AFFINITY WATER ACQUISITIONS (INVESTMENTS) LIMITED

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

(Registered Number 08101550)

Affinity Water Acquisitions (Investments) Limited

Contents

Affinity Water Acquisitions (Investments) Limited

Directors and advisers

Directors

Philip Nolan (Chairman) (appointed 1 April 2013)
Antonio Botija (resigned 25 July 2014)
Kenton Bradbury
Mike Bryan
Georgina Dellacha (appointed 25 July 2014)
Alberto Donzelli
Matthieu Lief (resigned 22 April 2013)
Yacine Saidji
Bernd Schumacher
James Wilmott

Company Secretary

Tim Monod

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Registered Number

008101550

Chairman's statement

I am delighted to present Affinity Water Acquisitions (Investments) Limited's annual report and financial statements for the year ended 31 March 2014.

In this fourth year of the group's principal trading subsidiary's (Affinity Water Limited's) current 2010-2015 price control period, I am pleased to report further progress in its operational and customer service performance. Its customers continue to benefit from high quality drinking water with 99.99 per cent mean zonal compliance as well as below average bills for water in England and Wales.

The group is delighted that Ofwat confirmed in April 2014 that Affinity Water Limited's PR14 Business Plan, which sets out the company's proposed prices, performance commitments and levels of investment for the next price control period, 2015 to 2020, has achieved 'enhanced' status. Ofwat's decision will fast track the company's determination and thus will allow the company to concentrate on running its business, preparing its delivery plans and focusing on its customers. The group considers that Affinity Water Limited's PR14 Business Plan will deliver real benefits for its customers and the environment, and build on the significant improvements in its operational performance during the current price control period.

Affinity Water Limited's governance arrangements continue to strengthen. The group recognises the importance of demonstrating to Affinity Water Limited's customers, regulators and other stakeholders that it operates to the highest standards of governance and transparency. To this end, Affinity Water Limited published its Governance Code in March 2014. Affinity Water Acquisitions (Investments) Limited also welcomes Ofwat's publication: *Board leadership, transparency and governance – holding company principles*, and this annual report explains how the company is meeting these principles.

The improvement of Affinity Water Limited's business in terms of customer, operational and financial performance and its PR14 Business Plan being awarded enhanced status is due to the hard work of its loyal and committed people. On behalf of the Board of Affinity Water Acquisitions (Investments) Limited, I would like to thank all of them for their hard work and achievements.

Dr Philip Nolan
Chairman

Strategic report
for the year ended 31 March 2014

Introduction

The directors present their strategic report on Affinity Water Acquisitions (Investments) Limited for the year ended 31 March 2014.

Affinity Water Acquisitions (Investments) Limited invests in and manages long term interests in the water industry in the United Kingdom.

Affinity Water Limited is the principal trading subsidiary of the group. Affinity Water Limited owns and manages the water assets and network in an area of approximately 4,515km^2 split over three regions in the southeast of England. It is the sole supplier of drinking water in these three areas.

Affinity Water Limited supplies high quality drinking water to communities within the southeast of England. It:

- supplies 904 million litres of water a day to around 3.6 million people, serving 1.5 million households and non-households;
- operates 98 water treatment works to ensure that water is of the highest quality;
- distributes water through a network of 16,500km of mains;
- bills, on behalf of sewerage companies, customers for sewerage services (except in the Southeast region);
- provides a wide variety of ways for customers to contact the company about their water service, including over the phone, online and using social media; and
- charges on average £173 a year for its water service compared to an industry average of £186.

Affinity Water Limited is committed to being the UK's leading community-focused water company. It aims for operational excellence, understanding and meeting the needs of its shareholders and ensuring it can implement its regulatory business plans. It has six strategic priorities which direct how these aims and the vision are delivered. These six priorities are detailed further in the strategic report of Affinity Water Limited's own annual report and financial statements for the year ended 31 March 2014, together with further information on its business model, drivers and opportunities.

Performance

The group generated a profit for the financial year of £29,105,000 (2013: £1,479,000 loss for the financial period). The balance sheets detailed on pages 25 and 26 shows shareholders' funds amounting to £342,198,000 (2013: £352,388,000) for the group and £340,777,000 (2013: £340,777,000) for the company at the year-end.

As both the financial and operational results of the group are primarily determined by the results of its principal trading subsidiary, Affinity Water Limited, the operational and financial performance indicators and targets for the group are those of Affinity Water Limited. These performance indicators, and the performance of Affinity Water Limited for 2013/14 against both internal targets and those set by regulators are provided in detail in the strategic report of its own annual report and financial statements for the year ended 31 March 2014.

Principal risks and uncertainties

The group has an established framework for identifying, evaluating and managing the key risks faced, which has been refreshed during the year. The main risks of the group are centred on its principal trading subsidiary, Affinity Water Limited, and hence this section focuses on the risks and uncertainties of Affinity Water Limited (referred to as the 'subsidiary' throughout the remainder of this section).

Strategic report
for the year ended 31 March 2014 (continued)

Principal risks and uncertainties (continued)

Risks for Affinity Water Limited, both strategic and operational, are reviewed and discussed by senior management. A key aim is to foster a culture in which staff throughout the business manage all risks as part of their management of day to day operations. The Audit Committee reviews senior management's work on risk management and reports to the Board on significant risks. During 2014/15 risk management processes are being developed and further integrated into the business's operations and governance. For 2013/14, risks are reported under the key themes of:

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

Economic, regulatory and political risks

Risks relating to the Instrument of Appointment

In certain circumstances, the conditions of the subsidiary's appointment as a water undertaker may be modified by Ofwat or the Secretary of State. If the subsidiary does not consent to a proposed modification, Ofwat may ask the Competition and Markets Authority to determine whether there are effects adverse to the public interest which can be remedied or prevented by modifications. The Water Act 2014 provides Ofwat and the Secretary of State a time-limited power to modify licence conditions without consent where it is necessary or expedient to implement the provisions of that Act. Any modification of the subsidiary's conditions of appointment could have an adverse impact on its financial or operational performance.

Failure to comply with the conditions of the Instrument of Appointment or certain statutory duties, may lead to the making of an enforcement order or the imposition of financial penalties of up to 10 per cent of the subsidiary's appointed turnover. Failure to comply with an enforcement order (as well as certain other defaults) may lead to the Secretary of State making a special administration order, which would have a substantial adverse impact on the group.

The Secretary of State or Ofwat may in certain circumstances by order replace the subsidiary as the regulated water undertaker for all or part of their currently appointed area. In these circumstances, the Secretary of State or Ofwat (as the case may be) would have a duty to ensure (so far as consistent with their other duties under the Water Industry Act 1991) that the interests of creditors were not unfairly prejudiced by the terms on which the new appointee(s) could accept transfers of the subsidiary's property, rights and liabilities.

Price control risks

The turnover, profitability and cash flow of the subsidiary's appointed business are substantially influenced by the periodic reviews undertaken by Ofwat. For the five years from April 2015 to March 2020 (Asset Management Plan 6, 'AMP6'), Ofwat will determine wholesale and retail price controls, performance commitments and associated outcome delivery incentives which will influence the subsidiary's turnover, profitability and cash flow during the period. Price controls create risks relating to the allowed cost of capital, allowed revenue and regulatory assumptions concerning operating expenses and required capital expenditure proving not to be sufficiently accurate. Unforeseen financial, regulatory or legal obligations or costs after a periodic review which were not taken into account by Ofwat in setting our price controls may also be incurred.

Strategic report for the year ended 31 March 2014 (continued)

Principal risks and uncertainties (continued)

Economic, regulatory and political risks (continued)

Price control risks (continued)

Revenue and the subsidiary's regulatory capital value ('RCV') are linked to the Retail Prices Index ('RPI') and are therefore subject to fluctuation. Changes in the rate of inflation may impact the subsidiary's operating and capital costs and the ability of its customers to pay water bills. Non-recovery of customer debt may adversely affect cash flow and profitability. Disconnecting household and certain other premises for non-payment is prohibited. An allowance for bad debt is made in the price controls at each periodic review. A robust approach is taken to the collection of outstanding charges and the subsidiary has implemented a new debt collection IT system to improve its effectiveness in collecting debt.

The subsidiary's Instrument of Appointment provides some protection against unforeseen financial risks materialising during a price control period. The subsidiary may ask Ofwat to undertake an interim determination of price limits in certain circumstances. Ofwat will make an interim determination only where it is satisfied that a 10 per cent cost threshold has been met, so the subsidiary must always bear any additional cost which does not exceed this threshold. Where the cost threshold is met, there is no assurance that Ofwat will make an interim determination or that any determination made would provide adequate revenue compensation.

The subsidiary is required under its price controls to achieve certain regulatory outputs and implement the investment programme for which allowance is made. Ofwat may seek at a future periodic review to recover amounts equivalent to the "allowed costs" of any parts of the subsidiary's investment programme that are not delivered. Failure to achieve regulatory outputs may lead to the imposition of other sanctions, including financial penalties or other enforcement action. To mitigate these risks, the subsidiary has established a programme management function responsible for delivery of its investment programme and the subsidiary's Board and senior executive team monitor performance and ensure that appropriate corrective action is taken where necessary.

Political risk

As a regulated business holding a near monopoly on the provision of water supplies within its supply area, the subsidiary is exposed to risk arising from the general political climate from time to time. During the year, political pressure applied to energy companies to restrain consumer price increases was observed and the subsidiary was asked by the Secretary of State and Ofwat to consider not implementing price increases allowed within its current price control. In response to these requests, the subsidiary decided not to implement the full inflationary allowance within its price controls in its tariffs for household customers for 2014/15.

Risks from competition and market reform

Currently, certain non-household customers may choose to be supplied by a water supply licensee. The Water Act 2014 makes provision for all non-household customers to have the option to switch their supplier. It is planned this will be introduced from 1 April 2017. Where the subsidiary makes a wholesale supply available to a licensee or provides the licensee access to its network the subsidiary will make a charge for access to these facilities, thereby mitigating the loss of revenue from its former customer. As preparations for the opening of this market develop under the Open Water programme, it is expected that more non-household customers may wish to switch their supplier. To support market opening, the subsidiary is reviewing how its wholesale and retail functions operate and developing its retail offering for non-household customers so it can compete effectively in the market.

Strategic report
for the year ended 31 March 2014 (continued)

Principal risks and uncertainties (continued)

Risks from competition and market reform (continued)

An inset appointment allows one water undertaker to replace another as the water supplier in a specified geographical area within another regulated company's appointed territory. Inset appointments within the subsidiary's water supply area would lead to a reduction in revenue from customers within the inset area that the subsidiary would otherwise have supplied. In recent years, the subsidiary has seen an increase in enquiries from potential inset appointees asking it to provide a bulk supply of water to service potential inset areas.

Operational risks

Water quality

The subsidiary is required to maintain for its customers a continuous supply of high quality water. In doing so, it recognises the significant contribution it makes to public health and the substantial adverse consequences for its customers and its business should it fail in this duty. Should the subsidiary fail, it may face regulatory sanctions and in certain cases criminal prosecution.

To ensure that the water the subsidiary supplies is safe for human consumption and meets relevant health based standards and other regulatory requirements, it has developed water safety plans which provide a comprehensive risk assessment and risk management approach to all the steps in the water supply chain. The subsidiary's water safety plans are designed to minimise contamination of source waters, reduce or remove contamination through appropriate treatment processes and prevent contamination in its distribution network and the domestic distribution system. The subsidiary utilises these plans to inform its investment and maintenance programmes. To provide assurance of the quality of water it supplies, the subsidiary tests and analyses almost 100,000 samples each year, reporting results to the Drinking Water Inspectorate. The subsidiary's laboratory and sampling activities are accredited to ISO17025.

Water availability

The subsidiary's three water supply areas are designated by the Secretary of State as being subject to serious water stress. A projected significant growth in population, climate change and pressure to reduce abstractions which adversely affected the flow of chalk stream rivers would place significant pressures on the supply and demand balance. This risk is managed through the subsidiary's statutory Water Resources Management Plan which identifies, over a 25 year planning period, how the subsidiary will ensure that available supplies and required demand are kept in balance. Measures include the development of new supplies, importing water from neighbouring companies, reducing leakage and reducing customer demand through metering and promoting water efficiency.

The subsidiary may experience temporary shortages of water. In the event of drought, the subsidiary manages this risk through its statutory Drought Management Plan which is approved by the Secretary of State. In the event of drought, the subsidiary may need to place restrictions on supply through a temporary use ban or drought orders or seek drought permits to abstract from rivers or other sources. Interruptions to supply through drought in certain circumstance can lead to significant compensation becoming payable to customers.

Risks from climate change are considered most likely to affect the subsidiary's business in the context of the availability of water resources and drought. The subsidiary has reported to the Secretary of State on its plans for adaptation in response to a direction to report under the Climate Change Act 2008.

Strategic report
for the year ended 31 March 2014 (continued)

Principal risks and uncertainties (continued)

Operational risks (continued)

The environment

The operations of the subsidiary's business are subject to significant environmental controls. In particular, the abstraction of water from the environment, discharges to watercourses at water treatment works and trade effluent discharges into the sewerage system are all subject to strict environmental controls. To mitigate the risk from non-compliance of fines or other regulatory sanctions or intervention, the subsidiary operates its abstraction, treatment and supply activities to environmental standard ISO14001.

Information and data security

Customers rightly expect that the subsidiary protects their information from unauthorised disclosure and improper use. As the use of on-line communications and cloud-based technology continue to increase, so does the risk of cyber crime. The subsidiary has therefore strengthened its capabilities to ensure that its technical and organisational controls against the unauthorised disclosure, loss or use of data are kept under review and improved where appropriate.

