Osprey Acquisitions Limited

Annual report and consolidated financial statements

for the year ended 31 March 2021

Company number: 05915896

Directors' report

for the year ended 31 March 2021

The Directors present their report and the audited consolidated financial statements of Osprey Acquisitions Limited (the 'company') for the year ended 31 March 2021.

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. The group's principal business is Anglian Water Services Limited ('Anglian Water'). The Directors expect the activities as detailed in the Strategic Report to continue for the foreseeable future without material change. The information that fulfils the requirement of the Strategic Report, including the company's financial risk management objectives, is set out on pages 6 to 80.

Group results and returns to shareholders

The income statement on page 81 shows the group's results for the year. Dividends of £55.9 million (2020: £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	appointed 1 April 2020
Steve Buck	
Peter Simpson	
Projesh Banerjea	resigned 31 May 2021
John Barry	resigned 1 June 2021
James Bryce	resigned 31 May 2021
Deepu Chintamaneni	appointed 21 July 2020, resigned 31 May 2021
Mamoun Jamai	resigned 31 May 2021
Manoj Mehta	resigned 20 July 2020
Niall Mills	resigned 31 May 2021
Robert Napier	resigned 31 March 2021, reappointed 1 June 2021
Alexandros Nassuphis	resigned 31 May 2021
Batiste Ogier	resigned 31 May 2021
Duncan Symonds	resigned 31 May 2021

Claire Russell continued to serve as Company Secretary throughout the year.

Directors' indemnities

During the 2020/21 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. The company has also provided an indemnity for its Directors, which is a qualifying third-party indemnity provision for the purpose of section 234 ((2) – (6)) of the Companies Act 2006.

Shareholders

The sole shareholder of the company is Osprey Holdco Limited.

Political donations and expenditure

No political donations or expenditure were made during the year (2020: £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 52-53 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 employee newspaper Anglian Water News. The group engages with employees through three recognised trade unions and via the elected employee forum Open House.

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 has maintained Confident status with the British Disability Forum since 2018.

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 47-51.

Emissions

Information relating to carbon emissions can be found on pages 55-56.

Health and safety

Information relating to health and safety can be found on page 61.

Events occurring after the reporting period

Details of events occurring after the reporting period are included in note 32 of the financial statements.

Statement of Directors' responsibilities

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

Company 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 in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applied to the European Union. The financial statements also comply with the International Financial Reporting Standards as issued by the IASB. 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 Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation. 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 in the United Kingdom 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 2 confirm that, to the best of their knowledge:

- the financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, 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.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Auditor

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 2021 financial statements. Further details of this review can be found on pages 88-90.

Claire Russell
Company Secretary
16 June 2021

Registered Office: Lancaster House, Lancaster Way,
Ermine Business Park, Huntingdon, Cambridgeshire PE29 6XU

Registered in England and Wales No. 05915896

Group overview

Osprey Acquisitions 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.

Our response to Covid-19

The impact of Covid-19 on the group has been profound. In the face of unprecedented circumstances, we have risen to the challenge, maintaining our critical business services to our customers and supporting our communities throughout the pandemic.

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

Like the rest of the nation, we found the early characteristics of the pandemic to be incredibly dynamic, complex and far reaching.

Unlike operational incidents, where we have specialist responder teams and a clear incident management structure, the pandemic called for a pan-organisational response. So, reflecting the bronze, silver, gold and major incident strategy team (MIST) command structure that we use for large-scale operational incidents, we adopted a concept from the UK Armed Forces known as 'J' Cells – the 'J' representing joint, in line with the military's 'Joint Command' – formed of specialist teams who can work on different areas of a complex situation. For Covid-19, Anglian Water's J Cells represent all areas of the business: people, operations, planning, supply chain, logistics, data/intelligence, communications, finance, business continuity and health and safety, enabling us to coordinate a range of functions to address potential impacts while evaluating triggers for escalation and response as the situation has evolved.

Structuring ourselves in this way has allowed us to maintain a high level of situational awareness right across the business and with stakeholders, dealing with surges of activity and ensuring a consistent and comprehensive approach to how and when we communicate to the business.

Once the immediate disruptive effects of Covid-19 on our workforce had passed, we soon settled into a steady state of delivering our critical business services to customers, although we have remained on an incident management footing throughout the crisis. The structure and format of the J Cells allowed for a reescalation of activity and focus during the approaches to the second peak.

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

We have invested significantly in programmes and initiatives to support our most important business asset: our people.

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

Thousands of our employees now carry out their duties from home and collaborate virtually, supported by our transformed IT networks and tools. Many have said that they feel an improved work-life balance from working at home, and we are adapting our ways of working permanently as a result (see Ways of Working).

On the following pages we have highlighted our response to the Covid-19 pandemic in line with our key impacted Principal Risks.

Principal risk: Support our customers and communities

Stakeholder group: Our customers and communities

Company response: As the impacts of the pandemic continue, we have maintained our focus on essential services for our customers, particularly those needing extra help, those self-isolating and those in a vulnerable situation.

We launched our new Priority Services Team which manages and maintains our Priority Service Register supporting customers in vulnerable circumstances, including those who need to be added temporarily because they are at high risk or are displaying symptoms of Covid-19. The team ensures priority contact during instances where these customers may face interruptions to their supply.

We set up a £1 million community support fund – the Anglian Water Positive Difference Fund. We donated £500,000 of emergency funds to more than 120 community organisations, and fast-tracked more than £50,000 to frontline organisations in the immediate response to the pandemic. We are working with 15 Community Foundations across our region to allocate the remainder.

Throughout the crisis we have worked closely with Water UK and all our water industry peers to ensure that we have maintained a joined-up industry approach to the challenges of Covid-19.

Principal risk: Financing our business

Stakeholder group: Our customers and communities, our environment and the planet, our people and partners

Company response: We are closely monitoring the effects of market volatility and stakeholder risks on our financial affairs and maintaining an ongoing dialogue with our lenders and shareholders. We have maintained high levels of liquidity to enable the business to respond to the disruption being caused, sustain levels of service and continue with infrastructure development.

The furlough scheme has mitigated the impacts of Covid-19 on our overall revenue from domestic customers; we will continue to monitor the level of support required on affordability as furlough ends and unemployment potentially starts to rise.

Lockdown has resulted in increased household consumption of 11.36 per cent. Although meter reading was initially suspended as a non-essential task, we continued to track usage through smart meters and self-supplied meter readings.

We have engaged with the regulator at an industry level regarding risk exposure within the non-household retail market. These discussions resulted in a cap on bad debt levels for retailers, agreement on wholesaler injection of liquidity in the market through partial deferral of charges for retailers and a cap on wholesaler exposure to bad debt from retailer failure.

Principal risk: Resilient business

Stakeholder group: Our customers and communities, our people and partners

Company response: One of our greatest challenges was the rapid transition to mass home working for over 3,000 office-based employees. We accelerated a long-planned IT transformation on a mass scale, ensuring our systems had the resilience to cope for a sustained period.

Changes in demand for water have had a sizeable operational impact. We have had to put record volumes of water into the system with a parallel impact on water recycling. We saw significant additional demand on rural sewage works and loss of demand on water recycling centres serving large business users. Later, flatter peak demand periods also posed a challenge for compliance.

We have assessed critical suppliers and have a range of existing mitigations in place; from April to October 2020 we regularly surveyed c.400 suppliers to assess general business health; we also reduced the time taken to make payments and helped support and advise small and medium size suppliers.

We have maintained stock levels built up for Brexit and ensured stockholdings of approximately 12-16 weeks' requirements. During the peak of the pandemic we built up supplies of PPE and continue to hold stocks.

Principal risk: Happier, healthier, safer

Stakeholder group: Our customers and communities, our people and partners

Company response: The wellbeing and safety of all our people, whether home or field-based, has been at the forefront of our response. Our crisis communications strategy continues to centre on providing updates on the evolving situation in line with government guidance and how the organisation needs to respond to it.

We have offered support for people's physical and mental wellbeing throughout the crisis and enhanced our communication channels with a series of business update videos from the Management Board, regular live virtual forums for leaders and our new intranet, Lighthouse.

Overcoming the challenges of Covid-19 has transformed our organisation. We have adapted our operational working practices to minimise face-to-face contact, keeping our customers and employees safe while continuing to deliver essential services.

As we move forwards from the pandemic, new ways of working are being introduced with more agile working and digital adoption. Guidance is being developed to support the new ways of working; however, some possible impacts and our people's views on the changes in the longer term are unknown.

Financial performance

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

The financial results of the group are summarised in the table below:

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Revenue	**1,354.4**	1,424.8
Operating profit	**368.9**	387.5
Adjusted profit before tax [(1)]	**109.8**	57.6
Profit before tax	**86.6**	27.2
Cash generated from operations	**632.5**	665.4

(1) In order to show pre-tax performance based on management's view of an underlying basis, the fair value losses on derivative financial instruments of £23.2 million (2020: £30.4 million) have been excluded from the adjusted profit, because there are volatile non-cash annual movements which distort the actual underlying economic performance.

(2) 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.

Revenue

Revenue for the year was £1,354.4 million, a decrease of £70.4 million from £1,424.8 million in 2020. This is made up as follows:

- Anglian Water revenue, excluding grants and contributions, decreased by £54.4 million (4.1 per cent), reflecting:
  - The price reduction for customers following the Final Determination, £71.0 million decrease.
  - The impact of Covid-19, net £23.6 million increase. Household consumption up £58.2 million and non-household consumption down £34.6 million.
  - Other offsetting decreases in revenue of £7.0 million.
- Anglian Water grants and contributions decreased by £13.7 million to £75.6 million, due to the impact of the first lockdown, despite a strong rebound in the housing market later in the year.
- Head Office and Other revenue decreased by £2.3 million to £3.1 million.

Operating profit

Group operating profit was £18.6 million lower than the prior year at £368.9 million (2020: £387.5 million). This is mainly due to a decrease of £7.5 million in Anglian Water, primarily driven by regulatory price decreases, and £11.1 million in Head Office, due to costs associated with referring the Final Determination to the CMA and board reorganisation.

Net finance costs

Net finance costs for the period, excluding fair value losses on derivative financial instruments, decreased by £70.8 million to £259.1 million (2020: £329.9 million). This was primarily the result of the non-cash impact of lower inflation on index-linked debt where the year-on-year average Retail Price Index (RPI) fell from 2.6 per cent to 1.2 per cent and year-on-year average Consumer Price Index (CPI) fell from 1.7 per cent to 0.6 per cent.

Profit before tax

Resultant adjusted profit before tax (excluding fair value losses on derivative financial instruments) was £109.8 million (2020: £57.6 million). After fair value losses on derivative financial instruments of £23.2 million (2020: £30.4 million), the statutory profit before tax was £86.6 million (2020: loss of £27.2 million).

Taxation

Our adjusted effective tax rate of 23.0 per cent is higher than the rate of corporation tax due to restriction on interest deductibility, as a result of legislation introduced in April 2017. The adjusted effective tax rate is calculated as the tax charge, £23.3 million, excluding adjustment for prior periods, £2.4 million (per note 8) and tax on the fair value of derivatives, £4.4 million (£23.2 million at 19 per cent), as a percentage of adjusted profit before tax. Our low level of cash tax reflects the fiscal incentives available to all UK companies for sustained high levels of capital investment and the interest we pay to fund that investment. We are one of the largest private investors in infrastructure in our region, investing more than £2 billion from 2015-2020. The Government actively encourages infrastructure investment and grants us capital allowances, which defer some of our corporation tax liabilities until a later period. Our customers directly benefit from the deferral as it helps to keep their bills lower.

The tax charge for the period of £23.3 million (2020: £120.3 million) consists of a current tax credit of £3.6 million (2020: £0.2 million) and a deferred tax charge of £26.9 million (2020: £120.5 million). The deferred tax charge has decreased by £93.6 million. In 2020 there was a charge relating to the reversal of corporation tax rates, which were originally expected to reduce from 19 per cent to 17 per cent, effective from 1 April 2020. On this basis, the deferred tax balances at 31 March 2019 were measured using a rate of 17 per cent. The reduction in corporation tax rates was reversed in March 2020, and so those deferred tax balances were re-measured using the rate of 19 per cent, giving rise to a charge in 2020.

In the March 2021 Budget, it was announced that legislation will be introduced in Finance Bill 2021 to increase the main rate of UK corporation tax from 19 per cent to 25 per cent, effective from 1 April 2023. As substantive enactment is after the balance sheet date, deferred tax balances as at 31 March 2021 continue to be measured at a rate of 19 per cent, If the amended tax rate has been used, the deferred tax liability would have been £335 million higher.

In addition to the £23.3 million tax charge to the income statement, there is a credit of £28.4 million (2020: charge of £21.0 million) in the statement of other comprehensive income in relation to tax on actuarial gains in the pension schemes and fair value losses on cash flow hedges.

Cash flow

Cash generated from operations by the group was £632.5 million (2020: £665.4 million), a decrease of £33.0 million on the prior year. This is mainly due to Anglian Water’s operating cash flow, which decreased by £26.7 million from £686.0 million to £659.3 million, reflecting additional pension scheme contributions, timing of supplier payments and VAT receipts.

Net debt

Net debt increased by £142.1 million to £8,762.2 million (2020: £8,620.1 million). Full details of this movement can be found in note 21. During the year, new debt of £303.1 million was raised, while debt repaid amounted to £984.0 million.

Pension funding

At 31 March 2021 the net pension deficit for the group was £2.6 million (2020: surplus of £115.8 million). The increase in the deficit reflects a decrease in the corporate bond rate used to discount the scheme's liabilities. During the year a deficit reduction payment of £36.5 million was made, compared with £15.1 million in the prior year.

The increase is partially offset by the impact of the minimum funding requirement, £17.9 million (2020: £(12.6) million), which (under IFRIC 14) restricts the value of the Morrison Pension & Life Assurance Plan (MPLAP) scheme to ensure the liability is at least the value of committed payments, £16.7 million (2020: £24.6 million).

Dividends

Dividends of £55.9 million (2020: £nil) were paid in the year. This decision is in combination with an equity injection of £110.0 million in April 2021 increasing the company's investment in AWG Parent Co Limited. In addition, the group is considering a new financing structure in order to enable a substantial equity injection into Anglian Water Services Limited (AWS), leading to a future reduction in AWS's gearing. Through these capital injections the group continues to benefit from the strong support of shareholders, who have foregone dividends since June 2017 for the long-term benefit of the company and its customers, in line with our purpose.

The company's dividend policy is to pay a dividend of the maximum amount of available cash each financial year after adequate provision is made for:

- liquidity requirements of cash (six months debt service requirements) and undrawn bank facilities (18 months of working capital including debt repayments in accordance with the CTA);
- liabilities (whether actual or contingent) as contemplated in the Group Business Plan or Budget for that financial year approved for the AWG Board; and
- financeability tests to ensure no breach of financing arrangements.

All legal requirements with respect to the declaration and payment of dividends, including consideration by the directors of the company of the benefit to the members as a whole (in accordance with s172 of the Companies Act 2006), will be clearly established and met by the company. The dividend will be considered at a properly constituted Board meeting and will require a unanimous decision of directors.

Segmental reporting

The key performance indicators of the group's individual businesses are discussed in the Anglian Water and Head Office and Other sections of this strategic report; a summary can be found below and in note 3.

EBITDA is defined 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 and is discussed on pages 52-53.

	Anglian Water £m	Head Office and Other £m	Inter-segment eliminations £m	**Total £m**
Revenue				
External	1,351.8	2.6	-	**1,354.4**
Inter-segment	-	0.5	(0.5)	**-**
	1,351.8	**3.1**	**(0.5)**	**1,354.4**
Segment result				
EBITDA	742.9	(22.0)	-	**720.9**
Depreciation and amortisation	(351.3)	(0.7)	-	**(352.0)**
	391.6	**(22.7)**	**-**	**368.9**
Cash flows				
Operating cash flow	659.3	(26.8)	-	**632.5**
Capital expenditure	422.3	(846.1)	-	**(423.8)**
Net debt excluding derivative financial instruments	(6,649.8)	(1,271.4)	-	**(7,921.2)**

Business review and key risks

The following pages set out a Strategic Report for each of the main reporting segments of the group at 31 March 2021 and the key risks for the group.

Anglian Water

About Anglian Water

Water is our business. We handle with care and we don't cost the earth.

A company with purpose

We were the first major utility to enshrine our purpose in the fabric of our company constitution. We work to bring environmental and social prosperity to the region we serve through our commitment to Love Every Drop.

Long-term shareholders

Anglian Water Services Limited is the principal subsidiary of Anglian Water Group Limited, owned by a consortium of long-term investors representing millions of individual pension holders.

Supporting our communities

We've been a leading voice in responsible business for a number of years and were named Business in the Community's Responsible Business of the Year in 2017. In April 2020 we launched a £1 million Positive Difference Fund to support front-line Covid-19 relief efforts.

Pioneers in carbon reduction

We were the first water company to set ambitious targets on reducing both capital and operational carbon. We've exceeded our 2020 goals and are on track to reach, and help others to reach, net zero carbon by 2030, as well as reducing carbon in building and maintaining our assets by 70% against a 2010 baseline, by the same date.

A leading employer

We've been named Employer of the Year at the 2020 Utility Week Awards, were awarded RoSPA Safe@Work, Safe@Home winner 2020 and hold the RoSPA (Royal Society for the Prevention of Accidents) gold award for health and safety, our 17th year of RoSPA recognition. We're an inclusive employer, committed to the Social Mobility Pledge; we're also a Disability Confident employer and hold the Armed Forces Covenant Gold award for employing ex-servicemen and women.

Sector-leading performance on leakage

We lead the water sector on tackling leakage, with water lost per kilometre at half the national average, and are sharing our expertise with others through the Water UK Public Interest Commitment.

Planning for the long term

Our 25-year Strategic Direction Statement and 10 outcomes, developed with customers, guide our vision. That vision has helped us supply 600,000 extra homes since 1989 with the same amount of water.

Top-quality service to customers

Our whole organisation is committed to delivering for our customers; we were ranked the top-performing water and water recycling company by Ofwat for the period 2015-2020.

Anglian Water

Leading on sustainability
We've been awarded the Queen's Award for Enterprise: Sustainable Development to hold for a further five years from 2020; our strong track record has helped us forge a leading path in sustainable financing for utilities.

Always exploring
Innovation is in our DNA and embedded in our values; we've pioneered innovation with customers through our Shop Window initiative; we're founder members of Innovate East and our Water Innovation Network, which has connected more than 250 companies and explored 800 new ideas, celebrates its 10th anniversary this year.

Contributing to global goals
Our activities and the outcomes we deliver are aligned to the United Nations Sustainable Development Goals. We work in the spirit of all 17 goals but have mapped our work to the 10 where we have the most material impact. In 2021 we were invited to become founding signatories to HRH the Prince of Wales's Terra Carta, and we are committed to working towards its goals.

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 values
- Build trust
- Do the right thing
- Are always exploring

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

Read more about the relationships with our stakeholders on pages 35-44.

Anglian Water

Our long term ambitions

Our ambitions respond to the pressure 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 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

Read more about our progress on page 16-19.

The UN Sustainable Development Goals influence our thinking and the work we do contributes towards their delivery.

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.

Anglian Water

Our strategic ambitions

Our long-term strategic ambitions are shared to deliver on our purpose and drive us to achieve more, for everyone.

By 2030, be a net zero carbon business and reduce the carbon in building and maintaining our assets by 70%

We are committed to reducing our carbon footprint in both operation and capital carbon.

Key achievements

- Co-sponsors and chair of working group creating Water UK 2030 routemap to net zero
- Won Net Zero Carbon Initiative of the Year awards at the 2020 and 2021 Water Industry Awards and the 2020 Utility Week Awards
- Record year for renewable energy: 134.4 GWh, enough to power 40,000 homes
- Collaborative Innovate East event driving progress to net zero

Leadership

We've played a leading role this year in the development of the water sector's ground-breaking routemap to net zero, with our CEO Peter Simpson co-sponsoring the goal and Anglian Water chairing the routemap working group. The routemap was described as "one of the most significant steps taken by any industry in the world" by UK Climate Action Champion Nigel Topping. Peter also chaired an official UN Race to Zero dialogue in November through his role as co-chair of the UK Corporate Leaders Group.

Renewable energy and storage

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

Next steps

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

Anglian Water

Work with others to achieve significant improvement in ecological quality across our catchments
Our Articles of Association commit us to delivering positive environmental outcomes.

Key achievements

- Brought forward £300 million of investment in Water Industry National Environment Programme through green recovery plan, at no additional cost to customers
- Continued success of 'Slug it Out' programme
- Reduced number of pollutions by 20 per cent
- Exceptional water recycling centre compliance: 99.29 per cent

Leading on green recovery
We set out our five-point plan for a green recovery in September; collating a series of commitments and highlighting the future we want to see on net zero carbon, accelerating sustainable housing and infrastructure growth, creating green jobs and boosting skills growth, delivering climate change adaptation and resilience and enabling nature recovery. The plan was instrumental in securing the acceleration of £300 million of planned investment in our region's environment, including dozens of new treatment wetlands and innovative river restoration schemes.

Improving soil quality
We work proactively with farmers and landowners across our region to help them adopt catchment-based approaches and manage risks to water quality. We've seen continued success through our Slug it Out metaldehyde reduction programme this year, including extension to an additional catchment in Lincolnshire.

Tackling pollution
Preventing pollution is a fundamental part of our remit. Through the delivery of our nine-step Pollution Incident Reduction Plan, we've achieved a 20 per cent reduction in the volume of pollutions this year which we hope will enable us to regain our 3* Environmental Performance Assessment status later this year.

We're also increasing monitoring of storm overflows to assess how best to target investment to benefit the environment and engaging with the Government's Storm Overflows Taskforce to accelerate progress, share best practice and technology and develop long-term solutions.

Reducing abstraction
A key way in which we're improving ecological quality across our catchments is by reducing the amount of water we abstract from major aquifers in our region, which feed many precious and rare chalkstreams and wetlands.

Anglian Water

Make the East of England resilient to the risks of drought and flooding

The management of climate change risks is embedded into everything we do.

Key achievements

- Achieved global A-list status for response to climate change in second year of reporting through CDP
- First organisation in UK to deliver Adaptation Report in third round of reporting
- Embarked on biggest infrastructure programme in Anglian Water history
- Led creation of Future Fens Taskforce

Reaching the global A-list for Adaptation In only our second year of reporting we reached CDP's global A list for our response to climate change, placing us in the top 3 per cent of 9,600 companies and one of only 21 UK companies to do so.

Safeguarding future supplies

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

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

Future Fens: Integrated Adaptation

Led by Anglian Water in partnership with Water Resources East, the Environment Agency and a wealth of other partners, an ambitious programme is coming together to drive resilience to climate change in the Fens.

Future Fens combines flood risk management (including upgraded coastal defences, barriers and barrages) with new open water transfers and multi-user reservoirs to unlock economic growth, new housing projects and improved transport links, as well as benefiting nature and tourism. We hope the programme will be showcased as an international exemplar of innovative approaches to adaptation at November's global COP26 Summit.

Anglian Water

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

We are working to embed water and resilience at the heart of growth and development in the East of England.

Key achievements

- Awarded Best In-House Planning Team 2020, Royal Town Planning Institute Awards for Planning Excellence
- New location selected for Cambridge Waste Water Treatment Plant, with potential for 5,600 homes on existing site
- Ox-Cam utilities alliance convened
- Published guide for developers of Nationally Significant Infrastructure Programmes

Supporting housing growth

Ongoing rapid growth in our region poses major challenges for Anglian Water, but also presents an opportunity to make a positive influence on new developments. A key priority is the work we are undertaking with South Cambridgeshire District Council and Cambridge City Council to support their vision for sustainable growth by moving our Cambridge Waste Water Treatment Plant to a new location. This ambitious project, for which a site has now been selected, following customer consultation, would free up land for up to 5,600 of the 8,000 homes to be created in the wider area.

We work closely with our local authorities to ensure that water is a key consideration of their plans. This year we've secured agreement that all Norfolk local authorities will seek the optional higher water efficiency target of 110 litres per day in all new housing development. We've also appeared at North Essex Local Plan hearings to explain the infrastructure needed to accommodate identified housing need of over 40,000 homes by 2033.

Influence and leadership

As a major facilitator of growth in the East of England we take every opportunity to shape and influence the national and local development debate.

In our region, we've convened a utilities alliance across the Ox-Cam Arc to create a joined-up approach to planning for substantial development and population growth that will help reduce costs, cut carbon and support inbound investment to the area, as well as making the case for creating water-efficient homes and businesses.

Nationally, we've been drawing together organisations through the Chartered Institute of Water and Environmental Management water reuse partnership and Waterwise to tackle persistent barriers to water management methods such as neighbourhood-level water harvesting and reuse.

Ownership and company structure

Anglian Water Services Limited (AWS) is a private limited company 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 a Non-Executive Chairman.

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AWG Investors
▼
Anglian Water Group Limited
▼
Osprey Holdco Limited
▼
Aigrette Financing Limited
▼
Osprey Investco Limited
▼
Osprey Acquisitions Limited
▼
AWG Parent Co Limited
▼
AWG (UK) Holdings 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)

[dashed box] 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.

After the end of the 31 March 2021 financial year, two new UK companies were inserted into the holding company structure, as part of the group's financing strategy for AMP7 to reduce AWS gearing in order to enhance and protect its current solid investment grade credit ratings. This will allow us to borrow at lower rates to support the investments customers have asked us to make. The insertion of these companies puts in place a two-tier financing structure sitting above AWS in the AWG group and enables the group to increase its equity investment in AWS.

Under this new structure, Aigrette Financing Limited, and its newly incorporated UK subsidiary, Anglian Water (Aigrette) Financing Plc, will borrow funds externally and flow the cash to AWS as increased equity.

Osprey Investco Limited, Osprey Acquisitions Limited and Osprey Acquisitions Limited's subsidiary, Anglian Water (Osprey) Financing Plc, together comprise AWG's 'midco' financing group. Funds raised by the 'midco' financing group will be used to increase the equity investment in AWS and for other purposes.

AWS will reduce its gearing with the funds received as equity injections under this enhanced financing structure.

AWG Parent Co Limited, AWG (UK) Holdings Limited and AWG Group Limited are holding companies that were set up when AWG was a listed group. They are all 100 per cent owned, and currently none of these companies has any external debt. They are all are registered in the UK and UK tax resident. During the 2020/21 financial year, another holding company, AWG Holdings Limited,

Anglian Water

was removed from the holding structure. The company will be liquidated during the 2021/22 financial year.

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 are 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 tax resident companies.

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

Anglian Water Services Financing Plc is the financing company that raises money on behalf of Anglian Water Services Limited. We need a Plc company 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™) 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 is a fund advised by IFM Investors. IFM Investors is a global institutional fund manager owned by 26 profit-to-member Australian pension funds, specialising in infrastructure, private equity, debt and equity investments.
- Camulodunum Investments 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.
- First Sentier Investors has US$176 billion (as at 31 December 2020) in assets under management on behalf of institutional investors, pension funds, wholesale distributors, investment platforms, financial advisers and their clients worldwide.
- Infinity Investments S.A. 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, First Sentier Investors and The IFM Global Infrastructure Fund): 75.8%
- Asset manager (Dalmore Capital): 7.5%
- Sovereign wealth fund (Infinity Investments S.A.): 16.7%

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Responsible financing

Our position as a monopoly provider of essential public services makes it essential that we maintain trust and confidence of our customers while providing fair returns to our shareholders.

