

# **AFFINITY WATER PROGRAMME FINANCE LIMITED**

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

(Cayman Islands Registered Number 274647)

# Affinity Water Programme Finance Limited

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# Affinity Water Programme Finance Limited

## Directors and advisers

### Directors

DJL Bates (appointed 11 January 2013)  
RA Bienfait (appointed 11 January 2013)  
K Bradbury (appointed 11 January 2013)  
A Dench (appointed 11 January 2013)  
AA Donzelli (appointed 11 January 2013)  
M Lief (appointed 11 January 2013, resigned 22 April 2013)  
Y Saidji (appointed 11 January 2013)

### Company Secretary

TJW Monod (appointed 15 January 2013)

### Registered Office

PO Box 309  
Ugland House  
Grand Cayman  
KY1-1104

### Principal Place of Business

Tamblin Way  
Hatfield  
Hertfordshire AL10 9EZ

### Registered Auditors

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

### Registered Number

274647

Company registered in Cayman Islands

# **Affinity Water Programme Finance Limited**

## **Directors' report for the period ended 31 March 2013**

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

The company is registered in the Cayman Islands and its operations are conducted entirely in the United Kingdom. The purpose of these voluntary financial statements is to enable the company to comply with its obligations in respect of the whole business securitisation. Accordingly, the voluntary financial statements have been prepared on the going concern basis, under the historical cost convention, as if UK GAAP and companies legislation in the United Kingdom were applicable.

### **Principal activity and business review**

The company was incorporated on 11 January 2013 and its sole activity is to raise finance on behalf of its immediate parent undertaking, Affinity Water Limited. The company issued bonds amounting to £575m on 4 February 2013 as detailed below in the section on significant events during the period.

As the bonds have fixed coupon rates, the company faces limited risk or uncertainty. Interest rates earned on, the currency of denomination of, and the movement in the Retail Price Index (RPI) 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 and RPI.

Affinity Water Limited, and the wider Affinity Water group, is 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 requirements, in accordance with the treasury policy.

### **Significant events during the period**

On 4 February 2013, as a part of the implementation of the group's whole business securitisation, the company issued £80m Class A Guaranteed Notes maturing in September 2022 with a coupon rate of 3.625 per cent, £250m Class A Guaranteed Notes maturing in March 2036 with a coupon rate of 4.50 per cent, £150m Class A Guaranteed RPI index-linked Notes maturing in June 2045 with a coupon rate of 1.548 per cent and £95m Class B Guaranteed RPI index-linked Notes maturing in June 2033 with a coupon rate of 3.249 per cent (together 'Bonds').

### **Results and dividends**

The company has made no profit after taxation. No dividends are proposed for the period.

### **Directors**

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

### **Future developments**

It is the company's intention to continue with its current activity through to 2045 when the last of the Bonds mature.

### **Charitable and political donations**

The company made no charitable or political donations in the period.

### **Principal risks and uncertainties**

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

# Affinity Water Programme Finance Limited

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

### Corporate governance

The company is a wholly owned subsidiary of Affinity Water Limited and its principal activity is limited to the raising of finance or funding exclusively for Affinity Water Limited. All of the company's directors are also directors of Affinity Water Limited.

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

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

### Going concern

The company has adequate resources to meet its current operational and financial obligations, and the directors have a reasonable expectation that this will continue for the foreseeable future. This assessment is based on the consideration of the company's budgeted cash flows, long term forecasts, and related assumptions and available debt facilities, 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 Directors' report and the financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under Company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

# Affinity Water Programme Finance Limited

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

### Disclosure of information to the auditors

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

By order of the Board



Tim Monod  
Company Secretary  
10 July 2013

# **Independent auditor's report to the members of Affinity Water Programme Finance Limited**

We have audited the non-statutory financial statements of Affinity Water Programme Finance Limited for the period ended 31 March 2013 which comprise the profit and loss account, the balance sheet and the related notes 1 to 18. The financial reporting framework that has been applied in their preparation is United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as if applicable law in the United Kingdom has been applied to them.

This report is made solely to the company's members, as a body, in accordance with our engagement letter dated 13 May 2013. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## **Respective responsibilities of directors and auditor**

As explained more fully in the Statement of director's responsibilities set out on page 3, the directors are responsible for the preparation of the non-statutory 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 non-statutory financial statements in accordance with the terms of our engagement letter dated 13 May 2013 and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the non-statutory financial statements sufficient to give reasonable assurance that the non-statutory 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 non-statutory financial statements to identify material inconsistencies with the audited non-statutory financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## **Opinion on financial statements**

In our opinion the financial statements:

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

Ernst & Young LLP

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

# Affinity Water Programme Finance Limited

## Profit and loss account for the period ended 31 March 2013

(Registered Number: 274647)

	Note	2013 £000
<b>Operating profit</b>		-
Interest receivable and similar income	5	3,158
Interest payable and similar expenses	6	(3,158)
<b>Result on ordinary activities before taxation</b>		<hr/> -
Taxation	7	-
<b>Result for the financial year</b>		<hr/> <hr/> -

All profits of the company are from continuing operations.

