



Anglian Water Services Financing Plc

Anglian Water Services Limited

Investor Report

For the six months ended 30 September 2016

Prepared in accordance with International Financial Reporting Standards (IFRS)

Final 30.11.16

# Investor Report

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## ***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 six months ended 30 September 2016.

### 1.0 Financial Performance for the six month period ended 30 September 2016

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

	<b>2016 Total £m</b>	<b>2015 Total £m</b>
<b>Revenue</b>	620.9	607.2
Other operating income	7.0	6.5
Operating costs	(267.7)	(273.9)
Depreciation and amortisation	(153.3)	(146.8)
<b>Operating profit</b>	<b>206.9</b>	<b>193.0</b>
Finance income (adjusted) <sup>1</sup>	1.4	2.1
Finance costs <sup>2</sup>	(133.5)	(129.8)
<b>Underlying profit before tax</b>	<b>74.8</b>	<b>65.3</b>

<sup>1</sup> In order to show the position of the Anglian Water Services Financing (AWSF) group (which comprises Anglian Water Services Holdings Limited, Anglian Water Overseas Holdings Limited, Anglian Water Services Limited and Anglian Water Services Financing Plc.), finance income is shown excluding internal interest receivable by the group from Anglian Water Services Holdings Limited of £96.4 million (2015:£96.4 million).

<sup>2</sup> 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.

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

### Reconciliation to statutory accounts

	<b>2016</b>	<b>2015</b>
	<b>Total</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>
Underlying profit before tax	74.8	65.3
Finance costs – Fair value losses on financial derivatives	(250.0)	(39.7)
Finance costs – Fair value gains/(losses) on energy hedges	11.3	(0.9)
Finance income – Intra-group interest receivable	96.4	96.4
<b>(Loss)/profit before tax as reported in the statutory income statement</b>	<b>(67.5)</b>	<b>121.1</b>

Revenue for the half year was £620.9m million, an increase of £13.7 million (2.3%) on the same period last year. This primarily reflects the average regulatory tariff increase of 2.35% which includes 1.1% for inflation. Demand from existing customers was down slightly compared with last year but this has been partly offset by new customer growth.

Other operating income comprises primarily the amortisation of developer contributions received in respect of new housing developments, with activity up slightly from the prior year.

Operating costs reduced by £6.2 million (2.3%) on the same period last year to £267.7 million. The reduction is explained in the following table.

<b>Increases/(decreases) in operating costs (before depreciation and amortisation)</b>	<b>£m</b>
General inflationary increases	3.5
Operating costs of newly commissioned plant	1.3
Reduction in rates due to reassessment of water recycling sites	(1.0)
Decrease in minor repair activities to maintain water and waste water below ground infrastructure	(2.3)
Efficiency savings achieved	(6.7)
Other cost reductions	(1.0)
<b>Net decrease in operating costs</b>	<b><u>(6.2)</u></b>

Included in the overall £6.2 million of cost reductions are non-recurring savings of £2.7 million.

The bad debt charge for the period, expressed as a proportion of revenue, was down from 2.72% in the prior year to 2.66%.

Depreciation and amortisation is up 4.4% compared with the same period last year, reflecting depreciation on newly commissioned operating assets.

Operating profit has increased by 7.2% to £206.9 million, which is consistent with the effect of the regulatory price increase and lower operating costs, partially offset by increased depreciation.

The underlying net finance charge for the period increased by £4.4 million to £132.1 million. This is consistent with the increase in net debt, less interest earned on cash deposits and less interest being capitalised as a result of more infrastructure projects being commissioned in the period.

The fair value losses on financial derivatives (excluding energy derivatives) of £250.0 million (2015: £39.7 million) is primarily a result of the decrease in long term interest rates experienced in the period. Following the referendum on EU membership base rate was halved to 0.25% and long term rates are exceptionally low. The fair value losses are non-cash in nature and have no effect on the underlying commercial operations of the business. The increase in Brent crude oil prices up to September 2016 to above \$50/barrel impacting gas contracts and concerns of tighter power generation margins this winter has increased shorter dated electricity prices. This resulted in a net gain of £11.3 million on the fair value of our energy derivatives, compared with a loss of £0.9 million for the same period last year. This is a non-cash accounting adjustment which varies in line with future energy prices, and is excluded from Anglian Water's underlying results. Energy derivatives are entered into to fix our wholesale energy costs over the regulatory asset management plan period.

