Anglian Water Services Financing Plc

Anglian Water Services Limited

Investor Report

For the six months ended 30 September 2019

Prepared in accordance with International Financial Reporting Standards (IFRS)

Final

Investor Report

Contents

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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 2019.

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 2019.

1.0 Financial Performance for the six-month period ended 30 September 2019

The consolidated financial results for the six months ended 30 September 2019, which are unaudited, are presented as follows:

	Half-year ended 30 September 2019 £m	Half-year ended 30 September 2018 £m (Restated)[1,3]
Revenue	717.0	694.6
Other operating income[1]	7.5	7.4
Operating costs[1]	(320.7)	(304.6)
Depreciation and amortisation	(180.8)	(171.0)
Operating profit	223.0	226.4
Finance income	2.6	0.8
Underlying finance costs[2]	(170.9)	(165.3)
Underlying profit before tax	**54.7**	**61.9**
Finance costs – fair value (losses)/gains on financial derivatives	**(171.3)**	**56.3**
(Loss)/profit before tax	**(116.6)**	**118.2**
Tax credit/(charge)	**18.3**	**(28.3)**
(Loss)/profit after tax	**(98.3)**	**89.9**

[1] The comparative other operating income and operating costs have been restated for the reclassification of certain income, previously treated as negative expenditure, as other operating income under IFRS 15. This has the effect of increasing other operating income in the prior period by £ 7.4 million, and increasing operating expenditure by the same amount, and therefore operating profit is unchanged for this reclassification.
[2] In order to show pre-tax performance on an underlying basis the fair value gains and losses on financial derivatives have been excluded from the underlying finance costs.
[3] On 1 April 2019, IFRS 16 'Leases' came into effect. The principal consequences of this new standard are that a lease liability reflecting future lease payments and a 'right-of-use' asset are recognised on the balance sheet, and an interest expense on the lease liability and depreciation on the 'right-of-use' asset are recorded in the income statement. It is noted that IFRS 16 was not applied retrospectively, as permitted by the standard, and therefore the comparatives are not presented on an IFRS 16 basis.

Revenue

Revenue for the period was £717.0 million, an increase of £22.4 million over the same period in the previous year. The overall increase primarily reflects the uplift in regulatory pricing for annual inflation, growth in customers and increased housing developer activity, partially offset by a slight fall in household consumption compared with the above average demand experienced in the hot, dry summer of 2018.

Other operating income

Other operating income, which is up marginally on the prior period, comprises external income from power generation, biosolid revenue, rents received and various other non-core activities.

Operating costs

Operating costs increased by £16.1 million (5.3 per cent) on the same period last year to £320.7 million. This is primarily driven by an increase in minor repair activities including remedial actions following the localised flooding in June, reinvestment in leakage prevention and general inflationary pressures. The following table sets out the principal movements in the period.

Increases/(decreases) in operating costs (before depreciation and amortisation)	**£m**
Costs relating to "Beast from The East" and hot, dry summer 2018 in prior year not repeating	(6.5)
General inflationary increases	8.6
Increase in minor repair activities to maintain water and waste water below ground infrastructure	7.4
Reinvestment in leakage recovery and prevention	5.5
Operating costs of newly commissioned plant	2.0
Increase in chemical costs	1.6
Increase in insurance costs	1.4
Reduction power costs	(1.6)
Net efficiency savings achieved	(2.3)
Net increase in operating costs	**16.1**

Depreciation

Depreciation and amortisation is up 5.7 per cent compared with the same period last year, consistent with the impact of newly commissioned assets in the period.

Operating profit

Operating profit has decreased by 1.5 per cent to £223.0 million, which is consistent with higher operating costs and increased depreciation, partially offset by the effect of the revenue increases.

Finance costs

The underlying finance charge for the period was £170.9 million, an increase of £5.6 million compared with the same period last year. This is driven by an increase in the group's borrowings as the group continues to invest in capital assets as well as strengthening its liquidity position to allow for any market volatility surrounding the regulatory determination process. This increase has been partially offset as cheaper new debt issuance has replaced more expensive maturing debt, and through lower interest costs on inflation linked debt due to lower inflation year on year. Finance income has risen by £1.8 million to £2.6 million principally due to the higher average cash deposits held in the period.

The fair value losses on financial derivatives of £171.3 million (gain in 2018: £56.3 million) is primarily a result of the average fall in interest of 41 basis points (2018: 21 basis points increase), which more than offset a smaller 10 basis points fall in average levels of forward inflation curves (2018: 14 basis points increase which reduced the overall gain in 2018). Fair value gains and losses in the prior year included a charge of £11.7 million relating to the restructuring of derivatives which were cash settled in the period. The fair value losses in the current period are non-cash in nature and have no material effect on the underlying commercial operations of Anglian Water.

Taxation

Compared to the same period in the previous year the total tax charge has reduced by £46.6 million from a charge of £28.3 million last year to a credit of £18.3 million. This is primarily due to a reduction in profit before tax caused by the downward movement in fair value (losses)/gains on derivative financial instruments which gives rise to a deferred tax credit. Also, in the prior year the company had a particularly high current tax charge and deferred tax credit as a result of the transition to IFRS 15 and disclaimed capital allowances to utilise Advance Corporation Tax.

Over the full year total taxes paid or collected other than corporation tax will amount to in excess of £200 million, the most significant payments are in relation to business rates, employment taxes, VAT, environmental taxes and abstraction licences.

