ANGLIAN WATER SERVICES LIMITED 'ANGLIAN WATER'

7 December 2021

Half-yearly results for the six months ended 30 September 2021

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

Delivering robust results while focusing on long-term resilience

Overall highlights

- Anglian Water led UK water sector at COP26 with key role on water resilience and focus on comprehensive 2030 net zero routemap
- Rated by Ofwat as 'sector-leading' in regulator's 2020/21 Service and Delivery Report; Anglian secured top three status on Outcome Delivery Incentive (ODI) performance rewards in water and water recycling in 2020/21 and is on track for net reward in 2021/22 based on delivery of customer outcomes
- On track for completion of largest ever programme of capital investment in 2021/22
- Company financial restructure completed, with shareholders injecting over £1 billion into Anglian Water, reducing gearing to 68 per cent (31 March 2021: 82 per cent) and driving resilience for the East of England
- First response to Ofwat and Environment Agency review of water recycling compliance reports no evidence of environmental impact from storm tank spills, and 2020–2025 Water Industry National Environment programme delivery ahead of schedule, targeting ecological benefit across 250km of rivers

Financial highlights

	6 months to 30 September 2021 (unaudited)	**Prior year (6 months to 30 September 2020 (unaudited))**	**Change**
EBITDA[1]	£395.8m	£382.6m	+ £13.2m / 3.5%
Operating profit	£218.2m	£209.3m	+ £8.9m / 4.3%
Adjusted profit before tax[2]	£20.5m	£85.2m	£(64.7)m / (75.9)%
Fair value on derivatives	£(91.6)m	£(100.6)m	+ £9.0m / 8.9%
Tax (charge)/credit	£(324.4)m	£2.1m	£(326.5)m /(15,547.6)%
Statutory loss after tax	£(395.5)m	£(13.3)m	£(382.2)m / (2,873.7)%
Operating cash flow[3]	£375.5m	£345.4m	+ £30.1m / 8.7%
Net capital injection	£1,068.7m	£nil	+ £1,068.7m / 100%
Net debt[4]	£5,548.0m	March 2021: £6,649.8m	£(1,101.8)m / (16.6)%

1 As defined in note 20
2 As defined in note 20, shown before loss on derivatives of £91.6m (2020: £100.6m).
3 Shown on a statutory accounts basis as calculated in the condensed cash flow statement on page 22. Net cash inflow from operating activities after tax on a Common Terms Agreement (CTA) basis is £373.9m (2020 £344.0m)
4 As defined in note 20, excluding derivatives. Net debt on a CTA basis is £5,523.5m (2020: £6,511.8m)

EBITDA up £13.2 million (3.5 per cent) with revenue up as a result of higher developer activity following last year's lockdowns. In addition, household revenue is down on last year but still higher than pre-Covid-19 levels, while the opposite is true for non-household revenue. Revenue movements have been offset in part by the impact of inflation on our costs, increased power consumption at our water recycling sites and tankering due to winter 2020 wet weather and our work to drive leakage reduction performance

Operating profit up £8.9 million (4.3 per cent) as a result of strong EBITDA, offset in part by higher depreciation as our asset base grows as we invest in our assets for the long term

Adjusted PBT down £64.7 million (75.9 per cent), primarily driven through higher interest costs on inflation-linked debt due to higher inflation year on year

Fair value loss on derivatives down £9.0 million (8.9 per cent), driven by an increase to the average levels of forward inflation curves versus the September 2020 period end, partially offset by an average increase in interest rates, increasing 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 £326.5 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 has increased by £382.2 million, primarily due to the tax charge in the period and higher interest due to higher inflation

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

Operating cash flow up £30.1 million (8.7 per cent) following positive working capital movements

Net debt down £1,101.8 million (16.6 per cent) following the financial restructuring completion which has reduced gearing to 68 per cent

Commenting on Anglian Water's results for the half year to 30 September 2021, Chief Executive Peter Simpson said:

"These results demonstrate again that Anglian Water is a business with solid finances, which is delivering for customers, communities and the environment in the East of England.

"We are providing long-term solutions to the impact of climate change, population growth and the need to protect and enhance the environment. We're particularly proud to have led the UK water sector's presence at COP26, championing effective climate adaptation as co-lead of the Water theme in the first ever COP Resilience Hub and sharing best practice through our industry-leading 2030 net zero route map.

"As we look forward to the second half of the year, we continue with our largest ever capital investment programme with its strong focus on environmental programmes. We remain confident of being able to deliver again successfully for all our stakeholders."

Delivery and operational highlights

- **Anglian Water's capital investment programme for 2021/22 – our biggest ever for a single year – is underway and on track for completion by year end.** Our total capital investment in the region for the first half of the year was £230 million. Programme highlights for the full year include:
- **£59 million for the Strategic Pipeline Alliance, the biggest water infrastructure project for a generation.** This ambitious project will see us install up to 500km of large diameter pipeline by 2025 to enable water to be moved around our water-scarce region, from areas where supplies are more abundant to areas with a shortfall. Teams are laying up to 84 metres per day. The first 8.5km of pipeline will be complete by mid-December, with a total of 14km complete by the end of March 2022. The entire scheme is supported by a digital twin which will mirror the physical infrastructure, giving us real-time data to monitor the network and insights that will help us optimise the delivery of our service to customers. The scheme was awarded Digital Initiative of the Year at this year's British Construction Industry Awards.
- **£30 million on the roll out of smart water meters across the region** helping reduce demand for water by giving customers access to daily updates on their usage and enabling us to pinpoint and address leaks. We have installed a total of 240,672 meters (as at end September 2021), taking the total of reporting smart meters to 261,000 (with c.20,000 meters having been installed in early trials in AMP6). Despite current supply chain issues, we are on track to deliver 1.1 million meters by 2025 as the programme ramps up post-lockdown.
- **£19 million to drive down leakage** using the latest innovative techniques including using satellite imagery and fibre-optic technology to find and fix leaks; we have created 200 additional leakage roles since the start of the year and are on track to meet our stretching performance commitment at year end.
- **On track for net outcome delivery incentive (ODI) rewards.** Ofwat's assessment of 2020/21 outcomes in its Service and Delivery Report places us in the top two performers among water and water recycling companies. Our strong performance in the first half of 2021/22 on areas including customer service, flooding and environmental investments through the Water Industry National Environment Programme, indicates a net reward position at year end. We have achieved this despite the ongoing

impact of wet weather in early 2021, supply chain challenges, including shortages of HGV drivers and difficulty in securing supplies of chemicals, and financial constraints.

- **Cambridge Waste Water Treatment Plant relocation phase 2 consultation complete.** Plans are ongoing for the proposed relocation of Cambridge's Waste Water Treatment Plant. We have consulted residents and stakeholders and environmental surveys are underway ahead of phase 3 consultation beginning in February 2022. The relocation will facilitate the delivery of a cutting-edge carbon positive water recycling centre for Cambridge and free up land for up to 5,600 homes. One of the largest water recycling projects in the UK, the scheme has secured a £227 million grant from Homes England.
- **Progression of new reservoirs proposed for the East of England.** We have secured Gateway funding through RAPID (the Regulators' Alliance for Progressing Infrastructure Delivery) to progress our ambitious plans for the proposed South Lincolnshire Reservoir and Fens Reservoir, addressing long-term water resilience for our region's growing population. The two new multi-sector reservoirs are set to supply 250 million litres of water a day by the mid to late 2030s, serving at least 750,000 people and meeting the needs of homes, businesses and agriculture.
- **Supporting customers in vulnerable circumstances.** We are providing targeted support to a record number of customers (237,000) through our Priority Services Register. Since the start of the year, 285,000 customers have benefited from our affordability schemes, and we are on target to support 350,000 customers by year end.

Safeguarding and enhancing the environment

- **Water recycling compliance.** We welcome the recently announced reviews by the Environment Agency and Ofwat in light of growing public concern about river water quality. It is a concern we share, and one we've been working for years to address. We were delighted to report in our first response to the regulator that we found no evidence of environmental impacts from storm tank spills, and we are confident our proactive investigations in AMP6 have ensured sufficient investment where necessary for AMP7. Investment will continue into AMP8, guided by our Strategic Direction Statement (published in 2017) that identified working with others to achieve significant improvement in ecological quality across our catchments as one of four long-term ambitions we set for ourselves.
- **Investment in environmental programmes.** We hear and understand the public's unease about river water quality. In response, we have already accelerated the £800 million of AMP7 Water Industry National Environment Programme (WINEP) investment we have planned, such that the majority of the schemes will be completed earlier than scheduled. This is the largest WINEP of any water company for 2020–2025. £300 million of investment has been fast-tracked through the government's Green Recovery plan, with no additional cost to customers.

  We are investing £133 million in 2021/22 alone to protect and enhance the natural environment by removing chemicals such as phosphates and ammonia from used water, and restoring our rivers. The programme is proceeding at pace and on track to secure an ODI outperformance payment. It includes schemes on targeted stretches of riverbed which will bring wider ecological benefit across up to 250km of river catchment. These schemes are being delivered in partnership with Catchment-Based Approach partnerships, local Rivers Trusts, environmental groups and landowners. Target areas include tributaries of our region's most iconic chalk streams, including south-western tributaries of the River Lark (Kennett-Lee, Tuddenham, Cavenham, Linnet), southern tributaries of the River Little Ouse

(Sapiston and Black Bourn) in Suffolk, and the northern tributaries of the River Wissey (Old Carr, Gadder, Stringside), and the Rivers Heacham and Gaywood in Norfolk.

