Anglian Water Services Financing Plc

Anglian Water Services Limited

Investor Report

For the year ended 31 March 2017

Prepared in accordance with International Financial Reporting Standards (IFRS)

Final 31.05.17

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 2017.

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 2017.

1.0 Financial Performance for the year ended 31 March 2017

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:

	2017 Total £m	2016 Total £m
Revenue	**1,227.0**	1,185.4
Other operating income	**14.8**	13.5
Operating costs	**(565.3)**	(560.6)
Depreciation	**(311.2)**	(297.9)
Operating profit	**365.3**	340.4
Finance income (adjusted)[2]	**2.0**	3.6
Finance costs[1]	**(283.2)**	(254.9)
Underlying profit before tax	**84.1**	89.1

[1]In order to show performance on an underlying basis, the fair value gains and losses on energy hedges and financial derivatives have been excluded from the table.
[2] In order to show the position of the Anglian Water Services Financing (AWSF) group, finance income is shown excluding internal interest receivable by the group from Anglian Water Services Holdings Ltd of £192.3 million (2016:£192.8 million).

The table below sets out the reconciliation between the statutory income statement and the underlying financial performance as shown on the previous page.

Reconciliation to statutory accounts

	2017 Total £m	2016 Total £m
Profit before tax on an underlying basis	**84.1**	89.1
Finance costs – Fair value losses on financial and energy derivatives	**(116.0)**	(89.7)
Finance income - Intragroup interest receivable	**192.3**	192.8
Profit before tax as reported in the statutory income statement	**160.4**	192.2

Revenue

Revenue for the year was £1,227.0 million, an increase of £41.6 million (3.5 per cent) on last year. This primarily reflects the regulatory increase in customer bills which came into effect on 1 April 2016 together with an increase in the customer base, partially offset by reduced average 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

Despite increasing inflationary pressures on costs, operating costs for the year increased by just £4.7 million (0.8%) to £565.3 million. This modest increase is explained in the table below.

Increases/(decreases) in operating costs	**£m**
One-off credits in 2015/16 not repeating – principally land sales and rate rebates	3.8
General inflationary increases	12.8
One-off market reform costs	4.6
Operating costs of newly commissioned plant	3.0
Private sewers – adoption of private pumping stations	2.3
Power – predominantly price increases	1.8
Insurance – reduced level of claims due primarily to fewer extreme weather events	(5.1)
Annual fluctuation in minor repair activities to maintain water and waste water below ground infrastructure (1)	(3.3)
Reduction in bad debt charge	(1.9)
Efficiency savings achieved	(13.3)
Net increase in operating costs	**4.7**

[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.

The bad debt charge for the year was £30.0 million, a reduction of 6.0 per cent compared with last year's charge of £31.9 million. This reflects the strong cash collection performance in the year. Expressed as a proportion of total revenue the bad debt charge has been reduced from 2.7% in the prior year to 2.4%.

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

Depreciation

Depreciation is up 4.4 per cent compared with last year, consistent with the impact of newly commissioned assets in the year.

Operating profit

Operating profit has increased by 7.3 per cent to £365.3 million, which is consistent with the effect of the regulatory price increase, partially offset by the increases in operating costs and depreciation.

Finance costs

Net finance costs – excluding the intra-group interest receivable of £192.3 million (2016: £192.8 million) and before fair value gains and losses on derivative financial instruments – increased from £251.3 million in 2016 to £281.2 million in 2017. 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 1.6% to 3.1%.

There was a non-cash fair value loss of £116.0 million on derivative financial instruments in 2017, compared with a loss of £89.7 million in 2016, due to movements in market expectations of long-term interest, inflation and exchange rates. This fair value loss has no commercial or economic impact on the Group's operations or customers. The driving factors for the higher loss in 2017 compared to 2016 was an increase in forward inflation expectations together with a fall in forward interest rates. During the year, forward inflation rates increased by circa 38 basis points (2016: 4 basis point decrease) and forward interest rates fell by 23 basis points (2016: 28 basis point decrease).

Underlying profit before tax

Profit before tax for the year on an underlying basis (i.e. excluding fair value losses/gains on derivative financial instruments and the intra-group interest receivable) was £84.1 million, compared with £89.1 million in the prior year.

This reduction reflects the increase in operating profit, more than offset by the increase in finance costs (excluding fair value losses/gains on derivatives) due principally to higher RPI.

Taxation

	2017 £m	2016 £m
Current tax charge	**101.5**	12.8
Deferred tax credit	**(139.4)**	(151.6)
Total tax credit	**(37.9)**	(138.8)

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 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 2017, other than corporation tax, amounted to £210 million (2016: £203 million), of which £57 million was collected on behalf of the authorities for value added tax (VAT) and employee payroll taxes. Further details are provided in the section on fair profits.

