AFFINITY WATER FINANCE PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

(Registered Number 11674789)

Affinity Water Finance PLC

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Affinity Water Finance PLC

Strategic report
for the year ending 31 March 2021

The directors present their strategic report for the year ended 31 March 2021.

Principal activities

The company was incorporated on 13 November 2018 to substitute Affinity Water Programme Finance Limited, a fellow company of the wider group of companies headed by Daiwater Investment Limited, registered in the Cayman Islands, with a UK registered entity. The assets and liabilities of Affinity Water Programme Finance Limited were transferred to Affinity Water Finance PLC on 22 January 2019 at fair value. The company strategy going forwards will be to raise finance on behalf of its immediate parent undertaking, Affinity Water Limited, as and when required.

The assets and liabilities transferred into the company on 22 January 2019 included:

Class	Maturity	Coupon Rate	Nominal Value	Fair Value
Class A guaranteed notes	2022	3.625%	£14.204m	£15.136m
Class B RPI linked guaranteed notes	2033	3.249%	£95.000m	£152.984m
Class B RPI linked guaranteed notes	2033	1.024%	£10.000m	£12.279m
Class A guaranteed notes	2033	2.699%	£60.000m	£60.374m
Class A guaranteed notes	2036	4.500%	£250.000m	£307.888m
Class A guaranteed notes	2042	3.278%	£85.000m	£88.921m
Class A CPI linked guaranteed notes	2042	0.230%	£80.000m	£55.609m
Class A RPI linked guaranteed notes	2045	1.548%	£190.000m	£348.326m

All proceeds of the above issues (together 'the Bonds') were 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.

The company also faces limited risk or uncertainty in relation to the index-linked Bonds as the exposure to movement in RPI and CPI is ultimately borne by Affinity Water Limited.

Interest rates earned on the company's financial assets are matched against those of the company's financial liabilities. Accordingly, these assets and liabilities act as a natural hedge for each other, and the company has no net exposure to movements in interest rates.

Affinity Water Limited, and the wider group of companies headed by Daiwater Investment Limited, 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.

Principal risks and uncertainties

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

Due to the nature of the company's business, neither Brexit nor COVID-19 has had a significant impact on the company.

Financial risk management policy

The financial risks faced by the company, being the market, credit and liquidity risks, are detailed separately in the individual paragraphs in note 12, including the management of these.

Results

The statement of financial position detailed on page 16 shows that the company had net assets of £64,000 (2020: £58,000) 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.

Section 172(1) statement

The directors have considered section 172(1) factors, including the need to foster the company's business relationships with providers of finance and credit rating agencies, as part of their directorship in Affinity Water Limited, the company's parent undertaking and the Affinity Water group's principal trading entity. It is imperative that the company maintains effective relationships and ongoing dialogues with banks and credit rating agencies to ensure access to financial services as well as capital markets. Successful engagement means the company will be a responsible company that delivers reliable returns and is transparent in its reporting. The Chief Financial Officer of Affinity Water Limited, on behalf of the Board, and the Treasurer of Affinity Water Limited met with lenders and credit rating agencies during the year. A full section 172(1) statement is disclosed in the financial statements of Affinity Water Limited for the year ended 31 March 2021, copies of which can be obtained from the Company Secretary, Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ.

Approved by the Board and signed on behalf of the Board:

Stuart Ledger
Director
28 June 2021

Affinity Water Finance PLC

Directors' report
for the year ending 31 March 2021

Introduction

The directors present their report and the audited statutory financial statements for the year ended 31 March 2021.

Future developments

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

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.

Results and dividends

The company made a £6,000 profit for the financial year (2020: £6,000 profit). No dividends are proposed for the year (2020: £nil).

Directors

The directors of the company, who were in office during the year and up to the date of signing the financial statements except where noted, were as follows:

Jaroslava Korpanec
Stuart Ledger
Anthony Roper
Angela Roshier
Pauline Walsh

Company Secretary

Colin Caldwell (resigned 8 April 2020)
Sunita Kaushal (appointed 9 April 2020)

Directors' qualifying third party indemnity provisions

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

Political contributions

No political contributions were made during the year (2020: £nil), in accordance with the company's policy of not making political contributions.

