Anglian Water Services Financing Plc

Anglian Water Services Limited

Investor Report

For the six months ended 30 September 2017

Prepared in accordance with International Financial Reporting Standards (IFRS)

Final 24.11.17

Investor Report

Contents

Basis of Preparation

All financial information in this report is unaudited and has been prepared in accordance with IFRS. The accounting policies used are consistent with those in the Statutory Accounts of Anglian Water Services Limited at 31 March 2017.

The information in this report is presented solely to comply with Schedule 11 of the Common Terms Agreement (CTA).

Disclaimer

Any forward-looking statements made in this document represent management's judgment as to what may occur in the future. However, the company's actual results for the current and future fiscal periods and corporate developments will depend on a number of economic, competitive and other factors including some which will be outside the control of the company. Such factors could cause the company's actual results for current and future periods to differ materially from those expressed in any forward looking statements made in this document. Unless otherwise required by applicable law, accounting standard or regulation, Anglian Water does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise.

General Overview and Business Update

This investor report covers the six months ended 30 September 2017.

1.0 Financial Performance for the six month period ended 30 September 2017

The underlying financial results have been prepared on an International Financial Reporting Standards (IFRS) basis and are summarised in the table below:

	2017 Total £m	**2016 Total £m**
Revenue	634.8	620.9
Other operating income	7.6	7.0
Operating costs	(275.0)	(267.7)
Depreciation and amortisation	(157.2)	(153.3)
Operating profit	210.2	206.9
Finance income (adjusted)[1]	0.8	1.4
Finance costs[2]	(173.6)	(133.5)
Underlying profit before tax	**37.4**	**74.8**

[1] In order to show the position of the Anglian Water Services Financing (AWSF) group (which comprises Anglian Water Services Holdings Limited, Anglian Water Overseas Holdings Limited, Anglian Water Services Limited and Anglian Water Services Financing Plc.), finance income is shown excluding internal interest receivable by the group from Anglian Water Services Holdings Limited of £96.4 million (2016:£96.4 million).

[2] In order to show pre-tax performance on an underlying basis the fair value gains and losses on energy hedges and financial derivatives have been excluded from the table.

love every drop anglianwater

The table below sets out the reconciliation between the statutory income statement and the underlying financial performance as shown above.

Reconciliation to statutory accounts

	2017 Total £m	**2016 Total £m**
Underlying profit before tax	37.4	74.8
Finance costs – Fair value gains/(losses) on financial derivatives	122.2	(238.7)
Finance income – Intra-group interest receivable	96.4	96.4
Profit on disposal of the non-household retail business	4.6	-
Profit/loss before tax on a statutory basis	**260.6**	**(67.5)**

Revenue for the half year was £634.8 million, an increase of £13.9 million (2.2%) on the same period last year. This primarily reflects the regulatory tariff increase, modest increases in consumption and growth in customer numbers, partially offset by the loss of the retail gross margin for non-household customers following the transfer of those customers on 1 April 2017 to Anglian Water Business (National) Ltd.

Other operating income comprises primarily the amortisation of developer contributions received in respect of new housing developments, with activity up slightly from the prior year.

Operating costs increased by £7.3 million (2.7%) on the same period last year to £275.0 million in line with general inflationary pressure. The reduction is explained in the following table.

Increases/(decreases) in operating costs (before depreciation and amortisation)	£m
General inflationary increases	8.3
Replacement of capital projects with more cost effective operating solutions	3.5
Increase in minor repair activities to maintain water and waste water below ground infrastructure	3.3
Increase in pension charge	2.5
Operating costs of newly commissioned plant	1.8
Increase in energy prices	1.4
Reduction in bad debt charge	(2.3)
Net efficiency savings achieved	(7.2)
2016 operating costs of the non-household business not repeating following the transfer of business on 1 April 2017	(4.0)
Net increase in operating costs	**7.3**

The £2.3 million reduction in bad debt charge for the period reflects the continuing management focus on customer debt collection.

Depreciation and amortisation is up 2.5% compared with the same period last year, reflecting depreciation on newly commissioned operating assets.

Operating profit has increased by 1.6% to £210.2 million, which is consistent with the effect of the regulatory price increase partially offset by higher operating costs and increased depreciation.

The underlying net finance charge for the period increased by £40.7 million to £172.8 million. This is primarily driven by the increased inflation year on year (£39.9m) with the balance being driven by an increase in net debt and less interest earned on cash deposits, partially offset by more interest being capitalised as a result of greater capital project activity during the period and by lower costs of new debt in the period.

The fair value gains on financial derivatives of £122.2 million (2016: £238.7 million loss) is primarily a result of the increase in long term interest rates experienced in the period. Increases in underlying inflationary pressures from the depreciation of sterling and increasing levels of employment in the economy have driven up market expectations of future interest rates. The fair value gains and losses are non-cash in nature and have no effect on the underlying commercial operations of the business.

Compared to the same period in the previous year the total tax charge has reduced by £109.9 million from a charge of £78.6 million to a charge of £31.3 million. This is due mainly to there being a deferred tax charge this year on the fair value gains on derivatives whereas last year there was a credit on derivative losses, and the previous year included a deferred tax credit due to a further change to the UK corporation tax rate down to 17% from 1 April 2020.

Anglian Water's taxation charge reflects the incentives available for capital investment, and the interest paid to fund that investment. Anglian Water is one of the largest private investors in infrastructure in the region, worth more than £2 billion over five years. The Government actively encourages infrastructure investment and grants capital allowances, which defer some of the corporation tax liabilities until a later period. Customers benefit from this deferral as it helps to keep their bills lower.

Dividends of £61.1 million (excluding intra-group dividends of £96.4 million, 2016: £96.4 million), and a one-off special dividend of £62.2 million to partially fund the transfer of the non-household business were paid during the period (2016: £100.0 million). Proceeds of £78.9 million were received on the sale of the non-household business which resulted in a profit on disposal of £4.6 million.

