AFFINITY WATER FINANCE (2004) PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

(Registered Number 05139236)

Affinity Water Finance (2004) PLC

Contents

Affinity Water Finance (2004) PLC

Strategic report
for the year ended 31 March 2019

The directors present their strategic report for the year ended 31 March 2019.

The company's strategy is to raise finance on behalf of its immediate parent undertaking, Affinity Water Limited. During 2004 the company issued £200.0m of guaranteed notes, maturing in July 2026 with an annual coupon of 5.875%. The company completed a tap issue of £50.0m on the same terms as the existing £200.0m notes on 16 July 2014 (together, the 'Bond'). The proceeds of both the notes and the tap issue were lent to Affinity Water Limited on the same terms.

As the Bond has a fixed coupon rate, the company faces limited risk or uncertainty. Affinity Water Limited, and the wider Affinity Water group, are responsible for the financing strategy and treasury policies of the company. The aim of this strategy is to assess the on-going capital requirement of the group and to raise funding on a timely basis, taking advantage of any favourable market opportunities.

Surplus funds are invested based upon forecast cash requirements in accordance with the company's treasury policy.

Interest rates earned on, and the currency of denomination of, the company's financial assets are matched against those of the company's financial liabilities. Accordingly, these assets and liabilities act as a natural hedge for each other, and the company has no net exposure to movements in interest or foreign exchange rates.

The principal risks and uncertainties facing the company are described in note 12 to the financial statements.

The statement of financial position detailed on page 14 shows that the company had net assets of £56,000 (2018: £55,000) at the year end.

Due to the nature of the company's business, it is not relevant to set any key performance indicators to report against.

Approved by the Board and signed on its behalf by:

Tim Monod
Company Secretary
25 June 2019

Affinity Water Finance (2004) PLC

Directors' report
for the year ended 31 March 2019

Introduction

The directors present their report and the audited statutory financial statements for the year ended 31 March 2019.

Future developments

It is the company's intention to continue with its current activity through to 2026 when the Bond matures.

Results and dividends

The company made a £1,000 profit for the financial year (2018: £1,000). No dividends are proposed for the year (2018: £nil).

Directors

The directors of the company, who were in office during the year and up to the date of signing the financial statements except where noted, were as follows:

Simon Cocks (resigned 1 May 2018)
Gareth Craig (resigned 25 July 2018)
Jaroslava Korpanec
Stuart Ledger
Anthony Roper (appointed 25 July 2018)
Angela Roshier
Pauline Walsh (appointed 1 May 2018)

Company Secretary

Tim Monod

Directors' qualifying third party indemnity provisions

The company has not granted any indemnity to its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in Section 234 of the Companies Act 2006.

Financial instruments disclosures

Details of financial instruments risk management are included within note 12 of the financial statements.

Events after the reporting period

There were no significant events after the reporting period.

Directors' report
for the year ended 31 March 2019 (continued)

Corporate governance

The company is a wholly owned subsidiary of Affinity Water Limited, and the company's directors are also directors of Affinity Water Limited.

The company benefits from the corporate governance arrangements established by Affinity Water Limited, full details of which can be found in Affinity Water Limited's annual report and financial statements for the year ended 31 March 2019, together with more detailed corporate reporting disclosures.

The Board has overall responsibility for the company's systems of internal control and for reviewing the effectiveness of these systems. It is responsible for ensuring that the company meets its obligations in respect of the Bond and meets from time to time to facilitate this.

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and financial statements in accordance with applicable law and regulation.

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising Financial Reporting Standard 101 'Reduced Disclosure Framework' ('FRS 101'), and applicable law). 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

The directors are also responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have 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.

Directors' report
for the year ended 31 March 2019 (continued)

Independent auditor

The auditor, PricewaterhouseCoopers LLP, has indicated its willingness to continue in office and a resolution concerning its re-appointment will be proposed by the Board.

