Anglian Water Services Financing Plc

Anglian Water Services Limited

Investor Report

For the year ended 31 March 2018

Prepared in accordance with International Financial Reporting Standards (IFRS)

Final 04.06.18

Investor Report

Contents

love every drop
anglianwater

Basis of Preparation

All financial information in this report is unaudited and has been prepared in accordance with IFRS. The accounting policies used are consistent with those in the Statutory Accounts of Anglian Water Services Limited at 31 March 2018.

The information in this report is presented solely to comply with Schedule 11 of the Common Terms Agreement (CTA).

Disclaimer

Any forward-looking statements made in this document represent management's judgment as to what may occur in the future. However, the company's actual results for the current and future fiscal periods and corporate developments will depend on a number of economic, competitive and other factors including some which will be outside the control of the company. Such factors could cause the company's actual results for current and future periods to differ materially from those expressed in any forward looking statements made in this document. Unless otherwise required by applicable law, accounting standard or regulation, Anglian Water does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise.

General Overview and Business Update

This investor report covers the twelve months ended 31 March 2018.

1.0 Financial Performance for the year ended 31 March 2018

Summary Underlying Results (AWS Financing Group)

The underlying financial results have been prepared on an International Financial Reporting Standards (IFRS) basis and are summarised in the table[1] below:

	2018 Total £m	2017 Total £m
Revenue	**1,248.9**	1,227.0
Other operating income	**16.1**	14.8
Operating costs	**(581.0)**	(565.3)
Depreciation	**(335.5)**	(311.2)
Operating profit	**348.5**	365.3
Finance income (adjusted)[1]	**1.6**	2.0
Finance costs[2]	**(344.1)**	(283.2)
Underlying profit before tax[3]	**6.0**	84.1
Statutory profit before tax[3]	**320.0**	160.4

[1] Finance income on an underlying basis excludes internal interest receivable by the Group from Anglian Water Services Holdings Ltd of £191.8 million (2017: £192.3 million) as it is matched by an internal round-trip dividend payment to give a net nil position overall. From 29 March 2018 this group interest income, and the associated round-trip dividend ceased when the related inter-company loan was settled as part of a simplification of the group structure.

[2] In order to show performance on an underlying basis the fair value gains and losses on financial derivatives have been excluded from the table because these are volatile non-cash annual movements which distort the actual underlying economic performance.

[3] Underlying profit before tax is reconciled to the statutory profit before tax by adjusting for the items in notes 1 and 2 above and the profit on disposal of non-household retail business of £4.6 million (2017:nil).

Revenue

Revenue for the year was £1,248.9 million, an increase of £21.9 million (1.8 per cent) on last year. This primarily reflects the regulatory tariff increase and modest growth in customer numbers, partially offset by the loss of the retail gross margin for non-household customers following the transfer of those customers on 1 April 2017 to Anglian Water Business (National) Limited and small fall in consumption.

Other operating income comprises primarily the amortisation of developer contributions received in respect of new housing developments and is up modestly on last year in line with increased developer activity in the region.

Operating costs

Operating costs for the year increased by £15.7 million (2.8 per cent) to £581.0 million. This increase is explained in the following table:

Increases/(decreases) in operating costs	£m
General inflationary increases	13.7
Providing more effective solutions through operational maintenance, rather than capital investment	12.5
Decrease in minor repair activities to maintain water and waste water below ground infrastructure[1]	(9.2)
Increase in energy prices	7.4
Increase in pension costs	4.7
Operating costs of newly commissioned plant	3.5
Increase in self-insurance claims, principally due to the severe winter weather	3.0
Reinvestment of capital expenditure efficiencies in operational maintenance solutions	2.8

Increases/(decreases) in operating costs	£m
Net efficiency savings achieved	(14.6)
2016/17 operating costs of the non-household business not repeating following the transfer of business on 1 April 2017	(8.1)
Net increase in operating costs	**15.7**

[1] IFRS has increased opex volatility from minor repair costs which, in the past, would have been treated as capex under the old UKGAAP infrastructure renewals accounting rules.

During the year we identified a number of capital projects which could be replaced with more cost effective operational solutions. This had the effect of increasing operating costs by £12.5 million.

Pension costs increased by £4.7 million compared with last year, comprising a £3.0 million increase in respect of the current service cost, and £1.7 million associated with the closure of the defined benefit schemes to future accruals at the end of the year. The principal reason for closing the defined benefit schemes is that the continuing future service costs have become unsustainable compared to the allowed future costs for pension provision. On 1 April 2018 the defined benefit schemes were replaced with a new high quality defined contribution scheme which offers all employees an equitable and more flexible scheme.

The cost and efficiency savings are derived from a range of initiatives including energy conservation and self-generation, disposal of surplus land, optimising commodities, centralised management of operations, renegotiating supplier contracts on improved terms and a number of productivity improvements from embedding more lean thinking and processes into the business and more efficient asset maintenance programmes.

Depreciation

Depreciation is up 7.8 per cent compared with last year, consistent with the impact of newly commissioned assets in the year, and a reduction in the useful life of various operational assets.

Operating profit

Operating profit has decreased by 4.6 per cent to £348.5 million, which is consistent with the effect of the regulatory price increase, more than offset by the increases in operating costs and depreciation.

Finance costs

Net finance costs – excluding the intra-company interest receivable of £191.8 million (2017: £192.3 million) and before fair value gains and losses on derivative financial instruments – increased from £281.2 million in 2017 to £342.5 million in 2018. This was primarily the result of the non-cash impact of higher inflation on index-linked debt where year on year RPI inflation increased from 2.1 per cent to 3.7 per cent.

There was a non-cash fair value gain of £117.6 million on derivative financial instruments in 2018, compared with a loss of £116.0 million in 2017. This shift was due to movements in market expectations of long-term interest, inflation and exchange rates. These fair value gains and losses have no commercial or economic impact on the Group's operations or customers. The driving factors for the gain in 2018 compared to the loss in 2017 were a fall in forward inflation expectations together with an increase in forward interest rates. During the year, forward inflation rates fell by circa 13 basis points (2017: 38 basis point increase) and forward interest rates increased by 19 basis points (2017: 23 basis point decrease).

Underlying profit before tax

Underlying profit before tax for the year on an underlying basis was £6.0 million, compared with £84.1 million in the prior year. This reduction reflects the decrease in operating profit, and the increase in finance costs (excluding fair value losses/gains on derivatives) due principally to higher RPI.

