

**AFFINITY WATER PROGRAMME FINANCE LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2016**

(Cayman Islands Registered Number 274647)

# Affinity Water Programme Finance Limited

## Contents

	<b>Page</b>
Strategic report .....	1
Directors' report .....	2
Independent auditor's report.....	5
Income statement .....	7
Statement of financial position.....	8
Statement of changes in equity .....	9
Notes to the financial statements .....	10

# **Affinity Water Programme Finance Limited**

## **Strategic report for the year ended 31 March 2016**

The directors present their strategic report for the year ended 31 March 2016.

The company's strategy is to raise finance on behalf of its immediate parent undertaking, Affinity Water Limited. On 4 February 2013, as a part of the implementation of the group's whole business securitisation, the company issued £80.0m Class A guaranteed notes maturing in September 2022 with a coupon rate of 3.625%, £250.0m Class A guaranteed notes maturing in March 2036 with a coupon rate of 4.500%, £150.0m Class A guaranteed Retail Price Index ('RPI') linked notes maturing in June 2045 with a coupon rate of 1.548% and £95.0m Class B guaranteed RPI linked notes maturing in June 2033 with a coupon rate of 3.249%. On 29 October 2015, the company completed a tap issue of its 1.548% Class A guaranteed RPI linked notes of £40.0m on the same terms as the existing 2045 notes. On 19 February 2016, the company issued £10.0m Class B guaranteed RPI linked notes maturing in June 2033 with a coupon rate of 1.024% (together with the notes issued on 29 October 2015 and 4 February 2013, the 'Bonds'). All proceeds have been lent to Affinity Water Limited on the same terms.

The company faces limited risk or uncertainty in relation to the Bonds which have a fixed coupon rate. 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.

In relation to the RPI linked notes, the exposure to movement in RPI is ultimately borne by Affinity Water Limited. The £67.5m increase in amounts falling due after more than one year since 31 March 2015 predominantly relates to the tap and bond issues in October 2015 and February 2016 respectively, with the remainder relating to indexation of the RPI linked notes.

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 8 shows that the company had net assets of £20,000 (2015: £17,000) 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  
27 June 2016

# **Affinity Water Programme Finance Limited**

## **Directors' report for the year ended 31 March 2016**

### **Introduction**

The directors present their report and the audited non-statutory financial statements for the year ended 31 March 2016.

The company was incorporated on 11 January 2013 and its sole activity is to raise finance on behalf of its immediate parent undertaking, Affinity Water Limited. The company is registered in the Cayman Islands and its operations are conducted entirely in the United Kingdom. The purpose of these non-statutory financial statements is to enable the company to comply with its obligations in respect of the whole business securitisation of certain companies in the wider Affinity Water group. Accordingly, the non-statutory financial statements have been prepared on the going concern basis, under the historical cost convention, as if United Kingdom Generally Accepted Accounting Standards ('UK GAAP'), including Financial Reporting Standard 101: 'Reduced disclosure framework' ('FRS 101'), and companies legislation in the United Kingdom were applicable.

### **Future developments**

It is the company's intention to continue with its current activity through to 2045 when the last of the Bonds matures.

### **Results and dividends**

The company made a £3,000 profit for the financial year (2015: £4,000). No dividends are proposed for the year (2015: 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:

Duncan Bates  
Simon Cocks (appointed 1 July 2015)  
Georgina Dellacha (resigned 30 July 2015)  
Alberto Donzelli  
Stephen Nelson  
Nigel Paterson  
Yacine Saidji

### **Company Secretary**

Tim Monod

### **Events after the reporting period**

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

# **Affinity Water Programme Finance Limited**

## **Directors' report for the year ended 31 March 2016 (continued)**

### **Corporate governance**

The company is a wholly owned subsidiary of Affinity Water Limited, and the company's directors, with the exception of Alberto Donzelli and Yacine Saidji, 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 2016, 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 Bonds and meets from time to time to facilitate this.

### **Statement of directors' responsibilities**

The directors are responsible for preparing the strategic report, the director's report and the non-statutory financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare non-statutory financial statements for each financial year. Under that law the directors have prepared the non-statutory financial statements in accordance with applicable law and United Kingdom Accounting Standards (UK GAAP), including FRS 101.

