project has already identified future opportunities to combine carbon and climate resilience. .This is just one example out of five that we are leading on, as part of Ofwat's Water Breakthrough Challenge, where we have secured £17.3million in Ofwat Innovation funding to create solutions to our industry's biggest challenges.

In 2016 we became the first organisation to be verified against PAS2080, which is the world's first standard for managing carbon in infrastructure. Designed to drive best practice in managing carbon across the supply chain, in 2023 PAS2080 was revised. We aim to be verified against this revised standard later this year.

Partnering on the Climate Resilience Demonstrator (CReDo)

We understand that our assets operate in an inter-related infrastructure system – we are reliant on the power network for electricity, the telecoms network for communications and the road system for access. In turn, the power and telecoms network are in some cases reliant on the water network. A failure in one of these elements of the system can lead to cascade failure, where other elements of this linked infrastructure network fail as a consequence. Extreme weather events can cause this failure.

In 2021 the Climate Change Committee assessed infrastructure inter-dependencies as having a low-quality plan and that infrastructure owners were making slower progress than needed to manage risk.

In an effort to better understand these inter-dependencies in the context of a changing climate, we participated in the ground-breaking Climate Resilience Demonstrator (CReDo) project with a number of organisations including the Centre for Digital Built Britain, the National Digital Twin Programme, the Connected Places Catapult, UK Power Networks and BT.

Showcased at COP26, the project involved asset owners sharing asset data which was then synthesised with geographic information system (GIS) data to understand how assets are linked in a geographic area. A flooding scenario was then run to understand failures within the system.

The CReDo project gave important insight into how inter-related assets fail and how organisations can effectively share data and co-operate to develop holistic climate resilience solutions at an infrastructure system level. Ofwat and Ofgem funding has been secured to develop the next phase of CReDo. We are leading a project to understand the impacts of extreme and prolonged heat on the resilience of our assets which will enable effective planning in adapting to the future

More detail on this project can be found here: What is CReDo? – DT Hub Community (digitaltwinhub.co.uk).

Engaging with our customers

We regularly engage with customers through a variety of channels to seek their views on our approach to addressing climate change. Customer channels include:

- The Customer Engagement Forum (CEF). Set up in 2011, the CEF has an ongoing role in challenging us on how we engage with customers and monitoring how we perform on commitments. Its members come from a wide range of backgrounds to represent the interests of household and business customers, communities, the environment and the economy;
- Our online community of 500 customers, whose views we seek weekly on a wide range of topics; and
- Our Customer Board, which comprises a representative selection of members from the online community to provide further guidance and directly feed in customers' views.

Our Business Plan for 2020-2025 saw us engaged with c.500,000 customers; the majority of which told us they want us to invest in resilience to climate change now, rather than in the future.

We also issue key climate-related plans, including our Drought Plan, Water Resources Management Plan, Climate Change Adaptation Report and Drainage and Waste Water Management Plan, for public consultation, incorporating and reflecting their feedback before plans are formally published.

Innovating to reduce carbon emissions

We have recently reorganised how we deliver innovation through our business The Innovation Discovery Team leads much of our research and development work. Reporting to our Chief Engineer, it invests about £2.5 million per year into ground-breaking research and projects. . One of the team's current projects is the Ofwat-funded Triple Carbon Reduction project exploring how to reduce process emissions which, after electricity, is our biggest sources of emissions, alongside reducing energy consumption in water recycling and producing hydrogen. Hydrogen potentially represents a large scale opportunity for carbon reductions going forward but currently there is much uncertainty round how this new model may work. This project will increase understanding of how Hydrogen could play a role in the future.

Generating renewable energy

The vast majority of our operational emissions are associated with the electricity used to pump, treat and recycle water. One of the opportunities for reducing our emissions – and our costs – is to generate renewable energy from our sewage sludge, and to generate renewable power on our sites from wind and solar. Not only does generating renewable energy reduce our impact on the environment, it also mitigates the transition risk associated with changes in policy and cost linked to decarbonising the UK's electricity.

In 2004 we had only two sites with combined heat and power engines (CHP) producing less than 8GWh per annum. We now have 10 sites producing more than 113GWh per annum. In 2012 we installed our first wind turbines and in 2016 we installed our first solar arrays.

We're now committed to increasing the renewable energy we produce to 40 per cent of our consumption by 2025.

Energy efficiency

As well as generating our own renewable energy, we're also pursuing other opportunities to reduce our carbon emissions and reduce costs. This includes an energy efficiency 'spend-to-save' programme, designing carbon out of the new assets we build and reducing travel emissions. This programme was launched in 2006 and delivered savings of more than £10 million within four years. We have now embarked on our 20GwH challenge – attempting to generate energy consumption savings across the business.

Working in partnership

To reduce the climate-related risks we face from drought and flooding we're partnering with other stakeholders to better manage our limited water and financial resources. For example, we've identified opportunities to enter into funding partnerships to deliver a single cost-effective flooding scheme to protect the assets of multiple stakeholders.

Every five years we publish a statutory WRMP and a Drought Plan to set out the investment and interventions required to minimise the risk of a drought. We also prepare investment plans for flooding every five years.

By 2025, we expect our investment and interventions to have reduced the risk of severe restrictions in a 1-in-200-year drought so that it is approaching zero, and to have reached a position where fewer than 10 per cent of our customers are at risk of sewer flooding in a storm (1-in-50-year storm). By 2025, we expect our investment and interventions to have reduced the risk of severe restrictions in a 1-in-200-year drought so that it is approaching zero, and to have reached a position where fewer than 10 per cent of our customers are at risk of sewer flooding in a storm (1-in-50-year storm).

Climate-related risk management

Identifying and assessing climate-related risks

We have 13 principal risks, as discussed on page 69. Climate change is a consideration of each of these. Identification of current and emerging climate risks, including risks presented through implementation of change, is undertaken as part of our embedded risk processes utilising expert judgement, historical data, external data and forward- looking analysis. We use scenarios to inform our future direction. The development of adaptive planning, which is part of our PR24 planning process, will define a number of climate scenarios with alternative and adaptive pathways which can be adopted as the climate changes. Through monitoring of performance against a pre-defined set of decision points, tipping points and thresholds, our adaptive plan becomes dynamic and iterative.

The assessment and management of climate-related risks is consistent with the approach used to manage risk throughout the business. Climate-related risks were identified and assessed during the production of our latest Climate Change Adaptation Report. Climate risks are also identified and managed through the preparation of long-term plans and the delivery of individual investments. We review the current risk level and how our controls provide confidence and assurance around our management of that risk.

Managing climate-related risks

The management of climate related risks is consistent with our approach to manage risk throughout the business.

In preparing the WRMP, the impact of climate change was identified, and then customers and stakeholders were consulted on our proposals for adaptation. Most respondents shared our view that investment in climate change should not be delayed. Our latest WRMP is currently under review following a similar stakeholder engagement strategy.

In addition, we’re also undertaking research into customer views of climate change adaptation approaches as part of our PR24 (2025–2030) investment process.

Integrating climate-related risk into overall risk strategy

Our approach to climate-related risks are fully integrated within our overall risk strategy.

Within this system we define what constitutes substantial financial and strategic impact to the business. A significant impact on cash at Anglian Water is defined in the risk register as being greater than £25 million, while a major impact is between £10 million and £25 million.

We've developed a process to assess, manage and mitigate the climate resilience of individual investments. Climate resilience is included within the Six Capitals Framework, which includes both resilience to changing weather patterns as a consequence of climate change and carbon impacts. These carbon impacts are operational and capital.

A monetised cost benefit analysis is also carried out on these investments, using our well-established Risk, Opportunity and Value (ROV) process. Investments are then assessed for climate resilience, operational carbon performance and capital carbon performance through each design gateway as the design iterates.

Anglian Water has previously used an internal price of carbon to investigate how this might advance carbon reduction. This proved of limited value. Hence, we transformed the thinking of the organisation to recognise that reducing carbon does reduce cost. Setting this expectation alongside ambitious carbon targets (65 per cent capital carbon reduction target by 2025 and 70 per cent by 2030 against a baseline of 2010) and a rigorous process verified to PAS 2080 has proven much more effective.

The recognition that reducing carbon reduces costs is used to drive behaviour change and deliver financial efficiencies throughout the organisation. This is most clearly seen in the delivery of the five- yearly capital investment programme, worth c. £2 billion, in accordance with PAS 2080.

The data collected on our carbon versus cost saving can be used to estimate an implicit financial value for a tonne of carbon.

The Performance Commitments section contains the metrics and targets we are using to understand progress against climate related risk. Performance against these metrics is set out annually in our APR return. Our current Climate Change Adaptation report also includes discussion on key metrics, our updated Climate Change Adaptation Report will be published in 2024.

Scope 1, Scope 2 and relevant Scope 3 Greenhouse Gas Emissions (GHG)

Metrics and targets

This table meets the requirements of the Streamlined Energy and Carbon Reporting (SECR) regulations.

	Units	2021/22	2022/23	Inclusions
Energy consumption used to calculate emissions kWh	kWh	1,047,019,565	1,073,538,749	Electricity, gas, fuels combusted on site (fossil fuels and biogas), transport (company cars, fleet vehicles, personal and hire cars on business use) plus liquid fuels consumed on site
SCOPE 1 – Gas and fuel oil consumption	Tonnes CO2e	11,936	10,541	Fossil fuel combusted, natural gas and biogas
SCOPE 1 – Process and fugitive	Tonnes CO2e	81,601	85,859	Water and waste water treatment,

	Units	2021/22	2022/23	Inclusions
emissions				biogas
SCOPE 1 – Owned transport	Tonnes CO2e	20,854	21,904	Fleet vehicles and Company cars
SCOPE 1 – Total	Tonnes CO2e	114,390	118,304	
SCOPE 2 – Purchased electricity	Tonnes CO2e	134,894	121,994	Grid electricity – location-based electric for vehicles
SCOPE 2 – Total	Tonnes CO2e	134,894	121,994	
SCOPE 3 – Business travel	Tonnes CO2e	306	621	Private cars, public transport
SCOPE 3 – Outsourced transport	Tonnes CO2e	12,834	13,144	Outsourced tankers
SCOPE 3 – Purchased electricity	Tonnes CO2e	11,937	11,154	Transmission & distribution
SCOPE 3 – Total significant	Tonnes CO2e	25,077	24,920	We have not included commuting, capital carbon and emissions from use of water in customers' homes.
TOTAL ANNUAL GROSS EMISSIONS	Tonnes CO2e	274,362	265,219	
Exported renewables	Tonnes CO2e	-4,946	-6,334	Exported renewables REGO certified
Green tariff	Tonnes CO2e	0	0	
TOTAL ANNUAL NET EMISSIONS	Tonnes CO2e	269,416	258,884	
INTENSITY RATIO – water treated	Kg CO2e per Ml	203.73	192.48	
INTENSITY RATIO – recycled water	Kg CO2e per Ml	425.20	409.54	
INTENSITY RATIO – recycled water	Kg CO2e per Ml	232.61	227.79	Full flow to treatment

Methodology:

Emissions have been calculated using Carbon Accounting Workbook v17 (2023) an industry standard reporting tool. We have followed the 2020 UK Government environmental reporting guidance. We have used the GHG Protocol Corporate Accounting and Reporting standard (revised edition) and emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2023 to calculate the above disclosures. There have been no methodological changes in the way emissions have been calculated in financial year 2022-2023 against 2021-22.

The reporting boundary covers the emissions within the regulated activity of Anglian Water Services Ltd where we have operational control i.e. All Scope 1 emissions, all scope 2 emissions and scope 3 emissions of outsourced transport, business travel and transmission and distribution losses.

The numbers reported have been verified by Achilles Carbon Reduce (formerly CEMARS) as being measured, managed and reduced in accordance with ISO 14064-1. This verification process has been followed since 2011.

We aim to be a net zero carbon business by 2030. This is defined as net zero emissions where we have operational control as set out in our Net Zero Carbon Routemap 2030.

Energy consumption has increased slightly in 2022-23 over 2021-22 primarily because of an increased population and consequent water supplied. This has led to an increase in wastewater treated and the subsequent process and fugitive emissions. Emissions from electricity purchased have reduced whilst further emissions reductions have been achieved through increased export of renewables. Consequently, gross emissions have reduced 3.90% in 2022-23 against 2021-22.

Organisational targets to manage climate-related risks and opportunities

Our key short- to medium-term climate-related targets are as set out below. We are currently implementing changes to the way we structure and document our position against the net zero commitment to ensure we have the appropriate processes in place to manage the achievement of these targets. These are in addition our performance commitments.

- Be a net zero carbon business by 2030 (emissions where we have operational control and as set out in our Net Zero Carbon 2030 Routemap);
- Deliver a 65 per cent reduction in capital carbon by 2025 against our 2010 baseline;
- Deliver a 70 per cent reduction in capital carbon by 2030 against our 2010 baseline;
- Deliver a 10 per cent reduction in operational carbon by 2025 against a 2020 baseline;
- Between 2020 and 2025 ensure that a climate change resilience assessment is completed for all relevant investments.

Operational carbon is the carbon emitted as a consequence of the day to day operations of our business – energy use, process emissions from the water recycling process, emissions from our vehicle fleet, etc. Capital carbon is the carbon emitted as consequence of the manufacture and installation of assets we construct – a new pipeline, new treatment facilities, etc.

From 2022/23, a proportion of senior leader remuneration is linked to performance against these climate-related targets: 2.5 per cent of senior leaders' bonus is linked to the achievement of our annual net zero carbon performance target and 2.5 per cent linked to the achievement of our annual capital carbon performance target.

Our longer-term climate-related targets are as follows:

- Make the East of England resilient to drought and flooding;
- Work with others to achieve a significant improvement in ecological quality across our catchments;
- Enable sustainable economic and housing growth in the UK's fastest-growing region;
- Develop a strategy to further reduce our capital carbon beyond 70 per cent post 2030, with an ambition to be net zero carbon well before the national target of 2050;
- Develop a hydrogen strategy to best understand how we could generate hydrogen, use any oxygen generated from hydrolysis and understand how our HGV fleet could be powered using hydrogen.

We are currently progressing in these areas and below set out the actions underway. Our Water Resources Management Plan (WRMP) and Drainage and Wastewater Management Plan (DWMP) which are both nearing completion following consultation, develop our approach to dealing with both drought and flooding over the next 25 years in our region, to better enable sustainable economic and housing growth in our region and the protection of ecological quality. In addition, our Strategic Pipeline Alliance (SPA) project brings water from the north of our region, where it is in surplus, to the south where there is a deficit.

We are also participating in the Climate Resilience Demonstrator (CReDo) project where asset data from Anglian Water, UK Power Networks and British Telecom have been synthesised using a digital twin approach to understand how these assets are connected. For a specific area a flooding scenario has been run to best understand asset failure in the context of an inter-connect and inter-dependent infrastructure network.

https://digitaltwinhub.co.uk/credo/credo/This project has demonstrated that the validity of this approach and CReDo is moving forward with two workstreams: increasing the geographical area and asset types within the digital twin and using an extreme prolonged heat scenario to understand asset failure.

We have a target to reduce capital carbon by 70% by 2030 against our 2010 baseline. We are currently developing our approach to delivering further reductions post 2030, including our approach to increased uptake of low carbon concretes and will publish our approach over the coming years

We are currently engaged in an 'Triple Carbon Reduction' innovation project which uses renewable energy powered hydrolysis to produce hydrogen and oxygen from water. The hydrogen is collected to be used as a fuel whilst the oxygen is used to replace traditional aeration delivering efficiency gains. The results of this trial will feed into the development of our hydrogen strategy over the coming years.

RISK MANAGEMENT

Managing risk in line with our strategy

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

Risk management approach

We have an established Risk Management process in place. During 2022 into 2023 we have updated our Principal Risk Areas and reviewed and updated our risk appetite statements. Our top tier and business stream risks are aligned to our Principal Risk areas and are enabled by our risk management process and supporting activities.

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

Risk appetite

Risk appetite defines the opportunities and associated risks which Anglian Water is willing to accept in the pursuit of achieving its strategic objectives. These statements are used to drive risk-aware decision-making by key business stakeholders.

We consider risks aligned to our Principal Risk Areas and strategic priorities. Underpinning each statement is a series of Risk Appetite thresholds which during 2023 are being refined. These assist in providing a view as to whether we are operating within our appetite, or whether additional risk mitigation may be required.

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

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

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

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

Principal risks

The Board has a responsibility to disclose 'significant failings and weaknesses or areas of concern that have not been resolved by year end'. The Board's interpretation of this requirement is that there is a need to disclose any control failure or omission that, if unchecked, has the potential to result in significant financial, operational, or reputational damage to the business.

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

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

Principal risk	Current risk profile	Trend	Predicted Outlook	Business outcome
1. Customer proposition	Medium risk	↑	↔	Delighted customers
2. Environment	Medium risk	↔	↔	Flourishing environment
3. Water supply and quality	Medium risk	↔	↔	Safe, clean water
4. Health and safety	Low risk	↓	↔	Our people: healthier, happier, safer
5. People	Low risk	↔	↔	Our people: healthier, happier, safer
6. Technology	Medium risk	↔	↔	Resilient business, Investing for tomorrow
7. Finance	Medium – Low Risk	↔	↔	Fair charges, fair returns/ Investing for tomorrow
8. Reputation	High risk	↑	↔	Delighted customers
9. Asset infrastructure	Medium risk	↔	↔	Investing for tomorrow
10. Business resilience	Medium – Low Risk	↔	↔	Resilient business
11. Commercial and third party	Medium risk	↔	↔	Business resilience
12. Strategic execution	Medium – Low Risk	↔	↔	Investing for tomorrow
13. Legislation	Medium – Low Risk	↔	↔	Resilient business

Risk profiles

- High risk
- Medium risk
- Medium – Low Risk
- Low risk

Risk movement

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

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

Emerging risks

We define emerging risks as a new risk, or a familiar risk in a new or unfamiliar context (re-emerging) which is changing in nature, and where the likelihood and impact is not widely understood. These risks are more likely to have a longer-term impact; however, there is potential for the velocity to significantly increase within a shorter time frame and affect our performance.

