

Anglian Water Services Financing Plc

Anglian Water Services Limited

Investor Report

For the year ended 31 March 2015

Prepared in accordance with International Financial Reporting Standards
(IFRS)



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 2015.

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 2015.

1.0 Financial Performance for the year ended 31 March 2015

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 table¹ below:

	2015 Total £m	2014 Total £m
Revenue	1,244.3	1,214.0
Other operating income	12.9	12.3
Operating costs ¹	(523.9)	(485.4)
Depreciation and amortisation	(280.7)	(272.0)
Underlying operating profit	<u>452.6</u>	<u>468.9</u>
Finance income (adjusted) ²	4.2	4.9
Finance costs ¹	(274.8)	(305.9)
Underlying profit before tax	<u>182.0</u>	<u>167.9</u>

¹In 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 £192.3 million (2014:£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

	2015	2014
	Total	Total
	£m	£m
Underlying profit before tax	182.0	167.9
Operating costs – Fair value losses on energy hedges	(0.8)	(5.4)
Finance costs – Fair value (losses)/gains on financial derivatives	(212.8)	86.4
Finance income – Intra-group interest receivable	192.3	192.3
Profit before tax as reported in the statutory income statement	160.7	441.2

Revenue

Revenue for the year was £1,244.3 million, up 2.5 per cent on last year. This reflects an inflationary price increase of 2.6 per cent offset by a small reduction in demand due to the wet spring of 2014 and a relatively cool summer, by comparison to the prior year. The decision not to pass on the full regulatory price increase meant that customer bills were reduced by around £10 million for the year.

Other operating income comprises primarily the amortisation of developer contributions received in respect of new housing developments, and is up on last year in line with the increase in growth.

Operating Costs

Operating costs for the year increased by £38.5 million (7.9 per cent) to £523.9 million (2014: £485.4 million). Details of which are shown in the table below.

Increases/(decreases) in operating costs	£m
One off savings in 2014 of a non-recurring nature (principally rate rebates of £10 million, plus power credits and land sales of £5.5 million)	15.5
General inflationary increases	13.4
Increase in minor repair activities to improve waste water serviceability and water leakage (this would have been classified as capital expenditure under UK GAAP)	10.3
Increase in rates	4.5
Operating cost of newly commissioned plant	2.9
Increase in tankering costs due to extreme wet weather events	2.9
Bad debt charge	0.7
Net power increase – due to rate increases including CRC of £1.4m, partially offset by savings and non-recurring credits	0.6
Other miscellaneous increases	2.0
Non-recurring cash rebate in respect of prior year contributions to the EA’s environmental improvement scheme	(5.2)
Cost and efficiency savings	(9.1)
Net increase in operating costs	38.5

The bad debt charge was £33.1 million, which is up modestly on last year's charge of £32.4 million. Expressed as a percentage of turnover the bad debt charge for 2015 was 2.66% compared with 2.67% in the prior year.

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 programmes.

Underlying operating profit

Underlying operating profit has reduced by 3.5 per cent to £452.6 million, reflecting the increase in operating costs and depreciation noted above, which following the decision to not implement the full rise in bills, was only partially offset by the increase in turnover.

Depreciation

	2015	2014
	£m	£m
Depreciation of property, plant and equipment	256.2	250.7
Amortisation of intangible assets	24.5	21.3
Total depreciation charge	280.7	272.0

Depreciation is up 3.2 per cent compared to last year, consistent with a higher charge for depreciation on newly commissioned operating assets.

Finance Costs

Net finance costs, excluding the intra-group interest receivable of £192.3 million (2014: £192.3 million) and before fair value gains and losses on derivative financial instruments, decreased by 10.1 per cent from £301.0 million in 2014 to £270.6 million in 2015. This was primarily the result of the non-cash impact of lower inflation on index-linked debt, and savings in coupon interest payable due to new debt being issued at lower rates than debt repaid.

