

**AFFINITY WATER LIMITED**

UNAUDITED HALF-YEARLY FINANCIAL REPORT FOR  
THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2014

(Registered Number 2546950)

# Affinity Water Limited

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# Affinity Water Limited

## Directors and advisers

### Directors

Duncan Bates  
Richard Bienfait  
Antonio Botija (resigned 25 July 2014)  
Kenton Bradbury  
Olivier Bret (resigned 25 July 2014)  
Patrick O'D Bourke  
Baroness Buscombe  
Georgina Dellacha (appointed 25 July 2014)  
Dr Jeffrey Herbert  
Dr Philip Nolan  
Nigel Paterson (appointed 25 July 2014)  
Yacine Saidji  
James Wilmott

### 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 2014

### Introduction

Affinity Water Limited owns and manages the water assets and network in an area of approximately 4,515km<sup>2</sup> split over three regions in the southeast of England: southeast (413km<sup>2</sup> - the Southeast or 'SE' region), central (3,720km<sup>2</sup> - the Central region) and east (382km<sup>2</sup> - the East region). Affinity Water Limited is the sole supplier of drinking water in these three areas.

Since most of our customers are not able to choose their water supplier, we recognise it is essential we understand the needs of our customers and the communities we serve. For this reason we have a vision to be the UK's leading community-focused water company. It is critical to our success that we maintain the legitimacy with our customers to be their sole supplier of drinking water. Being community-focused allows our people to respond to the differing needs of our customers across our areas of supply. Being community-focused enables us to encourage our customers to value water and be efficient in their water use. This vision and approach is something that we believe sets us apart from other water companies.

### Directors

The directors of the company are shown on page 1.

### Financial performance

Turnover for the first six months of the year was £146.7m, being a 1 per cent decrease on the same period last year (2013: £147.7m). The decrease is primarily due to warmer weather in summer 2013 leading to higher water consumption compared with summer 2014.

Total operating costs of £112.9m for the first half of the year were 5 per cent higher than in the same period last year (2013: £107.8m). This increase in operating costs reflects a £1.2m higher bad debt expense during the current period compared to the respective prior period, together with a £3.3m increase in depreciation due to further investment in the company's fixed assets since the prior period end.

During the first half of the year, there was a cash investment of £48.0m in the company's fixed assets, this being net of £6.7m in grants and contributions. This was a 3 per cent increase on the same period last year (2013: £46.6m).

### Key events occurring during the period

On 4 April 2014 our Price Review 2014 ('PR14') Business Plan which sets out our proposed prices, performance commitments and levels of investment for the five years from April 2015 to March 2020 was awarded 'enhanced' status from the water industry regulatory body, Ofwat. This was the culmination of a company-wide effort to ensure a coherent and well supported business plan shaped by our customers. Ofwat's decision has fast tracked our determination, enabling us to prepare delivery plans for the next regulatory period and focus on our customers.

On 5 June 2014 Affinity Water Finance (2004) plc. (formerly Affinity Water Finance (2004) Limited), a wholly owned financing subsidiary of the company, gave notice that its outstanding notes issued would be transferred from the Main Market to the Professional Securities Market of the London Stock Exchange. The transfer took place on 19 June 2014. Affinity Water Finance (2004) plc. registered as a public company on 4 July 2014 and completed a tap issue of £50.0m on the same terms as its existing £200.0m bond on 16 July 2014. The proceeds of this issue were £58.6m and have been lent on to the company on the same terms and are being used to fund its capital expenditure programmes.

On 1 October 2014 the Chief Executive Officer of the company, Richard Bienfait, announced that he would be leaving the company on 31 December 2014. A search for his successor is underway.

# **Affinity Water Limited**

## **Interim management report for the six month period ended 30 September 2014 (continued)**

### **Risks and uncertainties**

We have an established framework for identifying, evaluating and managing the key risks we face, which was updated during the prior year. Strategic and operational risks are reviewed and discussed by senior management. 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 senior management's work on risk management and reports to the Board on significant risks. During the period we have been developing our risk management processes and further integrating them into the operation and governance of our business.