Current tax

The current tax charge for the year was £101.5 million (2016: £12.8 million). The increase was mainly caused by disclaiming capital allowances in both the current and prior year in order to utilise the surplus Advance Corporation Tax asset held on the balance sheet.

Deferred tax

The deferred tax credit has reduced from £151.6 million to £139.4 million. The prior year included the impact of the reduction in future tax rates used to calculate deferred tax from 20 per cent to 18 per cent, which gave rise to a credit of £122.9 million. The current year includes the impact of the Government decision to amend the 18 per cent to 17 per cent and this gives a credit in the current year of £54.3 million. Without the effect of these tax rate changes the deferred tax credit has increased from £28.7 million to £85.1 million. The main reasons for this increase were the deferred tax effect of the capital allowance disclaimers made in the current and prior period in order to utilise surplus Advance Corporation tax as well as an increase in the fair value losses on financial derivatives.

Net debt and cash flow

In the year to 31 March 2017, Anglian Water sourced £414 million funds in term debt and made long term debt repayments of £399.1 million. The new funds received during the year comprised four tranches ($150.0 million fixed rate, £55.0 million fixed rate, £20.0 million fixed rate and £35.0 million floating rate) of US Private Placement funding and a £200m fixed rate Class B sterling public issuance at 2.625%. The US Private Placement debt was raised in the prior year with a delayed drawdown date of 27 April 2016, which means funds were not received until the current year end and, therefore, the proceeds did not appear on the 31 March 2016 balance sheet. Debt repayments comprised: a £5.1 million finance lease repayment and the repayment of the €500 million 6.25 per cent Class A bond maturing in June 2016.

At 31 March 2017, Anglian Water had net borrowings of £6,811.9 million (£6,045.1 million excluding derivatives), an increase of £272.7 million (£211.5 million excluding derivatives) over the prior year. Net borrowings comprised a mixture of fixed, index-linked and variable-rate debt of £6,474.9 million, derivative financial instruments of £766.8 million (excluding energy derivatives of £24.9 million), and cash and deposits of £429.8 million. The increased net borrowings reflect an increase of £222.3 million in loans and associated costs, primarily relating to new debt raised and the impact of inflation on index-linked debt, partially offset by debt repaid; an increase in the derivatives valuation of £61.2 million; and an increase of £10.8 million in cash and deposits (which causes net debt to decrease).
The business generated a net cash inflow from operating activities of £632.0 million in the year ended 31 March 2017 (2016: £644.4 million). The reduction primarily reflects the normal fluctuations in revenue working capital, where there is a delayed cash flow impact resulting from tariff increases and decreases. A significant proportion of the tariff increase in 2016/17 is not realised in cash terms until 2017/18, and part of the tariff reduction in 2015/16 was felt in 2016/17.

Market Reform
On 1 April 2017 the operations and net assets of the non-household retail business were transferred to Anglian Water Business (National) Limited under a Statutory Transfer Scheme. This transfer will be reflected in the annual report for the year ending 31 March 2018. The assets and liabilities relating to the disposal group are disclosed in the balance sheet.

2.0 Regulatory Update

In-period ODI final determination

In December Ofwat published its final determination of Anglian Water's application to recover the 2015-16 leakage ODI reward of £0.5m through 2017-18 bills. Its claim was allowed in full in accordance with the mechanical operation of the ODI. Media reaction was negligible.

Company Monitoring Framework

In November Ofwat published its 2016 assessments under the Company Monitoring Framework, which measures the reliability of companies' data and the quality of their performance reports. Anglian Water retained its assessment in the middle 'Targeted' band. Three companies (Severn Trent, United Utilities and South East) achieved the top 'Self assured' ranking while two (Yorkshire and Southern) joined Dee Valley and Bristol in the bottom 'Prescribed' band.

Outcomes Consultation

In January Ofwat published a consultation on the use of outcome delivery incentives (ODIs) at PR19. Key proposals for consideration included the following:

- **Making performance commitments more stretching** - ten common performance commitments to allow customers and local stakeholders to challenge companies' proposed performance commitments
- **Strengthening outcome delivery incentives** - a greater proportion of potential investor return by increasing the potential range of ODI penalties and rewards
- **Better reflecting resilience in outcomes** –a number of proposal for better reflecting resilience within the outcome framework, including proposals for some standardisation or full standardisation of companies' approaches to asset health
- **Making performance commitments more transparent to customers** –a number of proposals that aim to make performance commitments easier for customers and other stakeholders to understand.

Allocation of RCV to water resources and sludge

Ofwat's Water 2020 proposals require an explicit allocation of RCV at 31 March 2020 to enable the separate water resources and sludge price controls. For water resources the allocated RCV will be proportional to the net Mean Equivalent Asset Value (nMEAV) of the whole water service asset base (an unfocussed basis) whereas for sludge the RCV will be equivalent to the nMEAV of the sludge assets (a focussed basis).