Under company law the directors must not approve the non-statutory 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 year. In preparing these non-statutory financial statements, the directors are required to:

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

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

# **Affinity Water Programme Finance Limited**

## **Directors' report for the year ended 31 March 2016 (continued)**

### **Disclosure of information to auditors**

Each director in office at the date of the directors' report confirms that:

- (a) so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- (b) the director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

### **Independent auditor**

PricewaterhouseCoopers LLP  
Abacus House  
Castle Park  
Cambridge  
CB3 0AN

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  
27 June 2016

# **Independent auditor's report to the directors of Affinity Water Programme Finance Limited**

## **Report on the financial statements**

### **Our opinion**

In our opinion, Affinity Water Programme Finance Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 March 2016 and of its profit for the year then ended; and
- have been properly prepared in accordance with United Kingdom Accounting Standards.

### **What we have audited**

The financial statements, included within the Annual Report, comprise:

- the statement of financial position as at 31 March 2016;
- the income statement for the year then ended;
- the statement of changes in equity for the year then ended;
- the accounting policies; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced disclosure framework", and applicable law.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

## **Responsibilities for the financial statements and the audit**

### **Our responsibilities and those of the directors**

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. This report, including the opinion, has been prepared for and only for the company's directors as a body for enabling the company to comply with its obligations in respect of the whole business securitisation of certain companies in the wider Affinity Water group in accordance with our engagement letter dated 26 October 2015 and for no other purpose. We do not, in giving this opinion, 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, including without limitation under any contractual obligations of the company, save where expressly agreed by our prior consent in writing.

## **Independent auditor's report to the directors of Affinity Water Programme Finance Limited (continued)**

### **What an audit of financial statements involves**

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

PricewaterhouseCoopers LLP  
Chartered Accountants  
Cambridge  
27 June 2016

# Affinity Water Programme Finance Limited

## Income statement for the year ended 31 March 2016 (Registered Number 274647)

	Note	2016 £000	2015 £000
<b>Operating result</b>	4	-	-
Finance income	6	<b>23,588</b>	22,956
Finance costs	6	<b>(23,584)</b>	(22,952)
<b>Profit on ordinary activities before income tax</b>		<b>4</b>	4
Income tax expense on ordinary activities	7	<b>(1)</b>	-
<b>Profit for the year</b>		<b>3</b>	4

The notes on pages 10 to 20 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 Programme Finance Limited

## Statement of financial position

as at 31 March 2016

(Registered Number 274647)

	Note	2016 £000	2015 £000
<b>Current assets</b>			
Loan receivables falling due after more than one year	8	643,614	576,081
Trade and other receivables	9	2,139	1,876
Cash and cash equivalents		11	11
		<b>645,764</b>	577,968
<b>Creditors – amounts falling due within one year</b>	10	<b>(2,130)</b>	(1,870)
<b>Net current assets</b>		<b>643,634</b>	576,098
<b>Total assets less current liabilities</b>		<b>643,634</b>	576,098
<b>Creditors – amounts falling due after more than one year</b>	11	<b>(643,614)</b>	(576,081)
<b>Net assets</b>		<b>20</b>	17
<b>Equity</b>			
Ordinary shares	13	10	10
Retained earnings		10	7
<b>Total shareholder's funds</b>		<b>20</b>	17

The notes on pages 10 to 20 are an integral part of these financial statements.

The financial statements on pages 7 to 20 were authorised for issue by the Board of directors on 27 June 2016 and were signed on its behalf by:

Duncan Bates  
Director

# Affinity Water Programme Finance Limited

## Statement of changes in equity for the year ended 31 March 2016 (Registered Number 274647)

	Share capital £000	Retained earnings £000	Total £000
Balance as at 1 April 2014 (as previously reported under UK GAAP and under FRS 101)	10	3	13
Profit for the year	-	4	4
Total comprehensive income for the year	-	4	4
Balance as at 31 March 2015	10	7	17
<b>Balance as at 1 April 2015</b>	<b>10</b>	<b>7</b>	<b>17</b>
<b>Profit for the year</b>	<b>-</b>	<b>3</b>	<b>3</b>
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>3</b>	<b>3</b>
<b>Balance as at 31 March 2016</b>	<b>10</b>	<b>10</b>	<b>20</b>

The notes on pages 10 to 20 are an integral part of these financial statements.

# **Affinity Water Programme Finance Limited**

## **Notes to the financial statements for the year ended 31 March 2016**

### **1. General information**

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

The company is registered in the Cayman Islands and its operations are conducted entirely in the United Kingdom. The company is resident in the United Kingdom for tax purposes and its incorporation in the Cayman Islands (an internationally recognised and highly regulated financial centre) brings no tax benefit to the group. It does not hold funds off-shore, with all finance being raised and held within the United Kingdom. The address of its registered office is PO Box 309, Ugland House, Grand Cayman, KY1-1104.