Compared to the previous year the total tax charge has reduced by £80.1 million from a charge of £1.5 million to a credit of £78.6 million. This is due mainly to an increased deferred tax credit on the fair value losses on derivatives, and a deferred tax credit due to a further change to the UK corporation tax rate which reduces the rate by a further 1% to 17% from 1 April 2020.

Anglian Water's relatively low underlying rate of taxation reflects the incentives available for capital investment, and the interest it pays to fund that investment. 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 capital allowances, which defer some of the corporation tax liabilities until a later period. Customers benefit from this deferral as it helps to keep their bills lower.

Dividends of £100.0 million (excluding intra-group dividends of £96.4 million, 2015: £96.4 million) were paid during the period (2015: £100.0 million).

During the period, new debt of £369.2 million was raised, of which £214.3 million relates to the delayed draw down of a US Private Placement executed in the previous year, the balance being drawings on the company's committed revolving credit facilities. Debt repaid in the period amounted to £394.0 million in respect of €500m 6.25% bonds that matured in June 2016.

The business generated a net cash inflow from operating activities of £334.0million in the six months to 30 September 2016 (2015: £327.2 million).



## 2.0 Regulatory Update

### Water 2020 – Regulation of the industry from PR19

In July Ofwat published an update to its Water 2020 proposals, on which it had consulted previously. The key proposals were as follows:

Water resources	Separate total revenue price control at PR19. Companies to publish relevant information to enable development of a water trading market. Direct procurement - including finance options - expected for suitable projects with whole life costs over £100m.
Sludge ('bioresources')	Separate average revenue price control at PR19. Companies to publish relevant information to enable development of a sludge trading market.
Indexation	Decision made to move away from RPI to either CPI or CPI/H. Customer bills linked to CPI or CPI/H from PR19, 50% RCV at 2020 and any new investment to 2025 will be CPI or CPI/H linked. Set out principles for deciding indexation post 2025.
RCV allocation	Confirm unfocussed allocation to water resources and focussed allocation for sludge. For water resources, companies to propose the RCV allocation (subject to Ofwat approval). Guidance to be issued late 2016. Access pricing regime for water resources will be consulted on. Allocated RCV remains protected.
Timings	Submission of PR19 Business Plans will be 3 September 2018, which better aligns with Water Resources Management Plan timelines. Confirmation that Ofwat will publish early indications on the WACC and outcome return on regulatory equity (RoRE) ranges before business plans are submitted.
Customer engagement	There is a much stronger focus on the importance of customer engagement, the need for more diverse approaches to understanding customers' needs and priorities and co-creation of solutions with customers, and a stronger role for Customer Challenge Groups.
Licence changes	Ofwat committed to work particularly closely with companies who accepted the package of changes (all of the above) on the detail of licence modifications

Anglian Water is closely involved in the development of detail around these proposals as members of various Ofwat working groups and the licence modification working group.

## **Ofwat Cost of Debt Consultation**

In September Ofwat consulted on its future approach to setting the allowed cost of debt. Its proposal was to continue with its previous approach of setting a fixed allowance for all embedded debt but for new debt to be indexed.

Anglian Water's response broadly accepted Ofwat's proposal, although it did recommend minimising further changes given that the sector is already facing complex regulatory developments.

## **Consultation on the final 2010-15 reconciliation**

Ofwat's final PR14 determinations did not account for companies' performance in the final 'blind' year of the AMP5 period. Now 2014-15 performance is known, Ofwat consulted in September on its final reconciliations.

Most of the proposed adjustments were mechanical, arising from differences between forecasts and outturns on capital expenditure, revenue and inflation. A discretionary adjustment was made to reflect Anglian Water's serviceability position for water infrastructure, because the number of properties subject to interruptions to supply over 12 hours in 2014-15 exceeded the upper control limit for the measure due to two exceptional events; Ofwat accepted that one event was outside management control and was excluded, but did not agree an exclusion claim for the other. This will result in a shortfall of £6.0m, which will be applied with any other RCV adjustments at PR19. Performance moved back within acceptable levels in 2015/16 for this metric.

## **Water resources long-term planning framework**

In September, Water UK published its Phase one report on long-term resilience. This was the key output of a national project lead by Anglian Water and chaired by its Regulation Director Jean Spencer.