Emerging risks	Related PRA
ENERGY COSTS Gas and electricity prices have continued to rise rapidly through 2022 into early 2023, with consumer prices due to increase again by 20% in April 2023. Energy costs continue to put immense pressures on households and businesses. Whilst wholesale energy prices have now fallen from their summer 2022 peaks there is a substantial lag before these feed through to consumers with the energy crisis expected to last until at least 2024.	Customer proposition People Financial Business resilience Commercial and third-party
COST OF LIVING The UK remains in the grip of a cost-of-living crisis that is putting significant strain on household wallets. Low-income families have already been hit the hardest by soaring energy bills and food prices and are the most likely to have seen both their financial circumstances and their health deteriorate. Local cost pressures and supply challenges are not set to ease anytime soon with a lot of pressure still on the economy.	Customer proposition People Financial Business resilience
CYBER ATTACK As businesses move their data and infrastructure to the cloud and increase reliance on third-party software applications and service provides, they are significantly increasing the risk of cyber-attacks and breaches from third parties.	Water quality and supply Technology Financial Business resilience Commercial and third-party
CYBER ATTACK ON CRITICAL NATIONAL INFRASTRUCTURE The war in Ukraine and wider geopolitical tensions are shaping the landscape, heightening the risk of a large-scale cyber-attack. The war has brought the existential threat of attacks on vital services such as water supply systems, energy companies and transport networks into stark reality as Russian-affiliated groups set their sights on the CNI of Ukraine and its allies.	Technology Financial Business resilience
EMPLOYEE WELLBEING Many employees are seeing their bills rising, real pay falling and their health worsening. The year ahead will be marred by recession, the cost of living crisis, labour strikes and the war in Ukraine. According to ONS there are over 2.5 million workers out of the labour force due to long term sickness which will mean employers will continue to face challenges during 2023. The cost of living crisis may see employees not turning on the heating, ignoring health issues or being unable to afford to travel to medical appointments, this will ultimately impact their health. The threat to financial security will provoke direct feelings of anxiety and worsening mental health.	People Financial Business resilience
DISRUPTIONS IN GLOBAL SUPPLY CHAINS The recent macro-economic turmoil and the war in Ukraine has increased vulnerability, triggering shortages and prices increases in energy, food, and certain raw materials. The conflict has added further pressures to supply chains already struggling with post pandemic disruption, such as shortages in semiconductors, which have yet to fully recover. Disruption to supply chain operations are set to stay in 2023.	Financial Business resilience Commercial and third-party

Emerging risks	Related PRA
CLIMATE ACTION FAILUERE We face the reputational impact of not being seen to contribute towards the mitigation of climate change via achievement of net zero emissions by 2030.	Environment Water quality and supply Financial Strategic execution
CHEMICAL RESILIENCE The chemical industry has been a major contributor to businesses and global trade growth for decades. The industry has been hit hard by recent trade barriers, increased levels of protectionism and the Covid-19 pandemic. The need for a resilient supply chain in the chemical industry has never been greater.	Environment Water quality and support Business resilience Commercial and third-party

Approval of the Strategic Report

This Strategic Report was approved by the Board of Directors on 13 July 2023 and signed on its behalf by:

Claire Russell
Company Secretary

Anglian Water Group Limited

Group income statement

for the year ended 31 March 2023

Notes		Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
4	**Revenue**	**1,549.6**	1,452.8
5	Other operating income	**16.0**	12.3
6	Operating costs		
	Operating costs before depreciation, amortisation and charge for bad and doubtful debts	**(735.4)**	(666.2)
	Depreciation and amortisation	**(381.7)**	(351.1)
	Charge for bad and doubtful debts	**(30.2)**	(11.1)
	Total operating costs	**(1,147.3)**	(1,028.4)
	Operating profit	**418.3**	436.7
7	Finance income	**43.8**	17.8
7	Finance costs, including fair value losses on derivative financial instruments	**(193.5)**	(660.4)
	Net finance costs	**(149.7)**	(642.6)
	Share of loss of joint ventures	**(0.4)**	(2.6)
	Profit/(loss) before tax from continuing operations		
	(Loss) before fair value losses on derivative financial instruments[1]	**(377.1)**	(93.4)
7	Fair value gains/(losses) on derivative financial instruments	**645.3**	(115.1)
	Profit/(loss) before tax from continuing operations	**268.2**	(208.5)
8	Tax charge	**(64.5)**	(289.1)
	Profit/(loss) for the year from continuing operations	**203.7**	(497.6)

[1] As defined in note 32

Notes 1 to 34 are an integral part of these financial statements.

Anglian Water Group Limited

Group statement of comprehensive income

for the year ended 31 March 2023

Notes		**Year ended 31 March 2023 £m**	Year ended 31 March 2022 £m
	Profit/(loss) for the year	**203.7**	(497.6)
	Other comprehensive income/(expense)		
	Items that will not be reclassified to income statement		
24	Actuarial (losses)/gains on retirement benefit deficit	**(206.5)**	203.8
8	Income tax credit/(charge) on items that will not be reclassified	**51.7**	(40.3)
		(154.8)	163.5
	Items that may be reclassified subsequently to income statement		
26	Gains on cash flow hedges recognised in equity	**27.9**	59.3
26	Gains/(losses) on cost of hedging recognised in equity	**1.8**	(2.6)
26	(Losses)/gains on cash flow hedges transferred to income statement	**(31.1)**	14.0
	Currency translation differences	**0.7**	0.4
8	Income tax credit/(charge) on items that may be reclassified	**0.2**	(15.0)
		(0.5)	56.1
	Other comprehensive (expense)/income for the year, net of tax	**(155.3)**	219.6
	Total comprehensive income/(expense) for the year	**48.4**	(278.0)

Anglian Water Group Limited

Group balance sheet

as at 31 March 2023

Notes		At 31 March 2023 £m	At 31 March 2022 £m
	Non-current assets		
11	Goodwill	**445.8**	445.8
12	Other intangible assets	**259.3**	225.5
13	Property, plant and equipment	**10,706.2**	10,305.9
14	Investment properties	**3.6**	3.6
15	Investments in joint ventures	**12.2**	12.6
21	Derivative financial instruments	**194.4**	57.8
24	Retirement benefit surplus	**89.0**	269.1
		11,710.5	11,320.3
	Current assets		
16	Inventories	**27.8**	23.8
17	Trade and other receivables	**598.9**	567.2
15	Investments - cash deposits	**316.7**	430.7
18	Cash and cash equivalents	**518.0**	613.4
21	Derivative financial instruments	**55.8**	56.5
		1,517.2	1,691.6
	Total assets	**13,227.7**	13,011.9
	Current liabilities		
19	Trade and other payables	**(700.3)**	(610.5)
	Current tax liabilities	**(0.1)**	-
20	Borrowings	**(1,165.0)**	(517.4)
21	Derivative financial instruments	**(53.4)**	(10.1)
22	Provisions	**(5.8)**	(3.7)
		(1,924.6)	(1,141.7)
	Net current (liabilities)/assets	**(407.4)**	549.9
	Non-current liabilities		
20	Borrowings	**(8,058.8)**	(8,286.0)
21	Derivative financial instruments	**(893.8)**	(1,192.8)
23	Deferred tax liabilities	**(1,405.0)**	(1,393.1)
24	Retirement benefit deficit	**(33.0)**	(41.8)
22	Provisions	**(5.6)**	(6.2)
		(10,396.2)	(10,919.9)
	Total liabilities	**(12,320.8)**	(12,061.6)
	Net assets	**906.9**	950.3

Continued on the next page.

Group balance sheet (continued)

as at 31 March 2023

Notes		At 31 March 2023 £m	At 31 March 2022 £m
	Capital and reserves		
	Share premium	**1,096.2**	1,096.2
	Retained earnings	**(210.8)**	(167.9)
26	Hedging reserve	**17.8**	20.4
26	Cost of hedging reserve	**1.7**	0.3
	Translation reserve	**2.0**	1.3
	Total equity	**906.9**	950.3

Notes 1 to 34 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 13 July 2023 and signed on its behalf by:

Peter Simpson
Chief Executive

Steven Buck
Chief Financial Officer

Registered in Jersey No. 94523

Company balance sheet

as at 31 March 2023

Notes		At 31 March 2023 £m	At 31 March 2022 £m
	Non-current assets		
15	Other investments	**663.2**	663.2
	Trade and other receivables	**548.0**	548.0
		1,211.2	1,211.2
	Total assets	**1,211.2**	1,211.2
	Current liabilities		
19	Trade and other payables	**(0.1)**	(0.1)
		(0.1)	(0.1)
	Net current liabilities	**(0.1)**	(0.1)
	Total liabilities	**(0.1)**	(0.1)
	Net assets	**1,211.1**	1,211.1
	Capital and reserves		
	Share premium	**1,096.2**	1,096.2
	Retained earnings	**114.9**	114.9
	Total equity	**1,211.1**	1,211.1

Notes 1 to 34 are an integral part of these financial statements.

The profit in the year of the Company was £91.8 million (2022: £nil).

The financial statements were approved by the Board of Directors on 13 July 2023 and signed on its behalf by:

Peter Simpson
Chief Executive

Steve Buck
Chief Financial Officer

Registered in Jersey No. 94523

Anglian Water Group Limited

Group statement of changes in equity

for the year ended March 2023

Notes		Share premium £m	Retained earnings £m	Hedging reserve £m	Cost of hedging reserve £m	Translation reserve £m	Total equity £m
	At 1 April 2021	1,096.2	166.2	(37.4)	2.4	0.9	**1,228.3**
	Loss for the year	-	(497.6)	-	-	-	**(497.6)**
	Other comprehensive income/(expense)						
24	Actuarial gains on retirement benefit obligations	-	203.8	-	-	-	**203.8**
8	Income tax charge on items that will not be reclassified	-	(40.3)	-	-	-	**(40.3)**
26	Gains on cash flow hedges	-	-	59.3	-	-	**59.3**
26	Losses on cost of hedging	-	-	-	(2.6)	-	**(2.6)**
26	Amounts on hedging reserves transferred to income statement	-	-	14.0	-	-	**14.0**
26	Deferred tax movement on hedging reserves	-	-	(15.5)	0.5	-	**(15.0)**
	Currency translation differences	-	-	-	-	0.4	**0.4**
		-	163.5	57.8	(2.1)	0.4	**219.6**
	Total comprehensive (expense)/income	-	(334.1)	57.8	(2.1)	0.4	**(278.0)**
	At 31 March 2022	1,096.2	(167.9)	20.4	0.3	1.3	950.3
	Profit for the year	-	203.7	-	-	-	**203.7**
	Other comprehensive (expense)/income						
24	Actuarial losses on retirement benefit obligations	-	(206.5)	-	-	-	**(206.5)**
8	Income tax credit on items that will not be reclassified	-	51.7	-	-	-	**51.7**
26	Gains on cash flow hedges	-	-	27.9	-	-	**27.9**
26	Gains on cost of hedging	-	-	-	1.8	-	**1.8**
26	Amounts on hedging reserves transferred to income statement	-	-	(31.1)	-	-	**(31.1)**
26	Deferred tax movement on hedging reserves	-	-	0.6	(0.4)	-	**0.2**
	Currency translation differences	-	-	-	-	0.7	**0.7**
		-	(154.8)	(2.6)	1.4	0.7	**(155.3)**
	Total comprehensive income/(expense)	-	48.9	(2.6)	1.4	0.7	**48.4**
25	Dividends	-	(91.8)	-	-	-	**(91.8)**
	At 31 March 2023	**1,096.2**	**(210.8)**	**17.8**	**1.7**	**2.0**	**906.9**

Anglian Water Group Limited

Company statement of changes in equity

for the year ended 31 March 2023

Notes		Share premium £m	Retained earnings £m	Total equity £m
	At 1 April 2021	1,096.2	114.9	**1,211.2**
	At 31 March 2022	1,096.2	114.9	**1,211.1**
10	Profit for the year	-	91.8	**91.8**
25	Dividends	-	(91.8)	**(91.8)**
	At 31 March 2023	**1,096.2**	**114.9**	**1,211.1**

Anglian Water Group Limited

Cash flow statement

for the year ended 31 March 2023

Notes		Group Year ended 31 March 2023 £m	Group Year ended 31 March 2022 £m	Company Year ended 31 March 2023 £m	Company Year ended 31 March 2022 £m
	Operating activities				
	Operating profit	**418.3**	436.7	**-**	-
	Adjustments for:				
	Depreciation and amortisation	**381.7**	351.1	**-**	-
	Assets adopted for £nil consideration	**(46.0)**	(39.2)	**-**	-
	Losses on disposal of property, plant and equipment	**(3.9)**	(5.0)	**-**	-
	Difference between pension charge and cash contributions	**(28.9)**	(26.6)	**-**	-
	Net movement in provisions	**1.5**	(3.1)	**-**	-
	Working capital:				
	Decrease in inventories	**(4.0)**	(2.2)	**-**	-
	Increase in trade and other receivables	**(46.1)**	(15.3)	**-**	-
	Increase in trade and other payables	**29.9**	47.0	**-**	-
	Cash generated from operations	**702.5**	743.4	**-**	-
	Income taxes paid	**(0.6)**	(0.8)	**-**	-
	Net cash flows from operating activities	**701.9**	742.6	**-**	-
	Investing activities				
	Repayment of loans by joint ventures	**14.4**	2.0	**-**	-
	Purchase of property, plant and equipment	**(588.5)**	(465.8)	**-**	-
	Purchase of intangible assets	**(75.8)**	(58.7)	**-**	-
	Proceeds from disposal of property, plant and equipment	**4.4**	5.7	**-**	-
	Interest received	**24.1**	3.4	**-**	-
	Dividends received from subsidiaries	**-**	-	**91.8**	-
	Decrease/(increase) in short-term bank deposits	**114.0**	(342.2)	**-**	-
	Net cash used in investing activities	**(507.4)**	(855.6)	**91.8**	-
	Financing activities				
	Interest paid	**(300.5)**	(281.9)	**-**	-
	Debt issue costs paid	**(2.4)**	(28.7)	**-**	-
	Interest paid on leases	**(0.8)**	(1.2)	**-**	-
	Proceeds from amounts borrowed	**1,117.8**	2,040.5	**-**	-
	Repayment of amounts borrowed	**(1,005.8)**	(1,338.4)	**-**	-
	Repayment of principal on derivatives	**-**	75.9	**-**	-
	Repayment of principal on leases	**(6.4)**	(13.1)	**-**	-
	Dividends paid to owners of the parent	**(91.8)**	-	**(91.8)**	-
	Net cash (used in)/from financing activities	**(289.9)**	453.1	**(91.8)**	-
	Net (decrease)/increase in cash and cash equivalents	**(95.4)**	340.1	**-**	-
	Cash and cash equivalents at 1 April	**613.4**	273.3	**-**	-
18	**Cash and cash equivalents at 31 March**	**518.0**	613.4	**-**	-

1. Accounting policies

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

a) Basis of accounting

The Group and Company financial statements have been prepared under international accounting standards which are adopted for use within the United Kingdom by virtue of Chapter 2 or 3 of Part 2 of the International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019. The Group financial statements have also been prepared in accordance with International Financial Reporting Standards as issued by the IASB and the Company financial statements have also been prepared in accordance with International Financial Reporting Standards as issued by the IASB and with the requirements of the Companies (Jersey) Law 1991. The financial statements have been prepared under the historical cost convention, as modified by financial assets and financial liabilities (including derivative instruments) at fair value through profit and loss.

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

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

b) Basis of preparation

The Group and Company financial statements comprise a consolidation of the financial statements of the Company and all its subsidiary undertakings at 31 March. The results of companies acquired or disposed of are consolidated from the effective date of acquisition or to the effective date of disposal. Inter-company sales and profit are eliminated fully on consolidation.

Business combinations
Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the fair values, as at the acquisition date, of assets transferred by the Group and liabilities incurred by the Group to the former owners of the acquiree in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

1. Accounting policies (continued)

b) Basis of preparation (continued)

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its fair value, as at the acquisition date, and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill.

Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

When a business combination is achieved in stages, the Group's previously-held interests in the acquired entity is remeasured to its acquisition date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

Going concern

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

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

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

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

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

In addition, Osprey Acquisitions Limited also has a common terms debt platform similar to that at Anglian Water Services Limited and operates a single set of covenants that applies to all debt raised at this level of the Group.

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

1. **Accounting policies** (continued)

b) **Basis of preparation** (continued)

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

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

- Liquidity – The Group holds sufficient liquidity to cover the going concern period even under the most severe downside scenario. Between the balance sheet date and the date of signing these accounts the Company refinanced debt of £462 million that fell due.
- Profitability – The revenues of the business are underpinned by the regulatory model and the business has a detailed plan in place to deliver in line with the CMA FD. Our most severe scenario represents an 10 per cent reduction in EBITDA.
- Debt covenants – The business has significant headroom against Default Events (where class A interest cover ratio is less than 1.6:1) under its securitised covenants with no plausible scenario identified that would cause an Event of Default.