- **Commitment to increased monitoring of combined sewer overflows (CSOs).** We understand and entirely support the desire to prevent untreated water from entering our region's watercourses. We have publicly voiced our support for both the Environment Bill and the Duke of Wellington's amendment. We continue to invest in our infrastructure and will increase the rate of installation of Event Duration Monitors (EDMs) to achieve 100 per cent coverage of CSOs by December 2023. This will further improve our understanding of how our networks are performing and create a sound platform on which to plan investment. This investment builds on the recent hydraulic modelling risk assessment for all CSOs and the installation of 794 EDMs to date.
- **Tackling pollution.** Our continuous programme of investment and strategic delivery has seen the number of category 1-3 pollutions in our region reduced by more than half in 10 years, with our ongoing Pollution Incident Reduction Plan supporting this downward trajectory. This was recognised with 3* performance in the Environmental Performance Assessment, judging us as a good company. Our performance this calendar year has been impacted by exceptional rainfall and subsequent flooding in the first three months of 2021; however, the position has recovered significantly, dropping below historical average in the second half of the year. Pollutions remain a very significant area of focus for us.
- **Catchment management.** Our successful metaldehyde reduction campaign Slug it Out will come to a close in March 2022 after seven years when the ban on the pesticide comes into force. By working with more than 225 farmers, our catchment management team have eliminated the operational risk posed by metaldehyde in the natural catchments of every Anglian Water reservoir.
- **Biodiversity and habitat restoration.** We are proud that 99 per cent of the sites of special scientific interest we manage are in favourable condition (compared with a national average of 38.9 per cent). We are committed to delivering a 10 per cent gain in biodiversity resulting from construction and management of land we own. In October, we were pleased to be highly commended at the Chartered Institute of Ecology and Environment Management Awards, in recognition of wetland restoration work at Tetney Blow Wells in Lincolnshire, carried out over several years by our Biodiversity team.

A leading voice on climate action

- **Anglian Water led the UK water sector at COP26.** We were the only UK water company to secure a formal role at COP26. Our strong track record on climate adaptation saw us invited to co-lead the Water theme in the first ever COP26 Resilience Hub in the Blue Zone, official home to the UN Framework Convention on Climate Change Race to Resilience. We hosted an international event on landscape-scale adaptation, attracting speakers including cabinet minister the Rt Hon Steve Barclay MP and the chairs of the Environment Agency and Natural England. Our long-standing and industry-leading action on mitigation via capital and operational carbon reduction saw our CEO Peter Simpson invited to speak at several Blue Zone events, including the formal launch of the Water Pavilion.
- **Comprehensive 2030 net zero routemap published.** In July, we published a detailed routemap setting out how we will reach net zero by 2030 by reducing emissions, decarbonising our electricity supply and removing or offsetting our residual emissions, estimated at 26 per cent by 2030. Where we do need to offset, we are committed to doing so within our region. We chaired the Water UK working group

which led to the development of the water industry's shared routemap, described by UN High Level Climate Action Champion Nigel Topping as one of the most significant steps taken by any sector anywhere in the world.

- **Ambitious multi-agency climate adaptation Fens taskforce launched** in partnership with the Environment Agency, Water Resources East, Cambridgeshire and Peterborough Combined Authority, and many regional partners. As featured at our COP event, the Future Fens: Integrated Adaptation Taskforce seeks to bring renewed prosperity to the Fens through a radical new approach to managing land and water resources; its members have committed to apply to join the UN Race to Resilience by the end of February 2022.

Delivering in the public interest for customers, communities and colleagues

- **Company financial restructure concluded in July.** The restructure of our Group, together with the injection by our shareholders of more than £1 billion of capital, was the final stage in a process which began in 2018 to simplify our financial structures to improve transparency, trust and customer confidence and solidify our commitment to put wider public purpose at the heart of our business. The process saw us announce fundamental changes to our Articles of Association which enshrined a commitment for directors to consider the needs of the environment and communities alongside the need for shareholders to make a fair return on their investment.
- **Commitments to customers outlined in Social Contract**. Our longstanding commitment to operating in the public interest was cemented with the publication of our Social Contract in June 2021. The contract, developed in partnership with customers, is framed around 10 outcomes, driving towards the delivery of our purpose: to bring environmental and social prosperity to the region we serve.
- **Five-point plan for Community Recovery published in June 2021.** The plan outlines our purpose-led support for communities, focused on supporting vulnerable customers, being an inclusive business and increasing social mobility, investing in communities, supporting health and fostering wellbeing, and acting with integrity.
- **£1 million Positive Difference Fund fully dispensed.** The second tranche of our £1 million Positive Difference Fund, set up at the start of the pandemic, was dispensed through 15 Community Foundations, providing grants of up to £20,000. Through the fund we have supported more than 100,000 people through 160 community groups.
- **Support for colleagues throughout Covid-19 pandemic recognised.** In October, we were awarded the Royal Society for Public Health's *Health and Wellbeing in Workplaces* Award 2021.
- **Commitment to purpose recognised** through the award of Best Use of Purpose as a Business Driver at the Strategic Comms awards in November; judges said: "the clarity of Anglian Water's vision was really apparent; purpose shines through in all of their actions".

Pushing boundaries on innovation

- **Ofwat Breakthrough Challenge Funding.** We secured more than £11 million of innovation funding through Ofwat's Water Breakthrough Challenge in September, with two winning bids, securing close to a third of the total amount awarded (£36 million).

- **Our Safe Smart Systems project**, awarded £7.5 million, is focused on achieving autonomous control in water systems across the UK. Triple Carbon Reduction (awarded £3.8 million), will use novel technologies to target a step change reduction in greenhouse gas emissions and electricity use in used water treatment and provide a new renewable energy source through green hydrogen production.
- **CReDo Climate Resilience Demonstrator launched.** October saw the announcement of our ground-breaking resilience initiative with the National Digital Twin Programme and the Centre for Digital Built Britain, with funding from the Department for Business, Energy and Industrial Strategy. The digital twin project involves unprecedented collaboration between Anglian Water, telecoms provider BT and energy company UK Power Networks, sharing data to identify interdependencies in the event of severe weather scenarios; it was presented at COP26.
- **Ground-breaking leakage technology deployed.** We have become the first water company in the UK to deploy leakage technology in live water mains, enabling us to identify leaks without interrupting our customers' supply. The technology uses multi-sensor, low voltage conductivity and acoustic technology, as well as high-resolution closed-circuit television (CCTV), to listen for and find leaks from inside the water pipes.

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Principal risks and uncertainties

Effective risk management is central to the achievement of our strategic priorities. It is managed across our businesses through a number of formal and informal processes to identify new or escalating risks in a timely manner and ensure adequate controls and mitigating actions can be implemented.

The risks and uncertainties that the businesses face over the remainder of this financial year are listed below and are consistent with those included in the annual integrated report and consolidated financial statements for the year ended 31 March 2021.

Currently the two most significant negative influences on the risk position to the business are the ongoing Covid-19 pandemic, and the determination we received from the CMA which, while improved compared with the Ofwat determination, remains challenging.

For further information on how we have managed risks related to Covid-19, please see pages 14—17 of our March 2021 Annual Integrated Report.

We continue to monitor the position in relation to the UK's post-Brexit relationship with the European Union, and its remaining potential to cause operational disruption. At present we are seeing small scale supply chain issues and are well prepared for this impact.

Climate change, changes in expectation around environmental protection and population growth all represent longer-term systemic influences on our risk position. We continue to develop our understanding of the forecasted impacts of different scenarios, as set out in our Climate Change Adaptation Report and throughout the 2021 Annual Integrated Report, including 'Our strategic ambitions' (pages 22—25), 'Our challenges and opportunities' (pages 18—19), and 'Climate-related financial disclosures' (pages 74—75).

These topics are viewed as future scenarios which impact on our principal risks and are therefore not included in our principal risks list, documented in the following table.

The table shows how the principal risks have changed through the period, as affected by these scenarios, in particular the pandemic. Full descriptions can be found on page 82 of our 2021 Annual Integrated Report.

