Anglian Water Services Limited
Half-yearly report

for the six months ended 30 September 2019

Anglian Water Services Limited

Half-yearly management report

For the six months ended 30 September 2019

Performing strongly against a challenging backdrop

Commenting on Anglian Water's results for the half year to 30 September 2019, Chief Executive Peter Simpson said:

"As we enter the final six months of our current five-year business plan we continue to provide best-in-class customer service to our seven million customers, leading the industry on reducing leakage, creating and maintaining a resilient network, and safeguarding our environment for future generations, while delivering strong financial performance. We were called out for praise by Ofwat in its 2018/19 Service Delivery Report, published in October, in which we were ranked the top-performing water company in England and Wales for our record across a wide range of performance measures.

"Yet of all our activity this year, I am most proud of the ground-breaking steps we have taken to set out Anglian Water's purpose as an organisation and embed public interest into our company constitution for the long term. In July we became the first UK water company – and, we believe, the first UK utility to make a legal commitment to consider the impact of every decision we make on our community and the environment, as well as ensuring fair returns for our shareholders. This change to our Articles of Association crystallises a journey we've been on for many years and will ensure that public interest remains at the heart of Anglian Water for generations to come.

"In a period in which we have seen the impacts of climate change becoming ever more apparent in the East of England, the social and environmental challenges our fast-growing region faces have been brought into sharp focus. Groundwater levels in some areas have been at their lowest for 30 years; we've seen the UK's hottest ever temperature recorded in Cambridge, and our customers faced some of the most significant flooding seen in our region after unprecedented heavy rainfall at Wainfleet in Lincolnshire in June.

"We continue to prepare ourselves to meet these challenges over our next five-year business plan and beyond, through a long-term programme of strategic investment. Our plans include the installation of a million smart meters and the creation of a new Alliance partnership which will deliver 500km of pipeline to ensure we can move water around our network in times of need. We must invest now to ensure resilient supplies for the generations to come, a view supported by the majority of our customers, 500,000 of whom were engaged in the development of our plans.

"We passionately believe that our plan is the right one to safeguard the future of our region and enable it to flourish. However, it is not financeable based on Ofwat's Draft Determination, as we stated in our formal response in August. We have striven to find further cost efficiencies, made changes to our total expenditure (totex) plan and accepted Ofwat's proposal to test its new funding model, Direct Procurement for Customers, to finance a vital new treatment works at Elsham in the north of our region. These changes will see bills reduce by around 1.1 per cent over five years. We continue to work with Ofwat in the run up to Final Determination, to be issued later this month, and hope to reach an outcome which will meet the needs of our customers and the environment.

"Our priority over the remainder of the year is to complete our current investment programme of work, our largest to date. It has enabled us to deliver the best customer service of any water and water recycling company in England and Wales, as rated by Ofwat's qualitative measure. Not only that, we are on track to improve on our industry-leading performance on leakage and deliver our best-ever performance on drinking water quality – ready, in short, to hit the ground running at the start of our next five-year plan in April 2020."

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Financial, social and environmental highlights

- **Ground-breaking Articles of Association change** makes Anglian Water the first UK water company – and, we believe, the first utility to embed a commitment to community and the environment in our company constitution and puts us in line with European best practice for public interest entities. Following on from the Public Interest Commitments developed by Anglian Water and adopted by all water companies in April 2019, this industry-leading change codifies our long-held public purpose and will see us adopt and report against a set of responsible business principles, while directors will consider the impact on society and the environment of every decision they make.
- **Anglian Water ranked as top-performing company in Ofwat's 2018/19 Service Delivery Report**, scoring in the top 25 per cent for seven of the 10 measures cited (wholesale, customer service, meeting performance commitments, earning financial incentives, leakage, water quality contacts and internal sewer flooding) and in the top 50 per cent for the remaining three (retail, supply interruptions and pollution incidents).
- **Anglian Water ranked top water and waste water company for the final year of Ofwat's Service Incentive Mechanism** measure of customer service and number one across the whole business plan cycle.
- **Group revenue of £717.0 million, an increase of £22.4 million (3.2 per cent) on 2018**. This is consistent with the regulatory pricing mechanism, customer growth and increased housing development activity, partially offset by lower demand compared with the hot, dry summer in 2018.
- **Underlying profit before tax for the period of £54.7 million, down £7.2 million,** excludes fair value losses on derivatives of £171.3 million (2018: gains of £56.3 million). These are volatile non-cash annual movements which distort actual economic performance and therefore should be excluded when assessing underlying profit. Including these fair value movements, **loss before tax for the period of £116.6m, down £234.8m from a profit of £118.2m.**
- **Dividend payments marginally down on prior year.** Dividend paid in June of £67.8 million (2018: £68.0 million) with no further dividends planned for the rest of the year in line with the Board's commitment to reduce gearing**.**
- **Five Green Bonds issued to date, funding 850 green projects and reducing CO_2 emissions** by more than 162,000 tonnes.
- **Ambitious programme underway to install solar power** at more than 100 further Anglian Water sites, cutting carbon emissions and lowering the cost to power our network.
- **Agenda-setting cross-sector innovation event held to tackle important challenges**. Three-day Innovate East event in partnership with Essex and Suffolk Water attracted 1,800 delegates from 400 organisations and saw actionable plans developed to reduce leakage, extend smart use of data and digital twinning and create a new initiative to help communities adapt to climate change.
- **Anglian Water one of only two companies to gain approval in the Drinking Water Inspectorate's new Risk Management Approval Scheme** to meet exacting new water industry standards.
- **Current holder of prestigious Utility of the Year award** and shortlisted for this year's award.
- **Winner of Business in the Community's Health and Wellbeing award 2019**.
- **Anglian Water Chairman Stephen Billingham made a Commander of the Order of the British Empire (CBE)** in the Queen's Birthday Honours in recognition of his service to Government-owned, public and regulated companies.

Further financial updates

- Operating costs up by £16.1 million (5.3 per cent). The increase reflects reinvestment in proactive leakage maintenance, increases in below-ground infrastructure repairs and inflationary pressure on costs, partially mitigated by savings from efficiency initiatives. Although we had extreme weather events in 2019, we had no repeat of last year's 'Beast from the East' and hot, dry summer 2018.
- Cash generated from operations of £366.2 million, up 1.5 per cent on last year and consistent with higher revenues, partially offset by increased operating costs.
- Gross regulated capital investment in the period of £204.8 million (2018: £211.7 million). On track to deliver all our regulatory obligations. This includes £25.2 million (2018: £16.9 million) of reinvestment spend out of the £165 million of reinvestment previously announced over the last three years.

Looking to the future

- We await Ofwat's Final Determination on our proposals for 2020-2025, due on 16 December, and will work with the regulator to secure a settlement that works for our customers and the environment. The rating agencies that rate Anglian Water's debt have Anglian Water on 'negative outlook' which is in line with their industry outlooks and the majority of individual issuers. Should the Final Determination be unchanged from the Draft, this could result in a downgrade of credit ratings.
- Preferred bidders identified for £500 million Strategic Pipeline Alliance which will see around 500km of large pipeline inter-connectors installed as part of our commitment to support making the East of England resilient to the risks of drought. The new system will facilitate the movement of water more easily across the Anglian Water region and will be supported by a digital twin (a digital replica of the network which helps us test, plan, anticipate and resolve issues in the virtual world).
- Developing proposals to support the economic growth of Cambridge by relocating the Cambridge Waste Water Treatment Plant, paving the way for the construction of 5,600 new homes, enabling sustainable housing growth and transport links and unlocking regional employment opportunities.
- Continuing development of customer journey with launch of My Account app on Apple and Android platforms.
- Ambitious programme underway to install solar power at more than 100 further Anglian Water sites, cutting carbon emissions and lowering the cost to power our network.
- Additional support to be offered to an average of 475,000 vulnerable customers each year from 2020-2025.
- New collaborative community project underway in Lowestoft with partners including Business in the Community and Anglian Water Alliance partner Kier, following nationally recognised Wisbech regeneration.