The principal risks and uncertainties remain unchanged from those reported in the Annual Report and Financial Statements for the year ended 31 March 2014, as follows:

- Economic, regulatory and political risks
- Competition and market reform risks
- Operational risks
- Financial risks
- People risks

Further information on these risks and uncertainties can be found on page 31 of the company's published Annual Report and Financial Statements for the year ended 31 March 2014.

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 financial year.

### **Related party transactions**

Details of significant related party transactions can be found in Note 17 of the half-yearly financial report.

### **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 report.

### **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 2014 (Registered Number 2546950)

|  | Note | <b>6 months<br/>ended 30<br/>September<br/>2014<br/>£000</b> | 6 months<br>ended 30<br>September<br>2013<br>£000 | 12 months<br>ended 31<br>March<br>2014<br>£000 |
|--|------|--|---|--|
| <b>Turnover</b>  | 3    | <b>146,739</b>   | <b>147,658</b>                                    | <b>291,381</b>                                 |
| Operating costs  |      | (112,867)  | (107,767)   | (216,844)                                      |
| Other operating income   |      | 5,120  | 4,532   | 9,880  |
| <b>Operating profit</b>  | 4    | <b>38,992</b>  | <b>44,423</b>                                     | <b>84,417</b>                                  |
| Profit on disposal of fixed assets   |      | 16   | 23  | 1,480  |
| <b>Profit on ordinary activities before interest and<br/>taxation</b>            |      | <b>39,008</b>  | <b>44,446</b>                                     | <b>85,897</b>                                  |
| Interest receivable and similar income   |      | 111  | 19  | 345  |
| Interest payable and similar charges   | 5    | (21,037)   | (20,941)  | (41,191)                                       |
| Other finance income   |      | 1,453  | 326   | 654  |
| <b>Profit on ordinary activities before taxation</b>                             |      | <b>19,535</b>  | <b>23,850</b>                                     | <b>45,705</b>                                  |
| Tax on profit on ordinary activities   | 6    | (5,152)  | (543)   | (1,293)  |
| <b>Profit on ordinary activities after taxation for the<br/>financial period</b> |      | <b>14,383</b>  | <b>23,307</b>                                     | <b>44,412</b>                                  |

All profits of the company are from continuing operations.

# Affinity Water Limited

## Statement of total recognised gains and losses for the six month period ended 30 September 2014 (Registered Number 2546950)

|   | Note | <b>6 months<br/>ended 30<br/>September<br/>2014<br/>£000</b> | 6 months<br>ended 30<br>September<br>2013<br>£000 | 12 months<br>ended 31<br>March<br>2014<br>£000 |
|---|------|--|---|--|
| Profit for the financial period                           | 13   | 14,383   | 23,307  | 44,412   |
| Actuarial (loss)/gain recognised in the pension scheme    | 13   | (2,004)  | (2,953)   | 14,785   |
| Deferred tax movement relating to the actuarial loss/gain | 13   | (309)  | 590   | (2,781)  |
| Current tax movement relating to the actuarial loss       | 13   | 710  | -   | -  |
| <b>Total recognised gains for the financial period</b>    |      | <b>12,780</b>  | <b>20,944</b>                                     | <b>56,416</b>                                  |

