

# **Osprey Holdco Limited**

## **Annual report and consolidated financial statements**

for the year ended 31 March 2022

Company number: 05915869

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Osprey Holdco Limited  
**Directors' report**  
for the year ended 31 March 2022

The Directors present their report and the audited consolidated financial statements of Osprey Holdco Limited (the 'company') for the year ended 31 March 2022.

**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 5 to 46.

**Group results and returns to shareholders**

The income statement on page 47 shows the Group's results for the year. Dividends of £nil (2021: £nil) were paid during the year. In addition, an interim dividend of £91.8 million was approved by the Board on 15 June 2022 and was paid on 29 June 2022. This dividend has not been included as a liability at 31 March 2022. During the year a capital reduction exercise took place, reducing the value of each individual share from £1 to £0.55.

**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	
Steve Buck	
Peter Simpson	
Projesh Banerjee	resigned 22 March 2022
John Barry	
James Bryce	
Deepu Chintamaneni	resigned 31 January 2022
Mamoun Jamaï	resigned 22 March 2022
Irina Luckey	appointed 27 May 2021
Henrik Onarheim	appointed 23 March 2022
Luis Pisco	appointed 23 March 2022
Niall Mills	
Alexandros Nassuphis	
Batiste Ogier	
David Stirton	appointed 1 February 2022
Duncan Symonds	

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

**Directors' indemnities**

During the 2021/22 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

## Directors' report (continued)

for the year ended 31 March 2022

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 Anglian Water Group Limited.

At 31 March 2022 the following investor groups held unsecured loan notes of £0.01 each in the company:

	Number of loan notes held
CPPIB (Hong Kong) Limited *	15,229,224,556
First Sentier Investors	7,187,825,807
Blue Atlas ZA 2014 Limited Partnership **	7,715,399,999
Global InfraCo (HK) D. Limited ***	9,137,534,734
Camulodunum Investments Ltd	6,930,014,904
	<hr/> 46,200,000,000

\* an indirect subsidiary of Canada Pension Plan Investment Board

\*\* an affiliate of Infinity Investments S.A.

\*\* an indirect subsidiary of IFM Investors

### Political donations and expenditure

No political donations or expenditure were made during the year (2021: £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 22-23 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 who joins us with a disability, health condition or family responsibilities that affect when and how they work. We advertise on disability job boards and are a Disability Confident employer.

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

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

### **Stakeholder engagement**

Details of how Directors across the Group have engaged with customers, suppliers, and other stakeholders including those representing communities and the environment, can be found in the section 172 statement on pages 26-31.

### **Emissions**

Information relating to carbon emissions can be found on pages 41-43.

### **Health and safety**

Information relating to health and safety can be found on pages 44-46.

### **Events occurring after the reporting period**

Details of events occurring after the reporting period are included in note 33 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 section 474(1) of the Companies Act 2006) under international accounting standards which are adopted for use within the United Kingdom by virtue of Chapter 2 or 3 of Part 2 of the International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019. The financial statements have also been prepared in accordance with International Financial Reporting Standards as issued by the IASB. 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:

- select suitable accounting policies and then apply them consistently;
- 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
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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. 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.

## Directors' report (continued)

for the year ended 31 March 2022

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 1 confirm that, to the best of their knowledge:

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

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

### Statement of Directors' disclosure of information to Auditor

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

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

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 2022 financial statements. Further details of this review can be found in note 1.

By order of the Board

**Claire Russell**

Company Secretary

13 July 2022



Registered Office: Lancaster House, Lancaster Way, Ermine Business Park,  
Huntingdon, Cambridgeshire PE29 6XU  
Registered in England and Wales No. 05915869

## Strategic report

for the year ended 31 March 2022

The Directors present the strategic report of the Osprey Holdco Limited Group ("the Group") for the year ended 31 March 2022. This strategic report should be read in conjunction with the strategic report of Anglian Water Services Limited, which does not form part of this report, which can be found at <https://www.anglianwater.co.uk/about-us/our-reports/> and provides a more detailed insight into the regulated business.

### Group overview

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

The Group also includes Anglian Venture Holdings, which comprises:

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

### Chief Executive Peter Simpson commented:

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

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

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

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

"Amid the successes, it's been a year of very real challenges. Some of these were universal, including supply chain issues and the ongoing pandemic, but the most notable for us were the knock-on impacts of prolonged

## Strategic report (continued)

for the year ended 31 March 2022

flooding in the East of England over the first three months of 2021. Prioritising our customers' vital services and redeploying resources during that period held back some elements of operational performance in the year that followed. We've taken decisive steps to correct our course, which are already delivering positive results.

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

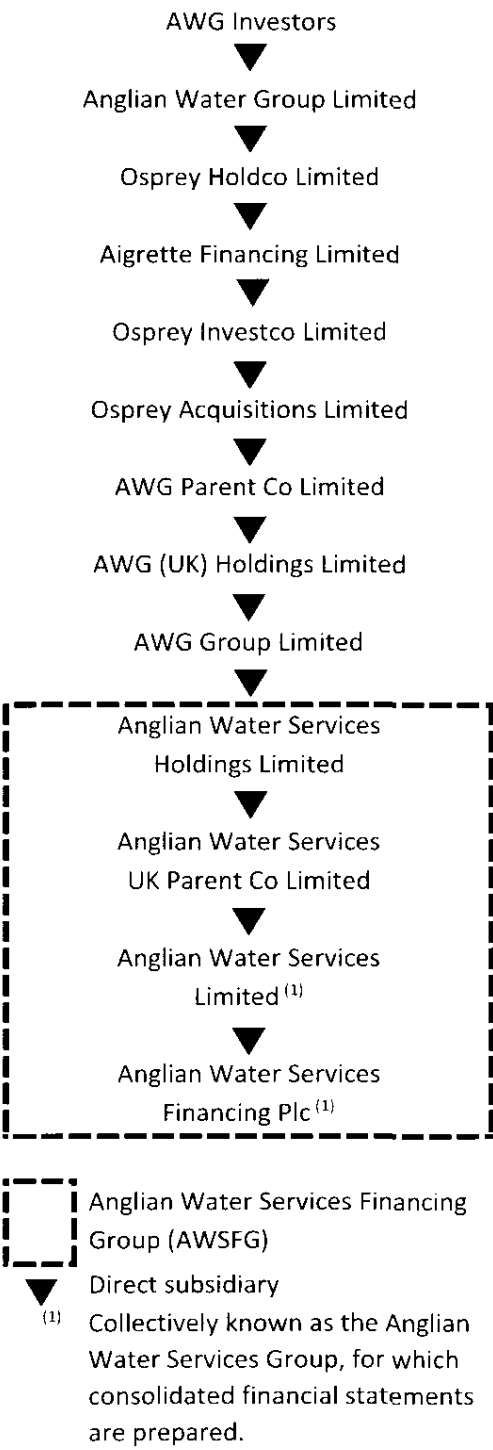
"As we head into the third year of AMP7 (2020-2025) I remain confident that our long-term trajectory is a positive one."

### Overall highlights

- **Largest ever single year programme of capital investment completed on schedule:** £577.7 million invested in the East of England in 2021/22 (31 March 2021: £447.0 million), including £109 million in abstraction reduction to protect chalk streams and rivers; £68.1 million for climate resilience schemes and £63.1 million to address population growth
- **Accelerated £800 million environmental programme delivery well ahead of schedule:** cumulative total of 1,184 schemes delivered since 2020, including investment in storm tanks, event duration monitors and bathing water quality
- **£32 million of tailored support in 2021/22 to customers facing affordability challenges:** 324,750 people supported this year and unprecedented £65 million package of support set aside for customers in 2022/23 as cost of living crisis bites. Our total AMP package extends to £232 million as we seek to fulfil our aim of no customers being in water poverty
- **Net zero carbon programme ahead of schedule:** industry-leading 2030 net zero routemap published as company leads the water sector at COP26
- **Challenging year for performance against regulatory commitments resulting in net ODI penalty:** Majority on track or ahead of target, including environmental programme delivery, leakage and mains repairs, but targets not met for some key measures including pollutions, flooding and mains bursts
- **UK's largest ever programme of new wetlands announced:** More than 25 new natural treatment wetlands modelled on award-winning Ingoldisthorpe blueprint will curb the impact of phosphates and nitrates and further improve biodiversity across the region
- **Flow to full treatment:** Ofwat and the Environment Agency launched industry-wide investigations in 2021 into compliance with conditions of environmental permits. While the final outcome of these investigations isn't yet known, we've provided comprehensive information to both regulators and continue to engage positively with them.
- **Completion of a Group capital restructure which saw a three-tier structure implemented:**
  - New Holdco debt structure with £560 million of debt raised
  - New investment grade Midco debt structure with additional £602 million of debt raised, including a £300 million sustainability linked bond
  - Anglian Water gearing reduced to 65 per cent at 31 March 2022 (31 March 2021: 82 per cent) following a £1,165 million equity injection.

Ownership and company structure

Anglian Water Services 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 an independent Non-Executive Chairman.



Our corporate structure

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

The aim of the Group’s financing strategy for AMP7 is to reduce AWS gearing in order to enhance and protect its current solid investment grade credit ratings. This approach has been designed to enable AWS to borrow at lower rates in order to support the investments that customers have asked us to make. During the 2021/22 financial year, three new UK companies (Aigrette Financing Limited, Osprey Investco Limited and Aigrette Financing (Issuer) Plc) were inserted into the company structure to help deliver the AMP7 financing strategy. The insertion of these companies 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.

During the year, Aigrette Financing Limited, and its newly incorporated, and its newly incorporated UK subsidiary, Aigrette Financing (Issuer) Plc, borrowed funds externally and flowed 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 were used to increase the equity investment in AWS and for other purposes.

AWG Parent Co Limited, AWG (UK) Holdings Limited and AWG Group Limited are holding companies that were set up when AWG



## Strategic report (continued)

for the year ended 31 March 2022

was a listed group. They are all 100 per cent owned, and currently none of these companies has any external debt. They are all registered in the UK and UK tax resident.

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'.

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

Anglian Water Services Financing Plc is the financing company that raises money on behalf of Anglian Water Services Limited. We need a Plc 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 19 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.
- Igneo Infrastructure Partners is an unlisted infrastructure asset management business and is part of the First Sentier Investors Group (FSIG), a global asset management business. FSIG has US\$174 billion assets under management (as at 31 March 2022) 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.

## Strategic report (continued)

for the year ended 31 March 2022

Beneficial ownership by investor type:

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

### **Our business model**

#### ***What we do***

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

#### ***What drives us***

##### *Our purpose*

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

##### *Our 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

##### *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

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.

## Financial performance

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

## Financial highlights

	March 2022	March 2021 (restated <sup>1</sup> )	Change	Change
	£m	£m	£m	%
Revenue	1,452.8	1,390.4	62.4	4.5
EBITDA <sup>2</sup>	787.8	709.6	78.2	11.0
Operating profit	436.7	367.6	69.1	18.8
Adjusted (loss)/profit before tax <sup>3</sup>	(93.4)	75.2	(168.6)	(224.2)
Fair value on derivatives	(115.1)	(23.2)	(91.9)	(396.1)
Tax	(289.1)	(26.8)	(262.3)	(978.7)
Statutory (loss)/profit after tax	(497.6)	25.2	(522.8)	(2,074.6)
Operating cash flow <sup>4</sup>	743.4	614.2	129.2	21.0
Net debt before derivatives <sup>5</sup>	(8,307.3)	(8,192.4)	(114.9)	(1.4)

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

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

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

3 Adjusted (loss)/profit before tax is an alternative performance measure as defined in note 32, shown before loss on derivatives of £115.1m (2021: £23.2m).

4 As set out in the cash flow statement on page 54.

5 Net debt excluding derivatives is an alternative performance measure as defined in note 32.

**Revenue up £62.4 million (4.5 per cent)** as a result of higher developer activity following last year's lockdowns, income which has been ring-fenced to fund our LITE tariff, which has supported customers through Covid-19 and is being retained to provide additional support through the cost of living crisis and strong performance in non-regulated part of the Group.

**EBITDA up £78.2 million (11.0 per cent)** Earnings before net finance costs, taxes, depreciation and amortisation (EBITDA) is defined in note 32. Revenue movements in combination with strong cash collection and the release of some of the Covid-19 provision, both reducing our bad debt charge, have been offset in part by the impact of inflation on our costs and tankering due to winter 2020 wet weather and our work to drive leakage reduction performance. In addition we changed the way in which we deliver boundary box and external meter chamber replacement. As a result of the change in delivery, the costs are now being treated as capital expenditure rather than operational.

**Operating profit up £69.1 million (18.8 per cent)** as a result of strong EBITDA, offset in part by higher depreciation as our asset base grows as we invest in our assets for the long term.

**Adjusted loss before tax of £93.4 million** down from profit of £75.2 million (224.2 per cent), primarily driven through higher interest costs on inflation-linked debt due to higher inflation year on year.

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

**Tax charge for the period has increased by £262.3 million** due to the increase in deferred tax provisions ahead of the corporation tax rate rise from 19 per cent to 25 per cent which will take effect from April 2023.

**Statutory loss after tax of £497.6 million down from a profit of £25.2 million**, primarily due to the tax charge in the period and higher interest due to higher inflation.

**Operating cash flow up £129.2 million (21.0 per cent)** a result of higher operating profit, positive working capital movements and strong customer cash collection.

**Net debt excluding derivatives up £114.9 million (1.4 per cent)** as we continue to invest in the region through our largest ever capital programme.

#### *Treasury management*

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

The activities of the central treasury function include the following:

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

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

#### *Liquidity*

As at March 2022 Anglian Water Services Financing Group (AWSFG) has access to £600.0 million of undrawn facilities (March 2021: £575 million), to finance working capital and capital expenditure requirements. In addition, it has access to a further £375.0 million of liquidity facilities (March 2021: £400.0 million), consisting of £254.0 million to finance debt service costs and £121.0 million to finance operating expenditure and maintenance capital expenditure in the event that the company was in an Event of Default on its debt obligations and had insufficient alternative sources of liquidity.

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

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

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

#### *Capital structure*

The Group's capital structure is largely driven by the requirements of Anglian Water's capital expenditure programme and the need to support Anglian Water's investment grade credit status, which is met by a combination of cash flow and debt issuance at the three levels of the Group structure with covenant tests at the Anglian Water, Osprey Acquisitions Limited, and Aigrette Financing Limited levels. At 31 March 2022 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 65 per cent (2021: 82 per cent) and 76 per cent (2021: 87 per cent) respectively. At 31 March 2022 Aigrette Financing Limited's net debt to capital value ratio was 83% (2021: 87 per cent). Aigrette Financing Limited's net debt is similarly defined to those of Anglian Water and Osprey Acquisitions, but Aigrette Financing Limited is not subject to a Common Terms Agreement.

#### *Borrowing covenants*

The financing within Anglian Water is secured under a Common Terms Agreement with investors. All other group borrowings are raised or guaranteed by the company, Anglian Water (Osprey) Financing Plc, AWG Parent Co Limited, AWG Group Limited, Aigrette Financing Limited and, in certain instances, subsidiary companies. The central Treasury function is responsible for monitoring ongoing compliance with the Group's financial covenants, which principally relate to Anglian Water's, Osprey Acquisition's, and Aigrette Financing Limited's ratio of net debt to Regulatory Capital Value and interest coverage. At 31 March 2022, 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.

#### *Segmental reporting*

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

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

Osprey Holdco Limited  
**Strategic report (continued)**  
for the year ended 31 March 2022

March 2022

	Anglian Water £m	Anglian Venture Holdings £m	Head Office and Other £m	Inter- segment eliminations £m	Total £m
<b>Revenue</b>					
External	1,399.8	53.0	-	-	<b>1,452.8</b>
Inter-segment	-	7.9	24.6	(32.5)	-
	<b>1,399.8</b>	<b>60.9</b>	<b>24.6</b>	<b>(32.5)</b>	<b>1,452.8</b>
<b>Segment result</b>					
EBITDA	788.5	10.3	(11.0)	-	<b>787.8</b>
Depreciation and amortisation	(347.7)	(2.9)	(0.5)	-	<b>(351.1)</b>
Share of joint venture's operating loss	-	(0.4)	-	-	<b>(0.4)</b>
Inter-segment	-	-	9.5	(9.5)	-
	<b>440.8</b>	<b>7.0</b>	<b>(2.0)</b>	<b>(9.5)</b>	<b>436.3</b>
<b>Cash flows</b>					
Operating cash flow	749.9	14.7	(21.2)	-	<b>743.4</b>
Capital expenditure	(518.2)	(0.6)	-	-	<b>(518.8)</b>
Net debt excluding derivative financial instruments	(5,621.3)	3.8	(2,689.8)	-	<b>(8,307.3)</b>

March 2021

	Anglian Water (restated) £m	Anglian Venture Holdings £m	Head Office and Other £m	Inter- segment eliminations £m	Total £m
<b>Revenue</b>					
External	1,351.6	36.2	2.6	-	1,390.4
Inter-segment	0.2	6.8	-	(7.0)	-
	<b>1,351.8</b>	<b>43.1</b>	<b>2.6</b>	<b>(7.0)</b>	<b>1,390.4</b>
<b>Segment result</b>					
EBITDA	727.3	4.5	(22.2)	-	709.6
Depreciation and amortisation	(338.4)	(2.8)	(0.8)	-	(342.0)
Share of joint venture's operating loss	-	(6.3)	-	-	(6.3)
	<b>388.9</b>	<b>(4.6)</b>	<b>(23.0)</b>	<b>-</b>	<b>361.3</b>
<b>Cash flows</b>					
Operating cash flow	632.8	8.3	(26.9)	-	614.3
Capital expenditure	(395.8)	0.2	(1.7)	-	(397.3)
Net debt excluding derivative financial instruments	(6,649.8)	(11.9)	(1,530.7)	-	(8,192.4)

## ANGLIAN WATER FINANCIAL RESULTS

Pages 15 to 23 below set out the financial performance of Anglian Water, the principal business in the Group, followed by that of Anglian Venture Holdings (AVH) and Head Office and Other on pages 24 and 25 respectively.

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

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

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

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



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for the year ended 31 March 2022

### Revenue

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

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

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

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

### Other operating income

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

### Operating costs (including charge for bad and doubtful debts)

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

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

Prior year Software as a Service (SaaS) restatement

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

Inflation

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

#### Capitalisation of replacement infrastructure assets

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

#### Additional tankering

The impacts of climate change are fundamental to our business and our climate-related financial disclosures can be found on pages 41-43. The past two years have seen a number of exceptional weather events. The extremely wet weather at the start of 2021 resulted in increased costs of tankering in the current year as we had to move extra sludge volumes around the region.

#### Bad debt provision

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

#### Leakage performance strategy

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

#### Ongoing efficiency challenge

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

#### Energy

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

#### **EBITDA**

Earnings before interest, taxes, depreciation and amortisation (EBITDA) is defined in note 32 and is the profit from continuing operations before interest, tax, depreciation and amortisation. This has increased by 8.4 per cent to £788.5 million, which is consistent with the effect of the increase in grants and contributions income and reduction in bad debt costs described above.

### **Depreciation and amortisation**

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

### **Operating profit**

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

### **Financing costs and profit before tax**

Adjusted net finance costs (excluding fair value gains and losses on financial instruments), as defined in note 32, increased from £250.2 million in 2021 to £458.3 million in 2022. This was primarily the result of the non-cash impact of higher inflation on index-linked debt which increased by £206.4 million to £255.0 million. This increase was due to an increase in year-on-year average Retail Price Index (RPI) from 1.2 per cent to 5.8 per cent and year-on-year average Consumer Price Index (CPI) from 0.6 per cent to 4.0 per cent. We have both RPI-linked debt and CPI-linked debt to hedge the Regulated Capital Value (RCV).

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

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

Adjusted loss before tax (excluding fair value gains and losses on financial instruments), for the year was £17.5 million, compared with a £138.7 million profit in the prior year. This increase primarily reflects the impact of higher inflation on interest costs as mentioned.

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**Taxation**

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

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

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

*Current and deferred tax*

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

The current tax credit for both years reflects receipts from other group companies for losses surrendered to those group companies. The tax losses arise mainly because capital allowances exceed the depreciation charged in the accounts, as well as some income not being taxable and the availability of tax relief on pension contributions paid in the year. In this year there is also a one-off current tax credit due a transitional adjustment on the treatment of software as a service (Saas).

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

In advance of the corporation tax rate rise, the Government has introduced capital allowance 'superdeductions' which allow companies to accelerate their tax relief on capital expenditure. This has

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increased the amount of losses available to surrender to other group companies and therefore increased the current tax credit. It has also created tax losses to carry forward in the company which give rise to a deferred tax credit of £18.8 million (2021: £nil) to offset the deferred tax charge due to the rate rise.

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

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

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

### Continuing to deliver our AMP7 capital investment programme

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

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

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

### Financial needs and resources

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

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

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

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

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

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

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

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

#### **Liquidity**

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

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

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

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### Interest rates

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

### Pension funding

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



## ANGLIAN VENTURE HOLDINGS FINANCIAL RESULTS

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

### Financial performance

	2022 £m	2021 £m
Revenue	60.9	43.1
Operating profit	7.4	1.7
Share of joint ventures operating loss	(0.4)	(6.3)
Segment result	7.0	(4.6)
Operating cash flow	14.7	8.3

Anglian Venture Holdings generated revenue of £60.9 million (2021: £43.1 million) and an operating profit of £7.4 million (2021: £1.7 million) as set out below.

	Revenue		Operating profit	
	2022 £m	2021 £m	2022 £m	2021 £m
Alpheus Environmental	8.1	7.8	1.0	0.9
Celtic Anglian Water	36.6	28.5	3.6	1.2
Tide Services	6.6	6.8	0.2	0.2
Anglian Venture Holdings	-	-	0.2	(0.6)
OHL Land Holdings	6.3	-	1.0	-
OHL Piper Ltd	1.4	-	1.4	-
Property	1.9	-	-	-
	60.9	43.1	7.4	1.7
Share of joint ventures operating loss				
Wave			(0.4)	(6.3)
Segment result			7.0	(4.6)

Revenue for the year increased from £43.1 million to £60.9 million, with operating profits, including our share of the Wave joint venture, of £7.0 million compared to losses of £4.6 million in 2021. The increase in operating profit represents strong performance across all businesses, in particular Celtic Anglian Water. OHL Land Holdings acquired "surplus" AWS land located at Great Billing and Milton they subsequently sold the land at Great Billing for minerals exploitation by a third-party, un-connected with the Group, this disposal generated £6.3 million of revenue and £1.0 million of operating profit. In addition, following the purchase of group property by OHL Piper Ltd, the business took the view to report all property business within the AVH segment, these are referred to as "Property" above, prior year revenue reported in Head Office and Other was £3.1 million and operating loss of £1.5 million.

#### **HEAD OFFICE AND OTHER FINANCIAL RESULTS**

The increase in revenue and segment result has been driven by the sale of a number of properties to AVH described above. The properties were transferred at a fair value of £24.4 million. At the point of sale, the net book value was £12.3 million with prepayments written off of £2.6 million, generating a profit in the Head Office segment of £9.5 million.

This in combination with one off costs in the prior year not repeating, such as those relating to the referral of Ofwat's Final Determination to the Competition and Markets Authority, have increased Segment result by £21.0 million from a prior year loss of £23.0 million to a loss of £2.0 million.

The improved operating cashflow represents the sales of the properties described offset by movements in working capital.

The increase in net debt of £1,159.1 million represents additional debt raised in, Anglian Water (Osprey) Financing Plc of £595.5 million, Aigrette Financing (Issuer) Plc of £650.5 million and movements in cash and existing debt.

### **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 (AIR). As such, all references below refer to Anglian Water Services Limited.

