



Anglian Water Services Financing Plc

(incorporated with limited liability in England and Wales under the United Kingdom Companies Act 1985, as amended from time to time, with registered number 4330322)

€10,000,000,000

Global Secured Medium Term Note Programme unconditionally and irrevocably guaranteed by, *inter alios*,

Anglian Water Services Limited

(incorporated with limited liability in England and Wales with registered number 2366656)

This Supplement (the "**Supplement**") to the prospectus dated 9 October 2014 (the "**Base Prospectus**") which comprises a base prospectus and a supplementary prospectus dated 4 December 2014 (together with the Base Prospectus, the "**Prospectus**"), constitutes a supplementary prospectus for the purposes of Section 87G of the Financial Services and Markets Act 2000 (the "**FSMA**") and is prepared in connection with the €10,000,000,000 Global Secured Medium Term Note Programme (the "**Programme**") established by Anglian Water Services Financing plc (the "**Issuer**").

This Supplement is supplemental to, and should be read in conjunction with, the Prospectus and any other supplements to the Prospectus issued by the Issuer. The purpose of this Supplement is to notify Bondholders of:

- (i) the receipt by Anglian Water Services Limited of Ofwat's Final Determination (relating to its business plan to 2020) on 12 December 2014 and that Anglian Water Services Limited will not be applying for this Final Determination to be referred to the Competition and Markets Authority. In the Final Determination, Ofwat has set controls on the prices that Anglian Water may charge consumers for the 2015-2020 period ("**AMP6 Period**"). The Final Determination and the price controls for the AMP6 Period together constitute a significant new factor for Bondholders since they affect Anglian Water's revenues and accordingly might have a pricing impact on the Bonds;
- (ii) the updates to Condition B of the Licence by Ofwat to allow setting of price controls under the Final Determination. The updated Condition B of the Licence allows Ofwat to set separate price controls for household retail and non-household retail consumers. The updated Condition B constitutes a significant new factor for Bondholders since price controls implemented pursuant to Condition B affect Anglian Water's revenues and accordingly might have a pricing impact on the Bonds;
- (iii) additional financial and information covenants which have been added to the Common Terms Agreement to protect Secured Creditors (including Bondholders). Changes proposed by Ofwat, as part of its price review for the AMP6 Period, include a new revenue building block approach to set price limits. Under Ofwat's new approach, the regulatory capital charges will be different from before and, as a consequence, the existing post maintenance interest cover ratios will not protect Secured Creditors (including Bondholders) as originally intended as CCD and IRC (which are inputs in such ratios) will no longer be published by Ofwat. A new conformed post maintenance interest cover ratio has been added to the Common Terms Agreement as an additional covenant to protect Secured Creditors (including Bondholders) and references to Class A PMICR and Senior PMICR across the Finance Documents have been supplemented with the addition of conformed equivalents. A new conformed information covenant has also been added to the Common Terms Agreement to facilitate the financial information comparison between the regulatory price determinations, the financial statements and the calculation of financial covenants. These additional financial and information covenants constitute a significant new factor as they are material to a Bondholder's and potential Bondholder's assessment of the Bonds and accordingly might have a pricing impact on the Bonds; and

- (iv) the revision of Fitch's outlook of the Class A Bonds and Class B Bonds from 'stable' to 'negative'. The revision of the outlook of the Bonds by Fitch constitutes a significant new factor for Bondholders since it might have a pricing impact on the Bonds.

As the receipt of the Final Determination, updates to the Licence, updates to the financial and information covenants and Fitch's revision of outlook of the Bonds constitute significant new factors for Bondholders, the related disclosure in the following sections of the Prospectus: "*Risk Factors*", "*Overview of the Programme*", Chapter 3 (*Management's Discussions and Analysis of Financial Condition and Result of Operations*), Chapter 4 (*Anglian Water Business Description*), Chapter 6 (*Financing Structure*), Chapter 10 (*Regulation of the Water and Wastewater Industry in England and Wales*) and Chapter 16 (*Index of Defined Terms*) shall be supplemented with the related updated disclosure set out in this Supplement.

Unless otherwise defined in this Supplement, terms defined in the Prospectus have the same meaning when used in this Supplement. Unless stated otherwise, page numbers referred to in this Supplement refer to pages in the Prospectus.

