

Anglian Water Services Financing Plc

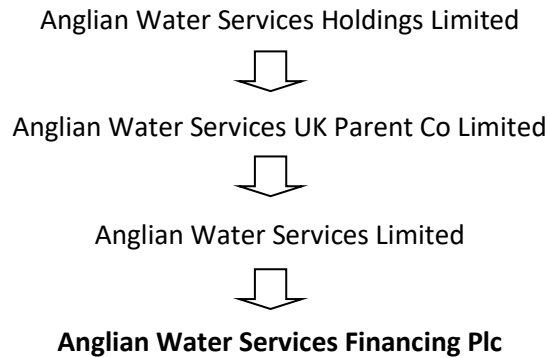
Half-yearly report

for the six months ended 30 September 2023

Anglian Water Services Financing Plc
Half-yearly management report
for the six months ended 30 September 2023

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, during the six month period to September 2023, Anglian Water issued an 8-year £300 million 5.875% fixed-rate bond and a 16-year £560 million 6.0% fixed rate bond. Repayments of £241.6 million were made in respect of maturing debt, which consisted of the £200.0 million 6.875% fixed rate debt and amortising payments on EIB index-linked debt.

As at September 2023, Anglian Water has access to £1,025.0 million of undrawn facilities (March 2023: £975.0 million), to finance working capital and capital expenditure requirements. In addition, Anglian Water has access to a further £425.0 million of liquidity facilities (March 2023: £375.0 million), consisting of £294.0 million to finance debt service costs and £131.0 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. See note 1 for further commentary over the liquidity requirements of the group in relation to going concern.

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 2023.

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/.](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 2023

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



Anthony Donnelly
Chief Financial Officer

Condensed statement of comprehensive income

for the six months ended 30 September 2023

Notes	Half-year ended 30 September 2023 Unaudited £m	Half-year ended 30 September 2022 Unaudited £m	Year ended 31 March 2023 Audited £m
Revenue	-	-	-
Total operating costs	-	-	-
Operating result	-	-	-
2 Finance income	376.7	359.2	766.0
3 Finance costs	(375.9)	(358.8)	(765.1)
Expected credit loss on intercompany loan	5.1	0.7	0.9
Net finance costs	5.9	1.1	1.8
Profit before tax from continuing operations	5.9	1.1	1.8
Profit for the period and total comprehensive income	5.9	1.1	1.8

The results above arise from continuing operations.

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

Anglian Water Services Financing Plc
Condensed balance sheet
as at 30 September 2023

Notes	At 30 September 2023 Unaudited £m	At 30 September 2022 Unaudited £m	At 31 March 2023 Audited £m	
Non-current assets				
5	Investments	7,133.2	6,228.5	6,315.6
6	Derivative financial instruments	1,069.2	863.4	1,069.4
		8,202.4	7,091.9	7,385.0
Current assets				
	Trade and other receivables	35.6	0.2	43.6
5	Investments	584.4	396.1	607.9
	Cash and cash equivalents	15.3	68.0	6.7
6	Derivative financial instruments	105.9	11.5	68.8
		741.2	475.8	727.0
	Total assets	8,943.6	7,567.7	8,112.0
Current liabilities				
	Trade and other payables	-	(18.5)	-
	Borrowings	(584.4)	(396.1)	(608.0)
6	Derivative financial instruments	(105.9)	(11.5)	(68.8)
		(690.3)	(426.1)	(676.8)
	Net current assets	50.9	49.7	50.2
Non-current liabilities				
	Borrowings	(7,146.4)	(6,247.1)	(6,334.0)
6	Derivative financial instruments	(1,069.2)	(863.4)	(1,069.4)
		(8,215.6)	(7,110.5)	(7,403.4)
	Total liabilities	(8,905.9)	(7,536.6)	(8,080.2)
	Net assets	37.7	31.1	31.8
Capital and reserves				
	Retained earnings	37.7	31.1	31.8
	Total equity	37.7	31.1	31.8

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 29 November 2023 and signed on its behalf by:


Peter Simpson
Chief Executive


Anthony Donnelly
Chief Financial Officer

Anglian Water Services Financing Plc
Condensed statement of changes in equity
for the six months ended 30 September 2023

	Retained earnings £m	Total equity £m
Six months ended 30 September 2023		
At 1 April 2023	31.8	31.8
Profit for the period	5.9	5.9
Total comprehensive income	5.9	5.9
At 30 September 2023	37.7	37.7
Six months ended 30 September 2022		
At 1 April 2022	30.0	30.0
Profit for the period	1.1	1.1
Total comprehensive income	1.1	1.1
At 30 September 2022	31.1	31.1
Year ended 31 March 2023		
At 1 April 2022	30.0	30.0
Profit for the year	1.8	1.8
Total comprehensive income	1.8	1.8
At 31 March 2023	31.8	31.8