### **Engaging with our stakeholders**

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

Section 172(2) says that where the purposes of a company consist of purposes other than, or in addition to, benefiting the company's shareholders, the section 172 duties will take effect as if the reference to promoting the success of the company for the benefit of shareholders were a reference to achieving those alternative purposes. Anglian Water's purpose (as set out in its Articles of Association) is to conduct its business and operations for the benefit of members 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 a way they consider would be most likely to promote the purpose of the company. The section 172 duties to which the Directors are subject must therefore be considered in the context of this overarching purpose.

The disclosures set out in the AIR on pages 73-76 demonstrate how the Board has had regard to the matters set out in Section 172(1) (a) to (f), which are now enshrined in Anglian Water's Articles of Association and include cross-references to other sections of the report for further information.

### **Board engagement with stakeholders**

Our Board has set out to define discrete stakeholder groups, but it recognises that in many cases they have complementary interests and shared priorities. On occasion, their concerns may even conflict with one another. The Board's duty, in reviewing, challenging and shaping plans, and setting strategic direction, is to consider and balance the impact of its decisions on a wide range of stakeholders. More information on our business model, including how we use six capitals thinking to shape decisions and measure outcomes, can be found in the AIR on page 20, while information on our key stakeholders can be found throughout the Strategic Report.

We have developed an annual stakeholder engagement 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 judges that it should engage directly with relevant stakeholders. However, much of our engagement happens at an operational level. Where the Board has not engaged directly with stakeholders, it receives regular reports from management, so that the Directors can understand and take account of the key issues to which they must have regard.

### **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.

We have a statutory obligation to produce a Water Resource Management Plan (WRMP). This plan ensures that we will provide secure water supplies for our customers until 2050, while protecting and enhancing the environment. The Board is required to oversee and scrutinise the development of the plan and to provide assurance that the company has met its obligations in developing the WRMP and that it is the best value plan, based on sound and robust evidence costing processes.

Similarly, we are required to produce a Drainage and Wastewater Management Plan (DWMP) to set out how we will manage waste water and reduce the risk of flooding over the years to 2050. Again, the Board will have oversight of the DWMP and will give assurance that the resulting plan is the best value plan for customers and the environment and is based on robust evidence and costing processes.

Our first DWMP under this new requirement is available for public consultation until September.

Our Board has also approved our long-term viability statement within which the Directors have assessed Anglian Water's prospects over the next 10 years.

### **Having regard to employees' interests**

The welfare and development of our employees, and the company's culture and values, are key areas of focus for the Board and its committees, and employee-related issues are covered at every Board meeting. Areas considered by the Board range from health, safety and wellbeing to inclusion, employee engagement and succession planning. The Board meets with the Head of Safety on a quarterly basis, which enables the Board to monitor key safety trends and to challenge performance where appropriate. During the year, externally led health and safety training was cascaded to operational leaders in the business. At the Board meeting in March 2022, the Directors also participated in an externally led health and safety training session and were therefore able to understand the nature of the training that has been made available to operational leaders.

Each year we conduct our Love to Listen survey to seek and act on the views of our employees. The results of the survey, together with plans to address its findings, are 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.

**Q&A – Duncan Symonds, Non-Executive Director with responsibility for engaging with the workforce**

**What does your role involve?**

I see myself as the voice of Anglian Water's employees on the Board, making sure their voice is heard and their needs are considered. This year, I had the opportunity to join the Leaders' Forum in May, where senior managers receive a strategic update and have the opportunity to ask questions of the Management Board. In December I attended the quarterly Open House, where subjects discussed included a deep dive into company-wide Love to Listen results, the gender pay gap report and wellbeing strategy. I also joined the event held in November with fellow Board members, met the current cohort of graduates and had the opportunity to join a meeting of the Future Leaders' Board.

**What have been your key observations so far?**

Love to Listen results demonstrate that employees feel a strong connection with Anglian Water's values and purpose, and from management's perspective, there is an openness to learn from, and act on, feedback shared by employees.

**Have you seen opportunities to share learnings across some of the other organisations you work with?**

I'm a firm advocate for regular touchpoints to stay close to how employees are feeling, and for making good use of data and insight. With that in mind, I met with Anglian Water's Head of Engagement and Communities, together with a colleague from IFM Investors, to share our experience of data-led insight. This helped shape a pilot study on more frequent and targeted pulse surveys.

Further information on how the Board and management engage with employees, and the impact of that engagement, can be found in the AIR on page 61-68.

**Fostering business relationships with suppliers, customers and others**

Engagement with customers and communities is fundamental to the development of our strategy and plans. The Board oversaw all aspects of the planning process for our Business Plan for 2020—2025, including the customer engagement strategy, and is already fully engaged with the planning process for the Business Plan for 2025—2030. As we explain below, the Board has also taken a keen interest in the engagement process relating to the relocation of the company's Cambridge Waste Water Treatment Works.

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 on our capital investment programmes at each Board meeting. This update provides an opportunity for the Directors to review and challenge progress across the different investment programmes. In addition, under Anglian Water's Scheme of Delegation, the Board must approve contracts with suppliers above a certain value; this ensures that there is the appropriate level oversight of these key contracts. During the year the Board approved contracts relating to the maintenance of buildings and the sourcing strategy for steel pipes.

Each year the Board also approves Anglian Water's Modern Slavery and Human Trafficking Statement, which details the steps that we have undertaken to ensure that slavery and human trafficking is not taking place in any part of the business or within Anglian Water's supply chain.  
(<https://www.anglianwater.co.uk/globalassets/aws-modern-slavery-statement-2021.pdf>).

## Strategic report (continued)

for the year ended 31 March 2022

During the year, the Board met with the CEO of the Consumer Council for Water and the Interim CEO of Ofwat. Both meetings gave the Board the opportunity to understand the perspective of key stakeholders in relation to the challenges facing the sector.

### **Impact on community and environment**

The environment is at the heart of our purpose, and our SDS is fully aligned with the Government's own 25-year Environment Plan. The Board regularly considers environmental matters, including river and coastal water quality, abstraction, compliance against the Environment Agency's Environmental Performance Assessment and pollution reduction schemes. During the year, the Board approved the Demand Management Strategy, which is an integral part of the WRMP (see case study opposite).

Our purpose requires us to consider the impact of our operations on our communities. The Board receives regular updates on stakeholder engagement activities. Areas considered during the year included the community engagement work undertaken following the flooding which had occurred in late 2020 and early 2021 and the community consultation undertaken in respect of the second and third phases of the proposed relocation of the Cambridge Waste Water Treatment Plant.

### **Maintaining high standards of business conduct**

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

Anglian Water also holds itself to account against a set of Responsible Business Principles which are approved by the Board (see AIR pages 38-39).

### **Acting fairly between members**

The Anglian Water Group 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. Further information on our company structure and ownership can be found on pages 7—9.

### **Case study:**

#### **Monitoring our company culture**

Fostering a strong, positive and inclusive company culture is fundamental to the success of our organisation. We have actively monitored culture for a number of years through our annual Love to Listen employee survey (see AIR pages 61-68), and acted on its findings. We have introduced more touchpoints for engagement, which we reflect in a new quarterly culture dashboard, developed with input from the Board.

Based around our values – together we build trust, do the right thing and are always exploring – the dashboard reflects a range of cultural indicators, grouped under the following themes: connecting to our purpose; supporting our people; delivering for our customers; creating an inclusive culture, developing our people and driving new thinking. It includes insights from our annual in-depth employee survey alongside more frequently changing metrics, such as latest engagement figures for wellbeing and inclusion events. We are working to develop additional metrics to enable us to identify and respond to trends during the year. These include evaluation of monthly exit feedback from leavers; introduction of monthly feedback from new joiners; a Love

to Listen pulse survey taking place each April and a pilot survey of employees at monthly, bi-monthly and quarterly intervals.

### Considering stakeholders in decision making

We define principal decisions as both those that are material to Anglian Water, and 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.

	Stakeholder engagement	Stakeholder considerations	Outcome
<b>Approval of the demand management strategy (DMS)</b>			
Demand management is a fundamental part of the WRMP, mitigating demand growth and reducing the need to build new supply-side options. As part of the draft WRMP approval process, our Board was asked to approve our demand management strategy, which includes smart metering, leakage reduction and water efficiency measures.	Our customers have been engaged throughout the development of our WRMP. We have undertaken qualitative engagement with our Online Community, as well as externally facilitated groups. We have also undertaken a quantitative survey, reaching 1,400 households and 100 non-household customers. Other stakeholders have also shaped our plan. We have engaged with the Environment Agency and Ofwat, as well as stakeholders through Water Resources East and our pre-consultation.	Customer and stakeholder preferences were reflected in the strategy discussed and agreed at senior management level by our Board. Leakage remains a priority for our customers and stakeholders, as well as water efficiency and smart meters. Affordability is also a key consideration. The majority of our customers also told us that they felt customers should pay according to the amount of water they used. This has helped to inform our compulsory metering strategy, while shaping how we will help vulnerable customers.	The Board scrutinised the proposed demand management options, their costs and benefits. The Board had to balance the company's purpose, customer and stakeholder ambition and affordability. This resulted in the Board approving a comprehensive package of demand management options which build on the company's frontier position, whilst being manageable in terms of customer bill impacts, with vulnerable customers particularly in mind.

	<b>Stakeholder engagement</b>	<b>Stakeholder considerations</b>	<b>Outcome</b>
<b>Our net zero strategy to 2030</b>			
For over a decade, Anglian Water has been working towards carbon neutrality. In 2019, water companies in England joined forces to make a pledge to achieve net zero on operational emissions by 2030. Following this commitment, Anglian Water developed a detailed company-specific net zero carbon routemap.	In developing the water sector routemap, we engaged with Water UK and our water industry peers as the co-sponsors of the water sector's net zero carbon commitment. Additionally, we engaged with not-for-profit organisations, financial institutions, including banks, our directors and investor representatives.	Through specific engagement with Board members we were able to further develop a credible approach to our regional based offsetting strategy. We were also able to reach out to portfolio companies of our equity investors, to understand their approach to carbon neutrality both in the UK and abroad, and to incorporate this learning into the Anglian Water routemap.	In May 2021, the Board considered and challenged the company's proposed net zero carbon emissions strategy, which already incorporated feedback from individual directors. Following the support of the Board, the routemap was published in July 2021. A copy of this document (which sets out how we aim to reach net zero carbon emissions by 2030) is available on our website: <a href="https://www.anglianwater.co.uk/siteassets/household/environment/net-zero-2030-strategy-2021.pdf">https://www.anglianwater.co.uk/siteassets/household/environment/net-zero-2030-strategy-2021.pdf</a> .



## Strategic report (continued)

for the year ended 31 March 2022

## Anglian Water performance commitments dashboard

To measure our progress towards our 2020—2025 outcomes, we've been set targets by our regulator Ofwat. These are summarised below, together with information on how we'll monitor our progress, how we've performed this year, and whether rewards or penalties are attached to each commitment.

What are we measuring?	How are we measuring it?	Prior yr (20/21)	Current yr (21/22)	Current yr target (21/22)	Reward or penalty outcome for 2021/22
Fair charges, fair returns					
Managing void properties	The percentage of properties that are falsely identified as void properties. This means that they are occupied and should be charged by the company.	0.21	0.12	0.40	+£1.3m reward; target met
Value for money	A survey of customers by the Consumer Council for Water about the value for money provided by the company.	76% agree we provide good value for money	77% agree we provide good value for money	79% agree we provide good value for money	N/A; target not met
Safe, clean water					
Water quality (Compliance Risk Index)	This is the key measure used by the Drinking Water Inspectorate to determine our overall compliance with stringent regulatory drinking water standards.	1.98	4.04*	0.00	-£1.6m penalty; target not met*
Water quality contacts	The number of complaints from customers about water quality per thousand people served.	1.13	1.03*	1.01	-£0.1m* penalty; target not met
Event Risk Index	This assessment looks at the company's approach to risk mitigation of water quality events.	6.157	0.972*	15.000	N/A; target met

## Strategic report (continued)

for the year ended 31 March 2022

Delighted customers					
Customer Measure of Experience (CMeX)	Customer survey conducted for Ofwat called CMeX which assesses the experience the company provides to residential customers.	83.05/100 putting us in 7th place	80.43/100 putting us in 9th place	Comparative measure — we aim to perform in the top 25% of companies (4th position or higher)	£0m reward; target met
Developer Measure of Experience (DMeX)	Survey conducted for Ofwat called DMeX which assesses the experience the company provides to developer services customers who build new homes	87.72/100 putting us in 6th place	87.54/100, putting us in 7th place	Comparative measure — we aim to perform in the top 25% of companies (4th position or higher)	£1.2m reward; target not met
Properties at risk of persistent low pressure	Number of properties that are affected by persistent low pressure. Persistent low water pressure is an ongoing low pressure problem rather than short-term low pressure caused by a water mains burst or unusual peak in demand for water.	147	58	150	£0.6m reward; target met
Internal sewer flooding	The number of times that properties are flooded internally per 10,000 customer connections to the sewer.	1.33	1.73	1.63	-£1.1m penalty; target not met
External sewer flooding	The number of times that properties are flooded externally.	3,628	4,181	4,141	-£0.2m penalty; target not met
Non-household retailer satisfaction	This measure assesses the service provided by the company to non-household retailers.	74.6	90.6	75.7	N/A; target met
Water supply interruptions	Average length of supply interruptions per property (for interruptions over three hours).	5m 02s	9m 48s	6m 08s	£-4.2m penalty; target not met

## Strategic report (continued)

for the year ended 31 March 2022

Positive impact on communities					
Priority services for customers in vulnerable circumstances	The percentage of customers recorded as requiring priority services due to being in vulnerable circumstances and the percentage of people contacted to ensure records are kept up to date.	6.0% reach 38.8% actual contact 50% attempted contact	9.4% reach 62.2% actual contact 100% attempted contact	3.6% reach 35% actual contact 90% attempted contact	N/A; target met
Customers aware of the PSR	Percentage of customers made aware of our Priority Services Register (PSR) and how they can benefit from being on it.	54.3%	52.5%	52%	N/A; target met
Helping those struggling to pay	The number of customers who are struggling to pay their water bill and who receive financial support through one of the company's financial support schemes.	319,466	324,750	288,958	N/A; target met
Community investment	The percentage increase in beneficiaries of our community investment programmes through which the company adds social value to its communities (compared to 2020/21).	0% (baseline year)	137.5%	1%	N/A; target met
Customer trust	The improvement in company score for a survey of customers by the Consumer Council for Water about the trust that customers place in the company.	0.02	0.34	0.01	N/A; target met
BSI Standard for Inclusive Service	To maintain certification for the British Standard for Inclusive Service Provision (BS 18477).	Maintained	Maintained	Maintained	N/A; target met
Partnership working on pluvial and fluvial flood risk	Investments delivered working in partnership with other organisations to protect infrastructure from flooding.	14	35	92 by 2025	N/A; on track

## Strategic report (continued)

for the year ended 31 March 2022

Flourishing environment					
Pollution incidents	Number of pollution incidents due to escapes from our sewerage network per 10,000 km of sewer network.	27.65	33.75	23.74	-£4.5m penalty; target not met
Bathing waters attaining 'Excellent' status	Number of recognised bathing waters in our region rated 'Excellent' (based on standards set by the European Bathing Water Directive).	Not assessed	32	33	N/A; target not met
Abstraction Incentive Mechanism	An incentive to reduce the water we take from sensitive rivers or wetlands during very dry periods.	-83 MI	-376.07 MI	-87 MI	+£0m; target met
WINEP	The progress of the company in delivering its agreed Water Industry National Environment Programme (WINEP) schemes in a timely manner. The number of schemes shown is cumulative across the AMP.	520	1,184	1,006	£1.1m reward; target met
WINEP delivery		Met	Met	Met	N/A; target met
Natural capital	This measures progress towards meeting improvements in natural capital within our region.	Not met	Not met	On track	N/A; target not met
Regional collaboration	This measures progress towards the development of a regional approach to assessing and considering natural capital.	On track	On track	On track	N/A; on track
Sludge treatment capacity	This measures progress towards delivering additional sludge treatment capacity.	N/A - new for 2021/22	Not assessed	100% by 2025	N/A; on track
Supply meets demand					

## Strategic report (continued)

for the year ended 31 March 2022

Leakage	A percentage reduction in the amount of water lost to leakage across the region in megalitres per day (Ml/d). One megalitre is a million litres.	1.5% reduction	6.1% reduction	5.6% reduction	+£0.2m; target met
Per capita consumption (PCC)	A percentage reduction in the average water consumption per household per day for properties in our region.	3% increase	3.4% increase	2% reduction	N/A this year*; target not met
Smart metering delivery	The number of smart water meters that are installed at customer properties.	164,400	310,321	438,559	£N/A this year; target not met
Internal interconnector delivery	The number of megalitres per day extra capacity delivered to ensure that customers in the region have sufficient water in the future.	1.5ML/d	1.5 Ml/d	0.0 Ml/d	£N/A; on track
A smaller footprint					
Operational carbon	Percentage reduction in carbon emissions from day-to-day operations compared to a 2019/20 baseline.	5.1%	9.4%	4%	N/A; target met
Capital carbon	Percentage reduction in carbon emissions from construction activity measured in tonnes of CO2 equivalent compared to a 2010 baseline.	61.2%	63.1%	62.0%	N/A; target met
Investing for tomorrow					
Mains repairs	Number of repairs made to water mains per 1,000 km of total water mains.	130.6	122.2	138.1	£0m; target met
Unplanned outage	Percentage of maximum water treatment/ works output unavailable during the year.	1.14%	1.72%	2.34%	£0m; target met
Sewer collapses	Number of sewer collapses per 1,000 km of sewers.	6.09	5.44	5.60	£0m; target met

## Strategic report (continued)

for the year ended 31 March 2022

Treatment works compliance	Percentage of water and sewage treatment works meeting permits for the quality of water discharged to the environment.	99.29%	98.22%	100%	-£1.1m penalty; target not met
Reactive mains bursts	Reactive bursts are those that are identified and reported by a customer or third party before they are identified by the company.	4,037	3,322	3,063	£N/A; target not met
Resilient business					
Risk of severe restrictions in drought	The percentage of properties at risk of service restrictions in the event of a 1-in-200-year drought.	5.2%	5.2%	20.5%	N/A; target met
Risk of sewer flooding in a storm	The percentage of properties that we serve that are at risk of sewer flooding during an extreme wet weather event.	0.37%	0.75%	9.75%	N/A; target met
Percentage of population supplied by single supply system	Percentage of population served by a single supply system. Our goal is to increase the number of properties supplied by more than one water treatment works so that if something goes wrong at one works, our customers' water supplies are protected.	22.7%	22.7%	21.8%	+£0m reward; target not met
Cyber security	Percentage of risks mitigated against the cyber threat to operational technology (OT) and to comply with the network and information systems (NIS) regulations.	On track	On track	100% by 2025	£N/A; on track

\*These are internal estimates pending the release of 2021 data from the Drinking Water Inspectorate.

**We measure our performance against a set of commitments that help us, our regulators and our customers understand the progress we're making and what we've delivered.**

This year (2021/22) is the second of our latest five-year regulatory cycle (also known as AMP7, as it is the seventh asset management period since privatisation in 1989). Our performance is measured against a suite of stretching targets for our performance, known as Performance Commitments (PCs) and is agreed with Ofwat.

Osprey Holdco Limited  
**Strategic report (continued)**  
for the year ended 31 March 2022

Following a strong year in 2020/21, in which we were named as a sector-leading company by Ofwat in its Service Delivery Report, this year has been more challenging. While we've achieved strong performance in many areas (notably ahead of target delivery of environmental programmes, world-class leakage reduction, and £32 million of support for almost 325,000 customers facing affordability challenges), we have not reached our targets for some key commitments.

We were undoubtedly impacted by the exceptional flooding and wet weather late in the winter of 2020/21. It was localised, very intense and prolonged. We made decisions that prioritised customers – including pumping out sewers so that customers could shower and flush their toilets, at a point in time when lockdown prevented them going anywhere else.

The consequences of these difficult decisions have resulted in a knock-on impact which lasted well into the 2021/22 financial year.

For example, by making use of assets such as tankers to help and protect customers, rather than using them to manage routine work at our water recycling centres, we put our ability to maintain compliance at some of these sites at risk.

This contributed to treatment works compliance falling in 2021/22 to 98.22 per cent of works meeting permit conditions (99.29 per cent in 2020/21), with 15 works failing this year. This performance has resulted in an underperformance penalty of £1.1 million.

Prioritising our customers during the exceptional wet weather period also resulted in a backlog of routine maintenance jobs. This impacted measures including internal flooding, where we saw a rise from last year's 1.33 incidents per 10,000 connections to 1.73 per 10,000, and external flooding, where we narrowly missed our target, resulting in £0.2 million in underperformance payment.

Pollution incidents per 10,000 km of sewer have also increased this year, from 27.7 to 33.8. This has resulted in a penalty of £4.5 million for being above the stretching regulatory target of 23.7 incidents per 10,000 km.

We have made significant investment in planned preventative maintenance which, together with military-style incident management, the creation of secondary incident roles for every member of Anglian Water's workforce, and a calmer winter in 2021/22, is already having a positive impact on our current performance.

Other external factors have also impacted our year, and as a result our performance. For example, the Per Capita Consumption (PCC) measure has needed to be reshaped due to the ongoing impact of Covid-19, with lifestyle changes such as home working markedly increasing PCC since the start of the pandemic.

As a result, Ofwat has chosen to delay the impact of this PC (and any resulting penalties) until the end of AMP7 while it reflects on how it will take account of the pandemic in its assessment of performance. Our PCC has increased to a three-year average of 138.7 litres per person per day this year, compared to 138.1 in the previous year. On a positive note, there has been a decrease in consumption on a single-year basis (from 146.9 to 136.0 litres), and although it is still above pre-pandemic levels (133.3 in 2019/20), we are working to address this through our industry-leading demand reduction programmes, combined with investment in behavioural change campaigns.

And despite the many challenges we have faced this year, as set out above, we have seen strong performance across a number of areas of the business, most notably on leakage, delivering our best ever single-year reduction, and on our Water Industry National Environment Plan, where we have delivered a number of schemes early, resulting in a reward of £1.1 million. The investments we are making in smart metering, in the creation of our vast interconnecting network of pipelines through the Strategic Pipeline Alliance, and in

Osprey Holdco Limited  
**Strategic report (continued)**  
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reducing the amount of water we take from our rivers and chalk streams are all driving forward our progress towards long-term sustainability.

Sewer collapses have also decreased this year and we have met our regulatory target of 5.6 collapses per 1,000 km of sewer, turning out at 5.4 collapses per 1,000 km of sewer. This avoids an underperformance penalty.

<b>Performance commitment</b>	<b>2021/22 total reward/penalty</b>
Abstraction Incentive Mechanism	0.0
Customer Measure of Experience (C-Mex)	0.0
Developer Measure of Experience (D-Mex)	1.2
External sewer flooding	-0.2
Internal sewer flooding	-1.1
Leakage	0.2
Mains Repairs	0.0
Managing void properties	1.3
Percentage of properties supplied by a single source	0.0
Pollution Incidents	-4.5
Properties at risk of consistent low pressure	0.6
Sewer collapses	0.0
Treatment works compliance	-1.1
Unplanned outage	0.0
Water quality contacts	-0.1
Water supply interruptions	-4.2
Water Industry National Environment Plan	1.1
Water quality compliance (Compliance Risk Index)	-1.6
<b>Total</b>	<b>-8.3</b>

We have made good progress this year on reducing the number of properties affected by low water pressure, through the completion of capital and operational schemes. We have reduced the number of properties experiencing these issues from 147 in 2020/21 to 58 in 2021/22. This has earned us an outperformance payment of £0.6 million.

We have also continued to reduce the number of void properties that are incorrectly reported as unoccupied. This helps to reduce the charge to our customers, and as a result we have earned an outperformance payment of £1.3 million.

We are also well ahead of target on all areas relating to our support for vulnerable customers, most notably take up of our Priority Services Register, which has already met the AMP-long target set by Ofwat.



