Anglian Water Group Limited
Half-yearly report
for the six months ended 30 September 2017

Anglian Water Group Limited

Half-yearly management report

for the six months ended 30 September 2017

A sustainable business, delivering for customers, investors and the environment

Financial results for the half-year period were in line with expectations:

- Revenue for the half year was £705.8 million, an increase of £29.2 million (4.3%) on the same period last year.
- Operating profit of £206.7 million, up 1.4%.
- Bad debt charge of £13 million, down 15%.
- Cash generated from operations £293.4 million, down 7.8%, largely due to the working capital impact of transferring Anglian Water's non-household water and water recycling retail business to Anglian Water Business (National) as part of market reform of the water industry.

Operational performance highlights the benefits of our sustainable approach:

- Anglian Water Services named Responsible Business of the Year.
- Successfully established a new joint venture, Wave Ltd, with Northumberland Water Group, to operate both companies' non-household retail businesses.
- Issued the UK utility sector's first ever Sterling Green Bond.
- ODIs on track for forecast net reward of £6.2 million by year end. (1)
- We continue to deliver significant totex efficiencies thanks to our focus on innovation and our ground-breaking approach to capital delivery alliances. As detailed in our annual report and accounts, the Board has agreed to invest an additional £100 million over the current AMP.
- Ground-breaking innovation saves £32 million and 26,845 tonnes of capital carbon in the delivery of our major Grafham resilience scheme, winning Carbon Reduction Project of the Year at the British Construction Industry Awards.
- Industry leading Health and Safety performance, continuing to build on our LIFE strategy – Living in an Injury Free Environment.
- Fresh approach brings customers into the heart of our business planning for PR19.
- Draft of Anglian Water's updated Strategic Direction Statement sets out ambitious, long-term goals to meet the challenges facing our business and our region.

(1) Customer ODIs quoted pre-tax at 2012/13 prices.

Group overview

Anglian Water Group Limited's principal business is Anglian Water Services ('Anglian Water'), the group's regulated water and sewerage company, which supplies water and water recycling services to more than six million customers in the east of England and Hartlepool. The group also includes Anglian Venture Holdings which comprises Anglian Water Business (National) which provided water services to non-household customers in the UK up to 31 August 2017 when the company was transferred into the Wave joint venture, Alpheus Environmental which operates industrial and commercial wastewater treatment works in the UK, and Celtic Anglian Water which operates water and wastewater treatment works in the Republic of Ireland.

We are planning to simplify our corporate structure through a complete review of our holding companies, and where appropriate rationalise, both within Anglian Water and the wider group. This will include our Cayman Islands subsidiary which has always been fully registered in the UK for tax and serves no on-going purpose.

This interim review has been prepared in respect of the six months ended 30 September 2017.

Group financial performance

Results for the six months ended 30 September 2017

	2017 £m	2016 (Restated) £m
Revenue	**705.8**	676.6
Operating profit	**206.7**	203.8
Underlying profit before tax [(1)]	**1.1**	38.9
Profit/(loss) before tax	**137.0**	(185.8)
Cash generated from operations	**293.4**	318.2

[(1)] Excludes the exceptional profit of £12.3 million on disposal of Anglian Water Business (National) as part of the formation of the Wave joint venture (2016: £9.5 million profit on derecognition of the Celtic Anglian Water joint venture), and fair value gains on derivative financial instruments of £123.6 million (2016: loss of £234.2 million).

On 1 April 2017, Anglian Water sold its non-household water and water recycling retail business to Anglian Water Business (National). Subsequently, on 31 August 2017, Anglian Venture Holdings Limited and Northumbrian Water Group Limited entered into a joint venture. Under the terms of this agreement, both companies transferred their respective non-household retail businesses, Anglian Water Business (National) Limited and NWG Business Limited, to Wave Ltd ('Wave') a 50:50 joint venture between Anglian Venture Holdings and Northumbrian Water Group, resulting in an exceptional profit of £12.3 million.