Taxation

	2018 **£m**	2017 £m
Current tax charge	**44.0**	101.5
Deferred tax credit	**(16.3)**	(139.4)
Total tax charge/(credit)	**27.7**	(37.9)

Anglian Water's underlying effective tax rate is in line with the rate of corporation tax before considering losses surrendered from other group companies. The relatively low level of cash tax reflects the fiscal incentives available to all UK companies for sustained high levels of capital, the interest paid to fund that investment and the availability of surplus ACT (corporation tax paid in advance). Anglian Water is one of the largest private investors in infrastructure in the region, investing more than £2 billion over five years. The Government actively encourages infrastructure investment and grants Anglian Water capital allowances, which defer some of its corporation tax liabilities until a later period. Anglian Water's 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 2018, other than corporation tax, amounted to £227 million (2017: £210 million), of which £71million was collected on behalf of the authorities for value added tax (VAT) and employee payroll taxes. All taxes are paid as they become due.

Current tax
The current tax charge for the year was £44.0 million (2017: £101.5 million). The decrease was due to a reduction in profits before taking account of fair value adjustments on derivative financial instruments, which have no current tax effect. The charge for 2017 also included a tax charge of £40.1 million for prior year items.

Deferred tax
The deferred tax credit has reduced from £139.4 million to £16.3 million. The comparative year included the impact of the reduction in future tax rates used to calculate deferred tax from 18 per cent to 17 per cent, which gave rise to a credit of £54.3 million, and also a credit of £28.3 million for prior year items and refinement tof the classification of deferred tax balances. Excluding the effect of these two items the underlying deferred tax credit for the year has reduced from £56.8 million to £16.3 million. The main reason for this decrease was the movement in fair value on financial derivatives which changed from a loss of £116.0 million last year to a gain of £117.6 million this year.

Net debt and cash flow

In the year to 31 March 2018, Anglian Water sourced £250.0 million of funds in long-term debt (£248.6 million net of issue costs) and made long-term debt repayments of £327.4 million. The new funds of £250.0 million were the result of Anglian Water's first Green Bond issued in the year, the proceeds of which will be used to finance capital expenditure. Debt repayments comprised: a £5.7 million finance lease repayment, the repayment of the £150.0 million 5.5 per cent Class B and £25.5 million 4.2 per cent Class B bonds maturing in October 2017, £17.2 million of amortising redemptions on EIB loans and the repayment of £55.0 million of the £600.0 million revolving credit facilities in the year, leaving the facilities undrawn as at 31 March 2018. In addition, Anglian Water paid down £73.9 million of accumulated indexation on the portfolio of Index linked RPI instruments following a restructure of three long-term RPI swaps.

At 31 March 2018, Anglian Water had net borrowings of £6,896.4 million (£6,164.6 million excluding derivatives), an increase of £84.5 million (£119.5 million excluding derivatives) over the prior year. Net borrowings comprised a mixture of fixed, index-linked and variable-rate debt of £6,451.7 million, derivative financial instruments of £731.8 million (excluding energy derivatives of £9.1 million), and cash and deposits of £287.1 million.

The business generated a net cash inflow from operating activities of £644.0 million in the year ended 31 March 2018 (2017: £632.0 million). The increase primarily reflects the increased revenues in the year and improved working capital, partially offset by higher operational costs.

Market Reform

On 1 April 2017 the operations and net assets of the non-household retail business were successfully transferred to Anglian Water Business (National) Limited (AWBN). The disposal proceeds and profit on disposal are entered in the accounts. On 31 August 2017 Anglian Water Venture Holdings Limited, the parent of AWBN, entered into a 50:50 joint venture with Northumbrian Water Group Limited, forming a new jointly owned non-household retail operator called Wave.

2.0 Regulatory Update

Ofwat - Defra discussions on behaviour of water companies

In January, the Secretary of State for Environment, Food and Rural Affairs wrote to the chair of Ofwat enquiring as to what action might be taken to improve public trust in the sector. Particular emphasis was placed on water companies' financial arrangements, including gearing structures, levels of executive pay and dividend payments. Ofwat responded highlighting that it seeks to:

- Increase requirements for the long-term financial strength of companies;
- Require companies to set out clear dividend policies and meet obligations to customers and other stakeholders before making dividend payments;
- Ensure boards explain bonuses and executive pay by reference to exceptional delivery for customers; and
- Change company licences to ensure customers and their interests are at the heart of what companies do.

The Secretary of State highlighted in response to this that he does not anticipate government intervention or legislation will be needed to allow Ofwat to make the above changes.

Anglian Water responded by announcing Board and shareholder commitments to simplify and improve transparency of the company structure, further enhance governance, show that public interest is at the heart of the business, increase investment and significantly reduce dividends through to 2025.

PR19 Methodology

Ofwat published its final methodology for PR19 in December, following consultation on the draft in July and August. It was published alongside an indicative weighted average cost of capital of 2.4 per cent on a retail price index basis. This is 1.3 per cent lower than at PR14 and in isolation would reduce the average (national) bill by £15-£25 p.a. This saving was the subject of much of the media attention surrounding the methodology publication.

The methodology reiterated the four key themes for the price review: customer service; resilience; affordability; and innovation. Other headlines included:

- an expectation that all companies would reduce leakage by at least 15 per cent;

- an expectation of more stretching performance commitments tied with stronger rewards and penalties through outcome delivery incentives than at PR14;
- increased benefits on cost sharing rate for companies with efficient plans, and penalties for companies who bid very low and then underperform,
- an expectation of an efficiency step-change; and
- replacing the customer service incentive mechanism from the 'Service Incentive Mechanism' to a Customer Measure of Experience (C-MEX) and a Developer Measure of Experience (D-MEX).

Companies' business plans will be assessed on nine tests covering areas from customer engagement to securing cost efficiency. Ofwat has set out financial, procedural and reputational incentives for companies based on the initial assessment of business plans.

Business retail market

The competitive non-household retail market passed its first year of successful operation on 1 April 2018. In the first year of market operation:

- 4.6 per cent of supply points (10.5 per cent in volumetric terms) switched their water supplier, an average switching rate of 9,273 per month. There has been a higher rate of switching in the south and south-east of England, than in other parts of the country.
- There have been 41 active retailers in the market (26 national, 12 regional and 3 self-suppliers) with four more national retailers preparing to enter the market.
- The option to self-supply (where a customer acts as their own retailer) has been more popular than anticipated before market opening. Greene King, Marston's, Whitbread and Coca-Cola have all chosen to be self-suppliers.
- 35 code changes have been considered by the Market Panel; including changes to ensure the codes align with GDPR requirements and updates to credit terms.

Market share of the largest retailers by number of supply points is shown in the table below.

Retailer	Market Share (Per cent of Supply points)
Water Plus	36
Castle Water	21
Wave	18
Pennon Water	7
Business Stream	7
Water2business	6
Affinity for Business	3
SES Business Water	1
Everflow	1

Company Monitoring Framework

In December Ofwat published the results of its 2016-17 assessments of companies' performance under the Company Monitoring Framework (CMF). The CMF is a reputational incentive under which companies are assigned to one of three categories according to Ofwat's level of confidence in the reliability of their published data.

Overall Anglian Water maintained its position in the middle ('targeted') band, along with the majority of companies. Three companies were placed in the top self-assured category and four were put in the bottom prescribed category.

