

Anglian Water Services Financing Plc

Annual Report and Financial Statements

for the year ended 31 March 2018

Registration number: 04330322

Anglian Water Services Financing Plc

Strategic Report for the Year Ended 31 March 2018

The Directors present the Strategic Report for the year ended 31 March 2018.

Business review

Fair review of the business

The principal activity of the Company is the raising of listed debt to lend to Anglian Water Services Limited (AWSL). It forms part of the group of four companies referred to as the Anglian Water Services Financing Group ("AWSFG") as shown below.

Anglian Water Services Holdings Limited



Anglian Water Services Overseas Holdings Limited



Anglian Water Services Limited



Anglian Water Services Financing Plc

The Company repaid £321.6m (2017: £494.0m) of debt in the year. £250.0m of new debt was raised in the year (2017: £569.3). The monies raised were lent to AWSL on a back-to-back basis. As at 31 March 2018 the Company had cash and deposits amounting to £1.7 million (2017: £1.6 million).

The Company is a wholly owned subsidiary of AWG Group Limited and was put in place in 2002, when AWSL's covenanted and ring-fenced debt structure was established. The AWSFG provides protection for the customers of the principal trading company in the group, AWSL, and bond holders of the Company from risks associated with other non-regulated Anglian Water Group companies outside of the ring-fence.

The statement of comprehensive income on page 12 shows the Company's results for the year. For the financial year ended 31 March 2018 the Company made a profit on ordinary activities before taxation of £0.4 million (2017: £0.5 million). Given the nature of the business, the Directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business.

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.

Liquidity

The Company's objective is to maintain flexibility, diversification and continuity of funding through access to different markets and debt instruments. At the year end the Company held cash at bank and in hand of £1.7 million (2017: £1.6 million) and had undrawn committed working capital and capital expenditure facilities of £600.0 million (2017: £545.0 million). Cash is held on deposit by the Company to the extent required to meet near term debt repayments. These resources are maintained to ensure liquidity and the continuation of the AWSL investment programme. The maturity profile of the Company's borrowings is set out in note 9 to the financial statements. In addition the Company has access to a further £390.0 million (2017: £375.0 million) of 'liquidity facilities': £279.0 million (2017: £279.0 million) to finance AWSL debt service costs; and £111.0million (2017: £96.0 million) to finance AWSL operating expenditure and maintenance capital expenditure. These facilities address the risk of AWSL being in default of its debt obligations and having insufficient liquidity.

Anglian Water Services Financing Plc

Strategic Report for the Year Ended 31 March 2018 (continued)

Principal risks and uncertainties (continued)

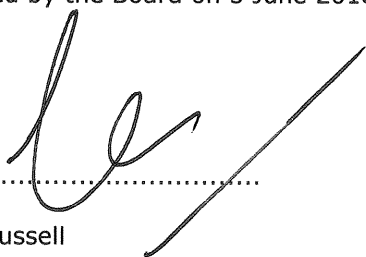
Interest rates

The Company's policy for the management of interest rate risk is to achieve a balanced mix of funding at indexed (to RPI), fixed and floating rates of interest. To guard against the adverse movements in interest rates having a detrimental impact on the business and to enable covenanted obligations and credit ratings to be met, the overall underlying debt portfolio is maintained between 30 per cent and 60 per cent for fixed rate debt, between 30 per cent and 55 per cent for index-linked debt, and between 5 per cent and 15 per cent for floating rate debt. Within these hedging levels, the Company endeavours to obtain the finest rates (lowest borrowing and finest depositing rates) consistent with ensuring that the relevant treasury objectives are met in full, i.e. the provision of adequate finance for Anglian Water Services Financing Plc at all times and maintaining security of principal.

Foreign currency

The Company has currency exposures resulting from debt raised in currencies other than sterling and very small purchases in foreign currencies. The Company uses a range of instruments to hedge such exposures. All hedges are undertaken for commercial reasons with the objective of minimising the impact of exchange rate fluctuations on net assets and profits. The Company has no material unhedged monetary assets and liabilities denominated in a currency different from the local currency of the Company.