## Strategic report (continued)

for the year ended 31 March 2022

In a common theme across the whole industry, however, our performance on the Compliance Risk Index (CRI) – the Drinking Water Inspectorate’s headline measure of water quality – has regressed in 2021 to 4.04 (having been 1.98 in 2020), and has resulted in a penalty of £1.6 million. It is, however, important to note that we retain a better than average score for the largest water and sewerage companies on this measure. A further penalty (£4.2 million) was incurred on interruptions to supply, too, where we scored 9 minutes and 48 seconds against a target of 6 minutes and 8 seconds. This performance is better than our average over the last ten years, but we have not yet managed to keep pace with significantly tightened targets.

On the Customer Measure of Experience (CMEx) we have achieved a score in line with the industry average, meaning we do not earn a reward. However, we are just 4.3 points from the top-scoring company, and are focusing our efforts on closing the gap for 2022/23. For the Developer Measure of Experience (DMEx) we have exceeded the industry average, which entitles us to an outperformance payment.

Overall, we know there is more to be done. As set out in the Chief Executive’s statement and elsewhere, we have taken decisive action in areas where our performance has not met targets, and are already seeing positive outcomes in key areas such as pollutions after a difficult outlier year. With the majority of measures in positive territory, our overall trajectory remains strong.

**Leakage** We have recorded our best ever leakage performance for a single year of 173.4MI/d, which extends our industry-leading performance. On the three-year average basis that we are measured against by Ofwat, this equates to 182.3MI/d and a 6.1 per cent reduction from our 2020/21 baseline. In light of these challenges from Covid and cold weather in 2020/21, we are particularly pleased to have exceeded our stretching regulatory target of a 5.6 per cent reduction.

**Pollution incidents** per 10,000 km of sewer have increased this year, from 27.7 to 33.8. This has resulted in a penalty of £4.5 million for being above the stretching regulatory target of 23.7 incidents per 10,000 km. We are making significant investment in the prevention and resolution of incidents through our Pollution Incident Reduction Plan (see AIR page 24).

**Water quality contacts** We have achieved our best ever score of 1.03 contacts per 1,000 population served. Unfortunately this still resulted in a small penalty of £0.1 million for marginally missing the stretching target set for us by Ofwat.

## Strategic report (continued)

for the year ended 31 March 2022

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

Making information about climate-related risks and opportunities available to our stakeholders is key to how we operate. That is why, since 2017, we have made disclosures in line with the recommendations of the TCFD, adopting them well ahead of their mandatory introduction. Sustainability is at the heart of everything we do – our company purpose “is to bring environmental and social prosperity to the region we serve through our commitment to love every drop” – and we fundamentally understand the links between the provision of water supply and water recycling services and the environment.

This understanding that the health of the environment both influences, and is impacted by, our operations has driven our successful adoption of a host of climate-related commitments and targets over many years.

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 page 45). 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 C2.1a, C2.3, C2.3a, C2.4, C2.4a, C3.1, C3.1, C3.2, C3.2a, C3.2b, C3.3, C3.4**

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 helped lead the response of businesses to the climate emergency and support of the 2020 UN Climate Change Conference, or COP26, which took place in Glasgow in November 2021.

### **Risk management C2.1, 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 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.*

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**Metrics and targets C4.1, C4.1a, C4.1b, C4.2, C4.2a, C4.2b, C6.1, C6.3, C6.5, C6.5a, C9.1**

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

	Units	2020/21	2021/22	Inclusions
Energy consumption used to calculate emissions kWh	kWh	1,076,648,591	1,047,019,565	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
SCOPE 1 — Gas and fuel oil consumption	Tonnes CO2e	13,097	11,936	Fossil fuel combusted, natural gas and biogas
SCOPE 1 — Process and fugitive emissions	Tonnes CO2e	83,009	81,601	Water and waste water treatment, biogas
SCOPE 1 — Owned transport	Tonnes CO2e	20,903	20,854	Fleet vehicles and company cars
SCOPE 1 — Total	Tonnes CO2e	117,010	114,390	
SCOPE 2 — Purchased electricity	Tonnes CO2e	151,824	134,894	Grid electricity — location-based electric for vehicles
SCOPE 2 — Total	Tonnes CO2e	151,824	134,894	
SCOPE 3 — Business travel	Tonnes CO2e	140	306	Private cars, public transport
SCOPE 3 — Outsourced transport	Tonnes CO2e	13,800	12,834	Outsourced tankers
SCOPE 3 — Purchased electricity	Tonnes CO2e	13,057	11,937	Transmission & distribution
SCOPE 3 — Total significant	Tonnes CO2e	26,996	25,077	We have not included commuting, capital carbon & emissions from use of water in customers' homes.
TOTAL ANNUAL GROSS EMISSIONS	Tonnes CO2e	295,830	274,362	
Exported renewables	Tonnes CO2e	-6,776	-4,946	Exported renewables REGO certified
Green tariff	Tonnes CO2e	0	0	
TOTAL ANNUAL NET EMISSIONS	Tonnes CO2e	289,054	269,416	
INTENSITY RATIO — water treated	Kg CO2e per MI	230.97	203.73	
INTENSITY RATIO — recycled water	Kg CO2e per MI	433.46	425.20	
INTENSITY RATIO — recycled water	Kg CO2e per MI	224.13	232.61	Full flow to treatment

## Strategic report (continued)

for the year ended 31 March 2022

**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.

### **Organisational targets to manage climate-related risks and opportunities**

Our longer term climate-related targets are as follows:

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

Our performance in reducing carbon is reported monthly to the Management Board and we remain on course to meet our targets, which are to:

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

### **Managing risk in line with our strategy**

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

### **Risk management approach**

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

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

### **Risk appetite**

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

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

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

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

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

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

## Principal risks

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

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

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

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

Principal risk	Current risk profile	Trend	Risk movement	Business outcome	Proximity	Risk Profiles
1. Customer proposition	■			Delighted customers	ST/MT/LT	High risk
2. Environment				Flourishing environment	ST/MT/LT	Medium risk
3. Water supply and quality	■			Safe, clean water	MT	Low risk
4. Health and safety	■			Our people, healthier, happier, safer	MT	
5. People	■			Our people, healthier, happier, safer	ST/MT/LT	Risk movement
6. Technology	■			Investing for tomorrow	MT	No change
7. Financial				Fair charges, fair returns	ST	Risk increasing
8. Reputation				Delighted customers	ST	Risk decreasing
9. Asset infrastructure	■			Investing for tomorrow	ST/MT/LT	Proximity
10. Business resilience	■			Resilient business	MT	LT Long term (25 years+)
11. Commercial and third party	■			Supply meets demand	MT	MT Medium term (10 years)
12. Strategic execution	■			Investing for tomorrow	ST/MT/LT	ST Short term (5 years)
13. Legal	■			Resilient business	ST/MT	
14. Regulation				Resilient business	ST/MT	

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

## Emerging risks

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

Emerging risks	Related PRA	Time horizon
<b>COVID-19 AND POST-PANDEMIC RISK</b> Covid-19 has had a significant and ongoing effect throughout the 2021/22 financial year and is therefore referenced wherever relevant throughout the report.	People Finance Customer proposition Business resilience	ST
<b>COST OF LIVING CRISIS AND AFFORDABILITY CONCERNS</b> ONS data shows that growth in UK wages has failed to stay in line with the soaring cost of living, with inflation predicted to reach 10 per cent in Q4 2022.	Customer Finance People Business resilience	ST - MT
<b>SUPPLY CHAIN CHALLENGES</b> Demand, the pandemic, chaos at ports and transportation bottlenecks caused supply chain issues during 2021 and the issues we are facing are not expected to end in 2022.	Business resilience Finance Strategic execution Asset infrastructure Water supply and quality	ST - MT
<b>WAR IN UKRAINE</b> Russia's invasion of Ukraine has placed further pressure on energy prices and triggered additional logistical issues in getting supplies to and from Europe, together with a shortage of specialist supplies.	Business resilience Finance Strategic execution Asset infrastructure Water supply and quality	ST - MT
<b>ENERGY COSTS</b> A combination of factors, including the war in Ukraine, wider supply chain issues, the costs of decarbonisation and pandemic impacts, is causing rapid acceleration in energy prices.	Business resilience Finance People Customer	ST - MT
<b>RECRUITMENT AND RESOURCING</b> A high volume of vacancies across the UK amid the post-pandemic economic recovery is driving significant competition for talent, making recruitment particularly challenging	People Business resilience Customer Finance	ST

**Key:** ST = Short term - 5 years MT = Medium Term – 10 years LT = Long Term 25 years +

### Approval of the Strategic Report

This Strategic Report was approved by the Board of Directors on 13 July 2022 and signed on its behalf by:



**Claire Russell**  
Company Secretary

Osprey Holdco Limited  
**Group income statement**  
for the year ended 31 March 2022

		Year ended 31 March 2022	Year ended 31 March 2021 (restated)
Notes		£m	£m
4	<b>Revenue</b>	<b>1,452.8</b>	1,390.4
5	Other operating income	<b>12.3</b>	12.5
6	Operating costs		
	Operating costs before depreciation, amortisation and charge for bad and doubtful debts	<b>(666.2)</b>	(662.2)
	Depreciation and amortisation	<b>(351.1)</b>	(342.0)
	Charge for bad and doubtful debts	<b>(11.1)</b>	(31.1)
	Total operating costs	<b>(1,028.4)</b>	(1,035.3)
	<b>Operating profit</b>	<b>436.7</b>	367.6
7	Finance income	<b>3.4</b>	4.4
7	Finance costs, including fair value losses on derivative financial instruments	<b>(646.0)</b>	(312.9)
	Net finance costs	<b>(642.6)</b>	(308.5)
	Share of loss of joint ventures	<b>(2.6)</b>	(7.1)
	(Loss)/profit before tax from continuing operations		
	(Loss)/profit before fair value losses on derivative financial instruments <sup>1</sup>	<b>(93.4)</b>	75.2
7	Fair value losses on derivative financial instruments	<b>(115.1)</b>	(23.2)
	<b>(Loss)/profit before tax from continuing operations</b>	<b>(208.5)</b>	52.0
8	Tax charge	<b>(289.1)</b>	(26.8)
	<b>(Loss)/profit for the year from continuing operations</b>	<b>(497.6)</b>	25.2

<sup>1</sup> As defined in note 32

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

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



Osprey Holdco Limited

Group statement of comprehensive income

for the year ended 31 March 2022

Notes		Year ended 31 March 2022	Year ended 31 March 2021 (restated)
		£m	£m
	<b>(Loss)/profit for the year</b>	<b>(497.6)</b>	25.2
	<b>Other comprehensive income/(expense)</b>		
	<b>Items that will not be reclassified to income statement</b>		
24	Actuarial gains/(losses) on retirement benefit deficit	203.8	(169.4)
8	Income tax on items that will not be reclassified	(40.3)	32.2
		163.5	(137.2)
	<b>Items that may be reclassified subsequently to income statement</b>		
26	Gains on cash flow hedges recognised in equity	59.3	8.2
26	(Losses)/gains on cost of hedging recognised in equity	(2.6)	2.1
26	Losses on cash flow hedges transferred to income statement	14.0	10.2
26	Gains on cost of hedging transferred to income statement	-	(0.5)
	Currency translation differences	0.4	(0.5)
8	Income tax on items that may be reclassified	(15.0)	(3.8)
		56.1	15.7
	<b>Other comprehensive income/(expense) for the year, net of tax</b>	<b>219.6</b>	(121.5)
	<b>Total comprehensive expense for the year</b>	<b>(278.0)</b>	(96.3)

Osprey Holdco Limited  
Group balance sheet  
As at 31 March 2022

Notes	At 31 March 2022	At 31 March 2021 (restated)	At 1 April 2020 (restated)
	£m	£m	£m
<b>Non-current assets</b>			
11 Goodwill	445.8	445.8	445.8
12 Other intangible assets	225.5	204.8	182.2
13 Property, plant and equipment	10,305.9	10,043.5	9,943.5
14 Investment properties	3.6	3.1	1.7
15 Investments in joint ventures	12.6	15.2	22.3
21 Derivative financial instruments	57.8	112.6	317.8
24 Retirement benefit surplus	269.1	58.9	182.0
	<b>11,320.3</b>	<b>10,883.9</b>	<b>11,095.3</b>
<b>Current assets</b>			
16 Inventories	23.8	21.6	19.7
17 Trade and other receivables	567.2	551.5	579.5
15 Investments - cash deposits	430.7	88.5	328.9
18 Cash and cash equivalents	613.4	273.3	866.7
21 Derivative financial instruments	56.5	84.8	16.8
	<b>1,691.6</b>	<b>1,019.7</b>	<b>1,811.6</b>
<b>Total assets</b>	<b>13,011.9</b>	<b>11,903.6</b>	<b>12,906.9</b>
<b>Current liabilities</b>			
19 Trade and other payables	(610.6)	(515.9)	(538.9)
Current tax liabilities	-	-	(0.2)
20 Borrowings	(1,065.4)	(1,696.6)	(1,621.4)
21 Derivative financial instruments	(10.1)	(24.8)	(81.4)
22 Provisions	(3.7)	(7.7)	(6.6)
	<b>(1,689.8)</b>	<b>(2,245.0)</b>	<b>(2,248.5)</b>
<b>Net current liabilities</b>	<b>1.8</b>	<b>(1,225.3)</b>	<b>(436.9)</b>
<b>Non-current liabilities</b>			
20 Borrowings	(8,286.0)	(6,857.6)	(7,762.2)
21 Derivative financial instruments	(1,192.8)	(1,004.6)	(996.0)
23 Deferred tax liabilities	(1,393.1)	(1,049.5)	(1,060.8)
24 Retirement benefit deficit	(41.8)	(61.5)	(66.2)
22 Provisions	(6.2)	(5.2)	(5.9)
	<b>(10,919.9)</b>	<b>(8,978.4)</b>	<b>(9,891.1)</b>
<b>Total liabilities</b>	<b>(12,609.7)</b>	<b>(11,223.4)</b>	<b>(12,139.6)</b>
<b>Net assets</b>	<b>402.2</b>	<b>680.2</b>	<b>767.3</b>

Osprey Holdco Limited

## Group balance sheet (continued)

As at 31 March 2022


		At 31 March 2022	At 31 March 2021 (restated)	At 31 March 2020 (restated)
		£m	£m	£m
Notes				
<b>Capital and reserves</b>				
25	Share capital	301.5	548.2	548.2
	Retained earnings	78.7	166.1	278.1
26	Hedging reserve	20.4	(37.4)	(52.3)
26	Cost of hedging reserve	0.3	2.4	1.1
	Translation reserve	1.3	0.9	1.4
<b>Total equity</b>		<b>402.2</b>	<b>680.2</b>	<b>776.5</b>

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

The financial statements were approved by the Board of Directors on 13 July 2022 and signed on its behalf by:



**Peter Simpson**  
Chief Executive



**John Hirst**  
Chair

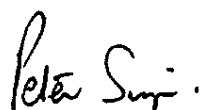
Osprey Holdco Limited  
**Company balance sheet**  
As at 31 March 2022

Notes		At 31 March 2022 £m	At 31 March 2021 £m
	<b>Non-current assets</b>		
15	Other investments	1,680.7	941.9
		<b>1,680.7</b>	<b>941.9</b>
	<b>Current assets</b>		
17	Trade and other receivables	0.3	729.0
	Current tax receivables	-	0.7
18	Cash and cash equivalents	11.6	25.0
		<b>11.9</b>	<b>754.7</b>
	<b>Total assets</b>	<b>1,692.6</b>	<b>1,696.6</b>
	<b>Current liabilities</b>		
19	Trade and other payables	(1.6)	(1.6)
20	Borrowings	(567.2)	(1,029.2)
		<b>(568.8)</b>	<b>(1,030.8)</b>
	<b>Net current liabilities</b>	<b>(556.9)</b>	<b>(276.1)</b>
	<b>Non-current liabilities</b>		
20	Borrowings	(462.0)	-
		<b>(462.0)</b>	<b>-</b>
	<b>Total liabilities</b>	<b>(1,030.8)</b>	<b>(1,030.8)</b>
	<b>Net assets</b>	<b>661.8</b>	<b>665.8</b>
	<b>Capital and reserves</b>		
25	Share capital	301.5	548.2
	Retained earnings	360.3	117.6
	<b>Total equity</b>	<b>661.8</b>	<b>665.8</b>

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

The loss for the year of the company was £4.0 million (2021: profit of £25.8 million).

The financial statements were approved by the Board of Directors on 13 July 2022 and signed on its behalf by:



**Peter Simpson**  
Chief Executive  
Company number: 05915869

**John Hirst**  
Chair

## Group Statement of changes in equity

For the year ended 31 March 2022

	Stated capital	Retained earnings	Hedging reserve	Cost of hedging reserve	Translation reserve	Total equity
	£m	£m	£m	£m	£m	£m
At 1 April 2020 (as previously reported)	548.2	317.3	(52.3)	1.1	1.4	815.7
Change in accounting policy	-	(39.2)	-	-	-	(39.2)
At 1 April 2020 (restated)	548.2	278.1	(52.3)	1.1	1.4	776.5
Profit for the year	-	25.2	-	-	-	25.2
Other comprehensive						
Actuarial losses on retirement	-	(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	-	-	(3.5)	(0.3)	-	(3.8)
Currency translation differences	-	-	-	-	(0.5)	(0.5)
	-	(137.2)	14.9	1.3	(0.5)	(121.5)
Total comprehensive (expense)/income	-	(112.0)	14.9	1.3	(0.5)	(96.3)
At 31 March 2021 (restated)	548.2	166.1	(37.4)	2.4	0.9	680.2
Loss for the year	-	(497.6)	-	-	-	(497.6)
Other comprehensive						
Actuarial gains on retirement	-	203.8	-	-	-	203.8
Income tax charge on items that will not be reclassified	-	(40.3)	-	-	-	(40.3)
Gains on cash flow hedges	-	-	59.3	-	-	59.3
Losses on cost of hedging	-	-	-	(2.6)	-	(2.6)
Amounts on hedging reserves transferred to income statement	-	-	14.0	-	-	14.0
Deferred tax movement on hedging	-	-	(15.5)	0.5	-	(15.0)
Currency translation differences	-	-	-	-	0.4	0.4
	-	163.5	57.8	(2.1)	0.4	219.6
Total comprehensive (expense)/income	-	(334.1)	57.8	(2.1)	0.4	(278.0)
Capital reduction	(246.7)	246.7	-	-	-	-
<b>At 31 March 2022</b>	<b>301.5</b>	<b>78.7</b>	<b>20.4</b>	<b>0.3</b>	<b>1.3</b>	<b>402.2</b>

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 Holdco Limited

## Company Statement of changes in equity

For the year ended 31 March 2022

	Stated capital £m	Retained earnings £m	Total equity £m
At 1 April 2020	548.2	91.8	<b>640.0</b>
Profit for the year	-	25.8	<b>25.8</b>
Total comprehensive income	-	25.8	<b>25.8</b>
At 31 March 2021 (restated)	548.2	117.6	<b>665.8</b>
Loss for the year	-	(4.0)	<b>(4.0)</b>
Total comprehensive expense	-	(4.0)	<b>(4.0)</b>
Capital reduction	(246.7)	246.7	-
<b>At 31 March 2022</b>	<b>301.5</b>	<b>360.3</b>	<b>661.8</b>

## Cashflow statement

For the year ended 31 March 2022

	<b>Group</b>		<b>Company</b>	
	<b>Year</b>	<b>Year</b>	<b>Year</b>	<b>Year</b>
	<b>ended</b>	<b>ended</b>	<b>ended</b>	<b>ended</b>
	<b>31 March</b>	<b>31 March</b>	<b>31 March</b>	<b>31 March</b>
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
		(restated)		
Notes	£m	£m	£m	£m
<b>Operating activities</b>				
Operating profit/(loss)	<b>436.7</b>	367.6	<b>(0.1)</b>	(0.1)
Adjustments for:				
Depreciation and amortisation	<b>351.1</b>	342.0	-	-
Assets adopted for £nil consideration	<b>(39.2)</b>	(29.3)	-	-
Profit on disposal of property, plant and equipment	<b>(5.0)</b>	(1.5)	-	-
Difference between pension charge and cash	<b>(26.6)</b>	(47.2)	-	-
Net movement in provisions	<b>(3.1)</b>	0.9	-	-
Working capital:				
Increase in inventories	<b>(2.2)</b>	(1.9)	-	-
(Increase)/decrease in trade and other receivables	<b>(15.3)</b>	27.1	-	-
Decrease/(increase) in trade and other payables	<b>47.0</b>	(43.5)	-	-
<b>Cash generated from operations</b>	<b>743.4</b>	614.2	<b>(0.1)</b>	(0.1)
Income taxes paid	<b>(0.8)</b>	(0.5)	<b>0.7</b>	-
<b>Net cash flows from/(used in) operating activities</b>	<b>742.6</b>	613.7	<b>0.6</b>	(0.1)
<b>Investing activities</b>				
Repayment of loans by subsidiaries	-	-	<b>17.7</b>	4.7
Loans to subsidiaries	-	-	<b>(27.7)</b>	-
Repayment of loans/(loans to) joint ventures	<b>2.0</b>	(2.7)	-	-
Purchase of property, plant and equipment	<b>(465.8)</b>	(340.3)	-	-
Purchase of intangible assets	<b>(58.7)</b>	(58.8)	-	-
Proceeds from disposal of property, plant and equipment	<b>5.7</b>	1.8	-	-
Interest received	<b>3.4</b>	4.4	<b>0.4</b>	0.7
(Increase)/decrease in short-term bank deposits	<b>(342.2)</b>	240.4	-	-
Dividends received from subsidiaries	-	-	<b>21.0</b>	55.9
<b>Net cash (used in)/from investing activities</b>	<b>(855.6)</b>	(155.2)	<b>11.4</b>	61.3
<b>Financing activities</b>				
Interest paid	<b>(281.9)</b>	(244.6)	<b>(25.4)</b>	(3.2)
Debt issue costs paid	<b>(28.7)</b>	(3.3)	-	-
Receipt of premium on borrowings	-	7.7	-	-
Interest paid on leases	<b>(1.2)</b>	(1.0)	-	-
Proceeds from amounts borrowed	<b>2,040.5</b>	303.1	-	-
Repayment of amounts borrowed	<b>(1,338.4)</b>	(1,037.0)	-	(53.0)
Receipt of principal on derivatives	<b>75.9</b>	-	-	-
Repayment of principal on derivatives	-	(63.5)	-	-
Repayment of principal on leases	<b>(13.1)</b>	(13.3)	-	-
<b>Net cash from/(used in) financing activities</b>	<b>453.1</b>	(1,051.9)	<b>(25.4)</b>	(56.2)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>340.1</b>	(593.4)	<b>(13.4)</b>	5.0
<b>Cash and cash equivalents at 1 April</b>	<b>273.3</b>	866.7	<b>25.0</b>	20.0
<b>Cash and cash equivalents at 31 March</b>	<b>613.4</b>	273.3	<b>11.6</b>	25.0

## Notes to the financial statements

For the year ended 31 March 2022

### 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 section 474(1) of the Companies Act 2006) under international accounting standards which are adopted for use within the United Kingdom by virtue of Chapter 2 or 3 of Part 2 of the International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019. The 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 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



## Notes to the financial statements (continued)

For the year ended 31 March 2022

### 1. Accounting policies (continued)

#### b) Basis of preparation (continued)

previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

#### **Going concern**

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

Given the relative size and importance of Anglian Water Services Limited (AWS) to the Group, the assessment initially focused on the going concern of AWS and is then updated to include wider Group considerations, including the Anglian Venture Holdings businesses and its ability to support the Wave joint venture if required.