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

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

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

Standards, amendments and interpretations effective or adopted

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

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

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

In April 2021, the IFRS Interpretations Committee ('IFRIC') agenda decision on the treatment of configuration and customisation costs in a cloud computing arrangement was ratified by the International Accounting Standards Board.

1. Accounting policies (continued)

b) Basis of preparation (continued)

The guidance clarified that in order for an intangible asset to be capitalised in relation to customisation and configuration costs in a software-as-a-service (SaaS) arrangement, it is necessary for there to be a separate intangible asset which meets the definition in IAS 38 Intangible Assets. The Group's previous policy was to capitalise such customisation and configuration costs. The Group has therefore changed its accounting in the year that ended 31 March 2022 to align to the agenda decision. The Group continues to apply the change in accounting policy.

ii *Other amendments*

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

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

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

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

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

1. Accounting policies (continued)

c) Foreign currencies

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

On consolidation, the income statements of overseas subsidiaries are translated at the average exchange rates for the period and the balance sheets at the exchange rates at the balance sheet date. The exchange differences arising as a result of translating income statements at average rates and restating opening net assets at closing rates are taken to the translation reserve.

d) Segmental reporting

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

e) Revenue recognition

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

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

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

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

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

1. Accounting policies (continued)

e) Revenue recognition (continued)

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

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

Secondary source of income

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

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

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

ii *Self-lay, requisitions and adoption fees*
Revenue recognition is consistent with new connection charges (see (i) above).

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

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

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

1. Accounting policies (continued)

e) Revenue recognition (continued)

Non-appointed activities

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

Other sources of revenue

i *Other operating income*

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

ii *Service contracts*

Revenue from service contracts is recognised by reference to the stage of completion, as measured by reference to services performed to date as a percentage of total services to be performed.

iii *Property development*

Revenue from sale of development properties, which are not held for the long-term, is recorded when a legally binding contract for the sale of the development has been entered into and legal completion has taken place before the period-end. Revenue includes sales of directly held work in progress and interests in special purpose subsidiaries and joint ventures if the substance of the transaction is the sale of the underlying property.

f) Research and development

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

g) Exceptional items

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

h) Operating profit

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

1. Accounting policies (continued)

i) Taxation

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates enacted or substantially enacted by the balance sheet date and that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

j) Dividends

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

k) Intangible assets

i *Goodwill*
On the acquisition of a subsidiary undertaking, or business combination, fair values are attributed to the net identifiable assets or liabilities acquired. Goodwill represents the difference between the fair value of the purchase consideration and the fair value of the net assets acquired. Goodwill is tested annually for impairment.

ii *Right to operate intangible assets*
The 'right to operate' intangible assets arose on acquisition of a subsidiary undertaking, representing the fair value of the contracts acquired, and are shown at cost less subsequent amortisation and any impairment. Amortisation is calculated on a straight line basis over the length of the individual contracts to which the intangible assets relate.

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

1. Accounting policies (continued)

k) Intangible assets (continued)

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

Software-as-a-Service (SaaS) arrangements

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

Some of the costs incurred relate to the development of software code that enhances or modifies, or creates additional capability to, existing on-premise systems and meets the definition of, and the recognition criteria for, an intangible asset.

These costs are recognised as intangible software assets and amortised over the useful life of the software on a straight-line basis. The useful lives of these assets are reviewed at least at the end of each financial year, and any change accounted for prospectively as a change in accounting estimate.

l) Property, plant and equipment

Property, plant and equipment comprises:

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

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

Borrowing costs incurred for the construction of qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement as incurred.

1. Accounting policies (continued)

l) Property, plant and equipment (continued)

Freehold land is not depreciated, nor are assets in the course of construction until commissioned. Depreciation of other assets is calculated at rates expected to write off the cost less the estimated residual value of the relevant assets on a straight-line basis over their estimated useful lives, which are primarily as follows:

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

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

m) Investment properties

Investment properties are initially recognised at cost. Subsequently, buildings are depreciated over their useful life and land is held at cost and not depreciated.

n) Leased assets

The Group assesses whether a contract is, or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (defined as leases for individual assets with a value of less than £5,000).

For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease, unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

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

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

1. Accounting policies (continued)

n) Leased assets (continued)

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

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

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

o) Investments

Subsidiaries

Investments in subsidiaries are held at cost less, where appropriate, provisions for impairment, if there are any indications that the carrying value may not be recoverable. Investments in subsidiaries are eliminated on consolidation for the Group financial statements.

Joint ventures

Joint ventures are those entities over whose activities the Group has the ability to exercise joint control, established by contractual agreement. The Group’s interests in jointly controlled enterprises are accounted for by the equity method of accounting and are initially recognised at cost.

The consolidated financial statements include the Group's share of the total recognised income and expense of the jointly controlled enterprises on an equity accounting basis, from the date that joint control commences until the date that joint control ceases.

To the extent that joint ventures have net liabilities and a contractual commitment exists for the Group to settle those net liabilities, the aggregate amount is added back to investments and offset firstly against loans and trading balances with the joint venture, with any excess transferred to provisions.

1. Accounting policies (continued)

o) Investments

Investments – cash deposits

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

p) Inventories

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

q) Financial assets and liabilities

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

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

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

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

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

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

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

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

1. Accounting policies (continued)

r) Trade receivables

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

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

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

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

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

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

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

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

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

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

s) Cash and cash equivalents

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

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

1. Accounting policies (continued)

t) Borrowings

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

u) Derivative financial instruments

Derivative instruments are used for hedging purposes in line with the Group's risk management policy and no speculative trading in financial instruments is undertaken.

Derivatives are initially recognised at fair value and subsequently re-measured at fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. Derivatives are not offset in the financial statements unless the Group has both a legally enforceable right and intention to offset. The impact of the master netting agreements on the Group's financial position is disclosed in note 21. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not due to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

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

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

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

1. Accounting policies (continued)

u) Derivative financial instruments (continued)

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

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

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

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

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

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

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

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

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

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

1. Accounting policies (continued)

u) Derivative financial instruments (continued)

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

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

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

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

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

v) Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event for which it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. If the effect of time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. When discounting is used the increase in the provision due to the passage of time is recognised as a finance cost.

Regarding onerous lease costs, a provision is made for the expected future costs associated to property and other leases, not included in the calculation of the ROU asset, to the extent that these costs are no expected to be of future benefit to the business, net of any recoveries from sub-leases.

w) Retirement benefit obligations

i *Defined benefit schemes*
For defined benefit schemes, pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit credit method and are discounted at the current rate of return on a high-quality corporate bond of equivalent term and currency to the liabilities. The current service cost, which is the increase in the present value of the liabilities of the Group's defined benefit pension schemes expected to arise from employee service in the period, is charged to operating costs.

1. Accounting policies (continued)

w) Retirement benefit obligations (continued)

The net interest on the schemes' net assets/(liabilities) is included in other finance charges. Actuarial gains and losses are recognised in the statement of comprehensive income.

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

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

2. Key sources of estimation uncertainty and critical accounting judgements

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

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

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

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

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

a) Critical accounting judgements

The areas where the most critical judgements have been applied are as follows:

i *Capitalised expenditure*
Additions to intangible assets, and to property, plant and equipment, include £132.5 million (2022: £108.7 million) of own work capitalised. Judgement is made to ensure these costs relate to relevant assets and that future economic benefit will flow to the Group.

2. Key sources of estimation uncertainty and critical accounting judgement (continued)

a) Critical accounting judgements (continued)

ii *Asset lives*

The property, plant and equipment used in the Group is primarily the infrastructure and operational assets of the regulated water business. Infrastructure and operational assets have estimated useful lives of between 30 and 160 years and the depreciation charge is clearly sensitive to the lives allocated to the various types of asset.

Asset lives are reviewed regularly and changed where necessary to reflect the current view on their remaining lives in light of technological change, prospective economic utilisation and the physical condition of the assets.

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

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

iii *Recognition of grants and contributions*

a) Income from connections to the water and wastewater network

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

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

2. Key sources of estimation uncertainty and critical accounting judgement (continued)

a) Critical accounting judgements (continued)

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

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

For 3 and 4 it is the developer who constructs and transfers the asset, and therefore similar to the above, the agreement is between ourselves and the developer. The occupants of the properties

served are unaware of the transaction and indifferent to who is maintaining the asset, they receive no benefit from the transaction.

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

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

b) Diversions

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

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

2. Key sources of estimation uncertainty and critical accounting judgement (continued)

b) Key sources of estimation uncertainty

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

The key areas involving estimation are outlined below.

i *Measured income accrual*

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

ii *Retirement benefit actuarial assumptions*

The Group operates a number of defined benefit schemes (which are closed to new members and future accruals) as well as a defined contribution scheme and an unfunded arrangement for former employees. Under IAS 19 'Employee Benefits', the Group has recognised an actuarial loss of £211.3 million (2022: gain of £203.8 million) in respect of the defined benefit schemes which affects other comprehensive income and net assets. The actuarial valuation of the scheme liabilities is reliant on key assumptions which include: the discount rate, salary inflation and life expectancy. The main assumptions and associated sensitivities are set out in note 24 of the financial statements.

c) Other area involving estimation

i *Expected credit loss on trade receivables*

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

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

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

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

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

c) Other area involving estimation (continued)

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

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

3. Segmental information

By class of business for the year ended 31 March 2023

The Directors consider the Board to be the Group's chief operating decision maker in relation to segment reporting in accordance with IFRS 8 'Operating Segments'.

At 31 March 2023 the Group was organised into the following main businesses:

- Anglian Water – regulated water and water recycling services provider to customers in the East of England and Hartlepool.
- Anglian Venture Holdings – comprising:
  - Alpheus Environmental Limited – operates industrial and commercial wastewater treatment works in the UK,
  - Celtic Anglian Water Limited – operates water and wastewater treatment works in the Republic of Ireland,
  - Tide Services Limited – operates property conveyancing, residential insurances and the provision of web hosted information services for utilities on behalf of other group companies,
  - Wave Ltd – a 50:50 joint venture with Northumbrian Water Group Limited to provide water services to non-household customers in the UK,
  - OHL Property Holdings Limited - oversees the construction of a new water recycling centre, and
  - OHL Piper Limited – a property rental business
- Head Office and Other – comprises head office and other Group functions, including Property.

There has been no change in the basis of segmentation or in the measurement of segmental profit or loss in the year.

No operating segments have been aggregated to form the above reportable operating segments.

The Directors consider the Board to be the Group's chief operating decision maker in relation to segment reporting in accordance with IFRS 8 'Operating Segments'. Segmental performance is evaluated based on both profit and loss and cash flows (see table below). Segmental assets and liabilities do not form part of the Board's performance assessment and, as such, are not included in the segmental information.

3. Segmental information (continued)

Inter-segment revenues and profits are fully eliminated on consolidation and are shown separately in the following tables. The segment result represents operating profit.

By class of business for the year ended 31 March 2023

	Anglian Water £m	Anglian Venture Holdings £m	Head Office and Other £m	Inter-segment eliminations £m	Total £m
Revenue					
External	1,494.9	54.4	0.3	-	**1,549.6**
Inter-segment	-	9.4	-	(9.4)	**-**
	1,494.9	**63.8**	**0.3**	**(9.4)**	**1,549.6**
Segment result					
EBITDA	802.8	9.1	(11.9)	-	**800.0**
Depreciation and amortisation	(379.1)	(2.8)	0.2	-	**(381.7)**
Share of joint venture's operating profit	-	2.1	-	-	**2.1**
	423.7	**8.4**	**(11.7)**	**-**	**420.4**
Cash flows					
Operating cash flow	710.9	5.5	(13.9)	-	**702.5**
Capital expenditure	(660.0)	(0.3)	0.4	-	**(659.9)**
Net debt excluding derivative financial instruments	(6,247.9)	(1.7)	(2,139.5)	-	**(8,389.1)**

3. Segmental information (continued)

By class of business for the year ended 31 March 2022

	Anglian Water £m	Anglian Venture Holdings £m	Head Office and Other £m	Inter-segment eliminations £m	Total £m
Revenue					
External	1,399.8	53.0	-	-	1,452.8
Inter-segment	-	7.9	24.6	(32.5)	-
	1,399.8	60.9	24.6	(32.5)	1,452.8
Segment result					
EBITDA	788.5	10.3	(11.0)	-	787.8
Depreciation and amortisation	(347.7)	(2.9)	(0.5)	-	(351.1)
Share of joint venture's operating loss	-	(0.4)	-	-	(0.4)
Inter-segment	-	-	9.5	(9.5)	-
	440.8	7.0	(2.0)	(9.5)	436.3
Cash flows					
Operating cash flow	749.9	14.7	(21.2)	-	743.4
Capital expenditure	(518.2)	(0.6)	-	-	(518.8)
Net debt excluding derivative financial instruments	(5,621.3)	3.8	(2,141.8)	-	(7,759.3)

3. Segmental information (continued)

By geographical segment

The geographic information below analyses the Group's revenue, segment result and non-current assets by geographical location.

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Revenue		
United Kingdom	**1,510.1**	1,416.3
Other countries	**39.5**	36.5
	1,549.6	1,452.8
Segment result		
United Kingdom	**417.7**	430.3
Other countries	**2.7**	6.0
	420.4	436.3
Non-current assets		
United Kingdom	**11,704.1**	11,306.8
Other countries	**6.4**	13.5
	11,710.5	11,320.3

In presenting the above information, segment revenue has been based on the geographic location of customers.

3. Segmental information (continued)

Reconciliation of segmental information

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Segment result	**420.4**	436.3
Finance income	**43.8**	3.4
Finance costs	**(193.5)**	(646.0)
Share of joint ventures interest payable	**(2.3)**	(1.8)
Share of joint ventures tax	**(0.2)**	(0.4)
Profit/(loss) before tax from continuing operations	**268.2**	(208.5)
Total operating cash flow by segment	**702.5**	743.4
Income taxes paid	**(0.6)**	(0.8)
Net cash flows from operating activities	**701.9**	742.6
Purchase of property, plant and equipment	**(588.5)**	(465.8)
Purchase of intangible assets	**(75.8)**	(58.7)
Proceeds from disposal of property, plant and equipment	**4.4**	5.7
Capital expenditure spend by segment	**(659.9)**	(518.8)
Cash and cash equivalents	**518.0**	613.4
Cash deposits	**316.7**	430.7
Borrowings due within one year	**(1,165.0)**	(517.4)
Borrowings due after more than one year	**(8,058.8)**	(8,286.0)
Net debt by segment	**(8,389.1)**	(7,759.3)
Derivative financial instruments [1]	**(697.7)**	(1,162.0)
Net debt	**(9,086.8)**	(8,921.3)

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

4. Revenue

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Water and water recycling services:		
Anglian Water		
Household - measured	**859.9**	807.1
Household - unmeasured	**223.7**	221.3
Non-household - measured	**260.6**	228.9
Grants and contributions	**106.0**	100.1
Other	**44.7**	42.4
	1,494.9	1,399.8
Anglian Venture Holdings	**63.8**	60.9
Inter-segment eliminations	**(9.4)**	(7.9)
	1,549.3	1,452.8
Property revenue	**0.3**	-
	1,549.6	1,452.8

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

Included in Grants and contributions are adopted assets of £46.0 million (2022: £39.2 million) which are non-cash.

Other includes £25.9 million (2022: £25.2 million) of revenue related to non-appointed business activities.

The above analysis excludes other operating income see note 5 and finance income see note 7.
The Group derives its revenue from contracts with customers for the transfer of goods and services at a point in time in the above revenue categories, with the exception of Household – unmeasured which is recorded on a straight-line basis throughout the year, see our accounting policy in note 1 for further details.

4. **Revenue** (continued)

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

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

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

5. Other operating income

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

6. Operating costs

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Raw materials and consumables	**40.1**	29.0
Staff costs	**303.1**	266.9
Research and development	**7.9**	7.7
Contribution to Anglian Water Assistance Fund	**1.5**	2.2
Short-term lease costs	**3.2**	2.8
Hired and contracted services	**261.5**	233.0
Rates	**59.1**	66.9
Power	**89.7**	83.0
Regulatory fees	**32.7**	28.6
Insurance	**10.8**	11.9
Vehicles and fuel	**16.8**	13.0
Other expenses	**45.4**	34.9
Own work capitalised	**(132.5)**	(108.7)
Profit on disposal of property, plant and equipment [(1)]	**(3.9)**	(5.0)
Operating costs before depreciation, amortisation and charge for bad and doubtful debts	**735.4**	666.2
Depreciation of property, plant and equipment	**332.8**	310.0
Amortisation of intangible assets	**48.9**	41.0
Depreciation of investment properties	**-**	0.1
Depreciation and amortisation	**381.7**	351.1
Charge for bad and doubtful debts	**30.2**	11.1
Operating costs	**1,147.3**	1,028.4

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

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

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Fees payable to the Company's Auditor for the audit of the consolidated financial statements	**0.1**	0.1
Fees payable to the Company's Auditor for the audit of the subsidiaries	**0.5**	0.5
Fees payable to the Company's Auditor for other services		
Audit-related assurance services	**0.3**	0.3
	0.9	0.9

6. Operating Costs (continued)

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

7. Net finance costs

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Finance income		
Interest income on short-term bank deposits	**22.7**	1.7
Other interest income	**1.9**	1.7
Amortisation of fair value adjustments	**12.9**	13.9
Defined benefit pension scheme interest	**6.3**	0.5
	43.8	17.8
Finance costs		
Interest expense on bank loans and overdrafts	**(25.5)**	(2.7)
Interest expense on other loans including financing expenses	**(284.2)**	(290.2)
Indexation of loan stock	**(561.4)**	(255.0)
Amortisation of debt issue costs	**(7.6)**	(12.9)
Interest on leases	**(0.8)**	(1.2)
Total finance costs	**(879.5)**	(562.0)
Less: amounts capitalised on qualifying assets	**40.7**	16.7
	(838.8)	(545.3)
Fair value losses on derivative financial instruments		
Hedge ineffectiveness on cash flow hedges (1)	**-**	0.5
Hedge ineffectiveness on fair value hedges (2)	**0.3**	0.4
Amortisation of adjustment to debt in fair value hedge	**-**	(0.1)
Derivative financial instruments not designated as hedges	**654.2**	(104.1)
Recycling of de-designated cash flow hedge relationship	**(9.2)**	(11.8)
	645.3	(115.1)
Finance costs, including fair value losses on derivative financial instruments	**(193.5)**	(660.4)
Net finance costs	**(149.7)**	(642.6)

(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. See note 21 for details.