Safeguarding our environment

- Signed up to an ambitious £120 million multi-sector partnership which will see waste heat from Anglian Water treatment facilities used to heat two of the UK's largest greenhouses, being built in Suffolk and Norfolk, with the added benefit that water returned to the environment is cooled, removing excess heat from the river systems.
- Committed with other water companies to plant 11 million trees by 2030; Anglian Water's contribution will include at least 30 new treatment wetlands developed over the next five years.
- Renewable energy generation from combined heat and power (CHP) plants on track to reach 120 GWh in 2019/20, enough to power 50,000 homes for 100 days.
- Adapting infrastructure to protect valuable chalk streams, including moving the abstraction point for Heigham Water Treatment Works in Norwich away from the delicate upstream stretch of river, to the works itself.
- Anglian Water awarded Employer Champion status by the Society for the Environment to recognise commitment to developing employees specialising in environmental disciplines.

Leading on innovation

- Leading Coalition partnerships forged with Spanish water company Global Omnium and Dutch water company Vitens to share expertise and drive international collaboration.
- Saving money and cutting carbon: newly developed mobile sludge thickeners enabling saving of £1 million a year and cutting CO_2 emissions.
- Cutting-edge project underway using advanced transient pressure logging and online bacteria monitoring to ensure high standards of water quality at key storage locations in our network.

Building a resilient network

- £33 million investment programme installing new water mains in towns and cities across the region, including Milton Keynes, Norwich, Ipswich, Grimsby, Scunthorpe and Spalding, supporting future population growth and ensuring that water pressure can be maintained despite growing demand.
- Near-real time modelling and digital twinning projects driving faster diagnosis and resolution of issues.
- Planning underway for installation of one million smart meters in our region, supporting reduction of water consumption and effective leak management.

People at our heart

- Extended multi-skills talent expansion partnership developed by Anglian Water and its 12 Alliance partners to a further three colleges (West Suffolk College, Milton Keynes College and Grimsby Institute) following successful College of West Anglia pilot.
- Peter Simpson named UK's top CEO for second year running by users of job site Glassdoor, with a 99 per cent approval rating.
- Four awards secured at Institute of Water annual awards, including Training Organisation of the Year.
- Anglian Water awarded Employer Recognition Scheme Gold Award for outstanding support for the armed forces community.

Financial Summary

The consolidated financial results for the six months ended 30 September 2019, which are unaudited, are presented as follows:

	Six months ended 30 September 2019 £m	Six months ended 30 September 2018 (Restated) [1] £m
Revenue	**717.0**	694.6
Other operating income [1]	**7.5**	7.4
Other operating costs [1]	**(320.7)**	(304.6)
Depreciation and amortisation	**(180.8)**	(171.0)
Operating profit	**223.0**	226.4
Finance income	**2.6**	0.8
Finance costs [2]	**(170.9)**	(165.3)
Underlying profit before tax	**54.7**	61.9
Fair value (losses)/gains on derivative financial instruments	**(171.3)**	56.3
(Loss)/profit before tax	**(116.6)**	118.2
Tax credit/(charge)	**18.3**	(28.3)
(Loss)/profit after tax	**(98.3)**	89.9

(1) The comparative other operating income and operating costs have been restated for the reclassification of certain income, previously treated as negative expenditure, as other operating income. This adjustment had not been included in the September 2018 interim accounts; however, this restatement is consistent with the treatment of these items in the March 2019 full year accounts, where this has been more fully explained. Accordingly, even though the amounts for 2018 are immaterial, we have restated to show them gross within other operating income, as we believe this will be helpful to users. The restatement has the effect of increasing other operating income in the prior period by £7.4 million, and increasing operating expenditure by the same amount, and therefore operating profit is unchanged for this reclassification.

(2) In order to show pre-tax performance on an underlying basis the fair value gains and losses on financial derivatives have been excluded from the underlying finance costs.

(3) On 1 April 2019, IFRS 16 'Leases' came into effect. The principal consequences of this new standard are that a lease liability reflecting future lease payments and a 'right-of-use' asset are recognised on the balance sheet, and an interest expense on the lease liability and depreciation on the 'right-of-use' asset are recorded in the income statement. It is noted that IFRS 16 was not applied retrospectively, as permitted by the standard, and therefore the comparatives are not presented on an IFRS 16 basis.

Revenue

Revenue for the period was £717.0 million, an increase of £22.4 million over the same period in the previous year. The overall increase primarily reflects the uplift in regulatory pricing for annual inflation, growth in customers and increased housing developer activity, partially offset by a slight fall in household consumption compared with the above average demand experienced in the hot, dry summer of 2018.

Other operating income

Other operating income, which is up marginally on the prior period, comprises external income from power generation, biosolid revenue, rents received and various other non-core activities.

Operating costs

Operating costs increased by £16.1 million (5.3 per cent) on the same period last year to £320.7 million. This is primarily driven by an increase in minor repair activities including our remedial actions following the localised flooding in June, our reinvestment in leakage prevention and general inflationary pressures. The following table sets out the principal movements in the period.

	£m	£m
At 30 September 2018		304.6
Costs relating to "Beast from the East" and hot dry summer 2018 in prior year not repeating	(6.5)	
General inflationary increases	8.6	
Increase in minor repair activities to maintain water and wastewater below ground infrastructure	7.4	
Reinvestment in leakage recovery and prevention	5.5	
Operating costs of newly commissioned plant	2.0	
Increase in chemical costs	1.6	
Increase in insurance costs	1.4	
Reduction in power costs	(1.6)	
Net efficiency savings achieved	(2.3)	
Net increase in operating costs	16.1	
At 30 September 2019		**320.7**

Depreciation

Depreciation and amortisation is up 5.7 per cent compared with the same period last year, consistent with the impact of newly commissioned assets in the period.

Operating profit

Operating profit has decreased by 1.5 per cent to £223.0 million, which is consistent with higher operating costs and increased depreciation, partially offset by the effect of the revenue increases.

Financing costs

The underlying finance charge for the period was £170.9 million, an increase of £5.6 million compared with the same period last year. This is driven by an increase in the group's borrowings as the group continues to invest in capital assets and strengthen its liquidity position to allow for any market volatility surrounding the regulatory determination process. This increase has been partially offset as cheaper new debt issuance has replaced more expensive maturing debt, and through lower interest costs on inflation linked debt due to lower inflation year on year. Finance income has risen by £1.8 million to £2.6 million, principally due to the higher average cash and investments held in the period.

The fair value losses on financial derivatives of £171.3 million (gain in 2018: £56.3 million) are primarily a result of the average fall in interest rates of 41 basis points (2018: 21 basis points increase), which more than offset a smaller 10 basis points fall in average levels of forward inflation curves (2018: 14 basis points increase which reduced the overall gain in 2018). Fair value gains in the prior year included a charge of £11.7 million relating to the restructuring of derivatives which were cash settled in the period. The fair value losses in the current period are non-cash in nature and have no material effect on the underlying commercial operations of the business.

Taxation

Compared to the same period in the previous year the total tax charge has reduced by £46.6 million from a charge of £28.3 million last year to a credit of £18.3 million. This is primarily due to a reduction in profit before tax, now a loss before tax, caused by the fair value losses on derivative financial instruments which gives rise to a deferred tax credit. Also, in the prior year the Group had a particularly high current tax charge and deferred tax credit as a result of the transition to IFRS 15 'Revenue' and disclaimed capital allowances to utilise Advance Corporation Tax.

The table below shows underlying profit before tax and the tax charge thereon.

	Underlying £m	Fair value losses £m	Statutory £m
Profit/(loss) before tax	54.7	(171.3)	(116.6)
Tax (charge)/credit	(10.8)	29.1	18.3
Effective tax rate	19.7%	17.0%	15.7%

Over the full year, total taxes paid or collected other than corporation tax will amount to in excess of £200 million. The most significant payments are in relation to business rates, employment taxes, VAT, environmental taxes and abstraction licences.

