Osprey Acquisitions Limited

Anglian Water (Osprey) Financing Limited

Investor Report

For the year ended 31 March 2023

Prepared in accordance with International Financial Reporting Standards (IFRS) unless otherwise indicated

Investor Report

Contents

love every drop
anglianwater

Basis of Preparation

All financial information in this report is audited and has been prepared in accordance with IFRS. The accounting policies used are consistent with those in the Statutory Accounts of Osprey Acquisitions Limited at 31 March 2023.

The information in this report is presented solely to comply with Schedule 8 of the Osprey Acquisitions Limited 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, Osprey Acquisitions Limited 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

1.0 Financial Performance for the year ended 31 March 2023

Summary Underlying Results for the Consolidated Osprey Acquisitions Limited group ("Osprey" or "MidCo"), which includes the results of Anglian Water Services Limited group ("Anglian Water" or "OpCo"), are summarised below:

	2023 Total £m	2022 Total £m
Revenue	**1,497.5**	1,429.1
Other operating income	**16.0**	12.3
Operating costs	**(691.4)**	(639.3)
Charge for doubtful and bad debts	**(30.1)**	(11.1)
Depreciation and amortisation	**(379.3)**	(348.6)
Operating profit	**412.7**	442.4
Finance income	**39.1**	16.0
Finance costs [2]	**(774.7)**	(498.9)
Adjusted (loss)/profit before tax[1]	**(322.9)**	(40.5)
Finance costs – fair value gains/(losses) on financial derivatives[2]	**645.3**	(115.1)
Profit/(loss) before tax on a statutory basis	**322.4**	(155.6)

[1] Financial measures or metrics used in this report that are not defined by IFRS are alternative performance measures. The Group uses such measures for performance analysis because they provide additional useful information on the performance and position of the Group. Since the Group defines its own alternative performance measures, these might not be directly comparable to other companies' alternative performance measures. These measures are not intended to be a substitute for, or superior to, IFRS measurements

[2] In order to show pre-tax performance based on management's view of an underlying basis, the fair value gains and losses on financial derivatives have been shown separately in the table because these are volatile non-cash movements that distort the actual underlying economic performance

Osprey's principal business is Anglian Water, the group's regulated water and sewerage company, which supplies water and water recycling services to almost seven million customers in the east of England and Hartlepool. The table below shows key performance indicators from the financial statements of Osprey, showing the split between Anglian Water and the remainder of Osprey, and these are discussed separately in the two sections below.

	2023				**2022**			
	Anglian Water £m	**Osprey and subsidiaries excl. AWS £m**	**Inter-segment elimination £m**	**Total £m**	Anglian Water £m	Osprey and subsidiaries excl. AWS £m	Inter-Segment elimination £m	Total £m
Revenue								
External	**1,494.9**	**2.6**	**-**	**1,497.5**	1,399.8	29.3	-	1,429.1
Inter-segment	**-**	**-**	**-**	**-**	-	0.1	(0.1)	-
	1,494.9	**2.6**	**-**	**1,497.5**	1,399.8	29.4	(0.1)	1,429.1
Segment result								
EBITDA	**802.8**	**(10.8)**	**-**	**792.0**	788.5	2.5	-	791.0
Depreciation and amortisation	**(379.1)**	**(0.2)**	**-**	**(379.3)**	(347.7)	(0.9)	-	(348.6)
	423.7	**(11.0)**	**-**	**412.7**	440.8	1.6	-	442.4
Cash flows								
Operating cash flow	**712.8**	**(15.3)**	**-**	**697.5**	749.9	5.3	-	755.2
Capital expenditure	**(660.0)**	**-**	**-**	**(660.0)**	(518.2)	(0.1)	-	(518.3)
Net debt excluding derivative financial instruments	**(6,247.9)**	**(1,068.2)**	**-**	**(7,316.1)**	(5,621.3)	(1,061.8)	-	(6,683.1)

1.1 Osprey Financial Performance (Excluding Anglian Water)

The Osprey Group above Anglian Water, and the Aigrette Group above Osprey, were introduced into the group structure during 2021 as part of a strategy to support the investment grade status of Anglian Water.

The decrease in revenue, EBITDA and operating cash flow outside of Anglian Water has been driven by the sale of a number of properties to the wider AWG group in the prior year. The properties were transferred at a fair value of £24.4 million. At the point of sale, the net book value was £12.3 million with prepayments written off of £2.8 million, generating a profit in the Osprey Group of £9.3 million.

1.2 Anglian Water Financial Performance

Summary Underlying Results for the Anglian Water Services Limited group ("Anglian Water") are summarised below:

	2023 Total £m	2022 Total £m
Revenue (excl. grants and contributions)	**1,388.9**	1,299.7
Grants and contributions	**106.0**	100.1
Other operating income	**16.0**	12.3
Operating costs	**(708.1)**	(623.6)
EBITDA	**802.8**	788.5
Depreciation and amortisation	**(379.1)**	(347.7)
Operating profit	**423.7**	440.8
Finance income	**20.6**	1.8
Finance costs[2]	**(731.1)**	(460.1)
Adjusted loss profit before tax[1]	**(286.8)**	(17.5)
Finance costs – fair value gains/(losses) on financial derivatives[2]	**645.3**	(115.1)
Profit/(loss) before tax on a statutory basis	**358.5**	(132.6)
Tax	**(90.2)**	(310.2)
Profit/(loss) after tax	**268.3**	(442.8)

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[2] In order to show pre-tax performance based on management's view of an underlying basis, the fair value gains and losses on financial derivatives have been shown separately in the table because these are volatile non-cash movements that distort the actual underlying economic performance.

Revenue

Revenue, excluding grants and contributions, for the year was £1,388.9 million (2022: £1,299.7 million), an increase of £89.2 million (6.9%) on last year. The increase in revenue is as a result of the following factors:

- The price increase for customers following the regulatory pricing formula, £87.7 million increase.
- A net decrease in demand of £13.4 million. Household consumption is down £21.8 million and non-household consumption up £8.4 million as we move back towards pre-Covid 19 levels of consumption.
- Increase in revenue of £8.4m as a result of increase in customer numbers.
- Other increases in revenue of £6.5 million.