# Affinity Water Limited

## Balance sheet as at 30 September 2014 (Registered Number 2546950)

|   | Note | 30 September<br>2014<br>£000 | 31 March<br>2014<br>£000 |
|---|------|------------------------------|--------------------------|
| <b>Fixed assets</b>   |      |                              |                          |
| Intangible assets   |      | 14,735                       | 14,961                   |
| Tangible assets   | 7    | 1,216,503                    | 1,211,963                |
| Investment  |      | 60                           | 61                       |
|   |      | <b>1,231,298</b>             | <b>1,226,985</b>         |
| <b>Current assets</b>   |      |                              |                          |
| Stocks  |      | 1,388                        | 1,412                    |
| Debtors   | 8    | 139,334                      | 81,204                   |
| Cash at bank and in hand  |      | 47,029                       | 16,826                   |
|   |      | <b>187,751</b>               | <b>99,442</b>            |
| <b>Creditors – amounts falling due within one year</b>          | 9    | <b>(167,643)</b>             | <b>(132,585)</b>         |
| <b>Net current assets/(liabilities)</b>                         |      | <b>20,108</b>                | <b>(33,143)</b>          |
| <b>Total assets less current liabilities</b>                    |      | <b>1,251,406</b>             | <b>1,193,842</b>         |
| <b>Creditors – amounts falling due after more than one year</b> | 10   | <b>(858,849)</b>             | <b>(795,230)</b>         |
| <b>Provisions for liabilities</b>                               | 11   | <b>(48,984)</b>              | <b>(48,784)</b>          |
| <b>Net assets excluding pension asset</b>                       |      | <b>343,573</b>               | <b>349,828</b>           |
| <b>Net pension asset</b>  | 15   | <b>3,724</b>                 | <b>2,489</b>             |
| <b>Net assets including pension asset</b>                       |      | <b>347,297</b>               | <b>352,317</b>           |
| <b>Capital and reserves</b>                                     |      |                              |                          |
| 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   | 208,889                      | 208,889                  |
| Profit and loss account   | 13   | 80,352                       | 85,372                   |
| <b>Total shareholder's funds</b>                                | 14   | <b>347,297</b>               | <b>352,317</b>           |



# Affinity Water Limited

## Cash flow statement

for the six month period ended 30 September 2014

|   | Note    | 30<br>September<br>2014<br>£000 | 30<br>September<br>2013<br>£000 | 31<br>March<br>2014<br>£000 |
|---|---------|---------------------------------|---------------------------------|-----------------------------|
| <b>Net cash inflow from operating activities</b>                      | (a)     | <b>78,359</b>                   | 74,543                          | 156,192                     |
| <b>Returns on investments and servicing of finance</b>                |         |                                 |                                 |                             |
| Interest received   |         | 111                             | -                               | 345                         |
| Interest paid   |         | (22,544)                        | (23,196)                        | (34,570)                    |
| Net cash outflow from returns on investments and servicing of finance |         | (22,433)                        | (23,196)                        | (34,225)                    |
| <b>Taxation</b>   |         | <b>(3,189)</b>                  | -                               | (7,055)                     |
| <b>Capital expenditure and financial investment</b>                   |         |                                 |                                 |                             |
| Purchase of tangible fixed assets                                     |         | (54,662)                        | (49,952)                        | (117,101)                   |
| Capital contributions   |         | 6,682                           | 3,402                           | 7,969                       |
| Proceeds on disposal of tangible fixed assets                         |         | 16                              | 28                              | 1,743                       |
| Net cash outflow from capital expenditure and financial investment    |         | (47,964)                        | (46,522)                        | (107,389)                   |
| <b>Equity dividends</b>   |         | <b>(17,800)</b>                 | (32,792)                        | (45,842)                    |
| <b>Net cash outflow before financing</b>                              |         | <b>(13,027)</b>                 | (27,967)                        | (38,319)                    |
| <b>Financing</b>  |         |                                 |                                 |                             |
| Loan from subsidiary  |         | 58,568                          | -                               | -                           |
| Financing of assets operated by other parties                         |         | 1,863                           | -                               | 2,167                       |
| (Repayment)/drawdown of short-term credit facilities                  |         | (17,200)                        | -                               | 17,200                      |
| Repurchase of debentures  |         | (1)                             | -                               | (1)                         |
| Net cash inflow from financing  |         | 43,230                          | -                               | 19,366                      |
| <b>Increase/(decrease) in net cash</b>                                | (b)/(c) | <b>30,203</b>                   | (27,967)                        | (18,953)                    |