Business continuity

Failure of, or disruption at, a key site or installation could cause a significant interruption to the supply of services. Catastrophic events such as fire, earthquake, flood, drought or terrorism or cyber attack could compromise the subsidiary's ability to operate its business and assets. Should water supplies be compromised, the subsidiary has plans in place to ensure the provision of essential water supplies at all times. In the event of interruption to the piped water supply, the subsidiary plans to provide domestic customers a minimum alternative potable supply of 10 litres per head a day. The subsidiary's contingency plans are audited annually by an independent certifier and their reports are shared with the Secretary of State. These business continuity plans also include contingencies in the event of the loss of key personnel through pandemic or other disease.

Financial risks

The subsidiary finances its operations from a mixture of retained profits, borrowings from its financing subsidiaries, borrowings from its shareholders and debentures. The subsidiary's ability to improve operating performance and its financial results depends upon economic, financial, regulatory and other factors, including fluctuations in interest rates and general economic conditions in the United Kingdom.

Financial instruments

The subsidiary's financial instruments comprise borrowings, debentures, cash and liquid resources, and various items, such as trade debtors and trade creditors that arise directly from operations. The main purpose of these financial instruments is to raise finance for its operations. It is the subsidiary's policy, and has been throughout the report year, not to undertake any speculative trading in financial instruments.

The main risks arising from the subsidiary's financial instruments are interest rate risk and liquidity risk. The subsidiary's Board has approved a treasury policy which manages these and other risks and regularly reviews performance against the policy. These policies have remained unchanged during the reporting period.

For further details of the subsidiary's financial instruments refer to note 26 of its financial statements for the year ended 31 March 2014.

Strategic report
for the year ended 31 March 2014 (continued)

Principal risks and uncertainties (continued)

Financial risks (continued)

Financial liquidity risk

The subsidiary's substantial capital investment generates an on-going need for financing. The subsidiary is subject to variability of cash flow due to the billing cycle and the uncertainty of timing of customer payments. The subsidiary therefore ensures that it has banking arrangements and adequate, though not excessive, cash resources, borrowing arrangements, overdraft or standby facilities which are necessary for the achievement of its strategic objectives.

The subsidiary ensures a minimum level of liquidity such that there is sufficient cash and committed loan facilities capable of immediate drawdown to cover as a minimum the next twelve months' forecast cash requirement.

The subsidiary's liquidity is supported through access to a further borrowing facility of £100 million with a tenor of 5 years from 28 June 2012. This facility consists of a £70 million capital expenditure facility and a £30 million working capital facility.

Disclosure on the management of liquidity risk is included in note 26 of the subsidiary's financial statements for the year ended 31 March 2014.

Interest rate and inflation risk

The subsidiary is required to manage exposure to interest rates (and may manage inflation exposure). Interest rate and inflation risk is primarily managed by using a mixture of fixed, inflation linked and floating rate borrowings, and approved hedging instruments. The subsidiary's policy is that at least 85 per cent of outstanding debt is not exposed to interest rate movements.

Foreign exchange risk

The subsidiary is required to manage its foreign currency risk. The subsidiary's policy requires it to hedge any exposure to foreign currency movements when in aggregate they exceed the greater of 0.1 per cent of RCV or £1 million.

High leverage

Indebtedness is substantial in relation to the subsidiary's RCV. Under the whole business securitisation, the subsidiary may increase leverage to 90 per cent. However, a percentage exceeding 85 per cent will result in a restriction on certain payments, such as dividends.

The subsidiary is subject to a number of covenants in relation to its borrowings which, if breached, would result in its loans becoming immediately repayable. These covenants include observing certain limits in terms of key ratios such as net cash flow to debt interest and net debt to RCV. At the year end the subsidiary and its subsidiaries were not in breach of any financial covenants.

Financial credit risk

The subsidiary's main credit risk relates to trade debtors. It is not permitted to disconnect water supplies to household and certain other types of premises in the event of non-payment. The risk from non-payment is spread over a large number of low value customer accounts. The subsidiary ensures that sufficient resources are allocated to debt recovery to reduce the impact of this risk.

Strategic report
for the year ended 31 March 2014 (continued)

Principal risks and uncertainties (continued)

People risks

Health and safety

The subsidiary is committed to creating a working environment to achieve zero harm and improved well-being for its employees. To manage the risk of harm and to improve well-being it has adopted this commitment as a strategic priority and is implementing a series of programmes to improve its capabilities and performance. The subsidiary seeks to operate its business to the OHSAS 18001 safety standard and employs a dedicated health and safety team to support the business in meeting this priority.

Unavailability of skilled resource

The subsidiary relies on the availability of skilled employees and contractor resources to maintain service and implement its investment plans. In the event of these resources being unavailable, whether due to industrial action, skill shortages or pandemic disease the subsidiary may experience significant disruption to its service, damage to its reputation and consequent regulatory enforcement action. The subsidiary seeks to mitigate this risk by maintaining a constructive relationship with employees through its Joint Negotiating and Consultative Committee, succession planning and investing in its employees through training and apprenticeship schemes.

Approval of the strategic report

Approved by the Board and signed on its behalf by:

Tim Monod
Company Secretary
25 July 2014

Affinity Water Acquisitions (Investments) Limited

Directors' report
for the year ended 31 March 2014

Introduction

The directors submit their annual report and the audited consolidated financial statements of Affinity Water Acquisitions (Investments) Limited for the year ended 31 March 2014.

The company is a limited liability company registered in England and Wales and is the ultimate holding and controlling company of the Affinity Water group in the United Kingdom. Details of the ownership of the company and the group structure are set out on pages 13 to 17 and note 33 of the financial statements. The address of the principal place of business is Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ.

The strategic report on pages 3 to 9 provides information relating to the group, its strategy and its results and financial position for the year ended 31 March 2014. Details of the risks and principal uncertainties facing the company are set out on pages 3 to 9.

Dividends and dividend policy

The group's dividend policy is primarily based on maintaining a target level of gearing of 80 per cent in Affinity Water Limited, the group's principal trading subsidiary. The scale of the dividend is dependent on the level of success of this subsidiary to generate cash flows and achieving its regulatory outputs in the reported period. The policy distributes earnings equal to the amount necessary to maintain net debt to RCV at the targeted gearing ratio. This is consistent with the requirements of Condition F of the licence that dividends paid will not impair the ability of the appointee to finance the appointed business and under a system of incentive regulation, dividends would be expected to reward efficiency and the management of economic risk.

The directors have declared and paid the following ordinary dividends during the year ended 31 March 2014:

	£000
Interim – paid in April 2013 of 1.32p per share	4,500
Interim – paid in May 2013 of 0.66p per share	2,250
Interim – paid in July 2013 of 8.66p per share	29,513
Interim – paid in December 2013 of 1.80p per share	6,120
Interim – paid in March 2014 of 1.10p per share	3,734
	46,117

This compares to interim dividends of £8,001,000 declared and paid in the period ended 31 March 2013.

No final dividend is proposed (2013: £nil).

Debt financing

In February 2013 Affinity Water Limited was financially and operationally 'ring-fenced' from the rest of the group as part of the whole business securitisation established at that time. This has further enhanced the ring-fencing provisions already in its licence granted by Ofwat.

The group has two wholly owned financing subsidiaries which have issued bonds which are listed by the UK Listing Authority ('UKLA') and the proceeds of which have been lent on to and are guaranteed by Affinity Water Limited:

- Affinity Water Finance (2004) PLC (formerly Affinity Water Finance (2004) Limited)
- Affinity Water Programme Finance Limited.

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

Debt financing (continued)

Affinity Water Programme Finance Limited issued external bonds totalling £575,000,000 on 4 February 2013. At the same time the £200 million bonds issued by Affinity Water Finance (2004) PLC in 2004 were brought within the securitisation. On 16 July 2014 Affinity Water Finance (2004) PLC completed a tap issue of £50,000,000 on the same terms of the existing bond.

The ring-fencing structure provides significant corporate benefits, providing better access to long-term debt markets and an opportunity to reduce the cost of capital employed in the regulated business for the benefit of customers.

Bonds issued by both Affinity Water Programme Finance Limited and Affinity Water Finance (2004) PLC are subject to the Listing Rules and Disclosure and Transparency Rules, being listed by the UKLA.

Affinity Water Programme Finance Limited is incorporated in the Cayman Islands but resident in the United Kingdom for tax purposes, as the bonds were, in part, used to discharge financing put in place by the group's investors in 2012 to finance their acquisition. It was not possible to establish a UK company to act as issuer. By being resident in the United Kingdom for tax purposes this arrangement does not avoid UK tax and brings no tax benefit. Further, there are no funds which are held off-shore with all finance being raised and held within the United Kingdom.

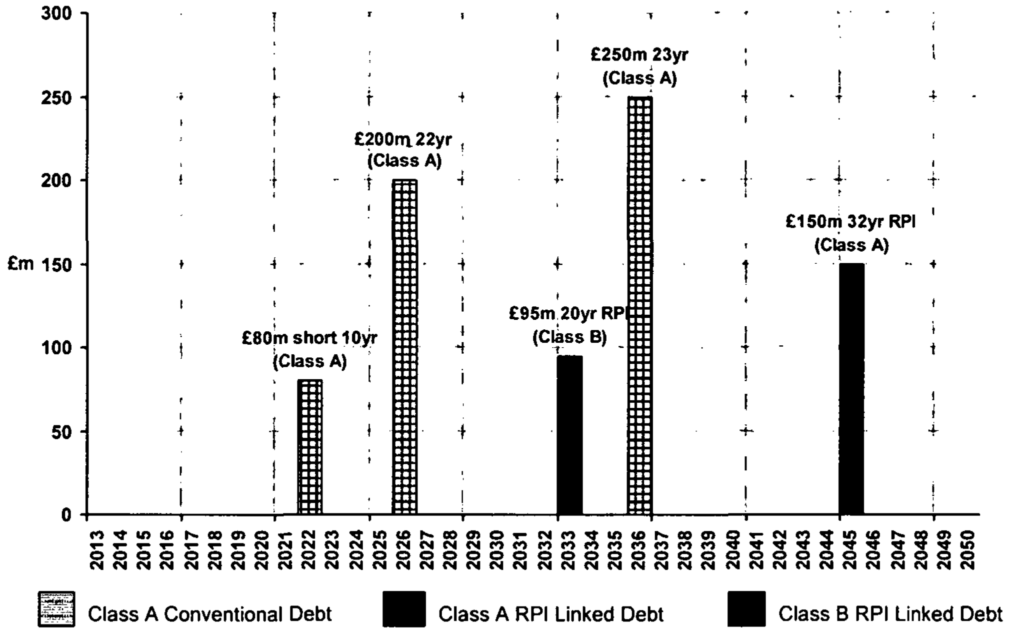
The bonds issued by the group's subsidiaries at 31 March 2014 can be summarised as follows:

Debt	Bond £000	Coupon	Maturity Date
Class A fixed rate 2004 bond	200,000	5.88%	July 2026
Class A index linked (IL) refinancing bond	150,000	1.548% (real)	June 2045
Class A fixed rate refinancing bond (1)	250,000	4.501%	March 2036
Class A fixed rate refinancing bond (2)	80,000	3.685%	September 2022
Total Class A	**680,000**		
Class B			
Class B IL refinancing bond	95,000	3.249% (real)	June 2033
Total Class B	**95,000**		
Total	**775,000**		

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

Debt financing (continued)

The following chart shows the maturity profile of the bonds:



The credit ratings for our bonds assigned by the rating agencies, Moody's and Standard & Poors are:

Bonds	Moody's	Standard & Poors
Class A	A3	A -
Class B	Baa3	BBB
Corporate Family Rating for Affinity Water Limited	Baa1	Not applicable

The total value of the issued bonds can be reconciled to the group's net debt position at 31 March 2014 as follows:

	£000
Nominal value of fixed interest bonds issued	530,000
Nominal value of index linked bonds issued	245,000
Total nominal value of bonds issued	775,000
Accretion on index linked bonds	6,849
Capitalised bond issue costs	(11,875)
Debentures	36
Financing of shared reservoir assets	19,401
Loans from shareholders	130,020
External loan facility	17,200
Cash in hand	(17,172)
Net debt	**919,459**

Debt financing (continued)

The group's principal trading subsidiary is expected to generate positive cash flows from its operating activities through to the end of AMP5 and in to AMP6.

To the extent that additional funding is required during the period, Affinity Water Limited has access to a borrowing facility of £100,000,000 with a tenor of five years from 28 June 2012. This facility consists of a £70,000,000 capital expenditure facility and a £30,000,000 working capital facility. As at 31 March 2014, £11,200,000 had been drawn down from the capital expenditure facility (leaving £58,800,000 capacity) and £6,000,000 from the working capital facility (leaving £24,000,000 capacity).

Further Affinity Water Limited has available a 364 day revolving Debt Service Reserve Liquidity Facility of £35,000,000. The facility is intended for the purpose of funding any debt service payments in the event of a liquidity shortfall that would otherwise prevent such payments being made.

Affinity Water Limited has also available a 364 day revolving Operations and Maintenance Reserve Facility of £20,000,000. The facility is intended for the purpose of funding any general liquidity shortfall.

Ownership

The group recognises the importance of transparency with respect to its ownership and governance arrangements in order to maintain trust and legitimacy with its customers, regulators and other stakeholders. To this end, the sections that follow explain the ownership of the group, the structure of the group in which it operates and the governance arrangements that are in place.