Our taxation charge reflects the incentives available for capital investment, and the interest we pay to fund that investment. We are one of the largest private investors in infrastructure in our region, making investments worth more than £2 billion over five years. The Government actively encourages infrastructure investment and grants us capital allowances, which defer some of our corporation tax liabilities until a later period. Customers benefit from the deferral as it helps to keep their bills lower.

Dividends
Dividends paid in the period amounted to £67.8 million (2018: £68.0 million). No interim dividend is planned for the second half of this year, which is consistent with the Board's decision to reduce dividends in order to lower gearing and to help fund the additional £165 million of capital reinvestment announced by the Board over the last few years.

Financing and cash flow
In respect of financing, the group continues to develop its funding profile to provide an economic hedge against the regulatory transition from RPI to CPIH (consumer price index including housing costs) linked revenues, and to align financing with the group's focus on sustainability. In June the group 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 group has increased and extended its existing bank facilities in order to lay the foundation for the funding of AMP7. To this end £550 million of the group'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.

As a result of the new leasing standard, IFRS 16, the Group has brought on balance sheet £36.8m of lease debt, principally in respect of rented properties, and to a lesser extent hired vehicles.

Debt repayments in the period amounted to £126.3 million as a result of settling the JPY 5 billion (£34.7 million) 3.22 per cent fixed coupon and the £50 million 1.626 per cent RPI linked loans, and various other smaller scheduled amortising debt payments as they fell due.

The business generated cash from operations of £366.2 million in the period (2018: £360.7 million). The 1.5 per cent increase reflects the higher level of revenues, partially offset by higher operating costs.

Capital investment programme

Gross regulated capital investment, which represents investment in our regulated asset base before deductions of contributions from developers and third parties, in the six months to 30 September 2019 was £204.8 million (2018: £211.7 million). This is in line with management expectations and includes £25.2 million in relation to our previously announced £165 million reinvestment programme, which will, among other benefits, improve resilience in some critical parts of our network.

Pension

As previously reported, on 31 March 2018, the defined benefit schemes for Anglian Water Group and Hartlepool Water were closed to future accruals for existing members. The combined accounting surplus on these schemes at 30 September 2019 was £51.5 million, compared with £49.3 million at 31 March 2019. The slight increase in the surplus is principally a consequence of the corporate bond rate used to discount the scheme liabilities declining over the period, which has the effect of increasing the liabilities, more than offset by the growth in scheme asset values. In addition, the Company has an unfunded pension liability of £47.3 million (31 March 2019: £45.8 million), resulting in an overall pension surplus of £4.2 million, compared with £3.5 million at 31 March 2019.

Principal risks and uncertainties

Effective risk management is central to the achievement of our strategic priorities. It is managed across our business through a number of formal and informal processes to identify new or escalating risks in a timely manner and ensure adequate controls and mitigating actions can be implemented.

The risks and uncertainties that the business faces over the remainder of this financial year are listed below and are consistent with those included in our Annual Integrated Report for the year ended 31 March 2019:

- *Political, regulatory and legislative changes* – ensuring we anticipate and plan for these changes
- *Financing our business* – managing the risks around funding a huge capital investment programme, and preparing for the political and regulatory challenges that we face
- *Pensions* – managing the risk around the actuarial pension funding obligations in relation to lower investment returns, low discount rates and longevity
- *Regional growth* – managing the impact of increasing growth in our region
- *Long-term supply and climate change* – we operate in the driest region of the UK, and therefore managing the impact of weather changes and the potential for drought is a high priority
- *Failure* to *deliver our AMP6 plan* – ongoing focus of the business to deliver our AMP6 plan and commitments to our customers
- *Preparing for AMP7* – we have submitted a Business Plan that is strongly supported by our customers. We continue to prepare to deliver the commitments contained in the plan and await Ofwat's final determination later in December
- *Pollutions* – managing our activities to minimise the risk and impact of pollutions
- *Brexit* – the impact of a No Deal exit by the UK from Europe – working with the wider water industry to manage the risks to the industry, especially the supply chain, in the event of a No Deal exit. The structure of the exit deal and following transition period, will be determined by the Government following the general election on 12 December
- *Customer satisfaction* – ensuring we give our customers the best service we can, as measured by the new measure of customer experience (C-MeX)
- *Health and Safety* – maintaining the welfare of our employees and customers is paramount
- *Talent and succession* – maintaining an effective development of skills, talent and succession planning in the business
- *Cyber security* – continuing to manage and mitigate the increasing risk from cyber attacks, data theft and IT system failure
- *Water quality* – continuing to ensure the provision of safe, clean and high quality water to all our customers every day of the year.

Further detail on these risks and uncertainties is included in the Annual Integrated Report for the year ended 31 March 2019, which can be found on the Anglian Water website at [http://www.anglianwater.co.uk/about-us/annual-reports/.](http://www.anglianwater.co.uk/about-us/annual-reports/)

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', 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.

Peter Simpson
Chief Executive

Steve Buck
Chief Financial Officer

Anglian Water Services Limited

Group condensed income 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 (Restated)[1] £m	Year ended 31 March 2019 Audited £m
4	**Revenue**	**717.0**	694.6	1,354.7
	Other operating income	**7.5**	7.4	13.6
	Operating costs			
	Operating costs before depreciation and amortisation	**(320.7)**	(304.6)	(630.5)
	Depreciation and amortisation	**(180.8)**	(171.0)	(348.8)
	Total operating costs	**(501.5)**	(475.6)	(979.3)
	Operating profit	**223.0**	226.4	389.0
5	Finance income	**2.6**	0.8	2.9
5	Finance costs, including fair value (losses)/gains on derivative financial instruments	**(342.2)**	(109.0)	(429.8)
	Net finance costs	**(339.6)**	(108.2)	(426.9)
	(Loss)/profit before tax from continuing operations			
	Profit before exceptional items and fair value losses	**54.7**	61.9	60.5
5	Fair value (losses)/gains on derivative financial instruments	**(171.3)**	56.3	(98.4)
	(Loss)/profit before tax from continuing operations	**(116.6)**	118.2	(37.9)
6	Tax credit/(charge)	**18.3**	(28.3)	5.1
	(Loss)/profit for the period	**(98.3)**	89.9	(32.8)

(1)The comparative other operating income and operating costs have been restated for the reclassification of certain income, previously treated as negative expenditure, as other operating income. This adjustment had not been included in the September 2018 interim accounts; however, this restatement is consistent with the treatment of these items in the March 2019 full year accounts, where this has been more fully explained. Accordingly, even though the amounts for 2018 are immaterial, we have restated to show them gross within other operating income, as we believe this will be helpful to users. The restatement has the effect of increasing other operating income in the prior period by £7.4 million, and increasing operating expenditure by the same amount, and therefore operating profit is unchanged for this reclassification.
(2)The new leasing standard, IFRS 16, was adopted on 1 April 2019 for statutory reporting, without restating comparative figures. As a result, the primary statements are shown on an IFRS16 basis for the period ended 30 September 2019, and on an IAS17 basis for 31 March 2019 and 30 September 2018. Note 18 provides a reconciliation of the two accounting policies and note (a) explains the new policy and approach to transition.

Notes 1 to 21 are an integral part of these condensed financial statements.

