Anglian Water Services Financing Plc

Anglian Water Services Limited

Investor Report

For the six months ended 30 September 2018

Prepared in accordance with International Financial Reporting Standards (IFRS)

love every drop
anglianwater

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 2018.

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 2018.

1.0 Financial Performance for the six month period ended 30 September 2018

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

	2018 £m	2017 £m (Restated)[1]
Total revenue[1]	694.6	668.3
Operating costs	(297.2)	(275.0)
Depreciation and amortisation	(171.0)	(157.2)
Operating profit	226.4	236.1
Finance income (adjusted)[2]	0.8	0.8
Finance costs[3]	(165.3)	(173.6)
Underlying profit before tax	**61.9**	**63.3**

[1] The comparatives have been restated to reflect the impact IFRS 15 'Revenue from Contracts with Customers', which came into effect on 1 April 2018, had on the accounting for grants and contributions. Grants and contributions are now recognised immediately as revenue rather than being deferred and released to 'other operating income' over the expected useful life of the related assets. This has the effect of increasing revenue in the six months to 30 September 2017 by £33.5 million, and reducing other operating income by £7.6 million to £nil, compared with the previous year's published half-yearly report.
[2] The comparative has been adjusted to show finance charges excluding interest receivable on an intragroup loan. This intragroup loan was settled in March 2018 and therefore there are no equivalent charges in the current period
[3] 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.

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

Reconciliation to statutory accounts

	2018 Total £m	2017 Total (Restated)[1] £m
Underlying profit before tax	61.9	63.3
Finance costs – Fair value gains on financial derivatives	56.3	122.2
Finance income – Inter-company interest receivable	-	96.4
Profit on disposal of the non-household retail business	-	4.6
Profit before tax on a statutory basis	**118.2**	**286.5**

[1] The comparative underlying profit has been restated to reflect the impact of IFRS15 'revenue from contracts with customers' as foot-noted on the previous page.

On 1 April 2018 IFRS15 'Revenue from Contracts with Customers' came into effect. The principal consequence of this new standard is that grants and contribution income is recognised as revenue immediately, whereas in the past it was spread over the life of the related asset and included in other operating income. Revenue, excluding grants and contributions, for the half year was £657.2 million (2017:£634.8 million), an increase of £22.4 million (3.5 per cent) on the same period last year. This primarily reflects the regulatory pricing mechanism, increases in household consumption due to the hot, dry summer and growth in customer numbers. This was partially offset by regulatory credits which the company brought forward to mitigate the average price increase to customers in the year. Grants and contributions have increased by £3.9 million to £37.4 million, which reflects an increased level of adopted sewers and pumping stations in relation to new housing developments, and the diversion of existing infrastructure for the Cambridge to Huntingdon A14 road improvement scheme.

Operating costs increased by £22.2 million (8.1 per cent) on the same period last year to £297.2 million due principally to general inflationary pressure and the severe weather impacts of the 'Beast from the East' followed by the hot, dry summer. The increase is explained in the following table.

Increases/(decreases) in operating costs (before depreciation and amortisation)	£m
One-off 2017/18 operating costs not repeating	4.5
General inflationary increases	8.7
Dealing with the "Beast from the East" and the exceptional hot, dry summer – proactive leakage management and avoiding interruptions to customer supply	6.5
Power price increase	5.4
Providing more effective solutions through operational maintenance, rather than capital investment	5.1
Operating costs of newly commissioned plant	2.0
Increase in Abstraction Licence costs	1.1
Decrease in minor repair activities to maintain water and waste water below ground infrastructure	(3.1)
Decrease in pension charge	(2.3)
Reduction in rates	(1.5)
Net efficiency savings achieved	(4.2)
Net increase in operating costs	**22.2**

The bad debt charge for the period was £13.0m, the same as the prior period and which represents 2.5 per cent of retail revenue, a slight improvement on the 2.6 per cent for the same period last year.

Depreciation is up 8.8 per cent compared with the same period last year, consistent with the impact of newly commissioned assets in the year, and a reduction in the useful life of various operational assets.

Operating profit has decreased by 4.1 per cent to £226.4 million, which is consistent with higher operating costs and increased depreciation, partially offset by the effect of the net revenue increases.

The underlying net finance charge for the period was £164.5 million, a reduction of £8.3 million compared with the same period last year. This is driven by a higher level of interest being capitalised as a result of greater capital project activity, a moderate fall in inflation year-on-year, and the benefits of the refinancing activity in the prior year at lower cost.