IDOK

In December Ofwat published its final interim determination for Anglian Water's price limits for 2018-19 to include the reward (now called an 'outperformance payment') earned under the in-period ODI for 2016-17 leakage performance. Ofwat allowed the full value of Anglian Water's claim (£2.6m in 12-13 prices) in accordance with the operation of the incentive.

Initial RCV allocations

From 2020 portions of the existing RCV will be allocated to water resources and bioresources to enable separate price controls to be set for these areas. Anglian Water has made initial submissions to Ofwat on the value of the allocations.

For bioresources, the initial submission proposed that 6 per cent of waste water RCV be allocated, in line with the majority of the industry. In feedback, Ofwat clarified that the RCV allocation should not reflect the value of its assets from receiving renewable incentives that modern equivalent assets would not receive.

For water resources Anglian Water's initial submission proposed that 6 per cent of water RCV be allocated, in comparison to an industry average of 13 per cent. In feedback, Ofwat accepted the proposed allocation but have observed that customers with minimal use of network plus assets could be unduly impacted by the RCV allocation, and the company needed to consider options for managing these.

Anglian Water will propose its final RCV allocations in September's business plan, reflecting Ofwat's feedback.

Ofwat changes

Rachel Fletcher joined Ofwat as its new chief executive on 8 January. Rachel's appointment follows the departure of Cathryn Ross, who left to take up an executive position at BT. In October David Black was appointed as an executive director at Ofwat.

3.0 Service Performance Overview

Service Incentive Mechanism

Anglian Water's customer service is constantly evolving to keep pace with people's changing needs and rising expectations. This year saw the launch of a new, online account management site, My Account. Customers can use the portal to view their bills and usage online, make payments, set up Direct Debits and submit meter readings. Within three months of its launch 180,000 people had registered and feedback has been hugely positive. The call centre opening hours were also extended into the evenings, Saturday afternoons and Sundays, to make it easier for customers to get in touch at times that are convenient for them.

The number of written complaints received about Anglian Water's service continued to fall this year, to its lowest ever level, while customers' rating of the company's service has continued to improve. This includes the Service Incentive Mechanism (SIM), used by Ofwat to compare the customer service offered by water companies. Anglian Water finished the year with top spot in Ofwat's qualitative survey, which is based on ratings from customers who made contact throughout the year. This is up from sixth place last year. Anglian Water expects this to leave it well placed when the joint quantitative and qualitative figures are revealed for all companies, later this year.

Anglian Water's own internal survey of customer satisfaction gathered opinions from over 100,000 people. More than 89 per cent said they were very satisfied with the service provided. Performance was also measured through the company's membership of the Institute of Customer Service (UKCSI). This year Anglian Water achieved an average UKCSI score of 77.5 – an improvement on last year and a score which placed it sixth out of the 25 utility companies surveyed in both the July and January surveys.

4.0 Capital Expenditure

AMP6 gross capital expenditure[1] in the appointed business for the year was £460.9 million (£235.8 million on capital maintenance, £225.1 million on capital enhancement), compared to £381.2 million in the second year of AMP6. This level of expenditure is broadly in line with management expectations and includes £23.5 million of capital maintenance spend in respect of commitments to reinvest £100 million of efficiencies over the AMP announced in 2017. A further £65 million of re-investment in resilience was announced in March 2018 and work is already underway; this will amongst other benefits improve the security of supply in south Lincolnshire by 2020.

One of the major projects worked on during the year, was the Heigham Water Treatment Works Membrane scheme which will deliver significant improvements to water supply resilience. Another is the ground-breaking work at Ingoldisthorpe water recycling centre to install a nitrifying sand filter which will enhance and protect biodiversity whilst reducing operational costs. We have worked in close collaboration with both the Environment Agency (EA) and local Rivers Trust in delivering this project. Both of these projects are financed by Anglian Water's first Green Bond issued in 2017.

Good progress has been made on meeting the EA's challenging targets for the removal of ammonia from waste water discharged into water courses. A range of solutions are being used to obtain EA consents for discharges including: use of new technology at Great Dunmow; a lower build approach at Stanbridgeford and a reuse and optimisation approach at Dunstable.

Over the 2015–2020 five-year period Anglian Water will be investing over £2 billion through its investment programme, delivering the business plan in terms of both regulatory outputs and in support of ODIs.

[1] Stated on an IFRS basis but excluding capitalised interest and adopted assets acquired at nil consideration.

5.0 *Water Quality and Environmental Performance*

Anglian Water is governed by a wide range of legislation covering quality of drinking water, discharges to the environment, waste disposal, water abstraction, access to land and environmental protection. The key regulators are the Drinking Water Inspectorate, the Environment Agency and Natural England (formerly English Nature). There is also close liaison with Environmental Health Officers and Consultants in Communicable Disease Control within Public Health England and other environmental bodies.

Drinking Water

The delivery of safe, clean, high-quality drinking water is central to what Anglian Water does. It underpins the public health of the region and is a fundamental expectation of customers. The Drinking Water Inspectorate (DWI) measures performance at the company's treatment works, where it has delivered another excellent performance, with just four coliform failures. The same is true at its storage reservoirs, which store treated water at points around the network with 99.99 per cent compliance this year.

Both these results are due to a successful programme of work to improve the inspection process of treated water tanks and storage reservoirs. The company adopted a risk-based approach to the frequency of these inspections and as a result, continue to be among the highest performing water and sewerage companies in the industry for the DWI measures of Disinfection Control and Reservoir Integrity.

In addition to maintaining excellence at its water treatment works, Anglian Water have once again exceeded its target for the quality of water travelling through the network to homes and businesses. Its Mean Zonal Compliance remains ahead of target at 99.96 per cent. This is the key measure used by the DWI to determine compliance with the stringent regulatory drinking water standards for England and Wales.

There has been a big fall in the number of contacts received from customers about the appearance, taste and odour of their water this year. Performance is the best ever, with a total of just 1.23 contacts per thousand customers thanks to a continued focus on supporting customers through social media and reacting to every cluster of two or more complaints in order to solve any issues quickly.

A significant focus of effort to protect water quality is the continuing programme of work to reduce the amount of metaldehyde entering rivers and reservoirs. Slug it Out trials have continued with farmers surrounding some of the key reservoirs, to reduce the amount of metaldehyde from slug pellets entering the water. At the same time, Anglian Water are funding research into the length of time metaldehyde persists in the environment and any on-going effects on water quality.

Pesticides other than metaldehyde can also find their way into surface and groundwater. Accidental spills of these chemicals when filling farm equipment are believed to be the source of up to 70 per cent of such pollutions. To address this, Anglian Water have been providing farmers with tough, portable drip trays, which allow any spilled chemicals to be easily returned to their container.

