

**AFFINITY WATER HOLDINGS LIMITED**

ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2014

(Registered Number 08350099)

# Affinity Water Holdings Limited

## Contents

	<b>Page</b>
Directors and advisers	1
Strategic report	2
Directors' report	3
Independent auditor's report	6
Profit and loss account	8
Balance sheet	9
Notes to the financial statements	10

# **Affinity Water Holdings Limited**

## **Directors and advisers**

### **Directors**

Richard Bienfait  
Duncan Bates  
Antonio Botija (appointed 23 January 2014)  
Kenton Bradbury  
Olivier Bret (appointed 31 December 2013)  
Alberto Donzelli  
Yacine Saidji

### **Company Secretary**

Tim Monod

### **Registered Office**

Tamblin Way  
Hatfield  
Hertfordshire  
AL10 9EZ

### **Independent Auditor**

PricewaterhouseCoopers LLP  
Abacus House  
Castle Park  
Cambridge  
CB3 0AN

### **Registered Number**

08350099

# Affinity Water Holdings Limited

## Strategic report for the year ended 31 March 2014

The directors present their strategic report on the company for the year ended 31 March 2014.

The company's strategy is to manage its investment in the water industry in the United Kingdom to maximise returns to the company's shareholder for the long term.

The principal risks associated with the company achieving its long term strategy are identified as relating to Affinity Water Limited, and consequently the risk that the investment in this company may be impaired. These risks and the controls in place to mitigate these are detailed in the strategic report of Affinity Water Limited's annual report and financial statements for the year ended 31 March 2014. Going forward the company's Board of Directors believe that the carrying value of its investment will be maintained.

Profit for the financial year was £45,842,000 (2013: £137,164,000) and relates to dividend income received from Affinity Water Limited. Dividends totalling £45,842,000 (2013: £137,164,000) were paid to Affinity Water Capital Funds Limited during the year.

The balance sheet detailed on page 9 shows that the company is in a net asset position of £287,670,000 (2013: £287,670,000) at the year end.

Performance indicators for the Affinity Water Limited securitised group are monitored by the company's subsidiary, Affinity Water Limited, and are fully disclosed in its annual report and financial statements for the year ended 31 March 2014.

Approved by the Board and signed on its behalf by:



Tim Monod  
Company Secretary  
20 June 2014

# Affinity Water Holdings Limited

## Directors' report for the year ended 31 March 2014

### Introduction

The directors present their annual report and audited statutory financial statements for the year ended 31 March 2014.

### Directors

The directors of the company who were in office during the year and up to the date of signing the financial statements are disclosed on page 1.

### Dividends

The directors have declared and paid the following dividends during the year ended 31 March 2014:

Ordinary dividends:	£000
Interim – paid July 2013	32,792
Interim – paid December 2013	4,650
Interim – paid March 2014	8,400
	<hr/>
	45,842
	<hr/>

The directors do not recommend a final dividend.

### Greenhouse gas emissions statement

The company does not emit any greenhouse gases through its activities.

### Political contributions

No political contributions were made during the year.

### 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 the company's directors, with the exception of Alberto Donzelli, 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.

### Financial and business reporting

Having taken into account all matters considered by the Board and brought to its attention during the year, we are satisfied that the annual report and financial statements taken as a whole are fair, balanced and understandable.

The Board believes that the disclosures set out on page 2 of the annual report and financial statements provide the information necessary for shareholders to assess the company's performance, business model and strategy.

# Affinity Water Holdings Limited

## Directors' report for the year ended 31 March 2014 (continued)

### 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.

### 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 strategic report, directors' report and the financial statements in accordance with applicable law and regulations.

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 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 these 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; 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 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. 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.

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

### Disclosure of information to auditors

In accordance with Section 418 of the Companies Act 2006, directors' reports shall include a statement, in the case of each director in office at the date the directors' report is approved, that:

- (a) so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- (b) he or she has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

# Affinity Water Holdings Limited

## Directors' report for the year ended 31 March 2014 (continued)

### Independent auditor

PricewaterhouseCoopers LLP ("PwC") were appointed as auditor at a Board meeting on 9 July 2013. In accordance with Section 485 of the Companies Act 2006, a resolution to re-appoint PwC will be proposed by the Board.

This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006.

Approved by the Board and signed on its behalf by:



Tim Monod  
Company Secretary  
20 June 2014

# **Independent auditor's report to the member of Affinity Water Holdings Limited**

## **Report on the financial statements**

### **Our opinion**

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the company's affairs as at 31 March 2014 and of its profit for the year 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.