There was a non-cash fair value loss of £212.8 million on derivative financial instruments (excluding energy derivatives) in 2015, compared to a fair value gain of £86.4 million in 2014, due to movements in market expectations of long-term interest, inflation and exchange rates. The fair value loss has no commercial or economic impact on the group's operations or customers, and should be looked through to properly assess the underlying performance of the business. The main factor for the gain in 2014 becoming a loss in 2015 was the movement in the yield curve which fell by 90 basis points during the year, compared with an increase of 70 basis points in 2014 which resulted in fair value gains. During the year forward inflation rates decreased by 40 basis (2014: a decrease of 30 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

The underlying profit before tax for the year was £182.0 million, compared with a profit of £167.9 million for the prior year. This reflects the fall in operating profit referred to above, more than offset by the reduced finance costs due to lower inflation.

Taxation

	2015	2014
	£m	£m
Current tax charge	12.6	22.4
Deferred tax credit	(46.9)	(156.3)
Total tax credit	(34.3)	(133.9)

Current tax

The current tax charge for the year was £12.6 million (2014: £22.4 million). This reflects a reduction in the corporation tax rate from 23 per cent to 21 per cent for the year and an increased prior year adjustment due to reaching agreement with HMRC over the treatment of certain capital expenditure at our treatment works. This is partially off-set by an increase in profits (before fair value movements) and a lower level of capital allowances claimed on the substantial capital investment we make to improve the service to customers.

Deferred tax

The deferred tax credit has reduced from £156.3 million to £46.9 million. The prior year included the impact of the reduction in future tax rates used to calculate deferred tax from 23 per cent to 20 per cent which gave rise to a credit of £188.0 million under IFRS. Without this credit there would have been a charge in the previous year of £31.7 million. 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 the transfer of non-qualifying assets which previously qualified for Industrial Building Allowances to the Long Life Asset pool.

Total tax paid or collected in the year to 31 March 2015, other than corporation tax, amounted to £174 million (2014: £167 million) of which £56 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 2015 Anglian Water raised £185.0 million of new funds and made debt repayments of £69.7 million. The £185.0 million of new debt raised during the year comprised two tranches (£125.0 million and £60.0 million) of European Investment Bank index-linked funding. Debt repayments comprised: £8.9 million of finance leases and the remaining £60.8 million of the £100.0 million 6.75 per Class-B 2014 bond following a tender offer for £39.2 million in March 2013.

At 31 March 2015 Anglian Water had net borrowings (excluding the fair value of derivative financial instruments) of £5,649.2 million, an increase of £136.7 million over the prior year. Net borrowings comprised a mixture of fixed, index-linked and variable rate debt of £6,406.7 million, and cash and deposits of £757.5 million. The increased net borrowings reflect an increase of £206.8 million in loans and associated costs, primarily relating to new debt raised and the impact of inflation on index-linked debt; and an increase of £70.1 million in cash and deposits (which causes net debt to decrease).

The business generated a net cash inflow from operating activities of £708.6 million in the year to 31 March 2015 (2014: £691.9 million).

2.0 Regulatory Update

PR14

Ofwat published its final determinations of price controls for the period 2015-20 in December.

- The gap between our forecast of Totex and Ofwat's assessment reduced from £61m in August's draft determination to £11m.
- There was no short falling of RCV due to poor service standards or failure to deliver the requirements of the AMP5 contract.
- The wholesale weighted average cost of capital was reduced from 3.70% to 3.60%
- Overall bills will fall by 9% over AMP6 in real terms compared to 2014-15.

Anglian Water accepted the final determination early in January. The only company not to do likewise was Bristol Water, which for the second successive price review has asked Ofwat to refer its PR14 final determination to the Competition and Markets Authority (CMA). The main ground for Bristol's appeal is Ofwat's wholesale cost assessment. The CMA's determination of Bristol's price limits is expected in September.

AMP6 performance reporting

In February Ofwat published its assessments of companies' assurance categories for AMP6 performance reporting. Anglian was allocated to the middle level, 'targeted assurance', along with most of the industry. The only companies to be allocated to the higher, 'self-assurance' category were the enhanced companies, South West and Affinity.

