

AFFINITY WATER HOLDINGS LIMITED

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

(Registered Number 08350099)

Affinity Water Holdings Limited

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Affinity Water Holdings Limited

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 anticipated the company will continue to invest and manage its long term interests in the water industry in the United Kingdom for the foreseeable future.

Dividends

The directors have declared and paid the following dividends during the year ended 31 March 2019:

Ordinary dividends:	£000
First interim paid in June 2018	5,000
Second interim paid in December 2018	1,600
	<hr/> 6,600

This compares to interim dividends of £58,498,000 declared and paid in the year ended 31 March 2018.

The directors do not recommend a final dividend (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:

Gareth Craig (resigned 25 July 2018)
Tom Goossens
Jaroslava Korpanec
Stuart Ledger
Tobias Richardson (appointed 25 July 2018)
Anthony Roper (appointed 25 July 2018)
Angela Roshier
Scott Springett (appointed 25 July 2018)
Pauline Walsh (appointed 1 May 2018)

Company Secretary

Tim Monod

Affinity Water Holdings Limited

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

Events after the reporting period

There were no significant events that took place after the reporting period.

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with 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 also 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.

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.

Affinity Water Holdings Limited

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

Independent auditor

PricewaterhouseCoopers LLP

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 Holdings Limited

Report on the audit of the financial statements

Opinion

In our opinion, Affinity Water Holdings Limited'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.

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, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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.

Independent auditor's report to the member of Affinity Water Holdings Limited (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 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.

Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the 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 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 2, 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.

Independent auditor's report to the member of Affinity Water Holdings Limited (continued)

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.

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.

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.

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

Affinity Water Holdings Limited

Income statement for the year ended 31 March 2019 (Registered Number 08350099)

	Note	2019 £000	2018 £000
Operating result	4	-	-
Income from shares in subsidiary		6,600	58,498
Profit on ordinary activities before income tax		6,600	58,498
Income tax expense on ordinary activities	6	-	-
Profit for the year		6,600	58,498

The notes on pages 10 to 16 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 Holdings Limited

Statement of financial position

as at 31 March 2019

(Registered Number 08350099)

	Note	2019 £000	2018 £000
Non-current assets			
Investments	8	287,670	287,670
Net assets		287,670	287,670
Equity			
Ordinary shares	9	287,670	287,670
Retained earnings		-	-
Total shareholder's funds		287,670	287,670

The notes on pages 10 to 16 are an integral part of these financial statements.

The financial statements on pages 7 to 16 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 Holdings Limited

Statement of changes in equity for the year ended 31 March 2019 (Registered Number 08350099)

	Share capital £000	Retained earnings £000	Total £000
Balance as at 1 April 2017	287,670	-	287,670
Profit for the year	-	58,498	58,498
Total comprehensive income for the year	-	58,498	58,498
Dividends	-	(58,498)	(58,498)
Total transactions with owner, recognised directly in equity	-	(58,498)	(58,498)
Balance as at 31 March 2018	287,670	-	287,670
Balance as at 1 April 2018	287,670	-	287,670
Profit for the year	-	6,600	6,600
Total comprehensive income for the year	-	6,600	6,600
Dividends	-	(6,600)	(6,600)
Total transactions with owner, recognised directly in equity	-	-	-
Balance as at 31 March 2019	287,670	-	287,670

The notes on pages 10 to 16 are an integral part of these financial statements.

Affinity Water Holdings Limited

Notes to the financial statements for the year ended 31 March 2019

1. General information

Affinity Water Holdings Limited ('the company') manages an investment in 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.

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, in 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:

- IFRS 7: 'Financial Instruments: Disclosures'
- 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)
- Paragraph 38 of International Accounting Standard ('IAS') 1: 'Presentation of financial statements' comparative information requirements in respect of paragraph 79(a)(iv) of IAS 1
- The following paragraphs of 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.

The group financial statements of Daiwater Investment Limited, the company's ultimate holding and controlling company in the United Kingdom, will be publicly available and may be obtained as set out in note 12.

Affinity Water Holdings Limited

Notes to the financial statements for the year ended 31 March 2019 (continued)

2. Summary of significant accounting policies (continued)

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.

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. The company has no financial instruments that fall within the remit of IFRS 9.

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 manage an investment in Affinity Water Limited, 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.

Affinity Water Holdings Limited

Notes to the financial statements for the year ended 31 March 2019 (continued)

2. Summary of significant accounting policies (continued)

2.5 Consolidation

The company is a wholly owned subsidiary of Daiwater Investment Limited. It will be included in the consolidated financial statements of Daiwater Investment Limited which will be publicly available. Therefore the company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements.

These financial statements are separate financial statements.

2.6 Investment in subsidiary

The company's investments in subsidiary is held at cost less accumulated impairment losses. Its investment is tested annually for impairment.

