

Anglian Water Services Financing Plc

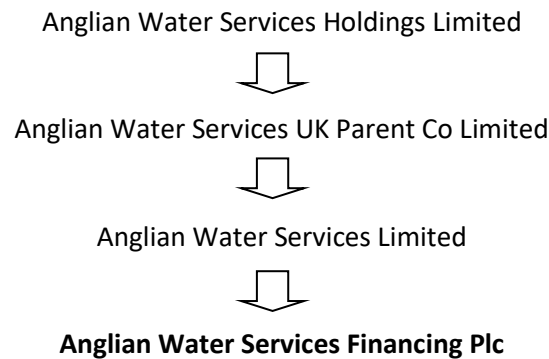
Half-yearly report

for the six months ended 30 September 2020

Anglian Water Services Financing Plc
Half-yearly management report
for the six months ended 30 September 2020

Business review

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



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 respect of financing, AWSF continues to develop its funding profile to assist the Group to provide economic hedge against the regulatory transition from RPI to CPIH linked revenues, and to align financing with the group’s focus on sustainability. In April, AWSF received £65m in relation to a CPI-linked forward starting bond traded in August 2018.

Debt repayments in the period consisted of £746.2m as a result of settling the 4.125% index-linked bond (£263.8m) and repayment of £450m on the syndicated and bilateral bank facilities, which saw £600m drawn in March 2020, to provide a short term liquidity buffer in light of the Covid-19 uncertainty. Other debt repayments in the period were various other smaller scheduled amortising debt payments as they fell due.

The Group has access to £450.0m of undrawn facilities (March 2020: £50.0m), to finance working capital and capital expenditure requirements. In addition, the Group has access to a further £400.0m of liquidity facilities (March 2020: £400.0m), consisting of £279.0m to finance debt service costs and £121.0m to finance operating expenditure and maintenance capital expenditure in the event that the company was in an Event of Default on its debt obligations and had insufficient alternative sources of liquidity.

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 2020.

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/>.

Half-yearly management report (continued)

for the six months ended 30 September 2020

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

Steven Buck
Chief Financial Officer

Condensed statement of comprehensive income

for the six months ended 30 September 2020

Notes	Half-year ended 30 September 2020 Unaudited £m	Half-year ended 30 September 2019 Unaudited £m	Year ended 31 March 2020 Audited £m
Revenue	-	-	-
Total operating costs	-	-	-
Operating result	-	-	-
2 Finance income	135.6	177.9	343.1
2 Finance costs	(135.7)	(177.8)	(343.0)
Expected credit loss on intercompany loan	1.5	(0.8)	(2.8)
Net finance costs	1.4	(0.7)	(2.7)
Profit/(loss) before tax from continuing operations	1.4	(0.7)	(2.7)
3 Tax	-	-	-
Profit/(loss) for the period and total comprehensive income	1.4	(0.7)	(2.7)

The results above arise from continuing operations.

Notes 1 to 9 are an integral part of these condensed financial statements.

Anglian Water Services Financing Plc
Condensed balance sheet
for the six months ended 30 September 2020

Notes	At 30 September 2020 Unaudited £m	At 30 September 2019 Unaudited £m	At 31 March 2020 Audited £m	
Non-current assets				
4	Investments	6,482.2	6,502.1	6,620.2
6	Derivative financial instruments	1,425.9	1,476.0	1,311.2
		7,908.1	7,978.1	7,931.4
Current assets				
	Trade and other receivables	35.2	36.4	48.5
4	Investments	436.0	497.9	1,012.3
5	Cash and cash equivalents	13.3	12.1	0.1
6	Derivative financial instruments	69.2	77.4	95.2
		553.7	623.8	1,156.1
	Total assets	8,461.8	8,601.9	9,087.5
Current liabilities				
5	Borrowings	(436.0)	(461.2)	(1,012.3)
6	Derivative financial instruments	(69.2)	(77.4)	(95.2)
		(505.2)	(538.6)	(1,107.5)
	Net current assets	48.5	85.2	48.6
Non-current liabilities				
5	Borrowings	(6,500.2)	(6,556.2)	(6,639.7)
6	Derivative financial instruments	(1,425.9)	(1,476.0)	(1,311.2)
		(7,926.1)	(8,032.2)	(7,950.9)
	Total liabilities	(8,431.3)	(8,570.8)	(9,058.4)
	Net assets	30.5	31.1	29.1
Capital and reserves				
	Called up share capital	-	-	-
	Retained earnings	30.5	31.1	29.1
	Total equity	30.5	31.1	29.1

