

# Investor Presentation



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25 June 2020



# Before we get started

## Disclaimer

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# Peter Simpson

Chief Executive Officer,  
Anglian Water



# 2019/20 – a challenging year underpinned by strong foundations

Continuing strong performance and safe stewardship in the face of unprecedented challenge

## Covid-19

How Anglian Water is keeping the taps running

PUBLISHED: 09:00 25 April 2020 | UPDATED: 11:24 27 April 2020 | Simon Weir

Anglian Water turns on the tap with £1million fund for communities



Anglian Water turns on the tap with £1million fund for communities  
Essential work goes on, making sure we have all the water we need

Anglian Water reminds visitors to stay away after crowds head to reservoirs in the sunshine

Big rise in water usage since coronavirus lockdown

Anglian Water leads regional Business in the Community network supporting local organisations in COVID-19 response

Residents in east of England using extra 80 tea cups of water every day during heatwave lockdown

## PR19

Water industry says watchdog ignored need for long-term investment

Anglian becomes third to appeal final determination

14/02/2020

Anglian Water has asked Ofwat to refer its PR19 final determination to the CMA and becomes the third company to do so.



PR19 appeals - Anglian Water submits Statement of Case to Competition and Markets Authority

PR19 final determination - is Ofwat for turning?

has struck the right balance between bills and investment.

## Industry-leading performance

Anglian Water scoops top prize at Water Industry Awards

Anglian Water remains on track

Why it's interesting

In July Anglian, the current holder of the Utility of the Year award, became the first UK water company to change its articles of association to embed public interest in the organisation's constitution.

As part of this process Anglian has committed to becoming a net zero carbon organisation by 2030. Thus far, the firm has issued five green bonds, funding 850 green projects and reducing carbon dioxide emissions by more than 162,000 tonnes.

Anglian Water wins Queen's award for the second time

A WATER supplier has been presented with the country's highest accolade to celebrate business success for a second time.

Anglian becomes first to embed public interest at its core

Primayer-Anglian Water project delivers major leak reduction  
Revolutionary technology has seen leakage reduction of 1.4 million liters of water per day in targeted areas.

# Responding to Covid-19

Supporting customers, colleagues and communities while managing complex risks



Practical support and financial advice



Social distancing and safe working practices



£1m Positive Difference Fund set up to support communities



Keeping the taps running



Transferring 3,000 colleagues to home working



**COVID-19**

**SUPPORTING COMMUNITY NEED**

[National Business Response Network](#)

**NATIONAL BUSINESS  
RESPONSE  
NETWORK**



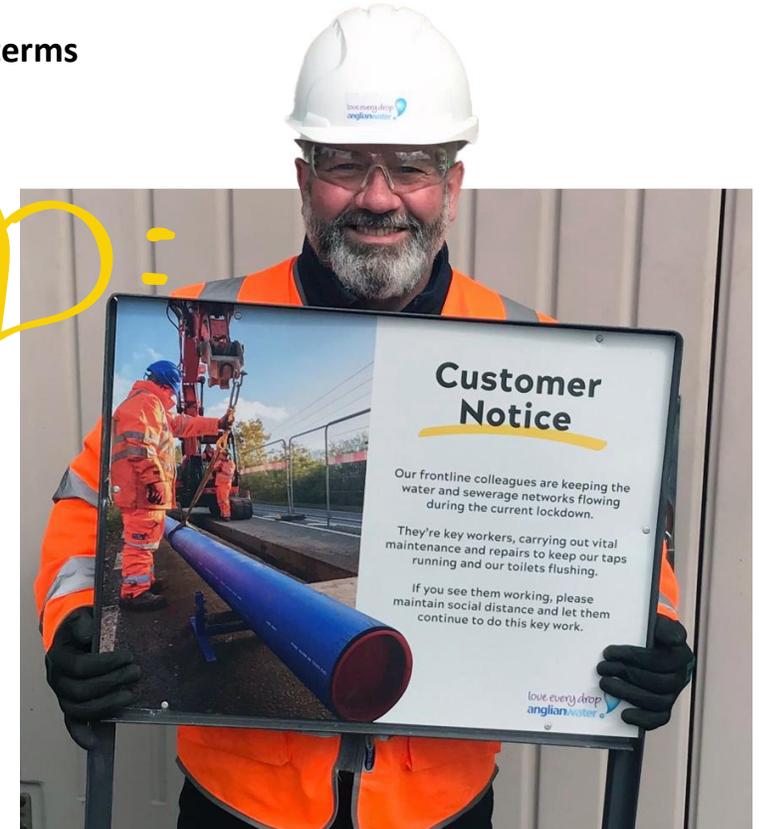
The Prince's  
Responsible  
Business Network

love every drop  
**anglianwater** 

# Responding to Covid-19

Supporting customers, colleagues and communities while managing complex risks

- Essential maintenance and repair continued throughout
- Supply chain supported through regular engagement, keyworker permits and reduced payment terms





# The AMP in review



# Leading on public interest

Laying the foundations for future environmental and social prosperity



Led industry development of  
Public Interest Commitment



First major utility to change  
Articles of Association



Driving social mobility  
and regional regeneration



Listening to customers:  
Over 500,000 interactions

# Leading on sustainability

Laying the foundations for future environmental and social prosperity



Beat ambitious carbon goals



Huge progress on renewable energy



Sustainable approach to water treatment



Full environment programme delivered



# Leading on delivery

Laying the foundations for future environmental and social prosperity



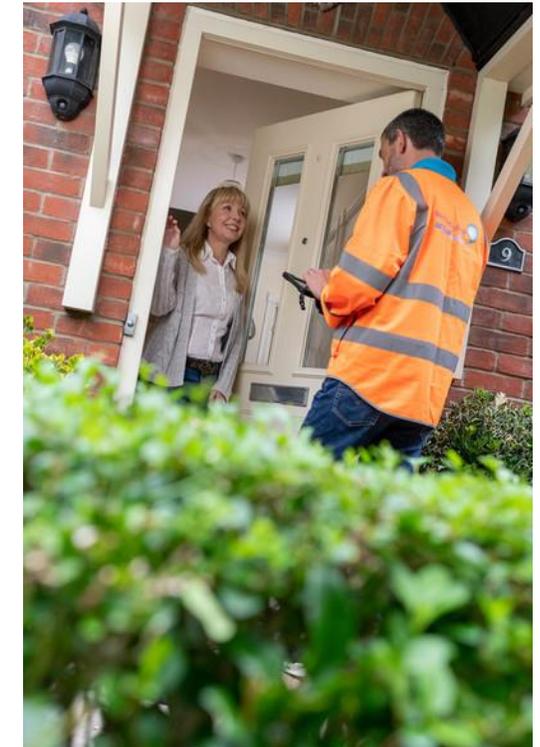
Projected £59.4 million  
outperformance payments