Financial instruments disclosures

Details of financial instruments risk management are included within note 12 of the financial statements.

Directors' report
for the year ending 31 March 2021 (continued)

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. The company's directors are also directors of Affinity Water Limited.

The company benefits from the corporate governance arrangements established by Affinity Water Limited, including its systems of risk management and internal control over financial reporting, full details of which can be found in Affinity Water Limited's annual report and financial statements for the year ended 31 March 2021, together with more detailed corporate reporting disclosures on areas of compliance and non-compliance with the UK Corporate Governance Code 2018. Copies of Affinity Water Limited's annual report and financial statements can be obtained from the Company Secretary, Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ.

The Board has overall responsibility for the company's systems of internal control and for reviewing the effectiveness of these systems. It is responsible for ensuring that the company meets its obligations in respect of the Bond and meets from time to time to facilitate this.

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework" ('FRS 101'), and applicable law).

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

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

The directors are 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.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Affinity Water Finance PLC

Directors' report
for the year ending 31 March 2021 (continued)

Statement of directors' responsibilities in respect of the financial statements (continued)

Directors' confirmations

Each of the directors, whose names and functions are listed in the Directors' report confirm that, to the best of their knowledge:

- the company financial statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 101, give a true and fair view of the assets, liabilities, financial position and profit of the company; and
- the Strategic report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that it faces.

In the case of each director in office at the date the Directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent auditor

The auditor, PricewaterhouseCoopers LLP, has indicated its willingness to continue in office and a resolution concerning its re-appointment will be proposed by the Board.

On behalf of the Board

Stuart Ledger
Director
28 June 2021

Affinity Water Finance PLC

Independent auditors' report to the member of Affinity Water Finance PLC

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 March 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of financial position as at 31 March 2021; the Income statement and the Statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit, Risk and Assurance Committee of Affinity Water Limited.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

We have provided no non-audit services to the company in the period under audit.

Independent auditors' report to the member of Affinity Water Finance PLC

Report on the audit of the financial statements (continued)

Our audit approach

Overview

Audit scope

- The company has one finance function and operates a single ledger system - the audit has been carried out by one team, with this being performed remotely due to the impact of COVID-19.

Key audit matters

- Recoverability and valuation of amounts owed by group undertaking.
- Impact of the COVID-19 pandemic.

Materiality

- Overall materiality: £11.0 million (2020: £4.1 million) based on 1% of total assets (2020: based on 1% of total assets but restricted to £4.1 million for the purposes of the consolidated financial statements of Daiwater Investment Limited and Affinity Water Holdco Finance Limited).
- Performance materiality: £8.2 million.

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.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

The key audit matters below are consistent with last year.

Independent auditors’ report to the member of Affinity Water Finance PLC

Report on the audit of the financial statements (continued)

Key audit matter	How our audit addressed the key audit matter
Recoverability and valuation of amounts owed by group undertaking Refer to page 19 (accounting policies) and page 23 (note 8). The amount owed by Affinity Water Limited, the parent company, as at 31 March 2021 was £1.1 billion (31 March 2020: £1.1 billion), with no provision for impairment having been recognised during the year. The determination of whether this receivable is impaired requires judgement, giving consideration to factors including Affinity Water Limited’s credit rating and ability to generate cash flows from its operating activities in future periods. In addition, IFRS 9 requires the lender to measure the expected credit loss at a probability-weighted amount that reflects the possibility that a credit loss occurs even if the possibility of a credit loss occurring is low.	We reviewed management’s methodology for calculating the provision for expected credit loss and confirmed that the use of a 12 month expected credit loss model is appropriate. This is because there has not been a significant increase in credit risk since the loan was first recognised, with the credit rating of Affinity Water Limited remaining at investment grade, and there is no history of default for the interest payments. We obtained management’s cash flow forecasts for Affinity Water Limited and agreed the key inputs back to Board approved budgets, also giving consideration to the historical accuracy of the budgeting process to assess the reliability of the data. Specifically, in relation to the potential future impact of COVID-19 and the severe but plausible downside modelling conducted by management, we assessed the underlying assumptions within management’s forecasts. We challenged these assumptions based on our understanding of the business and our knowledge of the industry and used sensitivity analysis to consider the impact of changes in these assumptions on the forecasts. We also reviewed management’s analysis of both liquidity and covenant compliance to obtain sufficient comfort that the company has sufficient liquidity and that there are no covenant breaches anticipated over the period of the assessment in either the base case or the downside scenarios prepared. To assess the probability of default applied by management, we used a range of external data in order to independently calculate an independent expected credit loss. Based on the procedures performed, we concluded that the nil expected credit loss recognised is materially appropriate. We have also reviewed the related disclosures within the financial statements and consider them to be appropriate.