By order of the Board

Tim Monod
Company Secretary
25 June 2019

Independent auditor's report to the member of Affinity Water Finance (2004) PLC

Report on the audit of the financial statements

Opinion

In our opinion, Affinity Water Finance (2004) PLC's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 March 2019; the income statement and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to those charged with governance.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

We have provided no non-audit services to the company in the period from 1 April 2018 to 31 March 2019.

Independent auditor's report to the member of Affinity Water Finance (2004) PLC

Report on the audit of the financial statements (continued)

Our audit approach

Overview

- Overall materiality: £2.64 million (2018: £2.65 million), based on 1% of total assets.
- The company has one finance function and operates a single general ledger system. The audit was carried out by one team at the UK headquarters in Hatfield, Hertfordshire.
- We have no key audit matters to report.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the company and industry, we identified the principal risks of non-compliance with laws and regulations related to those laws and regulations that have a direct impact on the preparation of the company's financial statements, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to manipulate financial performance and management bias in accounting estimates and judgements. Audit procedures performed included:

- Discussion with management, internal audit and the company's legal advisors, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Challenging assumptions and judgements made by management in their significant accounting estimates; in particular in relation to recoverability of intercompany receivables (see related key audit matter below); and
- Identifying and testing journal entries, in particular any journal entries that are non-standard, one-off or unusual.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Independent auditor’s report to the member of Affinity Water Finance (2004) PLC

Report on the audit of the financial statements (continued)

Our audit approach (continued)

Key audit matters

Key audit matters are those matters that, in the auditors’ professional judgement, were of most significance in the 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) identified by the auditors, including 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, and any comments we make on the results of our procedures thereon, 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. This is not a complete list of all risks identified by our audit.

Key audit matter	***How our audit addressed the key audit matter***
Recoverability of intercompany receivables The carrying amount of the intercompany receivables as at 31 March 2019 from Affinity Water Limited was £253.9 million (2018: £254.3 million) with no impairment recognised during the year. Determining whether the company’s loan receivable is impaired requires consideration of factors including Affinity Waters Limited’s credit rating and ability to generate positive cash flows from its operating activities going forward.	We have tested the mathematical accuracy of the Affinity Water Limited forecast cashflows, to confirm that they generate sufficient cash to support the recoverability of the intercompany receivable. We have performed an assessment of the accuracy of previously prepared forecasts; this included reviewing trading performance of Affinity Water Limited in 2018/19 to determine management’s ability to forecast accurately and understand the reasons for any material variances. We have also performed appropriate work, including sensitivity analysis, on the key assumptions underpinning those cashflow forecasts to ensure that they are reasonable. We have also confirmed that there has been no change in the company’s credit rating.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

Independent auditor's report to the member of Affinity Water Finance (2004) PLC (continued)

Report on the audit of the financial statements (continued)

Our audit approach (continued)

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

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

Overall materiality	£2.64 million (2018: £2.65 million).
How we determined it	1% of total assets.
Rationale for benchmark applied	This is not a profit orientated entity, and so we believe that total assets is the primary measure used by the shareholders in assessing the performance of the entity, and is a generally accepted auditing benchmark.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.1 million (2018: £0.1 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the 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.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

Independent auditor’s report to the member of Affinity Water Finance (2004) PLC (continued)

Report on the audit of the financial statements (continued)

Reporting on other information (continued)

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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors’ report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors’ report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors’ report for the year ended 31 March 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors’ report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors’ responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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 the company or to cease operations, or have no realistic alternative but to do so.

Auditors’ 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 auditors’ 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 FRC’s website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors’ report.

Independent auditor's report to the member of Affinity Water Finance (2004) PLC (continued)

Report on the audit of the financial statements (continued)

Responsibilities for the financial statements and the audit (continued)

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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 by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the directors on 31 March 2014 to audit the financial statements for the year ended 31 March 2014 and subsequent financial periods. The period of total uninterrupted engagement is 6 years, covering the years ended 31 March 2014 to 31 March 2019.

