Osprey Acquisitions Limited

Anglian Water (Osprey) Financing Limited

Investor Report

For the year ended 31 March 2024

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

Investor Report

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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 2024.

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 2024

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:

	2024 Total £m	2023 Total £m
Revenue	**1,628.7**	**1,497.5**
Other operating income	**15.8**	**16.0**
Operating costs	**(807.0)**	**(691.4)**
Charge for doubtful and bad debts	**(38.7)**	**(30.1)**
Depreciation and amortisation	**(388.7)**	**(379.3)**
Operating profit	**410.1**	**412.7**
Finance income	**60.6**	**39.1**
Finance costs [2]	**(593.7)**	**(774.7)**
Adjusted loss before tax[1]	**(123.0)**	**(322.9)**
Finance costs – fair value gains on financial derivatives[2]	**204.9**	**645.3**
Profit before tax on a statutory basis	**81.9**	**322.4**
Tax charge	**(18.6)**	**(73.5)**
Profit after tax on a statutory basis	**63.3**	**248.9**

[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.

	2024				**2023**			
	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	1,626.6	2.1	-	**1,628.7**	1,494.9	2.6	-	1,497.5
	1,626.6	**2.1**	**-**	**1,628.7**	1494.9	2.6	-	1,497.5
Segment result								
EBITDA	819.5	(20.7)	-	**798.8**	802.8	(10.8)	-	792.0
Depreciation and amortisation	(388.6)	(0.1)	-	**(388.7)**	(379.1)	(0.2)	-	(379.3)
	430.9	**(20.8)**	**-**	**410.1**	423.7	(11.0)	-	412.7
Cash flows								
Operating cash flow	766.8	(27.3)	-	**740.2**	712.8	(13.4)	-	697.5
Capital expenditure	(992.3)	-	-	**(992.3)**	(660.0)	(0.3)	-	(660.0)
Net debt excluding derivative financial instruments	(6,976.9)	(1,062.5)	-	**(8,039.4)**	(6,247.9)	(1,068.2)	-	(7,316.1)

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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.

1.2 Anglian Water Financial Performance

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

	Year ended 31 Mar 2024 Total £m	**Year ended 31 Mar 2023 Total £m**
Revenue (excl. grants and contributions)	1,528.8	1,388.9
Grants and contributions	97.8	106.0
Other operating income	15.8	16.0
Operating costs	(822.9)	(708.1)
Depreciation and amortisation	(388.6)	(379.1)
Operating profit	430.9	423.7
Finance income	44.9	20.6
Finance costs	(547.5)	(731.1)
Underlying loss before tax	**(71.7)**	**(286.8)**
Finance costs – fair value profit on financial derivatives	**204.9**	**645.3**
Profit before tax on a statutory basis	**133.2**	**358.5**
Tax charge	**(31.2)**	**(90.2)**

Profit after tax	**102.0**	**268.4**

Revenue

Revenue, excluding grants and contributions, for the year was £1,528.8 million (2023: £1,388.9 million), or an increase of £139.9 million (10.1%). The net increase in revenue is as a result of the following factors:

- The price increase for customers following the regulatory pricing formula, resulting in a £165.4 million increase.
- A net decrease in demand of £5.8 million. Household consumption is down £8.0 million reflecting a cooler, wetter summer compared with the prior year. Non-household consumption is up £2.2 million as we move back towards pre-Covid 19 levels of consumption.
- A decrease of £12.0 million relating to discounts for the LITE tariff funded from prior year cross-subsidy contributions.
- Other offsetting movements in revenue of £7.7 million.

Grants and contributions

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 work on existing infrastructure needed to accommodate development.

Following strong growth in the housing market and construction sector within our region during the prior year, as a result of the cost of living crisis, 2023/24 has seen a decline in this activity. This has resulted in a reduction in grants and contribution income of £8.2 million to £97.8 million.

Operating costs (including charge for bad and doubtful debts)

Operating costs increased by £114.8 million to £822.9 million (16.2%). This was principally due to inflation and power cost increases, with the prior year being hedged prior to the spike in prices following the Russian invasion of Ukraine. These movements are explained in the table below:

	£m
Prior period	708.1
Funded by FD	
Inflation	37.8
Weather related	
Unwind of drought-related expenditure	(12.6)
Increase in cost due to impact of wet winter weather	9.3
Power	68.4

Rates	5.1
Bad debt	8.6
Other significant items	
Regulatory licence fees	1.5
Other	(3.3)
Total increase	114.8
March 2024	822.9

Inflation
The inflationary increases in our cost base formed part of the Final Determination and are therefore, whilst subject to a timing delay, funded through the inflationary increases in revenues.

Weather related
The first six months of the prior year saw very little rainfall and as a result we saw exceptionally dry ground conditions. As consequence of this we experienced increased costs, particularly around leakage.

