

AFFINITY WATER CAPITAL FUNDS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

(Registered Number 02630142)

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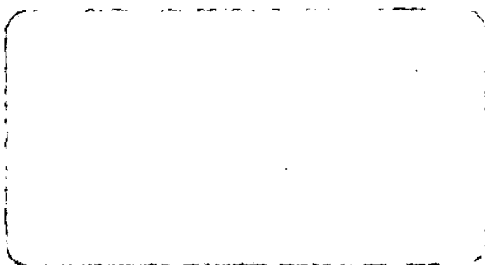
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COMPANIES HOUSE

Affinity Water Capital Funds Limited

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Affinity Water Capital Funds Limited

Strategic report for the year ended 31 March 2020

The directors present their strategic report on Affinity Water Capital Funds Limited ('the company') for the year ended 31 March 2020.

The company's primary purpose is to manage investments in Affinity Water Holdco Finance Limited, Affinity Water East Limited, Affinity Water Southeast Limited, Affinity Water Pension Trustees Limited, Affinity Water Shared Services Limited, Castle Water (Southern) Limited (formerly Affinity for Business (Retail) Limited) and Affinity Water Programme Finance Limited. The company indirectly holds an investment in the group's principal trading subsidiary Affinity Water Limited.

The company itself receives dividend income from its investments and incurs administrative expenses on these. The company receives interest income on its loans issued to fellow group undertakings and incurs finance costs on loans owed to group undertakings. Directors consider the company has adequate reserves to meet its activities and purpose. In the prior year, an impairment of £12,426,000 on the loan owed by Castle Water (Southern) Limited (formerly Affinity for Business (Retail) Limited) was recognised. No impairment was considered necessary in the current year given the sale of the subsidiary outside the group on 1 April 2020, with the proceeds of the sale used to repay the remaining intercompany loan.

Performance of the company is dependent ultimately on the two trading subsidiaries in the group that the company holds direct and indirect investments in. Affinity Water Limited is the principal trading subsidiary of the group. Affinity Water Limited owns and manages the water assets and network in an area of approximately 4,515km² in the southeast of England. Until its sale outside of the group to Castle Water Limited on 1 April 2020, Castle Water (Southern) Limited (formerly Affinity for Business (Retail) Limited), was also a trading subsidiary of the group, operating as a water and wastewater retailer in the non-household retail market.

As both the financial and operational results of the company are dependent on the results of the direct and indirect trading subsidiaries, the performance indicators and targets set are provided in detail in the strategic report of each trading subsidiary's own annual report and financial statements for the year ended 31 March 2020.

Principal risks and uncertainties

The main risks of the company are centred on the key principal risks of the direct and indirect trading subsidiaries in the group, as ultimately the value of the company's investment, interest income and dividend income are dependent on the direct and indirect trading subsidiaries' activities.

These principal risks include:

- Failure to prevent injuries and accidents to their people and the public
- Failure to meet their obligations to provide a sufficient supply of high-quality drinking water
- Failure to attract, develop and retain good quality employees
- Information security, protection of their personal data and data quality failure
- Supply chain failure
- Failure to deliver their business plan, commitments and service to customers
- The environment
- Managing change
- National health pandemic
- Adverse changes to the regulatory framework, or social or political climate
- Failure to comply with laws, their Instrument of Appointment and other recognised standards
- Failure to secure appropriate financing for their business activities.

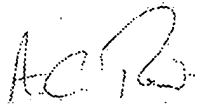
Affinity Water Capital Funds Limited

Strategic report for the year ended 31 March 2020 (continued)

These risks are provided in more detail in the strategic report of each trading subsidiary's own annual report and financial statements for the year ended 31 March 2020.

Approval of the strategic report

On behalf of the Board

A handwritten signature in black ink, appearing to read 'A Roper', is positioned above the printed name of the director.

Anthony Roper
Director
24 June 2020

Affinity Water Capital Funds Limited

Directors' report for the year ended 31 March 2020

Introduction

The directors present their report and the audited statutory financial statements for the year ended 31 March 2020.

Future developments

It is anticipated the company will continue to invest and manage its long term interests in the water industry in the United Kingdom for the foreseeable future.