Revenue for the period was £705.8 million, an increase of 4.3% from £676.6 million in 2016. Anglian Water's revenue increased by 2.2%, reflecting the regulatory tariff increase, modest increases in consumption and growth in customer numbers, partially offset by the loss of the retail gross margin for non-household customers following the transfer of those customers on 1 April 2017 to Anglian Water Business (National). Anglian Venture Holdings revenue for the half-year was £164.0 million (2016: £52.5 million), with the increase due to the transfer of Anglian Water's non-household water and water recycling retail business on 1 April 2017. Inter-segment eliminations of revenue of £101.6 million include wholesale revenue charges by Anglian Water to Anglian Water Business (National).

Operating profit was £206.7 million, an increase of £2.9 million from the £203.8 million profit in 2016.

Anglian Water's operating profit increased by £3.3 million, 1.6%, to £210.2 million, which is consistent with the effect of the regulatory price increase, partially offset by higher operating costs and increased depreciation. Anglian Venture Holdings reported an operating profit of £1.9 million for the period (2016: £1.5 million).

Net finance costs for the period, excluding fair value gains/losses on derivative financial instruments, increased by £40.4 million to £205.6 million (2016: £165.2 million), primarily due to the effect of higher inflation on index-linked debt in Anglian Water.

Resultant underlying profit before tax was £1.1 million (2016: £38.9 million). After the exceptional profit on the transfer of Anglian Water Business (National) into the Wave joint venture (2016: profit on derecognition of the Celtic Anglian Water joint venture), and fair value gains/(losses) on derivative financial instruments, the profit before tax was £137.0 million (2016: loss of £185.8 million).

Compared to the same period in the previous year, the total tax charge has increased by £107.4 million from a credit of £82.0 million to a charge of £25.4 million. This is mainly due to there being a deferred tax charge this year on the fair value gains on derivatives whereas last year there was a credit on derivative losses, and the previous year included a deferred tax credit due to a further change to the UK corporation tax rate down to 17% from 1 April 2020.

Our tax 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, 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.

Cash flow

Operating cash inflow for the group was £293.4 million (2016: £318.2 million), a decrease of £24.8 million on the prior period. Anglian Water's operating cash flow was £10.7 million lower than the prior period at £323.3 million (2016: £334.0 million), while Anglian Venture Holdings operating cash flow was £17.2 million lower.

Net cash outflow for capital investment was £176.7 million (2016: £148.2 million), which is net of the movement in creditors and accruals in the period. The vast majority of capital expenditure relates to the Anglian Water capital programme where gross regulated capital investment in the six months to 30 September 2017 was £199.5 million, in line with management expectations. Net cash outflow from capital expenditure is after grants and contributions of £21.2 million received towards the capital programme and refers to the actual cash spend.

Net debt

Net debt decreased by £45.3 million to £7,798.1 million in the six months to 30 September 2017. During the period new debt of £249.4 million was raised, of which £248.6 million relates to the Green Bond issuance within Anglian Water. Debt repaid in the period amounted to £63.5 million, as the group settled the outstanding balance on short-term bank facilities and made smaller amortising debt payments as they fell due.

Pensions

At 30 September 2017 the net deficit for the group was £101.7 million (31 March 2017: £98.2 million). Actuarial assumptions reflect a small increase in the discount rate from 2.6% at March to 2.7% at September 2017, as well as a small increase in future inflation. Asset performance has been slightly below expectations during the period across all asset categories. Future additional contributions will continue to be made in line with actuarial advice.

Principal risks and uncertainties

Effective risk management is central to the achievement of our strategic priorities. It is managed across our businesses through a number of formal and informal review processes to identify new or escalating risks in a timely manner and to ensure swift mitigation can be implemented.