The effective equity interest in the group is as follows:

Infracapital Partners II	Morgan Stanley Infrastructure Partners	Veolia Water UK Limited	Beryl Datura Investment Limited
40%	40%	10%	10%

Infracapital Partners II
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. It holds its investment in the company through Infracapital F2 Rift S.à.r.l., which is a wholly owned subsidiary of Infracapital F2 Rift Holdings S.à.r.l.. Both Infracapital F2 Rift S.à.r.l. and Infracapital F2 Rift Holdings S.à.r.l. are incorporated in Luxembourg.

Morgan Stanley Infrastructure Partners
Morgan Stanley Infrastructure Partners (MSIP) is a global infrastructure investment fund managed by Morgan Stanley Infrastructure Inc., part of the investment management division of Morgan Stanley. It was established in 2007 to make investments in core infrastructure assets that provide essential public goods and services to societies across the globe and seeks to improve asset performance using active management. It holds its investment in the company indirectly through MSIP Dalis B.V., which is incorporated in the Netherlands.

Affinity Water Acquisitions (Investments) Limited

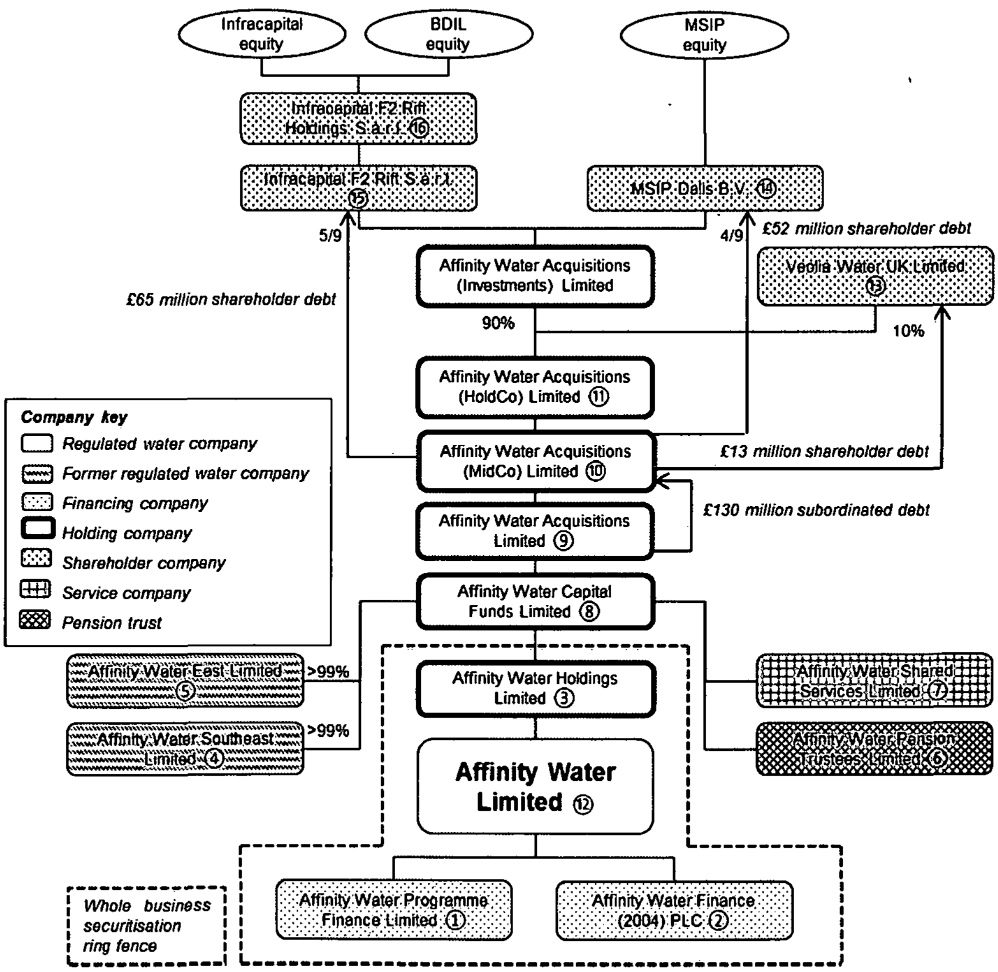
Directors' report
for the year ended 31 March 2014 (continued)

Ownership (continued)

Beryl Datura Investment Limited
Beryl Datura Investment Limited (BDIL) is a company established by the State Administration of Foreign Exchange of the People's Republic of China. It is managed by Gingko Tree Investments Limited which focuses on investments in real assets such as infrastructure and real estate and is attracted to relatively stable, predictable, long-term investments. It holds its investment in the company through Infracapital F2 Rift Holdings S.à.r.l..

Veolia Water UK Limited
Veolia Water UK Limited is incorporated in England and Wales and is a subsidiary of Veolia Environnement S.A. which is listed on the Paris and New York Stock Exchanges. It holds its investment in the company through its shareholding in Affinity Water Acquisitions (Holdco) Limited and has established with the company a capability sharing arrangement. This arrangement gives it access to the company's knowhow, experience and expertise while the company has access to Veolia Water's advice on global water technologies and developments.

The following chart shows the ownership of the company and the group structure, excluding dormant subsidiaries, at 31 March 2014. Unless otherwise indicated, all companies are wholly owned by the parent company shown. The numbers listed alongside company names in the chart below may be cross referenced to the group structure table and table of directors of the company on pages 15 to 17.



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

Ownership (continued)

Infracapital Partners II and Morgan Stanley Infrastructure Partners are considered to be the ultimate controllers of the group, as they are in a position to exercise material influence over the group's policy and affairs. These entities have provided Affinity Water Limited with legally enforceable undertakings that they will:

- give Affinity Water Limited such information as may be necessary to enable the group to comply with its obligations under the Water Industry Act 1991 and Instrument of Appointment;
- refrain from any action which would cause Affinity Water Limited to breach any of its obligations under the Water Industry Act 1991 or the conditions of the Appointment; and
- use their best endeavours to ensure that the Board of Affinity Water Limited maintains not less than three independent non-executive directors, who shall be persons of standing with relevant experience and who shall collectively have connections with and knowledge of the areas for which the group's principle trading subsidiary is a water undertaker and an understanding of the interests of the group's customers and how these can be respected and protected.

The Board is satisfied that these undertakings are being properly discharged and that Affinity Water Limited is able fully to meet its regulatory obligation to operate its appointed business as if it were substantially its sole business and were a separate listed company. Further, no issues have been identified at the group level which may materially impact on Affinity Water Limited during the year.

Group structure

The company welcomes Ofwat's publication: *Board leadership, transparency and governance – holding company principles*. The following table provides further explanation of the group structure in keeping with the first principle set out in this publication: transparency.

Companies within the whole business securitisation			
Name	**Description**	**Place of registration**	**Structure chart reference**
Affinity Water Limited	A water undertaker holding an appointment under the Water Industry Act 1991, supplying water to a population of around 3.6 million people in the southeast of England. It is the principal trading subsidiary of the group.	England and Wales	12
Affinity Water Programme Finance Limited	A financing subsidiary of Affinity Water Limited established in 2013 to issue bonds under a Euro Medium Term Note ('EMTN') programme. It lends monies raised from its bonds to Affinity Water Limited. The company is resident in the United Kingdom for tax purposes and its incorporation in the Cayman Islands (an internationally recognised and highly regulated financial centre used for financings by the UK and US governments) brings no tax benefit to the group. It does not hold funds off-shore, with all finance being raised and held within the United Kingdom.	Cayman Islands	1
Affinity Water Finance (2004) PLC	A financing subsidiary of Affinity Water Limited established in 2004 to issue a £200 million 2026 bond. It lends monies raised from its bonds to Affinity Water Limited.	England and Wales	2
Affinity Water Holdings Limited	Affinity Water Limited's immediate holding company. Its equity is provided as security to bond holders in the event of default.	England and Wales	3

Affinity Water Acquisitions (Investments) Limited

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

Group structure (continued)

Other companies			
Name	**Description**	**Place of registration**	**Structure chart reference**
Affinity Water Southeast Limited	A company which formerly held an Instrument of Appointment as water undertaker for the Southeast Region of Affinity Water Limited's water supply area. The appointment was transferred to Affinity Water Limited on 27 July 2012. The company is no longer trading but continues to honour income assurances made to minority shareholders on transfer of its water undertaking to Affinity Water Limited.	England and Wales	4
Affinity Water East Limited	A company which formerly held an Instrument of Appointment as water undertaker for the East Region of Affinity Water Limited's water supply area. The appointment was transferred to Affinity Water Limited on 27 July 2012. The company is no longer trading but continues to honour income assurances made to minority shareholders on transfer of its water undertaking to Affinity Water Limited.	England and Wales	5
Affinity Water Shared Services Limited	A company which provides administrative and technical services solely to Affinity Water Limited. Prior to the group's acquisition of Veolia Water UK Limited's 90% equity interest in June 2012 (and for a 12 month transitional period following), the company also provided services to the non-regulated businesses of Veolia Water UK Limited.	England and Wales	7

Holding companies			
Name	**Description**	**Place of registration**	**Structure chart reference**
Affinity Water Capital Funds Limited	The original holding company for Veolia's regulated water businesses, which was acquired by the group in June 2012 through Affinity Water Acquisitions Limited, which provides management services to the company.	England and Wales	8
Affinity Water Acquisitions Limited	The company which bid for and acquired Affinity Water Capital Funds Limited and its subsidiaries from Veolia Water UK in 2012. It retains £130 million of subordinated debt issued to Affinity Water Acquisitions (Midco) Limited.	England and Wales	9
Affinity Water Acquisitions (Midco) Limited	The holding company of Affinity Water Acquisitions Limited which holds £130m of subordinated debt issued by Affinity Water Acquisitions Limited.	England and Wales	10
Affinity Water Acquisitions (Holdco) Limited	The holding company of Affinity Water Acquisitions (Midco) Limited. The inclusion of a holding company between Affinity Water Acquisitions (Midco) Limited and Affinity Water Acquisitions (Investments) Limited enables the introduction or withdrawal of additional shareholders without impacting on shareholder agreements between the original acquisition consortia.	England and Wales	11
Affinity Water Acquisitions (Investments) Limited	The ultimate holding company of the group in the United Kingdom, paying dividends to the acquisition consortia subsidiaries. The inclusion of this company in the group structure allows the original consortia to change their individual equity holdings without requiring structural changes in the organisation below.	England and Wales	
MSIP Dalis BV	A company established by Morgan Stanley Infrastructure Partners under its Netherlands-based operations to own its European and Asian investments.	Netherlands	14
Infracapital F2 Rift S.a.r.l	A company established at the time of acquisition in 2012 to hold Infracapital Partners II's investment in the group.	Luxembourg	15
Infracapital F2 Rift Holdings S.a.r.l	A company established at the time of acquisition in 2012 through which Infracapital Partners II and Beryl Datura Investment Limited hold their investment in the group.	Luxembourg	16

Group structure (continued)

Dormant companies			
Name	**Description**	**Place of registration**	**Structure chart reference**
Affinity Water Pension Trustees Limited	The trustee company of the Affinity Water Pension Plan.	England and Wales	⑥
Three Valleys Water Limited	A dormant subsidiary of Affinity Water Limited owned for name protection purposes.	England and Wales	Not shown
Tendring Hundred Water Services Limited	A dormant subsidiary of Affinity Water Limited owned for name protection purposes.	England and Wales	Not shown
Folkestone and Dover Water Services Limited	A dormant subsidiary of Affinity Water Limited owned for name protection purposes.	England and Wales	Not shown
White Cliffs Water Limited	A dormant subsidiary of Affinity Water Limited owned for name protection purposes.	England and Wales	Not shown

Board of directors

Directors

The directors of Affinity Water Acquisitions (Investments) Limited who were in office during the year and up to the date of signing the financial statements are disclosed on page 1.

Certain Board members are also directors of other group companies. The numbers listed alongside their name in the table below may be cross referenced to the relevant company shown on the structure chart on page 14.

All directors declare their position when as individuals they have a possible conflict of interest and do not vote on any contract, arrangement or proposal with Affinity Water Limited in which they have an interest by virtue of other directorships. Directors have access to the advice and services of the Company Secretary and are able to obtain access to independent professional advice where they think it necessary.

The table below sets out attendance at Board meetings for the year ended 31 March 2014.

	Number of meetings in year
Philip Nolan (Chairman) ⑫	6/7
Antonio Botija ①②③⑧⑨⑩⑪⑫	1/7
Kenton Bradbury ①②③⑦⑧⑨⑩⑪⑫	7/7
Mike Bryan	4/7
Alberto Donzelli ①②③⑦⑧⑨⑩⑪	5/7
Yacine Saidji ①②③⑧⑨⑩⑪⑫	6/7
Bernd Schumacher ⑧⑨⑩⑪	0/7
James Wilmott ⑧⑨⑩⑪⑫	5/7
Former directors	
* Mathieu Lief	0/0

* denotes not a member of the Board for the whole period

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

Corporate governance

The group and 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. These governance arrangements continue to evolve in order to demonstrate to customers, regulators and other stakeholders that Affinity Water Limited operates to the highest standards of governance and transparency. To this end, Affinity Water Limited published its Governance Code in March 2014, which explains how this regulated company is meeting the principles set out in Ofwat's publication: Board leadership, transparency and governance – principles.

Affinity Water Limited's compliance with all principles of the UK Corporate Governance Code ('the Code'), except in terms of board composition, membership of committees and re-election of directors is explained in detail in its own annual report and financial statements.