The proposed process for companies in the targeted assurance category will be as follows:

- Companies will be required to publish an assessment each autumn of the risks, strengths and weaknesses arising in their provision of quality information
- For areas of weakness companies will be required to publish assurance plans that follow Ofwat guidance
- In other areas companies will be treated like self-assurance companies, with discretion over the assurance activities they carry out.

Ofwat Rulebook – RCV Adjustments

Between PR14 draft and final determinations, Ofwat changed its view on how it should have made adjustments to companies' RCVs under the capital incentive scheme to reflect the differences between allowed and actual capex for the AMP5 period. The difference related to the use of actual rather than assumed RPI and resulted in higher RCV's being used in the AMP6 price determination.

Concerned about the impact on investor confidence and making retrospective changes to published methodology, the Ofwat board decided to continue with the draft determination approach for the final determination but to seek to remove the benefit from companies' RCVs at PR19. Ofwat are currently consulting on a 'PR14 rule book', Ofwat has sought the views of companies on how to make the adjustment, if any.

Market Reform – Open Water Programme

During 2014-15 development of the Open Water Programme has continued. This has resulted in the publication of Market Architecture Plan version two in December 2014. A further iteration, MAP3 was published in May 2015. Anglian Water have been fully engaged with the development of the materials which will underpin the NHH retail market.

The next stage of the programme relates to the tender for the design and development of the central market systems required for the market to operate, and is now underway.

Ahead of the separate retail price control and this greater retail competition in the future, Anglian Water continues to prepare for market opening.

Competition Act compliance

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

Water Supply Licensing (WSL)

Two premises in the region (a supermarket and Ministry of Defence site) have now switched under the WSL regime. There have also been additional applications for Water Supply Licences which is an indication of potential increasing activity nationally or preparation for the full NNH retail market in 2017.

Ofwat Casework update

After several years of deliberation, Ofwat published its Final determination relating to the bulk supply and discharge prices in relation to the Priors Hall inset served by an incumbent, IWNL. Ofwat concluded that the Large User Tariff (LUT) is the appropriate basis for charging. Within this Determination, Ofwat confirmed its view (which the Company opposed) that the use of a higher cost of capital for the downstream entity remains appropriate.

Ofwat also published its draft determination relating to the recovery of contributions in relation to a strategic main delivering water to customers in the west of the region from Wing water treatment works. In this draft determination Ofwat proposed to significantly reduce the value of contributions that should have been collected from developers for this infrastructure project. Ofwat's view is that the difference should have been collected from the generality of existing customers rather than developers and they will add any difference in contributions as a result of their determination to the RCV to enable this recovery. Final determination on this case is expected in the summer.

In December 2011, Ofwat issued a Statement of Objections to Anglian Water alleging infringement of the Competition Act 1998 in respect of the approach to pricing supplies to a housing development at Milton Keynes. Correspondence and communications have been ongoing and on 25 April 2014 Ofwat issued a Supplementary Statement of Objections and a press release to say that further investigation is required before a decision could be taken, but gave no indication of when this process would be concluded. Anglian Water responded to this Supplementary Statement of Objections in July 2014. Confirmation is awaited of next steps from Ofwat. If Ofwat ultimately rule against Anglian Water, the matter is expected to be immaterial in the context of the overall business.

3.0 Service Performance Overview

Service Incentive Mechanism

Although there have been no formal, comparative SIM surveys conducted by Ofwat this year, Anglian Water has continued to use its own SIM-tracker survey to monitor and improve performance. While it is not possible to compare Anglian Water's performance with other companies within the year, a score of 85 (87 in 2013 / 14) shows consistent performance against Anglian Water's ambition for 100% of customers to be very happy with the service they receive.

Anglian Water's own Voice of the Customer team also speaks to customers every week to see how satisfied they are with how their issues are resolved. Results from this survey have been good, with more than 96 per cent saying they were satisfied, or better, with the service they received.

The way SIM scores are calculated will change in 2015/16. Anglian Water have participated in a number of trials this year to shape the programme, and Anglian Water will now update its tracking to mirror the new system. Anglian Water will continue to innovate in customer service to retain its leading position.

