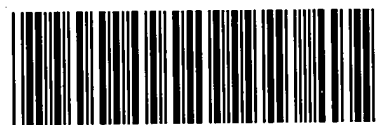


AFFINITY WATER ACQUISITIONS (INVESTMENTS) LIMITED

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

(Registered Number 08101550)

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Affinity Water Acquisitions (Investments) Limited

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Affinity Water Acquisitions (Investments) Limited

Directors and advisers

Directors

Philip Nolan (Chairman)

Antonio Botija (resigned 25 July 2014)

Kenton Bradbury (resigned 31 March 2015)

Michael Bryan

Georgina Dellacha (appointed 25 July 2014 and resigned 30 July 2015)

Alberto Donzelli

Stephen Nelson (appointed 31 March 2015)

Yacine Saidji

Bernd Schumacher

James Wilmott

Company Secretary

Tim Monod

Registered Office

Tamblin Way

Hatfield

Hertfordshire

AL10 9EZ

Independent Auditor

PricewaterhouseCoopers LLP

Abacus House

Castle Park

Cambridge

CB3 0AN

Registered Number

08101550

Affinity Water Acquisitions (Investments) Limited

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 2015.

This was the final year of the group's principal trading subsidiary's (Affinity Water Limited's) 2010–2015 price control period (Asset Management Plan 5, 'AMP5') and I am pleased to report significant improvements to its business despite the 2009 price determination being a challenging one.

Since 2010, it has been focused on driving up service levels whilst at the same time realising £26 million in operating cost net efficiencies. This has resulted in lower bills and a better service for customers.

Between April 2010 and March 2015, it invested over £460 million enhancing and maintaining its extensive network of assets to prevent failure and secure a resilient supply.

Its customers continue to benefit from high quality drinking water with 99.97% mean zonal compliance recorded for calendar year 2014, whilst also benefiting from below average bills for water in England and Wales.

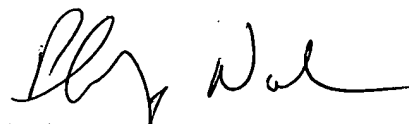
It is continually refining its processes to improve its customer experience. Its Net Promoter Score increased from 49 in 2013/14 to 59 in 2014/15.

The group is delighted that Ofwat announced that Affinity Water Limited was one of only two companies to achieve enhanced status for its Price Review 2014 ('PR14') Business Plan which sets out its proposed prices, performance commitments and levels of investment for the five years from April 2015 to March 2020 (AMP6). In February 2015 Affinity Water Limited accepted Ofwat's final determination of price controls. Being awarded enhanced status has enabled Affinity Water Limited to undertake early, detailed planning and preparation for AMP6.

Affinity Water Limited's governance arrangements have continued to evolve during the year with the reduction of investor appointed non-executive director representation on its Board. 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 updated its Governance Code in March 2015 to explain how it is meeting Ofwat's principles, as set out in their publication: *Board leadership, transparency and governance – principles*.

Affinity Water Acquisitions (Investments) Limited also continues to meet the principles contained in Ofwat's publication: *Board leadership, transparency and governance – holding company principles*, and this annual report explains how the company is meeting these principles.

The successes that Affinity Water Limited has seen over the asset management period just ended are the results of hard work from its engaged and committed staff members. 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.

A handwritten signature in black ink, appearing to read 'Philip Nolan'.

Dr Philip Nolan
Chairman

Affinity Water Acquisitions (Investments) Limited

Strategic report for the year ended 31 March 2015

Introduction

The directors present their strategic report on Affinity Water Acquisitions (Investments) Limited for the year ended 31 March 2015.

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 4,515km² split over three regions, comprising eight water resource zones, 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 on average 900 million litres of water a day to around 3.6 million people, serving 1.5 million homes and businesses;
- operates 98 water treatment works to ensure that water is of the highest quality; and
- distributes water through a network of over 16,500km of mains.

Affinity Water Limited's vision is to be the UK's leading community focused water company. This vision is in response to three overriding imperatives: first, as a private provider of a public utility service, to retain public trust and legitimacy; second, to comply with all applicable laws and regulations; and third, to perform efficiently and secure shareholder value. Affinity Water Limited's vision and business model seeks to resolve the tensions between those imperatives, and balance the sometimes conflicting needs of its stakeholders. Further information on its business model, drivers and opportunities are detailed further in the strategic report of Affinity Water Limited's own annual report and financial statements for the year ended 31 March 2015.

Performance

The group generated a profit for the financial year of £14,948,000 (2014: £26,065,000). The balance sheets detailed on pages 28 and 29 show shareholders' funds amounting to £354,287,000 (2014: £342,198,000) for the group and £340,777,000 (2014: £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 2014/15 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 2015.

Affinity Water Acquisitions (Investments) Limited

Strategic report for the year ended 31 March 2015 (continued)

Principal risks and uncertainties

The group has an established framework for identifying, evaluating and managing the key risks faced. 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).

Operational risks are identified and ranked by teams during the year. Based on the rankings given by teams, the most significant risks are discussed by the senior management team and included in the strategic risk register, presented to the Board and the Audit Committee. The latter reviews senior management's work on risk management and reports to the Board on the effectiveness of risk management processes.

A key aim is to foster a culture in which teams throughout the subsidiary manage all risks as part of their management of day to day operations. Operational risks are recorded and assessed, including existing management processes, and an action plan is prepared, if necessary, for further mitigation. Activities against these plans are monitored on an on going basis.

The following have been identified from this risk management process as potentially having a material adverse effect on the subsidiary's business, financial condition, results of operations and reputation. They are managed as described but are not always wholly within its control and may still result in a material adverse impact. Factors beside those listed could also have a material adverse effect on its business activities.

Key:

↔ Unchanged during the year ↑ Increased during the year ↓ Decreased during the year

Risk	Commentary	Mitigation
Operational		
Injuries and accidents to its people and the public ↔	Failing to manage this risk may result in disruption to operations, reputational damage, criminal fines, civil damages and regulatory penalties.	The subsidiary seeks to operate its business to the OHSAS18001 safety standard and help its employees to take personal responsibility for their own safety and the safety of others. Risk assessments, training and role definitions are reviewed and reaffirmed, with health and safety training and awareness for all its people prioritised.

Affinity Water Acquisitions (Investments) Limited

Strategic report

for the year ended 31 March 2015 (continued)

Risk	Commentary	Mitigation
Operational (continued)		
<p>Failure to supply wholesome water</p> <p style="text-align: center;">↔</p>	<p>The subsidiary is required to maintain a continuous supply of high quality water for its customers.</p> <p>Interruptions to supply caused by the contamination of water supplies, pollution and flooding events, and water resource restrictions could impact on the health, safety and security of its people or communities, or on its financial position and its reputation.</p> <p>This risk is relatively high for the subsidiary, as it operates in an area of serious water stress. Plans for any fracking in its catchment areas, the construction of the High Speed Two railway and a third runway at Heathrow Airport may further increase this risk in the future.</p>	<p>The subsidiary manages this risk through:</p> <ul style="list-style-type: none"> its Water Resource Management Plan which identifies, over a 25 year period, how it will balance available supplies and required demand. This is available on its website: stakeholder.affinitywater.co.uk/our-future-plans; its drinking water safety plans which provide a comprehensive risk assessment and risk management approach to its water supply chain, supported by its distribution and operations management strategy. The subsidiary uses these plans to inform its investment and maintenance programmes; its Drought Management Plan which is approved by the Secretary of State; and its emergency and business continuity plans. Should water supplies be compromised, the subsidiary has plans in place to ensure the provision of essential water supplies at all times. Its contingency plans are audited annually by an independent certifier and their reports shared with the Secretary of State. <p>Following the flooding in February 2014, the subsidiary reviewed its plans to assess the resilience of certain key assets and identified a number of improvements that it is implementing.</p>

Affinity Water Acquisitions (Investments) Limited

Strategic report

for the year ended 31 March 2015 (continued)

Risk	Commentary	Mitigation
Operational (continued)		
<p>Unavailability of resources (people and materials)</p> <p>↑</p>	<p>The subsidiary relies on the availability of skilled employees and contractor resources to maintain service levels and implement its investment plans. In the event of these resources being unavailable, it may experience significant disruption to its service, damage to its reputation and consequent regulatory action.</p> <p>The risk has increased during the year with more construction activity around London and the planned construction of the Thames Tideway Tunnel, reducing contractor availability.</p>	<p>The subsidiary seeks to mitigate this risk by maintaining a constructive relationship with employees regarding their remuneration through the Joint Negotiating and Consultative Committee, succession planning and investing in its employees through training and apprenticeship schemes.</p> <p>The subsidiary seeks to ensure that its relationship with critical suppliers is secured under long term agreements, where appropriate. For key activities, it may retain more than one supplier to mitigate the risk of supplier failure. The subsidiary also undertakes significant due diligence in the selection and on-going management of suppliers through audit, inspection and verification of performance.</p>
<p>Information security or privacy failure</p> <p>↑</p>	<p>The subsidiary must protect customer information and its data from unauthorised disclosure and improper use.</p> <p>Failure to do so may lead to increased costs of operation, reputational damage, criminal fines and civil damages.</p> <p>As the use of online communications, cloud-based technology and the sophistication of hackers continues to increase, so too does the risk of cyber attack.</p>	<p>During the year the subsidiary continued to strengthen its capabilities to ensure that its technical and organisational controls against the unauthorised disclosure, loss or improper use of data are kept under review and improved where appropriate. The subsidiary has appointed a Chief Information Officer who is leading its response to this evolving threat and has established an IT security and privacy board led by senior executives to help address this risk.</p>
Regulatory		
<p>Adverse changes to the regulatory framework</p> <p>↔</p>	<p>Changes to the regulatory framework by Ofwat or the government may have an adverse effect on the subsidiary's operational or financial performance.</p>	<p>The subsidiary continues to contribute fully to consultations with its regulators and seeks to ensure its voice is heard on emerging changes through strong relationships with all its stakeholders.</p>
<p>Adverse change in the social and/or political climate</p> <p>↔</p>	<p>The subsidiary is exposed to risks arising from the general social and political climate, for example, political pressure to restrain price increases and other issues, such as objections to universal metering. These pressures may lead to a reduction in revenue or have a reputational impact.</p>	<p>The subsidiary continues to engage with its customers and their representatives to understand and respond to their issues and concerns. Organising its business into eight communities enables the subsidiary to do this at a more local level.</p>