In January Ofwat confirmed that companies will be invited to propose their own allocation whereas in the past Ofwat has directed the approach to be used. Companies will not be required to undertake a full revaluation of their water assets but valuation of sludge assets is required. For both areas Ofwat will issue guidance. For water resources, companies will be required to submit their RCV allocation proposals in January 2018, whereas for sludge proposals will be required in September 2017.

Defra's Strategic Priorities and Objectives for Ofwat

In March the Government published its consultation on its Strategic Priorities and Objectives for Ofwat (SPS). The purpose of the SPS is to place emphasis on the areas that Government wants Ofwat to focus on in fulfilling their duties, setting out the key themes that are to be reflected in the way the industry is regulated.

The SPS focusses on securing long-term resilience for customers now and in the future, and establishes a clear expectation of Ofwat to ensure that the regulatory framework supports this, whilst maintaining affordability for customers. The SPS also looks at the role of markets in the future, and what role Ofwat should play in the establishment of these. The statement confirmed the government's decision not to pursue household competition at this time, highlighting the need to learn from the new non-household market and understanding better the potential impact on vulnerable customers.

Licence modifications

In April Ofwat confirmed the changes to its licence necessary to enable the regulatory changes envisaged at PR19. These included the ability to set separate price controls for water resources and bioresources, switch to CPI or CPIH rather than RPI for the indexation of revenues and require companies to publish information to assist the development of markets in water resources and bioresources. The modifications were developed collaboratively between Ofwat and companies and were largely non-contentious.

Non-household retail market

1st April 2017 marked the launch of the competitive non-household retail market, the world's largest competitive water retail market. Since the switching window opened, a number of businesses have actively engaged in the market. In Anglian Water's region, some customers have switched to former-incumbent retailers, new entrants and retailers with experience from the Scottish market.

Anglian Water has successfully completed its market reform programme, including the separation of its non-household retail arm (Anglian Water Business (National) Ltd.) from its wholesale arm (Anglian Water Services Ltd.). On 1st April 2017, AWS exited the non-household retail market and transferred its non-household customers to AWB(N).

The final versions of the market codes were published by Ofwat in February following extensive refinement across the industry over three years. The live market is governed by "The Panel" and its sub-groups, which oversee changes to the codes, market performance data and the market budget. Anglian Water has been closely engaged in the open water programme in the run-up to market opening, and will continue to engage closely with the Panel and its sub-groups.

Water supply and/ or Sewerage Licensees

The WSSL regime replaces the Water Supply Licence (WSL) regime which was the retail market arrangement for large non-household water users before the opening of the market for all non-household customers. In the new market, retailers operate under a WSSL with retail authorisation. The table below shows the current retailers with licences issues enabling operation in the market. In addition, Greene King Brewing and Retailing Ltd. have a WSSL to self-supply all Greene King plc sites, performing its own retail activities and engaging directly with wholesalers.

NWG Business Limited and Anglian Water Business (National) Limited have announced their intention to operate as a single retailer with the trading name “Wave”. This joint venture is subject to regulatory clearance from the competition authorities.

WSSL holder	Trading name
Advanced Demand Side Management Limited	ADSM
Affinity for Business (Retail) Limited	Affinity for Business
Anglian Water Business (National) Limited	Anglian Water Business
Castle Water Limited	Castle Water
Clear Business Water Limited	Clear Business Water
Cobalt Water Limited	Cobalt Water
Everflow Limited	Everflow
Invicta Water Limited	Water Choice
NWG Business Limited	NWG Business
Peel Water Limited	Peel Water Limited
Pennon Water Services Ltd	Source for Business
Regent Water Limited	Regent Utilities
Scottish Water Business Stream Limited	Business Stream
Severn Trent Select Limited	Water Plus
SSWB Limited	SSWB
Sutton and East Surrey Water Services Limited	SES Business Water
The Water Retail Company	The Water Retail Company
Three Sixty Water Limited	Three Sixty
United Utilities Water Sales Limited	Water Plus
Water 2 Business Limited	Water 2 Business
Waterscan Limited	Waterscan

Competition Act Compliance

Anglian Water continues to review its Competition Act risk register and equivalence procedures accordingly. Following non-household retail market opening, risk is reviewed separately for the wholesale and retail businesses.

3.0 Service Performance Overview

Service Incentive Mechanism

Anglian Water continues to evolve its customer service to keep pace with people's changing needs and rising expectations. Changes over the last year include a new, proactive team to contact customers whose bills rise by more than Anglian Water would expect; a web chat system that lets us serve many more customers through this increasingly popular channel, and improvements to its telephone system that allows customers to speak at a time that best suits them. Anglian Water will further build on these gains with a new, improved training programme to all its field and office-based staff that interact with customers on a regular basis.