Affinity Water Finance PLC

Independent auditors' report to the member of Affinity Water Finance PLC

Report on the audit of the financial statements (continued)

Key audit matter	How our audit addressed the key audit matter
Impact of the COVID-19 pandemic Refer to page 18 (accounting policies) The COVID-19 pandemic has impacted the financial results of Affinity Water Limited, the parent company and sole debtor of the company, for the year ended 31 March 2021. This impact is expected to continue into the next financial year, albeit the severity of the impact is expected to reduce over time. Management has therefore considered the impact of COVID-19 on the financial statements, with these considerations principally relating to the ability of the company to continue as a going concern, with the directors concluding that there is no material uncertainty in this respect, as well as the impact on the recoverability and valuation of the amounts owed by the group undertaking. Disclosure of the risk to the company of COVID-19 and management's conclusions on going concern have been included within the relevant sections of the financial statements.	In advance of the year end, and throughout the course of our audit procedures, we assessed the risks arising from COVID-19. We focused on areas where significant additional audit effort might be required, as well as those areas that we considered might be susceptible to a material financial impact on the performance and position of the company. We considered that the impact of the company to continue as a going concern is dependent on the ability of Affinity Water Limited to continue as a going concern – we therefore assessed the base case going concern model of Affinity Water Limited prepared by management which includes the anticipated future impacts of COVID-19, as well as the downside scenario which has been used to sensitise the base case model. In relation to the base case model, we have agreed the key inputs back to Board approved budgets and have considered the historical accuracy of the budgeting process to assess the reliability of the data. Specifically, in relation to the potential future impact of COVID-19 and the severe but plausible downside modelling conducted by management, we assessed the underlying assumptions within management's forecasts. We challenged these assumptions based on our understanding of the business and our knowledge of the industry and used sensitivity analysis to consider the impact of changes in these assumptions on the forecasts. We also reviewed management's analysis of both liquidity and covenant compliance to obtain sufficient comfort that Affinity Water Limited has sufficient liquidity and that there are no covenant breaches anticipated over the period of the assessment in either the base case or the downside scenario prepared. Through the performance of the above procedures, we agreed with management's conclusion that there is no material uncertainty in respect of the company's ability to continue as a going concern. We also considered the impact of COVID-19 on management's assessment of the recoverability of the amounts owed by the group undertaking, as has been outlined within the key audit matter above. We assessed the COVID-19 disclosures included in the financial statements and consider them to be appropriate.

Independent auditors' report to the member of Affinity Water Finance PLC

Report on the audit of the financial statements (continued)

How we tailored the audit scope

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

The company has one finance function and operates a single ledger system - the audit has been carried out by one team, with this being performed remotely due to the impact of COVID-19.

In scoping our audit, with reference to our risk assessment, we identified and included all material financial statement line items within the scope of our audit procedures.