Relatively benign weather conditions were present for the first half of 2023/24, however these gave way to extremely wet weather in the second half which has put pressure on our water recycling operations.

As a result, we have seen an unwind of the drought related expenditure, with increased costs associated to the impact of the extremely wet weather.

Power
The increase in power is due to the prior year energy prices being locked-in ahead of the war in Ukraine, whereas the current year reflects the significant cost increases since then. Our proactive energy hedging approach enabled us to have flexibility in the most volatile and expensive market periods.

Rates
A refund was received as a result of a rates review in the second half of 2022/23. Our rates charge is therefore higher in the current year.

Bad debt
The increase is primarily a result of the increase in revenue seen in the year. Our cash collection performance remains strong, despite a slight reduction on the prior year due to the wider economic conditions.

Other significant items

These include a £1.5m increase in the Ofwat licence fee with the balance relating to a range of individually small offsetting items.

EBITDA

Earnings before interest, taxes, depreciation and amortisation (EBITDA) and is the profit from continuing operations before interest, tax, depreciation and amortisation. This has increased by 2.1% to £819.5 million, which is consistent with the effect of the increases described above.

Depreciation and amortisation

Depreciation and amortisation is up 2.5% to £388.6 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 increased by 1.7% to £430.9 million, which is consistent with the increase in EBITDA partially offset by the increase in depreciation.

Financing costs and profit before tax

Adjusted net finance costs (excluding fair value gains on financial instruments) were £207.8 million higher than the prior year at £502.7 million. This is primarily a result of non-cash impact of lower inflation on index-linked debt which decreased by £201.5 million to £359.9 million and an increase in finance income on our deposits due to higher market rates.

Fair value gains in the period, which are unrealised, non-cash items, are the result of decreases in derivative liability positions, primarily driven by forecast increases in interest rates and decreases in inflation curves. Fair valuation movements on derivative valuations can be volatile depending on the market rates forecast at the time of reporting and do not have a crystallised economic impact to the business until the time of actual cash flow fixing.

The business is funded based on its embedded cost of debt and relative performance against the iBoxx. As a result, these non-cash fair value gains and losses do not impact the immediate commercial performance of the business, Ofwat obligations or Shareholder distributions during AMP7.

Taxation

	Year Ended 31 March 2024 £m	Year Ended 31 March 2023 £m
Current tax:		
In respect of the current period	**(47.3)**	(25.4)
Adjustments in respect of prior periods	**(0.4)**	0.7
Total current tax credit	**(47.7)**	(24.7)
Deferred tax:		
Origination and reversal of temporary differences	**82.8**	113.0
Adjustments in respect of previous periods	**(3.9)**	1.9
Total deferred tax charge	**78.9**	114.9
Total tax charge on profit on continuing operations	**31.2**	90.2

Compared to the same period in the previous year, the total tax charge has decreased by £59.0 million from a charge of £90.2 million to a charge of £31.2 million. This is primarily due to the lower gains on derivative movements in the current year.

In addition to the £31.2 million tax charge on the income statement, there is a credit of £8.4 million (2023: credit of £35.5 million) in the statement of other comprehensive income in relation to tax on actuarial losses on pension schemes and fair value losses on cash flow hedges.

Anglian Water Services

Cash flow on a statutory basis

Year ended 31 March

	2024 £m	2023 £m
Cash generated from operations	**767.1**	**710.9**
Net interest paid, including issue costs paid	(239.5)	(201.3)
Decrease/(increase) in short-term deposits	(232.0)	94.0
Repayment of amounts borrowed	(487.1)	(668.8)
Settlement of principal on derivatives	(11.5)	-
Interest element of finance lease rental payments	(1.1)	(0.9)
Increase in amounts borrowed	1,379.5	740.8
Capital element of finance lease rental payments	(6.4)	(5.3)
Dividends paid	(79.9)	(169.0)
Net cash from/(used in) financing activities	**322.0**	**(210.5)**
Purchase of fixed assets net of disposal proceeds	(940.9)	(584.2)
Purchase of intangible assets	(51.4)	(75.8)
Interest received on deposits	42.5	16.0
Net cash used in investing activities	**(949.8)**	**(644.0)**
Net increase/(decrease) in cash and cash equivalents	**139.3**	**(143.6)**
Cash and cash equivalents at the beginning of the period	335.1	478.7
Cash and cash equivalents at the end of the period	**474.4**	**335.1**

The business generated cash from operations of £767.1 million in the year (2023: £710.9 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 5.

Distributions to the Parent Company

The Directors have proposed an interim dividend for the 2023/24 financial year of £88.6 million, to be paid in June 2024. This dividend is in line with the Company's dividend policy. The base dividend was adjusted for a total £51.1 million deduction, to reflect service delivery for customers and the environment. There are no plans for this dividend to be paid to the ultimate shareholders of Anglian Water Group Limited.