Affinity Water Acquisitions (Investments) Limited

Strategic report

for the year ended 31 March 2015 (continued)

Risk	Commentary	Mitigation
Regulatory (continued)		
<p>Failure to comply with laws, its instrument of appointment and other recognised standards</p> <p style="text-align: center;">↔</p>	<p>The subsidiary needs to ensure that its activities and outputs comply with licence conditions or statutory duties arising from its appointment, and applicable laws and standards.</p> <p>Failure to do so may result in an enforcement order, a fine up to 10% of its appointed turnover or termination of its appointment and special administration.</p>	<p>The subsidiary has policies, processes and controls in place that seek to ensure that applicable regulation, laws and standards are fully understood and complied with.</p> <p>The subsidiary continues to operate its abstraction, treatment and supply activities to environmental standard ISO14001.</p>
<p>Failure to deliver its business plan obligations</p> <p style="text-align: center;">↔</p>	<p>The subsidiary has made a number of performance commitments in its PR14 Business Plan which, if not met, may result in the subsidiary incurring financial penalties.</p> <p>The subsidiary must implement the investment programme set out in its Business Plan. Failure to do so may lead to the imposition of sanctions, including financial penalties or other enforcement action.</p>	<p>The subsidiary has an established programme management function with the responsibility for delivering the investment programme. The subsidiary's Board and senior management team monitor performance and ensure that corrective action is taken when required.</p>
<p>Being required to undertake unremunerated activity</p> <p style="text-align: center;">↓</p>	<p>As a result of its PR14 Business Plan being awarded enhanced status, the subsidiary benefited from the 'do no harm' principle that protected it from a further reduction in the headline wholesale cost of capital and from any subsequent changes to its business plan performance commitments; therefore reducing this risk during the year.</p> <p>As the subsidiary enters into AMP6, it may experience unforeseen financial, regulatory or legal obligations or costs which were not taken into account by Ofwat in setting its price controls.</p>	<p>The subsidiary's Instrument of Appointment provides some protection against unforeseen financial risks materialising during a price control period. The subsidiary can 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% cost threshold has been met. There is no assurance that Ofwat will make an interim determination or that any determination made would provide adequate revenue compensation.</p> <p>Refer to the financial risks section of the table for details of the subsidiary's mitigation in relation to liquidity risks.</p>

Affinity Water Acquisitions (Investments) Limited

Strategic report for the year ended 31 March 2015 (continued)

Risk	Commentary	Mitigation
Market reform		
<p>Failure to prepare for market reform</p> <p>↑</p>	<p>The requirements for implementing the retail market for non-household customers on 1 April 2017 are still being developed. Delays to the Open Water Programme could affect the subsidiary's preparation, which may lead to additional costs, loss of revenue and regulatory enforcement action.</p> <p>This risk has heightened during the year, as initial market preparations have not progressed as quickly as anticipated.</p>	<p>The subsidiary continues to take an active role in the Open Water Programme and has a dedicated project team preparing the business for change.</p> <p>During the year it has been formalising the interaction between its wholesale and retail functions, as well as developing its retail offering for non-household customers.</p>
Financial		
<p>Liquidity risk</p> <p>↔</p>	<p>The subsidiary's substantial capital investment programme generates an on-going need for further financing.</p> <p>This results in an exposure to liquidity risk in the event that it is unable to meet its cash flow requirements as and when they fall due.</p>	<p>The subsidiary has revolving loan facilities and adequate, though not excessive, cash resources and standby loan facilities to maintain a minimum level of liquidity capable of immediate drawdown to cover at least twelve months' forecast cash flow requirements.</p> <p>The subsidiary's policy is to maintain a diverse portfolio of counterparties through which it can access this liquidity to ensure it is not reliant on any single bank counterparty. It also accesses the bond markets to meet its longer term funding requirements when appropriate.</p>
<p>Macro economic risk (interest rate and inflation risk)</p> <p>↔</p>	<p>Movements in interest rates can result in an increase in the cost of the subsidiary's debt.</p> <p>The subsidiary has a covenant within its Whole Business Securitisation ('WBS') documentation stipulating that at least 85% of its outstanding debt is hedged against movements in interest rates.</p> <p>The subsidiary's wholesale revenues in a given financial year are explicitly linked to the RPI published the previous November. An inability to control its cost inflation on the same basis would lead to a reduction in the subsidiary's profitability.</p> <p>In addition, its RCV is also linked to RPI and nominal returns are therefore likely to be further reduced in a low inflation environment.</p>	<p>Interest rate risk is primarily managed by using a mixture of fixed, inflation linked and floating rate borrowings, and approved hedging instruments. Further disclosure on the management of interest rate and liquidity risks is included in note 25 of the subsidiary's financial statements.</p> <p>Each year the subsidiary undertakes a robust and challenging budgeting process to ensure costs are clearly understood and then subsequently controlled during the financial year. It also uses inflation linked debt to ensure a proportion of its interest costs are linked to RPI and therefore offset any reduction in revenue that results from lower inflation.</p>

Affinity Water Acquisitions (Investments) Limited

Strategic report for the year ended 31 March 2015 (continued)

Risk	Commentary	Mitigation
Financial (continued)		
<p>Breach of and changes to its borrowing covenants</p> <p>↔</p>	<p>The subsidiary is subject to a number of covenants in relation to its borrowings. If a covenant is breached, this could lead to an event of default with any outstanding borrowings becoming immediately repayable.</p> <p>Recent changes in the regulatory regime and transition to new accounting standards mean that certain financial covenants are no longer relevant. Robust financial covenants are key in supporting its existing credit ratings from Moody's and Standard & Poors.</p>	<p>The subsidiary has a monitoring and certification process for its securitisation documentation covenants (both financial and non-financial). Financial covenants, which include gearing and interest cover ratios, are monitored and reported on a regular basis.</p> <p>The subsidiary made its investors and rating agencies aware at an early stage of its intention to introduce new covenants to address those covenants which are no longer relevant.</p> <p>In June 2015 its class A bondholders voted in favour of a STID proposal¹ formally incorporating these new covenants into its WBS documentation.</p>
<p>Cost of the defined benefit pension plan</p> <p>↔</p>	<p>The subsidiary operates a pension plan providing defined benefits based on final pensionable salary. The assets and liabilities within the plan depend on a number of external factors out of its control. These include performance of equity markets, gilts, future inflation as well as assumptions around those employees within the scheme itself.</p>	<p>The plan has been closed to new members since September 2004 and the assets of the plan are held separately from those of the subsidiary.</p> <p>It continues to make deficit repair contributions into the plan in addition to on going contributions in respect of future accruals of members' benefits.</p>
<p>Revenue and debtor risk</p> <p>↔</p>	<p>Customer debt and affordability remain key areas of focus for the subsidiary's business.</p> <p>It is not permitted to disconnect water supplies to household and certain other types of premises in the event of non-payment, resulting in loss of revenue and increased cost of collection.</p>	<p>The subsidiary has processes and teams dedicated to the efficient collection of customer debt. In 2014/15 it launched a new debt management system to assist in this process.</p> <p>For those customers who want to pay their bill but struggle to do so, the subsidiary has payment arrangements that are as flexible as possible and it encourages customers who find themselves in difficulty to contact them as early as possible.</p> <p>In 2014/15 the subsidiary also introduced a new social tariff 'LIFT' to help support customers who are least able to pay their bills.</p>

¹ A request by the subsidiary to the security trustee under the Security Trust and Inter-creditor Deed ('STID') to concur in making any modification, giving any consent or granting any waiver under or in respect of any common document.

Affinity Water Acquisitions (Investments) Limited

Strategic report for the year ended 31 March 2015 (continued)

Approval of the strategic report

Approved by the Board and signed by its order:



Tim Monod
Company Secretary
30 July 2015

Affinity Water Acquisitions (Investments) Limited

Directors' report for the year ended 31 March 2015

Introduction

The directors present their annual report and the audited consolidated financial statements of Affinity Water Acquisitions (Investments) Limited ('the company') for the year ended 31 March 2015.

