

AFFINITY WATER PROGRAMME FINANCE LIMITED

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018**

(Cayman Islands Registered Number 274647)

Affinity Water Programme Finance Limited

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Affinity Water Programme Finance Limited

Strategic report for the year ended 31 March 2018

The directors present their strategic report for the year ended 31 March 2018.

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%.

On 22 August 2016, the company exchanged £65.8m of its 3.625% Class A guaranteed notes due September 2022 for a new issue of 3.278% guaranteed notes due August 2042. An additional £19.2m of 3.278% guaranteed notes due August 2042 were issued.

On 22 November 2017, the company issued £60.0m Class A guaranteed notes maturing in November 2033 with a coupon of 2.699% and £60.0m Class A guaranteed Consumer Price Index ('CPI') linked notes maturing in November 2042 with a coupon of 0.230%.

All proceeds of the above issues have been lent to Affinity Water Limited on the same terms.

The company faces limited risk or uncertainty in relation to the above notes (together, 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 index-linked notes, the exposure to movement in RPI and CPI is ultimately borne by Affinity Water Limited. The £131.5m increase in amounts falling due after more than one year since 31 March 2017 predominantly relates to the issuance of additional guaranteed notes, and indexation of the RPI and CPI linked notes.

On 19 May 2017, Infracapital Partners II and North Haven Infrastructure Partners LP sold 100% of their shareholdings in Affinity Water Acquisitions (Investments) Limited, the company's ultimate holding and controlling company at that time, to a consortium comprising Allianz Capital Partners on behalf of the Allianz Group, HICL Infrastructure Company Limited (advised by InfraRed Capital Partners Limited) and DIF, an independent and specialist fund management company. As part of the transaction, the buyers also acquired Veolia Water UK Limited's 10% stake in Affinity Water Acquisitions (Holdco) Limited.

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

Affinity Water Programme Finance Limited

Strategic report for the year ended 31 March 2018 (continued)

The statement of financial position detailed on page 11 shows that the company had net assets of £31,000 (2017: £25,000) 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
20 June 2018

Affinity Water Programme Finance Limited

Directors' report for the year ended 31 March 2018

Introduction

The directors present their report and the audited non-statutory financial statements for the year ended 31 March 2018.

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 Practice ('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 £6,000 profit for the financial year (2017: £5,000). No dividends are proposed for the year (2017: £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 (resigned 31 July 2017)
Simon Cocks (resigned 30 April 2018)
Gareth Craig (appointed 19 May 2017)
Alberto Donzelli (resigned 19 May 2017)
Jara Korpanec (appointed 19 May 2017)
Stuart Ledger (appointed 1 November 2017)
Stephen Nelson (resigned 19 May 2017)
Nigel Paterson (resigned 19 May 2017)
Angela Roshier (appointed 19 May 2017)
Yacine Saidji (resigned 19 May 2017)
Pauline Walsh (appointed 1 May 2018)

Company Secretary

Tim Monod

Directors' qualifying third party indemnity provisions

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

Affinity Water Programme Finance Limited

Directors' report for the year ended 31 March 2018 (continued)

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.

Corporate governance

The company is a wholly owned subsidiary of Affinity Water Limited, and the company's directors, with the exception of former directors, Alberto Donzelli and Yacine Saidji, are or were 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 2018, 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 company financial statements in accordance with United Kingdom Accounting Standards for 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.

The directors must not approve the financial statements unless they are satisfied that the financial statements 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 responsible for:

- selecting suitable accounting policies and then applying them consistently;
- stating whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- making judgements and accounting estimates that are reasonable and prudent; and
- preparing the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company.

The directors 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 2018 (continued)

Disclosure of information to auditors

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

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- 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

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
20 June 2018

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

Report on the audit of the financial statements

Opinion

In our opinion, Affinity Water Programme Finance Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2018 and of its profit for the year then ended; and
- have been properly prepared in accordance with United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law.

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 2018; the income statement, the statement of changes in equity for the year ended 31 March 2018; 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.

Our audit approach

Overview



- Overall materiality: £8.2 million (2017: £6.9 million), based on 1% total assets.
- The company has one finance function and operates a single general ledger system. The audit was carried out by one team at the UK headquarters in Hatfield, Hertfordshire.
- We have no key audit matter to report.