4.0 Capital Expenditure

AMP5 gross capital expenditure¹ in the appointed business for the year was £438.7 million (£217.1 million on capital maintenance, £221.6 million on capital enhancement), compared to £424.3 million in 2014. This includes £57.0 million of AMP6 transition programme expenditure referred to below.

Significant projects delivered during this year include completing the new £45 million Hall water treatment works in Lincolnshire to meet the demands of the growing population in the area, a £7 million scheme to support growth in Cambridgeshire and an £8 million scheme for Bury St Edmunds.

Over the five years of AMP5 Anglian Water invested c.£2.1 billion (net of efficiencies) in its capital programme and delivered the original business plan in terms of regulatory outputs. Anglian Water delivered substantial cost efficiencies against its Final Determination over AMP5, enabling the reinvestment of £235 million to further support resilience and the protection of customer supply.

Anglian Water delivered an impressive 54 per cent reduction in embodied carbon in the schemes being delivered this year compared to the 2010 baseline. As embodied carbon is a natural proxy for the use of finite materials and energy used in building new assets, Anglian Water's approach is not only good for the environment but also provides significant business efficiencies with a proven link between reducing carbon and reducing costs. Anglian Water's supply chain's commitment to supporting this has been key to delivering the carbon reduction. By helping to challenge traditional construction methods and solutions, alongside enabling the use of innovative techniques, even more stretching targets have been set for the next AMP period.

¹ Stated on a UK GAAP basis to be consistent with Final Determination against which our programme delivery is measured. On an IFRS basis and excluding capitalised interest, gross capex for the appointed business was £406.7 million (2014: £410.2 million).

Alongside the AMP5 programme, Anglian Water also delivered a £57.0 million AMP6 Transition Programme. This early AMP6 spend enabled Anglian Water to mitigate the loss of efficiency resulting from the dip in activity from one AMP period to another, and reduces pressure on the supply chain caused by the stop-start approach experienced in previous AMP transition periods. By starting design work on AMP6 schemes early, this enabled construction through the summer months and ensured the delivery of Anglian Water's early AMP6 outputs both efficiently and in line with regulatory and customer commitments.

An additional £1.2 million was spent on the non-appointed business, half of which related to completion work for two wind turbines installed at the end of the previous year as part of Anglian Water's renewable energy commitment, and the remainder for various system and office developments. Self-generation from renewable sources for 2014/15 was 100 GWh (14.1 per cent of total consumption), compared to 64.1GWh in 2013/14 (8.9 per cent).

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 for drinking water quality compliance saw a slight decline for the year with a mean zonal compliance figure of 99.95% (2013: 99.96%). This figure is subject to confirmation by the annual DWI Chief Inspector's Report for 2014 which will be published in July 2015. Performance against key DWI indices continues to be consistent with Anglian Water's previous performance.

There was an increase on the 2013 figures in the number of events that DWI classified as category 3 (23 confirmed, 1 pending DWI confirmation) this was due to an increase in events associated with media interest, which was a change from the previous year (13 in 2013, 11 in 2012, 3 in 2011, 13 in 2010, 7 in 2009). As a result of a general increase in media related incidents across the industry the DWI plan to review their reporting requirements in the context of increasing use of social media. There was one category 4 "serious" event this year but DWI did not make any recommendations for improvements in relation to this event.

Water Recycling

2014 was a good year for Water Recycling Centre compliance with only 9 failing numerical consents compared to 14 in 2013.

There were 9 serious pollution incidents in 2014, which was the same as in 2013. Overall the number of pollution incidents remained stable.

Environment

Bathing Waters achieved 100% compliance with the European Bathing Water Directive for a record 13th consecutive year. Over 90% of them also achieved the higher Guideline standard, with 14 beaches able to fly the coveted Blue Flag.