Industry-leading  
water quality



Frontier performance  
on leakage



Ranked top of Ofwat Service  
Delivery Report 2019

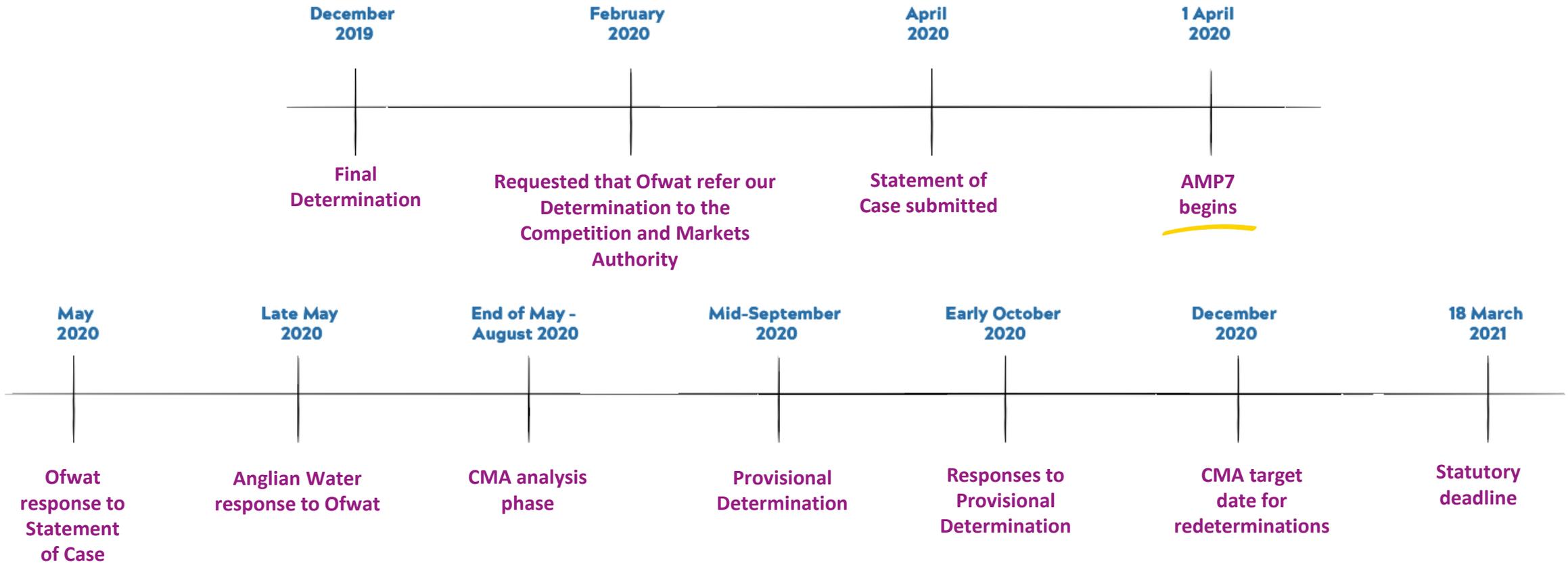
# Why have we asked for a redetermination?



- Our environment demands it and our customers expect it
- It's crucial for the long-term resilience and prosperity of our region
- This investment is vital to fulfilling our Purpose

# AMP7 and the CMA

Companies seeking redetermination:



# Looking ahead to AMP7

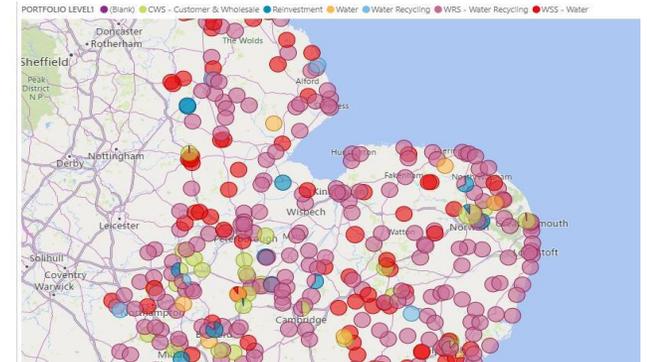
Delivering in year one and beyond



 Twin-track approach driving resilience to climate change

 Supporting population growth

 Protecting and enhancing our environment



# Driving growth through diversity

## Anglian Water's non-regulated businesses



- Eight commercial businesses with c. £600 million turnover and total value exceeding £150 million, including:
  - **Wave** – successful non-household 50% JV with Northumbrian Water Group, working with over 300,000 business customers across the UK



# Anglian Venture Holdings year in review

- Strong financial performance for 2019/20 with PBT of **£11.2 million** (£1.0 million better than budget) and operating cash of **£11.7 million** (£6.4 million better than budget)
- **Wave** completed a major billing system migration despite an Opex reduction programme and significantly improved cash collection pre-Covid-19
- Strong operational performance in **CAW**, **Alpheus** and **Tide** despite significant challenges during the year
- Strategic Plan targeting **£115 million** of cash release in AMP7
- Most significant project for next AMP: Cambridge Waste Water Treatment Plant relocation



# Cambridge Waste Water Treatment Plant relocation

- Relocation of Cambridge Waste Water Treatment Plant to support sustainable growth in the city
- Unlocks potential for thousands of new homes and employment opportunities in new low carbon city district in North East Cambridge
- Grant agreement with Homes England and Cambridge City Council completed, releasing drawdown of **£227 million** grant funding
- Public consultation launching next month



# Future Fenland: integrated adaptation

An Integrated Water Resource Management Strategy based on the Fenland rivers



- System boundary
- New open water transfers
- New reservoirs
- New reservoir intake
- New tidal system or barrage
- Upgraded flood risk management strategy
- Wisbech Garden Town
- Upgraded coastal defences
- Boston to Peterborough Wetland corridor

## Key elements:

- **Environment**
  - Priority habitat restoration
  - Net environmental gain
  - Net zero carbon
- **Communities**
  - Wisbech Garden Town
  - Leisure and tourism
- **Flood Risk Management**
  - Coastal defence
  - Main rivers and IDBs
  - NFRM in highland catchments
- **Navigation**
  - Boston to Peterborough Wetland Corridor
- **Water supply and growth**
  - Public water supply
  - Food, farming and manufacturing