Owen Mackney (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Uxbridge
26 June 2019

Affinity Water Finance (2004) PLC

Income statement
for the year ended 31 March 2019
(Registered Number 05139236)

	Note	**2019** **£000**	2018 £000
Operating result	4	**-**	-
Finance income	6	**14,265**	14,288
Finance costs	6	**(14,264)**	(14,287)
Profit on ordinary activities before income tax		**1**	1
Income tax expense on ordinary activities	7	**-**	-
Profit for the year		**1**	1

The notes on pages 16 to 25 are an integral part of these financial statements.

All profits of the company in the current year and prior year are from continuing operations.

The company has no other comprehensive income in either the current year or prior year other than the results above, therefore a statement of comprehensive income has not been presented.

Affinity Water Finance (2004) PLC

Statement of financial position as at 31 March 2019

(Registered Number 05139236)

	Note	2019 £000	2018 £000
Current assets			
Loan receivable falling due after more than one year	8	**253,922**	254,346
Trade and other receivables	9	**10,509**	10,508
Cash and cash equivalents		**50**	50
		264,481	264,904
Creditors – amounts falling due within one year	10	**(10,503)**	(10,503)
Net current assets		**253,978**	254,401
Total assets less current liabilities		**253,978**	254,401
Creditors – amounts falling due after more than one year	11	**(253,922)**	(254,346)
Net assets		**56**	55
Equity			
Ordinary shares	13	**50**	50
Retained earnings		**6**	5
Total shareholder's funds		**56**	55

The notes on pages 16 to 25 are an integral part of these financial statements.

The financial statements on pages 13 to 25 were authorised for issue by the Board of directors on 25 June 2019 and were signed on its behalf by:

Stuart Ledger
Director

Affinity Water Finance (2004) PLC

Statement of changes in equity for the year ended 31 March 2019

(Registered Number 05139236)

	Share capital £000	Retained earnings £000	Total £000
Balance as at 1 April 2017	50	4	54
Profit for the year	-	1	1
Total comprehensive income for the year	-	1	1
Balance as at 31 March 2018	50	5	55
Balance as at 1 April 2018	**50**	**5**	**55**
Profit for the year	**-**	**1**	**1**
Total comprehensive income for the year	**-**	**1**	**1**
Balance as at 31 March 2019	**50**	**6**	**56**

The notes on pages 16 to 25 are an integral part of these financial statements.

Affinity Water Finance (2004) PLC

Notes to the financial statements

1. General information

The sole activity of Affinity Water Finance (2004) PLC ('the company') is to raise finance on behalf of its immediate parent undertaking, Affinity Water Limited.

The company is a private company and is incorporated and domiciled in the United Kingdom. The address of its registered office is Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ.

Refer to note 16 for details of the company's ultimate parent.

2. Summary of significant accounting policies

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.

2.1 Basis of preparation

These financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006.

The company meets the definition of a qualifying entity under Financial Reporting Standard 100: 'Application of financial reporting requirements' ('FRS 100') issued by the Financial Reporting Council ('FRC'). Accordingly, for the year ended 31 March 2019 the company has prepared its financial statements under FRS 101 as issued by the FRC.

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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 91 to 99 of IFRS 13: 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- The following paragraphs of International Accounting Standards ('IAS') 1: 'Presentation of financial statements':
  - 10(d) (statement of cash flows),
  - 16 (statement of compliance with all IFRS),
  - 38A (requirement for minimum of two primary statements, including cash flow statements),
  - 38B-D (additional comparative information),
  - 40A-D (requirements for a third statement of financial position),
  - 111 (cash flow statement information), and
  - 134-136 (capital management disclosures)
- IAS 7: 'Statement of cash flows'
- Paragraph 17 of IAS 24: 'Related party disclosures' (key management compensation)
- The requirements in IAS 24: 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

The group financial statements of Daiwater Investment Limited, the company's ultimate holding and controlling company in the United Kingdom, will be made publicly available and may be obtained as set out in note 16.