Anglian Water's industry-leading *Keep It Clear* campaign has continued during 2014/15 and plays a key role in achieving its business goal of 'no pollutions'. The campaign targets domestic customers, restaurants and take-away food outlets in pollution 'hot spots' with innovative campaign techniques designed to inspire behavioural change on the inappropriate disposal of fats, oils, greases and unflushable items. On average, blockages have reduced by 52 per cent in areas where campaigns have been running for more than a year. Partnerships with Sainsbury's and Waitrose supported our community engagement work in 2014/15, alongside taking the campaign into schools with a series of special assemblies, and the production of a short film targeted at young people. The campaign won Business in the Community's 'Engaging Customers on Sustainability' Award in July 2014, beating Thames Water and Waitrose in the final.

Water Resources

Upstream groundwater and surface water resources started the year in a healthy situation due to the high rainfall recorded during the previous winter period. The period April 2014 to the end of September 2014 was characterised by changeable weather patterns. Regional rainfall in May was double the long term average and August was one of the wettest on record. By contrast, September was one of driest on record such that rainfall for the period ended up as 109% of the long-term average. Water resources remained secure through the period with reservoirs remaining above target storage levels and river flows largely in the normal range. Groundwater levels also remained in the normal range, although seasonal recovery was delayed somewhat by the low rainfall in September.

Regional rainfall is recorded as 108% of long term average for the period October 2014 to March 2015. These average conditions ensured that reservoir storage levels and groundwater levels remained in the normal to above normal range for the period. Upstream resources are now secure through to the start of the 2015/2016 winter recharge period.

Raw water abstraction assets performed well during the year ensuring that reservoir refill opportunities were maximised. Hollowell reservoir was offline for several months due to pesticide contamination during which time supply was maintained from Ravensthorpe reservoir. Capital schemes to secure additional raw water resources for supply and drought resilience continued during the reporting period.

In July 2014, Anglian Water received formal direction from the Secretary of State to publish an updated Water Resources Management Plan for the period 2015 to 2040. The plan shows how Anglian Water plans to maintain the balance between supplies and demand in an area of population growth, significant environmental pressures and at risk of climate change. Direction was also received to publish an updated Drought Plan at the same time.

Anglian Water continued to work with Defra to further understand the potential impact of water resource abstraction reform proposals on the security of the upstream water resource.

6.0 Financing

The Rating Agencies have been issuing frequent publications for credit investors as Ofwat made announcements in respect of the AMP6 price review. In March 2015 Moody's affirmed the ratings of Anglian Water as stable, and Fitch affirmed ratings which remain with a negative outlook. Standard and Poors completed its review of Anglian Water in September 2014 and affirmed the ratings at the current level.

Moody's: Class A A3; Class B Baa3; stable outlook
Standard & Poors: Class A A-; Class B BBB; stable outlook
Fitch Ratings: Class A A ; Class B BBB+; negative outlook

New funds (on a gross basis) of £185.0 million were raised during the year. This comprised two tranches (£125.0 million and £60.0 million) of European Investment Bank index-linked funding and the proceeds were used to finance capital expenditure.

A £500m revolving credit facility, maturing in March 2020 was put in place in March 2015 to replace the £420m revolving credit facility maturing in 2016. The revolving credit facility was undrawn as at 31 March 2015.

Anglian Water continues to focus on the efficient management of cash resources.

7.0 Dividends

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

30 May 2014	£1111.0 million	- in relation to the 2013/14 final dividend.
28 November 2014	£69.2 million	- in relation to the 2014/15 interim dividend.

8.0 Significant Board / Management Changes

The Board of Anglian Water Services Ltd comprises:

Stephen Billingham	Chairman appointed 01 April 2015 (previously Independent Non-Executive Director, appointed 26 November 2014)	
Peter Simpson	Chief Executive) 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 and Chair of the Audit Committee, appointed 01 April 2015	
Christopher Garnett	Independent Non-Executive Director, appointed Senior Independent Non-Executive Director for AWS on 22 January 2015	
Robert Napier	Independent Non-Executive Director (previously Non-Executive Chairman)	
John Watkinson	Independent Non-Executive Director	
Paul Whittaker	Independent Non-Executive Director	
James Bryce	Non-Executive Director appointed 1 December 2014	
Andrew Cox	Non-Executive Director	
Christian Seymour	Non-Executive Director	
Niall Mills	Non-Executive Director	

The following Directors resigned during the year:

Sir Adrian Montague	Non-Executive Chairman, resigned 22 January 2015
Andreas Koettering	Non-Executive Director, 1 December 2015

Anglian Water is managed by the AWS Management Board, which, as at 31 March 2015, 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 5 June 2015.