During the period, new debt of £248.6 million was raised in the form of the well subscribed, and first in the utility industry, sterling Green Bond issuance in August. Proceeds have been used to finance the award winning Grafham Resilience Project securing resilience for over 600,000 households as well as projects such as the Kings Lynn enhanced sludge treatment process which greatly reduces the impact of sludge transportation, the Norwich Sustainability project enabling Anglian Water to meet increased demand by utilising new technology and optimising existing assets, and improvements to its water treatment works in Semer, Suffolk, which reduces nickel levels and enhances water quality.

Debt repayments in the period amounted to £63.5 million as the group settled the outstanding balance on short term bank facilities and smaller amortising debt payments as they fell due.

2.0 Regulatory Update

Non household retail market

The competitive non-household retail market opened successfully on 1 April 2017. From this date, Anglian Water exited from the non-household retail market, with all of its non-household customers transferring to Anglian Water Business (National) Limited.

At the end of the first six months the Market Operator Services Limited (MOSL) published the following statistics about the market:

- There are 22 national retailers, 12 regional retailers, 1 self-supply retailer and 25 wholesalers in the market.
- Switching has continued at a steady rate with 25,010 switches this quarter bringing the total switches to 61,311. This represents 2.3 per cent of the 2.7 million supply points in the market.
- New entrants gained around 35 per cent of the supply points switched this quarter. Switches away from the current largest five retailers accounted for around 70 per cent of all switches since market opening.

Consultation on PR19 methodology

Ofwat published its draft methodology statement for consultation on 11 July. Key proposals were as follows:

- Affirmation of the emphasis on making customers active participants in shaping companies' plans and performance commitments.
- A strong focus on resilience, recognising that risks are increasing because of climate change, population growth and the challenge of ageing assets.
- Companies' business plans must contain approaches that improve affordability and do more to meet the needs of customers in vulnerable circumstances.
- ODIs are to be more powerful, stretching and comparable across companies. The starting point for ODIs will be that they will be financial rather than reputational and the associated reward and penalties recovered (returned) to customers in-period. Fourteen common performance measures with standard definitions are proposed.
- Ofwat are proposing to replace the existing Service Incentive Mechanism (SIM) with two new measures of customer experience: Customer Experience measure (C-MeX) and Developer Services Experience measure (D-MeX).
- There is a blanket expectation of a minimum 15% leakage reduction in AMP7 irrespective of companies' previous leakage performance.
- On cost allowances, Ofwat's efficiency assumption will be that companies should be at the efficiency frontier from the start of the AMP with no glide path.
- Companies should consider direct procurement for customers for the financing, design, delivery and operation of large (£100m whole life totex), discrete enhancement infrastructure.
- The methodology proposes that Ofwat will categorise companies' business plans into one of four categories: Exceptional, Fast Track, Slow Track and Significant scrutiny.

The final methodology is due to be published on 13 December.

Allocation of RCV to bioresources

Ofwat’s Water 2020 proposals require an explicit allocation of RCV at 31 March 2020 to enable the separate water resources and bioresources price controls. For water resources the allocated RCV will be proportional to the net Mean Equivalent Asset Value (nMEAV) of the whole water service asset base (an unfocussed basis) whereas for sludge the RCV will be equivalent to the nMEAV of the bioresources assets (a focussed basis).

In September companies submitted to Ofwat their initial proposals on the bioresources RCV allocation. We proposed a value equivalent to 5.8% of our wastewater RCV. This was similar to the proposals made by other companies, though some companies proposed higher values. Following feedback by Ofwat, companies will submit their final proposals with their PR19 business plans in September 2018.

Defra's Strategic Priorities and Objectives for Ofwat

In September, following consultation, the Government published its updated Strategic Priorities and Objectives for Ofwat (SPS). The purpose of the SPS is to place emphasis on the areas that Government wants Ofwat to focus on in fulfilling their duties, setting out the key themes that are to be reflected in the way the industry is regulated. It also confirms the Government’s expectation that the regulated water industry will reflect its priorities and objectives in its strategic direction.

The SPS identifies two strategic priorities:

- Securing long-term resilience: Customers expect resilient services, now and in the future – but some regions are exposed to substantial risks from service failures, for example due to drought.
- Protecting customers: Every home and business depends on a resilient water industry – but not everyone can afford their water bill.

Under a section called ‘making markets work’, the SPS encourages Ofwat to promote markets to drive innovation and achieve efficiencies. The statement confirmed the Government’s decision not to pursue household competition at this time, highlighting the need to learn from the new non-household market and further develop the evidence base.

3.0 Service Performance Overview

Service Incentive Mechanism

The Service Incentive Mechanism (SIM) consists of two measures, a qualitative measure reflecting the satisfaction of customers with the quality of service received and a quantitative measure reflecting complaints and telephone contacts received by companies. Ofwat undertakes quarterly customer surveys to measure qualitative performance but assesses quantitative data annually. The qualitative measure now accounts for 75% of the overall score.

Anglian Water remains committed to its goal of having 100% of its customers very satisfied with the service they receive. Anglian Water continually invests in new technologies and systems, and reviews its processes in order to improve the service they provide to its customers. After two rounds of qualitative Service Incentive Mechanism (SIM) surveys for 2017/18, Anglian Water is in first place in the league table of water and sewerage companies. Its efforts are now concentrated on maintaining that position. Work to improve the service proposition this year includes improvements to its web chat and telephony systems and a new, proactive team to contact customers whose bills rise by more than would be expected.

4.0 Capital Expenditure

Gross regulated capital investment in the six months to 30 September 2017 was £199.5 million (2016: £166.1 million). This is in line with management expectations. Further details of projects categorised within the Green Bond portfolio are in section 10.0. In October 2017 Anglian Water received confirmation of its reaccreditation of PAS2080, the standard for measuring whole life carbon costs within infrastructure.