In line with the assessment at March 2021, the review included a range of downside outcomes as a result of the macro-economic environment. Key updates since the previous assessment are as follows:

- Our plans now reflect the CMA FD as adjusted by the "Interim Determination of K" (IDOK) and revised opex and capex forecasts as part of our re-forecasting process.
- Financial restructuring has been largely completed in 2021/22 with debt raised at a new HoldCo (Aigrette) and MidCo (Osprey). A new CTA has been contracted at Osprey. £602m of new debt has been raised at Osprey and £560m of new debt has been raised at Aigrette. An equity injection of c. £1.2bn was made into AWS and therefore net debt and leverage in AWS has reduced significantly with gearing at March 2022 at c. 66% which is slightly lower than forecasts provided to rating agencies due to high inflation. Covenant headrooms for Osprey have further improved from those in the Going Concern Paper for the March 2021 accounts. At Aigrette Default headroom remains substantial. Changes in headrooms have been impacted by changes in the debt mix between Osprey and Aigrette.
- The risks around COVID-19 for 2021/22 have moderated substantially as a consequence of the government support to individuals and businesses and consequently the downside scenarios have reduced. The strong recovery of the economy together with low unemployment and high job vacancies has reduced the risk of downside impacts to cash collection. There is however increased risk due to the cost of living crisis we are now facing.
- Higher inflation is improving gearing relative to RCV.
- Our ODI performance has now been reflected in our forecasts.

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

## Notes to the financial statements (continued)

For the year ended 31 March 2022

### 1. Accounting policies (continued)

#### b) Basis of preparation (continued)

##### *Going concern* (continued)

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, as part of the capital restructure conducted within the period, Osprey Acquisitions Limited also has a common terms debt platform similar to that at Anglian Water Services Limited. This has replaced the Trust Deed of Covenants that previously existed and operates a single set of covenants that applies to all debt raised at this level of the Group. Existing debt within Osprey Acquisitions Limited have acceded to this new financing arrangement.

Given the CMA FD improving returns from the challenging Ofwat FD, together with improved headrooms resulting from the recent refinancing, headroom to accommodate severe downside shocks has improved. In assessing Going Concern the Directors have considered a number of perspectives as follows:

- Liquidity – the Group holds sufficient liquidity to cover the going concern period.
- Wave - the capital structure of Wave comprises long term debt/equity and short term working capital provided by its two shareholders, AVH and Northumbrian Water. These facilities are backed by cash reserves held in OHL and AVH and are designed to give sufficient liquidity to Wave to manage under stress tested downside scenarios.
- Profitability – The majority of the Group’s revenues are underpinned by the regulatory model and the business has a detailed plan in place to deliver in line with the CMA FD.
- Interest cover ratios – The business has significant headroom against Default Events (where class A interest cover ratio less than 1.6:1) under its securitised covenants with no plausible scenario identified that would cause an Event of Default. We also have comfortable headroom against Trigger Events and whilst undesirable, a Trigger Event would not impact on the going concern assumption.
- Macro-economic factors – a base case has been projected into our forecasts in our analysis. We are also modelling worst case scenarios, which demonstrate that we do not hit Event of Default levels on our covenants.
- Long-term viability – the downside scenarios run show that the viability of the business is strengthened as a result of the CMA FD and the successful implementation of our financial restructuring.

Based on the above, the Directors believe that the business has sufficient liquidity to meet its liabilities as they fall due and it is therefore appropriate for the accounts to be prepared on a going concern basis.

## Notes to the financial statements (continued)

For the year ended 31 March 2022

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

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

In the prior year, the Group adopted 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 are amended as a result of the interest rate benchmark reform.

In the current year, the Group adopted Phase 2 of the Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39 and IFRS 7. Adopting these amendments enables the Group to reflect the effects of transitioning from interbank offered rates (IBOR) to alternative benchmark interest rates (also referred to as 'risk free rates' or RFRs) without giving rise to accounting impacts that would not provide useful information to users of financial statements.

## Notes to the financial statements (continued)

For the year ended 31 March 2022

### 1. Accounting policies (continued)

#### b) Basis of preparation (continued)

##### ***Standards, amendments and interpretations effective or adopted (continued)***

As a result of the Phase 2 amendments:

- When the contractual terms of the Group's bank borrowings are amended as a direct consequence of the interest rate benchmark reform, and the new basis for determining the contractual cash flows is economically equivalent to the basis immediately preceding the change, the Group changes the basis for determining the contractual cash flows prospectively by revising the effective interest rate. If additional changes are made, which are not directly related to the reform, Phase 2 amendments wouldn't be applied to the other changes.
- When changes are made to the hedging instruments, hedged item and hedged risk as a result of the interest rate benchmark reform, the Group updates the hedge documentation without discontinuing the hedging relationship and, in the case of a cash flow hedge, the amount accumulated in the cash flow hedge reserve is deemed to be based on the new RFR.

Both the Phase 1 and Phase 2 amendments are relevant to the Group because it applies hedge accounting to a proportion of its interest rate benchmark exposures. In the current period, modifications in response to the reform have been made to all of the Group's eligible derivative and non-derivative financial instruments and the Group has no further exposure to IBOR.

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

In April 2021, the IFRS Interpretations Committee ('IFRIC') agenda decision on the treatment of configuration and customisation costs in a cloud computing arrangement was ratified by the International Accounting Standards Board. The guidance clarified that in order for an intangible asset to be capitalised in relation to customisation and configuration costs in a software-as-a-service (SaaS) arrangement, it is necessary for there to be a separate intangible asset which meets the definition in IAS 38 Intangible Assets.

The Group's previous policy was to capitalise such customisation and configuration costs. The Group has therefore changed its accounting policy to align to the agenda decision. A detailed assessment was conducted to identify the impact to align the current year financial statements to this conclusion and to restate comparative periods.

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

## Notes to the financial statements (continued)

For the year ended 31 March 2022

## 1. Accounting policies (continued)

## b) Basis of preparation (continued)

*Standards, amendments and interpretations effective or adopted (continued)***Condensed Restated Income Statement****Year ended 31 March 2021**

	As published £m	Change in Accounting policy £m	Restated £m
<b>Continuing operations</b>			
Operating costs			
Operating costs before depreciation and amortisation	(646.6)	(15.6)	<b>(662.2)</b>
Depreciation and amortisation	(354.9)	12.9	<b>(342.0)</b>
<b>Operating profit</b>	370.3	(2.7)	<b>367.6</b>
Finance costs including fair value losses on derivative financial instruments	(312.1)	(0.8)	<b>(312.9)</b>
Profit before tax from continuing operations			
Profit before fair value losses on derivative financial instruments	78.7	(3.5)	<b>75.2</b>
<b>Profit before tax from continuing operations</b>	55.5	(3.5)	<b>52.0</b>
Tax	(27.5)	0.7	<b>(26.8)</b>
<b>Profit for the year</b>	28.0	(2.8)	<b>25.2</b>

**Condensed Group Balance Sheet at 1 April 2020****At 1 April 2020**

	As published £m	Change in Accounting policy £m	Restated £m
<b>Non-current assets</b>			
Intangible assets	230.6	(48.4)	<b>182.2</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities	(1,060.8)	9.2	<b>(1,051.6)</b>
<b>Net assets</b>	815.7	(39.2)	<b>776.5</b>
<b>Capital and reserves</b>			
Retained earnings	317.3	(39.2)	<b>278.1</b>
<b>Total equity</b>	815.7	(39.2)	<b>776.5</b>

## Notes to the financial statements (continued)

For the year ended 31 March 2022

## 1. Accounting policies (continued)

## b) Basis of preparation (continued)

*Standards, amendments and interpretations effective or adopted (continued)*

## Condensed Group Balance Sheet at 31 March 2021

At 31 March 2021

	As published £m	Change in Accounting policy £m	Restated £m
<b>Non-current assets</b>			
Intangible assets	267.7	(62.9)	<b>204.8</b>
<b>Current liabilities</b>			
Trade and other payables	(526.9)	11.0	<b>(515.9)</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities	(1,059.4)	9.9	<b>(1,049.5)</b>
<b>Net assets</b>	722.2	(42.0)	<b>680.2</b>
<b>Capital and reserves</b>			
Retained earnings	208.1	(42.0)	<b>166.1</b>
<b>Total equity</b>	722.2	(42.0)	<b>680.2</b>

## Notes to the financial statements (continued)

For the year ended 31 March 2022

### 1. Accounting policies (continued)

#### b) Basis of preparation (continued)

##### ***Standards, amendments and interpretations effective or adopted (continued)***

In addition, as a result of the above, cash generated from operating activities increased by £26.5 million with a corresponding increase in cash used in investing activities.

#### iii Other amendments

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

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

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

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

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

## Notes to the financial statements (continued)

For the year ended 31 March 2022

### 1. Accounting policies (continued)

#### 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'.

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

#### d) Segmental reporting

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



## Notes to the financial statements (continued)

For the year ended 31 March 2022

### 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.

##### *Secondary source of income*

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

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

#### i) *New connection charges*

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

## Notes to the financial statements (continued)

For the year ended 31 March 2022

### 1. Accounting policies (continued)

#### e) Revenue recognition (continued)

##### ii *Self-lay, requisitions and adoption fees*

Revenue recognition is consistent with new connection charges (see (i) above).

##### iii *Fair value of assets adopted for Enil consideration*

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

##### iv *Infrastructure charges*

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

##### v *Diversions*

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

##### *Non-appointed activities*

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

#### **Other sources of revenue**

##### i *Other operating income*

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

##### ii *Service contracts*

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

##### iii *Property development*

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

## Notes to the financial statements (continued)

For the year ended 31 March 2022

### 1. Accounting policies (continued)

#### f) Research and development

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

#### g) Exceptional items

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

#### h) Operating profit

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

#### 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 substantively 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.

## Notes to the financial statements (continued)

For the year ended 31 March 2022

### 1. Accounting policies (continued)

#### k) Intangible assets

##### i *Goodwill*

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

##### ii *Right to operate intangible assets*

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

##### iii *Other intangible assets*

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

Other intangible assets are shown at cost less subsequent amortisation and any impairment.

Amortisation of intangible assets is calculated on a straight-line basis over their estimated useful lives, which are primarily three to 10 years.

##### Software-as-a-Service (SaaS) arrangements

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

Some of the costs incurred relate to the development of software code that enhances or modifies, or creates additional capability to, existing on-premise systems and meets the definition of, and the recognition criteria for, an intangible asset. These costs are recognised as intangible software assets and amortised over the useful life of the software on a straightline basis. The useful lives of these assets are reviewed at least at the end of each financial year, and any change accounted for prospectively as a change in accounting estimate.

## Notes to the financial statements (continued)

For the year ended 31 March 2022

### 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.

## Notes to the financial statements (continued)

For the year ended 31 March 2022

### 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.

## Notes to the financial statements (continued)

For the year ended 31 March 2022

### 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. Cost is calculated using the weighted average cost method. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

## Notes to the financial statements (continued)

For the year ended 31 March 2022

### 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.

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

The write off policy has been consistently applied throughout 2021/22. Debt is only written off after all available economic options for collecting the debt have been exhausted and the debt has been deemed to be uncollectable or is subject to a settlement agreement or forgiveness scheme. This may be because it is, unrealistic, impractical, inefficient or uneconomic to collect the debt.

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

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

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

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



## Notes to the financial statements (continued)

For the year ended 31 March 2022

### 1. Accounting policies (continued)

#### 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.

## Notes to the financial statements (continued)

For the year ended 31 March 2022

### 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.

## Notes to the financial statements (continued)

For the year ended 31 March 2022

### 1. Accounting policies (continued)

#### u) Derivative financial instruments (continued)

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.

#### *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.

## Notes to the financial statements (continued)

For the year ended 31 March 2022

### 1. Accounting policies (continued)

#### u) Derivative financial instruments (continued)

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).

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.

## Notes to the financial statements (continued)

For the year ended 31 March 2022

### 1. Accounting policies (continued)

#### u) Derivative financial instruments (continued)

##### 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 associated to property and other leases, not included in the calculation of the ROU asset, to the extent that these costs are not 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.

## Notes to the financial statements (continued)

For the year ended 31 March 2022

### 2. Key assumptions and significant judgements (continued)

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 to markets, businesses and people throughout the world. Climate change is embedded into everything we do and the risks associated are fully integrated in our strategy and our risk management processes as well as heavily considered in preparation of long-term plans and delivery of individual investments. 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 Taskforce for 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 £108.7 million (2021: £101.7 million) of own work capitalised. Judgement is made to ensure these costs relate to relevant assets and that future economic benefit will flow to the Group.

During the year, the Group recognised £46.1 million (2021: £37.3 million) SaaS arrangements as intangible assets.

Judgement is made over the capitalisation of customisation and configuration activities undertaken in implementing these SaaS arrangements. This may entail the development of software code that enhances or modifies, or creates additional capability to the existing on-premise software to enable it to connect with the cloud-based software applications (referred to as bridging modules or APIs). Judgement was applied in determining whether the additional code meets the definition of, and the recognition criteria for, an intangible asset in IAS 38 Intangible Assets.

Costs incurred to configure or customise the cloud provider's application software are recognised as operating expenses when the services are received. In a contract where the cloud provider provides both the SaaS configuration and customisation, and the SaaS access over the contract term, judgement is applied to determine whether these services are distinct from each other or not, and therefore, whether the configuration and customisation costs incurred are expensed as the software is configured or customised (i.e. upfront), or over the SaaS contract term.

Specifically, where the configuration and customisation activities significantly modify or customise the cloud software, these activities are not distinct from the access to the cloud software over the contract term. Judgement has been applied in determining whether the degree of customisation and modification of the cloud-based software is significant.

##### 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

## Notes to the financial statements (continued)

For the year ended 31 March 2022

### 2. Key assumptions and significant judgements (continued)

#### a) Significant judgements (continued)

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. The potential future impacts of climate change is considered as part of the review of asset lives, no adjustments were identified. 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*

##### a) *Income from connections to the water and wastewater network*

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

- 1) New connection charges £13.9 million (2021: £12.3 million) – developer request for the provision of new connections to the network.
- 2) Infrastructure charges £20.1 million (2021: £19.4 million) – developers' contribution to offsite network reinforcement as permitted by the Water Industry Act.
- 3) Self-lay, requisitions and adoption fees £7.4 million (2021: £6.5 million) – providing the developer with assistance in the construction of assets which enable the development to be connected to the network.
- 4) Adopted assets at nil consideration £39.2 million (2021: £29.3 million) – developer contributes assets on a nil consideration basis that have been installed on a new development.

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

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

For 3 and 4, it is the developer who constructs and transfers the asset, and therefore similar to the above, the agreement is between ourselves and the developer. The occupants of the properties served are unaware of the transaction and indifferent to who is maintaining the asset, they receive no benefit from the transaction.

Our obligation is to inspect and adopt the assets. As such, the Group considers that the ongoing obligation to maintain the assets is a separate contract with the property owner (in most cases the

## Notes to the financial statements (continued)

For the year ended 31 March 2022

### 2. Key assumptions and significant judgements (continued)

#### a) Significant judgements (continued)

household customer) and separate from the contract with the developer. Therefore revenue from these streams should be recognised at a point in time when the contract with the developer is fulfilled; on connection, completion, or adoption.

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

#### b) *Diversions*

The Group also receives income from various authorities which is reimbursing the cost of diverting assets due to them presenting an obstruction to the construction or upgrade of infrastructure such as roads or rail. Diversion income within the year amounted to £8.1 million (2021: £7.5 million).

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



## Notes to the financial statements (continued)

For the year ended 31 March 2022

### 2. Key assumptions and significant judgements (continued)

#### b) Key sources of estimation uncertainty

The key areas involving estimation are outlined below.

##### i *Measured income accrual*

For Anglian Water the measured income accrual is an estimation of the amount of main water and wastewater charges unbilled at the year end. The accrual is estimated using a defined methodology based upon weighted average water consumption by tariff, which is calculated based upon historical billing information. The calculation is sensitive to estimated consumption for measured domestic customers. For 2021/22 the average consumption for measured household customers was 100 cubic meters, a fall or rise of two cubic metres (2 per cent) in average annual consumption will reduce or increase revenue by approximately £11.2 million respectively.

##### ii *Retirement benefit actuarial assumptions*

The Group operates a number of defined benefit schemes (which are closed to new members and future accruals) as well as a defined contribution scheme and an unfunded arrangement for former employees. Under IAS 19 'Employee Benefits', the Group has recognised an actuarial gain of £203.8 million (2021: loss of £169.4 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.

#### c) Other area involving estimation

##### i *Expected credit loss on trade receivables*

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

The 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 apply three key judgements when determining the bad debt provision:

##### 1. Look-back period – the period that is used when determining our cash collection performance

A four year cash collection look-back period has been utilised. Management have considered the impact on the bad debt provision and the relative sensitivity of utilising a five year or a three year period. Utilising the cash collection rates for the previous three years would reduce the bad debt charge by £0.1m, whilst utilising the previous five years would have a negligible effect.

## Notes to the financial statements (continued)

For the year ended 31 March 2022

### 2. Key assumptions and significant judgements (continued)

#### c) Other area involving estimation (continued)

##### 2. Assessment of the impact of the wider economy on future cash collection (macro-economic)

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

An increase in peak unemployment rates by 1% in the year to March 2023 would increase the bad debt provision by £2.1m.

A decrease in real wage growth of 1% in the year to March 2023 would increase the bad debt provision by £1.3m.

##### 3. Point at which we fully provide for outstanding debt

Debtors are fully provided for once they reach six years overdue. This period has increased from four years in the prior year following a review of cash collection rates for aged debt and includes an estimation of the recovery profile for debtors aged between four and six years overdue. Different methods for profiling collection rates could be applied which would change the total provision recorded.

## Notes to the financial statements (continued)

For the year ended 31 March 2022

### 3. Segmental information

#### By class of business for the year ended 31 March 2022

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

At 31 March 2022 the Group was organised into the following main businesses:

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

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

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

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

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 plus share of joint ventures operating loss.

## Notes to the financial statements (continued)

For the year ended 31 March 2022

## 3. Segmental information (continued)

## By class of business for the year ended 31 March 2022

	Anglian Water £m	Anglian Venture Holdings £m	Head Office and Other £m	Inter- segment eliminations £m	Total £m
<b>Revenue</b>					
External	1,399.8	53.0	-	-	<b>1,452.8</b>
Inter-segment	-	7.9	24.6	(32.5)	-
	<b>1,399.8</b>	<b>60.9</b>	<b>24.6</b>	<b>(32.5)</b>	<b>1,452.8</b>
<b>Segment result</b>					
EBITDA	788.5	10.3	(11.0)	-	<b>787.8</b>
Depreciation and amortisation	(347.7)	(2.9)	(0.5)	-	<b>(351.1)</b>
Share of joint venture's operating loss	-	(0.4)	-	-	<b>(0.4)</b>
Inter-segment	-	-	9.5	(9.5)	-
	<b>440.8</b>	<b>7.0</b>	<b>(2.0)</b>	<b>(9.5)</b>	<b>436.3</b>
<b>Cash flows</b>					
Operating cash flow	749.9	14.7	(21.2)	-	<b>743.4</b>
Capital expenditure	(518.2)	(0.6)	-	-	<b>(518.8)</b>
Net debt excluding derivative financial instruments	(5,621.3)	3.8	(2,689.8)	-	<b>(8,307.3)</b>

## Notes to the financial statements (continued)

For the year ended 31 March 2022

## 3. Segmental information (continued)

## By class of business for the year ended 31 March 2021

	Anglian Water (restated) £m	Anglian Venture Holdings £m	Head Office and Other £m	Inter- segment eliminations £m	Total £m
Revenue					
External	1,351.6	36.2	2.6	-	1,390.4
Inter-segment	0.2	6.8	-	(7.0)	-
	1,351.8	43.1	2.6	(7.0)	1,390.4
Segment result					
EBITDA	727.3	4.5	(22.2)	-	709.6
Depreciation and amortisation	(338.4)	(2.8)	(0.8)	-	(342.0)
Share of joint venture's operating loss	-	(6.3)	-	-	(6.3)
	388.9	(4.6)	(23.0)	-	361.3
Cash flows					
Operating cash flow	632.8	8.3	(26.9)	-	614.2
Capital expenditure	(395.8)	0.2	(1.7)	-	(397.3)
Net debt excluding derivative financial instruments	(6,649.8)	(11.9)	(1,530.7)	-	(8,192.4)

## By geographical segment

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

	Year ended 31 March 2022 £m	Year ended 31 March 2021 £m
<b>Revenue</b>		
United Kingdom	1,416.3	1,361.9
Other countries	36.5	28.5
	1,452.8	1,390.4
<b>Segment result</b>		
United Kingdom	430.3	360.3
Other countries	6.0	1.0
	436.3	361.3
<b>Non-current assets</b>		
United Kingdom	11,306.8	10,867.9
Other countries	13.5	16.0
	11,320.3	10,883.9

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

## Notes to the financial statements (continued)

For the year ended 31 March 2022

## 3. Segmental information (continued)

## Reconciliation of segmental information

	Year ended 31 March 2022 £m	Year ended 31 March 2021 £m
<b>Segment result</b>	<b>436.3</b>	361.3
Finance income	3.4	4.4
Finance costs	(646.0)	(312.9)
Share of joint ventures interest payable	(1.8)	(2.1)
Share of joint ventures tax	(0.4)	1.3
<b>(Loss)/profit before tax from continuing operations</b>	<b>(208.5)</b>	52.0
<b>Total operating cash flow by segment</b>	<b>743.4</b>	614.2
Income taxes paid	(0.8)	(0.5)
<b>Net cash flows from operating activities</b>	<b>742.6</b>	613.7
Purchase of property, plant and equipment	(465.8)	(340.3)
Purchase of intangible assets	(58.7)	(58.8)
Proceeds from disposal of property, plant and equipment	5.7	1.8
<b>Capital expenditure spend by segment</b>	<b>(518.8)</b>	(397.3)
Cash and cash equivalents	613.4	273.3
Cash deposits	430.7	88.5
Borrowings due within one year	(1,065.4)	(1,696.6)
Borrowings due after more than one year	(8,286.0)	(6,857.6)
<b>Net debt by segment</b>	<b>(8,307.3)</b>	(8,192.4)
Derivative financial instruments <sup>(1)</sup>	(1,162.0)	(841.0)
<b>Net debt</b>	<b>(9,469.3)</b>	(9,033.4)

<sup>(1)</sup> Derivative financial instruments exclude the asset of £73.4 million (2021: asset of £9.0 million) in respect of the fair value of energy hedges, as these are not classified as part of net debt.

## Notes to the financial statements (continued)

For the year ended 31 March 2022

**4. Revenue**

	Year ended 31 March 2022 £m	Year ended 31 March 2021 £m
Water and water recycling services:		
Anglian Water		
Household - measured	807.1	813.4
Household - unmeasured	221.3	219.8
Non-household - measured	228.9	206.3
Grants and contributions	100.1	75.6
Other	42.4	36.7
	1,399.8	1,351.8
Anglian Venture Holdings	60.9	43.1
Inter-segment eliminations	(7.9)	(7.0)
	1,452.8	1,387.9
Property revenue	-	2.6
	1,452.8	1,390.4

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

Other includes £25.2 million (2021: £20.4 million) of revenue related to non-appointed business activities.

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

**5. Other operating income**

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

## Notes to the financial statements (continued)

For the year ended 31 March 2022

**6. Operating costs**

	Year ended 31 March 2022 £m	Year ended 31 March 2021 £m
Raw materials and consumables	29.0	24.2
Staff costs	266.9	256.4
Research and development	7.7	7.6
Contribution to Anglian Water Assistance Fund	2.2	1.2
Short-term lease costs	2.8	2.8
Hired and contracted services	233.0	232.8
Rates	66.9	67.4
Power	83.0	83.2
Regulatory fees	28.6	27.0
Insurance	11.9	8.8
Vehicles and fuel	13.0	11.2
Other expenses	34.9	42.8
Own work capitalised	(108.7)	(101.7)
Profit on disposal of property, plant and equipment <sup>(1)</sup>	(5.0)	(1.5)
<b>Operating costs before depreciation, amortisation and charge for bad and doubtful debts</b>	<b>666.2</b>	<b>662.2</b>
Depreciation of property, plant and equipment	310.0	303.4
Amortisation of intangible assets	41.0	38.6
Depreciation of investment properties	0.1	-
<b>Depreciation and amortisation</b>	<b>351.1</b>	<b>342.0</b>
<b>Charge for bad and doubtful debts</b>	<b>11.1</b>	<b>31.1</b>
<b>Operating costs</b>	<b>1,028.4</b>	<b>1,035.3</b>

<sup>(1)</sup> 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 2022 £m	Year ended 31 March 2021 £m
Fees payable to the company's Auditor for the audit of the company and the consolidated financial statements	0.6	0.5
Fees payable to the company's Auditor for other services		
Audit-related assurance services	0.3	0.2
	<b>0.9</b>	<b>0.7</b>

The company's Auditor for the year ended 31 March 2022 and 31 March 2021 was Deloitte LLP. Audit related assurance services predominantly relate to regulatory reporting to Ofwat and the review of the Group's half-year results.