The company is a limited liability company registered in England and Wales and it 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 12 to 16 and note 32 of the financial statements. The address of the principal place of business is Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ.

The strategic report on page 3 provides information relating to the group, its strategy and its results and financial position for the year ended 31 March 2015. Details of the risks and principal uncertainties facing the company are set out on pages 4 to 9.

Dividends and dividend policy

The group's dividend policy is primarily based on maintaining a target level of gearing (net debt to regulatory capital value, 'RCV') of 80 per cent in Affinity Water Limited, the group's principal trading subsidiary. The amount 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 Affinity Water Limited's 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 2015:

	£000
Paid: First interim of 3.829p per share	13,050
Paid: Second interim of 0.462p per share	1,574
Paid: Third interim of 2.007p per share	6,840
	<hr/>
	21,464

This compares to interim dividends of £46,117,000 declared and paid in the year ended 31 March 2014.

No final dividend is proposed (2014: £nil).

Significant events during the year

On 5 June 2014 Affinity Water Finance (2004) PLC (formerly Affinity Water Finance (2004) Limited), a wholly owned financing subsidiary of the group, gave notice that its outstanding notes issued 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. Affinity Water Finance (2004) PLC registered as a public limited company on 4 July 2014 and completed a tap issue of £50.0m on the same terms as its existing £200.0m bond on 16 July 2014. The proceeds of this issue were £58.6m and are being used to fund capital expenditure programmes.

Details of the significant events relating to Affinity Water Limited, the group's principal trading subsidiary, that occurred during the year are set out in the highlights, Chairman's statement and Board's introduction of Affinity Water Limited's own annual report and financial statements for the year ended 31 March 2015.

Affinity Water Acquisitions (Investments) Limited

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

Ownership

The effective equity interest in the group at 31 March 2015 is shown below.

Infracapital Partners II (35%)

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 group indirectly 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.

Beryl Datura Investment Limited (10%)

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 group indirectly through Infracapital F2 Rift Holdings S.à.r.l., which is managed by Infracapital Partners II.

Partners Group (5%)

Partners Group is a global private markets investment management firm. It has investment programs under management in private equity, private real estate, private infrastructure and private debt. The firm is listed on the SIX Swiss Exchange. It holds its investment in the group indirectly through Partners Group Global Infrastructure 2012 LP Inc., incorporated in the United States, and Partners Group Direct Infrastructure 2011 LP, registered in Guernsey. It holds its investment in the group indirectly through Rift SLP 2 LP, which is managed by Infracapital Partners II.

North Haven Infrastructure Partners LP (formerly Morgan Stanley Infrastructure Partners) (40%)

North Haven Infrastructure Partners LP (formerly Morgan Stanley Infrastructure Partners) 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 group indirectly through MSIP Dalis B.V., which is incorporated in the Netherlands.

Veolia Water UK Limited (10%)

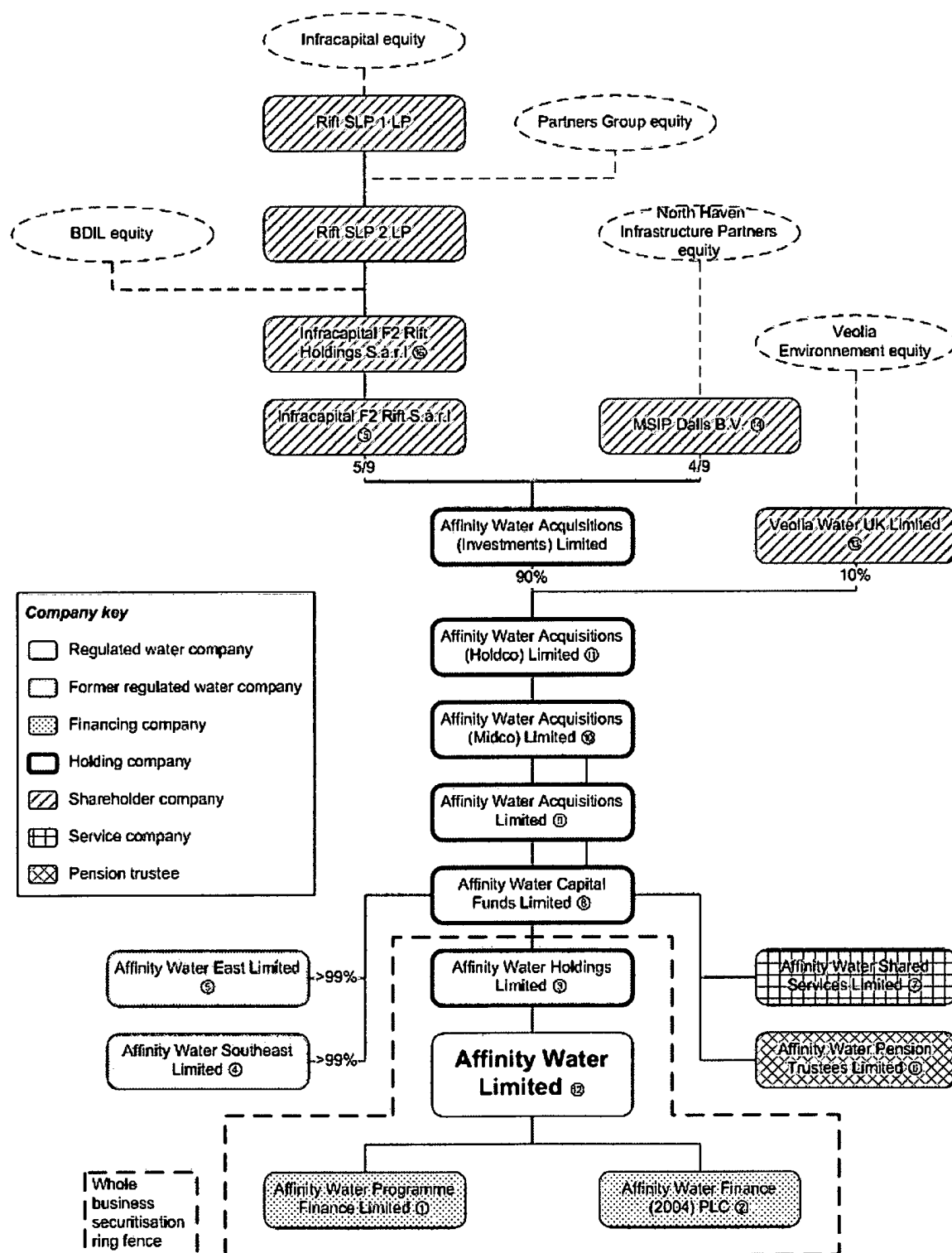
Veolia Water UK Limited is incorporated in England and Wales and is a subsidiary of Veolia Environnement S.A. which is listed on the Paris and New York Stock Exchanges. It holds its investment in the group through its shareholding in Affinity Water Acquisitions (Holdco) Limited and has established with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

Affinity Water Acquisitions (Investments) Limited

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

Ownership (continued)

The following chart shows the ownership of the company and the group structure, excluding dormant subsidiaries except for Affinity Water Pension Trustees Limited. Unless otherwise indicated, all companies are wholly owned by the parent company shown.



Affinity Water Acquisitions (Investments) Limited

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

Ownership (continued)

Infracapital Partners II and North Haven Infrastructure Partners LP (formerly 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 principal 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 following table provides further explanation of the group structure in keeping with the first principle set out in Ofwat's publication: *Board leadership, transparency and governance – holding company principles: 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 (formerly Affinity Water Finance (2004) Limited)	A financing subsidiary of Affinity Water Limited established in 2004 to issue a £200 million 2026 bond. It completed a tap issue of £50 million on the same terms as its existing £200 million bond on 16 July 2014. It lends monies raised from its bond 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 bondholders in the event of default.	England and Wales	③

Affinity Water Acquisitions (Investments) Limited

Directors' report for the year ended 31 March 2015 (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 provided administrative and technical services solely to Affinity Water Limited until 31 March 2015. 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 (the "target" company), 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 Limited in 2012 (the "bid" company). It has issued subordinated debt notes to Affinity Water Acquisitions (Midco) Limited as part of the acquisition finance.	England and Wales	⑨
Affinity Water Acquisitions (Midco) Limited	The holding company of Affinity Water Acquisitions Limited which holds subordinated debt notes issued by Affinity Water Acquisitions Limited. It has issued subordinated debt notes to the shareholders and exists to enable the introduction or withdrawal of shareholder subordinated debt without impacting on agreements between the original acquisition consortia and Veolia Water UK 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 North Haven Infrastructure Partners LP (formerly 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 indirectly 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

Affinity Water Acquisitions (Investments) Limited

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

Group structure (continued)

Limited partnerships			
Name	Description	Place of registration	
Rift SLP 1 LP	A company through which Infracapital Partners II indirectly holds its investment in the group.	Scotland	
Rift SLP 2 LP	A company through which Infracapital Partners II and Partners Group indirectly hold their investment in the group.	Scotland	
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
Tending 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

Debt financing

Affinity Water Limited is financially and operationally 'ring-fenced' from the rest of the Affinity Water group as part of a whole business securitisation. The securitisation has further enhanced the ring-fencing provisions already in its licence granted by Ofwat. The sole business of its immediate holding company, Affinity Water Holdings Limited, is holding the shares of Affinity Water Limited.