This opinion is to be read in the context of what we say in the remainder of this report.

### **What we have audited**

The financial statements, which are prepared by Affinity Water Holdings Limited, comprise:

- the balance sheet as at 31 March 2014;
- the profit and loss account for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

### **What an audit of financial statements involves**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). 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 and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic Report and 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 member of Affinity Water Holdings Limited (continued)

## Other matters on which we are required to report by exception

### Adequacy of accounting records and information and explanations received

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, 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.

We have no exceptions to report arising from this responsibility.

### Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

### Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to take advantage of the small companies exemption in preparing the Directors' Report. We have no exceptions to report arising from this responsibility.

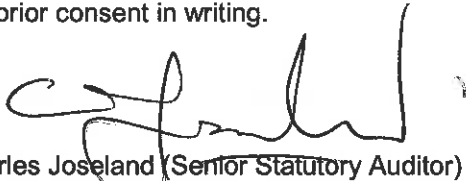
## Responsibilities for the financial statements and the audit

### Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 4, 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 and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members 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.



Charles Joseland (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Cambridge

23 June 2014

# Affinity Water Holdings Limited

## Profit and loss account For the year ended 31 March 2014 (Registered Number 08350099)

	Note	Year ended 31 March 2014 £000	Period to 31 March 2013* £000
<b>Operating profit</b>	2	-	-
Income from shares in group undertakings	9	<b>45,842</b>	137,164
<b>Profit on ordinary activities before taxation</b>		<b>45,842</b>	137,164
Tax on profit on ordinary activities	3	-	-
<b>Profit for the financial year/period</b>	7	<b>45,842</b>	137,164

\* Period relates to date of incorporation to year end (7 January 2013 to 31 March 2013)

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 year stated above and their historical cost equivalents.

The notes on pages 10 to 14 form part of these financial statements.

# Affinity Water Holdings Limited

## Balance sheet as at 31 March 2014 (Registered Number 08350099)

	Note	2014 £000	2013 £000
<b>Fixed assets</b>			
Investments	5	287,670	287,670
<b>Net assets</b>		<u>287,670</u>	<u>287,670</u>
<b>Capital and reserves</b>			
Called up share capital	6	-	-
Share premium account	7	287,670	287,670
Profit and loss account	7	-	-
<b>Total shareholder's funds</b>	8	<u>287,670</u>	<u>287,670</u>

The notes on pages 10 to 14 form part of these financial statements. The statutory financial statements on pages 8 to 14 were approved by the Board of Directors and were signed and authorised for issue on 20 June 2014 on its behalf by:



Duncan Bates  
Director

# Affinity Water Holdings Limited

## Notes to the financial statements for the year ended 31 March 2014

### 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 majority owned subsidiary of Affinity Water Acquisitions (Investments) Limited, which is the parent undertaking of the smallest and largest group to consolidate the statutory financial statements. The company has not prepared group financial statements as allowed under Section 400 of the Companies Act 2006.

The principal accounting policies are set out below. They have all been applied consistently throughout the year and the preceding period.

#### Cash flow statement

More than 90 per cent of the voting rights of the company are indirectly owned by Affinity Water Acquisitions (Investments) 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 financial statements 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 financial statements 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: 'Current tax', 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 year ended 31 March 2014 (continued)

### 2. Operating profit

	Year to 31 March 2014 £000	Period to 31 March 2013 £000
Operating profit is stated after charging:		
<b>Auditor's remuneration</b>		
Audit of the financial statements	-	-

The auditor's remuneration for the year to 31 March 2014 was £5,000 (2013: £5,000), with such costs being borne by Affinity Water Limited. The auditor received no other remuneration in either the current year or prior period.

The company had no employees during the current year or the prior period.

The remuneration of Richard Bienfait and Duncan Bates is paid by Affinity Water Limited, which makes no recharge to the company. Richard Bienfait and Duncan Bates are directors of Affinity Water Limited and a number of fellow subsidiaries of the Affinity Water Acquisitions (Investments) Limited group, and it is not possible to make an accurate apportionment of their remuneration in respect of each of the subsidiaries. Accordingly, the above details include no remuneration in respect of Richard Bienfait and Duncan Bates. Their total remuneration (2014: £847,000; 2013: £520,000) is included in the aggregate of directors' remuneration disclosed in the annual report and financial statements of Affinity Water Limited for the year ended 31 March 2014.

The remaining directors who sit on the Board and appointed by Infracapital Partners II, Morgan Stanley Infrastructure Partners and Veolia Water UK Limited do not receive any emoluments from the company, or any company within the Affinity Water Acquisitions (Investments) Limited group.