Half-yearly management report (continued)

For the six months ended 30 September 2021

Principal risks	Annual risk movement	Inherent risk profile	Current risk profile	Inherent risk impact score	Inherent risk likelihood score	Current risk impact score	Current risk likelihood score	Risk proximity
Safety								
1. Happier, healthier, safer	↔	High	Medium	Critical	Likely	Moderate	Likely	ST/MT
Operational								
2. Asset Investment, asset health and asset resilience	↔	High	Medium	Major	Likely	Major	Likely	LT
3. Support our customers and communities	↑	High	Medium	Major	Likely	Moderate	Possible	LT
4. Future business planning	↑	High	Medium	Critical	Likely	Major	Possible	LT
5. Resilient business	↔	High	Low	Major	Likely	Moderate	Likely	LT
6. Physical, cyber and personnel security	↔	High	Medium	Critical	Likely	Major	Possible	ST
7. Supply and demand	↑	High	Medium	Critical	Likely	Major	Likely	LT
8. Water quality	↑	High	Medium	Critical	Likely	Major	Possible	LT
Regulatory and compliance								
9. Political, regulatory and legislative changes or breaches	↔	High	Low	Major	Likely	Minor	Likely	LT
10. Protecting our environment	↑	High	Medium	Major	Likely	Minor	Likely	LT
11. Business performance	↑	High	Medium	Major	Almost certain	Moderate	Likely	MT
Financial								
12. Financing our business	↓	High	Medium	Major	Almost certain	Minor	Possible	ST

Key:

Annual risk movement:

Increasing ↑

Stable ↔

Decreasing ↓

Inherent and current risk profile:

- High
- Medium
- Low

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

Risk proximity:

LT – Long term (25 years)

MT – Medium term (10 years)

ST – Short term (5 years)

Results summary (unaudited)

Anglian Water Services
Income statement

Six months to 30 September 2021

	% increase/ (decrease)	**2021 £m**	**2020 £m**
Revenue (excl. grants and contributions)	*1.0%*	**655.2**	**648.9**
Grants and contributions	*56.1%*	48.7	31.2
Other operating income		7.2	6.0
Operating costs	*3.9%*	(315.3)	(303.5)
% of revenue		*48.1%*	*46.8%*
EBITDA [1]	3.5%	**395.8**	**382.6**
Depreciation and amortisation	*2.5%*	(177.6)	(173.3)
% of revenue		*27.1%*	*26.7%*
Operating profit	*4.3%*	**218.2**	**209.3**
Margin		*33.3%*	*32.3%*
Interest (excluding indexation)		(115.3)	(102.4)
Indexation charge		(82.7)	(23.5)
Finance income		0.3	1.8
Adjusted profit before tax [1]	*(75.9%)*	**20.5**	**85.2**
Fair value losses on derivatives [1 2]		(91.6)	(100.6)
Loss before tax		**(71.1)**	**(15.4)**
Tax (charge)/credit		(324.4)	2.1
Loss after tax		**(395.5)**	**(13.3)**

[1] As defined in note 20.

[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 since these are volatile non-cash movements that distort the actual underlying economic performance.

Revenue

Revenue, excluding grants and contributions, for the six months to 30 September 2021 was £655.2 million (2020: £648.9 million), an increase of £6.3 million (1.0 per cent) on the six months to 30 September 2020.

The increase in revenue is as a result of the following factors:

- The price increase for customers following the Final Determination, £17.2 million increase.
- The impact of higher Covid-19 demand partially reversing, net £7.7 million decrease. Household consumption down £19.8 million and non-household consumption up £12.1 million. Compared to September 2019, pre-Covid-19, household consumption is up 5 per cent (September 2020: up 12 per cent) and non-household consumption is down 11 per cent (September 2020: down 24 per cent).
- Other offsetting decreases in revenue of £3.2 million.

Grants and contributions

Grants and contributions have increased by £17.5 million compared with the six-month period to September 2020, driven by increased developer activity following the prior period lockdown.

Other operating income

Other operating income, which increased by £1.2 million on the prior year period, comprises external income from power generation, biosolid revenue, rents received and various other non-core activities.

Operating costs

Operating costs including the charge for bad and doubtful debts, excluding depreciation and amortisation, increased by £11.8 million (3.9 per cent) on the same period last year to £315.3 million.

The movement in operating costs is explained in the following chart:

	£m
September 2020 total	**303.5**
Funded by FD	
Inflation	7.2
Weather related	
Additional tankering	0.9
Power consumption due to wet weather demand	1.7
Non-recurring	
Reduction in bad debt provision overlay	(6.6)
Great Billing – Monsal reactor shutdown	3.8
Other (including efficiency challenge)	
Leakage outperformance strategy	3.2
Other	1.6
September 2021 total	**315.3**

The base bad debt charge for the period was £15.0 million (Sep 2020: £15.0 million). In the year to March 2021, management booked an additional £13.5 million in relation to the expected future increase in unemployment, primarily a result of Covid-19, and its impact on bad debt. Following the latest unemployment forecasts, as explained above, management have released £6.6 million of this additional provision.

EBITDA

EBITDA has increased £13.2 million from prior year (3.5 per cent against September 2020), with revenue up as a result of higher developer activity following last year's lockdowns. This has been offset, in part, by the impact of inflation on our costs, increased power consumption at our water recycling sites and tankering due to winter 2020 wet weather and our work to drive leakage performance.

Depreciation and amortisation

Depreciation and amortisation increased by 2.5 per cent compared with the same period last year, consistent with the increasing Capex programme.

Operating profit

Operating profit has increased by 4.3 per cent to £218.2 million, which is consistent with the movements discussed above.

Interest

During the period significant changes were made to the financing arrangements of the AWG Group in order to stabilise the credit ratings of Anglian Water and to provide a long term and efficient financing structure for customers, investors and the environment. During the period total equity injection amounts of £1,165 million were made to Anglian Water and as a consequence Anglian Water prepaid three debt instruments totalling £390.9 million as part of the wider capital restructure. Part of this early settlement included a 'make whole' payment on the debt and related derivatives of £14.5 million.

The underlying net finance charge for the period was £197.7 million, an increase of £73.6 million compared with the same period last year. This is primarily driven through higher interest costs on inflation-linked debt due to higher inflation year on year.

Finance income has decreased from £1.8 million to £0.3 million, principally due to the lower rates year on year on cash deposits held versus the prior period.

The fair value losses on derivative financial instruments of £91.6 million (2020: £100.6 million) are primarily a result of increases in out of the money liabilities on inflation-linked swaps. This is driven by a 92 basis point increase to the average levels of forward inflation curves versus the September 2020 period end (2020: 30 basis points increase), partially offset by a 57 basis points average increase in interest rates (2020: 25 basis points decrease) increasing the discount rate on future derivative liabilities. The fair value losses in the current and prior periods are non-cash in nature and have no material effect on the underlying commercial operations of the business until cash flow fixing date.

Taxation

The tax charge for the period comprises:

	2021	2020
	£m	£m
Current tax (credit)/charge		
Underlying	(49.3)	(3.3)
	(49.3)	(3.3)
Deferred tax charge/(credit)		
Underlying	51.7	20.3
Fair value losses on derivative financial instruments	(22.9)	(19.1)
Increase in corporation tax rate	344.9	-
	373.7	1.2
Total tax charge/(credit)	**324.4**	**(2.1)**

Compared to the same period in the previous year, the total tax charge has increased by £326.5 million from a credit of £2.1 million to a charge of £324.4 million.

Our tax charge in the period primarily relates to the impact on the deferred tax liability as a result of the increase in corporation tax rate from 19 per cent to 25 per cent which is due to take effect from April 2023.

We are one of the largest private investors in infrastructure in our region, having invested more than £2 billion from 2015–2020. The Government actively encourages infrastructure investment and we benefit from 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.

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 the £344.9 million shown above. This is therefore 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.

As set out in note 6, the current tax credit has increased by £46.0 million. This is mainly due to a reduction in profits in the year and because of the availability of capital allowance "super-deductions" which have been introduced for both this year and next.

The underlying deferred tax charge has increased by £31.4 million. This is mainly as a result of the capital allowances super-deductions offset by the carry forward of tax losses created by these super-deductions.

The increase in deferred tax credit relating to fair value losses reflects an increase in the future corporation tax rate from 19 per cent to 25 per cent.

In addition to the £324.4 million tax charge on the income statement, there is a charge of £4.8 million (2020: credit of £29.2 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.

IAS 34 requires that the amount of the current tax (credit)/charge and the deferred tax charge/(credit) recognised in the period is based upon the full year tax forecasts and is calculated in the ratio of the amount of profit before tax arising in the half-year compared with the forecast for the full year.

Cash flow and net debt

Net cash inflow from operating activities increased by £30.1 million from £345.4 million in 2020 to £375.5 million in 2021. This increase is primarily due to working capital movements.

Net cash used in investing activities (principally capital expenditure) increased by £24.7 million as our capital programme continues to grow. This excludes the £345.0 million increase in short-term deposits. This represents the placement of cash in deposit accounts to maximise interest.

Debt repayments in the period amounted to £548.6 million as a result of the maturity of the 4.520 per cent Class B USPP (£99.1 million) and early repayment of three Class B debt USPP instruments in September totalling £391.0 million (on a GBP basis including associated foreign currency derivatives). Additionally, AWS repaid £25.0 million on the Group's syndicated and bilateral revolving facilities, meaning that at period end these facilities were fully undrawn. Other debt repayments in the period were various smaller scheduled amortising debt payments as they fell due.

Anglian Water has access to £600.0 million undrawn facilities (September 2020: £450.0 million) to finance working capital and capital expenditure requirements. In addition, Anglian Water has access to a further £400.0 million of liquidity facilities (September 2020: £400.0 million) consisting of £279.0 million to finance debt service costs and £121.0 million to finance operating expenditure and maintenance capital expenditure in the event that the company was in a Trigger Event or Event of Default on its debt obligations and had insufficient alternative sources of liquidity.