The group has two 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 the company:

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

Affinity Water Programme Finance Limited issued external bonds totalling £575 million 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. Affinity Water Finance (2004) PLC completed a tap issue of £50 million on the same terms as its existing £200 million bond on 16 July 2014.

The group believes that 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 for the group to establish a UK company to act as issuer. By being resident in the United Kingdom for tax purposes the group are clear that 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.

Affinity Water Acquisitions (Investments) Limited

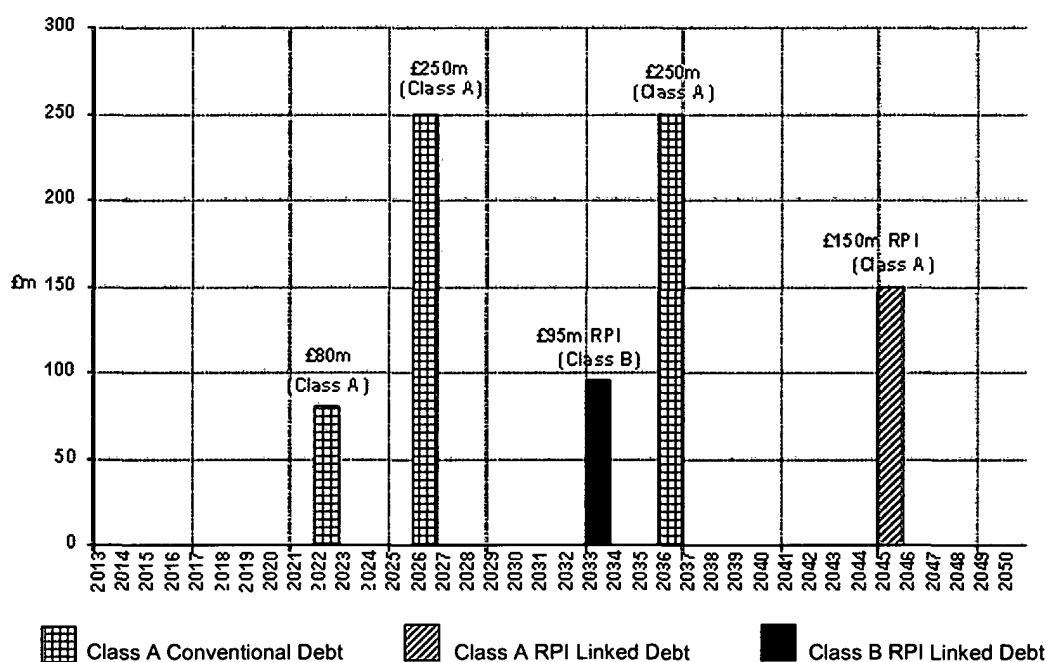
Directors' report for the year ended 31 March 2015 (continued)

Debt financing (continued)

The bonds issued by the group can be summarised as follows:

Debt	Bond £m	Coupon	Maturity Date
Class A fixed rate bond 2026	250.0	5.875%	July 2026
Class A index linked ('IL') bond 2045	150.0	1.548% (real)	June 2045
Class A fixed rate refinancing bond 2036	250.0	4.500%	March 2036
Class A fixed rate refinancing bond 2022	80.0	3.625%	September 2022
Total Class A	730.0		
Class B IL bond 2033	95.0	3.249% (real)	June 2033
Total Class B	95.0		
Total	825.0		

The following chart shows the maturity profile of the bonds:



The credit ratings for the group's 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

Affinity Water Acquisitions (Investments) Limited

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

Debt financing (continued)

The total value of the issued bonds can be reconciled to the group's net debt position at 31 March 2015 as follows:

	2015 £000
Nominal value of Class A fixed interest bonds issued	580,000
Nominal value of Class A index linked bonds issued	150,000
Nominal value of Class B index linked bonds issued	95,000
Total nominal value of bonds issued	825,000
Accretion on Class A index linked bonds	5,904
Accretion on Class B index linked bonds	3,739
Capitalised bond issue costs and net premium/discount related to Class A bonds	(1,804)
Capitalised bond issue costs relating to Class B bonds	(1,347)
Debentures	34
Financing of shared reservoir assets	20,801
Loans from shareholders	130,020
Cash in hand	(60,359)
Net debt	921,988

The group's principal trading subsidiary is expected to generate positive cash flows from its operating activities in AMP6.

To the extent that additional funding is required during the year, Affinity Water Limited had access to a borrowing facility of £100,000,000. This facility consisted of a £70,000,000 capital expenditure facility and a £30,000,000 working capital facility, which were undrawn at 31 March 2015 (2014: £11,200,000 drawn down from the capital expenditure facility and £6,000,000 from the working capital facility).

On 15 July 2015, Affinity Water Limited signed a £60,000,000 revolving loan facility with Barclays Bank PLC and a £40,000,000 revolving loan facility with Lloyds Bank PLC. The £100,000,000 facility existing at 31 March 2015 was cancelled with effect from 20 July 2015.

Further Affinity Water Limited has available a 364 day revolving Debt Service Reserve Liquidity Facility of £38,000,000. 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 operating and capital maintenance expenditure in the event of a liquidity shortfall.

Affinity Water Acquisitions (Investments) Limited

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

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 13.

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 2015.

	Number of meetings in year
Philip Nolan (Chairman) ⑫	4/4
Mike Bryan	4/4
Georgina Dellacha ①②③⑥⑧⑩⑪	3/4*
Alberto Donzelli ①②③⑥⑧⑩⑪	3/4
Stephen Nelson ①②③⑥⑧⑩⑪⑫	0/0*
Yacine Saidji ①②③⑥⑧⑩⑪	4/4
Bernd Schumacher ⑧⑨⑩⑪	1/4
James Wilmott ⑧⑨⑩⑪⑫	4/4
Former directors	
Antonio Botija	0/0*
Kenton Bradbury	3/4*

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

Affinity Water Acquisitions (Investments) Limited

Directors' report for the year ended 31 March 2015 (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 for the year ended 31 March 2015, together with more detailed corporate reporting disclosures.

Best practice in corporate governance continues to evolve, with greater emphasis being placed on shareholders holding the board to account for the fulfilment of its governance. Affinity Water Limited updated its Governance Code in March 2015, setting out for its customers, investors, regulators and other stakeholders how it governs and operates its business to high standards of governance and transparency.

Affinity Water Limited's compliance with the principles of the 2012 UK Corporate Governance Code ('the Code'), except in terms of board composition, membership of committees, the director undertaking the role of chair of the Remuneration Committee, appointment of a senior independent director and re-election of directors is explained in detail in its own annual report and financial statements.

During 2014/15, Affinity Water Limited reduced the number of investor appointed non-executive directors on its Board. It now meets Ofwat's expectations for independent non-executive directors to form the largest single group on the Board, compared to investor-appointed non-executive directors and executive directors.

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 10 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

The water industry is experiencing regulatory pressure towards a progressive reform of its market to facilitate greater competition. This will result in new entrants to the water market and allow non-household customers to exercise 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 is expected to open. 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. The work needed to introduce these changes is being delivered by the Open Water Programme, working with market participants, Ofwat and the Department for the Environment, Food and Rural Affairs ('Defra'). The programme will define the overall market architecture and deliver operational and market codes, central systems and contracts required for the market to function effectively and efficiently. The group is taking an active role in the programme.

Affinity Water Acquisitions (Investments) Limited

Directors' report for the year ended 31 March 2015 (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 section of the strategic report in its own annual report and financial statements for the year ended 31 March 2015.

Research and development activities

The development and application of new techniques and technology is an important part of the group's activities. Affinity Water Limited is a member of UK Water Industry Research ('UKWIR') and participates and benefits from their research programme. The UKWIR research programme relating to Affinity Water Limited is currently divided into the following topics: drinking water quality and health; toxicology; water resources; climate change; water mains and services; leakage and metering; and regulatory issues. Affinity Water Limited carried out more specific research in the fields of improving data, metaldehyde removal, pipeline materials and leakage.

Political contributions

No political contributions were made during the year (2014: £nil), in accordance with the group's policy of not making political contributions.

Information required under the Listing Rules

During the year no interest was capitalised by the group (2014: £nil).

Refer to page 53 of the remuneration report in Affinity Water Limited's annual report and financial statements for the year ended 31 March 2015 for disclosures in relation to relevant requirements of the Listing Rules.

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.

Affinity Water Acquisitions (Investments) Limited

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

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 strategic report of its annual report and financial statements for the year ended 31 March 2015.

Financial instruments disclosures

Details are included in note 28 of the financial statements.

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 29 July 2015 Affinity Water Programme Finance Limited, a wholly owned financing subsidiary of the group, announced that it intends to tap its 1.548 per cent RPI Linked Guaranteed Bonds due 2045 (the "Bonds") and (subject to contract) has agreed an issuance of an additional £40,000,000 of the Bonds which will form part of the same series as the Bonds and be fungible with such Bonds. The proposed issuance was priced on 29 July 2015 by reference to the yield on the UK Government 0.75 per cent index-linked gilt due 2047 and is anticipated to settle within three months.

