THE QUEEN'S AWARDS
FOR ENTERPRISE:
SUSTAINABLE DEVELOPMENT
2015

Anglian Water Services Financing Plc

Anglian Water Services Limited

Investor Report

For the year ended 31 March 2016

Prepared in accordance with International Financial Reporting Standards (IFRS)

Final 26.5.16

love every drop
anglianwater

Investor Report

Contents

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 2016.

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 2016.

1.0 Financial Performance for the year ended 31 March 2016

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:

	2016 Total £m	2015 Total £m
Revenue	**1,185.4**	1,244.3
Other operating income	**13.5**	12.9
Operating costs[1]	**(560.6)**	(523.9)
Depreciation and amortisation	**(297.9)**	(280.7)
Underlying operating profit	**340.4**	452.6
Finance income (adjusted)[2]	**3.6**	4.2
Finance costs[1]	**(254.9)**	(274.8)
Underlying profit before tax	**89.1**	182.0

[1] In order to show pre-tax 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 (which comprises Anglian Water Services Holdings Ltd, Anglian Water Overseas Holdings Ltd, Anglian Water Services Ltd and Anglian Water Services Financing Plc.), finance income is shown excluding internal interest receivable by the group from Anglian Water Services Holdings Ltd of £192.8 million (2015: £192.3 million).

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

Reconciliation to statutory accounts

	2016 Total £m	2015 Total £m
Underlying profit before tax	**89.1**	182.0
Operating costs – fair value losses on energy hedges	**(4.8)**	(0.8)
Finance costs – fair value losses on financial derivatives	**(84.9)**	(212.8)
Finance income – intra-group interest receivable	**192.8**	192.3
Profit before tax as reported in the statutory income statement	**192.2**	160.7

Revenue

Revenue for the year was £1,185.4 million, down £58.9 million (4.7 per cent) on last year. This primarily reflects the reduction in customer bills which came into effect on 1 April 2015 in line with the regulatory price setting review, partially offset by customer growth in the region.

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 within the region.

Operating costs

Operating costs for the year increased by £36.7 million (7.0 per cent) to £560.6million (2015: £523.9 million). Almost half of this increase is due to a rise in minor repair costs which used to be capitalised under the old infrastructure renewals accounting rules, and has consequently increased the volatility in operating costs. The overall increase is explained in the table below.

Increases/(decreases) in operating costs	**£m**
One-off credits in 2014/15 not repeating – principally a non-recurring cash rebate in respect of prior year contributions to the Environment Agency's environmental improvement scheme, and power credits	8.9
Increase in minor repair activities to maintain water and waste water below ground infrastructure [1]	15.6
Additional funding to ensure we meet our Outcome Delivery Targets, and the transfer of funding from capital to operating costs in order to optimise whole life Totex efficiencies	7.2
General inflationary increases	6.9
Power – predominantly price increases	4.4
Operating costs of newly commissioned plant	3.0
Insurance – due principally to some relatively large one-off claims during the year as a result of flooding caused by extreme weather events such as the flooding in Bedford in late summer 2015	2.8
Network contracts – due to the close out of the AMP5 position and revised contractual terms for AMP6.	1.9
Reduction in bad debt charge	(1.2)
Efficiency savings achieved	(12.8)
Net increase in operating costs	**36.7**

[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 £31.9 million, a reduction of 3.6 per cent compared with last year's charge of £33.1 million. This reflects the impact of the tariff reduction in the year and improved management of customer credit.

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 more efficient asset maintenance programme.

Depreciation

	2016 £m	**2015 £m**
Depreciation of property, plant and equipment	268.2	256.2
Amortisation of intangible assets	29.7	24.5
Total depreciation charge	**297.9**	**280.7**

Depreciation is up 6.1 per cent compared with last year, reflecting the impact of the high level of newly commissioned assets which were completed at the end of the previous AMP. This included a significant element of relatively shorter life assets which attract a higher depreciation charge.

Underlying operating profit

Underlying operating profit has fallen by 24.8 per cent to £340.4 million, which is consistent with the effect of the regulatory price reduction, increased operating costs and depreciation.

Finance costs

Net finance costs, excluding the intra-group interest receivable of £192.8 million (2015: £192.3 million) and before fair value gains and losses on derivative financial instruments, decreased by 7.1 per cent from £270.6 million in 2015 to £251.3 million in 2016. This was primarily the result of the non-cash impact of lower inflation on index-linked debt, partially offset by a lower proportion of interest capitalised.

There was a non-cash fair value loss of £84.9 million on derivative financial instruments (excluding energy derivatives) in 2016, compared to a fair value loss of £212.8 million in 2015, 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 main factor for the lower loss in 2016 compared to 2015 was the movement in the yield curve for forward interest rates which fell by 28 basis points during the year, compared with a fall of 90 basis points in 2015. During the year, forward inflation rates decreased by circa 4 basis points (2015: a decrease of 40 basis points) and this partially mitigated the impact of the fall in forward interest rates on our inflation swap fair values.