Grants and contributions represent the cash and asset contributions made principally by property developers and local authorities for connecting new property developments to the water and sewerage network, and for diverting existing infrastructure. Over the year, these have increased by £5.9 million to £106.0 million. This is driven by the strong housing market and construction sector in our region.

The money we can raise from bills, along with how much we are allowed to invest in our service, is decided every five years through Ofwat's price-setting process and set out in our Final Determination (FD).

Other operating income

Other operating income comprises primarily external income from power generation, bio-solid sales to farms, rents received and various other non-core activities; this was consistent with prior years.

Operating costs (including charge for bad and doubtful debts)

Operating costs including charges for bad and doubtful debt for the year increased by £84.5 million (13.6%) to £708.1 million. This increase is explained in the table below:

	Total £m
Prior period	623.6
Funded by FD	
Inflation	53.2
Capitalisation of replacement infrastructure assets	(9.1)
Weather related	
Investment in leakage to recover from hot weather and freeze-thaw	13.9
Bad debt provision	
Increase in base bad debt charge	6.3
Prior year reassessment of provision	6.0
Prior year change in macroeconomic outlook	6.6
Power	
Benefit of proactive hedging	(4.2)
Other significant items	
Fuel in excess of inflation	3.7
Chemicals in excess of inflation	9.4
Business rates	(10.1)
Other	8.8
Total increase	84.5
March 2023	708.1

Inflation

The inflationary increases in Anglian Water's cost base formed part of the Final Determination and are therefore funded through the inflationary increases in revenues.

Capitalisation of replacement infrastructure assets

In order to improve efficiency, there was a change in the way we deliver boundary box and external meter chamber replacement in the second half of last year. As a result of the change in delivery, which has moved from individual jobs to a scheme of work, the cost of the scheme is above our de-minimus threshold for capitalisation, resulting in the costs being treated as capital expenditure rather than operational. In addition, this year we have also expanded this process to include manhole covers and network fittings.

Weather related

The impacts of climate change are fundamental to our business and our climate-related financial disclosures can be found as an appendix to the paper presented to the Committee. Immediately after the hot summer, the Board committed to invest £13.9 million to ensure we maintained our industry leading leakage position as we sought to recover from a number of weather related events throughout the year.

The first six months of the year saw very little rainfall and as a result we saw exceptionally dry ground conditions. This was then compounded by two extremely cold spells in winter both followed by a rapid rise in temperatures. These conditions create ground movements that interfere with our infrastructure resulting in additional costs to repair.

Bad debt provision

The increase in bad debt charge is primarily a result of three factors set out below but we continue to see exceptionally strong cash collection with our base bad debt charge over the long term reducing as a percentage of revenue.

- An increase in our base bad debt charge of £6.3 million, partly a result of the increase in our revenue and partly due to a return to more typical levels after an exceptionally strong performance in the prior year.
- The prior year reassessment of provision in our debt over 48 months old, which resulted in a one off £6.0 million provision release in the prior year, as a result of continued positive collection in combination with a change to our write-off policy in April 2020.
- In addition, we estimate the impact of future macro-economic factors on our collection performance as required by IFRS 9. In March 2022 we released £6.6 million of this provision as the projected impact of Covid-19 on unemployment subsided, thus reducing the charge in that year. The latest forecasts for unemployment are broadly the same as that at March 2022 and therefore we have maintained the same overlay provision as at March 2022, thus having no impact on the income statement.

Power

Our waterfall chart splits out the impact of inflation and as we operate a robust hedging strategy our energy costs rose slower than inflation in the year thus presenting as a real terms reduction. This strategy meant that we had locked in our energy prices prior to the start of the year and the war in Ukraine. As such our weighted average hedged price for the year was £58/MWh compared to an average day ahead price for the year of £187/MWh.

Other significant items

Other significant items primarily relate to costs that have risen above average inflation, such as fuel and chemicals.

In addition, following a rates review we received a refund of £10.1 million in the year.

EBITDA

Earnings before interest, taxes, depreciation and amortisation (EBITDA) is defined as the profit from continuing operations before interest, tax, depreciation and amortisation. This has increased by 1.8% to £802.8 million, which is consistent with the effect of the increases described above.

Depreciation and amortisation

Depreciation and amortisation is up 9.0% to £379.1 million, primarily as a result of higher fixed asset balances as we construct and commission assets in line with our capital investment programme.

Operating profit

Operating profit has decreased by 3.9% to £423.7 million. Whilst there have been significant inflationary costs pressures due to the mismatch in timing with revenue, our proactive energy hedging policy protected the business. In addition the Board committed to invest £13.9 million to ensure we maintained our industry leading leakage position as we sought to recover from a number of weather related events throughout the year.

Financing costs and profit before tax

Adjusted net finance costs, which are finance income net of finance costs before fair value gains and losses on financial instruments,) increased from £458.3 million in 2022 to £710.5 million in 2023. This was primarily the result of the non-cash impact of higher inflation on index-linked debt which increased by £306.4 million to £561.4 million. This increase was due to an increase in year-on-year average Retail Price Index (RPI) from 5.8% to 12.8% and year-on-year average Consumer Price Index (CPI) from 4.0% to 10.0%. We have both RPI-linked debt and CPI-linked debt to hedge the Regulated Capital Value (RCV). Finance income was £16.0 million, up £14.6 million as we benefited from these higher interest rates on our cash balances.

There was a fair value gain of £645.3 million on derivative financial instruments in 2023, compared to a loss of £115.1 million in 2022. The fair value gains in the current year are predominantly non-cash in nature and have no material effect on the underlying commercial operations of the business. The driving factors for the gain in 2023 were primarily due to decreases in the average levels of forward inflation expectations, in combination with the rise in forward interest rates (decreasing the discounted present value of derivatives). During the period, forward inflation decreased by circa 90 basis points and forward interest rates increased by 200 basis points across the curves.