2.2 Going concern

The directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements. This is based on assessment of the principal risks of the company and consideration of the company's budgeted cash flows, long term forecasts and related assumptions, as well as available debt facilities, and support of the company's immediate parent undertaking.

2.3 Changes in accounting policy and disclosures

Two new standards became applicable for the current reporting period:

- IFRS 9: 'Financial instruments' ('IFRS 9'); and
- IFRS 15: 'Revenue from contracts with customers' ('IFRS 15').

The impact of the adoption of these standards and the new accounting policies are disclosed below.

IFRS 9: 'Financial instruments'

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39: 'Financial instruments' that relates to the classification and measurement of financial instruments. The standard became effective for the annual reporting period beginning on 1 April 2018.

Recognition and subsequent measurement of financial instruments

All financial liabilities are recognised initially at fair value plus directly attributable transaction costs. The carrying amount is increased by the finance cost determined by the effective interest rate in respect of the accounting year and reduced by any payments made in the year. The finance cost recognised in the income statement is allocated to periods over the term of the debt at an effective interest rate on the carrying amount.

Trade receivables, including amounts owed by group undertakings, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

The accounting policies adopted by the company for initial recognition and subsequent measurement of financial instruments in the current and previous years are in line with IFRS 9 requirements. There is therefore no impact on the valuation of financial instruments on initial recognition or subsequent measurement as a result of applying the new accounting standard.

Notes to the financial statements (continued)

2. Summary of significant accounting policies (continued)

2.3 Changes in accounting policy and disclosures (continued)

Expected credit loss model

Determining whether the company's loan receivables from Affinity Water Limited are impaired requires consideration of factors including Affinity Water Limited's credit rating and ability to generate positive cash flows from its operating activities going forward. This gives management a good indication of the future expected losses, both in the next 12 months and across the lifetime of the instrument and is deemed sufficient to conclude on the assessment of impairment of financial instruments under the expected credit loss model.

Therefore, the adoption of the new standard has had no impact on the valuation of the impairment of financial instruments; however management will take into consideration of any significant economic changes that may impact the model and future credit losses at each reporting date.

IFRS 15: 'Revenue from contracts with customers'

IFRS 15 introduces a new revenue recognition model, and replaces IAS 18: 'Revenue' and IAS 11: 'Construction contracts' and related interpretations. The standard requires revenue to be recognised in line with the satisfaction of performance obligations identified within contracts between an entity and its customers, at an amount that reflects the transaction price allocated to each performance obligation. The standard became effective for the annual reporting period beginning on 1 April 2018.

As the sole activity of the company is to raise finance on behalf of its immediate parent undertaking, Affinity Water Limited, and on-lend the proceeds to Affinity Water Limited on the same terms, the company does not have any revenue streams that fall within the scope of IFRS 15 and no transitional adjustments are required.

2.4 Standards and interpretations which are not yet effective

The following standard is not yet effective and has not been early adopted by the company:

IFRS 16: 'Leases'

IFRS 16: 'Leases' ('IFRS 16') addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces IAS 17: 'Leases', and related interpretations. The standard is effective for the annual period beginning on 1 April 2019. Given the nature of the entity, the new standard will not have an impact on the company.

Notes to the financial statements (continued)

2. Summary of significant accounting policies (continued)

2.5 Interest income

Interest income is recognised using the effective interest method.

2.6 Loan receivable

The loan receivable is initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

2.7 Trade and other receivables

Trade and other receivables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method, less expected credit losses.

2.8 Borrowings

All financial liabilities are recognised initially at fair value plus directly attributable transaction costs. The carrying amount is increased by the finance cost determined by the effective interest rate in respect of the accounting period and reduced by any payments made in the year. The finance cost recognised in the income statement is allocated to periods over the term of the debt at an effective interest rate on the carrying amount.