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

Affinity Water Acquisitions (Investments) Limited

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

Statement of directors' responsibilities (continued)

Each of the directors, whose names are listed on page 1, confirm that, to the best of their knowledge:

- the financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the group and company; and
- the strategic report contained in the annual report includes a fair review of the development and performance of the business and the position of the group and company, together with a description of the principal risks and uncertainties that it faces.

Disclosure of information to auditors

In accordance with Section 418 of the Companies Act 2006:

- (a) so far as each 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

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 by its order:



Tim Monod
Company Secretary
30 July 2015

Independent auditor's report to the members of Affinity Water Acquisitions (Investments) Limited for the year ended 31 March 2015

Report on the financial statements

Our opinion

In our opinion, Affinity Water Acquisitions (Investments) Limited's group financial statements and company financial statements (the "financial statements"):

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

What we have audited

Affinity Water Acquisitions (Investments) Limited's financial statements comprise:

- the consolidated and company balance sheet as at 31 March 2015;
- the consolidated profit and loss account and Statement of group total recognised gains and losses for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept 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.

Independent auditor's report to the members of Affinity Water Acquisitions (Investments) Limited for the year ended 31 March 2015 (continued)

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 22, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

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

- whether the accounting policies are appropriate to the 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.

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

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

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Charles Josefand (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cambridge
31 July 2015

- (a) The maintenance and integrity of the Affinity Water Acquisitions (Investments) Limited website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Affinity Water Acquisitions (Investments) Limited

Consolidated profit and loss account for the year ended 31 March 2015 (Registered Number 08101550)

	Note	2015 £000	2014 £000
Turnover	2	291,441	291,683
Cost of sales		(163,561)	(178,811)
Gross profit		127,880	112,872
Administrative expenses		(52,225)	(46,144)
Other operating income	3	10,220	9,880
Operating profit	4	85,875	76,608
(Loss)/profit on disposal of tangible fixed assets		(24)	1,479
Profit on ordinary activities before interest and taxation		85,851	78,087
Interest receivable and similar income	6	167	346
Interest payable and similar charges	7	(50,342)	(52,791)
Other finance income	8	3,262	901
Profit on ordinary activities before taxation		38,938	26,543
Tax on profit of ordinary activities	9	(22,181)	2,562
Profit on ordinary activities after taxation		16,757	29,105
Equity minority interests		(1,809)	(3,040)
Profit for the financial year	23	14,948	26,065

All results of the group in the current and prior years are from continuing operations.

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

The notes on pages 32 to 66 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 2015

(Registered Number 08101550)

	Note	2015 £000	2014 £000
Profit for the financial year	23	14,948	26,065
Actuarial gain recognised in the pension scheme	27	24,303	14,908
Deferred tax movement relating to the actuarial gain	27	(4,861)	(2,806)
Total recognised gains and losses for the year		34,390	38,167

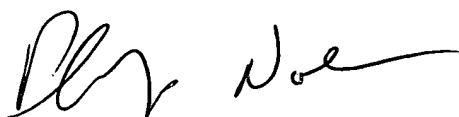
The notes on pages 32 to 66 form part of these financial statements

Affinity Water Acquisitions (Investments) Limited

Consolidated balance sheet as at 31 March 2015 (Registered Number 08101550)

	Note	2015 £000	2014 £000
Fixed assets			
Intangible assets	11	120,015	126,971
Tangible assets	12	1,242,807	1,211,963
Investments	13	51	1
		1,362,873	1,338,935
Current assets			
Stocks	14	1,262	1,412
Debtors	15	80,970	81,516
Cash at bank and in hand		60,359	17,172
		142,591	100,100
Creditors – amounts falling due within one year	16	(135,183)	(131,558)
Net current assets/(liabilities)		7,408	(31,458)
Total assets less current liabilities		1,370,281	1,307,477
Creditors – amounts falling due after more than one year	17	(984,171)	(921,700)
Provisions for liabilities	18	(62,356)	(48,784)
Net assets excluding pension asset		323,754	336,993
Net pension asset	27	30,533	5,205
Net assets		354,287	342,198
Capital and reserves			
Called up share capital	22	3,408	3,408
Profit and loss account	23	316,068	303,272
Total shareholders' funds	25	319,476	306,680
Equity minority interests		34,803	35,510
Non-equity minority interests		8	8
Capital employed		354,287	342,198

The notes on pages 32 to 66 form part of these financial statements. The statutory financial statements on pages 26 to 66 were approved by the Board of Directors and were signed and authorised for issue on 30 July 2015 on its behalf by:



Dr Philip Nolan
Chairman

Affinity Water Acquisitions (Investments) Limited

Company balance sheet as at 31 March 2015 (Registered Number 08101550)

	Note	2015 £000	2014 £000
Investments	13	340,777	340,777
Net assets		340,777	340,777
Capital and reserves			
Called up share capital	22	3,408	3,408
Profit and loss account	23	337,369	337,369
Total shareholders' funds	25	340,777	340,777

The notes on pages 32 to 66 form part of these financial statements. The statutory financial statements on pages 26 to 66 were approved by the Board of Directors and were signed and authorised for issue on 30 July 2015 on its behalf by:


Dr Philip Nolan
Chairman



Affinity Water Acquisitions (Investments) Limited

Consolidated cash flow statement for the year ended 31 March 2015 (Registered Number 08101550)

	Note	2015 £000	2014 £000
Net cash inflow from operating activities	(a)	172,348	159,207
Returns on investments and servicing of finance			
Interest received		167	346
Interest paid		(46,049)	(46,272)
Dividends paid to minority shareholdings in subsidiary undertakings		(2,385)	(5,124)
Net cash outflow from returns on investments and servicing of finance		(48,267)	(51,050)
Taxation		(1,817)	(1,391)
Capital expenditure and financial investment			
Purchase of investment		(51)	-
Purchase of tangible fixed assets		(112,760)	(117,101)
Capital contributions		11,690	7,969
Proceeds on disposal of tangible fixed assets		58	1,743
Net cash outflow from capital expenditure and financial investment		(101,063)	(107,389)
Equity dividends		(21,464)	(46,117)
Net cash outflow before management of liquid resources and financing		(263)	(46,740)
Management of liquid resources			
Increase in short-term deposits	(b)	(15,000)	-
Net cash outflow from management of liquid resources		(15,000)	-
Financing			
(Repayment)/drawdown of short-term credit facilities		(17,200)	17,200
Financing of assets used by the group and operated by other parties		2,084	2,167
Repurchase of debentures		(2)	-
Proceeds from existing bond tap		58,568	-
Net cash inflow from financing		43,450	19,367
Increase/(decrease) in net cash	(c)/(d)	28,187	(27,373)

The notes on pages 31 to 66 form part of these financial statements.

Affinity Water Acquisitions (Investments) Limited

Notes to the consolidated cash flow statement for the year ended 31 March 2015

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

	2015 £000	2014 £000
Operating profit	85,875	76,608
Depreciation of tangible fixed assets	75,199	80,874
Amortisation of goodwill	6,956	6,958
Amortisation of deferred credit	(248)	(297)
Decrease in stocks	150	236
(Increase)/decrease in debtors	(186)	1,219
(Decrease) in provisions	(1,078)	(392)
Increase/(decrease) in creditors	9,776	(1,113)
Pension contributions in excess of operating charge	(4,096)	(4,886)
Net cash inflow from operating activities	<u>172,348</u>	<u>159,207</u>

(b) Management of liquid resources

This comprises movement in short term deposits which have maturity dates up to one year.

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

	2015 £000	2014 £000
Increase/(decrease) in cash in the year	28,187	(27,373)
Cash inflow from increase in liquid resources, debt and finance leasing	(28,450)	(19,367)
Non cash inflow from increase in debt and finance leasing	(2,264)	(7,166)
Movement in net debt in the year	(2,527)	(53,906)
Net debt at the beginning of the year	(919,461)	(865,555)
Net debt at the end of the year	<u>(921,988)</u>	<u>(919,461)</u>

(d) Analysis of net debt

	At 1 April 2014 £000	Cash flow £000	Non cash flow £000	At 31 March 2015 £000
Cash	17,172	28,187	-	45,359
Amounts placed in short term deposits	-	15,000	-	15,000
Bond issue	(769,976)	(58,568)	(2,948)	(831,492)
Loan from shareholders	(130,020)	-	-	(130,020)
Debentures	(36)	2	-	(34)
External loan facilities	(17,200)	17,200	-	-
Financing of assets used by the group and operated by other parties	(19,401)	(2,084)	684	(20,801)
	<u>(936,633)</u>	<u>(28,450)</u>	<u>(2,264)</u>	<u>(967,347)</u>
Net debt	<u>(919,461)</u>	<u>(263)</u>	<u>(2,264)</u>	<u>(921,988)</u>

Affinity Water Acquisitions (Investments) Limited

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

1. Statement of accounting policies

Basis of preparation

These financial statements have been prepared on the going concern basis as stated in the directors' report on page 22, 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 and prior year.

Basis of consolidation

The group financial statements consolidate the financial statements 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.

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.

The company is the parent undertaking of the smallest and largest group to prepare consolidated financial statements.