Ratios

1.0 Historical

Anglian Water confirms that in respect of the year ended 31 March 2015, 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 2015	31 Mar 2014
a) The Class A RAR	68.4%	67.7%
b) The Senior RAR for each Test Period	79.2%	79.6%
c) The Class A ICR	4.2:1	3.7:1
d) The Class A PMICR for each Test Period	2.2:1	1.9:1
e) The Senior PMICR for each Test Period	1.9:1	1.6:1
f) The Conformed Class A PMICR for each Test Period ¹	2.2:1	
g) The Conformed Senior PMICR for each Test Period ¹	1.9:1	
h) The ratio of Net Cash Flow minus Capital Maintenance Expenditure to Class A Debt Interest	3.1:1	2.5:1

¹ CCD and IRC have been used as the depreciation of RCV as at 31 March 2015. The method of calculating the depreciation of RCV is changing for AMP6.

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 15 £m	Actual Period to 31 Mar 14 £m
Income		1,212.4	1,170.4
Operating Expenditure		(463.6)	(450.5)
Pre-capital maintenance cashflows		748.8	719.9
Capital Maintenance Expenditure		(193.5)	(227.9)
<i>IRC & CCD</i>		<i>(357.6)</i>	<i>(354.4)</i>
Post-Maintenance cashflow for PMICR		391.2	365.5
Post-Maintenance cashflow for Net Cash Flow ratio		555.3	492.0
Net Interest		(209.8)	(223.5)
Enhancement Capital Expenditure		(200.1)	(206.0)
Customer Rebates		10.5	(10.5)
Dividends		(180.2)	(202.1)
Pre-financing cashflows		(24.3)	(150.1)
Interest Payable on Class A Debt:			
Finance Leases		(1.7)	(2.0)
Class A Bonds		(177.7)	(195.4)
MBIA Wrap Fees		(2.4)	(2.3)
Less Interest Receivable		4.0	5.2
Total net Class A debt interest		(177.8)	(194.5)
Interest Payable on Class B Debt			
Class B Bonds		(32.0)	(29.0)
Total Net Interest payable on Senior Debt		(209.8)	(223.5)
Interest Cover Ratios:			
Class A ICR	1.6:1	4.2:1	3.7:1
Senior PMICR	1.1:1	1.9:1	1.6:1
Class A PMICR	1.3:1	2.2:1	1.9:1
Conformed Senior PMICR ¹	1.1:1	1.9:1	
Conformed Class A PMICR ¹	1.3:1	2.2:1	
Ratio of Net Cash Flow minus Capital Maintenance Expenditure to Class A Debt Interest	1.0:1	3.1:1	2.5:1

¹ CCD and IRC have been used as the depreciation of RCV as at 31 March 2015. The method of calculating the depreciation of RCV is changing for AMP6.

5.0 Regulatory Asset Ratios (RAR)

Regulatory Asset ratios	Trigger/Default	As at 31 Mar 15 £m	As at 31 Mar 14 £m
Class A Gross Debt:			
Finance Leases		(43.1)	(52.0)
Class A Bonds etc		(5,589.6)	(5,332.8)
Total Class A Gross Debt		(5,632.7)	(5,384.8)
Less cash balances and Authorised Investments		767.2	676.2
Total Class A Net Debt		(4,865.5)	(4,708.6)
Class B		(766.5)	(827.3)
Total Senior Net Debt		(5,632.0)	(5,535.9)
Regulatory Asset Value (RAV)		7,113.0	6,954.4
Regulatory Asset ratios:			
Senior RAR	85.0%	79.2%	79.6%
Class A RAR	75.0%	68.4%	67.7%

The Regulatory Asset Value is based on Ofwat's published numbers in April 2014 and April 2015.

