

# **AFFINITY WATER FINANCE (2004) PLC**

**ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2020**

(Registered Number 05139236)

# Affinity Water Finance (2004) PLC

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# **Affinity Water Finance (2004) PLC**

## **Strategic report for the year ended 31 March 2020**

The directors present their strategic report for the year ended 31 March 2020.

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.

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 or foreign exchange rates.

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

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.

The statement of financial position detailed on page 14 shows that the company had net assets of £57,000 (2019: £56,000) 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.

The directors have considered section 172(1) factors, including the need to foster the company's business relationships with providers of finance and credit rating agencies, as part of their directorship in Affinity Water Limited, the company's parent undertaking and the Affinity Water group's principal trading entity. It is imperative that the company maintains effective relationships and ongoing dialogues with banks and credit rating agencies to ensure access to financial services as well as capital markets. Successful engagement means the company will be a responsible company that delivers reliable returns and is transparent in its reporting. The Chief Financial Officer of Affinity Water Limited, on behalf of the Board, and the Treasurer of Affinity Water Limited met with lenders and credit rating agencies during the year. A full section 172(1) statement is disclosed in the financial statements of Affinity Water Limited for the year ended 31 March 2020.

Approved by the Board and signed on its behalf by:

Stuart Ledger  
Director  
24 June 2020

# **Affinity Water Finance (2004) PLC**

## **Directors' report for the year ended 31 March 2020**

### **Introduction**

The directors present their report and the audited statutory financial statements for the year ended 31 March 2020.

### **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 (2019: £1,000). No dividends are proposed for the year (2019: £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:

Jaroslava Korpanec  
Stuart Ledger  
Anthony Roper  
Angela Roshier  
Pauline Walsh

### **Company Secretary**

Colin Caldwell (appointed 7 November 2019 and resigned 9 April 2020)  
Tim Monod (resigned 6 November 2019)  
Sunita Kaushal (appointed 9 April 2020)

### **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.

### **Political contributions**

No political contributions were made during the year (2019: £nil), in accordance with the company's policy of not making political contributions.

### **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.

# **Affinity Water Finance (2004) PLC**

## **Directors' report for the year ended 31 March 2020 (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, including its systems of risk management and internal control over financial reporting, full details of which can be found in Affinity Water Limited's annual report and financial statements for the year ended 31 March 2020, together with more detailed corporate reporting disclosures on areas of compliance and non compliance with the UK Corporate Governance Code 2018.

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 the 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 FRS 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.

## **Affinity Water Finance (2004) PLC**

### **Directors' report for the year ended 31 March 2020 (continued)**

#### **Statement of directors' responsibilities (continued)**

##### *Directors' confirmations*

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.

#### **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

Stuart Ledger  
Director  
24 June 2020

## **Affinity Water Finance (2004) PLC**

### **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 2020 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 2020; the income statement, 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 the Audit Committee of Affinity Water Limited.

##### **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 2019 to 31 March 2020.

# Affinity Water Finance (2004) PLC

## 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 (2019: £2.64 million), based on 1% of total asset.
- 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
- Recoverability and valuation of intercompany receivables.
- Assessment of COVID-19 impact.

##### *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 that 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 including the Companies Act 2006, the Disclosure and Transparency Rules ("DTR") issued by the Financial Conduct Authority and UK tax legislation, 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 by the engagement team 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 regulation and fraud;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to impairment of 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.

## **Affinity Water Finance (2004) PLC**

### **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)**

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.