### **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**

The purpose of these non-statutory financial statements is to enable the company to comply with its obligations in respect of the whole business securitisation of certain members of the wider Affinity Water group. Accordingly, the non-statutory financial statements have been prepared on the going concern basis, under the historical cost convention, as if UK GAAP, including FRS 101, and companies legislation in the United Kingdom were applicable.

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 2016 the company has prepared its non-statutory financial statements for the first time under FRS 101 as issued by the FRC and has, in doing so, applied the requirements of International Financial Reporting Standard 1: 'First-time Adoption of International Financial Reporting Standards' ('IFRS 1') paragraphs 6 to 33 and related appendices. These financial statements were prepared in accordance with FRS 101 as issued by the FRC. The prior year financial statements were re-stated for material adjustments on adoption of FRS 101 in the current year. For further information, see note 17.

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.

# Affinity Water Programme Finance Limited

## Notes to the financial statements for the year ended 31 March 2016 (continued)

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

#### 2.1 Basis of preparation (continued)

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)
- The following paragraphs of International Accounting Standard ('IAS') 1: 'Presentation of financial statements':
  - 10(d) (statement of cash flows),
  - 10(f) (a statement of financial position as at the beginning of the preceding year when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements),
  - 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 30 and 31 of IAS 8: 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- 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 Affinity Water Acquisitions (Investments) Limited, the company's ultimate holding and controlling company in the United Kingdom, are available to the public and can be obtained as set out in note 15.

#### 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.

# Affinity Water Programme Finance Limited

## Notes to the financial statements for the year ended 31 March 2016 (continued)

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

#### 2.3 Changes in accounting policy and disclosures

##### *New and amended standards adopted by the company*

The following standards have been adopted by the company for the first time for the financial year beginning on 1 April 2015 and did not have any impact on the current year or any prior year and are not likely to affect future years.

Topic	Key requirements	Effective date
Improvements to IFRS (2012) and IFRS (2013)	This is a collection of amendments to 11 standards as part of the International Accounting Standards Board's programme of annual improvements.	1 July 2014 (EU endorsed from 1 February 2015 and 1 January 2015 respectively)
Amendment to IAS 19: 'Employee benefits'	The amendments to IAS 19: 'Employee benefits' permit contributions that are independent of the number of years of service to be recognised as a reduction in the service cost in the year in which the service is rendered, instead of allocating the contributions to years of service. Other contributions by employees or third parties are required to be attributed to years of service either using the plan's contribution formula or on a straight-line basis.	1 July 2014 (EU endorsed from 1 February 2015)

#### 2.4 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

#### 2.5 Loan receivable

The loan receivable is stated at amortised cost using the effective interest method, less any provision for impairment.

#### 2.6 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.

# Affinity Water Programme Finance Limited

## Notes to the financial statements for the year ended 31 March 2016 (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 loan receivables*

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. The carrying amounts of the loan receivables at the date of the statement of financial position were £643,614,000 (2015: £576,081,000) with no impairment losses recognised in the year ended 31 March 2016 (2015: nil) (refer to note 8).

### 4. Operating result

	<b>2016</b>	2015
	<b>£000</b>	£000
Operating result is stated after charging:		
Audit fees payable to the company's auditor	<u>-</u>	<u>-</u>

The auditor's remuneration for audit services in the year amounted to £5,000 (2015: £5,000), with such costs being borne by the immediate parent undertaking Affinity Water Limited. The auditor received no other remuneration in either the current or prior year.

# **Affinity Water Programme Finance Limited**

## **Notes to the financial statements for the year ended 31 March 2016 (continued)**

### **5. Employees and directors**

#### **Employees**

The company had no employees in the current year (2015: nil).

#### **Directors**

Remuneration for Simon Cocks (from 1 July 2015) and Duncan Bates during the current and prior year was paid by Affinity Water Limited, which made no recharge to the company. Simon Cocks and Duncan Bates were directors of Affinity Water Limited and a number of fellow subsidiaries of the Affinity Water Acquisitions (Investments) Limited group during the current and prior year, and 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 and Duncan Bates. Their total remuneration is disclosed in the annual report and financial statements of Affinity Water Limited for the year ended 31 March 2016.

The directors who sit on the Board as representatives of Infracapital Partners II, North Haven Infrastructure Partners and Veolia Water UK Limited have recharged £100,000 (2015: £100,000) to the company's indirect parent Affinity Water Acquisitions Limited.