A £79.9 million prior-year final dividend was paid in the period. The base dividend was adjusted for a total of £26.0 million deduction to reflect service delivery for customers and the environment.

These dividends were paid against a backdrop of an equity injection of £1,165.0 million in 2021 and result in a net equity injection for the AMP of £731.4 million. Through these capital injections, the company continues to benefit from the strong support of shareholders

Financial needs and resources

At 31 March 2024, Anglian Water had borrowings net of cash of £6,976.9 million (excluding the fair value of derivative financials instruments), an increase of £729.0 million from 31 March 2023. The increase in net borrowings primarily reflects accretion on index-linked debt, capital expenditure and interest payments.

During the period there were new issuances of £300 million 5.875% fixed rate 2031, £560 million 6.0% fixed rate 2039, JPY 8.5 billion 1.917% fixed rate 2034, £375 million 5.75% fixed rate 2043 and a £100 million CPI 2040. These new issuances were partially used to repay £200 million 6.875% fixed rate 2023, $170 million 3.84% fixed rate 2023, £93 million 3.537% fixed rate 2023 and £83.5 million EIB debt repayments.

Net Debt

At 31 March 2024, excluding derivatives, Anglian Water had borrowings net of cash of £6,976.9 million, an increase of £729.0 million over the prior year. Net borrowings comprised a mixture of fixed, index-linked and variable-rate debt of £7,947.7 million, leases of £33.6 million and cash and deposits of £1,004.4 million. Net debt increased as a result of indexation on debt as described above combined with our continuing capital investment programme.

At 31 March 2024, Anglian Water had a derivative financial instrument liability of £634.0 million (excluding energy derivative liabilities of £21.3 million), down from £697.7 million in 2022 (excluding energy derivative assets of £0.7 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

PR24 business plan submission

We submitted our PR24 business plan to Ofwat on 2 October 2023. Our business plan will deliver £9 billion of essential investment in the East of England. It was created in consultation with our customers, and balances ambition and affordability. It will create over 7,000 jobs and meet the unique challenges facing our fast-growing and climate-stressed region, helping the East of England to thrive and prosper. Importantly, 73% of customers surveyed support our proposals.

By 2030, we will have prepared two new reservoirs for construction, which will supply 625,000 properties across our region, and £476 million will be allocated to support new housing, plus the extension of our strategic pipeline will help ensure the region remains resilient to drought.

We will support all customers at risk of water poverty including an industry-first medical needs discount. We will double our investment in the environment to £4 billion – with £1 billion specifically to tackle storm overflows, and create treatment wetlands the size of 100 football pitches.

By 2030 average bills will rise by just 21p a day and we will have doubled our package of financial support for customers.

Our plan is financeable on the basis of the notional capital structure — assuming the notional company can attract equity investment. In line with Ofwat's guidance, we have assessed whether our plan is financeable based on the notional capital structure with gearing of 55% and Ofwat's 'early view' on the allowed return on capital. Within this assessment, we assumed that the notional company would restrict dividends to 2% of equity RCV during AMP8 and that it would be able to attract sufficient equity investment at the cost set out in Ofwat's 'early view' to finance the high growth in RCV seen in our plan.

The financeability of AMP8 plan for notional capital structure is dependent on attracting sufficient equity investment at the cost set out in Ofwat's 'early view' on the allowed return on capital. Notwithstanding our shareholders' long-term commitment, we retain significant concerns that Ofwat's 'early view' is unlikely to be sufficient to attract the necessary equity, without which the notional company would not be financeable and is not financially resilient to shocks.

To enable companies to attract equity investment, we recommended to Ofwat a range of methodological changes to the cost of capital estimation. As the risks embedded in the PR24 Final Methodology are skewed downwards, we consider a premium on the cost of equity allowance would be required to ensure that the price control is a fair investment proposition.

Ofwat is now assessing companies' plans and will issue its draft determinations of companies' price controls on 12 June 2024.

Accelerated Infrastructure Delivery (AID) final decisions

On 27th June, Ofwat published its final decisions on Accelerated Infrastructure Delivery. At an industry level Ofwat increased the total value of accelerated spend, with the largest share for United Utilities. The decision enables Anglian to install 60,000 additional smart meters, reduce sewer overflows, commence phosphate removal at three water recycling centres and commence a pilot re-use plant and transfer plant in Colchester. These schemes will be brought forward from the company's AMP8 programme.

Ofwat applied tight Price Control Deliverables (PCDs) to our accelerated spend, specifying in some detail the timing and locations of the investment, and creating a claw-back mechanism in the event of non-delivery. We continue to push for less restricted PCDs and raised this in our October business plan submission.

Ofwat Senior Director for the Price Review appointment

In April, Ofwat announced the appointment of Chris Walters as Senior Director for the Price Review. He took up post in June and leads the PR24 process which sets the price, service, and incentive package for water companies from 2025-2030.