Other initiatives this year have included: supporting farmers in trialling different ways to reduce the loss of pesticides and nitrates from their land; working with agricultural students to teach them about water quality and how to protect it; running pesticide amnesties, where Anglian Water anonymously collect and safely dispose of unused or no longer licenced chemicals; and sharing data and models of high risk land with agriculture, outdoor meat producers and others.

Water Recycling

The number of Category 3 (low impact) pollution incidents was very close to last year at 219, meaning that Anglian Water remains ahead of target and far below the 390 such incidents in 2014. The priorities remain the same: a continued focus on predictive analytics, to use information on past pollutions to predict where we may have problems in the future, and on proactive mitigation.

The number of Category 2 (medium impact) incidents dropped slightly to eight, although there was one Category 1 (high impact) incident during the year. Against a continuing backdrop of major penalties following prosecutions brought by the Environment Agency, Anglian Water has recorded its fourth successive year without any prosecutions. However, it remains highly vigilant, and work tirelessly to guard against complacency in all quarters, as they target the goal of no pollutions.

Environment

Protecting the quality of bathing waters is of huge importance, both to the environment and to the coastal economy. Anglian Water's Coastal Water Protection team works with councils, the Environment Agency, local businesses and residents' groups to identify and address sources of pollution.

The Environment Agency classifies bathing waters against four standards: Excellent (required for Blue Flag awards), Good, Sufficient and Poor. Results are based on a four-year average to make the data more representative. This year, 31 of the Anglian region's bathing waters were rated excellent, 12 good, five sufficient and one poor. Clacton Groyne 41 remains the only bathing water in the region to be classed as poor and has a long-running issue with water quality. Recent investigations show the source of bacterial pollution may be a combination of private sewerage systems and roosting birds.

Anglian Water is working with the Environment Agency and the local authority to reduce all potential pollution risks. In the majority of cases, declining results have not been as a result of Anglian Water's assets, so the focus is working closely with others to tackle third-party pollution. Nevertheless, the company continues to invest where they have seen potential impact from its network.

Water Resources

Upstream groundwater and surface water resources ended the reporting period in a healthy situation, with above average rainfall between October 2017 and March 2018. At a regional level, rainfall in the six months to the end of March 2018 was 107 per cent of the long-term average. Overall, reservoir storage level are currently 96 per cent. Groundwater levels in March 2018 are generally normal to above normal across the region although there are still some areas of the East Suffolk Chalk and Sandstones remaining slightly below target.

Throughout this year Anglian Water has been preparing its draft Water Resource Management Plan (WRMP), which outlines how it will maintain a sustainable balance between water supplies and demand over the next 25 years. It sets out an ambitious, cost beneficial demand management strategy to ensure the reliability, sustainability and affordability of water resources over the long-term. The draft plan was put out for consultation between March and June.

6.0 *Financing*

Gross debt increased by £58.9 million during the period, primarily driven by a £250.0 million 1.625 per cent 2025 Class A sterling Green Bond, the first issued by the utility industry, and repayment of the £150.0 million 5.5 per cent and £25.5 million 4.2 per cent October 2017 bonds along with repaying a £55.0 million facility drawing.

There have been no changes to credit ratings in the period, which are as follows:

Fitch Ratings:	A, BBB+
Standard and Poor's:	A-; BBB
Moody's:	A3; Baa3; Corporate Family Rating Baa1

Anglian Water continues to focus on the efficient management of cash resources and during the period increased its Operating and Maintenance Reserve Liquidity Facility by £15.0 million to £111.0 million (31 March 2017: £96.0 million). This is in addition to the existing Debt Service Reserve Liquidity Facility of £279.0 million (31 March 2017: £279.0 million) and committed revolving credit facilities of £600.0 million (31 March 2017: £600.0 million).

Three real coupon RPI inflation swaps with final accretion payments were restructured in the period to include 10-year accretion pay downs going forward.

Corporate Restructuring

Anglian Water has become the first UK water company to complete the removal of its Cayman Islands company from its financial structure. The removal of the Caymans company is one of a range of commitments made by the company earlier this year, designed to improve transparency, trust and customer confidence.

Anglian Water has also repaid an intercompany loan to simplify the presentation of its accounts and allow for greater clarity of financial reporting, in particular around actual dividends paid.

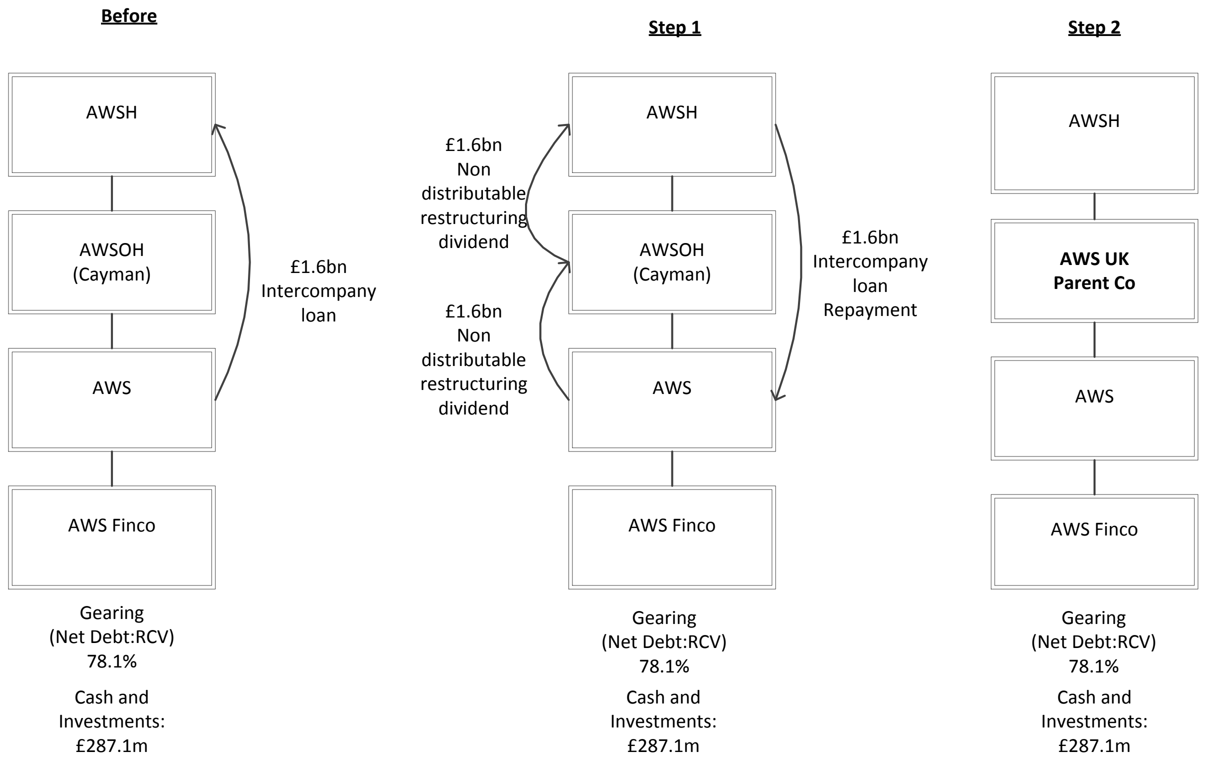
Step 1: repayment of an inter-company loan
History: as part of AWS's securitisation in 2002, two new holding companies were set up, to protect customers and bondholders from unrelated risks associated with other non-regulated AWG group companies. These new holding companies, as shown in the diagram below, were Anglian Water Services Holdings Ltd (AWSH) and Anglian Water Services Overseas Holdings Ltd (AWSOH). At that time, as part of establishing the structure, an inter-company loan was put in place between AWSH and AWS. AWS has paid dividends each year, not available for onward distribution to shareholders, which flowed up to AWSH to enable AWSH to immediately pay interest on the loan back to AWS of an amount equal to the dividend paid up. This purely mechanical "cash round trip" process did not result in any reduction of AWS's cash, but it has complicated the presentation of the AWS accounts.