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 £89.1 million, compared with £182.0 million in the prior year. This reflects the reduction in operating profit, partially offset by the reduction finance costs (excluding fair value losses/gains on derivatives) due principally to lower RPI.

Taxation

	2016 **£m**	**2015** **£m**
Current tax charge	12.8	12.6
Deferred tax credit	(151.6)	(46.9)
Total tax credit	**(138.8)**	**(34.3)**

Current tax
The current tax charge for the year was £12.8 million (2015: £12.6 million). The slight increase is caused by a reduced prior year adjustment in respect of certain capital expenditure at our treatment works following agreement being reached with HMRC for the tax treatment for earlier years. Partially offsetting this are the effects of a reduction in the corporation tax rate from 21 per cent to 20 per cent for the year, a reduction in underlying profits, and a higher level of capital allowances claimed on the substantial capital investment we make to improve the service to customers.

Deferred tax
The main reasons for the deferred tax credit in the current year are the fair value losses on derivatives, together with an adjustment for prior years arising from agreement with HMRC for the transfer of non-qualifying assets, which would previously have qualified for Industrial Building Allowances, being classified as longlife assets. The deferred tax credit has increased from £46.9 million to £151.6 million. The current year includes the impact of the reduction in future tax rates used to calculate deferred tax from 20 per cent to 18 per cent which gives rise to a credit of £122.9 million. Without this, there is a credit in the current year of £28.7 million.

Our relatively low level of taxation reflects the fiscal incentives available for capital investment, and the interest we pay to fund that investment. We are one of the largest private investors in infrastructure in our region, investing more than £2 billion over five years. The Government actively encourages infrastructure investment and grants us capital allowances, which defer some of our corporation tax liabilities until a later period. Customers also benefit from the deferral as it helps to keep their bills lower.

Total tax paid or collected in the year to 31 March 2016, other than corporation tax, amounted to £203 million (2015: £174 million) of which £60 million was collected on behalf of the authorities for net Value Added Tax (VAT) and employee payroll taxes.

Net debt and cash flow

In the year to 31 March 2016 Anglian Water secured £214.7 million of new funds and made debt repayments of £330.5 million. The £214.7 million of new debt raised 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 U.S. Private Placement funding and a small £0.4m new finance lease. The U.S. Private Placement debt was raised with a delayed drawdown date of 27 April 2016 which means funds will not be received until after the year-end and therefore the proceeds do not appear on the 31 March 2016 balance sheet. Debt repayments comprised: a £4.7 million finance lease repayment,

£75.8m of inflation linked swap indexation pay-downs, and the repayment of the £250m 5.25% Class A bond maturing in October 2015.

At 31 March 2016 Anglian Water had net borrowings of £6,539.2 million (£5,833.6 million excluding derivatives), an increase of £162.9 million (£184.4 million excluding derivatives) over the prior year. Net borrowings comprised a mixture of fixed, index-linked and variable-rate debt of £6,252.6 million, derivative financial instruments of £705.6 million (excluding energy derivatives of £45.3 million) and cash and deposits of £419.0 million. The increased net borrowings reflect a decrease of £154.1 million in loans and associated costs, primarily relating to debt repaid but partially offset by the impact of inflation on index-linked debt; a decrease in the derivatives valuation of £21.5 million; and a decrease of £338.5 million in cash and deposits (which causes net debt to increase).

The business generated a net cash inflow from operating activities of £627.5 million in the year ended 31 March 2016 (2015: £708.6 million). The reduction in operating cash flow is consistent with the reduced revenue and increased operating costs referred to above, and the payment of intragroup tax relief, partially offset by an improved performance in customer debt collection.

Capital reduction

During the year the company undertook a bonus issue of 2,560,200,000 ordinary shares out of its revaluation reserve. Following this bonus issue the company completed a capital reduction exercise, creating £2,560.2 million of distributable reserves. On completion of this process the issued share capital of the company remained unchanged from the 10,000,000 ordinary shares of £1 each in issue at the start of year.

The revaluation reserve was created as part of the prior year conversion to International Financial Reporting Standards (IFRS), and has been converted into distributable reserves to offset the negative impact that conversion to IFRS had on the Company’s reserves.

2.0 Regulatory Update

Water 2020: Regulatory framework for wholesale markets and the 2019 price review

In December Ofwat published its "Water 2020" consultation document, which set out its proposals for a regulatory framework for wholesale markets and the 2019 Price Review. The key proposals were:

- To make more use of markets for two key areas of upstream activities, sludge and water resources
- To create separate price controls, and new information databases, for sludge and water resources and implement an access pricing regime for water resources. Portions of the RCV will be allocated to sludge and water resources.
- To affirm the importance of RCV and protect the RCV as it will stand at March 2020
- To commence the move from RPI to CPI as the basis for indexation
- A continued and strengthened process for customer engagement.