Chris joined Ofwat from NHS England, where he was Director of Pricing and Costing. Before joining the NHS in 2015, he held senior roles at the OFT and CMA, including as Chief Economist. He has a PhD in econometrics from the London Business School and degrees in economics from the LSE and the University of London.

Ofwat Customer Focussed Licence Condition consultation

On 18 December Ofwat confirmed its intention to introduce a new customer focussed licence condition. This Condition, introduced using Ofwat's powers under sections 12A and 13 of the Water Industry Act 1991, requires companies to adopt high standards of customer service and appropriate support for the full diversity of its customers' needs. It requires them to deliver the principles for customer care set out in the condition:

1. The Appointee is proactive in its communications so that its customers receive the right information at the right time, including during incidents.

2. The Appointee makes it easy for its customers to contact it and provides easy to access contact information.

3. The Appointee provides appropriate support for its customers when things go wrong and helps to put things right.

4. The Appointee learns from its own past experiences, and shares these with relevant stakeholders. The Appointee also learns from relevant stakeholders' experiences and demonstrates continual improvement to prevent foreseeable harm to its customers.

5. The Appointee understands the needs of its customers and provides appropriate support, including appropriate support for customers in vulnerable circumstances, and including during and following incidents.

6. As part of meeting principle 5 above, the Appointee provides support for its customers who are struggling to pay, and for customers in debt.

Nothing in the condition has the effect of removing or affecting the functions of the Consumer Council for Water in relation to the investigation of customer complaints.

The condition came into force on 12 February 2024.

Water company performance report and service commitment plan

In October Ofwat published its Water Company Performance Report for 2022-23. It placed no companies in its top grade; nine companies were assessed as 'average' and seven, including Anglian, were assessed as 'lagging behind'.

We published a Service Commitment Plan in November to set out the actions we planned to take to improve performance against the nine performance commitments which contributed to our 'lagging' assessment for 2022/23. Our Plan described 74 different actions. We are required to submit quarterly reports to Ofwat on our progress in completing those actions.

We have a meeting with Ofwat, Defra and the Environment Agency in May to discuss progress against our Plan.

We are considering updating our Plan in July to reflect revisions to strategies since our November version.

Financial penalty for Welsh Water for misreporting

An investigation by Ofwat has found that Welsh Water misled customers and regulators on its performance on leakage and per capita consumption (PCC) data over five years. Leakage from trunk mains and service reservoirs was routinely under-estimated while unmeasured household consumption was routinely over-estimated. Ofwat concluded that the root causes of the misreporting were -

a) Insufficient in-house knowledge
b) Over-reliance on external expertise
c) The presence of conflicts of interest
d) Internal cultural pressures

e) Lack of appropriate data assets and governance framework; and
f) Poor management of risk assurance.

Ofwat concluded that Welsh Water was not compliant with four conditions of its licence, including Condition P, which requires regulated companies to ensure that they have in place adequate financial resources and facilities, management resources, and systems of planning and internal control.

Ofwat has the powers to levy financial penalties worth up to 10% of the service turnover of the company. Taking into account Welsh Water's proactive reporting of the non-compliance, cooperation of the investigation and proposed remedies, Ofwat determined a fine of 4.5% (worth £15.2m). This was reduced to a nominal £1 in view of the package of remedies already offered by Welsh Water, valued at £40m.

Smarter Regulation Consultation

On 17 October, the Department for Business and Trade launched a call for evidence as part of its wider work looking of Smarter Regulation programme across government post-Brexit. The principal purposes of this call for evidence is to understand what is considered to be working well and what could be improved in how regulators operate and any further steps that could be taken to reform the existing stock of regulation on the UK statute book.

The Department for Business and Trade is consulting on the work of the economic regulators. The consultation makes a series of proposals concerning five broad issues: economic growth, competition, consumers, regulatory duties, and appeals.

The key risk within the consultation was the proposal which advocates to change Ofwat's price control appeal regime from a redetermination to an energy-style appeal regime with further consultation on the detail of how this will be implemented. In our previous engagement with BEIS (as was) and more recent engagement directly with the team at the Department for Business and Trade, we propose to push back on this change, citing the influence that a full redetermination has on the overall checks and balances and encourages regulators to act in the round.

The key opportunity is the proposal for a holistic assessment of how infrastructure investment needs in energy networks and the water sector should be delivered. We believe this will be a valuable stocktake and will support future investment decisions. We have argued for this review to be overseen by the NIC, to ensure rigor and independence.

Other significant but smaller changes include changes to the Planning Act to allow Infrastructure Providers, not just Water Undertakers to use the Specific Infrastructure Procurement Regulations (SIPR) which will be important for the reservoirs development, and changes to lower the Nationally Significant Infrastructure project (NSIP) threshold.

Final responses are due on 28 January. We are also working with WUK in influence their response to the consultation.