## Notes to the financial statements (continued)

For the year ended 31 March 2022

**7. Net finance costs**

	Year ended 31 March 2022 £m	Year ended 31 March 2021 £m
<b>Finance income</b>		
Interest income on short-term bank deposits	1.7	2.4
Other interest income	1.7	2.0
	<b>3.4</b>	<b>4.4</b>
<b>Finance costs</b>		
Interest expense on bank loans and overdrafts	(2.7)	(5.7)
Interest expense on other loans including financing expenses	(290.2)	(262.7)
Indexation of loan stock	(255.0)	(48.6)
Amortisation of debt issue costs	(12.9)	(5.7)
Interest on leases	(1.2)	(1.0)
Amortisation of fair value adjustments	13.9	14.9
Unwinding of discount on provisions	-	0.4
Defined benefit pension scheme interest	0.5	3.9
Total finance costs	(547.6)	(304.5)
Less: amounts capitalised on qualifying assets	16.7	14.8
	<b>(530.9)</b>	<b>(289.7)</b>
<b>Fair value losses on derivative financial instruments</b>		
Fair value gains/(losses) on energy hedges	-	2.3
Hedge ineffectiveness on cash flow hedges <sup>(1)</sup>	0.5	1.4
Hedge ineffectiveness on fair value hedges <sup>(2)</sup>	0.4	2.3
Amortisation of adjustment to debt in fair value hedge	(0.1)	(0.1)
Derivative financial instruments not designated as hedges	(104.1)	(16.6)
Recycling of de-designated cash flow hedge relationship	(11.8)	(12.5)
	<b>(115.1)</b>	<b>(23.2)</b>
<b>Finance costs, including fair value losses on derivative financial instruments</b>	<b>(646.0)</b>	<b>(312.9)</b>
<b>Net finance costs</b>	<b>(642.6)</b>	<b>(308.5)</b>

- <sup>(1)</sup> Hedge ineffectiveness on cash flow hedges results from instances where the movement in the fair value of the derivative exceeds the movement in the hedged risk. See note 21 for details.
- <sup>(2)</sup> Hedge ineffectiveness on fair value hedges comprises fair value losses on hedging instruments of £67.6 million (2021: loss of £60.8 million), offset by fair value gains of £67.9 million on hedged risks (2021: gains of £63.1 million).

## Notes to the financial statements (continued)

For the year ended 31 March 2022

**8. Taxation**

	Year ended 31 March 2022	Year ended 31 March 2021 (restated)
	£m	£m
<b>Current tax:</b>		
In respect of the current period	0.8	0.5
<b>Total current tax charge</b>	<b>0.8</b>	<b>0.5</b>
<b>Deferred tax:</b>		
Origination and reversal of temporary differences	(56.4)	20.6
Adjustments in respect of previous periods	(0.8)	5.7
Increase in corporation tax rate	345.5	-
<b>Total deferred tax charge</b>	<b>288.3</b>	<b>26.3</b>
<b>Total tax charge on profit/(loss) from continuing operations</b>	<b>289.1</b>	<b>26.8</b>

The current tax charges in both years reflect tax payable overseas. No current tax is payable in the UK due mainly to the availability of capital allowances and the tax relief due on interest payments.

The Finance Bill 2021 introduced legislation to increase the main rate of UK corporation tax from 19 per cent to 25 per cent, effective 1 April 2023.

As the deferred tax liability is expected to arise after that date, deferred tax balances as at 31 March 2021 have been re-measured at a rate of 25 per cent.

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

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

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

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

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

## Notes to the financial statements (continued)

For the year ended 31 March 2022

**8. Taxation (continued)**

	Year ended 31 March 2022	Year ended 31 March 2021 (restated)
	£m	£m
(Loss)/profit before tax from continuing operations	(208.5)	52.0
(Loss)/profit before tax from continuing operations at the standard rate of corporation tax in the UK of 19% (2021: 19%)	(39.6)	9.8
Effects of recurring items:		
Items not deductible for tax purposes		
Depreciation and losses on assets not eligible for tax relief	0.4	0.6
Disallowable expenditure	2.3	1.5
Interest restriction	4.7	8.1
Difference in overseas tax rates	(0.4)	(0.2)
Joint ventures results reported net of tax	0.5	1.3
	(32.1)	21.1
Effects of non-recurring items:		
Effect of capital allowance super deduction	(7.6)	-
Increase in corporation tax rate	345.5	-
Effects of differences between rates of current and deferred tax	(15.9)	-
Adjustments in respect of prior periods	(0.8)	5.7
<b>Tax charge for the year</b>	<b>289.1</b>	<b>26.8</b>

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

	Year ended 31 March 2022	Year ended 31 March 2021
	£m	£m
<b>Deferred tax:</b>		
Defined benefit pension schemes	51.9	(32.2)
Cash flow hedges	17.6	3.8
Increase in corporation tax rate - pension	(11.6)	-
Increase in corporation tax rate - hedges	(2.6)	-
<b>Total deferred tax charge/(credit)</b>	<b>55.3</b>	<b>(28.4)</b>
<b>Total tax charge/(credit) recognised in other comprehensive income</b>	<b>55.3</b>	<b>(28.4)</b>

## Notes to the financial statements (continued)

For the year ended 31 March 2022

**9. Employee information and Directors' emoluments****a) Employee information**

	Year ended 31 March 2022 £m	Year ended 31 March 2021 £m
<b>Staff costs</b>		
Wages and salaries	224.6	214.2
Social security costs	22.6	22.9
Pension costs - defined contribution	19.4	18.2
Pension costs - defined benefit	0.3	1.1
	<b>266.9</b>	<b>256.4</b>

Staff costs for the year ended 31 March 2022 in the table above are shown gross of £87.7 million (2021: £83.0 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 2022	Year ended 31 March 2021
Anglian Water	5,129	4,882
Anglian Venture Holdings	185	182
Other	59	54
	<b>5,373</b>	<b>5,118</b>

**The company**

The company has no employees (2021: none).

## Notes to the financial statements (continued)

For the year ended 31 March 2022

**9. Employee information and Directors' emoluments (continued)****b) Directors' emoluments**

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Aggregate emoluments	2,221	2,898
Pension costs - defined contribution	2	2
Benefits received under long-term incentive plans	-	391

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 (2021: zero Directors) under a defined benefit pension scheme. Retirement benefits are accruing to two Directors (2021: two Directors) under a defined contribution pension scheme.

**c) Highest paid director**

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Aggregate emoluments	1,304	1,710
Benefits received under long-term incentive plans	-	391

**10. (Loss)/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 loss for the year, dealt with in the financial statements of the company, was £4.0 million (2021: profit of £25.8 million).

## Notes to the financial statements (continued)

For the year ended 31 March 2022

**11. Goodwill**

	2022	Group 2021
	£m	£m
<b>Cost</b>		
At the beginning of the year	935.4	935.4
<b>At 31 March</b>	935.4	935.4
At 1 April and 31 March	935.4	935.4
<b>Accumulated impairment</b>		
At the beginning of the year	(489.6)	(489.6)
<b>At 31 March</b>	(489.6)	(489.6)
At 1 April and 31 March	(489.6)	(489.6)
<b>Net book amount</b>		
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 2022 results in headroom of £1,471 million (2021: 1.25x, £437 million). The headroom at 31 March 2022 is eliminated at an RCV multiple of 1.08x (2021: 1.20x).

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

## Notes to the financial statements (continued)

For the year ended 31 March 2022

**12. Other intangible assets**

	Computer Software £m	Right to operate £m	Internally generated £m	Group Total £m
<b>Cost</b>				
At 1 April 2020 (as previously reported)	432.8	21.6	133.0	587.4
Change in accounting policy	(70.3)	-	-	(70.3)
At 1 April 2020 (restated)	362.5	21.6	133.0	517.1
Additions (restated)	37.2	-	24.3	61.5
Disposals	(0.9)	-	-	(0.9)
Exchange adjustments	-	-	-	-
At 31 March 2021 (restated)	398.8	21.6	157.3	577.7
Additions	46.1	-	16.0	62.1
Disposals	(2.5)	-	-	(2.5)
At 31 March 2022	442.4	21.6	173.3	637.3
<b>Accumulated amortisation</b>				
At 1 April 2020 (as previously reported)	(265.3)	(9.2)	(82.3)	(356.8)
Change in accounting policy	21.9	-	-	21.9
At 1 April 2020 (restated)	(243.4)	(9.2)	(82.3)	(334.9)
Charge for the year (restated)	(18.1)	(2.3)	(18.2)	(38.6)
Disposals	0.8	-	-	0.8
Exchange adjustments	-	(0.2)	-	(0.2)
At 31 March 2021 (restated)	(260.7)	(11.7)	(100.5)	(372.9)
Charge for the year	(23.5)	(2.3)	(15.2)	(41.0)
Disposals	2.1	-	-	2.1
At 31 March 2022	(282.1)	(14.0)	(115.7)	(411.8)
<b>Net book amount</b>				
At 31 March 2022	160.3	7.6	57.6	225.5
At 31 March 2021 (restated)	138.1	9.9	56.8	204.8

As discussed in note 1, computer software has been restated as a result of the IFRIC guidance clarification on treatment of configuration and customisation costs in a cloud computing arrangement resulting in a change of our accounting policies over capitalisation.

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

Included within additions above is £3.1 million (2021: £3.6 million) of interest that has been capitalised on qualifying assets, at an average rate of 4.8 per cent (2021: 4.4 per cent).

Intangible assets with a cost of £2.4 million and net book value £0.5 million were disposed of during the year (2021: £nil).

Included within intangible assets above are assets under construction of £101.4 million (2021: (restated) £91.2 million), which are not yet subject to amortisation.

**The company**

The company has no intangible assets (2021: none).

## Notes to the financial statements (continued)

For the year ended 31 March 2022

**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
<b>Cost</b>						
At 1 April 2020	88.5	7,061.3	6,238.9	895.9	370.7	14,655.3
Additions	-	-	-	0.8	403.4	404.2
Transfers on commissioning	0.7	98.3	164.3	74.6	(337.9)	-
Disposals	(0.6)	-	(2.9)	(24.6)	-	(28.1)
At 31 March 2021	88.6	7,159.6	6,400.3	946.7	436.2	15,031.4
Additions	-	-	-	0.5	572.4	572.9
Transfers on commissioning	6.4	122.5	114.4	128.0	(371.3)	-
Disposals	(1.0)	-	(7.3)	(24.3)	-	(32.6)
At 31 March 2022	94.0	7,282.1	6,507.4	1,050.9	637.3	15,571.7
<b>Accumulated depreciation</b>						
At 1 April 2020	(13.4)	(782.7)	(3,304.5)	(611.2)	-	(4,711.8)
Charge for the year	(3.6)	(58.1)	(189.6)	(52.1)	-	(303.4)
Disposals	-	-	3.0	24.3	-	27.3
At 31 March 2021	(17.0)	(840.8)	(3,491.1)	(639.0)	-	(4,987.9)
Charge for the year	(3.8)	(59.5)	(190.7)	(56.0)	-	(310.0)
Disposals	0.8	-	7.1	24.2	-	32.1
At 31 March 2022	(20.0)	(900.3)	(3,674.7)	(670.8)	-	(5,265.8)
<b>Net book amount</b>						
At 31 March 2022	74.0	6,381.8	2,832.7	380.1	637.3	10,305.9
At 31 March 2021	71.6	6,318.8	2,909.2	307.7	436.2	10,043.5

Property, plant and equipment at 31 March 2022 includes land of £32.3 million (2021: £31.6 million), which is not subject to depreciation.

Included within additions above is £13.6 million (2021: £12.0 million) of interest that has been capitalised on qualifying assets, at an average rate of 4.8 per cent (2021: 4.4 per cent).



## Notes to the financial statements (continued)

For the year ended 31 March 2022

**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:

					<b>Group</b>
	<b>Land and buildings</b>	<b>Infra- structure assets</b>	<b>Operational assets</b>	<b>Vehicles, mobile plant and equipment</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>At 31 March 2022</b>					
Opening net book value	21.9	5.0	38.2	3.0	<b>68.1</b>
Additions	3.8	-	-	4.2	<b>8.0</b>
Disposals	(0.8)	-	-	(0.8)	<b>(1.6)</b>
Depreciation charge	(3.9)	(0.1)	(1.3)	(1.5)	<b>(6.8)</b>
Depreciation on disposals	0.8	-	-	0.8	<b>1.6</b>
Net book value	<u>21.8</u>	<u>4.9</u>	<u>36.9</u>	<u>5.7</u>	<u><b>69.3</b></u>
<b>At 31 March 2021</b>					
Opening net book value	25.6	5.0	39.5	4.0	74.1
Additions	-	-	-	0.4	0.4
Depreciation charge	(3.7)	-	(1.3)	(1.4)	(6.4)
Net book value	<u>21.9</u>	<u>5.0</u>	<u>38.2</u>	<u>3.0</u>	<u>68.1</u>

**The company**

The company has no property, plant and equipment (2021: none).

**14. Investment properties**

	<b>2022</b>	<b>Group 2021</b>
	<b>£m</b>	<b>£m</b>
<b>Cost</b>		
At 1 April	<b>3.3</b>	1.9
Additions	<b>0.4</b>	1.4
At 31 March	<b>3.7</b>	<u>3.3</u>
<b>Accumulated depreciation</b>		
At 1 April	<b>(0.2)</b>	(0.2)
Charge for the year	<b>(0.1)</b>	-
Disposals	<b>0.2</b>	-
At 31 March	<b>(0.1)</b>	<u>(0.2)</u>
<b>Net book amount</b>		
At 31 March	<b>3.6</b>	<u>3.1</u>

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

## Notes to the financial statements (continued)

For the year ended 31 March 2022

**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 (2021: none).

**15. Investments**

	<b>Group</b>		<b>Company</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Non-current</b>				
Joint ventures	<b>12.6</b>	15.2	-	-
Subsidiary undertakings	-	-	<b>1,680.7</b>	941.9
	<b>12.6</b>	15.2	<b>1,680.7</b>	941.9
<b>Current</b>				
Cash deposits	<b>430.7</b>	88.5	-	-
	<b>430.7</b>	88.5	-	-

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**

	<b>2022</b>	<b>Group</b>
	<b>£m</b>	<b>2021</b>
	<b>£m</b>	<b>£m</b>
At 1 April	<b>15.2</b>	22.3
Loss for the year	<b>(2.6)</b>	(7.1)
<b>At 31 March</b>	<b>12.6</b>	15.2

The loss for the year of joint ventures comprises the group's share of the results of its joint ventures as follows: operating loss of £0.4 million (2021: loss of £6.3 million), an interest expense of £1.8 million (2021: £2.1 million), and a tax charge of £0.4 million (2021: credit of £1.3 million).

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

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

Osprey Holdco Limited and Anglian Venture Holdings Limited are party to indemnities in respect of the Wave joint venture in relation to wholesale water charges payable to Anglian Water Services Limited for £12.4 million and another wholesaler for £8.6 million. Additionally, Anglian Venture Holdings Limited is party to an indemnity in respect of the Wave joint venture in relation to wholesale water charges payable to other wholesalers for £7.5 million.

## Notes to the financial statements (continued)

For the year ended 31 March 2022

**15. Investments (continued)****a) Joint ventures (continued)**

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

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

**b) Subsidiary undertakings**

	Loans to subsidiary undertakings £m	Shares in subsidiary undertakings £m	Company Total £m
<b>Cost</b>			
At 1 April 2020	749.5	1,037.7	1,787.2
Repayments	(4.7)	-	(4.7)
At 31 March 2021	744.8	1,037.7	1,782.5
Additions	27.7	728.8	756.5
Amounts written off	(728.8)	-	(728.8)
Repayments	(17.7)	-	(17.7)
At 31 March 2022	<b>26.0</b>	<b>1,766.5</b>	<b>1,792.5</b>
<b>Provision for impairment</b>			
At 1 April 2020, at 31 March 2021 and at 31 March 2022	-	(111.8)	(111.8)
<b>Net book amount</b>			
At 31 March 2022			
Non-current asset investments	26.0	1,654.7	<b>1,680.7</b>
Current asset trade and other receivables	-	-	-
	<b>26.0</b>	<b>1,654.7</b>	<b>1,680.7</b>
At 31 March 2021			
Non-current asset investments	16.0	925.9	941.9
Current asset trade and other receivables	728.8	-	728.8
	744.8	925.9	1,670.7

The £728.8 million loan to Osprey Acquisitions Limited was waived in the year. As there has been no loss of value to OHL, the balance is shown as an increase in the value of the underlying group and therefore an increase in investments.

The £26.0 million loan to Anglian Venture Holdings Limited carries interest at SONIA plus 3.03 per cent, including the credit adjusted spread, (previously LIBOR plus 2.75 per cent) and is repayable on 1 December 2025.

The Directors are of the opinion that the value of the investments is supported by the underlying assets. Subsidiary undertakings are listed in note 34.

Notes to the financial statements (continued)

For the year ended 31 March 2022

**16. Inventories**

	<b>2022</b>	<b>Group</b>
	<b>£m</b>	<b>2021</b>
		<b>£m</b>
Raw materials and consumables	<b>17.0</b>	<b>14.0</b>
Work in progress	<b>6.8</b>	<b>7.6</b>
	<b>23.8</b>	<b>21.6</b>

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

**The company**

The company has no inventories (2021: none).

## Notes to the financial statements (continued)

For the year ended 31 March 2022

**17. Trade and other receivables**

	<b>2022</b>	<b>Group</b>	<b>2022</b>	<b>Company</b>
	<b>£m</b>	<b>2021</b>	<b>£m</b>	<b>2021</b>
		<b>£m</b>		<b>£m</b>
Trade receivables	<b>411.6</b>	401.6	-	-
Provision for bad and doubtful debts	<b>(236.5)</b>	(233.7)	-	-
Net trade receivables	<b>175.1</b>	167.9	-	-
Amounts receivable from group undertakings	<b>0.1</b>	-	<b>0.3</b>	0.2
Loans receivable from subsidiaries	-	-	-	728.8
Loans receivable from joint ventures	<b>35.7</b>	37.7	-	-
Other amounts receivable	<b>31.6</b>	37.0	-	-
Prepayments and accrued income	<b>324.7</b>	308.9	-	-
	<b>567.2</b>	551.5	<b>0.3</b>	729.0

Prepayments and accrued income as at 31 March 2022 includes water and water recycling income not yet billed of £312.4 million (2021: £294.1 million). Of the trade receivables, £398.4 million (2021: £372.2 million) relates to Anglian Water Services residential customers, £1.1 million (2021: £16.4 million) relates to Anglian Water Services non-household retailer balances and the remaining balance relates to developer services and other receivables. The majority of non-household customers are billed in arrears and are therefore included within accrued income above.

Other amounts receivable includes £16.0 million VAT debtor (2021: £22.1 million) and various other immaterial debtors.

Loans receivable from joint ventures at 31 March 2022 comprise the following amounts due from the Wave joint venture:

- A £4.0 million (2021: £8.0 million) 5.0 per cent preference loan repayable in five annual instalments of £4.0 million from August 2018
- A £16.7 million (2021: £16.7 million) loan at 12 month SONIA plus 2.75 per cent plus credit adjusted spread (CAS) with no fixed repayment date (previously at LIBOR plus 2.75 per cent)
- A £15.0 million (2021: £13.0 million) short-term working capital facility at one month SONIA plus 2.75 per cent plus CAS (previously at LIBOR plus 2.75 per cent)

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

- accrued income of £4.9 million (2021: £5.4 million) and interest receivable of £1.7 million (2021: £1.4 million), included within prepayments and accrued income
- trade receivables £nil (2021: £14.2 million), included within trade receivables

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

## Notes to the financial statements (continued)

For the year ended 31 March 2022

**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 96.4 per cent of the Group's revenue and 96.9 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 £nil million receivables (2021: £14.2 million) and £4.9 million of income accrued at 31 March 2022 (2021: £5.4 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:

	<b>2022</b>	<b>Group</b> 2021
	<b>£m</b>	<b>£m</b>
At 1 April	<b>233.7</b>	212.0
Charge for bad and doubtful debts	<b>11.1</b>	31.1
Amounts written off during the year	<b>(8.8)</b>	(9.9)
Amounts recovered during the year	<b>0.5</b>	0.5
At 31 March	<b>236.5</b>	233.7

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

## Notes to the financial statements (continued)

For the year ended 31 March 2022

**18. Analysis of net debt**

	<b>Group</b>				
	Net cash and cash Equivalents <sup>(1)</sup>	Current asset investments - cash deposits	Liabilities from financing activities		Total
	£m	£m	Borrowings £m	Derivative financial instruments <sup>(2)</sup> £m	£m
At 1 April 2020	866.7	328.9	(9,383.6)	(738.2)	<b>(8,926.2)</b>
Cash flows					
Interest paid	(244.6)	-	31.5	(5.4)	<b>(218.5)</b>
Issue costs paid	(3.3)	-	3.3	-	-
Receipt of premium on borrowings	7.7	-	(7.7)	-	-
Interest on leases	(1.0)	-	-	-	<b>(1.0)</b>
Increase in amounts borrowed	303.1	-	(303.1)	-	-
Repayment of amounts borrowed	(1,037.0)	-	1,037.0	-	-
Principal settlement on derivatives	-	-	-	-	-
Repayment of principal on derivatives	(63.5)	-	-	63.5	-
Repayment of principal on leases	(13.3)	-	13.3	-	-
Non-financing cash flows <sup>(3)</sup>	458.5	(240.4)	-	-	<b>218.1</b>
	(593.4)	(240.4)	774.3	58.1	<b>(1.4)</b>
Movement in interest accrual on debt	-	-	3.9	-	<b>3.9</b>
New lease agreements	-	-	(0.4)	-	<b>(0.4)</b>
Termination of leases	-	-	-	-	-
Amortisation of issue costs	-	-	(5.7)	-	<b>(5.7)</b>
Amortisation of fair value adjustments	-	-	14.9	-	<b>14.9</b>
Indexation of borrowings and RPI swaps	-	-	(32.0)	(16.6)	<b>(48.6)</b>
Fair value gains and losses and foreign exchange	-	-	99.7	(144.3)	<b>(44.6)</b>
Interest added to debt	-	-	(25.3)	-	<b>(25.3)</b>
At 31 March 2021	273.3	88.5	(8,554.2)	(841.0)	<b>(9,033.4)</b>

## Notes to the financial statements (continued)

For the year ended 31 March 2022

**18. Analysis of net debt (continued)**

Cash flows					
Interest paid	(281.9)	-	29.0	(3.0)	<b>(255.9)</b>
Issue costs paid	(28.7)	-	28.7	-	-
Receipt of premium on borrowings	-	-	-	-	-
Interest on leases	(1.2)	-	-	-	<b>(1.2)</b>
Increase in amounts borrowed	2,040.5	-	(2,040.5)	-	-
Repayment of amounts borrowed	(1,338.4)	-	1,338.4	-	-
Repayment of principal on derivatives	75.9	-	-	(75.9)	-
Receipt of principal on derivatives	-	-	-	-	-
Repayment of principal on leases	(13.1)	-	13.1	-	-
Non-financing cash flows <sup>(3)</sup>	(113.0)	342.2	-	-	<b>229.2</b>
	340.1	342.2	(631.3)	(78.9)	<b>(27.9)</b>
Movement in interest accrual on debt	-	-	(8.8)	-	<b>(8.8)</b>
New lease agreements	-	-	(8.4)	-	<b>(8.4)</b>
Amortisation of issue costs	-	-	(12.9)	-	<b>(12.9)</b>
Amortisation of fair value adjustments	-	-	13.9	-	<b>13.9</b>
Indexation of borrowings and RPI swaps	-	-	(170.2)	(84.8)	<b>(255.0)</b>
Fair value gains and losses and foreign exchange	-	-	20.5	(157.3)	<b>(136.8)</b>
Interest added to debt	-	-	-	-	-
<b>At 31 March 2022</b>	<b>613.4</b>	<b>430.7</b>	<b>(9,351.4)</b>	<b>(1,162.0)</b>	<b>(9,469.3)</b>
Net debt at 31 March 2022 comprises:					
Non-current assets	-	-	-	30.3	<b>30.3</b>
Current assets	613.4	430.7	-	8.4	<b>1,052.5</b>
Current liabilities	-	-	(1,065.4)	(10.1)	<b>(1,075.5)</b>
Non-current liabilities	-	-	(8,286.0)	(1,190.6)	<b>(9,476.6)</b>
	<b>613.4</b>	<b>430.7</b>	<b>(9,351.4)</b>	<b>(1,162.0)</b>	<b>(9,469.3)</b>

- (1) Included within cash and cash equivalents is £8.5 million (2021: £4.4 million) of cash which is ring fenced to be used to fund projects awarded by Ofwat in relation to their innovation fund.
- (2) Derivative financial instruments exclude the asset of £73.4 million (2021: 9.0 million) in respect of the fair value energy hedges, as these are not yet classified as part of the debt.
- (3) Non-financing cash flows comprise: net cash flows from operating activities of 742.6 million (2021: £613.7 million) less net cash used in investing of £855.6 million (2021: 155.2 million).