Notes 1 to 9 are an integral part of these condensed financial statements.

The condensed financial statements were approved by the Board of Directors on 2 December 2020 and signed on its behalf by:

Peter Simpson
Chief Executive

Steven Buck
Chief Financial Officer

Anglian Water Services Financing Plc
Condensed statement of changes in equity
for the six months ended 30 September 2020

	Stated capital £m	Retained earnings £m	Total equity £m
Six months ended 30 September 2020			
At 1 April 2020	-	29.1	29.1
Profit for the period	-	1.4	1.4
Total comprehensive income	-	1.4	1.4
At 30 September 2020	-	30.5	30.5
Six months ended 30 September 2019			
At 1 April 2019	-	31.8	31.8
Loss for the period	-	(0.7)	(0.7)
Total comprehensive income	-	(0.7)	(0.7)
At 30 September 2019	-	31.1	31.1
Year ended 31 March 2020			
At 1 April 2020	-	31.8	31.8
Loss for the year	-	(2.7)	(2.7)
Total comprehensive income	-	(2.7)	(2.7)
At 31 March 2020	-	29.1	29.1

Anglian Water Services Financing Plc
Condensed cash flow statement
for the six months ended 30 September 2020

	Half-year ended 30 September 2020 Unaudited £m	Half-year ended 30 September 2019 Unaudited £m	Year ended 31 March 2020 Audited £m
Notes			
Investing activities			
Loan repayment from parent	746.2	124.3	218.4
Loans to parent	(65.0)	(115.9)	(815.9)
Interest received	123.9	115.1	229.5
Movement on intercompany account	13.2	10.3	-
Net cash from/(used in) investing activities	818.3	133.8	(368.0)
Financing activities			
Interest paid	(123.9)	(115.1)	(229.3)
Increase in amounts borrowed	65.0	115.9	815.9
Repayment of amounts borrowed	(746.2)	(124.3)	(220.3)
Net cash (used in)/from financing activities	(805.1)	(123.5)	366.3
Net increase/(decrease) in cash and cash equivalents	13.2	10.3	(1.7)
Cash and cash equivalents at the beginning of the period	0.1	1.8	1.8
5 Cash and cash equivalents at the end of the period	13.3	12.1	0.1

Notes to the condensed financial statements

for the six months ended 30 September 2020

1. Basis of preparation and accounting policies

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 2020, including comparative information, do not constitute statutory accounts of the company. Statutory accounts for the year ended 31 March 2020 were approved by the Board on 26 June 2020 and the Auditor's report on those accounts was unqualified. The condensed financial statements for the six months ended 30 September 2020 should be read in conjunction with the financial statements for the year ended 31 March 2020 which 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 2020, except for the estimation of income tax for interim reporting.

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 2021.

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.

Notes to the condensed financial statements (continued)

for the six months ended 30 September 2020

1. Basis of preparation and accounting policies (continued)

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.

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.