Action taken: on 29 March 2018, AWS paid a one-off non-distributable restructuring dividend of £1,602.6m which flowed up to AWSH. AWSH used the proceeds to immediately repay the inter-company loan. There was no net cash impact for any of the companies involved as all cash was immediately returned to AWS. In future, the presentation in the accounts of dividends paid will therefore be much more straight forward.

Step 2: removal of the Cayman Islands company
History: The Cayman Islands registered company, AWSOH, has always been UK tax resident, and the group has never sought or gained any tax advantage from the structure or its location. The company was set up in 2002 to facilitate the securitisation. Subsequent changes to UK legislation mean we would not need to set up an overseas company if we were setting up the securitisation structure today.

Action taken: as the two holding company structure has advantages for Anglian Water's lenders and customers, the simplest and most effective way of removing the Cayman Islands company was to replace it with a UK company. This has now been accomplished by the insertion of AWS UK Parent Co into the AWS Financing Group, and the transfer of AWSOH out of the group. AWSOH will be liquidated later this financial year.

The structure charts below show the AWS Financing Group before and after the restructuring transactions.


Before
AWSH
AWSOH
(Cayman)
AWS
AWS Finco
£1.6bn
Intercompany
loan
Gearing
(Net Debt:RCV)
78.1%
Cash and
Investments:
£287.1m
Step 1
£1.6bn
Non
distributable
restructuring
dividend
AWSH
AWSOH
(Cayman)
£1.6bn
Non
distributable
restructuring
dividend
AWS
AWS Finco
£1.6bn
Intercompany
loan
Repayment
Gearing
(Net Debt:RCV)
78.1%
Cash and
Investments:
£287.1m
Step 2
AWSH
AWS UK
Parent Co
AWS
AWS Finco
Gearing
(Net Debt:RCV)
78.1%
Cash and
Investments:
£287.1m

7.0 Dividends

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

03 April 2017 £62.2 million	- special dividend to fund the transfer of the non-household business.
31 May 2017 £61.1 million	- in relation to the 2016/17 final dividend.
24 November 2017 £25.0 million	- in relation to the 2017/18 interim dividend.

8.0 Health and Safety

This year saw the launch of a new, three-year health, safety and wellbeing plan, which has been developed in consultation with people from across the business and with outside organisations, including the Health and Safety Executive and Water UK, to make sure it is current and relevant.

Anglian Water has maintained OHSAS 18001 accreditation for its health and safety system since 2009, and were once again awarded a gold medal by the Royal Society for the Prevention of Accidents. This places its health and safety performance among the very best in the industry.

9.0 Significant Board / Management Changes

The Board of Anglian Water Services Ltd comprises:

Dr Stephen Billingham	Chairman		
Peter Simpson	Chief Executive Officer	)	Executive
Chris Newsome, OBE	Director of Asset Management	)	Executive
Jean Spencer	Strategic Growth and Resilience Director	)	Executive
Scott Longhurst	Managing Director Finance & Non-Regulated Business	)	Executive
Natalie Ceeney	Independent Non-Executive Director, appointed 14 May 2018		
Dame Polly Courtice	Independent Non-Executive Director		
Steve Good	Independent Non-Executive Director		
John Hirst	Senior Independent Non-Executive Director		
Paul Whittaker	Independent Non-Executive Director		
James Bryce	Non-Executive Director		
Duncan Symonds	Non-Executive Director		
Niall Mills	Non-Executive Director		

No Directors resigned during the year.

Anglian Water is managed by the AWS Management Board, which, as at 31 March 2018, in addition to the Executive Directors referred to above, included:

Claire Russell	Legal Director
Mark Pendlington	Director of Corporate Affairs
Susannah Clements	Group Director of People, appointed 5 February 2018
Alex Plant	Director of Regulation
Paul Gibbs	Director of Water Recycling Services
Ian Rule	Director - Wholesale Services and Customer Services
Paul Valleley	Director of Water Services
Richard Boucher	Business Change and Strategy Director
Iain Fry	Director of Information Services
Jason Tucker	Director of Alliances & Integrated Supply Chain

Anglian Water will be holding a meeting for investors in London on 07 June 2018.

10.0 Green Bond

Background

On 10 August 2017 Anglian Water received the Settlement of the funds from the £250 million 1.625 per cent Green Bond maturing 10 August 2025, which was issued in accordance with the ICMA Green Bond Principles, 2017 (“GBP”). Anglian Water undertakes all capital expenditure projects through its Governance framework which is subject to PAS2080 accreditation, a standard launched by the Green Construction Board to encourage a consistent approach to the management of carbon by all involved in infrastructure and setting out principles and components to manage whole life carbon emissions and deliver reduced carbon over the whole value chain. As a consequence, all of the expenditure undertaken falls within the eligible project category, outlined in the GBP, being related to: “sustainable water and wastewater management including sustainable infrastructure for clean and/or drinking water, wastewater treatment sustainable urban drainage systems and river training and other forms of flooding mitigation”.

The net proceeds received were £247.8 million. Funds will be transferred out of the Capex bank account as expenditure is undertaken. Anglian Water will maintain a buffer of additional Green Bond projects over the Green Bond proceeds with additional collateralisation of circa 30 per cent.