# Steve Buck

Chief Financial Officer,  
Anglian Water



# 2019/20: the year in review



**Projected £59.4 million**  
Of outperformance payments



**Enshrined our Purpose**  
In our Articles of Association



**345,000**  
vulnerable customers  
supported



**Ranked #1 water company**  
For service delivery 2018/19 in Ofwat's  
Service Delivery Report



**Full AMP6**  
environmental programme  
completed



**Launched £1 million**  
Positive Difference Fund



**Named water company  
of the year 2019**  
at the Water Industry Awards



**Leading the industry**  
on progress towards net zero  
carbon and cutting leakage



**£471 million capital  
investment**  
in our region



**Best-ever year  
performance**  
on drinking water quality



**Best-ever year for  
renewable energy**  
131 GWh, enough to power  
40,000 homes for a year



**One of only two  
companies** to reach new Drinking  
Water Inspectorate quality standard



**First company**  
to publish Climate Change  
Adaptation Report

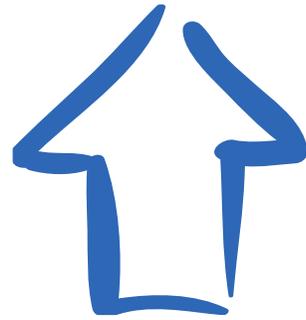
# Anglian Water financial highlights

**EBITDA**  
£767.6m  
(2019: £737.8m)



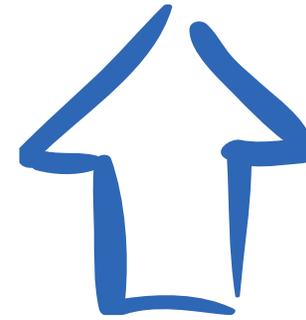
**£29.8m**  
4.0%

**Operating profit**  
£399.1m  
(2019: £389.0m)



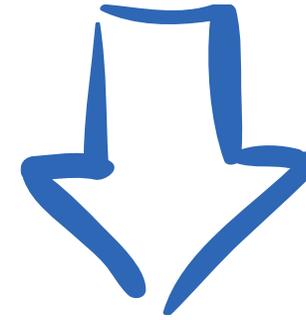
**£10.1m**  
2.6%

**Underlying profit  
before tax<sup>1</sup>**  
£74.0m  
(2019: £60.5m)



**£13.5m**  
22.3%

**Underlying loss  
after tax<sup>1</sup>**  
£52.2m  
(2019: £48.9m)



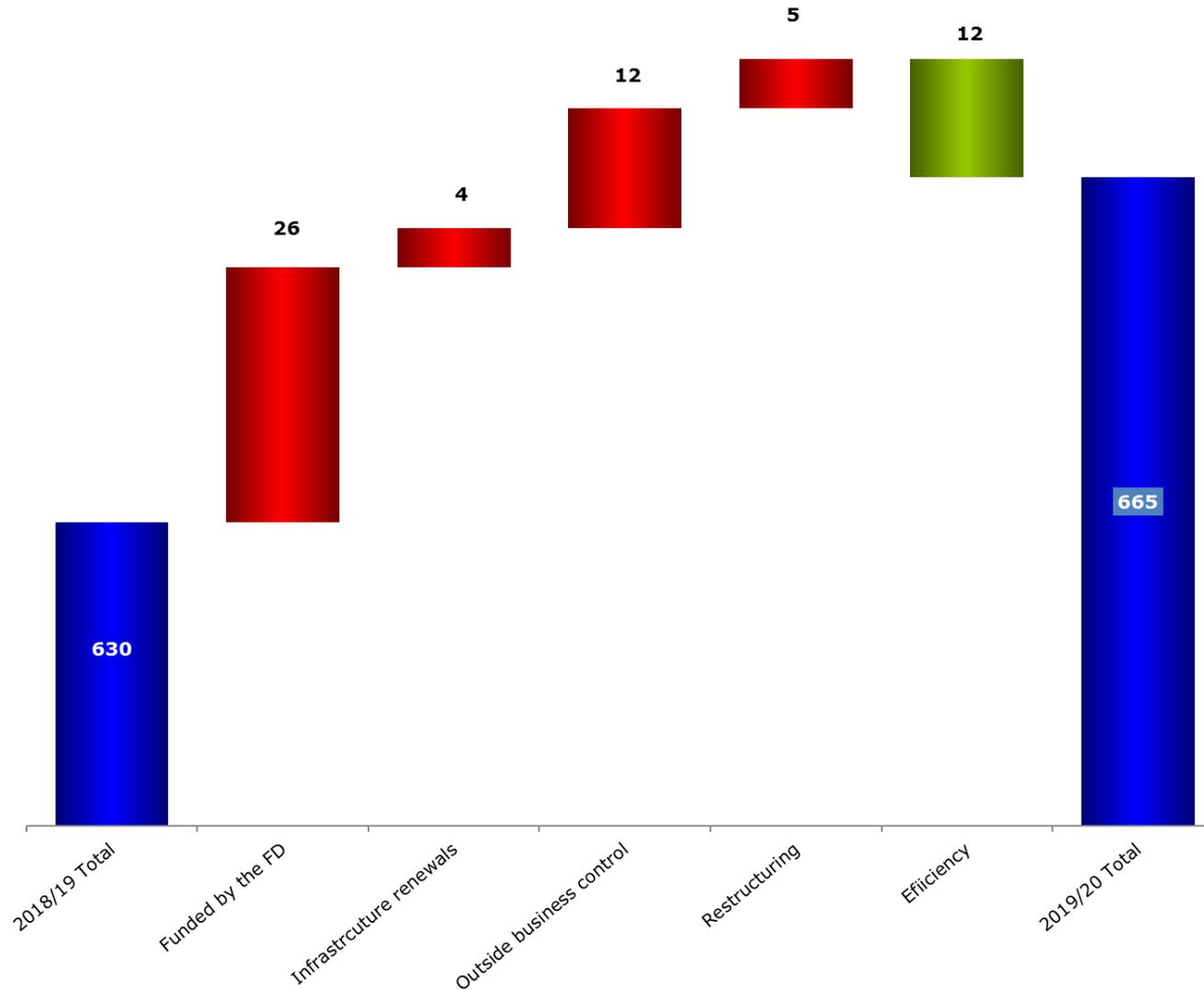
**£101.1m**  
206.7%

<sup>1</sup> Shown before loss on derivatives of £30.4m (2019: loss of £98.4m).

# Anglian Water underlying profit/(loss) after tax

£48.9m	March 2019		
£41.0m	Increase in customer prices (inflation)	EBITDA	Operating profit
£9.3m	Consumption and growth		
£14.9m	Grants and contributions		
£(18.4m)	Opex inflation and other costs		
£(12.0m)	Additional Covid-19 bad debt provision		
£(5.0m)	Restructuring provision		
£(19.7m)	Depreciation due to increase in assets		
£3.4m	Finance costs due to increase in debt	Profit after tax	
£(114.6m)	Tax		
£(52.2m)	March 2020		

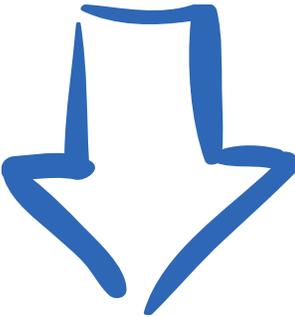
# Anglian Water waterfall operating costs including impairment losses



# Anglian Water financial highlights

## Operating cash flow<sup>1</sup>

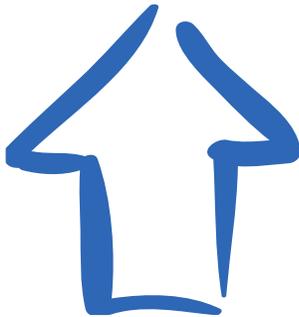
£644.4m  
(2019: £663.8m)



**£19.4m**  
2.9%

## Capital investment

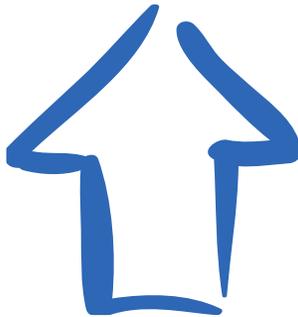
£470.9m  
(2019: £440.0m)



**£30.9m**  
7.0%

## Net interest - cash

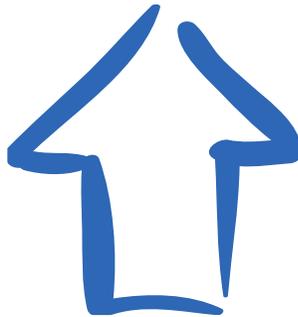
£227.8m  
(2019: £216.8m)



**£11.0m**  
5.1%

## Net debt<sup>2</sup>

£6,459.7m  
(2019: £6,237.0m)