6.0 Anglian Water Services Group – Movements in Debt Balances

	Opening Balance 31 Mar 2014	New Issues	Repayment	Indexation	Closing Balance 31 Mar 2015
	£m	£m	£m	£m	£m
Finance Leases	51.8		(8.8)		43.0
US Private Placements	0.0				0.0
Transferring Bonds:					
4.125% ILLS 2020	227.2			5.1	232.3
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	288.8			6.5	295.3
A7 Notes - 3.07% ILLS 2032	87.1			1.9	89.0
A8 Notes - 6.293% Fixed 2030	246.0				246.0
A11 Notes - 3.666% ILLS 2024	108.3			2.4	110.7
B12 Notes - 7.882% Fixed 2012/37	0.0				0.0
A16 Notes - 5.25% Fixed 2015	250.0				250.0
B17 Notes - 5.5% Fixed 2017/2040	150.0				150.0
A18 Notes - 2.4% ILLS 2035	535.8			10.7	546.5
A19 Notes - 1.7% ILLS 2046	64.8			1.4	66.2
A20 Notes - 1.7% ILLS 2046	64.5			1.5	66.0
A21 Notes - 1.7146% ILLS 2056	51.9			1.1	53.0
A22 Notes - 1.6777% ILLS 2056	64.8			1.4	66.2
A23 Notes - 1.7903% ILLS 2049	77.8			1.7	79.5
A24 Notes - 1.3825% ILLS 2056	64.6			1.4	66.0
A25 Notes - 1.3784% ILLS 2057	129.3			2.8	132.1
A26 Notes - LIBOR Plus 0.34%	100.0				100.0
A27 Notes - 1.449% ILLS 2062	92.1			2.3	94.4
A28 Notes - 1.52% ILLS 2055	61.4			1.5	62.9
A29 Notes - JPY 15bn 2.925% 2018/2037	65.9				65.9
A30 Notes - LIBOR Plus 0.85%	110.0				110.0
A31 Notes - JPY 5bn 3.22% 2019/2038	25.1				25.1
A32 Notes - Euro 500m 6.25% 2016	394.0				394.0
A33 Notes - 6.875% Fixed 2034 Private Placement	25.0				25.0
B34 £100m Class B 6.75% Bond Fixed to Floating 2024	60.9		(60.9)		0.0
European Investment Bank £50m 1.626% Term Facility 2019	59.5			1.0	60.5
European Investment Bank £50m 1.3% Term Facility 2020	58.5			1.0	59.5
A35 Notes - £130M 2.262% IL Bond 2045	149.9			2.4	152.3
Index Linked Swaps	116.8			17.0	133.8
Sub Total	4,431.8	0.0	(69.7)	63.1	4,425.2

Cont.	Opening Balance 31 Mar 2014 £m	New Issues £m	Repayment £m	Indexation £m	Closing Balance 31 Mar 2015 £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	79.8			1.3	81.1
European Investment Bank £75m 0.79% index linked amortising term facility 2027	79.8			1.3	81.1
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				52.4
A42 Notes - £15m 1.37% IL Private Placement 2022	15.7			0.3	16.0
B43 Notes - US\$ 47m 5% Private Placement 2022	30.0			0.8	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	154.9			2.5	157.4
B46 Notes - £200m Class B 4.5% 2026	200.0				200.0
A47 Notes - £35m 1.14% IL Bond 2042	35.9			0.6	36.5
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	65.2			1.0	66.2
European Investment Bank £125m 0.1% index linked amortising term facility 2029		125.0		0.8	125.8
European Investment Bank £60m 0.01% index linked amortising term facility 2030		60.0		0.1	60.1
	6,212.1	185.0	(69.7)	71.8	6,399.2