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

- *Water sector reform and other legislation* – ensuring compliance with competition law, including the increasing political uncertainty around the water sector and Brexit; and managing the risk around the known regulatory reforms planned for the next Asset Management Plan (AMP) period.
- *Financing our Business* – managing the increasing risk around the possibility of a low cost of capital being applied in the forthcoming regulatory determination for the next AMP, and the impact this will have on our ability to finance the business in the future.
- *Long-term supply and demand resilience* – managing the impact of weather changes and potential for drought in our region.
- *Regional Growth* – managing the impact of increasing growth in our region.
- *Pollutions* – managing our activities to minimise the risk and impact of pollutions.
- *Failure to Deliver our plan for the current AMP* – ongoing focus of the business to deliver our plan for our customers.
- *Reputation* – ensuring our activities and commitments to customers are delivered to maintain our reputation with customers.
- *Health and Safety* – maintaining the welfare of our employees and customers.
- *Talent and Succession* – maintaining an effective development of skills, talent and succession planning in the business.
- *Water Quality* – continuing to ensure the provision of safe, clean and high quality water to all our customers every day of the year.

- *Cyber Security* – continuing to manage and mitigate the increasing risk from cyber attacks, data theft and IT system failure.
- *PR19 Programme delivery* – potential for Regulators to change priorities, timetables and methodology at short notice.

Further detail on these risks and uncertainties is included in the annual report and consolidated financial statements for the year ended 31 March 2017.

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Results for the six months ended 30 September 2017

	2017 £m	2016 £m
Revenue	**634.8**	620.9
Other operating income	**7.6**	7.0
Operating costs	**(275.0)**	(267.7)
Depreciation and amortisation	**(157.2)**	(153.3)
Operating profit	**210.2**	206.9
Finance income (1)	**0.8**	1.4
Finance costs (2)	**(173.6)**	(133.5)
Underlying profit before tax (3)	**37.4**	74.8
Profit on disposal of business	**4.6**	-
Fair value gains/(losses) on derivative financial instruments	**122.2**	(238.7)
Profit/(loss) before tax	**164.2**	(163.9)

(1) Shown before the internal interest received by Anglian Water Services Limited from Anglian Water Services Holdings Limited.

(2) Shown before fair value gains of £122.2 million (2016: loss of £238.7 million) on derivative financial instruments.

(3) In order to show performance on an underlying basis, the profit on disposal of business and the fair value gains and losses on derivative financial instruments have been excluded from underlying profit before tax.

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

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

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

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

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

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

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

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

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

During the period new debt of £248.6 million was raised in the form of the well subscribed, and first in the utility industry, Sterling Green Bond[1] issuance in August. Proceeds have been used to finance the award winning Grafham Resilience Project securing resilience for over 600,000 households as well as projects such as the Kings Lynn enhanced sludge treatment process which greatly reduces the impact of sludge transportation, the Norwich Sustainability project enabling us to meet increased demand by utilising new technology and optimising existing assets, and improvements to our water treatment works in Semer, Suffolk, which reduces nickel levels and enhances water quality.

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

Gross regulated capital investment in the six months to 30 September 2017 was £199.5 million (2016: £166.1 million). This is in line with management expectations.

Operational performance summary

We are now well into the third year of the Asset Management Plan period (AMP) that runs from 2015 to 2020. In preparation for this AMP, we carried out our largest ever consultation with our customers. More than 50,000 told us what matters to them, resulting in the creation of 10 outcomes in three broad areas, against which we report our progress. Here, we report on activity against our outcomes in these three broad areas.

Providing the services our customers expect: satisfied customers, fair charges, safe clean water, resilient services

Our average annual household bills rose slightly in 2016/17, following a 7% drop in real terms in April 2015 – the largest percentage drop of any water and sewerage company in England and Wales. In April 2017, we were able to keep increases to the level of inflation – 2.2% – bringing bills up to £420 on average, or £1.15 a day, to fund a 2017/18 investment programme of £500 million. Customers who have a water meter continue on average to pay even less.