That means running our business in a responsible and transparent way so people can clearly see that:

- we act in the public interest
- their bills are affordable and provide value for money
- we are responsible with their money
- we run our business efficiently, sharing any savings fairly between them and our shareholders
- while our shareholders (representing millions of individual pension holders) deserve to make a fair return, our profits are not excessive
- we pay our fair share of tax.

Sharing the rewards

The money that we can raise from bills, along with how much we are allowed to invest in our service, is decided every five years through Ofwat's price-setting process and set out in our Final Determination. Any regulated wholesale revenue raised over and above the agreed amount is returned to customers through something called the revenue correction mechanism.

Any profits, and returns to investors, that we make in excess of those derived from allowed pricing come from:

- increasing efficiency – running the business more cost-effectively than was funded at the time of the Final Determination
- any rewards for meeting our performance commitment targets (ODIs).

Efficiencies are either reinvested to improve service for customers or shared with customers, helping to keep bills down.

In addition, our focus on sustainable savings that can be maintained over the long term will help reduce our cost base in 2020-2025.

Attracting investment

Profits are essential to attract private investment, as customers' bills alone could only fund a fraction of what we invest each year. We have to provide investors with a reasonable return on their investment. We also believe excellent performance should be reflected in higher profits. However, profits can rise or fall due to factors not directly related to excellent performance – for instance, the level of interest rates, the rate of inflation or unexpected new legal obligations.

When inflation outturns at a significantly lower rate than assumed at a price determination, this can adversely affect our finances. Conversely, when inflation outturns at a higher rate, it can benefit companies.

We look to manage this inflation risk to minimise the impact for us and our customers, and the link to inflation is a key driver of the relatively low costs of capital from which customers benefit.

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Private investment also effectively spreads the cost of extending and improving our assets over their operational life. In this way, tomorrow's customers pay for tomorrow's use of the asset.

Our dividend policy

The company's dividend policy is to identify the cash available for distribution, allowing for the business's liquidity requirements in respect of funding its operations, the capital programme and servicing its debt for the next 18 months. Our full dividend policy can be found on our website.

Tax

We are committed to complying with tax laws in a responsible manner and to having open and constructive relationships with tax authorities. We support moves towards greater transparency that increase understanding of tax systems and the building of public trust. We make significant contributions to the Exchequer each year, through a wide range of taxes collected and paid. Our taxable profits are less than the profits shown in our accounts, and our effective rate of corporation tax is in line with the statutory rate of corporation tax. This is because of the huge amount of investment we bring into our region and the HM Revenue & Customs (HMRC) rules on interest payments and capital allowances designed to encourage that investment.

We have one of the largest levels of private investment in the region and invested £2 billion between 2015 and 2020. This is central to underpinning the growth of the regional economy. That investment is largely paid for by borrowing, and we have to pay interest on that borrowing. HMRC rules say companies only pay corporation tax on the profits they have remaining after any interest payments are made.

Our taxable profits are also reduced by capital allowances, which the Government grants us to encourage infrastructure investment. Accounting profits are reduced by depreciation – the drop in the value of equipment and plant due to wear and tear over their useful life. HMRC does not take account of depreciation when it comes to determining taxable profits. Instead, it grants companies capital allowances. These encourage investment by letting a company recoup the cost of an asset at a faster rate than depreciation. This also means some of our corporation tax liabilities are deferred until later. The corporation tax is not avoided, it is simply deferred. All this encourages investment and allows us to make a real contribution to infrastructure development, environmental protection and customer engagement in our region.

An open and constructive approach

Our commitments on tax are underpinned by our tax strategy, which is based on a number of principles.

Tax planning and compliance

We engage in efficient tax planning that supports our business and reflects commercial and economic activity. We are registered for tax in the UK and do not engage in artificial tax arrangements.

We conduct transactions between Anglian Water Group companies on an arm's-length basis and in accordance with both current Organisation for Economic Co-operation and Development (OECD) principles and regulatory accounting guidelines.

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We adhere to relevant tax laws and we seek to minimise the risk of uncertainty or disputes. We do this because it helps keep customer bills low, which is a guiding principle in everything we do.

We believe we are compliant with UK tax legislation and pay the right taxes at the right time.

Tax incentives and exemptions are sometimes implemented by governments and fiscal authorities in order to support investment, employment and economic development. Where they exist, we seek to apply them in the manner intended.

Due consideration will be given to the group's reputation, brand, and corporate and social responsibilities when seeking to apply tax incentives, as well as the applicable legal and fiduciary duties of Directors and employees of the group, and will form part of the overall decision-making and risk assessment process.

Relationships with tax authorities

We are committed to the principles of openness and transparency in our approach to dealing with tax authorities. All dealings with the tax authorities and other relevant bodies are conducted in a collaborative, courteous and timely manner. Our aim is to strive for early agreement on disputed matters and to achieve certainty wherever possible.

Tax risk management and governance

We have a comprehensive, multi-layered risk management system, which consists of risk registers for all areas of the business, see pages 65-79. These registers are subject to both internal and external review. We have a specialist tax team who identify, assess and manage tax risks and account for them appropriately. We implement risk management measures, including controls over compliance processes, and monitor their effectiveness.

On a periodic basis, the Board reviews how tax risks are managed, monitored and assured, and any improvements being made. In this way the Board provides governance and oversight of significant risks.

Where there is uncertainty as to the application or interpretation of tax law, appropriate written advice that takes into account the facts and risks may be taken from third-party advisors to support the decision-making process.

Our tax contribution

Our total tax contribution for the year extends significantly beyond the payment for corporation tax. Total tax paid or collected in the year to 31 March 2021 amounted to £255 million (2020: £270 million), of which £83 million was collected on behalf of the authorities for value-added tax (VAT) (£38 million) and employee payroll taxes (£45 million). The most significant taxes involved, together with their profit impact, were:

- Business rates of £67 million paid to local authorities. This is a direct cost to Anglian Water and reduces profit before tax. The company was given automatic rates relief as part of the government's Covid-19 measures for our recreation and retail premises. The Board of Directors opted not to make use of any financial support from the government during the pandemic, and therefore £205,094 was repaid.
- Employment taxes of £65 million, including £45 million of employee Pay As You Earn (PAYE) and National Insurance Contributions (NICs) collected from salaries paid. In addition, employer NICs of £20

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million were charged approximately 72 per cent to operating costs, reducing profit before tax, with 28 per cent capitalised to fixed assets

- VAT of £38 million collected and paid to HMRC. VAT has no material impact on profit before tax
- Payments of £25 million made to other Anglian Water Group companies to compensate them for tax losses surrendered to Anglian Water. This has no impact on profit before tax
- Abstraction licences and direct discharges of £19 million. This is a direct cost to Anglian Water and reduces profit before tax
- Fuel excise duty of £5 million related to transport costs and charged to operating costs, reducing profit before tax
- Environmental taxes of £34 million charged to operating costs, reducing profit before tax.

Financing our business sustainably

We highlighted in last year's report how sustainable financing was rising up the corporate and investor agenda. Encouragingly, the movement towards incorporating environmental, social and governance considerations into investment decisions has gathered real momentum over the past year.

A significant milestone came with the launch of HRH The Prince of Wales's Terra Carta in January 2021, to which Anglian Water was invited to become a founding signatory.

Terra Carta sets out to provide a roadmap for acceleration towards an ambitious and sustainable future; to harness the power of Nature combined with the transformative power, innovation and resources of the private sector. Among its 'asks' is a commitment to developing new sources of funding for sustainable activities, with signatories challenged to "make global investment and financial flows consistent with a pathway towards low greenhouse gas emissions, climate-resilient development and Natural Capital/ biodiversity restoration (on land and below water)".

Anglian Water was an early adopter of exactly this type of sustainable finance, pioneering its use when we became the first European utility to launch a sterling Green Bond. Our first £250 million, eight-year bond will mature in August 2025 with a return to investors of 1.625 per cent.

Since then, we've raised a total of £1.103 billion through green financing (£876 million in our 2015-2020 Business Plan and £227 million since the start of our 2020-2025 Business Plan, via 12 debt raisings.

The investments financed through Green Bonds have avoided 161,474 tonnes of carbon, as measured in 2020. They contribute to five environmental objectives: climate change mitigation; climate change adaptation; biodiversity conservation; pollution prevention and control and natural resources conservation. Projects funded include innovative water abstraction projects, drought and flood resilience schemes and progressive water recycling and water resource management schemes.

And we're not standing still. This year saw the launch of our Sustainability Financing Framework for 2020-2025, which expands the scope of our sustainable transactions to encompass not just Green Bonds but also Social and Sustainability Bonds, private placements and loans, and leases. This opens a new realm of funding opportunities, with the option to secure funding based on meeting social targets related to 'affordable basic infrastructure' as well as environmental ones related to sustainable water and wastewater management;

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climate change adaptation; environmentally sustainable management of living natural resources, and land use. Further, the inclusion of Sustainability-Linked Bond principles linked to Scope 1, 2 and 3 greenhouse gas (GHG) emissions (measured in tonnes of CO_2e) means investors will be able to invest in schemes which will directly contribute towards us meeting our goal to reach net zero carbon by 2030.

We're planning to raise all of the £1.64 billion capital we need to fund our programme for 2020-2025 as sustainable finance.

We also use liquidity bank facilities that incentivise the delivery of agreed environmental and social goals. For us, finance and sustainability go hand in hand – and thanks to our long track record of securing external validation of our impact, we have the evidence base that enables us to engage with these progressive funding sources. Together with a growing number of organisations both in the UK and around the world, we have the power to make a real difference. In the words of HRH the Prince of Wales, "Today must be the decisive moment that we make sustainability the growth story of our time, while positioning Nature as the engine of our economy."

Green Bonds supporting environmental protection

Ensuring resilient infrastructure is a key part of our long-term water resources planning. And with a fast-growing population in an area where water is scarce and where there is a high concentration of sites of special scientific interest, it's crucial that we find the right balance between our customers' demand for water and the needs of the wider environment.

We work closely with the Environment Agency to review our abstraction licences, and we've agreed to reduce the amount of water we take from the environment by 84 million litres a day by 2025.

A new £9 million scheme in Ludham, in the Norfolk Broads, designed to maintain water supplies to 3,000 homes while protecting the precious environment of Catfield Fen, exemplifies how we're doing just that.

Previously, the public water supply for this area came from a borehole close to Ludham itself. This scheme has seen us install a brand new three kilometre pipeline to connect Ludham to Horstead Water Tower, meaning we no longer need to take water from this groundwater source. The scheme has been fully funded by Green Bonds.

Ultimately, the water in the tower comes from one of the company's main treatment centres at Heigham in Norwich, which itself benefited from a £34 million investment funded by Green Bonds in 2019/20. A new booster station and additional water storage facility at Horstead will pump water directly to customers' taps. Both the Ludham and Heigham investments will complement our biggest ever single infrastructure programme: the construction of hundreds of kilometres of strategic interconnecting pipelines to bring water from areas of greater abundance to areas of scarcity.

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Financial performance report

The financial results are summarised in the table below:

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Revenue (excluding grants and contributions)	**1,276.2**	1,330.6
Grants and contributions	**75.6**	89.3
Operating costs	**(590.3)**	(624.6)
Charge for bad and doubtful debts	**(31.1)**	(40.7)
Other operating income	**12.5**	13.0
EBITDA (1)	**742.9**	767.6
Depreciation and amortisation	**(351.3)**	(368.5)
Operating profit	**391.6**	399.1
Finance income	**2.0**	4.8
Adjusted finance costs (2)	**(251.4)**	(329.9)
Adjusted profit before tax (1)	**142.2**	74.0
Fair value losses on derivative financial instruments (2)	**(23.2)**	(30.4)
Profit before tax	**119.0**	43.6
Tax charge	**(20.2)**	(120.4)
Profit/(loss) for the year	**98.8**	(76.8)

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

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

Revenue

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

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

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

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The money we can raise from bills, along with how much we are allowed to invest in our service, is decided every five years through Ofwat's price-setting process and set out in our Final Determination (FD). Due to the impact of Covid-19 on consumption and grants and contributions, reflected above, we raised £5.7 million of wholesale revenue over and above the amount set in the FD. This will be returned to customers in 2022/23 through lower bills.

Other operating income

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

Operating costs (including charge for bad and doubtful debts)

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

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

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

The impacts of climate change are fundamental to our business and our climate-related financial disclosures can be found on pages 54-57. The past two years have seen a number of exceptional weather events, resulting in a net year-on-year increase in operating costs of £1.5 million.

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

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

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

EBITDA

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

Depreciation and amortisation

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

Operating profit

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

Financing costs and profit before tax

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

There was a fair value loss of £23.2 million on derivative financial instruments in 2021, compared with a loss of £30.4 million in 2020. The fair value losses in the current year are all non-cash in nature and have no material effect on the underlying commercial operations of the business. The driving factors for the loss in 2021 were primarily due to increases in forward inflation expectations, partially offset by a rise in forward interest rates (decreasing the discounted present value of derivatives). During the year, forward inflation increased by circa 63 basis points and forward interest rates increased by 28 basis points across the curves.

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

Taxation

Our adjusted effective tax rate of 20.0 per cent is in line with the rate of corporation tax. The adjusted effective tax rate is calculated as tax charge for the year, £20.2 million, excluding adjustments for prior periods, £3.8 million, and tax on the fair value of derivatives, £4.4 million (£23.2 million at 19 per cent), as a percentage of adjusted profit before tax. We are one of the largest private investors in infrastructure in our region, investing more than £2 billion from 2015-2020. The Government actively encourages infrastructure investment and grants us capital allowances, which defer some of our corporation tax liabilities until a later period. Our customers directly benefit from the deferral as it helps to keep their bills lower.

Total tax paid or collected in the year to 31 March 2021, other than corporation tax, amounted to £255 million (2020: £270 million), of which £83 million was collected on behalf of the authorities for value added tax (VAT) and employee payroll taxes. All of our taxes are paid as they become due.

Current and deferred tax

The current tax credit for the year was £5.5 million (2020: £14.5 million). The deferred tax charge has decreased by £109.2 million from £134.9 million in 2020 to £25.7 million this year.

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

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

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

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

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

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

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

A strong start to our AMP7 investment programme

2020/21 marks the first year in the five-year AMP7 investment programme, during which time we will invest a record £3.0 billion through our capital investment programme. This spend will help us achieve our Business Plan commitments and includes significant investments to ensure our region is resilient to the impacts of drought, climate change and population growth, alongside our largest ever programme of schemes delivering environmental protection.

Delivery against this investment programme has started strongly with gross annual capital expenditure across the appointed business of £448 million (£221 million on capital maintenance, £226 million on capital enhancement and £1 million non-appointed). This is broadly in line with management expectations and is particularly pleasing given the significant challenges posed by the ongoing pandemic throughout the year.

Financial needs and resources

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

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

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

As at March 2021 Anglian Water has access to £575.0 million of undrawn facilities (2020: £50.0 million), to finance working capital and capital expenditure requirements. In addition, Anglian Water has access to a further £400.0 million of liquidity facilities (2020: £400.0 million), consisting of £279.0 million to finance debt service costs and £121.0 million to finance operating expenditure and maintenance capital expenditure in the event that the company was in an Event of Default on its debt obligations and had insufficient alternative sources of liquidity. See note 1 for further commentary over the liquidity requirements of the group in relation to going concern.

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

Distributions available to the ultimate investors

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

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

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

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

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

An assessment will be completed by the Board to determine if the payment or part payment of the dividend reflects and/or would compromise the long-term social, financial and operational commitments made to our stakeholders. Following this assessment and depending on the actual performance of Anglian Water the Board can decide to increase or decrease any dividend payment from the base position. In assessing the dividend payment, the Directors review the business performance forecasts (currently to the end of the AMP period of 31 March 2025) and give consideration to the potential impact of external factors in the economy and regulatory environment on the company’s forecast cash flows.

The dividend policy is also based on ensuring that there is adequate headroom in relation to all of Anglian Water’s obligations to lenders, including commitments to comply with certain financial covenants. In particular, Anglian Water has committed to lenders that it will only pay dividends when key financial ratios are

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satisfied. Additionally, the policy sets out to ensure that key credit rating agency credit metrics required to support the capital structure as determined by the Board can be satisfied.

In its Articles of Association, the company has committed to conduct its business and operations for the benefit of members as a whole while delivering long-term value for its customers, the region and the communities it serves and seeking positive outcomes for the environment and society. In making decisions (including decisions in relation to dividend payments), directors are required to act in the way that is considered most likely to promote the purpose of the company. In doing so, Directors must have regard (among other things) to the likely consequences of any decision in the long term, the interests of the company's employees, relationships with suppliers, customers and others and the impact of the company's operations on the community and the environment.

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

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

The overall amount of the company’s ordinary dividends will not exceed the free cash flow (defined as operating cash flow less interest and capital maintenance payments) generated by Anglian Water, and in practice will be limited by its current and forecast financial covenants. Special dividends may also be paid in addition to ordinary dividends, but these too are limited by specific financial covenant constraints. This policy is consistent with condition F of the Licence. The full dividend policy is available on the Anglian Water website.

Liquidity

The company’s objective is to maintain flexibility, diversification and continuity of funding through access to different markets and debt instruments. At 31 March 2021, the Anglian Water Services Group held cash, deposits and current asset investments of £285.9 million (2020: £1,048.1 million). The decrease in cash amounts held is primarily the result of the company repaying £575 million of its £600 million revolving credit facilities that were drawn down in the prior year in light of uncertainty on impacts to cash flows related to the Covid-19 pandemic. While a degree of uncertainty still remains, the expected impacts to cash flows and ability to raise additional debt finance to service the company’s capital expenditure programme has been reduced.

Anglian Water has access to £975 million of undrawn liquidity facilities (2020: £450.0 million), consisting of £575 million for general corporate purposes, £279.0 million to finance debt service costs and £121.0 million to finance operating expenditure and maintenance capital expenditure in the event that the company was in default on its debt obligations and had insufficient alternative sources of liquidity. All bank facilities and debt capital market issuance are issued pursuant to the Global Secured Medium Term Note Programme dated 30 July 2002 between the company, AWSF and Deutsche Trustee Company Ltd (as agent and trustee for itself and

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each of the finance parties). This agreement provides that any facilities drawn by AWSF will be passed directly on to the company upon utilisation of the facility.

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

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

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

Annual Performance Report
Under Condition F of its Licence, Anglian Water is obliged to provide the Water Services Regulation Authority, Ofwat, with additional accounting information to that contained in the statutory financial statements. This information is presented in the Annual Performance Report, a copy of which is available on the Anglian Water Services website.

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Our stakeholders
The more we keep exploring, the more we'll achieve. For everyone.

Our primary stakeholder groups are:
- Our environment and planet
- Our customers and communities
- Our people and partners

Our shareholders are central to our business. Our shareholders have made a long-term commitment to Anglian Water and our environmental and social purpose, and have a shared interest in and responsibility for our success.

Our relationships with our shareholders, our investors, banks and ratings agencies, our regulators, and local and national government, are crucial to help us deliver for all the stakeholders above.

Investors, banks and ratings agencies
The funding advanced by investors and banks, and the assessments made by the ratings agencies, are critical to the delivery of our investment programme.

Regulators
We deliver our purpose through open and constructive working relationships with our regulators Ofwat, the Environment Agency and the Drinking Water Inspectorate.

National and local government
We seek to build strong relationships with our region's MPs and engage with both the national policy agenda and local government, from local authorities to parish councils in a two-way dialogue.

Our environment and the planet

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

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

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cent lower than a traditional greenhouse. This remarkable engineering feat provides a blueprint for sustainable, low carbon food production to meet the challenge of delivering net zero.

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

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

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

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

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

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

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

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

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

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

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

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

A particular area of focus is the River Lark, in Suffolk, where we have agreed with the Environment Agency that by March 2025, we will significantly tighten the ‘Hands Off Flow’ level, which means we will act sooner and leave more water in the river. This will allow for flows to be protected, particularly at times of drier weather. To allow this to happen we are creating a connection to our new strategic grid to move water from the north of our region, where supply is more abundant, to areas of water shortage. During this period, we will also be completing river restoration and river support schemes on rivers within the wider Lark catchment, including the River Linnet.

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

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

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

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

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

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

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

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

This year we have continued to roll out our world-leading network of ‘smart’ fixed network hydrophones which listen for new leaks so we can tackle them proactively, before customers need to tell us about them. We have also been exploring fibre-optic technology, machine learning, electroscanning to assess the condition of pipes and the volume of leaks, satellites to detect leaks from space and drones to find leaks using thermal imaging – all in pursuit of the significant further reductions we and our customers so want to see.

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

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Our customers and communities

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

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

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

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

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

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

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

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

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

Two new regulatory measures, the Event Risk Index (ERI) and Compliance Risk Index (CRI), first introduced by the Drinking Water Inspectorate (DWI) in 2017, were formally adopted as performance commitments this year. We anticipate our best-ever year for ERI and a strong score for CRI, maintaining our position as one of the strongest-performing water companies. Final scores from the DWI are expected in early July. Last year's

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figures were 8.28 for ERI (vs industry average of 782.79) and 1.75 for CRI (vs industry average of 2.85). It has been a particularly challenging year for managing water quality, largely in light of record levels of demand due to lockdowns and home working. A further difficulty was the suspension of normal water sampling during lockdown, and we were grateful that colleagues stepped up to volunteer their homes for sampling.

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

The service we provide to our developer customers is measured via the Developer Measurement of Experience (DMeX) which combines qualitative customer satisfaction ratings and quantitative Water UK level of service metrics. Overall this year, we achieved 5th place in a league table of our water and sewerage company peers. We are constantly exploring new ways to support our developer customers including, this year, creating a new Technical Extra Care team and using data and insights to set clearer expectations on timings with customers.

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

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

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

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

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

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

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

Our people and partners

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

At Board level, at 31 March 2021, there were three female and eight male directors of Anglian Water. In addition to the two Executive Directors (both male), there were two women and nine men on the

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Management Board. Also at 31 March 2021, there were 1,756 female employees and 3,663 male employees of Anglian Water. A small number of employees prefer not to disclose their gender.

We continue to invest in building the balanced and highly skilled workforce of the future, from our apprentice and graduate programmes to continuing professional development and Licence to Operate training even for our most experienced people. We have maintained our commitment to early careers opportunities through Covid-19, with 50 new apprentices joining in October, and six joiners to our Graduate scheme. Our Future Leaders Board, sponsored by directors, plays an active role in future planning, innovation and decision making. Our most important supply chain relationships are with our alliance partners, with whom we work to deliver all our capital investment programmes and our information services. More than 3,000 people come together as part of our six alliances to form our extended workforce of 8,000.

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

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

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Delivering our outcomes: performance in context

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

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

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

We have also earned outperformance payments for performing in the top quartile among our peers in flooding. The number of properties affected by internal flooding was at 1.33 incidents per 10,000 connections, which is lower than the industry target of 1.68 and earns us £3.6 million. For external flooding, there were 3,628 incidents this year, which is below our regulatory target of 4,191 incidents and earns us £2.4 million in outperformance payment.

Our region was severely impacted by wet weather over the winter period, which saw groups of customers in geographically discrete areas of our region flooded for a prolonged period, primarily due to the sheer volume of surface water and groundwater flooding. The severity and duration of flooding impacted both flooding measures; however, the impact was mitigated due to our ongoing investment in flood prevention measures and our proactive response, working with local flood authorities to go above and beyond our statutory duties.

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

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

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

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

We have made ongoing investment this year to reduce the number of properties served by a single supply, resulting in an outperformance payment of £0.6 million this year as we have performed ahead of our target.

Our water quality contacts commitment shows a small penalty of £0.1 million for marginally missing the target, primarily as a direct result of increased demand due to Covid-19.

On the Customer Measure of Experience we have achieved a score above average, which entitles us to an outperformance payment of c. £1.1 million. Our above-average score on the Developer Measure of Experience also entitles us to an outperformance payment of c. £1.1 million.

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

Section 172 statement

As an intermediate 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. 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 to amend our Articles of Association to enshrine, for the long term, the principles set out in section 172 and our longstanding commitment to working in the public interest. Section 172 (2) of the Companies Act 2006 says that where the purposes of a company consist of purposes other than, or in addition to, benefitting 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 was 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 as a whole while delivering long term value for its customers, the region and the communities it serves and seeking positive outcomes for the environment and society. It follows that the directors of Anglian Water have a duty to act in the way they consider would be most likely to promote the purpose of the company. The section 172 duties to which Directors are subject must therefore be considered in the context of this overarching purpose.

The disclosures set out below demonstrate how the Board has had regard to the matters set out in Section 172(1) (a) to (f) of the Companies Act 2006 (section 172) which are now enshrined in Anglian Water's Articles of Association and include cross-references to other sections of the report for further information.

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 their 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 on pages 35-44.

Engagement with stakeholders is most effective when it is continual and two-way, and when its outcomes are recorded, shared and acted upon. We have developed an annual stakeholder strategy, approved by the Board and designed both to demonstrate how we are 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.

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There are some issues which are of such importance that the Board itself judges that it should engage directly with relevant stakeholders. However, much of our engagement also happens at an operational level. Where the Board has not engaged directly with stakeholders, it ensures that 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.

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 SDS's four key ambitions are set out in our business model.

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. Each year we conduct our Love to Listen survey to seek the views of our employees. The results of the survey, together with plans to address its findings, are brought to and discussed by the Board. In line with the Anglian Water Services Corporate Governance Code 2020, the Board has appointed Duncan Symonds as the Non-Executive Director responsible for engaging with the workforce. During the year, Duncan met members of the senior management team to discuss the results of the 2020 Love to Listen survey, during which he was able to provide constructive feedback. Duncan also joined a session of the Anglian Water Leaders' Forum, at which he gave a presentation setting out his role and answered questions. Further information on how the Board and management engage with employees, and the impact of that engagement, can be found on pages 41-44.

Fostering business relationships with suppliers, customers and others

Engagement with customers and communities is fundamental to the development of our strategy and plans. During 2020 and 2021 the company developed a two-way Social Contract with customers which was discussed in detail by the Board. The Board oversaw all aspects of the planning process for our Business Plan for 2020-2025, including the customer engagement strategy; the Board is also fully engaged with and approves the annual Business Plan and the Charges Scheme (see case study on page 50) each year. Further information on engagement with customers can be found on pages 39-41.

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, which 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 met with the Chief Inspector of the Drinking Water Inspectorate, which provided the Directors with an opportunity to understand in greater detail, the role of the DWI as regulator and an opportunity for the Board to interrogate water quality plans for AMP7.

Impact on community and the environment

Section 172 statement

The environment is at the heart of our purpose, and our SDS is fully aligned with the Government's own 25-year Environment Plan. The Board regularly considers environmental matters including water quality, abstraction, water quality, compliance against the Environment Agency's Environmental Performance Assessment and pollution reduction schemes. Further information on these can be found on pages 35-38.