This year has seen the lowest number of written complaints for many years, and customers' rating of Anglian Water'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. In what has been a competitive year, Anglian Water finished sixth in Ofwat's qualitative survey. However, its quantitative score has been strong, and is expected 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 more than 100,000 customers. More than 95 per cent said they were satisfied or better with the service they received. Anglian Water also measures its performance through a membership of the Institute of Customer Service. Anglian Water has set itself the target of being in the upper quartile within the utility sector, and this year achieved an average UKCSI score of 75.4 – an improvement on last year.

4.0 Capital Expenditure

AMP6 gross capex expenditure[1] in the appointed business for the year was £381.2 million (£207.1 million on capital maintenance, £174.1 million on capital enhancement), compared to £265.6 million in the first year of AMP6. This level of expenditure is broadly in line with management expectations and reflects a solid performance in the delivery of efficiency, along with some smoothing of delivery programmes to balance peaks and troughs in workload on Anglian Water's supply chain.

Significant projects worked on during the year include the design of a major scheme at the Norwich Water treatment works to protect the water supply and a programme of regulatory obligations to ensure no deterioration in the environment.

Anglian Water also completed construction of a new storage reservoir to provide resilience for Grafham Water treatment works which, once the installation of inline booster pumping stations has been completed in Summer 2017, will make the water supply to more than 600,000 people more secure by allowing the transfer of treated water from the works at Rutland Water to Grafham, should it be needed in a resilience scenario.

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 our ODIs. As part of that Anglian Water will be investing over £800 million to support protection of customer supply.

[1] Based on a IFRS basis but excluding capitalised interest.

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 do. It underpins the public health of the region and is a fundamental expectation of customers. The Drinking Water Inspectorate (DWI) measures performance at Anglian Water's treatment works, where it delivered an excellent performance, with just three coliform failures compared to eight in 2016. The same is true of its storage reservoirs, which store treated water at points around the network and where Anglian Water achieved 99.99% 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. This year Anglian Water carried out its highest ever number of inspections of these assets. Anglian Water is among the highest performing water and sewerage companies in the industry for the DWI measures of Disinfection Control and Reservoir Integrity. In 2016, the DWI audited Anglian Water's water treatment works at Grafham, Great Wratting and Mousehold as part of a wider industry audit of disinfection and UV treatment processes. All three audits were satisfactory and the Inspectorate cited the company's good practice in its Quarterly Chief Inspector's Report.

In addition to maintaining excellence at water treatment works, Anglian Water have once again exceeded its target for the quality of water travelling through the network to homes and businesses. Mean Zonal Compliance (the key measure used by the DWI to determine compliance with the stringent regulatory drinking water standards for England and Wales) reached 99.97% for the second year in a row. This is the highest level Anglian Water have achieved for nine years.

The number of contacts received from customers about the appearance, taste and odour of their water stayed at a record low of 1.38 per thousand people for the second year running. Anglian Water's success is due to a continued focus on supporting customers through social media and reacting to every cluster (two or more complaints) in order to solve any issues quickly.

A significant focus of efforts to protect water quality is Anglian Water's continuing programme of work to reduce the amount of metaldehyde entering rivers and reservoirs. Acknowledging the high cost of installing and running advanced oxidation plants – the technology required to remove metaldehyde from drinking water – Anglian Water's team of catchment advisors have been working with farmers to encourage them to shift to an alternative product which can be removed by conventional treatment.

Water Recycling

After last year's fall in Category 3 (low impact) pollution incidents, performance remains ahead of target. Challenging weather events led to a number of network and pumping station issues that helped to push numbers up from 144 to 217, still far below the 390 Anglian Water saw in 2014. Performance is encouraging and priorities remain the same: a continued focus on predictive analytics, which allow Anglian Water to use information on past pollutions to predict where there may be problems in the future, and on proactive mitigation. The number of Category 2 (medium impact) incidents dropped slightly from nine to eight, although there was one Category 1 (high impact) incident during the year. Against a backdrop of record-breaking penalties following prosecutions brought by the Environment Agency, Anglian Water has recorded its third successive year without any prosecutions. However, Anglian Water remains highly vigilant, and work tirelessly to guard against complacency in all quarters, as it targets 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, and the Anglian Water region is home to some of the cleanest beaches and bathing waters in the UK. 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, 32 of the beaches in the region were rated excellent, 15 good, one sufficient, and one poor. This is a slight fall from last year, when 34 waters were classed as excellent. The figures also include a new bathing water at West Runton in Norfolk.

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.