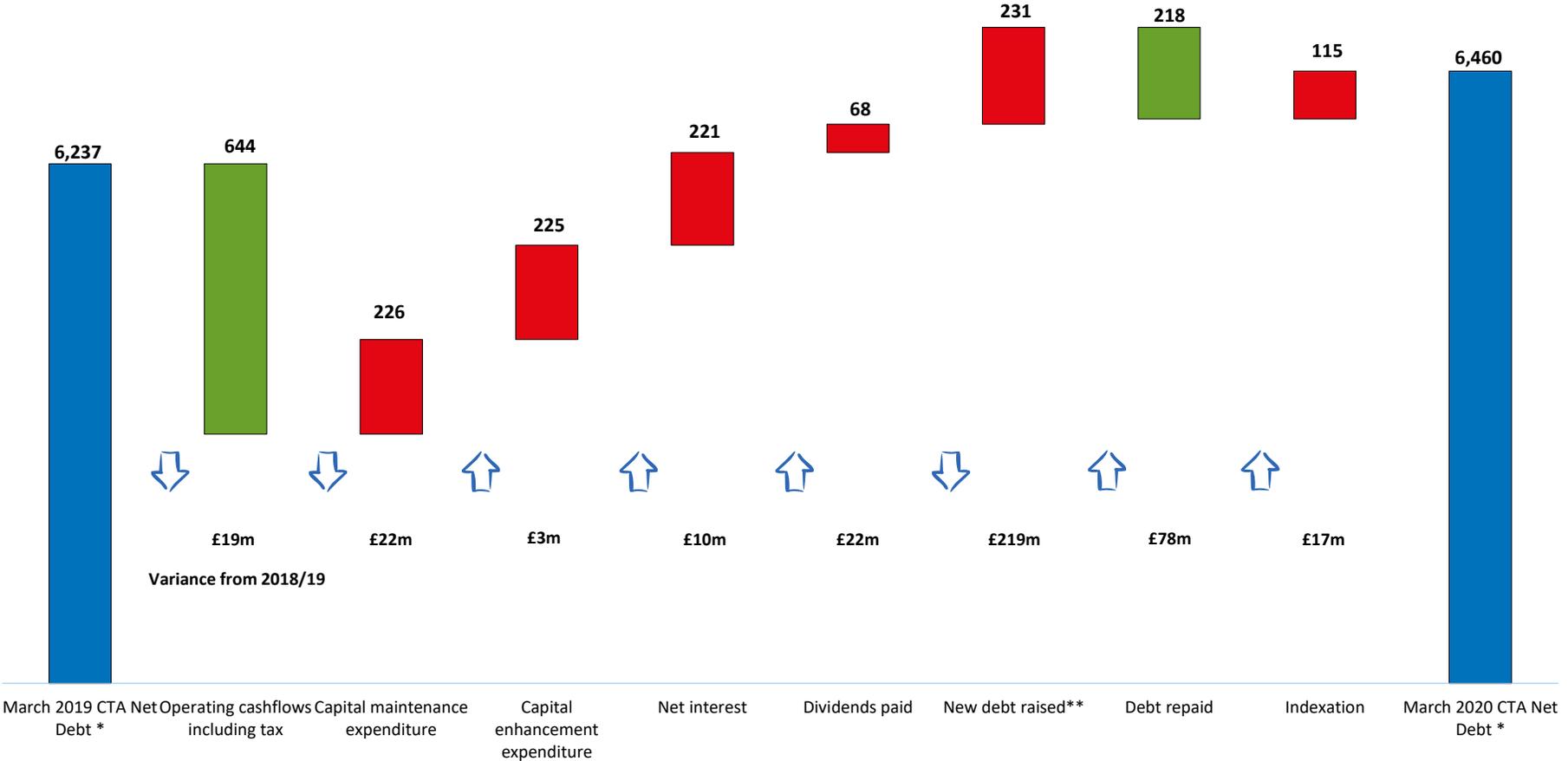


**£222.7m**  
3.6%

<sup>1</sup> Shown on a CTA basis. Net cash inflow from operating activities after tax on a statutory account basis is £686.0m (2019: £700.7m).

<sup>2</sup> Shown on a CTA basis, excluding derivatives. Net debt on a statutory account basis is £6,677.2m (2019: £6,380.3m).

# Sources and uses of cash

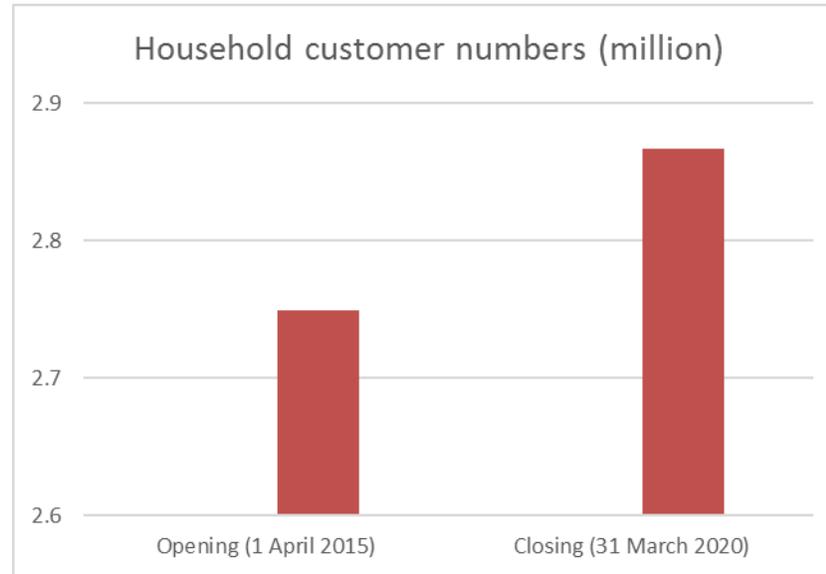
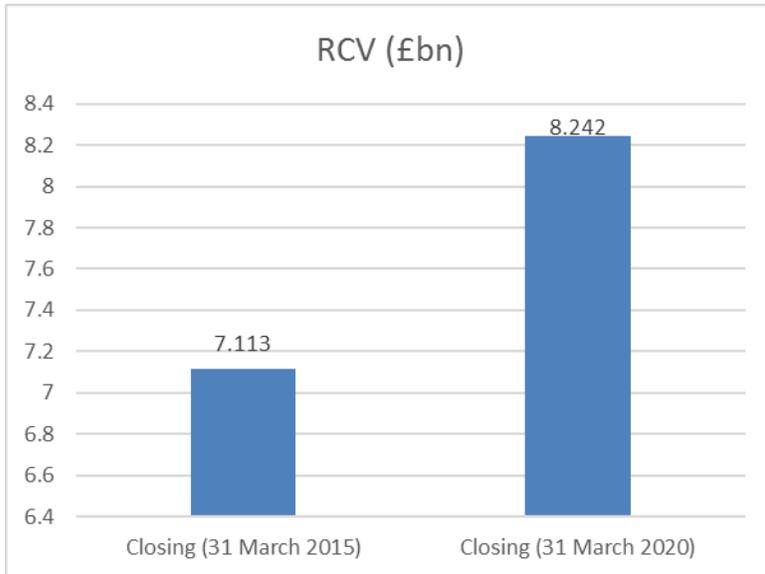


1. CTA cash flows are on a different basis to those presented in the financial statements  
 \* CTA cash balances at March 2019 - £551.4m; at March 2020 - £1,047.1m  
 \*\* Excludes the Facility Drawing that is net debt neutral



# AMP6 RCV growth

Cost efficiencies and targeted investment contributed to strong real RCV growth



114,000 new household customers in AMP6



16% rise in RCV in AMP6



110,000+ water meter connections,  
132,000 water recycling connections

# 2019/20 and AMP6 performance summary

## Projected £59.4 million outperformance payments over the AMP



**Leading on water quality** – best-ever performance: 1.15 contacts per 1,000 customers, 99.96% score for water quality and event risk index score set to be well below industry average



**Sector-leading performance on leakage** – year-end outturn of 182MI/day – projected £4.3 million reward for 2019/20, £17.1 million across AMP6