# Affinity Water Limited

## Notes to the cash flow statement for the six month period ended 30 September 2014

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

|  | <b>30<br/>September<br/>2014<br/>£000</b> | 30<br>September<br>2013<br>£000 | 31<br>March<br>2014<br>£000 |
|--|---|---------------------------------|-----------------------------|
| Operating profit                                     | <b>38,992</b>                             | 44,423                          | 84,417                      |
| Depreciation of tangible fixed assets                | <b>43,077</b>                             | 39,797                          | 80,874                      |
| Amortisation of goodwill                             | <b>226</b>                                | 236                             | 462                         |
| Amortisation of deferred credit                      | <b>(124)</b>                              | (148)                           | (297)                       |
| Decrease in stocks                                   | <b>24</b>                                 | 280                             | 164                         |
| Increase in debtors                                  | <b>(58,124)</b>                           | (59,554)                        | (3,495)                     |
| Decrease in provisions                               | <b>(1,019)</b>                            | (898)                           | (392)                       |
| Increase/(decrease) in creditors                     | <b>57,402</b>                             | 52,654                          | (995)                       |
| Pension contributions in excess of operating charges | <b>(2,095)</b>                            | (2,247)                         | (4,546)                     |
| Net cash inflow from operating activities            | <b>78,359</b>                             | 74,543                          | 156,192                     |

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

|   | <b>30<br/>September<br/>2014<br/>£000</b> | 30<br>September<br>2013<br>£000 | 31<br>March<br>2014<br>£000 |
|---|---|---------------------------------|-----------------------------|
| Increase/(decrease) in cash in the period             | <b>30,203</b>                             | (27,967)                        | (18,953)                    |
| Cash inflow from increase in debt and finance leasing | <b>(43,230)</b>                           | -                               | (19,366)                    |
| Non cash increase in debt and finance leasing         | <b>(3,537)</b>                            | (4,070)                         | (7,168)                     |
| Movement in net debt in the period                    | <b>(16,564)</b>                           | (32,037)                        | (45,487)                    |
| Net debt at the beginning of the period               | <b>(793,336)</b>                          | (747,849)                       | (747,849)                   |
| Net debt at the end of the period                     | <b>(809,900)</b>                          | (779,886)                       | (793,336)                   |

### (c) Analysis of net debt

|   | At 1<br>April<br>2014<br>£000 | Cash flow<br>£000 | Non<br>cash flow<br>£000 | At 30<br>September<br>2014<br>£000 |
|---|-------------------------------|-------------------|--------------------------|------------------------------------|
| <b>Net cash</b>   |                               |                   |                          |                                    |
| Bank  | 16,826                        | 30,203            | -                        | <b>47,029</b>                      |
| <b>Debt</b>   |                               |                   |                          |                                    |
| Loans from subsidiary financed by bond issue                          | (769,976)                     | (58,568)          | (3,537)                  | <b>(832,081)</b>                   |
| Loan from intermediate parent company                                 | (3,550)                       | -                 | -                        | <b>(3,550)</b>                     |
| Debentures  | (35)                          | 1                 | -                        | <b>(34)</b>                        |
| External short-term credit facilities                                 | (17,200)                      | 17,200            | -                        | -                                  |
| Financing of assets used by the company and operated by other parties | (19,401)                      | (1,863)           | -                        | <b>(21,264)</b>                    |
|   | (810,162)                     | (43,230)          | (3,537)                  | <b>(856,929)</b>                   |
| <b>Net debt</b>   | <b>(793,336)</b>              | <b>(13,027)</b>   | <b>(3,537)</b>           | <b>(809,900)</b>                   |

# Affinity Water Limited

## Notes to the half-yearly financial report for the six month period ended 30 September 2014

### 1. Statement of accounting policies

#### Basis of preparation

This unaudited half-yearly financial report has 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 report does not constitute statutory financial statements as defined in Section 434 of the Companies Act 2006. A copy of the statutory financial statements for the year ended 31 March 2014, and approved by the Board of Directors on 20 June 2014, has been delivered to the Registrar of Companies. The independent auditor's report on those financial statements 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 this unaudited half-yearly financial report are consistent with those followed in the preparation of the annual financial statements for the year ended 31 March 2014. 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) plc. and Affinity Water Programme Finance Limited, has not been presented in a consolidated format for the six month period ended 30 September 2014.