5.0 *Water Quality and Environmental Performance*

Anglian Water is governed by a wide range of legislation covering quality of drinking water, discharges to the environment, waste disposal, water abstraction, access to land and environmental protection. The key regulators are the Drinking Water Inspectorate, the Environment Agency and Natural England (formerly English Nature). There is also close liaison with Environmental Health Officers and Consultants in Communicable Disease Control within Public Health England and other environmental bodies.

Drinking Water

The Drinking Water Inspectorate (DWI) Chief Inspector’s annual report for 2016 was published in July 2017. The overall measure for drinking water quality compliance remained excellent for the year with a mean zonal compliance figure of 99.97% (2015: 99.97%). While the report was very positive for both Anglian Water and Hartlepool Water, for the first time DWI have published data on a new, national comparative measure for drinking water quality. This is known as the Compliance Risk Index (CRI) and will replace Mean Zonal Compliance over the next few years. Anglian Water’s CRI for 2016 was high compared to the rest of the industry due to the disproportionate impact of metaldehyde failures in its highly agricultural region. Anglian Water continues to lobby government for a targeted ban of metaldehyde in high risk areas as part of our broader catchment management strategy.

At the end of September 2017 the Mean Zonal Compliance was 99.95% predominantly due to an increase in the number of odour failures at customer taps, and five nickel exceedances. All of these failures were due to customer pipework or plumbing. Engagement with customers continues through the Keep Water Healthy campaign and via the Water Fittings Regulations team.

Anglian Water has recorded an 11 per cent reduction in the number of customer contacts about the acceptability of their water, compared to the same period last year. This has been due to a continued focus on the water quality impacts of interruptions to supply and the enhanced customer engagement strategy, particularly through social media.

Water Recycling

Anglian Water is on course to see a further reduction in the number of flooding incidents from its sewer network and continues to be ahead of its targets. A large proportion of such incidents continue to be the result of blockages caused by fat, wipes and other inappropriate items being poured or flushed into sewers. The Keep it Clear behaviour change programme continues to educate people about the consequences of putting the wrong things down sinks and toilets. Efforts are now being targeted at the more than 40,000 cafes, restaurants, pubs and other eating places in the region.

Anglian Water has recorded a slight increase in the number of Category 3 (minor) pollution incidents having recorded 187 to the end of September 2017 (2016: 159); this however remains a considerable improvement on previous years.

The number of Category 2 (significant) incidents remains steady, with four to the end of September 2017, the same number as at the end of September last year. One Category 1 (serious) pollution incident has been recorded in the first six months of 2017/18. This followed a pump failure at the Brackley sewage pumping station discharging sewage into the River Great Ouse.

Environment

Results for 2017 indicate that the number of bathing waters in the Anglian Water region classified as 'Excellent' by the Environment Agency will be similar to 2016, with 31 predicted to get the top classification needed for Blue Flag status. Bathing waters are classified on a four-year rolling average, so the number is expected to increase as the AMP 6 investment strategy takes effect. Third party diffuse pollution, such as misconnected private drains and run-off from agricultural land is the cause of problems in the majority of cases. Coastal catchment plans have been completed for all regional bathing waters, identifying these potential sources of diffuse pollution, and local partnerships with third parties are in place for the majority of areas, with the aim to minimise the impact of third party activity.

Water Resources

Anglian Water is preparing to issue the draft of its next Water Resource Management Plan (WRMP) for consultation. This is produced every five years to demonstrate the company has adequate resources to meet the current and future demands of its customers. The new plan will cover the period from 2020 to 2045. Since the last WRMP was published, Anglian Water has developed its understanding of longer term, more strategic water resource issues through its leading role in producing the Water UK long-term planning framework and in the Water Resource East project. Anglian Water has also researched customer attitudes to the types of schemes needed to maintain the supply-demand balance.

The region's water resources are secure at the start of the 2017/18 recharge season. At Pitsford water levels have been kept at lower than normal to carry out operational work. This is now complete and the reservoir is planned to return to normal levels over the coming recharge season as weather conditions allow. Rainfall in the Anglian Water region for the first six months of 2017/18 has been 116% of the long term average. This has allowed groundwater levels in the south of the region to recover from a low point earlier in the year.

6.0 Financing

Additional funds were raised in the six months ended 30 September 2017 with a £250.0 million 1.625% 2025 Class A sterling Green Bond, the first issued by the utility industry. The proceeds will be used to fund capital expenditure projects. Debt repayments of £63.5 million were made in the period as a £55.0 million facility drawing was repaid along with £8.5 million amortising index linked borrowings falling due for repayment.

There have been no changes to credit ratings in the period, which are as follows:

Fitch Ratings:	A;	BBB+
Standard and Poor's:	A-;	BBB
Moody's:	A3;	Baa3; Corporate Family Rating Baa1

Anglian Water continues to focus on the efficient management of cash resources and during the period increased its Operating and Maintenance Reserve Liquidity Facility by £15.0 million to £111.0 million (31 March 2017: £96.0 million). This is in addition to the existing Debt Service Reserve Liquidity Facility of £279.0 million (31 March 2017: £279.0 million).

Three real coupon RPI inflation swaps with final accretion payments were restructured in the period to include 10-year accretion pay downs going forward.

7.0 Dividends

Distributions have been paid to the shareholder, AWG Group Ltd as follows:

03 Apr 2017 £62.2 million – special dividend to fund the transfer of the non-household business.
31 May 2017 £61.1 million - in relation to 2016/17 final dividend.

8.0 Health and Safety

Several internal campaigns conducted over a number of years have resulted in behaviour changes that have led to continuous improvements in Anglian Water's health and safety metrics. Anglian Water's RIDDOR Accident Frequency Rate of 0.11 remains below the water industry average. Anglian Water maintained its OHSAS18001 certification during the year, following an LRQA assessment, confirming it has a robust health and safety management system in place. A three year health and safety strategy has been developed to ensure continuous improvement focusing on cultural change, through the company's LIFE programme.