Pennon acquisition of SES Water

On 10 January, Pennon announced the acquisition of Sutton and East Surrey (SES). This follows from its previous acquisitions - Bournemouth Water in 2015 and Bristol Water in 2021 - to its core South West Water business as part of its ongoing growth strategy. Pennon bought 100% of the issued share capital of Sumisho Osaka Gas Water UK, from Sumitomo Corporation and Osaka Gas, joint owners of SES since 2013.

The value reflects an £89m payment for the equity, and £291m of net debt. Pennon will issue up to £180m of new Ordinary Shares to finance the transaction and inject equity to reduce SES's gearing from 88% to within Pennon's target range of 55-65%. Around £11m a year of efficiencies are anticipated. The price represents a 6% premium to SES's Regulatory Capital Value.

The Competition and Markets Authority (CMA) has published an initial enforcement order, opening its statutory investigation into the merger. The two businesses will need to be run separately until this is completed, and there is a high probability Pennon will need to offer some form of undertakings to ensure the deal goes through.

The length of time the CMA takes will determine how much influence Pennon has over SES's PR24 negotiations with Ofwat. The acquisition is not expected to impact Pennon's existing plans for a £2.8bn investment programme in 2025-30.

2022-23 Monitoring Financial Resilience feedback

On 26 October 2023, Ofwat published its Monitoring Financial Resilience report for 2022-23. Ofwat says that the report aims to promote a focus on efficient investment that secures long-term resilience and delivers long-term value for money for customers and the environment. It categorises companies based on Ofwat's assessment of their financial resilience.

Anglian has remained in the top category, which Ofwat calls Standard, making it one of eight companies in that category. Eight companies remain with either action required or elevated concerns. Only three companies have changed category since last year as outlined in the below:

2022-23 Category	**Companies**
Standard	Anglian, Dwr Cymru, Hafren Dyfrdwy, Severn Trent, South Staffs, South West, United Utilities and Wessex
Action Required	Affinity, Northumbrian, Portsmouth (previously Elevated Concern) and Yorkshire (previously Elevated Concern)
Elevated Concern	SES, South East (previously Action Required), Southern and Thames

In late December, Ofwat wrote to companies providing some feedback following publication of the 2022-23 Monitoring Financial Resilience report.

At a sector level, Ofwat reflected that companies had improved dividend reporting transparency and articulation of dividend decisions. They also noted improvement in companies' long-term viability statements.

Consistent with the feedback received by the majority of companies, Ofwat has requested that in future the basis on which the dividend is assessed and determined needs to be more clearly set out in our dividend commentary; specifically which areas of performance, the period and which performance measures have been considered when making a view on determining the overall level of dividend. This is consistent with Ofwat's continued drive for prescription.

Ofwat 2022-23 assessment of Performance Related Pay performance

On 8 November 2023, Ofwat published its assessment of companies' approaches to performance related pay (PRP) for 2022-23. As a reminder, from 2023-24 onwards, Ofwat has the power to prevent customers paying for executive bonuses they deem inappropriate through a new adjustment mechanism.

Whilst relatively brief, the report sets out some areas of focus for Ofwat. Specifically, Ofwat are pushing for a minimum of 80% of executive pay measures to be related to customer and the environment. The report also positively highlights the role of Anglian's and Thames's Renumeration committees for using their discretion to reduce payments against individual metrics.

Looking forward, Ofwat are also seeking metric-by-metric explanations setting out why each target was used and how it was stretching. This comes with a clear indication that if companies do not explain this in future years, they will not meet Ofwat's expectations.

The paper also reminds companies that their AMP8 PRP proposals in PR24 plans will form part of Ofwat's Quality and Ambition assessment (QAA).

Heathrow H7 review – Final CMA determination

1. On 17 October 2023, the CMA issued its Final decision on the Heathrow price control (2022-26) decision. This had been disputed both by Heathrow and three of the airlines. The appeal centred on cost of capital issues, passenger numbers and a COVID-19 adjustment factor applied by the CAA.

2. The Final Decision largely upholds the views from the draft decision which found the CAA not to be wrong in its approach to WaCC and other matters save for two relatively trivial issues relating to the application of its mechanisms.

3.0 Financing

During the year, Osprey raised no new debt and also repaid no debts.

As at year end, £76 million of the £250 million Revolving Credit Facility was drawn.

On a consolidated basis, Osprey increases the CTA gross debt of Anglian Water by £1,021.0 million to £9,359.3 million. The consolidated cash balance was £1,047.5 million, as at year end, giving an Osprey CTA net debt of £8,311.8 million.

Credit ratings as at 31/03/2024 are as follows:

Fitch Ratings (LTR): BBB- (stable outlook)

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 2024 the balance of £27.7 million was available for interest and other finance charges which covers the £25.6 million forecast to be due for the 6 month period to 30 September 2024.

