

AFFINITY WATER LIMITED

**UNAUDITED HALF-YEARLY FINANCIAL REPORT FOR
THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2013**

(Registered Number 2546950)

Affinity Water Limited

Contents

	Page
Directors and advisers	1
Interim management report	2
Profit and loss account	4
Statement of total recognised gains and losses	5
Balance sheet	6
Cash flow statement	7
Notes to the cash flow statement	8
Notes to the financial statements	9
Responsibilities' statement	19
Independent review report to the directors of Affinity Water Limited	20

Affinity Water Limited

Directors and advisers

Directors

Duncan Bates
Richard Bienfait
Antonio Botija
Kenton Bradbury
Patrick O'D Bourke (appointed 27 July 2013)
Baroness Buscombe
Andrew Dench
Alberto Donzelli (resigned 27 June 2013)
Dr Jeffrey Herbert
Mathieu Lief (resigned 22 April 2013)
Dr Philip Nolan (appointed 1 April 2013)
Yacine Saidji
Bernd Schumacher (resigned 27 June 2013)
James Wilmott
Fiona Woolf CBE

Company Secretary

Tim Monod

Registered Office

Tamblin Way
Hatfield
Hertfordshire
AL10 9EZ

Registered Number

2546950

Affinity Water Limited

Interim management report for the six month period ended 30 September 2013

Introduction

Affinity Water Limited ('the company') supplies water and related services to a population of over three million people and businesses in its supply areas within North London and the Home Counties both north and west of the capital including urban centres such as Luton, Harlow, Stevenage, Watford and Woking. The Southeast region ('Southeast') includes the urban centres of Folkestone and Dover and the East region ('East') includes the urban centre of Clacton.

The company's vision is to be the leading community-focused water company in the eyes of the communities it serves, its staff, regulator and other stakeholders.

Directors

The directors of the company are shown on page 1.

Financial performance

Turnover for the first six months of the year was £147.7m, being a 10 per cent increase on the same period last year (£134.5m). The increase is due to the full inclusion of the three unified regulated water companies, the prior period's turnover representing only two months of unified business as the unification took place on 27 July 2012.

Total operating costs of £107.8m for the first half of the year were on par with the same period last year (2012: £107.8m). An increase in operating costs as a result of the full inclusion of the three unified businesses was offset by efficiencies generated through the unification, together with higher non-recurring costs incurred in the previous period related to various restructuring activities arising from a wider Affinity Water group reorganisation following its change in ownership in June 2012.

During the first half of the year, £46.6m was invested in the company's fixed assets, this being net of £3.4m grants and contributions. This was a 19 per cent increase on the same period last year (£39.1m) due to the full inclusion of the three unified regulated water companies.

Financing costs of £20.9m for the period were 85 per cent higher than the same period last year due to the refinancing of the business in February 2013. Details of the refinancing can be found on pages 12 to 14 of the company's Annual Report and Financial Statements for the year ended 31 March 2013.

Key events occurring during the period

On 1 April 2013, the company entered into a Business Transfer Agreement with Affinity Water Shared Services Limited. Fixed assets and stock were purchased from Affinity Water Shared Services Limited for a value of £1.9m with the remaining assets due to be transferred at book value by the end of the year.

The company has been working to prepare its business plan for the next regulatory period for submission to Ofwat in December 2013. The company aims to develop a coherent, well supported business plan for the period 2015 to 2020. The business plan needs to reflect the expectations of the company's customers, the service levels they seek, and at a price which they are willing to pay. The plan also needs to cover investment in water quality improvements and investment to ensure the company has sufficient availability of water resources in its area to satisfy demand from its customers today and in the future.

Affinity Water Limited

Interim management report for the six month period ended 30 September 2013 (continued)

Risks and uncertainties

The company has a formal and continuous process for identifying, evaluating and managing the key risks it faces. Risks, both strategic and operational, are reviewed and discussed by the executive management team. A key aim is to foster a culture in which staff throughout the business manage risks as part of their management of day to day operations. The Audit Committee reviews the executive management team's work on risk management and reports to the Board on significant risks.

Each of the key risks has a 'risk owner' from the senior management team who is responsible for establishing appropriate controls to mitigate the risks as far as possible.

In addition, and in accordance with regulatory obligations, the company produces an annual Risk and Compliance Statement for both Ofwat and other stakeholders.

