AFFINITY WATER PROGRAMME FINANCE LIMITED

UNAUDITED HALF-YEARLY FINANCIAL REPORT
FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2018

(Cayman Islands Registered Number 274647)

Affinity Water Programme Finance Limited

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Introduction

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.

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 2022 for a new issue of 3.278% guaranteed notes due 2042. An additional £19.2m of 3.278% guaranteed notes due 2042 were issued, which form part of the same series as, and are fungible with, such notes.

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 have been lent to Affinity Water Limited on the same terms.

Significant events during the period

The directors have announced their intention to substitute this company, registered in the Cayman Islands, with a UK registered entity. The company assets and liabilities will be transferred to a newly incorporated UK entity within the wider Affinity Water group in the near future.

Principal risks

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 RPI linked notes, the exposure to movement in RPI is ultimately borne by Affinity Water Limited. The £7.5m increase in amounts falling due after more than one year since 31 March 2018 predominantly relates to the indexation of the RPI linked notes.

Interim management report (continued)

Principal risks (continued)

The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; the former should be read in conjunction with the company's annual financial statements for the year ended 31 March 2018 (in particular the strategic report, as well as note 12 to the 31 March 2018 financial statements).

The principal risks and uncertainties remain unchanged from those reported at 31 March 2018 and will not be impacted by the change in accounting basis detailed in the going concern section below. The Board anticipates that these risks will remain unchanged for the remaining six months of the financial year as the company moves to transfer the assets and liabilities to a newly incorporated UK entity.

Going concern

It is the intention of the directors that the company will transfer the company assets and liabilities to a newly incorporated UK entity within the near future and this company will be ultimately liquidated and eliminated from the wider Affinity Water group. The directors therefore do not believe that the going concern basis of accounting is appropriate. Consequently, these financial statements have been prepared on a basis other than going concern. No adjustments were necessary in these financial statements to reduce assets to their realisable value or to provide for liabilities arising from the cessation of trade. As the assets and liabilities falling due after more than one year will be transferred to the newly incorporated UK entity on the same terms, these have not been reclassified to current assets or liabilities. The financial statements to 31 March 2018 were prepared on a going concern basis.

Related parties

Details of significant related party transactions can be found in note 8 to the condensed interim financial statements. There has been no change to the nature of related party transactions in the first six months of the financial year which has materially affected the financial position or performance of the company.

Forward-looking statements

Certain statements in this interim management report are forward-looking. Although the company believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements.

The company undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

Affinity Water Programme Finance Limited

Condensed interim income statement
for the six months ended 30 September 2018

	Note	**30 September 2018 £000 Unaudited**	30 September 2017 £000 Unaudited
Operating profit		**-**	-
Finance income	5	**19,154**	19,387
Finance costs	5	**(19,150)**	(19,381)
Profit on ordinary activities before income tax		**4**	6
Income tax expense on ordinary activities		**(1)**	(1)
Profit for the period		**3**	5

All profits of the company in the current period and prior period are wholly from discontinuing operations.

The company has no recognised gains or losses other than the results above; therefore a statement of comprehensive income has not been presented.

The notes on pages 6 to 12 are an integral part of these condensed interim financial statements.

Affinity Water Programme Finance Limited

Condensed interim statement of financial position as at 30 September 2018

	Note	**30 September 2018 £000 Unaudited**	31 March 2018 £000 Audited
Current assets			
Loan receivables falling due after more than one year	6	**822,074**	814,613
Trade and other receivables		**3,291**	3,223
Cash and cash equivalents		**11**	11
		825,376	817,847
Creditors - amounts falling due within one year		**(3,268)**	(3,203)
Net current assets		**822,108**	814,644
Total assets less current liabilities		**822,108**	814,644
Creditors - amounts falling due after more than one year	7	**(822,074)**	(814,613)
Net assets		**34**	31
Equity			
Ordinary shares		**10**	10
Retained earnings		**24**	21
Total shareholder's funds		**34**	31

The notes on pages 6 to 12 are an integral part of these condensed interim financial statements.