#### Use of estimates

There have not been any significant changes in the use of estimates or judgements from those reported in the Annual Report and Financial Statements for the year ended 31 March 2014.

### 2. Segmental information

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

### 3. Turnover

Turnover represents income from the supply of water and other chargeable services exclusive of VAT arising wholly within the United Kingdom.

|                     | <b>6 months<br/>ended 30<br/>September<br/>2014<br/>£000</b> | 6 months<br>ended 30<br>September<br>2013<br>£000 |
|---------------------|--|---|
| Unmeasured supplies | <b>65,037</b>  | 66,442  |
| Measured supplies   | <b>81,439</b>  | 81,186  |
| Chargeable services | <b>263</b>   | 30  |
|                     | <hr/> <b>146,739</b> <hr/>                                   | <hr/> 147,658 <hr/>                               |

# Affinity Water Limited

## Notes to the half-yearly financial report for the six month period ended 30 September 2014 (continued)

### 4. Operating profit

|  | <b>6 months<br/>ended 30<br/>September<br/>2014<br/>£000</b> | 6 months<br>ended 30<br>September<br>2013<br>£000 |
|--|--|---|
| Operating profit is stated after charging: |  |   |
| Water abstraction                          | <b>3,113</b>   | 3,098   |
| Business rates                             | <b>8,209</b>   | 7,896   |
| Depreciation of infrastructure assets      | <b>24,014</b>  | 23,655  |
| Depreciation of tangible fixed assets      | <b>19,063</b>  | 16,142  |

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

### 5. Interest payable and similar charges

|   | <b>6 months<br/>ended 30<br/>September<br/>2014<br/>£000</b> | 6 months<br>ended 30<br>September<br>2013<br>£000 |
|---|--|---|
| Interest payable to subsidiary in respect of issued bonds | <b>19,977</b>  | 19,859  |
| Interest payable to external parties                      | <b>442</b>   | 373   |
| Interest payable to other group undertaking               | <b>80</b>  | 81  |
| Other interest payable                                    | <b>538</b>   | 628   |
|   | <b>21,037</b>  | 20,941  |

# Affinity Water Limited

## Notes to the half-yearly financial report for the six month period ended 30 September 2014 (continued)

### 6. Tax on profit on ordinary activities

|  | <b>6 months<br/>ended 30<br/>September<br/>2014<br/>£000</b> | 6 months<br>ended 30<br>September<br>2013<br>£000 |
|--|--|---|
| <b>Current taxation</b>  |  |   |
| Current tax on profit of the period                                    | <b>3,869</b>   | 4,465   |
| Current tax adjustment in respect of previous years                    | <b>64</b>  | (175)   |
| Current taxation   | <b>3,933</b>   | 4,290   |
| <b>Deferred taxation</b>   |  |   |
| Origination and reversal of timing differences – current period        | <b>1,219</b>   | 2,870   |
| Origination and reversal of timing differences – prior year adjustment | -  | (53)  |
| Impact of change in tax rate   | -  | (6,564)   |
| Deferred tax charge/(credit) for the period                            | <b>1,219</b>   | (3,747)   |
| Tax on profit on ordinary activities                                   | <b>5,152</b>   | 543   |

|   | <b>6 months<br/>ended 30<br/>September<br/>2014<br/>£000</b> | 6 months<br>ended 30<br>September<br>2013<br>£000 |
|---|--|---|
| <b>Current taxation reconciliation</b>                        |  |   |
| Profit on ordinary activities before taxation                 | <b>19,535</b>  | 23,850  |
| Theoretical tax at UK corporation tax rate of 21% (2013: 23%) | <b>4,102</b>   | 5,486   |
| Effects of:   |  |   |
| Adjustments in respect of prior years                         | <b>64</b>  | (175)   |
| Permanent differences   | <b>312</b>   | 577   |
| Accelerated capital allowances                                | <b>(431)</b>   | (1,178)   |
| Developer contributions                                       | <b>270</b>   | 546   |
| Other timing differences                                      | <b>(384)</b>   | (966)   |
| Actual current taxation charge                                | <b>3,933</b>   | 4,290   |

### 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 were recognised in the deferred tax balance at 30 September 2013.