Water Resources

Upstream groundwater and surface water resources ended the reporting period in a healthy situation, despite below average rainfall between October 2016 and March 2017. At a regional level, rainfall in the six months to the end of March 2017 was 88% of the long-term average. There has been a notable variation in rainfall across the region, with Lincolnshire receiving average rainfall in this period whilst it has been much to the south. River flows have generally been at or close to normal for the time of the year and raw water storage reservoirs ended the reporting period at or above target level for the majority. Groundwater levels in March 2017 were reported as below normal across the Chalk aquifer in Norfolk, Suffolk and Essex. The low winter rainfall resulted in a reduced recharge to the groundwater system in the south of the region and levels will continue to be closely monitored at drought vulnerable sources. Despite the dry winter experienced across much of the region, upstream water resources are predicted to be secure through to the start of the 2017-18 winter recharge period.

The multi sector Water Resources East (WRE) project progresses to plan with a high level of support from leading stakeholders. The WRE project will look to address supply demand challenges and will use robust decision making approaches and multi-criteria assessments to determine the scale of investment in demand management and supply side infrastructure schemes. Preferred investment portfolios to maintain the short and long term supply demand balance will emerge through collaborative workshop sessions planned for May 2017.

The outputs from the national framework and WRE will be used to inform Anglian Water's next Water Resources Management Plan which will be published as a draft for consultation in December 2017. Preliminary outputs from the national, regional and water company specific projects have confirmed the need to commence adaptive planning to identify key trigger points for investment in demand management and supply side infrastructure.

6.0 Financing

Gross debt increased by £145.9 million during the period, primarily driven by a £214.3 million US Private Placement transaction issued in March 2016 that settled in April 2016 to part refinance the June 2016 €500.0 million bond maturity. A drawing on committed revolving credit facilities and surplus cash were used to complete the refinancing. In March 2017 a £200 million Class B Sterling public bond to refinance the £150 million October 2017 bond was issued.

Over the period Fitch Ratings affirmed the ratings on both debt classes and at the same time revised the Outlook to Stable from Negative. In March 2017, Standard and Poor’s revised the Class B outlook to Stable from Negative having changed the outlook in October 2016. There have been no other changes to credit ratings, 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. Bank facilities have been maintained at the 31 March 2016 levels. These are comprised of an operating and maintenance reserve liquidity facility at £96.0 million, a debt service reserve liquidity facility of £279.0 million and committed revolving credit facilities of £600.0 million. The £600 million committed revolving facilities, made up of £500 million syndicated and £100 million bilateral facilities were extended for another year in January 2017; with new maturities of 2022 and 2020 respectively. Of which £55 million was drawn at 31 March 2017.

7.0 Dividends

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

31 May 2016 £100.0 million - in relation to the 2015/16 final dividend.
01 December 2016 £28.0 million - in relation to the 2016/17 interim dividend.

8.0 Significant Board / Management Changes

The Board of Anglian Water Services Ltd comprises:

Dr Stephen Billingham	Chairman		
Peter Simpson	Chief Executive Officer	)	Executive
Chris Newsome	Director of Asset Management	)	Executive
Jean Spencer	Strategic Growth and Resilience Director	)	Executive
Scott Longhurst	Managing Director Finance & Non-Regulated Business	)	Executive
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, appointed 01 November 2016		
Niall Mills	Non-Executive Director		

The following Directors resigned during the year:

Andrew Cox	Non-Executive Director, resigned 14 June 2016
Werner Kerschl	Non-Executive Director, resigned 01 November 2016

Anglian Water is managed by the AWS Management Board, which, as at 31 March 2017, in addition to the Executive Directors referred to above, included:

Claire Russell	Legal Director
Mark Pendlington	Director of Corporate Affairs
Fiona Guthrie	Director of Human Resources
Alex Plant	Director of Regulation
Paul Gibbs	Director of Water Recycling Services
Ian Rule	Director - Wholesale 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 & ISC

Anglian Water will be holding a meeting for investors in London on 07 June 2017.

Ratios

1.0 Historical

Anglian Water confirms that in respect of the year ended 31 March 2017, 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 2017	31 Mar 2016
a)	The Class A RAR	**65.9%**	**71.1%**
b)	The Senior RAR for each Test Period	**79.0%**	**82.2%**
c)	The Class A ICR	**3.1:1**	**3.5:1**
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	**2.0:1**	**2.4:1**
g)	The Conformed Class A PMICR for each Test Period	**1.6:1**	**1.9:1**
h)	The Conformed Senior PMICR for each Test Period	**1.4:1**	**1.6:1**

