Anglian Water Services Limited

Preliminary announcement of full-year results for the 12 months ended 31 March 2024

11 June 2024

Financial and Operational Highlights

Chief Executive, Peter Simpson, commented:

“The last 12 months saw strong financial performance, with revenue of £1.6 billion (up 8.8%) and Operating Profit of £431 million (up 1.7%). During the year we made £963 million of Capital Investment; significantly more than operating profit. Our shareholders agreed £350 million of additional investment, including £100 million to accelerate our work on reducing spills and pollutions. This is over and above the level agreed by Ofwat.

“Our continued focus on supporting customers was demonstrated through our improved CMeX, leading DMeX and outperforming Retailer satisfaction scores, while an independent survey, run by the Consumer Council for Water showed positive and above average scores. We also helped 389,371 customers through a £136.9 million support package and met our Priority Services Register (PSR) target, with an industry-leading 12.7% (380,853) of customers on our register.

“Steady progress on improving operational performance continued through extreme weather challenges as our region experienced widespread flooding during the second half of the year; now on record as the wettest six months ever. Despite this our spills performance remained industry leading (22 vs 33[1]) and at 22 per overflow is encouragingly close to our 20 per overflow end of AMP target, especially given the exceptional weather. In the 2023 calendar year, we had 11 Category 2 pollutions, which we know is unacceptable. Our turnaround plans have seen an improvement on lead measures, especially on networks, but we know we need to do more, faster, and the additional £100 million supported by our shareholders will enable this.

“Over the last 12 months we’ve achieved our best-ever acceptance score for safe reliable drinking water – our customers' number one priority – and the continued rapid deployment of smart meters, installing 262,621 in 2023/24. Alongside this, we saw our lowest-ever recorded three-year rolling average for leakage.

“2023/24 saw enormous efforts right across the business, but the impacts of climate change, particularly around flooding continue to pose a challenge. We are constant in our work to establish a better multi-agency approach to flooding, aiming to ensure complex flood risks are as low as reasonably practicable, and well managed.

“As a result, while lead measures improved in many areas, our performance did not meet the levels we aspire to, and our customers rightly expect. This has culminated in a year-end ODI[2] penalty of £37.6 million.

“We will continue to invest to meet the changing expectations of customers and stakeholders. Our business plan, worth over £9 billion, is the next step in our long-term plan to ensure we are resilient against the impact of climate change, while keeping bills affordable (£1.45 per day in 2024/25) and supporting customers when they need it most.

[1] Event Duration Monitoring - Storm Overflows - Annual Returns (data.gov.uk) - EDM_2023_Storm_Overflow_Annual_Return.zip

[2] Outcome Delivery Incentives (ODI)

Financial highlights

	2024	2023	Change	Change
	£m	£m	£m	%
Revenue	**1,626.6**	**1,494.9**	**131.7**	**8.8%**
EBITDA*	**819.5**	**802.8**	**16.7**	**2.1%**
Operating profit	**430.9**	**423.7**	**7.2**	**1.7%**
Operating cash flow	**767.1**	**710.9**	**56.2**	**7.9%**
Net debt before derivatives*	**(6,976.9)**	**(6,247.9)**	**(729.0)**	**11.7%**

* Financial measures or metrics used in this report that are not defined by IFRS are alternative performance measures. The Group uses such measures for performance analysis because they provide additional useful information on the performance and position of the Group. Since the Group defines its own alternative performance measures, these might not be directly comparable to other companies' alternative performance measures. These measures are not intended to be a substitute for, or superior to, IFRS measurements and have been consistently applied within each year presented in these financial statements. EBITDA and Net debt excluding derivatives are alternative performance measure as defined in note 6.

ODI Penalty

- Operations across the region were significantly impacted by the prolonged period of wet weather seen at the end of 2023 and start of 2024 that principally affected ODIs such as pollutions, which had the biggest contribution to the £37.6 million penalty incurred.
- In 2023, we had 40 pollutions per 10,000km of sewer network.
    - We are disappointed with our performance, but confident that lead measures are showing improvements – a result of the actions already being taken as part of our Pollutions Incident Reduction Plan.
    - While no spill to the environment is acceptable, we achieved the lowest average number of storm spills per overflow in the industry, again as a result of work underway to improve performance.
- Despite the challenges faced this year, we've seen strong performance across a number of areas of the business, most notably on customer experience, for which we are in reward.
    - We finished 7th in the industry for Customer Measure of Experience (CMeX) (5th in the Water and Sewerage Companies table) and 4th in the industry for Developer Measure of Experience (DMeX) - our highest year-end position this AMP. We also outperformed our Retailer satisfaction measure.

Revenue up £131.7 million (+8.8%) to £1,626.6 million

- The increase is, primarily, the result of the price increase for customers following the regulatory pricing formula, resulting in a £165.4 million increase. This is reflected in an average increase of 10.7% in dual-service bills.

EBITDA up £16.7 million (+2.1%) to £819.5 million

- The increase in earnings before interest, taxes, depreciation and amortisation (EBITDA) is consistent with the increase in revenue described above. This has been partly offset by the increase in operating costs, largely because of inflation and increased power costs. See page 11 for more detail.
- Our proactive approach to energy hedging enabled us to adopt a flexible approach to purchasing in the most volatile and expensive market periods.

Operating profit up £7.2 million (+1.7%) to £430.9 million

- The increase in operating profit is consistent with that seen in EBITDA, partially reduced by the increase in depreciation.
- The increase in depreciation reflects the significant investment made in our asset base - the year saw a record investment of £963 million.

Operating cash flow up £56.2 million (+7.9%) to £767.1 million

- The increase is principally driven by higher EBITDA, as described above, and favourable working capital.

Net debt before derivatives up £729.0 million (+11.7%) to £6,976.9 million

- Net debt increased primarily because of our continued ramping up of our capital investment programme and higher accretion on index-linked debt. We raised £1.4 billion in the period to fund this programme for the remainder of the AMP.

Dividend

- The Directors have proposed a dividend of £88.6 million to be paid in June 2024 (2023: £79.9 million paid in June 2023). In line with the Company's dividend policy, and consistent with prior years, this has been adjusted to reflect the Company's performance. See page 14 for further information.

