

Anglian Water Services Limited

Preliminary results

for the year ended 31 March 2020



Anglian Water Services Limited
Financial results for the year ended 31 March 2020
For immediate release, 15 June 2020

Consolidating five years of leading performance

- **Strong performance drives a projected total of £62.6 million of outperformance payments for AMP6 (2015-2020)¹, with £12.5 million of rewards expected for 2019/20**
- **Award of The Queen’s Award for Enterprise: Sustainable Development concludes year of enshrining public interest into Anglian Water constitution**
- **Statement of Case submitted to the Competition and Markets Authority (CMA) as part of Anglian Water request for redetermination of PR19 Final Determination**

Commenting on Anglian Water’s preliminary results for the full year to 31 March 2020, Chief Executive Peter Simpson said:

“As we come to the end of our latest five-year plan and begin the next, the world looks very different than it did five years ago. Yet amid undoubted challenges there is much we can reflect on with pride. Anglian Water has delivered consistently leading performance.

“This year we have met our pioneering and hugely ambitious 2020 carbon reduction targets, reducing capital carbon by 61 per cent on our 2010 baseline, and operational carbon by 34 per cent against a 2015 baseline. We are now sharing our learnings by co-leading the industry’s road map to net zero carbon by 2030.

“We have led the water industry on leakage reduction, beating our regulatory target for the ninth year running. The quality of the water flowing through our region’s taps is at its best-ever levels. We were delighted to be ranked by Ofwat as top-performing water and water recycling company in its 2019 service delivery report, and to have been awarded the prestigious Queen’s Award for Enterprise: Sustainable Development for a second five-year period in April.

“We end the 2015-2020 Business Plan period (AMP6) with a projected £62.6 million of outperformance payments, reflecting how well we have delivered for customers across a range of very stretching Outcome Delivery Incentives.

“And, importantly, we enter our next five years with a sure and certain sense of our environmental and social purpose, having become the first major UK utility to enshrine our longstanding focus on working in the public interest into the fabric of our company constitution when we enhanced our Articles of Association in July 2019.

“Our stated purpose will provide a strong foundation to deal with the enormous challenges we and others are facing. The global impact of Covid-19 is stark, and it is compounded by the increasing pace of climate change, population growth and a very tough Final Determination from our regulator Ofwat, which poses significant financial challenges for our business, and others in the water industry.

“When we emerge from the immediate crisis, our planning for the next five years will undoubtedly be influenced by the new circumstances in which we find ourselves.

“As we reflect on the profound economic, societal and environmental shockwaves triggered by Covid-19, we and others will be focusing on how to build a more sustainable, resilient future in the face of climate change and, critically, to do all we can to play our part in the recovery.

“In our own region, it will be more important than ever to invest in the resilience of our infrastructure, safeguard our environment and work to bring social prosperity to our communities.

¹ Calculated at 2019/20 prices

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“Yet we must do so for now within the constraints of a Final Determination which falls far short of the investment required for the next five years. Anglian Water’s strong track record of performance is founded in large part on the significant investments we have made in delivering high-quality infrastructure and services over multiple AMPs.

“The plans we set out in our Business Plan for AMP7, endorsed by sector-leading engagement with more than 500,000 customers and stakeholders, and rooted in externally validated assessments of our region’s needs, were our most ambitious ever. They included £6.5 billion of investment to support the long-term resilience of our water supplies and the growth of our region.

“The determination awarded by Ofwat in December 2019 leaves us almost £750 million short of the funding required to deliver those plans, as well as setting the lowest ever rate of return to investors, limiting our ability to deliver growth in what is the driest and one of the fastest-growing areas of the country.

“Accepting it would inevitably mean adopting sub-optimal short-term solutions, kicking the can down the road rather than tackling issues head on and creating infrastructure fit for the future, as we and our customers agreed that we should. It would lead to poorer outcomes, not just in the next five years but for many years to come, threatening our fundamental ability to deliver on our stated Purpose: to bring environmental and social prosperity to the region we serve.

“That is why we felt we had no choice but to pursue the redetermination process which is now underway with the Competition and Markets Authority. In a post-Covid-19 world, and with the pace of climate change only accelerating, it will be more critical than ever to run our business in a way which drives the long-term sustainability and resilience of our region and our communities. We hope the outcome of the process will allow us to continue to do so.”

Responding to Covid-19

Positive Difference Fund The Company has accelerated plans for a shareholder-funded £1 million Positive Difference Fund, which doubles the £1 million already available through the Anglian Water Assistance Fund.

The fund is being distributed through a locally appointed partner which has expertise in getting money quickly to areas in which it is most needed. Organisations such as food banks, outreach programmes and those helping the most vulnerable will all be supported across our region. Half of the fund has immediately been made available to support community organisations on the front line of the battle against Covid-19, with the remainder released to meet emerging needs later in the year.

Supporting customers, employees and supply chain partners Anglian Water has continued to deliver its vital service to customers throughout the Covid-19 outbreak, while supporting its colleagues to work safely. The Company has offered an extensive package of support to customers in financial difficulty, including payment holidays, tariff schemes, affordable instalment plans and settlement agreements, as well as signposting customers to an extensive range of affordability measures, income benefit channels and relevant external charities and help organisations. Employees in financial difficulty are being supported via an Employee Assistance Fund, financed separately from the business.

Some 3,000 employees have been transferred to home working, while clear safeguards have been put in place for those carrying out critical and essential tasks in the community and at our sites. Steps have also been taken to support the supply chain, including reducing the time taken to pay suppliers, advising small and medium suppliers and issuing key worker permits.

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Liquidity The Company has modelled a range of risks associated with the disruption caused by Covid-19, including potential reductions in revenue collection and cost shocks. The business has significant cash balances, including deposits of £1,048.1 million, following the drawdown of £600 million of liquidity facilities and access to a further £450 million if required. This drawdown is expected to provide an adequate buffer to ensure payments can be met as they fall due.