Anglian Water Services Limited

Group condensed statement of comprehensive income

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
	(Loss)/profit for the period	**(98.3)**	89.9	(32.8)
	Other comprehensive income			
	Items that will not be reclassified to profit or loss			
14	Actuarial (losses)/gains on net retirement benefit obligation	**(0.7)**	13.0	(18.8)
6	Income tax credit/(charge) on items that will not be reclassified	**0.1**	(2.2)	3.1
		(0.6)	10.8	(15.7)
	Items that may be reclassified subsequently to profit or loss			
15	Gains on cash flow hedges	**8.1**	34.1	38.7
15	Gains on cash flow hedges transferred to profit or loss	**4.7**	5.5	1.5
15	(Losses) on cost of hedging transferred to profit or loss	**(0.2)**	(0.1)	(0.3)
6	Income tax on items that may be reclassified	**(2.1)**	(6.4)	(6.5)
		10.5	33.1	33.4
	Other comprehensive income for the period, net of tax	**9.9**	43.9	17.7
	Total comprehensive income for the period	**(88.4)**	133.8	(15.1)

Anglian Water Services Limited

Group condensed 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			
8	Other intangible assets	**196.3**	179.6	197.3
9	Property, plant and equipment	**9,854.3**	9,717.2	9,770.2
	Derivative financial instruments	**329.8**	136.4	195.6
14	Retirement benefit surpluses	**51.5**	69.0	49.3
		10,431.9	10,102.2	10,212.4
	Current assets			
	Inventories	**11.8**	10.4	11.6
	Trade and other receivables	**580.9**	553.7	485.7
	Investments - cash deposits	**293.5**	40.0	297.0
	Cash and cash equivalents	**161.8**	139.7	257.3
	Derivative financial instruments	**15.1**	68.5	20.3
		1,063.1	812.3	1,071.9
	Total assets	**11,495.0**	10,914.5	11,284.3
	Current liabilities			
	Trade and other payables	**(539.9)**	(528.0)	(492.0)
	Current tax liabilities	**(215.3)**	(279.6)	(253.0)
	Borrowings	**(472.1)**	(318.6)	(315.0)
	Derivative financial instruments	**(66.4)**	(14.3)	(16.0)
13	Provisions	**(4.1)**	(4.6)	(4.2)
		(1,297.8)	(1,145.1)	(1,080.2)
	Net current liabilities	**(234.7)**	(332.8)	(8.3)
	Non-current liabilities			
	Borrowings	**(6,613.6)**	(6,203.6)	(6,619.6)
	Derivative financial instruments	**(1,152.9)**	(791.9)	(980.4)
	Deferred tax liabilities	**(917.9)**	(979.0)	(936.8)
14	Retirement benefit obligations	**(47.3)**	(45.4)	(45.8)
13	Provisions	**(8.2)**	(9.1)	(8.0)
		(8,739.9)	(8,029.0)	(8,590.6)
	Total liabilities	**(10,037.8)**	(9,174.1)	(9,670.8)
	Net assets	**1,457.3**	1,740.4	1,613.5

Continued on the next page.

Group condensed balance sheet (continued)

at 30 September 2019

Notes		**At 30 September 2019 Unaudited £m**	At 30 September 2018 Unaudited £m	At 31 March 2019 Audited £m
	Capital and reserves			
	Share capital	**32.0**	10.0	32.0
	Retained earnings	**1,488.7**	1,804.6	1,655.4
15	Hedging reserve	**(64.5)**	(75.6)	(75.9)
15	Cost of hedging reserve	**1.1**	1.4	2.0
	Total equity	**1,457.3**	1,740.4	1,613.5

Notes 1 to 21 are an integral part of these condensed financial statements.

The condensed 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 Limited

Group condensed statement of changes in equity

for the six months ended 30 September 2019

	Share capital £m	Retained earnings £m	Hedging reserve £m	Cost of hedging reserve £m	**Total equity £m**
Six months ended 30 September 2019					
At 1 April 2019	32.0	1,655.4	(75.9)	2.0	**1,613.5**
Loss for the period	-	(98.3)	-	-	**(98.3)**
Other comprehensive income for the year		(0.6)	11.4	(0.9)	**9.9**
Total comprehensive income	-	(98.9)	11.4	(0.9)	**(88.4)**
Dividends	**-**	(67.8)	**-**	**-**	**(67.8)**
At 30 September 2019	32.0	1,488.7	(64.5)	1.1	**1,457.3**
Six months ended 30 September 2018					
At 1 April 2018 (as previously reported)	10.0	1,312.7	(105.3)		**1,217.4**
Change in accounting policy					
IFRS 9	-	2.0	(3.8)	1.8	**-**
IFRS 15	-	457.2	-	-	**457.2**
At 1 April 2018 (restated)	10.0	1,771.9	(109.1)	1.8	**1,674.6**
Profit for the period	-	89.9	-	-	**89.9**
Other comprehensive income for the year	-	10.8	33.5	(0.4)	**43.9**
Total comprehensive income	-	100.7	33.5	(0.4)	**133.8**
Dividends	-	(68.0)	-	-	**(68.0)**
At 30 September 2018	10.0	1,804.6	(75.6)	1.4	**1,740.4**
Year ended 31 March2019					
At 1 April 2018 (as previously reported)	10.0	1,312.7	(105.3)	-	**1,217.4**
Change in accounting policy					
IFRS 9	-	2.0	(3.8)	1.8	**-**
IFRS 15	-	457.2	-	-	**457.2**
At 1 April 2018 (restated)	10.0	1,771.9	(109.1)	1.8	**1,674.6**
Loss for the year	-	(32.8)	-	-	**(32.8)**
Other comprehensive income for the year	-	(15.7)	33.2	0.2	**17.7**
Total comprehensive income	-	(48.5)	33.2	0.2	**(15.1)**
Issue of share capital	22.0	-	-	-	**22.0**
Dividends	-	(68.0)	-	-	**(68.0)**
At 31 March 2019	32.0	1,655.4	(75.9)	2.0	**1,613.5**

The hedging reserve represents the cumulative effective portion of gains and losses arising on the change in fair value of hedging instruments excluding those fair value movements identified as costs of hedging within the specific hedge relationship. The cost of hedging reserve captures the movement in the fair value of the cost of hedging component. (see note 15).

Anglian Water Services Limited

Group condensed 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
	Operating activities			
	Operating profit	**223.0**	226.4	389.0
	Adjustments for:			
	Depreciation and amortisation	**180.8**	171.0	348.8
	Assets adopted for £nil consideration	**(16.1)**	(12.6)	(22.0)
	Profit on disposal of property, plant and equipment	**(0.3)**	(0.4)	(1.2)
	Difference between pension charge and cash contributions	**(1.4)**	(1.4)	(12.7)
	Net movement in provisions	**0.3**	(1.7)	(2.7)
	Working capital movements:			
	Increase in inventories	**(0.2)**	(0.4)	(1.6)
	Increase in trade and other receivables	**(94.1)**	(73.7)	(6.4)
	Increase in trade and other payables	**74.2**	53.5	9.5
	Cash generated from operations	**366.2**	360.7	700.7
	Income taxes paid [1]	**(40.3)**	-	(30.2)
	Net cash flows from operating activities	**325.9**	360.7	670.5
	Investing activities			
	Purchase of property, plant and equipment	**(210.0)**	(220.2)	(405.0)
	Purchase of intangible assets	**(18.7)**	(29.3)	(65.7)
	Proceeds from disposal of property, plant and equipment	**0.5**	0.6	1.6
	Interest received	**2.6**	0.8	2.9
	Net cash used in investing activities	**(225.6)**	(248.1)	(466.2)
	Financing activities			
	Interest paid	**(127.8)**	(122.6)	(215.8)
	Debt issue costs paid	**(2.5)**	(0.4)	(3.3)
	Interest elements of finance lease rental payments	**(0.4)**	-	(0.6)
	Increase in amounts borrowed	**115.9**	-	447.8
	Repayments of amounts borrowed	**(124.3)**	(17.3)	(140.0)
	Proceeds from the issue of share	**-**	-	22.0
	Settlement of principal on derivatives	**9.6**	(11.7)	27.0
	Capital element of finance lease rental payments	**(2.0)**	-	(6.2)
	Decrease/(increase) in short-term bank deposits	**3.5**	-	(257.0)
7	Dividends paid	**(67.8)**	(68.0)	(68.0)
	Net cash used in financing activities	**(195.8)**	(220.0)	(194.1)
	Net (decrease)/increase in cash and cash equivalents	**(95.5)**	(107.4)	10.2
	Cash and cash equivalents at the beginning of the period	**257.3**	247.1	247.1
11	**Cash and cash equivalents at the end of the period**	**161.8**	139.7	257.3

[1] Income taxes paid are all intercompany with AWG Group Limited.

1. Basis of preparation and accounting policies

The condensed financial statements for the six months ended 30 September 2019, which are unaudited, have been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union.