Our purpose also requires us to consider the impact of our operations on our communities. One key area on which we have done so this year is through the extensive engagement process around the proposed relocation of our Cambridge Waste Water Treatment Plant (see case study on page 50-51). Further information on our engagement with communities can be found on pages 39-41.

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.

Acting fairly between members

Anglian Water has five shareholders, and all 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.

Engagement in action

In October 2020, Anglian Water hosted a series of online workshops for stakeholders across the region. The theme of the workshops was 'Working Towards a Green Recovery – Levelling up the East of England'. In total 66 stakeholders representing 46 organisations took part, including MPs, councillors and representatives from charities, business and environmental groups. Non-Executive Directors from the Boards of both Anglian Water and Anglian Water Group also attended the sessions, giving them the opportunity to further understand the priorities of a wide range of stakeholders and receive first-hand feedback from them. Before the event, all stakeholders were asked to share their top three priorities for the region, which were innovation, reaching net zero carbon and delivering infrastructure. This insight, along with the information collated from the breakout discussions, has been used to identify a number of areas for follow up and inform the ongoing stakeholder engagement strategy.

Response to Covid-19

The impact of Covid-19 and the company's response has remained a key area of focus for our Board during the year. Board discussions have focused on the potential short- and long-term impact of Covid-19 across a wide-range of stakeholders. More information on Anglian Water's response to Covid-19 can be found on pages 6-8.

Considering stakeholders in decision-making

We define principal decisions as both those that are material to the group, and also those that are significant to any of our key stakeholder groups. In making the following principal decisions the Board considered the outcome from its stakeholder engagement as well as the need to maintain a reputation for high standards of business conduct and the need to act fairly between the members of the company.

Section 172 statement

	Stakeholder engagement	Stakeholder considerations	Outcome
Approval of the charges scheme			
Anglian Water operates a number of different tariffs to support customers in a range of vulnerable circumstances. Under the LITE social tariff, eligible customers receive a lower bill, which is funded through a customer cross-subsidy. As part of the annual approval of the Charges Scheme, the Board was asked to consider an increase in the customer cross-subsidy to reflect the significant rise in the forecast number of customers who would be seeking support as a result of Covid-19.	Initially an externally facilitated customer consultation was undertaken to measure customers' willingness to support an increase in the LITE cross-subsidy. The outcome of consultation was that most customers were supportive of an increase. We then consulted with the Consumer Council for Water with regards to the proposed increase in cross-subsidy. We then corresponded with Ofwat as to the outcomes of both consultations.	The results of the consultation with different stakeholders were thoroughly reviewed by senior management and a proposal was put to the Board recommending that that the LITE cross-subsidy be increased. On making the recommendation it was recognised that there was a significant risk of an increase in customers with affordability issues due to the unwinding of the Government's furlough arrangements.	When making their decision the Directors considered the outcome of the customer consultation, the likely impact of the increase in cross-subsidy on customers (both recipients and non-recipients of the LITE tariff) and the potential long-term impact of Covid-19. Following these considerations the Board approved the increase in the cross-subsidy.
Cambridge Waste Water relocation project – new site selection decision			
We are working closely with South Cambridgeshire District Council and Cambridge City Council to support their vision for sustainable housing growth in North East Cambridge by moving our Cambridge Waste Water Treatment Plant (WWTP), with financial support from Homes England, to a new location. This is a long-term project which will free up land for up to	During the year there was an extensive stakeholder engagement process to seek feedback from statutory stakeholders, local residents and other interested parties regarding the three proposed site options for the new Cambridge WWTP. More than 3,000 responses were received, giving insights from local communities and a wide spectrum of	In considering the proposed site selection the Board reviewed the responses from the community and technical stakeholders, including the Environment Agency, National Trust, Natural England, Historic England, Cambridgeshire County Council and Highways England. The Board considered the feedback alongside the results of a detailed, multi-stage site selection	The Board carefully considered site selection over a series of meetings, taking into account responses from stakeholders, the potential impact of the proposed site on local communities and the environment, the risks and the long-term resilience of the proposed site prior to its final decision to select the site area north of the A14.

Section 172 statement

5,600 of the 8,000 homes planned for the area. At the end of 2020, Board approval was sought for the proposed site of the new WWTP.	stakeholders.	study in which criteria had been evaluated across environmental, community, planning, operational and economic considerations.	

Head Office and Other

The 'Other' business segment mainly comprises head office and other group functions, including Property.

The operating loss from other operations was £22.7 million compared to £11.6 million in the prior year, primarily a result of higher costs in Head Office relating to the referral of the Final Determination (FD) to the Competition and Markets Authority (CMA) and Board restructuring costs.

The operating cash outflow was £6.2 million higher than the prior year at £26.8 million, primarily as a result of increased CMA costs and Board restructuring costs.

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

The group's objective is to maintain flexibility and continuity of funding through access to different markets and debt instruments. At 31 March 2021 the group held cash, deposits and current asset investments of £331.6 million (2020: £1,175.5 million). This decrease primarily reflects the repayment of £575 million on the revolving credit facilities that were drawn down at the end of the prior year to provide a short-term liquidity buffer in light of the Covid-19 uncertainty. See note 18 for other movements in net debt. The maturity profile of the group's borrowings is set out in note 21 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, which is met by a combination of cash flow and debt issuance with covenant tests at the Anglian Water and Osprey Acquisitions Limited levels. At 31 March 2021 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 82.0 per cent (2020: 78.4 per cent) and 87.5 per cent (2020: 83.1 per cent) respectively.

Head Office and Other

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 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 ratio of net debt to Regulatory Capital Value and interest coverage. At 31 March 2021, 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.

Climate-related financial disclosures

The management of climate change is embedded into everything we do. We were early adopters of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and have reported in line with them since 2017. We make an annual disclosure through CDP (formerly Carbon Disclosure Project) following the modification of its structure to align with the TCFD.

In 2020, in only our second year of reporting through CDP, we achieved a rating of 'A' for our response to climate change, a result which puts us in the top 3 per cent of more than 9,600 companies globally. We are the only UK water company to achieve such a rating and one of only 21 companies in the UK to do so.

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

The section below summarises how climate change is integrated across the four elements defined by the TCFD. This summary should be read in conjunction with the detail in the CCAR and CDP disclosure. References to the relevant CDP questions have been provided below.

Governance C1.1b, C1.2, C1.2a

Climate-related risks are included within our top-tier risk register (see pages 64-79). This is reviewed regularly in detail by the Board, which has agreed short-, medium- and long-term climate-related targets and has effective oversight. Management Board members chair the groups responsible for reducing carbon emissions and climate change adaptation and are financially incentivised on progress towards achieving the targets.

Strategy C2.3, C2.3a, C2.4, C2.4a, C3.1, C3.1a, C3.1b, C3.1d, C3.1e, C3.1f

Our long-term strategy is described in our publicly available Strategic Direction Statement, updated in 2017. We have submitted three Adaptation Reports to the Government, the latest in December 2020. Our most significant physical risks are drought and flooding. These are being effectively mitigated in line with our long-term plans, which consider more than one climate change scenario. Our most recent adaptation strategy also describes how we are managing transition risks. We took a leading role in the development of the Water UK Net Zero Carbon Routemap 2030.

Our Chief Executive Officer is the Co-Chair of the UK's Corporate Leaders Group and is helping to lead the response of businesses to the climate emergency and support of the 2020 UN Climate Change Conference, or COP26, due to take place in Glasgow in November 2021.

Risk management C2.1, C2.1a, C2.2, C2.2a

The processes for identifying, assessing and managing climate-related risks are fully integrated with our strategy and risk management processes.

Climate-related financial disclosures

Climate-related risks were identified and assessed during the production of our latest CCAR. Risks are also identified and managed through the preparation of long-term plans and the delivery of individual investments. The assessment and management of climate-related risks is consistent with the approach used to manage risk throughout the business.

Metrics and targets C4.1, C4.1a, C4.2, C4.2a, C4.2b, C6.1, C6.3, C6.5, C9.1
The table meets the requirements of the Streamlined Energy and Carbon Reporting (SECR) regulations.

	Units	2019/20 CAWv13	2019/20 CAWv15	2020-21	Inclusions	Exclusions
Energy consumption used to calculate emissions kWh	kWh	1,116,193,544	1,116,193,544	1,076,648,591	Electricity, gas, fuels combusted onsite (fossil fuels and biogas), transport (company cars, fleet vehicles, personal & hire cars on business use) plus liquid fuels consumed onsite	Outsourced vehicles, public transport
Scope 1 – Gas and fuel oil consumption	kg CO_2e	12,535,981	12,595,339	13,097,373	Fossil fuel combusted, natural gas and biogas	
Scope 1 – Process and fugitive emissions	kg CO_2e	70,691,157	83,128,528	83,009,085	Water and wastewater treatment, biogas	
Scope 1 – Owned and leased transport	kg CO_2e	22,119,099	22,119,010	20,903,352	Fleet vehicles and company cars	
Scope 1 – Total	**kg CO_2e**	**105,346,236**	**117,842,876**	**117,009,809**		
Scope 2 – Purchased electricity	kg CO_2e	163,485,177	163,485,177	151,823,882	Grid electricity – location based electric for vehicles	
Scope 2 – Total	**kg CO_2e**	**163,485,177**	**163,485,177**	**151,823,882**		
Scope 3 –	kg	973,458	973,423	139,996	Private cars,	

Climate-related financial disclosures

Business travel	CO_2e				public transport	
Scope 3 – Outsourced activities	kg CO_2e	14,891,058	14,821,673	13,799,855	Outsourced tankers	
Scope 3 – Purchased electricity	kg CO_2e	13,879,610	13,879,610	13,056,506	Transmission and distributions	
Scope 3 – Total significant	**kg CO_2e**	**29,744,125**	**29,674,707**	**26,996,356**		**We have not included commuting, capital carbon and emissions from use of water in customers' homes**
Total annual gross emissions	**kg CO_2e**	**298,575,539**	**311,002,760**	**295,830,047**		
Exported renewables	kg CO_2e	-8,309,539	-8,309,539	-6,775,929	Exported renewables REGO certified	
Green tariff	kg CO_2e	0				
Total annual net emissions	**kg CO_2e**	**290,265,590**	**302,692,811**	**289,054,118**		
Intensity ratio – Water treated	kg CO_2e per Ml	223.87	237.97	230.97		
Intensity ratio – Recycled water	kg CO_2e per Ml	431.83	447.68	433.46	Water distribution input	
Intensity ratio – Recycled water	kg CO_2e per Ml	219.73	237.98	224.13	Full flow to treatment	

Methodology: The reporting boundary covers the emissions within the regulated activity of Anglian Water Services Ltd where we have operational control. 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 2020 to calculate the above disclosures. Where relevant we have also aligned with industry best practice for emissions measurement and reporting. This approach has been verified, since 2011, by CEMARS (now renamed Carbon Reduce) as being measured, managed and reduced in accordance with ISO 14064.

During 2020 UKWIR, to reflect improved scientific understanding, revised upwards the emissions factors associated with process and fugitive emissions. Consequently, process and fugitive emissions associated with a given treatment volume have increased in 2020/21 over 2019/20. In order to provide a like-for-like comparison we have re-calculated our 2019/20 emissions using the 2020/21 process and fugitive emissions factor.

Climate-related financial disclosures

Therefore, three columns of numbers are presented. 2019/20 as reported in our 2020 Annual Integrated Report, 2019/20 recalculated using the revised (current) process and fugitive emissions factor, and 2020/21 using the current process and fugitive emissions factor.

Energy efficiency action: In the reporting year we fulfilled our obligation to notify the Environment Agency that we had complied with our Energy Saving Opportunity Scheme (ESOS) obligations. In doing so we demonstrated the actions we are taking to identify and deliver improvements in energy efficiency. For example, in 2020/21 we invested £6.4 million in energy-saving projects, saving 11.27 gigawatt hours in-year (annualised figure 18.04). Within the year we also designed energy and carbon out of our construction projects, increased our generation of renewable energy and increased our use of electric and hybrid vehicles. See ‘Our strategic ambitions’, pages 16-19.

Risk management

Resilience and risk management

Maintaining a resilient business and managing our risks
Customers expect us to provide a reliable, high-quality service, whatever happens. So resilience has been an important part of our planning and operations for a long time. 'Resilient business' is one of the 10 core outcomes we agreed with customers in 2013, and we have set ourselves the long-term ambition to make the East of England resilient to the risks of drought and flooding.

Ofwat's resilience duty (introduced in 2014) focuses on the need to ensure that companies take steps to enable them, in the long term, to meet the need for water supplies and wastewater services. Ofwat has subsequently expanded its definition of resilience to mean "the ability to cope with, and recover from, disruption and anticipate trends and variability in order to maintain services for people and protect the natural environment now and in the future" (Ofwat, 2017, Resilience in the Round).

Resilience reflects the overall "capacity of individuals, communities, institutions, businesses and systems to survive, adapt and thrive no matter what kinds of chronic stresses or acute shocks they experience" (adapted from Rockefeller Foundation, 2013).

Risk assessments and mitigation continue to play an important role in responding to business challenges. However, in order to create truly resilient organisations in the face of growing uncertainty, this needs to be supplemented with a broader consideration of resilient systems.

We look at resilience 'in the round' for business continuity purposes, which recommends that customers should be the focus of the business and three themes of resilience should be considered:

- Corporate resilience: the ability of an organisation's governance, accountability and assurance processes to help avoid, cope with and recover from disruption and to anticipate trends and variability in its business operations.
- Financial resilience: an organisation's ability to avoid, cope with and recover from disruption to its finances.
- Operational resilience: the ability of an organisation's infrastructure, and the skills to run that infrastructure, to avoid, cope with and recover from disruption in its ability to provide critical services to customers.

We are constantly developing our resilience approach to ensure robust systems thinking and have incorporated our Resilience Systems Thinking into our AMP7 Business Plan.

All three elements of 'resilience in the round' are currently under stress due to the Covid-19 outbreak, with risk controls supporting the business in responding to the increased risk; for example, our extensive emergency planning to maintain services, our high level of customer service and programmes that aim to support vulnerable customers, and our aligned corporate governance, from the Board down through the business.

When things don't quite go to plan, we have well-rehearsed policies and procedures which underpin our incident escalation and response mechanism. This is supported by the Anglian Water Force – our trained

Risk management

incident response community. We have more than 1,200 incident responders from right across the business and our alliance partners who are ready to respond and ensure the business maintains operational and organisational resilience.

Multi-agency and partnership working is fundamental to risk management and resilience. We actively engage across our 13 Local Resilience Forums in planning and risk mitigation to ensure interdependencies are known and mitigations are prepared. Alongside the usual planning and exercising, we supported the response to severe flooding in our region in January 2021.

We collaborate with other water companies across the country through a national Water UK group, which meets to plan for and respond to events such as Brexit, severe weather and coronavirus. As part of the industry collaboration, a Platinum Incident Management (PIM) and National Incident Management group was set up to address industry challenges surrounding Brexit and Covid-19.

Anglian took an active role and established the incident management framework that surrounds the industry incident response.

Anglian Water continues to be the only water company certified to ISO 22301, an international standard in business continuity management, which recognises that we have the plans and systems in place to keep our business running.

Security is a fundamental part of resilience and we maintain our security standards across operational assets and ensure that new capital schemes and the Strategic Pipeline Alliance (SPA) project have adequate security in place to protect assets, staff and customers.

Risk management is a key part of our resilience thinking and central to the achievement of our strategic priorities, and we approach this in several ways:

- At a global level, we consider what are the potential mega trends, and whether we have ensured these are on our horizon when planning for future resilience.
- The National Risk Register also plays a key part in our resilience thinking and helps us prioritise both in terms of likelihood of occurrence and scale of impact.
- We use an all-hazards approach and challenge ourselves to ensure we look at an end-to-end systems approach to the current risks and ensure preparedness for the shocks and stresses we may face.
- We seek to engage with customers to help their understanding of the challenges we face and our understanding of their priorities.

We manage risk across our business through a number of formal and informal processes.

These risk management processes sit within our overall governance framework, which includes clear accountabilities, delegated authority limits and well-defined policies and procedures that govern employee conduct.

There are a number of external risks and uncertainties that could have a significant impact on our operations, financial health, customers, environment or reputation.

Risk management

We invest substantial resources to identify, analyse and, where possible, manage these challenges.

Our risk management system ensures processes are in place for the identification and management of risks measured on both a top-down and a bottom-up basis.

We track identified risks using a comprehensive system of risk registers, which operate at a number of levels across the business. These registers are used to assess the risks; to document the existing controls in place to manage these risks; to ensure mitigation and assurance plans are established and embedded within our business operations; and to establish clear ownership and accountability for each of the risks. An IT system is used to record and monitor these risks across the business, which helps ensure a consistent approach to risk management.

Risk appetite

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 they are willing to accept which helps senior management to understand the mitigating activities required to control risk likelihood and impact to acceptable levels.

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

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

Anglian Water continues to ensure compliance with the Anglian Water Services Corporate Governance Code, which was revised in 2019.

Our management system framework policy

Our Integrated Management System (IMS) framework helps ensure we meet customer and stakeholder commitments and deliver our outcomes:

- Customer: To make life better for our customers every single day, by delivering a personal, trusted and effortless experience.
- Water quality: Protecting water quality from source to source, providing confidence that our drinking water and recycled water is always safe and clean.
- Environment: Safeguarding and enhancing the air, water and land where we live to sustain and maintain a flourishing environment.

Risk management

- Asset management: Exploiting the whole life cycle of our assets to maximise value and reduce our capital and operational carbon footprint.
- Resilience: Effective planning and preparation to manage and mitigate the impact of any disruptive event so we can successfully respond and recover.

Our Health and Safety Charter

- Nothing is so important that we cannot take the time to do it safely
- We believe that work should have a positive effect on physical and mental health and wellbeing, and that all accidents and harm are preventable
- We will never knowingly walk past an unsafe or unhealthy act or condition.

We recognise the importance of robust management systems and their role in the ongoing success of our business. In addition to our Health and Safety Charter and Policy, we have defined arrangements for managing quality, environmental, asset management, business resilience and customer service activities.

This Integrated Management System framework sets out all our management system standards in a clear and consistent way aligning to strategic priorities, business goals and good outcomes. Strategic and business unit plans form the basis on which we set and review our objectives, obligations and targets.

We are committed to:

- Directors leading and being responsible for achieving the intended outcomes by keeping our promise to customers
- Delivering excellent drinking water quality
- Making the most of our employees' knowledge and experience by recognising the contribution that they make
- Continually improving the efficiency and effectiveness of our operating processes and this management system framework
- Preventing pollution while protecting and enhancing the quality of the recycled water that we treat and return to the environment
- Maintaining our laboratory's UKAS accreditation
- Complying with relevant legislation, regulations and other needs including the requirements and standards of:
    - ISO 45001 Health and Safety Management
    - ISO 9001 Quality Management
    - ISO 14001 Environmental Management
    - ISO 55001/PAS 55 Asset Management
    - ISO 22301 Business Continuity
    - ISO 37001 Anti-Bribery
    - BS 18477 Customer Vulnerability
    - PAS 2080/EU ETS Carbon Management.

Risk management

We will:

- Take account of the needs of our stakeholders and interested parties.
- Live our purpose, values and behaviours.
- Communicate and promote strategic priorities, business goals and good outcomes throughout our business and the alliances that work with us.
- Effectively manage our assets to deliver optimal whole-life value
- Assess the aspects of our operational activities and their potential impact on the environment.
- Undertake business impact analysis to determine critical products or services and ensure that robust arrangements are in place to manage them if disrupted in any way.
- Maintain and protect data to meet our obligations and have reliable, accurate and complete auditable information on our assets, performance and business activities.

Risk management process

Our risk management process identifies, assesses and manages our risks. These risks are broadly categorised as safety, operational, financial, regulatory and compliance with current regulations and law. The diagram below sets out the overall risk management process.

Anglian Water regularly considers new, changing or emerging risks and analyses potential causes, impacts, and likelihood using a range of governance, compliance and audit activities. The business unit and top-tier risk registers remain key tools that help management to monitor risks and evaluate the impact of individual risks on the business, and also to evaluate risks in the ‘aggregate’ across a broad spectrum of threats to overall business performance. In addition, this process facilitates the identification of those risks that are determined to be the business’s ‘principal risks’, as defined in the revised Corporate Governance Code.

The Board has met routinely during the year and has assessed the level of risk that it is willing to accept in respect of our strategic priorities for our people, partners, customers and the environment. For each strategic outcome, we have identified the principal threats that might put the achievement of that outcome at risk.

Through a process of review and discussion, we have developed a structured methodology for setting an appropriate target position for each principal risk. Where the existing level of risk is assessed as not meeting the target, additional controls or mitigating measures are identified in order to reduce the risk to the target level. This is formally recorded in the top-tier risk register. In addition, we link the principal risks to our assurance plan to ensure our focus is on the most significant risks.

The Board has requested assurance that the controls implemented are tested internally and, where required, externally.

This assurance is delivered through business resilience planning and scenario testing, health and safety audits and compliance, internal and external audit activities, external certification, governance and compliance activities.

Over the last year we have made a number of improvements to our risk management processes to ensure we are managing risk effectively, including:

Risk management

- Fully aligning the risk registers with the business operating model and the structures put in for AMP7.
- Updating our risk management systems to make them more effective and user friendly with greater reporting capability.
- Specific focus on key risks at Audit Committee.
- Developing the risk community to further strengthen the focus of risk, bringing together subject matter experts and risk owners from across the business.
- Further exploitation of technology to enable increased visibility of risk.

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. While the Corporate Governance Code (on which Anglian Water's Governance Code is based) does not define 'significant failings', 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.

Currently the two most significant negative influences on the risk position to the business are the ongoing Covid-19 pandemic, and the determination we received from the CMA which, while improved compared with the Ofwat determination, remains challenging. For further information on how we have managed risks related to Covid-19, please see pages 6-8. We continue to monitor the position in relation to the UK's post-Brexit relationship with the European Union, and its remaining potential to cause operational disruption. At present we are well prepared for this impact.

Climate change and population growth both represent longer term systemic influences on our risk position. We continue to develop our understanding of the forecasted impacts of different scenarios as set out in our Climate Change Adaptation Report and throughout the strategic report, including 'Our strategic ambitions' (pages 16-19) and 'Climate-related financial disclosures' (pages 54-57). These topics are viewed as future scenarios which impact on our principal risks and are therefore not included in our principal risks list, documented in the following table. The table shows how the principal risks have changed through the year, as affected by these scenarios, in particular the pandemic. Covid-19 risks are discussed on pages 6-8.

Risk management

Principal risks		Annual risk movement	Inherent risk profile	Current risk profile	Inherent risk impact score	Inherent risk likelihood score	Current risk impact score	Current risk likelihood score	Risk life expectancy
Safety									
1	Happier, healthier, safer	Stable	Red	Amber	5 Critical	4 Likely	Moderate	Likely	ST/MT
Operational									
2	Asset investment, asset health and asset serviceability	Stable	Red	Amber	4 Major	4 Likely	Major	Likely	LT
3	Support for our customers and communities	Increasing	Red	Amber	4 Major	4 Likely	Moderate	Possible	LT
4	Future planning for business	Stable	Red	Amber	5 Critical	4 Likely	Major	Possible	LT
5	Resilient business	Stable	Red	Green	4 Major	4 Likely	Moderate	Likely	LT
6	Physical, cyber and personal security	Stable	Red	Amber	5 Critical	4 Likely	Major	Possible	ST
7	Supply and demand	Increasing	Red	Amber	5 Critical	4 Likely	Major	Likely	LT
8	Water quality	Increasing	Red	Amber	5 Critical	4 Likely	Major	Possible	LT
Regulatory and compliance									
9	Political, regulatory and legislative changes or breaches	Stable	Red	Green	4 Major	4 Likely	Minor	Likely	LT
10	Protecting our environment	Increasing	Red	Green	4 Major	4 Likely	Minor	Likely	LT
11	Business performance	Increasing	Red	Amber	4 Major	5 Almost certain	Moderate	Likely	MT
Financial									
12	Financing our business	Stable	Red	Amber	4 Major	5 Almost certain	Minor	Possible	ST

Current risk profile
Red - high
Amber - medium
Green - low

The score of the risk today, with the current status of fully effective controls and completed actions

Impact score
5 Critical
4 Major
3 Medium
2 Minor
1 Insignificant
The score of the risk in the worst-case scenario should no controls or actions be in place

Likelihood score
5 Almost certain
4 Likely
3 Possible
2 Unlikely
1 Rare
The score of the risk in the worst-case scenario should no controls or actions be in place

Risk life expectancy
LT Long term - 25 years
MT Medium term - 10 years
ST Short term - 5 years

Risk management

Safety

1 Happier, healthier, safer

A failure to follow the Safe & Well systems and LIFE values impacting our employees, contractors and/or customers, leading to a loss of protection which could result in injury/death or adverse effect to mental and/or physical wellbeing, as well as possible breaches of law. Such a failure could lead to possible criminal prosecution, imprisonment and significant reputational damage.

Unmitigated risk description

Maintaining the health, safety and wellbeing of our employees and customers is paramount. Failing to communicate and implement health and safety policies, procedures and instructions effectively to ensure safe working practices are understood and followed by all employees could result in serious injuries and harm to our employees, contractors and customers. A failure to maintain high standards of fleet safety could result in the loss of our operator (O) licence for heavy goods vehicles, making us dependent on third parties for logistics at enhanced rates and significant cost, with a significant reputational impact. The inherent health and safety risk has not changed over the past year.

Controls and mitigation

The health and safety of our workforce, partners and the general public is a key priority. We are committed to looking after our employees' health and safety and believe that work should have a positive impact on their health and wellbeing.

The Management Board reviews health and safety performance and associated actions monthly, including thoroughly reviewing all significant incidents as well as reporting them to the Board. An in-depth review into health and safety performance is also carried out on a quarterly basis. Performance is further monitored through our ISO 45001-certified Safe and Well management system, with six-monthly external reviews by Lloyd's Register as well as through our internal audit programme.

Our management systems track near misses and actions from audits, inspections and accident/incident investigations, as well as providing access to current policies and procedures and safe systems of work. Throughout the business we have a series of health, safety and wellbeing networks where best practice and innovation is shared and any issues or concerns can be effectively managed. Through our central Health and Safety Hub we ensure all areas of the business are consulted and engaged in any potential health and safety issues or changes.

Underpinning our approach is LIFE, a philosophy that brings health, safety and wellbeing together, moving from a traditional compliance-based approach to a culture where we take responsibility for our health, safety and wellbeing and that of our colleagues. LIFE has ensured that we put our people's health, safety and wellbeing at the heart of our response to Covid through good engagement with key stakeholders and positive collaboration; for further information see pages 41-44.