Financial, social and environmental highlights

- **Strong performance drives a projected total of £62.6 million of outperformance payments for AMP6 (2015-2020), based on 2019/20 prices, with £12.5 million of rewards expected for 2019/20** Fifteen years of upper quartile service delivery have culminated in Anglian Water being ranked by Ofwat as top-performing water and water recycling company in its 2019 service delivery report, ending the AMP ranked top of Ofwat's Service Incentive Mechanism, based on ratings from customers, and as reigning Water Company of the Year
- **Successful final year of AMP6 investment programme** AMP6 gross capital expenditure for the year of £470.9 million (£250.1 million on capital maintenance, £220.8 million on capital enhancement), compared to £440.0 million in the fourth year of AMP6
- **Group revenue of £1,419.9 million, an increase of £65.2 million (4.8 per cent) on 2019** This is consistent with the regulatory pricing mechanism, offsetting reduced demand for both household and non-household customers
- **Adjusted profit before tax for the period of £74.0 million, up £13.5 million**, excludes fair value losses on derivatives of £30.4 million (2019: £98.4 million). These are volatile non-cash annual movements which distort actual economic performance and therefore should be excluded when assessing underlying profit. Including these fair value movements, **profit before tax for the period is £43.6 million, up £81.5 million from a loss of £37.9 million**
- **Dividend payments were marginally down on prior year.** Dividend paid in the year of £67.8 million (2019: £68.0 million) were retained within the Group and used to finance Group operating costs and working capital needs. **No dividends were paid to the shareholders of Anglian Water Group Limited (AWGL), the ultimate parent company, in the year (2019: £nil).** Based on the available free cash flow there was capacity to pay a further dividend of £192.2 million. However, the Directors have not proposed to pay a final dividend in line with their de-gearing target. This decision to retain £192 million, follows on from the previous £165 million shareholder investment into the resilience of the Company. Both of these decisions reduced shareholders' returns in AMP6 for the benefit of the company
- **Award of The Queen's Award for Enterprise: Sustainable Development concludes year of enshrining public interest into Anglian Water company constitution** The award, for the period 2020-2025, cites the Company's "clear sustainability leadership, adopting an exemplary approach in formalising its commitment through amendments to its Articles of Association"
- **Anglian Water beats stretching 2020 carbon goals** Pioneering programme of carbon reduction sees capital carbon reduce by 61 per cent against a 2010 baseline, while operational carbon is down by 34 per cent against 2015 baseline
- **Best-ever performance on renewable energy** 131 GWh renewable energy produced from biogas, solar power and wind across our sites, enough to power 40,000 homes for a year
- **Best-ever performance on water quality**, with the lowest ever number of contacts from customers about the appearance, taste and odour of their water

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- **Launch of £1 million Positive Difference Fund brought forward as part of Anglian Water's response to Covid-19**, together with a package of measures to support local communities, employees and supply chain partners
- **Statement of Case submitted to the Competition and Markets Authority (CMA) as part of Anglian Water appeal against Final Determination** Following the Board's unanimous decision to request a redetermination of its PR19 Final Determination, Anglian Water submitted its Statement of Case to the CMA on 2 April
- **Contract worth more than £350 million awarded to construction and engineering firms Costain, Farrans, Jacobs and Mott MacDonald Bentley in a new Anglian Water enterprise alliance** The enterprise alliance will seek innovative solutions to support the delivery of Anglian Water's Water Resource Management Plan, securing the region's water supplies for the next 25 years
- **Contract signing with Arqiva marks the beginning of ambitious multi-AMP smart meter upgrade programme**, with plans to upgrade existing and new water meters for homes and businesses across the region as part of long-term demand management strategy
- **A total of £876 million of Green Bond funding secured to date to fund around 850 capital projects**, with £51 million of bonds issued in 2019/20
- **New Chairman John Hirst CBE appointed on 1 April 2020** Mr Hirst, a former Chief Executive of the Met Office, who joined the Board of Anglian Water Services in 2016, replaces Stephen Billingham, who retired after five years as Chairman on 31 March 2020

Further financial updates

- Operating costs including impairment losses up by £34.8 million (5.5 per cent). The increase reflects a £14 million increase in bad debt charge, primarily as a result of Covid-19, and £5 million of restructuring costs. In addition, increases in below-ground infrastructure repairs and inflationary pressure on costs, partially mitigated by savings from efficiency initiatives
- Cash generated from operations of £686.0 million, down 2.1 per cent on last year, reflecting the reduction in cash collection from non-household retailers as a result of the agreement to defer 50 per cent of the March invoice
- Gross regulated capital investment in the period of £470.9 million (2019: £440.0 million). This concludes our commitment to reinvest £100 million of efficiencies and £65 million in resilience

Future challenges

- The 2019/20 financial year has seen the conclusion of Ofwat's Price Review process covering the five-year period from 2020 to 2025. Anglian Water's plan proposed investment of £6.46 billion alongside bill reductions of around 1 per cent, on top of the largest bill reduction of any water company in the previous five years. Ofwat's Final Determination allowed expenditure of just £5.71 billion, a gap of £750 million, with bills coming down by c.10 per cent. The Board of Directors concluded that the Final Determination was not financeable and that accepting it would compromise the Company's ability to deliver on its stated purpose. It therefore requested that Ofwat refer the Final Determination to the Competition and Markets Authority (CMA) to be redetermined, asking the CMA to consider whether Ofwat has struck the right balance between bills and investment. The CMA's findings will be published no later than 18 March 2021. In the interim, Anglian Water will operate within the funding allocated under the Final Determination, with plans scaled back to reflect reduced investment

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- The Covid-19 emergency has meant the pausing of routine maintenance and planned infrastructure programmes, delaying the start of the AMP7 programme; there will be an as-yet unknown impact on the Company's ability to meet its Operational Delivery Incentives in the short-term

Enshrining public interest

- Industry-leading change to Anglian Water's Articles of Association in July 2019, supported by investors, codifies the Company's long-held public purpose, enshrining its longstanding commitment to conduct its business and operations for the benefit of shareholders while delivering long-term value for the Company's customers, the region and the communities it serves, and seeking positive outcomes for the environment and society. The Company also developed and adopted a new Corporate Governance Code incorporating Ofwat's Board Leadership, Transparency and Governance Principles (the BLTG Principles), as well as adopting more stretching corporate governance requirements found in the 2018 UK Corporate Governance Code