Reconciliation of operating profit to statutory profit before tax

	Year ended 31 March 2024 £m	Year ended 31 March 2023 £m
Operating profit	**430.9**	423.7
Interest excluding indexation	**(187.6)**	(169.7)
Indexation on debt	**(359.9)**	(561.4)
Finance income	**44.9**	20.6
Adjusted loss before tax (as defined in note 6)	**(71.7)**	(286.8)
Fair value gains on derivatives	**204.9**	645.3
Statutory profit before tax	**133.2**	358.5

Statutory profit of £133.2 million reflects a £225.3 million reduction on the prior year. This represents a significant reduction in fair value gains partially offset by a reduction in costs associated with indexation of debt. The fair value gain in the period is an unrealised, non-cash item. This is as a result of decreases in derivative liability positions, primarily driven by forecast increases in interest rates and decreases in inflation curves. Fair valuation movements on derivative valuations can be volatile depending on the market rates forecast at the time of reporting and do not have a crystallised economic impact to the business until the time of actual cash flow fixing.

Delivery and operational highlights 2023/24

Investing for the Future

- Highest-ever annual investment in our capital programme at £963 million, totalling £2.7 billion for the AMP to date.
- One of the biggest Water Industry National Environment Programmes (WINEP) in the industry worth £811 million (2020-2025).
    - Delivered 1,533 schemes since 2020 and overall WINEP programme remains on track, with delivery of only three obligations slightly delayed.
- AMP8 plan, which was shared with Ofwat in October 2023, will see a significant step up in investment.
    - Valued at more than £9 billion overall, with £4 billion proposed for environmental enhancements.
    - Designed to mitigate impacts of climate change, enhance the environment, further bolster water resilience, and support social and economic growth in our region – while keeping bill rises to a minimum.

Financially robust

- Our shareholders agreed £350 million of additional investment to support delivery of our Strategic Interconnector Grid and work on pollutions. This is over and above the level agreed by Ofwat. It includes £100 million specifically to accelerate our work on spills and pollutions performance.
- Their unwavering support has meant we have continued to invest over and above our operating profit and in support of our customers and the environment.
- All funding is in place to complete AMP7, including the final £1 billion of capital investment during 2024/25.

Protecting and Enhancing the Environment

- Achieved lowest average number of storm spills per overflow in the industry.
    - Target to reduce spills to an average of 20 across all our overflows by 2025.
    - Despite the exceptional rainfall, our spills performance remained industry-leading (22 vs 33[3]), and just off our 20/CSO (Combined Sewer Overflows) target.
- Between 2020 - 2025 we will stop operating 157 (10%) storm overflows, and in 2023 we surrendered 131 storm overflow permits.
- To further tackle spills, we are increasing network capacity, installing storm tank storage (increased by 4,343m^3 in 2023).
- In 2023 we completed our rollout of Event Duration Monitors (EDMs) on 100% of our storm overflows (1,432 monitors), a year ahead of the government target.
- During the 2023 calendar year, we had 11 serious pollution incidents (category 2), level with the prior year but lead measures are showing signs of improvement, demonstrating our Pollution Incident Reduction Plan is working:
    - 13% less pollutions compared to 2021, another year where we experienced prolonged wet weather.
    - No serious incidents on our networks since October 2023 - the start of the wettest period, despite our networks being inundated.

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[3] Event Duration Monitoring - Storm Overflows - Annual Returns (data.gov.uk) - EDM_2023_Storm_Overflow_Annual_Return.zip

- Year-to-date, no treatment works have failed, marking our highest level of compliance performance this AMP.
  - Reduced the risk of failure on our pumping station assets (despite pumping twice as long in hours compared to last year),
  - Furthermore, in 2023 we saw the lowest number of blockages, representing a year-on-year reduction of over 10%, the lowest number on our foul network since 2018.
- Installed approximately 22,000 monitors across 11,000km of high-risk sewers, increasing proactive blockage prediction by 271% in 2023.
- Rapid response to widespread flooding due to saturated ground and high ground water levels across the region.
  - Doubled the operations of pumping stations compared to usual levels, rolled out tankering to remove water from the network and completed sewer lining work.
  - This is an issue we cannot solve alone, and we are working with the other parties responsible for managing the drainage system to mitigate flood risk, alongside co-funding and co-delivering multi-agency solutions to flooding.
- Through Get River Positive, we are leading on 53 cross-sector projects to improve river health in our region. £7 million of shareholder funding has enabled us to unlock £9 million in match-funding.

Securing water supplies

- This year we achieved an in-year leakage result of 182.1 megalitres a day which saw our lowest three-year rolling average ever recorded (a 6.2% reduction from the baseline period of 2017- 2020)[4].
- AMP to date have installed 806,307 smart meters for customers, including 262,621 in 2023/24.
  - Given funding in June 2023 to install a further 60,000 smart meters under Defra's Accelerated Infrastructure Delivery programme.
- As part of responsible water management, abstraction from rivers increased slightly over the last 12 months as we refilled our reservoirs following the 2022 drought.
- Construction of two new reservoirs - one in Lincolnshire and another in the Fens - is expected to start in 2030. The next phase of consultation began in May 2024.
- Timescales for delivery of our strategic interconnecting pipeline, being delivered by our Strategic Pipeline Alliance (SPA) are being rephased. It will now be completed during the next AMP cycle, 2025-2030, rather than by end of 2025, as originally planned within the AMP7 performance commitments.
  - Delivery by the end of the AMP was an ambitious timeframe for a complex infrastructure programme. Several external factors have had an impact including Covid-19, the war in Ukraine, delays in Development Consent Orders (DCOs) and local planning, alongside the impact of inflation and extreme wet weather.
  - We continue to have constructive conversations with our regulators regarding the rephasing to ensure we meet the associated environmental and Performance Commitment obligations.

