

Anglian Water Services Financing Plc

Half-yearly report

for the six months ended 30 September 2021

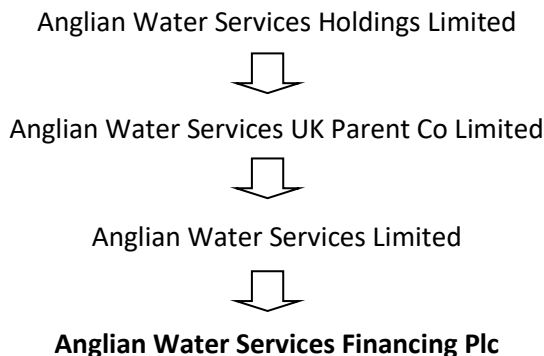
Anglian Water Services Financing Plc

Half-yearly management report

For the six months ended 30 September 2021

Business review

The principal activity of Anglian Water Services Financing (“AWSF”) is the raising of listed debt, on the UK public bond market, 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 the half-year to 30 September 2021, the Group received £100.5 million from debt issuances.

Debt repayments in the period amounted to £548.6 million as a result of the maturity of the 4.520% Class B USPP (£99.1 million) and early repayment of three Class B debt USPP instruments in September totalling £391.0 million (on a GBP basis including associated foreign currency derivative swaps). Additionally, the Group repaid £25.0 million on the syndicated and bilateral revolving facilities, meaning that at period end these facilities were fully undrawn. Other debt repayments in the period were various smaller scheduled amortising debt payments as they fell due.

The Group has access to £600.0 million of undrawn facilities (September 2020: £450.0 million; March 2021: £575.0 million), to finance working capital and capital expenditure requirements. In addition, the Group has access to a further £400.0 million of liquidity facilities (September 2020 and March 2021: £400.0 million), consisting of £279.0 million (September 2020 and March 2021: £279.0 million) to finance debt service costs and £121.0 million (September 2020 and March 2021: £121.0 million) 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 2021.

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 management report (continued)
For the six months ended 30 September 2021

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 group 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', 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

Condensed statement of comprehensive income

for the six months ended 30 September 2021

Notes	Half-year ended 30 2021 Unaudited £m	Half-year ended 30 2020 Unaudited £m	Year ended 31 March 2021 Audited £m
Revenue	-	-	-
Total operating costs	-	-	-
Operating result	-	-	-
2 Finance income	202.3	135.6	266.5
2 Finance costs	(202.3)	(135.7)	(266.2)
Expected credit loss on intercompany loan	0.5	1.5	0.9
Net finance costs	0.5	1.4	1.2
Profit/(loss) before tax from continuing operations	0.5	1.4	1.2
3 Tax	-	-	-
Profit/(loss) for the period and total comprehensive income	0.5	1.4	1.2

The results above arise from continuing operations.

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

Condensed balance sheet

As at 30 September 2021

Notes	At 30 September 2021 Unaudited £m	At 30 September 2020 Unaudited £m	At 31 March 2021 Audited £m	
Non-current assets				
4	Investments	6,004.3	6,482.2	6,233.3
	Derivative financial instruments	1,168.0	1,425.9	1,113.3
		7,172.3	7,908.1	7,346.6
Current assets				
	Trade and other receivables	36.2	35.2	23.7
4	Investments	397.1	436.0	640.3
5	Cash and cash equivalents	12.7	13.3	25.2
	Derivative financial instruments	21.5	69.2	104.5
		467.5	553.7	793.7
	Total assets	7,639.8	8,461.8	8,140.3
Current liabilities				
6	Borrowings	(397.1)	(436.0)	(640.3)
	Derivative financial instruments	(21.5)	(69.2)	(104.5)
		(418.6)	(505.2)	(744.8)
	Net current assets	48.9	48.5	48.9
Non-current liabilities				
6	Borrowings	(6,022.4)	(6,500.2)	(6,251.9)
	Derivative financial instruments	(1,168.0)	(1,425.9)	(1,113.3)
		(7,190.4)	(7,926.1)	(7,365.2)
	Total liabilities	(7,609.0)	(8,431.3)	(8,110.0)
	Net assets	30.8	30.5	30.3
Capital and reserves				
	Called up share capital	-	-	-
	Retained earnings	30.8	30.5	30.3
	Total equity	30.8	30.5	30.3

