

AFFINITY WATER FINANCE (2004) PLC

UNAUDITED HALF-YEARLY FINANCIAL REPORT
FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2024

(Registered Number 05139236)

Affinity Water Finance (2004) PLC

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Affinity Water Finance (2004) PLC

Interim management report

Introduction

The sole activity of Affinity Water Finance (2004) PLC (the 'company') is to raise finance on behalf of its immediate parent undertaking, Affinity Water Limited. During 2004 the company issued £200.0m of guaranteed notes, maturing in July 2026 with an annual coupon of 5.875%. The company completed a tap issue of £50.0m on the same terms as the existing £200.0m notes on 16 July 2014 (together, the 'Bond'). The proceeds of both the notes and the tap issue were lent to Affinity Water Limited on the same terms.

Significant events during the period

There were no significant events during the period.

Principal risks

As the Bond has a fixed coupon rate, the company faces limited risk or uncertainty.

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 or foreign exchange 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.

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 financial statements for the year ended 31 March 2024 (in particular the strategic report, as well as note 12 to the 31 March 2024 financial statements).

The principal risks and uncertainties remain unchanged from those reported at 31 March 2024. The Board anticipates that these will remain unchanged for the remaining six months of the financial year.

Going concern

The directors consider it appropriate to adopt the going concern basis of accounting in preparing the condensed interim 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. The directors have considered the current economic climate and the impact of rising inflation and interest rates and the current cost of living crisis. The directors have considered the impact of climate change on the going concern assumption and do not believe it has a material impact on the company. Furthermore, the Bond is guaranteed by Affinity Water Limited and Affinity Water Holdings Limited, the company's immediate parent undertaking and intermediate holding company respectively.

The directors have also considered the ring fence structure in place and have obtained comfort that the existence of external borrowings outside of this structure, namely that within Affinity Water Holdco Finance Limited, does not impact the conclusions reached regarding the ability of the company to continue as a going concern. This is due to the fact that the company has no obligation to distribute funds through the holding company structure in order to meet such liabilities.

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Interim management report (continued)

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.

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Condensed interim income statement for the six months ended 30 September 2024

	Note	30 September 2024 £000	30 September 2023 £000
		Unaudited	Unaudited
Operating result		-	-
Finance income	5	7,071	7,067
Finance costs	5	(7,070)	(7,067)
Profit before income tax		1	-
Income tax expense		-	-
Result for the period		1	-

All results of the company in the current period and prior period are from continuing 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 11 are an integral part of these condensed interim financial statements.

Affinity Water Finance (2004) PLC

Condensed interim statement of financial position as at 30 September 2024

	Note	30 September 2024 £000	31 March 2024 £000
		Unaudited	Audited
Current assets			
Amounts owed by group undertaking falling due after more than one year	6	251,113	251,395
Amounts owed by group undertaking falling due within one year		3,191	10,525
Cash and cash equivalents		50	50
		254,354	261,970
Creditors - amounts falling due within one year		(3,179)	(10,514)
Net current assets		251,175	251,456
Total assets less current liabilities		251,175	251,456
Creditors - amounts falling due after more than one year	7	(251,113)	(251,395)
Net assets		62	61
Equity			
Share capital		50	50
Retained earnings		12	11
Total shareholder's funds		62	61

The notes on pages 6 to 11 are an integral part of these condensed interim financial statements.

Affinity Water Finance (2004) PLC

Condensed interim statement of changes in equity for the six months ended 30 September 2024

	Share capital £000	Retained earnings £000	Total equity £000
	Unaudited	Unaudited	Unaudited
Balance as at 1 April 2024	50	11	61
Profit for the period	-	1	1
Balance as at 30 September 2024	50	12	62
Balance as at 1 April 2023	50	10	60
Profit for the period	-	-	-
Balance as at 30 September 2023	50	10	60

The notes on pages 6 to 11 are an integral part of these condensed interim financial statements.

Affinity Water Finance (2004) PLC

Notes to the condensed interim financial statements

1. General information

The sole activity of Affinity Water Finance (2004) 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 10 for details of the company's ultimate parent.

These condensed interim financial statements were approved for issue on 27 November 2024.

These condensed interim financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 March 2024 were approved by the Board of directors on 8 July 2024 and delivered to the Registrar of Companies. The report of the auditor on those accounts was unqualified, did not contain an emphasis of matter and did not contain any statement under section 498 of the Companies Act 2006.

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

2. Material accounting policy information

The material accounting policy information applied in the preparation of these condensed interim financial statements are set out below.

2.1 Basis of preparation

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

The company prepared its financial statements for the year ended 31 March 2024 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 as adopted by the UK (UK-adopted international accounting standards), 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 company's financial statements for the year ended 31 March 2024.

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 2024. No new standards became applicable for the current reporting period that have a material impact on the company.

Affinity Water Finance (2004) PLC

Notes to the condensed interim financial statements (continued)

2. Material accounting policy information (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. The directors have considered the current economic climate and the impact of rising inflation and interest rates and the current cost of living crisis. The directors have considered the impact of climate change on the going concern assumption and do not believe it has a material impact on the company. Furthermore, the Bond is guaranteed by Affinity Water Limited and Affinity Water Holdings Limited, the company's immediate parent undertaking and intermediate holding company respectively.