Portfolio

Cumulative Eligible Green Projects in the Eligible Green Portfolio as at 31 March 2018 are summarised in the following table:

Eligible Green Projects	Sustainable Water Management	Sustainable Water Recycling	Total
	£m	£m	£m
Capital Maintenance	33.7	50.9	84.6
Enhanced Service Level: and additional standby generation	21.4	8.0	29.4
Growth (Supply Demand)	23.5	27.1	50.5
Quality	20.8	91.2	112.0
Total Portfolio Spend	**99.4**	**177.2**	**276.5**
Spend Buffer			(63.8)
Spend Available for Allocation			**212.7**
Net Proceeds			**247.8**
Proceeds Allocated To Date			**203.0**
Proceeds Unallocated			**44.8**

PR09 Baseline CO2 (eT)	Actual CO2 (eT)	Reduction in CO2 (eT)	Reduction in CO2 (%)
139,895.70	55,180.17	84,715.53	61%

Funds totalling £203 million have been transferred from the Capex Reserve Bank Account in order to fund the expenditure to date on the Portfolio. This leaves £44.8 million to be invested in additional spend as at 31st March 2018.

Green Projects

All Water and Water Recycling expenditure undertaken by Anglian Water falls within the eligible project categories recommended in the Green Bond Principles 2017. However, for reporting and monitoring purposes in accordance with the Anglian Water Green Bond Framework, certain projects are selected into a "Green Bond Portfolio". 84,716 tonnes of carbon, a 61 per cent reduction from the 2010 baseline, will be saved across the projects allocated to the Green Bond Portfolio. £203.0 million of the funds received from the first green bond have been allocated against a total project spend of £276 million, the difference being the spend buffer. Examples of some of the projects are given below:

Ipswich Discolouration: (Total project spend of £5.5 million)

Anglian Water is spending £5.5 million on addressing discolouration in the water in the highly populated area of Belstead in Ipswich. This discolouration is caused by levels of manganese and iron caused by the old pipes. To overcome this, 15km of the network has been tackled over the last year with a completion date of May 2018. The project delivered an outstanding 75 per cent carbon reduction versus the 2010 baseline, which is above Anglian Water's 2020 vision of a 60 per cent reduction. 95 per cent of the material extracted from the ground in the operation was put back into the ground, which drastically reduced the levels of emissions from vehicles, the cost and the level of time to carry out the work. Investing now in this scheme will mean a higher quality of drinking water for the area, reduced disruption in the future and reduced running costs for years to come.

A reduction of carbon from the original design of c.1,773 eT will be achieved.

Chalton Water Recycling Centre: (Total project spend of £12.4 million)

The driver for this scheme was the regulatory need to meet the new ammonia standard of 1mg/l from 5mg/l. This will enhance and protect the Flitwick Moor Wetland which is of national importance. Thanks to early planning and collaboration by all stakeholders, 50 per cent less time was spent on site and the scheme was delivered approximately £8.0 million below plan. Key highlights were the use of 'Rocky' the sniffer dog who aided the trapping and relocation of a population of Great Crested Newts which were identified within the development footprint. There was a focus on re-using existing assets on site as much as possible which reduced the need to build new, saving not only on cost but also carbon. This project has delivered a number of firsts and developed innovative approaches and methodologies that we will use going forward to deliver out performance on future projects.

A reduction of carbon from the original design of c.609 eT will be achieved.

Ingoldisthorpe: (Total project spend of £3.2 million)

In partnership with the Norfolk Trust, Anglian Water is building a wetland alongside an existing Water Recycling Centre (WRC) in Ingoldisthorpe, Norfolk. The aim of the plan is to provide an outline for improvement of the ecological status of the River Ingol, guided by the Water Framework Directive (WFD).

Anglian Water's Water Recycling Centre removes the majority of substances that could affect the ecological status in line with environmental permits. The wetland will filter it further. Treated water will pass through the wetland before it's returned to the River Ingol, which is a chalk stream. Wetlands are able to remove nitrogen and phosphorus through a combination of physical, chemical, and biological processes. These naturally occurring processes adsorb/absorb, transform, and remove the nutrients and other chemicals as water slowly flows through the wetland. The wetland will also attract breeding birds, amphibians, bats and water voles.

Norfolk Rivers Trust will construct, maintain and operate the wetland, which will be made up of four shallow interconnected ponds, planted with native chalk wetland species. The plants will naturally remove ammonia and phosphate from the water before it goes back into the river. In conjunction with wider improvements being made to plant and equipment at the WRC, this example of green infrastructure has yielded an 89 per cent reduction in embodied carbon versus the 2010 Plan baseline – significantly above the 60 per cent target by 2020.

A reduction of carbon from the original design of c.1,472 eT will be achieved.

Ratios

1.0 Historical

Anglian Water confirms that in respect of the year ended 31 March 2018, by reference to the most recent financial statements that it is obliged to deliver to you in accordance with Paragraph 1 (Financial Statements) of Part 1 (Information Covenants) of Schedule 5 (Covenants) of the CTA:

		31 Mar 2018	31 Mar 2017
a)	The Class A RAR	**67.9%**	**65.9%**
b)	The Senior RAR for each Test Period	**78.1%**	**79.0%**
c)	The Class A ICR	**3.6:1**	**3.1:1**
d)	The Class A PMICR for each Test Period	**n/a**	**n/a**
e)	The Senior PMICR for each Test Period	**n/a**	**n/a**
f)	The ratio of Net Cash Flow minus Capital Maintenance Expenditure to Class A Debt Interest	**2.2:1**	**2.0:1**
g)	The Conformed Class A PMICR for each Test Period	**1.8:1**	**1.6:1**
h)	The Conformed Senior PMICR for each Test Period	**1.5:1**	**1.4:1**

2.0 Forward Looking

Anglian Water confirms that each of the above Ratios and the Conformed Class A Average PMICR and the Conformed Senior Average PMICR have been calculated in respect of each of the Test Periods for which they are required under the Common Terms Agreement (i.e. 31 March 2018 to 31 March 2020) and that none of those ratios have breached the Trigger Event Ratio Levels or caused Paragraph 20 (Ratios) of Schedule 7 (Events of Default) of the Common Terms Agreement to be breached. Forward looking calculations in respect of the periods to 31 March 2020 are based on Anglian Water's current Business Plan.

3.0 Computations

Set out in sections 4.0 and 5.0 are the details necessary to make the computations.

Anglian Water also confirms that:

(a) no Default or Potential Trigger Event is outstanding; and

(b) Anglian Water Services Limited insurances are being maintained in accordance with:

   (i) Schedule 16 (Insurances) of the Common Terms Agreement; and

   (ii) the provisions of the Finance Leases.