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

8. Taxation

	Year ended 31 March 2023	Year ended 31 March 2022
	£m	£m
Current tax:		
In respect of the current period	**0.7**	0.8
Total current tax charge	**0.7**	0.8
Deferred tax:		
Origination and reversal of temporary differences	**62.6**	(56.4)
Adjustments in respect of previous periods	**1.2**	(0.8)
Increase in corporation tax rate	**-**	345.5
Total deferred tax charge	**63.8**	288.3
Total tax charge on profit/(loss) from continuing operations	**64.5**	289.1

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

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

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

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

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

8. Taxation (continued)

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

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Profit/(loss) before tax from continuing operations	**268.2**	(208.5)
Profit/(loss) before tax from continuing operations at the standard rate of corporation tax in the UK of 19% (2022: 19%)	**51.0**	(39.6)
Effects of recurring items:		
Items not deductible for tax purposes		
Depreciation and losses on assets not eligible for tax relief	**0.6**	0.4
Disallowable expenditure	**1.4**	2.3
Interest restriction	**3.9**	4.7
Difference in overseas tax rates	**(0.3)**	(0.4)
Joint ventures results reported net of tax	**0.1**	0.5
	56.7	(32.1)
Effects of non-recurring items:		
Effect of capital allowance super deduction	**(10.8)**	(7.6)
Increase in corporation tax rate	**-**	345.5
Effects of differences between rates of current and deferred tax	**17.4**	(15.9)
Adjustments in respect of prior periods	**1.2**	(0.8)
Tax charge for the year	**64.5**	289.1

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

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Deferred tax:		
Defined benefit pension schemes	**(51.7)**	51.9
Cash flow hedges	**(0.2)**	17.6
Increase in corporation tax rate - pension	**-**	(11.6)
Increase in corporation tax rate - hedges	**-**	(2.6)
Total deferred tax (credit)/charge	**(51.9)**	55.3
Total tax (credit)/charge recognised in other comprehensive income	**(51.9)**	55.3

The Company is registered in Jersey but is not subject to Jersey income tax, as it is tax resident in the United Kingdom due to its business being centrally managed and controlled there.

9. Employee information and Directors' emoluments

a) Employee information

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Staff costs		
Wages and salaries	**253.9**	224.6
Social security costs	**26.8**	22.6
Pension costs - defined contribution	**22.3**	19.4
Pension costs - defined benefit	**0.1**	0.3
	303.1	266.9

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

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

	Year ended 31 March 2023	Year ended 31 March 2022
Anglian Water	**5,295**	5,129
Anglian Venture Holdings	**191**	185
Other	**66**	59
	5,552	5,373

The Company

The Company has no employees (2022: none).

9. Employee information and Directors' emoluments (continued)

b) Directors' emoluments

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Aggregate emoluments	**2,425**	2,221
Pension costs - defined contribution	**-**	2

Aggregate emoluments of the Directors comprise salaries, taxable benefits, cash payments in lieu of company pension contributions and amounts payable under annual bonus schemes. No retirement benefits are accrued for Directors (2022: none) under a defined benefit pension scheme. Retirement benefits are accruing to two Directors (2022: two Directors) under a defined contribution pension scheme.

c) Highest paid director

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Aggregate emoluments	**1,391**	1,304

10. Profit of the parent company

The Company has not presented its own income statement as permitted by article 105(11) of the Companies (Jersey) Law 1991. The profit in the year of the Company was £91.8 million (2022: £nil).

11. Goodwill

	Group	
	2023	2022
	£m	£m
Cost		
At 1 April and 31 March	**935.4**	935.4
Accumulated impairment		
At 1 April and 31 March	**(489.6)**	(489.6)
Net book amount		
At 31 March	**445.8**	445.8

Allocation of goodwill

All goodwill is allocated to the Anglian Water business segment, the Group's UK regulated water and water recycling services provider.

Impairment testing of goodwill allocated to Anglian Water

The recoverable amount of the Anglian Water segment is determined based on a fair value less cost to sell methodology.

This calculation uses a multiple of Regulatory Capital Value (RCV) with reference to the recent transactions that have taken place in the sector and the market value of the listed companies in the sector. The basis applied has been deemed appropriate as it is consistent with the economic value as assessed by management and other market participants.

The current comparable transactions in the sector indicate that current multiples are 1.25x, although these have been between 1.2x and 1.7x RCV in recent years. The implied multiples for the listed water companies are also around 1.1x to 1.2x on a non-controlling basis, based on current market capitalisation.

Adopting a current market average RCV multiple of 1.25x at 31 March 2023 results in headroom of £2,756 million (2022: 1.25x, £1,471 million). The headroom at 31 March 2023 is eliminated at an RCV multiple of 0.97x (2022: 1.08x).

Goodwill is also assessed using forecast discounted cashflows which also demonstrates that there is headroom above the carrying value.

12. Other intangible assets

				Group
	Computer Software £m	**Right to operate asset £m**	**Internally generated £m**	**Total £m**
Cost				
At 1 April 2021	398.8	21.6	157.3	**577.7**
Additions	46.1	-	16.0	**62.1**
Disposals	(2.5)	-	-	**(2.5)**
At 31 March 2022	442.4	21.6	173.3	**637.3**
Additions	54.3	-	28.4	**82.7**
Disposals	-	-	(12.3)	**(12.3)**
At 31 March 2023	**496.7**	**21.6**	**189.4**	**707.7**
Accumulated amortisation				
At 1 April 2021	(260.7)	(11.7)	(100.5)	**(372.9)**
Charge for the year	(23.5)	(2.3)	(15.2)	**(41.0)**
Disposals	2.1	-	-	**2.1**
At 31 March 2022	(282.1)	(14.0)	(115.7)	**(411.8)**
Charge for the year	(14.8)	(2.4)	(31.7)	**(48.9)**
Disposal of subsidiary undertaking	-	-	12.3	**12.3**
At 31 March 2023	**(296.9)**	**(16.4)**	**(135.1)**	**(448.4)**
Net book amount				
At 31 March 2023	**199.8**	**5.2**	**54.3**	**259.3**
At 31 March 2022	160.3	7.6	57.6	225.5

The ‘right to operate’ asset arose on the acquisition of Celtic Anglian Water Limited in June 2016, whilst the internally generated intangible assets mainly comprise capitalised development expenditure.

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

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

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

The Company

The Company has no intangible assets (2022: none).

13. Property, plant and equipment

						Group
	Land and buildings £m	**Infra-structure assets £m**	**Operational assets £m**	**Vehicles, mobile plant and equipment £m**	**Assets under construction £m**	**Total £m**
Cost						
At 1 April 2021	88.6	7,159.6	6,400.3	946.7	436.2	**15,031.4**
Additions	-	-	-	0.5	572.5	**573.0**
Transfers on commissioning	6.4	122.5	114.4	128.0	(371.3)	**-**
Disposals	(1.0)	-	(7.3)	(24.4)	-	**(32.7)**
At 31 March 2022	94.0	7,282.1	6,507.4	1,050.8	637.4	**15,571.7**
Additions	-	-	-	0.2	733.4	**733.6**
Transfers on commissioning	4.9	164.4	233.7	113.0	(516.0)	**-**
Disposals	(0.4)	-	(12.9)	(32.6)	-	**(45.9)**
At 31 March 2023	**98.5**	**7,446.5**	**6,728.2**	**1,131.4**	**854.8**	**16,259.4**
Accumulated depreciation						
At 1 April 2021	(17.0)	(840.8)	(3,491.1)	(639.0)	-	**(4,987.9)**
Charge for the year	(3.8)	(59.5)	(190.7)	(56.0)	-	**(310.0)**
Disposals	0.8	-	7.1	24.2	-	**32.1**
At 31 March 2022	(20.0)	(900.3)	(3,674.7)	(670.8)	-	**(5,265.8)**
Charge for the year	(4.1)	(62.3)	(202.9)	(63.5)	-	**(332.8)**
Disposals	0.4	-	12.5	32.5		**45.4**
At 31 March 2023	**(23.7)**	**(962.6)**	**(3,865.1)**	**(701.8)**	**-**	**(5,553.2)**
Net book amount						
At 31 March 2023	**74.8**	**6,483.9**	**2,863.1**	**429.6**	**854.8**	**10,706.2**
At 31 March 2022	74.0	6,381.8	2,832.7	380.0	637.4	10,305.9

Property, plant and equipment at 31 March 2023 includes land of £30.2 million (2022: £28.6 million), which is not subject to depreciation. Included within additions above is £34.4 million (2022: £13.6 million) of interest that has been capitalised on qualifying assets, at an average rate of 8.6 per cent (2022: 4.8 per cent).

13. **Property, plant and equipment** (continued)

Right-of-use assets held under leases

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

					Group
	Land and buildings £m	**Infra-structure assets £m**	**Operational assets £m**	**Vehicles, mobile plant and equipment £m**	**Total £m**
At 31 March 2023					
Opening net book value	21.8	4.9	36.9	5.7	**69.3**
Additions	0.1	-	-	6.0	**6.1**
Disposals	-	-	-	(0.2)	**(0.2)**
Depreciation charge	(3.0)	-	(1.3)	(2.2)	**(6.5)**
Depreciation on disposals	-	-	-	0.2	**0.2**
Net book value	18.9	4.9	35.6	9.5	**68.9**
At 31 March 2022					
Opening net book value	21.9	5.0	38.2	3.0	68.1
Additions	3.8	-	-	4.2	8.0
Disposals	(0.8)	-	-	(0.8)	(1.6)
Depreciation charge	(3.9)	(0.1)	(1.3)	(1.5)	(6.8)
Depreciation on disposals	0.8	-	-	0.8	1.6
Net book value	21.8	4.9	36.9	5.7	69.3

The Company

The Company has no property, plant and equipment (2022: none).

14. Investment properties

	Group	
	2023	2022
	£m	**£m**
Cost		
At 1 April	**3.7**	3.3
Revaluation	**-**	**0.4**
At 31 March	**3.7**	3.7
Accumulated depreciation		
At 1 April	**(0.1)**	(0.2)
Charge for the year	**-**	(0.1)
Disposals	**-**	0.2
At 31 March	**(0.1)**	(0.1)
Net book amount		
At 31 March	**3.6**	3.6

Investment properties are accounted for using the cost model, in line with the accounting policy for property, plant and equipment.

The fair value of investment properties is not materially different from their book value.

The Company

The Company has no investment properties (2022: none).

15. Investments

	Group		Company	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Non-current				
Joint ventures	**12.2**	12.6	**-**	-
Subsidiary undertakings	**-**	-	**663.2**	663.2
	12.2	12.6	**663.2**	663.2
Current				
Cash deposits	**316.7**	430.7	**-**	-
	316.7	430.7	**-**	-

Cash deposits disclosed within investments represent short-term bank deposits with maturities at the point of deposit of three to six months.

15. Investments (continued)

a) Joint ventures

	Group	
	2023	2022
	£m	£m
At 1 April	**12.6**	15.2
Loss for the year	**(0.4)**	(2.6)
At 31 March	**12.2**	12.6

The loss for the year comprises the Group's share of the results of its joint ventures as follows: operating profit of £2.1 million (2022: loss of £0.4 million), an interest expense of £2.3 million (2022: £1.8 million), and a tax charge of £0.2 million (2022: charge of £0.4 million).

The Group's initial investment in the Wave joint venture was £31.3 million, comprising an equity holding of £15.6 million and a £15.7 million 5.5 per cent medium-term loan repayable on 31 August 2027 or such other date as mutually agreed between the parties. During the year ended 31 March 2021, the Group undertook a debt for equity swap of £5.0 million, resulting in an equity holding of £20.6 million and a £10.7 million 5.5 per cent medium-term loan.

A full listing of the Group's joint ventures can be found in note 34, none of which are material to the Group.

Osprey Holdco Limited and Anglian Venture Holdings Limited are party to indemnities in respect of the Wave joint venture in relation to wholesale water charges payable to Anglian Water Services Limited for £14.5 million and another wholesaler for £10.0 million. Additionally, Anglian Venture Holdings Limited is party to an indemnity in respect of the Wave joint venture in relation to wholesale water charges payable to other wholesalers for £7.5 million.

In addition, Anglian Venture Holdings Limited has undertaken to discharge any defined benefit pension scheme liability arising on any of its employees, including those of Anglian Water Business (National) Limited, transferring into the Wave joint venture.

The joint ventures have no significant contingent liabilities to which the Group is exposed.

b) Subsidiary undertakings

			Company
	Loans to subsidiary undertakings	**Shares in subsidiary undertakings**	**Total**
	£m	**£m**	**£m**
Cost			
At 1 April 2021, at 1 March 2022 and at 31 March 2023	**548.0**	**663.2**	**1,211.2**

15. Investments (continued)

b) Subsidiary undertakings (continued)

The loan is interest free and repayable on demand, and has been included in long-term trade and other receivables.

The Directors are of the opinion that the value of the investments is supported by the underlying assets.

Subsidiary undertakings are listed in note 34.

16. Inventories

	Group	
	2023	2022
	£m	£m
Raw materials and consumables	**20.7**	17.0
Work in progress	**7.1**	6.8
	27.8	23.8

Work in progress comprises the cost of properties held for development.

The Company

The Company has no inventories (2022: none).

17. Trade and other receivables

	Group	
	2023	2022
	£m	£m
Short-term:		
Trade receivables	**443.0**	414.0
Provision for bad and doubtful debts	**(258.2)**	(236.5)
Net trade receivables	**184.8**	177.5
Amounts receivable from group undertakings	**0.2**	-
Loans receivable from joint ventures	**21.3**	35.7
Other amounts receivable	**41.2**	31.7
Prepayments and accrued income	**351.4**	322.3
	598.9	567.2

17. Trade and other receivables (continued)

	Company	
	2023	2022
	£m	£m
Long-term:		
Loans receivable from subsidiaries	**548.0**	548.0
	548.0	548.0

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

Other amounts receivable includes £19.4 million VAT debtor (2022: £16.0 million).

Loans receivable from joint ventures at 31 March 2023 comprise the following amounts due from the Wave joint venture:

- A £16.7 million (2022: £16.7 million) loan at 12 month SONIA plus 2.75 per cent plus credit adjusted spread (CAS) with no fixed repayment date (previously at LIBOR plus 2.75 per cent);
- A £4.6 million (2022: £15.0 million) short-term working capital facility at one month SONIA plus 2.75 per cent plus CAS (previously at LIBOR plus 2.75 per cent); and
- Nil balance on the preference loan after repayment of the last instalment (2022: £4.0 million) 5.0 per cent preference loan for the original loan amount of £20.0 repayable in five annual instalments of £4.0 million from August 2018.

In addition to loans receivable from joint ventures in the above table, the following additional amounts due from joint ventures have been included:

- Accrued income of £8.3 million (2022: £4.9 million) and interest receivable of £1.7 million (2022: £1.7 million), included within prepayments and accrued income; and

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

The Group manages its risk from trading through the effective management of customer relationships. By far the most significant business unit of the Group is Anglian Water, which represents 96.5 per cent of the Group’s revenue and 96.3 per cent of its net trade receivables. Concentrations of credit risk with respect to household trade receivables are limited due to the Anglian Water customer base consisting of a large number of unrelated households. The Water Industry Act 1991 (as amended by the Water Industry Act 1999) prohibits the disconnection of a water supply and the limiting of supply with the intention of enforcing payment for certain premises including domestic dwellings. However, allowance is made by the water regulator in the price limits at each price review for a proportion of debt deemed to be irrecoverable. Considering the above, the Directors believe there is no further credit risk provision required in excess of the allowance for doubtful receivables.

Following the introduction of market reform on 1 April 2017, the provision of water and wastewater services to non-household customers was transferred to a relatively small number of licenced retailers.

17. Trade and other receivables (continued)

Anglian Water bills the retailers on a monthly basis, and they are contractually obliged to pay in full within one month and therefore the credit risk is limited to one month's revenue relating to non-household customers.