**Top-quality customer service** – rated top of Ofwat Service Delivery Report 2019 and finished AMP top of SIM – £19.3 million projected reward



**Huge progress on reducing flood risk** – internal sewer flooding down 38% over AMP – on track for maximum reward £10.3 million



**Per property consumption** – challenging for the whole industry due to extremes of weather. Target missed, attracting anticipated penalty of £9.2 million



**Progress on reducing pollutions** – challenging year in 2019/20 with only £1.5 million anticipated outperformance but on track for £15.9 million reward over the AMP



**Bathing waters** – performance impacted by readings taken during extreme weather. Outcome subject to judicial review but currently £13.3 million penalty

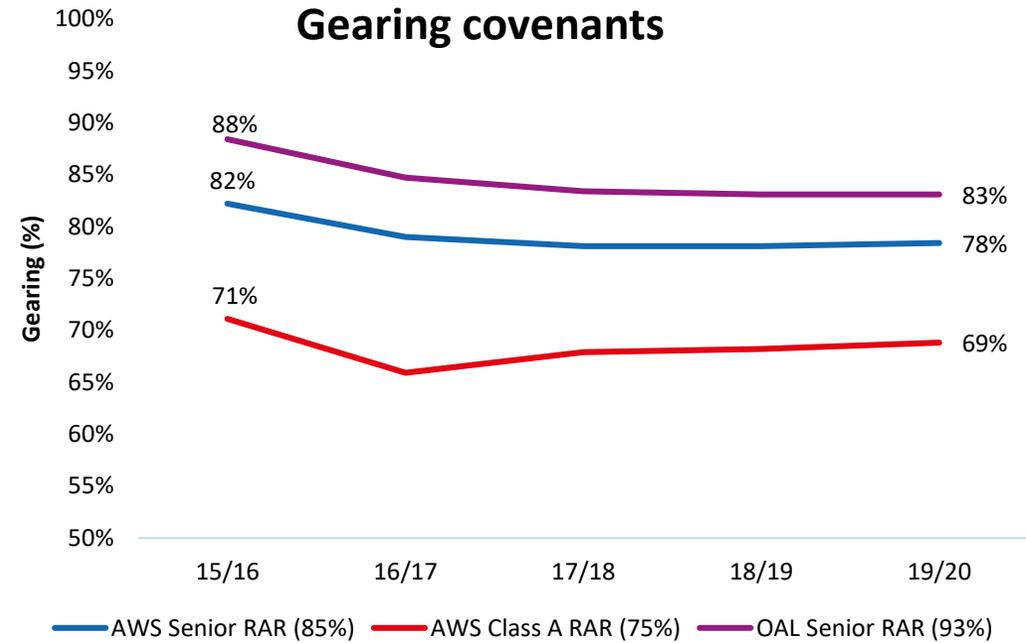
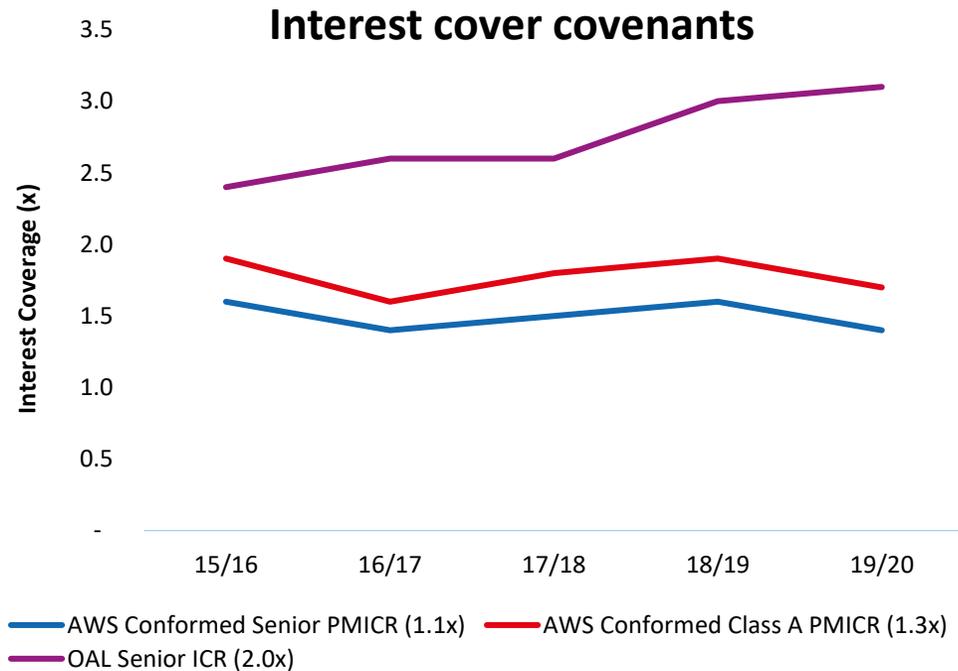
# Strong Totex performance - £371m outperformance

- £165m reinvestment of outperformance
- Totex thinking delivering whole life whole cost efficiency and sustainability for the environment



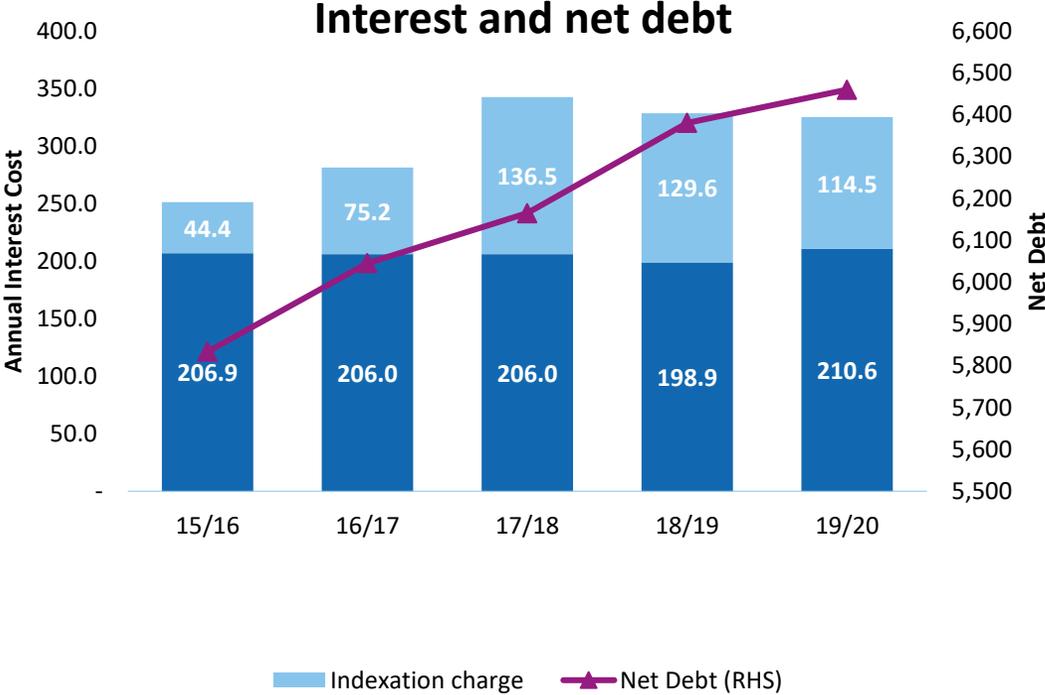
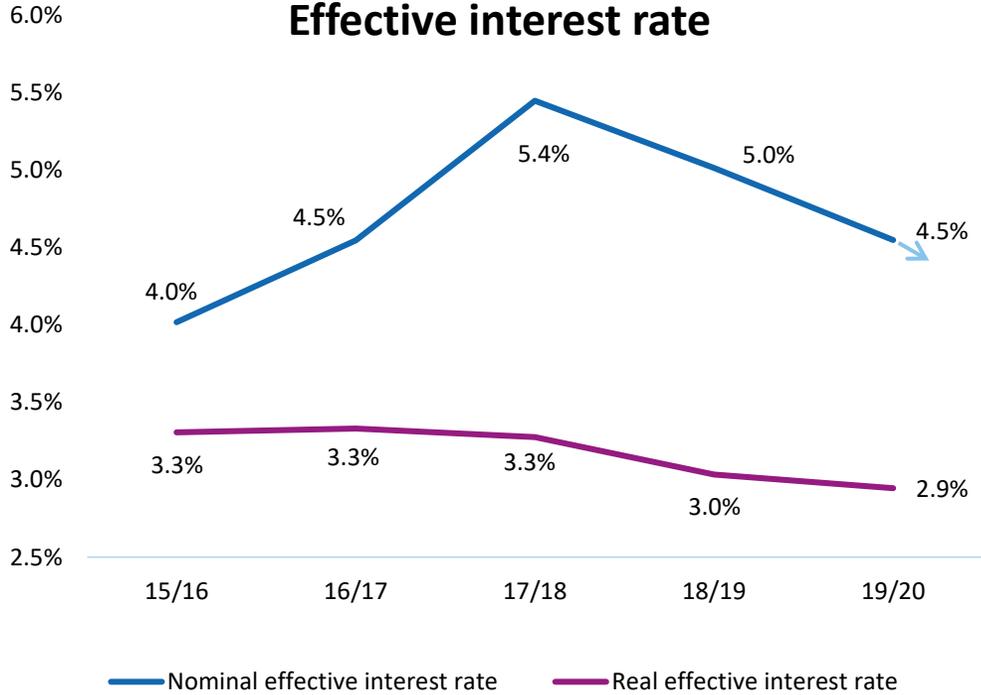
# Covenants and credit metrics

