

AFFINITY WATER HOLDINGS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2013

(Registered Number 08350099)

Affinity Water Holdings Limited

Contents

	Page
Directors and advisers	1
Directors' report	2
Independent auditor's report	5
Profit and loss account	7
Balance sheet	8
Notes to the financial statements	9

Affinity Water Holdings Limited

Directors and advisers

Directors

R A Bienfait (appointed 7 January 2013)
D Bates (appointed 7 January 2013)
K Bradbury (appointed 7 January 2013)
A Dench (appointed 7 January 2013)
A Donzelli (appointed 7 January 2013)
Y Saidji (appointed 7 January 2013)
M Lief (appointed 7 January 2013 and resigned 22 April 2013)

Company Secretary

TJ Monod (appointed 7 January 2013)

Registered Office

Tamblin Way
Hatfield
Hertfordshire
AL10 9EZ

Registered Auditors

Ernst & Young LLP
1 More London Place
London
SE1 2AF

Registered Number

08350099

Affinity Water Holdings Limited

Directors' report for the period ended 31 March 2013

Introduction

The directors present their first annual report and audited statutory financial statements for the three month period ended 31 March 2013. Accordingly, no prior year comparatives are included.

Principal activity

The company was incorporated on 7 January 2013. The principal activity of the company is the investment in and management of long-term interests in the water industry in the United Kingdom.

Significant events during the period

In February 2013, the company was financially and operationally "ring-fenced" from the wider Affinity Water group, together with its direct and indirect subsidiaries, Affinity Water Limited, Affinity Water Finance (2004) Limited, and Affinity Water Programme Finance Limited (together "the securitised group"). This was effected by the transfer of the equity of Affinity Water Limited from Affinity Water Capital Funds Limited to the company.

Affinity Water Limited incorporated Affinity Water Programme Finance Limited as a special purpose vehicle for the purpose of issuing asset backed securities. The external bonds were issued on 4 February 2013. Management believe that the ring-fencing structure will provide significant benefits to the securitised group, providing better access to long-term debt markets and an opportunity to reduce the cost of capital employed in the regulated business.

Business review, performance indicators and future developments

Following the incorporation of the company on 7 January 2013 and the purchase of its investment from Affinity Water Capital Funds Limited, 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.

Performance indicators for the securitised group are monitored by the company's subsidiary Affinity Water Limited, and are fully disclosed in its annual report and financial statements.

Financial performance and dividends

Profit on ordinary activities after tax for the period was £137.2m and relates to dividend income received from Affinity Water Limited on 4 February 2013 in order to refinance Affinity Water Limited itself. A dividend of £137.2m was paid to Affinity Water Capital Funds Limited on the same date for the same purpose.

The balance sheet detailed on page 8 shows shareholder's funds amounting to £287.7m.

Principal risks and uncertainties

The company holds an investment in Affinity Water Limited. The main risk to the company is the potential impairment of this investment. Going forward the Board of Directors believe that the carrying value of its investment will be maintained.

Directors

The directors holding office during the period are disclosed on page 1.

Affinity Water Holdings Limited

Directors' report for the period ended 31 March 2013 (continued)

Corporate governance

The principal business of Affinity Water Holdings Limited is holding the shares of Affinity Water Limited and the company is a wholly owned subsidiary of Affinity Water Capital Funds Limited. All of the company's directors are also directors of Affinity Water Limited.

The company benefits from the corporate governance arrangements established by Affinity Water Limited, full details of which can be found in Affinity Water Limited's own annual report and financial statements, together with more detailed corporate reporting disclosures.

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

Going concern

The company has adequate resources to meet its current operational and financial obligations, and the directors have a reasonable expectation that this will continue for the foreseeable future. This assessment is based on the consideration of the company's budgeted cash flows, long term forecasts and related assumptions and available debt facilities within the securitised group. For this reason, the directors continue to adopt the going concern basis in the statutory financial statements.

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards 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 those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and accounting estimates that are reasonable and prudent
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business, and
- be responsible for the maintenance and integrity of the website on which the financial statements have been published.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions, 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. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Affinity Water Holdings Limited

Directors' report for the period ended 31 March 2013 (continued)

Disclosure of information to auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he or she is obliged to take as a director in order to make himself or herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

In accordance with Section 485 of the Companies Act 2006, Ernst & Young LLP are not seeking reappointment and a resolution to appoint the auditors, PricewaterhouseCoopers LLP, will be proposed at the annual general meeting.