Approved by the Board on 5 June 2018 and signed on its behalf by:



.....
Claire Russell

Company Secretary

Anglian Water Services Financing Plc

Directors' Report for the Year Ended 31 March 2018

The Directors present their report and the audited financial statements for the year ended 31 March 2018.

Future developments

The Directors expect the activities as detailed in the Strategic Report to continue in the foreseeable future without material change.

Directors of the Company

The Directors who held office during the year and up to the date of signing the financial statements were as follows:

Stephen Billingham (Chairman)
Polly Courtice
Steve Good
John Hirst
Scott Longhurst
Chris Newsome
Peter Simpson
Jean Spencer
Paul Whittaker

Directors' liabilities

The Company maintains Directors' and Officers' liability insurance which gives appropriate cover for legal action brought against its Directors. The Company has also provided an indemnity for its Directors, which is a qualifying third party indemnity provision for the purpose of section 234((2) – (6)) of the Companies Act 2006.

Dividends

No dividend was paid during the year (2017: £nil). The Directors are not recommending the payment of a final dividend (2017: £nil).

Financial risk management

Objectives and policies

The Company does not operate separately to the AWSFG and therefore its financial risks are governed by the AWSFG's policies and procedures. These policies and procedures are discussed within the Anglian Water Services Limited consolidated group financial statements.

Liquidity risk and cash flow risk

Liquidity, interest rate and foreign currency risk are detailed within the Strategic Report.

Disclosure of information to the auditors

Each Director has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information. The Directors confirm that there is no relevant information that they know of and which they know the auditors are unaware of.

Reappointment of auditors

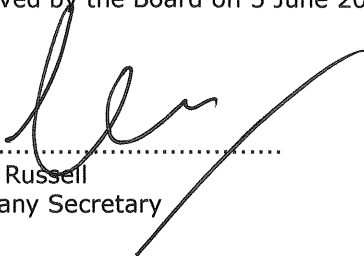
Deloitte LLP have indicated their willingness to continue in office and a resolution that they be reappointed will be proposed to the board.

Corporate Governance

The Board are appointed by the shareholders and meet regularly to review the financial and operational performance of the Company. The Company does not operate separately to the AWSFG and is specifically established for the raising of listed debt to on-lend to Anglian Water Services Limited as noted in its principal activities in the Strategic report. The risk management process includes clear accountabilities, delegated authority limits and well-defined policies and procedures.

**Anglian Water Services Financing Plc
Directors' Report for the Year Ended 31 March 2018**

Approved by the Board on 5 June 2018 and signed on its behalf by:



.....
Claire Russell
Company Secretary

Anglian Water Services Financing Plc Statement of Directors' Responsibilities

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Anglian Water Services Financing Plc Independent Auditors' Report to the Members of Anglian Water Services Financing Plc

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Anglian Water Services Financing plc (the 'company') which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the cash flow statement;
- the statement of accounting policies; and
- the related notes 1 to 12.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were; <ul style="list-style-type: none">• Derivative accounting; and• Management override of control.
Materiality	The materiality that we used in the current year was £10.0m (2017: £13.0m) which was determined on the basis of 0.2% of total borrowings (2017: 0.2% of total borrowings).

Anglian Water Services Financing Plc Independent Auditors' Report to the Members of Anglian Water Services Financing Plc

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

We have nothing to report in respect of these matters.

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Derivative accounting

Key audit matter description



The company has a gross derivative liabilities of £1,005m and gross derivative assets of £1,005m, disclosed in note 9, including interest rate swaps, index linked swaps and cross currency swaps.

This is a complex area of accounting and requires management judgement in relation to the derivative valuation, in particular the credit risk adjustments, and therefore the valuation of the derivatives has been identified as a key audit matter.

The valuation risk is focussed on the valuation of the index-linked and cross currency swaps, as well as swap locks, due to their complexity.