Delivering on customer priorities and keeping bills affordable

- Our CMeX and DMeX positions continue to improve:

[4] In calculating your Y4 figures, we needed to make an adjustment to our Y3 figures because of a minor error in the coding we use to calculate our non-household consumption. This means we've incurred an extra £2.1m penalty for year three. We've notified Ofwat, and an adjustment has been made to our ODI penalty, which will be shared back with customers in next year's bills.

    - For CMeX we achieved 5th place in the Water and Sewage Company table, and 7th overall, putting us in reward.
    - On DMeX, we jumped from 9th to 4th place - our highest year-end position this AMP - and outperformed our Retailer satisfaction measure.
- An independent survey, run by the Consumer Council for Water (CCW) across Water and Sewage Companies (WaSC) showed customers are broadly happy with our service and drinking water quality remains their top priority.
    - 94% were satisfied with the colour and appearance of tap water, and 90% were satisfied with the taste and smell, against WaSC averages of 91% and 84%, respectively.
    - Furthermore, 64% agreed that our charges were fair, compared to an WaSC industry average of 55%.
- Achieved our best ever ‘acceptability’ score for drinking water, achieving 0.86, compared to 1.01 in 2022, narrowly missing our 0.85 target. This is our best score to date and indicative of an improving trend over the past decade.
- Our provisional Event Risk Index (ERI) score is 109, against an Ofwat target of 15.
    - Our score was impacted by a one-off event at Heigham, Norwich. The event was a result of the wet weather, which can negatively impact the quality of the water we take out of rivers and reservoirs.
    - Throughout this time, our water met all regulatory microbiological and chemical standards.
- £136.9 million package over the last 12 months has supported more than 389,371 customers. This brings the total support package to around £246 million since 2020. This will increase to over £300 million across this AMP.
- 12.7% of customers are now on our Priority Services Register (PSR), well ahead of target and the industry (average 5-6%).
- Anglian Water bills will average at £1.45 per day by the end of 2025 (£1.35 in 2023/24).

<u>Supporting our People and Partners</u>

- Committed to building a diverse and inclusive organisation and improving the gender and ethnicity balance across our organisation.
    - Named as a Times Top 50 Employer for Gender Equality 2023 and as one of the ‘Top 10 Best Performing Private Companies’ in the FTSE Women Leaders Review.
    - Building on our Disability Confident Level 2 status and working towards Level 3.
    - Achieved our 2023 target for 36% of all new hires to be women (actual 41%), and for 36% of senior manager positions to be held by women (actual 39%).
- We review our Health and Safety performance in the round, including alliance members, framework contractors, and Anglian Water staff – approximately 9,500 people. In recent years, our health and safety measures have broadly been improving, and this year we were pleased to see this continue with the results from our directly employed workforce. However, we were disappointed to see an increase in category one events and reportable accidents in our overall results.
    - We are working to turn this around, with plans across the whole business, including our alliances and contractors to identify and address the issues, including investing in further health and safety capital maintenance, doubling down on leadership and behaviours and undertaking detailed reviews of operational risks.
    - Our alliance partners share our laser focus on ensuring health and safety remains our first priority, as we ramp up investment and delivery into AMP8.

- More than 358,000 Point of Work Risk Assessments (PoWRA) were undertaken in 2023/24 (compared to over 210,000 from May 2022 to April 2023), empowering our people to pause jobs which are not safe and driving greater understanding of potential on-site safety issues.
- Awarded RoSPA Gold Medal Award for health and safety performance in 2023, our eighth consecutive gold and 18th consecutive year of recognition.

Holding ourselves to Account

- Our Purpose - to bring environmental and social prosperity to the region we serve through our commitment to Love Every Drop - remains at the heart of everything we do.
- In 2022, with the British Standards Institution (BSi), we led the development of a new Publicly Available Specification (PAS) for embedding purpose in organisations.
    - New PAS has been sponsored by the UK Government. One year on, we were the first company to be assessed against PAS 808 by BSi.
    - In 2023, we have been rated as an organisation with purpose driven principles fully embedded.
- To monitor our progress against our Purpose we participate in the Business in the Community (BITC) Responsible Business Tracker. In 2023, our overall score was 87% (80% in 2022) and we scored 100% for purpose and values.

Executive Remuneration

- In advance of Remuneration Committee discussions to determine Executive bonuses, Peter Simpson, CEO, chose to surrender all parts of his FY24 bonus – including personal objectives and Group bonus elements – on the basis that he felt the organisation's performance on serious pollutions, whilst showing signs of improvement in the second half of the year, did not meet our commitment to our customers and stakeholders.

Principal risks and uncertainties

Risk appetite

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

We consider risks in relation to our strategic priorities and align these to our Principal Risk Areas. Underpinning each statement is a series of risk-appetite thresholds. These assist in providing a view on whether we are operating within our appetite, or whether additional risk mitigation may be required.

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

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

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

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

Principal risks

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

We carefully assess the principal risks facing us. These risks centre around the criticality of our infrastructure; the importance of our customers and our people, climate change and the environment, health and safety in our service delivery, cyber security, and our ability to finance our business appropriately. These are reported regularly to the Board, as set out below.
In addition to the principal risks, we also actively manage several low-level, business-stream risks, which feed into our principal risks. Principal risks are assessed by considering a combination of factors, including emerging risks and external threats.

We carry out horizon scanning annually, to identify any emerging risks that may impact the business. The scope, speed, impact and interdependence of risks are growing — creating further complexity, meaning we are also having to manage multiple events at a time.

The past year we have continued to experience unprecedented levels of change and disruption, both in the UK and globally. Anglian Water has faced significant challenges, due to complex and interrelated issues, including global instability from ongoing conflicts and increased tensions in the seas. Energy costs, although decreasing, remain volatile and we continue to see impacts from the ongoing cost-of-living crisis. Additionally, our region has been affected by extreme weather events, such as consistent, high levels of rainfall. Our risk profile has changed as a result. In response to our evolving risk profile, we have implemented additional controls and mitigating measures, to address and stabilise our risk position.