The Affinity Water group is subject to a number of covenants in relation to its borrowings, which would result in its loans becoming immediately repayable if breached. These covenants specify certain limits in terms of key ratios such as net cash flow to debt interest and net debt to regulatory capital value. At the year end the group was not in breach of any financial covenants.

3. Critical accounting estimates and judgments

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Impairment of loan receivable

Determining whether the company's loan receivable from Affinity Water Limited is impaired requires consideration of factors including Affinity Water Limited's credit rating and ability to generate positive cash flows from its operating activities going forward. The carrying amount of the loan receivable at the date of the statement of financial position was £253,922,000 (2018: £254,346,000) with no impairment losses recognised in the year ended 31 March 2019 (2018: £nil) (refer to note 8). Management conclude that there are no economic factors that could impact Affinity Water Limited's ability to repay the debt at the reporting date.

Notes to the financial statements (continued)

4. Operating result

	2019	2018
	£000	£000
Operating result is stated after charging:		
Audit fees payable to the company's auditor	-	-

The auditor's remuneration for audit services in the year amounted to £5,350 (2018: £5,665), with such costs being borne by the immediate parent undertaking Affinity Water Limited. The auditor received no other remuneration for services provided to the company in either the current or prior year.

5. Employees and directors

Employees

The company had no employees in the current year (2018: nil).

Directors

Remuneration for Simon Cocks and Stuart Ledger for the current and prior year, and Pauline Walsh for the current year, was paid by Affinity Water Limited, which made no recharge to the company. Stuart Ledger and Pauline Walsh are directors of Affinity Water Limited and a number of fellow subsidiaries of the Daiwater Investment Limited group during the current year. Simon Cocks and Stuart Ledger were directors of Affinity Water Limited and a number of fellow subsidiaries of the Daiwater Investment Limited group during the prior year. It has not been possible to make an accurate apportionment of their remuneration in respect of each of the subsidiaries. Accordingly, there is no detail shown in respect of the remuneration of Simon Cocks, Stuart Ledger or Pauline Walsh. Their total remuneration is disclosed in the annual report and financial statements of Affinity Water Limited for the year ended 31 March 2019.

The directors who were appointed by Infracapital Partners II, North Haven Infrastructure Partners LP and Veolia Water UK Limited up until the sale on 19 May 2017, and by Allianz Capital Partners, HICL Infrastructure plc (formerly HICL Infrastructure Company Limited) and DIF from that date, did not receive any emoluments from the company, or any company within the Affinity Water group.

Affinity Water Finance (2004) PLC

Notes to the financial statements (continued)

6. Finance income and costs

Finance income

	2019 £000	2018 £000
Interest income on loan to parent company	**14,264**	14,287
Other finance income	**1**	1
Total interest income on financial assets	**14,265**	14,288
Total finance income	**14,265**	14,288

Finance costs

	2019 £000	2018 £000
Interest expense on bonds	**14,688**	14,688
Amortisation of bond issue costs	**(424)**	(401)
Total interest expense on financial liabilities	**14,264**	14,287
Total finance costs	**14,264**	14,287

Net finance income

	2019 £000	2018 £000
Finance income	**14,265**	14,288
Finance costs	**(14,264)**	(14,287)
Net finance income	**1**	1

7. Income tax expense on ordinary activities

The tax charge for the year ended 31 March 2019 is £190 (2018: £190). There is no deferred tax liability (2018: £nil) or deferred tax asset (2018: £nil). There are no carried forward tax losses (2018: £nil).

The tax rate for the current year (19%) is the same as for the prior year (19%).

In September 2016, changes were enacted to reduce the main rate of corporation tax in the UK from 19% to 17% effective from 1 April 2020.