9.0 Significant Board / Management Changes

The Board of Anglian Water Services Ltd comprises:

Dr Stephen Billingham	Non-Executive Chairman		
Peter Simpson	Chief Executive Officer	)	Executive
Chris Newsome, OBE	Director of Asset Management	)	Executive
Jean Spencer	Strategic Growth and Resilience Director	)	Executive
Scott Longhurst	Managing Director Finance & Non-Regulated Business	)	Executive
Dame Polly Courtice	Independent Non-Executive Director		
Steve Good	Independent Non-Executive Director		
John Hirst	Senior Independent Non-Executive Director		
Paul Whittaker	Independent Non-Executive Director		
James Bryce	Non-Executive Director		
Duncan Symonds	Non-Executive Director, appointed 01 November 2016		
Niall Mills	Non-Executive Director		

The following Directors resigned during the year:

Werner Kerschl	Non-Executive Director, resigned 01 November 2016

Anglian Water is managed by the AWS Management Board, which, as at 30 September 2017, in addition to the Executive Directors referred to above, included:

Claire Russell	Legal Director
Mark Pendlington	Director of Corporate Affairs
Fiona Guthrie	Director of Human Resources
Alex Plant	Director of Regulation
Paul Gibbs	Director of Water Recycling Services
Ian Rule	Director - Wholesale Services and Customer Services
Paul Valleley	Director of Water Services
Richard Boucher	Business Change and Strategy Director
Iain Fry	Director of Information Services, appointed 1 September 2016
Jason Tucker	Director of Alliances & Integrated Supply Chain

Anglian Water will be holding a meeting for investors in London on 30 November 2017.

10.0 Green Bond

Background

On 10 August 2017 Anglian Water received the Settlement of the funds from the £250m 1.625% Green Bond maturing 10 August 2025, which was issued in accordance with the ICMA Green Bond Principles, 2017 (“GBP”). Anglian Water undertakes all capital expenditure projects through its Governance framework which is subject to PAS2080 accreditation, a standard launched by the Green Construction Board to encourage a consistent approach to the management of carbon by all involved in infrastructure and setting out principles and components to manage whole life carbon emissions and deliver reduced carbon over the whole value chain. As a consequence, all of the expenditure undertaken falls within the eligible project category, outlined in the GBP, being related to: “sustainable water and wastewater management including sustainable infrastructure for clean and/or drinking water, wastewater treatment sustainable urban drainage systems and river training and other forms of flooding mitigation”.

The net proceeds received were £247.8m. Funds will be transferred out of the Capex bank account as expenditure is undertaken. Anglian Water will maintain a buffer of additional Green Bond projects over the Green Bond proceeds with additional collateralisation of circa 30%.

Portfolio

Cumulative Eligible Green Projects in the Eligible Green Portfolio as at 30/09/2017 are summarised in the following table:

Eligible Green Projects	**Sustainable Water Management**	**Sustainable Water Recycling**	**Total**
	£k	**£k**	**£k**
Capital Maintenance	28,022	45,276	73,298
Enhanced Service Level: and additional standby generation	30,409	6,668	37,077
Growth (Supply Demand)	9,637	19,305	28,942
Quality	19,235	68,374	87,609
Grand Total	**87,304**	**139,623**	**226,927**
>30% Buffer			**(52,368)**
Spend Financed to Date			**(161,000)**
Spend Available to Transfer 31/09/2017			**13,559**
Net Proceeds			**247,800**
Spend Financed to Date			**(161,000)**
Proceeds Unallocated			**86,800**

PR09 Baseline CO2 (eT)	**Actual CO2 (eT)**	**Reduction in CO2 (eT)**	**Reduction in CO2 (%)**
139,895.70	55,180.17	84,715.53	61%

Funds totalling £161m have been transferred from the Capex Reserve Bank Account in order to fund the expenditure to date on the Portfolio. This leaves £86.8m to be invested in additional spend as at 30th September 2017.

Green Projects

All Water and Water Recycling expenditure undertaken by Anglian Water falls within the eligible project categories recommended in the Green Bond Principles 2017. However, for reporting and monitoring purposes in accordance with the Anglian Water Green Bond Framework certain projects are selected into a "Green Bond Portfolio". Total spend to date across the projects allocated to the Green Bond Portfolio is £161m achieving 84,715 tonnes of carbon, a 61% reduction from the 2010 baseline, which is subject to the PAS2080 accreditation. Examples of some of the projects are given below:

Capital Maintenance

Sustainable Water Maintenance: This category concerns works on the current network where there is a potential risk event for adverse conditions such as discolouration, taste/odour or for example high levels of manganese or iron for example.

Dalton Piercy Water Treatment Works -Manganese and Turbidity: Total Project spend £5.9m; total carbon saving 30%
This project provided resilience to 41,766 domestic properties and 2,234 non-domestic properties including 3 major industrial customers from plant shut downs due to high levels of manganese and discolouration. Through reducing the quantity of pipework and steelwork used in construction, together with a reduction of the number of tanks required by circa 50%, a reduction of carbon from the original design of c.418eT will be achieved.

Sustainable Water Recycling Maintenance: Many of the projects in this category revolve around ensuring future resilience and enhanced treatment of sludge to reduce the impact on the environment and food production.

Chelmsford STC Enhancement & Maintenance: Total Project spend £9.3m; total carbon saving 24%
This project improved compliance with the Biosolids Assurance Scheme for cake, a stabilised organic material used by farmers as a fertiliser. It saw enhanced digestion with a 30% increase in gas generation which is used for electricity.
A reduction of carbon from the original design of c.330eT will be achieved.