Using new modelling of droughts, climate change impacts and resilience of public water supplies, the report shows that the risk of drought is much more pronounced than first thought. Extensive measures are needed to manage demand and enhance supplies: the estimated cost of making the water supply more resilient is just £4 per annum per household. By contrast, the impact on the economy of inaction is an estimated £1.3 billion per day. The report also calls for a national policy statement on minimum levels of resilience.

Anglian Water continues to pioneer work that tackles these challenges, through various initiatives, for example Water Resources East.

## **Household Retail Market**

Following the government announcement on 30 November 2015 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, on 19 September 2016 Ofwat published its final analysis.

The report highlighted that Ofwat sees net benefits for customers if they can choose their water retailer. The predicted bill impacts are small, with an average likely saving of £8 per customer per year over 30 years in the most optimistic of the four scenarios tested. The analysis placed significant weight on broader benefits from competition including: a better range and quality of services, innovation and technological advances; the opportunity for customers to choose “bundled” retail services across utilities; and significant reductions in bad debt costs.

In its report, Ofwat cited that 56% of customers believe choice in the water market would be a good thing. However, on average, customers would need a bill saving of around 25% in order to switch. The £8 per year figure from the most optimistic scenario represents around 2% of an average bill. Ofwat also note that customer protection would be needed and appropriate assistance would need to be in place to support vulnerable customers. Ofwat accept there will be significant set-up costs but these could be minimised by learning lessons from the opening of the non-household market. The decision on whether and how to open the household market now rests with Government.

## **Market Reform – Open Water Programme**

During 2016, development of the Open Water programme has continued. A major focus of the last six months has been on building and testing the necessary central IT systems required for the market to operate. It has also seen a broader development of preparations by market participants and Market Operator Services Limited (MOSL) for “shadow market”. Launching on 3 October 2016, the shadow market marks the start of a six-month period in which water companies and

MOSL will operate their systems and processes in an 'as-live' environment. The lessons learnt during this period will help to create better processes and an operationally stable system for when the market goes live in April 2017.

Anglian Water continues to prepare for market opening, with dedicated wholesale and retail change programmes implementing the required changes. Progress against programme plans have been reported to AWG Board and this progress have been independently assured by third-party assurance providers. Anglian Water have also provided its second of three required Board assurance letters setting out their readiness. Anglian Water continues to be fully engaged with the development of the NHH retail market.

### **Water Supply and Sewerage Licensees**

All retailers who wish to participate in the full non-household retail market must hold a Water Supply and/or Sewerage Licence (WSSL) with a retail authorisation. This will replace the current Water Supply Licensing (WSL) regime when the market is live in April 2017. The table below shows the applicants who have successfully applied for a WSSL and their trading name as of 30 September 2016. Of note are the joint venture between United Utilities and Severn Trent to launch 'Water Plus' and the exit from the non-household retail market by Thames Water whose business customers will be supplied by Castle Water upon exit. Anglian Water proposes to also exit from the non-household retail market with its business customers supplied by Anglian Water Business upon exit. Anglian Water Business (National) Limited shares the same ultimate owner in AWG Ltd as Anglian Water Ltd.

<b>WSSL holder</b>	<b>Trading name</b>
Anglian Water Business (National) Limited	Anglian Water Business
Castle Water Limited	Castle Water
Clear Business Water Limited	Clear Business Water
Kelda Retail Limited	Three Sixty
NWG Business Limited	NWG Business
Severn Trent Select Limited	Water Plus
SSWB Limited	SSWB
Sutton and East Surrey Water Services Limited	SES Business Water
United Utilities Water Sales Limited	Water Plus
Water 2 Business Limited	Water 2 Business

## **Water Supply Licensing (WSL)**

The WSL regime is the current retail market arrangement where large business customers using more than 5M/l per annum can switch their retailer for water services (the WSL does not cover sewerage). A total of four premises in the region (a supermarket, a Ministry of Defence site, a department store and a leisure site) have now switched away from Anglian Water.

## **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 wholesale and retail perspectives.

## **Company monitoring framework**

In November Ofwat published its annual assessments of companies' data assurance and the quality of its performance reporting. Anglian Water retained its assessment in the middle band ('targeted'). In its assessment Ofwat said that Anglian Water had met its expectations in most areas of assurance and further had published accurate information and explained it clearly to stakeholders. However, Ofwat said that they had identified minor concerns in three of its assessments.