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

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

The notes on pages 8 to 14 form part of the financial statements.

# Affinity Water Programme Finance Limited

## Balance Sheet as at 31 March 2013 (Registered Number: 274647)

	Note	2013 £000
Investments	9	<u>565,885</u>
<b>Current assets</b>		
Debtors: amounts falling due within one year	10	3,026
Cash at bank and in hand		-
		<u>3,026</u>
<b>Creditors – amounts falling due within one year</b>	11	<u>(3,016)</u>
<b>Net current assets</b>		<u>10</u>
<b>Total assets less current liabilities</b>		<u>565,895</u>
<b>Creditors – amounts falling due after more than one year</b>	12	<u>(565,885)</u>
<b>Net assets</b>		<u>10</u>
<b>Capital and reserves</b>		
Called up share capital	14	10
Profit and loss account	15	-
<b>Shareholder's funds</b>	16	<u>10</u>

The notes on pages 8 to 14 form part of the financial statements.

The financial statements on pages 6 to 14 have been approved by the Board of Directors and were signed on 10 July 2013 on its behalf by:



Richard Bienfait  
Director



Duncan Bates  
Director

# Affinity Water Programme Finance Limited

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

### 1. Statement of accounting policies

A summary of the principal accounting policies is set out below.

#### Basis of preparation

The company is registered in the Cayman Islands and its operations are conducted entirely within the United Kingdom. The purpose of these voluntary financial statements is to enable the company to comply with its obligations in respect of the whole business securitisation. Accordingly, the voluntary financial statements have been prepared on the going concern basis, under the historical cost convention, in accordance with UK GAAP and as if companies legislation in the United Kingdom was applicable.

#### Cash flow statement

The company is a wholly owned subsidiary of Affinity Water Limited which in turn is a wholly owned subsidiary of Affinity Water Holdings Limited.

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

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

#### Use of estimates

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

#### Debt

All financial liabilities are recognised initially at fair value plus directly attributable transaction costs. The carrying amount of the debt is increased by the amortisation of the finance and transaction costs determined using 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 using the effective interest method.

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 period to 31 March 2013 was £5,000 and has been borne by the immediate parent undertaking Affinity Water Limited.

# Affinity Water Programme Finance Limited

## Notes to the financial statements for the period ended 31 March 2013 (continued)

### 3. Directors' emoluments

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

	<b>2013</b> <b>£000</b>
Basic salary and fees	<b>0.4</b>
Benefits	<b>0.2</b>
Performance related bonuses	<b>0.4</b>
<b>Total</b>	<b>1.0</b>

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

### 4. Staff costs

There were no employees during the period ended 31 March 2013.

### 5. Interest receivable and similar income

	<b>2013</b> <b>£000</b>
Group interest receivable	<b>3,158</b>

Interest receivable 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 period in which it arises.

### 6. Interest payable and similar expenses

	<b>2013</b> <b>£000</b>
Interest payable	<b>3,158</b>

Interest payable reflects paid interest on the Bonds and the amortisation of transaction 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 period in which it arises.

### 7. Taxation

There is no tax liability for the period ended 31 March 2013, no deferred tax liability and no unprovided deferred tax liability.

# Affinity Water Programme Finance Limited

## Notes to the financial statements for the period ended 31 March 2013 (continued)

### 8. Dividends paid

No dividend was paid or proposed for the period ended 31 March 2013.

### 9. Investment

2013  
£000

Amounts owed by other group company 565,885

The company's sole activity is to raise finance on behalf of its immediate parent undertaking, Affinity Water Limited. On 4 February 2013, the company issued Bonds with gross proceeds totalling £575m details of which can be found in note 12. The amounts owed by other group company shown above are net of the transaction fees of £9.3m incurred as part of the bond issue process.

### 10. Debtors

2013  
£000

Amounts owed by other group company 3,026

The amount owed by other group company reflects the interest receivable on the loan issued to Affinity Water Limited from proceeds of the company's external bond issues.

The company was incorporated on 11 January 2013 and on 15 January 2013 the company issued 10,000 £1 ordinary shares for a consideration of £10,000 to Affinity Water Limited, its immediate parent company. Included in the above balance is £10,000 receivable from Affinity Water Limited in relation to the share capital of the company which was received on 26 April 2013.