Enhanced Service Level

Sustainable Water:

Grafham Resilience: Total Project spend £28m (£19m AMP5 spending); total carbon saving 62%
This is an example of continual innovation in the building of ever more resilient systems to meet challenges of growth and climate change. It is a £28million scheme to make supplies of clean drinking water to more than 600,000 people more secure, designed to accommodate growth in one of the fastest growing regions in the country. It pioneers the use of existing infrastructure to reverse flows in mains linking Grafham and Wing Water Treatment Works, and utilises a state-of-the-art storage reservoir and pumping station.

It is the largest pre-cast service reservoir in Europe: 40 megalitres, the size of 16 Olympic swimming pools.
The final scheme came in £32m cheaper and saved 62% of embodied carbon of the original design.
A reduction of carbon from the original design of c.26,845eT will be achieved.

Sustainable Water Recycling:

Norwich, Orchard Close – flood alleviation: Total Project spend £1.6m; total carbon saving 70%
This is a scheme that resolved internal and external flooding to 33 properties. It is located in an area that has a history of flooding and is a good example of work around climate change adaption and growth, with the solution designed to provide protection for 1:30 year storm with climate change uplift.
A reduction of carbon from the original design of c.609eT will be achieved.

Growth (Supply Demand)

Sustainable Water:

Norwich Sustainability: Total Project spend £31m; total carbon saving 44%
This scheme at Heigham Water Treatment works in Norwich is to protect the environment along the River Wensum and secure supplies for the growing city of Norwich. This project impacts on 98,142 properties.
A reduction of carbon from the original design of c.3053eT will be achieved.

Sustainable Water Recycling: Most of these projects are based around new sewerage infrastructure for new housing developments. With Anglian Water serving one of the fastest growing regions, these developments need to be designed with future growth in mind as well as the environmental impacts.

East of Kettering S98: Total Project spend £6.4m; total carbon saving 44%
This scheme is required to increase the sewerage network capacity to accommodate flows from 5,500 new properties in the East of Kettering and reduces the risks of flooding and pollution from over-capacity.
A reduction of carbon from the original design of c.983eT will be achieved.

Quality

Sustainable Water:

Twelve Acre Wood Nitrate: Total Project spend £6.4m; total carbon saving 44%
This project is for the protection of 35,092 properties from a predicted increase in future nitrate levels. By changing the location and restricting external construction works, this project ensured strict mitigation for disturbance of the migratory path of Stone Curlews.
A reduction of carbon from the original design of c.983eT will be achieved.

Sustainable Water Recycling: This is the largest category of spend within the Green Bond portfolio and captures spend of c.£33m on projects which prevent deterioration to the environment in accordance with the Water Framework Directive and c.£24m on first time sewerage connections in rural areas where a cost-effective solution is developed that protects the environment from pollution and is future proofed for future sustainable growth.

West Pinchbeck: Total Project spend £10.2m; total carbon saving 52%
Provision of mains drainage to provide first time sewerage connections for 263 properties including a school.
A reduction of carbon from the original design of c.1585eT will be achieved.

Southend Bathing Water Improvements: Total Project spend £6.4m; total carbon saving 52%
Southend's thriving tourism economy has been boosted by this £3million investment to increase the capacity of the sewer system and thereby the quality of the local popular bathing waters.
A reduction of carbon from the original design of c.829eT will be achieved.

Ratios

1.0 Historical

Anglian Water confirms that in respect of the six months ended 30 September 2017, by reference to the most recent financial statements that it is obliged to deliver to you in accordance with Paragraph 1 (Financial Statements) of Part 1 (Information Covenants) of Schedule 5 (Covenants) of the CTA:

		30 Sep 2017	30 Sep 2016	31 Mar 2017
a)	The Class A RAR	**65.2%**	70.1%	65.9%
b)	The Senior RAR for each Test Period	**77.9%**	80.8%	79.0%
c)	The Class A ICR	**3.2:1**	2.8:1	3.1:1
d)	The Class A PMICR for each Test Period	**n/a**	n/a	n/a
e)	The Senior PMICR for each Test Period	**n/a**	n/a	n/a
f)	The ratio of Net Cash Flow minus Capital Maintenance Expenditure to Class A Debt Interest	**2.1:1**	2.0:1	2.0:1
g)	The Conformed Class A PMICR for each Test Period	**1.7:1**	1.6:1	1.6:1
h)	The Conformed Senior PMICR for each Test Period	**1.5:1**	1.4:1	1.4:1

2.0 Forward Looking

Anglian Water confirms that each of the above Ratios, the Conformed Class A Average PMICR and the Conformed Senior Average PMICR have been calculated in respect of each of the Test Periods for which they are required under the Common Terms Agreement (i.e. 31 March 2016 to 31 March 2020) and that none of those ratios have breached the Trigger Event Ratio Levels or caused Paragraph 20 (Ratios) of Schedule 7 (Events of Default) of the Common Terms Agreement to be breached. Forward looking calculations in respect of the periods to 31 March 2020 are based on Anglian Water's current Business Plan.

3.0 Computations

Set out in sections 4.0 and 5.0 are the details necessary to make the computations.

Anglian Water also confirms that:

(a) no Default or Potential Trigger Event is outstanding; and

(b) Anglian Water Services Limited insurances are being maintained in accordance with:

  (i) Schedule 16 (Insurances) of the Common Terms Agreement; and

  (ii) the provisions of the Finance Leases.