## Gearing reduced over AMP6



Reduced gearing over AMP6 and recent reduction in net finance costs

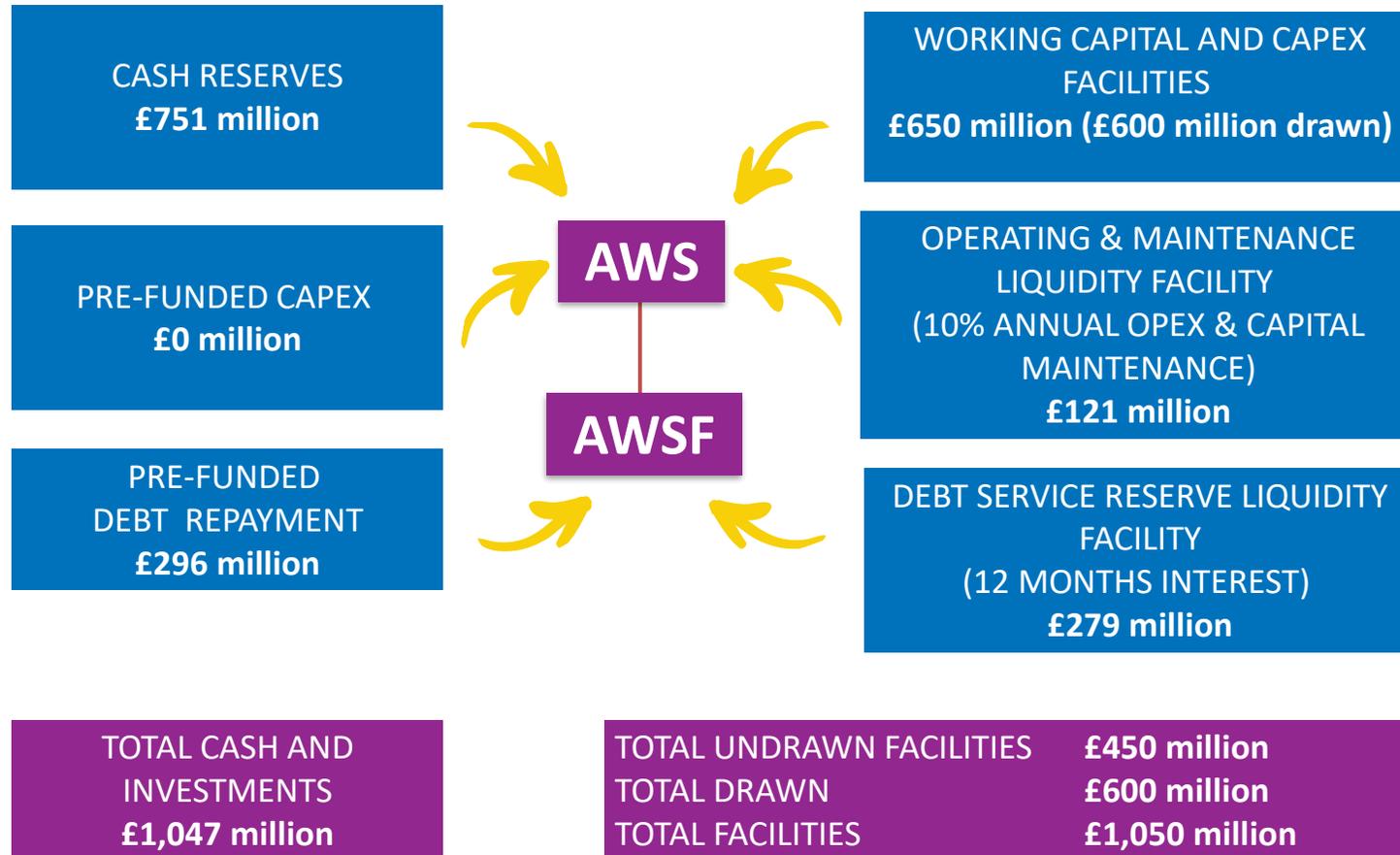
# Interest rate management



Effective interest rate on a downward trend and increase in net debt is lower than the growth in the RCV



# Anglian Water liquidity



# Covid-19 impact on PBIT

Limited impact on 2019/2020 PBIT; direct costs largely absorbed; bad debt provision increased



No material step up in operating costs as a result of Covid-19 to date

March/April cash receipts strong; low levels of direct debit cancellation

Direct impact to bad debt of £12 million, indirect impact of some activity restrictions on older debt recovery plan

## Potential impact 2020/2021

Increased household **bad debt risk** from economic recession

**Slow down of growth** in our region

Revenue Correction Mechanism will recover Wholesale revenue later in the AMP

# Covid-19 impact on business in our region



- Retailer experience
- Wholesaler experience
- Regulatory changes

## Potential impact 2020/2021

Lower non-household revenue  
recovered later in AMP7  
£36 million to £60 million impact

# AMP7 financial facts

	AMP6 (£bn)	AMP7 (£bn)	Variance (£bn)
Revenue	6.6	6.1	-0.5
Opex	2.9	2.8	-0.1
Capex	1.9	2.5	+0.6
WACC	3.6%	2.48%	-1.12%

Note: 1) Revenue / Opex / Capex in 2017/18 prices. 2) WACC AMP6 in RPI terms, AMP7 in blended RPI:CPI