At 30 September 2021, Anglian Water had net borrowings (excluding the fair value of derivative financial instruments) of £5,548.0 million, compared with £6,649.8 million at 31 March 2021, a decrease of £1,101.8 million. Net borrowings comprised a mixture of fixed, index-linked and variable rate debt of £6,456.6 million and cash and deposits of £908.6 million. The decreased net borrowings reflect an increase in cash and deposits of £622.7 million (which causes net debt to decrease), and a decrease of £479.1 million in loans.

These movements reflect the capital expenditure undertaken during the period and also reflect the corporate restructuring undertaken, which saw £1,165 million of equity injected into Anglian Water, some of which was used to repay borrowings in order to reduce gearing in the company. Three Class B debt transactions were repaid early, with the remaining two Class B Bonds holding bondholder meetings which facilitated their terms being aligned to that of Class A debt holders. As a consequence, at the end of September there was no Class B debt outstanding.

Anglian Water Services Limited

Group condensed income statement

For the six months ended 30 September 2021

Notes		**Half-year ended 30 September 2021 Unaudited £m**	Half-year ended 30 September 2020 Unaudited £m	Year ended 31 March 2021 Audited £m
	Continuing operations			
4	**Revenue**	703.9	680.1	1,351.8
	Other operating income	7.2	6.0	12.5
	Operating costs			
	Operating costs before depreciation, amortisation and charge for bad and doubtful debts	(306.9)	(288.5)	(590.3)
	Depreciation and amortisation	(177.6)	(173.3)	(351.3)
	Charge for bad and doubtful debts	(8.4)	(15.0)	(31.1)
	Total operating costs	(492.9)	(476.8)	(972.7)
	Operating profit	218.2	209.3	391.6
	Finance income	0.3	1.8	2.0
	Finance costs, including fair value losses on derivative financial instruments	(289.6)	(226.5)	(274.6)
5	Net finance costs	(289.3)	(224.7)	(272.6)
	Profit before tax from continuing operations			
	Profit before fair value losses[1]	20.5	85.2	142.2
5	Fair value losses on derivative financial instruments	(91.6)	(100.6)	(23.2)
	(Loss)/profit before tax from continuing operations	(71.1)	(15.4)	119.0
6	Tax (charge)/credit	(324.4)	2.1	(20.2)
	(Loss)/profit for the period	(395.5)	(13.3)	98.8

[1] As defined in note 20

Notes 1 to 22 are an integral part of these condensed financial statements.

Anglian Water Services Limited

Group condensed statement of comprehensive income

For the six months ended 30 September 2021

Notes		**Half-year ended 30 September 2021 Unaudited £m**	Half-year ended 30 September 2020 Unaudited £m	Year ended 31 March 2021 Audited £m
	(Loss)/profit for the period	**(395.5)**	(13.3)	98.8
	Other comprehensive income			
	Items that will not be reclassified to profit or loss			
15	Actuarial losses on retirement benefit obligations	**(15.9)**	(159.0)	(162.7)
6	Income tax on items that will not be reclassified	**3.4**	30.2	30.9
		(12.5)	(128.8)	(131.8)
	Items that may be reclassified subsequently to profit or loss			
16	Gains on cash flow hedges recognised in equity	**40.0**	2.5	8.2
16	(Losses)/gains on cost of hedging recognised in equity	**(2.8)**	(1.5)	2.1
16	Losses on cash flow hedges transferred to income statement	**6.7**	4.5	10.2
16	Gains on cost of hedging transferred to income statement	**(0.6)**	(0.4)	(0.5)
6	Income tax on items that may be reclassified	**(8.2)**	(1.0)	(3.8)
		35.1	4.1	16.2
	Other comprehensive income/(expense) for the period, net of tax	**22.6**	(124.7)	(115.6)
	Total comprehensive expense for the period	**(372.9)**	(138.0)	(16.8)

Anglian Water Services Limited

Group condensed balance sheet

As at 30 September 2021

Notes		**At 30 September 2021 Unaudited £m**	At 30 September 2020 Unaudited £m	At 31 March 2021 Audited £m
	Non-current assets			
8	Other intangible assets	**262.8**	231.8	257.4
9	Property, plant and equipment	**10,118.6**	9,953.6	10,041.7
13	Derivative financial instruments	**85.3**	290.7	112.6
15	Retirement benefit surplus	**41.5**	20.3	54.8
		10,508.2	10,496.4	10,466.5
	Current assets			
	Inventories	**14.6**	13.2	13.9
	Trade and other receivables	**568.6**	598.2	500.9
	Investments - cash deposits	**425.0**	-	80.0
	Cash and cash equivalents	**483.6**	315.7	205.9
13	Derivative financial instruments	**47.1**	52.2	84.8
		1,538.9	979.3	885.5
	Total assets	**12,047.1**	11,475.7	11,352.0
	Current liabilities			
	Trade and other payables	**(569.1)**	(542.0)	(502.2)
	Current tax liabilities	**(118.0)**	(194.9)	(167.3)
	Borrowings	**(397.1)**	(450.7)	(652.9)
13	Derivative financial instruments	**(8.6)**	(18.8)	(24.8)
14	Provisions	**(7.3)**	(4.4)	(6.6)
		(1,100.1)	(1,210.8)	(1,353.8)
	Net current assets	**438.8**	(231.5)	(468.3)
	Non-current liabilities			
	Borrowings	**(6,059.5)**	(6,562.4)	(6,282.8)
13	Derivative financial instruments	**(1,100.6)**	(1,138.0)	(1,004.6)
	Deferred tax liabilities	**(1,470.7)**	(1,065.6)	(1,092.2)
15	Retirement benefit deficit	**(46.0)**	(46.4)	(44.8)
14	Provisions	**(10.0)**	(9.3)	(9.4)
		(8,686.8)	(8,821.7)	(8,433.8)
	Total liabilities	**(9,786.9)**	(10,032.5)	(9,787.6)
	Net assets	**2,260.2**	1,443.2	1,564.4

Continued on the next page.

Group condensed balance sheet (continued)

As at 30 September 2021

Notes		**At 30 September 2021 Unaudited £m**	At 30 September 2020 Unaudited £m	At 31 March 2021 Audited £m
	Capital and reserves			
	Share capital	**32.0**	32.0	32.0
	Share premium account	**1,165.0**	-	-
	Retained earnings	**1,063.1**	1,458.3	1,567.4
16	Hedging reserve	**0.2**	(46.7)	(37.4)
16	Cost of hedging reserve	**(0.1)**	(0.4)	2.4
	Total equity	**2,260.2**	1,443.2	1,564.4

Notes 1 to 22 are an integral part of these condensed financial statements.

The condensed financial statements were approved by the Board of Directors on 6 December 2021 and signed on its behalf by:

Peter Simpson
Chief Executive

Steven Buck
Chief Financial Officer

Anglian Water Services Limited

Group condensed statement of changes in equity

For the six months ended 30 September 2021

	Share capital £m	Share premium £m	Retained earnings £m	Hedging reserve £m	Cost of hedging reserve £m	**Total equity £m**
Six months ended 30 September 2021						
At 1 April 2021	32.0	-	1,567.4	(37.4)	2.4	1,564.4
Loss for the period	-	-	(395.5)	-	-	**(395.5)**
Other comprehensive income for the period	-	-	(12.5)	37.6	(2.5)	**22.6**
Total comprehensive income	-	-	(408.0)	37.6	(2.5)	**(372.9)**
Issue of shares	-	1,165.0	-	-	-	1,165.0
Dividends	-	-	(96.3)	-	-	**(96.3)**
At 30 September 2021	**32.0**	**1,165.0**	**1,063.1**	**0.2**	**(0.1)**	**2,260.2**
Six months ended 30 September 2020						
At 1 April 2020	32.0	-	1,600.4	(52.3)	1.1	1,581.2
Loss for the period	-	-	(13.3)	-	-	(13.3)
Other comprehensive income for the period	-	-	(128.8)	5.6	(1.5)	(124.7)
Total comprehensive income	-	-	(142.1)	5.6	(1.5)	(138.0)
At 30 September 2020	32.0	-	1,458.3	(46.7)	(0.4)	1,443.2
Year ended 31 March 2021						
At 1 April 2020	32.0	-	1,600.4	(52.3)	1.1	1,581.2
Profit for the year	-	-	98.8	-	-	98.8
Other comprehensive income for the year	-	-	(131.8)	14.9	1.3	(115.6)
Total comprehensive income	-	-	(33.0)	14.9	1.3	(16.8)
At 31 March 2021	32.0	-	1,567.4	(37.4)	2.4	1,564.4