# Notes to the financial statements (continued)

For the year ended 31 March 2022

## 18. Analysis of net debt (continued)

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

	2022 £m	2021 £m
Non-current assets	27.5	3.9
Current assets	48.1	5.1
Non-current liabilities	(2.2)	-
	<b>73.4</b>	<b>9.0</b>

Current asset investments above comprise £430.5 million (2021: £88.5 million) of short-term cash deposits with an original maturity of more than three months.

## Notes to the financial statements (continued)

For the year ended 31 March 2022

**18. Analysis of net debt (continued)**

At 31 March 2022, £475.8 million (2021: £180.7 million) of the Group's cash and cash equivalents and £392.0 million (2021: £80.0 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 (2021: £0.2 million) of the Group's cash and cash equivalents was held as collateral for outstanding loan notes. In addition, £0.4 million (2021: £0.5 million) of the Group's cash and cash equivalents and £3.7 million (2021: £3.5 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.

	Net cash and cash equivalents	Current asset receivables	Borrowings	Company Total
	£m	£m	£m	£m
At 1 April 2020	20.0	728.8	(1,058.0)	(309.2)
Cash flows				
Interest paid	(3.2)	-	-	(3.2)
Repayment of amounts borrowed	(53.0)	-	53.0	-
Non-financing cash flows <sup>(1)</sup>	61.2	-	-	61.2
	5.0	-	53.0	58.0
Movement in interest accrual on debt	-	-	1.1	1.1
Interest added to debt	-	-	(25.3)	(25.3)
At 31 March 2021	25.0	728.8	(1,029.2)	(275.4)
Cash flows				
Interest paid	(25.4)	-	-	(25.4)
Repayment of amounts borrowed	-	-	-	-
Non-financing cash flows <sup>(1)</sup>	12.0	-	-	12.0
	(13.4)	-	-	(13.4)
Waiver of intercompany loan	-	(728.8)	-	(728.8)
<b>At 31 March 2022</b>	<b>11.6</b>	<b>-</b>	<b>(1,029.2)</b>	<b>(1,017.6)</b>
Net debt at 31 March 2022 comprises:				
Current assets	11.6	-	-	11.6
Current liabilities	-	-	(567.2)	(567.2)
Non-current liabilities	-	-	(462.0)	(462.0)
	<b>11.6</b>	<b>-</b>	<b>(1,029.2)</b>	<b>(1,017.6)</b>

<sup>(1)</sup> Non-financing cash flows comprise of net cash flows from operating activities of £0.6 million (2021: used in operating activities £0.1 million) less net cash from investing activities of £11.4 million (2021: £61.3 million).

## Notes to the financial statements (continued)

For the year ended 31 March 2022

**19. Trade and other payables**

	<b>Group</b>		<b>Company</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
		(restated)		(restated)
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Trade payables	<b>43.0</b>	41.7	-	-
Capital creditors and accruals	<b>130.9</b>	104.8	-	-
Receipts in advance	<b>342.8</b>	289.6	-	-
Amounts owed to group undertakings	-	-	<b>1.6</b>	1.6
Other taxes and social security	<b>6.7</b>	5.9	-	-
Accruals and deferred income	<b>79.5</b>	68.2	-	-
Other payables	<b>7.7</b>	5.7	-	-
	<b>610.6</b>	515.9	<b>1.6</b>	1.6

Receipts in advance includes £291.0 million (2021: £238.5 million) relating to amounts received from customers for water and sewerage charges in respect of bills that fall due in the following year.

Accruals and deferred income is made up of £68.7 million accruals (2021: 59.2 million) with the remainder attributable to deferred income.

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

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

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

## Notes to the financial statements (continued)

For the year ended 31 March 2022

**20. Loans and other borrowings**

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
£250 million 5.837% fixed rate 2022	260.1	261.2	-	-
£200 million 6.875% fixed rate 2023	211.1	213.1	-	-
£200 million 6.625% fixed rate 2029	211.5	212.8	-	-
£246 million 6.293% fixed rate 2030	266.5	271.5	-	-
£150 million 4.125% index-linked 2020	-	-	-	-
£75 million 3.666% index-linked 2024	135.8	131.2	-	-
£200 million 3.07% index-linked 2032	382.5	369.8	-	-
£60 million 3.07% index-linked 2032	115.2	112.2	-	-
IFRS 16 leases	32.3	36.7	-	-
£402 million 2.4% index-linked 2035	681.1	639.8	-	-
£50 million 1.7% index-linked 2046	85.3	82.1	-	-
£50 million 1.7% index-linked 2046	86.0	82.4	-	-
£40 million 1.7146% indexation bond 2056	71.3	68.4	-	-
£50 million 1.6777% indexation bond 2056	88.6	85.0	-	-
£60 million 1.7903% indexation bond 2049	105.5	101.4	-	-
£100 million 1.3784% indexation bond 2057	159.5	151.6	-	-
£50 million 1.3825% indexation bond 2056	79.7	75.7	-	-
£100 million Class A wrapped floating rate bonds 2057	100.0	99.9	-	-
£75 million 1.449% indexation bond 2062	111.4	109.0	-	-
£50 million 1.52% indexation bond 2055	74.3	72.6	-	-
£110 million Class A unwrapped floating rate bonds 2043	110.0	110.0	-	-
£25 million 6.875% private placements 2034	25.0	25.0	-	-
£130 million 2.262% indexation bond 2045	188.4	173.8	-	-
US\$160 million 4.52% private placements 2021	-	118.4	-	-
US\$410 million 5.18% private placements 2021	-	302.1	-	-
EIB £75 million 0.53% index-linked term facility 2027 <sup>(1)</sup>	50.4	55.8	-	-
EIB £75 million 0.79% index-linked term facility 2027 <sup>(1)</sup>	50.4	55.8	-	-
£250 million 4.5% fixed rate 2027	253.3	253.0	-	-
£15 million 1.37% index-linked private placements 2022	19.9	18.3	-	-
£50 million 2.05% index-linked private placements 2033	66.1	61.0	-	-
£31.9 million 3.983% private placements 2022	32.5	32.5	-	-
£73.3 million 4.394% private placements 2028	72.1	77.5	-	-
£22.3 million 3.983% private placements 2022	22.7	22.7	-	-
US\$47 million 5% private placements 2022	-	34.9	-	-
EIB £150 million 0% index-linked term facility 2028 <sup>(7)</sup>	117.3	126.4	-	-
£200 million Class B 4.5% fixed rate 2026	200.3	207.6	-	-
£35 million 1.141% index-linked bond 2042	45.2	41.7	-	-
US\$170 million 3.84% private placements 2023	133.0	132.9	-	-
£93 million 3.537% private placements 2023	94.4	94.3	-	-
US\$160 million 4.99% private placements 2023	-	117.8	-	-
EIB £65 million 0.41% index-linked term facility 2029	57.6	60.8	-	-
EIB Tranche 2 £125 million 0.1% 2029 <sup>(3)</sup>	117.3	122.9	-	-
EIB Tranche 3 £60 million 0.01% 2030 <sup>(4)</sup>	59.8	62.1	-	-
RCF £550 million	(2.2)	23.0	-	-
RCF £50 million bilaterals <sup>(5)</sup>	(0.1)	(0.1)	-	-
Sub-total carried forward	4,971.1	5,506.6	-	-

## Notes to the financial statements (continued)

For the year ended 31 March 2022

## 20. Loans and other borrowings (continued)

	Group		Company	
	2022	2021	2022	2021
	£m	£m	£m	£m
<b>Sub-total brought forward</b>	<b>4,971.1</b>	<b>5,506.6</b>	-	-
US\$150 million 3.29% private placements 2026	113.7	113.7	-	-
£55 million 2.93% fixed rate private placements 2026	55.4	55.4	-	-
£20 million 2.93% fixed rate private placements 2026	20.1	20.0	-	-
£35 million floating rate private placements 2031	34.8	34.7	-	-
£200 million Class B 2.6225% fixed rate 2027	196.8	202.3	-	-
£250 million Green Bond 1.625% 2025	242.8	256.9	-	-
£300 million Green bond 2.75% 2029	300.4	300.1	-	-
£25 million 3.0% fixed rate 2031	25.0	24.9	-	-
US\$53 million 3.053% fixed rate 2029	40.4	38.4	-	-
£85 million 2.88% fixed rate 2029	84.9	84.8	-	-
£65 million 2.87% fixed rate 2029	65.5	65.4	-	-
£65 million CPI 0.835% 2040	68.6	65.2	-	-
JPY 7 billion 0.855% fixed rate 2039	43.7	45.8	-	-
EDC £100 million 1.588% fixed rate 2028	100.3	100.2	-	-
£50 million 1.76% fixed rate 2035	50.0	49.9	-	-
JPY 7 billion 0.85% fixed rate 2040	35.2	39.3	-	-
JR £26.1 million CPI 0.01% 2035	31.4	29.9	-	-
BPPT £26.1 million CPI 0.01% 2035	31.2	29.7	-	-
£35 million 2.14% fixed rate 2036 <sup>(5)</sup>	32.0	(0.3)	-	-
£40 million 2.14% fixed rate 2036 <sup>(5)</sup>	36.6	(0.3)	-	-
US\$35 million 1.16% private placements 2026	24.6	-	-	-
Liquidity facilities	0.4	0.5	-	-
£210 million Class B 5.0% fixed rate bond 2023	214.0	213.7	-	-
£240 million Class B 4.0% fixed rate bond 2026	239.6	239.3	-	-
£300 million 2.0% fixed rate bond 2028	298.7	-	-	-
£100 million 2.37% private placements 2031	100.5	-	-	-
£105 million 2.2% private placements 2028	105.3	-	-	-
£100 million floating term facility 2026	99.0	-	-	-
Loan notes	0.2	0.2	-	-
Unamortised issue costs relating to undrawn facilities	(2.1)	8.1	-	-
Other loans	1.4	0.5	-	-
£10.5 million fixed to floating rate notes 2027	10.7	-	-	-
£145 million fixed to floating rate notes 2028	147.7	-	-	-
£120 million 4.82% fixed rate 2030	118.3	-	-	-
£30 million floating rate notes 2030	30.5	-	-	-
£50 million fixed to floating rate notes 2030	49.9	-	-	-
£95 million floating rate private placements 2027	94.8	-	-	-
£125 million floating term facility 2026	123.2	-	-	-
£75 million floating term facility 2026	74.0	-	-	-
£462 million 10.0% unsecured loan notes	481.2	481.2	481.2	481.2
£548 million interest free loan <sup>(6)</sup>	548.0	548.0	548.0	548.0
£11.83 million 3.302% fixed rate 2026	11.6	-	-	-
<b>Total loans and other borrowings</b>	<b>9,351.4</b>	<b>8,554.2</b>	<b>1,029.2</b>	<b>1,029.2</b>
<b>Included in:</b>				
Current liabilities	1,065.4	1,696.6	567.2	1,029.2
Non-current liabilities	8,286.0	6,857.6	462.0	-
<b>Of which are leases:</b>				
Current liabilities	6.8	13.5	-	-
Non-current liabilities	25.5	23.2	-	-

## Notes to the financial statements (continued)

For the year ended 31 March 2022

### 20. Loans and other borrowings (continued)

- <sup>(1)</sup> These instruments are amortising from 2017 until the date of maturity shown.
- <sup>(2)</sup> This instrument is amortising from 2018 until the date of maturity shown.
- <sup>(3)</sup> These instruments are amortising from 2019 until the date of maturity shown.
- <sup>(4)</sup> This instrument is amortising from 2020 until the date of maturity shown.
- <sup>(5)</sup> These instruments were transacted in March 2021 with debt cash proceeds received in April 2021 after the current period end.
- <sup>(6)</sup> This loan is due to the immediate parent undertaking and is interest free and repayable on demand.

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 £170.2 million (2021: £32.0 million) has been taken to the income statement as part of interest payable.

These loans are shown net of issue costs and borrowings premium of £31.7 million (2021: £26.4 million). The issue costs are amortised at the effective interest rate based on the carrying amount of debt over the life of the underlying instruments.

A security agreement dated 30 July 2002 between Anglian Water Services Financing Plc, Anglian Water Services Limited, Anglian Water Services Overseas Holdings Limited, Anglian Water Services Holdings Limited and Deutsche Trustee Company Limited (as Agent and Trustee for itself and each of the Finance Parties to the Global Secured Medium Term Note Programme) created a fixed and floating charge over the assets of Anglian Water Services Limited to the extent permissible under the Water Industry Act 1991. In addition there is a fixed charge over the issued share capital of Anglian Water Services Financing Plc, Anglian Water Services Limited and Anglian Water Services UK Parent Limited. At 31 March 2022, this charge applies to £6,456.4 million (2021: £6,896.3 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 2022, this charge applies to £1,055.2 million (2021: £453.3 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.

## Notes to the financial statements (continued)

For the year ended 31 March 2022

**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:

	Carrying value £m	Proportion hedged %	Accumulated hedge adjustment (2) £m	Group Discounted hedge adjustment £m
<b>2022</b>				
US\$150 million 3.29% private placements 2026	113.7	76	1.5	-
US\$160 million 4.52% private placements 2021	-	100	-	-
US\$170 million 3.84% private placements 2023	133.0	94	(1.5)	-
£200 million 2.6225% fixed rate 2027	196.8	41	3.5	-
£200 million 4.5% fixed rate 2026	200.3	50	(0.5)	-
£246 million 6.293% fixed rate 2030	266.5	20	1.9	-
£250 million Green Bond 1.625% 2025	242.8	100	8.5	-
£73.3 million 4.394% private placements 2028	72.1	100	2.7	-
JPY 7 billion 0.85% fixed rate 2040	35.2	100	8.3	-
£35 million 2.14% fixed rate 2036	32.0	100	3.0	-
£40 million 2.14% fixed rate 2036	36.6	100	3.5	-
US\$35 million 1.16% private placements 2026	24.6	100	1.8	-
	<b>1,353.6</b>		<b>32.7</b>	-
<b>2021</b>				
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 <sup>(1)</sup>	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	-
	<b>1,721.6</b>		<b>(26.3)</b>	<b>0.1</b>

<sup>(1)</sup> This debt instrument was changed from a fair value hedge to a cash flow hedge in June 2015 resulting in the discontinued hedge adjustment.

<sup>(2)</sup> 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.

## Notes to the financial statements (continued)

For the year ended 31 March 2022

**21. Financial instruments****Financial assets by category**

	Assets at fair value through profit and loss £m	Derivatives used for hedging £m	Assets at amortised cost and cash equivalents £m	Investments at cost £m	Group Total £m
<b>At 31 March 2022</b>					
Investments					
Current - cash deposits	-	-	-	430.7	<b>430.7</b>
Cash and cash equivalents					
Current	-	-	613.4	-	<b>613.4</b>
Trade and other receivables					
Current	-	-	555.2	-	<b>555.2</b>
Derivative financial instruments					
Current	4.7	51.8	-	-	<b>56.5</b>
Non-current	-	57.8	-	-	<b>57.8</b>
	<b>4.7</b>	<b>109.6</b>	<b>1,168.6</b>	<b>430.7</b>	<b>1,713.6</b>
<b>At 31 March 2021</b>					
Investments					
Current - cash deposits	-	-	-	88.5	88.5
Cash and cash equivalents					
Current	-	-	273.3	-	273.3
Trade and other receivables					
Current	-	-	539.8	-	539.8
Derivative financial instruments					
Current	10.4	74.4	-	-	84.8
Non-current	37.6	75.0	-	-	112.6
	<b>48.0</b>	<b>149.4</b>	<b>813.1</b>	<b>88.5</b>	<b>1,099.0</b>

Trade and other receivables above exclude prepayments.



## Notes to the financial statements (continued)

For the year ended 31 March 2022

**21. Financial instruments (continued)****Financial assets by category (continued)**

	Assets at amortised cost and cash equivalents £m	Investments at amortised cost £m	Total £m
<b>At 31 March 2022</b>			
Investments			
Non-current	-	1,680.7	<b>1,680.7</b>
Cash and cash equivalents			
Current	11.6	-	<b>11.6</b>
Trade and other receivables			
Current	0.3	-	<b>0.3</b>
	<b>11.9</b>	<b>1,680.7</b>	<b>1,692.6</b>
<b>At 31 March 2021</b>			
Investments			
Non-current	-	941.9	941.9
Cash and cash equivalents			
Current	25.0	-	25.0
Trade and other receivables			
Current	729.0	-	729.0
	<b>754.0</b>	<b>941.9</b>	<b>1,695.9</b>

## Notes to the financial statements (continued)

For the year ended 31 March 2022

**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
<b>At 31 March 2022</b>				
Borrowings				
Current	-	-	1,065.4	<b>1,065.4</b>
Non-current	-	-	8,286.0	<b>8,286.0</b>
Trade and other payables				
Current	-	-	267.8	<b>267.8</b>
Derivative financial instruments				
Current	10.1	-	-	<b>10.1</b>
Non-current	1,145.9	46.9	-	<b>1,192.8</b>
	<b>1,156.0</b>	<b>46.9</b>	<b>9,619.2</b>	<b>10,822.1</b>
<b>At 31 March 2021</b>				
Borrowings				
Current	-	-	1,696.6	1,696.6
Non-current	-	-	6,857.6	6,857.6
Trade and other payables				
Current	-	-	226.3	226.3
Derivative financial instruments				
Current	17.6	7.2	-	24.8
Non-current	985.8	18.8	-	1,004.6
	1,003.4	26.0	8,780.5	9,809.9

Trade and other payables above exclude receipts in advance.

## Notes to the financial statements (continued)

For the year ended 31 March 2022

**21. Financial instruments (continued)****Financial liabilities by category (continued)**

	Other liabilities held at amortised cost £m	Total £m
<b>At 31 March 2022</b>		
Borrowings		
Current	567.2	<b>567.2</b>
Non-current	462.0	<b>462.0</b>
Trade and other payables		
Current	1.6	<b>1.6</b>
	<b>1,030.8</b>	<b>1,030.8</b>
 At 31 March 2021		
Borrowings		
Current	1,029.2	1,029.2
Non-current	-	-
Trade and other payables		
Current	1.6	1.6
	<b>1,030.8</b>	<b>1,030.8</b>

## Notes to the financial statements (continued)

For the year ended 31 March 2022

**21. Financial instruments (continued)****Derivative financial instruments**

	<b>2022</b>		<b>Group 2021</b>	
	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Designated as cash flow hedges</b>				
Interest rate swaps	0.5	(2.9)	-	(10.6)
Cross currency interest rate swaps	5.2	(8.9)	67.3	(8.9)
Energy swaps	75.6	(2.2)	9.0	-
	<u>81.3</u>	<u>(14.0)</u>	<u>76.3</u>	<u>(19.5)</u>
<b>Designated as fair value hedges</b>				
Interest rate swaps	1.0	(21.4)	24.0	(0.3)
Cross currency interest rate swaps	<u>27.3</u>	<u>(11.5)</u>	<u>49.1</u>	<u>(6.2)</u>
	<u>28.3</u>	<u>(32.9)</u>	<u>73.1</u>	<u>(6.5)</u>
<b>Derivative financial instruments designated as hedges</b>	<b>109.6</b>	<b>(46.9)</b>	<b>149.4</b>	<b>(26.0)</b>
<b>Derivative financial instruments not designated as hedges</b>				
Interest rate swaps and swaptions	-	(173.9)	34.5	(233.5)
RPI swaps	-	(654.8)	-	(568.3)
CPI swaps	<u>4.7</u>	<u>(327.3)</u>	<u>13.5</u>	<u>(201.6)</u>
<b>Total derivative financial instruments</b>	<b><u>114.3</u></b>	<b><u>(1,202.9)</u></b>	<b><u>197.4</u></b>	<b><u>(1,029.4)</u></b>
Derivative financial instruments can be analysed as follows:				
Current	56.5	(10.1)	84.8	(24.8)
Non-current	<u>57.8</u>	<u>(1,192.8)</u>	<u>112.6</u>	<u>(1,004.6)</u>
	<u>114.3</u>	<u>(1,202.9)</u>	<u>197.4</u>	<u>(1,029.4)</u>

**The company**

The company has no derivative financial instruments (2021: none).

## Notes to the financial statements (continued)

For the year ended 31 March 2022

### 21. Financial instruments (continued)

#### Derivative financial instruments (continued)

At 31 March 2022, the fixed interest rates vary from 2.84 per cent to 5.04 per cent, floating rates vary from SONIA plus 11.20 bps to SONIA plus 326.36 bps, RPI-linked interest rates vary from 1.27 per cent to 2.97 per cent plus RPI and CPI-linked interest rates vary from (1.21) per cent plus CPI to 1.69 per cent plus CPI. Gains and losses recognised in other comprehensive income and accumulated in the cash flow hedge reserve on interest rate and cross-currency interest rate swap contracts will be continuously released to the income statement within finance costs in line with the repayment of the related borrowings. Gains and losses recognised in other comprehensive income and accumulated in the cash flow hedge reserve on energy hedges will be released to the income statement within operating costs in line with the expiry of the power season to which the gains and losses relate.

## Notes to the financial statements (continued)

For the year ended 31 March 2022

**21. Financial instruments (continued)**

In accordance with IFRS 9, the Group has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. There were no amounts recorded in the income statement for gains or losses on embedded derivatives for the year ended 31 March 2022 (2021: £nil).