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

Dividends

Dividends paid and available to the ultimate shareholders in the period amounted to £67.8 million (2018: £68.0 million). No interim dividend is planned for the second half of this year, which is consistent with the board's decision to reduce dividends in order to lower gearing and to help fund the additional £165 million of capital reinvestment announced by the board over the last few years.

Net debt and cash flow

In respect of financing, the group continues to develop its funding profile to provide an economic hedge against the regulatory transition from RPI to CPIH linked revenues, and to align financing with the group's focus on sustainability. In June the group finalised the terms of a JPY 7 billion (£50.9 million) 20 year 0.855 per cent fixed rate green bond issuance, proceeds of which have been swapped to provide protection against movements in the Libor rate for the first year, and CPI rates thereafter. In addition, in April the Group received £65 million in relation to the 2.87 per cent fixed rate forward starting green bond traded in October 2018, this has been swapped into CPI. The group has increased and extended its existing bank facilities in order to lay the foundation for the funding of AMP7. To this end £550 million of the group's syndicated and bilateral facilities have been extended to mature in 2024 (with two additional one year extensions subject to lender consent) and the interest rate applicable on the facilities has been linked to the core ESG (environmental, social and corporate governance) objectives of reducing carbon, improving the efficient management of water resources through consumption and leakage reductions, minimising pollution incidents and supporting vulnerable customers.

As a result of the new leasing standard, IFRS 16, the company has brought on balance sheet £36.8m of lease debt, principally in respect of rented properties, and to a lesser extent hired vehicles.

Debt repayments in the period amounted to £126.3 million as a result of settling the JPY 5 billion (£34.7 million) 3.22 per cent fixed coupon and the £50 million 1.626 per cent RPI linked loans, and various other smaller scheduled amortising debt payments as they fell due.

Anglian Water generated cash from operations of £366.2 million in the period (2018: £360.7 million). The 1.5 per cent increase reflects the higher level of revenues, partially offset by higher operating costs.

2.0 Regulatory Update

PR19 Draft Determination

Ofwat published its Draft Determinations for the three fast-track companies in April and companies assessed as 'slow-track' or 'significant scrutiny' in July. The Draft Determinations confirmed Ofwat taking a tougher, more stretching position across all areas, with significant reductions in average bills for all of the non-fast track companies. For Anglian Water, the net impact of the Draft Determination was for Anglian Water's bills to fall by 12% at the start of AMP7, compared to the bill reduction set out in the Post-IAP submission of 0.1%.

Ofwat lowered its weighted average cost of capital (WaCC) from 2.40%, (on an RPI basis, at appointee level and using the assumptions in the September business plan) by 21 basis points to a revised value of 2.19% in Draft Determinations. In its response, Anglian Water commented that it considered neither the notional nor the actual company to be financeable at this level of WACC when combined with the other components of the overall DD package. Most companies made the same conclusion and many warned against a further reduction in WaCC signposted by Ofwat for the Final Determination.

The difference between Anglian Water's view of efficient totex costs and Ofwat's widened to £1.3bn (20.5%), an increase from £1.24bn at IAP. Whilst the gap was at the top end for the sector, many other companies also have significant differences between their view of necessary expenditure and Ofwat's.

Anglian Water responded to Ofwat's Draft Determination on 30 August. The representation defended Anglian Water's view of the investment required to enhance the resilience of the region and facilitate the region's sustainable growth ambitions. Anglian Water presented information that will close the gap between Ofwat's view of totex, c. £900m, which highlighted where Ofwat's assessment of efficient costs ignores important drivers (particularly in relation to growth) and reminded Ofwat that the business plan was rooted in the clear views expressed by Anglian Water customers.

The company also responded to the challenge Ofwat set on costs. The Board agreed to:

- accept Ofwat's proposal to treat the Elsham treatment and transfer scheme as suitable for Direct Procurement for Customers. This is a total of £122m.
- reduce proposed botex expenditure by around £100m
- reduce proposed enhancement expenditure by around £160m through a mixture of efficiency and scope reduction.

Since the submission of the representation Anglian Water has held discussions with Ofwat to identify areas where the company can provide further help to reach an acceptable Final Determination. Ofwat will publish its Final Determination for all companies on 16 December 2019.

Regulating to protect consumers in utilities, communications and financial services markets

The purpose of this report by the National Audit Office was to assess how well Ofwat, Ofgem, Ofcom and the Financial Conduct Authority (FCA) measure and report their performance in protecting the interests of consumers. It concluded that they have good insight into consumer concerns and issues but are not sufficiently specific and targeted in setting out what overall outcomes they want to achieve for consumers, and therefore what information they need to evaluate and report on their overall performance robustly. Until the regulators achieve this, they will not be able to give consumers confidence that they are providing value for money, or adequate overall levels of protection for those who need it. It says that all four regulators are developing performance frameworks, but that Ofwat has made the least progress.

The report recommended that regulators should:

- Do more to translate their high-level intended consumer outcomes into what this means in practical terms. This should be underpinned by detailed indicators or targets that, where possible, are attributable to their regulatory performance, and that can be used to measure performance in protecting the interests of consumers.

- Work together to develop a consistent approach to modelling and measuring regulatory influence and impact, and providing links between regulatory activities, outputs and consumer outcomes.
- Ensure that their public reporting of performance includes clear benchmarks, trends over time and analysis of the underlying factors affecting outcomes.

Development of markets

During the summer, Ofwat wrote to all water companies in relation to their role in the development of markets in the sector. The letter said that Ofwat sees numerous, persistent examples of incumbent water companies failing to support the development of effective markets – in particular the markets for business retail and developer services. The letter set out the areas of improvement Ofwat expected and promised to consider what further steps it needed to take. Anglian Water subsequently received a detailed request for information on how it is supporting competitive markets. Anglian Water awaits Ofwat’s response once it has analysed companies’ responses to this information request.