4.0 Interest Cover Ratios (ICR)

Interest Cover Ratios	**Trigger/Default**	**Actual Period to 30 Sep 17 £m**	Actual Period to 30 Sep 16 £m	Actual Period to 31 Mar 17 £m
Income		**589.2**	604.7	1,180.7
Operating Expenditure		**(269.5)**	(273.8)	(576.1)
Pre-capital maintenance cashflows		**319.7**	330.9	604.6
Capital Maintenance Expenditure		**(106.8)**	(92.1)	(207.1)
Depreciation		***(150.7)***	*(141.5)*	*(287.8)*
Post-Maintenance cashflow for PMICR		***169.0***	*189.4*	*316.8*
Post-Maintenance cashflow for Net Cash Flow ratio		**212.9**	238.8	397.5
Net Interest		**(112.5)**	(131.2)	(229.1)
Enhancement Capital Expenditure		**(68.7)**	(56.0)	(100.1)
NHH Disposal Proceeds		**78.9**		
Ordinary Dividends		**(61.1)**	(100.0)	(128.0)
Special Dividends		**(62.2)**		
Pre-financing cashflows		**(12.7)**	(48.4)	(59.7)
Interest Payable on Class A Debt:				
Finance Leases		**0.0**	0.0	(1.3)
Class A Bonds		**(98.0)**	(117.5)	(192.7)
MBIA Wrap Fees		**(2.3)**	(2.3)	(2.4)
Less Interest Receivable		**0.8**	1.6	2.4
Total net Class A debt interest		**(99.5)**	(118.2)	(194.0)
Interest Payable on Class B Debt				
Class B Bonds		**(13.0)**	(13.0)	(35.1)
Total Net Interest payable on Senior Debt		**(112.5)**	(131.2)	(229.1)
Interest Cover Ratios:				
Class A ICR	1.6:1	**3.2:1**	2.8:1	3.1:1
Senior PMICR	1.1:1	**n/a**	n/a	n/a
Class A PMICR	1.3:1	**n/a**	n/a	n/a
Conformed Senior PMICR	1.1:1	**1.5:1**	1.4:1	1.4:1
Conformed Class A PMICR	1.3:1	**1.7:1**	1.6:1	1.6:1
Ratio of Net Cash Flow minus Capital Maintenance Expenditure to Class A Debt Interest	1.0:1	**2.1:1**	2.0:1	2.0:1

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5.0 Regulatory Asset Ratios (RAR)

Regulatory Asset ratios	**Trigger/Default**	**As at 30 Sep 17 £m**	As at 30 Sep 16 £m	As at 31 Mar 17 £m
Class A Gross Debt:				
Finance Leases		**(33.3)**	(38.3)	(33.3)
Class A Bonds etc		**(5,512.2)**	(5,311.2)	(5,258.8)
Total Class A Gross Debt		**(5,545.5)**	(5,349.5)	(5,292.1)
Less cash balances and Authorised Investments		**602.1**	345.3	429.4
Total Class A Net Debt		**(4,943.4)**	(5,004.2)	(4,862.7)
Finance Leases		**(0.4)**	-	(0.4)
Class B		**(966.5)**	(766.5)	(966.5)
Total Senior Net Debt		**(5,910.3)**	(5,770.7)	(5,829.6)
Regulatory Asset Value (RAV)		**7,584.1**	7,141.4	7,376.0
Regulatory Asset ratios:				
Senior RAR (Actual)	85.0%	**77.9%**	80.8%	79.0%
Class A RAR (Actual)	75.0%	**65.2%**	70.1%	65.9%

6.0 Regulatory Performance

Regulatory Performance Data		**As at 31 Mar 17 £m**
FD Wholesale Totex		
Allowed Totex for PAYG (water)	12/13 prices	399.2
Allowed Totex for PAYG (wastewater)	12/13 prices	557.2
Total FD Allowed Totex for PAYG	12/13 prices	956.4
FD PAYG %		
PAYG % water	12/13 prices	50.8%
PAYG % wastewater	12/13 prices	50.5%
FD fast money		
Allowed water fast money	12/13 prices	202.9
Allowed sewerage fast money	12/13 prices	281.2
Total fast money	12/13 prices	484.1
Total fast money	Outturn prices	524.2
FD slow money		
Allowed water slow money	12/13 prices	196.3
Allowed sewerage slow money	12/13 prices	276.0
Total slow money	12/13 prices	472.3
Total slow money	Outturn prices	511.4
Total fast + slow money	Outturn prices	1,035.6
FD tax		
Tax in revenue building block	12/13 prices	8.4
Tax in revenue building block	Outturn prices	9.1
Comparison FD wholesale allowances vs actual wholesale spend		
FD fast money (excluding pensions)	Outturn prices	524.2
FD slow money	Outturn prices	511.4
FD fast + slow money (FD totex)	Outturn prices	1,035.6
Actual opex (excluding pensions)	Outturn prices	475.8
Actual capex	Outturn prices	348.3
Actual opex + capex (actual totex)	Outturn prices	824.1
Actual opex minus FD fast money	Outturn prices	(48.4)
Actual capex minus FD slow money	Outturn prices	(163.1)
Actual opex + capex minus FD fast + slow money = totex outperformance	Outturn prices	(211.5)
Reconciliation to post maintenance cashflow		
Opex per post maintenance cashflow	Outturn prices	(576.1)
Pension deficit repair payments per post maintenance cashflow	Outturn prices	(10.2)
Total opex plus pension deficit repair payments	Outturn prices	(586.3)
Made up of:		
Wholesale opex, including pension deficit repair payments and tax	Outturn prices	(506.4)
Other opex (Retail) + non-appointed	Outturn prices	(79.9)
Total opex plus pension deficit repair payments	Outturn prices	(586.3)
Other information		
Pension in outturn prices	Outturn prices	10.2
Project cash opex (for covenant calculation)	Outturn prices	576.1
Projected opex (ie pre working capital adjustments and CTA adjustments)	Outturn prices	555.1
Total cash opex inc pension	Outturn prices	548.7
Total opex (ie pre working capital adjustments and CTA adjustments) inc per	Outturn prices	565.3
Enchancement - wholesale	Outturn prices	173.5
Maintenance - wholesale	Outturn prices	203.1
Retail	Outturn prices	4.0
Non-regulated	Outturn prices	0.6
Total capex	Outturn prices	381.2
Wholesale capex outturn	Outturn prices	380.6
FD depn	12/13 prices	261.5
Outturn depn	Outturn prices	287.8
Calculation of RCV		
Opening RCV per FD	12/13 prices	6,490.8
Additions per FD	12/13 prices	472.2
Less RCF Run-Off per FD	12/13 prices	(261.5)
Closing RCV per FD using average 12/13 prices	12/13 prices	6,701.5
RPI to convert from price basis used by regulator to outturn prices at year er	Num	1.10
Opening RCV	Outturn prices	7,144.0
Additions	Outturn prices	519.7
Less RCF run-off	Outturn prices	(287.8)
Closing RCV	Outturn prices	7,376.0
Totex outperformance to clawback per Rulebook calculations [1]	Outturn prices	(121.6)
Shadow RCV	Outturn prices	7,254.4

[1] Updated to reflect actual outperformance in 2016 / 17.