The principal retailer that Anglian Water transacts with is Wave Ltd, with £nil receivables (2022: £nil) and £8.3 million of income accrued at 31 March 2023 (2022: £4.9 million).

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

		Group
	2023	2022
	£m	£m
At 1 April	**236.5**	233.7
Charge for bad and doubtful debts	**30.2**	11.1
Amounts written off during the year	**(8.7)**	(8.8)
Amounts recovered during the year	**0.2**	0.5
At 31 March	**258.2**	236.5

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

18. Analysis of net debt

					Group
		Current asset	Liabilities from financing activities		
	Net cash and cash equivalents[(1)]	investments - cash deposits	Borrowings	Derivative financial instruments [(2)]	Total
	£m	£m	£m	£m	£m
At 1 April 2021	273.3	88.5	(8,006.2)	(841.0)	**(8,485.4)**
Cash flows					
Interest paid	(281.9)	-	29.0	(3.0)	**(255.9)**
Issue costs paid	(28.7)	-	28.7	-	**-**
Interest on leases	(1.2)	-	-	-	**(1.2)**
Increase in amounts borrowed	2,040.5	-	(2,040.5)	-	**-**
Repayment of amounts borrowed	(1,338.4)	-	1,338.4	-	**-**
Principal settlement on derivatives	75.9	-	-	(75.9)	**-**
Repayment of principal on leases	(13.1)	-	13.1	-	**-**
Non-financing cash flows [(3)]	(113.0)	342.2	-	-	**229.2**
	340.1	342.2	(631.3)	(78.9)	**(27.9)**
Movement in interest accrual on debt	-	-	(8.8)	-	**(8.8)**
New lease agreements	-	-	(8.4)	-	**(8.4)**
Amortisation of issue costs	-	-	(12.9)	-	**(12.9)**
Amortisation of fair value adjustments	-	-	13.9	-	**13.9**
Indexation of borrowings and RPI swaps	-	-	(170.2)	(84.8)	**(255.0)**
Fair value gains and losses and foreign exchange	-	-	20.5	(157.3)	**(136.8)**
At 31 March 2022	613.4	430.7	(8,803.4)	(1,162.0)	**(8,921.3)**
Cash flows					
Interest paid	(300.5)	-	27.6	(3.5)	**(276.4)**
Issue costs paid	(2.4)	-	2.7	-	**0.3**
Interest on leases	(0.8)	-	-	-	**(0.8)**
Increase in amounts borrowed	1,117.8	-	(1,117.8)	-	**-**
Repayment of amounts borrowed	(1,005.8)	-	1,005.8	-	**-**
Repayment of principal on leases	(6.4)	-	6.4	-	**-**
Non-financing cash flows [(3)]	102.7	(114.0)	-	-	**(11.3)**
	(95.4)	(114.0)	(75.3)	(3.5)	**(288.2)**

18. Analysis of net debt (continued)

					Group
		Current asset	Liabilities from financing activities		
	Net cash and cash equivalents[1]	investments - cash deposits	Borrowings	Derivative financial instruments [2]	Total
	£m	£m	£m	£m	£m
Movement in interest accrual on debt	-	-	2.2	-	**2.2**
New lease agreements	-	-	(5.9)	-	**(5.9)**
Amortisation of issue costs	-	-	(7.6)	-	**(7.6)**
Amortisation of fair value adjustments	-	-	12.9	-	**12.9**
Indexation of borrowings and RPI swaps	-	-	(363.0)	(198.4)	**(561.4)**
Fair value gains and losses and foreign exchange	-	-	16.3	666.2	**682.5**
Interest added to debt	-	-	-	-	**-**
At 31 March 2023	**518.0**	**316.7**	**(9,223.8)**	**(697.7)**	**(9,086.8)**
Net debt at 31 March 2023 comprises:					
Non-current assets	-	-	-	182.9	**182.9**
Current assets	518.0	316.7	-	37.4	**872.1**
Current liabilities	-	-	(1,165.0)	(31.5)	**(1,196.5)**
Non-current liabilities	-	-	(8,058.8)	(886.5)	**(8,945.3)**
	518.0	**316.7**	**(9,223.8)**	**(697.7)**	**(9,086.8)**

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

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

(3) Non-financing cash flows comprise: net cash flows from operating activities of £702.5 million (2022: £743.4 million), less net cash used in investing of £507.4 million (2022: £855.6 million).

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

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

18) Analysis of net debt (continued)

Current asset investments above comprise £316.7 million (2022: £430.5 million) of short-term cash deposits with an original maturity of more than three months.

At 31 March 2023, £335.1million (2022: £475.8 million) of the Group's cash and cash equivalents and £298.0 million (2022: £392.0 million) of the short-term deposits were held by Anglian Water and its financing subsidiary. In order for these amounts to be made available to the rest of the Group, Anglian Water Services Limited must satisfy certain covenants, which were put in place on 30 July 2002 following a financial restructuring, prior to declaring dividends. A further £0.2 million (2022: £0.2 million) of the Group's cash and cash equivalents was held as collateral for outstanding loan notes. In addition, £0.8 million (2022: £0.4 million) of the Group's cash and cash equivalents and £3.5 million (2022: £3.7 million) of the short-term deposits were held by Rutland Insurance Limited (the Group's captive insurance company) in order to maintain its required solvency ratio.

19. Trade and other payables

	Group		Company	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Trade payables	**32.5**	43.0	**-**	-
Capital creditors and accruals	**189.5**	130.9	**-**	-
Receipts in advance	**345.5**	338.3	**-**	-
Amounts owed to Group undertakings	**-**	-	**0.1**	0.1
Other taxes and social security	**7.8**	6.7	**-**	-
Accruals and deferred income	**109.9**	83.8	**-**	-
Other payables	**15.1**	7.8	**-**	-
	700.3	610.5	**0.1**	0.1

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

Accruals and deferred income is made up of £90.0 million accruals (2022: £68.7 million) with the remainder attributable to deferred income.

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

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

20. Loans and other borrowings

	Group	
	2023	2022
	£m	£m
£250 million 5.837% fixed rate 2022	**-**	260.1
£200 million 6.875% fixed rate 2023	**209.2**	211.1
£200 million 6.625% fixed rate 2029	**210.2**	211.5
£246 million 6.293% fixed rate 2030	**262.1**	266.5
£75 million 3.666% index-linked 2024	**151.2**	135.8
£200 million 3.07% index-linked 2032	**424.0**	382.5
£60 million 3.07% index-linked 2032	**119.7**	115.2
IFRS 16 leases	**31.3**	32.3
£402 million 2.4% index-linked 2035	**505.8**	681.1
£50 million 1.7% index-linked 2046	**95.0**	85.3
£50 million 1.7% index-linked 2046	**95.2**	86.0
£40 million 1.7146% indexation bond 2056	**79.3**	71.3
£50 million 1.6777% indexation bond 2056	**98.6**	88.6
£60 million 1.7903% indexation bond 2049	**117.3**	105.5
£100 million 1.3784% indexation bond 2057	**178.7**	159.5
£50 million 1.3825% indexation bond 2056	**89.3**	79.7
£100 million Class A wrapped floating rate bonds 2057	**100.6**	100.0
£75 million 1.449% indexation bond 2062	**121.1**	111.4
£50 million 1.52% indexation bond 2055	**81.0**	74.3
£110 million Class A unwrapped floating rate bonds 2043	**110.4**	110.0
£25 million 6.875% private placements 2034	**25.0**	25.0
£130 million 2.262% indexation bond 2045	**213.2**	188.4
EIB £75 million 0.53% index-linked term facility 2027 (1)	**45.6**	50.4
EIB £75 million 0.79% index-linked term facility 2027 (1)	**45.6**	50.4
£250 million 4.5% fixed rate 2027	**253.6**	253.3
£15 million 1.37% index-linked private placements 2022	**-**	19.9
£50 million 2.05% index-linked private placements 2033	**74.8**	66.1
£31.9 million 3.983% private placements 2022	**-**	32.5
£73.3 million 4.394% private placements 2028	**66.2**	72.1
£22.3 million 3.983% private placements 2022	**-**	22.7
EIB £150 million 0% index-linked term facility 2028 (2)	**110.5**	117.3
£200 million 4.5% fixed rate 2026	**194.8**	200.3
£35 million 1.141% index-linked bond 2042	**51.1**	45.2
US$170 million 3.84% private placements 2023	**138.8**	133.0
£93 million 3.537% private placements 2023	**94.5**	94.4
EIB £65 million 0.41% index-linked term facility 2029(3)	**55.8**	57.6
EIB Tranche 2 £125 million 0.1% 2029 (3)	**114.9**	117.3
EIB Tranche 3 £60 million 0.01% 2030 (4)	**59.1**	59.8
RCF £550 million	**(1.7)**	(2.2)
RCF £50 million bilaterals	**(0.1)**	(0.1)
US$150 million 3.29% private placements 2026	**118.4**	113.7
£55 million 2.93% fixed rate private placements 2026	**55.5**	55.4
£20 million 2.93% fixed rate private placements 2026	**20.1**	20.1
Sub-total carried forward	**4,815.7**	5,160.3

20. Loans and other borrowings (continued)

	Group	
	2023	2022
	£m	£m
Sub-total brought forward	**4,815.7**	5,160.3
£35 million floating rate private placements 2031	**34.8**	34.8
£200 million 2.6225% fixed rate 2027	**191.7**	196.8
£250 million Green Bond 1.625% 2025	**233.8**	242.8
£300 million Green bond 2.75% 2029	**300.8**	300.4
£25 million 3.0% fixed rate 2031	**25.0**	25.0
US$53 million 3.053% fixed rate 2029	**43.0**	40.4
£85 million 2.88% fixed rate 2029	**84.9**	84.9
£65 million 2.87% fixed rate 2029	**65.5**	65.5
£65 million CPI 0.835% 2040	**75.9**	68.6
JPY 7 billion 0.855% fixed rate 2039	**42.7**	43.7
EDC £100 million 1.588% fixed rate 2028	**100.4**	100.3
£50 million 1.76% fixed rate 2035	**50.0**	50.0
JPY 7 billion 0.85% fixed rate 2040	**32.6**	35.2
JR £26.1 million CPI 0.01% 2035	**33.4**	31.4
BPPT £26.1 million CPI 0.01% 2035	**33.2**	31.2
£35 million 2.14% fixed rate 2036	**26.1**	32.0
£40 million 2.14% fixed rate 2036	**29.9**	36.6
£40 million 2.14% fixed rate 2036	**25.6**	24.6
C$ 350 million 4.525% Maple 2032	**209.1**	-
£266 million 6.07% private placement 2037	**272.4**	-
£100 million CPIH index linked 3.017% 2040 loan	**103.0**	-
£75 million floating loan 2029	**75.6**	-
£75 million floating loan 2032	**75.6**	-
RCF £325 million	**(0.7)**	-
Liquidity facilities	**0.3**	0.4
£210 million Class B 5.0% fixed rate bond 2023	**-**	214.0
£240 million Class B 4.0% fixed rate bond 2026	**239.8**	239.6
£300 million 2.0% fixed rate bond 2028	**299.2**	298.7
£100 million 2.37% private placements 2031	**100.4**	100.5
£105 million 2.2% private placements 2028	**105.1**	105.3
£100 million floating term facility 2026	**100.1**	99.0
Loan notes	**0.2**	0.2
RCF £250m	**73.3**	(2.1)
£100 million 6.96% private placement 2033	**100.3**	**-**
Other loans	**1.8**	1.4
£10.5 million fixed to floating rate notes 2027	**10.7**	10.7
£145 million fixed to floating rate notes 2028	**147.7**	147.7
£120 million 4.82% fixed rate 2030	**118.7**	118.3
£30 million floating rate notes 2030	**30.9**	30.5
£50 million fixed to floating rate notes 2030	**49.9**	49.9
£95 million floating rate private placements 2027	**96.0**	94.8
£125 million floating term facility 2026	**124.8**	123.2
£75 million floating term facility 2026	**74.9**	74.0
£75 million private placement 2030	**76.8**	**-**
£462 million 5.5% unsecured loan notes	**481.2**	481.2
£11.83 million 3.302% fixed rate 2026	**11.7**	11.6
Total loans and other borrowings	**9,223.8**	8,803.4

20. Loans and other borrowings (continued)

	2023	2022
	£m	£m
Included in:		
Current liabilities	**1,165.0**	517.4
Non-current liabilities	**8,058.8**	8,286.0
Of which are leases:		
Current liabilities	**5.4**	6.8
Non-current liabilities	**25.9**	25.5

1) These instruments are amortising from 2017 until the date of maturity shown.

(2) This instrument is amortising from 2018 until the date of maturity shown.

(3) These instruments are amortising from 2019 until the date of maturity shown.

(4) This instrument is amortising from 2020 until the date of maturity shown.

The Company

The Company has no loans and other borrowings (2022: none).

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

These loans are shown net of issue costs and borrowings premium of £35.1 million (2022: £31.7 million). The issue costs are amortised at the effective interest rate based on the carrying amount of debt over the life of the underlying instruments.

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

A security agreement dated 31 January 2011 between Anglian Water (Osprey) Financing Plc, Osprey Acquisitions Limited and Deutsche Trustee Company Limited (as agent and trustee for itself and each of the Finance Parties to the Guaranteed Secured Medium Term Note Programme) created a fixed and floating charge over the assets of Anglian Water (Osprey) Financing Plc and Osprey Acquisitions Limited. In addition there is a fixed charge over the issued share capital of Anglian Water (Osprey) Financing Plc and AWG Parent Co Limited. At 31 March 2023, this charge applies to £1,018.4 million (2022: £1,055.2 million) of the debt listed above.

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

20. Loans and other borrowings (continued)

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

				Group
	Carrying value £m	Proportion hedged %	Accumulated hedge adjustment [1] £m	Discounted hedge adjustment £m
2023				
US$150 million 3.29% private placements 2026	118.4	76	4.5	-
US$170 million 3.84% private placements 2023	138.8	94	1.4	-
£200 million 2.6225% fixed rate 2027	191.7	41	8.9	-
£200 million 4.5% fixed rate 2026	194.8	50	5.3	-
£246 million 6.293% fixed rate 2030	250.3	20	4.8	-
£250 million Green Bond 1.625% 2025	233.8	100	17.8	-
£73.3 million 4.394% private placements 2028	66.2	100	8.6	-
JPY 7 billion 0.85% fixed rate 2040	32.6	100	9.9	-
£35 million 2.14% fixed rate 2036	26.1	100	9.0	-
£40 million 2.14% fixed rate 2036	29.9	100	10.2	-
US$35 million 1.16% private placements 2026	25.6	100	2.6	-
	1,308.2		**83.0**	**-**
2022				
US$150 million 3.29% private placements 2026	113.7	76	1.5	-
US$160 million 4.52% private placements 2021	-	100	-	-
US$170 million 3.84% private placements 2023	133.0	94	(1.5)	-
£200 million 2.6225% fixed rate 2027	196.8	41	3.5	-
£200 million 4.5% fixed rate 2026	200.3	50	(0.5)	-
£246 million 6.293% fixed rate 2030	266.5	20	1.9	-
£250 million Green Bond 1.625% 2025	242.8	100	8.5	-
£73.3 million 4.394% private placements 2028	72.1	100	2.7	-
US$410 million 5.18% private placements 2021	-	-	-	-
JPY 7 billion 0.85% fixed rate 2040	35.2	100	8.3	-
£35 million 2.14% fixed rate 2036	32.0	100	3.0	-
£40 million 2.14% fixed rate 2036	36.6	100	3.5	-
US$35 million 1.16% private placements 2026	24.6	100	1.8	-
	1,353.6		32.7	-

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

21. Financial instruments

Financial assets by category

	Assets at fair value through profit and loss £m	Derivatives used for hedging £m	Assets at amortised cost and cash equivalents £m	Investments at amortised cost £m	Group Total £m
At 31 March 2023					
Investments					
Current - cash deposits	-	-	-	316.7	**316.7**
Cash and cash equivalents					
Current	-	-	518.0	-	**518.0**
Trade and other receivables					
Current	-	-	581.9	-	**581.9**
Derivative financial instruments					
Current	7.9	47.9	-	-	**55.8**
Non-current	129.1	65.3	-	-	**194.4**
	137.0	**113.2**	**1,099.9**	**316.7**	**1,666.8**
At 31 March 2022					
Investments					
Current - cash deposits	-	-	-	430.7	430.7
Cash and cash equivalents					
Current	-	-	613.4	-	613.4
Trade and other receivables					
Current	-	-	557.6	-	557.6
Derivative financial instruments					
Current	4.7	51.8	-	-	56.5
Non-current	-	57.8	-	-	57.8
	4.7	109.6	1,171.0	430.7	1,716.0

Trade and other receivables above exclude prepayments.