The fair value gains on financial derivatives of £56.3 million (2017: £122.2 million) is primarily a result of the blended increase in long-term interest rates experienced in the period of 21 basis points (2017: 22 basis points increase), which more than offset a smaller 14 basis points increase in average levels of forward inflation curves (2017: 20 basis points decrease, which increased the overall gain in 2017). Increases in underlying inflationary pressures due to uncertainty surrounding the volatile Brexit debate and the continuing high levels of employment in the economy have driven up market expectations of future interest rates. Fair value gains and losses include a charge of £11.7 million relating to the restructuring of derivatives which were cash settled in the period. The balance of the fair value gains and losses are non-cash in nature and have no material 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 £6.6 million from £34.6 million (restated from £31.3 million as a result of IFRS15) to £28.3 million. This is due to reductions in the fair value gains on financial derivatives and in the deferred tax charge in respect of prior years and the effect of a minor reduction in the composite rate at which deferred tax is charged from 17.08 per cent to 17.05 per cent. 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 paid to fund that investment. Anglian Water are 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 the deferral as it helps to keep their bills lower.

Dividends paid and available to the ultimate shareholders in the period amounted to £68.0 million (2017: £61.1 million). Last year Anglian Water paid an interim dividend in December 2017 of £25.0 million, however, 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 borrowings and to help fund the additional £165 million of capital reinvestment announced by the board over the last two years.

2.0 Regulatory Update

PR19 Business Plan

Anglian Water submitted and published its PR19 Business Plan on 1 September and presented it to Ofwat in person on 24 September. Key points of the plan were:

- A £6.5bn investment programme, representing a 30% increase compared to the 2015-20 period
- A suite of challenging performance targets, including a commitment to reduce leakage by 22% by 2025
- A comprehensive confirmation that the plan is financeable on both an actual and notional basis, from the Directors and Ultimate Shareholders
- An increase in average bills of less than 1% over the 2020-25 period
- Demonstrated widespread customer support that the plan represents the right plan for the region.

The next step will be when Ofwat concludes its initial assessment of business plans (IABP) and publishes its findings in January 2019.

Putting the Sector Back in Balance

In July, after consultation, Ofwat published amendments to its PR19 methodology on company financing aimed at – in their words – 'putting the sector back in balance'. Its key proposals were to

- require companies to share with customers the benefits of financing outperformance from high gearing (defined as 70% or greater)
- assess each company's approach to benefit sharing, dividend policy and the performance related element of executive pay within its IABP test on securing confidence and assurance
- set out new requirements for companies to stress test their business plans against a range of challenging scenarios and demonstrate their financial resilience. Companies' delivery of this will also be assessed in the IABP.

Anglian Water responded fully to Ofwat's amended methodology in its September plan and has proposed an approach to share these benefits with customers in its PR19 Business Plan.

EFRA Select Committee Report on Water Regulation

The report of the EFRA Select Committee on Regulation of the Water Industry was published on 9 October. Its recommendations included the following:

- Ofwat and Defra should make an assessment of the need for water transfer infrastructure and establish a long term target for water transfers.
- The target for leakage reduction should be an industry wide 50% reduction by 2040 – ten years earlier than the National Infrastructure Commission (NIC) recommendation.
- A target for Per Capita Consumption target should be introduced.
- All companies should have the powers to make water meters compulsory, not just those in water stressed areas.
- The Government should review whether the Environment Agency has the necessary powers and resources to enforce a drastic reduction in sewage overflows.
- Ofwat should provide a written update to the EFRA Committee by April 2019 outlining progress on financial engineering, dividend policies and linking executive bonuses to delivering for customers.
- Ofwat should be given the power to bind water companies to the governance principles (recently consulted upon) through companies' licence conditions.
- An independent review should be conducted into whether the water industry and regulation is fit for the future to combat drought and deliver value for money, and look at whether the price review cycle should be lengthened.

The report criticised Ofwat for not setting tougher leakage targets at PR19, not providing stronger incentives for water trading, not doing more to limit companies' returns and for the complexity of the regulatory process.

NIC Review of Utility Regulation

In September 2018 the National Infrastructure Commission was asked by the Treasury to examine regulation of the UK's energy, telecoms and water industries. The regulation study is expected to examine:

- What future changes will affect the regulated sectors: The NIC identified the UK's infrastructure needs to 2050. The study will aim to set out the key drivers of change over the coming decades
- Competition and innovation: whether the regulatory model encourages sufficient competition and innovation to support efficient delivery of infrastructure
- Regulatory consistency: How regulators work together and collaborate on cross-cutting challenges and significant infrastructure projects
- How Government and regulators work together: How Government can effectively deliver its objectives in these regulated sectors, while continuing to safeguard the independence of the regulators.