The Anglian Water Services Group (the Group) financial statements comprise a consolidation of the financial statements of Anglian Water Services Limited (the Company) and its subsidiary, Anglian Water Services Financing Plc, at 30 September. Inter-company sales and profit are eliminated fully on consolidation.

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 annual report and 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 Group compared against the cash and facilities available to it, and have a reasonable expectation that the Group and Company have 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 statements. The rating agencies that rate Anglian Water's debt have Anglian Water on 'negative outlook' which is in line with their industry outlooks and the majority of individual issuers. Should the Final Determination be unchanged from the Draft, this could result in a downgrade of credit ratings.

The accounting policies adopted in these condensed financial statements are consistent with those applied and set out in the annual report and financial statements for the year ended 31 March 2019 except for the estimation of income tax for interim reporting, 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 2020.

a) New standards adopted in the period

The Group has adopted the new accounting standard IFRS 16 'Leases' which became applicable for the current reporting period. The relevant new accounting policies together with the financial impact of adopting the new accounting standard are set out below.

Changes in accounting policy

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance leases, requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

Details of the Group's accounting policies under IFRS 16 are set out below, followed by a description of the impact of adopting IFRS 16. Judgement has been applied in the adoption of IFRS 16, determining an incremental borrowing rate where the rate implicit in a lease could not be readily determined.

1. Basis of preparation and accounting policies (continued)

Accounting policies under IFRS 16 'Leases'

The Group assesses whether a contract is or contains a lease at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these short-term leases, the Group recognises the lease payments as an operating expense on a straight line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Lease liabilities are initially measured at the present value of the lease payments not yet paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate, or a change in expected payment under a guaranteed residual value, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used);
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Approach to transition

The Group has applied IFRS 16 using the modified retrospective approach, without restatement of the comparative information. In respect of those leases the Group previously treated as operating leases, the Group has elected to measure its right-of-use assets arising from property leases using the approach set out in IFRS 16.C8(b)(ii), whereby right-of-use assets are set equal to the lease liability, adjusted for prepaid or accrued lease payments, including un-amortised lease incentives.

The Group's weighted average incremental borrowing rate applied to lease liabilities as at 1 April 2019 is 2.5%.

Practical expedients adopted on transition

The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered into or modified before 1 January 2019.

1. Basis of preparation and accounting policies (continued)

As part of the Group's adoption of IFRS 16 and application of the modified retrospective approach to transition, the Group also elected to use the following practical expedients:

- a single discount rate has been applied to portfolios of leases with reasonably similar characteristics;
- elected not to apply the measurement requirements of the standard to leases where the term ends within 12 months of the date of initial application; and
- hindsight has been used in determining the lease term.

Leases recognised as debt under IFRS 16 as at 30 September 2019 can be analysed as follows:

	IFRS Debt (£m)	Permitted indebtedness (£m)
Vehicles operating leases	3.1	-
Property operating leases	31.7	31.7
Existing finance leases	21.2	-

Permitted indebtedness is a category of debt within the Group which captures leases previously considered as operating leases which do not qualify as secured creditors.

2. Key assumptions and significant judgements

In preparing these condensed financial statements, the significant judgements made in applying the Group's accounting policies, and the key areas involving estimation, were the same as those disclosed in the consolidated financial statements for the year ended 31 March 2019.

3. Seasonality of operations

Whilst demand for water is usually higher during the drier spring and summer months, fluctuations in seasonal weather patterns can impact both revenue and costs.

4. Revenue

	Six months ended 30 September 2019	Six months ended 30 September 2018	Year ended 31 March 2019
	£m	£m	£m
Water and sewerage services			
Household - measured	**399.6**	387.2	753.0
Household - unmeasured	**119.7**	123.8	240.4
Non-household - measured	**135.6**	126.7	250.7
Grants and contributions	**42.5**	37.4	74.4
Other	**19.6**	19.5	36.2
	717.0	694.6	1,354.7

5. 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			
Interest income on short-term bank deposits	**2.6**	0.8	2.9
	2.6	0.8	2.9
Finance costs, excluding fair value (losses)/gains on derivative financial instruments			
Interest expense on other loans including financing expenses	**(115.6)**	(109.7)	(220.2)
Indexation	**(62.7)**	(65.2)	(129.6)
Amortisation of debt issue costs	**(2.0)**	(1.8)	(3.7)
Interest expense on finance leases	**(0.3)**	0.2	0.3
Unwinding of discount on onerous lease obligation provision		(0.1)	(0.3)
Defined benefit pension scheme interest		0.1	0.4
Total finance costs	**(180.6)**	(176.5)	(353.1)
Less: amounts capitalised on qualifying assets	**9.7**	11.2	21.7
	(170.9)	(165.3)	(331.4)
Fair value (losses)/gains on derivative financial instruments			
Fair value (losses)/gains on energy hedges	**(0.5)**	0.1	(1.8)
Hedge ineffectiveness on cash flow hedges	**(1.6)**	2.7	3.4
Hedge ineffectiveness on fair value hedges	**(0.9)**	-	(0.5)
Amortisation of adjustment to debt in fair value hedge	**(0.2)**	(1.9)	(3.5)
Settlement of principal on derivatives	**-**	(11.7)	(11.7)
Derivative financial instruments not designated as hedges	**(165.3)**	76.9	(72.1)
Transfer from hedging reserve arising from discontinuation of cash flow hedges	**(2.8)**	(9.8)	(12.2)
	(171.3)	56.3	(98.4)
Finance costs, including fair value (losses)/gains on derivative financial instruments	**(342.2)**	(109.0)	(429.8)
Net finance costs	**(339.6)**	(108.2)	(426.9)

6. Taxation

	Six months ended 30 September 2019	Six months ended 30 September 2018	Year ended 31 March 2019
	£m	£m	£m
Current tax:			
In respect of the current period	**2.6**	52.3	53.9
Adjustments in respect of prior periods	**-**	-	2.0
Total current tax charge	**2.6**	52.3	55.9
Deferred tax:			
Origination and reversal of temporary differences	**(20.9)**	(24.6)	(52.9)
Adjustments in respect of previous periods	**-**	1.8	(3.8)
Reduction in corporation tax rate	**-**	(1.2)	(4.3)
Total deferred tax credit	**(20.9)**	(24.0)	(61.0)
Total tax (credit)/charge on (loss)/profit from continuing operations	**(18.3)**	28.3	(5.1)

The tax credit for the six months ended 30 September 2019 is based on the estimated effective tax rate before exceptional items, fair value (losses)/gains and adjustments in respect of prior periods, for the full year to 31 March 2020, of 19.7 per cent.

The corporation tax rate will reduce from 19 per cent to 17 per cent with effect from 1 April 2020. In the current period and in the year to 31 March 2019, the Group has used this lower rate to re-measure all relevant deferred tax balances. In the period to 30 September 2018, to reflect reversals during the period to 31 March 2020, the Group used a composite rate of 17.05 per cent.