Dividends

No dividends have been paid during the year ended 31 March 2020.

This compares to interim dividends of £6,600,000 declared and paid in the year ended 31 March 2019.

The directors do not recommend a final dividend (2019: 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:

Tom Goossens
Jaroslava Korpanec
Anthony Roper
Angela Roshier
Scott Springett

Company Secretary

Sunita Kaushal (appointed 9 April 2020)
Tim Monod (resigned 6 November 2019)

Events after the reporting period

Affinity for Business (Retail) Limited, one of the company's subsidiary undertakings, was sold to Castle Water Limited on 1 April 2020. The entity subsequently changed its name on 3 April 2020 to Castle Water (Southern) Limited.

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 (2019: £nil), in accordance with the company's policy of not making political contributions.

Affinity Water Capital Funds Limited

Directors' report for the year ended 31 March 2020 (continued)

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 Financial Reporting Standard 101 "Reduced Disclosure Framework" ('FRS 101'), and applicable law). Under company law the 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.

Directors' confirmations

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

PricewaterhouseCoopers LLP

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

By order of the Board



Anthony Roper
Director
24 June 2020

Affinity Water Capital Funds Limited

Independent auditor's report to the member of Affinity Water Capital Funds Limited

Report on the audit of the financial statements

Opinion

In our opinion, Affinity Water Capital Funds Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and of its loss 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 2020; the income statement, 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.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

Affinity Water Capital Funds Limited

Independent auditor's report to the member of Affinity Water Capital Funds Limited (continued)

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 the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

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 2020 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, 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.

Affinity Water Capital Funds Limited

Independent auditor's report to the member of Affinity Water Capital Funds Limited (continued)

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

This report, including the 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.

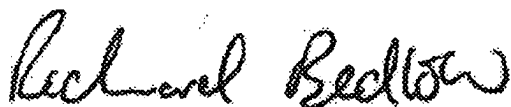
Other required reporting

Companies Act 2006 exception reporting

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

- we have not received 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.



Richard Bedlow (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cambridge
24 June 2020

Affinity Water Capital Funds Limited

Income statement for the year ended 31 March 2020 (Registered Number 02630142)

	Note	2020 £000	2019 £000
Administrative expenses		(127)	(266)
Net impairment losses on amounts owed by group undertaking		-	(12,426)
Operating loss	4	(127)	(12,692)
Income from subsidiaries		5,913	12,350
Profit/(loss) before interest and taxation		5,786	(342)
Finance income	6	1,527	1,351
Finance costs	6	(9,040)	(8,678)
Loss before income tax		(1,727)	(7,669)
Income tax credit	7	1,452	1,443
Loss for the financial year		(275)	(6,226)

The notes on pages 11 to 23 are an integral part of these financial statements.

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

There was no other comprehensive income in either year presented and therefore no statement of comprehensive income has been presented.

Affinity Water Capital Funds Limited

Statement of financial position as at 31 March 2020

(Registered Number 02630142)

	Note	2020 £000	2019 £000
Fixed assets			
Investments	9	<u>333,307</u>	<u>331,807</u>
Current assets			
Trade and other receivables	10	4,547	3,805
Amounts owed by group undertakings falling due after more than one year	10	30,394	30,874
Cash and cash equivalents		-	481
		<u>34,941</u>	<u>35,160</u>
Creditors – amounts falling due within one year	11	<u>(7,219)</u>	<u>(6,654)</u>
Net current assets		<u>27,722</u>	<u>28,506</u>
Total assets less current liabilities		<u>361,029</u>	<u>360,313</u>
Creditors – amounts falling due after more than one year	12	<u>(171,821)</u>	<u>(170,830)</u>
Net assets		<u>189,208</u>	<u>189,483</u>
Equity			
Called-up share capital	13	301	301
Retained earnings		188,907	189,182
Total shareholder's funds		<u>189,208</u>	<u>189,483</u>

The notes on pages 11 to 23 are an integral part of these financial statements.