As well as bill reductions, we continue to offer a comprehensive package of measures to help customers manage their bill. In 2016/17 the number of customers on our social tariff – LITE (Low Income Tariff for Eligible Households) – increased to 6,200, most of whom receive an 80% discount on their bills. Having reached the limit of those we are able to help with the funds available, we went back out to customer consultation in 2016. We received support to increase funding from customers to treble the number of people accepted onto LITE over the next two years.

We remain committed to our goal of having 100% of our customers very satisfied with the service they receive from us. We're continually investing in new technologies and systems, and reviewing our processes, in order to improve the service we provide to our customers. After two rounds of qualitative Service Incentive Mechanism (SIM) surveys for 2017/18, we are in first place in the league table of water and sewerage companies. Our efforts are now concentrated on maintaining that position. Work to improve our

[1] A green bond is a public bond issuance undertaken to finance specific environmentally friendly projects, with strict protocols on how the funds are invested.

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service proposition this year includes improvements to our web chat and telephony systems and a new, proactive team to contact customers whose bills rise by more than we would expect.

We are continuing to review and improve our operational support for customers, too. For instance, we have increased the size of our dedicated Restoration team to spearhead efforts to minimise the disruption to customers from interruptions to their supply. This has grown to include 18 Restoration Technicians, based at three locations around the region and all trained to drive our newly expanded fleet of 17 water tankers. Their work complements the focus on network optimisation and other proactive work to prevent interruptions occurring in the first place.

We are committed to minimising the disruption to customers caused by planned and unplanned interruptions to their supply. We have achieved a step change in our performance this AMP through a relentless focus on restoration of supplies as the priority, detailed investigation of root causes and a proactive approach to prevent interruptions. Performance remains strong in the first half of 2017/18 and we remain on target to meet our Outcome Delivery Incentive target for the year as a whole. We are aware that severe winter weather or a major event could affect this, so we remain focused on keeping the underlying baseline low and on making every second count whenever there is an interruption to customers' supplies.

Our customers were very clear during the consultation that informed our business plan for 2015-2020 that leakage detection, prevention and repair was vitally important to them, and we have reflected that priority in our work since the start of the AMP. Through a programme of pressure management, focused leakage detection and targeted mains renewal we expect to further reduce our leakage from last year's level. This is already well below the target set by the regulator and we will invest £124 million over this AMP in people and state-of-the-art technology to drive it even lower.

We maintain a register of properties where customers may experience persistently low pressure and have an ongoing programme of work to reduce the numbers affected. The first half of this year has seen the successful completion of several schemes, and we are on course to meet our target for the year as a whole.

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

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

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

Protecting our world: caring for communities, a smaller footprint, a flourishing environment, supply meets demand

In July, Anglian Water was named Responsible Business of the Year at the Business in the Community Awards. It is an award given to companies that put social and environmental concerns at the heart of their strategy, demonstrate a commitment to sustainability and embed it in the culture of their entire business and supply chain. To win is an endorsement of our Love Every Drop strategy, which has already earned us a Queen's Award for Enterprise for sustainable development.

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It is our belief that no job is so important that we cannot take the time to do it safely. This protects both our community of colleagues, and the customers that we serve. We want to ensure that we maintain and improve our health and safety record as well as improving our employee's wellbeing and make working for Anglian Water a positive experience.

Our RIDDOR Accident Frequency Rate of 0.11 remains below the water industry average. While the number of significant incidents has risen slightly, we continue to ensure our resources are focused in the right area to reduce these. We maintained our OHSAS 18001 certification during the year, following an LRQA assessment, confirming we have a robust health and safety management system in place. A three year health and safety strategy has been developed to ensure we continue to improve and we are also continuing to focus on our cultural change, through our LIFE programme.