Taxation

We are one of the largest private investors in infrastructure in our region, having invested just over £1 billion in the last two years. The Government actively encourages infrastructure investment and grants us capital allowances, which defer some of our corporation tax liabilities until a later period. Our customers directly benefit from the deferral as it helps to keep their bills lower.

Total tax paid or collected in the year to 31 March 2023, other than corporation tax, amounted to £234 million (2022: £231 million), of which £100 million was collected on behalf of the authorities for value added tax (VAT) and employee payroll taxes. All of our taxes are paid as they become due.

The current tax credit for the year was £24.7 million (2022: £18.6million). The deferred tax charge has decreased by £214.0 million from £328.9 million in 2022 to £114.9 million this year.

	Year ended 31 March 2023	Year ended 31 March 2022
	£m	£m
Current tax:		
In respect of the current period	**(25.4)**	(13.6)
Adjustments in respect of prior periods	**0.7**	(5.1)
Total current tax credit	**(24.7)**	(18.7)
Deferred tax:		
Origination and reversal of temporary differences	**113.0**	(25.9)
Adjustments in respect of previous periods	**1.9**	1.2
Increase in corporation tax rate	**-**	353.6
Total deferred tax charge	**114.9**	328.9
Total tax charge on loss on continuing operations	**90.2**	310.2

The current tax credit for both years reflects receipts from other group companies for losses surrendered to those group companies. The tax losses arise mainly because capital allowances exceed the depreciation charged in the accounts, as well as some income not being taxable and the availability of tax relief on pension contributions paid in the year. This is offset by disallowable costs and interest. In the prior year there is also a one-off credit arising on a change of accounting treatment.

The deferred tax charge for this year mainly reflects capital allowances claimed in excess of the depreciation charge, a charge on the fair value gains on derivatives, offset by a credit on losses carried forward to future years. The prior year charge mainly reflects the effect of a corporation tax rate from 19% to 25% that comes into effect on 1 April 2023 but was legislated for in Finance Bill 2021, capital allowances claimed in excess of the depreciation charge in the accounts offset by a credit on losses carried forward to future years.

The Finance Bill 2021 also introduced increased tax relief for capital expenditure incurred in the period up to 1 April 2023. This has increased the deferred tax charge in this year.

The current and deferred tax adjustments in respect of previous periods for both years relate mainly to the agreement of prior year tax computations.

The amounts included for tax liabilities in the financial statements include estimates and judgements. If the computations subsequently submitted to HMRC include different amounts then these differences are reflected as an adjustment in respect of prior years in the subsequent financial statements.

In addition to the £90.2 million tax charge on the income statement, there is a credit of £35.5 million (2022: charge of £40.7 million) in the statement of other comprehensive income in relation to tax on actuarial losses/(gains) on pension schemes and fair value gains on cash flow hedges.

Cash Flow

Anglian Water Services
Cash flow on a statutory basis

Year ended 31 March

	2023 £m	2022 £m
Cash generated from operations	**710.9**	**749.9**
Income taxes paid	-	-
Net cash flows from operating activities	**710.9**	**749.9**
Net interest paid, including issue costs paid	(201.3)	(223.8)
Decrease/(increase) in short-term deposits	94.0	(312.0)
Repayment of amounts borrowed	(668.8)	(656.4)
Settlement of principal on derivatives	-	75.9
Interest element of finance lease rental payments	(0.9)	(1.2)
Increase in amounts borrowed	740.8	100.5
Capital element of finance lease rental payments	(5.3)	(12.0)
Proceeds from issue of share capital	-	1,165.0
Dividends paid	(169.0)	(96.3)
Net cash (used in)/from financing activities	**(210.5)**	**39.7**
Purchase of fixed assets net of disposal proceeds	(584.2)	(459.4)
Purchase of intangible assets	(75.8)	(58.8)
Interest received on deposits	16.0	1.4
Net cash used in investing activities	**(644.0)**	**(516.8)**
Net (decrease)/increase in cash and cash equivalents	**(143.6)**	**272.8**
Cash and cash equivalents at the beginning of the period	478.7	205.9
Cash and cash equivalents at the end of the period	**335.1**	**478.7**

The business generated cash from operations of £710.9 million in the year (2022: £749.9 million). Operating cash was impacted by the rate of increase in operating costs exceeding the rate of increase in revenue due to the timing of inflationary increases in revenue. In addition, we saw short term timing differences on working capital as we managed covenant headrooms going into year 4.

Distributions available to the ultimate investors

Dividend amounting to £169.0 million relating to prior period was paid in 2022/23. There was no interim dividend.

After the balance sheet date, Directors have proposed to pay a final dividend amounting to £79.9 million. The base dividend has been adjusted for a total of £26 million deduction to reflect performance based on ODIs.

The Board has an approved dividend policy, under which dividend payments will be aligned to the performance of the business, taking into account commitments to customers and other stakeholders and ensuring that the company can finance its operations. Anglian Water aims to attract long-term shareholders who support its long-term ambitions. The support of our shareholders is critical to the success of our business and to securing the investment that Anglian Water needs. Therefore, our shareholders are entitled to an appropriate return on their investment. This is delivered partly through long-term capital growth and partly through dividends.

The company's dividend policy is to identify the cash available for distribution, allowing for the business's liquidity requirements in respect of funding its operations and the capital programme, and servicing its debt for the next 18 months. When considering a dividend, the Directors will consider the Business Plan, have regard to Anglian Water's purpose and reflect their duties under the company's Articles of Association.

An assessment will be completed by the Board to determine if the payment or part payment of the dividend reflects and/or would compromise the long-term social, financial and operational commitments made to our stakeholders. Following this assessment and depending on the actual performance of Anglian Water, the Board can decide to increase or decrease any dividend payment from the base position. In assessing the dividend payment, the Directors review the business performance forecasts (currently to the end of the AMP period of 31 March 2025) and give consideration to the potential impact of external factors in the economy and regulatory environment on the company's forecast cash flows.