One option likely to be considered by the study is the creation of a single regulator to cover all three industries, a step which was actively promoted by MPs at the Conservative party conference. The NIC's report is due in spring 2019.

In October the Chancellor of the Exchequer also commissioned the NIC to carry out a study into the resilience of the UK's infrastructure. The NIC will look at how resilience can be assessed and improved, including through better design and application of new technologies. The study will:

- Develop an understanding of public expectations and response to the potential loss of infrastructure services;
- Analyse the resilience of economic infrastructure systems and the costs and benefits of improvements; and
- Undertake 'stress tests' of sectors, areas and organisations.

Ofwat report into the March Freeze Thaw event

In July Ofwat published the report of its investigation into the events of the period of cold weather in late February and early March 2018 which left over 200,000 customers in England and Wales without water for more than four hours and over 60,000 customers without supply for more than 12 hours. The report differentiated between better and poorer performing companies. The report was critical of practices at a number of companies and asked the four worst performing companies to publish an externally assured action plan setting out how they are addressing the issues identified.

Anglian Water's company-specific report was very positive, recognised its good practices and required only one minor action.

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.

In August 2018 Anglian Water was confirmed in first place in the 2017-18 Service Incentive Mechanism (SIM) survey. After two rounds of qualitative surveys for 2018/19, Anglian Water remains in first place in the league table of water and sewerage companies.

4.0 Capital Expenditure

Gross regulated capital investment in the six months to 30 September 2018 was £211.7 million (2017: £199.5 million, restated to £203.5 million to include the prior period diversions). This is in line with management expectations and includes £16.9 million in respect of the additional £165 million capital reinvestment referred to in section 1, bringing the total reinvestment spend in the current AMP to £40.4 million.

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 overall measure for drinking water quality compliance (mean zonal compliance) was 99.95% (2017: 99.96%) at the end of September 2018. As with all water quality performance measures, this is a calendar year metric. Anglian Water's mean zonal compliance figure has been influenced by a slight increase in the number of failures associated with customer plumbing during the hot summer months. 3 drinking water quality events had been classified as 'Significant' by the DWI at the end of September, compared to 12 for the whole of 2017.

Anglian Water has fully embedded DWI's new performance metrics, the Compliance Risk Index (CRI) and Event Risk Index (ERI) as business as usual. The company was pleased to be praised by the DWI Chief Inspector in his annual report, published in July 2018, for having the most improved CRI in the industry, and at the end of September 2018, its CRI was predicted to be lower than in 2017. The ERI is also looking favourable at the end of September compared to previous years. The DWI have recently published company comparative ERI data for previous years with Anglian Water's ERI scores for 2016 and 2017 were less than 5% of the national average, putting it in a leading position within the industry on this metric.

Another key water quality measure is the number of customer contacts about the acceptability of their water. The contact rate in 2017 (1.23 per thousand population) was the lowest ever recorded value, and at the end of September, the rate was 0.94 per thousand population. These improvements continue to be driven through the company's continued focus on customer engagement, whilst aiming to minimise the number and severity of any interruptions to supply.

Water Recycling

In the six months to the end of September 2018 Anglian Water have seen a reduction across all categories of recorded Water Recycling pollution incidents with 88 Category Three - Minor (2017: 125), 2 Category Two - Significant (2017: 4) and 0 Category One – Serious (2017: 1).

Environment

Results for 2018 indicate that the number of bathing waters in the Anglian Water region classified as 'Excellent' by the Environment Agency are expected to present a slightly improved picture on predictions from this time last year, with 32 expected to get the top classification needed for Blue Flag status. Bathing waters are classified on a four-year rolling average, so the number is further expected to increase as the AMP 6 investment strategy continues to take effect. Third party diffuse pollution, such as misconnected private drains and run-off from agricultural land alongside pollution from marine vegetation (stimulated by the hot weather this year) are the cause of problems in the majority of cases where beaches are not at 'Excellent' status. 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 has submitted the revised draft of its next Water Resource Management Plan (WRMP) to Defra, following a public 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 covers 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. The new plan includes over £850m investment in a strategic grid to move water across our region, as well as an ambitious demand management programme.

The region's water resources are secure at the start of the 2018/19 recharge season, despite a period of lower than average rainfall. Rainfall in the Anglian Water region for the first six months of 2017/18 has been 81% of the long term average and reservoir levels across the region were below target at the end of September. The current situation indicates a delayed onset to the 2018/19 recharge season. Routine monitoring and projections will continue over the winter to closely monitor the resource situation ahead of spring / summer 2019.