Notes to the financial statements (continued)

8. Loan receivable falling due after more than one year

	2019	2018
	£000	£000
Amounts owed by parent company	**253,922**	254,346

On 13 July 2004 the company issued £200.0m of guaranteed notes, maturing on 13 July 2026 with an annual coupon of 5.875%. The company completed a tap issue of £50.0m on the same terms as the existing £200.0m notes on 16 July 2014 (the 'Bond'). The proceeds of both the notes and the tap issue were lent to Affinity Water Limited on the same terms (refer to note 11).

No provision for impairment has been recognised at 31 March 2019 (2018: £nil).

9. Trade and other receivables

	2019	2018
	£000	£000
Amounts owed by group undertakings	**10,509**	10,508

The amounts owed by group undertakings reflect the interest receivable on the loan made to Affinity Water Limited from the proceeds of the Bond.

10. Creditors – amounts falling due within one year

	2019	2018
	£000	£000
Accruals and deferred income	**10,503**	10,503

The amounts falling due within one year reflect interest payable on the Bond.

11. Creditors – amounts falling due after more than one year

	2019	2018
	£000	£000
5.875% Class A guaranteed notes due 2026	**253,922**	254,346

On 13 July 2004 the company issued £200.0m of guaranteed notes, maturing on 13 July 2026 with an annual coupon of 5.875%. The notes were listed on the London Stock Exchange, at an issue price of 98.6%. The company completed a tap issue of £50.0m on the same terms as the existing £200.0m notes on 16 July 2014 at an issue price of 117.2%. Affinity Water Limited received the net issue proceeds of both by way of an intercompany loan. The Bond is guaranteed by Affinity Water Limited and Affinity Water Holdings Limited, the company's immediate parent undertaking and intermediate holding company respectively.

Affinity Water Finance (2004) PLC

Notes to the financial statements (continued)

12. Financial instruments and risk management

Treasury operation

Affinity Water Limited and the wider Affinity Water group are responsible for the financing strategy and treasury policies of the company. The aim of this strategy is to assess the ongoing capital requirement of the group and to raise funding on a timely basis, taking advantage of favourable market opportunities. Surplus funds are invested based upon forecast requirements, in accordance with treasury policies.

Risks arising from the company's financial instruments

Market risk

Interest rates earned on the company's financial assets are matched against those of the company's financial liabilities. Accordingly these assets and liabilities act as a natural hedge for each other, and the company has no net exposure to movements in interest rates.

At 31 March 2019, the company had no currency exposures (2018: £nil).

The interest rate and currency profile of the net borrowings of the company at 31 March 2019 was:

	Total net borrowings		**Net cash**		**Fixed rate borrowings**	
	2019	2018	**2019**	2018	**2019**	2018
	£000	£000	**£000**	£000	**£000**	£000
Sterling borrowings:						
External loans	**253,922**	254,346	**-**	-	**253,922**	254,346
Total borrowings	**253,922**	254,346	**-**	-	**253,922**	254,346
Cash	**(50)**	(50)	**50**	50	**-**	-
Net borrowings	**253,872**	254,296	**50**	50	**253,922**	254,346

Credit risk

Credit risk arises from cash and cash equivalents and contractual cash flows from the loan receivable from the parent company, Affinity Water Limited. Contractual cash flows from the loan receivable from the parent company are subject to the expected credit loss model. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was nil.

The credit risk is dependent on the company's parent entity meeting its payment obligations as and when they become due. The directors monitor the cash flow forecasts of the parent company on a regular basis to mitigate this risk.

Determining whether the company's loan receivable from the parent company is impaired requires consideration of factors including the parent company's credit rating and ability to generate positive cash flows from its operating activities going forward. The carrying amount of the loan receivable at the date of the statement of financial position was £253,922,000 (2018: £254,346,000) with no impairment losses recognised in the year ended 31 March 2019 (2018: £nil) (refer to note 8).

Management conclude that there are no economic factors at the reporting date that could impact the parent company's ability to repay the debt.