Public Interest Commitment and social contract

Responding to public concerns about the social purpose of business, Water UK published its Public Interest Commitment (PIC) in April. This document confirmed that the sector recognises the unique role it plays in running a vital public service for the public good and set out how the Board of Water UK will work with companies in England to do more to meet the high expectations which come with that role. It included a programme of work to further increase public trust in the sector, with specific commitments in five areas: leakage, affordability, carbon, plastic waste and social mobility.

In June the board approved a fundamental change to Anglian Water’s Articles of Association to enshrine its long-term commitment to deliver wider public interest outcomes for society and the environment. Embedding public interest objectives in the Articles of Association means the company's board must take account of the wider impact Anglian Water has on customers, communities and the environment, as well as delivering a fair return for shareholders. The board also committed to sign up to a set of Responsible Business Principles and to report on its performance as a responsible business.

3.0 Service Performance Overview

Service Delivery Report

Anglian Water was the top-performing company in Ofwat's 2018/19 Service Delivery Report, scoring in the Top 25 per cent for seven of the 10 measures cited (wholesale, customer service, meeting performance commitments, earning financial incentives, leakage, water quality contacts and internal sewer flooding) and in the top 50 per cent for the remaining three (retail, supply interruptions and pollution incidents).

Service Incentive Mechanism

In August 2019 Anglian Water was, for the second consecutive year, confirmed in first place in the 2018-19 Service Incentive Mechanism (SIM) being the only company to ever achieve a SIM score of 90 out of a possible 100. This was however the last reporting year for both the quantitative and qualitative elements of the service incentive mechanism (SIM).

A new customer measure of experience (C-MeX) is replacing the service incentive mechanism. During 2019-20 C-MeX is being run in shadow form, prior to it becoming a reportable measure from April 2020. C-MeX will be a single score calculated from two separate measures of residential customer satisfaction. A customer service survey of residential customers who have contacted their water company; and a customer experience survey of randomly selected residential customers, i.e. not just those who contacted their company.

4.0 Capital Expenditure

Gross regulated capital investment in the six months to 30 September 2019 was £204.8 million (2018: £211.7 million). This is in line with management expectations and includes £25.2 million in relation to Anglian Water previously announced £165.0 million reinvestment programme, which will, among other benefits, improve resilience in some critical parts of the network.

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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

Performance to date this year with the 'traditional' DWI water quality measures is strong with the overall measure for drinking water quality compliance (mean zonal compliance) at 99.96% (2018: 99.95%) at the end of September 2018. A key area of focus is on coliform compliance at the company's water treatment works and storage points with key workstreams to improve performance in this area. Anglian Water estimated Compliance Risk Index (CRI) score to end Sep 2019 is 0.86 with a current year end forecast of 1.35 which is below the target of 3.15 and a continued improvement on previous years (2016 – 8.30, 2017 – 3.20, 2018 – 1.82). This is largely due to a reduction in metaldehyde exceedances due to careful abstraction management and catchment management activities.

Anglian Water's estimated Event Risk Index (ERI) score to end Sep 2019 is 3.5. This is a new measure and is difficult to forecast but the score to the end of September puts us in a strong position to again have an industry leading position on this metric. Last year Anglian Water's score was 9.1 which was significantly below the National Average for 2018 of 784.

Anglian Water also continues to have a strong performance in reducing customer contacts related to water quality. The acceptability contact rate (per 1000 population served) to end Sep is 0.86 with a forecast of 1.09 at year end. This is again below Anglian Water's ODI target of 1.23, and a reduction from 2018 (1.18). In the key summer months, Anglian Water received 134 less contacts than the same period last year. Anglian Water received positive feedback in the Chief Inspectors Report 2018 and the launch presentation in July this year. Anglian Water continues to develop and deliver the DWI engagement strategy and learn from industry events.

Water Recycling

In the six months to the end of September 2019 Anglian Water have seen 110 Category Three pollution incidents - Minor (2018: 88), 8 Category Two - Significant (2018: 2) and 1 Category One – Serious (2010: 0).

Environment

Results for 2019 indicate that the number of bathing waters in the Anglian Water region classified as 'Excellent' by the Environment Agency has deteriorated, with 30 expected to get the top classification needed for Blue Flag status. The predicted run rate at the start of the year was to exceed the performance in 2018 (32 Excellent) however, the EA took duplicate samples from the Lincolnshire beaches during the extreme flooding at the start of the summer as a result of needing to catch up their sample frequency due to their sampling vehicle breaking down. This, in conjunction with the EA taking samples at an incorrect location at Wells bathing water for 2017 and 2018 has resulted in 3 beaches dropping a classification from 'excellent' to 'Good' . Challenge to the EA over the sampling practices has been unsuccessful.

The predicted financial impact of this performance on the ODI is £12.0m.

There is no evidence to indicate that any Anglian Water asset has contributed to deteriorating bathing water quality. Beaches in the Southend region continue to make steady improvement as a result of the asset investment at the start of the AMP.

Water Resources

The region's water resources remain secure at the end of the as Anglian Water enters the 2019/20 recharge season despite lower than average rainfall over the last eighteen months in the eastern part of the region. The majority of reservoirs across the region, are at or close to target for the time of year with overall storage at 90%. However, Alton Water in Ipswich is exceptionally low groundwater levels in the east of the region are below normal for the time of year with some locations recording historic low levels.