Our five-year health, safety and wellbeing strategy ensures we are focusing on current and relevant areas and potential high risks, and that there are consistent standards across the company and our partner organisations. The plan has five key outcomes: a healthier and safer work environment; positive engagement

Risk management

and collaboration; high-risk activities managed; hazardous processes understood; and clear and simple safety information. Progress against the strategy is reviewed, giving assurance that we are managing our potential risks. One of the key focuses for the plan has been to digitalise health and safety; to date we have seen IT developed for incident reporting, for capturing active management and for health and safety training using virtual reality and online learning tools.

In response to the tragic events at Wessex Water's Avonmouth site, we have:

- Held stand-down events across the business to raise awareness and give people the opportunity to talk and raise concerns.
- Reviewed our inspection plan for DSEAR (areas of potential explosive atmospheres) to ensure gas-producing tanks/silos (sludge storage) are included as part of the programme.
- Reviewed how we manage work in high-risk areas and identified areas for improvement.
- Raised awareness of those working or managing high-risk processes.
- Worked with the industry to ensure a consistent approach to managing similar risks.

We will continue to work with internal and external stakeholders to ensure our high-risk processes are fully understood and the correct control measures are in place and working.

Our Fleet Compliance Group is tasked with monitoring legislation relating to O licence conditions and ensuring any changes are implemented and communicated alongside routine training.

Assurance of all control measures is done through a combination of Fleet Compliance Group and regular exception reporting through the Water Recycling Leadership Team Performance meeting.

Current risk assessment

We will always remain vigilant to maintain the highest health and safety behaviour in the business. We are developing reporting systems and reviewing health and safety data, looking for improvements and learning from others.

The current risk assessment is based on the confidence that we have control measures in place that are effective and embedded in the performance cycle. Exceptions are also escalated to the Management Board for discussion. With current mitigations and initiatives, this risk is stable.

Operational

2 Asset investment, asset health and asset serviceability

A failure to invest, maintain and service assets with the potential to affect colleagues, partners, customers, communities and the environment, leading to the risk of accidents and injury to our workforce, interruptions to the supply of water, returning untreated water back to the environment, regulatory, or legal or criminal action resulting in substantial penalties.

Risk management

Unmitigated risk description

At Anglian Water we have a significant asset base, ranging from large tunnels and reservoirs to small pumping stations serving two or three homes. The inherent risk we face, if we fail to invest and deliver our major infrastructure programme, would be an impact on business performance and associated reputation.

We understand the link between the performance of our assets and the service we deliver to customers and the environment, and how asset failure would affect performance against metrics agreed with our regulators, including the Health and Safety Executive, the Environment Agency and Ofwat. More importantly, this could lead to risk of harm to customers and colleagues, environmental damage and reputational damage with our customers and regulators, as well as legal penalties.

Controls and mitigation

We invest in our assets to mitigate the maximum risk for the best value. We have strategic alliances in place to deliver capital programmes to assure continuation of services to our customers.

Our updated investment process and corporate governance is agreed and operating for these projects, led by senior management, with independent assurance. We have cross-business governance bodies that align to business strategy.

We are also working closely with industry bodies such as UKWIR and Ofwat to review the regulatory framework in relation to asset health, to further address long-term risks.

Current risk assessment

We assess our current risk position to be Amber and stable, given the effectiveness of the controls mentioned above during our largest ever programme of investment in the first year of an AMP. The outcome of the price review redetermination process undertaken with the CMA does not substantially affect this position.

3 Support our customers and communities

An inability to offer core services and timely, accurate information to our customers and communities resulting in a loss of confidence, reputational damage, impact to business performance objectives and increased cost to the business, as well as potential hardship and loss of wellbeing for our customers.

Unmitigated risk description

Rising unemployment rates will cause more customers to fall into arrears and without assistance we will see a reduction in cash and an associated increase in bad debt and collections operating costs. We will likely see a rise in customer dissatisfaction due to increased collections activities, including adverse credit reporting.

Unbalanced or inaccurate media and public attention, traditional or social, results in damage to our reputation and our customers’ trust and perception of us as a responsible business acting in line with our purpose.

Controls and mitigation

We offer our customers a wide range of support through our WaterCare assistance programme, including forgiveness schemes, payment holidays, concessionary tariffs, charges holidays and temporary instalment

Risk management

plans. The number of unique customers supported is tracked through our Performance Commitment, which seeks to target assistance.
Customer cross-subsidy will increase in 2021/22. This additional funding will increase the capacity of our social tariff (LITE), so that we can support a larger number of customers.

Water UK commissioned economics consultants CEPA to develop and estimate a common metric for measuring water poverty in England and Wales. This will feed into the independent review of the current affordability support for financially vulnerable customers being carried out by the Consumer Council for Water on behalf of the UK and Welsh Governments.

We monitor media daily to identify corporate and brand-related risks and issues. We are part of the cross-sector Communications Working Group, which comprises senior communications specialists who share intelligence and promote/defend the sector as appropriate. Our communications teams are trained and exercised on crisis communications and incident preparedness, ensuring we have 24-hour coverage for inbound media enquiries.

Our project Delivery Milestone stages ensure there is an obligation for investment programmes and key corporate initiatives to consider customer and reputational impact at planning stages.

Current risk assessment

We assess our current risk position to be Amber. Given the changing landscape of the impact of Covid-19 and the ongoing restrictions, with high levels of furlough or unemployment of people within our region resulting in impacts on vulnerability and affordability, this is an increasing risk.

With the ever-increasing use of social media, we are trying to ensure the right messages are reaching our customers, so they are getting the right information, in a timely manner.

4 Future long-term business planning

A failure to plan for the future affecting our people, partners, customers, communities and the environment, leading to a potential impact on future sustainability in our region, reduced resilience, inability to deliver our long-term ambitions as set out in our Strategic Direction Statement, severe reputational damage and loss of trust in key relationships, inability to meet growing demand in our region and increased risk of asset failure.

Unmitigated risk description

Anglian Water's approach to prepare for AMP8 through the Price Review 2024 (PR24) process focuses on the development of its proposed Business Plan in line with our purpose and the preferences of our customers and wider stakeholders to achieve our long-term ambitions for the region.

With the Anglian region one of the fastest growing in the UK, managing the forecast rise in population is one of our most significant long-term challenges.

With continued Government commitment to meeting housing need during and following the Covid-19 pandemic, understanding and responding to the demand for new services remains a key area of focus for the business.

Risk management

Controls and mitigation

Our plans for PR24 are already underway. We have begun our programme of work with the Board to ensure that we develop plans for the future which reflect customer priorities, meet the future regulatory standard of proof and link back to our long-term ambitions, as set out in our 2017 Strategic Direction Statement. Our preparations will reflect any lessons learned, both from our internal review and also the CMA redetermination process we have engaged in over the past year.

Ahead of the final formulation of the PR24 methodology, we continue to collaborate with key stakeholders and policymakers, including Defra, RAPID and Ofwat, as well as with companies and wider stakeholders.

We invest considerable effort in forecasting our supply and demand requirements at a local and a regional level for the next 25 years. We continually assess our investment options to identify the most cost-effective combination of new water resources, network enhancements and demand management measures to meet this challenge.

We are also working as part of the Water Resources East initiative and National Water Resources Long-Term Planning Framework to develop long-term solutions to water resources, and our Water Resources Management Plan (WRMP) outlines an ambitious, cost-beneficial demand management strategy that is forecast to offset the impacts of growth in our region.

Current risk assessment

Current growth in our region is broadly in line with our 2020-2025 (AMP7) plans. As part of our CMA referral, we challenged the assumptions around how growth is forecast and treated in Price Review 2019 (PR19). While this growth may be impacted by Covid-19, the longer-term demand for housing in our region will remain. The CMA redetermination has provided greater recognition of the costs of enabling growth, should the high level of growth expected in the region materialise during AMP7.

5 Resilient business

A failure to prepare for emerging risks and be resilient against them, resulting in increased response time to operational incidents, an impact on our ability to offer core services to customers and/or to operate our water and waste treatment processes, risk of harm to our people or customers and/or failure to prepare and respond to climate change.

Unmitigated risk description

Shortage of key skills, including a limited pipeline of students studying STEM subjects, at a time of rising demand for these skills across multiple sectors, could create significant risk of underperformance against business objectives due to lack of resource, or rising labour costs for both us and our partners.

Without timely and appropriate recovery action before, during and following a severe weather incident, the impact of flooding at water recycling sites on service and compliance, and the financial cost to the business, would be significant. Failure to mitigate a loss of our key suppliers could have a significant impact on our business's overall performance and reputation.

Risk management

Short-term loss of supplied services, products or personnel would lead to high levels of disruption and inability to continue the maintenance and repair of key services, resulting in loss of water and water recycling services to customers and failure to meet performance commitments.

Poor performance by our key suppliers could have an impact on health and safety, operational performance and investment programme delivery, as well as impacting our ability to deliver core services to customers.

Controls and mitigation

Our schools education programme encourages STEM and utility industry recruitment through curriculum-relevant water-based teaching facilities/exercises.

We undertake collaborative activities with our partners in terms of succession planning, talent development and links with STEM schools and colleges, specifically supporting the Greater Peterborough University Technical College (UTC), Norwich UTC and the College of West Anglia, where we sponsor courses on key areas of shortage.

Our Inclusion Committee is also working to a long-term strategy which was endorsed by the Management Board and is well underway; this includes our inclusion plan, developed to identify new channels to attract candidates to our business. Flood Emergency Response Plans (FERPs) are documented for sites which are at high risk and/or have historical evidence of flooding.

These provide an understanding of risk and detail the mitigation measures, along with specific actions to be taken on site in the event of a flood warning to limit any damage. These response plans are managed through a programme of review, testing and revision, including lessons learned and triggers for updates in operational activity. Consideration is being given to any changes necessary to FERPs following recent events.

We are constructing a number of flood protection schemes in our 2020-2025 Business Plan, based on development and subsequent reprioritisation, and are finalising our Year 2 Flood Resilience Programme. Prioritisation within the flood protection asset intervention programme is ongoing.

Stock levels built up prior to Brexit have been maintained throughout the year during the transition period to exiting the EU, and have ensured sufficient stock holdings of critical spares in the event of supplier failure or extension in lead times. Increased stocks of key network materials were built throughout the winter period, ensuring availability.

Frameworks (including the alliances) are typically made up of a number of suppliers capable of supplying goods or services in the event of a supplier failure, giving the ability to switch suppliers at short notice.

Between April and October 2020 a survey of over 400 of Anglian Water’s suppliers was used to assess the general business health in the wake of Covid-19. In the latter part of the year the survey was used to assess supplier health and readiness for a potential ‘no-deal’ Brexit.

Risk management

Current risk assessment

The current risk assessment is based on the understanding that we are reviewing control measures already in place and in the context of significant modelling having been done as part of our business planning for 2020-2025.

The shocks and stresses we have experienced this year have severely tested our control measures, but we have been able to adapt and maintain performance through our preparedness and response, and use the experience to further improve our control measures.

6 Physical, cyber and personnel security

A failure to put appropriate measures in place to protect our business and customers from physical, cyber and personnel security breaches resulting in loss or damage to data, physical damage to sites or assets, potential harm to our people and customers, inability to operate systems, inability to supply core services, legal or criminal action, reputational damage and loss of confidence in our business.

Unmitigated risk description

Cyber risk is a high priority for the business; over the last year the volume and complexity of threats targeting companies in our sector have continued to increase, with publicly acknowledged nation state actors operating in the utilities sector in both the UK and the United States. We have responded accordingly to protect our data and information; however, the unmitigated risk is red due to the ever-changing nature of cyber threats.

A breach of corporate IT systems, whether deliberate, malicious or accidental, could lead to loss of Anglian Water data. Any breach could be financially damaging, as well as causing a breach of the Data Protection Act 2018, combined with the associated reputational damage once the breach was reported publicly.

Controls and mitigation

We seek to mitigate this risk with a clear cyber strategy and continual improvements to critical governance and technical controls. This approach allows us to identify threats and introduce countermeasures to defend our assets from attack, damage and loss. With the support of regular reviews by external experts who assess both the suitability and the effectiveness of these controls, this provides assurance that we have the right measures in place to counter the threats we face. In addition to enhancing technical controls, an ongoing awareness and education campaign continues to modify employees' behaviours towards cyber risk, with regular checks to test people's understanding. We continue to operate and strengthen our security operations centre, managed by Airbus, to ensure additional controls, cyber monitoring and system protection.

The business is driving technical innovation within Operational Technology (OT) to deliver business efficiencies. The critical OT systems which control water production are becoming more reliant upon common IT technologies; whereas previously these systems were 'standalone', increasingly they are being integrated into third-party networks (i.e., providing a remote attack vector). This risk is mitigated by our funded AMP7 programme to deliver enhanced cyber security controls to our critical water supply facilities. Our Cyber Security Strategy is driven by the requirements of the Security of Network and Information Systems Regulations Directive.

Risk management

Current risk assessment
With cyber risk increasing, we are mitigating this risk by keeping abreast of the ever-shifting cyber landscape and actively adapting our controls to minimise risk. However, the overall and increasing risk is at Amber. As an example of the oversight of risk in the business, the Audit Committee recently requested a review of cyber security risk, in which the risk position and future strategy was discussed in detail, with the Committee supporting this assessment.

7 Supply and demand
A failure to supply clean, safe drinking water at the level of demand, impacting our customers and communities and resulting in reputational damage, dissatisfied customers, significant penalties and regulatory action.

Unmitigated risk description
Ensuring our business is resilient to long-term supply and demand requirements is a stretching target, but critical to fulfil our customers' needs. Climate change is a major challenge to our business that could impact our assets and service to our customers. We have seen our Security of Supply Index (SoSI) reducing over the past two years, with increasing demands reducing available headroom in some of our Water Resource Zones (WRZs). We see the inherent risk continuing to increase with the effects of climate change, customer demand and environmental challenges, hence a red status. Covid-19 has also affected SoSI over the past financial year due to shifting patterns of demand.

Our region is environmentally sensitive, and we recognise that all our abstractions must be environmentally sustainable as part of our commitment to enhance the natural environment.

The publication of the Water Abstraction Plan by the government in 2017 marked an important turning point in abstraction reform by driving a tightening of regulatory powers to address unsustainable abstraction. Our Water Resources Management Plan 2019 included all known challenges at the time of publication; however, we are experiencing a change in regulatory expectations to meet the Water Framework Directive 2027 deadline.

The most imminent challenge relates to our groundwater sources in the Ant Valley Catchment where there is an ongoing habitats review by the Environment Agency (EA). If our abstraction is deemed unsustainable, under Section 52 of the Water Resources Act, the EA will serve notice to cease or reduce abstraction within 28 days. This timescale is outside the agreed programme in WRMP24.

A second challenge relates to the application of licence capping across our region. In WRMP24, we agreed to cap all groundwater licences to recent actual peak levels (i.e., maximum peak annual quantity abstracted between 2005 and 2015).

The EA has indicated it intends to change the way licences are capped, using average rather than peak recent actual abstraction levels. This change would pose an unacceptable risk to our ability to continue to meet our statutory duty to provide drinking water to our domestic customers. We foresee a continuation of new abstraction challenges in the next five to 10 years.

Risk management

Controls and mitigation

We have been assessing the impact of climate change on water resources since the 1990s. The primary way in which we manage this risk is through the statutory Water Resource Management Plan (WRMP) and Drought Plan.

We have been closely monitoring and investigating the demand changes in our area over the past year, with an increase in activities such as logging and night flow monitoring, and an increase in the frequency of internal reporting to enable pre-emptive action. Although we have a good level of potable water storage and no peak SoSI problem, we have plans in place to tanker water, if necessary, to maintain SoSI.

We continue to work closely with neighbouring water companies to explore opportunities to share resources through trading arrangements and continue to be a key stakeholder in Water Resources East (WRE), contributing to the development of the Regional Water Resources Plan.

During this year we have updated and resubmitted our Drought Plan to Defra. We continue working on our long-term water resources planning and have internal groups in place to develop demand-side and supply-side options that will feed into our WRMP24 and PR24 plans.

We remain on target to deliver our 2020-2025 performance commitment to reduce the population served by only one water treatment works to 14.1 per cent by the end of the AMP. The majority of the reduction will be delivered by completion of the strategic pipeline (see page 38) and associated schemes.

An Abstraction Challenges Steering Group, chaired by the Director of Water, has been established to manage and drive action to address the key abstraction risks identified. This group brings together multiple stakeholders from across Water, Legal, Strategy and Regulation, and Brand and Communications.

Current risk assessment

Severe weather is placing an increasing challenge on our ability to provide a service to our customers and the environment.

This year we have seen the combined impact of extreme weather and a significant shift in demand for water as a result of the pandemic. During the summer of 2020 a prolonged period of hot weather, combined with an increase in domestic consumption as a result of customers staying at home, required us to produce and supply record-breaking volumes of drinking water. Several incidences of cold weather during the winter months have also resulted in increases to our distribution input.

Significant tactical interventions have taken place during the year to prevent any service impact on customers; however, when combined with increasing pressure on our abstraction licences, this results in increasing pressure on our overall supply-demand balance. This pressure is expected to continue throughout the period to 2025 due to reductions in our abstraction licence volumes, hence an assessment of Amber.

Risk management

8 Water quality

Occurrence of a water quality event significant enough in severity to be classified as Major (Category 5) by the Drinking Water Inspectorate (DWI), impacting our customers, communities and environment, disrupting customer service, and leading to significant financial and reputational impact.

Unmitigated risk description

The supply of safe, clean, high-quality water is central to our business and underpins public health. Failure to uphold the required standards in this most fundamental of services would have serious consequences for our business and for our customers.

Controls and mitigation

We have a mature Drinking Water Safety Planning approach that meets regulatory requirements, underpinned by our extremely robust Policies and Standards for Water Supply Hygiene. These ensure that we manage water quality from source – through our water treatment works and water storage points – and in our network of pipes into customers' premises. We have delivered a significant capital maintenance and quality enhancement programme between 2015 and 2020 to ensure we maintain and improve our drinking water quality and received full support from the Drinking Water Inspectorate (DWI) for our quality enhancement programme over that period.

Regular audits are carried out both internally and externally. Water Business Stream processes are externally assessed annually by Lloyd's Register Quality Assurance to ISO 9001 Quality Management and ISO 22301 Business Continuity Management System standards.

Our comprehensive internal audit programme is signed off each year by the Director of Water Business Stream and the senior leadership team and is delivered by members of the Water Quality and the Risk and Systems teams. The national accreditation body, the United Kingdom Accreditation Service (UKAS), audits and accredits our laboratory as part of ISO 17025 and we are one of only two companies to achieve external certification for our water quality risk assessments through Lloyd's Register on behalf of the DWI.

In addition, our senior manager-led Water Business Stream Compliance Monitoring Group and Water Quality and Environmental Compliance Group regularly review performance against key water quality parameters. Our Board of Directors also regularly reviews key targets and quality standards.

Sub-groups track progress with key water quality programmes of work — for example, monthly Storage Point Delivery Group and weekly senior manager-led conference calls track the progress of external and internal water storage point inspection programmes.

We also ensure that operational and scientific employees are trained and assessed as competent. Our industry-leading Licence to Operate programme sets benchmarks and expectations for competency and is being further enhanced by a drive towards professional registration such as chartership through professional bodies, including the Institute of Water. The Water Business Stream Competent Operator Scheme has recently been certificated to ISO 17024 Certification of Personnel.

Our Water Quality Regulations Team continuously monitors wider industry events and incidents in order to understand the risk of a similar event happening at Anglian Water. This process is governed through our 'Could

Risk management

it happen here?' process reviewed monthly at our Water Business Stream Compliance Monitoring Group, with relevant learning points incorporated into our policies, procedures or training.

Current risk assessment
This continues to be an increasing risk for us as a business, with continued focus, particularly on quality standards.

Regulatory and Compliance

9 Political, regulatory and legislative changes or breaches
A breach or failure to comply with political, regulatory or legal requirements affecting our people, customers and/or the environment, and potentially leading to substantial penalties, reputational damage, environmental impact and regulatory, legal or criminal action.

Unmitigated risk description
Water companies have continued to be under the national spotlight in the context of complex societal, political and environmental challenges moving up the political agenda. If reforms of the water sector are introduced with insufficient foresight, evidence or consultation, there is a risk they will stifle investment, harm the interests of customers, employees and our suppliers and damage the value of the business for investors.

There is increased pressure on the water industry from our regulators to perform, which has been reflected in tougher performance commitments and environmental standards that do not always reflect the unique challenges facing the East of England. Failure to meet these performance commitments and standards could lead to penalties and potential reputational damage.

One area of focus has been Water Recycling Centre compliance in line with our responsibilities in the Environmental Performance Assessment and our performance commitments.

Controls and mitigation
We stay abreast of current political, regulatory and legislative matters that may affect our industry or company. We ensure compliance with current legislation, influence the shape of new policy and forthcoming legislation and monitor the potential impacts of new legislation. To manage compliance, we have numerous business controls and processes, including a legal risk register, as well as our online training system.

We expect all employees, partners, agents and contractors to adopt a high standard of business ethics and have zero tolerance of bribery and corruption. All senior managers are required to confirm that employees within their business unit have taken appropriate steps to comply with the policies that deal with the legislative risks, including completing training where required to do so and, in the case of our anti-bribery strategy, complying with our gifts and corporate hospitality policy. All employees are required to complete online training on areas including anti-bribery, maintaining a level playing field (which deals with competition law risk) and data protection law, in line with the requirements of the General Data Protection Regulation (GDPR).

Risk management

We collaborate with other water companies and with Water UK to keep abreast of emerging thinking within government, the opposition parties, and wider influential voices. We continue to propose our own models for reform that marry the benefits of private sector investment with stronger corporate governance through the boardroom that demonstrably delivers in the long-term public interest.

Our internal Public Advisory Committee, a formal subcommittee of the Management Board, oversees our engagement with government and our regulators on policy reforms and regulatory risks, and seeks to influence these by, for example, responding to consultations and providing evidence to parliamentary select committee inquiries. Our submissions can be found on our website.

Our dedicated Treatment team manages day-to-day performance and risks of our Water Recycling Centres, with all critical assets and processes connected to and monitored by an effective telemetry system. Our Water Industry National Environment Plan sets out how we will meet future compliance, growth and maintenance needs.

To ensure asset availability we have a routinely reviewed maintenance strategy, while to maintain compliance we have a sludge removal strategy. Our service delivery scientists provide on-site technical guidance and we proactively review performance and quality to identify emerging risks.

To manage third-party impacts (traders and fly tipping) we maintain a catchment strategy which includes our proactive sampling programme for all traders. Our catchment strategy for managing impact from networks septicity includes controls, measurement and optimisation of septicity assets to prevent any impact to treatment processes.

Current risk assessment

We assess our current risk position to be Green and stable given the effectiveness of the controls mentioned above. We will continue to monitor, test and audit compliance with legislation to maintain a high level of assurance and to highlight any areas requiring action.

10 Protecting our environment

A failure to protect our environment and planet by causing damage, leading to a lasting effect on our customers and local communities and resulting in loss of confidence, reputational damage, impact on business performance objectives, increased costs to the business and environment and potential regulatory, legal or criminal action.

Unmitigated risk description

Leaks, spills and escapes from our water recycling assets, combined with the overall serviceability of the infrastructure, have the potential to cause pollution, damaging or endangering the natural environment. Such incidents are categorised by the Environment Agency (EA) and, depending on their impact and severity, can lead to prosecutions and financial penalties. While such events are rare, their potential to cause environmental harm and reputational damage to Anglian Water, and the fines they attract, make them a significant risk. We have seen this unmitigated risk to the business increase due to the scale of fines that are being imposed by the EA, increased scrutiny from our customers and the reputational impact associated with pollution events.

Risk management

Without action to ensure we meet our bathing water directive, we risk failing to meet the environmental quality standards for bathing waters in our region and our performance commitment for AMP7.

There are increasing restrictions to agricultural outlets for biosolids. The water industry has become increasingly reliant on both a diminishing land bank and food chain stakeholder endorsement beyond farmers.

Controls and mitigation

Anglian Water has set a goal to drive down the number and severity of pollutions. All incidents and the associated response, mitigation and preventative actions are reported to and monitored by our newly formed Pollutions Task Force and senior management. We have a wide programme of activities to reduce pollution incidents and improve our understanding of their causes, summarised in our Pollution Incident Reduction Plan (PIRP).

This includes:

- Investment on planned preventative maintenance to reduce blockages and consequent pollutions.
- A priority ‘blue light’, or fast response, for areas with historical pollution risk and/or significant environmental sensitivity.
- Ongoing investment in new technology for remote monitoring of discharges. This has been installed at key points on the network, both inland and coastal.
- Continuing to enhance our systems to achieve real-time monitoring and reporting of pollution incidents, to provide a one-stop shop for pollution information and analytics to support targeted investment.
- Aligning our internal processes and procedures to meet changes to Environment Agency guidance.
- Extension of our Pollution Watch campaign targeted at the public and river users to encourage earlier engagement with resolution of any potential incident.
- Making a step change in pollution management by attempting to predict where incidents could occur in our network, with proactive inspections of high-risk assets.
- Investment in flow monitoring on rising mains and smart pump control across 250 high-priority pumping stations.
- Continuing to work on improving our self-reporting of potential pollution events to the Environment Agency by getting the right information from the field quickly, utilising our telemetry systems to make an assessment of probability and working to improve our monitoring and handling of events.

To ensure we meet our bathing water directive we have a mature Coastal Catchment team in place. Collectively, this team ensures that we are complying with all relevant standards and also actively manages risks to our bathing waters.

A number of asset-related activities are in development to ensure the bathing water asset intervention programme is fit for purpose, including investigation into coastal pollution sources, a programme of removal

Risk management

of unsatisfactory combined sewer overflows, development of ACMS and BeachAware, a programme of installation of UV treatment at key coastal Water Recycling Centres.

As part of our mitigation for the diminishing outlets for biosolid disposal, we have implemented the Biosolids Assurance Scheme (BAS), the national quality assurance scheme for recycling of biosolid products. The scheme is accredited by the United Kingdom Assurance Service (UKAS), with audits completed by an external certification body.

Due to the current position on the interpretation of legislation, we are increasing our level of engagement on this issue with regulators, government and the European Union. This is ongoing and the risk will be routinely reviewed.

Current risk assessment

The current risk assessment is Green, based on the current arrangements and monitoring regimes including:

- The continued work of the Pollutions Task Force. Work is underway to understand the ongoing requirements and nature of the task force and will be considered alongside the plan to meet the stretching targets associated with the PIRP.
- The recent government commitment to increase the safety of bathing waters in light of the wild water swimming boom. We may see significant impacts on bathing water performance and the associated performance commitment.
- The EA's position, which has potentially increased the likelihood of this risk occurring.

11 Business performance

Our risk register includes the risk of not delivering business priorities, hence delivery is one of the four goals set out in our strategy for 2020-2025 (see our business model on pages 14-15). Our performance is set out throughout the strategic report; in particular in the financial performance report on pages 27-34 and our performance in context on pages 45-46.

Financial

12 Financing our business

A failure to finance our business means we will be unable to meet the challenges our region faces in terms of growth and climate change as well as maintaining our current services to customers.

Unmitigated risk description

A risk for any business is that it cannot finance its operations in both the short and long-term.