Notes to the condensed financial statements

for the six months ended 30 September 2023

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 2023, including comparative information, do not constitute statutory accounts of the company. Statutory accounts for the year ended 31 March 2023 were approved by the Board on 07 June 2023 and the Auditor's report on those accounts was unqualified. The condensed financial statements for the six months ended 30 September 2023 should be read in conjunction with the financial statements for the year ended 31 March 2023 which can be obtained from the Company Secretary, Lancaster House, Lancaster Way, Ermine Business Park, Huntingdon, Cambridgeshire PE29 6XU.

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 2023, 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 2023.

a) Going Concern

Under the terms of the Company's financing arrangements, its parent, AWSL, guarantees unconditionally and irrevocably all the Company's borrowings and derivatives. As the Company does not operate separately to the AWSFG, the Directors have undertaken a detailed review of the ability of the Group to meet its liabilities as they fall due for a period of at least 12 months from the date these financial statements are approved. The Directors have undertaken a detailed review to assess the liquidity requirements of the group compared against the cash and facilities available to the group, as detailed below.

In line with the assessment at March 2023, the review included a range of downside outcomes as a result of the macro-economic environment. Key updates since the previous assessment are as follows:

- There continues to be considerable market volatility particularly in terms of energy, interest rates and inflation.

These updates along with company specific changes have been incorporated into our latest forecast which has been approved by the Board. This forecast forms our base going concern assessment which looks at liquidity, profitability and debt covenants.

Anglian Water Services Limited has a single debt platform (sometimes known as a "common terms" or "CTA" debt platform) that has been structured so as to align with, and enhance, the regulatory protections contained in the Water Industry Act 1991 and Anglian Water's Licence (an "Aligned Debt Programme"). Aligned Debt Programmes operate on a single covenant package and shared security and intercreditor arrangement that binds all debt providers.

Notes to the condensed financial statements (continued)

for the six months ended 30 September 2023

1. Basis of preparation and accounting policies (continued)

a) Going Concern (continued)

The CTA introduces two terms, a Trigger Event and an Event of Default. The intention of a Trigger Event is that it is an early warning event designed to reinforce credit worthiness and to protect the Company and its finance creditors from an Event of Default occurring and consequently it is not considered to be a going concern event. It does not enable creditors to destabilise the Company through enforcing their security.

We have identified three stretching scenarios to stress test our base forecast. These scenarios, low, medium and severe focus on the impact of the cost-of-living crisis and higher unemployment, the impacts of higher inflation and interest rates, as well as specific risks to the business, such as cost pressures, particularly as a result of weather events. Finally, the scenarios consider the impact on our cash collection as a result of a cyber-attack.

In assessing Going Concern the Directors have considered a number of perspectives, including liquidity and debt covenants and tested these against both the base scenario and the three downside scenarios.

- Liquidity – AWS holds sufficient liquidity to cover the going concern period even under the most severe downside scenario. There is no requirement for the business to raise further debt in the period and therefore the volatile market conditions have limited impact.
- Debt covenants – The business has significant headroom against Default Events (where class A interest cover ratio is less than 1.6:1) under its securitised covenants with no plausible scenario identified that would cause an Event of Default.

While certain worst-case scenarios indicate the potential for a Trigger Event, the Directors do not consider this possibility to constitute a material uncertainty related to going concern. As noted, a Trigger Event is not considered a going concern event and whilst it would result in dividend lock-up and prevent the business from raising new debt we have sufficient liquidity during the going concern period in this event even when including planned debt repayments.

In October the business submitted its PR24 Business Plan for consideration by Ofwat. Whilst this falls outside of the going concern period it is worth noting that the plan submitted is financeable and financially resilient to downside stress tests performed.

Based on the above, the Directors believe that the business has sufficient liquidity to meet its liabilities as they fall due.

For these reasons, the Directors believe it appropriate to continue to adopt the going concern basis in preparing the financial statements.

Notes to the condensed financial statements (continued)

for the six months ended 30 September 2023

2. Finance Income

	Half-year ended 30 September 2023 £m	Half-year ended 30 September 2022 £m	Year ended 31 March 2023 £m
Finance income			
Interest receivable from Anglian Water Services Limited	375.9	358.8	765.1
Management fees treated as interest receivable	-	0.2	0.4
Other interest income	0.8	0.2	0.5
	376.7	359.2	766.0

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.