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

Our audit approach (continued)

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. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the company and the industry in which it operates, and considered the risk of acts by the company which were contrary to applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, recognising that 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. We focused on laws and regulations that could give rise to a material misstatement in the company's financial statements. There are inherent limitations in the audit procedures performed 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.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

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. We determined that there were no key audit matters applicable to the company to communicate in our report.

How we tailored the audit scope

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

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

Our audit approach (continued)

Materiality

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

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

Overall materiality	£8.2 million (2017: £6.9m).
How we determined it	1% of total assets.
Rationale for benchmark applied	This is not a profit orientated entity, and so we believe that total assets is the primary measure used by the shareholders in assessing the performance of the entity, and is a generally accepted auditing benchmark.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £0.4 million (2017: £0.2 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 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.

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.

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 any form of assurance thereon.

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

Reporting on other information (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

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 4, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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 13 April 2018 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.

PricewaterhouseCoopers LLP
Chartered Accountants
Uxbridge
21 June 2018

Affinity Water Programme Finance Limited

Income statement for the year ended 31 March 2018 (Registered Number 274647)

	Note	2018 £000	2017 £000
Operating result	4	-	-
Finance income	6	34,489	29,636
Finance costs	6	(34,482)	(29,630)
Profit on ordinary activities before income tax		7	6
Income tax expense on ordinary activities	7	(1)	(1)
Profit for the year		6	5

The notes on pages 13 to 22 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 2018

(Registered Number 274647)

	Note	2018 £000	2017 £000
Current assets			
Loan receivables falling due after more than one year	8	814,613	683,097
Trade and other receivables	9	3,223	2,502
Cash and cash equivalents		11	11
		817,847	685,610
Creditors – amounts falling due within one year	10	(3,203)	(2,488)
Net current assets		814,644	683,122
Total assets less current liabilities		814,644	683,122
Creditors – amounts falling due after more than one year	11	(814,613)	(683,097)
Net assets		31	25
Equity			
Ordinary shares	13	10	10
Retained earnings		21	15
Total shareholder's funds		31	25

The notes on pages 13 to 22 are an integral part of these financial statements.

The financial statements on pages 10 to 22 were authorised for issue by the Board of directors on 20 June 2018 and were signed on its behalf by:

Stuart Ledger
Director

Affinity Water Programme Finance Limited

Statement of changes in equity for the year ended 31 March 2018 (Registered Number 274647)

	Share capital £000	Retained earnings £000	Total £000
Balance as at 1 April 2016	10	10	20
Profit for the year	-	5	5
Total comprehensive income for the year	-	5	5
Balance as at 31 March 2017	10	15	25
Balance as at 1 April 2017	10	15	25
Profit for the year	-	6	6
Total comprehensive income for the year	-	6	6
Balance as at 31 March 2018	10	21	31

The notes on pages 13 to 22 are an integral part of these financial statements.

Affinity Water Programme Finance Limited

Notes to the financial statements

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, Uglund 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, for the year ended 31 March 2018 the company has prepared its statutory 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)
- The following paragraphs of International Accounting Standard ('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)

Affinity Water Programme Finance Limited

Notes to the financial statements (continued)

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

- 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 made publicly available and may be obtained as set out in note **Error! Reference source not found.**

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

Standards and interpretations which are not yet effective and have not been early adopted by the company are listed below.

- IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for the annual period beginning on 1 April 2018. Given the nature of the entity, the new standard will not have a material impact on the company.
- IFRS 16, 'Leases' 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 a material impact on the company.
- IFRS 9, 'Financial instruments' 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 is effective for the annual period beginning on 1 April 2018. The impact of the new standard is not likely to be material given the nature of the company's financing arrangements. Refer to notes 2.5, 2.6 and 2.7 for details of the company's accounting policies on receivables and borrowings.

Affinity Water Programme Finance Limited

Notes to the financial statements (continued)

2. Summary of significant accounting policies (continued)

2.4 Interest income

Interest income is recognised using the effective interest method.

2.5 Loan receivables

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

2.6 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.

2.7 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.

An exchange of debt with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. At the point of refinancing, all costs relating to the previous debt have been borne by Affinity Water Limited.