At an industry level three companies were promoted to the top band ('self-assurance'), while the two companies assigned to that band in 2015 were demoted to 'targeted'. A further two companies were demoted from 'targeted' to 'prescribed', making a total of four companies in that bottom band. Details on the following page:

## Company monitoring framework (Cont.)

	2015	2016
Anglian	Targeted	Targeted
Welsh	Targeted	Targeted
Northumbrian	Targeted	Targeted
Severn Trent	Targeted	Self-assured
South West	Self-assured	Targeted
Southern	Targeted	Prescribed
Thames	Targeted	Targeted
United Utilities	Targeted	Self-assured
Wessex	Targeted	Targeted
Yorkshire	Targeted	Prescribed
Affinity	Self-assured	Targeted
Bristol	Prescribed	Prescribed
Dee Valley	Prescribed	Prescribed
Portsmouth	Targeted	Targeted
South East	Targeted	Self-assured
South Staffs / Cambridge	Targeted	Targeted
Sutton & E Surrey	Targeted	Targeted

## **3.0 Service Performance Overview**

### **Service Incentive Mechanism**

The Service Incentive Mechanism (SIM) consists of two measures, a qualitative measure reflecting the satisfaction of customers with the quality of service received and a quantitative measure reflecting complaints and telephone contacts received by companies. Ofwat undertakes quarterly customer surveys to measure qualitative performance but assesses quantitative data annually. The qualitative measure now accounts for 75% of the overall score.

Anglian Water remains committed to its goal of having 100% of its customers very satisfied with the service they receive. Anglian Water continually invests in new technologies and systems, and reviews its processes in order to improve the service they provide to its customers. After two rounds of qualitative Service Incentive Mechanism (SIM) surveys for 2016/17, Anglian Water's scores have improved on last year, but owing to improvements across all companies Anglian Water have moved to fifth in the league table of water and sewerage companies. Work underway to improve the service proposition and move up the league table includes a review of the ebilling system, further improvements to its digital presence including the website, social customer service and improved live chat propositions, and a number of behavioural change initiatives within the business to further strengthen the service culture at the heart of the operation.

## **4.0 Capital Expenditure**

Gross regulated capital investment in the six months to 30 September 2016 was £166.1 million. This is in line with management expectations, with the level of investment up by £62.3 million compared with the same period last year as more projects move from the design stage to construction.



## **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 overall measure of drinking water quality compliance remained excellent at 99.97% at the end of September, which was the same as in 2015 (Anglian Water's highest ever figure). This is predominantly due to a continued decrease in the number of lead failures at customers' taps as the company continues to deliver our lead strategy. In addition Anglian Water continue to focus on catchment management activities and engagement with the agricultural community in order to reduce the numbers of metaldehyde exceedances, and continue to work and influence at a national level on the future strategy around this pesticide.

At the end of September, Anglian Water had recorded fewer microbiological exceedances at its water treatment works compared to the same period in 2015. There is significant business focus on this crucial measure, and we are currently undertaking our largest ever treated water storage tank inspection and cleaning programme as part of wider detailed action plan.

Anglian Water had no Category 4 ('serious') or Category 5 ('major') drinking water quality events in the first 9 months of 2016, and they received no recommendations from DWI from their assessment of its events or from technical audits.

### **Water Recycling**

Anglian Water remains focused on minimising its impact on the environment. It is forecasting a very slight increase in the number of Category 3 (minor) pollution incidents over the year compared to the lowest ever level it recorded in 2015, having recorded 159 to the end of September 2016. However, Anglian Water's performance is still considerably improved on previous years. The number of Category 2 (significant) incidents has halved from ten to the end of

September 2015, to 5 to the end of September 2016. One serious (Category 1) pollution incident has been recorded in the first six months of 2016-17.

## **Environment**

The confirmed results for the 2016 season are due in November once the Environment Agency sample programme is complete. Indications are that 32 Bathing Waters will achieve the Excellent classification. This is a slight reduction on the 2015 season performance (where we achieved 34 Excellent bathing waters). Third party diffuse pollution is the primary cause although heavy rainfall in June caused the classification to drop at one location. Plans to install additional storm storage at Southend to reduce the spill frequency of CSOs identified as possible risks in AMP 5 are on track for completion ahead of bathing season 2017. Partnerships with Local Authorities are in place across all areas and the Source Apportionment programme (designed to identify third party pollution sources) is on schedule with bathing waters that have declined prioritised for investigation.