7.0 Anglian Water Services Group – Movements in Debt Balances

	Opening Balance 31 Mar 2017 £m	New Issues £m	Repayment £m	Indexation £m	**Closing Balance 30 Sep 2017 £m**
Finance Leases	33.6				**33.6**
US Private Placements	0.0				**0.0**
Transferring Bonds:					
4.125% ILLS 2020	238.6			4.0	**242.6**
6.875% Fixed 2023	200.0				**200.0**
6.625% Fixed 2029	200.0				**200.0**
A4 Notes - 5.837% Fixed 2022	250.0				**250.0**
A6 Notes - 3.07% ILLS 2032	303.3			5.0	**308.3**
A7 Notes - 3.07% ILLS 2032	91.4			1.2	**92.6**
A8 Notes - 6.293% Fixed 2030	246.0				**246.0**
A11 Notes - 3.666% ILLS 2024	113.7			1.9	**115.62**
B17 Notes - 5.5% Fixed 2017/2040	150.0				**150.0**
A18 Notes - 2.4% ILLS 2035	563.9			12.6	**576.5**
A19 Notes - 1.7% ILLS 2046	68.0			1.1	**69.1**
A20 Notes - 1.7% ILLS 2046	68.1			1.0	**69.1**
A21 Notes - 1.7146% ILLS 2056	54.5			1.0	**55.5**
A22 Notes - 1.6777% ILLS 2056	68.1			1.2	**69.3**
A23 Notes - 1.7903% ILLS 2049	81.7			1.4	**83.2**
A24 Notes - 1.3825% ILLS 2056	68.1			1.0	**69.1**
A25 Notes - 1.3784% ILLS 2057	136.3			2.1	**138.4**
A26 Notes - LIBOR Plus 0.34%	100.0				**100.0**
A27 Notes - 1.449% ILLS 2062	97.3			1.1	**98.4**
A28 Notes - 1.52% ILLS 2055	64.9			0.7	**65.6**
A29 Notes - JPY 15bn 2.925% 2018/2037	65.9				**65.9**
A30 Notes - LIBOR Plus 0.85%	110.0				**110.0**
A31 Notes - JPY 5bn 3.22% 2019/2038	25.1				**25.1**
A32 Notes - Euro 500m 6.25% 2016	0.0				**0.0**
A33 Notes - 6.875% Fixed 2034 Private Placement	25.0				**25.0**
B34 £100m Class B 6.75% Bond Fixed to Floating 2024	0.0				**0.0**
European Investment Bank £50m 1.626% Term Facility 2019	62.9			1.3	**64.1**
European Investment Bank £50m 1.3% Term Facility 2020	61.8			1.3	**63.1**
A35 Notes - £130M 2.262% IL Bond 2045	158.2			3.4	**161.5**
Index Linked Swaps	83.0			11.1	**94.0**
Sub Total	**3,789.4**	**0.0**	**0.0**	**52.4**	**3,841.8**

Carried Forward	**3,789.4**	**0.0**	**0.0**	**52.4**	**3,841.8**
A36 Notes - US$160m 4.52% Private Placement 2021	99.1				**99.1**
B37 Notes - US$410m 5.18% Private Placement 2021	260.7				**260.7**
European Investment Bank £75m 0.53% index linked amortising term facility 2027	84.2		(4.3)	1.8	**81.7**
European Investment Bank £75m 0.79% index linked amortising term facility 2027	84.2		(4.3)	1.8	**81.7**
A38 Notes - £250m 4.5% 2027	250.0				**250.0**
A39 Notes - £31.9m 4.0% Private Placement 2022	31.9				**31.9**
A40 Notes - £73.3m 4.4% Private Placement 2028	73.3				**73.3**
A41 Notes - £50m 2.05% IL Private Placement 2033	53.5			1.2	**54.6**
A42 Notes - £15m 1.37% IL Private Placement 2022	17.6			0.4	**18.0**
B43 Notes - US$47m 5% Private Placement 2022	30.8				**30.8**
B44 Notes - £25.5m 4.2% Private Placement 2017	25.5				**25.5**
A45 Notes - £22.3m 4.0% Private Placement 2022	22.3				**22.3**
European Investment Bank £150m 0% index linked amortising term facility 2028	163.5			3.5	**167.0**
B46 Notes - £200m Class B 4.5% 2026	200.0				**200.0**
A47 Notes - £35m 1.141% IL Bond 2042	37.9			0.8	**38.7**
A48 Notes - US$170m 3.84% Private Placement 2023	110.5				**110.5**
A49 Notes - £93m 3.537% Private Placement 2023	93.0				**93.0**
B50 Notes - US$160m 4.99% Private Placement 2023	100.3				**100.3**
European Investment Bank £65m 0.41% index linked amortising term facility 2029	68.8			1.4	**70.2**
European Investment Bank £125m 0.1% index linked amortising term facility 2029	130.7			2.6	**133.4**
European Investment Bank £60m 0.01% index linked amortising term facility 2030	62.5			1.3	**63.7**
£500m RCF 2020	55.0		(55.0)		**0.0**
A51 Notes - £55m 2.93% Private Placement 2026	55.0				**55.0**
A52 Notes - $150m 3.29% Private Placement 2026	104.3				**104.3**
A53 Notes - £35m 1.35% Private Placement 2031	35.0				**35.0**
A54 Notes - £20m 2.93% Private placement 2026	20.0				**20.0**
B55 Notes - £200m 2.625% Class B 2027	200.0				**200.0**
A56 Notes - £250m 1.625% Green Bond 2025		250.0			**250.0**
	6,258.9	**250.0**	**(63.5)**	**67.0**	**6,512.4** [1]

[1] Before accounting adjustments which are not within the CTA definition of Net Debt.