##### *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.

## Affinity Water Finance (2004) PLC

### 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)

<b>Key audit matter</b>	<b>How our audit addressed the key audit matter</b>
<p><i>Recoverability and valuation of intercompany receivables</i></p> <p>The carrying amount of the intercompany receivables as at 31 March 2020 from Affinity Water Limited was £253.5 million (2019: £253.9 million) with no impairment recognised during the year.</p> <p>Determining whether the company's loan receivable is recoverable or whether this is impaired requires judgement. Consideration to support the carrying value of the intercompany receivable is given to factors including Affinity Water's Limited's credit rating and ability to generate cash flows from its operating activities in future periods.</p> <p>In addition, IFRS 9 requires the lender to measure the expected credit loss at a probability-weighted amount that reflects the possibility that a credit loss occurs even if the possibility of a credit loss occurring is low.</p>	<p>We reviewed management's methodology for calculating the provision for expected credit loss and confirmed that the use of a 12-month expected credit loss model is appropriate as there has not been a significant increase in credit risk since the loan was first recognised considering that the credit rating of Affinity Water Limited remains at investment grade and there is no history of default for the interest payments.</p> <p>To assess the probability of default applied by management in the model, we recalculated an independent expected credit loss using external data and identified no material differences.</p> <p>In order to assess Affinity Water Limited's ability to generate sufficient cash flows from operating activities to repay the loans at maturity, we obtained management's cash flow model and agreed them to the latest board approved budgets which incorporate management's best estimate of the impact of COVID-19 on the business. We audited the key assumptions underpinning the cash flow forecast by performing including understanding material variances in the forecast to actual results, assessing management's modelling of the impact of plausible and severe downside scenarios and overlaying our own further downside sensitivity analysis as well as testing the mathematical accuracy of the model. No material differences were identified.</p> <p>A key part of our audit testing included assessing Affinity Water Limited's compliance with covenants attached to the external bonds. We obtained management's analysis of forecast covenant compliance, which is underpinned by their cash flow forecast, and recalculated the covenants at each reporting date without exception. We also assessed the mitigating actions available to management to increase headroom over the covenants in severe but plausible downside scenarios and considered them to be reasonable.</p>
<p><i>Assessment of COVID-19 impact</i></p> <p>The COVID-19 pandemic commenced before the financial year end but given the nature of the entity, management concluded it has no significant impact on the company's financial results.</p> <p>Management also concluded that the national health pandemic does not have an impact on Affinity Water Limited's ability to repay the debt or related credit loss risk at the reporting date.</p>	<p>We obtained management's and those charged with governance impact assessment of COVID-19 on the company and reviewed the related disclosures in the accounts. We consider that management's conclusion are appropriate and appropriate disclosures are given within the Annual Report.</p> <p>We also evaluated the impact of COVID-19 on Affinity Water Limited's ability to repay the debt owed to the company and its associated credit loss risk. See section above for the assessment of the recoverability of intercompany receivables.</p>

## Affinity Water Finance (2004) PLC

### 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)

###### *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.

###### *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:

<b>Overall materiality</b>	£2.64 million (2019: £2.64 million).
<b>How we determined it</b>	1% of total assets.
<b>Rationale for benchmark applied</b>	The entity functions to service group financing requirements. Therefore, using total assets as a benchmark is appropriate.

We agreed with the Audit Committee of Affinity Water Limited that we would report to them misstatements identified during our audit above £0.1 million (2019: £0.1 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

##### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- 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.

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.

## **Affinity Water Finance (2004) PLC**

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

#### **Report on the audit of the financial statements (continued)**

##### **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.

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 2020 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.

## **Affinity Water Finance (2004) PLC**

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

#### **Report on the audit of the financial statements (continued)**

##### **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 3, 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

###### *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.

## **Affinity Water Finance (2004) PLC**

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

#### **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**

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 7 years, covering the years ended 31 March 2014 to 31 March 2020.

Owen Mackney (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Watford  
24 June 2020

## Affinity Water Finance (2004) PLC

### Income statement for the year ended 31 March 2020 (Registered Number 05139236)

	Note	2020 £000	2019 £000
<b>Operating result</b>	4	-	-
Finance income	6	<b>14,240</b>	14,265
Finance costs	6	<b>(14,239)</b>	(14,264)
<b>Profit before income tax</b>		<b>1</b>	<b>1</b>
Income tax expense	7	-	-
<b>Profit for the financial year</b>		<b>1</b>	<b>1</b>

The notes on pages 16 to 26 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 2020

(Registered Number 05139236)

	Note	2020 £000	2019 £000
<b>Current assets</b>			
Amounts owed by group undertaking falling due after more than one year	8	253,462	253,922
Amounts owed by group undertaking falling due within one year	9	10,521	10,509
Cash and cash equivalents		50	50
		<b>264,033</b>	264,481
<b>Creditors – amounts falling due within one year</b>	10	<b>(10,514)</b>	(10,503)
<b>Net current assets</b>		<b>253,519</b>	253,978
<b>Total assets less current liabilities</b>		<b>253,519</b>	253,978
<b>Creditors – amounts falling due after more than one year</b>	11	<b>(253,462)</b>	(253,922)
<b>Net assets</b>		<b>57</b>	56
<b>Equity</b>			
Called-up share capital	13	50	50
Retained earnings		7	6
<b>Total shareholder's funds</b>		<b>57</b>	56

The notes on pages 16 to 26 are an integral part of these financial statements.