## **Water Resources**

Upstream water resources started the year in a healthy situation following above average rainfall during the 2015-16 winter recharge period. Rainfall in the period April 2016 to the end of September 2016 is recorded as 110% of the long term average as a result of notably high rainfall recorded in April (130% of the long-term average) and June (209% of the long-term average). Rainfall since July 2016 has been below average with the three-month average to September 2016 just 79% of the long-term average. Water resources remained secure through the period. Raw water storage reservoirs generally remained close to target levels with the exception of Covenham where abstraction management for water quality limited refill activity. Groundwater levels remained in the normal range for the reporting period. Raw water abstraction assets performed well during the period ensuring continuity of raw groundwater or river water for treatment or storage.

Anglian Water played a leading role in the promotion and development of a national framework to understand vulnerability to severe droughts, climate change, population growth and environmental pressures. The framework, funded and delivered through WaterUK, was published in July 2016 with recommendations relating to the need for national standards for water supply resilience and twin track approaches to maintain the balance between supply and demand. The framework presented a robust cost benefit analysis and technical and economic data to inform company specific water resource management plans.

The multi sector Water Resources East (WRE) project (formerly Water Resources East Anglia) 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 large infrastructure schemes. The outputs from the national framework and WRE will be used to inform our 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

Anglian Water continues to focus on the efficient management of cash resources. Gross debt reduced by £36.3 million during the period, primarily driven by repayment of the 2016 €500.0 million bond. This was refinanced through a £214.3 million US Private Placement transaction issued in March 2016 that settled in April together with £155 million drawn from committed revolving credit facilities; surplus cash balances were used to complete the refinancing.

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 October, Standard and Poor's affirmed the ratings as 'A-' and 'BBB' but revised the Class B outlook to Negative from Stable. 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; Ba3; Corporate Family Rating Ba1

## **7.0 Dividends**

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

1 June 2016 £100.0 million - in relation to 2015/16 final dividend.

## **8.0 Health and Safety**

Several internal campaigns conducted over a number of years have resulted in behaviour changes that have led to continuous improvements in Anglian Water's health and safety metrics. These metrics show that Anglian Water is again industry-leading in 2016/17, with a RIDDOR Accident Frequency Rate of 0.11. The largest of its four delivery partner alliances has recorded zero reportable accidents for the first half of 2016/17.

Anglian Water continue to take an industry-leading position in its approach to process safety, maintaining a central role in the organisation and delivery of the industry's foremost process safety conference in April. Anglian Water also maintained its OHSAS18001 certification during the year, following a ten-day audit by LRQA. This confirms the leading quality of its health and safety management systems.

## 9.0 Significant Board / Management Changes

The Board of Anglian Water Services Ltd comprises:

Dr Stephen Billingham	Chairman appointed		
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
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 30 September 2016, in addition to the Executive Directors referred to above, included:

Claire Russell	Legal Director
Mark Pendlington	Director of Corporate Affairs
Jane Davies	Acting 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
Iain Fry	Director of Information Services, appointed 1 September 2016

Anglian Water will be holding a meeting for investors in London on 2 December 2016.



# Ratios

## 1.0 Historical

Anglian Water confirms that in respect of the six months ended 30 September 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:

	<b>30 Sep 2016</b>	30 Sep 2015	31 Mar 2016
a) The Class A RAR	<b>70.1%</b>	71.8%	71.1%
b) The Senior RAR for each Test Period	<b>80.8%</b>	83.0%	82.2%
c) The Class A ICR	<b>2.8:1</b>	2.8:1	3.5:1
d) The Class A PMICR for each Test Period	<b>n/a</b>	n/a	n/a
e) The Senior PMICR for each Test Period	<b>n/a</b>	n/a	n/a
f) The ratio of Net Cash Flow minus Capital Maintenance Expenditure to Class A Debt Interest	<b>2.0:1</b>	2.2:1	2.4:1
g) The Conformed Class A PMICR for each Test Period <sup>1</sup>	<b>1.6:1</b>	1.7:1	1.9:1
h) The Conformed Senior PMICR for each Test Period <sup>1</sup>	<b>1.4:1</b>	1.5:1	1.6:1