The principal risks and uncertainties that the business faces over the remainder of this financial year are listed below:

1. Customer proposition
2. Environment
3. Water supply and quality
4. Health and safety
5. People
6. Technology
7. Finance
8. Reputation
9. Asset infrastructure
10. Business resilience
11. Commercial and third-party
12. Strategic execution
13. Legislation

Further details of the principal risks and current risk profiles can be found in the Risk section of the Integrated Annual Report, which will be published in July.

Financial performance

Anglian Water Services
Income statement

Year ended 31 March

	% increase/ (decrease)	2024 £m	2023 £m
Revenue (excl. grants and contributions)	*10.1%*	**1,528.8**	**1,388.9**
Grants and contributions	*(7.7%)*	97.8	106.0
Other operating income		15.8	16.0
Operating costs	*16.2%*	(822.9)	(708.1)
% of revenue		*53.8%*	*51.0%*
EBITDA	2.1%	**819.5**	**802.8**
Depreciation and amortisation	*2.5%*	(388.6)	(379.1)
% of revenue		*25.4%*	*27.3%*
Operating profit	*1.7%*	**430.9**	**423.7**
Margin		*28.2%*	*30.5%*
Interest (excluding indexation)		(187.6)	(169.7)
Indexation charge		(359.9)	(561.4)
Finance income		44.9	20.6
Adjusted loss before tax (see note 6)		**(71.7)**	**(286.8)**
Fair value gains on derivatives		204.9	645.3
Profit before tax		**133.2**	**358.5**
Tax		**(31.2)**	**(90.2)**
Profit after tax		**102.0**	**268.3**

Revenue

Revenue, excluding grants and contributions, for the year was £1,528.8 million (2023: £1,388.9 million), or an increase of £139.9 million (10.1%). The net increase in revenue is as a result of the following factors:

- The price increase for customers following the regulatory pricing formula, resulting in a £165.4 million increase. This is reflected in an average increase of 10.7% in dual-service bills.
- A net decrease in demand of £5.8 million. Household consumption is down £8.0 million reflecting a cooler, wetter summer compared with the prior year. Non-household consumption is up £2.2 million as we move back towards pre-Covid 19 levels of consumption.
- A decrease of £12.0 million relating to discounts for the LITE tariff funded from prior year cross-subsidy contributions from other customers to support our most vulnerable through the cost of living crisis.
- Other offsetting movements in revenue of £7.7 million.

Grants and contributions
Grants and contributions represent the cash and asset contributions made principally by property developers and local authorities for connecting new property developments to the water and sewerage network, and for work on existing infrastructure needed to accommodate development.

Following strong growth in the housing market and construction sector within our region during the prior year, as a result of the cost of living crisis, 2023/24 has seen a decline in this activity. This has resulted in a reduction in grants and contribution income of £8.2 million to £97.8 million.

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

Operating costs (including loss allowance for expected credit losses)
Operating costs increased by £114.8 million, to £822.9 million (16.2%). This was principally due to inflation and power cost increases. The previous year was hedged, prior to the spike in prices, following the Russian invasion of Ukraine. These movements are explained in the table below:

	£m
Prior period	708.1
Funded by Final Determination (FD)	
Inflation	37.8
Weather related	
Unwind of drought-related expenditure	(12.6)
Increase in cost due to impact of wet winter weather	9.3
Power	68.4
Rates	5.1
Loss allowance for expected credit losses	8.6
Other significant items	
Regulatory licence fees	1.5
Other	(3.3)
Total increase	114.8
March 2024	822.9

Inflation

The inflationary increases in our cost base formed part of the Final Determination and are therefore, whilst subject to a timing delay, funded through the inflationary increases in revenues.

Weather related

The first six months of the prior year saw very little rainfall and as a result we saw exceptionally hard and dry ground conditions which can cause pipes to move and split. As a consequence of this, in the prior year, we experienced increased costs, particularly around leakage.

Relatively benign weather conditions were present for the first half of 2023-24, however these gave way to extremely wet weather, leading to flooding, in the second half which has put pressure on our water recycling operations.

As a result, we have seen a reduction in the drought related expenditure, with increased costs associated to the impact of the extremely wet weather.

Power

The increase in power is due to the prior year energy prices being locked-in ahead of the war in Ukraine, whereas the current year reflects the significant cost increases since then. Our proactive energy hedging approach enabled us to have flexibility in the most volatile and expensive market periods.

Rates

A refund was received as a result of a rates review in the second half of 2022/23. Our rates charge is therefore higher in the current year.

Loss allowance for expected credit losses

The increase is primarily a result of the increase in revenue seen in the year. Our cash collection performance remains strong, despite a slight reduction on the prior year due to the wider economic conditions.

Other significant items

These include a £1.5 million increase in the Ofwat licence fee with the balance relating to a range of individually small offsetting items.

EBITDA

Earnings before interest, taxes, depreciation and amortisation (EBITDA) is defined in note 6 and is the profit from continuing operations before interest, tax, depreciation and amortisation. This has increased by 2.1% to £819.5 million, which is consistent with the effect of the increases described above.

Depreciation and amortisation

Depreciation and amortisation is up 2.5% to £388.6 million, primarily as a result of higher fixed asset balances as we construct and commission assets in line with our capital investment programme.

Operating profit

Operating profit has increased by 1.7% to £430.9 million, which is consistent with the increase in EBITDA partially offset by the increase in depreciation.

Financing costs and profit before tax

Adjusted net finance costs (excluding fair value gains on financial instruments) were £207.9 million lower than the prior year at £502.6 million. This is primarily a result of the non-cash impact of lower inflation on index-linked debt which decreased by £201.5 million to £359.9 million and an increase in finance income on our deposits due to higher market rates.

Fair value gains in the period, which are unrealised, non-cash items, are the result of decreases in derivative liability positions, primarily driven by forecast increases in interest rates and decreases in inflation curves. Fair valuation movements on derivative valuations can be volatile depending on the market rates forecast at the time of reporting and do not have a crystallised economic impact to the business until the time of actual cash flow fixing.

The business is funded based on its embedded cost of debt and relative performance against the iBoxx index. As a result, these non-cash fair value gains and losses do not impact the immediate commercial performance of the business, Ofwat obligations or shareholder distributions during AMP7.