The principal risks and uncertainties remain unchanged from those reported in the statutory accounts for the year ended 31 March 2013, as follows:

- Economic and regulatory;
- Competition;
- Revenue and cost;
- Operational;
- Security;
- Environmental;
- Health and safety; and
- Financial.

Further information on these risks and uncertainties can be found on page 18 of the company's Annual Report and Financial Statements for the year ended 31 March 2013.

The board anticipates that the principal risks and uncertainties affecting the activities of the company will remain unchanged for the remaining six months of the year.

Related party transactions

Details of significant related party transactions can be found in note 17 to the financial statements.

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. For this reason, the directors continue to adopt the going concern basis in the half-yearly financial statements.

Forward-looking statements

Certain statements in this interim report are forward-looking. Although the company believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements.

The company undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

Affinity Water Limited

Profit and loss account for the six month period ended 30 September 2013 (Registered Number 2546950)

	Note	6 months ended 30 September 2013 £000	6 months ended 30 September 2012 £000	12 months ended 31 March 2013 £000
Turnover				
Continuing operations:				
- Existing business	3	147,658	128,407	254,960
- Acquired business	3	-	6,118	24,506
Total turnover		147,658	134,525	279,466
Operating costs		(107,767)	(107,811)	(211,241)
Other operating income		4,532	3,814	9,023
Analysis of net operating profit				
Continuing operations:				
- Existing business		44,423	28,595	69,835
- Acquired business		-	1,933	7,413
Operating profit	4	44,423	30,528	77,248
Profit on disposal of fixed assets		23	2,612	3,752
Profit on ordinary activities before interest and taxation		44,446	33,140	81,000
Interest receivable and similar income		19	-	12
Interest payable and finance charges	5	(20,941)	(11,349)	(24,647)
Other finance income		326	438	71
Profit on ordinary activities before taxation		23,850	22,229	56,436
Tax on profit on ordinary activities	6	(543)	(5,140)	(12,941)
Profit on ordinary activities after taxation for the financial period		23,307	17,089	43,495

Affinity Water Limited

Statement of total recognised gains and losses for the six month period ended 30 September 2013 (Registered Number 2546950)

	Note	6 months ended 30 September 2013 £000	6 months ended 30 September 2012 £000	12 months ended 31 March 2013 £000
Profit for the financial period	13	23,307	17,089	43,495
Actuarial loss recognised in the pension scheme	13	(2,953)	(5,753)	(20,015)
Deferred tax movement relating to actuarial loss	13	590	45	4,603
Total recognised gains for the financial period	13	20,944	11,381	28,083

Affinity Water Limited

Balance sheet as at 30 September 2013 (Registered Number 2546950)

		30 September 2013 £000	31 March 2013 £000
Fixed assets			
Intangible assets		15,187	15,423
Tangible assets	7	1,188,349	1,187,818
Investment		61	61
		1,203,597	1,203,302
Current assets			
Stocks		1,296	1,576
Debtors	8	137,111	77,709
Cash at bank and in hand		7,812	35,779
		146,219	115,064
Creditors – amounts falling due within one year	9	(166,516)	(122,413)
Net current liabilities		(20,297)	(7,349)
Total assets less current liabilities		1,183,300	1,195,953
Creditors – amounts falling due after more than one year	10	(790,026)	(786,105)
Provisions for liabilities	11	(49,435)	(55,087)
Net assets excluding pension liability		343,839	354,761
Net pension liability	15	(13,944)	(13,018)
Net assets including pension liability		329,895	341,743
Capital and reserves			
Called up share capital	12	26,506	26,506
Share premium	13	1,400	1,400
Capital contribution	13	30,150	30,150
Revaluation reserve	13	207,560	207,993
Profit and loss account	13	64,279	75,694
Shareholder's funds	14	329,895	341,743

Affinity Water Limited

Cash flow statement

for the six month period ended 30 September 2013

(Registered Number 2546950)