4.0 Interest *Cover Ratios (ICR)*

Interest Cover Ratios	**Trigger/Default**	**Actual Period to 31 Mar 18 £m**	Actual Period to 31 Mar 17 £m
Income		**1,187.0**	1,180.7
Operating Expenditure		**(572.5)**	(576.1)
Pre-capital maintenance cashflows		**614.5**	604.6
Capital Maintenance Expenditure		**(235.7)**	(207.1)
Depreciation		***(304.9)***	*(287.8)*
Post-Maintenance cashflow for PMICR		***309.6***	*316.8*
Post-Maintenance cashflow for Net Cash Flow ratio		**378.8**	397.5
Net Interest		**(211.8)**	(229.1)
Enhancement Capital Expenditure		**(162.3)**	(100.1)
NHH Disposal Proceeds		**78.9**	
Ordinary Dividends		**(86.1)**	(128.0)
Special Dividends		**(62.2)**	
Pre-financing cashflows		**(64.7)**	(59.7)
Interest Payable on Class A Debt:			
Finance Leases		**(0.8)**	(1.3)
Class A Bonds		**(170.8)**	(192.7)
MBIA Wrap Fees		**(2.5)**	(2.4)
Less Interest Receivable		**1.5**	2.4
Total net Class A debt interest		**(172.6)**	(194.0)
Interest Payable on Class B Debt			
Class B Bonds		**(39.2)**	(35.1)
Total Net Interest payable on Senior Debt		**(211.8)**	(229.1)
Interest Cover Ratios:			
Class A ICR	1.6:1	**3.6:1**	3.1:1
Senior PMICR	1.1:1	**n/a**	n/a
Class A PMICR	1.3:1	**n/a**	n/a
Conformed Senior PMICR	1.1:1	**1.5:1**	1.4:1
Conformed Class A PMICR	1.3:1	**1.8:1**	1.6:1
Ratio of Net Cash Flow minus Capital Maintenance Expenditure to Class A Debt Interest	1.0:1	**2.2:1**	2.0:1

5.0 Regulatory Asset Ratios (RAR)

Regulatory Asset ratios	Trigger/Default	As at 31 Mar 18 £m	As at 31 Mar 17 £m
Class A Gross Debt:			
Finance Leases		**(27.6)**	(33.3)
Class A Bonds etc		**(5,498.9)**	(5,258.8)
Total Class A Gross Debt		**(5,526.5)**	(5,292.1)
Less cash balances and Authorised Investments		**286.7**	429.4
Total Class A Net Debt		**(5,239.8)**	(4,862.7)
Finance Leases		**(0.4)**	(0.4)
Class B		**(791.0)**	(966.5)
Total Senior Net Debt		**(6,031.2)**	(5,829.6)
Regulatory Asset Value (RAV)		**7,722.2**	7,376.0
Regulatory Asset ratios:			
Senior RAR	85.0%	**78.1%**	79.0%
Class A RAR	75.0%	**67.9%**	65.9%

The Regulatory Asset Value is based on Ofwat's published numbers in April 2017 and April 2018.

6.0 Regulatory Performance

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

7.0 Anglian Water Services Group – Movements in Debt Balances

	Opening Balance 31 Mar 2017 £m	New Issues £m	Repayment £m	Indexation £m	**Closing Balance 31 Mar 2018 £m**
Finance Leases	33.6		(5.7)		**27.9**
US Private Placements	0.0				**0.0**
Transferring Bonds:					
4.125% ILLS 2020	238.6			8.9	**247.5**
6.875% Fixed 2023	200.0				**200.0**
6.625% Fixed 2029	200.0				**200.0**
A4 Notes - 5.837% Fixed 2022	250.0				**250.0**
A6 Notes - 3.07% ILLS 2032	303.3			11.3	**314.6**
A7 Notes - 3.07% ILLS 2032	91.4			3.4	**94.8**
A8 Notes - 6.293% Fixed 2030	246.0				**246.0**
A11 Notes - 3.666% ILLS 2024	113.7			4.2	**117.98**
B17 Notes - 5.5% Fixed 2017/2040	150.0		(150.0)		**0.0**
A18 Notes - 2.4% ILLS 2035	563.9			21.8	**585.6**
A19 Notes - 1.7% ILLS 2046	68.0			2.5	**70.5**
A20 Notes - 1.7% ILLS 2046	68.1			2.3	**70.4**
A21 Notes - 1.7146% ILLS 2056	54.5			2.1	**56.6**
A22 Notes - 1.6777% ILLS 2056	68.1			2.6	**70.6**
A23 Notes - 1.7903% ILLS 2049	81.7			3.1	**84.8**
A24 Notes - 1.3825% ILLS 2056	68.1			2.3	**70.4**
A25 Notes - 1.3784% ILLS 2057	136.3			4.6	**140.9**
A26 Notes - LIBOR Plus 0.34%	100.0				**100.0**
A27 Notes - 1.449% ILLS 2062	97.3			2.5	**99.8**
A28 Notes - 1.52% ILLS 2055	64.9			1.7	**66.6**
A29 Notes - JPY 15bn 2.925% 2018/2037	65.9				**65.9**
A30 Notes - LIBOR Plus 0.85%	110.0				**110.0**
A31 Notes - JPY 5bn 3.22% 2019/2038	25.1				**25.1**
A32 Notes - Euro 500m 6.25% 2016	0.0				**0.0**
A33 Notes - 6.875% Fixed 2034 Private Placement	25.0				**25.0**
B34 £100m Class B 6.75% Bond Fixed to Floating 2024	0.0				**0.0**
European Investment Bank £50m 1.626% Term Facility 2019	62.9			2.4	**65.3**
European Investment Bank £50m 1.3% Term Facility 2020	61.8			2.3	**64.1**
A35 Notes - £130M 2.262% IL Bond 2045	158.2			5.9	**164.1**
Index Linked Swaps	83.0		(74.0)	26.2	**35.1**
Sub Total	**3,789.4**	**0.0**	**(229.7)**	**110.1**	**3,669.8**

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Contd	Opening Balance 31 Mar 2017 £m	New Issues £m	Repayment £m	Indexation £m	**Closing Balance 31 Mar 2018 £m**
A36 Notes - US$160m 4.52% Private Placement 2021	99.1				**99.1**
B37 Notes - US$410m 5.18% Private Placement 2021	260.7				**260.7**
European Investment Bank £75m 0.53% index linked amortising term facility 2027	84.2		(8.6)	3.0	**78.6**
European Investment Bank £75m 0.79% index linked amortising term facility 2027	84.2		(8.6)	3.0	**78.6**
A38 Notes - £250m 4.5% 2027	250.0				**250.0**
A39 Notes - £31.9m 4.0% Private Placement 2022	31.9				**31.9**
A40 Notes - £73.3m 4.4% Private Placement 2028	73.3				**73.3**
A41 Notes - £50m 2.05% IL Private Placement 2033	53.5			2.1	**55.5**
A42 Notes - £15m 1.37% IL Private Placement 2022	17.6			0.6	**18.2**
B43 Notes - US$47m 5% Private Placement 2022	30.8				**30.8**
B44 Notes - £25.5m 4.2% Private Placement 2017	25.5		(25.5)		**(0.0)**
A45 Notes - £22.3m 4.0% Private Placement 2022	22.3				**22.3**
European Investment Bank £150m 0% index linked amortising term facility 2028	163.5			6.1	**169.6**
B46 Notes - £200m Class B 4.5% 2026	200.0				**200.0**
A47 Notes - £35m 1.141% IL Bond 2042	37.9			1.4	**39.3**
A48 Notes - US$170m 3.84% Private Placement 2023	110.5				**110.5**
A49 Notes - £93m 3.537% Private Placement 2023	93.0				**93.0**
B50 Notes - US$160m 4.99% Private Placement 2023	100.3				**100.3**
European Investment Bank £65m 0.41% index linked amortising term facility 2029	68.8			2.7	**71.5**
European Investment Bank £125m 0.1% index linked amortising term facility 2029	130.7			5.0	**135.8**
European Investment Bank £60m 0.01% index linked amortising term facility 2030	62.5			2.4	**64.9**
£500m RCF 2020	55.0		(55.0)		**0.0**
A51 Notes - £55m 2.93% Private Placement 2026	55.0				**55.0**
A52 Notes - $150m 3.29% Private Placement 2026	104.3				**104.3**
A53 Notes - £35m 1.35% Private Placement 2031	35.0				**35.0**
A54 Notes - £20m 2.93% Private placement 2026	20.0				**20.0**
B55 Notes - £200m 2.625% Class B 2027	200.0				**200.0**
A56 Notes - £250m 1.625% Green Bond 2025	0.0	250.0			**250.0**
	6,258.9	**250.0**	**(327.5)**	**136.5**	**6,318.0**

