

AFFINITY WATER HOLDINGS LIMITED

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2015**

(Registered Number 08350099)

Affinity Water Holdings Limited

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Affinity Water Holdings Limited

Directors and advisers

Directors

Duncan Bates
Richard Bienfait (resigned 31 December 2014)
Antonio Botija (resigned 25 July 2014)
Kenton Bradbury (resigned 31 March 2015)
Olivier Bret (resigned 25 July 2014)
Georgina Dellacha (appointed 25 July 2014)
Alberto Donzelli
Stephen Nelson (appointed 31 March 2015)
Nigel Paterson (appointed 25 July 2014)
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

08350099

Affinity Water Holdings Limited

Strategic report for the year ended 31 March 2015

The directors present their strategic report for the year ended 31 March 2015.

The company's strategy is to manage its investment in the water industry in the United Kingdom to maximise returns to the company's shareholder for the long term.

The principal risks associated with the company achieving its long term strategy are identified as relating to Affinity Water Limited, and consequently the risk that the investment in this company may be impaired. These risks and the controls in place to mitigate these are detailed in the strategic report of Affinity Water Limited's annual report and financial statements for the year ended 31 March 2015. Going forward the company's Board of Directors believes that the carrying value of its investment will be maintained.

Profit for the financial year was £30,800,000 (2014: £45,842,000) and relates to dividend income received from Affinity Water Limited. Dividends totalling £30,800,000 (2014: £45,842,000) were paid to Affinity Water Capital Funds Limited during the year.

The balance sheet detailed on page 9 shows that the company had net assets of £287,670,000 (2014: £287,670,000) at the year end.

Performance indicators for the Affinity Water Limited securitised group are monitored by the company's subsidiary, Affinity Water Limited, and are fully disclosed in its annual report and financial statements for the year ended 31 March 2015.

Approved by the Board and signed on its behalf by:



Tim Monod
Company Secretary
23 June 2015

Affinity Water Holdings Limited

Directors' report for the year ended 31 March 2015

Introduction

The directors present their annual report and audited statutory financial statements for the year ended 31 March 2015.

Directors

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

Dividends

The directors have declared and paid the following dividends during the year ended 31 March 2015:

Ordinary dividends:	£000
Interim – paid July 2014	11,300
Interim – paid September 2014	6,500
Interim – paid November 2014	7,000
Interim – paid March 2015	6,000
	<hr/>
	30,800
	<hr/> <hr/>

The directors do not recommend a final dividend.

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 principal business of Affinity Water Holdings Limited is holding the shares of Affinity Water Limited and the company is a wholly owned subsidiary of Affinity Water Capital Funds Limited. The company's directors, with the exception of Georgina Dellacha, Alberto Donzelli and Yacine Saidji, 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 annual report and financial statements for the year ended 31 March 2015, 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 securitised group and meets from time to time to facilitate this.

Affinity Water Holdings Limited

Directors' report for the year ended 31 March 2015 (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.

Future developments

It is anticipated the company will continue to invest and manage its long term interests in the water industry in the United Kingdom for the foreseeable future.

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 within the securitised group. 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 year. 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; 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.

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 financial statements may differ from legislation in other jurisdictions.

Affinity Water Holdings Limited

Directors' report for the year ended 31 March 2015 (continued)

Disclosure of information to auditors

In accordance with Section 418 of the Companies Act 2006, each director in office at the date of the directors' report confirms 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

In accordance with Section 485 of the Companies Act 2006, a resolution to re-appoint PricewaterhouseCoopers LLP will be proposed by the Board.

Approved by the Board and signed on its behalf by:



Tim Monod
Company Secretary
23 June 2015

Independent auditor's report to the member of Affinity Water Holdings Limited

Report on the financial statements

Our opinion

In our opinion, Affinity Water Holdings Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 March 2015 and of its profit 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.

What we have audited

Affinity Water Holdings Limited's financial statements comprise:

- the balance sheet as at 31 March 2015;
- 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 the preparation of the financial statements 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.

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.

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.

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

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 International Standards on Auditing (UK and Ireland) ("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 members as a body 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.