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 2023 to 31 March 2024 the amount paid into the Debt Service Reserve Account was £43.0 million.

Osprey Acquisitions Ltd may withdraw amounts from the Debt Service Reserve Account to maintain the Required Balance. For the period from 1 April 2023 to 31 March 2024 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 2024 £m
Opening DSRA Balance (1 April 2023)	24.8
Amounts paid in	43.0
Amounts paid out	0.0
Debt repaid	0.0
Debt borrowed	1.0
Interest and other finance charges	(41.5)
Closing DSRA Balance	**27.7**

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 2024, the closed defined benefit scheme, excluding the unfunded pension liability, had an IAS 19 accounting pension surplus (before deferred tax) of £51.2 million, compared to a surplus of £88.0 million at 31 March 2023. This decrease in surplus reflects recent market volatility impacting the value of the assets held by the scheme . During the year no deficit reduction payments were made by the company, compared with £21.8 million in the prior year.

Osprey also has pension obligations to former employees through the Morrison Pension & Life Assurance Plan ('MPLAP'). During 2022/23, a buy-in of the MPLAP scheme was completed with Legal & General. The process to move the scheme to buy-out remains ongoing.

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. The latest full valuation, based on conditions at 31/03/2023, is underway with discussions with Trustees progressing, these will be concluded before 30 June 2024.

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 Ros Rivaz (appointed 25 January 2024)	Independent Non-Executive Director (Chair of the Anglian Water Group)
Tony Donnelly	Executive Director (Chief Financial Officer of the Anglian Water Group) (appointed 23 November 2023)
Paul Whittaker	Independent Non-Executive Director (appointed 1 August 2023)
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 2024, 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 2024	Actual to 31 Mar 2023
a)	MidCo Interest Cover Ratio	**3.2:1**	3.4:1
b)	Adjusted MidCo Interest Cover Ratio	**1.2:1**	1.2:1
c)	Adjusted Average MidCo Interest Cover ratio	**1.2:1**	1.3:1
d)	OpCo RAR	**68.8%**	65.6%
e)	MidCo RAR	**77.8%**	75.2%

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 24 £m	Period to 31 Mar 23 £m
Consolidated EBITDA	799.5	788.1
Net Finance Charges	(251.9)	(228.6)
MidCo Interest Cover Ratio	**3.2**	**3.4**

(b) Adjusted MidCo Interest Cover Ratio is:

	Period to 31 Mar 24 £m	Period to 31 Mar 23 £m
Operating Cash Flow	739.7	697.5
Tax	(0.0)	0.8
Net Cash Flow	739.7	698.3
Capital Maintenance Expenditure	(341.1)	(326.2)
Regulatory Depreciation	(475.2)	(423.5)
Net Cash Flow less greater of Depreciation or Capital Maintenance Expenditure	**264.5**	**274.8**
Net Interest	**(218.7)**	**(222.3)**

Adjusted MidCo Interest Cover Ratio	**1.2**	**1.2**

(c) Adjusted Average MidCo Interest Cover Ratio is:

	Period to 31 Mar 24 £m	Period to 31 Mar 23 £m
Net Cash Flow less greater of Depreciation or Capital Maintenance Expenditure		
31 Mar 23	274.8	274.8
31 Mar 24	264.5	293.8
31 Mar 25	312.7	334.8
	852.0	**903.4**
Net Interest		
31 Mar 23	(222.3)	(222.3)
31 Mar 24	(218.7)	(239.5)
31 Mar 25	(256.9)	(258.6)
	(697.9)	**(720.4)**
Adjusted Average MidCo Interest Cover Ratio	**1.2**	**1.3**

4.0 Regulatory Asset Ratios (RAR)

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

	As at 31 Mar 24 £m	**As at 31 Mar 23 £m**
Tested Debt	(9,359.3)	(8,221.6)
Other Permitted Financial Indebtedness	(1.7)	(2.4)
Less cash balances and Authorised investments	1,047.5	686.1
Total MidCo Net Debt	**(8,313.5)**	**(7,537.9)**
Regulatory Asset Value (RAV)	**10,681.0**	**10,019.8**
Regulatory Asset Ratios:		
MidCo RAR	**77.8%**	**75.2%**

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

	As at 31 Mar 24 £m	As at 31 Mar 23 £m
OpCo Senior Gross Debt	(8,338.3)	(7,201.6)
Less cash balances and Authorised investments	994.2	629.4
Total OpCo Senior Net Debt	**(7,344.1)**	**(6,572.2)**
Regulatory Asset Value (RAV)	**10,681.0**	**10,019.8**
Regulatory Asset Ratios:		
OpCo RAR	**68.8%**	**65.6%**