There has been considerable debate around the Water 2020 proposals since December, with the proposals on indexation proving the most contentious. Anglian has been an active leader in these discussions. Ofwat's decision document is due in late May, with further consultations expected later in the year.

Household Retail Market

To the surprise of most stakeholders, the Government announced on Monday 30 November that it had asked Ofwat to carry out a review of the costs and benefits of opening up the market in retail water services to household customers in England. Ofwat will report back in summer 2016, after which Government will take a decision on if and when it will open up the household retail market. The announcement was part of a wider suite of announcements on increasing competition across the economy.

In January, Ofwat published the draft terms of reference and timetable for its review. These showed that Ofwat is considering "thick" and "thin" models for household retail. Some of these are well beyond the equivalent proposals of non-household retail for households, with options of competition in and for upstream markets, potentially well beyond the Water 2020 scope.

Public Accounts Committee report into the economic regulation of the water sector

In January, the Public Accounts Committee published a report which concluded that Ofwat had consistently over-estimated water companies' financing and tax costs when setting price limits in 2009, and as a result, water companies made gains of at least £1.2 billion between 2010 and 2015 from bills being higher than necessary. The Committee found that Ofwat's efforts to ensure these gains were shared with customers secured limited results that varied significantly from company to company.

Among its recommendations, the Committee urged Ofwat to review its approach to setting allowances for the cost of debt and corporation tax, and report publicly on what actions it intends to take to improve its performance. It also called on the regulator to use comparisons with other sectors and international suppliers to develop a clearer picture of what services should cost if provided efficiently. It noted that customers in areas of water scarcity could be paying to develop expensive new capacity when water trading with other companies might be more cost-effective.

Updated rule book

In February Ofwat issued an updated version of the PR14 reconciliation rule book, which sets out how it will compute adjustments at PR19 against the AMP6 incentives. The document confirmed that Ofwat will adjust companies' RCVs at PR19 to correct the 'error' they made on indexation in the PR09 CIS model. This will have the effect of reducing the opening RCV at 01 April 2020 by £116m in 2012/13 prices.

Demonstrating long-term financial resilience

Ofwat is keen that regulated water and wastewater companies should demonstrate that they are financially resilient over the long-term. Following consultation, Ofwat confirmed that companies should include an explicit statement in both their regulatory and statutory accounts to confirm their long-term viability. Statements should set out the processes that have been undertaken to enable Boards' decisions. Companies will include the first statement of this type for the 2015-16 reporting and gain appropriate assurance. Boards are responsible for determining the approach they will take and the choice of sensitivities.

Market Reform – Open Water Programme

During 2015-16 development of the Open Water Programme has continued. This has resulted in the publication of a detailed suite of Market codes and associated change control panel in addition to the development of the application processes for the revised Water and Sewerage Supply Licences (WSSLs) required by retailers in the new market. Ofwat have also added a Licence condition into companies' Instrument of Appointment in relation to their readiness for the new market opening in April 2017.

Anglian Water has been fully engaged with the development of the materials which will underpin the NHH retail market.

Market Operator Services Ltd (MOSL) has been working with CGI Group to develop and build the necessary IT central systems required for the market to operate. These systems have moved into build and testing ahead of "shadow market" operation in October 2016.

Anglian Water continues to prepare for market opening with dedicated wholesale and retail change programmes implementing the required changes. Third-party assurance providers have been appointed as part of the Market Entry assurance workstream.

Competition Act compliance

Anglian Water continues to review its Competition Act risk register and equivalence procedures accordingly. Ahead of non-household retail market opening the risk is being reviewed separately from a wholesale and retail perspective.

Water Supply Licensing (WSL)

The WSL regime is the current retail market arrangements where large business customers using > 5M/l per annum can switch their retailer for water services (the WSL does not cover sewerage). A total of three premises in the region (a supermarket, a Ministry of Defence site and a department store) have now switched away from Anglian Water Business. There have also been additional applications for Water Supply Licences and access enquiries which is an indication of potential increasing activity nationally or preparation for the full NNH retail market in 2017.

Ofwat Casework update

During the report year Ofwat confirmed that after pursuing its investigation of Anglian Water's conduct in relation to the Fairfield site for over six years, Ofwat has issued now issued its decision which has determined there are no grounds for action and hence no infringement of the Competition Act 1998.

All other open items of casework have been closed, including a Final Determination on the suitable level of developer contribution required from five sites served by Barratt Homes.

