

AFFINITY WATER FINANCE (2004) LIMITED

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

(Registered Number 05139236)

Affinity Water Finance (2004) Limited

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Affinity Water Finance (2004) Limited

Directors and advisers

Directors

Duncan Bates
Richard Bienfait
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

05139236

Affinity Water Finance (2004) 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 raise finance on behalf of its immediate parent undertaking, Affinity Water Limited. During 2004 the company issued £200m of Guaranteed Notes ("Bond"), maturing in July 2026 with an annual coupon of 5.875 per cent.

As this Bond has a fixed coupon, the company faces limited risk or uncertainty. Affinity Water Limited, and the wider Affinity Water group, are responsible for the financing strategy and treasury policies of the company. The aim of this strategy is to assess the ongoing capital requirement of the group and to raise funding on a timely basis, taking advantage of any favourable market opportunities. Surplus funds are invested based upon forecast cash requirements, in accordance with the company's treasury policy.

Interest rates earned on, and the currency of denomination of, the company's financial assets are matched against those of the company's financial liabilities. Accordingly, these assets and liabilities act as a natural hedge for each other, and the company has no net exposure to movements in interest rates.

The principal risks and uncertainties facing the company are described further in note 13 to the financial statements.

Due to the nature of the company's business, it is not relevant to set any key performance indicator measures to report against.

Approved by the Board and signed on its behalf by:



Tim Monod
Company Secretary
20 June 2014

Affinity Water Finance (2004) Limited

Directors' report for the year ended 31 March 2014

Introduction

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

Directors

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

Results and dividends

The company made no profit for the financial year (2013: £nil). No dividends are proposed for the year (2013: £nil).

Future developments

It is the company's intention to continue with its current activity through to 2026 when the Bond matures.

On 5 June 2014 the company gave notice that on or about 19 June 2014 the outstanding notes issued would be transferred from the Main Market to the Professional Securities Market of the London Stock Exchange.

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 company is a wholly owned subsidiary of Affinity Water Limited and 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 £200m Bond and meets from time to time to facilitate this.

Financial risk management

The principal risks and uncertainties facing the company are described in note 13 to the financial statements.

Affinity Water Finance (2004) Limited

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

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.

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, and support of the company's immediate parent undertaking. 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business; and
- be responsible for the maintenance and integrity of the website on which the financial statements have been published.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions 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 the financial statements may differ from legislation in other jurisdictions.

Affinity Water Finance (2004) Limited

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

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.

Independent auditor

PricewaterhouseCoopers LLP ("PwC") were appointed as auditor at the Board meeting held 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 .

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 Finance (2004) 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 result 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 Finance (2004) 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 Finance (2004) 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.

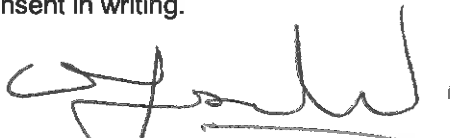
Responsibilities for the financial statements and the audit

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 member 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 Finance (2004) Limited

Profit and loss account for the year ended 31 March 2014

(Registered Number: 05139236)

	Note	2014 £000	2013 £000
Operating result		-	-
Interest receivable and similar income	5	11,908	11,901
Interest payable and similar charges	6	(11,908)	(11,901)
Result on ordinary activities before taxation		-	-
Tax on result on ordinary activities	7	-	-
Result for the financial year	15	-	-

The results 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 result on ordinary activities before taxation and the result for the financial year stated above and their historical cost equivalents.

The notes on pages 10 to 15 form part of the financial statements.

Affinity Water Finance (2004) Limited

Balance Sheet as at 31 March 2014 (Registered Number: 05139236)

	Note	2014 £000	2013 £000
Investments	9	197,037	196,879
Current assets			
Debtors	10	8,402	8,402
Cash at bank and in hand		50	50
		<u>8,452</u>	<u>8,452</u>
Creditors – amounts falling due within one year	11	<u>(8,402)</u>	<u>(8,402)</u>
Net current assets		<u>50</u>	<u>50</u>
Total assets less current liabilities		<u>197,087</u>	<u>196,929</u>
Creditors – amounts falling due after more than one year	12	<u>(197,037)</u>	<u>(196,879)</u>
Net assets		<u>50</u>	<u>50</u>
Capital and reserves			
Called up share capital	14	50	50
Profit and loss account	15	-	-
Total shareholder's funds	16	<u>50</u>	<u>50</u>

The notes on pages 10 to 15 form part of the financial statements.