Supporting customers, colleagues and communities

- ExtraCare teams launched in June 2020 to signpost customers to the wide range of support available to them, from the Priority Services Register to financial advice using income maximisation tools, signposting customers to an extensive range of affordability measures, income benefit channels and relevant external charities and help organisations. In total some 345,000 vulnerable customers received support
- Average bills for 2020-2021 down to £412 a year, or £1.13 a day. Customers with a water meter will pay even less, with the average metered bill dropping to £385 a year. Anglian Water has seen the largest price reduction of any water company over the previous five years
- Business Plan for 2020-2025 informed by sector-leading dialogue with more than 500,000 customers and stakeholders, with customers' views sought at every stage of the process. The Plan was praised by Ofwat for its "high quality, ambitious and innovative approach to customer engagement and participation"
- Building on the nationally recognised collaborative regeneration programme in Wisbech, joined new Lowestoft Place Board to support the regeneration of the town, working alongside partners including Business in the Community and Alliance partner Kier
- Extended multi-skills talent expansion partnership developed by Anglian Water and its Alliance partners to four colleges (West Suffolk College, Bury St Edmunds; Milton Keynes College; the College of West Anglia, Wisbech; and Grimsby Institute), with 200 per cent increase in applications
- Winner of Business in the Community's Health and Wellbeing award 2019
- Anglian Water education programme reached more than 35,000 people in 2019/20 with opportunities for interactive sessions to enhance understanding of the water cycle

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Leading on sustainability

- Investment of more than £1.4 billion planned for 2020-2025 to safeguarding water resources and the environment, supported by investors who share our commitment to sustainable financing
- Ambitious AMP6 Environment Programme completed in full, with all 97 obligations to the Environment Agency under its Environmental Compliance ODIs fulfilled, avoiding significant penalties for non-delivery
- Biodiversity baseline study completed to support commitment to 10 per cent biodiversity gain (that is, an improvement to wildlife habitats) in construction and land management activities
- £36 million investment programme completed at Heigham Water Treatment Works, safeguarding delicate ecosystem of the River Wensum and supporting future population growth
- Innovative circular economy initiative launched with partners Oasthouse Ventures and Green Capital, using renewable waste heat from Anglian Water treatment facilities to heat two of the UK's largest greenhouses
- Construction of 43,000 panel solar array at Grafham Water concludes AMP6 solar investment programme; new solar partnership with Next Energy Capital will constitute the UK's largest unsubsidised solar and storage framework
- Percentage of Anglian Water's 49 sites of special scientific interest (SSSIs) judged as in favourable condition by Natural England increased from 49% to 99% in AMP6

Unlocking economic growth

- Working with multi-sector Water Resources East network to develop an integrated flood risk strategy for the future of the Fens to enable housing and economic growth, transform transport links and build a more climate-resilient community, as well as benefit to the natural environment
- Continuing development of proposals to support the economic growth of Cambridge by relocating the Cambridge Waste Water Treatment Plant, paving the way for around 5,600 much-needed new homes, enabling sustainable housing growth and transport links and unlocking regional employment opportunities
- Supporting exceptional population growth, with 24,000 new water connections made in the past 12 months

Driving future resilience

- Anglian Water became the first company to set out how it is preparing for the impacts of climate change in Defra's latest round of adaptation reporting under the Climate Change Act. The report details the actions the Company has already undertaken to adapt its operations to the changing climate and sets out its plans for substantial further investment over the next five years
- Continuing progress on leakage with the creation of an enlarged Optimisation Team to push system efficiency and proactive initiatives, combining noise logging, pressure monitoring, transient mitigation, pressure optimisation and drought response
- 2019 Water Resources Management Plan published, setting out how Anglian Water will safeguard water supplies in the face of climate change over the next 25 years through a blend of demand and supply side measures, including the installation of smart meters across the region

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- The new Anglian Water enterprise alliance – the Strategic Pipeline Alliance – will create up to 500km of interconnecting pipelines and associated infrastructure to enable the movement of water to areas where it is most needed. The programme will also make it possible to reduce the amount of water taken from the environment, as well as strengthening resilience by reducing the number of homes and businesses which rely on a single water source

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FINANCIAL PERFORMANCE

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

Financial results

The financial results are summarised in the table below:

	2020	2019
	Total	Total
	£m	£m
Revenue (excluding grants and contributions)	1,330.6	1,280.3
Grants and contributions	89.3	74.4
Operating costs	(624.6)	(604.0)
Impairment losses	(40.7)	(26.5)
Other operating income	13.0	13.6
EBITDA	767.6	737.8
Depreciation and amortisation	(368.5)	(348.8)
Operating profit	399.1	389.0
Finance income	4.8	2.9
Finance costs ⁽¹⁾	(329.9)	(331.4)
Adjusted profit before tax	74.0	60.5
<i>Finance costs - fair value losses on derivative financial instruments</i> ⁽¹⁾	(30.4)	(98.4)
Profit/(loss) before tax on a statutory basis	43.6	(37.9)

⁽¹⁾ In order to show pre-tax performance based on management's view of an underlying basis the fair value losses on derivative financial instruments have been shown separately in the table because these are volatile non-cash movements that distort the actual underlying economic performance.

Revenue

Revenue, excluding grants and contributions, for the year was £1,330.6 million (2019: £1,280.3 million), an increase of £50.3 million (3.9 per cent) on last year. This primarily reflects the regulatory pricing mechanism, offsetting reduced demand for both household and non-household customers.

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 £14.9 million to £89.3 million, which reflects an increased level of adopted sewers and pumping stations in relation to new housing developments.

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. During the year other operating income decreased by £0.6 million to £13.0 million, principally due to increased power usage resulting in lower income from power generation.

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Operating costs

Operating costs including impairment losses for the year increased by £34.8 million (5.5 per cent) to £665.3 million. This increase is explained in the table below:

Increases/(decreases) in operating costs (before depreciation and amortisation)	£m
One-off costs in 2018/19 not repeating	(3.3)
General inflationary increases	15.6
Increase in energy prices and costs	5.0
Increase in below ground infrastructure maintenance	4.0
Operating costs of newly commissioned plant	4.4
Maintenance Totex solutions	2.0
Restructuring costs	5.0
Increase in bad debt charge	14.0
Net efficiency savings achieved	(11.9)
Net increase in operating costs	34.8

The increase in bad debt charge primarily reflects an additional £12 million provision in relation to the impact of Covid-19, which has resulted in lower post year-end cash collection.

The cost and efficiency savings are derived from a range of initiatives including energy conservation and self-generation, optimising the sourcing of commodities, centralised management of operations, and renegotiating supplier contracts on improved terms. In addition, a number of productivity improvements have resulted from embedding more lean thinking and processes into the business, and more efficient asset maintenance programmes.