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 company materiality	£11.0 million (2020: £4.1 million).
How we determined it	Based on 1% of total assets (2020: based on 1% of total assets but restricted to £4.1 million for the purposes of the consolidated financial statements of Daiwater Investment Limited and Affinity Water Holdco Finance Limited).
Rationale for benchmark applied	The entity functions to service group financing requirements, with total assets therefore an appropriate benchmark.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £8.2 million for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit, Risk and Assurance Committee of Affinity Water Limited that we would report to them misstatements identified during our audit above £0.5 million (2020: £0.2 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Affinity Water Finance PLC

Independent auditors’ report to the member of Affinity Water Finance PLC

Report on the audit of the financial statements (continued)

Conclusions relating to going concern

Our evaluation of the directors’ assessment of the company’s ability to continue to adopt the going concern basis of accounting included:

- testing the mathematical accuracy of the base case going concern model of Affinity Water Limited prepared by management, and agreeing this to Board approved budgets;
- assessing the inputs and underlying assumptions of the base case model, which includes the anticipated future impacts of COVID-19;
- assessing the downside scenario which has been used to sensitise the base case model, including consideration of the underlying assumptions; and
- reviewing management's analysis of both liquidity and covenant compliance to ensure there is sufficient liquidity and no forecast covenant breaches during the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company’s ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors’ report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Independent auditors’ report to the member of Affinity Water Finance PLC

Report on the audit of the financial statements (continued)

Reporting on other information (continued)

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 March 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

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 in respect of the financial statements, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Independent auditors' report to the member of Affinity Water Finance PLC

Report on the audit of the financial statements (continued)

Responsibilities for the financial statements and the audit (continued)

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to taxation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries, and management bias within accounting estimates, in particular the potential manipulation of the impairment of the amounts owed by the group undertaking. Audit procedures performed by the engagement team included:

- discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud, and review of board minutes;
- challenging assumptions made by management when preparing accounting estimates, in particular those that involve the assessment of future events, which are inherently uncertain – the key estimate determined in this respect is the impairment of the amounts owed by the group undertaking; and
- identifying and testing manual journal entries posted.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's member as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Independent auditors' report to the member of Affinity Water Finance PLC

Report on the audit of the financial statements (continued)

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit, Risk and Assurance Committee of Affinity Water Limited, we were appointed by the member on 13 November 2018 to audit the financial statements for the year ended 31 March 2019 and subsequent financial periods. The period of total uninterrupted engagement is 3 years, covering the years ended 31 March 2019 to 31 March 2021.

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

28 June 2021

Affinity Water Finance PLC

Income statement
for the year ending 31 March 2021
(Registered Number 11674789)

	Note	**2021** **£000**	2020 £000
Operating result	4	**-**	-
Finance income	6	**18,985**	23,907
Finance costs	6	**(18,977)**	(23,899)
Profit before income tax		**8**	8
Income tax expense	7	**(2)**	(2)
Profit for the financial year		**6**	6

The notes on pages 18 to 27 are an integral part of these financial statements.

All profits of the company in the current year and prior year are from continuing operations.

The company has no other comprehensive income in either the current year or prior year other than the results above, therefore a statement of comprehensive income has not been presented.

Affinity Water Finance PLC

Statement of financial position as at 31 March 2021

(Registered Number 11674789)

	Note	2021 £000	2020 £000
Current assets			
Amounts owed by group undertaking falling due after more than one year	8	**1,078,956**	1,090,646
Amounts owed by group undertaking falling due with one year	9	**19,332**	12,287
Cash and cash equivalents		**50**	50
		1,098,338	1,102,983
Creditors – amounts falling due within one year	10	**(19,318)**	(12,279)
Net current assets		**1,079,020**	1,090,704
Total assets less current liabilities		**1,079,020**	1,090,704
Creditors – amounts falling due after more than one year	11	**(1,078,956)**	(1,090,646)
Net assets		**64**	58
Equity			
Called-up share capital	13	**50**	50
Retained earnings		**14**	8
Total shareholder's funds		**64**	58

The notes on pages 18 to 27 are an integral part of these financial statements.

