

Anglian Water Services Financing Plc

Half-yearly report

for the six months ended 30 September 2019

Anglian Water Services Financing Plc
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For the six months ended 30 September 2019

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 Holdings Limited



Anglian Water Services UK Parent Co Limited



Anglian Water Services Limited



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.

In June the Company finalised the terms of a JPY 7 billion (£50.9 million) 20 year 0.855 per cent fixed rate green bond issuance, proceeds of which have been swapped to CPI. In addition, in April the group received £65 million in relation to the 2.87 per cent fixed rate forward starting green bond traded in October 2018, this has been swapped into CPI. The Company has increased and extended its existing bank facilities in order to lay the foundation for the funding of AMP 7. To this end £550 million of the Company's syndicated and bilateral facilities have been extended to mature in 2024 (with two additional one year extensions subject to lender consent) and the interest rate applicable on the facilities has been linked to the core ESG (environmental, social and corporate governance) objectives of reducing carbon, improving the efficient management of water resources through consumption and leakage reductions, minimising pollution incidents and supporting vulnerable customers.

Repayments in the period amounted to £124.3 million including a receipt of £9.6 million on the swap in relation to the 5bn JPY trade which matured in May 2019.

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 2019.

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/>.

Anglian Water Services Financing Plc
Half-yearly report (continued)
For the six months ended 30 September 2019

Responsibility statement

The directors are responsible for preparing the interim financial statements in accordance with applicable law, regulations and accounting standards, and ensuring that they give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company for that period.

The directors confirm that the condensed interim financial statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union, and that the interim management report includes a fair review of the information required by DTR 4.2.7 and 4.2.8, 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; and
- material related party transactions in the first six months and any material changes in related party transactions described in the last annual report.

By order of the Board:

Peter Simpson
Chief Executive

Steve Buck
Chief Financial Officer

Anglian Water Services Financing Plc
Statement of Comprehensive Income
for the six months ended 30 September 2019

		Six months ended 30 September 2019 Unaudited £m	Six months ended 30 September 2018 Unaudited £m	Year ended 31 March 2019 Audited £m
Notes				
	Revenue	-	-	-
	Operating costs	-	-	-
	Operating profit	-	-	-
2	Finance income	177.9	177.2	351.6
2	Finance costs	(177.8)	(176.9)	(351.2)
	Expected credit loss on intercompany loan	(0.8)	(0.2)	(1.1)
	Net finance costs	(0.7)	0.1	(0.7)
	(Loss)/profit before tax from continuing operations	(0.7)	0.1	(0.7)
3	Tax credit/(charge)	-	-	-
	(Loss)/profit for the period and total comprehensive income	(0.7)	0.1	(0.7)

The results above arise from continuing operations.

Anglian Water Services Financing Plc
Balance Sheet
at 30 September 2019

Notes		At 30 September 2019 Unaudited £m	At 30 September 2018 Unaudited £m	At 31 March 2019 Audited £m
	Non-current assets			
4	Investments	6,502.1	6,214.2	6,607.9
	Derivative financial instruments	1,476.0	919.4	1,168.6
		7,978.1	7,133.6	7,776.5
	Current assets			
	Trade and other receivables	36.4	35.4	46.6
4	Investments	497.9	308.7	306.9
5	Cash and cash equivalents	12.1	12.9	1.8
	Derivative financial instruments	77.4	75.4	32.2
		623.8	432.4	387.5
	Total assets	8,601.9	7,566.0	8,164.0
	Current liabilities			
6	Borrowings	(461.2)	(308.7)	(306.9)
	Derivative financial instruments	(77.4)	(75.4)	(32.2)
		(538.6)	(384.1)	(339.1)
	Net current assets	85.2	48.3	48.4
	Non-current liabilities			
6	Borrowings	(6,556.2)	(6,229.9)	(6,624.5)
	Derivative financial instruments	(1,476.0)	(919.4)	(1,168.6)
		(8,032.2)	(7,149.3)	(7,793.1)
	Total liabilities	(8,570.8)	(7,533.4)	(8,132.2)
	Net assets	31.1	32.6	31.8
	Capital and reserves			
	Share capital	-	-	-
	Retained earnings	31.1	32.6	31.8
	Total equity	31.1	32.6	31.8

Notes 1 to 8 are an integral part of these condensed interim financial statements.