What an audit of financial statements involves

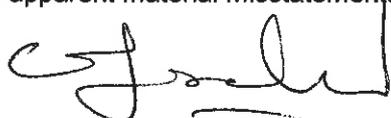
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the annual report and financial statements for the year ended 31 March 2015 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.



Charles Joseland (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cambridge
23 June 2015

Affinity Water Holdings Limited

Profit and loss account for the year ended 31 March 2015 (Registered Number 08350099)

	Note	2015 £000	2014 £000
Operating result	2	-	-
Income from shares in group undertakings	9	30,800	45,842
Profit on ordinary activities before taxation		30,800	45,842
Tax on profit on ordinary activities	3	-	-
Profit for the financial year	7	30,800	45,842

All results of the company in the current year and prior year are from continuing operations.

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

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

The notes on pages 10 to 14 form part of these financial statements.

Affinity Water Holdings Limited

Balance sheet as at 31 March 2015 (Registered Number 08350099)

	Note	2015 £000	2014 £000
Fixed assets			
Investments	5	287,670	287,670
Net assets		<u>287,670</u>	<u>287,670</u>
Capital and reserves			
Called up share capital	6	-	-
Share premium account	7	287,670	287,670
Profit and loss account	7	-	-
Total shareholder's funds	8	<u>287,670</u>	<u>287,670</u>

The notes on pages 10 to 14 form part of these financial statements. The statutory financial statements on pages 8 to 14 were approved by the Board of Directors and were signed and authorised for issue on 23 June 2015 on its behalf by:


Duncan Bates
Director

Affinity Water Holdings Limited

Notes to the financial statements for the year ended 31 March 2015

1. Statement of accounting policies

Basis of preparation

The financial statements have been prepared on the going concern basis, under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom and the Companies Act 2006.

The financial statements of Affinity Water Holdings Limited and its direct and indirect subsidiaries are not presented in a consolidated format as Affinity Water Holdings Limited is itself a majority owned subsidiary of Affinity Water Acquisitions (Investments) Limited, which is the parent undertaking of the smallest and largest group to consolidate the statutory financial statements. The company has not prepared group financial statements as allowed under Section 400 of the Companies Act 2006.

The principal accounting policies are set out below. They have all 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 year. Actual outcomes could differ from those estimates.

Dividends

Income from investments is recorded in the financial statements on an accruals basis to the extent that an obligation to pay the company exists at the balance sheet date.

In accordance with Financial Reporting Standard 16: 'Current tax', dividend income in the United Kingdom is recorded net of tax credits.

Investments

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

Taxation

Current taxation is corporation tax in the United Kingdom based on the taxable profit for the year and is provided at amounts expected to be paid or recovered using tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Affinity Water Holdings Limited

Notes to the financial statements for the year ended 31 March 2015 (continued)

2. Operating result

	2015 £000	2014 £000
Operating result is stated after charging:		
Auditor's remuneration		
Audit of the financial statements	-	-

The auditor's remuneration for the year to 31 March 2015 was £5,000 (2014: £5,000), with such costs being borne by Affinity Water Limited. The auditor received no other remuneration in either the current year or prior year.

Employees and directors

The company had no employees during the current year or the prior year.

The remuneration of Richard Bienfait (up to 31 December 2014) and Duncan Bates during the current and prior year was paid by Affinity Water Limited, which made no recharge to the company. Richard Bienfait and Duncan Bates were directors of Affinity Water Limited and a number of fellow subsidiaries of the Affinity Water Acquisitions (Investments) Limited group during the current and prior year, and it has not been possible to make an accurate apportionment of their remuneration in respect of each of the subsidiaries. Accordingly, the above details include no remuneration in respect 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 2015.

The remaining directors who sit on the Board and have been appointed by Infracapital Partners II, North Haven Infrastructure Partners LP (formerly Morgan Stanley Infrastructure Partners) and Veolia Water UK Limited do not receive any emoluments from the company, or any company within the Affinity Water Acquisitions (Investments) Limited group.