21. **Financial instruments** (continued)

Financial assets by category (continued)

					Company
	Assets at fair value through profit and loss	**Derivatives used for hedging**	**Assets at amortised cost and cash equivalents**	**Investments at amortised cost**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
At 31 March 2023					
Investments					
Non-current	-	-	-	663.2	**663.2**
Trade and other receivables					
Non-current	-	-	548.0	-	**548.0**
	-	**-**	**548.0**	**663.2**	**1,211.2**
At 31 March 2022					
Investments					
Non-current	-	-	-	663.2	663.2
Trade and other receivables					
Non-current	-	-	548.0	-	548.0
	-	-	548.0	663.2	1,211.2

21. Financial instruments (continued)

Financial liabilities by category (continued)

	Liabilities at fair value through profit and loss £m	Derivatives used for hedging £m	Other liabilities held at amortised cost £m	Total £m
				Group
At 31 March 2023				
Borrowings				
Current	-	-	1,165.0	**1,165.0**
Non-current	-	-	8,058.8	**8,058.8**
Trade and other payables				
Current	-	-	347.0	**347.0**
Derivative financial instruments				
Current	24.6	28.8	-	**53.4**
Non-current	807.7	86.1	-	**893.8**
	832.3	**114.9**	**9,570.8**	**10,518.0**
At 31 March 2022				
Borrowings				
Current	-	-	517.4	517.4
Non-current	-	-	8,286.0	8,286.0
Trade and other payables				
Current	-	-	265.5	272.2
Derivative financial instruments				
Current	10.1	-	-	10.1
Non-current	1,145.9	46.9	-	1,192.8
	1,156.0	46.9	9,075.6	10,278.5

Trade and other payables above exclude receipts in advance.

21. Financial instruments (continued)

Financial liabilities by category (continued)

	Other liabilities held at amortised cost £m	Total £m
At 31 March 2023		
Trade and other payables		
Current	0.1	**0.1**
	0.1	**0.1**
At 31 March 2022		
Trade and other payables		
Current	0.1	0.1
	0.1	0.1

21. **Financial instruments** (continued)

Derivative financial instruments

				Group
		2023		2022
	Assets	**Liabilities**	Assets	Liabilities
	£m	**£m**	£m	£m
Designated as cash flow hedges				
Interest rate swaps	**31.3**	**(0.6)**	0.5	(2.9)
Cross currency interest rate swaps	**16.0**	**(6.2)**	5.2	(8.9)
Energy swaps	**29.9**	**(29.2)**	75.6	(2.2)
	77.2	**(36.0)**	81.3	(14.0)
Designated as fair value hedges				
Interest rate swaps	**0.9**	**(64.0)**	1.0	(21.4)
Cross currency interest rate swaps	**35.1**	**(14.9)**	27.3	(11.5)
	36.0	**(78.9)**	28.3	(32.9)
Derivative financial instruments designated as hedges	**113.2**	**(114.9)**	109.6	(46.9)
Derivative financial instruments not designated as hedges				
Interest rate swaps and swaptions	**0.4**	**(104.9)**	-	(173.9)
RPI swaps	**121.9**	**(505.0)**	-	(654.8)
CPI swaps	**14.7**	**(222.4)**	4.7	(327.3)
Total derivative financial instruments	**250.2**	**(947.2)**	114.3	(1,202.9)
Derivative financial instruments can be analysed as follows:				
Current	**55.8**	**(53.4)**	56.5	(10.1)
Non-current	**194.4**	**(893.8)**	57.8	(1,192.8)
	250.2	**(947.2)**	114.3	(1,202.9)

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

The Company

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

21. Financial instruments (continued)

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

Leases

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

		Group
	2023	2022
	£m	£m
Within one year	**6.9**	6.7
Between two and five years	**20.0**	18.1
After five years	**11.1**	14.1
	38.0	38.9
Future finance charges on leases	**(6.7)**	(6.6)
Present value of lease liabilities	**31.3**	32.3

21. **Financial instruments** (continued)

Fair value of financial assets and liabilities

				Group
		2023		2022
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m
Cash and cash equivalents	**518.0**	**518.0**	613.4	613.4
Current asset investments - cash deposits	**316.7**	**316.7**	430.7	430.7
Borrowings				
Current	**(1,165.0)**	**(1,168.0)**	(517.4)	(532.7)
Non-current	**(8,058.8)**	**(8,597.5)**	(8,286.0)	(10,220.3)
Interest and cross currency interest rate swaps - assets				
Current	**30.0**	**30.0**	**3.7**	3.7
Non-current	**53.7**	**53.7**	**30.3**	30.3
Interest and cross currency interest rate swaps - liabilities				
Current	**(10.7)**	**(10.7)**	**(0.3)**	(0.3)
Non-current	**(179.9)**	**(179.9)**	**(218.3)**	(218.3)
RPI swaps - assets				
Current	**1.9**	**1.9**	**-**	**-**
Non-current	**120.0**	**120.0**	**-**	**-**
RPI swaps - liabilities				
Current	**(20.3)**	**(20.3)**	**(9.8)**	(9.8)
Non-current	**(484.7)**	**(484.7)**	**(645.0)**	(645.0)
CPI swaps - assets				
Current	**5.5**	**5.5**	**4.7**	4.7
Non-current	**9.2**	**9.2**	**-**	-
CPI swaps - liabilities				
Current	**(0.5)**	**(0.5)**	**-**	-
Non-current	**(221.9)**	**(221.9)**	**(327.3)**	(327.3)
Net debt	**(9,086.8)**	**(9,628.5)**	(8,921.3)	(10,870.9)
Energy derivatives - assets				
Current	**18.4**	**18.4**	48.1	48.1
Non-current	**11.5**	**11.5**	27.5	27.5
Energy derivatives - liabilities				
Current	**(21.9)**	**(21.9)**	-	-
Non-current	**(7.3)**	**(7.3)**	(2.2)	(2.2)
	(9,086.1)	**(9,627.8)**	(8,847.9)	(10,797.5)

21. Financial instruments (continued)

Fair value of financial assets and liabilities (continued)

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

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

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

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

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

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

Level 3 derivative financial instruments

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

21. Financial instruments (continued)

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

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

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

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

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

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

Control of treasury

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

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

21. Financial instruments (continued)

Financing structure

The Group's regulated water and water recycling business, Anglian Water Services Limited, is funded predominately by debt in the form of long-term bonds and other debt instruments through its financing subsidiary Anglian Water Services Financing Plc. At 31 March 2023, Anglian Water's net debt to capital value ratio (net debt as defined in the Common Terms Agreement expressed as a percentage of Anglian Water's regulated capital value) was 65.6 per cent (2022: 64.8 per cent).

The Group has also raised finance within Osprey Holdco Limited, and Osprey Acquisitions Limited through its financing subsidiary Anglian Water (Osprey) Financing Plc.

Borrowing covenants

The Group's borrowings are raised by Osprey Holdco Limited, Osprey Acquisitions Limited, Anglian Water (Osprey) Financing Plc and Anglian Water Services Financing Plc. The treasury function monitors compliance against all financial obligations and it is the Group's policy to manage the balance sheet so as to ensure operation within covenant restrictions. There were no covenant breaches in the year.

Management of financial risk

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

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

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

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

a) Market risk

i) Foreign currency

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

21. Financial instruments (continued)

a) Market risk (continued)

i) Foreign currency (continued)

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

21. **Financial instruments** (continued)

a) **Market risk** (continued)

i) Foreign currency (continued)

				Group
	Within one year m	**Between one and five years m**	**Between five and 25 years m**	**Total m**
At 31 March 2023				
Foreign currency borrowings - hedged item				
JPY	-	-	14,000.0	**14,000.0**
USD	170.0	185.0	53.0	**408.0**
CAD	-	-	350.0	**350.0**
Cross currency interest rate swap - cashflow hedge				
JPY	-	-	(7,000.0)	**(7,000.0)**
USD	(10.8)	(36.0)	(53.0)	**(99.8)**
CAD	-	-	(350.0)	**(350.0)**
Cross currency interest rate swap - fair value hedge				
JPY	-	-	(7,000.0)	**(7,000.0)**
USD	(159.2)	(149.0)	-	**(308.2)**
Net currency exposure	**-**	**-**	**-**	**-**
Weighted average spot rate				
JPY	-	-	138.3	**-**
USD	1.5	1.4	1.3	**-**
CAD	-	-	1.6	
At 31 March 2022				
Foreign currency borrowings - hedged item				
JPY	-	-	14,000.0	14,000.0
USD	-	355.0	53.0	408.0
Cross currency interest rate swap - cashflow hedge				
JPY	-	-	(7,000.0)	(7,000.0)
USD	-	(46.8)	(53.0)	(99.8)
Cross currency interest rate swap - fair value hedge				
JPY	-	-	(7,000.0)	(7,000.0)
USD	-	(308.2)	-	(308.2)
Net currency exposure	-	-	-	-
Weighted average spot rate				
JPY	-	-	138.3	**-**
USD	-	1.5	1.3	**-**

21. Financial instruments (continued)

a) Market risk (continued)

i) Foreign currency *(continued)*

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

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

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

ii) Interest rate and inflation rate risk

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

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

21. Financial instruments (continued)

a) Market risk (continued)

ii) Interest rate and inflation rate risk (continued)

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

				Group
	Debt position £m	Swap impact £m	Post swap position £m	Effective interest rate %
At 31 March 2023				
Fixed	(5,072.9)	1,505.0	(3,567.9)	4.9
Floating	(936.7)	(122.8)	(1,059.5)	2.8
Index-linked	(3,073.0)	(1,722.1)	(4,795.1)	7.8
Leases	(27.1)	-	(27.1)	2.5
	(9,109.7)	**(339.9)**	**(9,449.6)**	
At 31 March 2022				
Fixed	(4,954.0)	1,548.8	(3,405.2)	4.9
Floating	(670.0)	(146.9)	(816.9)	2.8
Index-linked	(2,974.6)	(1,548.7)	(4,523.3)	7.8
Leases	(30.6)	-	(30.6)	2.5
	(8,629.2)	(146.8)	(8,776.0)	

Where exposures arising out of debt issuances are swapped this risk is hedged using cross currency interest rate swaps, interest rate swaps or inflation swaps. The Group assesses the economic relationship by comparing the cash flows on the underlying debt instrument with the offsetting cash flows on the hedge to ensure an exact offset of the specified notional value of the debt is achieved. This results in a notional hedge ratio of one for all interest rate hedge relationships. Both cash flow hedge accounting and fair value hedge accounting are applied as appropriate.

21. Financial instruments (continued)

a) Market risk (continued)

ii) Interest rate and inflation rate risk (continued)

Derivatives that do not qualify for hedge accounting primarily consist of those relationships which swap debt into inflation. The table below outlines the Group's exposures to interest rates from derivative swaps in isolation (excluding offsetting debt instrument cashflows).

							Group
	Within one year £m	**Between one and five years £m**	**Between five and 25 years £m**	**After 25 years £m**	**Mark to market £m**	**Interest rate (weighted average) payable**	**receivable**
At 31 March 2023							
Interest rate swaps							
Floating to fixed rate	-	99.0	450.0	-	1.3	2.8	2.3
Floating from fixed rate	-	731.2	148.3	-	(76.1)	2.8	1.8
Fixed to fixed interest rate swaps	-	218.8	362.5	-	(54.3)	3.5	1.7
Inflation swaps							
Floating to RPI	-	150.0	225.0	190.9	(391.0)	3.5	3.0
Fixed to CPI	-	-	565.9	100.0	(165.1)	0.9	3.6
Floating to CPI	-	-	150.4	-	(42.5)	0.8	2.8
Cross currency swaps							
JPY	-	-	101.2	-	(16.7)	3.2	0.9
USD	110.5	129.7	40.1	-	47.0	3.4	3.5
CAD	-	-	224.8	-	(0.3)	3.8	4.5
Total	**110.5**	**1,328.7**	**2,268.2**	**290.9**	**(697.7)**		
At 31 March 2022							
Interest rate swaps							
Floating to fixed rate	17.9	25.0	524.0	-	(109.0)	2.9	0.2
Floating from fixed rate	17.9	650.0	229.5	-	(19.8)	0.6	1.7
Fixed to fixed interest rate swaps	-	100.0	481.3	-	(66.2)	3.5	1.7
Inflation swaps							
Floating to RPI	-	150.0	225.0	190.9	(656.3)	3.2	1.1
Fixed to CPI	-	-	565.9	100.0	(230.7)	0.9	3.6
Floating to CPI	-	-	150.4	-	(91.9)	0.7	0.9
Cross currency swaps							
JPY	-	-	101.2	-	(19.7)	2.1	0.9
USD	-	240.3	40.1	-	31.5	1.8	3.5
Total	35.8	1,165.3	2,317.4	290.9	(1,162.1)		

21. Financial instruments (continued)

a) Market risk (continued)

ii) Interest rate and inflation rate risk *(continued)*

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

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

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

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

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

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

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

Debt instruments

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

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

21. **Financial instruments** (continued)

a) **Market risk** (continued)

ii) Interest rate and inflation rate risk *(continued)*

Inflation risk is reported monthly to the Finance, Treasury and Energy Policy Group, which manages inflation risk by identifying opportunities to amend the economic hedge currently in place where deemed necessary.

The sensitivity at 31 March of the Group’s profit before tax to changes in RPI and CPI on debt and derivative instruments is set out in the following tables:

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

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

RPI-linked derivatives

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

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

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

21. Financial instruments (continued)

a) Market risk (continued)

***iii) Commodity price risk** (continued)*

The Group recovers its electricity costs through revenue, set in real terms by Ofwat, to cover costs for each five-year regulatory pricing period. To the extent that electricity prices remain floating over this period, this exposes the Group to volatility in its operating cash flow.

The Group's policy is to manage this risk either through forward purchases to fix the cost of future blocks of electricity with the contracted energy supplier, through the purchase of wholesale electricity swaps with financial counterparties, or through direct generation. Where swap contracts are utilised, the Group designates the swaps in cash flow hedge relationships.

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

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

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

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

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

21. Financial instruments (continued)

b) Credit risk

Credit risk arises principally from trading and treasury activities. From a trading perspective, the Group has no significant concentrations of credit risk due to minimising the risk through the effective management of customer relationships and through the collateralisation inherent in the licensing of business retail activities. The Group's largest trade receivable balance is in Anglian Water Services Limited, whose operating licence prevents the disconnection of water supply to domestic customers even where bills are unpaid. Irrecoverable debt is taken into consideration as part of the price review process by Ofwat, and therefore no additional provision is considered necessary in excess of the provision for doubtful debts included in note 17.

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

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

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

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

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

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

21. Financial instruments (continued)

b) Credit risk (continued)

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

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

	Group	
	2023	2022
	£m	£m
Cash and cash equivalents	**518.0**	613.4
Trade and other receivables	**598.9**	567.2
Investments - cash deposits	**316.7**	430.7
Derivative financial assets	**250.2**	114.3

	Company	
	2023	2022
	£m	£m
Trade and other receivables	**548.0**	548.0

c) Capital risk management

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

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

21. Financial instruments (continued)

d) Liquidity risk

The Group's objective is to maintain flexibility, diversification and continuity of funding through access to different markets and debt instruments. Daily cash management is undertaken to calculate cash position and dealing requirements, and weekly and monthly cash forecasts are prepared to demonstrate short/medium-term liquidity, covenant compliance and to inform investment strategy. Regular meetings are held with cash forecasters to understand cash variances and challenge latest forecasts. Consolidated cash forecasts are presented to the Finance, Treasury and Energy Policy Group on a monthly basis.

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

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

		Group
	2023	2022
	£m	£m
Expires:		
Within one year	**375.0**	375.0
Between two and five years	**1,255.0**	880.0
	1,630.0	1,255.0

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

Osprey Acquisitions Limited Group's borrowing facilities, additionally, consists of a syndicated £250.0 million revolving loan facility for general corporate requirements provided by National Westminster Bank Plc and syndicated to certain other banks.

Borrowing facilities at Aigrette Financing Limited Group comprises an additional £30.0 million revolving loan facility provided by National Westminster Bank Plc.

21. **Financial instruments** (continued)

d) **Liquidity risk** (continued)

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

					Group
	Within one year £m	**Between one and five years £m**	**Between five and 25 years £m**	**After 25 years £m**	**Total £m**
At 31 March 2023					
Trade and other payables	-	-	-	-	**-**
Borrowings	(1,367.6)	(3,403.4)	(7,857.2)	(2,802.3)	**(15,430.5)**
Derivative financial instruments (net settled)	(11.7)	(403.8)	(776.7)	(194.2)	**(1,386.4)**
Derivative financial instruments (gross settled outflow)	(131.5)	(189.7)	(444.0)	-	**(765.2)**
Derivative financial instruments (gross settled inflow)	159.5	209.0	391.8	-	**760.3**
Leases	(6.9)	(20.0)	(7.3)	(3.7)	**(37.9)**
	(1,358.3)	**(3,807.9)**	**(8,693.5)**	**(3,000.2)**	**(16,859.8)**
At 31 March 2022					
Trade and other payables	(272.2)	-	-	-	(272.2)
Borrowings	(655.8)	(3,802.1)	(7,519.9)	(2,789.6)	(14,767.3)
Derivative financial instruments (net settled)	(64.7)	(323.3)	(1,032.5)	(514.7)	(1,935.1)
Derivative financial instruments (gross settled outflow)	(10.2)	(273.9)	(180.4)	-	(464.6)
Derivative financial instruments (gross settled inflow)	11.5	299.3	141.2	-	452.0
Leases	(6.7)	(18.1)	(10.3)	(3.8)	(38.9)
	(998.0)	(4,118.2)	(8,601.9)	(3,308.0)	(17,026.1)

					Company
	Within one year £m	**Between one and five years £m**	**Between five and 25 years £m**	**After 25 years £m**	**Total £m**
At 31 March 2023					
Trade and other payables	(0.1)	-	-	-	**(0.1)**
	(0.1)	**-**	**-**	**-**	**(0.1)**
At 31 March 2022					
Trade and other payables	(0.1)	-	-	-	(0.1)
	(0.1)	-	-	-	(0.1)

22. Provisions

	Onerous Leases £m	Legal and other £m	Restructuring £m	Others £m	Group Total £m
At 1 April 2021	1.6	10.5	0.3	0.5	**12.9**
Additional provisions recognised	-	1.9	-	0.4	**2.3**
Unused amounts reversed	-	(0.4)	-	-	**(0.4)**
Utilised in the year	-	(4.6)	(0.3)	-	**(4.9)**
At 31 March 2022	1.6	7.4	-	0.9	**9.9**
Additional provisions recognised	0.5	5.7	-	0.9	**7.1**
Unused amounts reversed	-	(1.8)	-	**-**	**(1.8)**
Utilised in the year	-	(2.9)	-	(0.9)	**(3.8)**
At 31 March 2023	**2.1**	**8.4**	**-**	**0.9**	**11.4**

Maturity analysis of total provisions:

	Group 2023 £m	2022 £m
Current	**5.8**	3.7
Non-current	**5.6**	6.2
	11.4	9.9

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

The onerous lease provision is in respect of the associated costs for property leases, not included in the calculation of the ROU asset, where the unavoidable obligations under the contracts exceed the expected economic benefits to be received from them. The provision is discounted and is expected to be utilised over the next three years.