# Affinity Water Programme Finance Limited

## Notes to the financial statements for the year ended 31 March 2016 (continued)

### 6. Finance income and costs

#### Finance income

	2016 £000	2015 £000
Interest income on loan to parent company	23,584	22,952
Other finance income	4	4
Total interest income on financial assets not measured at fair value through profit and loss	23,588	22,956
<b>Total finance income</b>	<b>23,588</b>	<b>22,956</b>

#### Finance costs

	2016 £000	2015 £000
Interest expense on bonds	20,156	19,810
Indexation on interest on bonds	3,189	2,792
Amortisation of bond issue costs	239	350
Total interest expense on financial assets not measured at fair value through profit and loss	23,584	22,952
<b>Total finance costs</b>	<b>23,584</b>	<b>22,952</b>

#### Net finance income

	2016 £000	2015 £000
Finance income	23,588	22,956
Finance costs	(23,584)	(22,952)
<b>Net finance income</b>	<b>4</b>	<b>4</b>

### 7. Income tax expense on ordinary activities

The tax charge for the year ended 31 March 2016 is £1,000 (2015: £nil). There is no deferred tax liability (2015: £nil) and no unprovided deferred tax liability (2015: £nil). There are no carried forward tax losses (2015: £nil).

The tax rate for the current year is lower than the prior year due to changes in the UK Corporation tax rate which decreased from 21% to 20% from 1 April 2015.

In October 2015 changes were enacted to the main rate of corporation tax in the UK from 20% to 19% effective from 1 April 2017 and from 19% to 18% effective from 1 April 2020.

In March 2016 a further change was announced to the main rate of corporation tax in the UK from 18% to 17% effective from 1 April 2020.

## Affinity Water Programme Finance Limited

### Notes to the financial statements for the year ended 31 March 2016 (continued)

#### 8. Loan receivables falling due after more than one year

	2016 £000	2015 £000
Amounts owed by parent company	<u>643,614</u>	<u>576,081</u>

Refer to note 11 for further details of the amounts owed by Affinity Water Limited.

No provision for impairment has been recognised at 31 March 2016 (2015: nil).

#### 9. Trade and other receivables

	2016 £000	2015 £000
Amounts owed by group undertakings	<u>2,139</u>	<u>1,876</u>

The amounts owed by group undertakings reflect the interest receivable on the loans issued to Affinity Water Limited from the proceeds of the Bonds.

#### 10. Creditors – amounts falling due within one year

	2016 £000	2015 £000
Corporation tax	2	1
Accruals and deferred income	2,128	1,869
	<u>2,130</u>	<u>1,870</u>

The accruals and deferred income reflect interest payable on the Bonds.

# Affinity Water Programme Finance Limited

## Notes to the financial statements for the year ended 31 March 2016 (continued)

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

	2016 £000	2015 £000
3.625% Class A guaranteed notes due 2022*	78,933	78,792
3.249% Class B RPI linked guaranteed notes due 2033	98,761	97,392
1.024% Class B RPI linked guaranteed notes due 2033	9,787	-
4.500% Class A guaranteed notes due 2036*	246,326	246,216
1.548% Class A RPI linked guaranteed notes due 2045*	209,807	153,681
	<b>643,614</b>	<b>576,081</b>

\* Listed on the London Stock Exchange

On 4 February 2013, as a part of the implementation of the group's whole business securitisation, the company issued £80,000,000 Class A guaranteed notes maturing in September 2022 with a coupon rate of 3.625%, £250,000,000 Class A guaranteed notes maturing in March 2036 with a coupon rate of 4.500%, £150,000,000 Class A guaranteed RPI linked notes maturing in June 2045 with a coupon rate of 1.548% and £95,000,000 Class B guaranteed RPI linked notes maturing in June 2033 with a coupon rate of 3.249%. On 29 October 2015, the company completed a tap issue of its 1.548% Class A guaranteed RPI linked notes of £40,000,000 on the same terms as the existing 2045 notes. On 19 February 2016, the company issued £10,000,000 Class B guaranteed RPI linked notes maturing in June 2033 with a coupon rate of 1.024%. All proceeds have been lent to Affinity Water Limited on the same terms, by way of intercompany loans.

The Bonds are guaranteed by Affinity Water Limited and Affinity Water Holdings Limited, the company's immediate parent undertaking and intermediate holding company respectively.

### 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

Interest rates earned on and the movement in RPI 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 rates, foreign exchange rates and RPI.

Other risks such as credit risk and liquidity risk are 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 these risks.