The financial statements on pages 8 to 15 have been approved by the Board and were signed and authorised for issue on 20 June 2014 on its behalf by:



Richard Bienfait
Director



Duncan Bates
Director

Affinity Water Finance (2004) Limited

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

1. Statement of accounting policies

The principal accounting policies are set out below.

Basis of preparation

These financial statements have been prepared on the going concern basis as stated in the directors' report on page 4, in accordance with historical cost convention, and in accordance with the Companies Act 2006 and applicable UK accounting standards.

The principal accounting policies have been applied consistently throughout the current and prior year.

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.

Debt

All financial liabilities are recognised initially at fair value plus directly attributable transaction costs. The carrying amount is increased by the finance cost determined by the effective interest rate in respect of the accounting period and reduced by any payments made in the period. The finance cost recognised in the profit and loss account is allocated to periods over the term of the debt at an effective interest rate on the carrying amount.

The Affinity Water group is subject to a number of covenants in relation to its borrowings, which would result in its loans becoming immediately repayable if breached. These covenants specify certain limits in terms of key ratios such as net cash flow to debt interest and net debt to regulatory capital value. At the year end the group was not in breach of any financial covenants.

Investments

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

2. Auditor's remuneration

Auditor's remuneration for the year to 31 March 2014 was £5,000 (2013: £5,000) and has been borne by the immediate parent undertaking Affinity Water Limited.

Affinity Water Finance (2004) Limited

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

3. Directors' emoluments

The remuneration for 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, there is no detail shown in respect of the remuneration of Richard Bienfait and Duncan Bates. Their total remuneration 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.

For the year ended 31 March 2013, £5,000 was attributed to the company for services performed, split as follows:

	2013 £000
Basic salary and fees	2
Benefits	1
Performance related bonuses	2
Total	5

4. Staff costs

There were no employees during the year ended 31 March 2014 (2013: nil).

5. Interest receivable and similar income

	2014 £000	2013 £000
Group interest receivable	11,908	11,901

Interest receivable and similar income reflects accrued interest on the loan to Affinity Water Limited. Income arising on financial instruments is recognised on an accruals basis and credited to the profit and loss in the financial year in which it arises.

6. Interest payable and similar charges

	2014 £000	2013 £000
Interest payable	11,750	11,750
Amortisation of issue costs	158	151
Total	11,908	11,901

Interest payable and similar charges reflects paid interest on the Bond and the amortisation of issue costs under the effective interest method. Expenditure arising on financial instruments is recognised on an accruals basis and charged to the profit and loss in the financial year in which it arises.

7. Tax on result on ordinary activities

There is no tax liability for the year ended 31 March 2014 (2013: £nil), no deferred tax liability (2013: £nil) and no unprovided deferred tax liability (2013: £nil). There are no carried forward tax losses (2013: £nil).

Affinity Water Finance (2004) Limited

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

8. Dividends

No dividend was paid or proposed for the year ended 31 March 2014 (2013: £nil).

9. Investments

	2014	2013
	£000	£000
Amounts owed by other group company	197,037	196,879

The company's sole activity is to raise finance on behalf of its immediate parent undertaking, Affinity Water Limited. During 2004 the company issued a £200,000,000 Bond, maturing in July 2026 with an annual coupon of 5.875 per cent and lent the proceeds to Affinity Water Limited on the same terms.

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

10. Debtors

	2014	2013
	£000	£000
Amounts owed by group undertakings	8,402	8,402

The amount owed by group undertakings reflects the interest receivable on the loan issued to Affinity Water Limited from proceeds of the Bond.

11. Creditors – amounts falling due within one year

	2014	2013
	£000	£000
Accruals and deferred income	8,402	8,402

The amount falling due within one year reflects bond interest payable.

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

	2014	2013
	£000	£000
5.875% Bond due 2026		
Aggregate amount repayable in whole or in part after more than five years	197,037	196,879

On 13 July 2004 the company issued a £200,000,000 Bond of 5.875 per cent, listed on the London Stock Exchange, at an issue price of 98.6 per cent. The Bond matures on 13 July 2026. Affinity Water Limited received the net issue proceeds by way of an intercompany loan. This issue is guaranteed by Affinity Water Limited and Affinity Water Holdings Limited, the company's immediate parent undertaking and intermediate holding company respectively.