<sup>1</sup> 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, 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 30 Sep 16 £m	Actual Period to 30 Sep 15 £m	Actual Period to 31 Mar 16 £m
Income		604.7	600.2	1,184.7
Operating Expenditure		(273.8)	(273.6)	(563.7)
<b>Pre-capital maintenance cashflows</b>		<b>330.9</b>	326.5	621.0
Capital Maintenance Expenditure		(92.1)	(79.6)	(186.8)
Depreciation		(141.5)	(136.0)	(273.5)
<b>Post-Maintenance cashflow for PMICR</b>		<b>189.4</b>	190.5	347.5
<b>Post-Maintenance cashflow for Net Cash Flow ratio</b>		<b>238.8</b>	246.9	434.1
Net Interest		(131.2)	(125.0)	(211.6)
Enhancement Capital Expenditure		(56.0)	(57.1)	(88.6)
Dividends		(100.0)	(100.0)	(152.2)
<b>Pre-financing cashflows</b>		<b>(48.4)</b>	(35.2)	(18.2)
<b>Interest Payable on Class A Debt:</b>				
Finance Leases		0.0	0.0	(1.4)
Class A Bonds		(117.5)	(114.6)	(179.7)
MBIA Wrap Fees		(2.3)	(2.2)	(2.4)
Less Interest Receivable		1.6	2.2	4.0
Total net Class A debt interest		(118.2)	(114.6)	(179.5)
<b>Interest Payable on Class B Debt</b>				
Class B Bonds		(13.0)	(10.4)	(32.8)
<b>Total Net Interest payable on Senior Debt</b>		<b>(131.2)</b>	(125.0)	(212.3)
<b>Interest Cover Ratios:</b>				
Class A ICR	1.6:1	<b>2.8:1</b>	2.8:1	3.5:1
Senior PMICR	1.1:1	-	-	-
Class A PMICR	1.3:1	-	-	-
Conformed Senior PMICR	1.1:1	<b>1.4:1</b>	1.5:1	1.6:1
Conformed Class A PMICR	1.3:1	<b>1.6:1</b>	1.7:1	1.9:1
Ratio of Net Cash Flow minus Capital Maintenance Expenditure to Class A Debt Interest	1.0:1	<b>2.0:1</b>	2.2:1	2.4:1

## 5.0 Regulatory Asset Ratios (RAR)

Regulatory Asset ratios	Trigger/Default	As at 30 Sep 16 £m	As at 30 Sep 15 £m	As at 31 Mar 16 £m
<b>Class A Gross Debt:</b>				
Finance Leases		(38.3)	(43.1)	(38.3)
Class A Bonds etc		(5,311.2)	(5,538.3)	(5,308.3)
Total Class A Gross Debt		(5,349.5)	(5,581.4)	(5,346.6)
Less cash balances and Authorised Investments		345.3	656.2	418.4
Total Class A Net Debt		(5,004.2)	(4,925.2)	(4,928.2)
Class B		(766.5)	(766.5)	(766.5)
Total Senior Net Debt		(5,770.7)	(5,691.7)	(5,694.7)
<b>Regulatory Asset Value (RAV)</b>		<b>7,141.4</b>	6,860.4	6,926.5
<b>Regulatory Asset ratios:</b>				
Senior RAR (Actual)	85.0%	<b>80.8%</b>	83.0%	82.2%
Class A RAR (Actual)	75.0%	<b>70.1%</b>	71.8%	71.1%

The Regulatory Asset Value is based on Ofwat's published numbers in April 2016.