5.0 Osprey Acquisitions Limited Group – Movements in Debt Balances

CTA Gross Debt	Closing Balance 31 Mar 2023 £m	New Issues £m	Repayment £m	Indexation £m	Other £m	**Closing Balance 31 Mar 2024 £m**
£200 million 6.875% fixed rate 2023	200.0		(200.0)	0.0		**0.0**
£200 million 6.625% fixed rate 2029	200.0			0.0		**200.0**
£200 million wrapped 3.07% RPI index-linked 2032	396.6			36.6		**433.2**
£60 million wrapped 3.07% RPI index-linked 2032	110.7			5.3		**116.0**
£246 million 6.293% fixed rate 2030	246.0			0.0		**246.0**
£75 million 3.666% RPI index-linked 2024	148.7			13.7		**162.4**
£402 million 2.4% RPI index-linked 2035	490.9			44.7		**535.6**
£50 million 1.7% RPI index-linked 2046 - 1	89.0			8.1		**97.1**
£50 million 1.7% RPI index-linked 2046 - 2	88.8			7.0		**95.8**
£40 million 1.7164% RPI index-linked 2056	71.8			6.0		**77.7**
£50 million 1.6777% RPI index-linked 2056	89.7			7.5		**97.2**
£60 million 1.7903% RPI index-linked 2049	107.3			9.2		**116.6**
£50 million 1.3825% RPI index-linked 2056	89.1			6.8		**96.0**
£100 million 1.3784% RPI index-linked 2057	178.3			13.7		**192.0**
£100 million wrapped floating rate 2057	100.0			0.0		**100.0**
£75 million 1.449% RPI index-linked 2062	120.7			14.4		**135.2**
£50 million 1.52% RPI index-linked 2055	80.8			9.4		**90.3**
£110 million floating rate 2043	110.0			0.0		**110.0**
£25 million 6.875% fixed rate 2034	25.0			0.0		**25.0**
£130 million 2.262% RPI index-linked 2045	214.0			10.5		**224.4**
£250 million 4.5% fixed rate 2027	250.0			0.0		**250.0**
£73.3 million 4.394% fixed rate 2028	73.3			0.0		**73.3**
£50 million 2.05% RPI index-linked 2033	74.7			3.6		**78.3**
£200 million 4.5% fixed rate 2026	200.0			0.0		**200.0**
£35 million 1.141% RPI index-linked 2042	51.3			2.5		**53.8**
US$170 million 3.84% fixed rate 2023	110.5		(110.5)	0.0		**0.0**
£93 million 3.537% fixed rate 2023	93.0		(93.0)	0.0		**0.0**
£55 million 2.93% fixed rate fixed rate 2026	55.0			0.0		**55.0**
US$150 million 3.29% fixed rate 2026	104.3			0.0		**104.3**
£35 million floating rate fixed rate 2031	35.0			0.0		**35.0**
£20 million 2.93% fixed rate 2026	20.0			0.0		**20.0**
£200 million 2.6225% fixed rate 2027	200.0			0.0		**200.0**
£250 million 1.625% fixed rate 2025	250.0			0.0		**250.0**
£300 million 2.75% fixed rate 2029	300.0			0.0		**300.0**
Sub Total	**4,974.5**	**0.0**	**(403.5)**	**199.1**	**0.0**	**4,770.0**

Cont'd	Closing Balance 31 Mar 2023 £m	New Issues £m	Repayment £m	Indexation £m	Other £m	**Closing Balance 31 Mar 2024 £m**
£85 million 2.88% fixed rate 2029	85.0			0.0		**85.0**
£25 million 3.0% fixed rate 2031	25.0			0.0		**25.0**
US$53 million 4.27% fixed rate 2029	40.1			0.0		**40.1**
£65 million 2.87% fixed rate 2029	65.0			0.0		**65.0**
JPY 7 billion 0.855% fixed rate 2039	50.9			0.0		**50.9**
£65 million amortising 0.835% CPI index-linked 2040	75.9			3.0		**78.9**
£50 million 1.76% fixed rate 2035	50.0			0.0		**50.0**
JPY 7 billion 0.85% fixed rate 2040	50.4			0.0		**50.4**
£35 million 2.14% fixed rate 2036	35.0			0.0		**35.0**
£40 million 2.14% fixed rate 2036	40.0			0.0		**40.0**
US$35 million 1.16% fixed rate 2026	25.5			0.0		**25.5**
C$ 350 million 4.525% fixed rate 2032	224.8			0.0		**224.8**
£242 million 6.07% fixed rate 2037	242.0			0.0		**242.0**
£24 million 6.07% fixed rate 2037	24.0			0.0		**24.0**
Operating Leases (Vehicles)	8.9			0.0	0.6	**9.6**
Index Linked Swaps	340.0			130.0	(116.2)	**353.8**
£75 million EIB amortising 0.53% RPI index-linked 2027	45.5		(11.9)	2.1		**35.8**
£75 million EIB amortising 0.79% RPI index-linked 2027	45.5		(11.8)	2.1		**35.8**
£150 million EIB amortising 0% RPI index-linked 2028	110.6		(23.0)	5.2		**92.8**
£65 million EIB amortising 0.41% RPI index-linked 2029	55.8		(12.4)	5.4		**48.8**
£125 million EIB amortising 0.1% RPI index-linked 2029	114.9		(15.7)	2.8		**102.0**
£60 million EIB amortising 0.01% RPI index-linked 2030	59.1		(8.8)	2.8		**53.2**
£100 million 1.588% fixed rate 2024	100.0			0.0		**100.0**
£26.1 million 0.01% CPI index-linked 2035 - 1	30.2			1.5		**31.7**
£26.1 million 0.01% CPI index-linked 2035 - 2	30.2			1.5		**31.7**
£100 million amortising 3.017% CPIH index-linked 2040	102.8			4.2		**107.0**
£75 million floating rate 2029	75.0			0.0		**75.0**
£75 million floating rate 2032	75.0			0.0		**75.0**
£300 million 5.875% fixed rate 2031	0.0	300.0		0.0		**300.0**
£560 million 6.0% fixed rate 2039	0.0	560.0		0.0		**560.0**
JPY 8.5 billion 1.917% fixed rate 2034	0.0	44.5		0.0		**44.5**
£375 million 5.75% fixed rate 2043	0.0	375.0		0.0		**375.0**
£100 million 2.427% CPI index-linked 2040	0.0	100.0		0.1		**100.1**
Total[1]	**7,201.6**	**1,379.5**	**(487.1)**	**359.9**	**(115.6)**	**8,338.3**