Use of estimates

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

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. 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 such invoices raised will not be recognised within the current year's turnover but will instead be recognised within creditors as deferred income.

Affinity Water Acquisitions (Investments) Limited

Notes to the financial statements for the year ended 31 March 2015 (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 debtors 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 debtors of greater age. The value of the debt provision is sensitive to the specific percentages applied.

Dividends

Dividend income 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 instrument 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 as well as items that will never be 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.

Affinity Water Acquisitions (Investments) Limited

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

1. Statement of accounting policies (continued)

Deferred taxation (continued)

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

- (a) revaluation gains on land and buildings, unless there is a binding agreement to sell such assets 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 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 legislation enacted or substantively enacted at the balance sheet date.

Where legislation 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 had separate Central, East and Southeast divisions until 31 March 2015 when the Shared Services division was consolidated with these divisions into one final salary section, 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 defined 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.

Affinity Water Acquisitions (Investments) Limited

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

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 defined benefit pension 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 of predecessor companies. A provision in respect of the obligation is included within the net pension liability.

Cash deposits

Cash deposits with a maturity of greater than one day but less than twelve months are classified as cash at bank and in hand within the balance sheet but are classified within liquid resources for the purposes of the cash flow statement.

Goodwill and amortisation

Goodwill arising on acquisitions since 1 January 1998 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.

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 relating to increases in capacity or enhancements of the network and on maintaining the operating capability of the network in accordance with defined standards of service is treated as an addition and recorded at cost after deducting grants and contributions.

Affinity Water Acquisitions (Investments) Limited

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

1. Statement of accounting policies (continued)

Tangible fixed assets and depreciation (continued)

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. The disposal value of infrastructure assets is calculated based on the estimated lives of the assets at the point of replacement.

Cost of other tangible fixed assets includes own work capitalised comprising the direct costs of materials, labour and applicable overheads. Interest costs are not capitalised.

Depreciation is provided on all other tangible 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	5 - 80 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 are deducted from the cost of tangible fixed assets. This is not in accordance with the Large and Medium-sized Companies and Groups Regulations 2008 (SI 2008/410) which form part of the Companies Act 2006, and which require tangible fixed assets to be shown at cost, and hence grants and contributions to be 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 in 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.

Affinity Water Acquisitions (Investments) Limited

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

1. Statement of accounting policies (continued)

Leased assets

Assets financed by leases 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.

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 are 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, which is 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 £20,801,000 relating to the original embedded debt of Anglian Water as incremented by the subsequent asset additions.

This obligation is treated as a quasi-finance lease within these financial statements under the category of 'financing of assets operated by third parties' (see notes 20 and 28).

The method 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 group'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.

Affinity Water Acquisitions (Investments) Limited

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

1. Statement of accounting policies (continued)

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.

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.

2. Turnover

Turnover represents income from the supply of water and other chargeable services exclusive of VAT arising wholly within the United Kingdom.

	2015 £000	2014 £000
Unmeasured supplies	161,182	130,731
Measured supplies	129,975	160,377
Chargeable services	284	273
Other revenue	-	302
	291,441	291,683

3. Other operating income

	2015 £000	2014 £000
Commission and rentals	10,220	9,880

Affinity Water Acquisitions (Investments) Limited

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

4. Operating profit

Operating profit is stated after charging/(crediting):	2015 £000	2014 £000
Purchase of bulk water and water supplied under statutory entitlement	2,197	1,681
Water abstraction	4,546	6,413
Business rates	17,081	16,497
Chargeable services direct expenditure	617	1,111
Credit notes received from the Environment Agency in respect of Environmental Impact Unit Charges ('EIUC') levied in 2013/14	(1,700)	-
Reimbursement of EIUC levied from 2008/09 to 2012/13	(3,840)	-
Depreciation of infrastructure assets	36,092	47,309
Depreciation of tangible fixed assets - owned	38,934	32,969
Depreciation of tangible fixed assets - leased	173	596
Amortisation of goodwill	6,956	6,958
Research and development	162	212
Hire of equipment not under finance lease	550	538
Operating lease rentals - land and buildings	1,547	1,547
Operating lease rentals - other	2,196	1,837
Amortisation of deferred credit	(248)	(297)
Pension scheme set up costs	-	170
Auditor's remuneration (see below)	444	456
Auditor's remuneration		
Fees payable to the company's auditor and its associates for the audit of the parent company and consolidated financial statements	15	15
<i>Fees payable to the company's auditor and its associates for other services</i>		
Audit of the company's associates	198	175
Audit-related assurance services		
- regulatory reporting	40	188
- Thames Water and Anglian Water annual returns	8	8
- audit related assurance service - other	22	23
Tax advisory services	13	20
Other assurance services	28	-
All other non-audit services	120	27
	444	456

During the year, additional assurance services were commissioned from PwC with respect to the financial information included within a debt prospectus.

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

Affinity Water Acquisitions (Investments) Limited

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

5. Employees and directors

	2015 £000	2014 £000
Staff costs (including executive directors) consist of:		
Wages and salaries	42,335	40,984
Social security costs	3,968	3,446
Defined benefit pension costs	4,693	5,118
Defined contribution pension costs	1,244	948
Other pension administration costs	703	544
	52,943	51,040

The monthly average number of employees (including executive and non-executive directors) during the year was as follows:

	2015 Number	2014 Number
Operations	617	598
Customer service	315	301
Administration	191	174
	1,123	1,073

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, North Haven Infrastructure Partners LP (formerly 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.

	2015 £000	2014 £000
Aggregate remuneration in respect of qualifying services	376	512

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

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

Charges of £100,000 (2014: £100,000) have been rendered under a Management Services Agreement against Affinity Water Acquisitions Limited, a subsidiary of the group, in respect of directors who sit on its board as representatives of Infracapital Partners II, North Haven Infrastructure Partners LP (formerly Morgan Stanley Infrastructure Partners) and Veolia Water UK Limited.

Affinity Water Acquisitions (Investments) Limited

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

6. Interest receivable and similar income

	2015 £000	2014 £000
Bank interest	167	346

7. Interest payable and similar charges

	2015 £000	2014 £000
Interest payable to shareholders	10,532	10,532
Interest payable to related party	1,170	1,170
Financing costs of assets used by the group and operated by other parties	942	1,088
Debenture interest	60	60
Bond interest payable	33,794	31,944
Accretion on index-linked bonds	2,792	6,780
Other interest	1,052	1,217
	50,342	52,791

8. Other finance income

	2015 £000	2014 £000
Expected return on pension scheme assets	17,636	16,211
Interest on pension scheme liabilities	(14,374)	(15,310)
	3,262	901

Affinity Water Acquisitions (Investments) Limited

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

9. Tax on profit on ordinary activities

	2015 £000	2014 £000
Taxation relates to the following:		
Current taxation		
Current tax on profit for the year	6,471	3,646
Adjustment in respect of prior years	(413)	(2,022)
Current taxation	<u>6,058</u>	<u>1,624</u>
Deferred taxation		
Origination and reversal of timing differences – current year	5,334	6,393
Adjustment in respect of prior years	354	1,190
Decrease in discounting	10,435	1,309
Impact of change in tax rate	-	(13,078)
Deferred tax charge/(credit) for the year	<u>16,123</u>	<u>(4,186)</u>
Tax on profit on ordinary activities	<u>22,181</u>	<u>(2,562)</u>

The tax assessed for the year is lower (2014: lower) than the standard rate of corporation tax in the UK in 2015 (21%; 2014: 23%). The differences are explained below:

	2015 £000	2014 £000
Profit on ordinary activities before taxation	<u>38,938</u>	<u>26,543</u>
Theoretical tax at UK corporation tax rate of 21% (2014: 23%)	8,177	6,105
Effects of:		
Adjustment in respect of prior years	(413)	(2,022)
Permanent differences	2,102	2,145
Accelerated capital allowances	(1,717)	(2,288)
Other short term timing differences	(544)	(776)
Other timing differences	(1,547)	(1,540)
Actual current taxation charge	<u>6,058</u>	<u>1,624</u>

Tax on recognised gains and losses not included in the profit and loss account (see note 18):

	2015 £000	2014 £000
Other deferred tax charge relating to pension scheme	<u>4,861</u>	<u>2,806</u>

Factors that may affect future tax charges

A change in the main corporation tax rate in the United Kingdom from 21 per cent to 20 per cent with effect from 1 April 2015 was substantively enacted on 2 July 2013. This change was recognised in the deferred tax balance at 31 March 2014.

Affinity Water Acquisitions (Investments) Limited

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

10. Dividends

	2015 £000	2014 £000
Ordinary:		
Paid: First interim of 3.829p per share (2014: 1.320p)	13,050	4,500
Paid: Second interim of 0.462p per share (2014: 0.660p)	1,574	2,250
Paid: Third interim of 2.007p per share (2014: 8.660p)	6,840	29,513
No fourth interim paid this year (2014: 1.796p)	-	6,120
No fifth interim paid this year (2014: 1.096p)	-	3,734
	21,464	46,117

11. Intangible assets

Group	Goodwill £000
Cost at 1 April 2014 and 31 March 2015	139,147
Accumulated amortisation	
Accumulated amortisation at 31 March 2014	12,176
Amortisation during the year	6,956
At 31 March 2015	19,132
Net book value at 31 March 2015	120,015
Net book value at 31 March 2014	126,971

The company does not have any intangible assets.