	Note	30 September 2013 £000	30 September 2012 £000	31 March 2013 £000
Net cash inflow from operating activities	(a)	74,543	62,175	140,162
Returns on investments and servicing of finance				
Interest received		-	-	12
Interest paid		(23,196)	(13,676)	(20,013)
Interest element of finance lease payments		-	-	(127)
Net cash outflow from returns on investments and servicing of finance		(23,196)	(13,676)	(20,128)
Taxation		-	(3,525)	(6,940)
Capital expenditure and financial investment				
Purchase of tangible fixed assets		(49,952)	(44,581)	(103,455)
Capital contributions		3,402	5,481	11,679
Proceeds on disposal of tangible fixed assets		28	5,220	6,379
Net cash outflow from capital expenditure and financial investment		(46,522)	(33,880)	(85,397)
Acquisitions				
Purchase of assets and liabilities of East and Southeast		-	(131,200)	(131,200)
Net debt acquired from East and Southeast		-	(57,351)	(57,351)
Net cash outflow for acquisitions		-	(188,551)	(188,551)
Equity dividends		(32,792)	(16,291)	(153,455)
Net cash outflow before financing		(27,967)	(193,748)	(314,309)
Financing				
Proceeds on issue of share capital		-	1,400	1,400
Capital contribution from Affinity Water Capital Funds Limited		-	30,150	30,150
Capital element of finance lease payments		-	-	(1,591)
Loan from subsidiary		-	-	565,885
Loan from parent company		-	-	(205,787)
Loan from other group undertaking		-	-	(43,903)
Loan from intermediate parent company		-	-	3,550
Financing of assets operated by other parties		-	-	(329)
Net cash inflow from financing		-	31,550	349,375
(Decrease)/Increase in net cash	(b)/(c)	(27,967)	(162,198)	35,066

Affinity Water Limited

Notes to the cash flow statement for the six month period ended 30 September 2013

(a) Reconciliation of operating profit to net cash inflow from operating activities

	30 September 2013 £000	30 September 2012 £000	31 March 2013 £000
Operating profit	44,423	30,528	77,248
Depreciation of tangible fixed assets	39,797	37,820	75,683
Amortisation of goodwill	236	466	297
Amortisation of deferred credit	(148)	(148)	(311)
Decrease/(increase) in stocks	280	(387)	(198)
Increase in debtors	(59,554)	(65,224)	(4,078)
(Decrease)/increase in provisions	(898)	537	704
Increase in creditors	52,654	74,874	10,654
Difference between pension charge and cash contributions	(2,247)	(16,291)	(19,837)
Net cash inflow from operating activities	74,543	62,175	140,162

(b) Reconciliation of net cash flow to movement in net debt

	30 September 2013 £000	30 September 2012 £000	31 March 2013 £000
(Decrease)/increase in cash in the period	(27,967)	(162,198)	35,066
Cash inflow from increase in debt and finance leasing	-	-	(317,825)
Non cash increase in debt and finance leasing	(4,070)	-	(1,809)
Movement in net debt in the period	(32,037)	(162,198)	(284,568)
Net debt at the beginning of the period	(747,849)	(463,200)	(463,281)
Net debt at the end of the period	(779,886)	(625,398)	(747,849)

(c) Analysis of net debt

	At 1 April 2013 £000	Cash flow £000	Non cash flow £000	At 30 September 2013 £000
Net cash				
Bank	35,779	(27,967)	-	7,812
Debt				
Loans from subsidiary financed by bond issue	(762,764)	-	(4,070)	(766,834)
Loan from intermediate parent company	(3,550)	-	-	(3,550)
Debentures	(36)	-	-	(36)
Financing of assets used by the company and operated by other parties	(17,278)	-	-	(17,278)
	(783,628)	-	(4,070)	(787,698)
Net debt	(747,849)	(27,967)	(4,070)	(779,886)

Affinity Water Limited

Notes to the financial statements for the six month period ended 30 September 2013

1. Statement of accounting policies

Basis of preparation

These unaudited half-yearly financial statements have been prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of certain tangible fixed assets, and in accordance with Section 396 of the Companies Act 2006, and applicable UK accounting standards, except for (i) the treatment of certain grants and contributions and (ii) the non-amortisation of goodwill relating to the acquisition of North Surrey Water Limited in 2001.

The unaudited half-yearly financial statements do not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. A copy of the statutory accounts for the year ended 31 March 2013, and approved by the Board of Directors on 10 July 2013, has been delivered to the Registrar of Companies. The independent auditor's report on those accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain any statement under Section 498 of the Companies Act 2006. This condensed interim financial information has been reviewed, not audited.

The accounting policies adopted in the preparation of the unaudited half-yearly financial statements are consistent with those followed in the preparation of the annual financial statements for the year ended 31 March 2013. There are no new Standards and Interpretations which have an impact on the company's half-yearly financial report.