# Sustainability benchmarks



£600 million of AWS RCF facilities and the £250 million Osprey facility are linked to Anglian Water's Sustainability Benchmarks for AMP7

	Target	Measure	Actual	Benchmark March 2020
	Capital carbon	% reduction on 2010 baseline	61%	60%
	Water quality	Water quality contacts per 1,000 customers	1.15	1.23
	Water consumption	Three-year average litres per capita per day	135	136
	Water leakage	Megalitres per day	183	184
	Pollution incidents	Incidents per 10,000km of sewer	34	29
	Supporting vulnerable customers	% of customers on priority register	2.9%	1.4%

# Delivering sustainable finance through Green Bonds



**6 Green Bonds issued since 2017**



**c.850 schemes in operation across our region**



**£876 million funding secured for capital projects**



**61% reduction in capital carbon**

# Summary

## Closing AMP6

- Track record of outperformance drives projected £59.4 million reward payments (£9.4 million in 2019/20), and totex outperformance of £339 million (2012/13 prices)
- £2.2 billion programme of capital investment complete
- £165 million reinvested to benefit customers
- Leading water industry on water quality, leakage, service and progress to net zero carbon
- Environmental and social purpose and industry-leading customer engagement drives decision to request redetermination

## Outlook for AMP7

- Stage set for continuing strong performance, whatever the outcome of the CMA process
- Purpose-led programme driving future resilience
- Strong liquidity and business well placed to emerge strongly from Covid-19
- AVH businesses driving diversification of revenue streams
- Ambitious £500 million year 1 capital investment programme underway

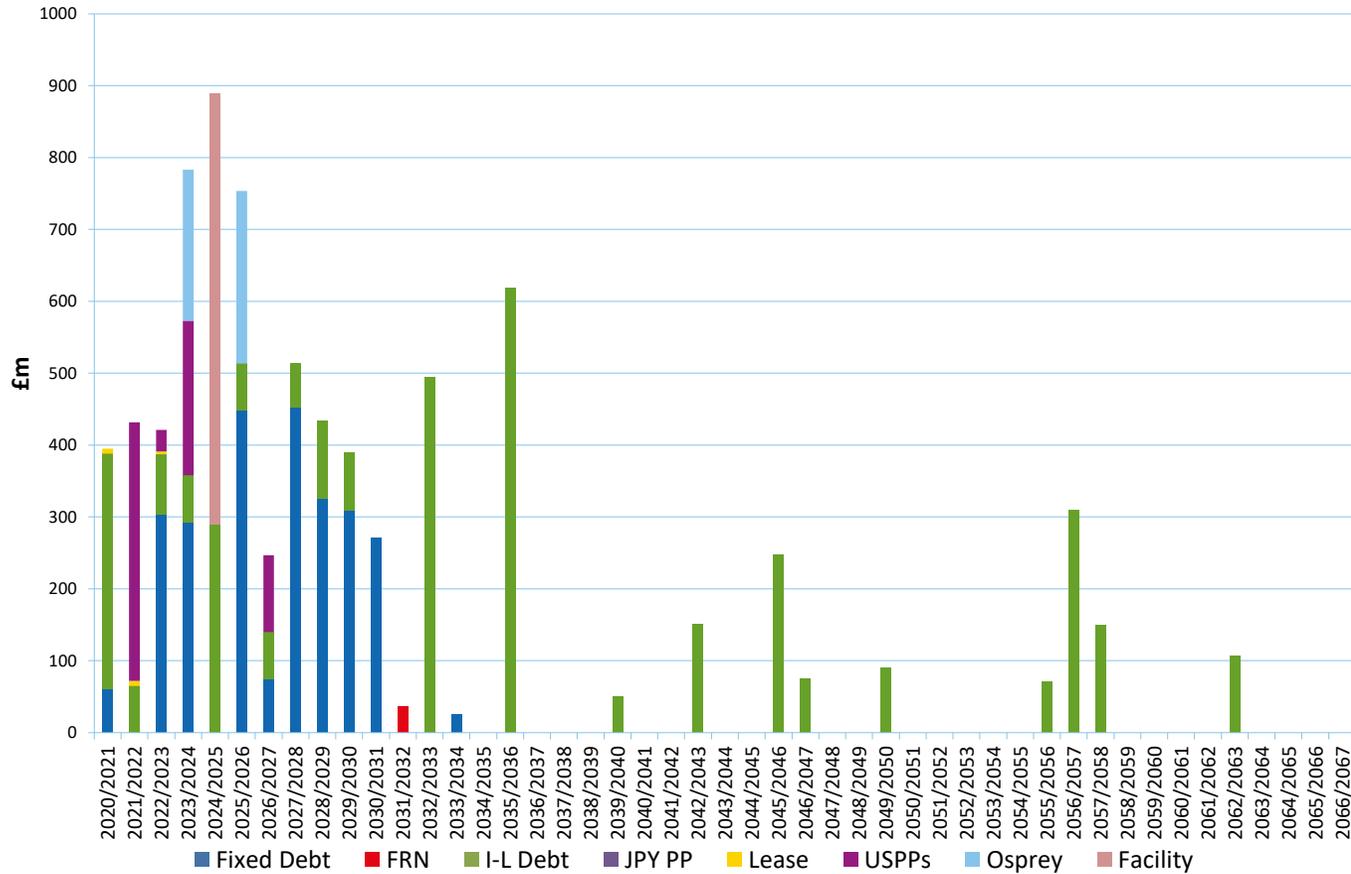


**Any questions?**

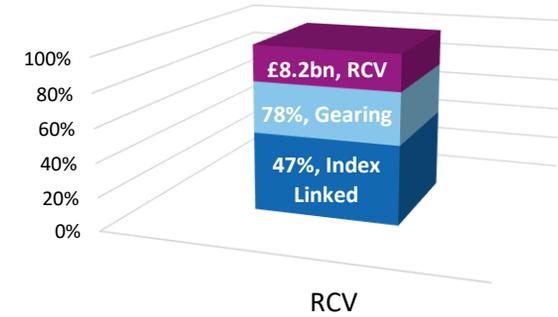


# Appendices

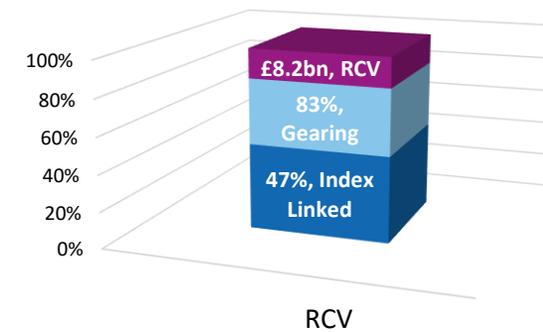
# Debt maturity profile as at 31 March 2020



## AWS Regulated Capital Value



## OAL Regulated Capital Value



# Derivatives

## Derivatives mark-to-market valuation

	Notional £m	MTM £m <sup>1</sup>
<b>Swap type</b>		
Interest rate swap	2,417.5	(224.8)
Cross-currency interest rate swap	795.8	228.6
RPI swap	565.9	(631.1)
CPI swap	765.9	(111.0)
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	4,545.1	(738.2)