6.0 *Financing*

During the period under review Anglian Water agreed the terms of a 20 year £65 million CPI linked forward starting issuance at a real rate of 0.835%. Funds are due to be received in April 2020 and is the first CPI linked issuance undertaken. Anglian Water has subsequently accessed the capital markets to raise £300 million of additional Green Bonds at an interest rate of 2.75 per cent. This Green Bond issue was, as for the inaugural bond, over-subscribed and builds on the success of the first green issuance in August 2017. Proceeds of the Green Bond were received on the 26th of October 2018 and will be utilised to fund capital investment in selected projects. Additionally Anglian Water has arranged £215 million of Green US private placements for which the proceeds will be received in the second half of 2018/19. These issuances leave the group with significant liquidity to safeguard against any market volatility resulting from the ongoing Brexit negotiations.

Debt repayments in the period amounted to £17.3 million as amortising debt payments were repaid as they fell due.

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

7.0 *Dividends*

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

28 Jun 2018 £68.0 million – in relation to 2017/18 final dividend.

In October 2018 an equity injection of £22.0 million was made into Anglian Water consistent with the commitments given by the ultimate owners its commitment to further reduce the level of gearing. Additional equity injections are anticipated through to 2025.

8.0 *Significant Board / Management Changes*

The Board of Anglian Water Services Ltd comprises:

Dr Stephen Billingham	Independent Non-Executive Chairman	
Natalie Ceeney, CBE	Independent Non-Executive Director, appointed 14 May 2018	
Dame Polly Courtice	Independent Non-Executive Director	
Zarin Patel	Independent Non-Executive Director, appointed 31 October 2018	
John Hirst, CBE	Senior Independent Non-Executive Director	
Paul Whittaker	Independent Non-Executive Director	
Peter Simpson	Chief Executive Officer	) Executive
Scott Longhurst	Managing Director Finance & Non-Regulated Business	) Executive
James Bryce	Non-Executive Director	
Duncan Symonds	Non-Executive Director	
Niall Mills	Non-Executive Director	

The following Directors resigned during the year:

Chris Newsome, OBE	Director of Asset Management, resigned 11 August 2018
Jean Spencer	Strategic Growth and Resilience Director, resigned 11 August 2018
Steve Good	Independent Non-Executive Director, resigned 31 October 2018

Anglian Water is managed by the AWS Management Board, which, as at 30 September 2018, in addition to the Executive Directors referred to above, included:

Claire Russell	Legal Director
Ciaran Nelson	Director of Brand and Communications
Susannah Clements	Group Director of People
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,
Jason Tucker	Director of Alliances & Integrated Supply Chain

Anglian Water will be holding a meeting for investors in London on 5 December 2018.

9.0 *Green Bond Impact Reporting*

Background

On 10 August 2017 Anglian Water received the Settlement of the funds from the £250m 1.625% Green Bond maturing 10 August 2025, ISIN XS1659112616 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 beare 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

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 in respect of the £250m 1.625% Green Bond maturing 10 August 2025, ISIN XS1659112616 is £240.3m achieving 81,550 tonnes of carbon saving, a 60% reduction from the 2010 baseline, which is subject to the PAS2080 accreditation.

Cumulative Eligible Green Projects in the Eligible Green Portfolio as at 30/09/2018 are summarised in the following table:

Eligible Green Projects	**Sustainable Water Management**	**Sustainable Water Recycling**	**Total**
	£m	**£m**	**£m**
Capital Maintenance	37.8	56.3	94.1
Enhanced Service Level	21.5	9.3	30.8
Growth (Supply Demand)	36.1	33.6	69.7
Quality	21.4	118.3	139.7
Total Portfolio Spend	**116.8**	**217.5**	**334.3**
Spend Buffer			(77.1)
Spend Available for Allocation			**257.2**
Net Proceeds			**247.8**
Proceeds Allocated To Date			**240.3**
Proceeds Unallocated			**7.5**

PR09 Baseline CO2 (eT)	**Actual CO2 (eT)**	**Reduction in CO2 (eT)**	**Reduction in CO2 (%)**
137,021.27	55,471.59	81,549.68	60%

Funds totalling £240.3m have been transferred from the Capex Reserve Bank Account in order to fund the expenditure to date on the Portfolio. This leaves £7.5m to be invested in additional spend as at 30th September 2018.

Green Projects

Examples of some of the projects are given below:

Corby WRC

Sustainable Water Recycling	Quality;
SDG:	6 - Clean Water and Sanitation, 9 – Industry Innovation and Infrastructure, 12 – Responsible Consumption and Production;
Total Project Spend:	£6.9m;
Total Capital Carbon Saving	55%;
Efficiencies:	£13m;
Total Solution operating Carbon Saving:	100%.