The unaudited half-yearly financial report for Affinity Water Limited and its wholly owned subsidiaries, Affinity Water Finance (2004) Limited and Affinity Water Programme Finance Limited, have not been presented in a consolidated format for the six month period ended 30 September 2013.

2. Segmental information

As financial information is reported to the board on a combined basis, no segmental analysis is required.

Affinity Water Limited

Notes to the financial statements for the six month period ended 30 September 2013 (continued)

3. Turnover

	6 months ended 30 September 2013 £000	6 months ended 30 September 2012 £000
Turnover is analysed below:		
Continuing operations:		
Existing business:		
Unmeasured supplies	66,442	66,437
Measured supplies	81,186	61,770
Chargeable services	30	200
	147,658	128,407
Acquired business:		
Unmeasured supplies	-	779
Measured supplies	-	5,166
Chargeable services	-	173
	-	6,118
Total turnover	147,658	134,525

4. Operating profit

	6 months ended 30 September 2013 £000	6 months ended 30 September 2012 £000
Operating profit is stated after charging:		
Water abstraction	3,098	2,889
Business rates	7,986	6,568
Depreciation of infrastructure assets	23,655	21,963
Depreciation of tangible fixed assets	16,142	15,857

These items are included in operating costs in the profit and loss account.

5. Interest payable and finance charges

	6 months ended 30 September 2013 £000	6 months ended 30 September 2012 £000
Interest payable to subsidiary in respect of issued bonds	19,859	6,232
Interest payable to other group undertakings	454	4,666
Other interest payable	628	451
	20,941	11,349

Affinity Water Limited

Notes to the financial statements for the six month period ended 30 September 2013 (continued)

6. Tax on profit on ordinary activities

	6 months ended 30 September 2013 £000	6 months ended 30 September 2012 £000
Current taxation		
Current tax on profit of the period	4,465	4,077
Current tax adjustment in respect of previous years	(175)	-
Current taxation	<u>4,290</u>	<u>4,077</u>
Deferred taxation		
Origination and reversal of timing differences – current period	2,870	3,107
Origination and reversal of timing differences – prior year adjustment	(53)	-
Impact of change in tax rate	(6,564)	(2,044)
Deferred tax (credit)/charge for the period	<u>(3,747)</u>	<u>1,063</u>
Tax on profit on ordinary activities	<u>543</u>	<u>5,140</u>
	6 months ended 30 September 2013 £000	6 months ended 30 September 2012 £000
Current taxation reconciliation		
Profit on ordinary activities before taxation	<u>23,850</u>	<u>22,229</u>
Theoretical tax at UK corporation tax rate of 23.0% (2012: 24.5%)	5,486	5,446
Effects of:		
Adjustments in respect of prior years	(175)	-
Expenses that are not tax deductible	577	411
Accelerated capital allowances	(632)	25
Other short-term timing differences	(374)	2,433
Other timing differences	(592)	(4,238)
Actual current taxation charge	<u>4,290</u>	<u>4,077</u>

Factors that may affect future tax charges

Changes in the main corporation tax rate in the United Kingdom from 23 per cent to 21 per cent with effect from 1 April 2014 and to 20 per cent with effect from 1 April 2015 were substantively enacted on 2 July 2013. These changes have been recognised in the deferred tax balance at 30 September 2013.

Affinity Water Limited

Notes to the financial statements for the six month period ended 30 September 2013 (continued)

7. Tangible assets

	Total £000
Cost or valuation	
At 1 April 2013	2,118,849
Additions at cost	45,863
Capital contributions	(5,530)
Disposals	(196)
At 30 September 2013	2,158,986
Depreciation	
At 1 April 2013	931,031
Charge for the period	39,797
Disposals	(191)
At 30 September 2013	970,637
Net book value	
At 30 September 2013	1,188,349
At 31 March 2013	1,187,818

Grants and contributions receivable relating to infrastructure assets have been deducted from the cost of tangible fixed assets. This is not in accordance with Large and Medium-sized Companies and Groups Regulations 2008 (SI 2008/410) which forms part of the Companies Act 2006, which requires tangible fixed assets to be shown at cost, and hence grants and contributions to be accounted for as deferred income. This departure from the requirements of the Companies Act 2006 is, in the opinion of the directors, necessary for the financial statements to show a true and fair view as, while a provision is made for depreciation of infrastructure assets, these assets have indefinite economic lives and therefore no basis exists on which to recognise grants and contributions in the profit and loss account.