Other provisions relate to bonuses and work on treatment plants which are expected to crystallise over a period of one year.

The Company
The Company has no provisions for liabilities (2022: none).

23. Deferred tax

	Accelerated tax depreciation £m	Financial instruments £m	Retirement benefit obligation £m	Tax losses carried forward £m	Other £m	Group Total £m
At 1 April 2021	1,271.3	(190.8)	(0.6)	(22.3)	(8.1)	**1,049.5**
Charged/(credited) directly to income statement	417.5	(82.9)	18.1	(64.0)	(0.4)	**288.3**
Charged directly to other comprehensive income	-	15.0	40.3	-	-	**55.3**
At 31 March 2022	1,688.8	(258.7)	57.8	(86.3)	(8.5)	**1,393.1**
Charged/(credited) directly to income statement	171.2	164.6	7.9	(280.6)	0.7	**63.8**
Charged directly to other comprehensive income	-	(0.2)	(51.7)	-	-	**(51.9)**
At 31 March 2023	**1,860.0**	**(94.3)**	**14.0**	**(366.9)**	**(7.8)**	1,405.0

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

The Group has the following deferred tax assets that are not recognised in the financial statements:

	Group 2023 £m	2022 £m
Corporate interest restrictions	**67.9**	62.8
	67.9	62.8

New legislation was introduced from April 2017, restricting the amount of interest that a group can offset against its tax liabilities in any year. Any amounts restricted are available to carry forward against future tax liabilities, so long as the company has the capacity to do so. The Directors believe it is uncertain that the Group will have the capacity to utilise this disallowed interest, and therefore the Group has not recognised a deferred tax asset in respect of these restrictions.

The Company

The Company has no deferred tax (2022: none).

24. Net retirement benefit deficit

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

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

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

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

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

The Group also has pension obligations to former employees through the Morrison Pension & Life Assurance Plan ('MPLAP'). In addition, pensions in payment to a number of former employees are unfunded.

The administration and investment of the pension funds are maintained separately from the finances of the Group.

Full valuations as at 31 March 2020 have been completed for the AWGPS (including the Hartlepool section) scheme, and for MPLAP, the results of which have been used as a basis for the IAS 19 'Employee Benefits' disclosures as at 31 March 2023.

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

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

24. Net retirement benefit deficit (continued)

Contributions to MPLAP, including an allowance for expenses, were £4.4 million (2022: £8.7 million) during the year.

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

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

The Group also operates a number of defined contribution schemes in the UK, and contributions to these schemes amounted to £20.5 million (2022: £19.1 million). There is £nil outstanding balance on the defined contribution scheme at year end (2022: £nil).

a) Principal actuarial assumptions

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

	Group	
	2023	2022
	% pa	% pa
Discount rate	**4.7**	2.7
Inflation rate		
RPI	**3.4**	3.7
CPI	**2.9/2.7[6]**	3.3/3.1[6]
Increases to deferred benefits during deferment		
RPI	**3.4**	3.7
CPI	**2.9/N/A[5]**	3.2/N/A[5]
Increases to inflation related pensions in payment [1]		
RPI	**3.2**	3.5
CPI	**2.9/N/A[5]**	3.2/N/ A[5]
	years	years
Longevity at age 65 for current pensioners (years)		
Men	**21.9 [3]/21.4 [4]**	22.3 [3]/21.8 [4]
Women	**24.4[3]/23.9 [4]**	24.6 [3]/24.1 [4]
Longevity at age 65 for future pensioners (years)[2]		
Men	**23.2 [3]/22.7 [4]**	23.6 [3]/23.0 [4]
Women	**25.8[3]/25.3 [4]**	26.0 [3]/25.5 [4]

(1) For RPI pension increases capped at 5 per cent per annum.
(2) The life expectancy shown for future pensioners is for those reaching 65 in 2043.
(3) Life expectancies for 'AWGPS', 'Hartlepool' and 'Unfunded pensioners'
(4) Life expectancies for 'MPLAP'
(5) As at 31 March 2018 the AWGPS Main and Hartlepool Sections closed to accrual of benefit and benefits are no longer linked to future salary therefore a salary increase assumption is no longer required
(6) Inflation related assumptions for MPLAP

24. Net retirement benefit deficit (continued)

b) Sensitivity analysis

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

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

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

c) Risk and risk management

The Group's defined benefit pension schemes, in common with the majority of such schemes in the UK, have a number of areas of risk. These areas of risk, and the ways in which the group manages them, are set out below.

The risks are considered below from both a funding perspective (which drives the cash commitments of the Group) and from an accounting perspective, i.e. the extent to which such risks affect the amounts recorded in the Group's financial statements.

24. Net retirement benefit deficit (continued)

c) Risk and risk management (continued)

Asset volatility

For the purpose of setting the contribution requirements, the calculation of the value of the liabilities uses a discount rate set with reference to government bond yields, with allowance for additional return to be generated from the investment portfolio. Under IAS 19, the defined benefit obligation is calculated using a discount rate set with reference to corporate bond yields.

The schemes hold a proportion of their assets in return-seeking funds. The return on these assets may be volatile and are not correlated to the value of the liabilities. This means that the deficit may be volatile in the shorter term, which may lead to an increase in the contribution requirements and an increase in the net defined benefit liability recorded on the balance sheet.

The Group believes that return-seeking assets offer an appropriate level of return over the long-term for the level of risk that is taken. The schemes’ other assets are well diversified by investing in a range of asset classes including government bonds and corporate bonds. The allocation to growth assets is monitored to ensure it remains appropriate given the schemes’ long-term objectives.

Change in bond yields

A fall in bond yields increases the value placed on the liabilities for reporting purposes and for setting the Group’s contribution requirements. However, in this scenario the schemes’ investment in corporate and government bonds and liability-driven investments is expected to increase and therefore offset some of the increase in the value placed on the liabilities.

Price inflation

The majority of the schemes’ benefit obligations are linked to inflation and higher out-turn inflation will lead to a higher benefit obligation (although in most cases caps on the level of inflationary increases are in place to protect the plan against extreme inflation). A significant proportion of the schemes’ assets do not provide a direct hedge against changes in inflation as they are either fixed-interest in nature (corporate bonds and government bonds), or have an indirect link to inflation (equities).

Life expectancy

The majority of the schemes’ obligations are to provide benefits for the life of the member and, as such, the schemes’ liabilities are sensitive to these assumptions. This is particularly significant where the longer duration and inflation-linked nature of the payments result in higher sensitivity to changes in life expectancy. The schemes do not contain a hedge against increases in future life expectancy.

24. Net retirement benefit deficit (continued)

d) Amounts recognised in comprehensive income

					Group
	AWGPS	**Hartlepool**	**MPLAP**	**Unfunded pensions**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
2023					
Amounts credited/(charged) to finance costs					
Interest income on scheme assets	43.2	0.2	6.9	-	**50.3**
Interest cost on scheme liabilities	(37.4)	(0.1)	(5.4)	(1.1)	**(44.0)**
Net interest income/(expense)	**5.8**	**0.1**	**1.5**	**(1.1)**	**6.3**
Amounts credited/(charged) to the income statement	**5.8**	**0.1**	**1.5**	**(1.1)**	**6.3**
Amounts credited/(charged) to other comprehensive income					
Return on plan assets (excluding amounts included in net interest)	(519.2)	(3.3)	(108.4)	-	**(630.9)**
Actuarial losses arising from:					
Changes in financial assumptions	439.3	2.3	57.4	9.5	**508.5**
Experience adjustments	(74.9)	-	(6.9)	(2.3)	**(84.1)**
Net charge to other comprehensive income	**(154.8)**	**(1.0)**	**(57.9)**	**7.2**	**(206.5)**

24. Net retirement benefit deficit (continued)

d) Amounts recognised in comprehensive income (continued)

					Group
	AWGPS	Hartlepool	MPLAP	Unfunded pensions	Total
	£m	£m	£m	£m	£m
2022					
Amounts (charged) to staff costs within operating profit:					
Administration expenses	-	-	(0.2)	-	(0.2)
Impact of restriction on surplus	-	-	(0.2)	-	(0.2)
Total operating credit	-	-	(0.4)	-	(0.4)
Amounts credited/(charged) to finance costs:					
Interest income on scheme assets	33.7	0.4	5.3	-	39.4
Interest cost on scheme liabilities	(32.3)	(0.4)	(5.3)	(0.9)	(38.9)
Net interest income/(expense)	1.4	-	-	(0.9)	0.5
Amounts credited/(charged) to the income statement	1.4	-	(0.4)	(0.9)	0.1
Amounts credited/(charged) to other comprehensive income:					
Return on plan assets (excluding amounts included in net interest)	20.5	(0.7)	(10.5)	-	9.3
Actuarial gains arising from:					
Changes in financial assumptions	77.7	0.5	30.5	1.5	110.2
Experience adjustments	43.9	-	28.9	(0.3)	72.5
Change arising from minimum funding requirement	-	-	11.8	-	11.8
Net (charge)/credit to other comprehensive income	142.1	(0.2)	60.7	1.2	203.8

24. Net retirement benefit deficit (continued)

e) Amounts recognised in the balance sheet

					Group
	AWGPS	Hartlepool	MPLAP	Unfunded pensions	Total
	£m	£m	£m	£m	£m
2023					
Equities	84.0	-	-	-	**84.0**
Corporate bonds	297.1	-	-		**297.1**
Government bonds	1,139.7	0.6	-		**1,140.3**
Property	67.0	-	-	-	**67.0**
Alternatives	82.6	-	-	-	**82.6**
Pooled LDI Investments (with def of LDI)	73.0	-	-	-	**73.0**
Derivatives	(50.4)	-	-	-	**(50.4)**
Repurchases	(730.3)	-	-	-	**(730.3)**
Insurance contract	-	-	149.0	-	**149.0**
Cash and cash equivalents	155.2	-	0.4	-	**155.6**
Total assets	1,117.9	0.6	149.4	-	**1,267.9**
Present value of scheme liabilities	(1,029.9)	-	(149.0)	(33.0)	**(1,211.9)**
Net pension surplus	**88.0**	**0.6**	**0.4**	**(33.0)**	**56.0**
Comprising:					
Pension schemes with a net surplus, included in non-current assets	88.0	0.6	0.4	-	**89.0**
Pension schemes with a net deficit, included in non-current liabilities	-	-	-	(33.0)	**(33.0)**
	88.0	**0.6**	**0.4**	**(33.0)**	**56.0**

24. Net retirement benefit deficit (continued)

e) Amounts recognised in the balance sheet (continued)

					Group
	AWGPS	Hartlepool	MPLAP	Unfunded pensions	Total
	£m	£m	£m	£m	£m
2022					
Equities	176.6	-	32.8	-	209.4
Corporate bonds	606.6	-	95.0	-	701.6
Government bonds	1,575.5	0.5	43.0	-	1,619.0
Property	80.8	-	-	-	80.8
Alternatives	79.3	-	12.0	-	91.3
Pooled LDI Investments (with def of LDI)	74.6	-	-	-	74.6
Derivatives	(7.5)	-	-	-	(7.5)
Repurchases	(1,211.4)	-	-	-	(1,211.4)
PIVs (LDI)	-	-	44.6	-	44.6
PIVs (Real Return Fund)	-	-	9.6	-	9.6
Insurance contract	-	17.0	6.4	-	23.4
Cash and cash equivalents	257.5	1.0	11.6	-	270.1
Total assets	1,632.0	18.5	255.0	-	1,905.5
Present value of scheme liabilities	(1,416.8)	(17.0)	(202.6)	(41.8)	(1,678.2)
Net pension surplus	215.2	1.5	52.4	(41.8)	227.3
Comprising:					
Pension schemes with a net surplus, included in non-current assets	215.2	1.5	52.4	-	269.1
Pension schemes with a net deficit, included in non-current liabilities	-	-	-	(41.8)	(41.8)
	215.2	1.5	52.4	(41.8)	227.3

24. Net retirement benefit deficit (continued)

e) Amounts recognised in the balance sheet (continued)

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

f) Reconciliation of fair value of scheme assets

					Group
	AWGPS	**Hartlepool**	**MPLAP**	**Unfunded pensions**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
At 1 April 2021	1,629.7	20.2	253.4	-	**1,903.3**
Interest income on scheme assets	33.6	0.4	5.4	-	**39.4**
Administration costs	-	-	(0.2)	-	**(0.2)**
Employers' contributions	14.6	-	8.7	2.7	**26.0**
Benefits paid	(66.4)	(1.4)	(8.2)	(2.7)	**(78.7)**
Introduction of insured annuitants	-	-	6.4	-	**6.4**
Return on plan assets (excluding interest income)	20.5	(0.7)	(10.5)	-	**9.3**
Disposal of subsidiary undertakings	-	-	-	-	**-**
At 31 March 2022	1,632.0	18.5	255.0	-	**1,905.5**
Interest income on scheme assets	43.2	0.2	6.9	-	**50.3**
Employers' contributions	21.8	-	4.3	2.7	**28.8**
Members' contributions					**-**
Benefits paid	(59.9)	(0.1)	(8.4)	(2.7)	**(71.1)**
Curtailments/Settlements		(14.7)	-		**(14.7)**
Return on plan assets (excluding interest income)	(519.2)	(3.3)	(108.4)	-	**(630.9)**
At 31 March 2023	**1,117.9**	**0.6**	**149.4**	**-**	**1,267.9**

24. Net retirement benefit deficit (continued)

g) Reconciliation of scheme liabilities

					Group
	AWGPS	Hartlepool	MPLAP	Unfunded pensions	Total
	£m	£m	£m	£m	£m
At 1 April 2021	(1,572.5)	(18.5)	(258.6)	(44.8)	**(1,894.4)**
Interest cost on scheme liabilities	(32.3)	(0.4)	(5.3)	(0.9)	**(38.9)**
Benefits paid	66.4	1.4	8.2	2.7	**78.7**
Actuarial gains	121.6	0.5	59.4	1.2	**182.7**
At 31 March 2022	(1,416.8)	(17.0)	(202.6)	(41.8)	**(1,678.2)**
Interest cost on scheme liabilities	(37.4)	(0.1)	(5.4)	(1.1)	**(44.0)**
Benefits paid	59.9	0.1	8.5	2.7	**71.2**
Actuarial gains	364.4	2.3	50.5	7.2	**424.4**
Curtailments and settlements	-	14.7	-	-	**14.7**
At 31 March 2023	**(1,029.9)**	**-**	**(149.0)**	**(33.0)**	**(1,211.9)**

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

25. Stated capital

	Group and Company	
	2023	2022
	£m	£m
Allotted, issued and fully paid		
14,843,754 A ordinary no par value shares	**-**	-
656,246 B ordinary no par value shares	**-**	-
109,631,487,794 redeemable preference no par value shares	**-**	-
	-	-

There were no movements in the number of shares allotted, issued and fully paid in either the current or preceding year.

The B ordinary shares rank pari passu in all respects with the A ordinary shares except that the holders of B ordinary shares shall not have a right to speak or vote at any general meetings or by written resolution in respect of their holdings of B ordinary shares in relation to the appointment or removal of Directors.

The holders of preference shares shall be entitled to receive any dividends resolved to be distributed pro rata to their holdings of preference shares. On a distribution of assets of the Company among its members on a winding up or other return of capital (other than a redemption or purchase by the Company of its own shares), the holders of the preference shares shall be entitled to receive in priority to any holder of any other class of shares, an amount equal to the aggregate of the capital paid up on their preference shares and participate in any surplus arising. The preference shares are redeemable at the option of the Company at a price to be determined by the Board of Directors. The preference shares do not carry any voting rights.

During the year ended 31 March 2023, dividends of £91.8 million were paid by the Company to its consortium of shareholders based on their respective shareholding as set out in page 2.

26. Hedging reserve

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

Cost of hedging reserve

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

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

The Company

The Company has no hedging reserve (2022: none).

26. Hedging reserve (continued)

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

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

27. Capital commitments

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

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

There were no capital commitments relating to the Group’s share of joint ventures.

The Company

The Company has no such commitments (2022: none).

28. Lease arrangements

The Group leases various items of property, plant and equipment. Right-of-use assets are included within property, plant and equipment on the balance sheet, further details can be found in note 13. Lease liabilities are included within borrowings on the balance sheet, further details can be found in note 20.