Our AMP7 business plan consists of a £5 billion totex programme and we have £6.9 billion of gross debt to manage and service. Recognising we continue to face economic challenges we have announced a new financing structure to support our AMP7 commitments and ensure increased stability for the business and customers.

In addition, the risk of the impact on Covid-19 on our domestic customers and commercial businesses will continue to be monitored and the associated revenue and cash impacts managed.

Risk management

As we embark on delivering AMP7, we continue to be impacted by the social distancing measures, increased costs and delays in starting delivery of many key initiatives and capital schemes.

Given the level of uncertainty, if left unmitigated this risk would have significant impact on our business – hence the unmitigated risk is classed at Red.

Controls and mitigation

We have responded to these challenges, firstly by requesting that Ofwat refer the Final Determination to the CMA. As part of our final Business Plan we also committed to reduce shareholder dividends and reduce the level of gearing across AMP7.

It is critical that we have robust financing and liquidity management arrangements in place, something that is underpinning our ability to respond to the Covid-19 impacts. Revenue from our customers, together with the proceeds of new debt raised, will finance the totex programme. Our debt comprises long-term public and private bonds and other debt instruments, with equity (shares) financing the remainder of our regulatory capital value. We ensure access to a diversified source of debt across a range of maturities to minimise the refinancing risk, and interest rates are linked to inflation (the Retail Price Index and Consumer Price Index), fixed nominal levels or variable nominal rates in accordance with the Board-approved Treasury Policy.

Net debt accounts for approximately 82.0 per cent of our regulatory capital value as at 31 March 2021, as measured in our financial covenants agreed with our debt providers. The debt-funding structure was established in 2002. Our focus is on maintaining stable credit ratings and a strong liquidity and cash position, which we manage through cash and investments, together with available banking facilities and having a diverse debt portfolio in terms of source and maturity. We manage our financing risks through regular senior-level meetings held with banks, ratings agencies and bond holders, along with internal monitoring of our treasury strategy and liquidity, energy and covenant policies through our Finance, Treasury and Energy Policy Group.

We are considering a new financing structure to support our AMP7 commitments. This follows a full review, announced on 30 March of the AWS financing strategy, which was conducted alongside our CMA appeal. Following that review, AWS committed to reduce total gearing in order to maintain its current solid investment grade credit ratings and ensure it has a sustainable and efficient capital structure in the interest of customers and investors, the environment and long-term viability.

The new structure will refinance existing debt at AWSF and AWOF and support AWS in meeting its commitments outlined above. The key elements of the new structure are as set out on page 20.

Current risk assessment

The decisive Board and shareholder action has enhanced our financial robustness through significantly reducing dividends and reducing gearing. We will continue to monitor and take actions to mitigate the impact of Covid-19 on the business, and we will also test and audit compliance with legislation as well as our finance contracts to maintain a strong level of assurance and to highlight any areas requiring action.

Approval of the Strategic Report

This Strategic Report was approved by the Board of Directors on 16 June 2021 and signed on its behalf by:

Claire Russell

Company Secretary

Osprey Acquisitions Limited

Group income statement

for the year ended 31 March 2021

Notes		Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
4	**Revenue**	**1,354.4**	1,424.8
5	Other operating income	**12.5**	13.0
6	Operating costs		
	Operating costs before depreciation, amortisation and charge for bad and doubtful debts	**(614.9)**	(640.5)
	Depreciation and amortisation	**(352.0)**	(369.1)
	Charge for bad and doubtful debts	**(31.1)**	(40.7)
	Total operating costs	**(998.0)**	(1,050.3)
	Operating profit	**368.9**	387.5
7	Finance income	**2.3**	6.0
7	Finance costs, including fair value losses on derivative financial instruments	**(284.6)**	(366.3)
	Net finance costs	**(282.3)**	(360.3)
	Profit before tax from continuing operations		
	Profit before fair value losses on derivative financial instruments	**109.8**	57.6
7	Fair value losses on derivative financial instruments	**(23.2)**	(30.4)
	Profit before tax from continuing operations	**86.6**	27.2
8	Tax charge	**(23.3)**	(120.3)
	Profit/(loss) for the year from continuing operations	**63.3**	(93.1)

Notes 1 to 33 are an integral part of these financial statements.

Osprey Acquisitions Limited

Group statement of comprehensive income

for the year ended 31 March 2021

Notes		**Year ended 31 March 2021 £m**	Year ended 31 March 2020 £m
	Profit/(loss) for the year	**63.3**	(93.1)
	Other comprehensive (expense)/income		
	Items that will not be reclassified to income statement		
24	Actuarial (losses)/gains on retirement benefit deficit	**(169.4)**	108.4
8	Income tax on items that will not be reclassified	**32.2**	(17.9)
		(137.2)	90.5
	Items that may be reclassified subsequently to income statement		
27	Gains on cash flow hedges recognised in equity	**8.2**	22.9
27	Gains/(losses) on cost of hedging recognised in equity	**2.1**	(0.6)
27	Losses on cash flow hedges transferred to income statement	**10.2**	3.9
27	Gains on cost of hedging transferred to income statement	**(0.5)**	(0.4)
8	Income tax on items that may be reclassified	**(3.8)**	(3.1)
		16.2	22.7
	Other comprehensive (expense)/income for the year, net of tax	**(121.0)**	113.2
	Total comprehensive (expense)/income for the year	**(57.7)**	20.1

Osprey Acquisitions Limited

Group balance sheet

for the year ended 31 March 2021

Notes		At 31 March 2021 £m	At 31 March 2020 £m
	Non-current assets		
11	Goodwill	**445.8**	445.8
12	Other intangible assets	**257.7**	217.7
13	Property, plant and equipment	**10,041.9**	9,941.8
14	Investment properties	**3.1**	1.7
21	Derivative financial instruments	**112.6**	317.8
24	Retirement benefit surplus	**58.9**	182.0
		10,920.0	11,106.8
	Current assets		
16	Inventories	**21.4**	19.7
17	Trade and other receivables	**509.6**	534.8
15	Investments - cash deposits	**88.5**	328.9
18	Cash and cash equivalents	**243.1**	842.6
21	Derivative financial instruments	**84.8**	16.8
		947.4	1,742.8
	Total assets	**11,867.4**	12,849.6
	Current liabilities		
19	Trade and other payables	**(522.1)**	(533.1)
	Current tax liabilities	**(0.6)**	(3.8)
20	Borrowings	**(1,396.1)**	(1,754.3)
21	Derivative financial instruments	**(24.8)**	(81.4)
22	Provisions	**(7.3)**	(6.2)
		(1,950.9)	(2,378.8)
	Net current liabilities	**(1,003.5)**	(636.0)
	Non-current liabilities		
20	Borrowings	**(6,856.7)**	(7,299.1)
21	Derivative financial instruments	**(1,004.6)**	(996.0)
23	Deferred tax liabilities	**(1,059.5)**	(1,061.0)
24	Retirement benefit deficit	**(61.5)**	(66.2)
22	Provisions	**(5.2)**	(5.9)
		(8,987.5)	(9,428.2)
	Total liabilities	**(10,938.4)**	(11,807.0)
	Net assets	**929.0**	1,042.6

Continued on the next page.

Group balance sheet (continued)

for the year ended 31 March 2021

Notes		At 31 March 2021 £m	At 31 March 2020 £m
	Capital and reserves		
25	Stated capital	**876.2**	876.2
	Retained earnings	**87.8**	217.6
26	Hedging reserve	**(37.4)**	(52.3)
26	Cost of hedging reserve	**2.4**	1.1
	Total equity	**929.0**	1,042.6

Notes 1 to 33 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 16 June 2021 and signed on its behalf by:

Peter Simpson
Chief Executive

Steven Buck
Chief Financial Officer

Osprey Acquisitions Limited

Company balance sheet

for the year ended 31 March 2021

Notes		**At 31 March 2021 £m**	At 31 March 2020 £m
	Non-current assets		
15	Other investments	**2,376.8**	2,376.8
		2,376.8	2,376.8
	Current assets		
17	Trade and other receivables	**-**	0.6
	Current tax receivables	**3.3**	-
15	Investments - cash deposits	**5.0**	6.0
18	Cash and cash equivalents	**7.4**	6.1
		15.7	12.7
	Total assets	**2,392.5**	2,389.5
	Current liabilities		
20	Borrowings	**(742.2)**	(728.9)
		(742.2)	(728.9)
	Net current liabilities	**(726.5)**	(716.2)
	Non-current liabilities		
20	Borrowings	**(448.0)**	(450.6)
		(448.0)	(450.6)
	Total liabilities	**(1,190.2)**	(1,179.5)
	Net assets	**1,202.3**	1,210.0
	Capital and reserves		
	Stated capital	**876.2**	876.2
	Retained earnings	**326.1**	333.8
	Total equity	**1,202.3**	1,210.0

Notes 1 to 33 are an integral part of these financial statements.

The profit for the year of the company was £48.2 million (2020: £39.8 million).

The financial statements were approved by the Board of Directors on 16 June 2021 and signed on its behalf by:

Peter Simpson
Chief Executive

Steven Buck
Chief Financial Officer

Company number: 05915896

Osprey Acquisitions Limited

Group statement of changes in equity

for the year ended 31 March 2021

Notes		Stated capital £m	Retained earnings £m	Hedging reserve £m	Cost of hedging reserve £m	**Total equity £m**
	At 1 April 2019	876.2	220.2	(75.9)	2.0	**1,022.5**
	Loss for the year	-	(93.1)	-	-	**(93.1)**
	Other comprehensive income/(expense)					
	Actuarial gains on retirement benefit	-	108.4	-	-	**108.4**
	Income tax charge on items that will not be reclassified	-	(17.9)	-	-	**(17.9)**
	Gains on cash flow hedges	-	-	22.9	-	**22.9**
	Losses on cost of hedging	-	-	-	(0.6)	**(0.6)**
	Amounts on hedging reserves transferred to income statement	-	-	3.9	(0.4)	**3.5**
	Deferred tax movement on hedging reserves	-	-	(3.2)	0.1	**(3.1)**
		-	90.5	23.6	(0.9)	**113.2**
	Total comprehensive income/(expense)	-	(2.6)	23.6	(0.9)	**20.1**
	At 31 March 2020	876.2	217.6	(52.3)	1.1	**1,042.6**
	Profit for the year	-	63.3	-	-	**63.3**
	Other comprehensive (expense)/income					
	Actuarial losses on retirement benefit	-	(169.4)	-	-	**(169.4)**
	Income tax charge on items that will not be reclassified	-	32.2	-	-	**32.2**
	Gains on cash flow hedges	-	-	8.2	-	**8.2**
	Gains on cost of hedging	-	-	-	2.1	**2.1**
	Amounts on hedging reserves transferred to income statement	-	-	10.2	(0.5)	**9.7**
	Deferred tax movement on hedging reserves	-	-	(3.5)	(0.3)	**(3.8)**
		-	(137.2)	14.9	1.3	**(121.0)**
	Total comprehensive (expense)/income	-	(73.9)	14.9	1.3	**(57.7)**
31	Dividends	-	(55.9)	-	-	**(55.9)**
	At 31 March 2021	**876.2**	**87.8**	**(37.4)**	**2.4**	929.0

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 (see note 26).

Osprey Acquisitions Limited

Company statement of changes in equity

for the year ended 31 March 2021

Notes		Stated capital £m	Retained earnings £m	**Total equity £m**
	At 1 April 2019	876.2	294.0	**1,170.2**
	Profit for the year	-	39.8	**39.8**
	Total comprehensive income	-	39.8	**39.8**
	At 31 March 2020	876.2	333.8	**1,210.0**
	Profit for the year	-	48.2	**48.2**
	Total comprehensive income	-	48.2	**48.2**
31	Dividends	-	(55.9)	**(55.9)**
	At 31 March 2021	**876.2**	**326.1**	**1,202.3**

Osprey Acquisitions Limited

Group and company cash flow statements

for the year ended 31 March 2021

Notes		Group		Company	
		Year ended 31 March 2021 £m	Year ended 31 March 2020 £m	**Year ended 31 March 2021 £m**	Year ended 31 March 2020 £m
	Operating activities				
	Operating profit/(loss)	**368.9**	387.5	**(0.7)**	(0.1)
	Adjustments for:				
	Depreciation and amortisation	**352.0**	369.1	**-**	-
	Assets adopted for £nil consideration	**(29.3)**	(37.1)	**-**	-
	Profit on disposal of property, plant and equipment	**(1.5)**	(2.3)	**-**	-
	Difference between pension charge and cash contributions	**(47.2)**	(28.6)	**-**	-
	Net movement in provisions	**0.1**	4.3	**-**	-
	Working capital:				
	Increase in inventories	**(1.7)**	(0.4)	**-**	-
	Decrease/(increase) in trade and other receivables	**24.7**	(47.1)	**0.6**	-
	(Decrease)/increase in trade and other payables	**(33.5)**	20.0	**-**	-
	Cash generated from/(used in) operations	**632.5**	665.4	**(0.1)**	(0.1)
	Income taxes received	**0.5**	0.4	**-**	4.2
	Net cash flows from/(used in) operating activities	**633.0**	665.8	**(0.1)**	4.1
	Investing activities				
	Increase in loans to subsidiaries	**-**	-	**-**	(43.0)
	Purchase of property, plant and equipment	**(340.2)**	(391.6)	**-**	-
	Purchase of intangible assets	**(85.4)**	(61.5)	**-**	-
	Proceeds from disposal of property, plant and equipment	**1.8**	2.3	**-**	-
	Interest received	**2.3**	6.0	**0.1**	0.4
	Decrease/(increase) in short-term bank deposits	**240.4**	(29.4)	**1.0**	(6.0)
	Dividends received from subsidiaries	**-**	-	**69.3**	62.2
	Net cash (used in)/from investing activities	**(181.1)**	(474.2)	**70.4**	13.6
	Financing activities				
	Interest paid	**(241.4)**	(251.7)	**(22.7)**	(22.3)
	Debt issue costs paid	**(3.3)**	(5.0)	**(0.4)**	(2.4)
	Receipt of premium on borrowings	**7.7**	-	**-**	-
	Interest paid on leases	**(1.0)**	(0.9)	**-**	-
	Proceeds from amounts borrowed	**303.1**	815.9	**60.0**	(0.1)
	Repayment of amounts borrowed	**(984.0)**	(220.3)	**(50.0)**	-
	Repayment of principal on derivatives	**(63.5)**	(25.1)	**-**	-
	Receipt of principal on derivatives	**-**	34.7	**-**	-
	Repayment of principal on leases	**(13.1)**	(13.4)	**-**	-
31	Dividends paid	**(55.9)**	-	**(55.9)**	-
	Net cash (used in)/from financing activities	**(1,051.4)**	334.2	**(69.0)**	(24.8)
	Net (decrease)/increase in cash and cash equivalents	**(599.5)**	525.8	**1.3**	(7.1)
	Cash and cash equivalents at 1 April	**842.6**	316.8	**6.1**	13.2
18	**Cash and cash equivalents at 31 March**	**243.1**	842.6	**7.4**	6.1

1. Accounting policies

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

a) Basis of accounting

The group and company financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The financial statements have also been prepared in accordance with International Financial Reporting Standards as issued by the IASB.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of property, plant and equipment, and financial assets and financial liabilities (including derivative instruments) at fair value through profit and loss.

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.

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.

1. Accounting policies (continued)

b) Basis of preparation (continued)

Going concern

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

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

The downside outcomes were assessed for liquidity and impacts on debt covenants that form a fundamental part of the single debt platform. Anglian Water Services Limited has a single debt platform (sometimes known as a “common terms” or “CTA” debt platform) that has been structured so as to align with, and enhance, the regulatory protections contained in the Water Industry Act 1991 and Anglian Water’s Licence (an “Aligned Debt Programme”). Aligned Debt Programmes operate on a single covenant package and shared security and intercreditor arrangement that binds all debt providers.

In addition, Osprey Acquisitions Limited has a Trust Deed of Covenants under which debt is raised.

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

In considering going concern, the Directors have therefore considered:

- The liquidity of the group:
    - Anglian Water Services Limited – the group has significant cash balances and deposits, totalling £285.9 million (2020: £1,048.1 million), the reduction primarily due to the repayment of £575 million on the syndicated and bilateral revolving credit facilities. At the beginning of the year, these general-purpose facilities totalling £600 million were fully drawn to provide a short-term liquidity buffer in light of the Covid-19 uncertainty, however, they were repaid during the year as expectations of materially adverse impacts to cash flows were reduced.
    - Anglian Water has access to £575.0 million of undrawn facilities (2020: £50.0 million), to finance working capital and capital expenditure requirements as noted above. In addition, Anglian Water has access to a further £400.0 million of liquidity facilities (2020: £400.0 million), consisting of £279.0 million to finance debt service costs and £121.0 million to finance operating expenditure and maintenance capital expenditure in the event that the company was in an Event of Default on its debt obligations and had insufficient alternative sources of liquidity.
    - Osprey Acquisitions Limited and Anglian Water Osprey Financing Limited – there was in excess of £12.8 million of cash and a £250.0 million revolving credit bank facility, £10.0 million of which was drawn as at 31 March 2021, with a further £110.0 million drawn in April 2021.

1. **Accounting policies** (continued)

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

Going concern (continued)

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

Based on the above, despite the net current liability position, the Directors believe that the business has sufficient liquidity to meet its liabilities as they fall due for a period of at least 12 months from the date of approval of these financial statements.

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

1. Accounting policies (continued)

b) Basis of preparation (continued)

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

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

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

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

The risks of Covid-19 to Osprey Acquisitions Limited and Anglian Water Osprey Financing Limited would be a reduction in EBITDA and therefore a reduction of the interest cover ratio. Even under the most extreme Covid-19 scenarios tested there was sufficient headroom to default.

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

1. Accounting policies (continued)

b) Basis of preparation (continued)

Standards, amendments and interpretations effective or adopted

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

- Amendments to IFRS 9, IAS 39 and IFRS 7 'Interest rate benchmark reform';
- Amendments to IAS 1 and IAS 8 'Definition of material';
- Amendments to IFRS 3 'Definition of a business'; and
- Amendments to references to the Conceptual Framework in IFRS standards.

i *IFRS 9, IAS 39 and IFRS 7 'Interest rate benchmark reform'*

In September 2019, the IASB issued Phase 1 of the Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7. These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the reforms. The amendments permit continuation of hedge accounting even if the hedged benchmark interest rate, GBP LIBOR, may no longer be separately identifiable. However, this relief does not extend to the requirement that the designated interest rate risk component must continue to be reliably measurable. If the risk component is no longer reliably measurable, the hedging relationship is discontinued.

The group chose to early apply the amendments to IFRS 9 for the reporting period ending 31 March 2020, which are mandatory for annual reporting periods beginning on or after 1 January 2020. Adopting these amendments allows the group to continue hedge accounting during the period of uncertainty arising from interest rate benchmark reforms. The adoption did not give rise to any amendments to earlier periods because of the reliefs provided by the IFRS 9 amendments applied to all of the group's hedge relationships and no hedge relationship was discontinued as a consequence.

As part of the IASB's Phase 2 response to IBOR reform, a set of amendments has been introduced which specifically addresses the issues arising as part of the transition process and their potential impacts to financial instruments (and lease liabilities). The amendment provides relief that changes as a direct result of IBOR replacement do not detrimentally impact the financial accounts provided. This encompasses reliefs on the modification of debt items and the continuation of hedge accounting relationships which would ordinarily be impacted from the contractual change of the IBOR rate. The Phase 2 IBOR amendments are mandatory for accounting periods beginning 1 January 2021. The group intends to adopt this in its subsequent accounting reporting period ending 31 March 2022 in line with its timeline to transition its impacted financial instruments.

ii *Other amendments*

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

1. Accounting policies (continued)

b) Basis of preparation (continued)

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:

- IFRS 17 'Insurance contracts' (effective from 1 April 2023, not yet endorsed in the EU or the UK);
- Amendments to IFRS 16 'Covid-19-related rent concessions' (effective from 1 June 2020);
- 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).
- Interest Rate Benchmark Reform – Phase 2 - Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (mandatory for accounting periods beginning after 1 January 2021).

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

c) Foreign currencies

Individual transactions denominated in foreign currencies are translated into local currency at the actual exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into local currency at the rates ruling at the balance sheet date. Profits and losses on both individual foreign currency transactions during the period and monetary assets and liabilities are dealt with in the income statement except for transactions where hedge accounting has been applied in accordance with IFRS 9 'Financial Instruments'.

d) Segmental reporting

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

1. Accounting policies (continued)

e) Revenue recognition

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

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

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

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

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

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

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

Grants and contributions
A secondary source of income for Anglian Water is from grants and contributions in respect of new connections for water and/or sewerage services. The significant components of grants and contributions, and their treatment, are as follows:

i *New connection charges*
The group considers that the developer requesting the connection is the customer, and that the group's performance obligation is satisfied by making the connection. On this basis it is appropriate to recognise the income as the connection is completed.

1. Accounting policies (continued)

e) Revenue recognition (continued)

ii *Self-lay, requisitions and adoption fees*
The group has reached the same conclusion as for 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. As the group does not have any performance obligation to the developer post adoption, the group has concluded that immediate recognition based on the fair value of the asset adopted is appropriate.

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 has concluded that the developer is the customer, and that 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. Under IFRS 15, the group has concluded that the contributions should be recognised immediately as revenue since there is no performance obligation to the agency/authority beyond completing the diversion.

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.

1. Accounting policies (continued)

g) Exceptional items

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

h) Operating profit

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

i) Taxation

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

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

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

j) Dividends

Dividends are recognised as a liability in the period in which they are approved or committed. Interim dividends are recognised in the period in which they are paid or when the company has a constructive or legal commitment to pay the dividend.

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 *Other intangible assets*
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.

1. Accounting policies (continued)

l) Property, plant and equipment

Property, plant and equipment comprises:

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

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

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

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

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

Non-operational buildings	30 – 60 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.

1. Accounting policies (continued)

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.

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 right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

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.

1. Accounting policies (continued)

o) Investments (continued)

Joint ventures *(continued)*

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.

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.

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.

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. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

1. Accounting policies (continued)

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 regards 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.

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.

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.

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.

1. Accounting policies (continued)

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.

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.

1. Accounting policies (continued)

u) Derivative financial instruments (continued)

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 designation is then amortised to profit or loss over the remaining life of the original hedge based on a recalculated effective interest rate.

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).

1. Accounting policies (continued)

u) Derivative financial instruments (continued)

ii *Cash flow hedge (continued)*
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 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.

Regarding onerous lease costs, provision is made for the expected future costs of property and other leases 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. 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 assumptions and significant 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. As a business we took a leading role in working with other water companies in developing a routemap to zero carbon and have committed to achieving net zero carbon by 2030. We have also set out the risks posed by climate change and how we will address them in our latest Adaptation Report.

For further detail, see the strategic ambitions, risk and climate-related financial disclosures sections of the annual report.

a) Significant 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 £101.7 million (2020: £72.4 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.

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. Although considered during the review of asset lives, the group does not view the uncertainty around the potential future impact of climate change to indicate that the current useful life policy needs revising. Climate change, and the environment in general, are heavily embedded in the planning stage of asset construction to mitigate future risk.

iii *Recognition of grants and contributions*
Revenue is recognised when the performance obligations in a contract are met. For grants and contributions in respect of new housing developments 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.

2. Key assumptions and significant judgements (continued)

a) Significant judgements (continued)

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

b) Key sources of estimation

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 (a fall or rise of two cubic metres in average annual consumption will reduce revenue or increase by approximately £10.8 million respectively).

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

The company starts by evaluating the estimated recoverability of trade receivables and records a provision for doubtful receivables based on experience, primarily cash collection history and then adjusts, as necessary, for forward looking factors such as a change in 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's view is that the previous four years provides the best indication of collection performance, to go back further would not account for improvements in collection methods. A three year look back period would increase the bad debt provision by £3.7 million.

Management continue to take a prudent approach of providing for 100 per cent of balances over four years old.

In previous years management have not made any adjustment for macro-economic conditions as the UK has experience a period of relative stability. However, at March 2020 management adjusted the bad debt provision to account for the expectation that Covid-19 would impact our customers' ability to pay in future years, thus meaning historic collection rates would not represent future collection. At March 2021 management have made a similar adjustment to reflect the expected impact of Covid-19 on our customers' ability to pay.

The last major shock to the economy was the Financial Crisis and subsequent to that we saw unemployment rates rise, which is similar to what is being predicted for the coming years.

2. Key assumptions and significant judgements (continued)

b) Key sources of estimation (continued)

ii *Bad debts (continued)*

Using data from this period, management anticipate that the forecast unemployment rate for the years to 2024/25, after which we fully provide for unpaid amounts, will increase the bad debt charge by £18.7 million over that period, of which £13.5 million relates to invoices outstanding at March 2021. Management have therefore increased their provision at March 2020 of £12.0 million by £1.5 million.

Management have based their calculation on the assumption that unemployment will peak at 7.0 per cent in 2021/22 before falling back to normal levels by 2024/25. If unemployment levels were to stay at 7.0 per cent for the period, this would increase the excess bad debt charge over the period by £14.0 million to £32.7 million. Management note that subsequent unemployment forecasts suggest a lower peak, however accounting standards require us to make the assessment based on information available at 31 March 2021. This is not deemed to be an adjusting post balance sheet event therefore no adjustment has been made to reflect the revised forecasts.

iii *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 £169.4 million (2020: gain of £108.4 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.

3. Segmental information

By class of business for the year ended 31 March 2021

At 31 March 2021 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.
- 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.

Inter-segment revenues and profits are fully eliminated on consolidation and are shown separately in the following tables. EBITDA is defined as the profit from continuing operations before interest, tax, depreciation and amortisation. The segment result comprises operating profit.

	Anglian Water £m	Head Office and Other £m	Inter-segment eliminations £m	**Total £m**
Revenue				
External	1,351.8	2.6	-	**1,354.4**
Inter-segment	-	0.5	(0.5)	**-**
	1,351.8	**3.1**	**(0.5)**	**1,354.4**
Segment result				
EBITDA	742.9	(22.0)	-	**720.9**
Depreciation and amortisation	(351.3)	(0.7)	-	**(352.0)**
	391.6	**(22.7)**	**-**	**368.9**
Cash flows				
Operating cash flow	659.3	(26.8)	-	**632.5**
Capital expenditure	422.3	(846.1)	-	**(423.8)**
Net debt excluding derivative financial instruments	(6,649.8)	(1,271.4)	-	**(7,921.2)**

3. **Segmental information** (continued)

By class of business for the year ended 31 March 2020

	Anglian Water £m	Head Office and Other £m	Inter-segment eliminations £m	**Total £m**
Revenue				
External	1,419.9	4.9	-	1,424.8
Inter-segment	-	0.5	(0.5)	-
	1,419.9	5.4	(0.5)	1,424.8
Segment result				
EBITDA	767.6	(11.0)	-	756.6
Depreciation and amortisation	(368.5)	(0.6)	-	(369.1)
	399.1	(11.6)	-	387.5
Cash flows				
Operating cash flow	686.0	(20.6)	-	665.4
Capital expenditure	(450.2)	(0.6)	-	(450.8)
Net debt excluding derivative financial instruments	(6,677.2)	(1,204.7)	-	(7,881.9)

By geographical segment

The group’s revenue, segment result and non-current assets are all derived from the United Kingdom.