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 6 December 2021 and signed on its behalf by:

Peter Simpson
Chief Executive

Steven Buck
Chief Financial Officer

Condensed statement of changes in equity

For the six months ended 30 September 2021

	Stated capital £m	Retained earnings £m	Total equity £m
Six months ended 30 September 2021			
At 1 April 2021	-	30.3	30.3
Loss for the period	-	0.5	0.5
Total comprehensive income	-	0.5	0.5
At 30 September 2021	-	30.8	30.8
Six months ended 30 September 2020			
At 1 April 2020	-	29.1	29.1
Loss for the period	-	1.4	1.4
Total comprehensive income	-	1.4	1.4
At 30 September 2020	-	30.5	30.5
Year ended 31 March 2021			
At 1 April 2020	-	29.1	29.1
Loss for the year	-	1.2	1.2
Total comprehensive income	-	1.2	1.2
At 31 March 2021	-	30.3	30.3

Anglian Water Services Financing Plc
Condensed cash flow statement
For the six months ended 30 September 2021

	Half-year ended 30 September 2021 Unaudited £m	Half-year ended 30 September 2020 Unaudited £m	Year ended 31 March 2021 Audited £m
Notes			
Investing activities			
Loan repayment from parent	548.6	746.2	928.8
Loans to parent	(100.5)	(65.0)	(242.6)
Interest received	141.9	123.9	218.9
Movement on intercompany account	(12.5)	13.2	25.0
Net cash from investing activities	577.5	818.3	930.1
Financing activities			
Interest paid	(141.9)	(123.9)	(218.8)
Increase in amounts borrowed	100.5	65.0	242.6
Repayment of amounts borrowed	(548.6)	(746.2)	(928.8)
Net cash used in financing activities	(589.5)	(805.1)	(905.0)
Net (decrease)/increase in cash and cash equivalents	(12.5)	13.2	25.1
Cash and cash equivalents at the beginning of the period	25.2	0.1	0.1
5 Cash and cash equivalents at the end of the period	12.7	13.3	25.2

Notes to the condensed financial statements

for the six months ended 30 September 2021

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 2021, including comparative information, do not constitute statutory accounts of the company. Statutory accounts for the year ended 31 March 2021 were approved by the Board on 16 June 2021 and the Auditor's report on those accounts was unqualified. The condensed financial statements for the six months ended 30 September 2021 should be read in conjunction with the financial statements for the year ended 31 March 2021 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 2021, 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 2022.

Notes to the condensed financial statements (continued)

for the six months ended 30 September 2021

2. Net finance costs

	Half-year ended 30 September 2021 £m	Half-year ended 30 September 2020 £m	Year ended 31 March 2021 £m
Finance income			
Interest receivable from Anglian Water Services Limited	202.1	135.4	266.1
Management fees treated as interest receivable	0.2	0.2	0.3
Other interest income	-	-	0.1
	202.3	135.6	266.5
Finance costs			
Interest expense on bank loans and overdrafts	(119.6)	(112.2)	(217.6)
Indexation of loan stock	(82.7)	(23.5)	(48.6)
	(202.3)	(135.7)	(266.2)
Expected credit loss on intercompany loan	0.5	1.5	0.9
Net finance costs	0.5	1.4	1.2

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 2021

3. Taxation

	Half-year ended 30 September 2021 £m	Half-year ended 30 September 2020 £m	Year ended 31 March 2021 £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 2020 and 31 March 2021: 19 per cent) to the profit/(loss) before tax from continuing operations as follows:

	Half-year ended 30 September 2021 £m	Half-year ended 30 September 2020 £m	Year ended 31 March 2021 £m
Profit/(loss) before tax from continuing operations	0.5	1.4	1.2
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%)	0.1	0.3	0.2
Effects of recurring items:			
Items not deductible for tax purposes			
Expected credit loss on intercompany loan	(0.1)	(0.3)	(0.2)
	-	-	-
Effects of non-recurring items:			
Group relief not paid for		-	-
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 2021

4. Investments

	Half-year ended 30 September 2021 £m	Half-year ended 30 September 2020 £m	Year ended 31 March 2021 £m
Investments - current & non-current			
Loan to parent undertaking	6,419.5	6,936.2	6,892.2
Expected credit loss	(18.1)	(18.0)	(18.6)
Total	6,401.4	6,918.2	6,873.6

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 £18.1 million (30 September 2020: £18.0 million; 31 March 2021: £18.6 million).