# Affinity Water Programme Finance Limited

## Notes to the financial statements for the year ended 31 March 2016 (continued)

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

Interest rates and the currency profile of the net borrowings of the company at 31 March 2016 were:

	Total net borrowings		Net cash		Fixed rate borrowings		RPI linked borrowings	
	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000
<b>Sterling borrowings:</b>								
External loans	<b>643,614</b>	576,081	-	-	<b>325,259</b>	325,008	<b>318,355</b>	251,073
<b>Total borrowings</b>	<b>643,614</b>	576,081	-	-	<b>325,259</b>	325,008	<b>318,355</b>	251,073
Cash	(11)	(11)	11	11	-	-	-	-
<b>Net borrowings</b>	<b>643,603</b>	576,070	<b>11</b>	11	<b>325,259</b>	325,008	<b>318,355</b>	251,073

The external loans' weighted average period until maturity, and for which the rate is fixed, was 20.7 years at 31 March 2016 (2015: 21.0 years).

#### Currency exposures

At 31 March 2016, the company had no currency exposures (2015: £nil).

#### Security

The loans are 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 2016:

	Book value		Fair value	
	£000 2016	£000 2015	£000 2016	£000 2015
Primary financial instruments held or issued to finance the company's operations				
Long term borrowings	<b>643,614</b>	576,081	<b>738,421</b>	677,566
	<b>643,614</b>	576,081	<b>738,421</b>	677,566

The fair value of the Bonds, having a combined book value of £643,614,000 (2015: £576,081,000), has been determined by reference to published and other information, as well as prices from the active markets on which the instruments involved are traded.

# Affinity Water Programme Finance Limited

## Notes to the financial statements for the year ended 31 March 2016 (continued)

### 13. Share capital

	2016 £000	2015 £000
<b>Allotted, called up and unpaid share capital</b>		
10,000 (2015: 10,000) ordinary shares of £1 each	<u>10</u>	<u>10</u>

All shares rank pari passu in all respects.

### 14. Related party transactions

See note 5 for disclosure of the directors' remuneration.

There were no other related party transactions requiring disclosure.

### 15. 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 majority owned by Affinity Water Acquisitions (Investments) Limited, a company registered in England and Wales. Affinity Water Acquisitions (Investments) Limited is the parent undertaking of the smallest and largest group to consolidate the statutory financial statements of this company.

The directors consider that Affinity Water Acquisitions (Investments) Limited is the ultimate holding and controlling company in the United Kingdom.

Copies of the group financial statements of Affinity Water Acquisitions (Investments) Limited for the year ended 31 March 2016 may be obtained from the Company Secretary, Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ.

Affinity Water Acquisitions (Investments) Limited is owned by a consortium of investors led by Infracapital Partners II (consisting of Infracapital Partners II LP and Infracapital Partners (NT) II LP) and North Haven Infrastructure Partners LP. Veolia Environnement S.A. holds a 10% shareholding in Affinity Water Acquisitions (Holdco) Limited, the direct subsidiary of Affinity Water Acquisitions (Investments) Limited, through its subsidiary Veolia Water UK Limited. The directors consider Infracapital Partners II and North Haven Infrastructure Partners LP to be the company's ultimate controllers, as they are in a position to exercise material influence over the company's policy and affairs.

Infracapital Partners II is a European infrastructure fund managed by M&G Alternatives Investment Management Limited, a subsidiary of Prudential plc. Infracapital Partners II LP was established in 2010 and Infracapital Partners (NT) II LP was established in 2012, to make investments in income-generative infrastructure assets and businesses, including electricity and gas networks, water companies, transport infrastructure and renewable energy.

North Haven Infrastructure Partners is a leading global infrastructure investment fund. It is managed by Morgan Stanley Infrastructure Inc., part of the investment management division of Morgan Stanley. North Haven Infrastructure Partners targets core infrastructure assets that provide essential public goods and services to societies across the globe and seeks to improve asset performance using active management.

## **Affinity Water Programme Finance Limited**

### **Notes to the financial statements for the year ended 31 March 2016 (continued)**

#### **16. Events after the end of the reporting period**

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

#### **17. Transition to Financial Reporting Standard 101**

This is the first year that the company has presented its financial statements in accordance with FRS 101. Comparative information for the year ended 31 March 2016, the year ended 31 March 2015, has been represented under FRS 101; the date of transition being 1 April 2014. There were no differences between the amounts previously reported for the year ended 31 March 2015 and those under FRS 101.

The company has elected to continue to prepare its financial statements under FRS 101 for the year ending 31 March 2017, taking the disclosure exemptions as applied in the preparation of the financial statements for the year ended 31 March 2016.