3. Tax on profit on ordinary activities

	2015 £000	2014 £000
Current taxation		
Current tax on profit of the year	-	-
Current taxation	-	-
Current taxation reconciliation		
Profit on ordinary activities before taxation	30,800	45,842
Theoretical tax at UK corporation tax rate of 21% (2014: 23%)	6,468	10,544
Effects of:		
Non taxable income	(6,468)	(10,544)
Actual current taxation charge	-	-

The non taxable income relates to the dividends received from Affinity Water Limited.

Affinity Water Holdings Limited

Notes to the financial statements for the year ended 31 March 2015 (continued)

3. Tax on profit on ordinary activities (continued)

Factors that may affect future tax charges

A change in the main corporation tax rate in the United Kingdom from 21 per cent to 20 per cent with effect from 1 April 2015 was substantively enacted on 2 July 2013.

4. Dividends paid

	2015 £000	2014 £000
Ordinary:		
Paid: First interim of £5,650,000 per share in July 2014 (July 2013: £16,396,000)	11,300	32,792
Paid: Second interim of £3,250,000 per share in September 2014 (December 2013: £2,325,000)	6,500	4,650
Paid: Third interim of £3,500,000 per share paid in November 2014 (March 2014: £4,200,000)	7,000	8,400
Paid: Fourth interim of £3,000,000 per share paid in March 2015	6,000	-
	30,800	45,842

5. Investments

	2015 £000	2014 £000
Investment in subsidiary undertaking	287,670	287,670

The directors believe that the carrying value of the investment is supported by the underlying net assets. Details of the company's subsidiary are as follows:

Name of company	Nature of business	Type of holding	Proportion of voting rights and shares held
Affinity Water Limited	Water supply	Ordinary shares	100%

The company has an indirect holding in the subsidiaries of Affinity Water Limited; Affinity Water Finance (2004) PLC and Affinity Water Programme Finance Limited. Details of these subsidiaries are included in the annual report and financial statements of Affinity Water Limited.

Affinity Water Holdings Limited

Notes to the financial statements for the year ended 31 March 2015 (continued)

6. Called up share capital

	2015 £	2014 £
Allotted and called up share capital		
2 (2014: 2) ordinary shares of £1.00 each	<u>2</u>	<u>2</u>

The company was incorporated on 7 January 2013. The company issued one £1 ordinary share on 7 January 2013 to Affinity Water Capital Funds Limited, its immediate parent company. A further £1 ordinary share was issued on 4 February 2013 to Affinity Water Capital Funds Limited at a premium of £287,760,000. At 31 March 2015 the share capital remained unpaid.

7. Reserves

	Share premium account £000	Profit and loss account £000	Total £000
At 1 April 2014	287,670	-	287,670
Profit for the financial year	-	30,800	30,800
Dividends paid	-	(30,800)	(30,800)
At 31 March 2015	<u>287,670</u>	<u>-</u>	<u>287,670</u>

Refer to note 6 for further details on the share premium account.

8. Reconciliation of movements in shareholder's funds

	2015 £000	2014 £000
Opening shareholder's funds	287,670	287,670
Profit for the financial year	30,800	45,842
Dividends paid	(30,800)	(45,842)
Closing shareholder's funds	<u>287,670</u>	<u>287,670</u>

9. Related party transactions

The following related party transactions have occurred during the year:

Dividends received from Affinity Water Limited: £11,300,000 received in July 2014, £6,500,000 received in September 2014, £7,000,000 received in November 2014 and £6,000,000 received in March 2015 (2014: £45,842,000).

Dividends paid to Affinity Water Capital Funds Limited: £11,300,000 paid in July 2014, £6,500,000 paid in September 2014, £7,000,000 paid in November 2014 and £6,000,000 paid in March 2015 (2014: £45,842,000).

There were no outstanding balances at the end of the year.

Affinity Water Holdings Limited

Notes to the financial statements for the year ended 31 March 2015 (continued)

10. Ultimate parent company and controlling party

The company is a wholly owned subsidiary of Affinity Water Capital Funds Limited, a company registered in England and Wales.

Affinity Water Capital Funds 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 2015 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 North Haven Infrastructure Partners LP (formerly 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 North Haven Infrastructure Partners LP (formerly 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.

North Haven Infrastructure Partners LP (formerly 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. North Haven Infrastructure Partners LP (formerly 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.