The dividend policy is also based on ensuring that there is adequate headroom in relation to all of Anglian Water's obligations to lenders, including commitments to comply with certain financial covenants. In particular, Anglian Water has committed to lenders that it will only pay dividends when key financial ratios are satisfied. Additionally, the policy sets out to ensure that key credit rating agency credit metrics required to support the capital structure as determined by the Board can be satisfied.

In its Articles of Association, the company has committed to conduct its business and operations for the benefit of members as a whole, while delivering long-term value for its customers, the region and the communities it serves and seeking positive outcomes for the environment and society. In making decisions (including decisions in relation to dividend payments), Directors are required to act in the way that is considered most likely to promote the purpose of the company. In doing so, Directors must have regard (among other things) to the likely consequences of any decision in the long term, the interests of the company's employees, relationships with suppliers, customers and others, and the impact of the company's operations on the community and the environment.

The Board will therefore consider if the payment or part payment of the dividend reflects or would be consistent with the long-term social, financial and operational commitments made to stakeholders, including customers, employees and pension fund holders. In considering this issue, the Board will have regard to the suite of Performance Commitments that the company has made which include targets in relation to:

- Performance for customers (including, but not limited, to the customer measure of experience (CMeX) and the developer measure of experience (DMeX).

- Operational commitments which are of importance to customers (including, but not limited to, commitments in relation to leakage, per capita consumption, water quality, interruptions to supply, and risk of low pressure).

- Wider social and environmental commitments (including, but not limited to, commitments in relation to vulnerable customers, sustainable abstraction, and community investment).

The overall amount of the company's ordinary dividends will not exceed the free cash flow (defined as operating cash flow less interest and capital maintenance payments) generated by Anglian Water, and in practice will be limited by its current and forecast financial covenants. Special dividends may also be paid in addition to ordinary dividends, but these too are limited by specific financial covenant constraints. This policy is consistent with Condition F of the Licence. The full dividend policy is available on the Anglian Water website.

Financial needs and resources

During the year to March 2023, Anglian Water raised new debt of £740.8 million. This was comprised of the following new issuances:

- 10-year Canadian Maple Bond amounting to C$350.0 million which was swapped to a sterling equivalent of £224.8 million;
- £100m 18-year CPIH linked bond. This was the first CPIH linked issuance by Anglian Water;
- £150m drawdown on NatWest facility; and
- £266m US private placement

Repayments of £668.7 million were made in respect of maturing debt, which consisted of a £250 million 5.837% fixed rate debt, £15 million 1.37% index-linked private placement, £31.9 million 4% private placement, £22.3 million 4% private placement, amortising payments on EIB index-linked debt and £266.5m early settlement of accretion due on 2.4% ILLS 2035 note.

The Group's borrowing facilities of £1,350.0 million (2022: £975.0 million) comprise Class A debt service reserve facilities totalling £244.0 million provided by Barclays Bank Plc, HSBC Bank Plc, Sumitomo Mitsui Banking Corporation, JP Morgan Chase N.A. and Lloyds TSB Bank Plc; a £131.0 million operating and capital maintenance expenditure reserve facility provided by Barclays Bank Plc, BNP Paribas Plc, Lloyds TSB Bank Plc and Bank of Nova Scotia; two syndicated loan facilities totalling £875.0 million for working capital and capital expenditure requirements managed by Barclays Bank Plc in the role of facility agent and syndicated to a pool of relationship banks; a bilateral facility of £50.0 million with MUFG Bank and a bilateral facility of £50.0 million with Bank of China Limited for general corporate purposes.

All bank facilities and debt capital market issuance are issued pursuant to the Global Secured Medium Term Note Programme dated 30 July 2002 between the company, AWSF and Deutsche Trustee Company Ltd (as agent and trustee for itself and each of the finance parties). This agreement provides that any facilities drawn by AWSF will be passed directly on to the company upon utilisation of the facility.

Net Debt

At 31 March 2023, excluding derivatives, Anglian Water had borrowings net of cash of £6,247.9 million, an increase of £626.6 million over the prior year. Net borrowings comprised a mixture of fixed, index-linked and variable-rate debt of £6,845.1 million, leases of £35.9 million and cash and deposits of £633.1 million. Net debt increased as a result of indexation on debt as described above combined with our continuing capital investment programme.

At 31 March 2023, Anglian Water had a derivative financial instrument liability of £697.7 million (excluding energy derivative assets of £0.7 million), down from £1,162.0 million in 2022 (excluding energy derivative assets of £73.4 million).

Annual Performance Report

Under Condition F of its Licence, Anglian Water is obliged to provide the Water Services Regulation Authority, Ofwat, with additional accounting information to that contained in the statutory financial statements. This information is presented in the Annual Performance Report, a copy of which is available on the Anglian Water Services website: https://www.anglianwater.co.uk/about-us/our-reports.

2.0 Regulatory Update

Final PR24 methodology

Ofwat published its Final Methodology for the PR24 price review in December 2022.

The previous four stated ambitions for PR24 are retained. The methodology highlights the continued and increased focus on the sector since the Draft Methodology and notes that the sector is at a critical point given the significant loss in public confidence; the drought and water restrictions in parts of the country were contrasted with company performance on leakage; and concerns about the use of storm overflows remain a prominent issue.

There is a focus on performance in the headline narrative expecting ambition and long-term improvements to rebuild trust in the sector.
This focus on managing water demand is reflected in Ofwat's new proposal to introduce a new £100m water efficiency fund which will be run in a similar way to the innovation fund (which they also propose to increase by £100m to c£300m in PR24). They will also be setting separate performance commitments for different components of water demand, including leakage, PCC and business demand.

Ofwat expect improved customer service, with C-MeX and D-MeX retained, C-MeX increasing in scale from ± 12% revenue to 18%. Introducing Business and Retailer measure of experience (BR-MeX). Customer experience PCs will be reviewed and consulted on further in 2023 and 2024.

On growth, Ofwat have removed the Developer Services Revenue adjustment mechanism, network reinforcement remains in base cost models and the network plus controls. WRC growth is to be modelled as a standalone model. Ofwat have continued the position to remove the onsite developer service activities from the network plus control and have accepted our representation on the removal of the 25 plot demarcation.