The aim of this scheme is to reduce Ammonia levels from 3mg/l to below 1mg/l. The solution reduces the risk of pollution to the environment, reduce the requirement for power consumption, and a new storm diversion reduced flooding risks. Through an innovative "no build" solution and optimising the existing works, the solution for Corby was to increase the lifespan of existing assets and to ensure long term resilience and sustainability by using digital enhancement to improve the operational / asset interface, delivering an intelligent optimised operating regime.

This solution has resulted in a financial saving of c. £13m (65%),a reduction of carbon from 1198 t/CO2e to 543 t/CO2e (55%) and ongoing operating efficiencies. The successful implementation at Corby, has allowed the testing of new processes and solutions, that will be implemented in future projects, ultimately providing more efficiencies across the investment portfolio.

Great Dunmow WRC

Sustainable Water Recycling:	Quality;
SDG:	6 – Clean Water and Sanitation, 9 - Industry Innovation and Infrastructure, 12 – Responsible Consumption and Production;
Total Project Spend:	£10.7m;
Total Carbon Saving:	35%;
Population Growth:	5,400;
Volume of Additional Wastewater Treated:	911M^3/day.

The aim of the project is to provide additional capacity for population growth, reduce Ammonia and Phosphate levels to below 2mg/l, and to maintain water quality within the receiving bodies on a site prone to flooding. Ordinarily this would be achieved by a conventional activated sludge solution with tertiary treatment. In the case of Dunmow to address these challenges, a combination of new technology (the Nareeda aerobic granular sludge process), cutting edge design techniques and offsite construction have been applied. This has resulted in a less land intensive, more flood resistant solution with a reduction of embodied carbon from 1724 t/CO2e to 1121 t/CO2e (35%).

The reduced footprint of the design has removed the need for additional land to be bought into industrial use and reduced the construction required. This has also driven a reduction in project cost to £10.7m against original costing of £12.5m. The project at Great Dunmow has been selected as a Featured Project by the UK Water Projects publication highlighting the innovative use of technology as part of investment in the water industry.

Broadholme WRC

Sustainable Water Recycling:	Quality;
SDG:	6 – Clean Water and Sanitation, 9 – Industry Innovation and Infrastructure, 12 – Responsible Consumption and Production;
Total Project Spend:	£7.5m;
Total Carbon Saving:	45%;
Population Growth Capacity:	17,000;
Volume of Additional Wastewater Treated:	2,869M^3/day.

The objective of the project is to reduce ammonia levels from 5mg/l to below 3mg/l as well as increasing capacity to treat an additional 17,000 of forecast population growth in the catchment area.

An innovative "optimisation" approach was taken, focussing on existing assets across the site. The combined effect allows capacity to be released from the existing processes, making them more robust and meeting the tighter levels without the need for additional construction.

This is the first project of its type where zero construction waste will go to landfill, with site waste to be composted or recycled.

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 2018	30 Sep 2017	31 Mar 2018
a)	The Class A RAR	**68.1%**	65.2%	67.9%
b)	The Senior RAR for each Test Period	**78.1%**	77.9%	78.1%
c)	The Class A ICR	**2.9:1**	3.2:1	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	**2.0:1**	2.1:1	2.2:1
g)	The Conformed Class A PMICR for each Test Period	**1.5:1**	1.7:1	1.8:1
h)	The Conformed Senior PMICR for each Test Period	**1.3:1**	1.5:1	1.5:1

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 18 £m**	Actual Period to 30 Sep 17 £m	Actual Period to 31 Mar 18 £m
Income		**628.3**	589.2	1,187.0
Operating Expenditure		**(295.6)**	(269.5)	(572.5)
Pre-capital maintenance cashflows		**332.7**	319.7	614.5
Capital Maintenance Expenditure		**(98.8)**	(106.8)	(235.7)
Depreciation		***(158.1)***	*(150.7)*	*(304.9)*
Post-Maintenance cashflow for PMICR		***174.6***	*169.0*	*309.6*
Post-Maintenance cashflow for Net Cash Flow ratio		**233.9**	212.9	378.8
Net Interest		**(131.7)**	(112.5)	(211.8)
Enhancement Capital Expenditure		**(124.6)**	(68.7)	(162.3)
NHH Disposal Proceeds		**0.0**	78.9	78.9
Ordinary Dividends		**(68.0)**	(61.1)	(86.1)
Special Dividends		**0.0**	(62.2)	(62.2)
Pre-financing cashflows		**(90.4)**	(12.7)	(64.7)
Interest Payable on Class A Debt:				
Finance Leases		**0.0**	0.0	(0.8)
Class A Bonds		**(114.5)**	(98.0)	(170.8)
MBIA Wrap Fees		**(2.4)**	(2.3)	(2.5)
Less Interest Receivable		**0.8**	0.8	1.5
Total net Class A debt interest		**(116.1)**	(99.5)	(172.6)
Interest Payable on Class B Debt				
Class B Bonds		**(15.6)**	(13.0)	(39.2)
Total Net Interest payable on Senior Debt		**(131.7)**	(112.5)	(211.8)
Interest Cover Ratios:				
Class A ICR	1.6:1	**2.9:1**	3.2:1	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**	1.5:1	1.5:1
Conformed Class A PMICR	1.3:1	**1.5:1**	1.7:1	1.8:1
Ratio of Net Cash Flow minus Capital Maintenance Expenditure to Class A Debt Interest	1.0:1	**2.0:1**	2.1:1	2.2:1