3. Finance Costs

	Half-year ended 30 September 2023 £m	Half-year ended 30 September 2022 £m	Year ended 31 March 2023 £m
Finance costs			
Interest expense on bank loans and overdrafts	(125.3)	(99.8)	(203.7)
Indexation of loan stock	(250.6)	(259.0)	(561.4)
	(375.9)	(358.8)	(765.1)
Expected credit loss on intercompany loan	5.1	0.7	0.9
	(370.8)	(358.1)	(764.2)

Notes to the condensed financial statements (continued)

for the six months ended 30 September 2023

4. Taxation

	Half-year ended 30 September 2023 £m	Half-year ended 30 September 2022 £m	Year ended 31 March 2023 £m
Tax on profit on ordinary activities comprises:			
UK corporation tax - current period	-	-	-
Total tax charge on profit on continuing operations	-	-	-

The tax charge on the Company's profit before tax differs from the notional amount calculated by applying the rate of UK corporation tax of 25% (30 September 2022 and 31 March 2023: 19%) to the profit before tax from continuing operations as follows:

	Half-year ended 30 September 2023 £m	Half-year ended 30 September 2022 £m	Year ended 31 March 2023 £m
Loss before tax from continuing operations	5.9	1.1	1.8
Loss before tax from continuing operations at the standard rate of corporation tax in the UK of 25% (30 September 2022 and 31 March 2023: 19%)	1.5	0.2	0.3
Effects of recurring items:			
Items not deductible for tax purposes			
Expected credit loss on intercompany loan	(1.3)	(0.1)	(0.2)
	0.2	0.1	0.1
Effects of non-recurring items:			
Group relief not paid for	(0.2)	(0.1)	(0.1)
Tax charge 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 2023

5. Investments

	Half-year ended 30 September 2023 £m	Half-year ended 30 September 2022 £m	Year ended 31 March 2023 £m
Investments - current & non-current			
Loan to parent undertaking	7,730.8	6,643.2	6,941.9
Expected credit loss	(13.2)	(18.6)	(18.4)
Total	7,717.6	6,624.6	6,923.5

The loan to AWSL mirrors the external loan.

£7,717.6 million is made up of current: £584.4 million (30 September 2022: £397.1 million; 31 March 2023: £607.9 million) and non-current: £7,133.2 million (30 September 2022: £6,228.5 million; 31 March 2023: £6,315.6).

In accordance with IFRS 9 5.5 'Recognition of expected credit losses', as at 30 September 2023 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 £13.1 million (30 September 2022: £18.6 million; 31 March 2023: £18.3 million).

The expected credit loss is calculated based on a one year credit spread of AWSL of 17 basis points (30 September 2022: 28 basis points; 31 March 2023: 26 basis points), however, as the only business of the entity is to raise funds for AWSL, any losses due to a credit event in AWSL would effectively be incurred by the external debt holders. As such, the expected credit loss provision reflects a mismatch in accounting treatment between assets and liabilities and is not a true economic exposure for the entity.

Notes to the condensed financial statements (continued)

for the six months ended 30 September 2023

6. Fair value of derivatives

At 30 September 2023

	Assets £m	Liabilities £m
At 30 September 2023		
Interest rate and cross currency interest rate swaps	272.8	(272.8)
RPI and CPI swaps	902.3	(902.3)
	1,175.1	(1,175.1)

Derivative financial instruments can be analysed as follows:

Current	105.9	(105.9)
Non-current	1,069.2	(1,069.2)
	1,175.1	(1,175.1)

At 30 September 2022

	Assets £m	Liabilities £m
At 30 September 2022		
Interest rate and cross currency interest rate swaps	359.5	(359.5)
RPI and CPI swaps	515.4	(515.4)
	874.9	(874.9)

Derivative financial instruments can be analysed as follows:

Current	11.5	(11.5)
Non-current	863.4	(863.4)
	874.9	(874.9)

Notes to the condensed financial statements (continued)

for the six months ended 30 September 2023

6. Fair value of derivatives (continued)

At 31 March 2023

	Assets £m	Liabilities £m
At 31 March 2023		
Interest rate and cross currency interest rate swaps	274.3	(274.3)
RPI and CPI swaps	863.9	(863.9)
	<u>1,138.2</u>	<u>(1,138.2)</u>
Derivative financial instruments can be analysed as follows:		
Current	68.8	(68.8)
Non-current	1,069.4	(1,069.4)
	<u>1,138.2</u>	<u>(1,138.2)</u>

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

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 Canada Pension Plan Investment Board (CPP Investments™), IFM Global Infrastructure Fund, Camulodunum Investments, Igneo Infrastructure Partners and Infinity Investments S.A.

Notes to the condensed financial statements (continued)

for the six months ended 30 September 2023

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 29 November 2023.