The financial statements on pages 8 to 23 were authorised for issue by the Board of directors on 24 June 2020 and were signed on its behalf by:



Anthony Roper
Director

Affinity Water Capital Funds Limited

Statement of changes in equity for the year ended 31 March 2020

(Registered Number 02630142)

	Called-up share capital £000	Retained earnings £000	Total £000
Balance as at 1 April 2018	301	202,008	202,309
Loss for the year	-	(6,226)	(6,226)
Total comprehensive expense for the year	-	(6,226)	(6,226)
Dividends	-	(6,600)	(6,600)
Total transactions with owners, recognised directly in equity	-	(6,600)	(6,600)
Balance as at 31 March 2019	301	189,182	189,483
Balance as at 1 April 2019	301	189,182	189,483
Loss for the year	-	(275)	(275)
Total comprehensive expense for the year	-	(275)	(275)
Dividends	-	-	-
Total transactions with owners, recognised directly in equity	-	-	-
Balance as at 31 March 2020	301	188,907	189,208

The notes on pages 11 to 23 are an integral part of these financial statements.

Affinity Water Capital Funds Limited

Notes to the financial statements for the year ended 31 March 2020

1. General information

Affinity Water Capital Funds Limited ('the company') manages investments in Affinity Water Holdings Limited, Affinity Water Holdco Finance Limited, Affinity Water East Limited, Affinity Water Southeast Limited, Affinity Water Pension Trustees Limited, Affinity Water Shared Services Limited, Affinity for Business (Retail) Limited and Affinity Water Programme Finance Limited.

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

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 Capital Funds Limited 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:

- IFRS 7: 'Financial Instruments: Disclosures'
- Paragraphs 91 to 99 of IFRS 13: 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- Paragraph 38 of International Accounting Standards ('IAS') 1: 'Presentation of financial statements' comparative information requirements in respect of:
 - paragraph 79(a)(iv) of IAS 1;
- The following paragraphs of IAS 1: 'Presentation of financial statements':
 - 10(d) (statement of cash flows),
 - 16 (statement of compliance with all IFRS),
 - 38A (requirement for minimum of two primary statements, including cash flow statements),
 - 38B-D (additional comparative information),
 - 40A-D (requirements for a third statement of financial position)
 - 111 (cash flow statement information), and
 - 134-136 (capital management disclosures),

Affinity Water Capital Funds Limited

Notes to the financial statements for the year ended 31 March 2020 (continued)

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

- IAS 7: 'Statement of cash flows'
- Paragraph 17 of IAS 24: 'Related party disclosures' (key management compensation)
- The requirements in IAS 24: 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

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

2.2 Going concern

The directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements. This is based on assessment of the principal risks of the company and consideration of the company's budgeted cash flows, long term forecasts and related assumptions, as well as available debt facilities.

2.3 Changes in accounting policy and disclosures

The following new standard became applicable for the current reporting period:

- IFRS 16: 'Leases' ('IFRS 16');

The impact of the adoption of this standard and the new accounting policies are disclosed below.

IFRS 16: 'Leases'

IFRS 16 addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces IAS 17: 'Leases', and related interpretations. The standard is effective for the annual period beginning on 1 April 2019. Given the nature of the entity, the new standard has not had an impact on the company.

2.4 Standards and interpretations which are not yet effective

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 future years.

Affinity Water Capital Funds Limited

Notes to the financial statements for the year ended 31 March 2020 (continued)

2. Summary of significant accounting policies (continued)

2.5 Consolidation

The company is a wholly owned subsidiary of Daiwater Investment Limited. It is included in the consolidated financial statements of Daiwater Investment Limited which will be publicly available. Therefore the company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements.

These financial statements are separate financial statements.

2.6 Investment in subsidiaries

Investment in subsidiaries are held at cost less accumulated impairment losses. Investments in subsidiaries are tested annually for impairment.

2.7 Trade and other receivables

Trade and other receivables are recognised initially at transaction price. The company holds the trade receivables with the objective of collecting the contractual cash flows, and therefore trade and other receivables are subsequently measured at amortised cost using the effective interest method, less expected credit losses.

