

# **Anglian Water Services Financing Plc**

**Half-yearly report**

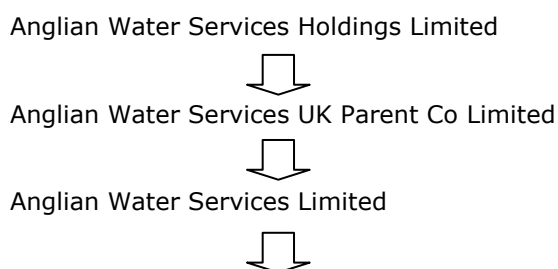
**for the six months ended 30 September 2018**

# Anglian Water Services Financing Plc

## Half-yearly report for the six months ended 30 September 2018

### Business review

The principal activity of the Company is the raising of listed debt to on-lend to Anglian Water Services Limited and it forms part of the group of four companies referred to as the Anglian Water Services Financing Group ("AWSFG") as shown below.



### Anglian Water Services Financing Plc

During the first six months of this financial year the Company has performed in-line with expectations with interest being incurred on its long-term borrowings and earned on the loans to Anglian Water Services Limited.

The loans to Anglian Water Services Limited are on a "back-to-back" arrangement whereby all borrowings are replicated on identical terms.

Repayments in the period amounted to £29.0 million including £11.7 million of principal on derivatives.

During the period the group finalised the terms of a 20 year £65 million CPI linked forward starting issuance at a real rate of 0.835 per cent. Funds are due to be received in April 2020 with maturity in April 2040. This was the first CPI linked issuance for the group. The group has subsequently accessed capital markets to raise £300 million of additional Green Bonds at an interest rate of 2.75 per cent. This Green Bond issue was, as for the inaugural bond, over-subscribed and builds on the success of the first green issuance in August 2017. Proceeds of the Green Bond were received on the 26th of October 2018 and will be utilised to fund capital investment in appropriate projects. Additionally the group has agreed £215 million of Green US private placements in October 2018 for which the proceeds are expected in the second half of 2018/19 February and April next year. These issuances leave the group with significant liquidity to safeguard against any market volatility resulting from the ongoing Brexit negotiations.

### Principal risks and uncertainties

The management of the business and execution of the Company's strategy are subject to a number of risks, the principal risks being management of liquidity, interest rate and foreign currency exposure. These are consistent with those included in the Annual Report and Accounts for the year ended 31 March 2018.

Further detail on these risks and uncertainties is included in the Annual Report and Accounts which can be found on the Anglian Water website at <http://www.anglianwater.co.uk/about-us/annual-reports/>.

## Responsibility statement

The Directors' confirm that these condensed interim financial statements have been prepared in accordance with International Financial Reporting Standard, 104 'Interim Financial Reporting', and that the interim management report includes a fair review of the information required by DTR 4.2.7, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year.

By order of the Board on 3 December 2018:

**Peter Simpson**

Chief Executive

**Scott Longhurst**

Managing Director of Finance and Non-Regulated  
Business

**Anglian Water Services Financing Plc**  
**Statement of Comprehensive Income**  
**for the six months ended 30 September 2018**

Notes	<b>Half-year ended 30 September 2018 Unaudited £m</b>	Half-year ended 30 September 2017 Unaudited £m	Year ended 31 March 2018 Audited £m
Revenue	-	-	-
Operating costs	-	-	-
<b>Operating result</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Finance activities</b>			
2 Finance income	<b>177.2</b>	174.0	350.7
3 Finance costs	<b>(176.9)</b>	(173.8)	(350.3)
Expected credit loss on intercompany loan	<b>(0.2)</b>	-	-
<b>Net finance income</b>	<b>0.1</b>	0.2	0.4
<b>Profit on ordinary activities before taxation</b>	<b>0.1</b>	0.2	0.4
4 Tax on profit on ordinary activities	-	-	-
<b>Profit for the period and total comprehensive income</b>	<b>0.1</b>	0.2	0.4

The results above arise from continuing operations.