6. **Taxation** (continued)

The tax (credit)/charge on the Group's (loss)/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 (loss)/profit before tax from continuing operations as follows:

	Six months ended 30 September 2019	Six months ended 30 September 2018	Year ended 31 March 2019
	£m	£m	£m
(Loss)/profit before tax from continuing operations	**(116.6)**	118.2	(37.9)
(Loss)/profit before tax from continuing operations at the standard rate of corporation tax in the UK of 19% (30 September 2018 and 31 March 2019: 19%)	**(22.2)**	22.5	(7.2)
Effects of recurring items:			
Items not deductible for tax purposes			
Depreciation and losses on assets not eligible for tax relief	**1.1**	1.6	1.2
Disallowable expenditure	**0.4**	0.8	0.7
	(20.7)	24.8	(5.3)
Effects of non-recurring items:			
Reduction in corporation tax rate	**-**	(1.2)	(4.3)
Effects of differences between rates of current and deferred tax	**2.4**	2.8	6.3
Adjustments in respect of prior periods	**-**	1.8	(1.8)
Tax (credit)/charge for the period	**(18.3)**	28.3	(5.1)

In addition to the tax (credited)/charged to the income statement, the following amounts of tax relating to components of other comprehensive income were recognised:

	Six months ended 30 September 2019	Six months ended 30 September 2018	Year ended 31 March 2019
	£m	£m	£m
Deferred tax:			
Defined benefit pension schemes	**(0.1)**	2.2	(3.2)
Cash flow hedges	**2.1**	6.4	6.4
Reduction in corporation tax rate	**-**	-	0.2
Total deferred tax charge recognised in other comprehensive income	**2.0**	8.6	3.4

7. Dividends

	Six months ended 30 September 2019 £m	Six months ended 30 September 2018 £m	Year ended 31 March 2019 £m
Dividends available for distribution to investors in the ultimate parent company			
Paid by the Group:		-	
Previous year final dividend	**67.8**	68.0	68.0
	67.8	68.0	68.0

8. Intangible assets

	£m
Cost	
At 1 April 2019	**502.4**
Additions	**20.4**
At 30 September 2019	**522.8**
Accumulated amortisation	
At 1 April 2019	**(305.1)**
Charge for the period	**(21.4)**
At 30 September 2019	**(326.5)**
Net book amount	
At 30 September 2019	**196.3**

9. Property, plant and equipment

	£m
Cost	
At 1 April 2019	**14,187.5**
Change in accounting policy - IFRS 16	**33.1**
At 1 April 2019 (under IFRS 16)	**14,220.6**
Additions	**210.7**
Disposals	**(12.0)**
At 30 September 2019	**14,419.3**
Accumulated depreciation	
At 1 April 2019	**(4,417.3)**
Charge for the period	**(159.4)**
Disposals	**11.7**
At 30 September 2019	**(4,565.0)**
Net book amount	
At 30 September 2019	**9,854.3**

10. Investments

The sole subsidiary undertaking is Anglian Water Services Financing Plc, whose principal activity is that of a financing company. The value of the investment is £12,502. It is 100 per cent owned, all in ordinary shares, and is registered, incorporated and operating in the UK at 30 September 2019. The address of its registered office is Lancaster House, Lancaster Way, Ermine Business Park, Huntingdon, Cambridgeshire, PE29 6XU.

11. Cash and cash flow

Analysis of net debt at 30 September 2019

	Net cash and cash equivalents £m	Current asset investments £m	Borrowings £m	Derivatives financial instruments £m	**Net debt £m**
At 1 April 2019	257.3	297.0	(6,934.6)	(779.5)	**(7,159.8)**
Change in accounting policy - IFRS 16	-	-	(33.4)	-	**(33.4)**
At 1 April 2019 (under IFRS 16)	257.3	297.0	(6,968.0)	(779.5)	**(7,193.2)**
Cash flows					
Interest paid	(127.8)	-	19.8	(4.0)	**(112.0)**
Debt issue costs paid	(2.5)	-	2.5	-	**-**
Interest on finance leases	(0.4)	-	-	-	**(0.4)**
Increase in amounts borrowed	115.9	-	(115.9)	-	**-**
Repayments of amounts borrowed	(124.3)	-	124.3	-	**-**
Settlement of principal on derivatives	9.6	-		(9.6)	**-**
Capital element of finance lease rental payments	(2.0)	-	2.0	-	**-**
Decrease in short-term bank deposits	3.5	(3.5)	-	-	**-**
Non-financing cash flows	32.5	-	-	-	**32.5**
	(95.5)	(3.5)	32.7	(13.6)	**(79.9)**
Movement in interest accrual on debt	-	-	7.9	-	**7.9**
New lease agreements	-	-	(3.4)	-	**(3.4)**
Amortisation of issue costs	-	-	(2.0)	-	**(2.0)**
Indexation of borrowings and RPI swaps	-	-	(46.7)	(16.0)	**(62.7)**
Fair value gains/(losses) and foreign exchange	-	-	(106.2)	(71.5)	**(177.7)**
At 30 September 2019	161.8	293.5	(7,085.7)	(880.6)	**(7,511.0)**
Net debt at 30 September 2019 comprises:					
Non-current assets	-	-	-	323.1	**323.1**
Current assets	161.8	293.5	-	13.2	**468.5**
Current liabilities	-	-	(472.1)	(64.0)	**(536.1)**
Non-current liabilities	-	-	(6,613.6)	(1,152.9)	**(7,766.5)**
	161.8	**293.5**	**(7,085.7)**	**(880.6)**	**(7,511.0)**

(1) Derivative financial instruments exclude the fair value of energy derivatives, as these are not classified as part of net debt.

(2) Non-financing cash flows comprise net cash flows from operating activities of £325.9 million, less net cash used in investing activities of £225.6 million and less dividends paid of £67.8 million.

11. Cash and cash flow (continued)

The fair value of energy derivatives, excluded from net debt, is included within derivative financial instruments as follows:

	Six months ended 30 September 2019	Six months ended 30 September 2018	Year ended 31 March 2019
	£m	£m	£m
Non-current assets	**6.7**	8.9	5.1
Current assets	**1.9**	7.4	0.1
Current liabilities	**(2.4)**	-	(4.3)
Non-current liabilities	**-**	-	(1.9)
	6.2	16.3	(1.0)

Analysis of net debt at 30 September 2018

	Net cash and cash equivalents	Current asset investments	Borrowings	Derivatives financial instruments	**Net debt**
	£m	£m	£m	£m	**£m**
At 1 April 2018	247.1	40.0	(6,451.7)	(731.8)	**(6,896.4)**
Cash flows					
Interest paid	(122.6)	-	20.1	6.0	**(96.5)**
Debt issue costs paid	(0.4)	-	0.4	-	**-**
Repayments of amounts borrowed	(17.3)	-	17.3	-	**-**
Settlement of principal on derivatives	(11.7)	-	-	11.7	**-**
Non-financing cash flows	44.6	-	-	-	**44.6**
	(107.4)	-	37.8	17.7	**(51.9)**
Movement in interest accrual on debt	-	-	7.7	-	**7.7**
Amortisation of issue costs	-	-	(1.8)	-	**(1.8)**
Indexation of borrowings and RPI swaps	-	-	(50.2)	(15.0)	**(65.2)**
Fair value gains and losses and foreign exchange	-	-	(64.0)	111.5	**47.5**
At 30 September 2018	139.7	40.0	(6,522.2)	(617.6)	**(6,960.1)**
Net debt at 30 September 2018 comprises:					
Non-current assets	-	-	-	127.5	**127.5**
Current assets	139.7	40.0	-	61.1	**240.8**
Current liabilities	-	-	(318.6)	(14.3)	**(332.9)**
Non-current liabilities	-	-	(6,203.6)	(791.9)	**(6,995.5)**
	139.7	**40.0**	**(6,522.2)**	**(617.6)**	**(6,960.1)**

(1) Derivative financial instruments exclude the fair value of energy derivatives, as these are not classified as part of net debt.

(2) Non-financing cash flows comprise net cash flows from operating activities of £360.7 million, less net cash used in investing activities of £248.1 million and less dividends paid of £68.0 million.