A number of other changes introduced include the revised criteria for enhanced incentives which are expected on leakage and PCC and the introduction of some collars on specific measures (interruptions to supply and the Compliance Risk Index).

The four categories of assessment for plans remain with more insight provided on how quality will be assessed, including a specific requirement to provide Board Assurance on the practical deliverability of plans. The IAP and DD will be merged into a single Draft Determination to be published in May / June 2024.

Instead of promoting nature-based solutions by adding these investments to companies' RCVs, they have opted to provide a 10-year allowance.

Ofwat has published their initial view of appointee WACC of 3.29% (real CPIH basis) to be used (PR19 FD 2.96%, CMA FD 3.20%). Ofwat recognise recent market volatility and keep open the option of indexing cost of equity (via the risk-free rate component).

As signposted previously, Ofwat propose to implement the reduction in notional gearing down to 55% (from 60% PR19) in addition to the full transition of RCV to CPIH.

Change to Licence

Following its July 2022 consultation, in March 2023 Ofwat announced changes to Company Licences in relation to the payment of dividends which, in their view, will help strengthen financial health, protect customers and attract investment.

These changes involve a modification to Licence Condition P (which is to take effect from 17 May 2023). As far as dividends are concerned, the new Licence Condition mandates that companies may only declare or pay dividends in accordance with a dividend policy which has been approved by the Board and which complies with the following principles:

- Dividends declared or paid must not impair the ability of the company to finance its regulated business, taking account of current and future investment needs and financial resilience over the longer term;

- Dividends declared or paid take must account of service delivery for customers and the environment over time, including performance levels, and other obligations; and

- Dividends declared or paid must reward efficiency and the effective management of risks to the regulated business.

Reviews of Economic Regulation

The BEIS review of economic regulation continues. The review is looking into the economic regulation of the energy, water and telecoms sectors, including regulators' duties, how regulators can enhance competition and innovation and how respective regulatory appeals processes work. Anglian Water engaged with BEIS on this over summer 2022 and have been directly supporting the engagement with the BEIS team with investors and WUK.

In March the House of Lords Industry and Regulators Committee strongly criticised the governance and regulation of the water industry, when it published a report following its inquiry into the work of Ofwat.

In 'The affluent and the effluent: cleaning up the failures of water regulation', peers found Government strategy to be insufficient and inadequately coordinated; Ofwat to have failed to ensure enough investment, preferring to keep bills low; and water companies to be "overly focused on maximising financial returns at the expense of the environment, operational performance and financial sustainability".

Among its recommendations, the Committee called for a National Water Strategy; more Government guidance for Ofwat in balancing investment and bills; a national social tariff to support those who struggle to pay; universal metering; adequate funding for the Environment Agency for pollution enforcement; and powers for Ofwat to ban directors of serious polluter water firms from working in the sector.

Accelerated infrastructure

In April 2023, Ofwat announced the approval of 31 investments across the industry totalling £1.6bn for inclusion within the Accelerated Delivery programme, and a further 37 investments totalling a further £1.5bn which companies can accelerate 'at risk' "if they are included in final company environmental plans and address concerns that Ofwat has raised". The vast majority of the awarded funding (£919m) goes to United Utilities to improve 154 overflows in Cumbria by installing 327,000m3 of storage and 61.5ha of impermeable area removal.
£1.6bn is the total value of the projects to 2030, with around £500m being accelerated into financial years 23/24 and 24/25 (rising to £876m if the 'at risk' schemes are included)..

Ofwat have approved four schemes within Anglian Water's proposal (smart metering, storm overflows, nutrient neutrality, Colchester re-use) with a further two that can proceed 'at risk' (Grafham to Bury strategic interconnector, drought resilience).

Ofwat feedback on dWRMPs

In February 2023 Ofwat Senior Director for company performance and price reviews, Aileen Armstrong, wrote to the Secretary of State for Environment, Food & Rural Affairs to provide Ofwat's views on draft water resource management plans and draft regional water resource plans. This was followed in March 2023 by Ofwat's publication of their individual feedback letters to companies on their website along with a press notice.
Although the draft plans propose more infrastructure to increase supply and manage demand, the regulator has challenged companies to develop more creative and innovative ideas and ensure they deliver best possible value for customers. Ofwat has asked companies to demonstrate how improvements will be delivered and that the costs are efficient.

Senior Ofwat leadership changes

David Black wrote to companies on in February 2023 to inform of changes to the Ofwat Senior Leadership Team. John Russell, Senior Director for Strategy, Finance and Infrastructure will be leaving Ofwat in the summer to take up a new

role as a Chief Executive of the Single Source Regulations Office. At the same time, Emma Kelso, Senior Director for Markets, Enforcement and Customer Policy, will be stepping back as Senior Director, but remaining in Ofwat, so she can study for a doctorate.
We were also told that Paul Hickey is joining Ofwat and the Senior Leadership Team on a permanent basis, after previously being on secondment from the Environment Agency.

Senior Director for the Price Review, Aileen Armstrong, is also to leave Ofwat to take up post as executive director of strategy and innovation at the Solicitors Regulation Authority in mid-June. In April Ofwat announced the appointment of Chris Walters as new Senior Director for the Price Review. He joins Ofwat from NHS England, where he is Director of Pricing and Costing.

Before joining the NHS in 2015, he held senior roles at the OFT and CMA, including as Chief Economist.

Recent CMA developments – RIIO2 and Heathrow

CMA appeals are in train against recent regulatory determinations across other regulated sectors.
Ofgem published its final licence modification decision in the RIIO-ED2 review of electricity distribution network price controls in February 2023. Northern PowerGrid submitted a notice of appeal against the decision to the CMA in March 2023. The other five DNO owners chose not to appeal. The grounds of appeal relate to company-specific aspects of Ofgem's price control calibrations.

CAA published its licence modification decision in the H7 review of Heathrow Airport's price cap in March 2023. The final decision updates the CAA's earlier June 2022 final proposals to take account of data up to and including Q4 2022 in the areas of: passenger numbers; inflation; the cost of debt and risk-free rate. Otherwise, most of the CAA's earlier proposals were left unchanged. In April Heathrow and three of its airline customers lodged appeals against the CAA's decision.