In April 2017 we launched our new approach to improving workplace wellbeing, which is focused on the whole person and aims to make our people happier, healthier and safer. This is founded on the belief that work should have a positive effect and includes campaigns that address both physical and mental wellbeing. Feedback has been very positive, with employees implementing a range of local initiatives. Peter Simpson, Anglian Water's Chief Executive, is chair of Business in the Community's Wellbeing at Work Leadership Team, and we aim to show national leadership on integrating wellbeing into the workplace through events such as our regional wellbeing conference.

We remain focused on minimising our impact on the environment. We are forecasting a slight increase in the number of Category 3 (minor) pollution incidents over the year compared to 2016. We have recorded 187 to the end of September 2017, which remains a considerable improvement on previous years.

The number of Category 2 (significant) incidents remains steady, with four to the end of September 2017, the same number as at the end of September last year. We have recorded one Category 1 (serious) pollution incident in the first six months of 2017/18. This followed a discharge from Brackley sewage pumping station.

During this year we continue to build on the work that delivered our best ever performance on pollutions in 2015/16. A significant amount of proactive work aims to predict and prevent pollutions before they occur, with a multi-million pound investment in network intelligence and visibility. Our Pollution Watch campaign ensures we respond rapidly to any events that do risk an impact on the environment.

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

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

We continue to take a lead on work to plan for resilient future water supplies in the region and across the country. We have recently become the first water company to join the Association of Drainage Authorities (ADA), which represents Internal Drainage Boards (IDBs) in England and Wales. Our region is home to the majority of the country's Internal Drainage Boards, so it's vital we are represented on the ADA and work with partners across the East of England to help protect customers' homes and businesses, as well as our own sites, from flooding and other extreme weather events. Membership will allow us to increase knowledge, skill and innovation sharing between the various different drainage, water level and flood risk management sectors for a better future.

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In the first half of this year, we delivered the £28 million Grafham resilience scheme to increase the security of water supplies to people in the west of our region. An innovative, carbon-focused approach saw us reconfigure the network so that in an emergency we can now reverse the direction of flow through the water main linking Grafham Water Treatment Works in Cambridgeshire with Northamptonshire. This innovative approach was a first for the UK water industry and meant the final scheme came in £32 million cheaper than the initial design and with 61% – or 26,845 tonnes – less capital carbon. This achievement was recognised when the scheme was named Carbon Reduction Project of the Year at the British Construction Industry Awards.

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

Our water resources are currently secure as we enter the 2017/18 recharge season. The exception is Pitsford where we have been keeping water levels lower than normal to carry out operational work. This is now complete and we plan to return the reservoir to normal levels over the coming recharge season as weather conditions allow. Rainfall in the Anglian Water region for the first six months of 2017/18 has been 116% of the long-term average. This has allowed groundwater levels in the south of the region to recover from a low point earlier in the year.

As part of our commitment to leading and championing the effective management of climate change and growth, we have further developed our understanding of climate risk through UKWIR research focused on quantifying weather impacts on our processes. Our adaptation policy, strategy and plan are being reviewed and updated and a communications strategy is being developed. Consideration of the need for climate change adaptation is also being embedded into our asset management planning and totex delivery processes. Schemes must now demonstrate that they have assessed climate risks, costed adaptation solutions, and amended their designs as necessary. Work is also on-going to develop a climate change section within our asset plans and to understand how adaptation costing can be included in our asset investment planning and management system.

Capital carbon is currently at a 56% reduction from a 2010 baseline and forecast to remain on target at year-end. Operational carbon is forecast to reach target by year-end, currently delivering a saving of 9,619 t/c02e. We have been certified to CEMARS Gold, confirming a seventh consecutive year of operational carbon reduction in accordance with ISO-14064.

We have been re-certified to PAS 2080: 2016 Carbon Management in Infrastructure, through Lloyds Register LRQA, the world's first standard for managing infrastructure carbon. Our approach to managing carbon and energy also formed a key part of our prospectus to the market when we became the first utility to launch a Sterling Green Bond.