Affinity Water Programme Finance Limited

Condensed interim statement of changes in equity
for the six months ended 30 September 2018

	Share capital £000	Retained earnings £000	Total equity £000
	Unaudited	**Unaudited**	**Unaudited**
Balance as at 1 April 2018	**10**	**21**	**31**
Profit for the period	**-**	**3**	**3**
Balance as at 30 September 2018	**10**	**24**	**34**
Balance as at 1 April 2017	10	15	25
Profit for the period	-	5	5
Balance as at 30 September 2017	10	20	30

The notes on pages 6 to 12 are an integral part of these condensed interim financial statements.

Affinity Water Programme Finance Limited

Notes to the condensed interim financial statements

1. General information

The sole activity of Affinity Water Programme Finance Limited 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.

Refer to note 10 for details of the company's ultimate parent.

These condensed interim financial statements were approved for issue on 28 November 2018.

These condensed interim financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. A copy of the annual report and financial statements for the year ended 31 March 2018, and approved by the Board of directors on 20 June 2018, has been delivered to the Registrar of Companies. The independent auditor's report on those accounts stated that they gave a true and fair view and were properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice ('UK GAAP').

These condensed interim financial statements have not been reviewed or audited by the independent auditor.

2. Summary of significant accounting policies

The accounting policies adopted in the preparation of these condensed interim financial statements are consistent with those followed in the preparation of the financial statements for the year ended 31 March 2018, except in relation to the new standards effective since 1 April 2018, detailed below and the adoption of a basis of preparation other than going concern.

2.1 Basis of preparation

These condensed interim financial statements have been prepared under the historical cost convention in accordance with Financial Reporting Standard ('FRS') 104: 'Interim financial reporting' ('FRS 104') as issued by the Financial Reporting Council, adopting the recognition and measurement requirements of EU-adopted International Financial Reporting Standards ('IFRS').

The company prepared its non-statutory financial statements for the year ended 31 March 2018 in compliance with the requirements of Financial Reporting Standard 101: 'Reduced disclosure framework' ('FRS 101').

Under FRS 101, the company applies the recognition and measurement requirements of IFRS, but makes amendments where necessary in order to comply with the Companies Act 2006 and The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410).

The condensed interim financial statements should be read in accordance with the annual financial statements for the year ended 31 March 2018.

2. Summary of significant accounting policies (continued)

The accounting policies adopted in the preparation of these condensed interim financial statements are consistent with those followed in the preparation of the financial statements for the year ended 31 March 2018, except in relation to the new standards effective since 1 April 2018, detailed below.

Two new standards became applicable for the current reporting period:

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

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

IFRS 9: 'Financial instruments'

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 became effective for the reporting periods beginning on 1 April 2018.

Recognition and subsequent measurement of financial instruments

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

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

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

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

Expected credit loss model

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

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

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

IFRS 15: 'Revenue from contracts with customers'

The standard became effective for the reporting periods beginning on 1 April 2018. IFRS 15: 'Revenue from contracts with customers' 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.

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

2.2 Going concern

It is the intention of the directors that the company will transfer the company assets and liabilities to a newly incorporated UK entity within the near future and this company will be ultimately liquidated and eliminated from the wider Affinity Water group. The directors therefore do not believe that the going concern basis of accounting is appropriate. Consequently, these financial statements have been prepared on a basis other than going concern. No adjustments were necessary in these financial statements to reduce assets to their realisable value or to provide for liabilities arising from the cessation of trade. As the assets and liabilities falling due after more than one year will be transferred to the newly incorporated UK entity on the same terms, these have not been reclassified to current assets or liabilities. The financial statements to 31 March 2018 were prepared on a going concern basis.

3. Critical accounting estimates and judgements

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 amount of the loan receivables at the balance sheet date was £822,074,000 with no impairment losses recognised in the six month period ended 30 September 2018 (2017: nil) (refer to note 6). Management conclude that there are no economic factors that could impact Affinity Water Limited's ability to repay the debt at the reporting date.

Notes to the condensed interim financial statements (continued)

4. Financial risk management and financial instruments

The company's activities primarily expose it to interest rate risk and liquidity risk.

The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; the former should be read in conjunction with the company's annual financial statements for the year ended 31 March 2018 (refer to note 12 to the annual financial statements).