8.0 Anglian Water Services Group – Profit & Loss Account

For the six months ended 30 September 2017

	Underlying results £m	Other items[1] £m	Total Six months ended 30 September 2017 £m	Total Six months ended 30 September 2016 £m
Revenue	634.8	-	634.8	620.9
Other operating income	7.6	-	7.6	7.0
Operating costs	(275.0)	-	(275.0)	(267.7)
Depreciation and amortisation	(157.2)	-	(157.2)	(153.3)
Operating profit	210.2		210.2	206.9
Finance income	0.8	96.4	97.2	97.8
Finance costs	(173.6)	-	(173.6)	(133.5)
Fair value gains/(losses) on derivative financial instruments	-	122.2	122.2	(238.7)
Net finance costs	(172.8)	218.6	45.8	(274.4)
Profit on business disposal	-	4.6	4.6	-
Profit /(loss) before taxation	37.4	223.2	260.6	(67.5)
Taxation (charge)/credit			(31.3)	78.6
Profit after taxation			229.3	11.1
Dividend to AWS Holdings Ltd			(96.4)	(96.4)
Dividend to AWG Group Ltd			(61.1)	(100.0)
Special dividend			(62.2)	-
Transfer to/(from) reserves			9.6	(185.3)

[1]Other items comprise fair value gains on derivative financial instruments and energy hedges of £122.2m (2016: loss of £238.7m), intra-group interest income of £96.4m (2016: £96.4m) and the one-off profit on the disposal of the non-household retail business of £4.6m.

9.0 *Anglian Water Services Group – Balance Sheet*

At 30 September 2017

		£m	£m	£m
<u>Non-current assets</u>				
Intangible assets				143.2
Property, plant and equipment				9,575.0
Investments				1,602.6
Derivative financial instruments classified as current and non-current assets				202.0
Retirement benefit surpluses				3.6
Net current liabilities excluding cash and debt repayable in less than one year				(287.3)
Retirement benefit obligations				(89.7)
Derivative financial instruments classified as current and non-current liabilities				(932.7)
Creditors amounts falling due after more than one year excluding debt				(1,369.7)
Cash and cash equivalents	Payments Account	288.1		
	Capex Reserve	86.8		
	Tax Reserve	40.0		
	Debt Service	187.2	602.1	
Financing liabilities	Bonds (excluding accrued interest)	(6,478.7)		
	Finance leases	(33.7)		
	Other[1]	(125.8)	(6,638.2)	
	Net Debt (excluding derivatives)			(6,036.1)
Net assets				2,811.0
Capital and reserves	Share capital			10.0
	Reserves b/f			2,778.5
	Actuarial loss on pension schemes			(7.5)
	Transfer to reserves for the period			9.6
	Loss on cash flow hedges			20.4
Capital and reserves				2,811.0

[1] Accounting adjustments that are not within the CTA definition of net debt (capitalised issue costs, accrued interest and IAS39 adjustments).

10.0 Anglian Water Services Group – Calculation of Annual Finance Charge

Instrument	Actual Interest Paid to 30 Sep 17 £m	Forecast Interest Payable to 31 Mar 18 £m
Class A Debt		
AAA Wrapped Bonds	21	29
A- Bonds	69	126
US Private Placements	10	19
Other	2	2
Class B Debt		
BBB Bonds	4	17
US Private Placements	9	23
Annual Finance Charge	114	215

The Annual Finance Charge represents cash interest payable by Anglian Water Services Financing Plc for each of the periods set out above.

11.0 Anglian Water Services Group – Derivatives Mark to Market Valuation

Derivative Counterparties Mark to Market (MTM) Valuations as at 30/09/17				
External Swap Counterparties	**Nominal Amount £m**	**MTM Positive Values £m**	**MTM Negative Values £m**	**MTM Total Values £m[2]**
BNP	568.4	27.9	(75.0)	(47.1)
Morgan Stanley	348.9	254.4	(400.3)	(145.9)
Lloyds Bank	812.4	33.9	(52.2)	(18.2)
JP Morgan	425.0	0.0	(166.6)	(166.6)
RBS	246.7	218.6	(255.5)	(36.9)
HSBC	33.0	2.6	0.0	2.6
Barclays	250.0	0.0	(45.1)	(45.1)
SMBC	125.0	2.8	(30.0)	(27.2)
Bank of Nova Scotia	166.7	0.0	(100.6)	(100.6)
CBA	401.9	72.1	(0.1)	72.0
Santander	943.4	46.2	(62.6)	(16.4)
Investor-held Instruments[4]	0.0	0.0	(190.8)	(190.8)
Anglian Water[1]	4,321.4	658.5	(1,378.8)	(720.2)

Notes

1. All Interest Rate Swaps are transacted under ISDA agreements between Anglian Water Services Financing Plc and External Swap Counterparty.
2. Valuations exclude accrued interest to valuation date.
3. RPI swaps with SMBC Nikko (£50m), JP Morgan (£175m), Bank of Nova Scotia (£100m) have terms with periodic paydown of accrued indexation at 5 yearly intervals. The RPI swap with Morgan Stanley (£25m) pays down accrued indexation at 10 yearly intervals.
4. Three real coupon RPI inflation swaps with final accretion payments were restructured in the period to include 10-year accretion pay downs going forward.