Notes to the financial statements (continued)

12. Financial instruments and risk management (continued)

Credit risk (continued)

At 31 March 2019 and 31 March 2018, the maximum exposure to credit risk was represented by the carrying amount of each financial asset in the statement of financial position:

	2019 £000	2018 £000
Loan receivable falling due after more than one year	**253,922**	254,346
Trade and other receivables	**10,509**	10,508
Cash and cash equivalents	**50**	50
	264,481	264,904

Cleared cash and cash equivalents exposed to credit risk of £50,000 at 31 March 2019 (2018: £50,000) were with a counterparty with a credit rating of A-1 per Standards & Poor's at 31 March 2019 (2018: A-1).

Liquidity risk

The external loans' weighted average period until maturity, and for which the rate is fixed, was 7.3 years at 31 March 2019 (2018: 8.3 years). Additional risk may arise if large cash flows are concentrated within particular time periods however the maturity profile of the external loans is matched to the profile of company's loan receivable from the parent, with the financial liability guaranteed by Affinity Water Limited and Affinity Water Holdings Limited.

Fair values of financial liabilities

Set out below is a comparison by category of book value and fair value of the financial liabilities of the company as at 31 March 2019:

	Book value		Fair value	
	2019 £000	2018 £000	2019 £000	2018 £000
Primary financial instruments held or issued to finance the company's operations				
Long term borrowings	**253,922**	254,346	**323,697**	322,867
	253,922	254,346	**323,697**	322,867

The fair value of the Bond, having a book value of £253,922,000, (2018: £254,346,000) has been derived from 'level 1' fair value measurements: quoted prices (unadjusted) in active markets for identical liabilities.

13. Share capital

	2019 £000	2018 £000
Allotted, called up and fully paid share capital		
50,000 (2018: 50,000) ordinary shares of £1 each	**50**	50

All shares rank pari passu in all respects.

Notes to the financial statements (continued)

14. Related party transactions

See note 5 for disclosure of the directors' remuneration.

There were no other related party transactions requiring disclosure.

15. Events after the end of the reporting period

There were no significant events after the end of the reporting period.

16. Ultimate parent company and controlling party

The immediate parent undertaking of the company is Affinity Water Limited, a company registered in England and Wales.

Affinity Water Limited is wholly owned by Daiwater Investment Limited, a company registered in England and Wales. Daiwater Investment Limited is the parent undertaking of the largest group to consolidate the statutory financial statements of the company. These financial statements are also consolidated in the financial statements of Affinity Water Holdco Finance Limited, the smallest group to consolidate the financial statements of the company.

Copies of the group financial statements of Daiwater Investment Limited and Affinity Water Holdco Finance Limited for the year ended 31 March 2019 may be obtained from the Company Secretary, Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ.

The directors consider Daiwater Investment Limited as the ultimate holding and controlling company in the United Kingdom. The directors consider the following entities to be the company's ultimate controllers, as they are in a position to exercise material influence over the company's policy and affairs:

- Allianz Infrastructure Luxembourg I Sarl
- DIF Management Holding BV
- DIF Management UK Limited
- HICL Infrastructure plc
- InfraRed Capital Partners (Management) LLP

Allianz Capital Partners is the Allianz Group's in-house investment manager for alternative equity investments. The investment focus is on infrastructure and renewables as well as private equity funds. Allianz Capital Partners' investment strategy is targeted to generate attractive, long-term and stable returns while diversifying the overall investment portfolio for the Allianz Group insurance companies.

DIF is an independent and specialist fund management company, which invests in infrastructure assets that generate long-term stable cash flows, including public-private partnerships, regulated infrastructure assets and renewable energy projects in Europe, North America and Australia.

HICL Infrastructure plc is a long-term investor in infrastructure assets which are predominantly operational and yielding steady returns. HICL has a portfolio of infrastructure investments, which are positioned at the lower end of the risk spectrum, in three target market segments: public-private partnerships, regulated assets and demand-based assets. The Investment Adviser to HICL is InfraRed Capital Partners Limited, a leading international investment manager focused on infrastructure and real estate.