**Anglian Water Services Financing Plc**  
**Balance Sheet**  
**At 30 September 2018**

Notes	<b>At 30 September 2018 Unaudited £m</b>	At 30 September 2017 Unaudited £m	At 31 March 2018 Audited £m
	<b>Non-current assets</b>		
5	<b>6,214.2</b>	6,337.9	6,240.9
	<b>919.4</b>	1,015.6	944.6
	<b>7,133.6</b>	7,353.5	7,185.5
	<b>Current assets</b>		
5	<b>308.7</b>	279.3	212.5
	<b>75.4</b>	101.3	60.4
	<b>35.4</b>	-	46.3
7	<b>12.9</b>	187.2	1.7
	<b>432.4</b>	567.8	320.9
	<b>Current liabilities</b>		
7	<b>(308.7)</b>	(279.3)	(212.5)
	<b>(75.4)</b>	(101.3)	(60.4)
	<b>-</b>	(139.4)	-
	<b>(384.1)</b>	(520.0)	(272.9)
	<b>48.3</b>	47.8	48.0
	<b>7,181.9</b>	7,401.3	7,233.5
	<b>Non-current liabilities</b>		
7	<b>(6,229.9)</b>	(6,337.9)	(6,240.9)
	<b>(919.4)</b>	(1,015.6)	(944.6)
	<b>(7,149.3)</b>	(7,353.5)	(7,185.5)
	<b>32.6</b>	47.8	48.0
	<b>Capital and reserves</b>		
	<b>-</b>	-	-
	<b>32.6</b>	47.8	48.0
	<b>32.6</b>	47.8	48.0

Notes 1 to 10 are an integral part of these condensed interim financial statements.

The condensed interim financial statements were approved by the Board of Directors on 3 December 2018 and signed on its behalf by:

.....  
**Peter Simpson**  
Chief Executive

.....  
**Scott Longhurst**  
Managing Director of Finance and Non-Regulated  
Business

**Anglian Water Services Financing Plc**  
**Statement of changes in equity**  
**for the six months ended 30 September 2018**

	Share capital £m	Retained earnings £m	<b>Total equity £m</b>
<b>For the half-year ended 30 September 2018</b>			
<b>At 1 April 2018</b>	-	48.0	<b>48.0</b>
Change in accounting policy - IFRS9 (note 8)	-	(15.5)	<b>(15.5)</b>
At 1 April 2018 (restated)	-	32.5	<b>32.5</b>
Total comprehensive income	-	0.1	<b>0.1</b>
<b>At 30 September 2018</b>	<b>-</b>	<b>32.6</b>	<b>32.6</b>
<b>For the half-year ended 30 September 2017</b>			
<b>At 1 April 2017</b>	-	47.6	47.6
Total comprehensive income	-	0.2	0.2
<b>At 30 September 2017</b>	<b>-</b>	<b>47.8</b>	<b>47.8</b>
<b>For the year ended 31 March 2018</b>			
<b>At 1 April 2017</b>	-	47.6	47.6
Total comprehensive income	-	0.4	0.4
<b>At 31 March 2018</b>	<b>-</b>	<b>48.0</b>	<b>48.0</b>

**Anglian Water Services Financing Plc**  
**Cash flow statement**  
**for the six months ended 30 September 2018**

Notes

	<b>Half-year ended 30 September 2018 Unaudited £m</b>	Half-year ended 30 September 2017 Unaudited £m	Year ended 31 March 2018 Audited £m
<b>Investing activities</b>			
Loan repayment from parent	<b>29.0</b>	63.5	321.6
Loans to parent	-	(248.6)	(250.0)
Interest received	<b>122.7</b>	111.2	212.2
Movement on intercompany account	<b>11.1</b>	185.4	-
<b>Net cash generated in investing activities</b>	<b>162.8</b>	111.5	283.8
<b>Financing activities</b>			
Interest paid	<b>(122.6)</b>	(111.0)	(212.1)
Increase in amounts borrowed	-	248.6	250.0
Repayment of amounts borrowed and swap principle	<b>(29.0)</b>	(63.5)	(321.6)
<b>Net cash (used)/generated in financing activities</b>	<b>(151.6)</b>	74.1	(283.7)
<b>Net increase in cash and cash equivalents</b>	<b>11.2</b>	185.6	0.1
Cash and cash equivalents at the beginning of the year	<b>1.7</b>	1.6	1.6
<b>Cash and cash equivalents at the end of the period</b>	<b>12.9</b>	187.2	1.7

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# Anglian Water Services Financing Plc

## Notes to the financial information for the six months ended 30 September 2018

### 1 Summary of significant accounting policies

The principal accounting policies applied in the preparation of this interim report are set out below. These policies have all been consistently applied to all the years presented.

#### **Basis of preparation**

This interim report has been prepared in accordance with Financial Reporting Standard 104, 'Interim Financial Reporting' (FRS 104), and FRS 101, 'Reduced Disclosure Framework' (FRS 101), and in accordance with the Companies Act 2006.