EBITDA

EBITDA has increased by 4.0 per cent to £767.6 million, which is consistent with the effect of the regulatory price increases outweighing the increases in operating costs.

Depreciation and amortisation

Depreciation and amortisation is up 5.6 per cent compared with last year, consistent with the impact of newly commissioned assets in the year, and a reduction in the useful life of various operational assets.

Operating profit

Operating profit has increased by 2.6 per cent to £399.1 million, which is consistent with the increase in EBITDA partially offset by the increase in depreciation.

Financing costs and profit before tax

Adjusted finance costs (excluding fair value gains and losses on financial instruments) decreased from £331.4 million in 2019 to £329.9 million in 2020. This was primarily the result of the non-cash impact of lower inflation on index-linked debt where the year-on-year average Retail Price Index (RPI) fell from 3.2 per cent to 2.6 per cent partially offset by an increase in interest costs and a decrease in interest capitalised, the latter reflecting a lower level of capital projects in progress.

There was a fair value loss of £30.4 million on derivative financial instruments in 2020, compared with a loss of £98.4 million in 2019. This reduction was due to movements in market expectations of long-term interest, inflation and exchange rates. Fair value losses in the prior year include a charge of £11.7 million relating to the restructuring of derivatives which were cash settled in the period. The fair value losses in the current year are all non-cash in nature and have no material effect on the underlying commercial operations of the business.

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The driving factors for the smaller loss in 2020 compared to 2019 were a significant fall in forward inflation expectations substantially offset by a fall in forward interest rates. During the year, forward inflation decreased by circa 62 basis points (2019: increase of 12 basis points), and forward interest rates decreased by 68 basis points (2019: 16 basis points).

Adjusted profit before tax for the year was £74.0 million, compared with £60.5 million in the prior year. This increase reflects the increase in operating profit due to revenue increases more than offsetting higher operating costs and depreciation.

Taxation

Our underlying effective tax rate of 22.2 per cent is in line with the rate of corporation tax before considering the effects of the reversal of the corporation tax rate reduction and adjustments for prior periods. We are one of the largest private investors in infrastructure in our region, investing more than £2 billion over five 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 2020, other than corporation tax, amounted to £270 million (2019: £256 million), of which £87 million (2019: £82 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 tax

The current tax credit for the year was £14.5 million (2019: charge of £55.9 million).

The current tax charge for 2019 includes payments to other Group companies for losses surrendered from those companies and also reflects a charge on the transition to IFRS 15 and the disclaiming of capital allowances to utilise the Surplus ACT asset held on the balance sheet.

In 2020, the current tax credit reflects receipts from other Group companies for losses surrendered to those Group companies. No capital allowances have been disclaimed in 2020.

Deferred tax

The deferred tax charge has increased by £195.9 million from a credit of £61.0 million in 2019 to a charge of £134.9 million this year. This is mainly due to the reversal of a corporation tax rate reduction and the claiming of maximum capital allowances in the year.

The corporation tax rate was expected to reduce from 19 per cent to 17 per cent effective from 1 April 2020 and the deferred tax balances at 31 March 2019 were measured using the rate of 17 per cent.

This reduction in corporation tax rate was reversed in March 2020 and so those deferred tax balances have been re-measured using the rate of 19 per cent.

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

Successful final year of AMP6 investment programme

AMP6 gross capital expenditure in the appointed business for the year was £470.9 million (£250.1 million on capital maintenance, £220.8 million on capital enhancement), compared to £440.0 million in the fourth year of AMP6. This level of expenditure is broadly in line with management expectations, and concludes our commitment to reinvest £100 million of efficiencies and £65 million in resilience. We have successfully delivered a number of our obligations for the Environment Agency through some innovative and lower build approaches which have enabled us to both reduce carbon and deliver best whole-life cost solutions. These schemes at places such as Ingoldisthorpe, Great Dunmow and Stanbridgeford will form the basis not only of our Green Bond-funded investment plan, but will also serve as a blueprint for the approach we want to take in AMP7 (2020–2025).

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Over the 2015–2020 five-year period, we have invested £2 billion through our capital investment programme, delivering our business plan in terms of both regulatory outputs and in support of our ODIs.

Financial needs and resources

In the year to 31 March 2020, Anglian Water sourced £215.9 million of funds in term debt and drew down £600m of working capital facilities to provide a short-term liquidity buffer in light of the ongoing Covid-19 uncertainty. The facility agreements against which these drawdowns were taken currently mature in 2024. The new term funds were the result of further Green Bond funding in the year, the proceeds of which will be used to finance our capital expenditure. Debt repayments comprised: a £6.7 million finance lease repayment; the repayment of the JPY 5 billion (£25.1 million) bond and associated cross currency swap maturing in May 2019, £135.1m in relation to the full redemption of the £50 million 1.3 per cent and £50m 1.626 per cent EIB loans with further £52.0 million of amortising redemptions on the remaining EIB loan portfolio.

At 31 March 2020, Anglian Water had borrowings net of cash of £7,415.4 million (£6,677.2 million excluding derivatives), an increase of £255.6 million (£296.9 million excluding derivatives) over the prior year. Net borrowings comprised a mixture of fixed, index-linked and variable-rate debt of £7,675.9 million, derivative financial instruments of £738.2 million (excluding energy derivatives of £4.6 million), leases of £49.4 million and cash and deposits of £1,048.1 million. The increased net borrowings primarily reflect the ongoing capital investment programme.

The business generated cash from operations of £686.0 million in the year (2019: £700.7 million). The decrease primarily reflects the reduction in cash collection from retailers as a result of the agreement to defer payment of 50 per cent of the March invoice as well as an increase in the household customer bad debt charge.

Distributions available to the ultimate investors

Dividend payments were marginally down on prior year. Dividend paid in the year of £67.8 million (2019: £68.0 million) were retained within the Group and used to finance Group operating costs and working capital needs. No dividends were paid to the shareholders of Anglian Water Group Limited (AWGL), the ultimate parent company, in the year (2019: £nil).

Based on the available free cash flow there was capacity to pay a further dividend of £192.2 million. However, the Directors have not proposed to pay a final dividend in line with their de-gearing target.

This decision to retain £192 million, follows on from the previous £165 million shareholder investment into the resilience of the Company. Both of these decisions reduced shareholders returns in AMP6 for the benefit of the company.