Anglian Water Services Limited

Group condensed cash flow statement

For the six months ended 30 September 2021

Notes		**Half-year ended 30 September 2021 Unaudited £m**	Half-year ended 30 September 2020 Unaudited £m	Year ended 31 March 2021 Audited £m
	Operating activities			
	Operating profit	**218.2**	209.3	391.6
	Adjustments for:			
	Depreciation and amortisation	**177.6**	173.3	351.3
	Assets adopted for £nil consideration	**(23.5)**	(11.1)	(29.3)
	Profit on disposal of property, plant and equipment	**(0.9)**	(0.4)	(1.5)
	Difference between pension charge and cash contributions	**(1.6)**	(1.4)	(39.3)
	Net movement in provisions	**1.3**	(3.1)	0.6
	Working capital:			
	Increase in inventories	**(0.7)**	(0.8)	(1.5)
	(Increase)/decrease in trade and other receivables	**(66.5)**	(66.5)	29.3
	Increase/(decrease) in trade and other payables	**71.6**	46.1	(41.9)
		375.5	345.4	659.3
	Income taxes paid	**-**	-	(25.4)
	Net cash flows from operating activities	**375.5**	345.4	633.9
	Investing activities			
	Purchase of property, plant and equipment	**(202.7)**	(170.4)	(338.8)
	Purchase of intangible assets	**(27.2)**	(35.8)	(85.3)
	Proceeds from disposal of property, plant and equipment	**1.2**	0.6	1.8
	Interest received	**0.2**	1.8	2.0
	(Increase)/decrease in short-term bank deposits	**(345.0)**	319.0	239.0
	Net cash (used in) / from investing activities	**(573.5)**	**115.2**	**(181.3)**
	Financing activities			
	Interest paid	**(141.4)**	(126.3)	(218.8)
	Debt issue costs paid	**(1.0)**	(0.8)	(2.9)
	Borrowings premiums received	**-**	-	7.7
	Interest paid on leases	**(0.4)**	(0.3)	(1.0)
	Proceeds from issue of ordinary shares	**1,165.0**	-	-
	Proceeds from amounts borrowed	**100.5**	65.0	242.6
	Repayment of amounts borrowed	**(621.5)**	(746.2)	(928.8)
	Repayment of principal on derivatives	**72.9**	(63.5)	(63.5)
	Repayment of principal on leases	**(2.1)**	(1.9)	(11.1)
7	Dividends paid	**(96.3)**	-	-
	Net cash from/(used in) financing activities	**475.7**	(874.0)	(975.8)
	Net increase/(decrease) in cash and cash equivalents	**277.7**	(413.4)	(523.2)
	Cash and cash equivalents at the beginning of the period	**205.9**	729.1	729.1
	Cash and cash equivalents at the end of the period	**483.6**	315.7	205.9

1. Basis of preparation and accounting policies

The condensed financial statements for the six months ended 30 September 2021, which are unaudited, have been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the United Kingdom.

The Anglian Water Services Group financial statements comprise a consolidation of the financial statements of Anglian Water Services Limited and its subsidiary Anglian Water Services Financing Plc at 30 September 2021. Intercompany sales and profit are eliminated fully on consolidation.

The condensed financial statements for the six months ended 30 September 2021, including comparative information, do not constitute statutory accounts of the Group. Statutory accounts for the year ended 31 March 2021 were approved by the Board on 16 June 2021 and the Auditor's report on those accounts was unqualified. The condensed financial statements for the six months ended 30 September 2021 should be read in conjunction with the annual integrated report and consolidated financial statements for the year ended 31 March 2021 which can be obtained from the Company Secretary, Lancaster House, Lancaster Way, Ermine Business Park, Huntingdon, Cambridgeshire PE29 6XU.

The accounting policies adopted in these condensed financial statements are consistent with those applied and set out in the annual integrated report and consolidated financial statements for the year ended 31 March 2021, except for the estimation of income tax for interim reporting.

The tax charge is based on the estimated effective tax rate before exceptional items, fair value adjustments and adjustments in respect of prior periods, for the full year to 31 March 2022.

Standards, amendments and interpretations effective or adopted

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

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 existing policy is to capitalise such customisation and configuration costs.

The Group intends to change its accounting policy to align to the agenda decision; however, its investment in IT infrastructure is large scale and complex, involving configuration and customisation of both cloud-based and on-premises systems.

At the reporting date the net book value of potentially impacted items within other intangible assets was £60 – 70 million, which includes c. £7 million capitalised in the current year. A detailed assessment is currently being conducted and we will include any adjustments in the financial statements for the year

1. Basis of preparation and accounting policies (continued)

Standards, amendments and interpretations effective or adopted (continued)

ending 31 March 2022 including, where relevant, restatement of comparative periods. The timing and quantum of cash outflows will be unchanged.

Amendments to IFRS 9, IAS 39 and IFRS 7 'Interest rate benchmark reform'

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

As part of the IASB's Phase 2 response to IBOR reform, a set of amendments has been introduced which specifically addresses the issues arising as part of the transition process and their potential impacts to financial instruments (and lease liabilities).

The Group has adopted both amendments. This encompasses reliefs on the modification of debt items when transitioning from IBOR to risk free rates and the continuation of hedge accounting relationships which would ordinarily be impacted from the contractual change of the IBOR rate.

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:

- Amendments to IFRS 3 'Reference to the Conceptual Framework (Effective from January 2022)
- Annual Improvements to IFRS 2018-2020 (Effective from January 2022)
- Amendments to IAS 37 'Onerous Contracts – Costs of Fulfilling a Contract' (Effective from January 2022
- 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 decided by IASB)
- Amendments to IAS 1 'Classification of Liabilities as Current or Non-current' (Effective from January 2023)
- Amendments to IAS 1 and IFRS Practice Statement 2 'Disclosure of Accounting Policies' (Effective from January 2023)
- Amendments to IAS 8 'Definition of Accounting Estimates' (Effective from January 2023)

1. Basis of preparation and accounting policies (continued)

- Amendments to IAS 12 'Deferred Tax related to Assets and Liabilities arising from a Single Transaction' (Effective from January 2023)
- Amendments to IFRS 17 'Insurance Contracts' (Effective January 2023)

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

a) Going Concern

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

In line with the assessment at March 2021, the review included a range of downside outcomes as a result of Covid-19. Key updates since the previous assessment are as follows:

- Our plans now reflect the Competition and Markets Authority (CMA) FD as adjusted by the "Interim Determination of K" (IDOK) and revised opex and capex forecasts as part of our re-forecasting process.
- The Group restructure has been completed in the period and as a consequence of the equity injection of c. £1.2 billion, net debt and leverage in AWS has reduced significantly. Covenant headrooms have further improved from those in the Going Concern Assessment for the March 2021 accounts.
- The risks around Covid-19 for 2021/22 have moderated substantially as a consequence of the government's 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 remains some uncertainty around the impacts as we enter the winter period and we have updated our assessment to reflect some risk of downside impacting into 2022/23.
- Higher inflation is improving gearing relative to RCV.

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 inter-creditor arrangement that binds all debt providers.

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

1. Basis of preparation and accounting policies (continued)

a) Going Concern (continued)

- Liquidity – AWS holds sufficient liquidity to cover the going concern period.
- Profitability – The revenues of the business are underpinned by the regulatory model and the business has a detailed five-year plan in place to deliver in line with the CMA FD.
- Interest cover ratios – The business has significant headroom against Default Events 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.
- COVID-19 – 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 capital 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.

2. Key assumptions and significant judgements

In preparing these condensed financial statements, the significant judgements made in applying the Group's accounting policies, and the key areas involving estimation, were the same as those disclosed in the consolidated financial statements for the year ended 31 March 2021. Of those, increased estimation, as a result of Covid-19, relates to the calculation of the expected credit loss on trade receivables. The lack of meter reading, which occurred as a result of the Covid-19 lockdown in the prior year, has not been repeated and as such we have not included the measured income accrual as a key estimation. We also note that, given the nature of our cash flow hedges, the increased uncertainty as a result of Covid-19 has not impacted on the level of judgement in relation to the 'highly probable' assessment when considering effectiveness.

A key consideration, but not one which the Group views as representing a material estimation uncertainty, is climate change. Climate change is a global challenge and an emerging risk not only to the environment but markets, businesses and people throughout the world. Climate change is embedded into everything we do and our long-term strategy effectively identifies, manages and mitigates these key risks. As a business we took a leading role in working with other water companies in developing a routemap to zero carbon and have committed to achieving net zero carbon by 2030.

In assessing the impact of climate change we have considered not just the impact on our asset base as a result of no action but also the impact on our assets' Useful Economic Lives (UEL) from our 2030 net zero route map. We have also set out the risks posed by climate change and how we will address them in our latest Adaptation Report, published in 2020.

2. Key assumptions and significant judgements (continued)

a) 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.

In 2021, following an exercise to identify correlations between economic conditions and our expected credit loss on trade receivables, we updated our methodology to utilise forecast unemployment rates in determining the adjustment required.

At 31 March 2021 management included an adjustment to the expected credit loss on trade receivables of £13.5 million to reflect the higher forecast unemployment rates. This was up slightly on the £12.0 million adjustment recorded at 31 March 2020.

This was driven by the correlation between our expected credit loss and unemployment rates which were predicted by the Bank of England to double to 7 per cent.

The latest forecasts show a much improved position with unemployment peaking at 5 per cent and falling back to 4 per cent relatively quickly. As such management estimate the adjustment to the base provision to be £6.9 million and have therefore released £6.6 million, reducing the charge to the income statement.

In conducting the review, management have made a number of judgements and estimates, the most significant being forecast unemployment rates and which billing periods to apply the overlay provision to.