The Directors have undertaken a detailed review to assess the liquidity requirements of the Company compared against the cash and facilities available, and have reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial information.

The accounting policies adopted in these condensed financial statements are consistent with those applied and set out in the annual report and consolidated financial statements for the year ended 31 March 2018 except for the estimation of income tax, and the adoption of new accounting standards, as set out below.

The tax charge is based on the estimated effective tax rate before exceptional items, fair value adjustments, and adjustments in respect of prior periods, for the full year to 31 March 2018.

#### **New standards adopted in the period**

The group has adopted the new accounting standard IFRS 9 'Financial Instruments' that became applicable for the current reporting period.

The relevant new accounting policy is set out below, with the financial impact of adopting this new accounting standard set out in note 8.

#### **Borrowings**

Borrowings are recognised initially at fair value. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit and loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

#### **Fixed asset investments**

Investments held as fixed assets represent loans to the immediate parent undertaking (Anglian Water Services Limited) and reflect the 'back-to-back' arrangement with the Company.

#### **Foreign currencies**

Individual transactions denominated in foreign currencies are translated into local currency at the actual exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into local currency at the balance sheet date.

Profits and losses on both individual foreign currency transactions during the year and monetary assets and liabilities are dealt with in the statement of comprehensive income.

#### **Functional and presentation currency**

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The financial statements are presented in 'Pounds Sterling' (£), which is also the Company's functional currency.



## **Anglian Water Services Financing Plc**

### **Notes to the financial statements for the six months ended 30 September 2018** continued

#### **1 Summary of significant accounting policies (continued)**

##### **Financial instruments**

The Company uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from financing activities. In accordance with its treasury policy, the Company does not hold or issue derivative financial instruments for trading purposes.

Derivatives are initially recognised and subsequently re-measured at fair value. However, within the Company, hedge accounting is not applied and therefore the movements in the fair value of these derivatives are included in the statement of comprehensive income within interest payable.

There is a "back-to-back" intercompany loan agreement in place between Anglian Water Services Limited and Anglian Water Services Financing Plc, which passes the financing arrangements of the external debt and derivative positions held by Anglian Water Services Financing Plc to Anglian Water Services Limited. Accordingly, the majority of external balances are mirrored by corresponding balances due from Anglian Water Services Limited.

Anglian Water Services Limited lends cash back to the Company to provide the funds for the Company to repay its external debt.

**Anglian Water Services Financing Plc**  
**Notes to the financial statements for the six months ended 30 September**  
**2018** continued

**2 Finance income**

	<b>Half-year ended 30 September 2018 £m</b>	Half-year ended 30 September 2017 £m	Year ended 31 March 2018 £m
Interest receivable from Anglian Water Services Limited	<b>176.9</b>	173.8	350.3
Management fees treated as interest receivable	<b>0.2</b>	0.2	0.3
Other interest receivable	<b>0.1</b>	-	0.1
	<b>177.2</b>	174.0	350.7

**3 Finance costs**

	<b>Half-year ended 30 September 2018 £m</b>	Half-year ended 30 September 2017 £m	Year ended 31 March 2018 £m
Indexation on index-linked loans and RPI swaps	<b>(65.2)</b>	(67.0)	(136.5)
Interest payable on external loans	<b>(111.7)</b>	(106.8)	(213.8)
	<b>(176.9)</b>	(173.8)	(350.3)

The Company holds Retail Price Index (RPI) and Consumer Price Index (CPI) swaps to enable the Group to hedge against RPI movement in the Regulated Capital Value (RCV) and revenues of Anglian Water Services Limited. These Inflation swaps would not qualify for hedge accounting under IFRS 9 and consequently are held at fair value with movements taken to the statement of comprehensive income, however, it is the opinion of the Directors that they remain highly effective economic hedges.

The Company holds interest rate swaps and cross currency swaps to enable the Group to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activity in the Group. Within the Company hedge accounting is not applied and therefore the movements in the fair value of these derivatives are included in the statement of comprehensive income. The Company has a "back-to-back" arrangement with Anglian Water Services Limited whereby all borrowings and derivatives are replicated on identical terms, thus resulting in a net neutral impact on the statement of comprehensive income.