3.0 Service Performance Overview

Service Incentive Mechanism

Anglian Water has responded to changes in the Service Incentive Mechanism (SIM) which measures customer satisfaction with the service they receive by improving its ability to respond to customers' issues faster, to resolve them first time, and to offer a more tailored and personalised service. To do this Anglian Water have increased the size of the customer care teams, and increased the amount of coaching and training available for them.

Growth in the team has been underpinned by the introduction of a new way of working known as 'My Customer', which gives staff the know-how and the freedom to provide a tailored and personalised service. New ways of gathering real-time feedback from customers also helps customer support teams address issues before they become problems for our customers, while the Digital Customer Service team continues to rapidly grow the number of customer interactions handled via social media channels.

These changes have helped Anglian Water secure third place in Ofwat's qualitative SIM survey. Anglian Water surveyed more than 90,000 customers during the year, with more than 80% very satisfied with our service. It's 1Customer IT system was a Gold Winner in the Business Transformation category of the SAP United Kingdom and Ireland Quality Awards. Anglian Water achieved a UK Customer Satisfaction Index score of 72.3%, as measured by the Institute of Customer Service, just outperforming the utility sector score.

4.0 Capital Expenditure

AMP6 gross capex expenditure [1] in the appointed business for the year was £265.6 million (£163.2 million on capital maintenance, £102.4 million on capital enhancement), compared to £394.0 million in the last year of AMP5, which included £55.0 million of AMP6 transition expenditure. This level of expenditure is broadly in line with management expectations. £4.5m of this was in respect of the retail business.

Significant projects worked on during the year include the Grafham Water resilience scheme which involves redirecting water from Rutland Water, and a major refurbishment of the Semer water treatment works in Suffolk. As expected in the first year of a new AMP there were no major schemes completed in the year.

Over the five years of AMP6 Anglian Water will be investing over £2.1 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 expects to invest over £800 million to support protection of customer supply.

An additional £0.6 million was spent on the non-appointed business, in respect of various system and office developments.

[1] Stated on an IFRS basis excluding capitalised interest (10.9 million), fair value of adopted assets (11.9 million) and new finance leases (£0.4 million)

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

Anglian Water has maintained an excellent quality of the water leaving its treatment works, and once again improved on the measure relating to the maintenance of its networks (the Distribution Maintenance Index). The quality of the water travelling through its network to homes and businesses (Mean Zonal Compliance) has also improved from 99.95 per cent in 2014 to 99.97 in 2015. This is despite the inclusion of parameters such as lead and metaldehyde within the numbers.

Anglian Water delivered a good performance at its water treatment works in 2015/16, although the number of failures recorded by the Drinking Water Inspectorate increased from six (2014) to eight (2015).

Water Recycling

The operation of Anglian Water's water recycling centres continued to improve in 2015, resulting in the best compliance performance to date. Anglian Water ended the year with six failing works, which is a reduction of three compared to the nine failing sites in 2014. This strong performance is the result of proactive management of Anglian Water's sites and improved visibility of performance in near-real time. Such close monitoring allows Anglian Water to respond rapidly to risks at its sites.

The use of predictive analytics to help target maintenance work is helping to reduce the number of pollution incidents Anglian Water deal with. The number of Category 3 (least serious) incidents fell dramatically in 2015, from 390 to 144. This change was driven by greater proactive work and well-targeted planned maintenance, as well as more benign weather during the year. This performance puts Anglian Water well ahead of its ODI target for 2017/18 of no more than 371 incidents.

There were no Category 1 (most serious) incidents this year, although the number of Category 2 incidents rose slightly from seven to ten. Following rigorous analysis, detailed plans have been drawn up to prevent repeats of these incidents.

Environment

For the last 13 years, all 48 of Anglian Water region's bathing waters met or exceeded the standards set out by the Bathing Water Directive. Standards tightened significantly this year, following the introduction of the revised Bathing Water Directive. Nonetheless, 34 of Anglian Water's beaches achieved the new status of excellent, meaning a quarter of England's best beaches are now in the Anglian Water region. Eleven were classified as good, with two sufficient, and one – Clacton Groyne 41 – poor. Anglian Water is working with the Environment Agency and the local authority in Clacton to help identify and eradicate the pollution that is leading to this poor assessment.

Anglian Water's award-winning Keep It Clear programme continues to develop innovative ways to reduce blockages in the sewerage infrastructure. This year Anglian Water launched a Love Your Seaside campaign, using roadshows, leaflets and social marketing initiatives to target the transient population of holidaymakers and tourists who visit the region each year. The partnership with interactive learning specialists Mad Science has also been extended to include a pantomime, while 16,000 children and adults have experienced Keep It Clear roadshows and school assemblies.