**Leases**

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

	<b>2022</b>	<b>Group</b> 2021
	<b>£m</b>	<b>£m</b>
Within one year	<b>6.7</b>	13.6
Between two and five years	<b>18.1</b>	15.7
After five years	<b>14.1</b>	14.2
	<b>38.9</b>	43.5
Future finance charges on leases	<b>(6.6)</b>	(6.8)
Present value of lease liabilities	<b>32.3</b>	36.7

## Notes to the financial statements (continued)

For the year ended 31 March 2022

**21. Financial instruments (continued)****Fair value of financial assets and liabilities**

	<b>2022</b>		<b>Group</b>	
	<b>Carrying</b>	<b>Fair</b>	<b>Carrying</b>	<b>Fair</b>
	<b>value</b>	<b>value</b>	<b>value</b>	<b>value</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Cash and cash equivalents	613.4	613.4	273.3	273.3
Current asset investments - cash deposits	430.7	430.7	88.5	88.5
Borrowings				
Current	(1,065.4)	(1,080.6)	(1,696.6)	(1,657.8)
Non-current	(8,286.0)	(1,022.3)	(6,857.6)	(8,384.6)
Interest and cross currency interest rate swaps - assets				
Current	3.7	3.7	75.0	75.0
Non-current	30.3	30.3	99.9	99.9
Interest and cross currency interest rate swaps - liabilities				
Current	(0.3)	(0.3)	(15.3)	(15.3)
Non-current	(218.3)	(218.3)	(244.2)	(244.2)
RPI swaps - liabilities				
Current	(9.8)	(9.8)	(9.5)	(9.5)
Non-current	(645.0)	(645.0)	(558.8)	(558.8)
CPI swaps - assets				
Current	4.7	4.7	4.7	4.7
Non-current	-	-	8.8	8.8
CPI swaps - liabilities				
Non-current	(327.3)	(327.3)	(201.6)	(201.6)
Net debt	(9,469.3)	(2,220.8)	(9,033.4)	(10,521.6)
Energy derivatives - assets				
Current	48.1	48.1	5.1	5.1
Non-current	27.5	27.5	3.9	3.9
Energy derivatives - liabilities				
Non-current	(2.2)	(2.2)	-	-
	(9,395.9)	(2,147.4)	(9,024.4)	(10,512.6)
	<b>2021</b>		<b>Company</b>	
	<b>Carrying</b>	<b>Fair</b>	<b>Carrying</b>	<b>Fair</b>
	<b>value</b>	<b>value</b>	<b>value</b>	<b>value</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Cash and cash equivalents	11.6	11.6	25.0	25.0
Borrowings				
Current	(567.2)	(567.0)	(1,029.2)	1,035.3
Non-current	(462.0)	(474.2)	-	-
Net debt	(1,017.6)	(1,029.6)	(1,004.2)	1,060.3

## Notes to the financial statements (continued)

For the year ended 31 March 2022

### 21. Financial instruments (continued)

#### Fair value of financial assets and liabilities (continued)

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

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

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

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

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

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

#### Level 3 derivative financial instruments

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



## Notes to the financial statements (continued)

For the year ended 31 March 2022

**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:

	2022 £m	2021 £m
At 1 April	(188.1)	(110.9)
Net loss for the period	(156.4)	(93.5)
Settlements	21.9	16.3
<b>At 31 March</b>	<b>(322.6)</b>	<b>(188.1)</b>

Gains and losses in the period are recognised in 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:

	2022 £m	2021 £m
<b>Gain/(loss)</b>		
1% increase in inflation rates	(203.2)	(188.7)
1% decrease in inflation rates	162.6	150.6

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.

## Notes to the financial statements (continued)

For the year ended 31 March 2022

### 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 2022, 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 64.8 per cent (2021: 82.0 per cent).

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

#### Borrowing covenants

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

#### Management of financial risk

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

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

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

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

## Notes to the financial statements (continued)

For the year ended 31 March 2022

### 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.

## Notes to the financial statements (continued)

For the year ended 31 March 2022

**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
<b>At 31 March 2022</b>				
<b>Foreign currency borrowings - hedged item</b>				
JPY	-	-	14,000.0	<b>14,000.0</b>
USD	-	355.0	53.0	<b>408.0</b>
<b>Cross currency interest rate swap - cashflow hedge</b>				
JPY	-	-	(7,000.0)	<b>(7,000.0)</b>
USD	-	(46.8)	(53.0)	<b>(99.8)</b>
<b>Cross currency interest rate swap - fair value hedge</b>				
JPY	-	-	(7,000.0)	<b>(7,000.0)</b>
USD	-	(308.2)	-	<b>(308.2)</b>
<b>Net currency exposure</b>	-	-	-	-
<b>Weighted average spot rate</b>				
JPY	-	-	138.3	
USD	-	1.5	1.3	
<b>At 31 March 2021</b>				
<b>Foreign currency borrowings - hedged item</b>				
JPY	-	-	14,000.0	<b>14,000.0</b>
USD	570.0	377.0	203.0	<b>1,150.0</b>
<b>Cross currency interest rate swap - cashflow hedge</b>				
JPY	-	-	(7,000.0)	<b>(7,000.0)</b>
USD	(410.0)	(217.8)	(89.0)	<b>(716.8)</b>
<b>Cross currency interest rate swap - fair value hedge</b>				
JPY	-	-	(7,000.0)	<b>(7,000.0)</b>
USD	(160.0)	(159.2)	(114.0)	<b>(433.2)</b>
<b>Net currency exposure</b>	-	-	-	-
<b>Weighted average spot rate</b>				
JPY	-	-	138.3	
USD	1.6	1.6	1.4	

## Notes to the financial statements (continued)

For the year ended 31 March 2022

### 21. Financial instruments (continued)

#### a) Market risk (continued)

##### *i) Foreign currency (continued)*

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

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

## Notes to the financial statements (continued)

For the year ended 31 March 2022

**21. Financial instruments (continued)****a) Market risk (continued)****ii) Interest rate and inflation rate risk (continued)**

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

				Group
	Debt position	Swap impact	Post swap position	Effective interest rate
	£m	£m	£m	%
<b>At 31 March 2022</b>				
Fixed	(5,507.2)	1,504.0	(4,003.2)	4.2
Floating	(670.0)	(121.9)	(791.9)	2.8
Index-linked	(2,974.6)	(1,523.7)	(4,498.3)	7.8
Leases	(30.6)	-	(30.6)	2.5
	<b>(9,182.4)</b>	<b>(141.6)</b>	<b>(9,324.0)</b>	
<b>At 31 March 2021</b>				
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
	<b>(6,769.8)</b>	<b>(56.9)</b>	<b>(6,826.7)</b>	

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.

## Notes to the financial statements (continued)

For the year ended 31 March 2022

**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 2022							
Interest rate swaps							
Floating to fixed rate	17.9	25.0	524.0	-	(109.0)	2.9	0.2
Floating from fixed rate	17.9	650.0	229.5	-	(19.8)	0.6	1.7
Fixed to fixed interest rate	-	100.0	481.3	-	(66.2)	3.5	1.7
Inflation swaps							
Floating to RPI	-	150.0	225.0	190.9	(656.3)	3.2	1.1
Fixed to CPI	-	-	565.9	100.0	(230.7)	0.9	3.6
Floating to CPI	-	-	150.4	-	(91.9)	0.7	0.9
Cross currency swaps							
JPY	-	-	101.2	-	(19.7)	2.1	0.9
USD	-	240.3	40.1	-	31.5	1.8	3.5
Total	35.8	1,165.3	2,317.4	290.9	(1,162.1)		
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	-	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)		

## Notes to the financial statements (continued)

For the year ended 31 March 2022

**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:

	<b>Group</b>	
	<b>2022</b>	<b>2021</b>
	<b>£m</b>	<b>£m</b>
<b>Increase/(decrease) in equity</b>		
1% increase in interest rates	<b>20.6</b>	(1.0)
1% decrease in interest rates	<b>(22.5)</b>	(2.5)
<b>Increase/(decrease) in profit before tax</b>		
1% increase in interest rates	<b>282.6</b>	255.6
1% decrease in interest rates	<b>(370.5)</b>	(340.3)

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.



## Notes to the financial statements (continued)

For the year ended 31 March 2022

**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:

	2022	Group 2021
	£m	£m
<b>Increase/(decrease) in profit before tax</b>		
1% increase in inflation	(22.0)	(21.9)
1% decrease in inflation	22.0	21.9

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.

	2022	Group 2021
	£m	£m
<b>Increase/(decrease) in profit before tax</b>		
1% increase in RPI	(232.7)	(220.2)
1% decrease in RPI	190.1	173.4

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

**Progress towards implementation of alternative benchmark interest rates**

During the year, the Group actively transitioned all its legacy LIBOR-linked contracts to RFR-linked contracts on a bilateral basis with each counterparty. This was done on an economically equivalent basis by agreeing the transition spread with each counterparty.

All floating rate financial assets and liabilities transacted in the current year are linked to RFRs such as SONIA. The Group is expected to cease to apply the amendments to IFRS 9 next year as the uncertainty arising from the interest rate benchmark reforms with respect to the timing and the amount of the underlying cash flows that the Group is exposed to ends.

## Notes to the financial statements (continued)

For the year ended 31 March 2022

### 21. Financial instruments (continued)

#### a) Market risk (continued)

##### *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.

## Notes to the financial statements (continued)

For the year ended 31 March 2022

**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
<b>At 31 March 2022</b>				
Electricity swap	51.7	111.4	10.8	73.5
<b>At 31 March 2021</b>				
Electricity swap	60.0	123.4	-	9.0

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
	2022	2021
	£m	£m
<b>Increase/(decrease) in equity</b>		
10% increase in original prices	11.9	4.2
10% decrease in original prices	(11.9)	(4.2)

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

## Notes to the financial statements (continued)

For the year ended 31 March 2022

**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	Gross amounts offset	Net amount presented the balance sheet	Offsetting not presented the balance sheet
	£m	£m	£m	£m
<b>At 31 March 2022</b>				
Derivative financial assets	114.3	-	114.3	(84.3)
Derivative financial liabilities	(1,202.9)	-	(1,202.9)	84.3
				(1,118.6)
<b>At 31 March 2021</b>				
Derivative financial assets	217.4	(20.0)	197.4	(113.8)
Derivative financial liabilities	(1,049.4)	20.0	(1,029.4)	113.8
				(915.6)

## Notes to the financial statements (continued)

For the year ended 31 March 2022

**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:

	<b>2022</b>	<b>Group</b> 2021
	<b>£m</b>	<b>£m</b>
Cash and cash equivalents	<b>613.4</b>	273.3
Trade and other receivables	<b>567.2</b>	551.5
Investments - cash deposits	<b>430.7</b>	88.5
Derivative financial assets	<b>114.3</b>	197.4

	<b>2022</b>	<b>Company</b> 2021
	<b>£m</b>	<b>£m</b>
Cash and cash equivalents	<b>11.6</b>	25.0
Trade and other receivables	<b>0.3</b>	729.0

**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.

## Notes to the financial statements (continued)

For the year ended 31 March 2022

**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:

	<b>2022</b>	<b>Group</b> 2021
	<b>£m</b>	<b>£m</b>
Expires:		
Within one year	<b>375.0</b>	400.0
Between two and five years	<b>880.0</b>	815.0
	<b>1,255.0</b>	1,215.0

The Group's borrowing facilities of £975.0 million (2021: £1,000.0 million) comprise Class A and Class B debt service reserve facilities totalling £254.0 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.

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

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

## Notes to the financial statements (continued)

For the year ended 31 March 2022

**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:

	<b>Group</b>			
	<b>Within one year £m</b>	<b>Between one and five years £m</b>	<b>Between five and 25 years £m</b>	<b>After 25 years £m</b>
<b>At 31 March 2022</b>				<b>Total £m</b>
Trade and other payables	(267.8)	-	-	-
Borrowings	(1,203.7)	(3,802.1)	(7,519.9)	(2,789.6)
Derivative financial instruments (net settled)	(64.7)	(323.3)	(1,032.5)	(514.7)
Derivative financial instruments (gross settled outflow)	(10.2)	(273.9)	(180.4)	-
Derivative financial instruments (gross settled inflow)	11.5	299.3	141.2	-
Leases	(6.7)	(18.1)	(10.3)	(3.8)
	<b>(1,541.6)</b>	<b>(4,118.2)</b>	<b>(8,601.9)</b>	<b>(3,308.0)</b>
<b>At 31 March 2021</b>				
Trade and other payables	(226.3)	-	-	-
Borrowings	(1,702.4)	(3,040.6)	(6,112.0)	(2,584.3)
Derivative financial instruments (net settled)	(10.4)	(99.3)	(817.2)	(635.8)
Derivative financial instruments (gross settled outflow)	(382.2)	(279.8)	(287.8)	-
Derivative financial instruments (gross settled inflow)	449.8	320.3	256.9	-
Leases	(13.6)	(15.7)	(10.3)	(3.9)
	<b>(1,885.1)</b>	<b>(3,115.0)</b>	<b>(6,970.4)</b>	<b>(3,224.0)</b>
				<b>(15,194.6)</b>

Notes to the financial statements (continued)

For the year ended 31 March 2022

**21. Financial instruments (continued)**

**d) Liquidity risk (continued)**

	Within one year £m	Between one and five years £m	Between five and 25 years £m	After 25 years £m	Company Total £m
<b>At 31 March 2022</b>					
Trade and other payables	(1.6)	-	-	-	(1.6)
Borrowings	(548.3)	(500.6)	-	-	(1,048.9)
	<b>(549.9)</b>	<b>(500.6)</b>	<b>-</b>	<b>-</b>	<b>(1,050.5)</b>
<b>At 31 March 2021</b>					
Trade and other payables	(1.6)	-	-	-	(1.6)
Borrowings	(1,035.4)	-	-	-	(1,035.4)
	<b>(1,037.0)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,037.0)</b>



## Notes to the financial statements (continued)

For the year ended 31 March 2022

**22. Provisions**

	<b>Group</b>			
	<b>Onerous Leases</b>	<b>Business closures and disposals</b>	<b>Legal and other</b>	<b>Restructuring</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
At 1 April 2020	1.9	0.4	5.5	4.7
Additional provisions recognised	0.9	0.1	6.0	-
Unused amounts reversed	-	-	(0.4)	-
Unwinding of discount	(0.4)	-	-	-
Utilised in the year	(0.8)	-	(0.6)	(4.4)
At 31 March 2021	1.6	0.5	10.5	0.3
Additional provisions recognised	-	0.4	1.9	-
Unused amounts reversed	-	-	(0.4)	-
Utilised in the year	-	-	(4.6)	(0.3)
<b>At 31 March 2022</b>	<b>1.6</b>	<b>0.9</b>	<b>7.4</b>	<b>-</b>

Maturity analysis of total provisions:

	<b>Group</b>	
	<b>2022</b>	<b>2021</b>
	<b>£m</b>	<b>£m</b>
Current	3.7	7.7
Non-current	6.2	5.2
	<b>9.9</b>	<b>12.9</b>

The onerous lease provision is in respect of the associated costs for property leases, not included in the calculation of the ROU asset, where the unavoidable obligations under the contracts exceed the expected economic benefits to be received from them. The provision is discounted and is expected to be utilised over the next three years.

Business closure and disposal provisions relate to exit costs which are expected to crystallise over a period of one year.

**The company**

The company has no provisions for liabilities (2021: none).

## Notes to the financial statements (continued)

For the year ended 31 March 2022

**23. Deferred tax**

	Accelerated tax depreciation	Financial instruments	Retirement benefit obligation	Tax losses carried forward	Other	Group Total
	£m	£m	£m	£m	£m	£m
At 1 April 2020	1,247.7	(193.3)	22.0	(17.7)	(7.1)	<b>1,051.6</b>
Charged/(credited) directly to income statement	23.6	(1.3)	9.6	(4.6)	(1.0)	<b>26.3</b>
Charged directly to other comprehensive income	-	3.8	(32.2)	-	-	<b>(28.4)</b>
At 31 March 2021	1,271.3	(190.8)	(0.6)	(22.3)	(8.1)	<b>1,049.5</b>
Charged/(credited) directly to income statement	417.5	(82.9)	18.1	(64.0)	(0.4)	<b>288.3</b>
Charged directly to other comprehensive income	-	15.0	40.3	-	-	<b>55.3</b>
<b>At 31 March 2022</b>	<b>1,688.8</b>	<b>(258.7)</b>	<b>57.8</b>	<b>(86.3)</b>	<b>(8.5)</b>	<b>1,393.1</b>

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	
	2022	2021
	£m	£m
Corporate interest restrictions	<b>62.8</b>	39.6
	<b>62.8</b>	39.6

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 (2021: none).

## Notes to the financial statements (continued)

For the year ended 31 March 2022

### 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 2022. The provision for unfunded pension obligations relates to the cost of enhancements of former employees, over and above their entitlement in the company's pension schemes. The majority of these employees ceased their employment following redundancy programmes principally between 10 and 20 years ago. These pension enhancements are payable until the death of these former employees (or their dependants) and payments are expected to be made over approximately 25 years.

The assets and liabilities relating to the defined benefit scheme for the employees of the former Hartlepool Water Limited are held in a segregated section of the AWGPS. Hartlepool Water Limited was acquired in July 1997, with trade and assets transferred to Anglian Water on 1 April 2000. However, as the Trustees assess the funding requirements of the Hartlepool section separately from the rest of AWGPS, the Hartlepool section has been separately disclosed in the tables below.

Within these schemes, employees are entitled to retirement benefits based on their final salary and length of service at the time of leaving, or closure of, the schemes, payable on attainment of retirement age (or earlier death).

On 31 March 2018, following a period of consultation with representatives of all employees, the defined benefit sections of the AWGPS (including the Hartlepool section) were closed for future accruals. From 1 April 2018 all employees now have the option to participate in a new high quality defined contribution scheme which offers an equitable scheme with more flexible benefits.

The Group also has pension obligations to former employees through the Morrison Pension & Life Assurance Plan ('MPLAP'). In addition, pensions in payment to a number of former employees are unfunded.

The administration and investment of the pension funds are maintained separately from the finances of the Group.

Full valuations as at 31 March 2020 have been completed for the AWGPS (including the Hartlepool section) scheme, and for MPLAP, the results of which have been used as a basis for the IAS 19 'Employee Benefits' disclosures as at 31 March 2022.

The Group has a plan in place with the scheme's trustees to address the funding deficit for the Main Section of the AWGPS by 2026, through a series of annual deficit recovery contributions.

During the year, the Group contributed £14.6 million (2021: £36.5 million) deficit reduction payments. There were no deficit reduction payments (2021: none) for the Hartlepool Section due to the funding position on the funding basis at the 31 March 2020 valuation.

## Notes to the financial statements (continued)

For the year ended 31 March 2022

**24. Net retirement benefit deficit (continued)**

Contributions to MPLAP, including an allowance for expenses, were £8.7 million (2021: £8.9 million) during the year.

In the year to 31 March 2023 employers' contributions are expected to be £0.1 million.

The weighted average duration of the defined benefit obligation for AWGPS (excluding Hartlepool) is 19 years, for the Hartlepool section of AWGPS is 17 years, for MPLAP is 19 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 recorded in the prior year was an increase in the liabilities by £0.4 million.

The Group also operates a number of defined contribution schemes in the UK, and contributions to these schemes amounted to £19.1 million (2021: £18.2 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:

	2022	Group 2021
	% pa	% pa
Discount rate	2.7	2.1
Inflation rate		
RPI	3.7	3.2
CPI	3.3/3.1 <sup>(5)</sup>	2.7
Increases to deferred benefits during deferment		
RPI	3.7	3.2
CPI	3.2/N/A <sup>(5)</sup>	2.7
Increases to inflation related pensions in payment <sup>(1)</sup>		
RPI	3.5	3.1
CPI	3.2/N/A <sup>(5)</sup>	2.7
	years	years
Longevity at age 65 for current pensioners		
Men	22.3 <sup>(3)</sup> /21.8 <sup>(4)</sup>	22.5
Women	24.6 <sup>(3)</sup> /24.1 <sup>(4)</sup>	24.6
Longevity at age 65 for future pensioners <sup>(2)</sup>		
Men	23.6 <sup>(3)</sup> /23.0 <sup>(4)</sup>	23.8
Women	26.0 <sup>(3)</sup> /25.5 <sup>(4)</sup>	26.1

<sup>(1)</sup> For RPI pension increases capped at 5 per cent per annum.

<sup>(2)</sup> The life expectancy shown for future pensioners is for those reaching 65 in 2042.

<sup>(3)</sup> Life expectancies for 'AWGPS', 'Hartlepool' and 'Unfunded pensioners'

<sup>(4)</sup> Life expectancies for 'MPLAP'

<sup>(5)</sup> Inflation related assumptions for MPLAP

## Notes to the financial statements (continued)

For the year ended 31 March 2022

**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 2022						
Discount rate	+/- 0.5 % pa	-120/136	-1/2	-18/20	-2/3	-137/155
Rate of RPI inflation	+/- 0.5 % pa	112/-105	1/-1	8/-8	3/-2	123/-115
Life expectancy	+/- 1 year	60/-59	1/-1	11/-10	2/-2	72/-71

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.

## Notes to the financial statements (continued)

For the year ended 31 March 2022

### 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.

## Notes to the financial statements (continued)

For the year ended 31 March 2022

**24. Net retirement benefit deficit** (continued)**d) Amounts recognised in comprehensive income**

	AWGPS £m	Hartlepool £m	MPLAP £m	Unfunded pensions £m	Group Total £m
<b>2022</b>					
<b>Amounts charged to staff costs within operating profit</b>					
Administration expenses	-	-	(0.2)	-	(0.2)
Impact of restriction on surplus	-	-	(0.2)	-	(0.2)
<b>Total operating charge</b>	-	-	(0.4)	-	(0.4)
<b>Amounts credited/(charged) to finance costs</b>					
Interest income on scheme assets	33.7	0.4	5.3	-	39.4
Interest cost on scheme liabilities	(32.3)	(0.4)	(5.3)	(0.9)	(38.9)
<b>Net interest income/(expense)</b>	<b>1.4</b>	-	-	(0.9)	<b>0.5</b>
<b>Amounts credited/(charged) to the income</b>	<b>1.4</b>	-	(0.4)	(0.9)	<b>0.1</b>
<b>Amounts credited/(charged) to other comprehensive income</b>					
Return on plan assets (excluding amounts included in net interest)	20.5	(0.7)	(10.5)	-	9.3
Actuarial losses arising from:					
Changes in financial assumptions	77.7	0.5	30.5	1.5	110.2
Experience adjustments	43.9	-	28.9	(0.3)	72.5
Change arising from minimum funding requirement	-	-	11.8	-	11.8
<b>Net charge to other comprehensive income</b>	<b>142.1</b>	<b>(0.2)</b>	<b>60.7</b>	<b>1.2</b>	<b>203.8</b>

## Notes to the financial statements (continued)

For the year ended 31 March 2022

**24. Net retirement benefit deficit (continued)****d) Amounts recognised in comprehensive income (continued)**

	AWGPS	Hartlepool	MPLAP	Unfunded pensions	Total
	£m	£m	£m	£m	£m
<b>2021</b>					
Amounts (charged)/credited to staff costs within operating profit:					
Administration expenses	-	-	(0.4)	-	(0.4)
Impact of restriction on surplus	-	-	(0.7)	-	(0.7)
Total operating credit	-	-	(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 credited/(charged) to other comprehensive income:					
Return on plan assets (excluding amounts included in net interest)	66.7	(4.1)	13.2	-	75.8
Actuarial gains 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)/credit to other comprehensive income	(157.3)	(6.9)	(0.1)	(5.1)	(169.4)



## Notes to the financial statements (continued)

For the year ended 31 March 2022

**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
<b>2022</b>					
Equities	176.6	-	32.8	-	<b>209.4</b>
Corporate bonds	606.6	-	95.0	-	<b>701.6</b>
Government bonds	1,575.5	0.5	43.0	-	<b>1,619.0</b>
Property	80.8	-	-	-	<b>80.8</b>
Alternatives	79.3	-	12.0	-	<b>91.3</b>
Pooled LDI Investments (with def of LDI)	74.6	-	-	-	<b>74.6</b>
Derivatives	(7.5)	-	-	-	<b>(7.5)</b>
Repurchases	(1,211.4)	-	-	-	<b>(1,211.4)</b>
PIVs (LDI)	-	-	44.6	-	<b>44.6</b>
PIVs (Real Return Fund)	-	-	9.6	-	<b>9.6</b>
Insurance contract	-	17.0	6.4	-	<b>23.4</b>
Cash and cash equivalents	257.5	1.0	11.6	-	<b>270.1</b>
Total assets	1,632.0	18.5	255.0	-	<b>1,905.5</b>
Present value of scheme liabilities	(1,416.8)	(17.0)	(202.6)	(41.8)	<b>(1,678.2)</b>
Net pension deficit	<b>215.2</b>	<b>1.5</b>	<b>52.4</b>	<b>(41.8)</b>	<b>227.3</b>
Comprising:					
Pension schemes with a net surplus, included in non-current assets	215.2	1.5	52.4	-	<b>269.1</b>
Pension schemes with a net deficit, included in non-current liabilities	-	-	-	(41.8)	<b>(41.8)</b>
	<b>215.2</b>	<b>1.5</b>	<b>52.4</b>	<b>(41.8)</b>	<b>227.3</b>

## Notes to the financial statements (continued)

For the year ended 31 March 2022

**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
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 surplus	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)

The scheme assets do not include any of the group's own financial instruments, nor any property occupied by, nor other assets used by, the group. Most of the assets have quoted prices in active markets, but there are corporate bonds, alternative investments and insurance contracts, which are unquoted amounting to £164.4 million.