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

There are certain matters that the Board of Affinity Water Limited has reserved for shareholder approval. These matters are published on Affinity Water Limited's stakeholder website: stakeholder.affinitywater.co.uk.

Financial and business reporting

Having taken into account all matters considered by the Board and brought to its attention during the year, the directors 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 pages 3 to 9 of the annual report provide the information necessary for shareholders to assess the group's performance, business model and strategy.

Market environment

Market reform and increased competition

Changes to the regulatory environment present the group with opportunities as well as challenges. The water industry is experiencing regulatory pressure towards a progressive reform of its market to facilitate greater competition. This will facilitate new entrants to the water market and allow customers to exercise more choice, in order to drive efficiencies for the ultimate benefit of customers. The group operates on the principle that for all its customers it should work hard to be their supplier of choice.

In April 2017, a competitive market for all non-household water and sewerage customers in England will take effect. Non-household customers will be able to choose their retailer for water and sewerage services, with the ability to select individual retailers for each of the service types provided to their premises. In order to facilitate these changes the Open Water Programme has been established, working with market participants, Ofwat and Defra. The programme will deliver the market architecture, codes, central systems and contracts required to implement the new arrangements. The group is taking an active role in the programme.

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

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.

Likely future developments in the business resulting from expected changes in the regulatory and competitive environments that Affinity Water Limited, the principal trading subsidiary of the group, operates in are discussed in the drivers and opportunities and our future plans sections of the strategic report in its annual report and financial statements for the year ended 31 March 2014.

Political contributions

No political contributions were made during the year (2013: £nil), in accordance with the group's policy of not making political contributions.

Greenhouse gas emissions

The greenhouse gases emitted by the group are those of its principal trading subsidiary, Affinity Water Limited, which are reported in the directors report of its annual report and financial statements for the year ended 31 March 2014.

Employee matters

The group consults and informs its employees on all aspects of business performance through formal and informal consultation bodies, regular team meetings and the intranet. The group continuously discusses ways to enhance and improve its communications and consultation channels with the Trade Unions to which some employees belong. Several initiatives have also been introduced with the aim of improving the health and well-being of the group's employees.

Employees are kept informed of changes in the business and general and financial and economic factors influencing the group together with performance targets. This is achieved through a systematic approach to employee communication, which includes regular briefings or presentations and electronic mailings. A regular employee magazine is also produced, which is sent to all group sites.

The group aims to ensure that each employee or applicant for employment receives the same treatment irrespective of race, gender, disability, sexual orientation, religious belief, creed, marital or parental status. This extends through all group policies including recruitment where the candidate's particular aptitudes and abilities are consistent with the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion. Employees who become disabled whilst employed by the group are actively encouraged to find appropriate employment within the business.

Going concern

The group 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 group's budgeted cash flows, long term forecasts and related assumptions, and available debt facilities. For this reason, the directors continue to adopt the going concern basis in the statutory financial statements.

Post balance sheet events

On 5 June 2014 Affinity Water Finance (2004) Limited, a wholly owned financing subsidiary of the group, gave notice that the outstanding notes issued by the company would be transferred from the Main Market to the Professional Securities Market of the London Stock Exchange. The transfer took place on 19 June 2014. On 4 July 2014 Affinity Water Finance (2004) Limited registered as a public company and completed a tap issue of £50 million on the same terms of the existing bond on 16 July 2014.

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

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 group and parent company 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 group and the company and of the profit or loss of the group 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and the group 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 the group 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.

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 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 auditors at a Board meeting on 8 October 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
25 July 2014

Independent auditor's report to the members of Affinity Water Acquisitions (Investments) Limited for the year ended 31 March 2014

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 group's and of the company's affairs as at 31 March 2014 and of the group's profit and cash flows 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 group financial statements and company financial statements (the "financial statements"), which are prepared by Affinity Water Acquisitions (Investments) Limited, comprise:

- Consolidated and company balance sheet as at 31 March 2014;
- Consolidated profit and loss account and Statement of group total recognised gains and losses for the year then ended;
- Consolidated cash flow statement for the year then ended;
- the accounting policies; and
- the notes to the financial statements, which include 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 group's and 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 (the "Annual Report") 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.

Independent auditor's report to the members of Affinity Water Acquisitions (Investments) Limited for the year ended 31 March 2014 (continued)

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 by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company 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 20, 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 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.

Charles Joseland (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cambridge
25 July 2014

Affinity Water Acquisitions (Investments) Limited

Consolidated profit and loss account for the year ended 31 March 2014

(Registered Number 08101550)

	Note	Year to 31 March 2014 £000	Period to 31 March 2013* £000
Turnover	2	**291,683**	219,790
Cost of sales		**(178,811)**	(137,609)
Gross profit		**112,872**	82,181
Administrative expenses		**(46,144)**	(55,147)
Other operating income	3	**9,880**	7,240
Operating profit	4	**76,608**	34,274
Profit on disposal of tangible fixed assets		**1,479**	3,762
Profit on ordinary activities before interest and taxation		**78,088**	38,036
Interest receivable and similar income	6	**346**	72
Interest payable and similar charges	7	**(52,791)**	(33,977)
Other finance income	8	**901**	252
Profit on ordinary activities before taxation		**26,543**	4,383
Tax on profit of ordinary activities	9	**2,562**	(5,862)
Profit/(loss) on ordinary activities after taxation		**29,105**	(1,479)
Equity minority interests		**(3,040)**	(1,710)
Non-equity minority interests		**-**	-
Profit/(loss) for the year/period	24	**26,065**	(3,189)

* Period relates to date of incorporation to year end (12 June 2012 to 31 March 2013).

All profits of the company are from continuing operations.

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

The notes on pages 29 to 60 form part of these financial statements.

Affinity Water Acquisitions (Investments) Limited

Statement of group total recognised gains and losses for the year ended 31 March 2014

(Registered Number 08101550)

	Note	**Year ended 31 March 2014 £000**	Period to 31 March 2013 £000
Profit/(loss) for the period		**26,065**	(3,189)
Actuarial gain/(loss) recognised in the pension scheme	29	**14,908**	(19,400)
Deferred tax movement relating to the actuarial loss	29	**(2,806)**	4,443
Total recognised losses for the year/period		**38,167**	(18,146)

The notes on pages 29 to 60 form part of these financial statements.

Affinity Water Acquisitions (Investments) Limited

Consolidated balance sheet
as at 31 March 2014
(Registered Number 08101550)

	Note	2014 £000	2013 £000
Fixed assets			
Intangible assets	11	**126,971**	133,929
Tangible assets	12	**1,211,963**	1,189,345
Investments	13	**1**	1
		1,338,935	1,323,275
Current assets			
Stocks	15	**1,412**	1,648
Debtors	16	**81,516**	82,974
Cash at bank and in hand		**17,172**	44,545
		100,100	129,167
Creditors – amounts falling due within one year	17	**(131,558)**	(121,403)
Net current (liabilities)/assets		**(31,458)**	7,764
Total assets less current liabilities		**1,307,477**	1,331,039
Creditors – amounts falling due after more than one year	18	**(921,700)**	(912,575)
Provisions for liabilities	19	**(48,784)**	(55,127)
Net assets excluding pension asset/(liability)		**336,993**	363,337
Net pension asset/(liability)	29	**5,205**	(10,949)
Net assets		**342,198**	352,388
Capital and reserves			
Called up share capital	23	**3,408**	3,408
Profit and loss account	24	**303,272**	311,222
Total shareholders' funds	26	**306,680**	314,630
Equity minority interests		**35,510**	37,750
Non-equity minority interests		**8**	8
		342,198	352,388

The notes on pages 29 to 60 form part of these financial statements. The statutory financial statements on pages 23 to 60 were approved by the Board of Directors and were signed on 25 July 2014 on its behalf by:

Kenton Bradbury
Director

Affinity Water Acquisitions (Investments) Limited

Company balance sheet
as at 31 March 2014
(Registered Number 08101550)

	Note	2014 £000	2013 £000
Investments	13	**340,777**	340,777
		340,777	340,777
Net assets		**340,777**	340,777
Capital and reserves			
Called up share capital	23	**3,408**	3,408
Profit and loss account	24	**337,369**	337,369
Shareholders' funds	26	**340,777**	340,777

The notes on pages 29 to 60 form part of these financial statements. The statutory financial statements on pages 23 to 60 were approved by the Board of Directors and were signed on 25 July 2014 on its behalf by:

Kenton Bradbury
Director

Affinity Water Acquisitions (Investments) Limited

Consolidated cash flow statement for the year ended 31 March 2014

(Registered Number 08101550)

	Note	Year ended 31 March 2014 £000	Period to 31 March 2013 £000
Net cash inflow from operating activities	(a)	**159,207**	91,108
Returns on investments and servicing of finance			
Interest received		**346**	-
Interest paid		**(46,272)**	(33,196)
Dividends paid to minority shareholdings in subsidiary undertakings		**(5,124)**	(889)
Net cash outflow from returns on investments and servicing of finance		**(51,050)**	(34,085)
Taxation		**(1,391)**	(4,184)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(117,101)**	(83,032)
Capital contributions		**7,969**	12,479
Proceeds on disposal of tangible fixed assets		**1,743**	8,009
Net cash outflow from capital expenditure and financial investment		**(107,389)**	(62,544)
Acquisitions			
Net cash outflow for acquisitions		**-**	(1,007,664)
Equity dividends		**(46,117)**	(8,001)
Net cash outflow before financing		**(46,740)**	(1,025,370)
Financing			
Proceeds on issue of share capital of the group		**-**	375,930
Capital element of finance lease payments		**-**	(1,591)
Proceeds from new bond issue		**-**	565,885
Loan from external facilities		**17,200**	-
Loan from shareholders		**-**	130,020
Financing of assets operated by other parties		**2,167**	(329)
Net cash inflow from financing		**19,367**	1,069,915
(Decrease)/increase in net cash	(b)/(c)	**(27,373)**	44,545

The notes on pages 29 to 60 form part of these financial statements.

Affinity Water Acquisitions (Investments) Limited

Notes to the consolidated cash flow statement for the year ended 31 March 2014

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

	Year ended 31 March 2014 £000	Period to 31 March 2013 £000
Operating profit	**76,608**	34,274
Depreciation of tangible fixed assets	**80,874**	58,743
Amortisation of goodwill	**6,958**	5,218
Amortisation of deferred credit	**(297)**	(236)
Decrease/(increase) in stocks	**236**	(244)
Decrease in debtors	**1,219**	87,764
(Decrease)/increase in provisions	**(392)**	481
Decrease in creditors	**(1,113)**	(91,571)
Pension contributions in excess of operating charge	**(4,886)**	(3,321)
Net cash inflow from operating activities	**159,207**	91,108

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

	Year ended 31 March 2014 £000	Period to 31 March 2013 £000
(Decrease)/increase in cash in the year/period	**(27,373)**	44,545
Cash inflow from increase in debt and finance leasing	**(19,367)**	(909,943)
Non cash inflow from increase in debt and finance leasing	**(7,166)**	(155)
Movement in net debt in the year/period	**(53,906)**	(865,553)
Net debt at the beginning of the year/period	**(865,553)**	-
Net debt at the end of the year/period	**(919,459)**	(865,553)

(c) Analysis of net debt

	At 1 April 2013 £000	Cash flow £000	Non cash flow £000	At 31 March 2014 £000
Net cash				
Bank	44,545	(27,373)	-	**17,172**
Debt				
Bond issue	(762,764)	-	(7,210)	**(769,974)**
Loan from shareholders	(130,020)	-	-	**(130,020)**
Debentures	(36)	-	-	**(36)**
External loan facilities	-	(17,200)	-	**(17,200)**
Financing of assets used by the company and operated by other parties	(17,278)	(2,167)	44	**(19,401)**
	(910,098)	(19,367)	(7,166)	**(936,631)**
Net debt	(865,553)	(46,740)	(7,166)	**(919,459)**

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

1. Statement of accounting policies

Basis of preparation

These financial statements have been prepared on the going concern basis as included in the directors' report on page 19, under the historical cost convention, as modified by the revaluation of certain tangible fixed assets described below, and in accordance with the Large and Medium-sized Companies and Groups Regulations 2008 (SI 2008/410), which forms part of the Companies Act 2006, and applicable UK accounting standards, except for the treatment of certain grants and contributions, described below.

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

Basis of consolidation

The group financial statements consolidate the accounts of Affinity Water Acquisitions (Investments) Limited and its subsidiaries from the date of the acquisition of the Affinity Water Capital Funds Limited group. The subsidiary companies have been included in the group financial statements using the acquisition method of accounting. Accordingly, the consolidated profit and loss account and cash flow statement for the prior period include the results and cash flows of these entities for the 9 month period from their acquisition on 28 June 2012. The purchase consideration has been allocated to the assets and liabilities on the basis of fair value at the date of acquisition.

As permitted by Section 408 of the Companies Act 2006, the parent company's profit and loss account has not been included in the financial statements.

In the company financial statements, investments in subsidiaries are accounted for at the lower of cost and net realisable value.

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.

Revenue recognition

Revenue is recognised in accordance with Financial Reporting Standard 5: 'Reporting the substance of transactions' in the period in which it is earned. The group does not recognise revenue where payment is received in advance. However, payments made in the previous period in respect of the current period will be recorded as revenue in the current period. In accordance with Application Note G of Financial Reporting Standard 5, the group does not recognise revenue where historic evidence indicates that the group will probably never be able to collect the revenue billed.

Charges billed to customers for water services are recognised in the period in which they are earned. An accrual is estimated for unmeasured consumption that has not yet been billed. The accrual is estimated using a defined methodology based upon weighted average water consumption by tariff, which is calculated based upon historical information.