Our annual fundraising ball for WaterAid raised £552,000 for the global charity in April 2017. In the previous year (2016/17), Anglian Water's employees, suppliers, shareholders and customers helped raise £766,474 for WaterAid.

Getting it right for our customers: investing for tomorrow, fair profits

We use a basket of measures to monitor how we invest in our assets to keep their service at an acceptable level. These are grouped into four serviceability ODIs, covering below and above ground assets for water and water recycling. At this point in the year, all our serviceability measures are on track, although a burst main, which affected supplies to almost 300 properties in July, has put some pressure on our target for the number of properties experiencing interruptions of greater than 12 hours. This should not detract from the clear success of our restoration first strategy, which has led to a sustained and significant reduction in the length of time properties are without water in the event of an interruption to supply.

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Any profits, and returns to investors, that we make in excess of allowed pricing come from efficiency initiatives in operating the business and delivering the capital programme, as well as earning ODI rewards. Efficiencies are either reinvested to improve service for customers, or shared with the customers 50:50 at the start of the next AMP, helping to keep bills down.

April saw the opening of the market for non-household competition. An extensive programme of training and awareness across the business helped us achieve a smooth transition over the first six months of the new market, and to ensure equivalence in the way we will handle interactions with all retailers and customers now that non-household customers can switch supplier.

In July we issued the first ever benchmark utility sector Sterling Green Bond to support our Love Every Drop sustainability strategy. The sustainability focus at the heart of our business meant that all of our capital expenditure qualified for the Green Bond. We will select some of our largest and stand out schemes to be included, such as innovative water abstraction, drought and flood resilience schemes, and progressive water recycling and water resource management projects. The £250 million Bond will mature in August 2025. The order book peaked at £800 million, with nearly 80 investors participating.

Preparations continue for the creation of our business plan for 2020-2025 and the Price Review in 2019 (PR19). We are focused on putting customers at the heart of our business planning process, building on the work undertaken for PR14.

A series of co-creation workshops were held with staff, customers and stakeholders to inform the techniques we will use to engage customers and others in our business planning processes over the coming years. The first half of this year saw us begin to put these techniques into practice, and introduce some new business as usual channels for engaging with customers.

The company's biggest ever public engagement event, H_2OMG!, was held in August. H_2OMG! was a week-long, fairground-themed event at The Forum in Norwich, which saw us engage with more than 33,000 visitors about future water resilience. This followed on from a tour of summer events and town centres in a converted double decker bus. This was split into activity zones which allowed us to engage with customers about different aspects of our service and the future of their water supply.

August also saw the launch of The Smarter Drop – the public face of our Innovation Shop Window – to people in Newmarket. Unique to the water industry, the Shop Window is concentrating innovation across the man-made water cycle in one place to create a view of what our business will look like in 30 years time. This includes eliminating leaks, bursts, pollution and flooding, dramatically reducing household water consumption and achieving a carbon neutral operation.

We put our updated Strategic Direction Statement (SDS) out for consultation in May 2017. The original document was published in 2007 to cover the period from 2010 to 2035. The update explores the changing nature of the challenges faced by our business and our region, and sets out our long-term strategies for responding to them. Customers and stakeholder views will be reflected in the final document, which is due to be published shortly.

We are continuing to explore ways to present performance data to our customers and other stakeholders in ways that they find accessible and informative, in line with our outcomes reporting policy, published in 2015.

The first half of this year saw the launch of our new performance reporting website – *http://ourperformance.anglianwater.co.uk* – designed to make our performance reporting accessible to the widest possible range of stakeholders. It is designed as a stand alone, easy-to-access, one-stop shop for anyone interested in learning about our performance. Just a brief glance provides a rounded picture of our performance in any given area, with more detailed commentary and case studies a click away.