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 2017 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 17 £m**	Actual Period to 31 Mar 16 £m
Income		**1,180.7**	1,184.7
Operating Expenditure		**(576.1)**	(563.7)
Pre-capital maintenance cashflows		**604.6**	621.0
Capital Maintenance Expenditure		**(207.1)**	(186.8)
Depreciation		***(287.8)***	*(273.5)*
Post-Maintenance cashflow for PMICR		***316.8***	*347.5*
Post-Maintenance cashflow for Net Cash Flow ratio		**397.5**	434.1
Net Interest		**(229.1)**	(211.6)
Enhancement Capital Expenditure		**(100.1)**	(88.6)
Customer Rebates			
Dividends		**(128.0)**	(152.2)
Pre-financing cashflows		**(59.7)**	(18.2)
Interest Payable on Class A Debt:			
Finance Leases		**(1.3)**	(1.4)
Class A Bonds		**(192.7)**	(179.7)
MBIA Wrap Fees		**(2.4)**	(2.4)
Less Interest Receivable		**2.4**	4.0
Total net Class A debt interest		**(194.0)**	(179.5)
Interest Payable on Class B Debt			
Class B Bonds		**(35.1)**	(32.8)
Total Net Interest payable on Senior Debt		**(229.1)**	(212.3)
Interest Cover Ratios:			
Class A ICR	1.6:1	**3.1:1**	3.5:1
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	**1.4:1**	1.6:1
Conformed Class A PMICR	1.3:1	**1.6:1**	1.9:1
Ratio of Net Cash Flow minus Capital Maintenance Expenditure to Class A Debt Interest	1.0:1	**2.0:1**	2.4:1

5.0 Regulatory Asset Ratios (RAR)

Regulatory Asset ratios	**Trigger/Default**	**As at 31 Mar 17 £m**	As at 31 Mar 16 £m
Class A Gross Debt:			
Finance Leases		**(33.3)**	(38.3)
Class A Bonds etc		**(5,258.8)**	(5,308.3)
Total Class A Gross Debt		**(5,292.1)**	(5,346.6)
Less cash balances and Authorised Investments		**429.4**	418.4
Total Class A Net Debt		**(4,862.7)**	(4,928.2)
Finance Leases		**(0.4)**	-
Class B		**(966.5)**	(766.5)
Total Senior Net Debt		**(5,829.6)**	(5,694.7)
Regulatory Asset Value (RAV)		**7,376.0**	6,926.5
Regulatory Asset ratios:			
Senior RAR	85.0%	**79.0%**	82.2%
Class A RAR	75.0%	**65.9%**	71.1%

The Regulatory Asset Value is based on Ofwat’s published numbers in April 2016 and April 2017.

6.0 Regulatory *Performance*

Regulatory Performance Data		As at 31 Mar 17 £m
FD Wholesale Totex		
Allowed Totex for PAYG (water)	12/13 prices	399.2
Allowed Totex for PAYG (wastewater)	12/13 prices	557.2
Total FD Allowed Totex for PAYG	12/13 prices	956.4
FD PAYG %		
PAYG % water	12/13 prices	50.8%
PAYG % wastewater	12/13 prices	50.5%
FD fast money		
Allowed water fast money	12/13 prices	202.9
Allowed sewerage fast money	12/13 prices	281.2
Total fast money	12/13 prices	484.1
Total fast money	Outturn prices	524.2
FD slow money		
Allowed water slow money	12/13 prices	196.3
Allowed sewerage slow money	12/13 prices	276.0
Total slow money	12/13 prices	472.3
Total slow money	Outturn prices	511.4
Total fast + slow money	Outturn prices	1,035.6
FD tax		
Tax in revenue building block	12/13 prices	8.4
Tax in revenue building block	Outturn prices	9.1
Comparison FD wholesale allowances vs actual wholesale spend		
FD fast money (excluding pensions)	Outturn prices	524.2
FD slow money	Outturn prices	511.4
FD fast + slow money (FD totex)	Outturn prices	1,035.6
Actual opex (excluding pensions)	Outturn prices	475.8
Actual capex	Outturn prices	348.3
Actual opex + capex (actual totex)	Outturn prices	824.1
Actual opex minus FD fast money	Outturn prices	(48.4)
Actual capex minus FD slow money	Outturn prices	(163.1)
Actual opex + capex minus FD fast + slow money = totex outperformance	Outturn prices	(211.5)
Reconciliation to post maintenance cashflow		
Opex per post maintenance cashflow	Outturn prices	(576.1)
Pension deficit repair payments per post maintenance cashflow	Outturn prices	(10.2)
Total opex plus pension deficit repair payments	Outturn prices	(586.3)
Made up of:		
Wholesale opex, including pension deficit repair payments and tax	Outturn prices	(506.4)
Other opex (Retail) + non-appointed	Outturn prices	(79.9)
Total opex plus pension deficit repair payments	Outturn prices	(586.3)
Other information		
Pension in outturn prices	Outturn prices	10.2
Project cash opex (for covenant calculation)	Outturn prices	576.1
Projected opex (ie pre working capital adjustments and CTA adjustments)	Outturn prices	555.1
Total cash opex inc pension	Outturn prices	548.7
Total opex (ie pre working capital adjustments and CTA adjustments) inc per	Outturn prices	565.3
Enchancement - wholesale	Outturn prices	173.5
Maintenance - wholesale	Outturn prices	203.1
Retail	Outturn prices	4.0
Non-regulated	Outturn prices	0.6
Total capex	Outturn prices	381.2
Wholesale capex outturn	Outturn prices	380.6
FD depn	12/13 prices	261.5
Outturn depn	Outturn prices	287.8
Calculation of RCV		
Opening RCV per FD	12/13 prices	6,490.8
Additions per FD	12/13 prices	472.2
Less RCF Run-Off per FD	12/13 prices	(261.5)
Closing RCV per FD using average 12/13 prices	12/13 prices	6,701.5
RPI to convert from price basis used by regulator to outturn prices at year er	Num	1.10
Opening RCV	Outturn prices	7,144.0
Additions	Outturn prices	519.7
Less RCF run-off	Outturn prices	(287.8)
Closing RCV	Outturn prices	7,376.0
Totex outperformance to clawback per Rulebook calculations	Outturn prices	(114.4)
Shadow RCV	Outturn prices	7,261.6