The Company's dividend policy is to identify the cash available for distribution, allowing for the business's liquidity requirements in respect of funding its operations, the capital programme, servicing its debt for the next 18 months. The dividend policy is also based on ensuring that there is adequate headroom in relation to all of its financial covenants. In assessing the dividend payment, the Directors review the business performance forecasts and give consideration to the potential impact of external factors in the economy and regulatory environment on the Company's forecast cash flows.

The Directors consider this cash-based approach provides a more appropriate consideration of the needs of our customers, employees, pensions schemes and other stakeholders whilst ensuring the liquidity requirements of the business are met fully. The overall amount of the Company's ordinary dividends will not exceed the free cash flow (defined as operating cash flow less interest and capital maintenance payments) generated by Anglian Water, and in practice will be limited by its current and forecast financial covenants. Special dividends may also be paid in addition to ordinary dividends, but these too are limited by specific financial covenant constraints. This policy is consistent with condition F of the Licence.

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As part of its PR19 process Ofwat has introduced a mechanism which penalises more highly geared companies (such as Anglian Water) and therefore provides these companies with an incentive to reduce their level of gearing. Anglian Water is challenging this mechanism (together with many other aspects of Ofwat's AMP7 determination) by way of an application to the CMA for a redetermination. The company's approach to de-gearing will be reviewed in the light of the CMA's decision which is expected no later than March 2021.

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 2020, the Anglian Water Services Group held cash, deposits and current asset investments of £1,048.1 million (2019: £554.3 million). The increase in cash held is the result of the Company drawing down £600.0 million of committed bank facilities in light of economic uncertainty surrounding the Covid-19 pandemic. These drawdowns are expected to provide an adequate buffer to ensure appropriate liquidity and the continuation of the Company's ongoing capital investment programme. The maturity profile of borrowings is disclosed in the Group balance sheet on page 17.

In addition to the £600.0 million of facilities (2019: £600.0 million) which have been fully drawn, the Company has access to a further £450.0 million of liquidity facilities (2019: £400.0 million), consisting of £50.0 million for general corporate purposes, £279.0 million to finance debt service costs and £121.0 million to finance operating expenditure and maintenance capital expenditure in the event that the Company was in default on its debt obligations and had insufficient alternative sources of liquidity. All bank facilities and debt capital market issuance are issued pursuant to the Global Secured Medium Term Note Programme dated 30 July 2002 between the Company, AWSF (Anglian Water Services Financing Plc) and Deutsche Trustee Company Ltd (as agent and trustee for itself and each of the finance parties). This agreement provides that any facilities drawn by AWSF will be passed directly on to the Company upon utilisation of the facility.

Interest rates

The Company's policy, as agreed by the Board, is to achieve a balanced mix of funding to inflation-linked, fixed and floating rates of interest. At the year end, taking into account interest rate swaps, 51.9 per cent (2019: 58.8 per cent) of the Company's borrowings were at rates indexed to inflation, 34.3 per cent (2019: 35.1 per cent) were at fixed rates and 13.8 per cent (2019: 6.1 per cent) were at floating rates. At 31 March 2020, the proportion of inflation debt to regulated capital value was 50.0 per cent (2019: 50.0 per cent)

Pension funding

At 31 March 2020, the closed defined benefit scheme, excluding the unfunded pension liability, had an IAS 19 accounting pension surplus (before deferred tax) of £171.6 million, compared to a surplus of £49.3 million at 31 March 2019. This increase in surplus reflects an increase in the corporate bond rate used to discount the scheme's liabilities, which has more than offset any impact on asset performance due to current market conditions. During the year a deficit reduction payment of £15.1 million was made by the Company, compared with £12.5 million in the prior year.

In addition the Company has an unfunded pension liability of £41.6 million (2019: £45.8 million).

Financial resilience

The Directors are responsible for ensuring the resilience or viability of the Company's water and water recycling services to meet the needs of its customers in the long-term. This means the Company must be able to avoid, manage and recover from disruptions to its operations and finances.

The Directors' review of the longer-term prospects and viability of the Company is an extension of our business planning process, which includes financial forecasting, a robust risk management assessment, regular budget reviews and scenario planning. This activity is strengthened by a culture throughout the Company of review and challenge. Our vision and business strategy aim to make sure that our operations are resilient and our finances are sustainable and robust.

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for the year ended 31 March 2020

As part of AWS' approach to defining risk appetite, each year the Directors review our specific risk tolerance levels and consider whether our decision-making behaviours over the past year have been consistent with these risk levels. The Directors confirmed that the Company's behaviours over the past year had been in line with our risk appetite.

Assessment of prospects

The Directors have assessed Anglian Water's financial prospects over the next 10 years from April 2020 to March 2030. A 10-year period has been chosen to ensure that our business plan for the current AMP does not impact on the longer term viability of the company:

- The first five years takes us to the end of the current AMP for which there is reasonable certainty and clarity (pending the CMA appeal), with a stretching five-year plan to deliver in line with the Final Determination allowing realistic assessments of our principal risks to be made;
- The next five years of the period are outside the current AMP and therefore subject to the final outcome of the following five-year price review (PR24) for which uncertainty exists. Our assumptions for AMP8 align to the AMP8 forecasts submitted in our PR19 Business Plan submission;
- The Board considered whether there are specific, foreseeable risk events relating to the principal risks that are likely to materialise within a 10-year period, and which might be substantial enough to affect the Company's viability and therefore should be taken into account when setting the assessment period. These events were modelled appropriately within our downside scenarios;
- The Board has considered the impact of the wider activities of other group companies and transactions and of the overall group structure;
- The Board considers the maturity profiles of debt and the availability of new finance over ten years as part of its review of financial modelling and forecasting, as well as considering the credit ratings of the debt; and
- We also note that in an incentive-based regulatory regime we have the opportunity to be rewarded for outperforming the regulatory determination. However, given the low PR19 weighted average cost of capital (WACC) rate and the significant gap between required and allowed Totex, we have had to take mitigating action in our planning, resulting in substantial reductions in dividends paid to shareholders in order to achieve financial resilience. Finally, we take note of the Water Industry Act, which requires Ofwat to ensure that water companies can (in particular through securing reasonable returns on their capital) finance the proper carrying out of their statutory duties.