11. Cash and cash flow (continued)

Analysis of net debt at 31 March 2019

	Net cash and cash equivalents £m	Current asset investments £m	Borrowings £m	Derivatives financial instruments £m	**Net debt £m**
At 1 April 2018	247.1	40.0	(6,451.7)	(731.8)	**(6,896.4)**
Cash flows					
Interest paid	(215.8)	-	34.9	3.5	**(177.4)**
Debt issue costs paid	(3.3)	-	3.3	-	**-**
Interest element of finance lease rental payments	(0.6)	-	-	-	**(0.6)**
Increase in amounts borrowed	447.8	-	(450.1)	-	**(2.3)**
Repayments of amounts borrowed	(140.0)	-	140.0	-	**-**
Settlement of principal on derivatives	27.0	-	-	(27.0)	**-**
Capital element of finance lease rental payments	(6.2)	-	6.2	-	**-**
Increase in short-term bank deposits	(257.0)	257.0	-	-	**-**
Proceeds from issue of shares	22.0	-	-	-	**22.0**
Non-financing cash flows	136.3	-	-	-	**136.3**
	10.2	257.0	(265.7)	(23.5)	**(22.0)**
Movement in interest accrual on debt	-	-	(5.4)	-	**(5.4)**
Issue costs in relation to new borrowings	-	-	2.1	-	**2.1**
Amortisation of issue costs	-	-	(3.7)	-	**(3.7)**
Indexation of borrowings and RPI swaps	-	-	(97.7)	(31.9)	**(129.6)**
Fair value gains and losses and exchange movements	-	-	(112.5)	7.7	**(104.8)**
At 31 March 2019	257.3	297.0	(6,934.6)	(779.5)	**(7,159.8)**
Net debt at 31 March 2019 comprises:					
Non-current assets	-	-	-	190.5	**190.5**
Current assets	257.3	297.0	-	20.2	**574.5**
Current liabilities	-	-	(315.0)	(11.7)	**(326.7)**
Non-current liabilities	-	-	(6,619.6)	(978.5)	**(7,598.1)**
	257.3	**297.0**	**(6,934.6)**	**(779.5)**	**(7,159.8)**

(1) Derivative financial instruments exclude the fair value of energy derivatives, as these are not classified as part of net debt.

(2) Non-financing cash flows comprise net cash flows from operating activities of £670.5 million, less net cash used in investing activities of £466.2 million and less dividends paid of £68.0 million.

12. Fair value of financial assets and liabilities

	Book value £m	Fair value £m
At 30 September 2019		
Cash and cash equivalents	**161.8**	**161.8**
Current asset investments - cash deposits	**293.5**	**293.5**
Borrowings		
Current	**(472.1)**	**(486.3)**
Non-current	**(6,613.6)**	**(8,729.4)**
Interest and cross currency interest rate swaps - assets		
Current	**12.4**	**12.4**
Non-current	**258.9**	**258.9**
Interest and cross currency interest rate swaps - liabilities		
Current	**(6.4)**	**(6.4)**
Non-current	**(276.8)**	**(276.8)**
RPI swaps - liabilities		
Current	**(57.6)**	**(57.6)**
Non-current	**(654.8)**	**(654.8)**
CPI swaps - assets		
Current	**0.8**	**0.8**
Non-current	**64.2**	**64.2**
CPI swaps - liabilities		
Non-current	**(221.3)**	**(221.3)**
Net debt	**(7,511.0)**	**(9,641.0)**
Energy hedging derivatives - assets		
Current	**1.9**	**1.9**
Non-current	**6.7**	**6.7**
Energy hedging derivatives - liabilities		
Current	**(2.4)**	**(2.4)**
	(7,504.8)	**(9,634.8)**
At 30 September 2018		
Cash and cash equivalents	139.7	139.7
Current asset investments - cash deposits	40.0	40.0
Borrowings		
Current	(318.6)	(319.9)
Non-current	(6,203.6)	(7,503.2)
Interest and cross currency interest rate swaps - assets		
Current	61.1	61.1
Non-current	127.5	127.5
Interest and cross currency interest rate swaps - liabilities		
Current	(14.3)	(14.3)
Non-current	(286.1)	(286.1)
RPI swaps - liabilities		
Current		
Non-current	(505.8)	(505.8)
Net debt	(6,960.1)	(8,261.0)
Energy hedging derivatives - assets		
Current	7.4	7.4
Non-current	8.9	8.9
	(6,943.8)	(8,244.7)

12. Fair value of financial assets and liabilities (continued)

	Book value £m	Fair value £m
At 31 March 2019		
Cash and cash equivalents	257.3	257.3
Current asset investments - cash deposits	297.0	297.0
Borrowings		
Current	(315.0)	(315.8)
Non-current	(6,619.6)	(8,316.2)
Interest and cross currency interest rate swaps - assets		
Current	20.2	20.2
Non-current	159.8	159.8
Interest and cross currency interest rate swaps - liabilities		
Current	(3.6)	(3.6)
Non-current	(238.5)	(238.5)
RPI swaps - liabilities		
Current	(8.1)	(8.1)
Non-current	(598.9)	(598.9)
CPI swaps - assets		
Non-current	30.7	30.7
CPI swaps - liabilities		
Non-current	(141.1)	(141.1)
Net debt	(7,159.8)	(8,857.2)
Energy hedging derivatives - assets		
Current	0.1	0.1
Non-current	5.1	5.1
Energy hedging derivatives - liabilities		
Current	(4.3)	(4.3)
Non-current	(1.9)	(1.9)
	(7,160.8)	(8,858.2)

The fair value of loans and other borrowings represents the market value of publicly traded debt instruments or, if in respect of debt not publicly traded, the cost which the Group would incur if it elected to repay these borrowings before their maturity dates, calculated by discounting future cash flows at prevailing rates including credit spreads experienced on publicly traded debt instruments.

The fair value of interest rate derivative financial instruments is determined by calculating the net realisable value that would have arisen if these contracts terminated at the reporting date with reference to estimated future cash flows and observable yield curves. The fair value of cross currency interest rate derivatives is determined using discounted cash flow analysis, with the foreign currency legs calculated with reference to observable foreign interest rate yield curves and the observable foreign exchange rate as at the reporting date. The fair value of the Group's energy derivatives is calculated using discounted cash flow analysis, with reference to observable market prices at the reporting date.

Fair values of other non-current investments, non-current trade and other receivables, provisions and non-current trade and other payables have been estimated as not materially different from book value.

Derivative transactions expose the Group to credit risk against the counterparties concerned. The Group has credit protection measures in place within agreements which provide protection in the event of counterparty rating downgrade or default. The Group only enters into derivative transactions with banks of high credit standing (as measured by reputable rating agencies) and also seeks to diversify exposure such that concentration with individual banks is avoided.

12. Fair value of financial assets and liabilities (continued)

In accordance with IFRS 13 'Fair Value Measurement' the financial instruments carried at fair value on the balance sheet have been classified as either level 2 or level 3 for fair valuation purposes. Both classifications are valued by reference to valuation techniques using observable inputs other than quoted prices in active markets. Level 2 instruments are valued using inputs that are observable for the asset or liability either directly or indirectly. The level 3 instrument valuation relate to CPI linked swaps where inputs are obtained from a less liquid market. In both cases, valuations have been obtained by discounting the estimated future cash flows at a rate that reflects credit risk.

There have been no transfers between level 1, level 2 and level 3 fair value measurements in the period. The Group's policy is to recognise transfers into and out of the different fair value hierarchy levels at the date the event or change in circumstances that caused the transfer occurred.

Level 3 derivative financial instruments

Level 3 derivative financial instruments comprise CPI linked inflation swaps which are traded based on a spread to liquid RPI inflation markets often referred to as 'the wedge'. As the market for CPI swaps is still developing the wedge is not currently observable in a liquid market and as such these swaps have been classified as level 3 instruments.

Movements in the six months to 30 September 2019 for assets and liabilities measured at fair value using level 3 valuation inputs are presented below.

	Six months ended 30 September 2019 £m
At the beginning of the period	**(110.3)**
Net loss for the period	**(45.9)**
At the end of the period	**(156.2)**

Gains and losses in the period are recognised in fair value gains/(losses) on derivatives within the profit and loss.

The impact on a post tax basis of reasonably possible changes in the significant assumptions used in valuing liabilities classified as level 3 within the fair value hierarchy are as follows:

	Six months ended 30 September 2019 £m
Gain/(loss)	
1% increase in interest rates	**56.0**
1% decrease in interest rates	**(70.8)**
1% increase in inflation rates	**(176.9)**
1% decrease in inflation rates	**143.7**

13. Provisions

Provisions primarily comprise legal claims and potential pollution fines which are expected to crystallise over a period of approximately two years. On adoption of IFRS 16 the remaining onerous lease provision was used to adjust the carrying amount of the right-of-use asset instead of performing an impairment review.