Expected credit losses are based on historical recoverability and calculated by applying a range of different percentages to trade receivables of different ages. These percentages also vary between categories of trade receivables. Higher percentages are applied to those categories of trade receivable which are considered to be of greater risk and also to trade receivables of greater age. The historical recoverability of trade receivables is deemed a good estimate of future expected credit losses. At each reporting date the company takes into consideration any significant economic changes that may impact its credit loss model and future credit losses.

2.8 Payables

Payables including loans and amounts owed to group undertakings are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.9 Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

2.10 Dividend income

Dividend income is recognised when the right to receive payment is established.

2.11 Dividend distributions

Dividend distributions to the company's shareholder are recognised as a liability in the company's financial statements in the year in which the dividends are approved by the company's shareholder.

Affinity Water Capital Funds Limited

Notes to the financial statements for the year ended 31 March 2020 (continued)

2. Summary of significant accounting policies (continued)

2.12 Current income tax

The current income tax credit is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's asset for current tax is calculated using tax rates that have been enacted or substantively enacted by the date of the statement of financial position.

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 investment in subsidiary

Determining whether the company's investment in its subsidiary has been impaired requires an estimation of the investment's value in use. The value in use calculation uses an estimate of the enterprise value of Affinity Water Limited, the principal trading indirect subsidiary of the company, which is based on its regulatory capital value at the year-end and market premiums paid for UK water supply companies. The carrying amount of investments in subsidiaries at the date of the statement of financial position was £333,307,000 (2019: £331,807,000) with no impairment loss recognised in either 2019 or 2020 (refer to note 9). Management conclude that the national health pandemic will not have an impact on the valuation of the investment in Affinity Water Limited. See the financial statements of Affinity Water Limited for details on the response to the national health pandemic.

Impairment of amounts owed by group undertaking

Determining whether the company's loan receivables from both Affinity Water Limited and Affinity for Business (Retail) Limited are impaired required consideration of factors including Affinity Water Limited's credit rating and ability to generate positive cash flows from their operating activities going forward.

The carrying amount of the amounts owed by group undertakings at the date of the statement of financial position was £31,762,000 (2019: £31,535,000). An impairment loss was recognised against the company's loan receivable from Affinity for Business (Retail) Limited of £12,426,000 in the prior year with no further impairment recognised in the current year (refer to note 10). The sale of Affinity for Business (Retail) Limited to Castle Water Limited on 1 April 2020 had no impact on the recoverability of the loan receivable. Management conclude that the national health pandemic will not have a significant impact on the group undertakings' ability to repay the debt.

Affinity Water Capital Funds Limited

Notes to the financial statements for the year ended 31 March 2020 (continued)

4. Operating loss

	2020	2019
	£000	£000
Operating loss is stated after charging:		
Management Services Agreement ('MSA') charge	105	277
Impairment loss on loan receivable from Affinity for Business (Retail) Limited	-	12,426
Audit fees payable to the company's auditor	-	-

The auditor's remuneration for audit services in the year amounted to £5,500 (2019: £5,200), with such costs being borne by Affinity Water Limited. The auditor's received no other remuneration for services provided to the company in either the current or prior year.

5. Employees and directors

Employees

The company had no employees in the current year (2019: nil).

Directors

No remuneration or pension contributions were directly paid to directors for services to the company.

Affinity Water Acquisitions Limited has recharged the company a MSA charge amounting to £105,000 (2019: £277,000) of which £nil (2019: £nil) relates to services rendered by the directors who sat on the Board as representatives of Allianz Capital Partners on behalf of the Allianz Group, DIF and InfraRed Capital Partners Limited on behalf of HICL Infrastructure plc.

Affinity Water Capital Funds Limited

Notes to the financial statements for the year ended 31 March 2020 (continued)

6. Finance income and costs

Finance income

	2020 £000	2019 £000
Interest income on loan to group undertakings	<u>1,527</u>	<u>1,351</u>

Finance costs

	2020 £000	2019 £000
Interest expense on loan from group undertakings	<u>(9,040)</u>	<u>(8,678)</u>

Net finance costs

	2020 £000	2019 £000
Interest income	1,527	1,351
Interest expense	(9,040)	(8,678)
Net finance costs	<u>(7,513)</u>	<u>(7,327)</u>