Water Resources

Upstream groundwater and surface water resources ended the reporting period in a healthy situation. Rainfall between October 2015 and March 2016 was above average, with two exceptionally wet months in January and March 2016. Water resources remained secure through the period, and the high rainfall at the start of the year has resulted in significant groundwater recharge across the region. All raw water reservoirs ended the reporting period above target storage levels, and most of the reservoirs with natural infill were close to full. Groundwater levels also remained in the normal range throughout. Raw water abstraction assets performed well during the period ensuring continuity of raw groundwater and river water for treatment or storage. Upstream water resources are now secure through to the start of the 2016-17 winter recharge period.

Anglian Water has been actively involved with the Environment Agency in the development of the new Water Resource Management Planning guidelines. The guidelines include a new decision making framework which will be used to determine the required level of modelling to develop the next long-term water resources investment plan. Anglian Water has completed the first stages of assessment which has identified the need for detailed analysis to better understand the impacts of climate change, severe drought and environmental sustainability. The Water Resources East Anglia project is a long-term strategic multi sector water resources plan for East Anglia, which will look to address these challenges and will use robust decision making approaches and multi-criteria assessments to determine the scale of investment in large infrastructure schemes. Anglian Water has also played a leading role in a national project to develop a high level strategy and framework for the long-term planning of water resources for public water supply in England and Wales.

Anglian Water is currently working very closely with the Environment Agency to review the impact of the Water Framework Direction objective to prevent deterioration in status of surface water and groundwater bodies.

6.0 Financing

Anglian Water continues to focus on the efficient management of cash resources. In May 2015, additional committed bilateral facilities were established; bringing the total committed but undrawn, level of bank facilities to £600 million. Gross debt reduced by £285.7 million during the year primarily driven by repayment of the 2015 £250m 5.25% bond and payment in aggregate of £75.8 million accretion on two ‘pay as you go’ RPI swaps.

A £214.3 million USPP was issued in March 2016 for settlement in April, to part refinance the €500.0 million bond maturing in June 2016.

As at financial year end there had been no changes to credit ratings, which were as follows:

Fitch Ratings:	A (negative); BBB+ (negative)
Standard and Poor’s:	A-; BBB
Moody's:	A3; Ba3; Corporate Family Rating Ba1

Post year end however Fitch Ratings has affirmed the ratings on both classes and at the same time revised the Outlooks to Stable from Negative.

7.0 Dividends

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

29 May 2015	£100.0 million	- in relation to the 2014/15 final dividend.
02 December 2015	£52.0 million	- in relation to the 2015/16 interim dividend.

8.0 Significant Board / Management Changes

The Board of Anglian Water Services Ltd comprises:

Stephen Billingham	Chairman appointed 01 April 2015		
Peter Simpson	Chief Executive Officer	)	Executive
Chris Newsome	Director of Asset Management	)	Executive
Jean Spencer	Director of Regulation	)	Executive
Scott Longhurst	Managing Director Finance & Non-Regulated Business	)	Executive
Polly Courtice	Independent Non-Executive Director, appointed 01 April 2015		
Steve Good	Independent Non-Executive Director, appointed 01 April 2015		
John Hirst	Independent Non-Executive Director, appointed 01 April 2015 and appointed as Senior Independent Non-Executive Director on 1 January 2016		
Paul Whittaker	Independent Non-Executive Director		
James Bryce	Non-Executive Director		
Andrew Cox	Non-Executive Director		
Werner Kerschl	Non-Executive Director, appointed 3 November 2015		
Niall Mills	Non-Executive Director		

The following Directors resigned during the year:

Christopher Garnett	Senior Independent Non-Executive Director, 31 December 2015
Robert Napier	Independent Non-Executive Director, 23 July 2015
Christian Seymour	Non-Executive Director, 2 November 2015
John Watkinson	Independent Non-Executive Director, 31 December 2015

Anglian Water is managed by the AWS Management Board, which, as at 31 March 2016, in addition to the Executive Directors referred to above, included:

Claire Russell	Legal Director
Mark Pendlington	Director of Corporate Affairs
Kate Kelly	Director of Human Resources
Paul Gibbs	Director of Water Recycling Services
Ian Rule	Director - Wholesale Services
Martyn Oakley	Director - Customer Services and Information Services
Paul Valleley	Director of Water Services
Richard Boucher	Business Change and Strategy Director

Anglian Water will be holding a meeting for investors in London on 30 June 2016.

Ratios

1.0 Historical

Anglian Water confirms that in respect of the year ended 31 March 2016, 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 2016	31 Mar 2015
a)	The Class A RAR	**71.1%**	**68.4%**
b)	The Senior RAR for each Test Period	**82.2%**	**79.2%**
c)	The Class A ICR	**3.5:1**	**4.2:1**
d)	The Class A PMICR for each Test Period	**n/a**	**2.2:1**
e)	The Senior PMICR for each Test Period	**n/a**	**1.9:1**
f)	The ratio of Net Cash Flow minus Capital Maintenance Expenditure to Class A Debt Interest	**2.4:1**	**3.1:1**
g)	The Conformed Class A PMICR for each Test Period[1]	**1.*9:1***	**2.2:1**
h)	The Conformed Senior PMICR for each Test Period[1]	**1.6:1**	**1.9:1**

[1] CCD and IRC have been used as the depreciation of RCV as at 31 March 2015.