5.0 Regulatory Asset Ratios (RAR)

Regulatory Asset ratios	**Trigger/Default**	**As at 30 Sep 18 £m**	As at 30 Sep 17 £m	As at 31 Mar 18 £m
Class A Gross Debt:				
Finance Leases		**(27.6)**	(33.3)	(27.6)
Class A Bonds etc		**(5,546.8)**	(5,512.2)	(5,498.9)
Total Class A Gross Debt		**(5,574.4)**	(5,545.5)	(5,526.5)
Less cash balances and Authorised Investments		**179.2**	602.1	286.7
Total Class A Net Debt		**(5,395.2)**	(4,943.4)	(5,239.8)
Finance Leases		**(0.4)**	(0.4)	(0.4)
Class B		**(791.0)**	(966.5)	(791.0)
Total Senior Net Debt		**(6,186.6)**	(5,910.3)	(6,031.2)
Regulatory Asset Value (RAV)		**7,918.2**	7,584.1	7,722.2
Regulatory Asset ratios:				
Senior RAR (Actual)	85.0%	**78.1%**	77.9%	78.1%
Class A RAR (Actual)	75.0%	**68.1%**	65.2%	67.9%

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6.0 Regulatory Performance

Regulatory Performance Data		As at 31 Mar 18 £m
FD Wholesale Totex		
Allowed Totex for PAYG (water)	12/13 prices	343.1
Allowed Totex for PAYG (wastewater)	12/13 prices	493.2
Total FD Allowed Totex for PAYG	12/13 prices	836.3
FD PAYG %		
PAYG % water	12/13 prices	58.6%
PAYG % wastewater	12/13 prices	56.7%
FD fast money		
Allowed water fast money	12/13 prices	200.9
Allowed sewerage fast money	12/13 prices	279.5
Total fast money	12/13 prices	480.4
Total fast money	Outturn prices	539.8
FD slow money		
Allowed water slow money	12/13 prices	142.2
Allowed sewerage slow money	12/13 prices	213.7
Total slow money	12/13 prices	355.9
Total slow money	Outturn prices	399.9
Total fast + slow money	Outturn prices	939.7
FD tax		
Tax in revenue building block	12/13 prices	5.3
Tax in revenue building block	Outturn prices	6.0
Comparison FD wholesale allowances vs actual wholesale spend		
FD fast money (excluding pensions)	Outturn prices	539.8
FD slow money	Outturn prices	399.9
FD fast + slow money (FD totex)	Outturn prices	939.7
Actual opex (excluding pensions)	Outturn prices	499.2
Actual capex	Outturn prices	419.5
Actual opex + capex (actual totex)	Outturn prices	918.7
Actual opex minus FD fast money	Outturn prices	(40.6)
Actual capex minus FD slow money	Outturn prices	19.6
Actual opex + capex minus FD fast + slow money = totex outperformance	Outturn prices	(21.0)
Reconciliation to post maintenance cashflow		
Opex per post maintenance cashflow	Outturn prices	(572.5)
Pension deficit repair payments per post maintenance cashflow	Outturn prices	(10.8)
Total opex plus pension deficit repair payments	Outturn prices	(583.3)
Made up of:		
Wholesale opex, including pension deficit repair payments and tax	Outturn prices	(497.2)
Other opex (Retail) + non-appointed	Outturn prices	(86.1)
Total opex plus pension deficit repair payments	Outturn prices	(583.3)
Other information		
Pension in outturn prices	Outturn prices	10.8
Project cash opex (for covenant calculation)	Outturn prices	572.5
Projected opex (ie pre working capital adjustments and CTA adjustments)	Outturn prices	570.2
Total cash opex inc pension	Outturn prices	544.1
Total opex (ie pre working capital adjustments and CTA adjustments) inc pensions	Outturn prices	581.0
Enhancement - wholesale	Outturn prices	229.4
Maintenance - wholesale	Outturn prices	225.8
Retail	Outturn prices	1.5
Non-regulated	Outturn prices	0.5
Total capex	Outturn prices	457.2
Wholesale capex outturn	Outturn prices	455.2
FD depn	12/13 prices	268.1
Outturn depn	Outturn prices	304.9
Calculation of RCV		
Opening RCV per FD	12/13 prices	6,701.5
Additions per FD	12/13 prices	355.8
Less RCF Run-Off per FD	12/13 prices	(268.1)
Closing RCV per FD using average 12/13 prices	12/13 prices	6,789.2
RPI to convert from price basis used by regulator to outturn prices at year end	Num	1.14
Opening RCV	Outturn prices	7,622.5
Additions	Outturn prices	404.6
Less RCV run-off	Outturn prices	(304.9)
Closing RCV	Outturn prices	7,722.2
Totex outperformance to clawback per Rulebook calculations	Outturn prices	(147.6)
Shadow RCV	Outturn prices	7,574.6