Affinity Water Finance (2004) Limited

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

13. Financial instruments and risk management

Treasury operation

Affinity Water Limited and the wider Affinity Water group are responsible for the financing strategy and treasury policies of the company. The aim of this strategy is to assess the ongoing capital requirement of the group and to raise funding on a timely basis, taking advantage of favourable market opportunities. Surplus funds are invested based upon forecast requirements, in accordance with treasury policies.

Risks arising from the company's financial instruments

Interest rates earned on, and the currency of denomination of, the company's financial assets are matched against those of the company's financial liabilities. Accordingly these assets and liabilities act as a natural hedge for each other, and the company has no net exposure to movements in interest rates.

Other risks such as credit risk and liquidity risk are dependent on the company's parent entity meeting its payment obligations as and when they become due. The directors monitor the cash flow forecasts of the parent company on a regular basis to mitigate these risks.

Interest rates and the currency profile of the net borrowings of the company at 31 March 2014 were:

	Total of net borrowings		Net cash		Fixed rate borrowings		Weighted average period until maturity		Weighted average period for which rate is fixed	
	2014 £000	2013 £000	2014 £000	2013 £000	2014 £000	2013 £000	2014 £000	2013 £000	2014 £000	2013 £000
Sterling borrowings:										
External loans	197,037	196,879	-	-	197,037	196,879	12.3	13.3	12.3	13.3
Total borrowings	197,037	196,879	-	-	197,037	196,879	12.3	13.3	12.3	13.3
Cash	50	50	50	50	-	-				
Net borrowings	196,987	196,829	50	50	197,037	196,879				

Currency exposures

At 31 March 2014, the company had no currency exposures (2013: £nil).

Security

The loan is guaranteed by Affinity Water Limited and Affinity Water Holdings Limited.

Affinity Water Finance (2004) Limited

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

13. Financial instruments and risk management (continued)

Fair values of financial liabilities

Set out below is a comparison by category of book value and fair value of the financial liabilities of the company as at 31 March 2014:

	Book value		Fair value	
	£000 2014	£000 2013	£000 2014	£000 2013
Primary financial instruments held or issued to finance the company's operations				
Long term borrowings	197,037	196,879	232,902	246,288
	197,037	196,879	232,902	246,288

The fair value of the Bond, having a book value of £197,037,000, has been determined by reference to published information and prices from the active markets on which the instrument involved is traded.

The company has taken advantage of the exemption in Financial Reporting Standard 29: 'Financial Instruments: Disclosures' and has not disclosed information required by that standard, as the Affinity Water Acquisitions (Investments) Limited group's consolidated financial statements, in which the company is included, provide equivalent disclosures. All disclosures made in this note are on a voluntary basis.

14. Called up share capital

	2014 £000	2013 £000
Allotted, called up and fully paid share capital		
Ordinary shares of £1 each	50	50

On 3 June 2004 the company issued 50,000 £1 ordinary shares for a consideration of £50,000.

15. Reserves

	Profit and loss account £000
At 1 April 2013	-
Result for the financial year	-
At 31 March 2014	-

16. Shareholder's funds

	£000
Opening shareholder's funds at 1 April 2013 and 1 April 2012	50
Result for the financial year	-
Closing shareholder's funds at 31 March 2014 and 31 March 2013	50

Affinity Water Finance (2004) Limited

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

17. Related party disclosures

During the year the company charged £11,908,000 (2013: £11,901,000) of interest income to its immediate parent undertaking, Affinity Water Limited, and at 31 March 2014 had an outstanding receivables balance of £8,402,000 (2013: £8,402,000). These transactions are in relation to the long term loan to Affinity Water Limited, detailed in note 9.

There were no other related party transactions requiring disclosure.

18. Post balance sheet events

On 5 June 2014 the company gave notice that on or about 19 June 2014 the outstanding notes issued would be transferred from the Main Market to the Professional Securities Market of the London Stock Exchange.

19. Ultimate parent undertaking and controlling party

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

Affinity Water Limited is majority owned by Affinity Water Acquisitions (Investments) Limited. Affinity Water Acquisitions (Investments) Limited, a company registered in England and Wales, 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.