3.0 Financing

During the year, Osprey raised new debt through a £100 million 6.96% 10-year private placement and redeemed the £210 million 5.0% fixed rate bond which was due to mature in April 2023. The early redemption was permitted under the terms of the bond.

As at year end, £75 million of the £250 million Revolving Credit Facility was drawn.

On a consolidated basis, Osprey increases the CTA gross debt of Anglian Water by £1,020.0 million to £8,221.6 million. The consolidated cash balance was £689.7 million, as at year end, giving an Osprey CTA net debt of £7,531.8 million.

Credit ratings as at 31/03/2023 are as follows:

Fitch Ratings (LTR):	BBB- (stable outlook)
DBRS Morningstar:	BBB (low)

4.0 Cash Management

Calculation of the Required Balance – Debt Service Reserve Account

Anglian Water (Osprey) Financing Plc is required to maintain, on any day, the aggregate of the next 6 months' interest and other finance charges (but excluding any indexation of principal) forecast to be due in the Debt Service Reserve Account ("DSRA"). On 31 March 2023 the balance of £24.8 million was available for interest and other finance charges which covers the £22.7 million forecast to be due for the 6 month period to 30 September 2023.

Osprey Acquisitions Ltd is required to transfer amounts to the Debt Service Reserve Account to maintain the Required Balance. For the period from 1 April 2022 to 31 March 2023 the amount paid into the Debt Service Reserve Account was £78.8 million.

Osprey Acquisitions Ltd may withdraw amounts from the Debt Service Reserve Account to maintain the Required Balance. For the period from 1 April 2022 to 31 March 2023 there were no amounts paid out of the Debt Service Reserve Account.

The following table sets out the sources and uses of cash in the main Anglian Water (Osprey) Financing Plc bank account which also holds the required DSRA balance.

	31 Mar 2023 £m
Opening DSRA Balance (1 April 2022)	21.6
Amounts paid in	78.8
Amounts paid out	0.0
Debt repaid	(210.0)
Debt borrowed	175.0
Interest and other finance charges	(40.6)
Closing DSRA Balance	**24.8**

5.0 Pensions

From 1 April 2018 significant changes were made to the provision of pension benefits to employees in Anglian Water through the Anglian Water Group Pension Scheme ('AWGPS'). All defined contribution and defined benefit sections of the Pension Scheme were closed to future accrual and additional member contributions. Defined Contribution pension arrangements are now in place to all employees through a Master Trust defined contribution pension plan.

At 31 March 2023, the closed defined benefit scheme, excluding the unfunded pension liability, had an IAS 19 accounting pension surplus (before deferred tax) of £227.3 million, compared to a surplus of £227.3 million at 31 March 2022. This increase in surplus reflects an increase in the corporate bond rate used to discount the scheme's liabilities. During the year a deficit reduction payment of £21.8 million was made by the company, compared with £14.6 million in the prior year.

Osprey also has pension obligations to former employees through the Morrison Pension & Life Assurance Plan ('MPLAP'). During the year, a buy-in of the MPLAP scheme was completed with Legal & General. The process to move the scheme to buy-out is underway.

Valuations of the pension schemes are performed tri-annually. The last full valuations for the AWGPS and MPLAP Scheme were completed as at 31 March 2020, with the next full valuation taking place from April 2023.

6.0 Obligors

No changes to obligors occurred in the period.

7.0 Significant Board Changes

The Boards of Osprey Investco Limited ("**OIL**"), Osprey Acquisitions Limited ("**OAL**") and Anglian Water (Osprey) Financing Plc ("**AWOF**") (together "**MidCo**") comprise:

Dr John Hirst, CBE	Independent Non-Executive Director (Chairman of the Anglian Water Group)
Steve Buck	Executive Director (Chief Financial Officer of the Anglian Water Group)
Robert Napier, CBE	Independent Non-Executive Director
Peter Simpson	Executive Director (Chief Executive Officer of the Anglian Water Group)

Ratios

1.0 Historical & Current Test Period

Osprey confirms that in respect of the twelve-month test period ended 31 March 2023, 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:

		Actual to 31 Mar 2023	**Actual to 31 Mar 2022**
a)	MidCo Interest Cover Ratio	**3.4:1**	**3.1:1**
b)	Adjusted MidCo Interest Cover Ratio	**1.2:1**	**1.5:1**
c)	Adjusted Average MidCo Interest Cover ratio	**1.3:1**	**1.5:1**
d)	OpCo RAR	**65.6%**	**65.0%**
e)	MidCo RAR	**75.2%**	**76.0%**

2.0 Computations

Computations for the Ratios above in Schedule 1 are set out in Schedule 3 and 4 below. Osprey confirms that the Ratios have been calculated for the Relevant Periods for which they are required to be calculated under the Agreement and have not caused a Trigger Event to occur and have not caused Part 1 (Events of Default) of Paragraph 10 (Breach of Financial Covenants) of Schedule 4 (Events of Default) to be breached.

3.0 Interest Cover Ratios (ICR)

(a) MidCo Interest Cover Ratio is:

	Period to 31 Mar 23 £m	Period to 31 Mar 22 £m
Consolidated EBITDA	788.1	786.1
Net Finance Charges	(228.6)	(250.1)
MidCo Interest Cover Ratio	**3.4**	**3.1**

(b) Adjusted MidCo Interest Cover Ratio is:

	Period to 31 Mar 23 £m	Period to 31 Mar 22 £m
Operating Cash Flow	697.5	755.2
Tax	0.8	(0.5)
Net Cash Flow	698.3	754.7
Capital Maintenance Expenditure	(326.2)	(269.2)
Regulatory Depreciation	(423.5)	(413.4)
Net Cash Flow less greater of Depreciation or Capital Maintenance Expenditure	**274.8**	**341.3**
Net Interest	**(222.3)**	**(226.5)**
Adjusted MidCo Interest Cover Ratio	**1.2**	**1.5**