How the scope of our audit responded to the key audit matter

We have performed a sample of independent valuations across all the derivative contracts, including an assessment of the credit risk adjustment. Additionally we have considered the accounting treatment arising from the derivative restructures which occurred in the year.

We also evaluated the design and implementation of key management controls embedded within the treasury cycle.

Key observations


Based on our sample of valuations across the derivative contracts, no material misstatements were identified.

Management override of control

Key audit matter

Management is in a unique position to perpetrate fraud because of their

**Anglian Water Services Financing Plc
Independent Auditors' Report to the Members of
Anglian Water Services Financing Plc**

 <p>description</p>	<p>ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Although management is responsible for safeguarding the assets of the business, we planned our audit so that we had a reasonable expectation of detecting material misstatements to the financial statements and accounting records.</p> <p>In particular the risk of management override of control is in the extraction of the company's accounting records from the wider group's general ledger.</p>
<p>How the scope of our audit responded to the key audit matter</p>	<p>We substantively tested the extraction of the company's accounting records from the wider group's general ledger, and assessed the appropriateness of the adjustments made to record the company's financial statements on a stand-alone basis, such as the reversal of hedge accounting adopted within the group but not by the company.</p> <p>We also assessed the design and implementation of the company's controls over the preparation of its financial statements.</p>
<p>Key observations</p>	<p>Based on the work done, no we found no matters that were reportable to those charged with governance.</p>

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<p>Materiality</p>	<p>£10.0m (2017: £13.0m)</p>
<p>Basis for determining materiality</p>	<p>Approximately 0.2% of total borrowings (2017: 0.2% of total borrowings)</p>
<p>Rationale for the benchmark applied</p>	<p>The primary purpose of the Company is to raise funding from external sources and provide funding to Anglian Water Services Limited. We have therefore used total borrowings as the benchmark. The applied materiality is capped at the component materiality determined as part of the Anglian Water Services Limited group audit.</p>

We agreed with the Audit Committee that we would report to the Committee all audit differences

Anglian Water Services Financing Plc Independent Auditors' Report to the Members of Anglian Water Services Financing Plc

in excess of £0.5m, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report including the strategic report and the directors reports, other than the financial statements and our auditor's report thereon.

We have nothing to report in respect of these matters.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate

Anglian Water Services Financing Plc Independent Auditors' Report to the Members of Anglian Water Services Financing Plc

the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

**Anglian Water Services Financing Plc
Independent Auditors' Report to the Members of
Anglian Water Services Financing Plc**

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

Other matters

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the company on 1 September 2016 to audit the financial statements for the year ending 31 March 2017 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 2 years, covering the years ending 31 March 2017 and 31 March 2018.

Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).



James Leigh (Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

5 June 2018

**Anglian Water Services Financing Plc
Statement of Comprehensive Income
for the Year Ended 31 March 2018**

Notes	2018	2017
	£m	£m
Revenue	-	-
Operating costs	-	-
Operating result	-	-
Finance activities		
4 Finance income	350.7	286.7
5 Finance costs	(350.3)	(286.2)
Net finance income	0.4	0.5
Profit on ordinary activities before taxation	0.4	0.5
6 Tax on profit on ordinary activities	-	-
Profit for the period and total comprehensive income	0.4	0.5

Anglian Water Services Financing Plc
Balance Sheet
(Registration number: 04330322)
At 31 March 2018

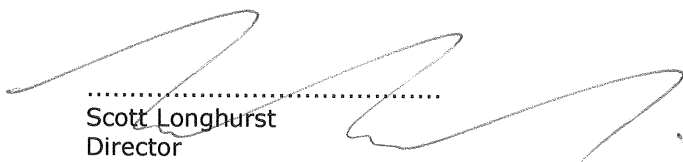
Notes	2018 £m	2017 £m
Non-current assets		
7 Investments	6,240.9	6,171.3
9 Derivative financial instruments	944.6	1,281.6
	7,185.5	7,452.9
Current assets		
7 Investments	212.5	271.2
9 Derivative financial instruments	60.4	22.4
8 Trade and other receivables	46.3	46.0
Cash and cash equivalents	1.7	1.6
	320.9	341.2
Current liabilities		
9 Short-term borrowings	(212.5)	(271.2)
9 Derivative financial instruments	(60.4)	(22.4)
	(272.9)	(293.6)
Net current assets	48.0	47.6
Total assets less current liabilities	7,233.5	7,500.5
Non-current liabilities		
9 Loans and other borrowings	(6,240.9)	(6,171.3)
9 Derivative financial instruments	(944.6)	(1,281.6)
	(7,185.5)	(7,452.9)
Net assets	48.0	47.6
Capital and reserves		
10 Called up share capital	-	-
Reserves	48.0	47.6
Total equity	48.0	47.6