Interest income on loan to group undertakings relates to a loan with Affinity Water Limited amounting to £3,550,000 and a revolving credit facility provided to Affinity for Business (Retail) Limited (refer to note 10). Interest expense on loan from group undertakings relates to a cash pooling arrangement with Affinity Water Shared Services Limited until June 2019 when the cash management agreement dated 19 June 2012 was terminated (refer to note 11), a loan with Affinity Water Holdco Finance Limited amounting to £25,000,000 (refer to note 12), a loan with Affinity Water Acquisitions (Investments) Limited amounting to £500,000 (refer to note 12), a loan with Daiwater Investment Limited amounting to £15,121,000 including interest added to the principal (refer to note 12), and loans with Affinity Water East Limited and Affinity Water Southeast Limited amounting to £65,000,000 and £66,200,000 respectively (refer to note 12).

Affinity Water Capital Funds Limited

Notes to the financial statements for the year ended 31 March 2020 (continued)

7. Income tax credit

Tax credit included in the income statement

	2020 £000	2019 £000
Current tax:		
UK Corporation tax on loss for the year	(1,452)	(1,443)
Tax on loss	(1,452)	(1,443)

The tax credit for the year is higher (2019: lower) than the standard rate of corporation tax in the UK for the year ended 31 March 2020 of 19% (2019: 19%). The differences are explained below:

	2020 £000	2019 £000
Loss before tax	(1,727)	(7,669)
Loss before tax multiplied by the standard rate of tax in the UK of 19% (2019: 19%)	(328)	(1,457)
Effects of:		
Income not subject to tax	(1,124)	(2,347)
Expenses not subject to tax	-	2,361
Tax credit	(1,452)	(1,443)

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

Non-taxable income relates to the dividends received from the company's subsidiary undertakings.

Expenses not subject to tax in the prior year relate to the impairment loss recognised against the company's loan receivable from Affinity for Business (Retail) Limited.

8. Dividends

	2020 £000	2019 £000
Ordinary:		
No first interim dividend paid (June 2018: 16.59p)	-	5,000
No second interim dividend paid (December 2018: 5.31p)	-	1,600
	-	6,600

Affinity Water Capital Funds Limited

Notes to the financial statements for the year ended 31 March 2020 (continued)

9. Investments

	Shares in group under- takings £000	Other invest- ments £000	2020 Total £000	Shares in group under- takings £000	Other invest- ments £000	2019 Total £000
At 1 April	331,756	51	331,807	331,721	51	331,772
Additions	1,500	-	1,500	35	-	35
Disposals	-	-	-	-	-	-
At 31 March	333,256	51	333,307	331,756	51	331,807

Investments comprise the following subsidiary undertakings of the company:

Name of company	Nature of business	Type of holding	Proportion of voting rights and shares held
Affinity Water Holdco Finance Limited	Financing company	Ordinary shares	100%
Affinity Water East Limited	Investment company	Ordinary shares	99%
		Ordinary non-voting shares	88%
		10% preference shares	98%
Affinity Water Southeast Limited	Investment company	Ordinary shares	99%
		Ordinary non-voting shares	92%
		14% preference shares	98%
Affinity Water Pension Trustees Limited	Pension trustee	Ordinary shares	100%
Affinity Water Shared Services Limited	Former service company	Ordinary shares	100%
Affinity for Business (Retail) Limited	Water and wastewater services	Ordinary Shares	100%
Affinity Water Programme Finance Limited	Former financing company	Ordinary Shares	100%

All the above companies are incorporated in the United Kingdom with registered address Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ.

On 29 November 2019, the company was issued an additional 1,500,000 £1 ordinary shares at par by Affinity for Business (Retail) Limited by way of a reduction in the revolving loan facility between the company and Affinity for Business (Retail) Limited and the shares are therefore fully paid.

In November 2018, the company invested £50,000 in Affinity Water Finance PLC in return for 50,000 £1 ordinary shares in the subsidiary. In January 2019, the company transferred these shares to Affinity Water Limited for £50,000.