Affinity Water Acquisitions (Investments) Limited

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

12. Tangible assets

Group	Freehold land, buildings and reservoirs	Mains and other infrastructure assets	Vehicles, plant and machinery	Assets in the course of construction	Total
	£000	£000	£000	£000	£000
Cost					
At 1 April 2014	220,123	767,119	256,655	107,051	1,350,948
Additions	576	40,865	5,190	67,872	114,503
Transfers to completed	3,901	5,471	42,009	(51,381)	-
Capital contributions	-	(8,378)	-	-	(8,378)
Disposals	(82)	-	(21,913)	-	(21,995)
At 31 March 2015	224,518	805,077	281,941	123,542	1,435,078
Accumulated depreciation					
At 1 April 2014	12,341	82,929	43,715	-	138,985
Charge for the year	4,890	36,092	34,217	-	75,199
Disposals	-	-	(21,913)	-	(21,913)
At 31 March 2015	17,231	119,021	56,019	-	192,271
Net book value					
At 31 March 2015	207,287	686,056	225,922	123,542	1,242,807
At 31 March 2014	207,782	684,190	212,940	107,051	1,211,963

The company does not have any tangible assets.

Affinity Water Acquisitions (Investments) Limited

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

12. Tangible assets (continued)

Finance leases have been arranged for assets included above at 31 March 2015 and 31 March 2014 as follows:

Group	Land, buildings and operational structures	Mains and other infra- structure assets	Vehicles, plant and machinery	Assets in the course of construction	Total
	£000	£000	£000	£000	£000
At 31 March 2015					
Cost	2,165	23,165	26,858	-	52,188
Accumulated depreciation	(1,778)	(11,205)	(26,858)	-	(39,841)
Net book value	387	11,960	-	-	12,347
At 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

Assets with a net book value of £295,000 (cost: £48,104,000; accumulated depreciation: £47,809,000) for which finance leases had been previously arranged have been released back to the group.

Affinity Water Acquisitions (Investments) Limited

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

12. Tangible assets (continued)

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 £190,550,000 (2014: £182,172,000) 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 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.

A full valuation was performed by PwC on 28 June 2012 for the purpose of the sale by Veolia Water UK Limited of Affinity Water Capital Funds Limited to Affinity Water Acquisitions Limited. An interim valuation was performed by PwC using a consistent basis as at 31 March 2013. Although the June 2012 valuation was not specifically performed for Financial Reporting Standard 15: 'Tangible fixed assets' purposes, the results of the valuation were not materially different to those of the valuation performed at 31 March 2013 when adjustments were made to the statutory accounting records. The revaluation surplus of £84,600,000 at 31 March 2013 was attributed to infrastructure assets. 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.

The directors have considered whether another interim valuation is required as at 31 March 2015 and have concluded that this is not necessary as there are no indicators that imply significant market price movements and as the company will be preparing its financial statements under International Financial Reporting Standards ('IFRS') for the year ending 31 March 2016, where accounting for tangible assets is on a cost basis. As this will require the restatement of the opening balance sheet at 1 April 2014, the opening fair value of the infrastructure assets will be based on the valuation performed in June 2012.

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

Affinity Water Acquisitions (Investments) Limited

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

13. Investments

	Group £000	Company £000
At 1 April 2014	1	340,777
Investments disposed of during the year	(1)	-
Investments made during the year	51	-
At 31 March 2015	51	340,777

The investment balance in the company relates to Affinity Water Acquisitions (Holdco) Limited. The directors believe that the carrying value of the investment is supported by its underlying net assets.

Affinity Water Acquisitions (Investments) Limited

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

13. Investments (continued)

The following were the 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%
Affinity Water Shared Services Limited	Service company	Ordinary shares	100%
Affinity Water Pension Trustees Limited	Pension trustee	Ordinary shares	100%
Three Valleys Water Limited	Dormant company	Ordinary shares	100%
Tendring Hundred Water Services Limited	Dormant company	Ordinary shares	100%
Folkestone and Dover Water Services Limited	Dormant company	Ordinary shares	100%
White Cliffs Water Limited	Dormant company	Ordinary shares	100%

* 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, the company's main activity is to manage its financial resources to optimise returns to the company's shareholders.

Affinity Water Acquisitions (Investments) Limited

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

13. Investments (continued)

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 for the purposes of tax in the United Kingdom). Affinity Water Capital Funds Limited is the holding company for the water supply interests of Affinity Water Acquisitions (Investments) Limited.

Affinity Water Acquisitions (Investments) Limited

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

14. Stocks

	Group 2015 £000	Group 2014 £000
Raw materials and consumables	<u>1,262</u>	<u>1,412</u>

The company does not have any stock.

15. Debtors

	Group 2015 £000	Group 2014 £000
Trade debtors and customers' water charges	30,719	30,042
Accrual for unbilled metered customers	39,876	37,790
Amounts owed by related party	565	3,104
Other debtors	4,318	4,198
Corporation tax	-	846
Prepayments and accrued income	5,492	5,536
	<u>80,970</u>	<u>81,516</u>

The company does not have any debtors.

16. Creditors – amounts falling due within one year

	Group 2015 £000	Group 2014 £000
Short-term credit facilities	-	17,200
Payments received in advance	41,951	32,581
Financing of assets used by the group and operated by other parties	1,201	1,005
Trade creditors	14,118	10,827
Interest payable	12,506	10,257
Amounts owed to related parties	791	2,889
Other taxation and social security	1,276	1,038
Corporation tax	3,383	-
Other creditors	13,210	10,889
Capital accruals	19,570	17,826
Other accruals and deferred income	27,177	27,046
	<u>135,183</u>	<u>131,558</u>

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.

The company does not have any creditors or amounts falling due within one year.

Affinity Water Acquisitions (Investments) Limited

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

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

	Group 2015 £000	Group 2014 £000
Debenture stock	34	36
Bond issue	831,492	769,974
Financing of assets operated by other parties	19,600	18,396
Loan from shareholders	117,018	117,018
Loan from related party	13,002	13,002
Deferred credit – contributions to surface assets	3,025	3,274
	984,171	921,700

On 13 July 2004, Affinity Water Finance (2004) PLC, a subsidiary of the group, issued a £200 million bond at an interest rate of 5.875 per cent and repayable in July 2026. On 16 July 2014 Affinity Water Finance (2004) PLC completed a tap issue of £50,000,000 on the same terms as the existing £200,000,000 bond.

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 4.500 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').

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

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) PLC 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.

The company does not have any creditors or amounts falling due after more than one year.

Affinity Water Acquisitions (Investments) Limited

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

18. Provisions for liabilities

Group	Deferred tax £000	Insurance £000	Other £000	Total £000
At 1 April 2014	(44,958)	(1,609)	(2,217)	(48,784)
Charged to the profit and loss account	(14,650)	(15)	-	(14,665)
Utilised in the year	-	-	1,093	1,093
At 31 March 2015	(59,608)	(1,624)	(1,124)	(62,356)

Deferred tax

	2015 £000	2014 £000
Accelerated capital allowances	94,815	91,158
Other timing differences	(1,473)	(2,031)
Undiscounted provision for deferred tax	93,342	89,127
Discount	(33,734)	(44,169)
Discounted provision for deferred tax	59,608	44,958
Deferred tax liability on pension asset (see note 27)	7,633	1,301
Provision at the end of the year including deferred tax on pension asset	67,241	46,259

Deferred tax liability relating to pension asset

	2015 £000	2014 £000
At 1 April	1,301	(3,271)
Deferred tax charge to the profit and loss account	1,471	1,766
Deferred tax charge to the statement of total recognised gains and losses (see note 27):		
- on actuarial gain	4,861	2,482
- change in tax rate	-	324
At 31 March	7,633	1,301

The deferred tax liability of £7,633,000 (2014: £1,301,000) has been deducted in arriving at the net pension asset on the balance sheet.

Affinity Water Acquisitions (Investments) Limited

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

18. Provisions for liabilities (continued)

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.

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.

Other provisions

Other provisions include £670,000 in relation to unfunded pension liabilities for a former non-executive director, which will be utilised over the 20 years from January 2019. The remaining balance relates to outstanding legal claims at 31 March 2015 anticipated to be utilised within 12 months.

The company does not have any provision for liabilities.

Affinity Water Acquisitions (Investments) Limited

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

19. Borrowings analysis

Loans and bank overdrafts outstanding at the year end comprise:

	Group 2015 £000	Group 2014 £000
Amounts repayable after one year		
Debentures	34	36
Loans from shareholders	117,018	117,018
Loans from related party	13,002	13,002
Bonds	831,492	769,974
	961,546	900,030

Loans not wholly repayable within five years comprise:

	Group 2015 £000	Group 2014 £000
Bond issue of 5.875% guaranteed notes due 2026 (issued by Affinity Water Finance (2004) PLC in 2004)*	255,411	197,037
Bond issue of 3.625% guaranteed notes due 2022 (issued by Affinity Water Programme Finance Limited in 2013)*	78,792	78,655
Bond issue of 3.249% guaranteed notes due 2033 (issued by Affinity Water Programme Finance Limited in 2013)	97,392	96,256
Bond issue of 4.500% guaranteed notes due 2036 (issued by Affinity Water Programme Finance Limited in 2013)*	246,216	246,112
Bond issue of 1.548% guaranteed notes due 2045 (issued by Affinity Water Programme Finance Limited in 2013)*	153,681	151,914
Irredeemable debenture stock carrying interest of between 3.50% and 5.25%	34	36
Loans from shareholders	117,018	117,018
Loans from related party	13,002	13,002
	961,546	900,030

* 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.