The financial statements on pages 15 to 27 were authorised for issue by the Board of directors on 28 June 2021 and were signed on its behalf by:

Stuart Ledger
Director

Affinity Water Finance PLC

Statement of changes in equity for the year ending 31 March 2021
(Registered Number 11674789)

	Called-up share capital £000	Retained earnings £000	Total shareholder's funds £000
Balance as at 1 April 2019	50	2	52
Profit for the year	-	6	6
Total comprehensive income for the year	-	6	6
Total transactions with owner, recognised in equity	-	-	-
Balance as at 31 March 2020	50	8	58
Balance as at 1 April 2020	**50**	**8**	**58**
Profit for the year	**-**	**6**	**6**
Total comprehensive income for the year	**-**	**6**	**6**
Total transactions with owner, recognised in equity	**-**	**-**	**-**
Balance as at 31 March 2021	**50**	**14**	**64**

The notes on pages 18 to 27 are an integral part of these financial statements.

Affinity Water Finance PLC

Notes to the financial statements

1. General information

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

The company is a private company limited by shares and is incorporated and domiciled in England, United Kingdom. The address of its registered office is Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ.

Refer to note 16 for details of the company's ultimate parent.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

These financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006.

The company meets the definition of a qualifying entity under Financial Reporting Standard 100: 'Application of financial reporting requirements' ('FRS 100') issued by the Financial Reporting Council ('FRC'). The financial statements of Affinity Water Finance PLC have been prepared in accordance with FRS 101.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- The following paragraphs of International Accounting Standards ('IAS') 1: 'Presentation of financial statements':
  - 10(d) (statement of cash flows),
  - 16 (statement of compliance with all IFRS),
  - 38A (requirement for minimum of two primary statements, including cash flow statements),
  - 38B-D (additional comparative information),
  - 111 (cash flow statement information), and
  - 134-136 (capital management disclosures)
- IAS 7: 'Statement of cash flows'
- Paragraph 17 of IAS 24: 'Related party disclosures' (key management compensation)
- The requirements in IAS 24: 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

The group financial statements of Daiwater Investment Limited, the company's ultimate holding and controlling company in the United Kingdom, will be made publicly available and may be obtained as set out in note 16.

Affinity Water Finance PLC

Notes to the financial statements (continued)

2. Summary of significant accounting policies (continued)

2.2 Going concern

The directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements. This is based on assessment of the principal risks of the company as set out in note 12 and consideration of the company's budgeted cash flows, long term forecasts and related assumptions, as well as available debt facilities. Furthermore, the Bonds are guaranteed by Affinity Water Limited and Affinity Water Holdings Limited, the company's immediate parent undertaking and intermediate holding company respectively.

2.3 Changes in accounting policy and disclosures

There were no changes in accounting policy for the current reporting period.

2.4 New standards, amendments and interpretations not yet adopted

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

2.5 Interest income

Interest income is recognised using the effective interest method.

2.6 Loans receivable

The loans receivable, shown as amounts owed by group undertaking falling due after more than one year in the statement of financial position, were initially recognised at fair value. The company holds the receivables with the objective of collecting the contractual cash flows and the receivables are therefore subsequently measured at amortised cost using the effective interest method, less any expected credit losses. The company applies IFRS 9 when measuring expected credit losses, using a forward-looking basis to determine the expected credit losses. Factors considered are detailed in the critical accounting estimates note.

2.7 Other receivables

Other receivables, shown as amounts owed by group undertaking falling due within one year in the statement of financial position, are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method, less expected credit losses.

2.8 Borrowings

All financial liabilities, shown as creditors – amounts falling due after more than one year in the statement of financial position, are recognised initially at fair value plus directly attributable transaction costs. The fair value of the liabilities transferred was derived by reference to published and other information, as well as prices from the active markets on which some of the instruments involved were traded. The carrying amount is increased by the finance cost and is reduced by payments made in the period and the amortisation of the liability down to redemption value. The finance cost and amortisation are determined by the effective interest rate on the carrying amount in respect of the accounting period and allocated to periods over the term of the debt.

Affinity Water Finance PLC

Notes to the financial statements (continued)

2. Summary of significant accounting policies (continued)

2.8 Borrowings (continued)

The Affinity Water group, as detailed in note 16 with Daiwater Investment Limited as the parent company of the group, is subject to a number of covenants in relation to its borrowings, which would result in its loans becoming immediately repayable if breached. These covenants specify certain limits in terms of key ratios such as net cash flow to debt interest and net debt to regulatory capital value. At the year end the group was not in breach of any financial covenants.