Notes 1 to 12 are an integral part of these financial statements.

Approved by the Board on 5 June 2018 and signed on its behalf by:



.....
Peter Simpson
Director



.....
Scott Longhurst
Director

Anglian Water Services Financing Plc
Statement of Changes in Equity
for the Year Ended 31 March 2018

	Share capital £m	Retained earnings £m	Total equity £m
For the year ended 31 March 2018			
At 1 April 2017	-	47.6	47.6
Total comprehensive income	-	0.4	0.4
At 31 March 2018	-	48.0	48.0
For the year ended 31 March 2017			
At 1 April 2016	-	47.1	47.1
Total comprehensive income	-	0.5	0.5
At 31 March 2017	-	47.6	47.6

Anglian Water Services Financing Plc
Cash Flow Statement
for the Year Ended 31 March 2018

Notes	2018 £m	2017 £m
Investing activities		
7 Loan repayment from parent	321.6	494.0
Loans to parent	(250.0)	(569.3)
Interest received	212.2	229.3
Net cash generated from investing activities	283.8	154.0
Financing activities		
Interest paid	(212.1)	(229.0)
Increase in amounts borrowed	250.0	569.3
Repayment of amounts borrowed and RPI swaps ¹	(321.6)	(494.0)
Net cash used in financing activities	(283.7)	(153.7)
Net increase in cash and cash equivalents	0.1	0.3
Cash and cash equivalents at the beginning of the year	1.6	1.3
Cash and cash equivalents at 31 March	1.7	1.6

¹ Comprises £247.7 million (2017: £494 million) of debt repayment and £73.9 million (2017: £nil) of swap repayments.

(a) Movement in net debt excluding derivatives

	Cash and cash equivalents £m	Borrowings £m	Year ended 31 March 2018 £m	Year ended 31 March 2017 £m
At 1 April	1.6	(6,442.5)	(6,440.9)	(6,191.5)
Increase in cash	0.1	-	0.1	0.3
Increase in amounts borrowed	-	(250.0)	(250.0)	(569.3)
Repayment of amounts borrowed	-	247.7	247.7	494.0
Indexation of loan stock and RPI swaps	-	(110.3)	(110.3)	(61.1)
Movement in interest accruals on borrowings	-	1.5	1.5	14.3
Exchange rate adjustment to borrowings	-	100.2	100.2	(127.6)
At 31 March	1.7	(6,453.4)	(6,451.7)	(6,440.9)
Current assets	1.7	-	1.7	1.6
Current liabilities	-	(212.5)	(212.5)	(271.2)
Non-current liabilities	-	(6,240.9)	(6,240.9)	(6,171.3)
	1.7	(6,453.4)	(6,451.7)	(6,440.9)

Financing cash-flows include £73.9 million (2017: nil) of repayments on external derivatives, these are excluded from the reconciliation above as they have no impact on net debt, due to the offset between internal and external derivatives.

Anglian Water Services Financing Plc

Notes to the Financial Statements for the Year Ended 31 March 2018

1 Accounting policies

General information

The Company is a private company limited by share capital, incorporated and domiciled in the UK.

The address of the registered office is:

Lancaster House
Lancaster Way
Ermine Business Park
Huntingdon
Cambridgeshire
PE29 6XU

These financial statements were authorised for issue by the Board on 5 June 2018.

Basis of preparation

These financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101) and the Companies Act 2006 (the Act). FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS.