Stress testing the business plan

In reviewing its financial viability, Anglian Water considers the stringent covenant tests required under its securitised structure to provide comfort to our bondholders that our business is viable to the end of the current AMP period and beyond, and to ensure the availability of debt to finance the Company's investment programme. At each regulatory price review and throughout the AMP, the Board satisfies itself that the agreed five-year business plans ensure adequate covenant headroom throughout the AMP period and beyond. This includes extensive downside scenario testing at both Anglian Water and Group level from severe, plausible and reasonable scenarios chosen because they pose the greatest risk to the business.

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Mitigating actions

For each sensitivity and combined scenario, we identify the appropriate mitigations against the potential risks. In the event that the situations used for stress testing were to result in an unacceptable level of deterioration in the Company's financial metrics, management's principal actions would include further reducing the level of shareholder distributions, potential shareholder equity injections, reviewing the financing structure and identifying further opportunities to reduce the Company's cost base or reduce financing costs. Evidence of the shareholders' support for equity injections is provided by the equity injection made in 2018 of £22.0 million, and the fact that our AMP7 five-year business plan includes further equity injections in order to reduce our gearing. Another example of shareholder support occurred in 2009 when the shareholders provided funds of £90m in order to improve headroom in near-term debt covenants.

As a further mitigation we have a significant portfolio of insurance cover in place to provide protection against many catastrophic scenarios such as dam failure, pluvial and fluvial flood, terrorism, and public and employer's liability.

There would still be a short-term liquidity impact from such events due to the time it would take between incurring the expenditure and recovering this through the insurance claim; however, it is an important consideration in terms of medium-term liquidity.

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

Benefits of the securitised structure

The highly covenanted nature of our financing arrangements (often described as a whole business securitisation) enhances our financial resilience by imposing a rigorous governance framework. This requires continuous monitoring and reporting of our financial and operating performance by senior management, through a well-established business process, to ensure compliance with our financing arrangements, and provides an additional layer of control over how we transact with our stakeholders, including suppliers, business partners, customers, shareholders and lenders compared to the regulatory frameworks by which we are governed. We announced in March 2018 that we expect to see a significant reduction in dividends to reduce leverage in Anglian Water; the company's approach to de-gearing will be reviewed in the light of the CMA's decision which is expected no later than March 2021.

Directors' statement

In making this statement, the Directors have assumed that funding for capital expenditure in the form of capital markets or bank debt will be available in all reasonable market conditions. They have also considered the impact of the group structure, intra-group transactions and any other group activities on the viability of the regulated business.

Ofwat published its PR19 Final Determination in December 2019. This will form the basis for setting customer charges in 2020/21. Funding for the remaining years of AMP7 will be set by the CMA redetermination.

Ofwat's Final Determination included a reduced cost of capital which will be a significant challenge to our financeability in AMP7, with headroom to accommodate moderate to severe downside shocks limited for the period under assessment. Whilst the viability of the business is not significantly affected, the number of downside scenarios requiring mitigations has increased. This impact is primarily as a result of the PR19 FD and therefore this is one of the reasons why we requested that Ofwat refer the FD to the CMA.

However, Anglian Water Services is an efficient company with a history of outperformance and we would expect the CMA to reach a determination that is financeable and meets both the respective obligations and responsibilities of the company and the Regulator. There is a remote risk that the final outcome of the CMA redetermination is worse than the Final Determination but, on the assumption that the redetermination is materially aligned with our base plan, the Directors can be satisfied that the business has a reasonable expectation of being able to continue in operation and meet its liabilities as they fall due at least to March 2030, and is financially resilient in the face of moderate downside shocks.

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This is based on the reasonable certainty of its future revenue stream, the strength of the balance sheet (in particular the substantial cash balance and strong net assets), the availability of undrawn debt facilities in the unlikely event that debt markets were temporarily restricted, and by reviewing the business plans and strategic models, combined with the robust risk management process and mitigations described above.

Further details of the financial modelling assumptions, stress testing and how we link this to the principal business risks will be provided in the business viability statement in the Annual Integrated Report and Annual Performance Report, both of which will be published in July.

Anglian Water Services Limited
Group income statement
for the year ended 31 March 2020

Notes	2020			2019		
	Adjusted results £m	Other items ⁽¹⁾ £m	Total £m	Adjusted results £m	Other items ⁽¹⁾ £m	Total £m
	1,419.9	-	1,419.9	1,354.7	-	1,354.7
	13.0	-	13.0	13.6	-	13.6
	(624.6)	-	(624.6)	(604.0)	-	(604.0)
	(40.7)	-	(40.7)	(26.5)	-	(26.5)
	(368.5)	-	(368.5)	(348.8)	-	(348.8)
	(1,033.8)	-	(1,033.8)	(979.3)	-	(979.3)
	399.1	-	399.1	389.0	-	389.0
	4.8	-	4.8	2.9	-	2.9
	(329.9)	(30.4)	(360.3)	(331.4)	(98.4)	(429.8)
3	(325.1)	(30.4)	(355.5)	(328.5)	(98.4)	(426.9)
	74.0	(30.4)	43.6	60.5	(98.4)	(37.9)
4	(126.2)	5.8	(120.4)	(11.6)	16.7	5.1
	(52.2)	(24.6)	(76.8)	48.9	(81.7)	(32.8)

⁽¹⁾ Other items comprise of fair value losses on derivative financial instruments and energy hedges of £30.4 million (2019: £98.4 million).

Anglian Water Services Limited
Group statement of comprehensive income
for the year ended 31 March 2020

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Loss for the year	(76.8)	(32.8)
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Actuarial gains/(losses) on retirement benefit obligations	108.4	(18.8)
Income tax (charge)/credit on items that will not be reclassified	(18.8)	3.1
	89.6	(15.7)
Items that may be reclassified subsequently to profit or loss		
Gains on cash flow hedges	22.3	38.7
Gains on cash flow hedges transferred to profit or loss	3.9	1.5
Losses on cost of hedging transferred to profit or loss	(0.4)	(0.3)
Income tax on items that may be reclassified	(3.1)	(6.5)
	22.7	33.4
Other comprehensive income for the year, net of tax	112.3	17.7
Total comprehensive income/(expense) for the year	35.5	(15.1)

Anglian Water Services Limited
Group balance sheet
for the year ended 31 March 2020