The Drought Management Team has been convened and met for the first time in February 2019. The team are preparing are implementing measures to prepare for the onset of a second dry winter. The situation is being closely monitored with enhanced data collection and projection. A programme of enhanced maintenance and optimisation is being implemented over the autumn and winter period and levels of customer communication are increasing in response to the dry weather situation, in order to help manage demand. If the region receives below average rainfall over the autumn winter season it is possible there will be a need to customer restrictions in the spring of 2020.

6.0 *Financing*

During the period under review Anglian Water issued a 20-year 7bn JPY bond, wholly subscribed by AFLAC Insurance, and the company concluded negotiations with EDC (Canada's Export Credit agency) on a term-loan £100m: for 5 years with a 6-month drawdown period. Anglian Water renewed existing credit facilities: adding an extra £50m to the revolving credit facility and re-negotiating an extension to one of the bilateral facilities.

Debt repayments during the period to September 2019 were £115.1m consisting of a JPY5bn Bond, £50m EIB bond and £21.6m of EIB amortising debt.

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

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

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7.0 Dividends

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

30 May 2019 £67.8 million – in relation to the 2018/19 final dividend. The dividend was lower than the funds available for distribution, reflecting the board's stated intention of reducing gearing by paying lower dividends through to 2025.

8.0 Significant Board / Management Changes

The Board of Anglian Water Services Ltd comprises:

Dr Stephen Billingham, CBE	Independent Non-Executive Chairman	
Natalie Ceeney, CBE	Independent Non-Executive Director	
Dame Polly Courtice	Independent Non-Executive Director	
Zarin Patel	Independent Non-Executive Director	
John Hirst, CBE	Senior Independent Non-Executive Director	
Paul Whittaker	Independent Non-Executive Director	
Peter Simpson	Chief Executive Officer	) Executive
Steve Buck	Chief Financial Officer, appointed 1 August 2019	) Executive
James Bryce	Non-Executive Director	
Duncan Symonds	Non-Executive Director	
Niall Mills	Non-Executive Director	

The following Directors resigned during the year:

Scott Longhurst	Managing Director Finance & Non-Regulated Business, resigned 31 July 2019 (Executive Director)

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Anglian Water is managed by the AWS Management Board, which, as at 30 September 2019, in addition to the Executive Directors referred to above, included:

Claire Russell	Legal Director / Company Secretary
Ciaran Nelson	Director of Brand and Communications
Susannah Clements	Group Director of People and Change
Alex Plant	Director of Strategy and Regulation
Paul Gibbs	Director of Water Recycling Services
Ian Rule	Director of Customer and Wholesale Services
Paul Valleley	Director of Water Services
Richard Boucher	Group Strategy and Risk Director
Iain Fry	Director of Information Services,
Jason Tucker	Director of Strategic Delivery and Commercial Assurance

Anglian Water will be holding a meeting for investors in London on 5 December 2019.

9.0 Green Bond Impact Reporting

Background

In 2017 Anglian Water issued its first Green Bond 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”.

Net proceeds of £811.2m have been received to the end of September 2019 over five green bonds:

Bond	Issue Date	Maturity Date	Proceeds (£m)	ISIN
Green Bond 1	10/08/2017	10/08/2025	248.6	XS1659112616
Green Bond 2	26/10/2018	26/10/2029	296.6	XS1895640404
Green Bond 3	06/02/2019	06/02/2029	150.1	GB00BH0PBJ92; GB00BH0PBK08; GB00BH0PBL15
Green Bond 4	16/04/2019	16/04/2029	65.0	N/A
Green Bond 5	20/06/2019	20/06/2039	50.9	XS2010166572

Funds will be transferred out of the Capex bank account as expenditure is undertaken.

Portfolio

Cumulative Eligible Green Projects in the Eligible Green Portfolio as at 30/09/2019 are summarised in the following table:

Eligible Green Projects	Sustainable Water Management	Sustainable Water Recycling	Total	Reduction in CO2
	£m	£m	£m	%
Green Bond 1	139.3	200.9	340.2	60%
Green Bond 2	141.9	240.5	382.5	62%
Green Bond 3	42.2	81.3	123.5	63%
Green Bond 4	20.3	82.4	102.8	65%
Green Bond 5	33.7	36.5	70.2	57%
Total Portfolio Spend	**377.4**	**641.7**	**1,019.1**	**61%**
Spend Buffer[1]			(235.2)	
Spend Available For Allocation			**784.0**	
Net Proceeds			**811.2**	
Proceeds Allocated To Date			**718.4**	
Proceeds Unallocated			**92.8**	

[1] Spend Buffer: the 2018 Green Bond Framework requires a healthy buffer of investments be maintained

Funds totalling £718.4m have been transferred from the Capex Reserve Bank Account in order to fund the expenditure to date on the Portfolio. This leaves £92.8m to be invested in additional spend as at 30th September 2019.