The Company is a qualifying entity for the purposes of FRS 101. Note 12 gives details of the Company's parent and from where its consolidated financial statements prepared in accordance with IFRS may be obtained.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Given the straight forward nature of the Company no areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, have been identified by management.

The financial statements are prepared on a going concern basis under the historical cost convention as modified by the revaluation of derivative financial instruments at fair value. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Summary of disclosure exemptions

The Company has utilised the following exemptions:

Paragraph 30-31 of IAS 8 "Accounting policies, changes in accounting estimates and errors" (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)

The requirements of IAS 24 "Related party Disclosures" to disclose related party transactions entered into between two or more members of a group

Paragraph 17 of IAS 24 "Related party Disclosures" (key management compensation)

Paragraph 8(d) of FRS 101 the requirements of "IFRS 7 Financial Instruments: Disclosures"

1 Accounting policies (continued)

New standards, amendments and interpretations

There are no new or amended standards adopted by the Company in the year which have had a material impact on the Company.

Borrowings

Borrowings are recognised initially at fair value. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Dividends

Dividends are recognised as a liability in the period in which they are approved. Interim dividends are recognised in the period in which they are paid.

Fixed asset investments

Investments held as fixed assets represent loans to the immediate parent undertaking (Anglian Water Services Limited) and reflect the 'back-to-back' arrangement with the Company.

Foreign currencies

Individual transactions denominated in foreign currencies are translated into local currency at the actual exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into local currency at the balance sheet date.

Profits and losses on both individual foreign currency transactions during the year and monetary assets and liabilities are dealt with in the statement of comprehensive income.

Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The financial statements are presented in 'Pounds Sterling' (£), which is also the Company's functional currency.

Financial instruments

The Company uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from financing activities. In accordance with its treasury policy, the Company does not hold or issue derivative financial instruments for trading purposes.

Derivatives are initially recognised and subsequently re-measured at fair value. However, within the Company, hedge accounting is not applied and therefore the movements in the fair value of these derivatives are included in the statement of comprehensive income within interest payable.

Anglian Water Services Financing Plc

Notes to the Financial Statements for the year ended 31 March 2018 continued

1 Accounting policies (continued)

There is a "back-to-back" intercompany loan agreement in place between Anglian Water Services Limited and Anglian Water Services Financing Plc, which passes the financing arrangements of the external debt and derivative positions held by Anglian Water Services Financing Plc to Anglian Water Services Limited. Accordingly, the majority of external balances are mirrored by corresponding balances due from Anglian Water Services Limited.

Anglian Water Services Limited lends cash back to the Company to provide the funds for the company to repay its external debt, normally 12 months in advance of debt falling due for payment.

Taxation

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operates and generates taxable income.

Segmental Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

The Company's activity of the raising of listed debt to on-lend to Anglian Water Services Limited constitutes a single class of business and, as such, no segmental reporting is required.

Finance Income and costs

Finance income and costs are recognised in the period to which they relate using the effective interest rate method. Finance income receivable from Anglian Water Services Limited relates to the "back-to-back" arrangement with Anglian Water Services Limited whereby all borrowings and derivatives are replicated, thus resulting in net neutral impact on the income statement. Management fees receivable from Anglian Water Services Limited are treated as interest receivable as they relate directly to the cost of financing in accordance with the 2002 intercompany loan agreement, resulting in net profit in the company.

Receivables

Receivables are measured at fair value on initial recognition. If there is objective evidence that the amount receivable is impaired it is written down to its recoverable amount, with the irrecoverable amount being recognised as an expense in operating costs.

2 Auditors' remuneration

The auditors' remuneration of £5k (2017: £5k) for audit services is borne by Anglian Water Services Limited, with no recharge to the Company.

3 Particulars of employees

The monthly average number of persons employed by the Company (including Directors) during the year was nil (2017: nil). Anglian Water Services Limited employees carry out all the activities of the Company, there is no specific recharge for these services. None of the Directors receive emoluments for the provision of services to the company (2017: none).