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

2013  
£000

Accruals and deferred income 3,016

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

# Affinity Water Programme Finance Limited

## Notes to the financial statements for the period ended 31 March 2013 (continued)

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

	2013 £000
3.625% Guaranteed Notes due 2022*	78,534
3.249% Guaranteed Notes due 2033	93,587
4.500% Guaranteed Notes due 2036*	246,042
1.548% Guaranteed Notes due 2045*	147,722
The aggregate amount repayable in whole or in part after more than five years	<u>565,885</u>

\* Listed on London Stock Exchange

On 4 February 2013, the company issued £80m Class A Guaranteed Notes maturing in September 2022 with a coupon rate of 3.625 per cent, £250m Class A Guaranteed Notes maturing in March 2036 with a coupon rate of 4.50 per cent, £150m Class A Guaranteed RPI index-linked Notes maturing in June 2045 with a coupon rate of 1.548 per cent and £95m Class B Guaranteed RPI index-linked Notes maturing in June 2033 with a coupon rate of 3.249 per cent (together 'Bonds'). The amounts shown above are net of the transaction fees of £9.3m incurred as part of the bond issue process. Affinity Water Limited received the issue proceeds by way of inter company loans. This issue is guaranteed by Affinity Water Limited and Affinity Water Holdings Limited, the company's immediate parent undertaking and intermediate holding company respectively.

### 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 any 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, the currency of denomination of, and the movement in RPI 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, foreign exchange rates and RPI.

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

# Affinity Water Programme Finance Limited

## Notes to the financial statements for the period ended 31 March 2013 (continued)

### 13. Financial Instruments and risk management (continued)

Interest rates and the currency profile of the net borrowings of the company at 31 March 2013 were:

	Total of net borrowings	Fixed rate borrowings	RPI Linked borrowings	Weighted average period until maturity	Weighted average period for which rate is fixed
	2013 £000	2013 £000	2013 £000	2013 £000	2013 £000
<b>Sterling borrowings:</b>					
External loans	565,885	324,576	241,309	17.0	17.0
<b>Total borrowings</b>	<b>565,885</b>	<b>324,576</b>	<b>241,309</b>	<b>17.0</b>	<b>17.0</b>
Cash	-	-	-		
<b>Net borrowings</b>	<b>565,885</b>	<b>324,576</b>	<b>241,309</b>		

#### Currency exposures

At 31 March 2013, the company had no currency exposures.

#### Security

The loans are guaranteed by Affinity Water Holdings Limited.

#### Fair values of financial liabilities

Set out below is a comparison by category of book values and fair values of the financial liabilities of the company as at 31 March 2013:

	Book value £m	Fair value £m
Primary financial instruments held or issued to finance the company's operations		
£575m Guaranteed Notes	565.9	583.6
Long-term borrowings	565.9	583.6

The fair value of the Bonds, having a combined book value of £565.9m, has been determined by reference to published and other information, as well as prices from the active markets on which the instruments involved are traded.

The company has taken advantage of the exemption of Financial Reporting Standard 29: 'Financial Instruments: Disclosures' and has not disclosed information required by that standard, as the Affinity Water Acquisitions 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.

# Affinity Water Programme Finance Limited

## Notes to the financial statements for the period ended 31 March 2013 (continued)

### 14. Called up share capital

	2013 £000
<b>Allotted, called up and unpaid share capital</b>	
Ordinary shares of £1 each	<u>10</u>

The company was incorporated on 11 January 2013 and on 15 January 2013 the company issued 10,000 £1 ordinary shares for a consideration of £10,000 to Affinity Water Limited, its immediate parent company. The amount due for share capital was settled on 26 April 2013.

### 15. Reserves

	Profit and Loss Account £000
At 11 January 2013	-
Transfer from profit and loss account	-
<b>At 31 March 2013</b>	<u>-</u>

### 16. Shareholder's funds

	2013 £000
Issue of shares	10
Results for the period	-
<b>Closing shareholder's funds</b>	<u>10</u>

### 17. Related party disclosures

During the period the company charged £3.2m of interest income to its immediate parent undertaking, Affinity Water Limited. At 31 March 2013 the company had an outstanding receivables balance of £3.0m.

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.

# Affinity Water Programme Finance Limited

## Notes to the financial statements for the period ended 31 March 2013 (continued)

### 18. 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 wholly owned by Affinity Water Acquisitions Limited, a company registered in England and Wales, which is the smallest group to consolidate the statutory financial statements of the company. Affinity Water Acquisitions (Investments) Limited, a company registered in England and Wales, is the parent undertaking of the largest group to consolidate the statutory financial statements of this company.

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

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

Affinity Water Acquisitions (Investments) Limited is owned by a consortium of investors led by Infracapital Partners II, the infrastructure investment fund managed by M&G (the European Investment arm of Prudential Plc), and Morgan Stanley Infrastructure Partners. Veolia Environnement S.A. has retained a 10 per cent minority shareholding through its subsidiary Veolia Water UK Limited (formerly Veolia Water UK Plc). 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.