3. Segmental information (continued)

Reconciliation of segmental information

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Segment result	**368.9**	387.5
Finance income	**2.3**	6.0
Finance costs	**(284.6)**	(366.3)
Profit before tax from continuing operations	**86.6**	27.2
Total operating cash flow by segment	**632.5**	665.4
Income taxes received	**0.5**	0.4
Net cash flows from operating activities	**633.0**	665.8
Purchase of property, plant and equipment	**(340.2)**	(391.6)
Purchase of intangible assets	**(85.4)**	(61.5)
Proceeds from disposal of property, plant and equipment	**1.8**	2.3
Capital expenditure spend by segment	**(423.8)**	(450.8)
Cash and cash equivalents	**243.1**	842.6
Cash deposits	**88.5**	328.9
Borrowings due within one year	**(1,396.1)**	(1,754.3)
Borrowings due after more than one year	**(6,856.7)**	(7,299.1)
Net debt by segment	**(7,921.2)**	(7,881.9)
Derivative financial instruments [1]	**(841.0)**	(738.2)
Net debt	**(8,762.2)**	(8,620.1)

[1] Derivative financial instruments exclude the asset of £9.0 million (2020: liability of £4.6 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 2021 £m	Year ended 31 March 2020 £m
Water and water recycling services:		
Anglian Water		
Household - measured	**813.4**	791.0
Household - unmeasured	**219.8**	235.7
Non-household - measured	**206.3**	265.2
Grants and contributions	**75.6**	89.3
Other	**36.7**	38.7
	1,351.8	1,419.9
Property revenue	**2.6**	4.9
	1,354.4	1,424.8

The group derives its revenue from contracts with customers for the transfer of goods and services over time and at a point in time in the above revenue categories.

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

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 2021 £m	Year ended 31 March 2020 £m
Raw materials and consumables	**21.9**	23.5
Staff costs	**245.9**	237.8
Research and development	**7.6**	3.2
Contribution to Anglian Water Assistance Fund	**1.2**	1.0
Short-term lease costs	**2.8**	2.2
Other operating costs	**438.7**	447.5
Own work capitalised	**(101.7)**	(72.4)
Profit on disposal of property, plant and equipment [1]	**(1.5)**	(2.3)
Operating costs before depreciation, amortisation and charge for bad and doubtful debts	**614.9**	640.5
Depreciation of property, plant and equipment	**303.0**	324.2
Amortisation of intangible assets	**49.0**	44.9
Depreciation and amortisation	**352.0**	369.1
Charge for bad and doubtful debts	**31.1**	40.7
Operating costs	**998.0**	1,050.3

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

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

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Fees payable to the company's Auditor for the audit of the company and the consolidated financial statements	**0.5**	0.4
Fees payable to the company's Auditor for other services		
Audit-related assurance services	**0.2**	0.2
Other non-audit services	**-**	0.2
	0.7	0.8

The company's Auditor for the year ended 31 March 2021 and 31 March 2020 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 2021 £m	Year ended 31 March 2020 £m
Finance income		
Interest income on short-term bank deposits	**2.3**	6.0
	2.3	6.0
Finance costs		
Interest expense on bank loans and overdrafts	**(5.7)**	(0.1)
Interest expense on other loans including financing expenses	**(235.2)**	(250.0)
Indexation of loan stock	**(48.6)**	(114.5)
Amortisation of debt issue costs	**(5.7)**	(5.3)
Interest on leases	**(1.0)**	(0.9)
Amortisation of fair value adjustments	**14.9**	17.0
Unwinding of discount on onerous lease obligation provision	**0.4**	(0.1)
Defined benefit pension scheme interest	**3.9**	0.2
Total finance costs	**(277.0)**	(353.7)
Less: amounts capitalised on qualifying assets	**15.6**	17.8
	(261.4)	(335.9)
Fair value losses on derivative financial instruments		
Fair value gains/(losses) on energy hedges	**2.3**	(1.8)
Hedge ineffectiveness on cash flow hedges (1)	**1.4**	0.5
Hedge ineffectiveness on fair value hedges (2)	**2.3**	(2.0)
Amortisation of adjustment to debt in fair value hedge	**(0.1)**	(0.3)
Derivative financial instruments not designated as hedges	**(16.6)**	(18.8)
Recycling of de-designated cash flow hedge relationship	**(12.5)**	(8.0)
	(23.2)	(30.4)
Finance costs, including fair value losses on derivative financial instruments	**(284.6)**	(366.3)
Net finance costs	**(282.3)**	(360.3)

(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 £60.8 million (2020: gains of £52.8 million), offset by fair value gains of £63.1 million on hedged risks (2020: losses of £54.8 million).

8. Taxation

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Current tax:		
In respect of the current period	**(0.4)**	(0.4)
Adjustments in respect of prior periods	**(3.2)**	0.2
Total current tax credit	**(3.6)**	(0.2)
Deferred tax:		
Origination and reversal of temporary differences	**21.3**	8.8
Adjustments in respect of previous periods	**5.6**	(0.9)
Reversal of decrease in corporation tax rate	**-**	112.6
Total deferred tax charge	**26.9**	120.5
Total tax charge on profit from continuing operations	**23.3**	120.3

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.

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

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

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

In the March 2021 Budget, it was announced that legislation will be introduced in Finance Bill 2021 to increase the main rate of UK corporation tax from 19 per cent to 25 per cent, effective from 1 April 2023. As substantive enactment is after the balance sheet date, deferred tax balances as at 31 March 2021 continue to be measured at a rate of 19 per cent. If the amended tax rate had been used, the deferred tax liability would have been £335 million higher.

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

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Profit before tax from continuing operations	**86.6**	27.2
Profit before tax from continuing operations at the standard rate of corporation tax in the UK of 19% (2020: 19%)	**16.5**	5.2
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	**0.8**	0.4
Interest restriction	**3.0**	2.4
	20.9	8.4
Effects of non-recurring items:		
Reversal of decrease in corporation tax rate	**-**	112.6
Adjustments in respect of prior periods	**2.4**	(0.7)
Tax charge for the year	**23.3**	120.3

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

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Deferred tax:		
Defined benefit pension schemes	**(32.2)**	20.6
Cash flow hedges	**3.8**	4.9
Reversal of decrease in corporation tax rate - pension	**-**	(2.7)
Reversal of decrease in corporation tax rate - hedges	**-**	(1.8)
Total deferred tax (credit)/charge	**(28.4)**	21.0
Total tax (credit)/charge recognised in other comprehensive income	**(28.4)**	21.0

9. Employee information and Directors' emoluments

a) Employee information

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Staff costs		
Wages and salaries	**204.6**	200.0
Social security costs	**22.4**	21.1
Pension costs - defined contribution	**17.8**	18.0
Pension costs - defined benefit	**1.1**	(1.3)
	245.9	237.8

Staff costs for the year ended 31 March 2021 in the table above are shown gross of £83.0 million (2020: £59.6 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 2021	Year ended 31 March 2020
Anglian Water	**4,882**	4,984
Other	**54**	46
	4,936	5,030

The company

The company has no employees (2020: none).

9. Employee information and Directors' emoluments (continued)

b) Directors' emoluments

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Aggregate emoluments	**2,896**	2,566
Pension costs - defined contribution	**2**	-
Benefits received under long-term incentive plans	**391**	563

Aggregate emoluments of the Directors comprise salaries, taxable benefits, cash payments in lieu of company pension contributions and amounts payable under annual bonus schemes. Retirement benefits are accruing to zero Directors (2020: zero Directors) under a defined benefit pension scheme. Retirement benefits are accruing to two Directors (2020: two Directors) under a defined contribution pension scheme.

c) Highest paid director

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Aggregate emoluments	**1,710**	1,088
Benefits received under long-term incentive plans	**391**	188

10. Profit of the parent company

The company has not presented its own income statement as permitted by section 408 of the Companies Act 2006. The profit for the year, dealt with in the financial statements of the company, was £48.2 million (2020: £39.8 million).

11. Goodwill

	Group	
	2021	2020
	£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 1.4x RCV in recent years. The implied multiples for the listed water companies are also around 1.25x to 1.36x on a non-controlling basis, based on current market capitalisation.

Adopting a current market average RCV multiple of 1.25x at 31 March 2021 results in headroom of £437 million (2020:1.25x, £863 million). The headroom at 31 March 2021 is eliminated at an RCV multiple of 1.20x (2020: 1.15x).

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	Internally generated £m	Total £m
Cost			
At 1 April 2019	389.6	113.1	**502.7**
Additions	45.2	19.9	**65.1**
Disposals	(3.2)	-	**(3.2)**
At 31 March 2020	431.6	133.0	**564.6**
Additions	64.6	24.4	**89.0**
At 31 March 2021	**496.2**	**157.4**	**653.6**
Accumulated amortisation			
At 1 April 2019	(242.1)	(63.1)	**(305.2)**
Charge for the year	(25.7)	(19.2)	**(44.9)**
Disposals	3.2	-	**3.2**
At 31 March 2020	(264.6)	(82.3)	**(346.9)**
Charge for the year	(18.3)	(30.7)	**(49.0)**
At 31 March 2021	**(282.9)**	**(113.0)**	**(395.9)**
Net book amount			
At 31 March 2021	**213.3**	**44.4**	**257.7**
At 31 March 2020	167.0	50.7	217.7

The internally generated intangible assets mainly comprise capitalised development expenditure.

Included within additions above is £3.6 million (2020: £3.7 million) of interest that has been capitalised on qualifying assets, at an average rate of 4.4 per cent (2020: 4.8 per cent).

No intangible assets were disposed of during the year (2020: cost £3.2 million) (£nil net book value).

Included within intangible assets above are assets under construction of £119.3 million (2020: £87.9 million), which are not yet subject to amortisation.

The company

The company has no intangible assets (2020: 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 2019	83.6	6,860.3	6,035.8	844.2	403.9	**14,227.8**
Additions	-	-	-	-	462.4	**462.4**
Transfers on commissioning	5.9	205.7	214.2	74.5	(500.3)	**-**
Disposals	(2.2)	-	(11.1)	(24.1)	-	**(37.4)**
At 31 March 2020	87.3	7,066.0	6,238.9	894.6	366.0	**14,652.8**
Additions	-	-	-	-	403.3	**403.3**
Transfers on commissioning	0.8	93.6	164.3	74.4	(333.1)	**-**
Disposals	-	-	(2.9)	(24.6)	-	**(27.5)**
At 31 March 2021	**88.1**	**7,159.6**	**6,400.3**	**944.4**	**436.2**	**15,028.6**
Accumulated depreciation						
At 1 April 2019	(9.0)	(725.6)	(3,105.0)	(582.7)	-	**(4,422.3)**
Charge for the year	(4.9)	(57.1)	(210.6)	(51.6)	-	**(324.2)**
Disposals	0.5	-	11.1	23.9	-	**35.5**
At 31 March 2020	(13.4)	(782.7)	(3,304.5)	(610.4)	-	**(4,711.0)**
Charge for the year	(3.9)	(58.1)	(189.6)	(51.4)	-	**(303.0)**
Disposals	-	-	3.0	24.3	-	**27.3**
At 31 March 2021	**(17.3)**	**(840.8)**	**(3,491.1)**	**(637.5)**	**-**	**(4,986.7)**
Net book amount						
At 31 March 2021	**70.8**	**6,318.8**	**2,909.2**	**306.9**	**436.2**	**10,041.9**
At 31 March 2020	73.9	6,283.3	2,934.4	284.2	366.0	9,941.8

Property, plant and equipment at 31 March 2021 includes land of £31.6 million (2020: £31.3 million), which is not subject to depreciation.

Included within additions above is £12.0 million (2020: £14.2 million) of interest that has been capitalised on qualifying assets, at an average rate of 4.4 per cent (2020: 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 2021					
Additions	-	-	-	0.4	**0.4**
Depreciation charge	(3.5)	-	(1.3)	(1.4)	**(6.2)**
Net book value	26.1	5.0	38.2	3.0	**72.3**
At 31 March 2020					
Additions	4.0	-	0.1	3.4	7.5
Disposals	(2.1)	-	(1.2)	(0.3)	(3.6)
Depreciation charge	(3.9)	(0.1)	(1.5)	(1.0)	(6.5)
Depreciation on disposals	0.7	-	1.2	0.3	2.2
Net book value	24.3	5.0	39.5	4.0	72.8

The company

The company has no property, plant and equipment (2020: none).

14. Investment properties

	Group	
	2021 £m	2020 £m
Cost		
At 1 April	**1.9**	1.9
Additions	**1.4**	-
At 31 March	**3.3**	1.9
Accumulated depreciation		
At 1 April	**(0.2)**	(0.2)
At 31 March	**(0.2)**	(0.2)
Net book amount		
At 31 March	**3.1**	1.7

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

14. Investment properties (continued)

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

The company

The company has no investment properties (2020: none).

15. Investments

	Group		Company	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Non-current				
Subsidiary undertakings	**-**	-	**2,376.8**	2,376.8
	-	-	**2,376.8**	2,376.8
Current				
Cash deposits	**88.5**	328.9	**5.0**	6.0
	88.5	328.9	**5.0**	6.0

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

a) Joint ventures

A full listing of group's joint ventures can be found in note 33, none of which are material to the group. The joint ventures have no significant contingent liabilities to which the group is exposed.

b) Subsidiary undertakings

	Company
	Shares in subsidiary undertakings
	£m
Cost	
At 1 April 2019	2,333.8
Additions	43.0
At 31 March 2020	2,376.8
At 31 March 2021	**2,376.8**

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

Subsidiary undertakings are listed in note 33.

16. Inventories

	Group	
	2021	2020
	£m	£m
Raw materials and consumables	**13.9**	13.1
Work in progress	**7.5**	6.6
	21.4	19.7

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

The company

The company has no inventories (2020: none).

17. Trade and other receivables

	Group		Company	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Trade receivables	**398.1**	356.2	**-**	-
Provision for bad and doubtful debts	**(233.6)**	(212.0)	**-**	-
Net trade receivables	**164.5**	144.2	**-**	-
Loans receivable from group undertakings	**5.0**	1.9	**-**	-
Other amounts receivable	**36.4**	21.5	**-**	0.6
Prepayments and accrued income	**303.8**	367.2	**-**	-
	509.6	534.8	**-**	0.6

Prepayments and accrued income as at 31 March 2021 includes water and water recycling income not yet billed of £294.1 million (2020: £357.6 million). Of the trade receivables, £372.2 million (2020: £332.5 million) relates to Anglian Water Services residential customers, £16.4 million (2020: £19.7 million) relates to Anglian Water Services non-household retailer balances and the remaining balance of £9.5 million (2020: £4.0 million) relates to developer services and other receivables. The majority of non-household customers are billed in arrears and are therefore included within accrued income above.

Other amounts receivable includes £21.5 million VAT debtor (2020: £12.3 million) and various other sundry debtors.

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

17. Trade and other receivables (continued)

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 99.8 per cent of the group's revenue and 99.8 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. 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 £14.2 million receivables (2020: £9.4 million) and £5.4 million of income accrued at 31 March 2021 (2020: £18.2 million).

None of the other business units are individually significant to the group.

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

		Group
	2021	2020
	£m	£m
At 1 April	**212.0**	193.4
Charge for bad and doubtful debts	**31.1**	40.7
Amounts written off during the year	**(9.9)**	(22.1)
Amounts recovered during the year	**0.4**	-
At 31 March	**233.6**	212.0

It is expected that the economic consequences of Covid-19 will impact our customers' ability to pay in 2021 and potentially subsequent years. Forecast unemployment rates for the years to 2024/25, after which we fully provide for unpaid amounts, are expected to increase the bad debt charge by £18.7 million over that period, of which £13.5 million relates to invoices outstanding at March 2021. Management have therefore increased their additional provision at March 2020 of £12.0 million by £1.5 million.

18. Analysis of net debt

Group

	Net cash and cash equivalents	Current asset investments - cash deposits	Liabilities from financing activities: Borrowings	Liabilities from financing activities: Derivative financial instruments [1]	**Total**
	£m	£m	£m	£m	**£m**
At 1 April 2019	316.8	299.5	(8,317.2)	(779.5)	**(8,480.4)**
Cash flows					
Interest paid	(251.7)	-	31.9	2.1	**(217.7)**
Issue costs paid	(5.0)	-	5.0	-	**-**
Interest on leases	(0.9)	-	-	-	**(0.9)**
Increase in amounts borrowed	815.9	-	(815.9)	-	**-**
Repayment of amounts borrowed	(220.3)	-	220.3	-	**-**
Principal settlement on derivatives	(25.1)	-	-	25.1	**-**
Repayment of principal on derivatives	34.7	-	-	(34.7)	**-**
Repayment of principal on leases	(13.4)	-	13.4	-	**-**
Non-financing cash flows [2]	191.6	29.4	-	-	**221.0**
	525.8	29.4	(545.3)	(7.5)	**2.4**
Movement in interest accrual on debt	-	-	(1.4)	-	**(1.4)**
New lease agreements	-	-	(7.4)	-	**(7.4)**
Termination of leases	-	-	1.8	-	**1.8**
Amortisation of issue costs	-	-	(5.4)	-	**(5.4)**
Amortisation of fair value adjustments	-	-	17.0	-	**17.0**
Indexation of borrowings and RPI swaps	-	-	(77.8)	(36.7)	**(114.5)**
Fair value gains and losses and foreign exchange	-	-	(117.7)	85.5	**(32.2)**
At 31 March 2020	842.6	328.9	(9,053.4)	(738.2)	**(8,620.1)**
Cash flows					
Interest paid	(241.4)	-	31.5	(5.4)	**(215.3)**
Issue costs paid	(3.3)	-	3.3	-	**-**
Receipt of premium on borrowings	7.7	-	(7.7)	-	**-**
Interest on leases	(1.0)	-	-	-	**(1.0)**
Increase in amounts borrowed	303.1	-	(303.1)	-	**-**
Repayment of amounts borrowed	(984.0)	-	984.0	-	**-**
Repayment of principal on derivatives	(63.5)	-	-	63.5	**-**
Receipt of principal on derivatives	-	-	-	-	**-**
Repayment of principal on leases	(13.1)	-	13.1	-	**-**
Non-financing cash flows [2]	396.0	(240.4)	-	-	**155.6**
	(599.5)	(240.4)	721.1	58.1	**(60.7)**

18. Analysis of net debt (continued)

					Group
		Current asset	Liabilities from financing activities		
	Net cash and cash equivalents	investments - cash deposits	Borrowings	Derivative financial instruments [1]	**Total**
	£m	£m	£m	£m	**£m**
Movement in interest accrual on debt	-	-	2.9	-	**2.9**
New lease agreements	-	-	(0.4)	-	**(0.4)**
Termination of leases	-	-	-	-	**-**
Amortisation of issue costs	-	-	(5.7)	-	**(5.7)**
Amortisation of fair value adjustments	-	-	14.9	-	**14.9**
Indexation of borrowings and RPI swaps	-	-	(32.0)	(16.6)	**(48.6)**
Fair value gains and losses and foreign exchange	-	-	99.8	(144.3)	**(44.5)**
Interest added to debt	-	-	-	-	**-**
At 31 March 2021	**243.1**	**88.5**	**(8,252.8)**	**(841.0)**	**(8,762.2)**
Net debt at 31 March 2021 comprises:					
Non-current assets	-	-	-	108.7	**108.7**
Current assets	243.1	88.5	-	79.7	**411.3**
Current liabilities	-	-	(1,396.1)	(24.8)	**(1,420.9)**
Non-current liabilities	-	-	(6,856.7)	(1,004.6)	**(7,861.3)**
	243.1	**88.5**	**(8,252.8)**	**(841.0)**	**(8,762.2)**

(1) Derivative financial instruments exclude the asset of £9.0 million (2020: liability £4.6 million) in respect of the fair value of energy hedges, as these are not classified as part of net debt.

(2) Non-financing cash flows comprise net cash flows from operating activities of £633.0 million (2020: £665.8 million), less net cash used in investing activities of £181.1 million (2020: £474.2 million) and dividends paid of £55.9 million (2020: £nil).

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

	2021	2020
	£m	£m
Non-current assets	**3.9**	0.5
Current assets	**5.1**	-
Current liabilities	**-**	(3.0)
Non-current liabilities	**-**	(2.1)
	9.0	(4.6)

Current asset investments above comprise £88.5 million (2020: £328.9 million) of short-term cash deposits with an original maturity of more than three months.

18. Analysis of net debt (continued)

At 31 March 2021, £205.9 million (2020: £729.1 million) of the group's cash and cash equivalents and £80.0 million (2020: £319.0 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 (2020: £0.2 million) of the group's cash and cash equivalents was held as collateral for outstanding loan notes. In addition, £0.5 million (2020: £0.4 million) of the group's cash and cash equivalents and £3.5 million (2020: £3.9 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.

18. Analysis of net debt (continued)

				Company
	Net cash and cash equivalents £m	Current asset investments - cash deposits £m	Borrowings £m	**Total £m**
At 1 April 2019	13.2	-	(1,180.9)	**(1,167.7)**
Cash flows				
Interest paid	(22.3)	-	-	**(22.3)**
Issue costs paid	(2.4)	-	2.4	**-**
Increase in amounts borrowed	(0.1)	-	-	**(0.1)**
Non-financing cash flows [(1)]	17.7	6.0	-	**23.7**
	(7.1)	6.0	2.4	**1.3**
Movement in interest accrual on debt	-	-	0.1	**0.1**
Amortisation of issue costs	-	-	(1.1)	**(1.1)**
At 31 March 2020	6.1	6.0	(1,179.5)	**(1,167.4)**
Cash flows				
Interest paid	(22.7)	-	-	**(22.7)**
Issue costs paid	(0.4)	-	0.4	**-**
Increase in amounts borrowed	60.0	-	(60.0)	**-**
Repayment of amounts borrowed	(50.0)	-	50.0	**-**
Non-financing cash flows [(1)]	14.4	(1.0)	-	**13.4**
	1.3	(1.0)	(9.6)	**(9.3)**
Amortisation of issue costs	-	-	(1.1)	**(1.1)**
At 31 March 2021	**7.4**	**5.0**	**(1,190.2)**	**(1,177.8)**
Net debt at 31 March 2021 comprises:				
Current assets	7.4	5.0	-	**12.4**
Current liabilities	-	-	(742.2)	**(742.2)**
Non-current liabilities	-	-	(448.0)	**(448.0)**
	7.4	**5.0**	**(1,190.2)**	**(1,177.8)**

(1) Non-financing cash flows comprise: net cash flows from operating activities of £(0.1) million (2020: £4.1 million); net cash from investing activities of £70.4 million (2020: £13.6 million); less dividends paid of £55.9 million (2020: £nil).

19. Trade and other payables

	Group	
	2021	2020
	£m	£m
Trade payables	**41.3**	35.1
Capital creditors and accruals	**115.8**	97.2
Receipts in advance	**289.0**	324.9
Amounts owed to group undertakings	**3.9**	0.9
Other taxes and social security	**5.0**	5.2
Accruals and deferred income	**61.5**	60.8
Other payables	**5.6**	9.0
	522.1	533.1

Receipts in advance includes £238.5 million (2020: £281.6 million) relating to amounts received from customers for water and sewerage charges in respect of bills that fall due in the following year.

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

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

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

The company

The company has no trade and other payables (2020: none).

20. Loans and other borrowings

	Group		Company	
	2021	**2020**	**2021**	2020
	£m	£m	**£m**	£m
£250 million 5.837% fixed rate 2022	**261.2**	262.4	**-**	-
£200 million 6.875% fixed rate 2023	**213.1**	215.2	**-**	-
£200 million 6.625% fixed rate 2029	**212.8**	214.2	**-**	-
£246 million 6.293% fixed rate 2030	**271.5**	274.0	**-**	-
£150 million 4.125% index-linked 2020	**-**	265.6	**-**	-
£75 million 3.666% index-linked 2024	**131.2**	131.2	**-**	-
£200 million 3.07% index-linked 2032	**369.8**	369.3	**-**	-
£60 million 3.07% index-linked 2032	**112.2**	111.8	**-**	-
IFRS 16 leases	**35.7**	48.6	**-**	-
£402 million 2.4% index-linked 2035	**639.8**	635.0	**-**	-
£50 million 1.7% index-linked 2046	**82.1**	81.6	**-**	-
£50 million 1.7% index-linked 2046	**82.4**	81.7	**-**	-
£40 million 1.7146% indexation bond 2056	**68.4**	68.0	**-**	-
£50 million 1.6777% indexation bond 2056	**85.0**	84.5	**-**	-
£60 million 1.7903% indexation bond 2049	**101.4**	100.9	**-**	-
£100 million 1.3784% indexation bond 2057	**151.6**	149.7	**-**	-
£50 million 1.3825% indexation bond 2056	**75.7**	74.8	**-**	-
£100 million Class A wrapped floating rate bonds 2057	**99.9**	100.1	**-**	-
£75 million 1.449% indexation bond 2062	**109.0**	106.9	**-**	-
£50 million 1.52% indexation bond 2055	**72.6**	71.2	**-**	-
£110 million Class A unwrapped floating rate bonds 2043	**110.0**	110.1	**-**	-
£25 million 6.875% private placements 2034	**25.0**	25.0	**-**	-
£130 million 2.262% indexation bond 2045	**173.8**	171.8	**-**	-
US$160 million 4.52% private placements 2021	**118.4**	135.3	**-**	-
US$410 million 5.18% private placements 2021	**302.1**	334.9	**-**	-
EIB £75 million 0.53% index-linked term facility 2027 (1)	**55.8**	64.4	**-**	-
EIB £75 million 0.79% index-linked term facility 2027 (1)	**55.8**	64.5	**-**	-
£250 million 4.5% fixed rate 2027	**253.0**	252.7	**-**	-
£15 million 1.37% index-linked private placements 2022	**18.3**	18.1	**-**	-
£50 million 2.05% index-linked private placements 2033	**61.0**	60.3	**-**	-
£31.9 million 3.983% private placements 2022	**32.5**	32.5	**-**	-
£73.3 million 4.394% private placements 2028	**77.5**	79.6	**-**	-
£22.3 million 3.983% private placements 2022	**22.7**	22.7	**-**	-
US$47 million 5% private placements 2022	**34.9**	38.7	**-**	-
EIB £150 million 0% index-linked term facility 2028 (2)	**126.4**	142.8	**-**	-
£200 million Class B 4.5% fixed rate 2026	**207.6**	209.8	**-**	-
£35 million 1.141% index-linked bond 2042	**41.7**	41.3	**-**	-
US$170 million 3.84% private placements 2023	**132.9**	150.7	**-**	-
£93 million 3.537% private placements 2023	**94.3**	94.3	**-**	-
US$160 million 4.99% private placements 2023	**117.8**	130.6	**-**	-
EIB £65 million 0.41% index-linked term facility 2029	**60.8**	67.5	**-**	-
EIB Tranche 2 £125 million 0.1% 2029 (3)	**122.9**	135.7	**-**	-
EIB Tranche 3 £60 million 0.01% 2030 (4)	**62.1**	68.2	**-**	-
RCF £550 million	**23.0**	548.0	**-**	-
RCF £50 million bilaterals (5)	**(0.1)**	49.9	**-**	-
Sub-total carried forward	**5,505.5**	6,496.1	**-**	-

20. Loans and other borrowings (continued)

	2021 £m	2020 £m	2021 £m	2020 £m
Sub-total brought forward	**5,505.5**	6,496.1	**-**	-
US$150 million 3.29% private placements 2026	**113.7**	130.4	**-**	-
£55 million 2.93% fixed rate private placements 2026	**55.4**	55.3	**-**	-
£20 million 2.93% fixed rate private placements 2026	**20.0**	20.0	**-**	-
£35 million floating rate private placements 2031	**34.7**	34.7	**-**	-
£200 million Class B 2.6225% fixed rate 2027	**202.3**	203.6	**-**	-
£250 million Green Bond 1.625% 2025	**256.9**	258.7	**-**	-
£300 million Green bond 2.75% 2029	**300.1**	299.7	**-**	-
£25 million 3.0% fixed rate 2031	**24.9**	24.9	**-**	-
US$53 million 3.053% fixed rate 2029	**38.4**	42.7	**-**	-
£85 million 2.88% fixed rate 2029	**84.8**	84.8	**-**	-
£65 million 2.87% fixed rate 2029	**65.4**	65.4	**-**	-
£65 million CPI 0.835% 2040	**65.2**	(0.4)	**-**	-
JPY 7 billion 0.855% fixed rate 2039	**45.8**	52.4	**-**	-
EDC £100 million 1.588% fixed rate 2028	**100.2**	100.2	**-**	-
£50 million 1.76% fixed rate 2035	**49.9**	-	**-**	-
JPY 7 billion 0.85% fixed rate 2040	**39.3**	-	**-**	-
JR £26.1 million CPI 0.01% 2035	**29.9**	-	**-**	-
BPPT £26.1 million CPI 0.01% 2035	**29.7**	-	**-**	-
£35 million 2.14% fixed rate 2036 (6)	**(0.3)**	-	**-**	-
£40 million 2.14% fixed rate 2036 (6)	**(0.3)**	-	**-**	-
Liquidity facilities	**0.5**	0.4	**-**	-
£210 million Class B 5.0% fixed rate bond 2023	**213.7**	213.4	**213.7**	213.4
£240 million Class B 4.0% fixed rate bond 2026	**239.3**	239.1	**239.3**	239.1
Loan notes	**0.2**	0.2	**0.2**	0.2
Unamortised issue costs relating to undrawn facilities	**8.1**	(2.1)	**8.1**	(2.1)
£729 million interest free loan (7)	**728.9**	728.9	**728.9**	728.9
Other loans	**0.5**	5.0	**-**	-
Total loans and other borrowings	**8,252.8**	9,053.4	**1,190.2**	1,179.5
Included in:				
Current liabilities	**1,396.1**	1,754.3	**742.2**	728.9
Non-current liabilities	**6,856.7**	7,299.1	**448.0**	450.6
Of which are leases:				
Current liabilities	**13.4**	12.1	**-**	-
Non-current liabilities	**22.3**	36.5	**-**	-

(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) This instrument is amortising from 2019 until the date of maturity shown.