Taxation

The tax charge for the period comprises:

	Year Ended 31 March 2024 £m	Year Ended 31 March 2023 £m
Current tax:		
In respect of the current period	**(47.3)**	(25.4)
Adjustments in respect of prior periods	**(0.4)**	0.7
Total current tax credit	**(47.7)**	(24.7)
Deferred tax:		
Origination and reversal of temporary differences	**82.8**	113.0
Adjustments in respect of previous periods	**(3.9)**	1.9
Total deferred tax charge	**78.9**	114.9
Total tax charge on profit on continuing operations	**31.2**	90.2

Compared to the same period in the previous year, the total tax charge has decreased by £59.0 million from a charge of £90.2 million to a charge of £31.2 million. This is primarily due to the lower gains on derivative movements in the current year.

In addition to the £31.2 million tax charge on the income statement, there is a credit of £8.4 million (2023: credit of £35.5 million) in the statement of other comprehensive income in relation to tax on actuarial losses on pension schemes and fair value losses on cash flow hedges.

Distributions to the Parent Company

The Directors have proposed an interim dividend calculated with reference to performance for the 2023/24 financial year of £88.6 million which will be paid in June 2024. This dividend is in line with the Company's dividend policy which can be found here. The base dividend was adjusted for a total of £51.1 million deduction to reflect service delivery for customers and the environment. There are no plans for this dividend to be paid to the ultimate shareholders of Anglian Water Group Limited.

A £79.9 million prior year final dividend was paid in the period. The base dividend was adjusted for a total of £26.0 million deduction to reflect service delivery for customers and the environment.

These dividends were paid against a backdrop of an equity injection of £1,165.0 million in 2021 and results in a net equity injection for the AMP of £731.4 million. Through these capital injections the company continues to benefit from the strong support of shareholders.

The Board has an approved dividend policy, under which dividend payments take account of a range of matters including service delivery for customers and the environment, current and future investment needs and financial resilience over the longer term.

Continuing to deliver our AMP7 capital investment programme

2023-24 was the fourth year in the five-year AMP7 investment programme. Over the five years to 2025, Anglian Water will invest a record £3 billion through its capital investment programme. This spend will help to achieve Business Plan commitments and includes significant investments to ensure the region is resilient to the impacts of drought, climate change and population growth, alongside the largest ever programme of schemes delivering environmental protection.

Delivery against this investment programme remains strong with gross annual capital expenditure across the appointed business increasing from £725 million in 2022/23 to £963 million in 2023/24 (£340 million on capital maintenance, £623 million on capital enhancement).

Financial needs and resources

At 31 March 2024, Anglian Water had borrowings net of cash of £6,976.9 million (excluding the fair value of derivative financials instruments), an increase of £729.0 million from 31 March 2023. The increase in net borrowings primarily reflects accretion on index-linked debt, capital expenditure and interest payments. During the period there were new issuances of £300 million 5.875% fixed rate 2031, £560 million 6.0% fixed rate 2039, JPY 8.5 billion 1.917% fixed rate 2034, £375 million 5.75% fixed rate 2043 and a £100 million CPI 2040. These new issuances were partially used to repay £200 million 6.875% fixed rate 2023,

$170 million 3.84% fixed rate 2023, £93 million 3.537% fixed rate 2023 and £83.5 million EIB debt repayments.

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 2024, Anglian Water held cash, deposits and current asset investments of £1,004.4 million (March 2023: £633.1 million). The increase in cash amounts held is reflective of higher new debt issuances than debt repayments and capital expenditure in the period.

As at March 2024 Anglian Water has access to £1,025.0 million of undrawn facilities (March 2023: £975.0 million), to finance working capital and capital expenditure requirements. In addition, Anglian Water has access to a further £425.0 million of liquidity facilities (March 2023: £375.0 million), consisting of £294.0 million to finance debt service costs and £131.0 million to finance operating expenditure and maintenance capital expenditure in the event that the company was in an Event of Default on its debt obligations and had insufficient alternative sources of liquidity.

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

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 31 March 2024, taking into account interest rate swaps, 60.5% (March 2023: 66.6%) of the company's borrowings were at rates indexed to inflation, 28.4% (March 2023: 26.2%) were at fixed rates and 11.1% (March 2023: 7.2%) were at floating rates. At 31 March 2024, the proportion of inflation debt to regulated capital value was 47.3% (March 2023: 47.9%).

Pension funding

At 31 March 2024, the closed defined benefit scheme had an IAS 19 accounting pension surplus (before deferred tax) of £30.7 million, compared to £51.1 million at 31 March 2023. This decrease in surplus reflects a decrease in the scheme's liabilities resulting from an increase in the corporate bond rate used to discount those liabilities on an accounting basis compared to a greater decrease in our assets which are hedging gilt based liabilities.

Group income statement

for the year ended 31 March 2024

Notes		Year ended 31 March 2024 £m	Year ended 31 March 2023 £m
	Revenue	**1,626.6**	1,494.9
	Other operating income	**15.8**	16.0
	Operating costs		
	Operating costs before depreciation, amortisation and loss allowance for expected credit losses	**(784.2)**	(678.0)
	Depreciation and amortisation	**(388.6)**	(379.1)
	Loss allowance for expected credit losses	**(38.7)**	(30.1)
	Total operating costs	**(1,211.5)**	(1,087.2)
	Operating profit	**430.9**	423.7
	Finance costs	**(547.5)**	(731.0)
	Finance income, including fair value gains on derivative financial instruments	**249.8**	665.9
3	Net finance costs	**(297.7)**	(65.1)
	Profit before tax from continuing operations		
	Loss before fair value gains on derivative financial instruments[1]	**(71.7)**	(286.7)
	Fair value gain on derivative financial instruments	**204.9**	645.3
	Profit before tax from continuing operations	**133.2**	358.6
4	Tax charge	**(31.2)**	(90.2)
	Profit for the year from continuing operations	**102.0**	268.4