Green Projects

All Water and Water Recycling expenditure undertaken by Anglian Water falls within the eligible project categories recommended in the Green Bond Principles 2018. However, for reporting and monitoring purposes in accordance with the Anglian Water Green Bond Framework, certain projects are selected into a number of "Green Bond Portfolio". 160,736 tonnes of carbon, a 61 per cent reduction from the 2010 baseline, will be saved across the projects allocated to the Green Bond Portfolios. £718.4 million of the funds received from the three green bonds have been allocated against a total project spend of £1,019.1 million, the difference being the spend buffer. Examples of some of the projects are given below; these and other selected examples can be found on Anglian Water's website:

https://www.anglianwater.co.uk/about-us/who-we-are/investors/anglian-water-services-terms-and-conditions/anglian-water-services-investor-information/

Great Wratting Water Treatment Works: (Green Bond 1 - Total project spend of £12.7m)

The 30,000 customers living in the town of Haverhill in Suffolk are currently only supplied from the existing water treatment works at Great Wratting. To provide resilience to the supply, and also enable further treatment and blending of water from the source boreholes at Wixoe and Kedington to address bacteriological failures in the final water and pesticide standards, Anglian Water is spending £13.8m to add UV treatment to the Great Wratting works, build a new water treatment works next to the borehole at Kedington and lay new connecting pipelines to the storage reservoirs.

Carbon Reduction – 3,568eT (70%); Cost Saving - £3.9m (22%); Customers supplied – C. 30,000; Average Water Throughput – C. 10.5 MLD

Semer Water Treatment Works: (Green Bond 3 - Total project spend of £0.4m)

Watson Corner Water Tower keeps water on site until required by demand. The treated water flows under gravity to Semer distribution network and to Assington Tower. The MISER model was used to systematically switch off every Water Treatment Works (WTW) imports in turn and record the resulting deficit/population without supply. 108 WTW/imports were found to create a deficit if they were taken out of service including Semer WTW. Furthermore, If Semer Water Treatment Works failed, the number of properties without a water supply has been calculated as 2,031 properties. There is currently a temporary pumping station and a generator within two containers which needs replacing with a permanent solution. Moreover, if the temporary pumping station is not removed there is a possibility of council to interfere as there have been repetitive complaints regarding noise and sound by the adjacent caravan park.

Carbon Reduction – 31.6eT (63%); Ensuring Resilience for 2,031 properties

Orchard Close: (Green Bond 1 - Total project spend of £1.6m)

Flooding on Heartsease Lane is caused by insufficient pump rates at Heartsease Lane PS and flows backing up along the system. The majority of the works are within densely populated residential areas so imperative to maintain access and maintain good relations with the public. The proposed solution has been designed to provide protection for 1:30 year design storm with climate change uplift – 20% intensity uplift on summer design storm. Finally, 25% of the sewerage capacity schemes will be delivered using sustainable solutions, such as Sustainable Drainage Systems (SuDS).

The prime function of SuDS, is to provide effective surface water drainage, ensuring the greatest degree of flood risk protection over the long term and prevent pollution.

- They integrate with the landscape to add amenity for the community and bring a biodiversity value
- They provide environmental protection by treating the quality and quantity of surface water run-off
- When it rains, water pours off hard surfaces like roofs, roads, car parks and playgrounds and into sewers.

By introducing green areas and permeable surfaces, like rain gardens, planters and tree bowls, the risk of flooding can be reduced. Plants and trees soak up rainwater and slow the speed at which it enters the sewers, reducing the chance of them overflowing.

Carbon Reduction: 609.1eT (70%); Solution Cost savings - £551,041 (25%)

Ratios

1.0 Historical

Anglian Water confirms that in respect of the six months ended 30 September 2018, 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 2019	30 Sep 2018	31 Mar 2019
a)	The Class A RAR	**68.7%**	68.1%	68.2%
b)	The Senior RAR for each Test Period	**78.4%**	78.1%	78.1%
c)	The Class A ICR	**3.0:1**	2.9:1	3.6:1
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	2.3:1
g)	The Conformed Class A PMICR for each Test Period	**1.5:1**	1.5:1	1.9:1
h)	The Conformed Senior PMICR for each Test Period	**1.3:1**	1.3:1	1.6:1

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 19 £m**	Actual Period to 30 Sep 18 £m	Actual Period to 31 Mar 19 £m
Income		**677.1**	628.3	1,294.4
Operating Expenditure		**(355.1)**	(295.6)	(630.6)
Pre-capital maintenance cashflows		**322.0**	332.7	663.8
Capital Maintenance Expenditure		**(99.5)**	(98.8)	(247.5)
Depreciation		***(164.2)***	*(158.1)*	*(317.3)*
Post-Maintenance cashflow for PMICR		***157.8***	*174.6*	*346.5*
Post-Maintenance cashflow for Net Cash Flow ratio		**222.5**	233.9	416.3
Net Interest		**(123.9)**	(131.7)	(223.0)
Enhancement Capital Expenditure		**(128.6)**	(124.6)	(221.6)
Ordinary Dividends		**(67.8)**	(68.0)	(68.0)
Shareholder reinvestment		**0.0**	0.0	22.0
Pre-financing cashflows		**(97.8)**	(90.4)	(74.3)
Interest Payable on Class A Debt:				
Finance Leases		**0.0**	0.0	(0.6)
Class A Bonds		**(108.4)**	(114.5)	(183.7)
Financial Guarantor		**(2.4)**	(2.4)	(2.5)
Less Interest Receivable		**2.9**	0.8	2.1
Total net Class A debt interest		**(107.9)**	(116.1)	(184.7)
Interest Payable on Class B Debt				
Class B Bonds		**(16.0)**	(15.6)	(38.3)
Total Net Interest payable on Senior Debt		**(123.9)**	(131.7)	(223.0)
Interest Cover Ratios:				
Class A ICR	1.6:1	**3.0:1**	2.9:1	3.6:1
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	**1.3:1**	1.3:1	1.6:1
Conformed Class A PMICR	1.3:1	**1.5:1**	1.5:1	1.9:1
Ratio of Net Cash Flow minus Capital Maintenance Expenditure to Class A Debt Interest	1.0:1	**2.1:1**	2.0:1	2.3:1