Affinity Water Capital Funds Limited

Notes to the financial statements for the year ended 31 March 2020 (continued)

9. Investments (continued)

In January 2019, the company purchased 10,000 £1 ordinary shares in Affinity Water Programme Finance Limited for £34,963 from Affinity Water Limited.

Dividends received in the year from Affinity Water East Limited and Affinity Water Southeast Limited are disclosed in note 14. There were no dividends received from Affinity Water Holdings Limited (2019: £6,600,000) and Affinity Water Shared Services Limited in the year (2019: £nil).

10. Trade and other receivables

	2020 £000	2019 £000
Amounts owed by group undertaking falling due in less than one year	1,368	661
Corporation tax recoverable	3,110	3,079
Other receivables	69	65
	4,547	3,805
Amounts owed by group undertakings falling due after more than one year	42,820	43,300
Impairment on loan receivable from Affinity for Business (Retail) Limited	(12,426)	(12,426)
	30,394	30,874
	34,941	34,679

On 4 February 2013, Affinity Water Limited borrowed £3,550,000 from the company. The final repayment date of this loan is 31 March 2036 and it bears interest at 4.5%.

On 1 April 2017, the company agreed to provide Affinity for Business (Retail) Limited with a LIBOR linked, revolving loan facility for a period of three years, the repayment date was extended to 31 July 2020 during the year. At 31 March 2020, a balance of £40,638,000 (2019: £40,411,000) including accrued interest of £1,368,000 (2019: £661,000) was outstanding (see note 14).

An impairment loss of £12,426,000 was recognised against the company's loan receivable from Affinity for Business (Retail) Limited in the prior year with no further impairment recognised in the current year.

Affinity Water Capital Funds Limited

Notes to the financial statements for the year ended 31 March 2020 (continued)

11. Creditors – amounts falling due within one year

	2020	2019
	£000	£000
Loans from group undertakings	-	1,616
Amounts owed to group undertakings	4,928	4,761
Other accruals	297	277
Overdrawn cash and cash equivalents	373	-
Intercompany payable	1,621	-
	7,219	6,654

Loans from group undertakings in the prior year relate to a cash pooling balance with Affinity Water Shared Services Limited. In June 2019 the cash management agreement between Affinity Water Capital Funds Limited and Affinity Water Shared Services Limited dated 19 June 2012 was terminated and is no longer interest bearing.

The amounts owed to group undertakings relates to accrued interest on the loans per note 12.

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

	2020	2019
	£000	£000
Loans from group undertakings	171,821	170,830

The company has long term loan balances with Affinity Water East Limited and Affinity Water Southeast Limited amounting to £65,000,000 and £66,200,000 respectively. The loan with Affinity Water East Limited currently carries an interest rate of 6.42% (2019: 6.27%). The loan with Affinity Water Southeast Limited currently carries an interest rate of 5.08% (2019: 4.96%). These loans are due for repayment on 31 March 2025.

The company has a long-term loan balance with Affinity Water Acquisitions (Investments) Limited amounting to £500,000. The loan carries an interest rate of LIBOR +2.65%. This loan is due for repayment on 31 March 2025.

On 28 September 2017, the company borrowed £25,000,000 from its subsidiary undertaking, Affinity Water Holdco Finance Limited to help fund the LIBOR linked revolving loan facility with Affinity for Business (Retail) Limited. These funds were borrowed at the same rate charged on the lending to Affinity for Business (Retail) Limited, and so no gain or loss is made on this arrangement.

On 26 June 2017, the company received a loan from its ultimate parent company, Daiwater Investment Limited for long term funding and working capital requirements. The loan interest is linked to LIBOR and the principal and any unpaid interest is repayable on 31 March 2025, or such later date as agreed by the lender. At 31 March 2020 £15,121,000 (2019: £14,630,000), including interest added to the principal, was outstanding.

Affinity Water Capital Funds Limited

Notes to the financial statements for the year ended 31 March 2020 (continued)

13. Called-up share capital

	2020 £000	2019 £000
Allotted, called up and fully paid share capital 30,141,263 (2019: 30,141,263) ordinary shares of £0.01 each	301	301

All shares rank pari passu in all respects.