[1] As defined in note 6

Group statement of comprehensive income

for the year ended 31 March 2024

Notes		Year ended 31 March 2024 £m	Year ended 31 March 2023 £m
	Profit for the year	**102.0**	268.3
	Other comprehensive expense		
	Items that will not be reclassified to income statement		
	Actuarial losses on retirement benefit deficit	**(25.8)**	(141.2)
4	Income tax on items that will not be reclassified	**6.5**	35.3
		(19.3)	(105.9)
	Items that may be reclassified subsequently to income statement		
	(Losses)/gains on cash flow hedges recognised in equity	**(36.5)**	27.9
	(Losses)/gains on cost of hedge relationships	**(2.7)**	1.8
	Gains/(losses) on cash flow hedges transferred to income statement	**32.3**	(31.1)
4	Income tax on items that may be reclassified	**1.9**	0.2
		(5.0)	(1.2)
	Other comprehensive expense for the year, net of tax	**(24.3)**	(107.1)
	Total comprehensive income for the year	**77.7**	161.2

Group balance sheet

as at 31 March 2024

	At 31 March 2024 £m	At 31 March 2023 £m
Non-current assets		
Intangible assets	**256.6**	253.9
Property, plant and equipment	**11,414.7**	10,704.3
Derivative financial instruments	**233.1**	194.4
Retirement benefit surplus	**61.5**	84.1
	11,965.9	11,236.7
Current assets		
Inventories	**17.9**	20.6
Trade and other receivables	**621.4**	564.7
Investments - cash deposits	**530.0**	298.0
Cash and cash equivalents	**474.4**	335.1
Derivative financial instruments	**0.9**	55.8
	1,644.6	1,274.2
Total assets	**13,610.5**	12,510.9
Current liabilities		
Trade and other payables	**(717.2)**	(676.7)
Current tax liabilities	**(76.2)**	(123.9)
Borrowings	**(453.8)**	(584.3)
Derivative financial instruments	**(92.8)**	(53.4)
Provisions	**(4.4)**	(6.8)
	(1,344.4)	(1,445.1)
Net current assets/(liabilities)	**300.2**	(170.9)
Non-current liabilities		
Borrowings	**(7,527.5)**	(6,296.7)
Derivative financial instruments	**(796.5)**	(893.8)
Deferred tax liabilities	**(1,601.8)**	(1,531.3)
Retirement benefit deficit	**(30.8)**	(33.0)
Provisions	**(5.5)**	(4.8)
	(9,962.1)	(8,759.6)
Total liabilities	**(11,306.5)**	(10,204.7)
Net assets	**2,304.0**	2,306.2

Continued on the next page.

Group balance sheet (continued)

as at 31 March 2024

	At 31 March 2024 £m	At 31 March 2023 £m
Capital and reserves		
Share capital	**32.0**	32.0
Share premium	**1,165.0**	1,165.0
Retained earnings	**1,092.5**	1,089.7
Hedging reserve	**14.9**	17.8
Cost of hedging reserve	**(0.4)**	1.7
Total equity	**2,304.0**	2,306.2

Anglian Water Services Limited

Group statement of changes in equity

for the year ended 31 March 2024

Notes		Stated Capital £m	Share Premium £m	Retained earnings £m	Hedging reserve £m	Cost of hedging reserve £m	Total equity £m
	At 1 April 2022	32.0	1,165.0	1,096.3	20.4	0.3	2,314.0
	Profit for the year	-	-	268.3	-	-	268.3
	Other comprehensive income/(expense)						
	Actuarial losses on retirement benefit obligations	-	-	(141.2)	-	-	(141.2)
4	Income tax charge on items that will not be reclassified	-	-	35.3	-	-	35.3
	Gains on cash flow hedges	-	-	-	27.9	-	27.9
	Gains on cost of hedge relationships	-	-	-	-	1.8	1.8
	Amounts on cash flow hedges transferred to income statement	-	-	-	(31.1)	-	(31.1)
4	Deferred tax movement on hedging reserves	-	-	-	0.6	(0.4)	0.2
				(105.9)	(2.6)	1.4	(107.1)
	Total comprehensive income/(expense)			162.4	(2.6)	1.4	161.2
	Dividends	-	-	(169.0)	-	-	(169.0)
	At 31 March 2023	32.0	1,165.0	1,089.7	17.8	1.7	2,306.2
	Profit for the year			102.0	-	-	**102.0**
	Other comprehensive income/(expense)						
	Actuarial losses on retirement benefit obligations	-	-	(25.8)	-	-	**(25.8)**
4	Income tax charge on items that will not be reclassified	-	-	6.5	-	-	**6.5**
	Losses on cash flow hedges	-	-	-	(36.5)	-	**(36.5)**
	Losses on cost of hedge relationships	-	-	-	-	(2.7)	**(2.7)**
	Amounts on cash flow hedges transferred to income statement	-	-	-	32.3	-	**32.3**
4	Deferred tax movement on hedging reserves	-	-	-	1.3	0.6	**1.9**
		-	-	(19.3)	(2.9)	(2.1)	**(24.3)**
	Total comprehensive income/(expense)			82.7	(2.9)	(2.1)	**77.7**
	Dividends	-	-	(79.9)	-	-	**(79.9)**
	At 31 March 2024	**32.0**	**1,165.0**	**1,092.5**	**14.9**	**(0.4)**	**2,304.0**