7.0 Anglian Water Services Group – Movements in Debt Balances

	Opening Balance 31 Mar 2016 £m	New Issues £m	Repayment £m	Indexation £m	**Closing Balance 31 Mar 2017 £m**
Finance Leases	38.7		(5.0)		**33.6**
US Private Placements	0.0				**0.0**
Transferring Bonds:					
4.125% ILLS 2020	234.7			3.9	**238.6**
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	298.3			5.0	**303.3**
A7 Notes - 3.07% ILLS 2032	89.9			1.5	**91.4**
A8 Notes - 6.293% Fixed 2030	246.0				**246.0**
A11 Notes - 3.666% ILLS 2024	111.9			1.9	**113.73**
B17 Notes - 5.5% Fixed 2017/2040	150.0				**150.0**
A18 Notes - 2.4% ILLS 2035	552.2			11.7	**563.9**
A19 Notes - 1.7% ILLS 2046	66.9			1.1	**68.0**
A20 Notes - 1.7% ILLS 2046	66.9			1.2	**68.1**
A21 Notes - 1.7146% ILLS 2056	53.5			1.0	**54.5**
A22 Notes - 1.6777% ILLS 2056	66.9			1.2	**68.1**
A23 Notes - 1.7903% ILLS 2049	80.3			1.4	**81.7**
A24 Notes - 1.3825% ILLS 2056	66.9			1.2	**68.1**
A25 Notes - 1.3784% ILLS 2057	133.9			2.5	**136.3**
A26 Notes - LIBOR Plus 0.34%	100.0				**100.0**
A27 Notes - 1.449% ILLS 2062	96.1			1.2	**97.3**
A28 Notes - 1.52% ILLS 2055	64.0			0.9	**64.9**
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	394.0		(394.0)		**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	61.2			1.6	**62.9**
European Investment Bank £50m 1.3% Term Facility 2020	60.2			1.6	**61.8**
A35 Notes - £130M 2.262% IL Bond 2045	154.1			4.1	**158.2**
Index Linked Swaps	68.9			14.1	**83.0**
Sub Total	**4,131.5**	**0.0**	**(399.0)**	**57.0**	**3,789.4**

Contd	Opening Balance 31 Mar 2016 £m	New Issues £m	Repayment £m	Indexation £m	**Closing Balance 31 Mar 2017 £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	82.1			2.2	**84.2**
European Investment Bank £75m 0.79% index linked amortising term facility 2027	82.1			2.2	**84.2**
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	53.0			0.4	**53.5**
A42 Notes - £15m 1.37% IL Private Placement 2022	16.2			1.4	**17.6**
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**
A45 Notes - £22.3m 4.0% Private Placement 2022	22.3				**22.3**
European Investment Bank £150m 0% index linked amortising term facility 2028	159.2			4.2	**163.5**
B46 Notes - £200m Class B 4.5% 2026	200.0				**200.0**
A47 Notes - £35m 1.141% IL Bond 2042	36.9			1.0	**37.9**
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	67.0			1.8	**68.8**
European Investment Bank £125m 0.1% index linked amortising term facility 2029	127.3			3.4	**130.7**
European Investment Bank £60m 0.01% index linked amortising term facility 2030	60.8			1.6	**62.5**
£500m RCF 2020		125.0	(70.0)		**55.0**
Bilateral RCF 2018		30.0	(30.0)		**0.0**
$150m 3.29% Private Placement 2026		104.3			**104.3**
£55m 2.93% Private Placement 2026		55.0			**55.0**
£20m 2.93% Private placement 2026		20.0			**20.0**
£35m 1.35% Private Placement 2031		35.0			**35.0**
£200m GBP Class B 2027		200.0			**200.0**
	6,113.6	**569.3**	**(499.0)**	**75.2**	**6,258.9**