	£m
At 1 April 2019	12.2
Change in accounting policy - IFRS 16	(0.6)
At 1 April 2019 (under IFRS 16)	11.6
Additional provisions recognised	1.3
Unused amounts reversed	(0.2)
Utilised in the year	(0.2)
At 30 September 2019	12.3

Maturity analysis of total provisions:

	£m
Current	4.1
Non-current	8.2
	12.3

14. Net retirement benefit surplus

On 31 March 2018, the defined benefit sections of the Anglian Water Group Pension Scheme were closed for future accruals. All employees now have the option to participate in the group's defined contribution scheme.

The liabilities of the pension schemes have been valued using the projected unit method and using the following main assumptions:

	Six months ended 30 September 2019	Six months ended 30 September 2018	Year ended 31 March 2019
	%pa	%pa	%pa
Discount rate	**1.9**	2.8	2.4
Inflation rate			
RPI	**3.2**	3.3	3.3
CPI	**2.2**	2.3	2.3

The assets of the pension schemes have been updated to reflect their market value as at 30 September 2019.

The movement in the net defined benefit pension surplus was as follows:

	£m
At 1 April 2019	**3.5**
Employer's contributions	**1.4**
Return on plan assets (excluding amounts included in net interest)	**139.4**
Actuarial gains arising from changes in assumptions	**(140.1)**
At 30 September 2019	**4.2**

The net pension obligation comprises:

	£m
Pension schemes with a net surplus, included in non-current assets	**51.5**
Pension schemes with a net obligation, included in non-current liabilities	**(47.3)**
Net defined benefit pension obligation	**4.2**

Pension schemes in a net surplus position at the balance sheet date have been shown as retirement benefit surpluses within non-current assets on the balance sheet.

15. Hedging reserve

	Six months ended 30 September 2019	Six months ended 30 September 2018	Year ended 31 March 2019
	£m	£m	£m
At the beginning of the period (as previously reported)	**(75.9)**	(105.3)	(105.3)
Change in accounting policy - IFRS 9	**-**	(3.8)	(3.8)
At the beginning of the period (restated)	**(75.9)**	(109.1)	(109.1)
Gains/(losses) on cash flow energy hedges	**7.7**	25.3	9.8
Amounts transferred to the income statement	**1.9**	3.1	(3.2)
Gains/(losses) on cash flow hedges	**(34.4)**	(26.8)	(10.8)
Amounts transferred to the income statement from discontinuation of cash flow hedges	**2.8**	2.4	4.7
Exchange movement on hedging instruments related to debt in cash flow hedges	**35.7**	35.6	38.8
Deferred tax movement on cash flow hedges	**(2.3)**	(6.1)	(6.1)
At the end of the period	**(64.5)**	(75.6)	(75.9)

Cost of hedging reserve

	Six months ended 30 September 2019	Six months ended 30 September 2018	Year ended 31 March 2019
	£m	£m	£m
At the beginning of the period (as previously reported)	**2.0**	-	-
Change in accounting policy - IFRS 9	**-**	1.8	1.8
At the beginning of the period (restated)	**2.0**	1.8	1.8
Amounts transferred to the income statement	**(0.2)**	(0.1)	(0.3)
Gains/(losses) on cash flow hedges	**(0.9)**	-	0.9
Deferred tax movement on cash flow hedges	**0.2**	(0.3)	(0.4)
At the end of the period	**1.1**	1.4	2.0

The hedging reserve represents the cumulative effective portion of gains and losses arising on the change in fair value of hedging instruments, excluding those fair value movements identified as costs of hedging within the specific hedge relationship. The cost of hedging reserve captures the movement in the fair value of the cost of hedging component.

16. Capital commitments

The Group has a substantial long-term investment programme in Anglian Water, which includes expenditure to meet regulatory requirements, shortfalls in performance and condition, and to provide for new demand and growth. The commitments shown below reflect the outstanding value of orders placed at 30 September 2019.

	Six months ended 30 September 2019	Six months ended 30 September 2018	Year ended 31 March 2019
	£m	£m	£m
Property, plant and equipment	**71.2**	72.8	67.3
Intangible assets	**25.0**	32.7	26.6
	96.2	105.5	93.9

17. Contingencies

During the period to 30 September 2019, there has been no change to Group's position from that disclosed in the 31 March 2019 annual report and consolidated financial statements. As noted there, the Group has received indications of claims from four groups of property search companies who, pursuant to the Environmental Information Regulations, assert that certain information that Anglian Water provided to them should have been provided free of charge. Of the four groups, two are still in correspondence with Anglian Water, although one of these has not been in contact for several months. This is an industry-wide issue and at this stage the Directors consider the amount to be uncertain, but not to be material to the financial standing of the Group.

As is normal for a Group of this size and nature, it is subject to a number of other claims, disputes and litigation. The Directors consider that an appropriate position has been taken in reflecting such items in these condensed financial statements.

18. Impact of changes to accounting policies

As set out in note 1, the Group has adopted IFRS 16 'Leases' with effect from 1 April 2019. The impact of adopting this standard on the Group's financial statements is set out below.

IFRS 16 'Leases'

In accordance with IFRS 16, paragraphs IFRS 16.C5(b), the Group has chosen to apply the modified retrospective approach, where the cumulative effect of adoption is recognised at the date of initial application, as well as certain practical expedients. The impact on the opening balance sheet at 1 April 2019 is set out in the table below.

The impact of IFRS 16 on the results for the period compared with the previous IAS 17 accounting was to reduced operating costs by £1.3 million, and increase depreciation and finance costs by £2.0 million and £0.4 million respectively.

18. Impact of changes to accounting policies (continued)

	Balance at 1 April 2019 £m	Impact of IFRS 16 £m	Adjusted Balance at 1 April 2019 £m
Non-current assets			
Intangible assets	**197.3**	-	197.3
Property, plant and equipment	**9,770.2**	33.0	9,803.2
Derivative financial instruments	**195.6**	-	195.6
Retirement benefit surpluses	**49.3**	-	49.3
	10,212.4	33.0	10,245.4
Current assets			
Inventories	**11.6**	-	11.6
Trade and other receivables	**485.7**	(0.7)	485.0
Investments	**297.0**	-	297.0
Cash and cash equivalents	**257.3**	-	257.3
Derivative financial instruments	**20.3**	-	20.3
	1,071.9	(0.7)	1,071.2
			-
Total assets	**11,284.3**	32.3	11,316.6
Current liabilities			
Trade and other payables	**(492.0)**	0.5	(491.5)
Current tax liabilities	**(253.0)**	-	(253.0)
Borrowings	**(315.0)**	(3.6)	(348.4)
Derivative financial instruments	**(16.0)**	-	(16.0)
Provisions	**(4.2)**	0.6	(3.6)
	(1,080.2)	(32.3)	(1,112.5)
			-
Net current assets	**(8.3)**	(33.0)	(41.3)
Non-current liabilities			
Borrowings	**(6,619.6)**	(29.8)	(6,619.6)
Derivative financial instruments	**(980.4)**	-	(980.4)
Deferred tax liabilities	**(936.8)**	-	(936.8)
Retirement benefit obligations	**(45.8)**	-	(45.8)
Provisions	**(8.0)**	-	(8.0)
	(8,590.6)	-	(8,590.6)
Total liabilities	**(9,670.8)**	(32.3)	(9,703.1)
Net assets	**1,613.5**	-	1,613.5

Capital and reserves			
Share capital	**32.0**	-	32.0
Retained earnings	**1,655.4**	-	1,655.4
Hedging reserve	**(75.9)**	-	(75.9)
Cost of hedging reserve	**2.0**	-	2.0
Total equity	**1,613.5**	-	1,613.5

19. Related party transactions

The consortium of investors owning Anglian Water Group Limited are considered to be related parties of the Group as they each have the ability to influence the financial and operating policies of both the Company and the Group. Other related parties comprise key management personnel.

There has been no material change during the six months ended 30 September 2019 in transactions with these related parties from that disclosed in the Company's annual report and consolidated financial statements for the year ended 31 March 2019.

20. Events after the balance sheet date

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

21. Approval of the half-yearly report

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