Management have modelled the base case on the Bank of England August 2021 forecast and allocated the overlay as described above. The IMF data, taken on 13 October 2021, suggests a similar but slightly higher rate. If management had continued to use the forecast unemployment rates used at March 2021 the overlay provision would be £10.7 million (£3.8 million higher) than the amount recorded.

In addition, management have apportioned some of the overlay resulting from future unemployment in the next 4 years to future periods. This has the effect of applying some of the increase to future bill periods. If management assumed the increase in expected credit loss applied fully to bills raised to date this would increase the £6.9 million overlay to £7.7 million.

3. Seasonality of operations

Whilst demand for water is usually higher during the drier spring and summer months, fluctuations in seasonal weather patterns can impact both revenue and costs. Historically around half of the Group's operating profit arises in the first half of the year.

Notes to the group condensed financial statements (continued)

for the six months ended 30 September 2021

4. Revenue

	Half-year ended 30 September 2021 £m	Half-year ended 30 September 2020 £m	Year ended 31 March 2021 £m
Water and water recycling services:			
Anglian Water			
Household – measured	**409.8**	418.4	813.4
Household – unmeasured	**110.6**	111.0	219.8
Non-household – measured	**112.5**	99.3	206.3
Grants and contributions	**48.7**	31.2	75.6
Other	**22.3**	20.2	36.7
	703.9	680.1	1,351.8

5. Net finance costs

	Half-year ended 30 September 2021 £m	Half-year ended 30 September 2020 £m	Year ended 31 March 2021 £m
Finance income			
Interest income on short-term bank deposits	**0.3**	1.8	2.0
	0.3	1.8	2.0
Finance costs			
Interest expense on bank loans and overdrafts	**(1.3)**	(2.8)	(3.3)
Interest expense on other loans including financing expenses	**(117.7)**	(108.7)	(213.2)
Indexation of loan stock	**(82.7)**	(23.5)	(48.6)
Amortisation of debt issue costs	**(2.2)**	(1.0)	(4.2)
Interest on leases	**(0.4)**	(0.3)	(1.0)
Unwinding of discount on onerous lease obligation provision	**-**	(0.1)	(0.1)
Defined benefit pension scheme interest charge	**0.1**	1.5	3.4
Total finance costs	**(204.3)**	(134.9)	(267.0)
Less: amounts capitalised on qualifying assets	**6.3**	9.0	15.6
	(198.0)	(125.9)	(251.4)
Fair value losses on derivative financial instruments			
Fair value gains on energy hedges	**0.2**	2.5	2.3
Hedge ineffectiveness on cash flow hedges	**0.5**	0.8	1.4
Hedge ineffectiveness on fair value hedges	**(0.6)**	1.1	2.3
Amortisation of adjustment to debt in fair value hedge	**(0.1)**	(0.1)	(0.1)
Derivative financial instruments not designated as hedges	**(85.6)**	(98.8)	(16.6)
Recycling of de-designated cash flow hedge relationship	**(6.0)**	(6.1)	(12.5)
	(91.6)	(100.6)	(23.2)
Finance costs, including fair value losses on derivative financial instruments	**(289.6)**	(226.5)	(274.6)
Net finance costs	**(289.3)**	(224.7)	(272.6)

6. Taxation

	Half-year ended 30 September 2021 £m	Half-year ended 30 September 2020 £m	Year ended 31 March 2021 £m
Current tax:			
In respect of the current period	**(49.3)**	(3.3)	(0.1)
Adjustments in respect of prior periods		-	(5.4)
Total current tax credit	**(49.3)**	(3.3)	(5.5)
Deferred tax:			
Origination and reversal of temporary differences	**28.8**	1.4	24.1
Adjustments in respect of previous periods	**-**	(0.2)	1.6
Increase in corporation tax rate	**344.9**	-	-
Total deferred tax charge	**373.7**	1.2	25.7
Total tax charge/(credit) on profit/(loss) on continuing operations	**324.4**	(2.1)	20.2

The tax charge for the six months ended 30 September 2021 is based on the estimated effective tax rate before exceptional items, fair value adjustments and adjustments in respect of prior periods, for the full year to 31 March 2021, of 11.7 per cent.

Our tax charge in the period primarily relates to 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 rate is in force in April 2023, we have to recalculate the liability using the increased rate of 25 per cent. This is represented by the £344.9 million shown above.

6. Taxation (continued)

The tax charge on the Group's profit before tax differs from the notional amount calculated by applying the rate of UK corporation tax of 19 per cent (30 September 2020 and 31 March 2021: 19 per cent) to the profit before tax from continuing operations as follows:

	Half-year ended 30 September 2021 £m	Half-year ended 30 September 2020 £m	Year ended 31 March 2021 £m
(Loss)/profit before tax from continuing operations	**(71.1)**	(15.4)	119.0
(Loss)/profit before tax from continuing operations at the standard rate of corporation tax in the UK of 19% (2020: 19%)	**(13.5)**	(2.9)	22.6
Effects of recurring items:			
Items not deductible for tax purposes			
Depreciation and losses on assets not eligible for tax relief	**3.7**	0.6	0.9
Disallowable expenditure	**1.8**	0.4	0.5
	(8.0)	(1.9)	24.0
Effects of non-recurring items:			
Increase in corporation tax rate	**344.9**	-	-
Effects of differences between rates of current and deferred tax	**6.9**	-	-
Other permanent differences	**(19.4)**	-	-
Adjustments in respect of prior periods	**-**	(0.2)	(3.8)
Tax charge/(credit) for the period	**324.4**	(2.1)	20.2

6. Taxation (continued)

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

	Half-year ended 30 September 2021 £m	Half-year ended 30 September 2020 £m	Year ended 31 March 2021 £m
Deferred tax:			
Defined benefit pension schemes	**(4.0)**	(30.2)	(30.9)
Cash flow hedges	**10.8**	1.0	3.8
Increase in corporation tax rate - pension	**0.6**	-	-
Increase in corporation tax rate - hedges	**(2.6)**	-	-
Total deferred tax charge/(credit)	**4.8**	**(29.2)**	**(27.1)**
Total tax charge/(credit) recognised in other comprehensive income	**4.8**	(29.2)	(27.1)

7. Dividends

	Half-year ended 30 September 2021 £m	Half-year ended 30 September 2020 £m	Year ended 31 March 2021 £m
Dividend paid	**96.3**	**-**	**-**
	96.3	**-**	**-**

In the six months ended 30 September 2021 dividends of £96.3 million have been paid to the company's sole member (year ended 31 March 2021: no dividends).

8. Intangible assets

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

	Half-year ended 30 September 2021 £m	Half-year ended 30 September 2020 £m	Year ended 31 March 2021 £m
Cost			
At 1 April	**653.0**	564.1	564.1
Additions	**29.3**	37.7	88.9
Closing balance	**682.3**	601.8	653.0
Accumulated amortisation			
At 1 April	**(395.6)**	(346.8)	(346.8)
Charge for the period	**(23.9)**	(23.2)	(48.8)
Closing balance	**(419.5)**	(370.0)	(395.6)
Net book amount			
Closing balance	**262.8**	231.8	257.4

9. Property, plant and equipment

	Half-year ended 30 September 2021 £m	Half-year ended 30 September 2020 £m	Year ended 31 March 2021 £m
Cost			
At 1 April	**15,023.3**	14,645.6	14,645.6
Additions	**230.9**	163.6	404.2
Disposals	**(18.8)**	(7.9)	(26.5)
Closing balance	**15,235.4**	14,801.3	15,023.3
Accumulated depreciation			
At 1 April	**(4,981.6)**	(4,705.3)	(4,705.3)
Charge for the period	**(153.7)**	(150.1)	(302.5)
Disposals	**18.5**	7.7	26.2
Closing balance	**(5,116.8)**	(4,847.7)	(4,981.6)
Net book amount			
Closing balance	**10,118.6**	9,953.6	10,041.7

10. Investments

The sole subsidiary undertaking is Anglian Water Services Financing Plc, whose principal activity is that of a financing company. The value of the investment is £12,502. It is 100 per cent owned, all in ordinary shares, and is registered, incorporated and operating in the UK at 30 September 2021. The address of its registered office is Lancaster House, Lancaster Way, Ermine Business Park, Huntingdon, Cambridgeshire, PE29 6XU.