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

(5) The bilateral facility was decreased to £50.0 million in May 2020 (2020: £100.0 million).

(6) These instruments were transacted in March 2021 with debt cash proceeds received in April 2021 after the current period end.

(7) This loan is due to the immediate parent undertaking and is interest free and repayable on demand.

20. Loans and other borrowings (continued)

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 £32.0 million (2020: £77.8 million) has been taken to the income statement as part of interest payable.

These loans are shown net of issue costs and premium of £26.4 million (2020: £36.2 million). The issue costs and premiums are amortised at the effective interest rate based on the carrying amount of debt over the life of the underlying instruments.

A security agreement dated 30 July 2002 between Anglian Water Services Financing Plc, Anglian Water Services Limited, Anglian Water Services Overseas Holdings Limited, Anglian Water Services Holdings Limited and Deutsche Trustee Company Limited (as Agent and Trustee for itself and each of the Finance Parties to the Global Secured Medium Term Note Programme) created a fixed and floating charge over the assets of Anglian Water Services Limited to the extent permissible under the Water Industry Act 1991. In addition, there is a fixed charge over the issued share capital of Anglian Water Services Financing Plc, Anglian Water Services Limited and Anglian Water Services UK Parent Co Limited. At 31 March 2021, this charge applies to £6,896.3 million (2020: £7,675.8 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 2021, this charge applies to £453.3 million (2020: £452.7 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	**Proportion hedged**	**Accumulated hedge adjustment** [2]	**Discounted hedge adjustment**
	£m	**%**	**£m**	**£m**
At 31 March 2021				
US$150 million 3.29% private placements 2026	113.7	76	(4.1)	-
US$160 million 4.52% private placements 2021	118.4	100	(1.0)	-
US$170 million 3.84% private placements 2023	132.9	94	(7.6)	-
£200 million Class B 2.6225% fixed rate 2027	202.3	41	(2.2)	-
£200 million Class B 4.5% fixed rate 2026	207.6	50	(8.0)	-
£246 million 6.293% fixed rate 2030	271.5	20	(1.7)	-
£250 million Green Bond 1.625% 2025	256.9	100	(6.0)	-
£73.3 million 4.394% private placements 2028	77.5	100	(2.7)	-
US$410 million 5.18% private placements 2021 [1]	302.1	-	0.1	0.1
JPY 7 billion 0.85% fixed rate 2040	39.3	100	6.3	-
£35 million 2.14% fixed rate 2036	(0.3)	100	0.3	-
£40 million 2.14% fixed rate 2036	(0.3)	100	0.3	-
	1,721.6		**(26.3)**	**0.1**
At 31 March 2020				
US$150 million 3.29% private placements 2026	130.4	76	(8.7)	-
US$160 million 4.52% private placements 2021	135.3	100	(5.0)	-
US$170 million 3.84% private placements 2023	150.7	94	(11.8)	-
£200 million Class B 2.6225% fixed rate 2027	203.6	41	(3.7)	-
£200 million Class B 4.5% fixed rate 2026	209.8	50.0	(10.4)	-
£246 million 6.293% fixed rate 2030	274.0	20	(2.6)	-
£250 million Green Bond 1.625% 2025	258.7	100	(8.2)	-
£73.3 million 4.394% private placements 2028	79.6	100	(4.8)	-
US$410 million 5.18% private placements 2021 [1]	334.9	-	0.2	0.2
	1,777.0		(55.0)	0.2

[1] This debt instrument was changed from a fair value hedge to a cash flow hedge in June 2015 resulting in the discontinued hedge adjustment.

[2] 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

					Group
	Assets at fair value through profit and loss £m	**Derivatives used for hedging £m**	**Assets at amortised cost and cash equivalents £m**	**Investments at cost £m**	**Total £m**
At 31 March 2021					
Investments					
Current - cash deposits	-	-	-	88.5	**88.5**
Cash and cash equivalents					
Current	-	-	243.1	-	**243.1**
Trade and other receivables					
Current	-	-	499.9	-	**499.9**
Derivative financial instruments					
Current	10.4	74.4	-	-	**84.8**
Non-current	37.6	75.0	-	-	**112.6**
	48.0	**149.4**	**743.0**	**88.5**	**1,028.9**
At 31 March 2020					
Investments					
Current - cash deposits	-	-	-	328.9	328.9
Cash and cash equivalents					
Current	-	-	842.6	-	842.6
Trade and other receivables					
Current	-	-	525.2	-	525.2
Derivative financial instruments					
Current	-	16.8	-	-	16.8
Non-current	68.8	249.0	-	-	317.8
	68.8	265.8	1,367.8	328.9	2,031.3

Trade and other receivables above exclude prepayments.

21. **Financial instruments** (continued)

Financial assets by category (continued)

	Company		
	Assets at amortised cost and cash equivalents £m	**Investments at amortised cost £m**	**Total £m**
At 31 March 2021			
Investments			
Current - cash deposits	-	5.0	**5.0**
Non-current	-	2,376.8	**2,376.8**
Cash and cash equivalents			
Current	7.4	-	**7.4**
	7.4	**2,381.8**	**2,389.2**
At 31 March 2020			
Investments			
Current - cash deposits	-	6.0	6.0
Non-current	-	2,376.8	2,376.8
Cash and cash equivalents			
Current	6.1	-	6.1
Trade and other receivables			
Current	0.6	-	0.6
	6.7	2,382.8	2,389.5

21. **Financial instruments** (continued)

Financial liabilities by category

	Liabilities at fair value through profit and loss £m	Derivatives used for hedging £m	Other liabilities held at amortised cost £m	Group Total £m
At 31 March 2021				
Borrowings				
Current	-	-	1,396.1	**1,396.1**
Non-current	-	-	6,856.7	**6,856.7**
Trade and other payables				
Current	-	-	233.1	**233.1**
Derivative financial instruments				
Current	17.6	7.2	-	**24.8**
Non-current	985.8	18.8	-	**1,004.6**
	1,003.4	**26.0**	**8,485.9**	**9,515.3**
At 31 March 2020				
Borrowings				
Current	-	-	1,754.3	1,754.3
Non-current	-	-	7,299.1	7,299.1
Trade and other payables				
Current	-	-	208.2	208.2
Derivative financial instruments				
Current	76.5	4.9	-	81.4
Non-current	976.4	19.6	-	996.0
	1,052.9	24.5	9,261.6	10,339.0

Trade and other payables above exclude receipts in advance.

21. **Financial instruments** (continued)

Financial liabilities by category

	Company	
	Other liabilities held at amortised cost £m	**Total £m**
At 31 March 2021		
Borrowings		
Current	742.2	**742.2**
Non-current	448.0	**448.0**
	1,190.2	**1,190.2**
At 31 March 2020		
Borrowings		
Current	728.9	728.9
Non-current	450.6	450.6
	1,179.5	1,179.5

21. **Financial instruments** (continued)

Derivative financial instruments

				Group
		2021		2020
	Assets	**Liabilities**	Assets	Liabilities
	£m	**£m**	£m	£m
Designated as cash flow hedges				
Interest rate swaps	**-**	**(10.6)**	-	(14.9)
Cross currency interest rate swaps	**67.3**	**(8.9)**	138.0	(4.5)
Energy swaps	**9.0**	**-**	0.5	(5.1)
	76.3	**(19.5)**	138.5	(24.5)
Designated as fair value hedges				
Interest rate swaps	**24.0**	**(0.3)**	32.1	-
Cross currency interest rate swaps	**49.1**	**(6.2)**	95.2	-
	73.1	**(6.5)**	127.3	-
Derivative financial instruments designated as hedges	**149.4**	**(26.0)**	265.8	(24.5)
Derivative financial instruments not designated as hedges				
Interest rate swaps and swaptions	**34.5**	**(233.5)**	17.5	(259.4)
RPI swaps	**-**	**(568.3)**	-	(631.1)
CPI swaps	**13.5**	**(201.6)**	51.3	(162.4)
Total derivative financial instruments	**197.4**	**(1,029.4)**	334.6	(1,077.4)
Derivative financial instruments can be analysed as follows:				
Current	**84.8**	**(24.8)**	16.8	(81.4)
Non-current	**112.6**	**(1,004.6)**	317.8	(996.0)
	197.4	**(1,029.4)**	334.6	(1,077.4)

The company

The company has no derivative financial instruments (2020: none).

21. Financial instruments (continued)

Derivative financial instruments (continued)

At 31 March 2021, the fixed interest rates vary from 2.84 per cent to 5.99 per cent, floating rates vary from 0.09 per cent (LIBOR plus 0.0 bps) to 3.10 per cent (LIBOR plus 298.70 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.

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 2021 (2020: £nil).

Leases

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

		Group
	2021	2020
	£m	£m
Within one year	**13.5**	13.9
Between two and five years	**15.1**	27.8
After five years	**13.6**	16.2
	42.2	57.9
Future finance charges on leases	**(6.5)**	(9.3)
Present value of lease liabilities	**35.7**	48.6

21. **Financial instruments** (continued)

Fair value of financial assets and liabilities

				Group
		2021		2020
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m
Cash and cash equivalents	**243.1**	**243.1**	842.6	842.6
Current asset investments - cash deposits	**88.5**	**88.5**	328.9	328.9
Borrowings				
Current	**(1,396.1)**	**(1,351.6)**	(1,754.3)	(1,759.7)
Non-current	**(6,856.7)**	**(8,384.9)**	(7,299.1)	(9,002.7)
Interest and cross currency interest rate swaps - assets				
Current	**75.0**	**75.0**	12.1	12.1
Non-current	**99.9**	**99.9**	270.7	270.7
Interest and cross currency interest rate swaps - liabilities				
Current	**(15.3)**	**(15.3)**	(6.3)	(6.3)
Non-current	**(244.2)**	**(244.2)**	(272.5)	(272.5)
RPI swaps - liabilities				
Current	**(9.5)**	**(9.5)**	(72.1)	(72.1)
Non-current	**(558.8)**	**(558.8)**	(559.0)	(559.0)
CPI swaps - assets				
Current	**4.7**	**4.7**	4.7	4.7
Non-current	**8.8**	**8.8**	46.6	46.6
CPI swaps - liabilities				
Non-current	**(201.6)**	**(201.6)**	(162.4)	(162.4)
Net debt	**(8,762.2)**	**(10,245.9)**	(8,620.1)	(10,329.1)
Energy derivatives - assets				
Current	**5.1**	**5.1**	-	-
Non-current	**3.9**	**3.9**	0.5	0.5
Energy derivatives - liabilities				
Current	**-**	**-**	(3.0)	(3.0)
Non-current	**-**	**-**	(2.1)	(2.1)
	(8,753.2)	**(10,236.9)**	(8,624.7)	(10,333.7)

				Company
		2021		2020
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m
Cash and cash equivalents	**7.4**	**7.4**	6.1	6.1
Current asset investments - cash deposits	**5.0**	**5.0**	6.0	6.0
Borrowings				
Current	**(742.2)**	**(734.3)**	(728.9)	(734.1)
Non-current	**(448.0)**	**(519.0)**	(450.6)	(527.2)
Net debt	**(1,177.8)**	**(1,240.9)**	(1,167.4)	(1,249.2)

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 by calculating the net realisable value that would have arisen if these contracts were terminated on 31 March 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:

	2021	2020
	£m	£m
At 1 April	**(110.9)**	(110.3)
Net loss for the period	**(93.5)**	(0.6)
Settlements	**16.3**	-
At 31 March	**(188.1)**	(110.9)

Gains and losses in the period are recognised in fair value losses on derivatives within the income statement.

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:

	2021	2020
	£m	£m
Gain/(loss)		
1% increase in inflation rates	**(188.7)**	(182.0)
1% decrease in inflation rates	**150.6**	152.8

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

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 2021, 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 82.0 per cent (2020: 78.4 per cent).

The group has also raised finance within the company through its financing subsidiary Anglian Water (Osprey) Financing Plc.

Borrowing covenants

With the exception of asset-based funding, the group's borrowings are raised by the company, 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.

21. Financial instruments (continued)

a) Market risk

i) Foreign currency

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

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

21. **Financial instruments** (continued)

a) Market risk

i) Foreign currency

				Group
	Within one year m	Between one and five years m	Between five and 25 years m	Total m
At 31 March 2021				
Foreign currency borrowings - hedged item				
JPY	-	-	14,000.0	**14,000.0**
USD	570.0	377.0	203.0	**1,150.0**
Cross currency interest rate swap - cashflow hedge				
JPY	-	-	(7,000.0)	**(7,000.0)**
USD	(410.0)	(217.8)	(89.0)	**(716.8)**
Cross currency interest rate swap - fair value hedge				
JPY	-	-	(7,000.0)	**(7,000.0)**
USD	(160.0)	(159.2)	(114.0)	**(433.2)**
Net currency exposure	**-**	**-**	**-**	**-**
Weighted average spot rate				
JPY	-	-	138.3	
USD	1.6	1.6	1.4	
At 31 March 2020				
Foreign currency borrowings - hedged item				
JPY	-	-	7,000.0	7,000.0
USD	-	947.0	203.0	1,150.0
Cross currency interest rate swap - cashflow hedge				
USD	-	(627.8)	(89.0)	(716.8)
Cross currency interest rate swap - fair value hedge				
JPY	-	-	(7,000.0)	(7,000.0)
USD	-	(319.2)	(114.0)	(433.2)
Net currency exposure	-	-	-	-
Weighted average spot rate				
JPY	-	-	137.6	
USD	-	1.6	1.4	

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 form 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:

	Debt position £m	Swap impact £m	Post swap position £m	Group Effective interest rate %
At 31 March 2021				
Fixed	(3,598.0)	1,478.0	(2,120.0)	5.1
Floating	(270.0)	(146.0)	(416.0)	1.3
Index-linked	(2,872.8)	(1,388.9)	(4,261.7)	3.5
Leases	(29.0)	-	(29.0)	2.6
	(6,769.8)	**(56.9)**	**(6,826.7)**	
At 31 March 2020				
Fixed	(3,522.0)	967.5	(2,554.5)	5.0
Floating	(859.7)	(182.6)	(1,042.3)	2.0
Index-linked	(3,052.4)	(857.7)	(3,910.1)	5.0
Leases	(31.0)	-	(31.0)	3.0
	(7,465.1)	(72.8)	(7,537.9)	

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 2021							
Interest rate swaps							
Floating to fixed rate	269.6	225.5	74.0	200.0	(166.3)	4.4	0.8
Floating from fixed rate	50.0	800.5	279.5	-	58.2	0.4	1.4
Fixed to fixed interest rate swaps	-	100.2	581.3	-	(77.8)	3.7	2.3
Inflation swaps							
Floating to RPI	25.0	150.0	225.0	165.9	(568.2)	3.1	0.7
Fixed to CPI	-	-	365.9	300.0	(92.2)	0.8	3.6
Floating to CPI	-	-	50.4	100.0	(96.0)	1.2	0.6
Cross currency swaps							
JPY	-	-	101.2	-	(15.2)	2.0	0.9
USD	359.8	240.7	144.3	-	116.4	2.8	4.6
Total	**704.4**	**1,516.9**	**1,821.6**	**765.9**	**(841.1)**		
At 31 March 2020							
Interest rate swaps							
Floating to fixed rate	-	456.0	40.8	258.3	(212.9)	4.4	1.4
Floating from fixed rate	-	325.5	729.5	-	75.5	0.9	1.3
Fixed to fixed interest rate swaps	-	100.2	581.3	-	(87.4)	3.7	2.3
Inflation swaps							
Floating to RPI	-	175.0	225.0	165.9	(631.9)	2.8	1.0
Fixed to CPI	-	-	365.9	300.0	(16.0)	0.8	3.6
Floating to CPI	-	-	-	100.0	(94.2)	1.7	0.6
Cross currency swaps							
JPY	-	-	50.9	-	(4.5)	2.7	0.9
USD	-	600.6	144.3	-	233.2	3.2	4.6
Total	-	1,657.3	2,137.7	824.2	(738.2)		

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
	2021	2020
	£m	£m
Increase/(decrease) in equity		
1% increase in interest rates	**(1.0)**	(2.4)
1% decrease in interest rates	**(2.5)**	2.7
Increase/(decrease) in profit before tax		
1% increase in interest rates	**255.6**	269.4
1% decrease in interest rates	**(340.3)**	(358.3)

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

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. 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.

21. **Financial instruments** (continued)

a) **Market risk** (continued)

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

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
	2021	2020
	£m	£m
Increase/(decrease) in profit before tax		
1% increase in inflation	**(21.9)**	(27.9)
1% decrease in inflation	**21.9**	26.0

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

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
	2021	2020
	£m	£m
Increase/(decrease) in profit before tax		
1% increase in RPI	**(220.2)**	(229.0)
1% decrease in RPI	**173.4**	178.8

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

Anglian Water continues to closely monitor the impact of Interest Rate Benchmark Reform in both the debt and derivative markets. This includes announcements made by LIBOR regulators, including the Financial Conduct Authority (FCA), regarding the transition away from GBP LIBOR to the Sterling Overnight Index Average Rate (SONIA). The FCA announced on 5 March the formal cessation of LIBOR would occur at the end of 2021, at which point representative LIBOR relates will no longer be available (with the exception of some USD LIBOR fixings).

LIBOR-linked instruments make up 6 per cent or circa £400 million of the group's long-term debt portfolio when factoring in the economic impact of derivative swaps. There are three debt issuances totalling £245 million held in the portfolio linked to three- or six-month sterling LIBOR, which are subject to economic hedging but are not designated in hedging relationships. In addition to debt instruments, the group retains a net £416 million floating position as a result of the swap portfolio. These swaps are designated in a number of fair value hedge relationships. In maintaining these fair value hedge relationships, the group has assumed, as permitted by the Interest Rate Benchmark Reform Phase 1 amendment to IFRS 9, that the LIBOR benchmarks used will continue to provide a valid hedge to fair

21. Financial instruments (continued)

a) Market risk (continued)

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

value movements due to floating rates of interest over the remaining life of the underlying transactions. In total, a notional amount of £962 million of swaps are included in fair value hedge relationships.

The group will continue to apply the Phase 1 amendments to IFRS 9 until the uncertainty arising from the interest rate benchmark reforms that the group is exposed ends. The group has assumed that this uncertainty will not end until the group's contracts that reference IBORs are amended to specify the date on which the interest rate benchmark will be replaced, the alternative benchmark rate and the relevant spread adjustment. At the point that the instruments are transitioned from LIBOR to the respective risk-free rate (e.g. to SONIA from GBP LIBOR) this assumption will cease to be applied.

Within the year the group has concluded its assessment and transition plan for IBOR reform on its financial instruments which is anticipated to have an overall immaterial impact to its financial statements. The group intends to actively transition its three floating rate debt notes in the first half the upcoming financial year. Similarly, the group's derivative swap portfolio containing IBOR referenced legs will also look to be actively transitioned via bilateral negotiation with counterparty banks within FY21/22. However, should this not be achievable, the group will look to utilise the International Swaps and Derivatives Association's (ISDA) fall-back clauses that were made available at the end of 2019.

Within the year the group entered into two interest rate swap derivatives, swapping a fixed coupon amount into a SONIA referenced floating amount. Both swaps existed in a fair value hedge relationship against firmly committed debt at year end.

iii) Commodity price risk

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

21. **Financial instruments** (continued)

a) **Market risk** (continued)

iii) Commodity price risk *(continued)*

				Group
	Within one year MW	**Between one and five years MW**	**Between five and 25 years MW**	**Mark to market £m**
At 31 March 2021				
Electricity swap	60.0	123.4	-	9.0
At 31 March 2020				
Electricity swap	-	171.8	71.7	(4.6)

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
	2021 £m	2020 £m
Increase/(decrease) in equity		
10% increase in original prices	**4.2**	3.9
10% decrease in original prices	**(4.2)**	(3.9)

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	**Gross amounts offset £m**	**Net amount presented the balance sheet £m**	**Offsetting not presented the balance sheet £m**	**Net amount £m**
At 31 March 2021					
Derivative financial assets	217.4	(20.0)	197.4	(113.8)	83.6
Derivative financial liabilities	(1,049.4)	20.0	(1,029.4)	113.8	(915.6)
At 31 March 2020					
Derivative financial assets	360.6	(26.0)	334.6	(140.4)	194.2
Derivative financial liabilities	(1,103.4)	26.0	(1,077.4)	140.4	(937.0)

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	
	2021	2020
	£m	£m
Cash and cash equivalents	**243.1**	842.6
Trade and other receivables	**509.6**	534.8
Investments - cash deposits	**88.5**	328.9
Derivative financial assets	**197.4**	334.6

	Company	
	2021	2020
	£m	£m
Cash and cash equivalents	**7.4**	6.1
Trade and other receivables	**-**	0.6
Investments - cash deposits	**5.0**	6.0

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.

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
	2021	2020
	£m	£m
Expires:		
Within one year	**400.0**	450.0
Between two and five years	**815.0**	250.0
	1,215.0	700.0

The group's borrowing facilities of £1,000.0 million (2020: £1,050.0 million) comprise Class A and Class B debt service reserve facilities totalling £279.0 million provided by Barclays Bank Plc, HSBC Bank Plc, Sumitomo Mitsui Banking Corporation, JP Morgan Chase N.A. and Lloyds TSB Bank Plc; a £121.0 million operating and capital maintenance expenditure reserve facility provided by Barclays Bank Plc, BNP Paribas Plc, Lloyds TSB Bank Plc, Bank of Nova Scotia and Commonwealth Bank Of Australia; a syndicated £550.0 million authorised loan facility for working capital and capital expenditure requirements provided by Barclays Bank Plc and syndicated to certain other banks; and a bilateral facility of £50.0 million with Bank of China Limited for general corporate purposes.

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 2021					
Trade and other payables	(233.1)	-	-	-	**(233.1)**
Borrowings	(1,395.9)	(3,040.6)	(6,112.0)	(2,584.3)	**(13,132.8)**
Derivative financial instruments (net settled)	(10.4)	(99.3)	(817.2)	(635.8)	**(1,562.7)**
Derivative financial instruments (gross settled outflow)	(382.2)	(279.8)	(287.8)	-	**(949.8)**
Derivative financial instruments (gross settled inflow)	449.8	320.3	256.9	-	**1,027.0**
Leases	(13.5)	(15.1)	(9.7)	(3.9)	**(42.2)**
	(1,585.2)	**(3,114.5)**	**(6,969.9)**	**(3,224.0)**	**(14,893.6)**
At 31 March 2020					
Trade and other payables	(208.2)	-	-	-	(208.2)
Borrowings	(1,826.6)	(2,898.7)	(6,008.0)	(2,666.7)	(13,400.0)
Derivative financial instruments (net settled)	(75.0)	(69.6)	(828.5)	(434.7)	(1,407.8)
Derivative financial instruments (gross settled outflow)	(25.2)	(652.6)	(222.6)	-	(900.4)
Derivative financial instruments (gross settled inflow)	42.7	846.3	235.6	-	1,124.6
Leases	(13.9)	(27.8)	(16.2)	-	(57.9)
	(2,106.2)	(2,802.4)	(6,839.7)	(3,101.4)	(14,849.7)

					Company
	Within one year £m	**Between one and five years £m**	**Between five and 25 years £m**	**After 25 years £m**	**Total £m**
At 31 March 2021					
Borrowings	(759.0)	(504.2)	-	(0.2)	**(1,263.4)**
	(759.0)	**(504.2)**	**-**	**(0.2)**	**(1,263.4)**
At 31 March 2020					
Borrowings	(746.9)	(274.6)	(249.6)	(0.3)	(1,271.4)
	(746.9)	(274.6)	(249.6)	(0.3)	(1,271.4)

22. Provisions

	Group			
	Onerous Leases £m	**Legal and other £m**	**Restructuring £m**	**Total £m**
At 1 April 2019	2.9	5.2	-	**8.1**
Additional provisions recognised	-	1.8	4.7	**6.5**
Unused amounts reversed	-	(1.2)	-	**(1.2)**
Unwinding of discount	0.1	-	-	**0.1**
Utilised in the year	(1.1)	(0.3)	-	**(1.4)**
At 31 March 2020	1.9	5.5	4.7	**12.1**
Additional provisions recognised	0.9	6.0	-	**6.9**
Unused amounts reversed	-	(0.4)	-	**(0.4)**
Unwinding of discount	(0.4)	-	-	**(0.4)**
Utilised in the year	(0.7)	(0.6)	(4.4)	**(5.7)**
At 31 March 2021	**1.7**	**10.5**	**0.3**	**12.5**

Maturity analysis of total provisions:

	Group	
	2021 £m	2020 £m
Current	**7.3**	6.2
Non-current	**5.2**	5.9
	12.5	12.1

The onerous lease provision is in respect of property leases 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.