Cash flow statement

for the year ended 31 March 2024

	Year ended 31 March 2024 £m	Year ended 31 March 2023 £m
Operating activities		
Operating profit	**430.9**	423.7
Adjustments for:		
Depreciation and amortisation	**388.6**	379.1
Assets adopted for £nil consideration	**(48.2)**	(46.0)
Profit on disposal of property, plant and equipment	**(1.5)**	(3.9)
Difference between pension charge and cash contributions	**(3.2)**	(24.5)
Net movement in provisions	**(1.6)**	(0.1)
Working capital:		
Decrease/(increase) in inventories	**2.7**	(3.7)
Increase in trade and other receivables	**(62.8)**	(48.0)
Increase in trade and other payables[1]	**62.2**	34.3
Net cash flows from operating activities	**767.1**	710.9
Investing activities		
Purchase of property, plant and equipment	**(942.9)**	(588.6)
Purchase of intangible assets	**(51.4)**	(75.8)
Proceeds from disposal of property, plant and equipment	**2.0**	4.4
Interest received	**42.5**	16.0
(Increase)/decrease in investments – cash deposits	**(232.0)**	94.0
Net cash used in investing activities	**(1,181.8)**	(550.0)
Financing activities		
Interest paid	**(224.3)**	(200.6)
Debt issue costs paid	**(15.2)**	(0.7)
Interest paid on leases	**(1.1)**	(0.9)
Proceeds from amounts borrowed	**1,379.5**	740.8
Repayment of amounts borrowed	**(487.1)**	(668.8)
Repayment of principal on derivatives	**(11.5)**	-
Repayment of principal on leases	**(6.4)**	(5.3)
Dividends paid	**(79.9)**	(169.0)
Net cash from/(used in) financing activities	**554.0**	(304.5)
Net increase/(decrease) in cash and cash equivalents	**139.3**	(143.6)
Cash and cash equivalents at 1 April	**335.1**	478.7
Cash and cash equivalents at 31 March	**474.4**	335.1

[1]Excluding movement in capital creditors which is presented in investing activities.

1. Accounting policies

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

a) Basis of accounting

The Group and Company financial statements have been prepared (in accordance with section 474(1) of the Companies Act 2006) under international accounting standards which are adopted for use within the United Kingdom by virtue of Chapter 2 or 3 of Part 2 of the International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019. The Group financial statements have also been prepared in accordance with International Financial Reporting Standards as issued by the IASB and the Company financial statements have been prepared in accordance with UK adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006. The auditors have consented to the publication of the Preliminary Announcement having completed their procedures under APB bulletin 2008/2.

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain financial assets and liabilities (including derivative instruments) at fair value. The preparation in financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses for the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates.

Adjusted profit before tax excludes the fair value gains and losses arising on derivative financial instruments and energy derivatives that the group holds as economic hedges. These introduce volatility into the accounts due to the present value of future cash flows, which management believes is not representative of the underlying operational performance of the business. Alternative performance measures are defined in note 6.

b) Basis of preparation

Going concern

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

The Directors have considered the potential impacts of the current market volatility and uncertainties within the sector in relation to proposed PR24 Business Plan to Ofwat, and on-going investigations.

1. **Accounting policies** (continued)

b) Basis of preparation (continued)

The base forecast, which has been updated for the latest internal and external information has been subjected to a range of severe but plausible downside scenarios as noted below. These forecasts include the additional £350 million Totex over and above what was allowed by Ofwat.

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

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

We have identified three stretching scenarios to stress test our base forecast. These scenarios, low, medium and severe focus on the impact of the cost-of-living crisis and higher unemployment, the impacts of lower inflation and higher interest rates, as well as specific risks to the business, such as cyber-attacks or increased costs/reduced revenue due to adverse weather events.

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

- Liquidity – AWS holds sufficient liquidity to cover the going concern period even under the most severe downside scenario. There is no requirement for the business to raise further debt in the period and therefore the volatile market conditions have limited impact.
- Debt covenants – The business has significant headroom against Default Events (where class A interest cover ratio is less than 1.6:1) under its securitised covenants with no plausible scenario identified that would cause an Event of Default.

While 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. As noted, a Trigger Event is not considered a going concern event and whilst it would result in dividend lock-up and prevent the business from raising new debt we have sufficient liquidity during the going concern period in this event even when including planned debt repayments.

In October the business submitted its PR24 Business Plan for consideration by Ofwat. Whilst this substantially falls outside of the going concern period it is worth noting that the plan submitted is financeable and financially resilient to downside stress tests performed.

In addition to the impact of current volatility in debt markets on interest rates the Directors have considered the ability of the Company to raise debt and note that there is no requirement to do so in the Going Concern period.

1. Accounting policies (continued)

b) Basis of preparation (continued)

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

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

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.

3. Net finance costs

	Year ended 31 March 2024 £m	Year ended 31 March 2023 £m
Finance costs		
Interest expense on bank loans and overdrafts	**(12.8)**	(4.4)
Interest expense on other loans including financing expenses	**(241.8)**	(202.0)
Indexation [(2)]	**(359.9)**	(561.4)
Amortisation of debt issue costs	**(2.9)**	(3.2)
Interest on leases	**(1.1)**	(0.9)
Unwinding of discount on provision	**(0.1)**	0.1
Total finance costs	**(618.6)**	(771.8)
Less: amounts capitalised on qualifying assets	**71.1**	40.8
	(547.5)	(731.0)
Finance income		
Interest income on short-term bank deposits	**42.5**	16.0
Defined benefit pension scheme interest	**2.4**	4.5
	44.9	20.6
Fair value gains on derivative financial instruments		
Hedge ineffectiveness on fair value hedges [(1)]	**1.9**	0.3
Derivative financial instruments not designated as hedges	**207.8**	654.2
Recycling of de-designated cash flow hedge relationship	**(4.8)**	(9.2)
	204.9	645.3
Finance income, including fair value gains on derivative financial instruments	**249.8**	665.9
Net finance costs	**(297.7)**	(65.1)

(1) Hedge ineffectiveness on fair value hedges comprises fair value losses on hedging instruments of £22.5 million (2023: loss of £35.2 million), offset by fair value gains of £24.4 million on hedged risks (2023: gains of £35.5 million).

(2) Indexation comprise of £229.9 million in borrowings (2023: £363.0 million) and £130.0 million in derivatives (2023: £198.4 million).

4. Taxation

	Year ended 31 March 2024 £m	Year ended 31 March 2023 £m
Current tax:		
In respect of the current period	**(47.3)**	(25.4)
Adjustments in respect of prior periods	**(0.4)**	0.7
Total current tax credit	**(47.7)**	(24.7)
Deferred tax:		
Origination and reversal of temporary differences	**82.8**	113.0
Adjustments in respect of previous periods	**(3.9)**	1.9
Total deferred tax charge	**78.9**	114.9
Total tax charge on loss on continuing operations	**31.2**	90.2

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

The deferred tax charge for this year mainly reflects capital allowances claimed in excess of the depreciation charge, a charge on the fair value gains on derivatives, offset by a credit on losses carried forward to future years.