# Affinity Water Limited

## Notes to the half-yearly financial report for the six month period ended 30 September 2014 (continued)

### 7. Tangible assets

|                             | <b>Total<br/>£000</b> |
|-----------------------------|-----------------------|
| <b>Cost or valuation</b>    |                       |
| At 1 April 2014             | 2,223,583             |
| Additions at cost           | 51,210                |
| Capital contributions       | (3,592)               |
| Disposals                   | (124)                 |
| <b>At 30 September 2014</b> | <b>2,271,077</b>      |
| <b>Depreciation</b>         |                       |
| At 1 April 2014             | 1,011,620             |
| Charge for the period       | 43,077                |
| Disposals                   | (123)                 |
| <b>At 30 September 2014</b> | <b>1,054,574</b>      |
| <b>Net book value</b>       |                       |
| <b>At 30 September 2014</b> | <b>1,216,503</b>      |
| At 31 March 2014            | 1,211,963             |

### 8. Debtors

|  | <b>30 September<br/>2014<br/>£000</b> | 31 March<br>2014<br>£000 |
|--|---------------------------------------|--------------------------|
| Trade debtors and customers' water charges | <b>81,784</b>                         | 30,042                   |
| Accrual for unbilled metered customers     | <b>40,782</b>                         | 37,790                   |
| Amounts owed by group undertakings         | <b>5,191</b>                          | 3,943                    |
| Amounts owed by related parties            | <b>652</b>                            | 402                      |
| Other debtors                              | <b>3,102</b>                          | 3,508                    |
| Prepayments and accrued income             | <b>7,823</b>                          | 5,519                    |
|  | <b>139,334</b>                        | 81,204                   |

# Affinity Water Limited

## Notes to the half-yearly financial report for the six month period ended 30 September 2014 (continued)

### 9. Creditors – amounts falling due within one year

|   | 30 September<br>2014<br>£000 | 31 March<br>2014<br>£000 |
|---|------------------------------|--------------------------|
| Financing of assets used by the company and operated by other parties | 1,230                        | 1,005                    |
| Amounts owed to related parties                                       | 6                            | 1,166                    |
| Payments received in advance  | 31,037                       | 32,581                   |
| Trade creditors   | 11,239                       | 10,827                   |
| Interest payable to subsidiary companies                              | 5,156                        | 10,321                   |
| Corporation tax, taxation and social security                         | 4,518                        | 4,452                    |
| Other creditors   | 8,471                        | 10,587                   |
| Capital accruals  | 14,374                       | 17,826                   |
| Other accruals and deferred income                                    | 91,354                       | 26,474                   |
| Short-term credit facilities  | -                            | 17,200                   |
| Interest payable to external parties                                  | 258                          | 146                      |
|   | <b>167,643</b>               | <b>132,585</b>           |

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

|   | 30 September<br>2014<br>£000 | 31 March<br>2014<br>£000 |
|---|------------------------------|--------------------------|
| Financing of assets used by the company and operated by other parties | 20,034                       | 18,396                   |
| Deferred credit – contributions to surface assets                     | 3,150                        | 3,274                    |
| Loan from subsidiary companies  | 832,081                      | 769,975                  |
| Loan from parent company  | 3,550                        | 3,550                    |
| Debenture stock   | 34                           | 35                       |
|   | <b>858,849</b>               | <b>795,230</b>           |

On 16 July 2014 Affinity Water Finance (2004) plc. completed a tap issue of £50,000,000 on the same terms as its existing £200,000,000 bond. The net proceeds were then lent on to the company on the same terms as the existing intercompany loan.