The financial statements on pages 13 to 26 were authorised for issue by the Board of directors on 24 June 2020 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 2020 (Registered Number 05139236)

	Called-up share capital £000	Retained earnings £000	Total £000
Balance as at 1 April 2018	50	5	55
Profit for the year	-	1	1
Total comprehensive income for the year	-	1	1
Total transactions with owner, recognised directly in equity	-	-	-
Balance as at 31 March 2019	50	6	56
<b>Balance as at 1 April 2019</b>	<b>50</b>	<b>6</b>	<b>56</b>
<b>Profit for the year</b>	<b>-</b>	<b>1</b>	<b>1</b>
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>1</b>	<b>1</b>
<b>Total transactions with owner, recognised directly in equity</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Balance as at 31 March 2020</b>	<b>50</b>	<b>7</b>	<b>57</b>

The notes on pages 16 to 26 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 limited by shares and is incorporated and domiciled in England. 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'). The financial statements of Affinity Water Finance (2004) PLC have been prepared in accordance with FRS 101.

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:

- 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.

# Affinity Water Finance (2004) PLC

## Notes to the financial statements (continued)

### 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

The following new standard became applicable for the current reporting period:

- IFRS 16: 'Leases' ('IFRS 16');

The impact of the adoption of this standard and the new accounting policies are disclosed below.

##### **IFRS 16: 'Leases'**

IFRS 16 addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting 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 has not had an impact on the company.

#### 2.4 New Standards, amendments and interpretations not yet adopted

There are no new standards and interpretations, which are not yet effective and have not been early adopted by the company, that will have a material effect on future years.

#### 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. The company holds the receivables with the objective of collecting the contractual cash flows and the receivables are therefore subsequently measured at amortised cost using the effective interest method, less any expected credit losses.

# Affinity Water Finance (2004) PLC

## Notes to the financial statements (continued)

### 2. Summary of significant accounting policies (continued)

#### 2.7 Other receivables

Other receivables are recognised initially at fair value 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.

#### Critical accounting estimates

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 £253,462,000 (2019: £253,922,000) with no impairment losses recognised in the year ended 31 March 2020 (2019: £nil) (refer to note 8). Management conclude that the national health pandemic will not have a significant impact on Affinity Water Limited's ability to repay the debt at the reporting date. See the financial statements of Affinity Water Limited for details on the response to the national health pandemic.

# Affinity Water Finance (2004) PLC

## Notes to the financial statements (continued)

### 4. Operating result

	2020	2019
	£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 £6,000 (2019: £5,350), 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 (2019: nil).

#### Directors

Remuneration for Stuart Ledger and Pauline Walsh for the current and prior year was paid by Affinity Water Limited, which made no recharge to the company. Stuart Ledger and Pauline Walsh were directors of Affinity Water Limited and a number of fellow subsidiaries of the Daiwater Investment Limited group during the current and prior year. Simon Cocks was a director 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 Stuart Ledger, Pauline Walsh or Simon Cocks. Their total remuneration is disclosed in the annual report and financial statements of Affinity Water Limited for the year ended 31 March 2020.

The directors who were appointed by Allianz Capital Partners on behalf of the Allianz Group, DIF and InfraRed Capital Partners on behalf of HICL Infrastructure plc 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

	<b>2020</b>	2019
	<b>£000</b>	£000
Interest income on loan to parent company	<b>14,239</b>	14,264
Other finance income	<b>1</b>	1
Total interest income on financial assets	<b>14,240</b>	14,265
<b>Total finance income</b>	<b>14,240</b>	14,265

#### Finance costs

	<b>2020</b>	2019
	<b>£000</b>	£000
Interest expense on bonds	<b>14,699</b>	14,688
Amortisation of bond issue costs	<b>(460)</b>	(424)
Total interest expense on financial liabilities	<b>14,239</b>	14,264
<b>Total finance costs</b>	<b>14,239</b>	14,264

#### Net finance income

	<b>2020</b>	2019
	<b>£000</b>	£000
Finance income	<b>14,240</b>	14,265
Finance costs	<b>(14,239)</b>	(14,264)
<b>Net finance income</b>	<b>1</b>	1

# Affinity Water Finance (2004) PLC

## Notes to the financial statements (continued)

### 7. Income tax expense

#### Tax expense included in the income statement

	<b>2020</b>	2019
	<b>£000</b>	£000
<b>Current tax:</b>		
UK corporation tax on profit for the year	1	1
<b>Tax on profit</b>	<u>-</u>	<u>-</u>

The tax charge for the year ending is equal to (2019: £nil) the standard rate of corporation tax in the UK for the year ended 31 March 2020 of 19% (2019: 19%). The differences are explained below:

	<b>2020</b>	2019
	<b>£000</b>	£000
Profit before tax	1	1
Profit before tax multiplied by the standard rate of tax in the UK of 19% (2019: 19%)	-	-
<b>Tax charge</b>	<u>-</u>	<u>-</u>

There is no deferred tax liability (2019: £nil) or deferred tax asset (2019: £nil). There are no carried forward tax losses (2019: £nil).

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

In the Spring Budget 2020, the Government announced that from 1 April 2020 the Corporation Tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020.