**Anglian Water Services Financing Plc**  
**Notes to the financial information for the six months ended 30 September**  
**2018** continued

**4 Taxation**

	<b>Half-year ended 30 September 2018 £m</b>	Half-year ended 30 September 2017 £m	Year ended 31 March 2018 £m
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**Tax on profit on ordinary activities comprises:**

UK corporation tax - current period	-	-	-
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**Factors affecting current tax charge for the year**

The corporation tax rate will reduce from 19 per cent to 17 per cent with effect from 1 April 2020. To reflect reversals during the period to 31 March 2020 we have used a composite rate of 17.05 per cent (30 September 2017: 17.08 per cent; 31 March 2018: 17.07 per cent) to re-measure all relevant deferred tax balances.

The tax charge on the Group's profit before tax differs from the notional amount calculated by applying the rate of UK corporation tax of 19 per cent (30 September 2017 and 31 March 2018: 19 per cent) to the profit before tax from continuing operations as follows:

	<b>Half-year ended 30 September 2018 £m</b>	Half-year ended 30 September 2017 £m	Year ended 31 March 2018 £m
Profit on ordinary activities before taxation	<b>0.1</b>	0.4	0.5
Corporation tax at standard rate of 19 per cent (2017: 19 per cent)	-	0.1	0.1
Group relief not paid for	-	(0.1)	(0.1)
<b>Total current tax</b>	<b>-</b>	<b>-</b>	<b>-</b>

It has been agreed that companies within the Anglian Water Services Financing Group (AWSFG) will not pay each other for tax losses. The AWSFG consists of Anglian Water Services Limited, Anglian Water Services Financing Plc, Anglian Water Services Holdings Limited and Anglian Water Services UK Parent Co Limited.

The Company does not have any deferred tax balance recognised or otherwise.

**Anglian Water Services Financing Plc**  
**Notes to the financial information for the six months ended 30 September**  
**2018** continued

**5 Investments**

	<b>Half-year ended 30 September 2018 £m</b>	Half-year ended 30 September 2017 £m	Year ended 31 March 2018 £m
<b>Investments - current &amp; non-current</b>			
Loan to parent undertaking	<b>6,538.6</b>	6,617.2	6,453.4
Expected credit loss	<b>(15.7)</b>	-	-
	<b>6,522.9</b>	6,617.2	6,453.4

In accordance with IFRS 9 5.5 'Recognition of expected credit losses', as at 30 September 2018 the Company has recorded an expected credit loss in relation to the intercompany loan between Anglian Water Services Limited (AWSL) and Anglian Water Services Financing Plc of £15.7 million.

The expected credit loss is calculated based on a one year credit spread of AWSL of 24 basis points, however, as the only business of the entity is to raise funds for Anglian Water Services any losses due to a credit event in AWSL would effectively be incurred by the external debt holders and as such the expected credit loss provision reflects a mismatch in accounting treatment between assets and liabilities and not a true economic exposure for the entity.

**6 Cash and cash flow**

**Movement in net debt excluding derivatives**

	Cash and cash equivalents £m	Borrowings £m	<b>Half-year ended 30 September 2018 £m</b>	Half-year ended 30 September 2017 £m	Year ended 31 March 2018 £m
<b>At 1 April</b>	1.7	(6,453.4)	<b>(6,451.7)</b>	(6,440.9)	(6,440.9)
Increase in cash	11.2	-	<b>11.2</b>	185.6	0.1
(Increase)/decrease in amounts borrowed	-	-	-	(248.6)	(250.0)
Repayment of amounts borrowed	-	17.3	<b>17.3</b>	63.5	247.7
Indexation of loan stock and RPI swaps	-	(50.3)	<b>(50.3)</b>	(55.9)	(110.3)
Movement in interest accruals on borrowings	-	7.6	<b>7.6</b>	0.6	1.5
Exchange rate adjustment to borrowings	-	(59.8)	<b>(59.8)</b>	65.7	100.2
<b>At the end of the period</b>	<b>12.9</b>	<b>(6,538.6)</b>	<b>(6,525.7)</b>	(6,430.0)	(6,451.7)
Current assets	12.9	-	<b>12.9</b>	187.2	1.7
Current liabilities	-	(308.7)	<b>(308.7)</b>	(279.3)	(212.5)
Non-current liabilities	-	(6,229.9)	<b>(6,229.9)</b>	(6,337.9)	(6,240.9)
	<b>12.9</b>	<b>(6,538.6)</b>	<b>(6,525.7)</b>	(6,430.0)	(6,451.7)

**Anglian Water Services Financing Plc**  
**Notes to the financial information for the six months ended 30 September**  
**2018** continued