### 11. Provisions for liabilities

|              | 30 September<br>2014<br>£000 | 31 March<br>2014<br>£000 |
|--------------|------------------------------|--------------------------|
| Deferred tax | 46,177                       | 44,958                   |
| Other        | 2,807                        | 3,826                    |
|              | <b>48,984</b>                | <b>48,784</b>            |

Other provisions predominantly relate to the amount of the company's liability in respect of excesses on individual insurance claims. This is based upon data provided by loss adjusters to insurers and is calculated based on settlement experience.

# Affinity Water Limited

## Notes to the half-yearly financial report for the six month period ended 30 September 2014 (continued)

### 12. Called up share capital

|   | 30 September<br>2014<br>£000 | 31 March<br>2014<br>£000 |
|---|------------------------------|--------------------------|
| <b>Allotted, called up and fully paid share capital</b> |                              |                          |
| Ordinary shares (265,057,824 of £0.10 each)             | <b>26,506</b>                | 26,506                   |

### 13. Reserves

|   | Share<br>premium<br>account<br>£000 | Capital<br>contribution<br>£000 | Revaluation<br>reserve<br>£000 | Profit<br>and loss<br>account<br>£000 | Total<br>£000  |
|---|-------------------------------------|---------------------------------|--------------------------------|---------------------------------------|----------------|
| At 1 April 2014                                 | 1,400                               | 30,150                          | 208,889                        | 85,372                                | 325,811        |
| Actuarial loss recognised in the pension scheme | -                                   | -                               | -                              | (2,004)                               | (2,004)        |
| Deferred tax arising thereon                    | -                                   | -                               | -                              | (309)                                 | (309)          |
| Current tax arising thereon                     | -                                   | -                               | -                              | 710                                   | 710            |
| Profit for the financial period                 | -                                   | -                               | -                              | 14,383                                | 14,383         |
| Dividends paid                                  | -                                   | -                               | -                              | (17,800)                              | (17,800)       |
| <b>At 30 September 2014</b>                     | <b>1,400</b>                        | <b>30,150</b>                   | <b>208,889</b>                 | <b>80,352</b>                         | <b>320,791</b> |

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

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

|  | 30 September<br>2014<br>£000 | 31 March<br>2014<br>£000 |
|--|------------------------------|--------------------------|
| Profit for the financial period                      | <b>14,383</b>                | 44,412                   |
| Actuarial (loss)/gain recognised in the pension plan | <b>(2,004)</b>               | 14,785                   |
| Deferred tax arising thereon                         | <b>(309)</b>                 | (2,781)                  |
| Current tax arising thereon                          | <b>710</b>                   | -                        |
| Total gains recognised for the period                | <b>12,780</b>                | 56,416                   |
| Dividends paid                                       | <b>(17,800)</b>              | (45,842)                 |
| Net addition to shareholder's funds                  | <b>(5,020)</b>               | 10,574                   |
| Opening equity shareholder's funds                   | <b>352,317</b>               | 341,743                  |
| Closing equity shareholder's funds                   | <b>347,297</b>               | 352,317                  |



# Affinity Water Limited

## Notes to the half-yearly financial report for the six month period ended 30 September 2014 (continued)

### 15. Pensions

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

The assets of the plan are measured using market values. Pension plan 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 last triennial valuation was performed at 31 March 2013 by an independent qualified actuary.