11. Analysis of net debt

Net debt at 30 September 2021

	Net cash and cash equivalents £m	Current asset investments £m	Liabilities from financing activities: Borrowings £m	Liabilities from financing activities: Derivative financial instruments [1] £m	**£m**
At 1 April 2021	205.9	80.0	(6,935.7)	(841.0)	**(7,490.8)**
Cash flows					
Interest paid	(141.4)	-	18.9	2.4	**(120.1)**
Issue costs paid	(1.0)	-	1.0	-	**-**
Interest on leases	(0.4)	-	-	-	**(0.4)**
Increase in amounts borrowed	100.5	-	(100.5)	-	**-**
Repayment of amounts borrowed	(621.5)	-	621.5	-	**-**
Principal settlement on derivatives	72.9	-	-	(72.9)	**-**
Repayment of principal on leases	(2.1)	-	2.1	-	**-**
Non-financing cash flows [2]	870.7	345.0	-	-	**1,215.7**
	277.7	345.0	543.0	(70.5)	**1,095.2**
Non-cash movements					
Movement in interest accrual on debt	-	-	17.3	-	**17.3**
New lease agreements	-	-	(4.8)	-	**(4.8)**
Amortisation of issue costs	-	-	(2.2)	-	**(2.2)**
Indexation of borrowings and RPI swaps	-	-	(57.9)	(24.8)	**(82.7)**
Fair value losses and foreign exchange	-	-	(16.3)	(92.6)	**(108.9)**
	-	-	(63.9)	(117.4)	**(181.3)**
At 30 September 2021	**483.6**	**425.0**	**(6,456.6)**	**(1,028.9)**	**(6,576.9)**
Net debt at 30 September 2021 comprises:					
Non-current assets	-	-	-	67.4	**67.4**
Current assets	483.6	425.0	-	12.9	**921.5**
Current liabilities	-	-	(397.1)	(8.6)	**(405.7)**
Non-current liabilities	-	-	(6,059.5)	(1,100.6)	**(7,160.1)**
	483.6	**425.0**	**(6,456.6)**	**(1,028.9)**	**(6,576.9)**

11. Analysis of net debt (continued)

(1) Derivative financial instruments exclude the asset of £52.1 million (30 September 2020: asset £4.6 million; 31 March 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.

(2) Net cash flows from operating activities of £375.5 million (30 September 2020: £345.4 million; 31 March 2021: £633.9 million), less net cash used in investing activities of £573.5 million (30 September 2020: from investing activities £115.2 million; 31 March 2021: used in investing activities £181.3 million), less dividends paid of £96.3 million (30 September 2020 and 31 March 2021: £nil) and shares issued of £1,165.0 million (30 September 2020 and 31 March 2021: £nil).

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

	Half-year ended 30 September 2021 £m	Half-year ended 30 September 2020 £m	Year ended 31 March 2021 £m
Non-current assets	17.9	2.9	3.9
Current assets	34.2	1.7	5.1
	52.1	4.6	9.0

11. Analysis of net debt (continued)

Net debt at 30 September 2020

	Net cash and cash equivalents £m	Current asset investments £m	Liabilities from financing activities: Borrowings £m	Liabilities from financing activities: Derivative financial instruments £m	**£m**
At 1 April 2020	729.1	319.0	(7,725.3)	(738.2)	**(7,415.4)**
Cash flows					
Interest paid	(126.3)	-	19.5	(0.3)	**(107.1)**
Issue costs paid	(0.8)	-	1.4	-	**0.6**
Interest on leases	(0.3)	-	-	-	**(0.3)**
Increase in amounts borrowed	65.0	-	(65.0)	-	**-**
Repayment of amounts borrowed	(746.2)	-	746.2	-	**-**
Principal settlement on derivatives	(63.5)	-	-	63.5	**-**
Repayment of principal on leases	(1.9)	-	1.9	-	**-**
Non-financing cash flows	460.6	(319.0)	-	-	**141.6**
	(413.4)	(319.0)	704.0	63.2	**34.8**
Non-cash movements					
Movement in interest accrual on debt	-	-	12.6	-	**12.6**
New lease agreements	-	-	(1.1)	-	**(1.1)**
Amortisation of issue costs	-	-	(1.0)	-	**(1.0)**
Indexation of borrowings and RPI swaps	-	-	(14.5)	(9.0)	**(23.5)**
Fair value gains and losses and foreign exchange	-	-	12.2	(134.5)	**(122.3)**
	-	-	8.2	(143.5)	(135.3)
At 30 September 2020	**315.7**	**-**	**(7,013.1)**	**(818.5)**	**(7,515.9)**
Net debt at 30 September 2020 comprises:					
Non-current assets	-	-	-	287.8	**287.8**
Current assets	315.7	-	-	50.5	**366.2**
Current liabilities	-	-	(450.7)	(18.8)	**(469.5)**
Non-current liabilities	-	-	(6,562.4)	(1,138.0)	**(7,700.4)**
	315.7	**-**	**(7,013.1)**	**(818.5)**	**(7,515.9)**

11. Analysis of net debt (continued)

Net debt at 31 March 2021

	Net cash and cash equivalents £m	Current asset investments £m	Liabilities from financing activities: Borrowings £m	Liabilities from financing activities: Derivative financial instruments £m	**£m**
At 1 April 2020	729.1	319.0	(7,725.3)	(738.2)	**(7,415.4)**
Cash flows					
Interest paid	(218.8)	-	31.5	(5.4)	**(192.7)**
Issue costs paid	(2.9)	-	2.9	-	**-**
Borrowing premiums received	7.7	-	(7.7)	-	**-**
Interest on leases	(1.0)	-	-	-	**(1.0)**
Increase in amounts borrowed	242.6	-	(242.6)	-	**-**
Repayment of amounts borrowed	(928.8)	-	928.8	-	**-**
Principal settlement on derivatives	(63.5)	-	-	63.5	**-**
Repayment of principal on leases	(11.1)	-	11.1	-	**-**
Non-financing cash flows	452.6	(239.0)	-	-	**213.6**
	(523.2)	(239.0)	724.0	58.1	**19.9**
Non-cash movements					
Movement in interest accrual on debt	-	-	3.0	-	**3.0**
New lease agreements	-	-	(1.2)	-	**(1.2)**
Amortisation of issue costs	-	-	(4.2)	-	**(4.2)**
Indexation of borrowings and RPI swaps	-	-	(32.0)	(16.6)	**(48.6)**
Fair value gains and losses and foreign exchange	-	-	100.0	(144.3)	**(44.3)**
	-	**-**	**65.6**	**(160.9)**	**(95.3)**
At 31 March 2021	**205.9**	**80.0**	**(6,935.7)**	**(841.0)**	**(7,490.8)**
Net debt at 31 March 2021 comprises:					
Non-current assets	-	-	-	108.7	**108.7**
Current assets	205.9	80.0	-	79.7	**365.6**
Current liabilities	-	-	(652.9)	(24.8)	**(677.7)**
Non-current liabilities	-	-	(6,282.8)	(1,004.6)	**(7,287.4)**
	205.9	**80.0**	**(6,935.7)**	**(841.0)**	**(7,490.8)**

12. Leases

Leases recognised as debt under IFRS 16 can be analysed as follows:

As at 30 September 2021	**Interest £m**	**IFRS debt £m**	**Permitted Indebtedness £m**
Vehicle operating leases	**-**	**2.5**	**-**
Property operating leases	**0.4**	**32.0**	**32.0**
Existing finance leases	**-**	**7.7**	**-**

As at 30 September 2020	Interest £m	IFRS debt £m	Permitted Indebtedness £m
Vehicle operating leases	-	3.4	-
Property operating leases	0.4	30.3	30.3
Existing finance leases	-	14.6	-

As at 31 March 2021	Interest £m	IFRS debt £m	Permitted Indebtedness £m
Vehicle operating leases	-	2.8	-
Property operating leases	0.8	29.0	29.0
Existing finance leases	0.2	7.7	-

Permitted indebtedness is a category of debt within the Group which captures leases previously considered as operating leases which do not qualify as secured creditors. All interest has been paid/(received) in the year.

13. Net debt and derivatives

At 30 September 2021

	Carrying value £m	Fair value £m
Cash and cash equivalents	**483.6**	**483.6**
Current asset investments - cash deposits	**425.0**	**425.0**
Borrowings		
Current	**(397.1)**	**(363.3)**
Non-current	**(6,059.5)**	**(7,768.6)**
Derivative financial instruments - assets		
Current	**12.9**	**12.9**
Non-current	**67.4**	**67.4**
Derivative financial instruments - liabilities		
Current	**(8.6)**	**(8.6)**
Non-current	**(228.2)**	**(228.2)**
RPI swaps - liabilities		
Non-current	**(619.1)**	**(619.1)**
CPI swaps - liabilities		
Non-current	**(253.3)**	**(253.3)**
Net debt	**(6,576.9)**	**(8,252.2)**
Energy derivatives - assets		
Current	**34.2**	**34.2**
Non-current	**17.9**	**17.9**
Energy derivatives - liabilities		
	(6,524.8)	**(8,200.1)**

13. Net debt and derivatives (continued)

At **30 September 2020**

	Carrying value £m	Fair value £m
Cash and cash equivalents	315.7	315.7
Borrowings		
Current	(450.7)	(423.1)
Non-current	(6,562.4)	(8,526.8)
Derivative financial instruments - assets		
Current	46.1	46.1
Non-current	231.4	231.4
Derivative financial instruments - liabilities		
Current	(14.2)	(14.2)
Non-current	(296.6)	(296.6)
RPI swaps - liabilities		
Current	(4.6)	(4.6)
Non-current	(616.5)	(616.5)
CPI swaps - assets		
Current	4.4	4.4
Non-current	56.4	56.4
CPI swaps - liabilities		
Non-current	(224.9)	(224.9)
Net debt	(7,515.9)	(9,452.7)
Energy derivatives - assets		
Current	1.7	1.7
Non-current	2.9	2.9
	(7,511.3)	(9,448.1)

13. Net debt and derivatives (continued)

At 31 March 2021

	Carrying value £m	Fair value £m
Cash and cash equivalents	205.9	205.9
Current asset investments - cash deposits	80.0	80.0
Borrowings		
Current	(652.9)	(605.0)
Non-current	(6,282.8)	(7,883.6)
Derivative financial instruments - assets		
Current	75.0	75.0
Non-current	99.9	99.9
Derivative financial instruments - liabilities		
Current	(15.3)	(15.3)
Non-current	(244.2)	(244.2)
RPI swaps - liabilities		
Current	(9.5)	(9.5)
Non-current	(558.8)	(558.8)
CPI swaps - assets		
Current	4.7	4.7
Non-current	8.8	8.8
CPI swaps - liabilities		
Non-current	(201.6)	(201.6)
Net debt	(7,490.8)	(9,043.7)
Energy derivatives - assets		
Current	5.1	5.1
Non-current	3.9	3.9
	(7,481.8)	(9,034.7)

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

The fair value of interest rate derivative financial instruments is determined by calculating the net realisable value that would have arisen if these contracts terminated at the reporting date with reference to estimated future cash flows and observable yield curves.