The website links from the industry-wide Discover Water website to provide Anglian Water-specific data in a way that is useful for customers. We also continue to make active use of our well-established social media channels to regularly share performance data with customers in creative and shareable formats, with the intention of seeing this information organically spreading through the communities we serve. We are committed to transparency and engagement, and are taking all appropriate steps to assure the quality of the data we provide.

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Looking ahead

Our Customer Engagement Forum (CEF) continues to meet, providing an opportunity for customer representatives to challenge the company about its performance. We have actively engaged the CEF in the creation of the stakeholder and customer engagement programme that will support the development of our PR19 business plan. The CEF is now meeting independently of Anglian Water when considering the quality of our customer engagement.

We remain focused on delivering excellent operational performance and the highest levels of customer satisfaction as we continue to deliver targeted and sustainable efficiencies across our operations and capital investment programme.

Finally, we are committed to the delivery of an outstanding business plan for this regulatory period, 2015 to 2020, that best meets all customer, stakeholder and regulatory interests.

ANGLIAN VENTURE HOLDINGS

Business overview

Anglian Venture Holdings comprises the following businesses:

- Anglian Water Business (National) which provided water services to non-household customers in the UK up to 31 August 2017 when the company was transferred into the Wave joint venture;
- Alpheus Environmental which operates industrial and commercial wastewater treatment works in the UK; and
- Celtic Anglian Water which operates water and wastewater treatment works in the Republic of Ireland.

On 1 April 2017, Anglian Water Business (National) purchased the non-household water and water recycling retail business of Anglian Water, further expanding its business base.

On 31 August 2017, Anglian Venture Holdings Limited and Northumbrian Water Group Limited entered into a joint venture with both companies transferring their respective non-household retail businesses, Anglian Water Business (National) Limited and NWG Business Limited, to Wave Ltd ("Wave"), resulting in an exceptional profit of £12.3 million.

Financial performance

Results for the six months ended 30 September 2017

	2017 £m	2016 (Restated) £m
Revenue	**164.0**	52.5
Operating profit	**1.9**	1.5
Share of joint ventures operating profit	**-**	0.3
Segment result	**1.9**	1.8
Exceptional items:		
Profit on disposal of business	**12.3**	-
Profit on derecognition of joint venture	**-**	9.5
Operating cash flow	**(17.7)**	(0.5)

Anglian Venture Holdings generated revenue of £164.0 million (2016: £52.5 million) and an operating profit of £1.9 million (2016: £1.5 million) as set out below.

	Revenue		**Operating profit**	
	2017 £m	2016 £m	**2017 £m**	2016 (Restated) £m
Anglian Water Business (National)	**145.0**	40.0	**2.0**	1.4
Alpheus Environmental	**4.2**	4.3	**0.3**	0.4
Celtic Anglian Water	**14.9**	8.2	**0.1**	(0.2)
Anglian Venture Holdings - Head Office	**-**	-	**(0.5)**	(0.1)
Inter-segment eliminations	**(0.1)**	-	**-**	-
	164.0	52.5	**1.9**	1.5
Share of joint ventures operating profit				
Wave			**-**	-
Celtic Anglian Water			**-**	0.3
			-	0.3

ANGLIAN VENTURE HOLDINGS

Anglian Water Business (National) had a strong start to the year with revenue of £145.0 million up to 31 August 2017, an increase of £105.0 million over the six months to 30 September 2016, as a result of the acquisition of the in-region non-household retail business of Anglian Water on 1 April 2017. Operating profit of £2.0 million was recognised up to the disposal of the company to the Wave joint venture on 31 August 2017.

Celtic Anglian Water's results reflect a full six months of trading, whereas in the prior period Celtic Anglian Water was accounted for as a joint venture until 14 June 2016, at which point the remaining 50% of the business not already owned was acquired.

Outlook

Anglian Venture Holdings will focus on building on the successful entry of its retail businesses into the non-household market and integration of the two retailers into the Wave joint venture.

[ENDS]