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5.0 Regulatory Asset Ratios (RAR)

Regulatory Asset ratios	Trigger/Default	As at 30 Sep 19 £m	As at 30 Sep 18 £m	As at 31 Mar 19 £m
Class A Gross Debt:				
Finance Leases		**(21.4)**	(27.6)	(21.4)
Class A Bonds etc		**(6,042.4)**	(5,546.8)	(5,976.0)
Total Class A Gross Debt		**(6,063.8)**	(5,574.4)	(5,997.4)
Less cash balances and Authorised Investments		**453.6**	179.2	553.0
Total Class A Net Debt		**(5,610.2)**	(5,395.2)	(5,444.4)
Finance Leases			(0.4)	0.0
Class B		**(793.2)**	(791.0)	(792.6)
Total Senior Net Debt		**(6,403.4)**	(6,186.6)	(6,237.0)
Regulatory Asset Value (RAV)		**8,171.7**	7,918.2	7,981.3
Regulatory Asset ratios:				
Senior RAR (Actual)	85.0%	**78.4%**	78.1%	78.1%
Class A RAR (Actual)	75.0%	**68.7%**	68.1%	68.2%

6.0 Regulatory Performance

Regulatory Performance Data		As at 31 Mar 19 £m
FD Wholesale Totex		
Allowed Totex (water)	12/13 prices	300.4
Allowed Totex (wastewater)	12/13 prices	506.1
Total FD Allowed Totex	12/13 prices	806.5
FD PAYG %		
PAYG % water	12/13 prices	65.9%
PAYG % wastewater	12/13 prices	54.9%
FD fast money		
Allowed water fast money	12/13 prices	198.0
Allowed sewerage fast money	12/13 prices	277.7
Total fast money	12/13 prices	475.7
Total fast money	Outturn prices	550.9
FD slow money		
Allowed water slow money	12/13 prices	102.4
Allowed sewerage slow money	12/13 prices	228.4
Total slow money	12/13 prices	330.8
Total slow money	Outturn prices	383.0
Total fast + slow money	Outturn prices	933.9
FD tax		
Tax in revenue building block	12/13 prices	5.4
Tax in revenue building block	Outturn prices	6.3
Comparison FD wholesale allowances vs actual wholesale spend		
FD fast money	Outturn prices	550.9
FD slow money	Outturn prices	383.0
FD fast + slow money (FD totex)	Outturn prices	933.9
Actual opex	Outturn prices	512.3
Actual capex	Outturn prices	383.7
Actual opex + capex (actual totex)	Outturn prices	896.0
Actual opex minus FD fast money	Outturn prices	(38.6)
Actual capex minus FD slow money	Outturn prices	0.7
Actual opex + capex minus FD fast + slow money = totex outperformance	Outturn prices	(37.9)
Reconciliation to post maintenance cashflow		
Opex per post maintenance cashflow	Outturn prices	(630.6)
Pension deficit repair payments per post maintenance cashflow	Outturn prices	(12.5)
Total opex plus pension deficit repair payments	Outturn prices	(643.1)
Made up of:		
Wholesale opex, including pension deficit repair payments and tax	Outturn prices	(556.8)
Other opex (Retail) + non-appointed	Outturn prices	(86.3)
Total opex plus pension deficit repair payments	Outturn prices	(643.1)
Other information		
Pension in outturn prices	Outturn prices	12.5
Project cash opex (for covenant calculation)	Outturn prices	630.6
Projected opex (ie pre working capital adjustments and CTA adjustments)	Outturn prices	595.1
Total cash opex inc pension	Outturn prices	594.1
Total opex (ie pre working capital adjustments and CTA adjustments) inc pensions	Outturn prices	607.6
Enhancement - wholesale	Outturn prices	193.2
Maintenance - wholesale	Outturn prices	242.9
Retail	Outturn prices	3.9
Non-regulated	Outturn prices	0.8
Total capex	Outturn prices	440.8
Wholesale capex outturn	Outturn prices	436.1
FD depn	12/13 prices	272.3
Outturn depn	Outturn prices	317.3
Calculation of RCV		
Opening RCV per FD	12/13 prices	6,789.1
Additions per FD	12/13 prices	332.8
Less RCF Run-Off per FD	12/13 prices	(272.3)
Closing RCV per FD using average 12/13 prices	12/13 prices	6,849.6
RPI to convert from price basis used by regulator to outturn prices at year end	Num	1.17
Opening RCV	Outturn prices	7,910.8
Additions	Outturn prices	387.8
Less RCV run-off	Outturn prices	(317.3)
Closing RCV	Outturn prices	7,981.3
Totex outperformance to clawback per Rulebook calculations	Outturn prices	(181.5)
Shadow RCV	Outturn prices	7,799.8