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 2016 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 16 £m	Actual Period to 31 Mar 15 £m
Income		**1,184.7**	1,212.4
Operating Expenditure		**(563.7)**	(463.6)
Pre-capital maintenance cashflows		**621.0**	748.8
Capital Maintenance Expenditure		**(186.8)**	(193.5)
Depreciation [1]		***(273.5)***	*(357.6)*
Post-Maintenance cashflow for PMICR		***347.5***	*391.2*
Post-Maintenance cashflow for Net Cash Flow ratio		**434.1**	555.3
Net Interest		**(211.6)**	(209.8)
Enhancement Capital Expenditure		**(88.6)**	(200.1)
Customer Rebates			10.5
Dividends		**(152.2)**	(180.2)
Pre-financing cashflows		**(18.2)**	(24.3)
Interest Payable on Class A Debt:			
Finance Leases		**(1.4)**	(1.7)
Class A Bonds		**(179.7)**	(177.7)
MBIA Wrap Fees		**(2.4)**	(2.4)
Less Interest Receivable		**4.0**	4.0
Total net Class A debt interest		**(179.5)**	(177.8)
Interest Payable on Class B Debt			
Class B Bonds		**(32.8)**	(32.0)
Total Net Interest payable on Senior Debt		**(212.3)**	(209.8)
Interest Cover Ratios:			
Class A ICR	1.6:1	**3.5:1**	4.2:1
Senior PMICR	1.1:1	**n/a**	1.9:1
Class A PMICR	1.3:1	**n/a**	2.2:1
Conformed Senior PMICR[1]	1.1:1	**1.6:1**	1.9:1
Conformed Class A PMICR[1]	1.3:1	**1.9:1**	2.2:1
Ratio of Net Cash Flow minus Capital Maintenance Expenditure to Class A Debt Interest	1.0:1	**2.4:1**	3.1:1

[1] CCD and IRC have been used as the depreciation of RCV as at 31 March 2015.

5.0 Regulatory Asset Ratios (RAR)

Regulatory Asset ratios	Trigger/Default	As at 31 Mar 16 £m	As at 31 Mar 15 £m
Class A Gross Debt:			
Finance Leases		**(38.3)**	(43.1)
Class A Bonds etc		**(5,308.3)**	(5,589.6)
Total Class A Gross Debt		**(5,346.6)**	(5,632.7)
Less cash balances and Authorised Investments		**418.4**	767.2
Total Class A Net Debt		**(4,928.2)**	(4,865.5)
Class B		**(766.5)**	(766.5)
Total Senior Net Debt		**(5,694.7)**	(5,632.0)
Regulatory Asset Value (RAV)		**6,926.5**	7,113.0
Regulatory Asset ratios:			
Senior RAR	85.0%	**82.2%**	79.2%
Class A RAR	75.0%	**71.1%**	68.4%

The Regulatory Asset Value is based on Ofwat’s published numbers in April 2015 and April 2016.