4 Finance income

	2018	2017
	£m	£m
Interest receivable from Anglian Water Services Limited	350.3	286.2
Management fees treated as interest receivable	0.3	0.3
Other interest receivable	0.1	0.2
	350.7	286.7

5 Finance costs

	2018	2017
	£m	£m
Indexation on index-linked loans and RPI swaps	(136.5)	(75.2)
Interest payable on external loans	(213.8)	(211.0)
	(350.3)	(286.2)

The Company holds Retail Price Index (RPI) swaps to enable the group to hedge against RPI movement in the Regulated Capital Value (RCV) and revenues of Anglian Water Services Limited. These RPI swaps do not qualify for hedge accounting under IAS 39 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 largely net neutral impact on the statement of comprehensive income.

Anglian Water Services Financing Plc
Notes to the Financial Statements for the year ended 31 March 2018 continued

6 Taxation

2018	2017
£m	£m

Tax on profit on ordinary activities comprises:

UK corporation tax - current year

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Factors affecting current tax charge for the year

Tax on profit on ordinary activities for the year is lower than (2017: lower than) the standard rate of corporation tax in the UK of 19% (2017: 20%).

The differences are reconciled below:

2018	2017
£m	£m

Profit on ordinary activities before taxation

0.4	0.5
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Corporation tax at standard rate of 19% (2017: 20%)

0.1	0.1
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Group relief not paid for

(0.1)	(0.1)
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Total tax

-	-
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It has been agreed that companies within the AWSFG will not pay each other for tax losses.

The corporation tax rate has been reduced to reflect the change in the UK corporation tax rate from 20 per cent to 19 per cent that was effective from 1 April 2017, and will be reduced again to reflect the reduction to 17 per cent which will be effective from 1 April 2020.

7 Investments

	2018	2017
	£m	£m
Amounts due after one year	6,240.9	6,171.3
Amounts due within one year	212.5	271.2
	6,453.4	6,442.5

Loans to immediate parent undertaking

	£m
At 1 April 2017	6,442.5
Increase in loans	250.0
Repaid	(247.7)
Movement on back to back arrangement with Anglian Water Services Limited	8.6
At 31 March 2018	6,453.4

The loan to AWSL mirrors the external loan and is on terms equal to that set out in note 9.

8 Trade Receivables

	2018	2017
	£m	£m
Amounts owed by immediate parent undertaking	46.3	46.0
	46.3	46.0

Amounts owed by parent undertaking are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