Notes to the condensed financial statements (continued)

for the six months ended 30 September 2020

2. Net finance costs

	Half-year ended 30 September 2020 £m	Half-year ended 30 September 2019 £m	Year ended 31 March 2020 £m
Finance income			
Interest receivable from Anglian Water Services Limited	135.4	177.6	342.7
Management fees treated as interest receivable	0.2	0.2	0.3
Other interest income	-	0.1	0.1
	135.6	177.9	343.1
Finance costs			
Interest expense on bank loans and overdrafts	(112.2)	(115.1)	(228.5)
Indexation of loan stock	(23.5)	(62.7)	(114.5)
	(135.7)	(177.8)	(343.0)
Expected credit loss on intercompany loan	1.5	(0.8)	(2.8)
Net finance costs	1.4	(0.7)	(2.7)

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.

Notes to the condensed financial statements (continued)

for the six months ended 30 September 2020

3. Taxation

	Half-year ended 30 September 2020 £m	Half-year ended 30 September 2019 £m	Year ended 31 March 2020 £m
Tax on profit/(loss) on ordinary activities comprises:			
UK corporation tax - current period	-	-	-
Total tax charge on profit/(loss) on continuing operations	-	-	-

The tax charge on the company's profit/(loss) before tax differs from the notional amount calculated by applying the rate of UK corporation tax of 19 per cent (30 September 2019 and 31 March 2020: 19 per cent) to the profit/(loss) before tax from continuing operations as follows:

	Half-year ended 30 September 2020 £m	Half-year ended 30 September 2019 £m	Year ended 31 March 2020 £m
Profit/(loss) before tax from continuing operations	1.4	(0.7)	(2.7)
Profit/(loss) before tax from continuing operations at the standard rate of corporation tax in the UK of 19% (30 September 2019: 19 %; 31 March 2020: 19%)	0.3	(0.1)	(0.5)
Effects of recurring items:			
Items not deductible for tax purposes			
Expected credit loss on intercompany loan	(0.3)	0.2	0.5
	-	0.1	-
Effects of non-recurring items:			
Group relief not paid for	-	(0.1)	-
Tax charge/(credit) for the period	-	-	-

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 balances recognised or otherwise.

Notes to the condensed financial statements (continued)

for the six months ended 30 September 2020

4. Investments

	Half-year ended 30 September 2020 £m	Half-year ended 30 September 2019 £m	Year ended 31 March 2020 £m
Investments - current & non-current			
Loan to parent undertaking	6,936.2	7,017.4	7,652.0
Expected credit loss	(18.0)	(17.4)	(19.5)
	6,918.2	7,000.0	7,632.5
Maturity analysis of total investments			
Current	436.0	497.9	1,012.3
Non-current	6,482.2	6,502.1	6,620.2
	6,918.2	7,000.0	7,632.5

In accordance with IFRS 9 5.5 'Recognition of expected credit losses', as at 30 September 2020 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 £18.0 million (30 September 2019: £17.5 million; 31 March 2020: £19.4 million).

The expected credit loss is calculated based on a one year credit spread of AWSL of 26 basis points (30 September 2019: 25 basis points; 31 March 2020: 25 basis points), however, as the only business of the entity is to raise funds for AWSL, any losses due to a credit event in AWSL would effectively be incurred by the external debt holders. As such, the expected credit loss provision reflects a mismatch in accounting treatment between assets and liabilities and is not a true economic exposure for the entity.

Notes to the condensed financial statements (continued)

for the six months ended 30 September 2020

5. Analysis of net debt

Net debt excluding derivatives at 30 September 2020

	Net cash and cash equivalents £m	Borrowings £m	£m
At 1 April 2020	0.1	(7,652.0)	(7,651.9)
Increase in cash	13.2	-	13.2
Increase in amounts borrowed	-	(65.0)	(65.0)
Repayment of amounts borrowed	-	746.2	746.2
Movement in interest accrual on debt	-	12.6	12.6
Indexation of borrowings and RPI swaps	-	(14.5)	(14.5)
Fair value gains and losses and foreign exchange	-	36.5	36.5
At 30 September 2020	13.3	(6,936.2)	(6,922.9)
Net debt at 30 September 2020 comprises:			
Non-current assets	-	-	-
Current assets	13.3	-	13.3
Current liabilities	-	(436.0)	(436.0)
Non-current liabilities	-	(6,500.2)	(6,500.2)
	13.3	(6,936.2)	(6,922.9)