7.0 Anglian Water Services Group – Movements in Debt Balances

CTA Gross Debt	Closing Balance 31 Mar 2019	New Issues	Repayment	Indexation	**Closing Balance 30 Sept 2019**
	£m	£m	£m	£m	**£m**
Finance Leases	21.4		0.0		**21.4**
Operating Leases (Vehicles)	0.0	3.5	(0.4)		**3.1**
Transferring Bonds:					
4.125% ILLS 2020	255.6			3.8	**259.4**
6.875% Fixed 2023	200.0			0.0	**200.0**
6.625% Fixed 2029	200.0			0.0	**200.0**
A4 Notes - 5.837% Fixed 2022	250.0			0.0	**250.0**
A6 Notes - 3.07% ILLS 2032	324.9			4.8	**329.7**
A7 Notes - 3.07% ILLS 2032	97.7			1.3	**99.1**
A8 Notes - 6.293% Fixed 2030	246.0			0.0	**246.0**
A11 Notes - 3.666% ILLS 2024	121.8			1.8	**123.64**
A18 Notes - 2.4% ILLS 2035	604.5			9.6	**614.1**
A19 Notes - 1.7% ILLS 2046	72.8			1.1	**73.9**
A20 Notes - 1.7% ILLS 2046	72.8			1.1	**73.8**
A21 Notes - 1.7146% ILLS 2056	58.4			0.9	**59.3**
A22 Notes - 1.6777% ILLS 2056	73.0			1.1	**74.1**
A23 Notes - 1.7903% ILLS 2049	87.5			1.3	**88.8**
A24 Notes - 1.3825% ILLS 2056	72.8			1.0	**73.9**
A25 Notes - 1.3784% ILLS 2057	145.6			2.1	**147.7**
A26 Notes - LIBOR Plus 0.34%	100.0			0.0	**100.0**
A27 Notes - 1.449% ILLS 2062	103.6			1.6	**105.2**
A28 Notes - 1.52% ILLS 2055	69.1			1.1	**70.2**
A30 Notes - LIBOR Plus 0.85%	110.0			0.0	**110.0**
A31 Notes - JPY 5bn 3.22% 2019/2038	25.1		(25.1)	0.0	**0.0**
A33 Notes - 6.875% Fixed 2034 Private Placement	25.0			0.0	**25.0**
European Investment Bank £50m 1.626% Term Facility 2019	67.1		(67.9)	0.8	**(0.0)**
European Investment Bank £50m 1.3% Term Facility 2020	66.0			0.9	**66.9**
A35 Notes - £130M 2.262% IL Bond 2045	169.0			2.4	**171.3**
Index Linked Swaps	67.0			16.0	**83.0**
Sub Total	**3,706.8**	**3.5**	**(93.4)**	**52.7**	**3,669.6**

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Cont'd	Closing Balance 31 Mar 2019 £m	New Issues £m	Repayment £m	Indexation £m	**Closing Balance 30 Sept 2019 £m**
A36 Notes - US$160m 4.52% Private Placement 2021	99.1			(0.0)	**99.1**
B37 Notes - US$410m 5.18% Private Placement 2021	260.7			0.0	**260.7**
European Investment Bank £75m 0.53% index linked amortising term facility 2027	71.9		(4.5)	1.0	**68.4**
European Investment Bank £75m 0.79% index linked amortising term facility 2027	71.9		(4.5)	1.0	**68.4**
A38 Notes - £250m 4.5% 2027	250.0			0.0	**250.0**
A39 Notes - £31.9m 4.0% Private Placement 2022	31.9			0.0	**31.9**
A40 Notes - £73.3m 4.4% Private Placement 2028	73.3			0.0	**73.3**
A41 Notes - £50m 2.05% IL Private Placement 2033	59.0			0.8	**59.8**
A42 Notes - £15m 1.37% IL Private Placement 2022	17.7			0.2	**17.9**
B43 Notes - US$47m 5% Private Placement 2022	30.0			0.0	**30.0**
A45 Notes - £22.3m 4.0% Private Placement 2022	22.3			0.0	**22.3**
European Investment Bank £150m 0% index linked amortising term facility 2028	157.1		(8.8)	2.3	**150.5**
B46 Notes - £200m Class B 4.5% 2026	200.0			0.0	**200.0**
A47 Notes - £35m 1.141% IL Bond 2042	40.5			0.6	**41.0**
A48 Notes - US$170m 3.84% Private Placement 2023	110.5			0.0	**110.5**
A49 Notes - £93m 3.537% Private Placement 2023	93.0			0.0	**93.0**
B50 Notes - US$160m 4.99% Private Placement 2023	100.3			(0.1)	**100.2**
European Investment Bank £65m 0.41% index linked amortising term facility 2029	73.5		(3.8)	1.2	**70.9**
European Investment Bank £125m 0.1% index linked amortising term facility 2029	139.6			1.9	**141.5**
European Investment Bank £60m 0.01% index linked amortising term facility 2030	66.7			1.0	**67.7**
£500m RCF 2020	0.0			0.0	**0.0**
A51 Notes - £55m 2.93% Private Placement 2026	55.0			0.0	**55.0**
A52 Notes - $150m 3.29% Private Placement 2026	104.3			(0.0)	**104.3**
A53 Notes - £35m 1.35% Private Placement 2031	35.0			0.0	**35.0**
A54 Notes - £20m 2.93% Private placement 2026	20.0			0.0	**20.0**
B55 Notes - £200m 2.625% Class B 2027	200.0			0.0	**200.0**
A56 Notes - £250m 1.625% Green Bond 2025	250.0			0.0	**250.0**
A57 Notes - £300m 2.75% Green Bond 2029	300.0			0.0	**300.0**
A58 Notes - £85m 2.880% Private Placement 2029	85.0			0.0	**85.0**
A59 Notes - £25m 3.00% Private Placement 2031	25.0			0.0	**25.0**
A60 Notes - US$53m 3.053% Private Placement 2029	40.1			(0.0)	**40.1**
A61 Notes - £65m 2.870% Private Placement 2029	0.0	65.0		0.0	**65.0**
A62 Notes - JPY7bn 0.855% 2039	0.0	50.9		0.0	**50.9**
Total[1]	**6,790.0**	**119.4**	**(115.1)**	**62.7**	**6,857.0**