## 6.0 Regulatory Performance

Regulatory Performance Data		As at 31 Mar 16 £m
<b>FD Wholesale Totex</b>		
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
<b>FD PAYG %</b>		
PAYG % water	12/13 prices	57.5%
PAYG % wastewater	12/13 prices	63.9%
<b>FD fast money</b>		
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
<b>FD slow money</b>		
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
<b>FD tax</b>		
Tax in revenue building block	12/13 prices	15.7
Tax in revenue building block	Outturn prices	16.4
<b>Comparison FD wholesale allowances vs actual wholesale spend</b>		
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)
<b>Reconciliation to post maintenance cashflow</b>		
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)
<b>Other information</b>		
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
Enhancement - 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
<b>Calculation of RCV</b>		
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 2016 £m	New Issues £m	Repayment £m	Indexation £m	Closing Balance 30 Sep 2016 £m
Finance Leases	38.7		(0.0)		38.7
US Private Placements	0.0				0.0
Transferring Bonds:					
4.125% ILLS 2020	234.7			1.5	236.2
6.875% Fixed 2023	200.0				200.0
6.625% Fixed 2029	200.0				200.0
A 4 Notes - 5.837% Fixed 2022	250.0				250.0
A 6 Notes - 3.07% ILLS 2032	298.3			1.9	300.2
A 7 Notes - 3.07% ILLS 2032	89.9			0.3	90.2
A 8 Notes - 6.293% Fixed 2030	246.0				246.0
A 11 Notes - 3.666% ILLS 2024	111.9			0.7	112.58
B 17 Notes - 5.5% Fixed 2017/2040	150.0				150.0
A 18 Notes - 2.4% ILLS 2035	552.2			4.7	556.9
A 19 Notes - 1.7% ILLS 2046	66.9			0.4	67.3
A 20 Notes - 1.7% ILLS 2046	66.9			0.4	67.3
A 21 Notes - 1.7146% ILLS 2056	53.5			0.4	53.9
A 22 Notes - 1.6777% ILLS 2056	66.9			0.5	67.3
A 23 Notes - 1.7903% ILLS 2049	80.3			0.5	80.9
A 24 Notes - 1.3825% ILLS 2056	66.9			0.5	67.3
A 25 Notes - 1.3784% ILLS 2057	133.9			0.9	134.8
A 26 Notes - LIBOR Plus 0.34%	100.0				100.0
A 27 Notes - 1.449% ILLS 2062	96.1			0.5	96.6
A 28 Notes - 1.52% ILLS 2055	64.0			0.3	64.3
A 29 Notes - JPY 15bn 2.925% 2018/2037	65.9				65.9
A 30 Notes - LIBOR Plus 0.85%	110.0				110.0
A 31 Notes - JPY 5bn 3.22% 2019/2038	25.1				25.1
A 32 Notes - Euro 500m 6.25% 2016	394.0		(394.0)		0.0
A 33 Notes - 6.875% Fixed 2034 Private Placement	25.0				25.0
B 34 £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			0.6	61.8
European Investment Bank £50m 1.3% Term Facility 2020	60.2			0.5	60.7
A 35 Notes - £130M 2.262% IL Bond 2045	154.1			1.3	155.4
Index Linked Swaps	68.9			5.2	74.1
<b>Sub Total</b>	<b>4,131.5</b>	<b>0.0</b>	<b>(394.0)</b>	<b>21.2</b>	<b>3,758.7</b>

Contd	Opening Balance 31 Mar 2016 £m	New Issues £m	Repayment £m	Indexation £m	Closing Balance 30 Sep 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	82.1			0.7	82.8
European Investment Bank £75m 0.79% index linked amortising term facility 2027	82.1			0.7	82.8
A38 Notes - £250m 4.5% 2027	250.0				250.0
A39 Notes - £319m 4.0% Private Placement 2022	319				319
A40 Notes - £73.3m 4.4% Private Placement 2028	73.3				73.3
A41 Notes - £50m 2.05% IL Private Placement 2033	53.0			0.1	53.2
A42 Notes - £15m 1.37% IL Private Placement 2022	16.2			0.5	16.6
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			14	160.6
B46 Notes - £200m Class B 4.5% 2026	200.0				200.0
A47 Notes - £35m 1.14% IL Bond 2042	36.9			0.3	37.2
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			0.6	67.6
European Investment Bank £125m 0.1% index linked amortising term facility 2029	127.3			1.2	128.5
European Investment Bank £60m 0.01% index linked amortising term facility 2030	60.8			0.6	61.4
£500m RCF 2020		125.0			125.0
Bilateral RCF 2018		30.0			30.0
\$ 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
	<b>6,113.6</b>	<b>369.3</b>	<b>(394.0)</b>	<b>27.2</b>	<b>6,116.0</b>
	<b>(6,113.6)</b>				<b>(6,116.0)</b>
	0.01				0.01

<sup>1</sup> Before accounting adjustments which are not within the CTA definition of Net Debt.