9 Loans, other borrowings and financial instruments

		2018 £m	2017 £m
Loans and other borrowings	Notes		
£200m 6.875% fixed rate 2023	c e	208.4	208.4
£200m 6.625% fixed rate 2029	c e	202.8	202.8
£150m 4.125% Index Linked 2020	a c e	249.3	240.4
£246m 6.293% fixed rate 2030	c e	256.4	256.4
£250m 5.837% fixed rate 2022	c e	259.8	259.8
£200m 3.07% index linked 2032	a c e	316.3	304.9
£60m 3.07% index linked 2032	a c e	96.1	92.6
£75m 3.666% index linked 2024	a c e	118.7	114.4
£150m 5.5% fixed rate 2017/2040 ¹	b c d	-	153.9
£402m 2.40% index-linked 2035	a c e	592.0	570.0
£50m 1.7% index-linked 2046 (Deutsche)	a c e	70.8	68.2
£50m 1.7% index-linked 2046 (RBS)	a c e	70.6	68.2
£40m 1.7146% index linked 2056	a c e	56.8	54.7
£50m 1.6777% index linked 2056	a c e	71.0	68.4
£60m 1.7903% index linked 2049	a c e	85.1	82.0
£100m 1.3784% index linked 2057	a c e	141.3	136.6
£50m 1.3825% index linked 2056	a c e	70.6	68.3
£100m Class A wrapped floating rate bonds	c e	100.2	100.2
£75m 1.449% index linked 2062	a c e	100.2	97.7
£50m 1.52% index linked 2055	a c e	66.9	65.2
JPY 15bn 2.925% fixed rate 2018/2037	c d	101.6	108.3
£110m Class A unwrapped floating rate bonds 2043	c e	110.1	110.1
JPY 5bn 3.22% fixed rate 2019/2038	c d	34.0	36.2
£25m 6.875% private placements 2034	c e	25.4	25.4
EIB £50m 1.626% term facility 2019	a c e	65.4	63.0
EIB £50m 1.3% term facility 2020	a c e	64.2	61.9
£130m 2.262% index linked 2045	a c e	164.7	158.8
US\$160m 4.52% Private Placement 2021	c d	115.6	129.0
US\$410m 5.18% Private Placement 2021	c d e	297.4	332.1
EIB £75m 0.53% index linked amortising term facility 2027 ²	a c e	78.7	84.2
EIB £75m 0.79% index linked amortising term facility 2027 ²	a c e	78.7	84.3
£250m 4.5% 2027	c	255.5	255.5
£15m 1.37% IL Private Placement 2022	a c	17.2	16.6
£50m 2.05% IL Private Placement 2033	a c	57.5	55.4
£25.5m 4.2% Private Placement 2017	c	-	26.0
£31.9m 4.0% Private Placement 2022	c	32.5	32.5
£73.3m 4.4% Private Placement 2028	c	74.9	74.9
£22.3m 4.0% Private Placement 2022	c	22.8	22.8
US\$47m 5% Private Placement 2022	c	34.4	38.4
Sub-total carried forward		4,763.6	4,928.5

9 Loans, other borrowing and financial instruments (continued)

	Notes	2018 £m	2017 £m
Sub-total brought forward		4,763.6	4,928.5
EIB £150m 0% 2028 ³	a c	169.6	163.5
£200m Class B 4.5% 2026	c e	200.9	200.9
£35m 1.141% IL Bond 2042	a c d	39.4	38.0
US\$170m 3.84% Private Placement 2023	c d e	123.5	137.9
£93m 3.537% Private Placement 2023		94.5	94.5
US\$160m 4.99% Private Placement 2023		116.1	129.7
EIB £65m 0.41% index linked amortising term facility 2029 ⁴	a c	71.5	68.9
EIB Tranche 2 £125m 0.1% 2029 ⁴	a c	135.8	130.8
EIB Tranche 3 £60m 0.01% 2030 ⁵	a c	64.9	62.4
£500m RCF 2020		-	55.0
US\$150m 3.29% Private Placement 2026	c d e	108.5	121.2
£55m 2.93% fixed rate Private Placement 2025	c e	55.7	55.7
£20m 2.93% fixed rate Private Placement 2025	c e	20.3	20.3
£35m floating rate Private Placement 2031	c d	35.0	35.0
£200m Class B 2.6225% fixed rate 2027	c d	201.5	200.2
£250m GRN 1.625% 2025	c d	252.6	-
Total loans and other borrowings		6,453.4	6,442.5
Less amounts included in short term borrowings		(212.5)	(271.2)
Loans and other borrowings due after more than one year		6,240.9	6,171.3

- 1 This bond contained an issuer call option whereby the bond was redeemed on 10 October 2017 for 100% of the nominal amount of the bond prior to the coupon for this instrument changing to a floating rate of 3 month LIBOR plus 3.5% which would have been effective from October 2017.
- 2 These instruments are amortising from 2017 until the date of maturity shown.
- 3 This instrument is amortising from 2018 until the date of maturity shown.
- 4 This instrument is amortising from 2019 until the date of maturity shown.
- 5 These instruments are amortising from 2020 until the date of maturity shown.