7.0 Anglian Water Services Group – Movements in Debt Balances

	Closing Balance 31 Mar 2018 £m	New Issues £m	Repayment £m	Indexation £m	**Closing Balance 30 Sep 2018 £m**
Finance Leases	27.9				**27.9**
US Private Placements	0.0				**0.0**
Transferring Bonds:					
4.125% ILLS 2020	247.5			4.0	**251.5**
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	314.6			5.0	**319.7**
A7 Notes - 3.07% ILLS 2032	94.8			1.4	**96.2**
A8 Notes - 6.293% Fixed 2030	246.0			0.0	**246.0**
A11 Notes - 3.666% ILLS 2024	118.0			1.9	**119.88**
A18 Notes - 2.4% ILLS 2035	585.6			10.3	**596.0**
A19 Notes - 1.7% ILLS 2046	70.5			1.1	**71.7**
A20 Notes - 1.7% ILLS 2046	70.4			1.2	**71.6**
A21 Notes - 1.7146% ILLS 2056	56.6			0.9	**57.5**
A22 Notes - 1.6777% ILLS 2056	70.6			1.2	**71.8**
A23 Notes - 1.7903% ILLS 2049	84.8			1.4	**86.1**
A24 Notes - 1.3825% ILLS 2056	70.4			1.2	**71.7**
A25 Notes - 1.3784% ILLS 2057	140.9			2.4	**143.3**
A26 Notes - LIBOR Plus 0.34%	100.0			0.0	**100.0**
A27 Notes - 1.449% ILLS 2062	99.8			1.9	**101.8**
A28 Notes - 1.52% ILLS 2055	66.6			1.4	**67.9**
A29 Notes - JPY 15bn 2.925% 2018/2037	65.9			0.0	**65.9**
A30 Notes - LIBOR Plus 0.85%	110.0			0.0	**110.0**
A31 Notes - JPY 5bn 3.22% 2019/2038	25.1			(0.0)	**25.1**
A33 Notes - 6.875% Fixed 2034 Private Placement	25.0			0.0	**25.0**
European Investment Bank £50m 1.626% Term Facility 2019	65.3			0.9	**66.2**
European Investment Bank £50m 1.3% Term Facility 2020	64.1			1.0	**65.1**
A35 Notes - £130M 2.262% IL Bond 2045	164.1			2.5	**166.6**
Index Linked Swaps	35.1			15.0	**50.1**
Sub Total	**3,669.8**	**0.0**	**0.0**	**54.8**	**3,724.6**

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Contd	Closing Balance 31 Mar 2018 £m	New Issues £m	Repayment £m	Indexation £m	**Closing Balance 30 Sep 2018 £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	78.6		(4.3)	1.0	**75.3**
European Investment Bank £75m 0.79% index linked amortising term facility 2027	78.6		(4.3)	1.0	**75.3**
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	57.3			0.9	**58.1**
A42 Notes - £15m 1.37% IL Private Placement 2022	17.1			0.3	**17.4**
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	169.6		(8.6)	2.5	**163.5**
B46 Notes - £200m Class B 4.5% 2026	200.0			0.0	**200.0**
A47 Notes - £35m 1.141% IL Bond 2042	39.3			0.6	**39.9**
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	100.2			0.0	**100.2**
European Investment Bank £65m 0.41% index linked amortising term facility 2029	71.5			1.1	**72.5**
European Investment Bank £125m 0.1% index linked amortising term facility 2029	135.8			1.9	**137.7**
European Investment Bank £60m 0.01% index linked amortising term facility 2030	64.9			0.9	**65.8**
£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**
	6,317.7	**0.0**	**(17.2)**	**65.2**	**6,365.7** [1]