	Group	
	2023	2022
	£m	£m
Additions to right-of-use assets	**6.1**	8.0
Depreciation charge for right-of-use assets	**(6.5)**	(6.8)
Carrying amount of right-of-use assets	**68.9**	69.3
Interest expense on lease liabilities	**(0.8)**	(1.2)
Expense relating to short-term leases	**3.2**	2.8
Total cash outflow for leases comprising interest and capital payments	**(7.2)**	(14.3)
Reconciliation of lease liability		
Contractual undiscounted cash flows	**37.9**	38.9
Effect of discounting	**(6.6)**	(6.6)
Lease liability	**31.3**	32.3

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

Leases as lessor

The Group leases out its investment properties. During the year to 31 March 2023, rental income of £2.0 million (2022: £1.8 million) was included within revenue.

29. Contingencies

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

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

29. Contingencies (continued)

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

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

30. Ultimate parent undertaking and controlling party

Anglian Water Group Limited, a limited liability company which is incorporated in Jersey but tax resident in the United Kingdom due to its business being centrally managed and controlled there, is the ultimate parent company and the controlling party of the Group. Anglian Water Group Limited is itself owned and ultimately controlled by a consortium of investors consisting of Canada Pension Plan Investment Board (CPP Investments™), IFM Global Infrastructure Fund, Camulodunum Investments, First Sentier Investors and Infinity Investments S.A.

The address of the principal place of business for Anglian Water Group Limited is Lancaster House, Lancaster Way, Ermine Business Park, Huntingdon, Cambridgeshire PE29 6XU.

31. Related party transactions

a) Transactions with shareholders

The consortium of investors owning Anglian Water Group Limited are considered to be related parties of the Company as they each have the ability to influence the financial and operating policies of both the Company and the Group.

On 29 May 2018, a loan of £462.0 million, with a maturity date of 29 June 2021 (initially extended to 29 June 2022 and extended further to 29 June 2023) and an interest rate of 5.5 per cent, was issued to the members of the consortium of investors owning Anglian Water Group Limited. At 31 March 2023, the amount outstanding was £462.0 million (2022: £462.0 million), with interest of £19.2 million (2022: £19.2 million) accrued but not paid. During the year, interest of £25.4 million (2022: £25.4 million]) was paid in respect of these loan notes.

During the year to 31 March 2023, there were no other transactions (2022: none) with the shareholders.

b) Transactions with key management

Key management personnel comprise all the directors and members of the management board during the year. A scheme is in place to encourage investment in the Group by key management on an equivalent basis as the consortium of shareholders. During the year £0.3 million (2022: £0.7 million) was invested by key management, a return of £0.1 million (2022: £0.1 million) was earned, and the Group repaid £nil (2022: £nil) as part of this scheme. At 31 March 2023, £1.8 million (2022: £1.2 million) was loaned to the Group by key management under this scheme. At the balance sheet date key management also held various bonds issued by the Group totalling £1.8 million (2022: £1.8 million).

31. Related party transactions (continued)

b) Transactions with key management (continued)

Remuneration of key management personnel

	Group	
	2023	2022
	£m	£m
Short-term employee benefits	**6.9**	6.7
Post-employment benefits	**0.5**	0.5
	7.4	7.2

c) Transactions with joint ventures

The Group's transactions with its joint ventures are summarised below.

During the year ended 31 March 2023, the Group made gross sales on an arms-length basis of £192 million (2022: £190.7 million) to the Wave joint venture, and recognised interest receivable of £1.9million (2022: £1.7 million). At 31 March 2023, the following amounts were due from the Wave joint venture:

- A £10.7million (2022: £10.7 million) 5.5 per cent medium-term loan repayable on 31 August 2027, or such other date as mutually agreed between the parties, included within investments in joint ventures;
- A £16.7 million (2022: £16.7 million) loan at 12 month LIBOR plus 2.75 per cent with no fixed repayment date, included within trade and other receivables;
- A £4.6 million (2022: £15.0 million) short-term working capital facility at one month LIBOR plus 2.75 per cent, included within trade and other receivables;
- £4.0 million repayment of Preference Loan. This is the scheduled final repayment of a 5 year loan that was put in place as part of the Wave JV in 2017. Originally, loan amount is £20.0 million it has been repaid at £4.0 million for each of the 5 years thus nil balance as at 31 March 2023; and
- Accrued income of £8.3 million (2022: £4.9 million), trade receivables of £nil million (2022: £nil) and interest receivable of £1.7 million (2022: £1.7 million), included within trade and other receivables.

d) Parent company

The Company's related party transactions are summarised below:

	2023	2022
	£m	£m
Loans and other borrowings due from Subsidiaries	**548.0**	548.0

32. Alternate performance measures

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

a) EBITDA

Calculated as profit before net finance costs, tax, depreciation, and amortisation to give a measure of the Company's overall financial performance. Each element of this APM is shown on the face of the income statement (page 72).

	Group	
	2023	2022
	£m	£m
EBITDA	**800.0**	787.8
Net finance income/(costs)	**(149.7)**	(642.6)
Tax charge	**(64.5)**	(289.1)
Depreciation & amortisation	**(381.7)**	(351.1)
Share of joint ventures' loss after tax	**(0.4)**	(2.6)
Profit/(Loss) for the period	**203.7**	(497.6)

b) Adjusted finance costs

Calculated as net finance costs excluding fair value gains/(losses) on derivative financial instruments. These fair value gains/(losses) are volatile, non-cash movements that distort the actual underlying economic performance (page 72) Adjusted profit before tax/Profit before fair value gains/(losses)

	Group	
	2023	2022
	£m	£m
Net Finance costs excluding fair value gains/(losses) on derivative financial instruments	**(795.0)**	(527.5)
Fair value gains/(losses) on derivative financial instruments	**645.3**	(115.1)
Net Finance costs, including fair value gains/(losses) on derivative financial instruments	**(149.7)**	(642.6)

32. Alternate performance measures (continued)

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

Calculated as profit before tax excluding fair value gains/(losses) on derivative financial instruments. The calculation is shown on the face of the income statement. These fair value gains/(losses) are volatile, non-cash movements that distort the actual underlying economic performance (page 72).

	Group	
	2023	2022
	£m	£m
Adjusted loss before tax/Profit before fair value gains/(losses)	**(376.7)**	(90.8)
Tax charge	**(64.5)**	(289.1)
Fair value gains/(losses) on derivative financial instruments	**645.3**	(115.1)
Share of joint ventures' loss after tax	**(0.4)**	(2.6)
Profit/(loss) for the period	**203.7**	(497.6)

d) Net debt

Net debt comprises borrowings, net cash and cash equivalents, and derivative financial instruments (excluding those in respect of fair value energy hedges). This measure is used because it provides additional useful information in respect of the financing of the business. See note 18 and below.

	Group	
	2023	2022
	£m	£m
Net cash and cash equivalents	**518.0**	613.4
Current asset investments	**316.7**	430.7
Borrowings	**(9,223.8)**	(8,803.4)
Net debt excluding derivatives	**(8,389.1)**	(7,759.3)
Derivatives	**(697.0)**	(1,088.6)
Less: energy derivatives	**(0.7)**	(73.4)
Net debt	**(9,086.8)**	(8,921.3)

As Anglian Water Services Limited accounts for the vast majority of the Group, the day-to-day operation of the business is predominantly managed by employees of Anglian Water Services Limited. Due to this relationship, the Group's values and reputation are highly integrated with that of Anglian Water Services Limited and therefore interested parties should read the disclosure below, which is an extract from the Anglian Water Services Limited annual integrated report (AIR). As such, the alternative performance measures referenced below refer to Anglian Water Services Limited.

32. Alternate performance measures (continued)

e) Interest cover

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

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

f) Capital investment

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

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

32. **Alternate performance measures** (continued)

g) Free cash flow

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

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

33. **Events after the balance sheet date**

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

34. Group undertakings

The Group's subsidiary undertakings at 31 March 2023 are shown below. Unless otherwise disclosed, all subsidiary undertakings are incorporated in the UK, are 100 per cent owned, and with a share class of ordinary shares.

	Registered office	Percentage holding
Owned directly by Anglian Water Group Limited		
Osprey Holdco Limited	a	
All subsidiary undertakings		
Aigrette Financing Limited	a	
Aigrette Financing (Issuer) Plc	a	
Alexander Morrison Limited	b	
Alpheus Environmental Limited	a	
Ambury Developments Limited	a	
Anglian Venture Holdings Limited	a	
Anglian Water (Ireland) Limited	c	
Anglian Water (Osprey) Financing Plc	a	
Anglian Water Direct Limited	a	
Anglian Water Facilities Management Holdings (UK) Limited	a	
Anglian Water International Holdings Limited	a	
Anglian Water International Limited	a	
Anglian Water Services Financing Plc	a	
Anglian Water Services Holdings Limited	a	
Anglian Water Services Limited	a	
Anglian Water Services UK Parent Co Limited	a	
AVH Parks Limited (formerly AWG Utilities Limited)	a	
AVH Solar Limited	a	
AW Creative Technologies Limited	a	
AWG (UK) Holdings Limited	a	
AWG Business Centres Limited	a	
AWG C4 Limited	a	
AWG Central Services Limited	a	
AWG Corporate Services Limited	a	
AWG Group Limited	a	
AWG Land Holdings Limited	a	
AWG Outlet Centers Limited	b	
AWG Parent Co Limited	a	
AWG Property Developments (Ireland) Limited	c	
AWG Property Director Limited	a	
AWG Property Limited	b	
AWG Property Solutions Limited	a	
AWG Residential Limited	b	

34. Group undertakings (continued)

	Registered office	Percentage holding
All subsidiary undertakings (continued)		
AWG Shelf 11 Limited	b	
Cambuslang Retail Portfolio Limited	b	
Celtic Anglian Water Limited	c	
Chester (1995) Limited	a	97%
CS Amenities Limited	a	
CWRP Relocation Limited	a	
DMWS 819 Limited	b	
DMWS 822 Limited	b	
DMWS 823 Limited	b	
DMWS 824 LLP (1)	b	
Edmund Homes Limited	a	
Graham Street Airdrie Retail Portfolio Limited	b	
H2GO Limited	a	
Macrocom (743) Limited	b	
Morrison (Oldco) Limited	b	
Morrison Glosha Limited	b	
Morrison Holdings Limited	a	
Morrison International Limited	b	
Morrison Limited	a	
Morrison Property Investments Limited	b	
Morrison Residential Properties Limited	b	
NVB Rathdowney Limited	c	50%
OHL Land Holdings Limited	a	
OHL Piper Limited	a	
OHL Property Holdings Limited	a	
Osprey Acquisitions Limited	a	
Osprey Investco Limited	a	
Rutland Insurance Limited	g	99.99%
Tide Services Limited	a	
Valuetype Limited	a	
Wave Environmental Limited	a	
Wave Holdings Limited	b	
Wave Utilities Limited	b	
Wave Water Limited	a	

34. Group undertakings (continued)

	Registered office	Percentage holding
Joint ventures		
Anglian Water Business (National) Limited	g	50%
AWG Outlets (Rathdowney) Limited	c	50%
Cambridge 4 LLP	a	50%
City Road Properties (Chester) Limited	a	50%
Crowwood Grange Estates Limited	b	50%
Hollowstone Limited	a	50%
Kings Waterfront Properties Limited	a	50%
Morrison Gwent Limited	a	50%
Morrison Leneghan IRL Limited	e	60%
Morrison Properties Limited	b	50%
Morrison Residential Properties Limited	b	50%
NWG Business Limited	g	50%
Rathdowney Shopping Centre Management Company Limited	c	50%
Wave Ltd	g	50%
Spreevale Limited [2]		

[1] The principal place of business of these companies is the same as the registered office address.
[2] Dissolved during the year.

Registered offices

a) Lancaster House, Lancaster Way, Ermine Business Park, Huntingdon, Cambridgeshire, PE29 6XU, United Kingdom.

b) c/o Brodies LLP, Capital Square, 58 Morrison Street, Edinburgh EH3 8BP.

c) Suite 8, Northwood House, Northwood Business Campus, Santry, Dublin 9, Ireland.

d) 1 Stokes Place, St Stephens Green, Dublin 2, Ireland.

e) 6th Floor, Southbank House, Barrow Street, Dublin 4, Ireland.

f) PO Box 33, Dorey Court, Admiral Park, St Peter Port, GY1 4AT, Guernsey, Channel Islands.

g) Northumbria House, Abbey Road, Pity Me, Durham, DH1 5FJ, United Kingdom.

For all companies, the registered office is located in the country of incorporation.

Under section 479C of the Companies Act 2006, Osprey Holdco Limited gives a parent company guarantee in respect of all outstanding liabilities as at 31 March 2023, until the liabilities are satisfied in full, for the following subsidiary companies. Under section 479A of the Companies Act 2006, the following subsidiaries are therefore exempt from the requirements relating to the audit of individual accounts.

34. Group undertakings (continued)

Subsidiary undertakings guaranteed by Osprey Holdco Limited

Alexander Morrison Limited	SC038867
Alpheus Environmental Limited	02499491
Ambury Developments Limited	04173903
Anglian Venture Holdings Limited	06426222
Anglian Water Direct Limited	03306995
Anglian Water International Holdings Limited	02024769
Anglian Water International Limited	02729389
AW Creative Technologies Limited	03286074
AWG (UK) Holdings Limited	05441805
AWG Business Centres Limited	05844645
AWG C4 Limited	11787247
AWG Central Services Limited	04172712
AWG Group Limited	02366618
AWG Land Holdings Limited	04530863
AWG Parent Co Limited	03936645
AWG Property Limited	SC067190
AWG Residential Limited	SC082292
Morrison (Oldco) Limited	SC172855
AWG Shelf 11 Limited	SC115080
AVH Parks Limited	10177651
AVH Solar Limited	14271777
CWRP Relocation Limited	12219644
Graham Street Airdrie Retail Portfolio Limited	SC271032
Macrocom (743) Limited	SC228103
Morrison International Limited	SC120552
Morrison Limited	04700725
OHL Land Holdings Limited	12185958
OHL Property Holdings Limited	11782560
Tide Services Limited	11145202
Valuetype Limited	02559548
Wave Water Limited	02702745

Independent auditor’s report to the members of Anglian Water Group Limited

Independent auditor’s report to the members of Anglian Water Group Limited

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of Anglian Water Group Limited (the ‘parent company’) and its subsidiaries (the ‘group’) give a true and fair view of the state of the group’s and of the parent company’s affairs as at 31 March 2023 and of the group’s profit for the year then ended.
- the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB); and
- the financial statements have been properly prepared in accordance with the Companies (Jersey) Law 1991.

We have audited the financial statements which comprise:

- the group income statement.
- the group statement of comprehensive income.
- the group and company balance sheets.
- the group and company statements of changes in equity.
- the group and company cash flow statement; and
- the related notes 1 to 34.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies (Jersey) Law 1991.

Basis for opinion

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

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council’s (the ‘FRC’s’) Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

- Understanding Management’s process to model the impact of going concern and agreeing relevant data points in the model to supporting documentation;
- Assessing the sophistication of the model used to prepare the forecasts, testing of the clerical accuracy of those forecasts and assessing the historical accuracy of forecasts prepared by Management;
- Assessing the assumptions used in establishing Management’s base case, including comparison of key

- assumptions to independent data sources where relevant;
- Evaluating liquidity, including in the scenario where future financing is restricted;
- Evaluating the external financing to establish and assess the covenant requirements attached to this financing;
- Assessing the amount of headroom in the forecasts (cash and covenants); and
- Evaluating the sensitivity analysis including downside risks to reflect the macro-economic conditions, as prepared by Management.

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

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

We considered the nature of the group's industry and its control environment, and reviewed the group's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of Management, internal audit, the Audit Committee and Directors about their own identification and assessment of the risks of irregularities , including those that are specific to the group's business sector.

We obtained an understanding of the legal and regulatory frameworks that the group operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included Companies (Jersey) Law 1991, Environmental Agency regulations, pensions legislation and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team and relevant internal specialists such as tax, financial instrument valuations, pensions and IT specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following areas, and our specific procedures performed to address them are described below:

In addressing the risk of fraud through bad debt provisioning, we

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

Independent auditor’s report to the members of Anglian Water Group Limited (continued)

In addressing the risk of fraud in the classification of costs as capital expenditure, we

- obtained an understanding of, and tested, relevant controls around the classification of costs as capital expenditure;and
- tested a sample of capital projects by agreeing the costs incurred to third-party documentation and assessing the appropriateness of the classification in accordance with the capitalisation policy

In addressing the risk of fraud through Management override of controls, we

- tested the design of relevant controls within the financial reporting process;
- tested the appropriateness of journal entries and other adjustments;
- assessed whether the accounting judgements and estimates are indicative of a potential Management bias; and
- evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of Management override of controls. In addressing the risk of fraud through Management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of Management, internal audit and in-house and external legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance and reviewing internal audit reports and reviewing correspondence with HMRC.

Report on other legal and regulatory requirements

Matters on which we are required to report by exception

Under the Companies (Jersey) Law 1991 we are required to report in respect of the following matters if, in our opinion:

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

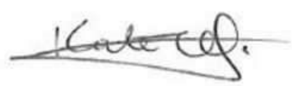
We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company’s members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the company’s members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent

Independent auditor's report to the members of Anglian Water Group Limited (continued)

permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Kate Hadley (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom
13 July 2023