The condensed interim financial statements were approved by the Board of Directors on 2 December 2019 and signed on its behalf by:

.....
Peter Simpson
Chief Executive

.....
Steve Buck
Chief Financial Officer

Anglian Water Services Financing Plc
Statement of changes in equity
for the six months ended 30 September 2019

	Share capital £m	Retained earnings £m	Total equity £m
Six months ended 30 September 2019			
At 1 April 2019	-	31.8	31.8
Total comprehensive income	-	(0.7)	(0.7)
At 30 September 2019	-	31.1	31.1
Six months ended 30 September 2018			
At 1 April 2018 (as previously reported)	-	48.0	48.0
Change in accounting policy IFRS 9		(15.5)	(15.5)
At 1 April 2018 (restated)	-	32.5	32.5
Total comprehensive income	-	0.1	0.1
At 30 September 2018	-	32.6	32.6
Year ended 31 March 2019			
At 1 April 2018 (as previously reported)	-	48.0	48.0
Change in accounting policy IFRS 9	-	(15.5)	(15.5)
At 1 April 2018 (restated)	-	48.0	48.0
Total comprehensive income	-	(0.7)	(0.7)
At 31 March 2019	-	31.8	31.8

Anglian Water Services Financing Plc
Cash flow statement
for the six months ended 30 September 2019

Notes

	Six months ended 30 September 2019 Unaudited £m	Six months ended 30 September 2018 Unaudited £m	Year ended 31 March 2019 Audited £m
Investing activities			
Loan repayment from parent	124.3	29.0	112.7
Loans to parent	(115.9)	-	(450.1)
Interest received	115.1	122.7	221.6
Movement on intercompany account	10.3	11.1	-
Net cash from/(used in) investing activities	133.8	162.8	(115.8)
Financing activities			
Interest paid	(115.1)	(122.6)	(221.5)
Increase in amounts borrowed	115.9	-	450.1
Repayments of amounts borrowed	(124.3)	(29.0)	(112.7)
Net cash (used in)/from financing activities	(123.5)	(151.6)	115.9
Net increase in cash and cash equivalents	10.3	11.2	0.1
Cash and cash equivalents at the beginning of the period	1.8	1.7	1.7
5 Cash and cash equivalents at the end of the period	12.1	12.9	1.8

Anglian Water Services Financing Plc
Notes to the financial statements
for the six months ended 30 September 2019

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 condensed financial statements for the six months ended 30 September 2019, including comparative information, do not constitute statutory accounts of the Group. Statutory accounts for the year ended 31 March 2019 were approved by the Board on 29 May 2019 and the auditors' report on those accounts was unqualified. The condensed financial statements for the six months ended 30 September 2019 should be read in conjunction with the financial statements for the year ended 31 March 2019 which have been delivered to the Registrar of Companies and can be obtained from the Company Secretary, Lancaster House, Lancaster Way, Ermine Business Park, Huntingdon, Cambridgeshire PE29 6XU.

The Directors have undertaken a detailed review to assess the liquidity requirements of the Company compared against the cash and facilities available to it, 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 2019 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 2019.

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 (continued)
for the six months ended 30 September 2019

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.

2 Net finance (costs)/income

	Six months ended 30 September 2019	Six months ended 30 September 2018	Year ended 31 March 2019
	£m	£m	£m
Finance income			
Other interest income	0.1	0.1	0.1
Interest receivable from Anglian Water Services Limited	177.6	176.9	351.2
Management fees treated as interest receivable	0.2	0.2	0.3
	177.9	177.2	351.6
Finance costs			
Interest expense on bank loans and overdrafts	(115.1)	(111.7)	(221.6)
Indexation of loan stock	(62.7)	(65.2)	(129.6)
Total finance costs	(177.8)	(176.9)	(351.2)
Net finance costs	0.1	0.3	0.4

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 statements (continued)
for the six months ended 30 September 2019

3 Taxation

	Six months ended 30 September 2019 £m	Six months ended 30 September 2018 £m	Year ended 31 March 2019 £m
Tax on profit on ordinary activities comprises:			
UK corporation tax - current period	-	-	-
Factors affecting current tax charge for the year			
<p>The corporation tax rate will reduce from 19 per cent to 17 per cent with effect from 1 April 2020 The tax charge on the Company's profit before tax differs from the notional amount calculated by applying the rate of UK corporation tax of 19 per cent (30 September 2018 and 31 March 2019: 19 per cent) to the profit before tax from continuing operations as follows:</p>			
	Six months ended 30 September 2019 £m	Six months ended 30 September 2018 £m	Year ended 31 March 2019 £m
Profit/(loss) before tax from continuing operations	(0.7)	0.1	(0.7)
Profit/(loss) before tax from continuing operations at the standard rate of corporation tax in the UK of 19% (2018: 19%)	(0.1)	-	(0.1)
Effects of recurring items:			
Items not deductible for tax purposes			
Expected credit loss on intercompany loan	0.2	-	0.2
	0.1	-	0.1
Effects of non-recurring items:			
Group relief not paid for	(0.1)	-	(0.1)
Tax charge/(credit) for the year	-	-	-

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 statements (continued)
for the six months ended 30 September 2019

4 Investments

	Six months ended 30 September 2019 £m	Six months ended 30 September 2018 £m	Year ended 31 March 2019 £m
Investments - current & non-current			
Loan to parent undertaking	7,017.4	6,538.6	6,931.4
Expected credit loss	(17.5)	(15.7)	(16.6)
Total	6,999.9	6,522.9	6,914.8

In accordance with IFRS 9 5.5 'Recognition of expected credit losses', as at 30 September 2019 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 £17.5 million.