6.0 Regulatory Performance

Regulatory Performance Data		As at 31 Mar 16 £m
FD Wholesale Totex		
Allowed Totex for PAYG (water)	12/13 prices	349.4
Allowed Totex for PAYG (wastewater)	12/13 prices	436.6
Total FD Allowed Totex for PAYG	12/13 prices	786.0
FD PAYG %		
PAYG % water	12/13 prices	57.5%
PAYG % wastewater	12/13 prices	63.9%
FD fast money		
Allowed water fast money	12/13 prices	201.1
Allowed sewerage fast money	12/13 prices	279.0
Total fast money	12/13 prices	480.1
Total fast money	Outturn prices	509.0
FD slow money		
Allowed water slow money	12/13 prices	148.3
Allowed sewerage slow money	12/13 prices	157.6
Total slow money	12/13 prices	305.9
Total slow money	Outturn prices	324.3
Total fast + slow money	Outturn prices	833.3
FD tax		
Tax in revenue building block	12/13 prices	15.7
Tax in revenue building block	Outturn prices	16.4
Comparison FD wholesale allowances vs actual wholesale spend		
FD fast money (excluding pensions)	Outturn prices	509.0
FD slow money	Outturn prices	324.3
FD fast + slow money (FD totex)	Outturn prices	833.3
Actual opex (excluding pensions)	Outturn prices	479.3
Actual capex	Outturn prices	291.2
Actual opex + capex (actual totex)	Outturn prices	770.5
Actual opex minus FD fast money	Outturn prices	(29.7)
Actual capex minus FD slow money	Outturn prices	(33.1)
Timing Adjustments	Outturn prices	16.0
Actual opex + capex minus FD fast + slow money = totex outperformance	Outturn prices	(46.8)
Reconciliation to post maintenance cashflow		
Opex per post maintenance cashflow	Outturn prices	(536.6)
Pension deficit repair payments per post maintenance cashflow	Outturn prices	(10.5)
Total opex plus pension deficit repair payments	Outturn prices	(547.1)
Made up of:		
Wholesale opex, including pension deficit repair payments and tax	Outturn prices	(537.5)
Other opex (Retail) + non-appointed	Outturn prices	(9.6)
Total opex plus pension deficit repair payments	Outturn prices	(547.1)
Other information		
Pension in outturn prices	Outturn prices	10.5
Project cash opex (for covenant calculation)	Outturn prices	553.5
Projected opex (ie pre working capital adjustments and CTA adjustments)	Outturn prices	551.2
Total cash opex inc pension	Outturn prices	541.1
Total opex (ie pre working capital adjustments and CTA adjustments) inc per	Outturn prices	561.7
Enchancement - wholesale	Outturn prices	72.5
Maintenance - wholesale	Outturn prices	157.8
Retail	Outturn prices	4.6
Non-regulated	Outturn prices	0.8
Total capex	Outturn prices	235.7
Wholesale capex outturn	Outturn prices	230.3
FD depn	12/13 prices	256.3
Outturn depn	Outturn prices	273.5
Calculation of RCV		
Opening RCV per FD	12/13 prices	6,441.2
Additions per FD	12/13 prices	305.8
Less RCF Run-Off per FD	12/13 prices	(256.3)
Closing RCV per FD using average 12/13 prices	12/13 prices	6,490.7
RPI to convert from price basis used by regulator to outturn prices at year er	Num	1.07
Opening RCV	Outturn prices	6,873.6
Additions	Outturn prices	326.3
Less RCF run-off	Outturn prices	(273.5)
Closing RCV	Outturn prices	6,926.4
Totex outperformance to clawback per Rulebook calculations	Outturn prices	(27.5)
Shadow RCV	Outturn prices	6,898.9

7.0 Anglian Water Services Group – Movements in Debt Balances

	Opening Balance 31Mar 2015 £m	New Issues £m	Repayment £m	Indexation £m	**Closing Balance 31 Mar 2016 £m**
Finance Leases	43.0	0.4	(4.7)		**38.7**
US Private Placements	0.0				**0.0**
Transferring Bonds:					
4.125% ILLS 2020	232.3			2.4	**234.7**
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	295.3			3.0	**298.3**
A7 Notes - 3.07% ILLS 2032	89.0			0.9	**89.9**
A8 Notes - 6.293% Fixed 2030	246.0				**246.0**
A11 Notes - 3.666% ILLS 2024	110.7			11	**111.87**
B12 Notes - 7.882% Fixed 2012/37	0.0				**0.0**
A16 Notes - 5.25% Fixed 2015	250.0		(250.0)		**0.0**
B17 Notes - 5.5% Fixed 2017/2040	150.0				**150.0**
A18 Notes - 2.4% ILLS 2035	546.5			5.7	**552.2**
A19 Notes - 17% ILLS 2046	66.2			0.7	**66.9**
A20 Notes - 17% ILLS 2046	66.0			0.9	**66.9**
A21 Notes - 17146% ILLS 2056	53.0			0.5	**53.5**
A22 Notes - 16777% ILLS 2056	66.2			0.7	**66.9**
A23 Notes - 17903% ILLS 2049	79.5			0.8	**80.3**
A24 Notes - 13825% ILLS 2056	66.0			0.9	**66.9**
A25 Notes - 13784% ILLS 2057	132.1			18	**133.9**
A26 Notes - LIBOR Plus 0.34%	100.0				**100.0**
A27 Notes - 1449% ILLS 2062	94.4			17	**96.1**
A28 Notes - 152% ILLS 2055	62.9			11	**64.0**
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**
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 1626% Term Facility 2019	60.5			0.7	**61.2**
European Investment Bank £50m 13% Term Facility 2020	59.5			0.7	**60.2**
A35 Notes - £130M 2.262% IL Bond 2045	152.3			18	**154.1**
Index Linked Swaps	133.8		(75.8)	10.9	**68.9**
Sub Total	**4,425.2**	**0.4**	**(330.5)**	**36.4**	**4,131.5**