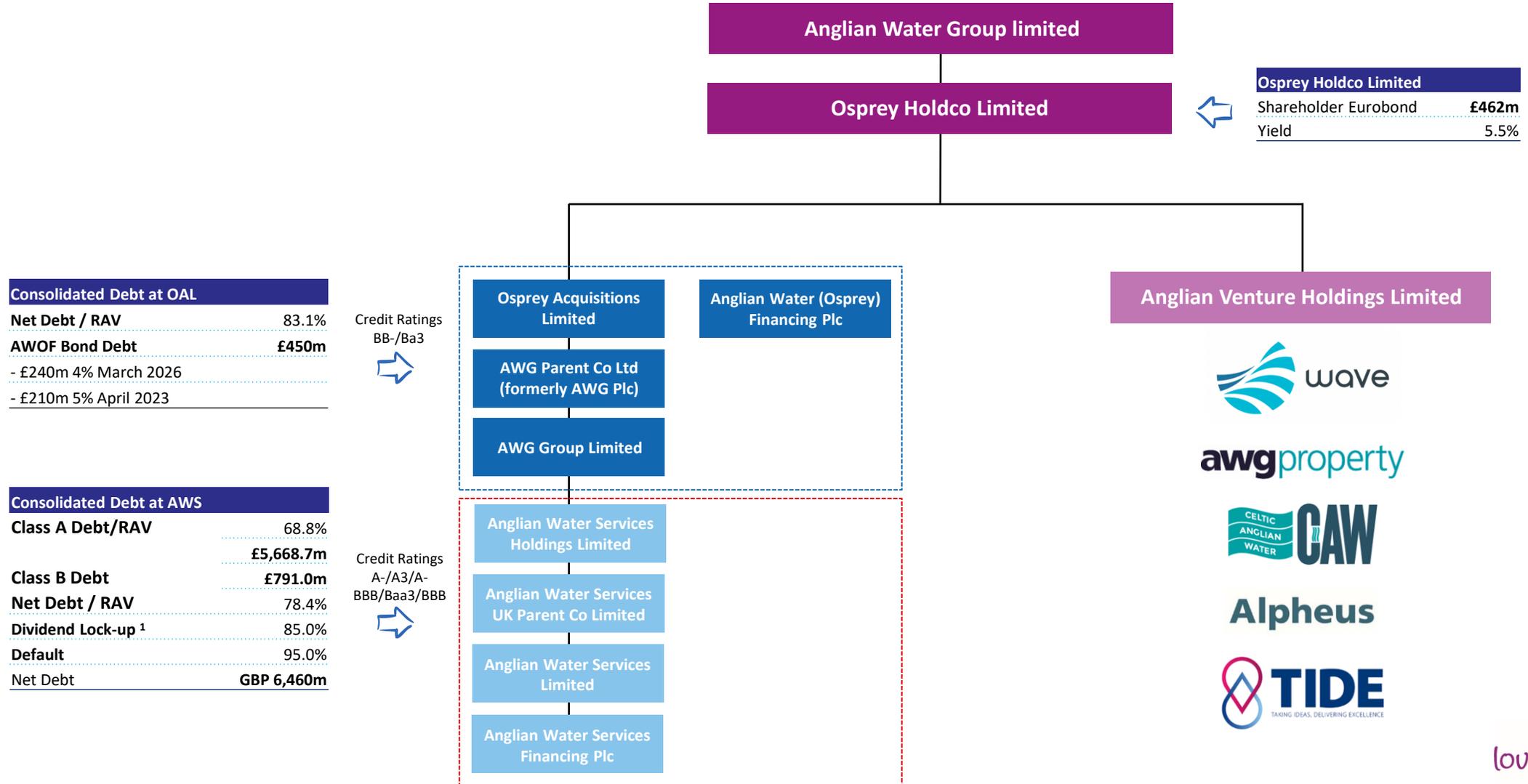
<b>Energy derivatives</b>	Notional £m <sup>2</sup>	MTM £m
LEBA <sup>3</sup> power swaps	44.8	(4.6)

<sup>1</sup> Mark-to-market valuations include accrued interest to valuation date.

<sup>2</sup> Notional value for energy derivatives represents locked-in purchase price for power.

<sup>3</sup> LEBA = London Energy Brokers Association.

# Consolidated capital structure



<sup>1</sup> Senior RAR Trigger Event is 90%, with Dividend lock up at 85%



# AW reconciliation of CTA operating cash flow

	2020 £m	2019 £m
<b>Operating cash flow - statutory accounts basis</b>	<b>686.0</b>	<b>700.7</b>
Tax paid	(40.3)	(30.2)
Commissions on debt facilities not drawn	(2.9)	(3.0)
Return of developer deposits in year	4.4	-
Other 1	(2.8)	(3.7)
<b>Net cash inflow from operating activities - CTA basis</b>	<b>644.4</b>	<b>663.8</b>

<sup>1</sup> Primarily relates to issue costs on new debt

# AW reconciliation of CTA net debt

	2020 £m	2019 £m
<b>Net debt - statutory accounting basis 1</b>	<b>6,677.2</b>	<b>6,380.3</b>
Unpresented cheques and lodgements	0.1	0.3
Capitalised issue costs	31.7	32.5
IFRS 16 Leases	(30.8)	-
IFRS 9 adjustments	(218.5)	(176.1)
<b>Net debt - CTA basis 1</b>	<b>6,459.7</b>	<b>6,237.0</b>

<sup>1</sup> The CTA net debt continues to be on old UK GAAP basis, while statutory net debt is on an IFRS basis, excluding derivatives

# AW reconciliation of CTA underlying profit before tax

	2020 £m	2019 £m
<b>Profit before tax on an underlying basis</b>	<b>74.0</b>	<b>60.5</b>
Finance costs - fair value (losses)/gains on financial derivatives	(30.4)	(98.4)
<b>(Loss) / profit before tax as reported on a statutory basis</b>	<b>43.6</b>	<b>(37.9)</b>

# Summary new loans and repayments

	2020		2019
	£m		£m
<b>New debt raised</b>		<b>New debt raised</b>	
£65 million 2.87% fixed rate 2029	65.0	£300 million Green bond 2.75% 2029	297.8
JPY 7 billion 0.855% fixed rate 2039	50.9	£25 million 3.0% fixed rate 2031	25.0
EDC £100 million 1.588% fixed rate 2028	100.0	US\$53 million 3.053% fixed rate 2029	40.0
RCF £550 million	550.0	£85 million 2.88% fixed rate 2029	85.0
RCF £100 million bilaterals	50.0		
	<b>815.9</b>		
<b>Non cash debt raised</b>			
IFRS 16 lease agreements on transition	33.4		
New IFRS 16 lease agreements in year	7.4		
<b>Total debt raised</b>	<b>856.7</b>	<b>Total debt raised</b>	<b>447.8</b>
	2020		2019
	£m		£m
<b>Debt repaid</b>		<b>Debt repaid</b>	
JPY 5 billion 3.22% fixed rate bond 2019/2038	(25.1)	JPY 15 billion 2.925% fixed rate bond 2018/2037	(65.9)
EIB £50 million 1.626% index-linked term facility 2019	(67.9)	EIB Tranche 1 £75m 0.53% 2027	(8.9)
EIB £50 million 1.3% index-linked term facility 2020	(67.2)	EIB Tranche 2 £75m 0.79% 2027	(8.9)
Repayment of accreted interest on derivatives	(50.5)	L03 A RPI 0.000 2028 GBP 150m	(17.2)
Capital element of finance lease rental payments	(6.6)	Capital element of finance lease rental payments	(6.2)
	<b>(217.3)</b>	Solar lease repayment	(0.4)
		Repayment of accreted interest on derivatives	(11.7)
Settlement of IFRS 16 leases	(4.7)		
<b>Total debt repaid</b>	<b>(222.0)</b>	<b>Total debt repaid</b>	<b>(119.2)</b>