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

love every drop anglianwater

8.0 Anglian Water Services Group – Profit & Loss Account

For the year ended 31 March 2017

	Underlying results £m	Other items[1] £m	Total Year ended 31 March 2017 £m	Total Year ended 31 March 2016 £m
Revenue	1,227.0	-	1,227.0	1,185.4
Other operating income	14.8	-	14.8	13.5
Operating costs	(565.3)	-	(565.3)	(560.6)
Depreciation	(311.2)	-	(311.2)	(297.9)
Operating profit	365.3		365.3	340.4
Finance income	2.0	192.3	194.3	196.4
Finance costs	(283.2)	-	(283.2)	(254.9)
Fair value gains on derivative financial instruments	-	(116.0)	(116.0)	(89.7)
Net finance costs	(281.2)	76.3	(204.9)	(148.2)
Profit before taxation	84.1	76.3	160.4	192.2
Taxation			37.9	138.8
Profit after taxation			198.3	331.0
Dividend to AWS Holdings Ltd			(192.3)	(192.8)
Dividend to AWG Group Ltd			(128.0)	(152.2)
Transfer from reserves			(122.0)	(14.0)

[1]Other items comprise fair value losses on derivative financial instruments and energy hedges of £116.0m (2016: £89.7m) and intra-group interest income of £192.3m (2016: £192.8m).

9.0 Anglian Water Services Group – Balance Sheet

Balance Sheet as at 31 March 2017		£m	£m	£m
Intangible assets				139.4
Property, plant and equipment				9,517.7
Investments				1,602.6
Derivative financial instruments classified as current and non-current assets				268.7
Retirement benefit surpluses				4.0
Net current liabilities excluding cash and debt repayable in less than one year[1]				(225.4)
Derivative financial instruments classified as current and non-current Liabilities				(1,060.1)
Retirement benefit obligations				(79.6)
Creditors amounts falling due after more than one year excluding debt[1]				(1,333.7)
Cash and cash equivalents	Payments Account	328.2		
	Tax Reserve	100.0		
	Debt Service	1.6	429.8	
Financing liabilities	Bonds (excluding accrued interest)	(6,225.3)		
	Finance leases	(33.6)		
	Other[2]	(216.0)	(6,474.9)	
	Net Debt (excluding derivatives)			(6,045.1)
Net assets				**2,788.5**
Capital and reserves	Share capital			10.0
	Reserves b/f			3,004.1
	Actuarial gain on pension schemes			(84.1)
	Transfer to reserves for the period			(122.0)
	Gain on cash flow hedges			(19.5)
Capital and reserves				**2,788.5**

[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 17 £m	Forecast Interest Payable to 31 Mar 17 £m
Class A Debt		
AAA Wrapped Bonds	28.3	28.3
A- Bonds	151.0	146.6
US Private Placements	14.6	18.8
Other	2.4	2.4
Class B Debt		
BBB Bonds	17.4	13.4
US Private Placements	17.8	21.7
Annual Finance Charge	**231.5**	**231.3**

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

love every drop anglianwater

11.0 Anglian *Water Services Group – Derivatives Mark to Market Valuation*

Derivative Counterparty Mark to Market (MTM) Valuations as at 31/03/17				
External Swap Counterparty	**Nominal Swap Amount £m**	**MTM Positive Values £m**	**MTM Negative Values £m**	**MTM Total Values £m[2]**
BNP	550.5	39.3	(83.1)	(43.8)
Morgan Stanley	133.0	1.7	(57.9)	(56.2)
Lloyds Bank	812.4	42.7	(57.0)	(14.2)
JP Morgan	175.0	0.0	(171.1)	(171.1)
RBS	529.3	59.1	(496.9)	(437.8)
HSBC	33.0	3.3	0.0	3.3
Barclays	250.0	0.0	(48.8)	(48.8)
SMBC	75.0	4.4	0.0	4.4
SMBC Nikko Capital Markets	50.0	0.0	(31.3)	(31.3)
Bank of Nova Scotia	100.0	0.0	(62.5)	(62.5)
CBA	401.9	101.2	(0.1)	101.2
Santander	943.4	56.7	(67.9)	(11.2)
Anglian Water[1]	4,053.5	308.4	(1,076.5)	(768.1)

Notes

1. All Interest Rate Swaps are transacted under ISDA agreements between Anglian Water Services Financing Plc and External Swap Counterparty.
2. Valuations are clean and 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.

love every drop anglianwater