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

3. Critical accounting estimates and judgments

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

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

Impairment of loan 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 £814,613,000 (2017: £683,097,000) with no impairment losses recognised in the year ended 31 March 2018 (2017: £nil) (refer to note 8).

Affinity Water Programme Finance Limited

Notes to the financial statements (continued)

4. Operating result

	2018	2017
	£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 £5,665 (2017: £5,500), 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 (2017: nil).

Directors

Remuneration for Simon Cocks and Duncan Bates during the current and prior year and Stuart Ledger for the current 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 Daiwater Investment Limited and Affinity Water Acquisitions (Investments) groups during the current and prior year, as was Stuart Ledger in the current 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, Duncan Bates or Stuart Ledger. Their total remuneration is disclosed in the annual report and financial statements of Affinity Water Limited for the year ended 31 March 2018.

The directors who sat on the Board as representatives of Infracapital Partners II, North Haven Infrastructure Partners and Veolia Water UK Limited recharged £100,000 to the company's indirect parent Affinity Water Acquisitions Limited in the prior year. No equivalent recharges have been made in the current year.

Affinity Water Programme Finance Limited

Notes to the financial statements (continued)

6. Finance income and costs

Finance income

	2018 £000	2017 £000
Interest income on loan to parent company	34,482	29,630
Other finance income	7	6
Total interest income on financial assets	<u>34,489</u>	<u>29,636</u>
Total finance income	<u>34,489</u>	<u>29,636</u>

Finance costs

	2018 £000	2017 £000
Interest expense on bonds	22,049	20,984
Indexation on interest on bonds	12,807	8,029
Amortisation of bond issue costs	(374)	617
Total interest expense on financial liabilities	<u>34,482</u>	<u>29,630</u>
Total finance costs	<u>34,482</u>	<u>29,630</u>

Net finance income

	2018 £000	2017 £000
Finance income	34,489	29,636
Finance costs	(34,482)	(29,630)
Net finance income	<u>7</u>	<u>6</u>

Affinity Water Programme Finance Limited

Notes to the financial statements (continued)

7. Income tax expense on ordinary activities

The tax charge for the year ended 31 March 2018 is £1,267 (2017: £1,000). There is no deferred tax liability (2017: £nil) or deferred tax asset (2017: £nil). There are no carried forward tax losses (2017: £nil).

The tax rate for the current year (19%) is lower than the prior year (20%).

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

8. Loan receivables falling due after more than one year

	2018 £000	2017 £000
Amounts owed by parent company	<u>814,613</u>	<u>683,097</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 2018 (2017: £nil).

9. Trade and other receivables

	2018 £000	2017 £000
Amounts owed by group undertakings	<u>3,223</u>	<u>2,502</u>

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

10. Creditors – amounts falling due within one year

	2018 £000	2017 £000
Corporation tax	5	4
Accruals and deferred income	3,198	2,484
	<u>3,203</u>	<u>2,488</u>

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

Affinity Water Programme Finance Limited

Notes to the financial statements (continued)

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

	2018 £000	2017 £000
3.625% Class A guaranteed notes due 2022*	14,068	14,041
3.249% Class B RPI linked guaranteed notes due 2033	105,524	101,407
1.024% Class B RPI linked guaranteed notes due 2033	10,464	10,053
2.699% Class A guaranteed notes due 2033*	59,550	-
4.500% Class A guaranteed notes due 2036*	246,560	246,440
3.278% Class A guaranteed Notes due 2042*	96,119	96,443
0.230% Class A CPI linked guaranteed notes due 2042*	59,773	-
1.548% Class A RPI linked guaranteed notes due 2045*	222,555	214,713
	814,613	683,097

* 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 £80.0m 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 RPI linked notes guaranteed maturing in June 2045 with a coupon rate of 1.548% and £95.0m Class B RPI linked guaranteed 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 RPI linked guaranteed 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%.

On 22 August 2016, the company exchanged £65.8m of its 3.625% Class A guaranteed notes due September 2022 for a new issue of 3.278% guaranteed notes due August 2042. An additional £19.2m of 3.278% guaranteed notes due August 2042 were issued.

