

AFFINITY WATER PROGRAMME FINANCE LIMITED

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

(Cayman Islands Registered Number 274647)

Affinity Water Programme Finance Limited

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Affinity Water Programme Finance 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

PO Box 309
Ugland House
Grand Cayman
KY1-1104

Principal Place of Business

Tamblin Way
Hatfield
Hertfordshire
AL10 9EZ

Independent Auditor

PricewaterhouseCoopers LLP
Abacus House
Castle Park
Cambridge
CB3 0AN

Registered Number

274647

Company registered in Cayman Islands

Affinity Water Programme Finance 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. The company issued Guaranteed Notes (together "Bonds") amounting to £575m on 4 February 2013.

As the Bonds have fixed coupons, 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 cash requirements, in accordance with the company's treasury policy.

The principal risks and uncertainties facing the company are described 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 Programme Finance Limited

Directors' report for the year ended 31 March 2014

Introduction

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

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 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 of certain companies in the wider Affinity Water group. Accordingly, the voluntary financial statements have been prepared on the going concern basis, under the historical cost convention, as if United Kingdom Generally Accepted Accounting Standards ("UK GAAP") and companies legislation in the United Kingdom were applicable.

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 £3,000 profit for the financial year (2013: £nil). No dividends are proposed for the year.

Future developments

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

Greenhouse gas emissions statement

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

Political donations

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 Bonds 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 Programme Finance 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 Programme Finance Limited

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

Disclosure of information to the 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.

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 Programme Finance Limited

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the company's affairs as at 31 March 2014 and of its profit for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

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 Programme Finance 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.

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.

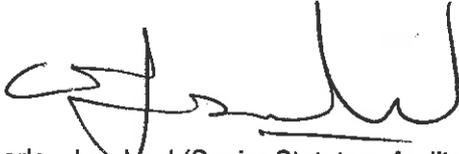
Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Independent auditor's report to the member of Affinity Water Programme Finance Limited (continued)

Responsibilities for the financial statements and the audit (continued)

Our responsibilities and those of the directors (continued)

This report, including the opinion, has been prepared for and only for the company's directors as a body for to enable the company to comply with its obligations in respect of the whole business securitisation of certain companies in the wider Affinity Water Group in accordance with our engagement letter dated 11 June 2014 and for no other purpose. We do not, in giving this opinion, 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, including without limitation under any contractual obligations of the company, 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 Programme Finance Limited

Profit and loss account for the year ended 31 March 2014

(Registered Number: 274647)

	Note	Year ended 31 March 2014 £000	Period ended 31 March 2013* £000
Operating result		-	-
Interest receivable and similar income	5	26,819	3,158
Interest payable and similar charges	6	(26,815)	(3,158)
Profit/result on ordinary activities before taxation		4	-
Tax on profit/result on ordinary activities	7	(1)	-
Profit/result for the financial year	15	3	-

* Period relates to date of incorporation to year end (11 January 2013 to 31 March 2013)

All profits/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 profit/result on ordinary activities before taxation and the profit/result for the financial year stated above and their historical cost equivalents.

The notes on pages 10 to 16 form part of the financial statements.

Affinity Water Programme Finance Limited

Balance Sheet as at 31 March 2014 (Registered Number: 274647)

	Note	2014 £000	2013 £000
Investments	9	572,939	565,885
Current assets			
Debtors	10	1,857	3,026
Cash at bank and in hand		11	-
		1,868	3,026
Creditors – amounts falling due within one year	11	(1,855)	(3,016)
Net current assets		13	10
Total assets less current liabilities		572,952	565,895
Creditors – amounts falling due after more than one year	12	(572,939)	(565,885)
Net assets		13	10
Capital and reserves			
Called up share capital	14	10	10
Profit and loss account	15	3	-
Total shareholder's funds	16	13	10

The notes on pages 10 to 16 form part of the financial statements.

The financial statements on pages 8 to 16 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 Programme Finance 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

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 of certain members of the wider Affinity Water group. Accordingly, the voluntary financial statements have been prepared on the going concern basis, under the historical cost convention, as if United Kingdom Generally Accepted Accounting Standards ("UK GAAP") and companies legislation in the United Kingdom were applicable.