[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[1] £m	Total Six months ended 30 September 2018 £m	Total Six months ended 30 September 2017 (Restated)[1] £m
Total revenue	694.6	-	694.6	668.3
Operating costs	(297.2)	-	(297.2)	(275.0)
Depreciation and amortisation	(171.0)	-	(171.0)	(157.2)
Operating profit	226.4	-	226.4	236.1
Finance income	0.8	-	0.8	97.2
Finance costs	(165.3)	-	(165.3)	(173.6)
Fair value gains on derivative financial instruments	-	56.3	56.3	122.2
Net finance (costs)/income	(164.5)	56.3	(108.2)	45.8
Profit on business disposal	-	-	-	4.6
Profit /(loss) before taxation	61.9	56.3	118.2	286.5
Taxation charge			(28.3)	(34.9)
Profit after taxation			89.9	251.6
Dividend to AWS Holdings Ltd			-	(96.4)
Dividend to AWG Group Ltd			(68.0)	(61.1)
Special dividend			-	(62.2)
Transfer to/(from) reserves			21.9	31.9

[1] The comparatives have been restated to reflect the impact IFRS 15 'Revenue from Contracts with Customers', which came into effect on 1 April 2018, had on the accounting for grants and contributions. Grants and contributions are now recognised immediately as revenue rather than being deferred and released to 'other operating income' over the expected useful life of the related assets. This has the effect of increasing revenue in the six months to 30 September 2017 by £33.5 million, and reducing other operating income by £7.6 million to £nil, compared with the previous year's published half-yearly report.

[2] Other items comprise fair value gains on derivative financial instruments and energy hedges of £56.3 million (2017: £122.2 million). The 2017 figure included inter-company interest income of £96.4 million and the one-off profit on the disposal of the non-household retail business of £4.6 million.

9.0 *Anglian Water Services Group – Balance Sheet*

At 30 September 2018

		£m	£m	£m
Non-current assets				
Intangible assets				179.6
Property, plant and equipment				9,717.2
Derivative financial instruments classified as current and non-current assets				204.9
Retirement benefit surpluses				90.4
Net current liabilities excluding cash and debt repayable in less than one year				(248.1)
Retirement benefit obligations				(45.4)
Derivative financial instruments classified as current and non-current liabilities				(806.2)
Creditors amounts falling due after more than one year excluding debt				(945.2)
Cash and cash equivalents	Payments Account	158.9		
	Capex Reserve	7.9		
	Debt Service	12.9	179.7	
Financing liabilities	Bonds (excluding accrued interest)	(5,419.4)		
	Finance leases	(27.7)		
	Other[1]	(1,075.1)	(6,522.2)	
	Net Debt (excluding derivatives)			(6,342.5)
Net assets				1,804.7
Capital and reserves	Share capital			10.0
	Reserves b/f			1,709.5
	Actuarial gain on pension schemes			28.5
	Transfer to reserves for the period			23.6
	Gain on cash flow hedges			33.5
	Cost of hedging reserve			(0.4)
Capital and reserves				1,804.7

[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 18 £m	Forecast Interest Payable to 31 Mar 19 £m
Class A Debt		
AAA Wrapped Bonds	20.9	28.7
A- Bonds	83.2	135.7
US Private Placements	11.1	24.7
Other	2.4	2.5
Class B Debt		
BBB Bonds	8.9	14.5
US Private Placements	8.4	21.7
Annual Finance Charge	**134.8**	**227.9**

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 30/09/18

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	(47.4)	(47.4)
BNP PARIBAS BANK	568.4	26.6	(69.4)	(42.8)
CBA BANK	401.9	69.9	(0.0)	69.8
HSBC BANK	33.0	1.8	0.0	1.8
JP MORGAN BANK	671.7	45.1	(241.2)	(196.1)
LLOYDS BANK CORPORATE MARKETS PLC	901.1	30.1	(44.8)	(14.8)
MORGAN STANLEY BANK	273.9	0.0	(0.4)	(0.4)
SANTANDER BANK	903.4	38.4	(48.0)	(9.6)
SCOTIA BANK	166.7	0.0	(92.9)	(92.9)
SMBC BANK	125.0	1.3	(27.6)	(26.3)
Investor-held Instruments[4]	0.0	0.0	(260.7)	(260.7)
Anglian Water1	4,420.1	213.1	(832.4)	(619.3)

Notes

1. All 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 March 2018 to include 10-year accretion pay downs.