3. Critical accounting estimates and judgments

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

Critical accounting estimates

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

Impairment of loans receivable

Determining whether the company's loans receivable 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 loans receivable at the date of the statement of financial position was £1,078,956,000 (2020: £1,090,646,000) with no impairment losses recognised in the year ended 31 March 2021 (2020: £nil) (refer to note 8). A 1% chance of default would result in an impairment loss of £10,790,000 (2020: £10,906,000).

Management conclude that the global health pandemic has not had a significant impact on Affinity Water Limited's ability to repay the debt during the financial year and at the reporting date. Refer to the financial statements of Affinity Water Limited for details on the impact of COVID-19 and the company's response to the global health pandemic. There are no other economic factors that would impact Affinity Water Limited's ability to repay the debt.

4. Operating result

	2021	2020
	£000	£000
Operating result is stated after charging:		
Audit fees payable to the company's auditor	**-**	-

The auditor's remuneration for audit services in the year amounted to £6,300 (2020: £6,000), 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 the current year.

Affinity Water Finance PLC

Notes to the financial statements (continued)

5. Employees and directors

Employees

The company had no employees in the current year (2020: nil).

Directors

Remuneration for Stuart Ledger and Pauline Walsh for the current year and prior year was paid by Affinity Water Limited, which made no recharge to the company. Stuart Ledger and Pauline Walsh were directors of Affinity Water Limited and a number of fellow subsidiaries of the Daiwater Investment Limited group during the current year and prior year. It has not been possible to make an accurate apportionment of their remuneration in respect of each of the subsidiaries. Accordingly, there is no detail shown in respect of the remuneration of Stuart Ledger or Pauline Walsh. Their total remuneration is disclosed in the annual report and financial statements of Affinity Water Limited for the year ended 31 March 2021, copies of which can be obtained from the Company Secretary, Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ.

The remaining directors who were appointed by Allianz Capital Partners on behalf of the Allianz Group, DIF and InfraRed Capital Partners on behalf of HICL Infrastructure plc did not receive any emoluments from the company, or any company within the Affinity Water group.

6. Finance income and costs

Finance income

	2021	2020
	£000	£000
Interest income on loan to parent company	**18,977**	23,899
Other finance income	**8**	8
Total interest income on financial assets	**18,985**	23,907
Total finance income	**18,985**	23,907

Finance costs

	2021	2020
	£000	£000
Interest expense on bonds	**30,667**	31,058
Accretion payable in respect of interest on bonds	**5,254**	10,203
Amortisation of bond issue costs and amortisation of fair value adjustments	**(16,944)**	(17,362)
Total interest expense on financial liabilities	**18,977**	23,899
Total finance costs	**18,977**	23,899

Net finance income

	2021	2020
	£000	£000
Finance income	**18,985**	23,907
Finance costs	**(18,977)**	(23,899)
Net finance income	**8**	8

7. Income tax expense

Tax expense included in the income statement

	2021	2020
	£000	£000
Current tax:		
UK corporation tax on profit for the year	**2**	2
Tax on profit	**2**	2

The tax charge for the year is equal to (2020: equal to) the standard rate of corporation tax in the UK for the year ended 31 March 2021 of 19% (2020: 19%), hence there were no differences between the effective tax rate and the standard rate of corporation tax.

There is no deferred tax liability (2020: £nil) or deferred tax asset (2020: £nil). There are no carried forward tax losses (2020: £nil).

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

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

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. As the proposal to increase the rate to 25% has not been substantively enacted at the balance sheet date, its effects are not included in these financial statements.

Notes to the financial statements (continued)

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

	2021 £000	2020 £000
Amounts owed by parent company	**1,078,956**	1,090,646

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 2021 (2020: £nil).