2.7 Dividend income

Dividend income is recognised when the right to receive payment is established.

2.8 Dividend distributions

Dividend distributions to the company's shareholder are recognised as a liability in the company's financial statements in the year in which the dividends are approved by the company's shareholder.

2.9 Current income tax

The current income tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's current tax expense is calculated using tax rates that have been enacted or substantively enacted by the date of the statement of financial position.

Affinity Water Holdings Limited

Notes to the financial statements for the year ended 31 March 2019 (continued)

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 investment in subsidiary

Determining whether the company's investment in its subsidiary has been impaired requires an estimation of the investment's value in use. The value in use calculation uses an estimate of the enterprise value of Affinity Water Limited, the principal trading direct subsidiary of the company, which is based on its regulatory capital value at the year-end and market premiums paid for UK water supply companies. The carrying amount of investments in subsidiaries at the date of the statement of financial position was £287,670,000 (2018: £287,670,000) with no impairment losses recognised in either 2019 or 2018.

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 £5,520 (2018: £5,545), with such costs being borne by Affinity Water Limited, the direct subsidiary of the company. 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

No remuneration or pension contributions were directly paid to directors for services to the company (2018: £nil).

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 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 Holdings Limited

Notes to the financial statements for the year ended 31 March 2019 (continued)

6. Income tax expense

Tax expense included in the income statement

	2019 £000	2018 £000
Current tax:		
UK corporation tax on profit for the year	-	-
Tax on profit on ordinary activities	<u>-</u>	<u>-</u>

The tax charge for the year is lower (2018: lower) than the standard rate of corporation tax in the UK for the year ended 31 March 2019 of 19% (2018: 19%). The differences are explained below:

	2019 £000	2018 £000
Profit on ordinary activities before tax	6,600	58,498
Profit multiplied by the standard rate of tax in the UK of 19% (2018: 19%)	1,254	11,114
Effects of:		
Income not subject to tax	(1,254)	(11,114)
Tax charge	<u>-</u>	<u>-</u>

The tax rate for the current year is 19% (2018: 19%).

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

Income not subject to tax relates to the dividends received from Affinity Water Limited.

7. Dividends

	2019 £000	2018 £000
Ordinary:		
Paid: First interim of £2,500,000 per share in June 2018 (April 2017: £3,250,000)	5,000	6,500
Paid: Second interim of £800,000 per share in December 2018 (September 2017: £11,000,000)	1,600	22,000
Paid: No third interim (December 2017: £8,999,000)	-	17,998
Paid: No fourth interim (March 2018: £6,000,000)	-	12,000
	<u>6,600</u>	<u>58,498</u>

Affinity Water Holdings Limited

Notes to the financial statements for the year ended 31 March 2019 (continued)

8. Investments

	2019	2018
	£000	£000
Investment in subsidiary undertaking	287,670	287,670

Investments comprise the following subsidiary undertaking of the company:

Name of company	Registered address	Nature of business	Type of holding	Proportion of voting rights and shares held
Affinity Water Limited	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Water supply	Ordinary shares	100%

Affinity Water Limited is incorporated in the United Kingdom with registered address Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ.

The company received dividends of £6,600,000 (2018: £58,498,000) from Affinity Water Limited in the year.

The company has an indirect holding in the subsidiaries of Affinity Water Limited, Affinity Water Finance (2004) PLC and Affinity Water Finance PLC. Details of these subsidiaries are included in the annual report and financial statements of Affinity Water Limited for the year ended 31 March 2019.

9. Share capital

	2019	2018
	£	£
Allotted and called up share capital		
2 (2018: 2) ordinary shares of £1.00 each	2	2

The company was incorporated on 7 January 2013. The company issued one £1 ordinary share on 7 January 2013 to Affinity Water Capital Funds Limited, its immediate parent company at that time (see note 11). A further £1 ordinary share was issued on 4 February 2013 to Affinity Water Capital Funds Limited at a premium of £287,670,000. At 31 March 2019 the share capital of £2 remained unpaid.

10. Related party transactions

The following related party transactions have occurred during the year:

Dividends received from Affinity Water Limited: £5,000,000 received in June 2018 and £1,600,000 received in December 2018 (2018: £58,498,000).

Dividends paid to Affinity Water Capital Funds Limited: £5,000,000 paid in June 2018 and £1,600,000 paid in December 2018 (2018: £58,498,000).

There were no outstanding balances at the end of the year.

Affinity Water Holdings Limited

Notes to the financial statements for the year ended 31 March 2019 (continued)

11. Events after the end of the reporting period

There were no significant events that took place after the reporting period.

12. Ultimate parent company and controlling party

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

Affinity Water Holdco Finance 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 statutory 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.