Cont'd **CTA Gross Debt**	Closing Balance 31 Mar 2023 £m	New Issues £m	Repayment £m	Indexation £m	Other £m	**Closing Balance 31 March 2024** **£m**
OAL Debt:						
£240 million 4.0% fixed rate bond 2026	240.0					240.0
£300 million 2.0% fixed rate bond 2028	300.0					300.0
£100 million 2.37% private placements 2031	42.6					42.6
£100 million 2.37% private placements 2031	23.4					23.4
£100 million 2.37% private placements 2031	34.0					34.0
£100 million 6.96% private placement 2033	40.0					40.0
£100 million 6.96% private placement 2033	35.0					35.0
£100 million 6.96% private placement 2033	25.0					25.0
£105 million 2.2% private placements 2028	105.0					105.0
£100 million floating term facility 2027	100.0					100.0
RCF Facilities OAL	75.0	41.5	(40.5)			76.0
OAL Total Debt	**8,221.6**	**1,421.0**	**(527.6)**	**359.9**	**(115.6)**	**9,359.3**

6.0 Osprey Acquisitions Limited Group – Profit & Loss Account

	2024 Total £m	2023 Total £m
Revenue	**1,628.7**	**1,497.5**
Other operating income	**15.8**	**16.0**
Operating costs	**(807.0)**	**(691.4)**
Charge for doubtful and bad debts	**(38.7)**	**(30.1)**
Depreciation and amortisation	**(388.7)**	**(379.3)**
Operating profit	**410.1**	**412.7**
Finance income	**60.6**	**39.1**
Finance costs	**(593.7)**	**(774.7)**
Adjusted loss before tax	**(123.0)**	**(322.9)**
Finance costs – fair value gains on financial derivatives	**204.9**	**645.3**
Profit before tax on a statutory basis	**81.9**	**322.4**

7.0 *Osprey Acquisitions Limited Group– Balance Sheet*

At 31 March 2024

			£m
<u>Non-current assets</u>			
Intangible assets (including goodwill)			702.5
Property, plant and equipment			11,414.9
Investment properties			0.2
Derivative financial instruments classified as current and non-current assets			234.0
Retirement benefit surpluses			64.0
Net current liabilities excluding cash and debt repayable in less than one year			(81.6)
Retirement benefit deficit			(30.8)
Derivative financial instruments classified as current and non-current liabilities			(889.3)
Creditors amounts falling due after more than one year excluding debt			(1,436.9)
Cash and cash equivalents		1,057.8	
Financing liabilities		(9,097.2)	
Net Debt (excluding derivatives)			(8,039.4)
Net assets			1,937.6
Capital and reserves	Share capital		876.2
	Share premium		596.5
	Retained earnings		450.4
	Hedging reserve		14.9
	Cost of hedging reserve		(0.4)
Capital and reserves			1,937.6

8.0 Osprey Acquisitions Limited Group– Calculation of Annual Finance Charge

Instrument	Interest Paid to 31 Mar 24 £m	Actual Interest Paid to 31 Mar 23 £m
AWS Debt:		
Class A Debt		
AAA Wrapped Bonds	19.3	32.3
Other Class A Debt	204.4	165.8
OAL Debt:	40.1	42.4
Annual Finance Charge	**263.8**	**240.5**

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