The directors have also considered the ring fence structure in place and have obtained comfort that the existence of external borrowings outside of this structure, namely that within Affinity Water Holdco Finance Limited, does not impact the conclusions reached regarding the ability of the company to continue as a going concern. This is due to the fact that the company has no obligation to distribute funds through the holding company structure in order to meet such liabilities.

Seasonality of interim operations

Due to the nature of the business of the company, there are no significant seasonality or cyclicity impacts.

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.

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 loan receivable

Determining whether the company's loan receivable from Affinity Water Limited is 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 receivable at the date of the statement of financial position was £254,304,000 (31 March 2024: £261,920,000) with no impairment losses recognised in the six month period ended 30 September 2024 (refer to note 6) (31 March 2024: £nil). A 1% chance of default would result in an impairment loss of £2,543,000 (31 March 2024: £2,619,000).

The directors have considered Affinity Water Limited's longer term forecasts and results of stress testing, which are performed on a base case scenario which has taken into consideration the impact of inflation, interest rates, supply chain cost pressures, energy prices and the cost of living crisis. The directors also consider the expected credit loss at an amount that reflects the possibility that a credit loss occurs even if the possibility of a credit loss occurring is low.

Management concludes that external economic factors such as the impact of inflation, interest rates, supply chain cost pressures, the energy price crisis and the cost of living crisis have not had a significant impact on Affinity Water Limited's ability to repay the debt during the period and at the reporting date.

Affinity Water Finance (2004) PLC

Notes to the condensed interim financial statements (continued)

3. Critical accounting estimates and judgements (continued)

Impairment of loan receivable (continued)

The directors have also considered the impact of climate change on Affinity Water Limited's ability to repay the loan receivable and conclude that this has not had an impact. Climate change is considered within the stress testing scenarios performed by Affinity Water Limited and concluded upon within its own financial statements.

4. Financial risk management and financial instruments

The company's activities primarily expose it to liquidity 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.

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 financial statements for the year ended 31 March 2024 (refer to note 12 to the financial statements).

There have been no changes in any risk management policies since 31 March 2024.

Fair value of financial assets and liabilities measured at amortised cost

Between 1 April 2024 and 30 September 2024, market interest rates increased and, to a lesser extent, credit spreads widened, decreasing the fair value of the company's Bond and related loan receivable as follows:

	30 September 2024 £000	31 March 2024 £000
	Unaudited	Audited
Non-current	248,910	252,428

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

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Notes to the condensed interim financial statements (continued)

5. Finance income and costs

	Six months ended 30 September 2024 £000	Six months ended 30 September 2023 £000
	Unaudited	Unaudited
Finance income		
Interest income on loan to parent company	7,070	7,067
Other finance income	1	-
Total finance income	7,071	7,067
Finance costs		
Interest expense on bonds	7,352	7,355
Amortisation of bond issue costs	(282)	(288)
Total finance costs	7,070	7,067
Net finance income		
Finance income	7,071	7,067
Finance costs	(7,070)	(7,067)
Net finance income	1	-

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Notes to the condensed interim financial statements (continued)

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

	30 September 2024 £000	31 March 2024 £000
	Unaudited	Audited
Amounts owed by parent company	251,113	251,395

No provision for impairment has been recognised at 30 September 2024 (31 March 2024: £nil).

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

	30 September 2024 £000	31 March 2024 £000
	Unaudited	Audited
5.875% Class A guaranteed notes due 2026	251,113	251,395

8. Related party transactions

Interest payments totalling £14,688,000 were received from Affinity Water Limited in July 2024, in relation to a loan from the company of the issue proceeds of the Bond.

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

9. Events after the reporting period

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

Affinity Water Finance (2004) PLC

Notes to the condensed interim financial statements (continued)

10. 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 period ended 31 March 2024 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
- CVC Capital Partners¹
- DIF Management Holding BV
- DIF Management UK Limited
- HICL Infrastructure plc
- Sun Life Financial Inc.

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. On 3 July 2024, CVC Capital Partners acquired an initial 60% interest in DIF Capital Partners and became an ultimate controller¹. DIF Capital Partners has been rebranded CVC DIF.

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 renewable energy investments. On 1 July 2020 Sun Life Financial Inc acquired an 80% interest in the InfraRed business from InfraRed Capital Partners (Management) LLP and became an ultimate controller.

¹ CVC Capital Partners acquired an initial 60% stake of DIF Capital Partners on 3 July 2024, with an additional 20% to be acquired shortly after 31 December 2026 and the final 20% to be acquired shortly after 31 December 2028.

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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 as adopted by the UK, and that the interim management report includes a fair review of the information required by the Disclosure and Transparency Rules ('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 Finance (2004) PLC are listed in the company's annual report and financial statements for the year ended 31 March 2024, with the exception that both Andrew Cox and Martin Roughhead resigned from the Board on 10 June 2024 and 4 October 2024 respectively.

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

By order of the Board

Keith Haslett
Director

27 November 2024