8. Debtors

	30 September 2013 £000	31 March 2013 £000
Trade debtors and customers' water charges	78,972	30,689
Accrual for unbilled metered customers	41,065	36,044
Amounts due from group undertakings	2,977	736
Amounts due from associate companies	2,670	893
Other debtors	3,436	6,655
Prepayments and accrued income	7,991	2,692
	137,111	77,709

Affinity Water Limited

Notes to the financial statements for the six month period ended 30 September 2013 (continued)

9. Creditors – amounts falling due within one year

	30 September 2013 £000	31 March 2013 £000
Financing of assets used by the company and operated by other parties	1,093	1,093
Amounts due to group undertakings	-	1,655
Amounts due to associate companies	1,707	1,707
Payments received in advance	24,304	39,091
Trade creditors	9,286	8,238
Intercompany interest payable	4,738	11,417
Interest payable to intermediate parent company	-	25
Corporation tax, taxation and social security	10,788	6,294
Other creditors	8,482	7,969
Capital accruals	16,283	20,181
Other accruals and deferred income	89,835	24,743
	166,516	122,413

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

	30 September 2013 £000	31 March 2013 £000
Financing of assets used by the company and operated by other parties	16,185	16,185
Deferred credit – contributions to surface assets	3,421	3,570
Loan from subsidiary companies	766,834	762,764
Loan from parent company	3,550	3,550
Debenture stock	36	36
	790,026	786,105

11. Provisions for liabilities

	30 September 2013 £000	31 March 2013 £000
Deferred tax	46,115	50,869
Other	3,320	4,218
	49,435	55,087

Other liabilities predominantly relate to the amount of the company's liability in respect of excesses on individual insurance claims.

Affinity Water Limited

Notes to the financial statements for the six month period ended 30 September 2013 (continued)

12. Called up share capital

	30 September 2013 £000	31 March 2013 £000
Allotted, called up and fully paid share capital		
Ordinary shares (265,060,001 of £0.10 each)	26,506	26,506

13. Reserves

	Share premium account £000	Capital contribution £000	Revaluation reserve £000	Profit and loss account £000	Total £000
At 1 April 2013	1,400	30,150	207,993	75,694	315,237
Actuarial loss recognised in the pension scheme	-	-	-	(2,953)	(2,953)
Deferred tax arising thereon	-	-	-	590	590
Realisation of property revaluation gains of previous years	-	-	(433)	433	-
Profit for the financial period	-	-	-	23,307	23,307
Dividends paid	-	-	-	(32,792)	(32,792)
At 30 September 2013	1,400	30,150	207,560	64,279	303,389

Details of the dividends paid can be found in note 17 'Related party transactions'.

Affinity Water Limited

Notes to the financial statements for the six month period ended 30 September 2013 (continued)

14. Reconciliation of movements in shareholder's funds

	30 September 2013 £000	31 March 2013 £000
Profit for the financial period	23,307	43,495
Actuarial loss recognised in the pension scheme	(2,953)	(20,015)
Deferred tax arising thereon	590	4,603
Total gains recognised for the period	20,944	28,083
Dividend paid	(32,792)	(153,455)
Capital contribution	-	30,150
Movement in called up and fully paid share capital (including share premium)	-	1,400
Revaluation during the period	-	84,600
Net addition to shareholder's funds	(11,848)	(9,222)
Opening equity shareholder's funds	341,743	350,965
Closing equity shareholder's funds	329,895	341,743

15. Pensions

The company operates a pension scheme providing benefits based on final pensionable salary. The scheme closed to new members in September 2004. The assets of the scheme are held separately from those of the company.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term to the liability. Actuarial gains and losses recognised in the period have been included in the statement of total recognised gains and losses.

The company also has an unfunded obligation to pay pensions to former non-executive directors. A provision in respect of the obligation is included within the net pension liability.

The last triennial valuation was performed at 31 December 2010 by an independent qualified actuary.