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 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 carrying amount of indexed-linked debt further changes with RPI movements. The principal amount of the debt is indexed based on RPI with a three month lag. Interest is calculated on this indexed principal 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 Programme Finance 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 period ended 31 March 2013, £1,000 was attributed to the company for services performed, split as follows:

	Period to 31 March 2013 £000
Basic salary and fees	0.4
Benefits	0.2
Performance related bonuses	0.4
Total	<u>1.0</u>

4. Staff costs

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

5. Interest receivable and similar income

	Year to 31 March 2014 £000	Period to 31 March 2013 £000
Group interest receivable	26,815	3,158
Other similar income	4	-
Total	<u>26,819</u>	<u>3,158</u>

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

	Year to 31 March 2014 £000	Period to 31 March 2013 £000
Interest payable	19,697	3,016
Indexation on interest	6,780	71
Amortisation of issue costs	338	71
Total	<u>26,815</u>	<u>3,158</u>

Interest payable and similar charges reflects paid interest on the Bonds 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.

Affinity Water Programme Finance Limited

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

7. Tax on profit/result on ordinary activities

There is a tax charge for the year ended 31 March 2014 of £1,000 (2013: £nil), resulting in a tax liability of £1,000 (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).

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 parent company	572,939	565,885

The company's sole activity is to raise finance on behalf of its immediate parent undertaking, Affinity Water Limited. The amounts owed by parent company shown above are net of the transaction fees of £9,299,000 incurred as part of the issue of the Bonds. The net proceeds were then lent 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 parent company	1,857	3,026

The amount owed by parent company reflects the interest receivable on the loan issued to Affinity Water Limited from proceeds of the Bonds.

11. Creditors – amounts falling due within one year

	2014	2013
	£000	£000
Corporation tax	1	-
Accruals and deferred income	1,854	3,016
	1,855	3,016

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

Affinity Water Programme Finance Limited

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

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

	2014 £000	2013 £000
3.625% Guaranteed Notes due 2022*	78,656	78,534
3.249% RPI linked Guaranteed Notes due 2033	96,256	93,587
4.500% Guaranteed Notes due 2036*	246,112	246,042
1.548% RPI linked Guaranteed Notes due 2045*	151,915	147,722
Aggregate amount repayable in whole or in part after more than five years	572,939	565,885

* Listed on London Stock Exchange

On 4 February 2013, the company issued £80,000,000 Class A Guaranteed Notes maturing in September 2022 with a coupon of 3.625 per cent, £250,000,000 Class A Guaranteed Notes maturing in March 2036 with a coupon of 4.50 per cent, £150,000,000 Class A Guaranteed RPI index-linked Notes maturing in June 2045 with a coupon of 1.548 per cent and £95,000,000 Class B Guaranteed RPI index-linked Notes maturing in June 2033 with a coupon of 3.249 per cent (together 'Bonds').

The amounts shown above are net of fees of £9,299,000 incurred as part of the issue of the Bonds. The proceeds were lent to Affinity Water Limited by way of an intercompany loan. The Bonds are 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 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 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.

Affinity Water Programme Finance Limited

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

13. Financial Instruments and risk management (continued)

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		RPI Linked 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	2014 £000	2013 £000
Sterling borrowings:												
External loans	572,939	565,885	-	-	324,768	324,576	248,171	241,309	16.4	17.0	16.4	17.0
Total borrowings	572,939	565,885	-	-	324,768	324,576	248,171	241,309	16.4	17.0	16.4	17.0
Cash	11	-	11	-	-	-	-	-				
Net borrowings	572,928	565,885	11	-	324,768	324,576	248,171	241,309				

Currency exposures

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

Security

The loans are guaranteed by Affinity Water Limited and Affinity Water Holdings Limited.

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				
£575m Guaranteed Notes	572,939	565,885	579,946	583,607
Long term borrowings	572,939	565,885	579,946	583,607

The fair value of the Bonds, having a combined book value of £572,939,000, 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 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.

Affinity Water Programme Finance Limited

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

14. Called up share capital

	2014 £000	2013 £000
Allotted, called up and unpaid share capital		
Ordinary shares of £1 each	<u>10</u>	<u>10</u>

On 15 January 2013 the company issued 10,000 £1 ordinary shares for a consideration of £10,000.

15. Reserves

	Profit and Loss Account £000
At 1 April 2013	-
Profit for the financial year	<u>3</u>
At 31 March 2014	<u>3</u>

16. Shareholder's funds

	2014 £000	2013 £000
Opening shareholder's funds	10	-
Issue of shares	-	10
Profit/result for the financial year/period	<u>3</u>	-
Closing shareholder's funds	<u>13</u>	<u>10</u>

17. Related party disclosures

During the year the company charged £26,819,000 (2013: £3,158,000) of interest and other similar income to its immediate parent undertaking, Affinity Water Limited. At 31 March 2014 the company had an outstanding receivables balance of £1,857,000 (2013: £3,026,000).

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.

Affinity Water Programme Finance Limited

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