The Issuer and each of Anglian Water Services Limited, Anglian Water Services Holdings Limited and Anglian Water Services Overseas Holdings Limited (together with the Issuer, being the "**Obligors**") accepts responsibility for the information contained in this Supplement. To the best of the knowledge of each of the Issuer and the other Obligors (as appropriate) (having taken all reasonable care to ensure that such is the case) the information contained in this Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

1. OFWAT'S FINAL DETERMINATION FOR THE AMP6 PERIOD

Economic regulation of the water industry in England and Wales is based on a system of (i) (up to 31 March 2015 and for wholesale activities after that date) five-year price controls and (ii) (in respect of retail activities beyond 31 March 2015) up to a maximum five year price controls (determined by the Periodic Reviews, as defined below) imposed on the amounts Regulated Companies can charge to their customers. This is intended to reward companies for efficiency and quality of service to customers. These price controls are set to control the total revenue Regulated Companies can recover from customers via bills for water supply and wastewater services. Certain charges are not included in the price control formula but are determined on an individual basis.

Periodic reviews ("**Periodic Reviews**") of price limits are carried out at five-yearly intervals by Ofwat. The most recent Periodic Review, covering the AMP6 Period, was concluded in December 2014, when Ofwat issued its Final Determination. Anglian Water received Ofwat's Final Determination (relating to its business plan to 2020) on 12 December 2014. Anglian Water accepted the Final Determination on 16 January 2015 and will not be applying for this Final Determination to be referred to the Competition and Markets Authority.

From 2015, there will be four price controls, for water wholesale, sewerage wholesale, household retail and non-household retail services. The form of the price control for wholesale services will be a total revenue control that covers all revenues from wholesale activities, including revenue and cash receipts from connection charges. The price control will be indexed using an RPI plus or minus a K factor. The K factor is a company specific adjustment factor which may be positive, negative or zero. K is a number set by Ofwat for each Regulated Company individually and reflects the scale of its capital investment programme, its cost of capital as determined by Ofwat, and its operational and environmental obligations, together with Ofwat's judgment as to the scope for it to improve its efficiency. As such, it may be a different number in different years. All RCV at 31 March 2015 will be allocated to the wholesale controls.

In the December 2014 Final Determination, Ofwat has set controls on the prices that Anglian Water may charge consumers for the AMP6 Period. For wholesale services, the controls limit the extent to which Anglian Water's total revenue can rise (in addition to the annual rate of inflation, as measured by the Retail Prices Index) by comparison to the revenue allowance for the prior year. For water wholesale revenues the controls for Anglian Water's customer bills for each of 2015/16, 2016/17, 2017/18, 2018/19 and 2019/20 were 0.0 per cent., 1.34 per cent., 0.89 per cent., 0.58 per cent. and 0.56 per cent., respectively. For sewerage wholesale revenues the controls for Anglian Water for each of 2015/16, 2016/17, 2017/18, 2018/19 and 2019/20 were 0.0 per cent, 0.86 per cent., 0.72 per cent., 0.73 per cent. and 0.12 per cent. respectively.

In respect of revenues allowed for the provision of household retail services, Ofwat allowed total revenues for each of 2015/16, 2016/17, 2017/18, 2018/19 and 2019/20 at £80.591m, £83.571m, £85.914m, £87.652m and £89.412m. These revenues are calculated on the basis of forecast customer numbers and can be modified to the extent that actual customer numbers during the relevant years vary from these forecasts. These revenues are not subject to RPI-indexation.

In respect of revenues allowed for the provision of non-household retail services, the price control consists of limits on the average revenues that Anglian Water can charge for specific customer types. These controls apply for two years and will be reviewed during 2016 before the opening of the non-household retail market in April 2017. These revenues are not subject to RPI-indexation.

The Final Determination and the price controls for the AMP6 Period together constitute a significant new factor for Bondholders since they affect Anglian Water's revenues and accordingly might have a pricing impact on the Bonds.

2. UPDATES TO THE LICENCE

In the Business Plan submitted to Ofwat for the period 2015 – 2020, Anglian Water proposed an outcome delivery incentive in respect of its performance in managing leakage. This has been agreed by Ofwat, but requires a further amendment to be made to Condition B. Simultaneously with the publication of its Final Determination in December 2014, Ofwat published for consultation a draft amendment to Condition B which would fulfil this purpose. This draft amendment allows in-period price adjustments (rewards or penalties, as the case may be) according to Anglian Water's performance in respect of leakage. Subject to the outcome of Ofwat's consultation, Ofwat would intend to introduce the amendment by consent under section 13 of the WIA.

The updated Condition B constitutes a significant new factor for Bondholders since price controls implemented pursuant to Condition B affect Anglian Water's revenues and accordingly might have a pricing impact on the Bonds.

3. ADDITIONAL CONFORMED PMICR FINANCIAL AND INFORMATION COVENANTS

Ofwat's proposed changes for the AMP6 Period include changes to regulatory capital charges. The existing post maintenance interest cover ratios will not protect Bondholders as originally intended as current cost depreciation (CCD) and infrastructure renewals charge (IRC), which are inputs in such ratios, will no longer be published by Ofwat.