9. Amounts owed by group undertakings falling due within one year

	2021 £000	2020 £000
Amounts owed by group undertakings	**19,332**	12,287

The amounts owed by group undertakings reflect the interest receivable on the loan made to Affinity Water Limited from the proceeds of the Bonds and the amortisation of the fair value of the Bonds, with interest payable annually each year.

10. Creditors – amounts falling due within one year

	2021 £000	2020 £000
Debenture loans	**19,318**	12,279

The amounts falling due within one year reflect interest and indexation payable on the Bonds and the amortisation of the fair value of the Bonds, paid annually each year.

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

	2021 £000	2020 £000
3.625% Class A guaranteed notes due 2022*	**14,528**	14,751
3.249% Class B RPI linked guaranteed notes due 2033	**160,164**	163,349
1.024% Class B RPI linked guaranteed notes due 2033*	**13,105**	13,114
2.699% Class A guaranteed notes due 2033*	**59,941**	59,941
4.500% Class A guaranteed notes due 2036*	**296,791**	300,309
3.278% Class A guaranteed Notes due 2042*	**98,644**	99,163
0.230% Class A CPI linked guaranteed notes due 2042*	**58,479**	57,822
1.548% Class A RPI linked guaranteed notes due 2045*	**377,304**	382,197
	1,078,956	1,090,646

* Listed on the London Stock Exchange

Affinity Water Finance PLC

Notes to the financial statements (continued)

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

The liabilities transferred into the company at fair value on 22 January 2019 included:

Class	Maturity	Coupon Rate	Nominal Value	Fair Value
Class A guaranteed notes	2022	3.625%	£14.204m	£15.136m
Class B RPI linked guaranteed notes	2033	3.249%	£95.000m	£152.984m
Class B RPI linked guaranteed notes	2033	1.024%	£10.000m	£12.279m
Class A guaranteed notes	2033	2.699%	£60.000m	£60.374m
Class A guaranteed notes	2036	4.500%	£250.000m	£307.888m
Class A guaranteed notes	2042	3.278%	£85.000m	£88.921m
Class A CPI linked guaranteed notes	2042	0.230%	£80.000m	£55.609m
Class A RPI linked guaranteed notes	2045	1.548%	£190.000m	£348.326m

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

Market risk

Interest rates earned on the company's financial assets are matched against those of the company's financial liabilities. Accordingly these assets and liabilities act as a natural hedge for each other, and the company has no net exposure to movements in interest rates.

At 31 March 2021, the company had no currency exposures (2020: £nil).

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

	Total net borrowings		Net cash		Fixed rate borrowings		RPI linked borrowings		CPI linked borrowings	
	2021 £000	2020 £000	**2021 £000**	2020 £000	**2021 £000**	2020 £000	**2021 £000**	2020 £000	**2021 £000**	2020 £000
Sterling borrowings:										
External loans	**1,078,956**	1,090,646	**-**	-	**469,904**	474,164	**550,573**	558,660	**58,479**	57,822
Total borrowings	**1,078,956**	1,090,646	**-**	-	**469,904**	474,164	**550,573**	558,660	**58,479**	57,822
Cash	**(50)**	(50)	**50**	50	**-**	-	**-**	-	**-**	-
Net borrowings	**1,078,906**	1,090,596	**50**	50	**469,904**	474,164	**550,573**	558,660	**58,479**	57,822

Affinity Water Finance PLC

Notes to the financial statements (continued)

12. Financial instruments and risk management (continued)

Credit risk

Credit risk arises from cash and cash equivalents and contractual cash flows from the loans receivable from the parent company, Affinity Water Limited. Contractual cash flows from the loans receivable from the parent company are subject to the expected credit loss model. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9: 'Financial Instruments', the identified impairment loss during the year was nil.

The credit risk is dependent on the company's parent entity meeting its payment obligations as and when they become due. The directors monitor the cash flow forecasts of the parent company on a regular basis to mitigate this risk.

Determining whether the company's loans receivable from the parent company are impaired requires consideration of factors including the parent company's credit rating and ability to generate positive cash flows from its operating activities going forward. The carrying amount of the loans receivable at the date of the statement of financial position was £1,078,956,000 (2020: £1,090,646,000) with no impairment losses recognised in the year ended 31 March 2021 (2020: £nil) (refer to note 8).