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.

The restructuring provision of £0.3 million (2020: £4.7m) relates to costs associated with an organisational model review.

The company

The company has no provisions for liabilities (2020: none).

23. Deferred tax

						Group
	Accelerated tax depreciation	**Financial instruments**	**Retirement benefit obligation**	**Tax losses carried forward**	**Other**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
At 1 April 2019	1,102.0	(175.0)	(3.6)	-	(3.9)	**919.5**
Charged/(credited) directly to income statement	154.9	(21.4)	7.7	(17.7)	(3.0)	**120.5**
Charged directly to other comprehensive income	-	3.1	17.9	-	-	**21.0**
At 31 March 2020	1,256.9	(193.3)	22.0	(17.7)	(6.9)	**1,061.0**
Charged/(credited) directly to income statement	24.2	(1.3)	9.6	(4.6)	(1.0)	**26.9**
Charged directly to other comprehensive income	-	3.8	(32.2)	-	-	**(28.4)**
At 31 March 2021	**1,281.1**	**(190.8)**	**(0.6)**	**(22.3)**	**(7.9)**	**1,059.5**

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
	2021	2020
	£m	£m
Corporate interest restrictions	**16.9**	4.9
	16.9	4.9

New legislation was introduced from April 2017, restricting the amount of interest that a company 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 (2020: 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 2021. 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 2017 have been completed for the AWGPS (including the Hartlepool section) scheme, and as at 1 April 2017 for MPLAP, the results of which have been used as a basis for the IAS 19 'Employee Benefits' disclosures as at 31 March 2021.

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.

With effect from 1 April 2018, future service contributions for both the Main Section and Hartlepool Section of the AWGPS ceased as there was no future accrual of benefits. During the year, the group contributed £36.5 million (2020: £15.1 million) deficit reduction payments. There were no deficit reduction payments (2020: none) for the Hartlepool Section due to the funding position on the funding basis at the 31 March 2017 valuation.

24. Net retirement benefit deficit (continued)

Contributions to MPLAP, including an allowance for expenses, were £8.9 million (2020: £8.9 million) during the year.

In the year to 31 March 2022 employers' contributions are expected to be £13.3 million.

The weighted average duration of the defined benefit obligation for AWGPS (excluding Hartlepool) is 19 years, for the Hartlepool section of AWGPS is 18 years, for MPLAP is 22 years, and for the unfunded scheme is 12 years.

Following the High Court judgement on the Lloyds guaranteed minimum pension equalisation case, issued on 20 November 2020, the estimated impact for historical transfers is an increase in the liabilities of £0.4 million.

The group also operates a number of defined contribution schemes in the UK, and contributions to these schemes amounted to £17.8 million (2020: £18.0 million).

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
	2021	2020
	% pa	% pa
Discount rate	**2.1**	2.4
Inflation rate		
RPI	**3.2**	2.7
CPI	**2.7**	1.9
Increases to deferred benefits during deferment		
RPI	**3.2**	2.7
CPI	**2.7**	1.9
Increases to inflation related pensions in payment (1)		
RPI	**3.1**	2.6
CPI	**2.7**	1.9
	years	years
Longevity at age 65 for current pensioners		
Men	**22.5**	22.5
Women	**24.6**	24.5
Longevity at age 65 for future pensioners (2)		
Men	**23.8**	23.8
Women	**26.1**	25.9

(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 2041.

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
	Change in assumption	AWGPS £m	Hartlepool £m	MPLAP £m	Unfunded pensions £m	Total £m
At 31 March 2021						
Discount rate	+/- 0.5%	-139/+158	-2/+2	-26/+30	-3/+3	-168/+191
Rate of RPI inflation	+/- 0.5%	+138/-122	+1/-1	+14/-13	+3/-3	+155/-138
Life expectancy	+/- 1 year	+67/-62	+1/-1	+13/-11	+2/-2	+82/-75

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.

c) Risk and risk management

The group's defined benefit pension schemes, in common with the majority of such schemes in the UK, have a number of areas of risk. These areas of risk, and the ways in which the group manages them, are set out below.

The risks are considered below from both a funding perspective (which drives the cash commitments of the group) and from an accounting perspective, i.e. the extent to which such risks affect the amounts recorded in the group's financial statements.

Asset volatility

For the purpose of setting the contribution requirements, the calculation of the value of the liabilities uses a discount rate set with reference to government bond yields, with allowance for additional return to be generated from the investment portfolio. Under IAS 19, the defined benefit obligation is calculated using a discount rate set with reference to corporate bond yields.

The schemes hold a proportion of their assets in return-seeking funds. The return on these assets may be volatile and are not correlated to the value of the liabilities. This means that the deficit may be volatile in the shorter term, which may lead to an increase in the contribution requirements and an increase in the net defined benefit liability recorded on the balance sheet.

The group believes that return-seeking assets offer an appropriate level of return over the long-term for the level of risk that is taken. The schemes' other assets are well diversified by investing in a range of asset classes including government bonds and corporate bonds. The allocation to growth assets is monitored to ensure it remains appropriate given the schemes' long-term objectives.

24. Net retirement benefit deficit (continued)

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**
2021					
Amounts charged to staff costs within operating profit					
Administration expenses	-	-	(0.4)	-	**(0.4)**
Impact of restriction on surplus	-	-	(0.7)	-	**(0.7)**
Total operating charge	**-**	**-**	**(1.1)**	**-**	**(1.1)**
Amounts credited/(charged) to finance costs					
Interest income on scheme assets	36.2	0.5	5.5	-	**42.2**
Interest cost on scheme liabilities	(31.7)	(0.4)	(5.3)	(0.9)	**(38.3)**
Net interest income/(expense)	**4.5**	**0.1**	**0.2**	**(0.9)**	**3.9**
Amounts credited/(charged) to the income statement	**4.5**	**0.1**	**(0.9)**	**(0.9)**	**2.8**
Amounts (charged)/credited to other comprehensive income					
Return on plan assets (excluding amounts included in net interest)	66.7	(4.1)	13.2	-	**75.8**
Actuarial losses arising from:					
Changes in financial assumptions	(223.6)	(2.8)	(31.2)	(5.1)	**(262.7)**
Experience adjustments	(0.4)	-	-	-	**(0.4)**
Change arising from minimum funding requirement	-	-	17.9	-	**17.9**
Net charge to other comprehensive income	**(157.3)**	**(6.9)**	**(0.1)**	**(5.1)**	**(169.4)**

24. Net retirement benefit deficit (continued)

d) Amounts recognised in comprehensive income (continued)

	AWGPS	Hartlepool	MPLAP	Unfunded pensions	Total
	£m	£m	£m	£m	£m
2020					
Amounts credited/(charged) to staff costs within operating profit:					
Past service cost	-	-	2.4	-	2.4
Administration expenses	-	-	(0.6)	-	(0.6)
Impact of restriction on surplus	-	-	(0.5)	-	(0.5)
Total operating credit	-	-	1.3	-	1.3
Amounts credited/(charged) to finance costs:					
Interest income on scheme assets	37.7	0.7	5.8	-	44.2
Interest cost on scheme liabilities	(36.4)	(0.5)	(6.1)	(1.0)	(44.0)
Net interest income/(expense)	1.3	0.2	(0.3)	(1.0)	0.2
Amounts credited/(charged) to the income statement	1.3	0.2	1.0	(1.0)	1.5
Amounts credited/(charged) to other comprehensive income:					
Return on plan assets (excluding amounts included in net interest)	(7.0)	0.7	(4.3)	-	(10.6)
Actuarial gains arising from:					
Changes in financial assumptions	115.1	1.0	9.2	2.4	127.7
Experience adjustments	-	-	3.9	-	3.9
Change arising from minimum funding requirement	-	-	(12.6)	-	(12.6)
Net credit/(charge) to other comprehensive income	108.1	1.7	(3.8)	2.4	108.4

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
2021					
Equities	177.8	-	30.3	-	**208.1**
Corporate bonds	639.4	-	97.7	-	**737.1**
Government bonds	1,582.5	0.5	41.6	-	**1,624.6**
Property	68.4	-	-	-	**68.4**
Alternatives	92.1	-	19.2	-	**111.3**
Pooled LDI Investments (with def of LDI)	74.5	-	-	-	**74.5**
Derivatives	(8.0)	-	-	-	**(8.0)**
Repurchases	(1,169.3)	-	-	-	**(1,169.3)**
PIVs (LDI)	-	-	48.2	-	**48.2**
PIVs (Real Return Fund)	-	-	9.5	-	**9.5**
Insurance contract	-	18.5	-	-	**18.5**
Cash and cash equivalents	172.3	1.2	6.9	-	**180.4**
Total assets	1,629.7	20.2	253.4	-	**1,903.3**
Present value of scheme liabilities	(1,572.5)	(18.5)	(258.6)	(44.8)	**(1,894.4)**
Liability arising from minimum funding requirement	-	-	(11.5)	-	**(11.5)**
Net pension deficit	**57.2**	**1.7**	**(16.7)**	**(44.8)**	**(2.6)**
Comprising:					
Pension schemes with a net surplus, included in non-current assets	57.2	1.7	-	-	**58.9**
Pension schemes with a net deficit, included in non-current liabilities	-	-	(16.7)	(44.8)	**(61.5)**
	57.2	**1.7**	**(16.7)**	**(44.8)**	**(2.6)**

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**
2020					
Equities	111.8	-	65.0	-	176.8
Corporate bonds	598.6	-	36.5	-	635.1
Government bonds	1,901.7	24.5	42.5	-	1,968.7
Property	68.9	-	-	-	68.9
Alternatives	99.9	-	21.4	-	121.3
Pooled LDI Investments (with def of LDI)	97.4	-	-	-	97.4
Derivatives	(44.6)	-	-	-	(44.6)
Repurchases	(1,598.6)	-	-	-	(1,598.6)
PIVs (LDI)	-	-	45.2	-	45.2
PIVs (Real Return Fund)	-	-	22.7	-	22.7
Cash and cash equivalents	320.3	-	3.5	-	323.8
Total assets	1,555.4	24.5	236.8	-	1,816.7
Present value of scheme liabilities	(1,381.9)	(16.0)	(232.7)	(41.6)	(1,672.2)
Liability arising from minimum funding requirement	-	-	(28.7)	-	(28.7)
Net pension surplus	173.5	8.5	(24.6)	(41.6)	115.8
Comprising:					
Pension schemes with a net surplus, included in non-current assets	173.5	8.5	-	-	182.0
Pension schemes with a net deficit, included in non-current liabilities	-	-	(24.6)	(41.6)	(66.2)
	173.5	8.5	(24.6)	(41.6)	115.8

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. All scheme assets are quoted at their market values.

24. Net retirement benefit deficit (continued)

f) Reconciliation of fair value of scheme assets

					Group
	AWGPS	Hartlepool	MPLAP	Unfunded pensions	Total
	£m	£m	£m	£m	£m
At 1 April 2020	1,622.8	25.1	241.1	-	**1,889.0**
Interest income on scheme assets	37.7	0.7	5.8	-	**44.2**
Administration costs	-	-	(0.6)	-	**(0.6)**
Employers' contributions	15.1	-	8.9	2.8	**26.8**
Benefits paid	(113.2)	(2.0)	(14.1)	(2.8)	**(132.1)**
Return on plan assets (excluding interest income)	(7.0)	0.7	(4.3)	-	**(10.6)**
At 31 March 2020	1,555.4	24.5	236.8	-	**1,816.7**
Interest income on scheme assets	36.2	0.5	5.5	-	**42.2**
Administration costs	-	-	(0.4)	-	**(0.4)**
Employers' contributions	36.5	-	8.9	2.8	**48.2**
Benefits paid	(65.1)	(0.7)	(10.6)	(2.8)	**(79.2)**
Return on plan assets (excluding interest income)	66.7	(4.1)	13.2	-	**75.8**
At 31 March 2021	**1,629.7**	**20.2**	**253.4**	**-**	**1,903.3**

g) Reconciliation of scheme liabilities

					Group
	AWGPS	Hartlepool	MPLAP	Unfunded pensions	Total
	£m	£m	£m	£m	£m
At 1 April 2020	(1,573.8)	(18.5)	(256.2)	(45.8)	**(1,894.3)**
Past service cost	-	-	2.4	-	**2.4**
Interest cost on scheme liabilities	(36.4)	(0.5)	(6.1)	(1.0)	**(44.0)**
Benefits paid	113.2	2.0	14.1	2.8	**132.1**
Actuarial gains	115.1	1.0	13.1	2.4	**131.6**
At 31 March 2020	(1,381.9)	(16.0)	(232.7)	(41.6)	**(1,672.2)**
Interest cost on scheme liabilities	(31.7)	(0.4)	(5.3)	(0.9)	**(38.3)**
Benefits paid	65.1	0.7	10.6	2.8	**79.2**
Actuarial losses	(224.0)	(2.8)	(31.2)	(5.1)	**(263.1)**
At 31 March 2021	**(1,572.5)**	**(18.5)**	**(258.6)**	**(44.8)**	**(1,894.4)**

25. Share capital

	Group and Company	
	2021	2020
	£m	£m
Allotted, issued and fully paid		
87,615,751,649 ordinary shares of 1 pence each	**876.2**	876.2
	876.2	876.2

There were no movements in the number of shares allotted, issued and fully paid in either the current or preceding year.

26. Hedging reserve

	2021	2020
	£m	£m
At 1 April	**(52.3)**	(75.9)
Gains/(losses) on cash flow energy hedges	**11.3**	(1.7)
Amounts transferred to the income statement	**(2.3)**	(4.1)
(Losses)/gains on cash flow hedges	**(66.6)**	53.8
Amounts transferred to the income statement from discontinuation of cash flow hedges	**12.5**	8.0
Exchange movement on hedging instruments related to debt in cash flow hedges	**63.5**	(29.2)
Deferred tax movement on cash flow hedges	**(3.5)**	(3.2)
At 31 March	**(37.4)**	(52.3)

Cost of hedging reserve

	2021	2020
	£m	£m
At 1 April	**1.1**	2.0
Amounts transferred to the income statement	**(0.5)**	(0.4)
Gains/(losses) on cash flow hedges	**2.1**	(0.6)
Deferred tax movement on cash flow hedges	**(0.3)**	0.1
At 31 March	**2.4**	1.1

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 (2020: none).

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

26. **Hedging reserve** (continued)

	Annual movements		Cumulative reserves			Group
	Hedged gain/(loss) £m	Hedge ineffectiveness gain/(loss) £m	Total reserves continuing £m	Total hedge reserves discontinued £m	Deferred on hedge reserves £m	Total reserves £m
At 31 March 2021						
Cash flow hedge of interest rate risk	**(58.7)**	**1.4**	**19.4**	**(63.0)**	**8.6**	**(35.0)**
At 31 March 2020						
Cash flow hedge of interest rate risk	46.6	0.5	8.8	(72.5)	12.5	(51.2)

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	
	2021 **£m**	2020 £m
Property, plant and equipment	**69.8**	48.5
Intangible assets	**46.0**	22.5
	115.8	71.0

There were no capital commitments relating to the group’s share of joint ventures.

The company

The company has no such commitments (2020: 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	
	2021	2020
	£m	£m
Additions to right-of-use assets	**0.4**	7.5
Depreciation charge for right-of-use assets	**(6.2)**	(6.5)
Carrying amount of right-of-use assets	**72.3**	72.8
Interest expense on lease liabilities	**(1.0)**	(0.9)
Expense relating to short-term leases	**2.8**	2.2
Total cash outflow for leases comprising interest and capital payments	**(14.1)**	(14.3)
Reconciliation of lease liability		
Contractual undiscounted cash flows	**42.2**	57.9
Effect of discounting	**(6.5)**	(9.3)
Lease liability	**35.7**	48.6

The group leases certain items of plant and equipment, as well as vehicles, under short-term leases. At 31 March 2021, the group had £0.1 million (2020: £0.3 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 2021, rental income of £1.5 million (2020: £1.2 million) was included within revenue.

29. Contingencies

The group has entered into a number of performance bonds and guarantee arrangements in the normal course of business. Provision is made for any amounts that the Directors consider may become payable under such arrangements.

The group has received indications of claims from four groups of property search companies who, pursuant to the Environmental Information Regulations, assert that certain information that Anglian Water Services Limited provided to them should have been provided free of charge. In April 2020, circa 100 property search companies (an amalgamation of two of the four groups) served proceedings on all of the Water and Sewerage Undertakers in England and Wales, including Anglian Water Services Limited. Anglian Water Services, in common with its co-defendants, has filed a robust defence and the group has been advised that the claimants face a number of significant hurdles in order to establish liability on the part of Anglian Water (and other defendants). Given the uncertainties noted, we are not able to reliably estimate any potential liability, however the Directors consider that it would not be material to the financial standing of the group.

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

30. Ultimate parent undertaking and controlling party

Osprey Acquisitions Limited is a limited liability company incorporated and domiciled in England and Wales.

At the balance sheet date, the company's immediate parent undertaking was Osprey Holdco Limited, a company registered in England and Wales. Following a reorganisation in May 2021, the company's immediate parent undertaking is now Osprey Investco Limited, a company registered in England and Wales.

The Directors consider Anglian Water Group Limited, a company registered in Jersey, to be the ultimate parent undertaking. Anglian Water Group Limited is itself owned and ultimately controlled by a consortium of investors consisting of the CPPIB (Hong Kong) Limited, First Sentier Investors, Infinity Investments S.A., Global InfraCo (HK) E. Limited and Camulodunum Investments Ltd.

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

31. Related party transactions

a) Transactions with shareholders

Dividends of £55.9 million were paid during the year (2020: £nil), which equates to 0.0638 pence per share (2020: nil) in issue when the dividend was paid. No dividends were paid to the shareholders of Anglian Water Group Limited, the ultimate parent company, in the year (2020: £nil).

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.

In August 2019, the Commonwealth Bank of Australia ceased to be the parent company of First Sentier, one of the consortium of investors owning Anglian Water Group Limited, as the business was acquired by Mitsubishi UFJ Financial Group, Inc. Prior to the transfer of the business, the Commonwealth Bank of Australia agreed to the extension of its participation in the £550 million revolving credit facility with an allocation of £45 million, and continued to participate in the Operation and Maintenance facility with an allocation of £25 million, The fees earned on these facilities totalled £98,750.

During the year to 31 March 2021 there were no other transactions with the shareholders of the ultimate parent undertaking.

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 £0.5 million (2020: £nil) was invested by key management, a return of £0.1 million (2020: £(0.7) million) was earned, and the group repaid £5.2 million (2020: £nil) as part of this scheme. At 31 March 2021, £0.5 million (2020: £5.1 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 (2020: £1.8 million).

Remuneration of key management personnel

	Group	
	2021	2020
	£m	£m
Short-term employee benefits	**6.6**	5.4
Post-employment benefits	**0.4**	0.5
Other long-term benefits	**1.2**	1.0
	8.2	6.9

31. Related party transactions (continued)

c) Transactions with joint ventures

During the year the group did not trade with its joint ventures (2020: £nil). At 31 March 2021, there were no balances due from joint ventures (2020: £nil).

d) Parent company

The company's related party transactions are summarised below:

	Group	
	2021	2020
	£m	£m
Management fees paid to		
Fellow subsidiaries of Anglian Water Group Limited	**(0.1)**	(0.1)
Interest paid to		
Subsidiaries	**(22.6)**	(22.0)
Dividends received from		
Subsidiaries	**69.3**	62.2
Dividends paid to		
Parent company	**(55.9)**	-

	Group	
	2021	2020
	£m	£m
Loans and other borrowings due to		
Parent company	**(728.9)**	(728.9)
Subsidiaries	**(461.1)**	(450.4)

32. Events after the balance sheet date

On 29 April 2021, the company's subsidiary, AWG Parent Co Limited, issued one £1 share to its immediate parent undertaking in return for £110.0 million of cash. As a result, the investment in subsidiaries in Osprey Acquisitions Limited increased by £110.0 million.

On 9 June 2021, the £728.9 million loan was waived by Osprey Holdco Limited.

Other than those disclosed above and in note 30, there have been no other 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.

33. Group undertakings

The group's subsidiary undertakings at 31 March 2021 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 Osprey Acquisitions Limited		
Anglian Water (Osprey) Financing Plc	a	
AWG Parent Co Limited	a	
All subsidiary undertakings		
Alexander Morrison Limited	b	
Ambury Developments Limited	a	
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 Services Financing Plc	a	
Anglian Water Services Holdings Limited	a	
Anglian Water Services Limited	a	
Anglian Water Services UK Parent Co Limited	a	
AW Creative Technologies Limited	a	
AWG (UK) Holdings Limited	a	
AWG Business Centres Limited	a	
AWG Central Services Limited	a	
AWG Corporate Services Limited	a	
AWG Group Limited	a	
AWG Holdings Limited	e	
AWG Land Holdings Limited	a	
AWG Outlet Centers Limited	b	
AWG Parent Co Limited	a	
AWG Property Developments (Ireland) Limited	f	
AWG Property Director Limited	a	
AWG Property Limited	b	
AWG Property Solutions Limited	a	
AWG Residential Limited	b	
AWG Shelf 11 Limited	b	
Cambuslang Retail Portfolio Limited	b	
Chester (1995) Limited	a	97%
CS Amenities Limited	a	

33. Group undertakings (continued)

	Registered office	Percentage holding
All subsidiary undertakings (continued)		
DMWS 819 Limited	b	
DMWS 822 Limited	b	
DMWS 823 Limited	b	
DMWS 824 LLP (1)	b	
Eastland Developments Limited	a	
Edmund Homes Limited	a	
Farm Gas 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 Leneghan Irl Limited	g	60%
Morrison Properties Limited	b	
Morrison Property Investments Limited	b	
Morrison Shand Construction Limited	a	
NVB Rathdowney Limited	h	
Osprey Acquisitions Limited	a	
Rutland Insurance Limited	i	
Shand Construction Limited	a	
Valuetype Limited	a	
Wave Environmental Limited	a	
Wave Holdings Limited	b	
Wave Utilities Limited	b	
Wave Water Limited	a	

33. Group undertakings (continued)

	Registered office	Percentage holding
Joint ventures		
124 St Vincent Street (Glasgow) LLP [(1)] [(2)]	i	50%
AWG Outlets (Rathdowney) Limited	e	50%
Castlemilk Retail LLP [(1)] [(2)]	i	50%
City Road Properties (Chester) Limited	a	50%
Crowwood Grange Estates Limited	b	50%
Excel Centre Aberdeen Limited [(2)]	i	50%
Hollowstone Limited	a	50%
Kings Waterfront Properties Limited	a	50%
Leith Walk Properties Limited [(2)]	i	50%
Morrison Gwent Limited	a	50%
Morrison Residential Properties Limited	b	50%
Ocean Point Developments Limited [(2)]	i	50%
Palacecraig Street Coatbridge Limited [(2)]	i	50%
Rathdowney Shopping Centre Management Company Limited	e	50%
Spreevale Limited [(3)]	j	50%

[(1)] The principal place of business of these companies is the same as the registered office address.

[(2)] In administration.

[(3)] In liquidation.

Registered offices

a) Lancaster House, Lancaster Way, Ermine Business Park, Huntingdon, Cambridgeshire, PE29 6XU, United Kingdom.

b) C/o Brodies LLP, 15 Atholl Crescent, Edinburgh, EH3 8HA, United Kingdom.

c) Suite 8, Northwood House, Northwood Business Campus, Santry, Dublin 9, Ireland.

d) Queensway House, Hilgrove Street, St Helier, JE1 1ES, Jersey, Channel Islands.

e) 1 Stokes Place, St Stephens Green, Dublin 2, Ireland.

f) 6th Floor, Southbank House, Barrow Street, Dublin 4, Ireland.

g) Rathdowney Shopping Outlet, Johnston Road, Rathdowney, Co Laois, Ireland.

h) PO Box 33, Dorey Court, Admiral Park, St Peter Port, GY1 4AT, Guernsey, Channel Islands.

i) Moorfields, 101 Rose Street, South Lane, Edinburgh, EH2 3JG, United Kingdom.

j) 15 Clanwilliam Terrace, Dublin 2, Ireland.

For all companies, the registered office is located in the country of incorporation.

Independent auditor's report to the members of Osprey Acquisitions Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Osprey Acquisitions 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 2021 and of the group's profit for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated and parent company cash flow statements; and
- the related notes 1 to 33.

The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs as adopted by the European Union and as issued by the IASB.

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 assumptions used in establishing management's base case, including comparison of the assumptions used in respect of the impact of Covid-19 to independent data sources;
- Evaluating liquidity, including in the scenario where future financing is restricted;
- Evaluating the external financing to establish the covenant requirements attached to this financing;
- Assessing the amount of headroom in the forecasts (cash and covenants);
- Evaluating the sensitivity analysis; and
- Assessing the sophistication of the model used to prepare the forecasts, testing of clerical accuracy of those forecasts and our assessment of the historical accuracy of forecasts 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, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent auditor's report to the members of Osprey Acquisitions Limited (continued)

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 and the Audit Committee about their own identification and assessment of the risks of irregularities.

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 UK Companies Act, 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 instruments 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 have obtained an understanding of, and tested, relevant controls within the bad debt provision estimation process; assessed the accuracy of information within the aged debt report; assessed that the provision has been calculated in line with the policy of the group and with IFRS 9 *'Financial Instruments';* assessed the accuracy and completeness of the cash collection trends used in the provision rate calculation; assessed the assumptions underpinning the market data used by management in assessing the impact of Covid-19; and engaged our IT analytics team to perform a recalculation on the debtor ageing;
- in addressing the risk of fraud in revenue recognition in respect of estimating metered household revenue, we have obtained an understanding of, and tested, relevant controls within the billed and unbilled household revenue process; assessed management's assumptions for household consumption and the data sources used in estimating household unbilled revenue, including updates for impact of Covid; assessed the "look-back" testing of the prior year accrued revenue by comparing bills raised during 2020/21 relating to the 2019/20 accrual, including any adjustments included in the 2020/21 accrual; and assessed the accuracy of the reports utilised by management in determining the appropriate accrual, with the involvement of IT specialists;
- in addressing the risk of fraud in the classification of costs between capital and operating, we tested a sample of capital projects by verifying the costs incurred to third-party documentation and assessing the appropriateness of the classification in accordance with the capitalisation policy.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. 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 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.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements

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

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; 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 Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

James Leigh (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
16 June 2021