Where an invoice has been raised and payment made but the service has not been provided in the year this will be treated as a payment in advance. The value of invoices raised will not be recognised within the current year's turnover but will instead be recognised within creditors as deferred income.

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

1. Statement of accounting policies (continued)

Other operating income

Other operating income includes all income derived from sources associated with the ordinary activities of the business other than turnover, which is derived from the regulatory activities of the business. It is stated net of value added taxes.

Bad debt provisioning

At each reporting date, the group evaluates the collectability of debtors and records provisions for doubtful debts based on experience. The bad debt provision is calculated by applying a range of different percentages to debt of different ages. These percentages also vary between categories of debt. Higher percentages are applied to those categories of debt which are considered to be of greater risk and also to debt of greater age. The value of the debt provision is sensitive to the specific percentages applied.

Dividends

Revenue is recognised when the company's right to receive payment is established.

Financial instruments

Income and expenditure arising on financial instruments is recognised on an accruals basis and credited or charged to the profit and loss in the financial period in which it arises.

Issue costs on capital instruments are allocated to accounting periods over the term of the debt as a consistent proportion of the outstanding amount of the related debt in accordance with the requirements of Financial Reporting Standard 4: 'Capital instruments'.

Research and development

The costs of research and development are written off in the year in which they are incurred.

Current taxation

Current taxation is corporation tax in the United Kingdom based on the taxable profit for the period 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.

Taxable profit differs from the net profit as reported in the profit and loss account as it excludes items of income or expenditure that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred taxation

Deferred tax is provided, except as noted below, on timing differences that have arisen but not reversed by the balance sheet date, where the timing differences result in an obligation to pay more tax, or a right to pay less tax, in the future. Timing differences arise because of differences between the treatment of certain items for accounting and taxation purposes. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

In accordance with Financial Reporting Standard 19: 'Deferred tax', deferred tax is not provided on timing differences arising from:

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

1. Statement of accounting policies (continued)

Deferred taxation (continued)

(a) revaluation gains on land and buildings, unless there is a binding agreement to sell them at the balance sheet date and it is unlikely that any gain will be rolled over;
(b) gains on the sale of non-monetary assets, where on the basis of all available evidence it is more likely than not that the taxable gain will be rolled over into replacement assets; and
(c) fair value adjustment gains to fixed assets and stock to uplift prices to those ruling when an acquisition is made.

Deferred tax is measured at the tax rates that are expected to apply in the periods when the timing differences are expected to reverse, based on tax rates and law enacted or substantively enacted at the balance sheet date.

Where law or accounting standards require gains and losses to be recognised in the statement of total recognised gains and losses, the related taxation is also taken directly to the statement of total recognised gains and losses in due course.

The group has adopted a policy of discounting deferred tax assets and liabilities to reflect the time value of money. Deferred tax assets and liabilities are discounted using a discount rate equivalent to the post tax yield that could be obtained at the balance sheet date on government bonds with similar maturity dates and currencies. The increase or decrease in the discount deducted in arriving at the deferred tax balance is included in the deferred tax charge or credit in the profit and loss account.

Pension costs

The group operates a pension plan providing defined benefits based on final pensionable salary. The plan, which has separate Central, East, Southeast and Shared Services divisions, closed to new members in April 1996 and September 2004. The assets of the plan are held separately from those of the group.

The cost of providing benefits under the defined benefit plan is determined using the projected unit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligations) and is based on actuarial advice. Past service costs are recognised in profit or loss on a straight-line basis over the vesting period or immediately if the benefits have vested. When a settlement or a curtailment occurs, the change in the present value of the plan liabilities and the fair value of the plan assets reflect the gain or loss which is recognised in the profit and loss account. Losses are measured at the date that the employer becomes demonstrably committed to the transaction and gains when all parties whose consent is required are irrevocably committed to the transaction.

The interest element of the defined benefit cost represents the change in present value of plan obligations resulting from the passage of time, and is determined by applying the discount rate to the opening present value of the benefit obligation, taking into account material changes in the obligation during the year. The expected return on plan assets is based on an assessment made at the beginning of the year of long-term market returns on plan assets, adjusted for the effect on the fair value of plan assets of contributions received and benefits paid during the year. The difference between the expected return on plan assets and the interest cost is recognised in the profit and loss account as other finance income or expense. Actuarial gains and losses are recognised in full in the statement of total recognised gains and losses in the period in which they occur.

1. Statement of accounting policies (continued)

Pension costs (continued)

The defined benefit pension asset or liability in the balance sheet comprises the total for each division of the plan of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds that have been rated at AA or equivalent status), less any past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published bid price. The value of a net pension benefit asset is limited to the amount that may be recovered either through reduced contributions or agreed refunds from the plan.

Contributions to the defined contribution section of the plan are recognised in the profit and loss account in the period in which they become payable.

The group also has an unfunded obligation to pay pensions to former non-executive directors. A provision in respect of the obligation is included within the net pension liability.

Goodwill and amortisation

Positive goodwill arising on acquisitions is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life up to a maximum of 20 years. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Positive goodwill is the excess of the cost of the acquired entity over the aggregate of the fair values of that entity's identifiable assets and liabilities. In estimating the useful economic life of goodwill, account has been taken of the nature of the unified business and the stability of the industry.

If a subsidiary, associate or business is subsequently sold or closed, any goodwill arising on acquisition that is written off directly to reserves or that has not been amortised through the profit and loss account is taken into account in determining the profit or loss on sale or closure.

Tangible fixed assets and depreciation

Financial Reporting Standard 15: 'Tangible fixed assets' requires fixed assets which are carried at revalued amounts to be shown at their current value at the balance sheet date. To achieve this, all tangible fixed assets are subject to a full valuation every five years with an interim valuation carried out in the third year of this cycle.

Tangible fixed assets comprise:

- Infrastructure assets – mains and associated underground pipe-work.
- Other assets – land and buildings, operational structures, fixed plant, vehicles and mobile plant.

Infrastructure assets (being mains and associated underground pipe-work) comprise a network of systems. Expenditure on infrastructure assets, including renewals, is treated as an addition and included at cost after deducting grants and contributions.

The depreciation charge for infrastructure assets is the estimated level of annual expenditure required to maintain the operating capability of the network which is based on the group's independently certified asset management plan. Disposals of infrastructure assets are calculated based on the estimated lives of the assets before they are replaced.

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

1. Statement of accounting policies (continued)

Tangible fixed assets and depreciation (continued)

Depreciation is provided on all other fixed assets except freehold land and is calculated to write off their cost over their estimated useful lives on a straight-line basis. Assets acquired under finance leases are depreciated over the shorter of their useful life or the lease term. The performance of assets is continually monitored and where impairment is identified, fixed assets are written down to their recoverable amount. Tangible fixed assets are reviewed for impairment at the end of each reporting period when the estimated remaining useful economic life of the assets exceeds 50 years.

The estimated useful lives of these assets are:

Buildings		40 - 60 years
Operational structures		15 -100 years
Fixed plant	- Short life	3 - 10 years
	- Other	10 - 30 years
Vehicles and mobile plant		3 - 10 years

Land and assets in the course of construction are not depreciated.

Any revaluation surplus is credited to the revaluation reserve in equity except to the extent that it reverses a decrease in the carrying value of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except to the extent of any existing surplus in respect of that asset in the revaluation reserve.

Capital contributions

Infrastructure charges received in respect of connections to the mains network are allocated to fixed assets, surface and infrastructure, in accordance with the basis on which the charges are calculated.

Grants and contributions receivable relating to infrastructure assets have been deducted from the cost of tangible fixed assets. This is not in accordance with Large and Medium-sized Companies and Groups Regulations 2008 (SI 2008/410) which forms part of the Companies Act 2006, which requires tangible fixed assets to be shown at cost, and hence grants and contributions are accounted for as deferred income. This departure from the requirements of the Companies Act 2006 is, in the opinion of the directors, necessary for the financial statements to show a true and fair view as, while a provision is made for depreciation of infrastructure assets, these assets have indefinite economic lives and therefore no basis exists on which to recognise grants and contributions in the profit and loss account. The effect of this treatment on the book value of tangible fixed assets is disclosed note 12.

Capital contributions received in respect of tangible fixed assets, other than infrastructure assets, are deferred and credited to the profit and loss account by instalments over the expected useful lives of the related assets.

Leased assets

Assets financed by leasing are included in tangible fixed assets and the net obligation to pay future rentals is included within creditors. Instalments are apportioned between the finance element, which is charged to the profit and loss account as interest, and the capital element, which reduces the outstanding obligation for future instalments.

1. Statement of accounting policies (continued)

Leased assets (continued)

Rentals paid under an operating lease are charged against profits on a straight-line basis over the life of the lease.

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the group, and hire purchase contracts are capitalised in the balance sheet and are depreciated over the shorter of the lease term and the asset's useful lives. The capital elements of future obligations under leases and hire purchase contracts are included as liabilities in the balance sheet. The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Fixed asset investments

Fixed asset investments are stated at cost less any provisions in respect of permanent diminution in value.

Grafham reservoir

Under the Great Ouse Water Act of 1961, Affinity Water Limited, a subsidiary of the group, has an entitlement to water from the Grafham reservoir owned and operated by Anglian Water Services Limited ('Anglian Water').

Affinity Water Limited includes within its fixed assets (and RCV) a proportion of the original cost of the reservoir and annual increments related to capital expenditure made by Anglian Water on the reservoir. The other accounting entry is an obligation of around £19,401,000 relating to the original embedded debt of Anglian Water as incremented by the subsequent asset additions.

This amount is treated as a quasi-finance lease within these financial statements under the category of 'financing of assets operated by third parties' (see notes 21 and 28).

The model utilised for allocating the costs between the group and Anglian Water as required by the legislation includes an interest charge and capital repayment on this quasi-finance lease. The maturity period of the quasi-finance lease is currently assessed as being 28 years, assuming no further capital expenditure on the reservoir by Anglian Water. In practice, both the value of the lease obligation and the maturity period have remained broadly constant for a number of years as the capital repayments made have been similar to the company's proportion of the incremental expenditure by Anglian Water on the reservoir.

Ardleigh reservoir

The group and Anglian Water own the Ardleigh reservoir and ancillary works jointly in approximately equal shares, the group's share of the capital expenditure being included in tangible fixed assets in note 12. The reservoir is operated on behalf of both undertakings through the Ardleigh Reservoir Committee, and the group's share of the expense incurred is included within abstraction licences and bulk purchase within cost of sales in the profit and loss account.

Stocks and work in progress

Stocks are valued at the lower of cost or net realisable value after allowance for obsolete and slow moving items. In accordance with established practice in the water industry no value has been placed upon the water in reservoirs, mains or in the course of treatment. Work in progress for chargeable services is valued at cost.

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

1. Statement of accounting policies (continued)

Loans

All loans held with the group's subsidiaries 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 year. The finance cost recognised in the profit and loss account is allocated to accounting periods over the term of the debt using the effective interest method.

Provision for liabilities

A provision is recognised when the group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

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

2. Turnover and segmental analysis

Turnover represents income from the supply of water and other chargeable services exclusive of VAT arising wholly within the United Kingdom. Turnover relating to unmeasured supplies comprises amounts due to the company for the accounting year/period.

	Year ended 31 March 2014 £000	Period to 31 March 2013 £000
Unmeasured supplies	**130,731**	119,267
Measured supplies	**160,377**	97,860
Chargeable services	**273**	424
Other revenue	**302**	2,239
	291,683	219,790

There is no turnover from the existing business.

3. Other operating income

	Year ended 31 March 2014 £000	Period to 31 March 2013 £000
Commission and rentals	**9,880**	7,240

4. Group operating profit

Operating profit is stated after charging/(crediting):	Year ended 31 March 2014 £000	Period to 31 March 2013 £000
<u>Prior year acquisition costs:</u>		
Fees paid on acquisition (see note 14)	-	11,972
Debt arrangement fees	-	7,909
Stamp duty	-	2,771
<u>Operating costs</u>		
Purchase of bulk water supplied under statutory entitlement	**1,681**	2,079
Water abstraction	**6,413**	5,675
Business rates	**16,497**	14,999
Chargeable services direct expenditure	**1,111**	916
Depreciation of infrastructure assets	**47,309**	35,620
Depreciation of tangible fixed assets - owned	**32,969**	22,571
Depreciation of tangible fixed assets - leased	**596**	552
Amortisation of goodwill	**6,958**	5,218
Research and development	**212**	166
Restructuring costs arising from the unification of the water licences	-	732
Other costs arising from the unification of the water licences	-	310
Costs relating to rebranding	-	728
Hire of equipment not under finance lease	**538**	-
Operating lease rentals - land and buildings	**1,547**	1,160
Operating lease rentals - other	**862**	728
Amortisation of deferred credit	**(297)**	(236)
Pension scheme set up costs	**170**	620
Auditor's remuneration (see below)	**436**	311

4. Group operating profit (continued)

	Year ended 31 March 2014 £000	Period to 31 March 2013 £000
Auditors' remuneration		
Fees payable to the company's auditor and its associates for the audit of the parent company and consolidated financial statements	**15**	13
Fees payable to the company's auditor and its associates for other services		
Audit of the company's associates	**175**	186
Audit-related assurance services		
- regulatory reporting	**188**	39
- Thames Water and Anglian Water annual returns	**8**	6
- Audit related assurance service - other	**23**	-
Corporate finance services	**-**	61
All other non-audit services	**27**	6
	436	311

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

The company's auditor in the prior year was Ernst & Young LLP ('EY'). During the current year, PricewaterhouseCoopers LLP ('PwC') was appointed as the company's auditor. Consequently, fees in the current year are fees payable to PwC and fees payable in the prior year are fees payable to EY.