The expected credit loss is calculated based on a one year credit spread of AWSL of 25 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.

5 Cash and cash flow

Movement in net debt excluding derivatives

	Net cash and cash equivalents £m	Borrowings £m	Net debt £m
At 1 April 2019	1.8	(6,931.4)	(6,929.6)
Increase in cash	10.3	-	10.3
Increase in amounts borrowed	-	(115.9)	(115.9)
Repayments of amounts borrowed	-	124.3	124.3
Indexation of borrowings and RPI swaps	-	(46.7)	(46.7)
Movement in interest accrual on debt	-	7.8	7.8
Exchange rate adjustment to borrowings	-	(55.5)	(55.5)
At 30 September 2019	12.1	(7,017.4)	(7,005.3)
Current assets	12.1	-	12.1
Current liabilities	-	(461.2)	(461.2)
Non-current liabilities	-	(6,556.2)	(6,556.2)
	12.1	(7,017.4)	(7,005.3)

Anglian Water Services Financing plc
Notes to the financial statements (continued)
for the six months ended 30 September 2019

6 Fair value of financial assets, liabilities, borrowings and derivatives

	Book value £m	Fair value £m
At 30 September 2019		
Cash at bank and in hand (including short-term deposits)	12.1	12.1
Borrowings		
Short-term borrowings	(461.2)	(475.4)
Long-term borrowings	(6,556.2)	(8,683.6)
Interest and cross currency interest rate swaps - assets		
Current	18.8	18.8
Non-current	535.7	535.7
Interest and cross currency interest rate swaps - liabilities		
Current	(18.8)	(18.8)
Non-current	(535.7)	(535.7)
RPI swaps - assets		
Current	57.8	57.6
Non-current	654.8	654.8
RPI swaps - liabilities		
Current	(57.8)	(57.6)
Non-current	(654.8)	(654.8)
CPI swaps - assets		
Current	0.8	0.8
Non-current	285.5	285.5
CPI swaps - liabilities		
Current	(0.8)	(0.8)
Non-current	(285.5)	(285.5)
Net debt	(7,005.3)	(9,146.9)
	Book value £m	Fair value £m
At 30 September 2018		
Cash at bank and in hand (including short-term deposits)	12.9	12.9
Borrowings		
Short-term borrowings	(308.7)	(313.8)
Long-term borrowings	(6,229.9)	(7,481.9)
Interest and cross currency interest rate swaps - assets		
Current	75.4	75.4
Non-current	413.6	413.6
Interest and cross currency interest rate swaps - liabilities		
Current	(75.4)	(75.4)
Non-current	(413.6)	(413.6)
RPI swaps - assets		
Current	-	-
Non-current	505.8	505.8
RPI swaps - liabilities		
Current	-	-
Non-current	(505.8)	(505.8)
Net debt	(6,525.7)	(7,782.8)

Anglian Water Services Financing plc
Notes to the financial statements (continued)
for the six months ended 30 September 2019

6 Fair value of financial assets, liabilities, borrowings and derivatives (continued)

	Book value £m	Fair value £m
At 31 March 2019		
Cash at bank and in hand (including short-term deposits)	1.8	1.8
Borrowings		
Short-term borrowings	(306.9)	(475.4)
Long-term borrowings	(6,624.5)	(8,683.6)
Interest and cross currency interest rate swaps - assets		
Current	24.1	24.1
Non-current	398.3	398.3
Interest and cross currency interest rate swaps - liabilities		
Current	(24.1)	(24.1)
Non-current	(398.3)	(398.3)
RPI swaps - assets		
Current	8.1	8.1
Non-current	598.9	598.9
RPI swaps - liabilities		
Current	(8.1)	(8.1)
Non-current	(598.9)	(598.9)
CPI swaps - assets		
Current	-	-
Non-current	171.4	171.4
CPI swaps - liabilities		
Current	-	-
Non-current	(171.4)	(171.4)
Net debt	(6,929.6)	(9,157.2)

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 2019 unamortised debt issue costs totalled £32.9 million (30 September 2018: £29.3 million, 31 March 2019: £32.5 million).

7 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, First Sentier Investors, IFM Investors and Camulodunum Investments Limited (CIL).

Anglian Water Services Financing plc
Notes to the financial statements (continued)
for the six months ended 30 September 2019

8 Approval of the half-yearly report

The half-yearly report, which is unaudited, was approved by the Board on 2 December 2019.