Management conclude that the global health pandemic has not had a significant impact on Affinity Water Limited's ability to repay the debt during the financial year and at the reporting date. Refer to the financial statements of Affinity Water Limited for details on the impact of COVID-19 and the company's response to the global health pandemic. There are no other economic factors that would impact Affinity Water Limited's ability to repay the debt.

At 31 March 2021 the maximum exposure to credit risk was represented by the carrying amount of each financial asset in the statement of financial position:

	2021	2020
	£000	£000
Loans receivable falling due after more than one year	**1,078,956**	1,090,646
Other receivables	**19,332**	12,287
Cash and cash equivalents	**50**	50
	1,098,338	1,102,983

Cleared cash and cash equivalents exposed to credit risk of £50,000 at 31 March 2021 (2020: £50,000) were with a counterparty with a credit rating of A-1 per Standard & Poor's at 31 March 2021 (2020: A-1).

Liquidity risk

The external loans' weighted average period until maturity, and for which the rate is fixed, was 18.4 years at 31 March 2021 (2020: 19.4 years). Additional risk may arise if large cash flows are concentrated within particular time periods however the maturity profile of the external loans is matched to the profile of company's loans receivable from the parent, with the financial liability guaranteed by Affinity Water Limited and Affinity Water Holdings Limited.

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:

	Book value		Fair value	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
Primary financial instruments held or issued to finance the company's operations				
Long term borrowings	**1,078,956**	1,090,646	**1,179,097**	1,038,967
	1,078,956	1,090,646	**1,179,097**	1,038,967

The fair value of Class A bonds of £1,001,610,000 (2020: £878,374,000) has been derived from 'level 1' fair value measurements: quoted prices (unadjusted) in active markets for identical liabilities. The fair value of Class B bonds of £177,487,000 (2020: £160,593,000) has been derived from 'level 2' fair value measurements: directly observable market inputs other than Level 1 inputs.

13. Called-up share capital

	2021	2020
	£000	£000
Allotted, called-up and fully paid share capital		
50,000 (2020: 50,000) ordinary shares of £1 each	**50**	50

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 reporting period.

Affinity Water Finance PLC

Notes to the financial statements (continued)

16. Ultimate parent company and controlling party

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

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

Copies of the group financial statements of Daiwater Investment Limited and Affinity Water Holdco Finance Limited for the year ended 31 March 2021 may be obtained from the Company Secretary, Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ.

The directors consider Daiwater Investment Limited as the ultimate holding and controlling company in the United Kingdom. The directors consider the following entities to be the company’s ultimate controllers, as they are in a position to exercise material influence over the company’s policy and affairs:

- Allianz Infrastructure Holding I Pte. Limited (up until 20 November 2019; Allianz Infrastructure Luxembourg I S.à r.l).
- DIF Management Holding BV
- DIF Management UK Limited
- HICL Infrastructure plc
- Sun Life Financial Inc (up until 1 July 2020; InfraRed Capital Partners (Management) LLP).

Allianz Capital Partners is the Allianz Group's in-house investment manager for alternative equity investments. The investment focus is on infrastructure and renewables as well as private equity funds. Allianz Capital Partners’ investment strategy is targeted to generate attractive, long-term and stable returns while diversifying the overall investment portfolio for the Allianz Group insurance companies.

DIF is an independent and specialist fund management company, which invests in infrastructure assets that generate long-term stable cash flows, including public-private partnerships, regulated infrastructure assets and renewable energy projects in Europe, North America and Australia.

HICL Infrastructure plc is a long-term investor in infrastructure assets which are predominantly operational and yielding steady returns. HICL Infrastructure plc has a portfolio of infrastructure investments, which are positioned at the lower end of the risk spectrum, in three target market segments: public-private partnerships, regulated assets and demand-based assets. The Investment Manager to HICL Infrastructure plc is InfraRed Capital Partners Limited, a leading international investment manager focused on infrastructure and real estate.