In calculating the liabilities of the plan, the following financial assumptions have been used:

	30 September 2013	31 March 2013
Discount rate	4.30% pa	4.20% pa
Salary growth	4.10% pa	4.20% pa
RPI	3.10% pa	3.20% pa
CPI	2.40% pa	2.50% pa
Life expectancy for a male pensioner from age 65 (years)	23	23
Life expectancy for a female pensioner from age 65 (years)	25	25
Life expectancy from age 65 (years) for a male participant currently aged 40 (years)	25	25
Life expectancy from age 65 (years) for a female participant currently aged 40 (years)	28	27

Affinity Water Limited

Notes to the financial statements for the six month period ended 30 September 2013 (continued)

15. Pensions (continued)

Reconciliation of the net balance of the present value of scheme liabilities and the fair value of scheme assets:

	£000
Net liability at 31 March 2013	16,907
Current service cost	2,148
Interest cost	7,072
Expected return on pension assets	(7,398)
Contributions (including deficit repair)	(4,395)
Actuarial loss	2,953
Net liability at 30 September 2013	17,287

	30 September 2013 £000	31 March 2013 £000
Pensions liability before deferred tax	17,287	16,907
Related deferred tax	(3,343)	(3,889)
Net pension liability	13,944	13,018

16. Financial instruments and risk management

The company's financial instruments comprise borrowings, debentures, cash and liquid resources, and various items, such as trade debtors and trade creditors that arise directly from operations. The main purpose of these financial instruments is to provide finance for the company's operations.

It is the company's policy, and has been throughout the period under review, that no trading in financial instruments shall be undertaken.

The main risks arising from the company's financial instruments are interest rate risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks. These policies have remained unchanged during the period.

The company finances its operations through a mixture of retained profits, borrowings from its subsidiary companies, borrowings from its parent company and debentures. Treasury policies are agreed in conjunction with the wider Affinity Water group (including policies relating to liquidity and interest rate risks). The company does not undertake speculative transactions. Interest rate exposure is primarily managed by using a mixture of fixed rate, floating rate and RPI-linked borrowings.

Affinity Water Limited

Notes to the financial statements for the six month period ended 30 September 2013 (continued)

16. Financial instruments and risk management (continued)

The interest rate profile of the company's financial liabilities, excluding non-debt current liabilities and deferred credits, was as follows:

As at	Total £000	Fixed rate financial liabilities £000	RPI linked financial liabilities £000
30 September 2013	787,698	542,470	245,228
31 March 2013	783,628	542,319	241,309

The increase in the financial liabilities from 31 March 2013 relates primarily to the indexation of the RPI linked loans from Affinity Water Programme Finance Limited, a subsidiary of the company.

The maturity profile of the company's financial liabilities was as follows:

	30 September 2013 £000	31 March 2013 £000
In one year or less or on demand	1,093	1,093
In more than one year but not more than two years	1,029	1,029
In more than two years but not more than five years	2,682	2,682
In more than five years	782,894	778,824
	787,698	783,628

Further details of the company's financial instruments and risk management can be found in note 26 of the Annual Report and Financial Statements for the year ended 31 March 2013.

17. Related party transactions

An interim dividend of 12.37p was paid to Affinity Water Holdings Limited on 24 July 2013 amounting to £32,792,000.

On 12 July 2013 a payment of £11,750,000 was made to Affinity Water Finance (2004) Limited, a subsidiary of the company, in respect of the annual interest on its loan to the company of the proceeds of a bond issue, which had a principal amount of £200,000,000 at the time of issue.

First interim interest payments were also made to Affinity Water Programme Finance Limited, a subsidiary of the company, totalling £10,973,000, in relation to its loan of the proceeds of four bond issues with principal amounts totalling £575,000,000.

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

18. Post balance sheet events

There were no significant post balance sheet events.

Affinity Water Limited

Notes to the financial statements for the six month period ended 30 September 2013 (continued)

19. Ultimate parent company, controlling party and related parties

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

Affinity Water Holdings Limited is wholly owned by Affinity Water Capital Funds Limited, which is in turn wholly owned by Affinity Water Acquisitions Limited, a company registered in England and Wales. This 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 for the year ended 31 March 2013 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. has retained a 10 per cent 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.

Affinity Water Limited

Responsibilities' statement for the six month period ended 30 September 2013

We confirm to the best of our knowledge:

- (a) the condensed set of financial statements has been prepared in accordance with the pronouncements on interim reporting issued by the Accounting Standards Board; and
- (b) the interim management report includes a fair review of the information required to be disclosed.

The half-yearly financial report has not been audited.

Signed on behalf of the Board who approved the half-yearly financial report on 25 November 2013.



Tim Monod
Company Secretary