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

7.0 Anglian Water Services Group – Profit & Loss Account

For the year ended 31 March 2015

	Underlying results £m	Other items ¹ £m	Total Year ended 31 March 2015 £m	Total Year ended 31 March 2014 £m
Revenue	1,244.3	-	1,244.3	1,214.0
Other operating income	12.9	-	12.9	12.3
Operating costs	(523.9)	-	(523.9)	(485.4)
Depreciation and amortisation	(280.7)	-	(280.7)	(272.0)
Fair value loss on energy hedges	-	(0.8)	(0.8)	(5.4)
Operating profit	452.6	(0.8)	451.8	463.5
Finance income	4.2	192.3	196.5	197.2
Finance costs	(274.8)	-	(274.8)	(305.9)
Fair value gains/(losses) on derivative financial instruments	-	(212.8)	(212.8)	86.4
Net finance costs	(270.6)	(20.5)	(291.1)	(22.3)
Profit/(loss) before taxation	182.0	(21.3)	160.7	441.2
Taxation			34.3	133.9
Profit after taxation			195.0	575.1
Dividend to AWS Holdings Ltd			(192.3)	(192.3)
Dividend to AWG Group Ltd			(180.2)	(202.1)
Transfer from reserves			(177.5)	180.7

¹Other items comprise fair value losses on derivative financial instruments and energy hedges of £213.6m (2014: gains of £81.0m) and intra-group interest income of £192.3m (2014: £192.3m).

8.0 Anglian Water Services Group – Balance Sheet

Balance Sheet as at 31 March 2015

		£m	£m	£m
Intangible assets				116.9
Property, plant and equipment				9,447.0
Investments				1,602.6
Derivative financial instruments				94.6
Net current liabilities excluding cash and debt repayable in less than one year				(57.2)
Creditors amounts falling due after more than one year excluding debt				(2,535.4)
Cash and cash equivalents	Payments Account	656.3		
	Tax Reserve	100.0		
	Debt Service	1.2	757.5	
Financing liabilities	Bonds	(6,356.2)		
	Finance leases	(43.0)		
	Other ²	(7.5)	(6,406.7)	
	Net Debt (excluding derivatives)			(5,649.2)
Net assets				3,019.3
Capital and reserves	Share capital			10.0
	Reserves b/f			3,247.3
	Actuarial loss on pension schemes			(0.1)
	Transfer to reserves for the period			(177.5)
	Loss on cash flow hedges			(60.4)
Capital and reserves				3,019.3

² Accounting adjustments that are not within the CTA definition of net debt (capitalised debt issue costs and IAS 39 adjustments).

9.0 Anglian Water Services Group – Calculation of Annual Finance Charge

Instrument	Actual Interest Paid to	Forecast Interest Payable to
	31 Mar 15 £m	31 Mar 16 £m
<u>Class A Debt</u>		
AAA Wrapped Bonds	28	28
A- Bonds	142	140
US Private Placements	10	15
Other	2	2
<u>Class B Debt</u>		
BBB Bonds	14	14
US Private Placements	18	21
Annual Finance Charge	214	220

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

10.0 Anglian Water Services Group – Derivatives Mark to Market Valuation

Derivative Counterparty Mark to Market (MTM) Valuations as at 31/03/15				
External Swap Counterparty	Nominal Swap Amount £m	MTM Positive Values £m	MTM Negative Values £m	MTM Total Values £m²
BNP	518.0	15.1	(69.7)	(54.6)
Morgan Stanley ³	133.0	7.3	(41.0)	(33.7)
LTSB	779.5	19.0	(47.7)	(28.7)
RBS	666.9	30.2	(367.4)	(337.2)
HSBC	198.0	5.1	(2.5)	2.6
Barclays ³	740.0	22.4	(334.3)	(311.9)
CBA	345.5	37.2	0.0	37.2
Santander	818.4	23.2	(44.3)	(21.1)
Anglian Water¹	4,199.3	159.5	(906.9)	(747.4)
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. £325m RPI swaps with Barclays and £25m RPI swap with Morgan Stanley have terms with periodic paydown of accrued indexation (Barclays - 5 yearly intervals, Morgan Stanley - 10 yearly intervals).				