Contd	Opening Balance 31 Mar 2015 £m	New Issues £m	Repayment £m	Indexation £m	**Closing Balance 31 Mar 2016 £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	81.1			1.0	**82.1**
European Investment Bank £75m 0.79% index linked amortising term facility 2027	81.1			1.0	**82.1**
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	52.4			0.6	**53.0**
A42 Notes - £15m 1.37% IL Private Placement 2022	16.0			0.2	**16.2**
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**
A45 Notes - £22.3m 4.0% Private Placement 2022	22.3				**22.3**
European Investment Bank £150m 0% index linked amortising term facility 2028	157.4			1.8	**159.2**
B46 Notes - £200m Class B 4.5% 2026	200.0				**200.0**
A47 Notes - £35m 1.141% IL Bond 2042	36.5			0.4	**36.9**
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	66.2			0.8	**67.0**
European Investment Bank £125m 0.1% index linked amortising term facility 2029	125.8			1.5	**127.3**
European Investment Bank £60m 0.01% index linked amortising term facility 2030	60.1			0.7	**60.8**
	6,399.2	**0.4**	**(330.5)**	**44.4**	**6,113.6** [1]

[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 2016

	Underlying results £m	Other items[1] £m	Total Year ended 31 March 2016 £m	Total Year ended 31 March 2015 £m
Revenue	1,185.4	-	1,185.4	1,244.3
Other operating income	13.5	-	13.5	12.9
Operating costs	(560.6)	-	(560.6)	(523.9)
Depreciation and amortisation	(297.9)	-	(297.9)	(280.7)
Fair value loss on energy hedges	-	(4.8)	(4.8)	(0.8)
Operating profit	340.4	(4.8)	335.6	451.8
Finance income	3.6	192.8	196.4	196.5
Finance costs	(254.9)	-	(254.9)	(274.8)
Fair value gains on derivative financial instruments	-	(84.9)	(84.9)	(212.8)
Net finance costs	(251.3)	107.9	(143.4)	(291.1)
Profit before taxation	89.1	103.1	192.2	160.7
Taxation			138.8	34.3
Profit after taxation			331.0	195.0
Dividend to AWS Holdings Ltd			(192.8)	(192.3)
Dividend to AWG Group Ltd			(152.2)	(180.2)
Transfer from reserves			(14.0)	(177.5)

[1]Other items comprise fair value losses on derivative financial instruments and energy hedges of £89.7m (2015: losses of £213.6m) and intra-group interest income of £192.8m (2015: £192.3m).

9.0 Anglian Water Services Group – Balance Sheet

Balance Sheet as at 31 March 2016		£m	£m	£m
Intangible assets				129.1
Property, plant and equipment				9,426.1
Investments				1,602.6
Derivative financial instruments classified as current and non-current assets				138.8
Retirement benefit surpluses				57.1
Net current liabilities excluding cash and debt repayable in less than one year[1]				(75.5)
Retirement benefit obligations				(45.0)
Creditors amounts falling due after more than one year excluding debt[1]				(2,385.5)
Cash and cash equivalents	Payments Account	317.7		
	Tax Reserve	100.0		
	Debt Service	1.3	419.0	
Financing liabilities	Bonds (excluding accrued interest)	(6,113.6)		
	Finance leases	(38.7)		
	Other[2]	(100.3)	(6,252.6)	
	Net Debt (excluding derivatives)			(5,833.6)
Net assets				**3,014.1**
Capital and reserves	Share capital			10.0
	Reserves b/f			3,009.3
	Actuarial gain on pension schemes			38.5
	Transfer to reserves for the period			(14.0)
	Loss on cash flow hedges			(23.2)
	Income tax on items that may be reclassified			(6.5)
Capital and reserves				**3,014.1**

[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 16 £m	Forecast Interest Payable to 31 Mar 17 £m
<u>Class A Debt</u>		
AAA Wrapped Bonds	28	26
A- Bonds	140	149
US Private Placements	14	18
Other	2	2
<u>Class B Debt</u>		
BBB Bonds	12	13
US Private Placements	20	23
Annual Finance Charge	**216**	**231**

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 Counterparty Mark to Market (MTM) Valuations as at 31/03/16

External Swap Counterparty	Nominal Swap Amount £m	MTM Positive Values £m	MTM Negative Values £m	MTM Total Values £m[2]
BNP	518.0	24.2	(75.6)	(51.4)
Morgan Stanley	133.0	4.7	(46.5)	(41.8)
LTSB	883.8	27.5	(46.5)	(19.0)
JP Morgan	175.0	43.1	(179.0)	(135.9)
RBS	663.2	44.1	(425.7)	(381.5)
HSBC	73.0	2.7	(0.5)	2.2
Barclays	340.0	18.1	(85.1)	(67.1)
SMBC	75.0	2.9	0.0	2.9
Bank of Nova Scotia	100.0	38.7	(88.3)	(49.6)
CBA	370.5	56.9	0.0	56.9
Santander	943.4	39.9	(57.8)	(17.9)
Anglian Water[1]	4,274.9	302.8	(1,005.0)	(702.2)

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 Barclays (£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