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

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

To address concerns about uneven profit distribution and tax contributions of large multinational corporations, various agreements have been reached at the global level, including an agreement by over 135 jurisdictions to introduce a global minimum tax rate of 15%. In December 2021, the Organisation for Economic Co-operation and Development (OECD) released a draft legislative framework, followed by detailed guidance released in March 2022, that is expected to be used by individual jurisdictions that signed the agreement to amend their local tax laws. The United Kingdom substantively enacted the tax legislation related to the top-up tax on 20 June 2023 in the Finance Act and the legislation is effective in the UK for periods commencing on or after 1 January 2024. In addition, amendments to IAS 12 ‘International Tax Reform – Pillar Two Model Rules’ were endorsed by the UK Endorsement Board on 19 July 2023 and the exception from recognition and disclosures of deferred taxes in

4. Taxation (continued)

this regard as required by IAS 12.4A has been taken. The legislation is not expected to have a significant impact on the financial statements.

The tax charge on the Group's profit before tax differs from the notional amount calculated by applying the rate of UK corporation tax of 25% (2023: 19%) to the profit before tax from continuing operations as follows:

	Year ended 31 March 2024 £m	Year ended 31 March 2023 £m
Profit before tax from continuing operations	**133.2**	358.5
Profit before tax from continuing operations at the standard rate of corporation tax in the UK of 25% (2023: 19%)	**33.3**	68.1
Effects of recurring items:		
Depreciation and losses on assets not eligible for tax relief	**1.2**	1.0
Disallowable expenditure	**1.0**	0.6
	35.5	69.7
Effects of non-recurring items:		
Effects of capital allowance super deduction	**-**	(10.8)
Effects of differences between rates of current and deferred tax	**-**	28.7
Adjustments in respect of prior periods	**(4.3)**	2.6
Tax charge for the year	**31.2**	90.2

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

	Year ended 31 March 2024 £m	Year ended 31 March 2023 £m
Deferred tax:		
Defined benefit pension schemes	**(6.5)**	(35.3)
Cash flow hedges	**(1.9)**	(0.2)
Total deferred tax credit	**(8.4)**	(35.5)
Total tax credit recognised in other comprehensive income	**(8.4)**	(35.5)

5. Dividends

	Year ended 31 March 2024 £m	Year ended 31 March 2023 £m
Paid by the group:		
Previous year final dividend	**79.9**	169.0
	79.9	169.0

During the year ended 31 March 2024, dividends of £79.9 million (£2.50 per share) were paid by the Company to its immediate parent undertaking, Anglian Water Services UK Parent Co Limited (2023: £169.0 million at £5.28 per share).

6. Alternative performance measures

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

a) EBITDA

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

	Group	
	2024	2023
	£m	£m
EBITDA	**819.5**	802.8
Net finance costs	**(297.7)**	(65.2)
Tax charge	**(31.2)**	(90.2)
Depreciation and amortisation	**(388.6)**	(379.1)
Profit for the period	**102.0**	268.3

6. Alternative performance measures (continued)

b) Adjusted finance costs

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

	Group	
	2024	2023
	£m	£m
Net Finance costs excluding fair value gains on derivative financial instruments	**(502.6)**	(710.5)
Fair value gains on derivative financial instruments	**204.9**	645.3
Net Finance costs, including fair value gains on derivative financial instruments	**(297.7)**	(65.2)

c) Adjusted profit before tax/Profit before fair value gains

Calculated as profit before tax excluding fair value gains 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.

	Group	
	2024	2023
	£m	£m
Adjusted profit before tax/Profit before fair value gains	**(71.7)**	(286.8)
Tax charge	**(31.2)**	(90.2)
Fair value gains on derivative financial instruments	**204.9**	645.3
Profit for the period	**102.0**	268.3

d) Adjusted net debt

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

6. **Alternative performance measures** (continued)

	Group	
	2024	2023
	£m	£m
Net cash and cash equivalents	**474.4**	335.1
Current asset investments	**530.0**	298.0
Borrowings	**(7,981.3)**	(6,881.0)
Net debt excluding derivatives	**(6,976.9)**	(6,247.9)
Derivatives	**(655.3)**	(697.0)
Less: energy derivatives	**21.3**	(0.7)
Adjusted net debt	**(7,610.9)**	(6,945.6)

e) Interest cover

Interest cover is the ability of the Company to pay interest of on its outstanding debt out of operating cash flows. The table below shows the operating cash value less RCV depreciation, compared to the net interest paid during the year to show the interest cover.

	Group	
	2024	2023
	£m	£m
Operating cash	**767.1**	710.9
RCV run off	**(475.2)**	(423.5)
	291.9	287.4
Interest cash	**(181.8)**	(184.6)
Net interest income excluded under CTA	**(2.5)**	(0.6)
	(184.3)	(185.2)
Interest cover ratio	**1.6**	1.6

6. Alternative performance measures (continued)

f) Capital investment

Capital investment is the total property, plant, and equipment, and intangibles additions less capitalized interest, adopted assets, and capital additions in the non-appointed business. This is used as a measure to help us monitor how we are achieving our Business Plan commitments.

	Group	
	2024	2023
	£m	£m
Property, plant and equipment additions	**1,044.0**	733.4
Intangible assets addition	**58.2**	82.3
Capitalised interest	**(71.0)**	(40.8)
Adopted assets	**(48.2)**	(46.0)
Non-appointed business	**(1.3)**	(1.4)
Items shown as stock	**(18.3)**	(2.5)
Capital investment	**963.4**	725.0

g) Free cash flow

Free cash flow is used in determining cash conversion and is calculated as cash from operating activities, less net interest of cash deposits, less capital maintenance.

	Group	
	2024	2023
	£m	£m
Operating cash	**767.1**	710.9
Interest on cash	**(181.8)**	(184.6)
Less: Net interest income excluded under CTA	**(2.5)**	(0.6)
Capital maintenance	**(341.0)**	(326.2)
Free cash flow	**241.8**	199.5