The expected credit loss is calculated based on a one year credit spread of AWSL of 28 basis points (30 September 2020: 26 basis points; 31 March 2021: 27 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.

5. Analysis of net debt

Net debt excluding derivatives at 30 September 2021

	Net cash and cash equivalents £m	Borrowings £m	Net debt £m
At 1 April 2021	25.2	(6,892.2)	(6,867.0)
Decrease in cash	(12.5)	-	(12.5)
Increase in amounts borrowed	-	(100.5)	(100.5)
Repayment of amounts borrowed	-	548.1	548.1
Movement in interest accrual on debt	-	17.3	17.3
Indexation of borrowings and RPI swaps	-	(57.9)	(57.9)
Fair value gains and losses and foreign exchange	-	65.7	65.7
At 30 September 2021	12.7	(6,419.5)	(6,406.8)
Net debt at 30 September 2021 comprises:			
Current assets	12.7	-	12.7
Current liabilities	-	(397.1)	(397.1)
Non-current liabilities	-	(6,022.4)	(6,022.4)
	12.7	(6,419.5)	(6,406.8)

Notes to the condensed financial statements (continued)

for the six months ended 30 September 2021

5. Analysis of net debt (continued)

Net debt excluding derivatives at 30 September 2020

	Net cash and cash equivalents £m	Borrowings £m	Net debt £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:			
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 excluding derivatives at 31 March 2021

	Net cash and cash equivalents £m	Borrowings £m	Net debt £m
At 1 April 2020	0.1	(7,652.0)	(7,651.9)
Increase in cash	25.1	-	25.1
Increase in amounts borrowed	-	(242.6)	(242.6)
Repayment of amounts borrowed	-	928.8	928.8
Movement in interest accrual on debt	-	3.0	3.0
Indexation of borrowings and RPI swaps	-	(32.0)	(32.0)
Fair value gains and losses and foreign exchange	-	102.6	102.6
At 31 March 2021	25.2	(6,892.2)	(6,867.0)
Net debt at 31 March 2021 comprises:			
Current assets	25.2	-	25.2
Current liabilities	-	(640.3)	(640.3)
Non-current liabilities	-	(6,251.9)	(6,251.9)
	25.2	(6,892.2)	(6,867.0)

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 £20.7 million (30 September 2020: £31.5 million, 31 March 2021: £22.3 million).

Notes to the condensed financial statements (continued)

for the six months ended 30 September 2021

6. Fair value of derivatives

At 30 September 2021

	Assets £m	Liabilities £m
At 30 September 2021		
Interest rate and cross currency interest rate swaps	317.1	(317.1)
RPI and CPI swaps	872.4	(872.4)
	1,189.5	(1,189.5)
Derivative financial instruments can be analysed as follows:		
Current		21.5
Non-current	1,168.0	(1,168.0)
	1,189.5	(1,189.5)

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	77.4	(77.4)
Non-current	1,476.0	(1,476.0)
	1,495.1	(1,495.1)

Notes to the condensed financial statements (continued)

for the six months ended 30 September 2021

6. Fair value of derivatives (continued)

At 31 March 2021

	Assets £m	Liabilities £m
Interest rate and cross currency interest rate swaps	434.5	(434.5)
RPI and CPI swaps	783.3	(783.3)
	<u>1,217.8</u>	<u>(1,217.8)</u>
Derivative financial instruments can be analysed as follows:		
Current	95.2	(95.2)
Non-current	1,311.2	(1,311.2)
	<u>1,217.8</u>	<u>(1,217.8)</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 2021

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 but domiciled in the UK, to be the ultimate parent undertaking. Anglian Water Group Limited is owned and ultimately controlled by a consortium of investors consisting of the CPPIB (Hong Kong) Limited, First Sentier Investors, Infinity Investments S.A., Global InfraCo (HK) E. Limited and Camulodunum Investments Ltd.

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 6 December 2021.