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

For the six months ended 30 September 2016

	Underlying results £m	Other items <sup>1</sup> £m	Total Six months ended 30 September 2016 £m	Total Six months ended 30 September 2015 £m
Revenue	620.9	-	620.9	607.2
Other operating income	7.0	-	7.0	6.5
Operating costs	(267.7)	-	(267.7)	(273.9)
Depreciation and amortisation	(153.3)	-	(153.3)	(146.8)
Operating profit	206.9		206.9	193.0
Finance income	1.4	96.4	97.8	98.5
Finance costs	(133.5)	-	(133.5)	(129.8)
Fair value losses on derivative financial instruments	-	(238.7)	(238.7)	(40.6)
Net finance costs	(132.1)	(142.3)	(274.4)	(71.9)
(Loss)/Profit before taxation	74.8	(142.3)	(67.5)	121.1
Taxation credit/(charge)			78.6	(1.5)
Profit after taxation			11.1	119.6
Dividend to AWS Holdings Ltd			(96.4)	(96.4)
Dividend to AWG Group Ltd			(100.0)	(100.0)
Transfer from reserves			(185.3)	(76.8)

<sup>1</sup>Other items comprise fair value losses on derivative financial instruments and energy hedges of £238.7m (2015: £40.6m) and intra-group interest income of £96.4m (2015: £96.4m).

## 9.0 Anglian Water Services Group – Balance Sheet

		£m	£m	£m
<u>Non-current assets</u>				
Intangible assets				138.9
Property, plant and equipment				9,447.3
Investments				1,602.6
Derivative financial instruments classified as current and non-current assets				272.0
Retirement benefit surpluses				1.0
Net current liabilities excluding cash and debt repayable in less than one year				(59.8)
Retirement benefit obligations				(173.7)
Derivative financial instruments classified as current and non-current liabilities				(1,184.7)
Creditors amounts falling due after more than one year excluding debt				(1,404.5)
Cash and cash equivalents	Payments Account	233.1		
	Tax Reserve	100.0		
	Debt Service	12.4	345.5	
Financing liabilities	Bonds (excluding accrued interest)	(6,077.3)		
	Finance leases	(38.7)		
	Other <sup>1</sup>	(231.7)	(6,347.7)	
	Net Debt (excluding derivatives)			(6,002.2)
<b>Net assets</b>				<u>2,636.9</u>
Capital and reserves	Share capital			10.0
	Reserves b/f			3,004.1
	Actuarial loss on pension schemes			(153.9)
	Transfer to reserves for the period			(185.3)
	Gain on cash flow hedges			(38.0)
<b>Capital and reserves</b>				<u>2,636.9</u>

<sup>1</sup> Accounting adjustments that are not within the CTA definition of net debt (capitalised issue costs, accrued interest and IAS39 adjustments).

## 10.0 Anglian Water Services Group – Calculation of Annual Finance Charge

Instrument	Actual Interest Paid to 30 Sep 16 £m	Forecast Interest Payable to 31 Mar 17 £m
Class A Debt		
AAA Wrapped Bonds	17	28
A- Bonds	92	147
US Private Placements	8	19
Other	1	2
Class B Debt		
BBB Bonds	6	13
US Private Placements	11	22
Annual Finance Charge	135	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 30/09/16				
External Swap Counterparty	Nominal Swap Amount £m	MTM Positive Values £m	MTM Negative Values £m	MTM Total Values £m <sup>2</sup>
BNP	419.3	40.1	(100.7)	(60.6)
Morgan Stanley	133.0	3.4	(62.1)	(58.7)
Lloyds Bank	926.7	49.9	(68.2)	(18.3)
JP Morgan	175.0	0.0	(173.5)	(173.5)
RBS	533.2	70.9	(602.0)	(531.1)
HSBC	33.0	4.6	0.0	4.6
Barclays	250.0	0.0	(57.5)	(57.5)
SMBC	75.0	7.3	0.0	7.3
SMBC Nikko Capital Markets	50.0	0.0	(31.0)	(31.0)
Bank of Nova Scotia	100.0	0.0	(62.0)	(62.0)
CBA	401.9	103.7	(0.1)	103.6
Santander	943.4	65.0	(81.1)	(16.1)
<b>Anglian Water<sup>1</sup></b>	<b>4,040.4</b>	<b>344.8</b>	<b>(1,238.0)</b>	<b>(893.2)</b>

**Notes**

- All Interest Rate Swaps are transacted under ISDA agreements between Anglian Water Services Financing Plc and External Swap Counterparty.
- Valuations are clean and exclude accrued interest to valuation date.
- 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.