	At 31 March 2020 £m	At 31 March 2019 £m
Non-current assets		
Other intangible assets	217.3	197.3
Property, plant and equipment	9,940.3	9,770.2
Derivative financial instruments	317.8	195.6
Retirement benefit surpluses	171.6	49.3
	<u>10,647.0</u>	<u>10,212.4</u>
Current assets		
Inventories	12.4	11.6
Trade and other receivables	530.6	485.7
Investments - cash deposits	319.0	297.0
Cash and cash equivalents	729.1	257.3
Derivative financial instruments	16.8	20.3
	<u>1,607.9</u>	<u>1,071.9</u>
Total assets	12,254.9	11,284.3
Current liabilities		
Trade and other payables	(520.9)	(492.0)
Current tax liabilities	(198.2)	(253.0)
Borrowings	(1,023.0)	(315.0)
Derivative financial instruments	(81.4)	(16.0)
Provisions	(6.2)	(4.2)
	<u>(1,829.7)</u>	<u>(1,080.2)</u>
Net current liabilities	(221.8)	(8.3)
Non-current liabilities		
Borrowings	(6,702.3)	(6,619.6)
Derivative financial instruments	(996.0)	(980.4)
Deferred tax liabilities	(1,093.6)	(936.8)
Retirement benefit deficit	(41.6)	(45.8)
Provisions	(10.5)	(8.0)
	<u>(8,844.0)</u>	<u>(8,590.6)</u>
Total liabilities	(10,673.7)	(9,670.8)
Net assets	<u>1,581.2</u>	<u>1,613.5</u>
Capital and reserves		
Share capital	32.0	32.0
Retained earnings	1,600.4	1,655.4
Hedging reserve	(52.3)	(75.9)
Cost of hedging reserve	1.1	2.0
Total equity	<u>1,581.2</u>	<u>1,613.5</u>

Anglian Water Services Limited
Group statement of changes in equity
for the year ended 31 March 2020

	Share capital £m	Retained earnings £m	Hedging reserve £m	Cost of hedging reserve £m	Total equity £m
At 1 April 2018	10.0	1,312.7	(105.3)	-	1,217.4
Change in accounting policy					
IFRS 9	-	2.0	(3.8)	1.8	-
IFRS 15	-	457.2	-	-	457.2
At 1 April 2018 (restated)	10.0	1,771.9	(109.1)	1.8	1,674.6
Loss for the year	-	(32.8)	-	-	(32.8)
Other comprehensive income					
Actuarial losses on retirement benefit obligations	-	(18.8)	-	-	(18.8)
Income tax credit on items that will not be reclassified	-	3.1	-	-	3.1
(Losses)/gains on cash flow hedges	-	-	(1.0)	0.9	(0.1)
Amounts on cash flow hedges transferred to income statement	-	-	1.5	(0.3)	1.2
Exchange movement on cash flow hedges	-	-	38.8	-	38.8
Deferred tax movement on cash flow hedges	-	-	(6.1)	(0.4)	(6.5)
	-	(15.7)	33.2	0.2	17.7
Total comprehensive (expense)/income	-	(48.5)	33.2	0.2	(15.1)
Issue of share capital	22.0	-	-	-	22.0
Dividends	-	(68.0)	-	-	(68.0)
At 31 March 2019	32.0	1,655.4	(75.9)	2.0	1,613.5
Loss for the year	-	(76.8)	-	-	(76.8)
Other comprehensive income					
Actuarial gains on retirement benefit obligations	-	108.4	-	-	108.4
Income tax charge on items that will not be reclassified	-	(18.8)	-	-	(18.8)
Gains/(losses) on cash flow hedges	-	-	52.1	(0.6)	51.5
Amounts on cash flow hedges transferred to income statement	-	-	3.9	(0.4)	3.5
Exchange movement on cash flow hedges	-	-	(29.2)	-	(29.2)
Deferred tax movement on cash flow hedges	-	-	(3.2)	0.1	(3.1)
	-	89.6	23.6	(0.9)	112.3
Total comprehensive income/(expense)	-	12.8	23.6	(0.9)	35.5
Dividends	-	(67.8)	-	-	(67.8)
At 31 March 2020	32.0	1,600.4	(52.3)	1.1	1,581.2

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

Anglian Water Services Limited
Notes to the financial statements
for the year ended 31 March 2020

Notes	Group	
	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
	Operating activities	
	399.1	389.0
	Adjustments for:	
	368.5	348.8
	(37.1)	(22.0)
	(2.3)	(1.2)
	(18.5)	(12.7)
	5.2	(2.7)
	Working capital movements:	
	(0.8)	(1.6)
	(45.5)	(6.4)
	17.4	9.5
	686.0	700.7
	(40.3)	(30.2)
	645.7	670.5
	Investing activities	
	(391.3)	(405.0)
	(61.2)	(65.7)
	2.3	1.6
	4.8	2.9
	(445.4)	(466.2)
	Financing activities	
	(229.3)	(215.8)
	(2.6)	(3.3)
	(0.7)	(0.6)
	815.9	447.8
	(220.3)	(140.0)
	-	22.0
	9.6	27.0
	(11.3)	(6.2)
	(22.0)	(257.0)
5	(67.8)	(68.0)
	271.5	(194.1)
	471.8	10.2
	257.3	247.1
	729.1	257.3

¹Income taxes paid are all inter-company with AWG Group Limited.

Anglian Water Services Limited
Notes to the financial statements
for the year ended 31 March 2020

1. Accounting policies

The consolidated financial information for the Group is for the year ended 31 March 2020 and has been prepared in accordance with International Financial Reporting Standards (IFRS), and on the basis of accounting policies consistent with those used for the audited financial statements of Anglian Water Services Limited at 31 March 2020. The results have been extracted from the financial statements of the Group for the year ended 31 March 2020, which will be published at a later date.

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. The review included a range of downside outcomes as a result of Covid-19 against the Final Determination received from Ofwat that has subsequently been referred to the CMA.

The downside outcomes were assessed for liquidity and impacts on debt covenants which form a fundamental part of the single debt platform. Anglian Water has a single debt platform (sometimes known as a "common terms" or "CTA" debt platform) that has been structured so as to align with, and enhance, the regulatory protections contained in the Water Industry Act 1991 and Anglian Water's Licence (an "Aligned Debt Programme"). Aligned Debt Programmes operate on a single covenant package and shared security and intercreditor arrangement that binds all debt providers. Under this structure, the failure to meet certain metrics can cause a Trigger Event and in some circumstances an Event of Default.