### 3. Tax on profit on ordinary activities

	Year to 31 March 2014 £000	Period to 31 March 2013 £000
<b>Current taxation</b>		
Current tax on profit of the year/period	-	-
Current taxation	-	-
<b>Current taxation reconciliation</b>		
Profit on ordinary activities before taxation	45,842	137,164
Theoretical tax at UK corporation tax rate of 23% (2013: 24%)	10,544	32,919
Effects of:		
Non taxable income	(10,544)	(32,919)
Actual current taxation charge	-	-

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

# Affinity Water Holdings Limited

## Notes to the financial statements for the year ended 31 March 2014 (continued)

### 3. Tax on profit on ordinary activities (continued)

#### Factors that may affect future tax charges

In 2012 the main rate of corporation tax in the United Kingdom was reduced to 23 per cent effective from 1 April 2013 and applicable to financial statements with a year ended 31 March 2014. Legislation was included in the Finance Act 2013 to reduce the corporation tax rate from 23 per cent to 21 per cent effective from 1 April 2014 and from 21 per cent to 20 per cent effective from 1 April 2015.

### 4. Dividends paid

	Year to 31 March 2014 £000	Period to 31 March 2013 £000
Interim dividend: £68,582,000 per share paid in February 2013	-	137,164
Interim dividend: £16,396,000 per share paid in July 2013	32,792	-
Interim dividend: £2,325,000 per share paid in December 2013	4,650	-
Interim dividend: £4,200,000 per share paid in March 2014	8,400	-
	<u>45,842</u>	<u>137,164</u>

### 5. Investments

	2014 £000	2013 £000
Investment in subsidiary undertaking	<u>287,670</u>	<u>287,670</u>

The directors believe that the carrying value of the investment is supported by the underlying net assets. 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.

### 6. Called up share capital

	2014 £	2013 £
<b>Allotted and called up share capital</b>		
2 (2013: 2) ordinary shares of £1.00 each	<u>2</u>	<u>2</u>

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 £287,760,000. At 31 March 2014 the share capital remained unpaid.

# Affinity Water Holdings Limited

## Notes to the financial statements for the year ended 31 March 2014 (continued)

### 7. Reserves

	Share premium account £000	Profit and loss account £000	Total £000
At 1 April 2013	287,670	-	287,670
Profit for the financial year	-	45,842	45,842
Dividends paid	-	(45,842)	(45,842)
<b>At 31 March 2014</b>	<b>287,670</b>	<b>-</b>	<b>287,670</b>

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

### 8. Reconciliation of movements in shareholder's funds

	2014 £000	2013 £000
Opening shareholder's funds	287,670	-
Profit for the financial year/period	45,842	137,164
Dividends paid	(45,842)	(137,164)
Issue of shares (including share premium)	-	287,670
<b>Closing shareholder's funds</b>	<b>287,670</b>	<b>287,670</b>

### 9. Related party transactions

The following related party transactions have occurred during the year:

Dividends received from Affinity Water Limited: £32,792,000 received in July 2013, £4,650,000 received in December 2013 and £8,400,000 received in March 2014 (2013: £137,163,680 received in February 2013 from the refinancing).

Dividends paid to Affinity Water Capital Funds Limited: £32,792,000 paid in July 2013, £4,650,000 paid in December 2013, and £8,400,000 paid in March 2014 (2013: £137,163,680 paid in February 2013 from the refinancing).

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

# Affinity Water Holdings Limited

## Notes to the financial statements for the year ended 31 March 2014 (continued)

### 10. Ultimate parent company and controlling party

The company is a wholly owned subsidiary of Affinity Water Capital Funds Limited, a company registered in England and Wales.

Affinity Water Capital Funds Limited is majority owned by Affinity Water Acquisitions (Investments) Limited, a company registered in England and Wales. Affinity Water Acquisitions (Investments) Limited is the parent undertaking of the smallest and 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 (Investments) Limited for the year ended 31 March 2014 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, an infrastructure investment fund managed by M&G (the European Investment arm of Prudential Plc), and Morgan Stanley Infrastructure Partners. Veolia Environnement S.A. holds a 10 per cent shareholding in Affinity Water Acquisitions (Holdco) Limited, the direct subsidiary of Affinity Water Acquisitions (Investments) Limited, through its subsidiary Veolia Water UK Limited. The directors consider Infracapital Partners II and Morgan Stanley Infrastructure Partners to be the company's ultimate controllers, as they are in a position to exercise material influence over the company's policy and affairs.

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.