[1] Before accounting adjustments which are not within the CTA definition of Net Debt.

8.0 *Anglian Water Services Group – Profit & Loss Account*

For the year ended 31 March 2018

	Underlying results £m	Other items[1] £m	Total Year ended 31 March 2018 £m	Total Year ended 31 March 2017 £m
Revenue	1,248.9	-	1,248.9	1,227.0
Other operating income	16.1	-	16.1	14.8
Operating costs	(581.0)	-	(581.0)	(565.3)
Depreciation	(335.5)	-	(335.5)	(311.2)
Operating profit	348.5	-	348.5	365.3
Finance income	1.6	191.8	193.4	194.3
Finance costs	(344.1)	-	(344.1)	(283.2)
Fair value gains/(losses) on derivative financial instruments	-	117.6	117.6	(116.0)
Net finance costs	(342.5)	309.4	(33.1)	(204.9)
Profit on disposal of business	-	4.6	4.6	-
Profit before taxation	6.0	314.0	320.0	160.4
Taxation			(27.7)	37.9
Profit after taxation			292.3	198.3
Dividend to AWG Group Ltd			(86.1)	(128.0)
Dividends paid not available for distribution to investors in the ultimate parent company[2]			(1,856.6)	(192.3)
Transfer from reserves			(1,650.9)	(122.0)

[1] Other items comprise fair value gains on derivative financial instruments and energy hedges of £117.6 million (2017: losses of £116.0 million) and intra-company interest income of £191.8 million (2017: £192.3 million).

[2] Dividends described as not available for distribution to investors in ultimate parent company primarily refer to dividends used to enable a group restructuring to simplify and enhance the transparency of the corporate structure, or intra-company interest thereon, and the special dividend paid to fund the transfer of the non-household business.

9.0 Anglian Water Services Group – Balance Sheet

Balance Sheet as at 31 March 2018		£m	£m	£m
Intangible assets				168.3
Property, plant and equipment				9,652.0
Derivative financial instruments classified as current and non-current assets				138.1
Retirement benefit surpluses				56.3
Net current liabilities excluding cash and debt repayable in less than one year[1]				(308.9)
Derivative financial instruments classified as current and non-current Liabilities				(879.0)
Retirement benefit obligations				(47.2)
Creditors amounts falling due after more than one year excluding debt[1]				(1,397.6)
Cash and cash equivalents	Payments Account	200.5		
	Capex Reserve	44.9		
	Tax Reserve	40.0		
	Debt Service	1.7	287.1	
Financing liabilities	Bonds (excluding accrued interest)	(6,290.0)		
	Finance leases	(27.8)		
	Other[2]	(133.9)	(6,451.7)	
	Net Debt (excluding derivatives)			(6,164.6)
Net assets				**1,217.4**
Capital and reserves	Share capital			10.0
	Reserves b/f			2,778.5
	Actuarial gain on pension schemes			64.1
	Transfer to reserves for the period			(1,650.4)
	Loss on cash flow hedges			15.2
Capital and reserves				**1,217.4**

[1] Derivative financial instruments are included on the basis of their maturity profile.
[2] Accounting adjustments that are not within the CTA definition of net debt (capitalised debt issue costs, accrued interest and IAS 39 adjustments).

10.0 Anglian Water Services Group – Calculation of Annual Finance Charge

Instrument	Actual Interest Paid to 31 Mar 18 £m	Forecast Interest Payable to 31 Mar 19 £m
<u>Class A Debt</u>		
AAA Wrapped Bonds	28.1	28.7
A- Bonds	128.2	130.8
US Private Placements	16.2	24.6
Other	2.5	2.5
<u>Class B Debt</u>		
BBB Bonds	17.5	19.6
US Private Placements	21.7	16.7
Annual Finance Charge	**214.2**	**223.0**

The Annual Finance Charge represents cash interest payable by Anglian Water Services Financing Plc for each of the periods set out above.

11.0 Anglian Water Services Group – Derivatives Mark to Market Valuation

Derivative Counterparties Mark to Market (MTM) Valuations as at 31/03/18

External Swap Counterparties	**Nominal Amount £m**	**MTM Positive Values £m**	**MTM Negative Values £m**	**MTM Total Values £m[2]**
BNP	568.4	16.2	(75.6)	(59.4)
Morgan Stanley	273.9	72.8	(96.6)	(23.7)
Lloyds Bank	812.4	26.0	(53.8)	(27.8)
JP Morgan	667.4	46.3	(249.8)	(203.4)
HSBC	33.0	2.1	0.0	2.1
Barclays	250.0	0.0	(46.5)	(46.5)
SMBC	125.0	1.9	(28.0)	(26.1)
Bank of Nova Scotia	166.7	0.0	(97.7)	(97.7)
CBA	401.9	41.7	(0.9)	40.8
Santander	943.4	34.2	(57.9)	(23.6)
Investor-held Instruments[4]	0.0	0.0	(265.5)	(265.5)
Anglian Water[1]	4,242.1	241.4	(972.2)	(730.8)

Notes

1. All Interest Rate Swaps are transacted under ISDA agreements between Anglian Water Services

2. Valuations exclude accrued interest to valuation date.

3. RPI swaps with SMBC Nikko (£50m), JP Morgan (£175m), Bank of Nova Scotia (£100m) have terms with periodic paydown of accrued indexation at 5 yearly intervals. The RPI swap with Morgan Stanley (£25m) pays down accrued indexation at 10 yearly intervals.

4. Three real coupon RPI inflation swaps with final accretion payments were restructured in the period to include 10-year accretion pay downs going forward.