On 22 November 2017, Affinity Water Programme Finance Limited issued £60.0m Class A guaranteed notes maturing in November 2033 with a coupon of 2.699% and £60.0m Class A guaranteed CPI linked notes maturing in November 2042 with a coupon of 0.230%.

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.

Affinity Water Programme Finance Limited

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

Interest rates earned on and the movement in RPI and CPI 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, RPI and CPI.

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.

The interest rate and currency profile of the net borrowings of the company at 31 March 2018 was:

	Total net borrowings		Net cash		Fixed rate borrowings		RPI linked borrowings		CPI linked borrowings	
	2018 £000	2017 £000	2018 £000	2017 £000	2018 £000	2017 £000	2018 £000	2017 £000	2018 £000	2017 £000
Sterling borrowings:										
External loans	814,613	683,097	-	-	416,297	356,924	338,543	326,173	59,773	-
Total borrowings	814,613	683,097	-	-	416,297	356,924	338,543	326,173	59,773	-
Cash	(11)	(11)	11	11	-	-	-	-	-	-
Net borrowings	814,602	683,086	11	11	416,297	356,924	338,543	326,173	59,773	-

The external loans' weighted average period until maturity, and for which the rate is fixed, was 21.0 years at 31 March 2018 (2017: 21.9 years).

Currency exposures

At 31 March 2018, the company had no currency exposures (2017: £nil).

Security

The financial liability is guaranteed by Affinity Water Limited and Affinity Water Holdings Limited.

Affinity Water Programme Finance Limited

Notes to the financial statements (continued)

12. Financial instruments and risk management (continued)

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 2018:

	Book value		Fair value	
	2018 £000	2017 £000	2018 £000	2017 £000
Primary financial instruments held or issued to finance the company's operations				
Long term borrowings	814,613	683,097	1,015,191	849,967
	814,613	683,097	1,015,191	849,967

The fair value of the Bonds, having a combined book value of £814,613 (2017: £683,097,000), has been determined by reference to published and other information, as well as prices from the active markets on which some of the instruments involved are traded.

13. Share capital

	2018 £000	2017 £000
Allotted, called up and unpaid share capital		
10,000 (2017: 10,000) ordinary shares of £1 each	10	10

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. Events after the end of the reporting period

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

16. Ultimate parent company and controlling party

The immediate parent undertaking of the company is Affinity Water Limited, a company registered in England and Wales. Affinity Water Limited is wholly owned by Daiwater Investment Limited, a company registered in England and Wales. Daiwater Investment Limited is the parent undertaking of the largest group to consolidate the statutory financial statements of this company for the period ended 31 March 2018. These financial statements are also consolidated in the financial statements of Affinity Water Holdco Finance Limited for the period ended 31 March 2018, the smallest group to consolidate the statutory financial statements of the company.

Affinity Water Programme Finance Limited

Notes to the financial statements (continued)

16. Ultimate parent company and controlling party (continued)

The directors consider that Daiwater Investment Limited has been the ultimate holding and controlling company in the United Kingdom since 19 May 2017 and that Affinity Water Acquisitions (Investments) Limited was the ultimate holding and controlling company in the United Kingdom up until this date. Copies of the group financial statements of Daiwater Investment Limited and Affinity Water Holdco Finance Limited for the period ended 31 March 2018 may be obtained from the Company Secretary, Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ.

Affinity Water Acquisitions (Investments) Limited was 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 until 19 May 2017. Veolia Environnement S.A. held 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 until that date. The directors considered Infracapital Partners II and North Haven Infrastructure Partners LP to be the company's ultimate controllers prior to the sale, as they were in a position to exercise material influence over the company's policy and affairs.

On 19 May 2017, Affinity Water Acquisitions (Investments) Limited was acquired by a consortium comprising Allianz Capital Partners on behalf of the Allianz Group, DIF and HICL Infrastructure Company Limited (advised by InfraRed Capital Partners Limited). As part of the transaction, the consortium also acquired Veolia Water UK Limited's 10% equity interest stake in the company. Subsequent to the initial sale, HICL Infrastructure Company Limited (advised by InfraRed Capital Partners Limited) sold down 3.4% of their interest to a small group of co-investors, comprising UK local authority pension funds in June 2017.

The consortium made its investment through Daiwater Investment Limited which is now the company's UK holding company. 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 Company Limited
- 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 Company Limited 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.