Net debt at 30 September 2019

	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)
Repayment of amounts borrowed	-	124.3	124.3
Movement in interest accrual on debt	-	7.8	7.8
Indexation of borrowings and RPI swaps	-	(46.7)	(46.7)
Fair value gains and losses and foreign exchange	-	(55.5)	(55.5)
At 30 September 2019	12.1	(7,017.4)	(7,005.3)
Net debt at 30 September 2019 comprises:			
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)

Notes to the condensed financial statements (continued)

for the six months ended 30 September 2020

5. Analysis of net debt (continued)

Net debt at 31 March 2020

	Net cash and cash equivalents £m	Borrowings £m	Net debt £m
At 1 April 2019	1.8	(6,931.4)	(6,929.6)
Decrease in cash	(1.7)	-	(1.7)
Increase in amounts borrowed	-	(815.9)	(815.9)
Repayment of amounts borrowed	-	220.3	220.3
Movement in interest accrual on debt	-	(1.9)	(1.9)
Indexation of borrowings and RPI swaps	-	(77.8)	(77.8)
Fair value gains and losses and foreign exchange	-	(45.3)	(45.3)
At 31 March 2020	0.1	(7,652.0)	(7,651.9)
Net debt at 31 March 2020 comprises:			
Current assets	0.1	-	0.1
Current liabilities	-	(1,012.3)	(1,012.3)
Non-current liabilities	-	(6,639.7)	(6,639.7)
	0.1	(7,652.0)	(7,651.9)

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 2020 unamortised debt issue costs totalled £31.5 million (30 September 2019: £32.9 million, 31 March 2020: £31.7 million).

6. Derivative assets and liabilities

At 30 September 2020

	Assets £m	Liabilities £m
Interest rate and cross currency interest rate swaps	588.3	(588.3)
RPI and CPI swaps	906.8	(906.8)
	1,495.1	(1,495.1)
Derivative financial instruments can be analysed as follows:		
Current	69.2	(69.2)
Non-current	1,425.9	(1,425.9)
	1,495.1	(1,495.1)

Notes to the condensed financial statements (continued)

for the six months ended 30 September 2020

6. Derivative assets and liabilities (continued)

At 30 September 2019

	Assets £m	Liabilities £m
Interest rate and cross currency interest rate swaps	554.5	(554.5)
RPI and CPI swaps	998.9	(998.9)
	<u>1,553.4</u>	<u>(1,553.4)</u>
Derivative financial instruments can be analysed as follows:		
Current	77.4	(77.4)
Non-current	1,476.0	(1,476.0)
	<u>1,553.4</u>	<u>(1,553.4)</u>

At 31 March 2020

	Assets £m	Liabilities £m
Interest rate and cross currency interest rate swaps	561.4	(561.4)
RPI and CPI swaps	845.0	(845.0)
	<u>1,406.4</u>	<u>(1,406.4)</u>
Derivative financial instruments can be analysed as follows:		
Current	95.2	(95.2)
Non-current	1,311.2	(1,311.2)
	<u>1,406.4</u>	<u>(1,406.4)</u>

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

Notes to the condensed financial statements (continued)

for the six months ended 30 September 2020

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 ('First Sentier', previously known as Colonial First State Global Asset Management), IFM Investors, Camulodunum Investments Ltd ('CIL'), and Infinity Investments S.A. ('Infinity').

8. Events after the balance sheet date

There have been no events between the balance sheet date, and the date on which the half-yearly report was approved by the Board, which would require adjustment to the condensed financial statements or any additional disclosures.

9. Approval of the half-yearly report

The half-yearly report, which is unaudited, was approved by the Board on 2 December 2020.