14. Related party transactions

Income	Nature of Relationship	In respect of	2020		2019	
			Value £000	Balance £000	Value £000	Balance £000
Affinity Water East Limited	Subsidiary undertaking	Dividends and financing	3,289	-	3,199	-
Affinity Water Southeast Limited	Subsidiary undertaking	Dividends and financing	2,624	-	2,551	-
Affinity Water Holdings Limited	Subsidiary undertaking	Dividends received	-	-	6,600	-
Affinity Water Limited	Group undertaking	Interest received on loans	160	-	160	-
Affinity for Business (Retail) Limited	Subsidiary undertaking	Interest received on loans	1,367	1,367	1,191	661
Expenses	Nature of Relationship	In respect of	2020		2019	
			Value £000	Balance £000	Value £000	Balance £000
Affinity Water East Limited	Subsidiary undertaking	Interest paid	4,173	2,527	4,075	2,481
Affinity Water Southeast Limited	Subsidiary undertaking	Interest paid	3,363	3,197	3,283	1,961
Affinity Water Acquisitions Limited	Parent company	MSA charge and other recharges	105	283	277	277
Affinity Water Acquisitions Limited	Parent company	Dividends paid	-	-	6,600	-
Daiwater Investment Limited	Parent company	Interest paid	494	248	476	245
Affinity Water Holdco Finance Limited	Subsidiary undertaking	Interest paid	854	143	779	74
Affinity Water Acquisitions (Investments) Limited	Subsidiary undertaking	Interest paid	15	15	-	-

Affinity Water Capital Funds Limited

Notes to the financial statements for the year ended 31 March 2020 (continued)

14. Related party transactions (continued)

Loans	Nature of Relationship	In respect of	2020		2019	
			Value	Balance	Value	Balance
			£000	£000	£000	£000
Affinity Water Limited	Group undertaking	Loans receivable	-	3,550	-	3,550
Affinity for Business (Retail) Limited	Subsidiary undertaking	Loans receivable	-	39,270	-	39,750
Affinity Water East Limited	Subsidiary undertaking	Loans payable	-	(65,000)	-	(65,000)
Affinity Water Southeast Limited	Subsidiary undertaking	Loans payable	-	(66,200)	-	(66,200)
Daiwater Investment Limited	Group undertaking	Loans payable	-	(15,121)	-	(14,630)
Affinity Water Holdco Finance Limited	Subsidiary undertaking	Loans payable	-	(25,000)	-	(25,000)
Affinity Water Acquisitions (Investments) Limited	Subsidiary undertaking	Loans payable	-	(500)	-	-
Affinity Water Shared Services Limited	Subsidiary undertaking	Cash pool arrangement	(5)	-	(21)	(1,616)
Affinity Water Shared Services Limited	Subsidiary undertaking	Intercompany payable	-	(1,621)	-	-

In June 2019 the cash pooling arrangement between Affinity Water Capital Funds Limited and Affinity Water Shared Services Limited dated 19 June 2012 was terminated and is no longer interest bearing.

15. Events after the end of the reporting period

Affinity for Business (Retail) Limited, one of the company's subsidiary undertakings, was sold to Castle Water Limited on 1 April 2020. The entity subsequently changed its name on 3 April 2020 to Castle Water (Southern) Limited.

Affinity Water Capital Funds Limited

Notes to the financial statements for the year ended 31 March 2020 (continued)

16. Ultimate parent company and controlling party

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

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

Copies of the group financial statements of Daiwater Investment Limited for the year ended 31 March 2020 may be obtained from the Company Secretary, Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ.

The directors consider that Daiwater Investment Limited was 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 (during the period and up to 20 November 2019
Allianz Infrastructure Luxembourg I Sarl)
- DIF Management Holding BV
- DIF Management UK Limited
- HICL Infrastructure plc
- InfraRed Capital Partners (Management) LLP¹

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.

HICL Infrastructure plc 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.

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.

¹ Sun Life Financial Inc has exchanged contracts to acquire an 80% interest in the InfraRed business from InfraRed Capital Partners (Management) LLP. Following completion, which is subject to regulatory consents and other customary closing conditions and which is expected to occur in Summer 2020, Sun Life Financial Inc will become an ultimate controller.