## Affinity Water Finance (2004) PLC

### Notes to the financial statements (continued)

#### 8. Amounts owed by group undertaking falling due after more than one year

	2020 £000	2019 £000
Amounts owed by parent company	<u>253,462</u>	<u>253,922</u>

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 2020 (2019: £nil).

#### 9. Amounts owed by group undertaking falling due within one year

	2020 £000	2019 £000
Amounts owed by group undertakings	<u>10,521</u>	<u>10,509</u>

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

	2020 £000	2019 £000
Debenture loan	<u>10,514</u>	<u>10,503</u>

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

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

	2020 £000	2019 £000
5.875% Class A guaranteed notes due 2026	<u>253,462</u>	<u>253,922</u>

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 2020, the company had no currency exposures (2019: £nil).

The interest rate and currency profile of the net borrowings of the company at 31 March 2020 was:

	Total net borrowings		Net cash		Fixed rate borrowings	
	2020 £000	2019 £000	2020 £000	2019 £000	2020 £000	2019 £000
<b>Sterling borrowings:</b>						
External loans	253,462	253,922	-	-	253,462	253,922
<b>Total borrowings</b>	<b>253,462</b>	<b>253,922</b>	<b>-</b>	<b>-</b>	<b>253,462</b>	<b>253,922</b>
Cash	(50)	(50)	50	50	-	-
<b>Net borrowings</b>	<b>253,412</b>	<b>253,872</b>	<b>50</b>	<b>50</b>	<b>253,462</b>	<b>253,922</b>

##### 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: 'Financial Instruments', 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 £253,462,000 (2019: £253,922,000) with no impairment losses recognised in the year ended 31 March 2020 (2019: £nil) (refer to note 8).

Management conclude that despite the national health pandemic, this will not have a significant impact on Affinity Water Limited's ability to repay the debt at the reporting date. See the financial statements of Affinity Water Limited for details on the response to the national health pandemic.

# Affinity Water Finance (2004) PLC

## Notes to the financial statements (continued)

### 12. Financial instruments and risk management (continued)

#### Credit risk (continued)

At 31 March 2020 and 31 March 2019, the maximum exposure to credit risk was represented by the carrying amount of each financial asset in the statement of financial position:

	<b>2020</b>	2019
	<b>£000</b>	£000
Loan receivable falling due after more than one year	<b>253,462</b>	253,922
Other receivables	<b>10,521</b>	10,509
Cash and cash equivalents	<b>50</b>	50
	<b>264,033</b>	264,481

Cleared cash and cash equivalents exposed to credit risk of £50,000 at 31 March 2020 (2019: £50,000) were with a counterparty with a credit rating of A-1 per Standard & Poor's at 31 March 2020 (2019: A-1).

#### Liquidity risk

The external loans' weighted average period until maturity, and for which the rate is fixed, was 6.3 years at 31 March 2020 (2019: 7.3 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 2020:

	<b>Book value</b>		<b>Fair value</b>	
	<b>2020</b>	2019	<b>2020</b>	2019 restated
	<b>£000</b>	£000	<b>£000</b>	£000
Primary financial instruments held or issued to finance the company's operations				
Long term borrowings	<b>253,462</b>	253,922	<b>309,278</b>	319,275
	<b>253,462</b>	253,922	<b>309,278</b>	319,275

The fair value of the Bond, having a book value of £253,462,000, (2019: £253,922,000) has been derived from 'level 1' fair value measurements: quoted prices (unadjusted) in active markets for identical liabilities.

### 13. Called-up share capital

	<b>2020</b>	2019
	<b>£000</b>	£000
<b>Allotted, called up and fully paid share capital</b>		
50,000 (2019: 50,000) ordinary shares of £1 each	<b>50</b>	50

All shares rank pari passu in all respects.

## **Affinity Water Finance (2004) PLC**

### **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.

# Affinity Water Finance (2004) PLC

## Notes to the financial statements (continued)

### 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 2020 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 Holding I Pte. Limited (during the period and up to 20 November 2019 Allianz Infrastructure Luxembourg I Sarl)
- DIF Management Holding BV
- DIF Management UK Limited
- HICL Infrastructure plc
- InfraRed Capital Partners (Management) LLP<sup>1</sup>

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 Manager to HICL is InfraRed Capital Partners Limited, a leading international investment manager focused on infrastructure and real estate.

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<sup>1</sup> Sun Life Financial Inc has exchanged contracts to acquire an 80% interest in the InfraRed business from InfraRed Capital Partners (Management) LLP. Following completion, which is subject to regulatory consents and other customary closing conditions and which is expected to occur in Summer 2020, Sun Life Financial Inc will become an ultimate controller.