(c) Adjusted Average MidCo Interest Cover Ratio is:

	Period to 31 Mar 23 £m	Period to 31 Mar 22 £m
Net Cash Flow less greater of Depreciation or Capital Maintenance Expenditure		
31 Mar 22	-	341.3
31 Mar 23	274.8	307.1
31 Mar 24	293.8	351.9
31 Mar 25	334.8	-
	903.4	**1,000.3**
Net Interest		
31 Mar 22	-	(226.5)
31 Mar 23	(222.3)	(231.9)
31 Mar 24	(239.5)	(219.6)
31 Mar 25	(258.6)	-
	(720.4)	**(678.2)**
Adjusted Average MidCo Interest Cover Ratio	**1.3**	**1.5**

4.0 Regulatory Asset Ratios (RAR)

(a) MidCo RAR as at the most recent Calculation Date:

	As at 31 Mar 23 £m	As at 31 Mar 22 £m
Tested Debt	(8,221.6)	(7,619.5)
Other Permitted Financial Indebtedness	(2.4)	(3.3)
Less cash balances and Authorised investments	686.1	984.1
Total MidCo Net Debt	**(7,537.9)**	**(6,638.7)**
Regulatory Asset Value (RAV)	**10,019.8**	**8,791.6**
Regulatory Asset Ratios:		
MidCo RAR	**75.2%**	**76.0%**

(b) OpCo RAR as at the most recent Calculation Date:

	As at 31 Mar 23 £m	As at 31 Mar 22 £m
OpCo Senior Gross Debt	(7,201.6)	(6,564.5)
Less cash balances and Authorised investments	629.4	870.1
Total OpCo Senior Net Debt	**(6,572.2)**	**(5,694.4)**
Regulatory Asset Value (RAV)	**10,019.8**	**8,791.6**
Regulatory Asset Ratios:		
OpCo RAR	**65.6%**	**65.0%**

5.0 Osprey Acquisitions Limited Group – Movements in Debt Balances

CTA Gross Debt	Closing Balance 31 Mar 2022 £m	New Issues £m	Repayment £m	Indexation £m	**Closing Balance 31 March 2023 £m**
Operating Leases (Vehicles)	5.2	5.9	(2.2)		**8.9**
Transferring Bonds:					
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		(250.0)	0.0	**0.0**
A6 Notes - 3.07% ILLS 2032	352.6			44.0	**396.6**
A7 Notes - 3.07% ILLS 2032	105.4			5.3	**110.7**
A8 Notes - 6.293% Fixed 2030	246.0			0.0	**246.0**
A11 Notes - 3.666% ILLS 2024	132.2			16.5	**148.7**
A18 Notes - 2.4% ILLS 2035	665.8		(266.5)	91.6	**490.9**
A19 Notes - 1.7% ILLS 2046	79.1			9.9	**89.0**
A20 Notes - 1.7% ILLS 2046	79.4			9.4	**88.8**
A21 Notes - 1.7146% ILLS 2056	63.6			8.2	**71.8**
A22 Notes - 1.6777% ILLS 2056	79.5			10.2	**89.7**
A23 Notes - 1.7903% ILLS 2049	95.2			12.1	**107.3**
A24 Notes - 1.3825% ILLS 2056	79.6			9.6	**89.1**
A25 Notes - 1.3784% ILLS 2057	159.1			19.1	**178.3**
A26 Notes - SONIA Plus 0.34%	119.1			15.9	**135.0**
A27 Notes - 1.449% ILLS 2062	111.1			9.6	**120.7**
A28 Notes - 1.52% ILLS 2055	74.2			6.6	**80.8**
A30 Notes - SONIA Plus 0.85%	125.7			13.5	**139.2**
A33 Notes - 6.875% Fixed 2034 Private Placement	25.0			0.0	**25.0**
A35 Notes - £130M 2.262% IL Bond 2045	189.3			24.7	**214.0**
European Investment Bank £75m 0.53% index linked amortising term facility 2027	50.4		(10.9)	6.1	**45.5**
European Investment Bank £75m 0.79% index linked amortising term facility 2027	50.4		(10.9)	6.1	**45.5**
A38 Notes - £250m 4.5% 2027	274.5			53.2	**327.7**
A39 Notes - £31.9m 4.0% Private Placement 2022	31.9		(31.9)	0.0	**0.0**
Sub Total	**3,538.0**	**155.9**	**(540.6)**	**318.3**	**3,471.7**