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

8.0 Anglian Water Services Group – Profit & Loss Account

	Underlying results £m	Other items £m	Total Six months ended 30 September 2019 £m	Total Six months ended 30 September 2018 (Restated)[1, 3] £m
Total revenue	717.0	-	717.0	694.6
Other operating income[1]	7.5		7.5	7.4
Operating costs[1]	(320.7)	-	(320.7)	(304.6)
Depreciation and amortisation	(180.8)	-	(180.8)	(171.0)
Operating profit	223.0	-	223.0	226.4
Finance income	2.6	-	2.6	0.8
Finance costs[2]	(170.9)	-	(170.9)	(165.3)
Fair value losses on derivative financial instruments	-	(171.3)	(171.3)	56.3
Net finance (costs)/income	(168.3)	(171.3)	(116.6)	(108.2)
Profit on business disposal	-	-	-	-
Profit /(loss) before taxation	54.7	(171.3)	(116.6)	118.2
Taxation (credit)/charge	-	-	18.3	(28.3)
Profit after taxation			(98.3)	89.9
Dividend to AWG Group Ltd			(67.8)	(68.0)
Transfer(from)/ to reserves			(166.1)	21.9

[1] The comparative other operating income and operating costs have been restated for the reclassification of certain income, previously treated as negative expenditure, as other operating income. This has the effect of increasing other operating income in the prior period by £ 7.4 million, and increasing operating expenditure by the same amount, and therefore operating profit is unchanged for this reclassification.

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

[3]On 1 April 2019, IFRS 16 'Leases' came into effect. The principal consequences of this new standard are that a lease liability reflecting future lease payments and a 'right-of-use' asset are recognised on the balance sheet, and an interest expense on the lease liability and depreciation on the 'right-of-use' asset are recorded in the income statement. It is noted that IFRS 16 was not applied retrospectively, as permitted by the standard, and therefore the comparatives are not presented on an IFRS 16 basis.

9.0 Anglian Water Services Group – Balance Sheet

At 30 September 2019

		£m	£m	£m
Non-current assets				
Intangible assets				196.3
Property, plant and equipment				9,854.3
Derivative financial instruments classified as current and non-current assets				344.9
Retirement benefit surpluses				51.5
Net current liabilities excluding cash and debt repayable in less than one year				(166.6)
Retirement benefit obligations				(47.3)
Derivative financial instruments classified as current and non-current liabilities				(1219.3)
Creditors amounts falling due after more than one year excluding debt				(926.1)
Cash and cash equivalents	Payments Account	360.7		
	Capex Reserve	82.5		
	Debt Service	12.1	455.3	
Financing liabilities	Bonds (excluding accrued interest)	(6,749.7)		
	Leases	(56.3)		
	Other[1]	(279.7)	(7,085.7)	
	Net Debt (excluding derivatives)			(6,630.4)
Net assets				1,457.3
Capital and reserves	Share capital			32.0
	Reserves b/f			1,581.5
	Actuarial gain on pension schemes			(0.6)
	Transfer to reserves for the period			(166.1)
	Gain on cash flow hedges			11.4
	Cost of hedging reserve			(0.9)
Capital and reserves				1,457.3

[1] Accounting adjustments that are not within the CTA definition of net debt (capitalised issue costs, accrued interest and IFRS9 adjustments).

10.0 Anglian Water Services Group – Calculation of Annual Finance Charge

Instrument	Actual Interest Paid to 30 Sep 19 £m	Forecast Interest Payable to 30 Sep 20 £m
Class A Debt		
AAA Wrapped Bonds	21.1	29.2
A-Bonds	75.6	143.1
US Private Placements	11.2	11.3
Leases	0.0	1.3
Other	2.4	2.6
Class B Debt		
BBB Bonds	16.0	28.9
US Private Placements	7.5	7.5
Annual Finance Charge	**133.9**	**224.0**

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 Valuations as at 30/09/19

External Swap Counterparties	Nominal Amount £m	MTM Positive Values £m	MTM Negative Values £m	MTM Total Values £m[2]
BARCLAYS BANK	375.0	0.0	(50.4)	(50.4)
BNP PARIBAS BANK	608.4	94.3	(116.5)	(22.2)
BGL BNP PARIBAS	0.0	0.0	(40.6)	(40.6)
CBA BANK	401.9	121.2	(0.8)	120.3
HSBC BANK	313.0	30.4	(59.8)	(29.5)
JP MORGAN BANK	580.7	7.6	(308.1)	(300.5)
LLOYDS BANK CORPORATE MARKETS PLC	616.1	33.5	(29.5)	4.0
MORGAN STANLEY BANK	375.6	0.0	(150.2)	(150.2)
SANTANDER BANK	903.4	37.6	(26.2)	11.4
SCOTIA BANK	240.0	5.3	(117.5)	(112.2)
SMBC BANK	125.0	6.6	(30.9)	(24.4)
EXTERNAL INVESTORS[3]	0	0.0	(286.3)	(286.3)
Anglian Water Interest Derivatives[1]	4,539.2	336.4	(1,216.9)	(880.6)

Notes
1. All Swaps are transacted under ISDA agreements between Anglian Water Services Financing Plc and External Swap Counterparty.
2. Valuations include accrued interest to valuation date and are credit adjusted.
3. Three real coupon RPI inflation swaps with final accretion payments include 10-year accretion pay downs to external investors.

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