## Notes to the financial statements (continued)

For the year ended 31 March 2022

**24. Net retirement benefit deficit (continued)****f) Reconciliation of fair value of scheme assets**

	<b>Group</b>			
	<b>AWGPS</b>	<b>Hartlepool</b>	<b>MPLAP</b>	<b>Unfunded pensions</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
At 1 April 2020	1,555.4	24.5	236.8	-
Interest income on scheme assets	36.2	0.5	5.5	-
Administration costs	-	-	(0.4)	-
Employers' contributions	36.5	-	8.9	2.8
Benefits paid	(65.1)	(0.7)	(10.6)	(2.8)
Return on plan assets (excluding interest income)	66.7	(4.1)	13.2	-
<b>At 31 March 2021</b>	<b>1,629.7</b>	<b>20.2</b>	<b>253.4</b>	<b>-</b>
Interest income on scheme assets	33.6	0.4	5.4	-
Administration costs	-	-	(0.2)	-
Employers' contributions	14.6	-	8.7	2.7
Benefits paid	(66.4)	(1.4)	(8.2)	(2.7)
Introduction of insured annuitants	-	-	6.4	-
Return on plan assets (excluding interest income)	20.5	(0.7)	(10.5)	-
<b>At 31 March 2022</b>	<b>1,632.0</b>	<b>18.5</b>	<b>255.0</b>	<b>-</b>

**g) Reconciliation of scheme liabilities**

	<b>Group</b>			
	<b>AWGPS</b>	<b>Hartlepool</b>	<b>MPLAP</b>	<b>Unfunded pensions</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
At 1 April 2020	(1,381.9)	(16.0)	(232.7)	(41.6)
Interest cost on scheme liabilities	(31.7)	(0.4)	(5.3)	(0.9)
Benefits paid	65.1	0.7	10.6	2.8
Actuarial losses	(224.0)	(2.8)	(31.2)	(5.1)
<b>At 31 March 2021</b>	<b>(1,572.5)</b>	<b>(18.5)</b>	<b>(258.6)</b>	<b>(44.8)</b>
Interest cost on scheme liabilities	(32.3)	(0.4)	(5.3)	(0.9)
Benefits paid	66.4	1.4	8.2	2.7
Introduction of insured annuitants	-	-	(6.3)	-
Actuarial gains	121.6	0.5	59.4	1.2
<b>At 31 March 2022</b>	<b>(1,416.8)</b>	<b>(17.0)</b>	<b>(202.6)</b>	<b>(41.8)</b>

## Notes to the financial statements (continued)

For the year ended 31 March 2022

**25. Share capital**

	<b>Group and Company</b>	
	<b>2022</b>	<b>2021</b>
	<b>£m</b>	<b>£m</b>
<b>Authorised, issued and fully paid</b>		
54,815,751,651 ordinary shares of £0.0055 each (2021: £0.01 each)	<b>301.5</b>	548.2
	<b>301.5</b>	548.2

There were no movements in the number of shares allotted, issued and fully paid in either the current or preceding year. During the year a capital reduction exercise took place, reducing the value of each individual share from £1 to £0.55.

**26. Hedging reserve**

	<b>Group</b>	
	<b>2022</b>	<b>2021</b>
	<b>£m</b>	<b>£m</b>
At 1 April	<b>(37.4)</b>	(52.3)
Gains on cash flow energy hedges	<b>64.3</b>	11.3
Amounts transferred to the income statement	<b>2.9</b>	(2.3)
(Losses) on cash flow hedges	<b>(54.4)</b>	(66.6)
Amounts transferred to the income statement from discontinuation of cash flow	<b>11.1</b>	12.5
Exchange movement on hedging instruments related to debt in cash flow hedges	<b>49.4</b>	63.5
Deferred tax movement on cash flow hedges	<b>(15.5)</b>	(3.5)
<b>At 31 March</b>	<b>20.4</b>	(37.4)

**Cost of hedging reserve**

	<b>Group</b>	
	<b>2022</b>	<b>2021</b>
	<b>£m</b>	<b>£m</b>
At 1 April	<b>2.4</b>	1.1
Amounts transferred to the income statement	-	(0.5)
Losses on cash flow hedges	<b>(2.6)</b>	2.1
Deferred tax movement on cash flow hedges	<b>0.5</b>	(0.3)
<b>At 31 March</b>	<b>0.3</b>	2.4

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

**The company**

The company has no hedging reserve (2021: none).

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

## Notes to the financial statements (continued)

For the year ended 31 March 2022

**26. Hedging reserve** (continued)

	Annual movements		Cumulative reserves			Group
	Hedged gain/(loss) £m	Hedge ineffectiveness gain £m	Total hedge reserves continuing £m	Total hedge reserves discontinued £m	Deferred tax on hedge reserves £m	Total reserves £m
<b>At 31 March 2022</b>						
Cash flow hedge of interest rate risk	10.2	0.5	75.9	(48.8)	(6.8)	20.3
<b>At 31 March 2021</b>						
Cash flow hedge of interest rate risk	(58.7)	1.4	19.4	(63.0)	8.6	(35.0)

## Notes to the financial statements (continued)

For the year ended 31 March 2022

**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.

	<b>2022</b>	<b>Group</b>
	<b>£m</b>	<b>2021</b>
		<b>£m</b>
Property, plant and equipment	<b>112.1</b>	69.8
Intangible assets	<b>25.7</b>	46.0
	<b>137.8</b>	115.8

There were no capital commitments relating to the Group's share of joint ventures.

**The company**

The company has no such commitments (2021: 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.

	<b>2022</b>	<b>Group</b>
	<b>£m</b>	<b>2021</b>
		<b>£m</b>
Additions to right-of-use assets	<b>8.0</b>	0.4
Depreciation charge for right-of-use assets	<b>(6.8)</b>	(6.4)
Carrying amount of right-of-use assets	<b>69.3</b>	68.1
Interest expense on lease liabilities	<b>(1.2)</b>	(1.0)
Expense relating to short-term leases	<b>2.8</b>	2.8
Total cash outflow for leases comprising interest and capital payments	<b>(14.3)</b>	(14.3)
<b>Reconciliation of lease liability</b>		
Contractual undiscounted cash flows	<b>38.9</b>	43.5
Effect of discounting	<b>(6.6)</b>	(6.7)
Lease liability	<b>32.3</b>	36.7

The Group leases certain items of plant and equipment, as well as vehicles, under short-term leases. At 31 March 2022, the Group had £0.2 million (2021: £0.1 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.

## Notes to the financial statements (continued)

For the year ended 31 March 2022

### 28. Lease arrangements (continued)

#### Leases as lessor

The Group leases out its investment properties. During the year to 31 March 2022, rental income of £1.8 million (2021: £1.5 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. In addition, the group is party to indemnities in respect of its joint ventures (see note 15).

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. This is an industry-wide issue and at this stage the Directors consider, based on current legal advice, that the claim is unlikely to succeed and, in any event, would not be material to the financing standing of the company.

Flow to full treatment: Ofwat and the Environment Agency launched industry-wide investigations in 2021 into compliance with conditions of environmental permits. While the final outcome of these investigations isn't yet known, we've provided comprehensive information to both regulators and continue to engage positively with them.

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 Holdco Limited is a limited liability company incorporated and domiciled in England and Wales. The Directors consider Anglian Water Group Limited, a company registered in Jersey, to be both the immediate and 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.

Anglian Water Group Limited is the parent company of both the smallest and 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 address, Lancaster House, Lancaster Way, Ermine Business Park, Huntingdon, Cambridgeshire PE29 6XU.

## Notes to the financial statements (continued)

For the year ended 31 March 2022

**31. Related party transactions****a) Transactions with shareholders**

The consortium of investors owning Anglian Water Group Limited are considered to be related parties of the company as they each have the ability to influence the financial and operating policies of both the company and the Group.

On 29 May 2018, a loan of £462.0 million, with a maturity date of 29 June 2021 (subsequently extended to 29 June 2022) and an interest rate of 5.5 per cent, was issued to the members of the consortium of investors owning Anglian Water Group Limited. At 31 March 2022, the amount outstanding was £462.0 million (2021: £462.0 million), with interest of £19.2 million (2021: £19.2 million) accrued but not paid. During the year, interest of £25.4 million (2021: £56.2 million) was paid in respect of these loan notes.

During the year to 31 March 2022, there were no other transactions (2021: none) with the shareholders.

**b) Transactions with key management**

Key management personnel comprise all the directors and members of the management board during the year. A scheme is in place to encourage investment in the Group by key management on an equivalent basis as the consortium of shareholders. During the year £0.7 million (2021: £0.5 million) was invested by key management, a return of £0.1 million (2021: £0.1 million) was earned, and the Group repaid £nil million (2021: £5.2 million) as part of this scheme. At 31 March 2022, £1.2 million (2021: £0.5 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 (2021: £1.8 million).

**Remuneration of key management personnel**

	<b>Group</b>	
	<b>2022</b>	<b>2021</b>
	<b>£m</b>	<b>£m</b>
Short-term employee benefits	<b>6.7</b>	7.3
Post-employment benefits	<b>0.5</b>	0.5
Other long-term benefits	-	1.3
	<b>7.2</b>	9.1



## Notes to the financial statements (continued)

For the year ended 31 March 2022

**31. Related party transactions (continued)****c) Transactions with joint ventures**

The group's transactions with its joint ventures are summarised below.

During the year ended 31 March 2021, the group made sales on an arms-length basis of £190.7 million (2021: £203.2 million) to the Wave joint venture, and recognised interest receivable of £1.7 million (2021: £2.0 million). At 31 March 2022, the following amounts were due from the Wave joint venture:

- A £10.7 million (2021: £10.7 million) 5.5 per cent medium-term loan repayable on 31 August 2027, or such other date as mutually agreed between the parties, included within investments in joint ventures;
- A £4.0 million (2021: £8.0 million) 5.0 per cent preference loan repayable in five annual instalments of £4.0 million from August 2018, included within trade and other receivables;
- A £16.7 million (2021: £16.7 million) loan at 12 month LIBOR plus 2.75 per cent with no fixed repayment date, included within trade and other receivables;
- A £15.0 million (2021: £13.0 million) short-term working capital facility at one month LIBOR plus 2.75 per cent, included within trade and other receivables;
- Accrued income of £4.9 million (2021: £5.4 million), trade receivables of £nil million (2021: £14.2 million) and interest receivable of £1.7 million (2021: £1.4 million), included within trade and other receivables.

**d) Parent company**

The company's related party transactions are summarised below:

	2022 £m	2021 £m
Interest received from		
Subsidiaries	0.4	0.6
Dividends received from		
Subsidiaries	21.0	55.9
	2022 £m	2021 £m
Trade and other receivables due from		
Parent company	0.1	0.1
Subsidiaries	0.2	0.1
Trade and other payables due to		
Subsidiaries	1.6	1.6
Loans and other borrowings due from		
Subsidiaries	-	728.8
Loans and other borrowings due to		
Parent company	(548.0)	(548.0)

## Notes to the financial statements (continued)

For the year ended 31 March 2022

**32. Alternative performance measures**

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

**a) EBITDA**

Calculated as profit before net finance costs, tax, depreciation, and amortisation to give a measure of the company's overall financial performance. Each element of this APM is shown on the face of the income statement (page 47).

**b) Adjusted finance costs**

Calculated as net finance costs excluding fair value gains/(losses) on derivative financial instruments. These fair value gains/(losses) are volatile, non-cash movements that distort the actual underlying economic performance (page 47).

**c) Adjusted profit before tax/Profit before fair value gains/(losses)**

Calculated as profit before tax excluding fair value gains/(losses) on derivative financial instruments. The calculation is shown on the face of the income statement. These fair value gains/(losses) are volatile, non-cash movements that distort the actual underlying economic performance (page 47).

**d) Net debt**

Net debt comprises borrowings, net cash and cash equivalents, and derivative financial instruments (excluding those in respect of fair value energy hedges). This measure is used because it provides additional useful information in respect of the financing of the business. See note 18 and below.

	<b>2022</b>	<b>Group</b>
	<b>£m</b>	<b>2021</b>
		<b>£m</b>
Net cash and cash equivalents	<b>613.4</b>	273.3
Current asset investments	<b>430.7</b>	88.5
Borrowings	<b>(9,351.4)</b>	(8,554.2)
Derivatives	<b>(1,088.6)</b>	(832.0)
Less: energy derivatives	<b>(73.4)</b>	(9.0)
Net Debt	<b>(9,469.3)</b>	(9,033.3)

**33. Events after the balance sheet date**

A first interim dividend of £91.8 million in respect of the year ending 31 March 2023 was approved by the Board on 15 June 2022 and was paid on 29 June 2022. This dividend has not been included as a liability at 31 March 2022.

other than those described above, 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.

## Notes to the financial statements (continued)

For the year ended 31 March 2022

**34. Group undertakings**

The group's subsidiary undertakings at 31 March 2022 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 <u>office</u>
<b>Owned directly by Osprey Holdco Limited</b>	
Anglian Venture Holdings Limited	a
Morrison Limited	a
Osprey Acquisitions Limited	a
<b>All subsidiary undertakings</b>	
Alexander Morrison Limited	b
Alpheus Environmental Limited	a
Ambury Developments Limited	a
Anglian Venture Holdings Limited	a
Anglian Water (Ireland) Limited	c
Anglian Water (Osprey) Financing Plc	a
Anglian Water Direct Limited	a
Anglian Water Facilities Management Holdings (UK) Limited	a
Anglian Water International Holdings Limited	a
Anglian Water International Limited	a
Anglian Water Services Financing Plc	a
Anglian Water Services Holdings Limited	a
Anglian Water Services Limited	a
Anglian Water Services UK Parent Co Limited	a
AW Creative Technologies Limited	a
AWG (UK) Holdings Limited	a
AWG Business Centres Limited	a
AWG C4 Limited	a
AWG Central Services Limited	a
AWG Corporate Services Limited	a
AWG Group Limited	a
AWG Holdings Limited	e
AWG Land Holdings Limited	a
AWG Outlet Centers Limited	b
AWG Parent Co Limited	a

## Notes to the financial statements (continued)

For the year ended 31 March 2022

**34. Group undertakings (continued)**

	<u>Registered office</u>	<u>Percentage holding</u>
<b>All subsidiary undertakings (continued)</b>		
AWG Property Developments (Ireland) Limited	e	
AWG Property Director Limited	a	
AWG Property Limited	b	
AWG Property Solutions Limited	a	
AWG Residential Limited	b	
AWG Shelf 11 Limited	b	
AWG Utilities Limited	a	
Cambuslang Retail Portfolio Limited	b	
Celtic Anglian Water Limited	c	
Chester (1995) Limited	a	97%
CS Amenities Limited	a	
CWRP Relocation Limited	a	
DMWS 819 Limited	b	
DMWS 822 Limited	b	
DMWS 823 Limited	b	
DMWS 824 LLP <sup>(1)</sup>	b	
Edmund Homes Limited	a	
Graham Street Airdrie Retail Portfolio Limited	b	
H2GO Limited	a	
Macrocom (743) Limited	b	
Morrison (Oldco) Limited	b	
Morrison Gloscha Limited	b	
Morrison Holdings Limited	a	
Morrison International Limited	b	
Morrison Limited	a	
Morrison Property Investments Limited	b	
Morrison Residential Properties Limited	b	
NVB Rathdowney Limited	g	
OHL Land Holdings Limited	a	
OHL Piper Limited	a	
OHL Property Holdings Limited	a	
Osprey Acquisitions Limited	a	

## Notes to the financial statements (continued)

For the year ended 31 March 2022

**34. Group undertakings** (continued)

	Registered office	Percentage holding
<b>All subsidiary undertakings</b> (continued)		
Rutland Insurance Limited	h	
Tide Services Limited	a	
Valuetype Limited	a	
Wave Environmental Limited	a	
Wave Holdings Limited	b	
Wave Utilities Limited	b	
	<u>Registered office</u>	<u>Percentage holding</u>
<b>Joint ventures</b>		
Anglian Water Business (National) Limited	j	50%
AWG Outlets (Rathdowney) Limited	e	50%
Cambridge 4 LLP	a	50%
City Road Properties (Chester) Limited	a	50%
Crowwood Grange Estates Limited	b	50%
Hollowstone Limited	a	50%
Kings Waterfront Properties Limited	a	50%
Morrison Gwent Limited	a	50%
Morrison Leneghan IRL Limited	f	60%
Morrison Properties Limited	b	50%
Morrison Residential Properties Limited	b	50%
NWG Business Limited	j	50%
Rathdowney Shopping Centre Management Company Limited	e	50%
Spreevale Limited <sup>(3)</sup>	k	50%
Wave Ltd	j	50%

<sup>(1)</sup> The principal place of business of these companies is the same as the registered office address.

<sup>(2)</sup> In administration.

<sup>(3)</sup> In liquidation.

## Notes to the financial statements (continued)

For the year ended 31 March 2022

### 34. Group undertakings (continued)

#### Registered offices

- a) Lancaster House, Lancaster Way, Ermine Business Park, Huntingdon, Cambridgeshire, PE29 6XU, United Kingdom.
- b) c/o Brodies LLP, Capital Square, 58 Morrison Street, Edinburgh EH3 8BP.
- c) Suite 8, Northwood House, Northwood Business Campus, Santry, Dublin 9, Ireland.
- d) 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) Northumbria House, Abbey Road, Pity Me, Durham, DH1 5FJ, United Kingdom.
- k) 15 Clanwilliam Terrace, Dublin 2, Ireland.

For all companies, the registered office is located in the country of incorporation.

Under section 479C of the Companies Act 2006, Osprey Holdco Limited gives a parent company guarantee in respect of all outstanding liabilities as at 31 March 2022, until the liabilities are satisfied in full, for the following subsidiary companies. Under section 479A of the Companies Act 2006, the following subsidiaries are therefore exempt from the requirements relating to the audit of individual accounts.

#### Subsidiary undertakings guaranteed by Osprey Holdco Limited

Alexander Morrison Limited	SC038867
Alpheus Environmental Limited	02499491
Ambury Developments Limited	04173903
Anglian Venture Holdings Limited	06426222
Anglian Water Direct Limited	03306995
Anglian Water International Holdings Limited	02024769
Anglian Water International Limited	02729389
AW Creative Technologies Limited	03286074
AWG (UK) Holdings Limited	05441805
AWG Business Centres Limited	05844645
AWG C4 Limited	11787247
AWG Central Services Limited	04172712
AWG Group Limited	02366618
AWG Land Holdings Limited	04530863
AWG Parent Co Limited	03936645
AWG Property Limited	SC067190
AWG Residential Limited	SC082292

Notes to the financial statements (continued)

For the year ended 31 March 2022

**34. Group undertakings (continued)**

**Subsidiary undertakings guaranteed by Osprey Holdco Limited (continued)**

AWG Shelf 11 Limited	SC115080
AWG Utilities Limited	10177651
CWRP Relocation Limited	12219644
Graham Street Airdrie Retail Portfolio Limited	SC271032
Macrocom (743) Limited	SC228103
Morrison International Limited	SC120552
Morrison Limited	04700725
OHL Land Holdings Limited	12185958
OHL Property Holdings Limited	11782560
Tide Services Limited	11145202
Valuetype Limited	02559548
Wave Water Limited	02702745

## Independent auditor's report to the members of Osprey Holdco Limited

For the year ended 31 March 2022

### Report on the audit of the financial statements

#### Opinion

In our opinion:

- the financial statements of Osprey Holdco 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 2022 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
- the parent company financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the group income statement;
- the group statement of comprehensive income;
- the group and company balance sheets;
- the group and company statements of changes in equity;
- the group and company cash flow statement; and
- the related notes 1 to 34.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

#### 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.



## Independent auditor's report to the members of Osprey Holdco Limited (continued)

For the year ended 31 March 2022

Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- Understanding management's process to model the impact of going concern and agreeing relevant data points in the model to supporting documentation;
- Assessing the sophistication of the model used to prepare the forecasts, testing of the clerical accuracy of those forecasts and assessing the historical accuracy of forecasts prepared by management;
- Assessing the assumptions used in establishing management's base case, including comparison of key assumptions to independent data sources where relevant;
- Evaluating liquidity, including in the scenario where future financing is restricted;
- Evaluating the external financing to establish and assess the covenant requirements attached to this financing;
- Assessing the amount of headroom in the forecasts (cash and covenants); and
- Evaluating the sensitivity analysis 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.

### **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.

## Independent auditor's report to the members of Osprey Holdco Limited (continued)

For the year ended 31 March 2022

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](http://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 instrument valuations, pensions and IT specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following areas, and our specific procedures performed to address them are described below:

- in addressing the risk of fraud through bad debt provisioning, we
  - obtained an understanding of, and tested, relevant controls within the bad debt provision estimation process;

## Independent auditor's report to the members of Osprey Holdco Limited (continued)

For the year ended 31 March 2022

- assessed the accuracy of information within the aged debt report to determine whether the customer debt is accurately categorised based on information contained within the group's billing system;
  - assessed that the provision, including the additional provision due to macro-economic uncertainties, has been calculated in line with the policy of the group through testing the mechanical accuracy of the provision and reviewing its consistency with IFRS 9 '*Financial Instruments*';
  - inspected management's bad debt policy and specifically challenged whether the recoverability assumptions are reflective of current cash collection rates;
  - assessed whether any discrepancies exist between the provision recognised and provision indicated by current cash collection ratios and other macroeconomic indicators that may impact the ability of customers to make payments;
  - assessed the accuracy and completeness of the cash collection trends used in the provision rate calculation by reconciling billing and SAP data and performing sample testing on cash collections both during the year and post period end; and
  - engaged our IT analytics team to perform a recalculation on the debtor ageing.
- in addressing the risk of fraud in the classification of costs as capital expenditure, we
    - tested the design and operating effectiveness of relevant controls over classification of projects, and therefore, costs between operating and capital;
    - tested a sample of capital projects by agreeing the costs incurred to third-party documentation and assessing the appropriateness of the classification in accordance with the capitalisation policy.
- in addressing the risk of fraud in revenue recognition in respect of estimating metered household revenue, we
    - tested the design and operating effectiveness of relevant controls within the billed and unbilled household revenue process, including controls around the estimation techniques used with regard to consumption and other key data inputs into the model;
    - 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 historical accuracy 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, relevant controls within the billed and unbilled household revenue process.
- in addressing the risk of fraud through management override of controls, we
    - tested the design of relevant controls within the financial reporting process;
    - tested the appropriateness of journal entries and other adjustments;
    - assessed whether the accounting judgements and estimates are indicative of a potential management bias; and
    - evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

## Independent auditor's report to the members of Osprey Holdco Limited (continued)

For the year ended 31 March 2022

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.


Osprey Holdco Limited

## Independent auditor's report to the members of Osprey Holdco Limited (continued)

For the year ended 31 March 2022

### 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.



Kate Hadley (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Birmingham, United Kingdom

13 July 2022