During the year, additional assurance services were commissioned from PwC with respect to the company's PR14 Business Plan submission to Ofwat.

The above items are included within the cost of sales, customer services and administrative expenses in the profit and loss account.

5. Employees and directors

	Year to 31 March 2014 £000	Period to 31 March 2013 £000
Staff costs (including executive directors) consist of:		
Wages and salaries	**40,984**	29,304
Social security costs	**3,446**	2,741
Defined benefit pension costs	**5,118**	3,681
Defined contribution pension costs	**948**	488
Other pension costs	**544**	512
Effect of pension asset limit	**-**	(1,617)
	51,040	35,109

The average number of employees in the period ended 31 March 2014 was analysed under the following categories:

	2014 Number	2013 Number
Operations	**598**	507
Customer service	**301**	360
Administration	**174**	200
	1,073	1,067

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

5. Employees and directors (continued)

Directors' remuneration

The disclosure is provided in respect of the directors of Affinity Water Acquisitions (Investments) Limited and their services in respect of the Affinity Water Acquisitions (Investments) Limited group.

All but one of the directors who sit on the Board of Affinity Water Acquisitions (Investments) Limited have been appointed by Infracapital Partners II, Morgan Stanley Infrastructure Partners and Veolia Water UK Limited and do not receive any emoluments from the company, or any company within the Affinity Water group. Therefore the disclosure below also reflects the highest paid director of the company.

	Year to 31 March 2014 £000	Period to 31 March 2013 £000
Aggregate remuneration in respect of qualifying services	**200**	-

None of the directors of the company participate in group's pension plans.

The company does not have any listed shares and so the directors have not been offered any share incentives.

The directors who sit on the Board as representatives of Infracapital Partners II, Morgan Stanley Infrastructure Partners and Veolia Water UK Limited have recharged £100,000 (2013: £90,000) to Affinity Water Acquisitions Limited, a subsidiary of the group.

6. Interest receivable and similar income

	Year to 31 March 2014 £000	Period to 31 March 2013 £000
Other interest	**346**	72

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

7. Interest payable and similar charges

	Year to 31 March 2014 £000	Period to 31 March 2013 £000
Interest payable to shareholders	**10,532**	8,050
Interest payable to related party	**1,170**	894
Financing costs of assets used by the company and operated by other parties	**1,088**	721
Finance lease charges	**-**	65
Debenture interest	**60**	1
Interest payable to subsidiary in respect of bond issue	**38,724**	12,083
Other interest	**1,217**	12,163
	52,791	33,977

8. Other finance income

	Year to 31 March 2014 £000	Period to 31 March 2013 £000
Expected return on pension scheme	**16,211**	11,956
Interest on pension scheme liabilities	**(15,310)**	(11,704)
	901	252

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

9. Taxation on profit on ordinary activities

Taxation relates to the following:	Year to 31 March 2014 £000	Period to 31 March 2013 £000
Current taxation		
Current tax on profit for the year	3,646	4,476
Adjustment in respect of prior years	(2,022)	-
Current taxation	1,624	4,476
Deferred taxation		
Origination of timing differences	6,393	4,690
Adjustment in respect of prior years	1,190	-
Decrease in discounting	1,309	958
Impact of change in tax rate	(13,078)	(4,262)
Deferred tax (credit)/charge for the period	(4,186)	1,386
Taxation on profit on ordinary activities	(2,562)	5,862

The tax assessed for the year is lower (2013: lower) than the standard rate of corporation tax in the UK (23%). The differences are explained below:

	Year to 31 March 2014 £000	Period to 31 March 2013 £000
Profit on ordinary activities before taxation	26,543	4,383
Theoretical tax at UK corporation tax rate of 23% (2013: 24%)	6,105	1,052
Effects of:		
Adjustment to tax in respect of prior years	(2,022)	-
Accelerated capital allowances	(2,288)	(1,860)
Other short term timing differences	(776)	2,081
Other timing differences	(1,540)	(1,589)
Permanent differences	2,145	4,792
Actual current taxation charge	1,624	4,476

Tax on recognised gains and losses not included in the profit and loss account (see note 19):

	Year to 31 March 2014 £000	Period to 31 March 2013 £000
Other deferred tax (charge)/credit relating to pension scheme	(2,806)	4,443

Factors that may affect future tax charges

In 2012 the main rate of corporation tax in the United Kingdom was reduced to 23 per cent effective from 1 April 2013 and applicable to the financial year ended 31 March 2014. Legislation was included in the Finance Act 2013 to reduce the corporation tax rate from 23 per cent to 21 per cent effective from 1 April 2014 and from 21 per cent to 20 per cent effective from 1 April 2015.

10. Dividends

	Year to 31 March 2014 £000	Period to 31 March 2013 £000
Ordinary:		
First interim paid of 1.32p (2013: 2.35p) per share	**4,500**	8,001
Second interim paid of 0.66p (2013: nil) per share	**2,250**	-
Third interim paid of 8.66p (2013: nil) per share	**29,513**	-
Fourth interim paid of 1.80p (2013: nil) per share	**6,120**	-
Fifth interim paid of 1.10p (2013: nil) per share	**3,734**	-
	46,117	8,001

11. Intangible assets

Group	Goodwill £000
Cost at 31 March 2013	**139,147**
Accumulated amortisation at 31 March 2013	(5,218)
Amortisation during the year	(6,958)
At 31 March 2014	**(12,176)**
Net book value at 31 March 2014	**126,971**
Net book value at 31 March 2013	133,929

The company has no intangible assets.

12. Tangible assets

Group	Freehold land, buildings and reservoirs £000	Mains and other infrastructure assets £000	Vehicles, plant and machinery £000	Assets in the course of construction £000	Total £000
Cost					
At 1 April 2013	215,518	725,102	228,334	78,787	1,247,741
Additions	114	46,253	3,453	62,144	111,964
Transfers to complete	4,754	3,966	25,160	(33,880)	-
Capital contributions	-	(8,202)	-	-	(8,202)
Disposals	(263)	-	(292)	-	(555)
At 31 March 2014	**220,123**	**767,119**	**256,655**	**107,051**	**1,350,948**
Depreciation					
At 1 April 2013	7,364	35,620	15,412	-	58,396
Charge for the period	4,977	47,309	28,588	-	80,874
Disposals	-	-	(285)	-	(285)
At 31 March 2014	**12,341**	**82,929**	**43,715**	**-**	**138,985**
Net book value					
At 31 March 2014	**207,782**	**684,190**	**212,940**	**107,051**	**1,211,963**
At 31 March 2013	208,154	689,482	212,922	78,787	1,189,345

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

12. Tangible assets (continued)

The company has no tangible assets.

Finance leases have been arranged for assets included above at 31 March 2014 as follows:

Group	Land, buildings and operational structures £000	Mains and other infrastructure assets £000	Vehicles, plant and machinery £000	Assets in the course of construction £000	Total £000
31 March 2014					
Cost	8,419	23,165	68,708	-	100,292
Accumulated depreciation	(7,908)	(11,068)	(68,501)	-	(87,477)
Net book value	**511**	**12,097**	**207**	**-**	**12,815**
31 March 2013					
Cost	8,419	23,165	68,708	-	100,292
Accumulated depreciation	(7,811)	(10,930)	(68,139)	-	(86,880)
Net book value	608	12,235	569	-	13,412

The net book value of mains and other infrastructure assets for the group is stated after the deduction of grants and contributions received since April 1990 amounting to £182.2m (2013: £174.0m) in order to give a true and fair view. All land and buildings are held as freehold.

Certain classes of the group's tangible fixed assets were professionally valued at October 2009 and March 2010 by PwC in their capacity as independent qualified valuers. These valuations were performed in accordance with Financial Reporting Standard 15 which requires that assets subject to a policy of revaluation should be carried at their current value. Current value is defined in Financial Reporting Standard 15 as the lower of replacement cost and recoverable amount. The recoverable amount is further defined as the higher of Net Realisable Value ('NRV') and Value in Use ('VIU').

Having considered the above definitions of value, PwC concluded that the most reliable valuation method to determine the current value for the tangible fixed assets of a water company in the United Kingdom was a two step approach:

- Step 1: Estimating the business VIU, using a discounted cash flow ('DCF') model to determine the business enterprise value, cross-checked against the regulatory capital value ('RCV'), followed by
- Step 2: Allocating the VIU of the business (less relevant working capital balances, deferred tax liabilities and other adjustments) to individual classes of tangible fixed assets.

Such valuations were incorporated into the financial statements with the resulting revaluation adjustments taken to the revaluation reserve. PwC carried out an interim valuation using a consistent basis during the period ended 31 March 2013. The revaluation surplus of £119.2m was attributable to infrastructure assets and was allocated to the fixed assets acquired as a fair value adjustment (note 14). Deferred tax has not been provided on timing differences arising from the revaluation of fixed assets unless, by the balance sheet date, a binding commitment to sell the asset has been entered into and it is unlikely that any gain will be rolled over. If the revalued assets were stated on a historical cost basis, the historic cost before depreciation would be £1,681.2m (2013: £1,579.6m). If the revalued assets were stated on a historical cost basis, the net book value would be £669.6m (2013: £650.4m).

Information on the condition of assets is also provided to the Regulator every five years as part of the price review mechanism.

13. Investments

	Group 2014 £000	Company 2014 £000
At 1 April 2013	1	340,777
Acquisition during the period	-	-
At 31 March 2014	**1**	**340,777**

The investment balance in the company relates to Affinity Water Acquisitions (Holdco) Limited.

The following were the principal subsidiary undertakings of the company:

Name of company	Nature of business	Type of holding	Proportion of voting rights and shares held
Affinity Water Acquisitions (Holdco) Limited*	Holding company	Ordinary shares	90%
Affinity Water Acquisitions (Midco) Limited	Holding company	Ordinary shares	100%
Affinity Water Acquisitions Limited	Holding company	Ordinary shares	100%
Affinity Water Capital Funds Limited	Holding company	Ordinary shares	100%
Affinity Water Holdings Limited	Holding company	Ordinary shares	100%
Affinity Water Limited	Water supply	Ordinary shares	100%
Affinity Water Finance (2004) PLC (formerly Affinity Water Finance (2004) Limited)	Finance company	Ordinary shares	100%
Affinity Water Programme Finance Limited	Finance company	Ordinary shares	100%
Affinity Water East Limited **	Investment company	Ordinary shares	99%
		Ordinary non-voting shares	88%
		10% preference shares	98%
Affinity Water Southeast Limited **	Investment company	Ordinary shares	99%
		Ordinary non-voting shares	92%
		14% preference shares	98%
North Surrey Water Limited *** (liquidated during the year)	Investment company	Ordinary shares	99%
		Ordinary non-voting shares	99%
		10% preference shares	99%
Affinity Water Shared Services Limited	Group support services	Ordinary shares	100%

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

13. Investments (continued)

* held directly by Affinity Water Acquisitions (Investments) Limited.

** following the sale of all the company's trade, assets and liabilities to Affinity Water Limited on 27 July 2012 (refer to note 14), the company's main activity is to manage its financial resources to maximise returns to the company's shareholders.

*** following the sale of all the company's assets and liabilities to Affinity Water Limited on 1 October 2000, the company's main activity was to manage its financial resources to maximise returns to the company's shareholders. The company was put into members' voluntary liquidation on 5 November 2009 and was dissolved on 13 May 2013.

All the above companies are registered in England and Wales, with the exception of Affinity Water Programme Finance Limited (incorporated in the Cayman Islands and resident in the United Kingdom for tax purposes). Affinity Water Capital Funds Limited is the holding company for the water supply interests of Affinity Water Acquisitions (Investments) Limited.

14. Acquisition

There were no acquisitions during the year ended 31 March 2014.

Affinity Water Acquisitions Limited, a subsidiary of the group, was incorporated as Rift Acquisitions Limited on 31 May 2012 as an acquisition vehicle formed 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.

On 28 June 2012 the company acquired the entire shareholding of Affinity Water Capital Funds Limited (formerly Veolia Water Capital Funds Limited) from Veolia Water UK Limited, for a total consideration of £1,021.1m. The total adjustments required to the book values of the assets and liabilities of the companies acquired in order to present the net assets of those companies at fair values in accordance with group accounting principles were £119.2m, details of which are set out below, together with the resultant amount of goodwill arising. All of these purchases have been accounted for as acquisitions.

	Assets on acquisition £000	Fair value adjustment £000	Fair values £000
Tangible assets	1,059,959	119,200	**1,179,159**
Investments	1	-	**1**
Stock	1,435	-	**1,435**
Debtors	164,503	-	**164,503**
Creditors	(431,569)	-	**(431,569)**
Provisions	(55,589)	-	**(55,589)**
Pensions liability	(150)	-	**(150)**
Cash	26,074	-	**26,074**
Net assets			**883,864**
Less: minority interests			**(1,815)**
Net assets acquired			**882,049**
Goodwill (refer to note 11)			**139,147**
Consideration			**1,021,196**

14. Acquisition (continued)

Satisfied by:	£000
Cash (funded by bank debt)	554,244
Debt *	466,952
	1,021,196

* Affinity Water Acquisitions Limited, the acquisition vehicle of the group, took over debt amounting to £205.8m due from Affinity Water Limited to Veolia Environnement S.A. and £261.1m due from Affinity Water Capital Funds Limited to Veolia Water UK Limited.