Anglian Water issued a STID Proposal on 12 March 2015 to update the existing post maintenance interest cover ratios with new conformed post maintenance interest cover ratios and references to Class A PMICR and Senior PMICR in the Finance Documents will be supplemented with the addition of conformed equivalents referring to "Depreciation" rather than CCD or IRC (and the additional of a new information covenant as described below). The Majority Creditors have voted in favour of the STID Proposal.

The following conformed post maintenance interest cover ratios shall be added to the Common Terms Agreement following the successful STID Proposal:

- (i) the Conformed Senior PMICR (that is or is estimated to be less than 1.1:1 for any Test Period);
- (ii) the Conformed Class A PMICR (that is or is estimated to be less than 1.3:1 for any Test Period);
- (iii) the Conformed Senior Average PMICR (that is or is estimated to be less than 1.2:1 for any Test Period); and
- (iv) the Conformed Class A Average PMICR (that is or is estimated to be less than 1.4:1 for any Test Period).

In addition, the following related definitions shall be added to the Master Definitions Agreement:

- (i) "**Conformed Class A Average PMICR**" means the sum of the ratios of Net Cash Flow less the greater of (a) Depreciation and (b) Capital Maintenance Expenditure to Class A Debt Interest for each of the Test Periods comprised in a Rolling Average Period divided by three.
- (ii) "**Conformed Class A PMICR**" means the ratio of Net Cash Flow less the greater of (a) Depreciation and (b) Capital Maintenance Expenditure for each Test Period to Class A Debt Interest for the same Test Period.
- (iii) "**Conformed Senior Average PMICR**" means the sum of the ratios of Net Cash Flow less the greater of (a) Depreciation and (b) Capital Maintenance Expenditure, to Senior Debt Interest for each of the Test Periods comprised in a Rolling Average Period divided by three.
- (iv) "**Conformed Senior PMICR**" means the ratio of Net Cash Flow less the greater of (a) Depreciation and (b) Capital Maintenance Expenditure for each Test Period to Senior Debt Interest for each of the same Test Periods for that period.

- (v) **“Depreciation”** means, in relation to any period of time, the “total RCV run-off” (or other term(s) used to mean the depreciation charges applicable to the RAV) in respect of such period (interpolated as necessary) as last determined and notified to AWS by Ofwat at the most recent “Periodic Review” (as defined in the Instrument of Appointment) or other procedure through which from time to time Ofwat may make such determination on an equally definitive basis to that of such a “Periodic Review”.

An additional information covenant will also be provided to facilitate the financial information comparison between the regulatory price determinations, the financial statements and the calculation of financial covenants. Under the new information covenant, AWS shall supply to the Security Trustee, each Financial Guarantor, each Rating Agency and each Facility Agent (when it supplies an Investors Report), an appendix to the Investors Report containing such information as outlined in a new Schedule 17 (*PMICR Information Investors Report Appendix*) to the Common Terms Agreement and such additional information (financial, accounting and regulatory) as in its reasonable opinion will allow investors to relate the relevant financial ratios contained in that Investor Report and the compliance certificate, to the most recent Final Determination and the financial statements supplied with it (including any regulatory depreciation, pay-as-you go ratio/percentage, totex or RCV information and any opex, capex or other accounting information).

These additional financial and information covenants constitute a significant new factor as they are material to a Bondholder's and potential Bondholder's assessment of the Bonds and accordingly might have a pricing impact on the Bonds.

4. UPDATES TO CREDIT RATINGS

In November 2014, Fitch has affirmed the senior secured ratings for the Issuer's Class A Bonds at 'A' and its Class B Bonds at 'BBB+' and revised their outlooks from 'stable' to 'negative'. The revised outlook was affirmed on 20 March 2015. The revision of outlook mainly reflects increasing business risk in the UK water sector and pressure on credit metrics stemming from Ofwat's risk and reward guidance for the price review covering the AMP6 Period.

The revision of the outlook of the Bonds by Fitch constitutes a significant new factor for Bondholders since it might have a pricing impact on the Bonds.

Save as disclosed in this Supplement, no other significant new factor, material mistake or inaccuracy relating to information included in the Prospectus has arisen or been noted, as the case may be, since the publication of the Prospectus.

Investors who have subscribed to the Bonds under the terms of the Prospectus prior to the publication of this Supplement have a right of withdrawal pursuant to section 87Q(4) of FSMA for two clear business days following the date of publication of this Supplement.

This Supplement has been approved by the FCA, which is the United Kingdom competent authority for the purposes of Directive 2003/71/EC (the "**Prospectus Directive**") and relevant implementing measures in the United Kingdom, as a base prospectus supplement issued in compliance with the Prospectus Directive and relevant implementing measures in the United Kingdom.