Based on the review performed, the Directors believe that, despite the net current liability position, the business has sufficient liquidity to meet its liabilities as they fall due. Whilst certain worst-case scenarios indicate the potential for a Trigger Event, the Directors do not consider this possibility to constitute a material uncertainty related to going concern. This is due to the intention of a Trigger Event being that it is an early warning event designed to reinforce credit worthiness and to protect the Company and its finance creditors from an Event of Default occurring. It does not enable creditors to destabilise the Company through enforcing their security.

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

The financial information does not constitute statutory accounts of the Group within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for Anglian Water Services Limited for the year ended 31 March 2020 will be filed with the Registrar of Companies and copies will be available from the Company's registered office at Lancaster House, Lancaster Way, Ermine Business Park, Huntingdon, Cambridgeshire, PE29 6XU. The auditor's report on those accounts was unqualified and did not contain any statement under Section 498 of the Companies Act 2006. Statutory accounts for the year ended 31 March 2019, which incorporated an unqualified auditor's report, have been filed with the Registrar of Companies.

2. Segmental information

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

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

Anglian Water Services Limited
Notes to the financial statements
for the year ended 31 March 2020

3. Net finance costs

	2020	2019
	£m	£m
Finance income		
Interest income on short-term bank deposits	4.8	2.9
	4.8	2.9
Finance costs		
Interest expense on bank loans and overdrafts	(0.1)	-
Interest expense on loans including financing expenses	(226.7)	(220.2)
Indexation of loan stock	(114.5)	(129.6)
Amortisation of debt issue costs	(3.9)	(3.7)
Interest on leases	(0.7)	0.3
Unwinding of discount on onerous lease obligation provision	(2.1)	(0.3)
Defined benefit pension scheme interest	0.3	0.4
Total finance costs	(347.7)	(353.1)
Less: amounts capitalised on qualifying assets	17.8	21.7
	(329.9)	(331.4)
Fair value losses on derivative financial instruments		
Fair value losses on energy hedges	(1.8)	(1.8)
Hedge ineffectiveness on cash flow hedges ⁽¹⁾	0.5	3.4
Hedge ineffectiveness on fair value hedges ⁽²⁾	(2.0)	(0.5)
Amortisation of adjustment to debt in fair value hedge	(0.3)	(3.5)
Restructuring costs on derivatives	-	(11.7)
Derivative financial instruments not designated as hedges	(18.8)	(72.1)
Recycling of designated cash flow hedge relationship	(8.0)	(12.2)
	(30.4)	(98.4)
Finance costs, including fair value losses on derivative financial instruments	(360.3)	(429.8)
Net finance costs	(355.5)	(426.9)

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

⁽²⁾ Hedge ineffectiveness on fair value hedges comprises fair value gains on hedging instruments of £52.8 million (2019: £67.0 million), offset by fair value losses of £54.8 million on hedged risks (2019: £67.5 million).

Anglian Water Services Limited
Notes to the financial statements
for the year ended 31 March 2020

4. Taxation

	2020	2019
	£m	£m
Current tax		
In respect of the current period	(11.4)	53.9
Adjustments in respect of prior periods	(3.1)	2.0
Total current tax (credit)/charge	(14.5)	55.9
Deferred tax		
Origination and reversal of temporary differences	21.1	(52.9)
Adjustments in respect of previous periods	-	(3.8)
Reversal of decrease in corporation tax rate	113.8	(4.3)
Total deferred tax charge/(credit)	134.9	(61.0)
Total tax charge/(credit) on profit/(loss) on continuing operations	120.4	(5.1)

In 2020, the current tax credit reflects receipts from other group companies for tax losses surrendered to those group companies. The tax losses arise mainly because maximum capital allowances have been claimed in 2020, as well as some income not being taxable and the availability of tax relief on pension contributions paid in the year.

The current tax charge for 2019 includes payment to other group companies for losses surrendered from those companies and also reflects a charge arising on the transition to IFRS 15 and the disclaiming of capital allowances to utilise the surplus ACT asset held on the balance sheet.

In 2020, the deferred tax charge mainly reflects capital allowances claimed in excess of the depreciation charge in the accounts.

The deferred tax credit for 2019 reflects a credit arising on the transition to IFRS 15 and the disclaiming of capital allowances.

The current and deferred tax adjustments in respect of previous periods for both 2020 and 2019 relate mainly to the agreement of prior year tax computations.

The corporation tax rate was expected to reduce from 19 per cent to 17 per cent effective from 1 April 2020 and the deferred tax balances at 31 March 2019 were measured using the rate of 17 per cent. This reduction in corporation tax rate was reversed in 2020 and so the deferred tax balances have been re-measured using the rate of 19 per cent.

The tax charge/(credit) on the group's profit/(loss) before tax differs from the notional amount calculated by applying the rate of UK corporation tax of 19 per cent (2019: 19 per cent) to the profit/(loss) before tax from continuing operations as follows:

Anglian Water Services Limited
Notes to the financial statements
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4. Taxation (continued)

	2020	2019
	£m	£m
Profit/(loss) before tax from continuing operations	43.6	(37.9)
Profit/(loss) before tax from continuing operations at the standard rate of corporation tax in the UK of 19% (2019: 19%)	8.3	(7.2)
Effects of recurring items:		
Items not deductible for tax purposes		
Depreciation and losses on assets not eligible for tax relief	0.8	1.2
Disallowable expenditure	0.6	0.7
	9.7	(5.3)
Effects of non-recurring items:		
Reversal of decrease in corporation tax rate	113.8	(4.3)
Effects of differences between rates of current and deferred tax	-	6.3
Adjustments in respect of prior periods	(3.1)	(1.8)
Tax charge/(credit) for the year	120.4	(5.1)

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

	2020	2019
	£m	£m
Deferred tax		
Defined benefit pension schemes	20.6	(3.2)
Cash flow hedges	4.9	6.4
Reversal of decrease in corporation tax rate - pension	(1.8)	0.1
Reversal of decrease in corporation tax rate - hedges	(1.8)	0.1
Total deferred tax charge recognised in other comprehensive income	21.9	3.4
Total tax charge recognised in other comprehensive income	21.9	3.4

5. Dividends

	2020	2019
	£m	£m
Paid by the Group		
Previous year final dividend	67.8	68.0
	67.8	68.0