In the period ended 31 March 2013, these entities contributed £103.8m to the group's net operating cash flows, paid £12.9m in respect of interest, utilised £60m in capital expenditure and £4.1m in respect of taxation.

15. Stocks

	Group 2014 £000	Group 2013 £000
Raw Materials and consumables	1,412	1,648

The company has no stock.

16. Debtors

	Group 2014 £000	Group 2013 £000
Trade debtors and customers' water charges	30,042	30,689
Accrual for unbilled metered customers	37,790	36,044
Amounts due from related party	3,104	3,292
Other debtors	4,198	7,781
Prepayments and accrued income	5,536	4,088
Corporation tax	846	1,080
	81,516	82,974

Amounts due from related party relate to amounts due from Veolia Water UK Limited to the group, for services provided to the Veolia businesses during the transition period.

The company has no debtors.

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

17. Creditors – amounts falling due within one year

	Group 2014 £000	Group 2013 £000
Short-term credit facilities	**17,200**	-
Payments received in advance	**32,581**	39,091
Financing of assets operated by other parties	**1,005**	1,093
Trade creditors	**10,827**	8,238
Interest payable	**10,257**	11,418
Amounts owed to related parties	**2,889**	3,370
Other taxes and social security	**1,038**	1,527
Other creditors	**10,889**	7,886
Capital accruals	**17,826**	20,181
Accruals and deferred income	**27,046**	28,599
	131,558	121,403

The short-term credit facilities are subject to the terms of the whole business securitisation and therefore rank at least pari passu with all other present and future unsecured obligations. They are also guaranteed by Affinity Water Holdings Limited, the immediate parent undertaking of Affinity Water Limited.

Amounts owed to related party relate to amounts due to Veolia Water UK Limited the group.

The company has no creditors – amounts falling due within one year.

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

	Group 2014 £000	Group 2013 £000
Debenture stock	**36**	36
Bond issue	**769,974**	762,764
Financing of assets operated by other parties	**18,396**	16,185
Loan from shareholders	**117,018**	117,018
Loan from related party	**13,002**	13,002
Deferred credit – contributions to surface assets	**3,274**	3,570
	921,700	912,575

The company has no creditors – amounts falling due after more than one year.

On 13 July 2004 Affinity Water Finance (2004) Limited, a subsidiary of the group, issued a £200 million bond at an interest rate of 5.875% and repayable in July 2026.

On 4 February 2013, as a part of the refinancing, Affinity Water Programme Finance Limited, a subsidiary of the group, 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').

Proceeds from both the above issues were then lent by these companies to their immediate parent undertaking, Affinity Water Limited, on the same terms.

18. Creditors – amounts falling due after more than one year (continued)

Affinity Water Limited, a subsidiary of the group, has unconditionally and irrevocably guaranteed the due and punctual payment of all sums from time to time payable by Affinity Water Finance (2004) Limited and Affinity Water Programme Finance Limited in respect of the issued bonds. This guarantee constitutes direct, general and unconditional obligations of the company which will at all times rank at least pari passu with all other present and future unsecured obligations. These issues are guaranteed by Affinity Water Holdings Limited, the immediate parent undertaking of Affinity Water Limited.

All loans held with the group 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 year. The finance cost recognised in the profit and loss account is allocated to accounting periods over the term of the debt using the effective interest method.

Affinity Water Limited, a subsidiary of the group, is subject to a number of covenants in relation to the group's 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 Affinity Water Limited was not in breach of any financial covenants.

The loan from group undertaking relates to a £65,010,000 loan from Infracapital F2 Rift S.à.r.l. and £52,008,000 from MSIP Dalis B.V. The loan from related party relates to a loan from Veolia Water UK Limited.

19. Provisions for liabilities

Group	**Deferred tax £000**	**Insurance £000**	**Other £000**	**Total £000**
At 1 April 2013	(50,909)	(2,795)	(1,423)	(55,127)
Credited/(charged) to the profit and loss account	5,951	-	(1,050)	4,901
Utilised in the period	-	1,186	256	1,442
At 31 March 2014	**(44,958)**	**(1,609)**	**(2,217)**	**(48,784)**

Deferred tax

	Year to 31 March 2014 £000	Period to 31 March 2013 £000
Accelerated capital allowances	**91,158**	99,469
Other timing differences	**(2,031)**	(3,080)
Undiscounted provision for deferred tax	**89,127**	96,389
Discount	**(44,169)**	(45,480)
Discounted provision for deferred tax	**44,958**	50,909
Deferred tax liability/(asset) on pension asset/liability (see note 29)	**1,301**	(3,271)
Provision at the end of the period including deferred tax on pension asset/liability	**46,259**	47,638

19. Provisions for liabilities (continued)

Deferred tax liability/(asset) relating to pension asset

	Year to 31 March 2014 £000	Period to 31 March 2013 £000
At 1 April 2013	**(3,271)**	-
Acquisition	**-**	(46)
Deferred tax charge to the profit and loss account	**1,766**	1,218
Deferred tax charge/(credit) to the statement of total recognised gains and losses (see note 29):		
- on actuarial gain/loss	**2,482**	(4,443)
- owing to change in tax rate	**324**	-
At 31 March 2014	**1,301**	(3,271)

The deferred tax liability of £1,301,000 (2013: £3,271,000 asset) has been deducted in arriving at the net pension asset on the balance sheet (2013: pension liability).

Factors that may affect future tax charges

Based on current capital investment plans, the group expects to continue to claim capital allowances in excess of depreciation in future years at a similar level to the current year.

Reference should also be made to note 9 regarding future changes to the tax system in the United Kingdom.

Insurance

Insurance represents the amount of the company's liability in respect of excesses on individual claims. This is based upon data provided by loss adjusters to insurers on levels of reserve and is calculated on settlement experience. It is expected that this provision will be utilised within 24 months.

Other provisions

Other provisions include £218,000 (2013: £218,000) covering the risk of remedy due to an encroachment issue anticipated to be utilised within 12 months, and £670,000 in relation to unfunded pension liabilities for former directors, which will be utilised over the 20 years from January 2019. The remaining balance relates to outstanding legal claims at 31 March 2014 anticipated to be utilised within 12 months.

The company has no provision for liabilities.

20. Borrowings analysis

Loans and bank overdrafts outstanding at the period end comprise:	Group 2014 £000	Group 2013 £000
Amounts repayable after one year		
Debentures	**36**	36
Loans from shareholders	**117,018**	117,018
Loans from related party	**13,002**	13,002
Bonds	**769,974**	762,764
	900,030	892,820

20. Borrowings analysis (continued)

Loans not wholly repayable within five years comprise:

	Group 2014 £000	Group 2013 £000
Bond issue of 5.875% guaranteed notes due 2026 (issued by Affinity Water Finance (2004) Limited in 2004)*	**197,037**	196,879
Bond issue of 3.625% guaranteed notes due 2022 (issued by Affinity Water Programme Finance Limited in 2013)*	**78,655**	78,534
Bond issue of 3.249% guaranteed notes due 2033 (issued by Affinity Water Programme Finance Limited in 2013)	**96,256**	93,587
Bond issue of 4.500% guaranteed notes due 2036 (issued by Affinity Water Programme Finance Limited in 2013)*	**246,112**	246,042
Bond issue of 1.548% guaranteed notes due 2045 (issued by Affinity Water Programme Finance Limited in 2013)*	**151,914**	147,722
Irredeemable debenture stock carrying interest of between 3.50% and 5.25%	**36**	36
Loans from shareholders	**117,018**	117,018
Loans from related party	**13,002**	13,002
	900,030	892,820

* listed on London Stock Exchange

The loans from shareholders relate to a £65,010,000 loan from Infracapital F2 Rift S.à.r.l. and a £52,008,000 loan from MSIP Dalis B.V. The loan from related party relates to the loan from Veolia Water UK Limited. All the above loans carry an interest rate of 9 per cent per annum and are due for repayment on 28 June 2027.

21. Commitments under finance and operating leases

The group has no outstanding obligations under finance leases. Financing of assets operated by third parties are as follows:

	Group 2014 £000	Group 2013 £000
In one year or less, but on demand	**1,005**	1,093
In more than one year but not more than two years	**1,078**	1,029
In more than two years but not more than five years	**1,509**	2,682
In more than five years	**15,809**	12,474
Net obligations due	**19,401**	17,278

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

21. Commitments under finance and operating leases (continued)

The group had annual commitments under non-cancellable operating leases as follows:

	2014 Land and buildings £000	2014 Other £000	2013 Land and buildings £000	2013 Other £000
Operating leases which expire:				
Within one year	-	85	-	123
In two to five years	-	1,415	-	862
After five years	1,547	-	1,547	-
	1,547	1,500	1,547	985

22. Minority interests

In the case of holdings in ordinary stock the minority interests are stated as a relevant proportion of net assets. Non-equity interests primarily represent irredeemable preference shares which hold no voting rights.

23. Called up share capital

Group and Company	**2014 £000**	2013 £000
Allotted, called up and fully paid share capital		
Ordinary shares (340,776,655 of £0.01 each)	**3,408**	3,408

The company was incorporated on 12 June 2012 with a share capital of 316,382,004 ordinary shares of £1 each. There was a further capital injection on 18 July 2012 for an amount of £24,394,651 upon the issuance of 24,394,651 additional ordinary shares of £1 each. On 21 December 2012, the directors approved a capital reduction by reducing the share capital from £340,776,655 divided into 340,776,655 ordinary shares of £1 each to £3,407,767 divided into 340,776,655 ordinary shares of £0.01.

Infracapital Partners II owns 189,320,364 of the above shares and Morgan Stanley Infrastructure Partners owns the remaining 151,456,291.

24. Reserves

Group	**Profit and loss account £000**
At 31 March 2013	**311,222**
Actuarial gain recognised in the pension scheme	**14,908**
Deferred tax arising thereon	**(2,806)**
Profit for the financial year	**26,065**
Dividends paid	**(46,117)**
At 31 March 2014	**303,272**

24. Reserves (continued)

Dividends of £46,117,000 (2013: £8,001,000) were paid in the year to Infracapital Partners II and Morgan Stanley Infrastructure Partners in proportion of their shareholding in the company.

Company	**Profit and loss account £000**
At 31 March 2013	**337,369**
Profit for the financial year	**46,117**
Dividends paid	**(46,117)**
At 31 March 2014	**337,369**

25. Profit for the period

As permitted by Section 408 of the Companies Act 2006, the company's profit and loss account has not been included in the financial statements. The company made £46,117,000 of profit in 2014 (2013: £8,001,000)

26. Reconciliation of movements in shareholders' funds

	Group 2014 £000	**Company 2014 £000**	Group 2013 £000	Company 2013 £000
Opening shareholders' funds	**314,630**	**340,777**	-	-
Profit/(loss) for the year/period	**26,065**	**46,117**	(3,189)	8,001
Actuarial gain/(loss) for the year/period	**14,908**	-	(19,400)	-
Deferred tax arising thereon	**(2,806)**	-	4,443	-
Total losses recognised for the year/period	**38,167**	**46,117**	(18,146)	8,001
Dividends paid	**(46,117)**	**(46,117)**	(8,001)	(8,001)
Issue of share capital	-	-	340,777	340,777
Movement in shareholders' funds	**(7,950)**	-	314,630	340,777
Closing shareholders' funds	**306,680**	**340,777**	314,630	340,777

The capital reduction on 21 December 2012 (refer to note 23 for details) had no impact on total shareholders' funds.

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

27. Capital commitments

The directors have authorised a programme of capital expenditure (including infrastructure renewals), of which the contracted element not provided for in the financial statements of Affinity Water Limited, a subsidiary of the group, amounts to £24,081,000 (2013: £20,189,000). No other company in the group has any other capital commitments.

28. Financial instruments and risk management

The group's financial instruments comprise borrowings, debentures, cash and liquid resources, and various items, such as trade debtors and trade creditors that arise directly from operations. The main purpose of these financial instruments is to provide finance for the group's operations.

It is the group's policy, and has been throughout the year under review, that no trading in financial instruments shall be undertaken. The main risks arising from the group's financial instruments are interest rate risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks. These policies have remained unchanged during the period.

The group does not undertake speculative transactions. Interest rate exposure is primarily managed by using a mixture of fixed rate, floating rate and RPI-linked borrowings. Further disclosures are included in notes 17, 18 and 20.

Financial liabilities: excluding non-debt current liabilities

The interest rate profile of the group's financial liabilities excluding non-debt current liabilities and deferred credits at 31 March 2014 was as follows:

	Total £000	Fixed rate financial liabilities £000	Floating rate financial liabilities £000	RPI-linked financial liabilities £000
31 March 2014	**936,632**	**671,261**	**17,200**	**248,171**
31 March 2013	910,098	668,789	-	241,309

Fixed rate liabilities represent the bonds issued by Affinity Water Finance (2004) Limited and Affinity Water Programme Finance Limited, irredeemable debenture stock, loan from the group's shareholders, and the financing of assets used by the group and operated by other parties. Floating rate liabilities represent the working capital and capex loan facilities that were set up at the time of refinancing. The RPI-linked liabilities represent the bonds issued by Affinity Water Programme Finance Limited.

28. Financial instruments and risk management (continued)

Fixed rate financial liabilities (including RPI linked)

As at	Weighted average interest rate %	Weighted average period for which rate is fixed* Years	Weighted average period until maturity Years
31 March 2014			
- Bonds	**4.1**	**19.5**	**19.5**
- Loans from shareholders	**9.0**	**13.3**	**13.3**
- Other	**5.3**	**25.8**	**25.8**
31 March 2013			
- Bonds	4.2	20.5	20.5
- Loans from shareholders	9.0	14.3	14.3
- Other	5.3	28.8	28.8

*This calculation excludes the irredeemable debenture stock where the interest rate is fixed in perpetuity (see note 18).