There have been no changes in any risk management policies since 31 March 2018.

Fair value of financial assets and liabilities measured at amortised cost

Between 1 April 2018 and 30 September 2018, market interest rates increased, decreasing the overall fair value of the company’s Bonds and related loan receivables as follows:

	30 September 2018 £000 Unaudited	31 March 2018 £000 Audited
Non-current	**1,018,620**	1,051,859

The remaining financial assets and liabilities of the company approximate to their carrying amount.

Affinity Water Programme Finance Limited

Notes to the condensed interim financial statements (continued)

5. Finance income and costs

	Six months ended 30 September 2018 £000 Unaudited	Six months ended 30 September 2017 £000 Unaudited
Finance income		
Interest income on loan to parent company	**19,150**	19,381
Other finance income	**4**	6
Total interest income on financial assets	**19,154**	19,387
Total finance income	**19,154**	19,387
Finance expense		
Interest expense on bonds	**11,689**	10,709
Indexation on bonds	**7,637**	8,867
Amortisation of bond issue costs	**(176)**	(195)
Total interest expense on financial liabilities	**19,150**	19,381
Total finance expense	**19,150**	19,381
Net finance income		
Finance income	**19,154**	19,387
Finance expense	**(19,150)**	(19,381)
Net finance income	**4**	6

6. Loan receivables falling due after more than one year

	30 September 2018 £000 Unaudited	31 March 2018 £000 Audited
Amounts owed by parent company	**822,074**	814,613

No provisions for impairment have been recognised at 30 September 2018.

Affinity Water Programme Finance Limited

Notes to the condensed interim financial statements (continued)

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

	30 September 2018 £000 Unaudited	31 March 2018 £000 Audited
3.625% Class A guaranteed notes due 2022*	**14,082**	14,068
3.249% Class B RPI linked guaranteed notes due 2033	**107,758**	105,524
1.024% Class B RPI linked guaranteed notes due 2033	**10,687**	10,464
2.699% Class A guaranteed notes due 2033*	**59,561**	59,550
4.500% Class A guaranteed notes due 2036*	**246,622**	246,560
3.278% Class A guaranteed notes due 2042*	**95,952**	96,119
0.230% Class A CPI linked guaranteed notes due 2042*	**60,590**	59,773
1.548% Class A RPI linked guaranteed notes due 2045*	**226,822**	222,555
	822,074	814,613

* Listed on the London Stock Exchange

8. Related party transactions

Interest payments totalling £11,624,000 were received from Affinity Water Limited (£880,000 in May 2018, £3,469,000 in June 2018, £1,393,000 in August 2018 and £5,882,000 in September 2018), in relation to the loan from the company of the issue proceeds of the Bonds.

There are no other significant related party transactions which require disclosure.

9. Events after the reporting period

The process to obtain bondholder consent to the substitution of Affinity Water Programme Finance Limited, a wholly owned subsidiary of the company registered in the Cayman Islands, with a UK registered entity incorporated on 13 November 2018, Affinity Water Finance PLC, was launched in November 2018.

Notes to the condensed interim financial statements (continued)

10. Controlling parties

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

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

Copies of the group financial statements of Daiwater Investment Limited and Affinity Water Holdco Finance Limited for the period ended 31 March 2018 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 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.

Affinity Water Programme Finance Limited

Statement of directors' responsibilities

The directors confirm that these condensed interim financial statements have been prepared in accordance with FRS 104 as issued by the Financial Reporting Council, adopting the recognition and measurement requirements of IFRS, and that the interim management report includes a fair review of the information required by the Disclosure and Transparency Rule ('DTR') 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and

- material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

The directors of Affinity Water Programme Finance Limited are listed in the company's annual report and financial statements for the year ended 31 March 2018.

In the six month period to 30 September 2018, Pauline Walsh was appointed as a director on 1 May 2018 with Simon Cocks resigning on the same date. Tony Roper was appointed as a director on 25 July 2018 with Gareth Craig resigning on the same date.

The half-yearly financial report has not been reviewed or audited by the independent auditor.

By order of the Board

Stuart Ledger

Director

28 November 2018