13. Net debt and derivatives (continued)

The fair value of cross-currency interest rate derivatives is determined using discounted cash flow analysis, with the foreign currency legs calculated with reference to observable foreign interest rate yield curves and the observable foreign exchange rate as at the reporting date.

The fair value of the Group's energy derivatives is calculated using discounted cash flow analysis, with reference to observable market prices at the reporting date.

Fair values of other non-current investments, non-current trade and other receivables, provisions and non-current trade and other payables have been estimated as not materially different from 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. The majority of derivative instruments are classed as Level 2 and are valued using inputs that are observable for the asset or liability either directly or indirectly. The level 3 instrument valuation relates to where data inputs are obtained from a less liquid market and are comprised of 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.

For both level 2 and 3, 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 period. 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.

13. Net debt and derivatives (continued)

Movements in the six months to 30 September 2021 for assets and liabilities measured at fair value using level 3 valuation inputs are presented below:

	Half-year ended 30 September 2021 £m	Half-year ended 30 September 2020 £m	Year ended 31 March 2021 £m
At the beginning of the period	**(188.2)**	(111.0)	(111.0)
Net loss for the period	**(74.2)**	(58.0)	(93.5)
Settlements	**9.1**	4.8	16.3
At the end of the period	**(253.3)**	(164.2)	(188.2)

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

The impact on a post-tax basis of reasonably possible changes in the significant assumptions used in valuing liabilities classified as level 3 within the fair value hierarchy are as follows:

	Half-year ended 30 September 2021 £m	Half-year ended 30 September 2020 £m	Year ended 31 March 2021 £m
Gain/(loss)			
1% increase in inflation rates	(193.6)	(188.2)	(188.7)
1% decrease in inflation rates	**162.8**	155.5	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.

14. Provisions

Provisions primarily comprise legal claims, potential pollution fines and innovation funding which are expected to crystallise over a period of approximately two years.

	Half-year ended 30 September 2021 £m	Half-year ended 30 September 2020 £m	Year ended 31 March 2021 £m
At 1 April	**16.0**	16.7	16.7
Additional provisions recognised	**2.6**	2.5	6.0
Unused amounts reversed	-	(0.4)	(0.4)
Unwinding of discount	-	0.1	0.1
Utilised in the period	**(1.2)**	(5.2)	(6.4)
Closing balance	**17.3**	13.7	16.0

Maturity analysis of total provisions:

	Half-year ended 30 September 2021 £m	Half-year ended 30 September 2020 £m	Year ended 31 March 2021 £m
Current	**7.3**	4.4	6.6
Non-current	**10.0**	9.3	9.4
	17.3	13.7	16.0

15. Net retirement benefit obligations

On 31 March 2018, the defined benefit sections of the Anglian Water Group Pension Scheme were closed for future accruals. All employees now have the option to participate in the Group's defined contribution scheme.

The liabilities of the Group's defined benefit pension schemes have been valued using the projected unit method and using the following main assumptions:

	Half-year ended 30 September 2021 % pa	Half-year ended 30 September 2020 % pa	Year ended 31 March 2021 % pa
Discount rate	**2.1**	1.6	2.1
Inflation rate			
RPI	**3.3**	3.0	3.1
CPI	**2.9**	2.2	2.7

The assets of the pension schemes have been updated to reflect their market value as at 30 September 2021.

The movement in the net defined benefit pension (deficit)/surplus was as follows:

	Half-year ended 30 September 2021 £m	Half-year ended 30 September 2020 £m	Year ended 31 March 2021 £m
At the beginning of the period	**10.0**	130.0	130.0
Net interest income (see note 5)	**0.1**	1.5	3.4
Employers' contributions	**1.3**	1.4	39.3
Return on plan assets (excluding amounts included in net interest)	**79.1**	126.6	57.5
Actuarial losses arising from changes in assumptions	**(95.0)**	(285.6)	(220.2)
At the end of the period	**(4.5)**	(26.1)	10.0

15. **Net retirement benefit obligations** (continued)

The net pension (deficit)/surplus comprises:

Pension schemes in a net deficit position at the reporting date have been shown as retirement benefit surpluses within non-current assets on the balance sheet.

	Half-year ended 30 September 2021 £m	Half-year ended 30 September 2020 £m	Year ended 31 March 2021 £m
Pension schemes with a net surplus, included in non-current assets	**41.5**	20.3	54.8
Pension schemes with a net deficit, included in non-current liabilities	**(46.0)**	(46.4)	(44.8)
Net defined benefit pension (deficit)/surplus	**(4.5)**	(26.1)	10.0

16. Hedging reserve

	Half-year ended 30 September 2021 £m	Half-year ended 30 September 2020 £m	Year ended 31 March 2021 £m
At the beginning of the period	**(37.4)**	(52.3)	(52.3)
Gains on cash flow energy hedges	**42.8**	6.6	11.3
Amounts transferred to the income statement	**0.6**	(1.7)	(2.3)
Losses on cash flow hedges	**(51.2)**	(27.5)	(66.6)
Amounts transferred to the income statement from discontinuation of cash flow hedges	**6.1**	6.2	12.5
Exchange movement on hedging instruments related to debt in cash flow hedges	**48.4**	23.4	63.5
Deferred tax movement on cash flow hedges	**(9.1)**	(1.4)	(3.5)
At the end of the period	**0.2**	(46.7)	(37.4)

16. Hedging reserve (continued)

Cost of hedging reserve

	Half-year ended 30 September 2021 £m	Half-year ended 30 September 2020 £m	Year ended 31 March 2021 £m
At the beginning of the period	**2.4**	1.1	1.1
Amounts transferred to the income statement	**(0.6)**	(0.4)	(0.5)
(Losses)/gains on cash flow hedges	**(2.8)**	(1.5)	2.1
Deferred tax movement on cash flow hedges	**0.9**	0.4	(0.3)
At the end of the period	**(0.1)**	(0.4)	2.4

17. 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 outstanding value of orders placed at 30 September 2021.

	Half-year ended 30 September 2021 £m	Half-year ended 30 September 2020 £m	Year ended 31 March 2021 £m
Property, plant and equipment	**77.0**	57.0	69.8
Intangible assets	**52.6**	37.2	46.0
	129.6	94.2	115.8

18. Contingencies

During the period to 30 September 2021, there has been no change to the Group's position from that disclosed in the 31 March 2021 consolidated financial statements. As stated there, 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 to be material to the financial standing of the company.

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.

19. Related party transactions

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

There has been no material change during the six months ended 30 September 2021 in transactions with these related parties from that disclosure in the annual report and consolidated financial statements for the year ended 31 March 2021.

Dividends paid in the six months ended 30 September 2021 amounted to £96.3 million as set out in note 7.

20. 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 its performance and position. 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.

a) EBITDA

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

b) Adjusted 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.

c) Net debt

Net debt comprises borrowings, net cash and cash equivalents, and derivative financial instruments (excluding those in respect of fair value energy hedges). See note 11.

21. Events after the balance sheet date

On 18 November 2021 it was announced that Ofwat and the Environment Agency have launched a joint industry-wide investigation into the operation of sewage treatment works. Our initial response to Ofwat reports no evidence of environmental impact from storm tank spills; however the investigation is ongoing.

There have been no other events between the balance sheet date, and the date on which the half-yearly report was approved by the Board, which would require adjustment to the condensed financial statements or any additional disclosures.

22. Approval of the half-yearly report

The half-yearly report was approved by the Board on 6 December 2021. The financial information set out in the half-yearly report is unaudited but has been reviewed by the Auditor. The Auditor's report to the Directors is set out on page 51-52.

Independent review to Anglian Water Services

for the six months ended 30 September 2021

Independent review report to Anglian Water Services Limited

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2021 which comprises the Group condensed income statement, the Group condensed statement of other comprehensive income, the Group condensed balance sheet, the Group condensed statement of changes in equity, the Group condensed cash flow statement and related notes 1 to 22. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the Group will be prepared in accordance with United Kingdom adopted international accounting standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with United Kingdom adopted International Accounting Standard 34, "Interim Financial Reporting".

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2021 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Independent review to Anglian Water Services (continued)

for the six months ended 30 September 2021

Use of our report

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP

Statutory Auditor

Birmingham, United Kingdom

6 December 2021