Cont'd	Closing Balance 31 Mar 2022 £m	New Issues £m	Repayment £m	Indexation £m	**Closing Balance 31 March 2023 £m**
A40 Notes - £73.3m 4.4% Private Placement 2028	84.2			8.7	**92.9**
A41 Notes - £50m 2.05% IL Private Placement 2033	66.1			8.6	**74.7**
A42 Notes - £15m 1.37% IL Private Placement 2022	19.8		(20.9)	1.0	**0.0**
A45 Notes - £22.3m 4.0% Private Placement 2022	22.3		(22.3)	0.0	**0.0**
European Investment Bank £150m 0% index linked amortising term facility 2028	117.4		(21.2)	14.4	**110.6**
A46 Notes - £200m 4.5% 2026	200.0			0.0	**200.0**
A47 Notes - £35m 1.141% IL Bond 2042	45.3			5.9	**51.3**
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**
European Investment Bank £65m 0.41% index linked amortising term facility 2029	57.6		(9.0)	7.2	**55.8**
European Investment Bank £125m 0.1% index linked amortising term facility 2029	117.3		(17.0)	14.7	**114.9**
European Investment Bank £60m 0.01% index linked amortising term facility 2030	59.8		(8.1)	7.5	**59.1**
A51 Notes - £55m 2.93% Private Placement 2026	55.0			0.0	**55.0**
A52 Notes - $150m 3.29% Private Placement 2026	111.9			9.1	**121.1**
A53 Notes - £35m 1.35% Private Placement 2031	38.4			4.0	**42.4**
A54 Notes - £20m 2.93% Private placement 2026	20.0			0.0	**20.0**
B55 Notes - £200m 2.625% Class B 2027	207.9			9.4	**217.2**
A56 Notes - £250m 1.625% Green Bond 2025	263.4			27.3	**290.7**
A57 Notes - £300m 2.75% Green Bond 2029	322.4			28.4	**350.9**
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	70.2			7.4	**77.5**
A62 Notes - JPY7bn 0.855% 2039	53.9			5.1	**59.0**
A64 Notes - £50m 1.760% 2035	50.0			0.0	**50.0**
A65 Notes - JPY7bn 0.85% 2040	53.0			5.4	**58.3**
Export Development Canada £100m 1.588% term loan facility 2024	106.0			10.8	**116.8**
A66 Notes - £35m 2.14% 2036	35.0			0.0	**35.0**
A67 Notes - £40m 2.14% 2036	40.0			0.0	**40.0**
A68 Notes - US$35m 1.16% 2036	25.5			0.0	**25.5**
Just Retirement £26.1m 0.010% term loan facility 2035	27.9			2.3	**30.2**
BP Pension Trustees £26.1m 0.010% term loan facility 2035	27.9			2.3	**30.2**
A88 Notes - £65m 0.835% IL Bond 2040	68.6			7.3	**75.9**
A69 Notes - CAD350m 4.525% 2032	0.0	224.8		0.0	**224.8**
A70 Notes - £242m 6.070% 2037	0.0	242.0		0.0	**242.0**
A71 Notes - £24m 6.070% 2037	0.0	24.0			**24.0**
£75m Term Loan Facility 1.05% 2029	0.0	75.0			**75.0**
£75m Term Loan Facility 1.15% 2032	0.0	75.0			**75.0**
CPIH £100m 3.017% Facility	0.0	100.0		2.8	**102.8**
Total1	**6,564.5**	**746.7**	**(671.1)**	**561.4**	**7,201.6**

CTA Gross Debt	Closing Balance 31 Mar 2022 £m	New Issues £m	Repayment £m	Indexation £m	**Closing Balance 31-Mar-23 £m**
OAL Debt:					
A2 Notes – 5.0% Fixed £210m 2023	210.0		(210.0)		**0.0**
A3 Notes – 4.0% Fixed £240m 2026	240.0				**240.0**
£250m RCF 2026	0.0	202.0	(127.0)		**75.0**
A4 Notes – 2.0% Fixed KPI Linked Bond £300m 2028	300.0				**300.0**
A5 Notes – 2.37% Fixed US Private Placement £23.4m 2031	23.4				**23.4**
A6 Notes - 2.37% Fixed US Private Placement £42.6m 2031	42.6				**42.6**
A7 Notes - 2.37% Fixed US Private Placement £34.0m 2031	34.0				**34.0**
A1 Notes – 2.2% £105m term loan facility 2028	105.0				**105.0**
A22 Notes - £100m 2.25% term loan facility 2026	100.0				**100.0**
A8 Notes – 6.96% Fixed £40m 2033	0.0	40.0			**40.0**
A9 Notes – 6.96% Fixed £35m 2033	0.0	35.0			**35.0**
A10 Notes – 6.96% Fixed £25m 2033	0.0	25.0			**25.0**
OAL Total Debt	**7,619.5**	**1,048.7**	**(1,008.1)**	**561.4**	**8,221.6**

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6.0 Osprey Acquisitions Limited Group – Profit & Loss Account

	2023 Total £m	2022 Total £m
Revenue	1,497.5	1,429.1
Other operating income	16.0	12.3
Operating costs	(691.4)	(639.3)
Impairment losses	(30.1)	(11.1)
Depreciation and amortisation	(379.3)	(348.6)
Operating profit	**412.7**	**442.4**
Finance income	39.1	16.0
Finance costs [1]	(774.7)	(498.9)
Underlying (loss) before tax	**(322.9)**	**(40.5)**
Finance costs – fair value profit/(losses) on financial derivatives	645.3	(115.1)
Statutory profit/(loss) before tax	**322.4**	**(155.6)**
Tax charge	**(73.5)**	**(292.5)**
Profit/(loss) after tax	**248.9**	**(448.1)**

[1] 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.

7.0 *Osprey Acquisitions Limited Group– Balance Sheet*

At 31 March 2023

			£m
Non-current assets			
Intangible assets (including goodwill)			699.7
Property, plant and equipment			10,704.5
Investment properties			0.3
Derivative financial instruments classified as current and non-current assets			250.2
Retirement benefit surpluses			89.0
Net current liabilities excluding cash and debt repayable in less than one year			(102.5)
Retirement benefit deficit			(33.0)
Derivative financial instruments classified as current and non-current liabilities			(947.2)
Creditors amounts falling due after more than one year excluding debt			(1,425.5)
Cash and cash equivalents		689.9	
Financing liabilities		(8,006.0)	
Net Debt (excluding derivatives)			(7,316.1)
Net assets			1,919.4
Capital and reserves	Share capital		876.2
	Share premium		596.5
	Retained earnings		427.2
	Hedging reserve		17.8
	Cost of hedging reserve		1.7
Capital and reserves			1,919.4

8.0 Osprey Acquisitions Limited Group– Calculation of Annual Finance Charge

Instrument	Interest Paid to 31 Mar 23 £m	Actual Interest Paid to 31 Mar 22 £m
AWS Debt:		
Class A Debt		
AAA Wrapped Bonds	30.4	29.3
A-Bonds	140.3	134.7
Private Placements	25.5	20.0
Leases	0.2	0.5
Other	1.8	2.6
Class B Debt		
US Private Placements[1]	0.0	16.8
OAL Debt:	42.4	25.2
Annual Finance Charge	**240.5**	**229.1**

The Annual Finance Charge represents cash interest payable by Osprey Acquisitions Limited Group for the periods set out above.

[1] The Actual Interest Paid figure excludes a 'make-whole' payment of £14.5 million in year ended 31 March 2022 which was paid to allow the early repayment of three US Private Placement Class B debt items and termination amounts related to associated interest and currency swap derivatives.