**7 Fair value of financial assets, liabilities, borrowings and derivatives**

	<b>Book value £m</b>	<b>Fair value £m</b>
<b>At 30 September 2018</b>		
Cash at bank and in hand (including short-term deposits)	<b>12.9</b>	<b>12.9</b>
Short-term borrowings	<b>(308.7)</b>	<b>(313.8)</b>
Long-term borrowings	<b>(6,229.9)</b>	<b>(7,481.9)</b>
Net debt	<b>(6,525.7)</b>	<b>(7,782.8)</b>
Non-current asset investments	<b>6,214.2</b>	<b>7,481.9</b>
Current asset investments	<b>308.7</b>	<b>313.8</b>
	<b>(2.8)</b>	<b>12.9</b>
	Book value £m	Fair value £m
<b>At 30 September 2017</b>		
Cash at bank and in hand (including short-term deposits)	187.2	187.2
Short-term borrowings	(279.3)	(281.3)
Long-term borrowings	(6,337.9)	(7,954.8)
Net debt	(6,430.0)	(8,048.9)
Non-current asset investments	6,337.9	7,954.8
Current asset investments	279.3	281.3
	187.2	187.2
	Book value £m	Fair value £m
<b>At 31 March 2018</b>		
Cash at bank and in hand (including short-term deposits)	1.7	1.7
Short-term borrowings	(212.5)	(207.1)
Long-term borrowings	(6,240.9)	(7,675.6)
Net debt	(6,451.7)	(7,881.0)
Non-current asset investments	6,240.9	7,675.6
Current asset investments	212.5	207.1
	1.7	1.7

The fair value of loans and other borrowings represents the fair value calculated by discounting future cash flows at prevailing rates including credit spreads experienced on publicly traded debt instruments.

Both the book values and fair values of derivative financial instruments all net to nil.

In accordance with an intercompany loan agreement made in 2002, debt issue costs are excluded from the amounts disclosed in these financial statements. This is because under the loan agreement all debt issue costs are borne by the parent company, Anglian Water Services Limited. As at 30 September 2017 unamortised debt issue costs totalled £29.3 million (30 September 2017: £32.4 million, 31 March 2018: £30.6 million).

# **Anglian Water Services Financing Plc**

## **Notes to the financial information for the six months ended 30 September 2018** continued

### **8 Changes in accounting policies**

As set out in note 1, the company has adopted IFRS 9 'Financial Instruments' with effect from 1 April 2018. The impact of adopting this standard on the Company's financial statements is set out below.

In accordance with IFRS 9 7.2.1 and 7.2.15 we have applied this standard retrospectively but have elected not to re-state prior periods.

#### **Derivative Financial Instruments**

There is no material impact on the financial statements.

#### **Financial Assets**

In accordance with IFRS 9 5.5 'Recognition of expected credit losses', as at 1 April 2018 the Company has recorded an expected credit loss in relation to the intercompany loan between Anglian Water Services Limited (AWSL) and Anglian Water Services Financing Plc of £15.5 million. The amount has been recorded as a cumulative adjustment to reserves at 1 April 2018 with the subsequent change in the impairment recorded in the income statement during the period.

The expected credit loss is calculated based on a one year credit spread of AWSL of 24 basis points (1 April 2018: 24 basis points), however, as the only business of the entity is to raise funds for Anglian Water Services any losses due to a credit event in AWSL would effectively be incurred by the external debt holders and as such the expected credit loss provision reflects a mismatch in accounting treatment between assets and liabilities and not a true economic exposure for the entity.

### **9 Ultimate parent company**

The Company's immediate parent undertaking is Anglian Water Services Limited, a company registered in England and Wales.

Anglian Water Services Limited is the parent company of the smallest group to consolidate the financial statements of the Company, copies of which can be obtained from the Company Secretary, Lancaster House, Lancaster Way, Ermine Business Park, Huntingdon, Cambridgeshire, PE29 6XU.

Anglian Water Group Limited is the parent company of the largest group to consolidate the financial statements of the Company, copies of which can be obtained from the Company Secretary at the above address.

The Directors consider Anglian Water Group Limited, a company registered in Jersey, to be the ultimate parent undertaking. Anglian Water Group Limited is itself owned and controlled by a consortium of investors consisting of the Canada Pension Plan Investment Board, Colonial First State Global Asset Management, IFM Investors and Camulodunum Investments Limited (CIL).

### **10 Approval of the half-yearly report**

The half-yearly report, which is unaudited, was approved by the Board on 3 December 2018.