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

|  | <b>30 September<br/>2014</b> | 31 March<br>2014 |
|--|------------------------------|------------------|
| Discount rate  | <b>3.75% pa</b>              | 4.30% pa         |
| Salary growth  | <b>3.65% pa</b>              | 3.90% pa         |
| RPI  | <b>3.05% pa</b>              | 3.30% pa         |
| CPI  | <b>2.05% pa</b>              | 2.30% pa         |
| Life expectancy for a male pensioner from age 65 (years)                               | <b>22</b>                    | 22               |
| Life expectancy for a female pensioner from age 65 (years)                             | <b>24</b>                    | 24               |
| Life expectancy from age 65 (years) for a male participant currently aged 45 (years)   | <b>24</b>                    | 24               |
| Life expectancy from age 65 (years) for a female participant currently aged 45 (years) | <b>27</b>                    | 27               |

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

|  | <b>£000</b>  |
|--|--------------|
| Net balance at 1 April 2014              | 3,111        |
| Current service cost                     | (1,954)      |
| Interest cost                            | (6,650)      |
| Expected return on pension assets        | 8,103        |
| Contributions (including deficit repair) | 4,049        |
| Actuarial loss                           | (2,004)      |
| <b>Net balance at 30 September 2014</b>  | <b>4,655</b> |

|                                 | <b>30 September<br/>2014</b> | 31 March<br>2014 |
|---------------------------------|------------------------------|------------------|
|                                 | <b>£000</b>                  | £000             |
| Net balance before deferred tax | <b>4,655</b>                 | 3,111            |
| Related deferred tax            | <b>(931)</b>                 | (622)            |
| Net pension asset               | <b>3,724</b>                 | 2,489            |

# Affinity Water Limited

## Notes to the half-yearly financial report for the six month period ended 30 September 2014 (continued)

### 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 Affinity Water Capital Funds Limited 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.

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

| As at                    | Total<br>£000  | Fixed rate<br>financial<br>liabilities<br>£000 | Floating rate<br>financial<br>liabilities<br>£000 | RPI linked<br>financial<br>liabilities<br>£000 |
|--------------------------|----------------|--|---|--|
| <b>30 September 2014</b> | <b>856,929</b> | <b>605,313</b>                                 | -   | <b>251,616</b>                                 |
| 31 March 2014            | 810,162        | 544,791  | 17,200  | 248,171  |

The increase in the financial liabilities from 31 March 2014 relates primarily to the indexation of the RPI-linked borrowings from Affinity Water Programme Finance Limited, a subsidiary of the company, as well as an increase in the loan from Affinity Water Finance (2004) plc., a subsidiary of the company, resulting from the subsidiary completing a tap issue of £50,000,000 on the same terms as those of its existing £200,000,000 bond on 16 July 2014. The net proceeds were then lent to the company on the same terms as the existing intercompany loan.

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

|   | <b>30 September<br/>2014<br/>£000</b> | 31 March<br>2014<br>£000 |
|---|---------------------------------------|--------------------------|
| In one year or less or on demand                    | <b>1,230</b>                          | 18,205                   |
| In more than one year but not more than two years   | <b>1,219</b>                          | 1,078                    |
| In more than two years but not more than five years | <b>2,865</b>                          | 1,509                    |
| In more than five years                             | <b>851,615</b>                        | 789,370                  |
|   | <b>856,929</b>                        | 810,162                  |

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 2014.

# Affinity Water Limited

## Notes to the half-yearly financial report for the six month period ended 30 September 2014 (continued)

### 17. Related party transactions

An interim dividend of 4.26p was paid to Affinity Water Holdings Limited on 30 July 2014 amounting to £11,300,000. A further interim dividend of 2.45p was paid to Affinity Water Holdings Limited on 30 September 2014 amounting to £6,500,000.

On 11 July 2014 a payment of £11,750,000 was made to Affinity Water Finance (2004) plc., 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 payment.

On 16 July 2014 Affinity Water Finance (2004) plc., a subsidiary of the company, completed a tap issue of £50,000,000 on the same terms as those on its existing £200,000,000 bond. The net proceeds were then lent to the company on the same terms as the existing intercompany loan.

Interest payments were also made during the period to Affinity Water Programme Finance Limited, a subsidiary of the company, totalling £9,880,000, 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.

### 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 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, the 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 businesses, 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 2014**

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 26 November 2014.



Tim Monod  
Company Secretary