- a) The value of the capital and interest elements of the index-linked loans is linked to movements in the Retail Price Index. The increase in the capital value during the year of £136.5 million (2017: £57.2 million) has been taken to the statement of comprehensive income as part of interest payable.
- b) Legal maturity of these instruments is the second of the two years quoted. Coupons increase for the first of the years quoted in accordance with the pricing terms agreed at issue.
- c) Under a security agreement dated 30 July 2002 between Anglian Water Services Financing Plc (AWSF), Anglian Water Services Limited (AWSL), Anglian Water Services Overseas Holdings Limited (AWSOH), Anglian Water Services Holdings Limited (AWSH) and Deutsche Trustee Company Limited a fixed and floating charge was created over the assets of Anglian Water Services Limited to the extent permissible under the Water Industry Act 1991. In addition there is a fixed charge over the issued share capital of AWSL, AWSOH and AWSF. At 31 March 2018 this charge applies to £6,240.9 million (2017: £6,442.5 million) of the debt listed above.
- d) These instruments are exposed to cash flow interest rate risk before taking into account the impact of interest rate swaps.
- e) These instruments are exposed to fair value interest rate risk, before taking into account the impact of interest rate swaps.

In accordance with an intercompany loan agreement made in 2002, debt issue costs are excluded from the amounts disclosed in these financial statements. This is because under the loan agreement all debt issue costs are borne by the parent company, Anglian Water Services Limited. As at 31 March 2018 unamortised debt issue costs totalled £30.6m (2017: £31.0m).

9 Loans, other borrowing and financial instruments (continued)

Derivative financial instruments

	2018		2017	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Interest rate swaps, swaptions and cross currency	466.4	(466.4)	619.4	(619.4)
RPI swaps	538.6	(538.6)	684.6	(684.6)
Total	1,005.0	(1,005.0)	1,304.0	(1,304.0)

Derivative financial instruments can be analysed as follows:

	2018		2017	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Current	60.4	(60.4)	22.4	(22.4)
Non-current	944.6	(944.6)	1,281.6	(1,281.6)
Total	1,005.0	(1,005.0)	1,304.0	(1,304.0)

In accordance with IAS 39 the Company has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. There were no amounts recorded in the statement of comprehensive income for gains and losses on embedded derivatives in the year ended 31 March 2018 (2017: £nil).

Interest rates swaps and swaptions

The notional principal amount plus RPI of the outstanding interest rate swap contracts, including the GBP leg of the cross currency interest rate swap contracts below, at 31 March 2018 was £4,242.1 million (2017: £4,053.5 million) and there were no outstanding swaptions at 31 March 2018 (2017: £nil).

The notional foreign currency principal amount of the outstanding cross currency interest rate swap contracts at 31 March 2018 was USD 1,097 million (2017: USD 1,097.0 million), EUR nil (2017: EUR nil), JPY 20.0 billion (2017: JPY 20.0 billion).

At 31 March 2018 the fixed interest rates vary from 2.840% to 5.985%, floating rates vary from 0.7118% (Libor + 0.0 bps) to 4.115% (Libor + 267.5 bps) and index-linked interest rates vary from 0.8557% to 2.970% plus RPI.

10 Called up share capital

The issued share capital is 50,000 (2017: 50,000) ordinary shares of £1 each (2017: £1), of which 49,998 (2017: 49,998) have been issued, a quarter paid-up and two shares are fully paid-up, giving an issued share capital of £12,502 (2017: £12,502).

11 Contingent liabilities

The Company, as part of the AWSFG, guarantees unconditionally and irrevocably all the borrowings of Anglian Water Services Limited, Anglian Water Services Holdings Limited and Anglian Water Services Overseas Holdings Limited, which at 31 March 2018 amounted to £27.8 million (2017: £1,636.3 million).

These amount to £27.8 million (2017: £33.7 million) in finance leases owed by Anglian Water Services Ltd to third parties, and the 2017 figure included a £1,602.6 million loan made by Anglian Water Services Limited to Anglian Water Services Holdings Limited which was repayed on 29 March 2018.

The Company had no other material contingent liabilities at 31 March 2018 or 31 March 2017.

12 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 itself owned and controlled by a consortium of investors consisting of the Canada Pension Plan Investment Board, Colonial First State Global Asset Management, IFM Investors, and Camulodunum Investments Limited (CIL). 3i sold their holding in Anglian Water Group Limited to CIL on 22 February 2018.