By order of the Board



Tim Monod
Company Secretary

10 July 2013

Independent auditor's report to the members of Affinity Water Holdings Limited

We have audited the financial statements of Affinity Water Holdings Limited for the period ended 31 March 2013 which comprise the profit and loss account, the balance sheet, and the related notes 1 to 10. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of directors' responsibilities set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2013 and of its profit for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the members of Affinity Water Holdings Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Ernst & Young LLP

Steven Dobson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
11 July 2013

Notes:

1. The maintenance and integrity of the Affinity Water Limited web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Affinity Water Holdings Limited

Profit and loss account for the period ended 31 March 2013 (Registered Number 08350099)

	Note	2013 £000
Operating Profit	2	-
Dividend income		137,164
Profit on ordinary activities before interest and taxation		<u>137,164</u>
Interest receivable and similar income		-
Interest payable and similar charges		-
Profit on ordinary activities before taxation		<u>137,164</u>
Taxation on profit on ordinary activities	3	-
Profit on ordinary activities after taxation and for the financial year		<u><u>137,164</u></u>

All profits of the company are from continuing operations.

The company has no recognised gains or losses other than the results above, therefore, no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit on ordinary activities before taxation and the profit for the financial period stated above and their historical cost equivalents.

The notes on pages 9 to 13 form part of these financial statements.

Affinity Water Holdings Limited

Balance sheet as at 31 March 2013 (Registered Number 08350099)

	Note	2013 £000
Fixed assets		
Investment	5	287,670
Net assets		<u>287,670</u>
Capital and reserves		
Called up share capital	6	-
Share premium	7	287,670
Profit and loss account	7	-
Shareholder's funds	8	<u>287,670</u>

The notes on pages 9 to 13 form part of these financial statements.

The financial statements on pages 7 to 13 were approved by the Board of Directors and were signed on 10 July 2013 on its behalf by:



Richard Bienfait
Director



Duncan Bates
Director

Affinity Water Holdings Limited

Notes to the financial statements for the period ended 31 March 2013

1. Statement of accounting policies

Basis of preparation

The financial statements have been prepared on the going concern basis, under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom and the Companies Act 2006.

The financial statements of Affinity Water Holdings Limited and its direct and indirect subsidiaries are not presented in a consolidated format as Affinity Water Holdings Limited is itself a wholly owned subsidiary of Affinity Water Acquisitions Limited, which is the parent undertaking of the smallest group to consolidate the statutory financial statements. The company has not prepared group accounts as allowed under Section 400 of the Companies Act 2006.

The principal accounting policies are set out below.

Cash flow statement

Affinity Water Holdings Limited is a wholly owned subsidiary of Affinity Water Capital Funds Limited which in turn is a wholly owned subsidiary of Affinity Water Acquisitions Limited, a company which produces publicly available consolidated financial statements in which this company is included.

Consequently the company is exempt under the terms of Financial Reporting Standard 1 (revised 1996): 'Cash flow statements', from publishing a cash flow statement.

Use of estimates

The preparation of accounts in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the accounts and the reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from those estimates.

Dividends

Income from investments is recorded in the financial statements on an accruals basis to the extent that an obligation to pay the company exists at the balance sheet date.

In accordance with Financial Reporting Standard 16, dividend income in the United Kingdom is recorded net of tax credits.

Investments

Investments are stated at cost less any provisions in respect of permanent diminution in value.

Taxation

Current taxation is corporation tax in the United Kingdom based on the taxable profit for the period and is provided at amounts expected to be paid or recovered using tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Affinity Water Holdings Limited

Notes to the financial statements for the period ended 31 March 2013

2. Operating profit

2013
£000

Operating profit is stated after charging:

Auditors' remuneration

Audit of the financial statements

-

The auditor's remuneration for the period to 31 March 2013 was £5,000, with such costs being borne by Affinity Water Limited. The auditor receives no other remuneration.

The company had no employees during the period.

No remuneration or pension contributions were paid to directors for services to the company. These costs were paid by and charged in the accounts of other group companies. Of the total remuneration, a total amount of £1,000 can be attributed to the company for the qualifying services performed, split as follows:

2013
£000

Basic salary and fees

0.4

Benefits

0.2

Performance related bonuses

0.4

Total

1.0

Further details about the directors' remuneration and pension entitlements are included in the accounts of the relevant group companies.

3. Taxation on profit on ordinary activities

2013
£000

Current taxation

Current tax on profit of the period

-

Current taxation

-

Current taxation reconciliation

Profit on ordinary activities before taxation

137,164

Theoretical tax at UK corporation tax rate of 24%

32,919

Effects of:

Non taxable income

(32,919)

Actual current taxation charge

-

The non taxable income relates to the dividend received from Affinity Water Limited from the refinancing.

Affinity Water Holdings Limited

Notes to the financial statements for the period ended 31 March 2013

3. Taxation on profit on ordinary activities (continued)

Factors that may affect future tax charges:

A change in the main corporation tax rate in the United Kingdom from 24 per cent to 23 per cent was substantively enacted on 3 July 2012 to become effective from 1 April 2013.

Further reductions announced in the March 2013 Budget are expected to be enacted separately each year with the intention of reducing the rate to 20 per cent effective from 1 April 2015. Future changes in the main corporation tax rate from 23 per cent to 20 per cent had not been substantively enacted at the balance sheet date and, therefore, are not recognised in these financial statements.