The maturity profile of the group's financial liabilities at 31 March 2014 was as follows:

	2014 £000	2013 £000
In one year or less or on demand*	**18,205**	1,093
In more than one year but not more than two years	**1,078**	1,029
In more than two years but not more than five years	**1,509**	2,682
In more than five years	**915,840**	905,294
	936,632	910,098

* Short-term credit facilities, inter-company borrowings and obligations under finance leases

All financial liabilities due after one year comprise financing of assets used by the group and operated by other parties, irredeemable debenture stock, bond issue and loans from shareholders.

The group has various undrawn committed borrowing facilities. The undrawn facilities available at 31 March 2014 in respect of which all conditions precedent had been met were as follows:

	2014 £000	2013 £000
Expiring in one year or less	**55,000**	57,500
Expiring in more than one year but not more than two years	**-**	-
Expiring in more than two years	**82,800**	100,000
	137,800	157,500

The group has access to a borrowing facility of £100,000,000 with a tenor of five years from 28 June 2012. This facility consists of a £70,000,000 capital expenditure facility and a £30,000,000 working capital facility. As at 31 March 2014, £11,200,000 had been drawn down from the capital expenditure facility (leaving £58,800,000 capacity) and £6,000,000 from the working capital facility (leaving £24,000,000 capacity).

28. Financial instruments and risk management (continued)

The group has available a 364 day revolving Debt Service Reserve Liquidity Facility of £35,000,000. The facility is intended for the purpose of funding any debt service payments in the event of a liquidity shortfall that would otherwise prevent such payments being made.

The group has also available a 364 day revolving Operations and Maintenance Reserve Facility of £20,000,000. The facility is intended for the purpose of funding any general liquidity shortfall.

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 group as at 31 March 2014, with the exception of the fixed rate liability in respect of the financing of assets by the group operated by other parties, where the fair value calculated by market interest rates of the financial instrument is not expected to be materially different from book value.

	Book value		Fair value	
	2014	2013	**2014**	2013
	£000	£000	**£000**	£000
Primary financial instruments held or issued to finance the group's operations				
Long-term borrowings	**769,975**	762,764	**812,848**	829,895
	769,975	762,764	**812,848**	829,895

The fair value of the Bonds, having a combined book value of £769,975,000, 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.

29. Pensions

Composition of the pension plan

The group operates a pension plan providing benefits based on final pensionable salary. The assets of the plan are held separately from those of the group.

A new Affinity Water Pension Plan ('AWPP') was established in February 2013, set up as an identical scheme to the Veolia UK Pension Plan ('VUKPP'), the plan in which the group participated until 28 March 2013. The benefits of employees and former employees of the company were transferred into the AWPP with effect from 28 March 2013.

The VUKPP was a multi-employer sectionalised pension plan with defined benefits and defined contribution sections. The defined benefit section was closed to new entrants in September 2004 since when new members have only been eligible to join the defined contribution section. The sectionalised plan had separate Central, East and Southeast divisions which have been replicated in the AWPP.

Each division of the VUKPP was merged with its corresponding division of the Veolia Water Supply Companies' Pension Plan ('VWSCPP') on 31 May 2011, the latter plan having been closed to new entrants in April 1996.

29. Pensions (continued)

The latest formal valuation of the VUKPP, determined by an independent qualified actuary, was at 31 December 2010. The actuarial valuation was made on the "attained age" funding method, based on the following assumptions:

Rate of investment return	6.2% (pre-retirement), 5.2% (post-retirement)
Rate of increase in remuneration	4.8%
Rate of pension increase	2.8% (former members of VWSCPP scheme)
Rate of pension increase	3.3% (VUKPP other members)

The valuation as at 31 December 2010 stated the market valuations of the plan to be £219.0m with a funding level of 90 per cent for the Central division, £16.6m with a funding level of 93 per cent for the East division, and £23.7m with a funding level of 119 per cent for the Southeast division. As the Shared Services division formed part of the 'UK' division in its entirety at that time, a standalone valuation or funding levels for that division are not available.

A formal valuation of the AWPP as at 31 March 2013 was completed on 25 June 2014.

Contributions to the AWPP over the period ended 31 March 2014 were paid by members in accordance with the rules of the plan and by the company expressed as fixed monetary amounts according to the size of the relevant payroll and any surplus or deficit in the relevant division of the plan.

The contributions expected to be paid in the year from 31 March 2014 are £10,129,000 (2013: £9,757,000).

Principal assumptions

The present values of pension liabilities are estimated by discounting pension commitments, including salary growth, at an AA corporate bond yield.

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

	2014	2013
Discount rate	**4.30% pa**	4.20% pa
Salary growth	**3.90% pa**	4.20% pa
RPI	**3.30% pa**	3.20% pa
CPI	**2.30% pa**	2.50% pa
Life expectancy for a male pensioner from age 65 (years)	**22**	23
Life expectancy for a female pensioner from age 65 (years)	**24**	25
Life expectancy from age 65 (years) for a male participant currently aged 45 (years)	**24**	25
Life expectancy from age 65 (years) for a female participant currently aged 45 (years)	**27**	27

Deferred pensions are revalued to retirement age in line with the CPI assumption of 2.3 per cent per annum unless otherwise prescribed by statutory requirements or the plan rules.

The assets of the plan are held separately to those of the company, being invested by independent fund managers. Contributions to the plan are charged to the profit and loss account so as to spread the cost of pensions over the employees' working lives with the company.

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

29. Pensions (continued)

The total pensions charge including the defined contribution section of the AWPP for the year ended 31 March 2014 was £6,066,000 (2013: £5,528,000). There are no amounts prepaid or outstanding in respect of the defined contribution section at 31 March 2014 (2013: £nil). The effect of the asset limit charged to the statement of total recognised gains and losses was £2,933,000 (2013: £1,491,000 credited to the profit and loss account). This has arisen from a change in the maximum allowable surplus relating to the net asset position of the Southeast division, and has been booked to the statement of total recognised gains and losses in the current year as the change relates solely to changes in actuarial assumptions.

The assets of the scheme and the weighted average expected rate of return were:

	At 31 March 2014		At 31 March 2013	
	Value	**Long term rate of return expected**	Value	Long term rate of return expected
	£000	**(% pa)**	£000	(% pa)
Equities	**161,611**	**6.54**	156,634	6.24
Bonds	**60,322**	**4.30**	61,510	4.10
Property	**6,904**	**7.00**	10,888	6.75
Cash and cash equivalents	**119,642**	**3.45**	124,871	2.96
Fair value of assets	**348,479**		353,903	

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was a loss of £3,711,000 (2013: £33,675,000 gain).

The amounts for the current year and the previous period are as follows:

Year ended – 31 March	**2014**	2013
Defined benefit obligation (£m)	**(338.5)**	(367.6)
Plan assets (£m)	**348.5**	353.9
Effect of asset limit (£m)	**(3.5)**	(0.6)
Surplus/(deficit) (£m)	**6.5**	(14.3)
Difference between expected and actual return on plan assets:		
Percentage of plan assets	**(5.7%)**	5.1%
Experience gains/(losses) on plan liabilities:		
Percentage of plan liabilities	**3.5%**	0.0%

29. Pensions (continued)

Reconciliation of present value of scheme liabilities:

	2014 £000	2013 £000
At 1 April	**367,556**	256,513
Current service cost	**5,118**	4,544
Interest cost	**15,310**	14,672
Liabilities assumed from pension plan transfer[1]	**-**	62,739
Liabilities assumed in a business combination	**-**	(633)
Actuarial (gain)/loss	**(36,884)**	40,079
Benefits paid	**(13,459)**	(11,231)
Contributions by scheme participants	**832**	873
At 31 March	**338,473**	367,556

Reconciliation of fair value of scheme assets:

	2014 £000	2013 £000
At 1 April	**353,903**	237,078
Contributions paid by employer	**10,914**	24,375
Contributions by scheme participants	**832**	873
Expected return on scheme assets	**16,211**	14,882
Assets assumed from pension plan transfer[1]	**-**	69,766
Assets acquired in a business combination	**-**	(633)
Actuarial (loss)/gain	**(19,922)**	18,793
Benefits paid	**(13,459)**	(11,231)
At 31 March	**348,479**	353,903
Surplus/(deficit) of funded plan liabilities	**10,006**	(13,653)
Effect of asset limit	**(3,500)**	(567)
Pension asset/(liability) before deferred tax	**6,506**	(14,220)
Related deferred tax	**(1,301)**	3,271
Net pension asset/(liability) at 31 March	**5,205**	(10,949)

The amounts recognised in the profit and loss account are as follows:

	Year to 31 March 2014 £000	Period to 31 March 2013 £000
Current service cost	**5,118**	4,544
Expected return on scheme assets	**(16,211)**	(14,882)
Interest on pension scheme liabilities	**15,310**	14,672
Effect of asset limit	**-**	(1,491)
Total charge	**4,217**	2,843

[1] From Affinity Water East Limited and Affinity Water Southeast Limited on the unification of the water licences.

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

29. Pensions (continued)

Total actuarial gains and losses included in the statement of total recognised gains and losses:

	Year to 31 March 2014 £000	Period to 31 March 2013 £000
Actuarial (losses)/gains on scheme assets[1]	(19,043)	23,376
Actuarial gains/(losses) on scheme liabilities	36,884	(42,776)
Effect of asset limit	(2,933)	-
Total credit/(charge)	14,908	(19,400)
Deferred tax arising thereon	(2,806)	4,443
Credit/(charge) after deferred tax	12,102	(14,957)

30. Billing on behalf of Thames Water and Anglian Water

The group bills and collects charges in respect of sewerage and infrastructure within its area on behalf of Thames Water Utilities Limited and Anglian Water Services Limited. No amounts are included in the financial statements in respect of uncollected sewerage and sewerage infrastructure charges at 31 March 2014 (2013: £nil).

[1] Updated to reflect the effect of contributions received by the plan in the year subsequent to payment as a result of the transition period on the set up of the AWPP.

Affinity Water Acquisitions (Investments) Limited

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

31. Related party transactions

Group:			**2014**		2013	
Purchases	**Nature of relationship**	**In respect of**	**Value**	**Balance outstanding**	Value	Balance outstanding
			£000	**£000**	£000	£000
Infracapital F2 Rift S.à.r.l. and MSIP Dalis B.V.	Shareholder	Interest paid on loan	**10,532**	**(17)***	8,050	(16)*
Infracapital F2 Rift S.à.r.l. and MSIP Dalis B.V.	Shareholder	Dividend	**46,117**	**-**	8,001	-
Veolia Water UK Limited	Shareholder	Interest paid on loan	**1,170**	**-**	894	-
Veolia Water UK Limited	Shareholder	Dividend	**5,124**	**-**	889	-
Veolia Water UK Limited	Shareholder	Management and technical support	**50**	**2,739**	1,153	3,059
Other Veolia entities	Common ownership	Waste water disposal	**346**	**-**	186	221
Southern Water Services Limited	Former related party	Bulk water supply	**-**	**-**	250	-
Morgan Stanley Infrastructure Partners/ Infracapital Partners II/Veolia Water UK Limited	Shareholders	Support services	**100**	**150**	90	90

Sales	**Nature of relationship**	**In respect of**	**Value**	**Balance outstanding**	Value	Balance outstanding
			£000	**£000**	£000	£000
Veolia Water UK Limited	Shareholder	Transitional services and capability sharing agreement	**252**	**891**	1,545	1,291
Other Veolia entities	Common ownership	Transitional services, capability sharing agreement and laboratory services	**388**	**2,213**	3,854	2,020
Southern Water Services Limited	Former related party	Meter reading	**-**	**-**	238	-

* this was the amount of interest prepaid outstanding at period end.

Loans payable outstanding at 31 March 2014 were with Infracapital F2 Rift S.à.r.l. for £65,010,000, MSIP Dalis B.V. for £52,008,000 and Veolia Water UK Limited for £13,002,000.

The company does not have any related party transactions that do not eliminate on consolidation.

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

32. Post balance sheet events

On 5 June 2014 Affinity Water Finance (2004) Limited, a wholly owned financing subsidiary of the group, gave notice that the outstanding notes issued by the company would be transferred from the Main Market to the Professional Securities Market of the London Stock Exchange. The transfer took place on 19 June 2014. On 4 July 2014 Affinity Water Finance (2004) Limited registered as a public company and completed a tap issue of £50 million on the same terms of the existing bond on 16 July 2014.

33. Ultimate parent company and controlling party

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 group.

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

Affinity Water Acquisitions (Investments) Limited is owned by a consortium of investors led by Infracapital Partners II, the infrastructure investment fund managed by M&G (the European Investment arm of Prudential plc.), and Morgan Stanley Infrastructure Partners. Veolia Environnement S.A. holds a 10 per cent shareholding in Affinity Water Acquisitions (Holdco) Limited, the direct subsidiary of Affinity Water Acquisitions (Investments) Limited, through its subsidiary Veolia Water UK Limited. The directors consider Infracapital Partners II and Morgan Stanley Infrastructure Partners to be the company's ultimate controllers, as they are in a position to exercise material influence over the company's policy and affairs.

Infracapital Partners II is one of a number of European infrastructure funds managed by M&G Investment Management Limited, a subsidiary of Prudential Plc. It was established in 2010 to make investments in income-generative infrastructure assets and 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.