4. Dividends paid

	2013 £000
Interim dividend: £68,581,840 per share paid in February 2013	<u>137,164</u>
	<u>137,164</u>

5. Investment

Investment in subsidiary undertaking	£000
Cost at 7 January 2013	-
Additions during the period	<u>287,670</u>
At 31 March 2013	<u>287,670</u>

Details of the company's subsidiary are as follows:

Name of company	Nature of business	Type of holding	Proportion of voting rights and shares held
Affinity Water Limited	Water supply	Ordinary shares	100%

The above company is incorporated in Great Britain. On 7 January 2013, Affinity Water Acquisitions Holdings Limited acquired 100 per cent of the shareholding in Affinity Water Limited from Affinity Water Capital Funds Limited.

The company has an indirect holding in the subsidiaries of Affinity Water Limited, Affinity Water Finance (2004) Limited and Affinity Water Programme Finance Limited. Details of these subsidiaries are included in the annual report and financial statements of Affinity Water Limited.

Affinity Water Holdings Limited

Notes to the financial statements for the period ended 31 March 2013

6. Share capital

2013
£

Allotted and called up share capital

2 ordinary shares of £1.00 each

The company was incorporated on 7 January 2013. The company issued one £1 ordinary share on 7 January 2013 to Affinity Water Capital Funds Limited, its immediate parent company. A further £1 ordinary share was issued on 4 February 2013 to Affinity Water Capital Funds Limited at a premium of £287.7m.

At 31 March 2013 the share capital remained unpaid.

7. Reserves

	Share premium	Profit and loss account	Total
	£000	£000	£000
At 7 January 2013	-	-	-
Profit for the financial period	-	137,164	137,164
Additions during the period	287,670	-	287,670
Dividends paid	-	(137,164)	(137,164)
At 31 March 2013	287,670	-	287,670

Refer to note 6 for further details on the Share premium account.

8. Reconciliation of movements in shareholder's funds

2013
£000

Opening shareholder's funds	-
Profit for the financial period	137,164
Dividends paid	(137,164)
Issue of shares (including share premium)	287,670
Closing shareholder's funds	287,670

9. Related party transactions

The following related party transactions have occurred during the period:

Dividend received from Affinity Water Limited: £137,163,680 from the refinancing.

Dividend paid to Affinity Water Capital Funds Limited: £137,163,680.

There are no outstanding balances at the end of the period.

Affinity Water Holdings Limited

Notes to the financial statements for the period ended 31 March 2013

10. Ultimate parent company and controlling party

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

Affinity Water Capital Funds Limited (formerly Veolia Water Capital Funds Limited), a company registered in England and Wales, was the parent undertaking of the smallest group to consolidate the financial statements of the company for the year ended 31 March 2012. Veolia Environnement S.A., a company incorporated in France, was the parent undertaking of the largest group to consolidate the statutory financial statements of this company, through its investment in the company's intermediate parent undertaking, Veolia Water UK Limited, and was the ultimate holding and controlling company until the divestment of the majority shareholding in the Affinity Water Capital Funds Limited group by Veolia Water UK Limited on 28 June 2012.

Since 28 June 2012, Affinity Water Capital Funds Limited has been wholly owned by Affinity Water Acquisitions Limited (formerly Rift Acquisitions Limited), a company registered in England and Wales, which is the smallest group to consolidate the statutory financial statements of the company for the year ended 31 March 2013. Affinity Water Acquisitions (Investments) Limited, a company registered in England and Wales, is the parent undertaking of the largest group to consolidate the statutory financial statements of this company.

The directors consider that Affinity Water Acquisitions (Investments) Limited is the ultimate holding and controlling company in the United Kingdom.

Copies of the group financial statements of Affinity Water Acquisitions Limited and Affinity Water Acquisitions (Investments) Limited may be obtained from the Company Secretary, Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ.

Affinity Water Acquisitions (Investments) Limited is owned by a consortium of investors led by Infracapital Partners II, the infrastructure investment fund managed by M&G (the European Investment arm of Prudential Plc), and Morgan Stanley Infrastructure Partners. Veolia Environnement S.A. has retained a 10 per cent minority shareholding through its subsidiary Veolia Water UK Limited. The directors do not consider there to be an ultimate parent or controlling party.

Infracapital Partners II is one of a number of European infrastructure funds managed by M&G Investment Management Limited, a subsidiary of Prudential Plc. It was established in 2010 to make investments in income-generative infrastructure assets and business, including electricity and gas networks, water companies, transport infrastructure and renewable energy.

Morgan Stanley Infrastructure Partners is a leading global infrastructure investment fund. It is managed by Morgan Stanley Infrastructure Inc., part of the investment management division of Morgan Stanley. Morgan Stanley Infrastructure Partners targets core infrastructure assets that provide essential public goods and services to societies across the globe and seeks to improve asset performance using active management.