The company does not have any borrowings.

Affinity Water Acquisitions (Investments) Limited

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

20. Commitments under finance and operating leases

The group does not have any outstanding obligations under finance leases. Financing of assets operated by third parties are as follows:

	Group 2015 £000	Group 2014 £000
In one year or less, but on demand	1,201	1,005
In more than one year but not more than two years	885	1,078
In more than two years but not more than five years	2,650	1,509
In more than five years	16,065	15,809
Net obligations due	20,801	19,401

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

	2015		2014	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	-	138	-	85
In two to five years	-	1,363	-	1,415
After five years	1,547	1	1,547	-
	1,547	1,502	1,547	1,500

The company does not have any commitments under finance and operating leases.

21. 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.

Affinity Water Acquisitions (Investments) Limited

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

22. Called up share capital

Group and company	2015 £000	2014 £000
Allotted, called up and fully paid share capital		
340,776,655 ordinary shares (2014: 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 North Haven Infrastructure Partners LP (formerly Morgan Stanley Infrastructure Partners) owns the remaining 151,456,291.

23. Reserves

Group	Profit and loss account £000
At 1 April 2014	303,272
Actuarial gain recognised in the pension scheme	24,303
Deferred tax arising thereon	(4,861)
Profit for the financial year	14,948
Dividends paid	(21,594)
At 31 March 2015	316,068

Dividends of £21,464,000 (2014: £46,117,000) were paid in the year to Infracapital Partners II and North Haven Infrastructure Partners LP (formerly Morgan Stanley Infrastructure Partners) in proportion to their shareholding in the company.

Company	Profit and loss account £000
At 1 April 2014	337,369
Profit for the financial year	21,464
Dividends paid	(21,464)
At 31 March 2015	337,369

24. Profit for the financial year

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 £21,464,000 of profit in 2015 (2014: £46,117,000).

Affinity Water Acquisitions (Investments) Limited

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

25. Reconciliation of movements in shareholders' funds

	Group 2015 £000	Company 2015 £000	Group 2014 £000	Company 2014 £000
Opening shareholders' funds	306,680	340,777	314,630	340,777
Profit for the financial year	14,948	21,464	26,065	46,117
Actuarial gain for the year	24,303	-	14,908	-
Deferred tax arising thereon	(4,861)	-	(2,806)	-
Total gains and losses recognised for the year	34,390	21,464	38,167	46,117
Dividends paid	(21,594)	(21,464)	(46,117)	(46,117)
Movement in shareholders' funds	12,796	-	(7,950)	-
Closing shareholders' funds	319,476	340,777	306,680	340,777

26. 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 £13,747,000 (2014: £24,081,000). No other company in the group has any other capital commitments.

Affinity Water Acquisitions (Investments) Limited

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

27. 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. The plan's corporate trustee (the 'Trustee') is a subsidiary 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 then 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.

The assets of the plan are measured using market values. Pension plan liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term to the liability. Actuarial gains and losses recognised in the year have been included in the statement of total recognised gains and losses.

The latest formal valuation of the AWPP, determined by an independent qualified actuary, was at 31 March 2013. This actuarial valuation was made on the "attained age" funding method, based on the following assumptions:

RPI inflation:	measured by reference to the Bank of England gilt inflation curve less an allowance for an inflation risk premium of 0.15% per annum;
CPI inflation:	measured by reference to the RPI inflation curve described above less 0.7% per annum;
Pre-retirement discount rate:	measured by reference to the Bank of England gilt yield curves plus 2.5% per annum;
Post retirement discount rate:	measured by reference to the Bank of England gilt yield curves plus 0.5% per annum;
Salary increases:	measured by reference to the RPI inflation curve described above plus 1% per annum;
Deferred pension increases:	measured by reference to the CPI or RPI inflation curves described above with an appropriate adjustment for any caps and collars; and
Pension increases:	measured by reference to the CPI or RPI inflation curves described above with an appropriate adjustment for any caps and collars.

The valuation as at 31 March 2013 stated the market valuations of the plan's assets to be £273,700,000 with a funding level of 88 per cent for the Central division, £20,100,000 with a funding level of 87 per cent for the East division, and £29,200,000 with a funding level of 119 per cent for the Southeast division.

On 31 March 2015, Affinity Water Shared Services Limited, a subsidiary of the group, ceased to be a participating employer in the plan, having entered a flexible apportionment arrangement with the Trustee and Affinity Water Limited. As a result, the Shared Services division was transferred to Affinity Water Limited from Affinity Water Shared Services Limited and was consolidated with the Central, East and Southeast divisions into one final salary section, the Affinity Water Pension Plan Final Salary Division.

Affinity Water Acquisitions (Investments) Limited

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

27. Pensions (continued)

Composition of the pension plan (continued)

The valuation of the Shared Services division as at 31 March 2013 stated the market valuations of the plan's assets to be £30,100,000 with a funding level of 115 per cent.

Contributions to the AWPP over the year ended 31 March 2015 were paid by members in accordance with the rules of the plan, and by the group 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 ending 31 March 2016 are £9,174,000 (2014: £10,129,000 in the year ending 31 March 2015).

Principal assumptions

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

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

	2015	2014	2013
Discount rate	3.15% pa	4.30% pa	4.20% pa
Salary growth	2.90% pa	3.90% pa	4.20% pa
RPI	2.90% pa	3.30% pa	3.20% pa
CPI	1.90% pa	2.30% pa	2.50% pa
Life expectancy for a male pensioner from age 65 (years)	22	22	23
Life expectancy for a female pensioner from age 65 (years)	25	24	25
Life expectancy from age 65 (years) for a male participant currently aged 45 (years)	24	24	25
Life expectancy from age 65 (years) for a female participant currently aged 45 (years)	27	27	27

Deferred pensions are revalued to retirement age in line with the CPI assumption of 1.9 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 group, 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 group.

The total pensions charge including the defined contribution section of the AWPP for the year ended 31 March 2015 was £5,937,000 (2014: £6,066,000). There are no amounts prepaid or outstanding in respect of the defined contribution section at 31 March 2015 (2014: £nil).

The effect of the asset limit charged to the statement of total recognised gains and losses was £3,425,000 (2014: £2,933,000). 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.

Affinity Water Acquisitions (Investments) Limited

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

27. Pensions (continued)

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

	2015		2014	
	Value	Long term rate of return expected	Value	Long term rate of return expected
	£000	(% pa)	£000	(% pa)
Equities	173,244	5.25	161,611	6.54
Bonds	68,549	3.10	60,322	4.30
Property	4,037	5.70	6,904	7.00
Cash and cash equivalents	173,392	1.71	119,642	3.45
Fair value of assets	<u>419,222</u>		<u>348,479</u>	

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 gain of £75,423,000 (2014: £3,711,000 loss).

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

	2015	2014	2013
Defined benefit obligation (£m)	(374.1)	(338.5)	(367.6)
Plan assets (£m)	419.2	348.5	353.9
Effect of asset limit (£m)	(6.9)	(3.5)	(0.6)
Surplus/(deficit) (£m)	38.2	6.5	(14.3)

Difference between expected and actual return on plan assets:

Percentage of plan assets	13.9%	(5.7%)	5.1%
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Experience gains/(losses) on plan liabilities:

Percentage of plan liabilities	0.0%	3.5%	0.0%
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Reconciliation of present value of scheme liabilities:

	2015 £000	2014 £000
At 1 April	338,473	367,556
Current service cost	4,693	5,118
Interest cost	14,374	15,310
Actuarial loss/(gain)	30,059	(36,884)
Benefits paid	(14,335)	(13,459)
Contributions by scheme participants	860	832
At 31 March	<u>374,124</u>	<u>338,473</u>

Affinity Water Acquisitions (Investments) Limited

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

27. Pensions (continued)

Reconciliation of fair value of scheme assets:

	2015 £000	2014 £000
At 1 April	348,479	353,903
Contributions paid by employer	8,795	10,914
Contributions by scheme participants	860	832
Expected return on scheme assets	17,636	16,211
Actuarial gain/(loss)	57,787	(19,922)
Benefits paid	(14,335)	(13,459)
At 31 March	419,222	348,479
Surplus of funded plan liabilities	45,098	10,006
Effect of asset limit	(6,932)	(3,500)
Pension asset before deferred tax	38,166	6,506
Related deferred tax	(7,633)	(1,301)
Net pension asset at 31 March	30,533	5,205

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

	2015 £000	2014 £000
Current service cost	4,693	5,118
Expected return on scheme assets	(17,636)	(16,211)
Interest on pension scheme liabilities	14,374	15,310
Total charge	1,431	4,217

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

	2015 £000	2014 £000
Actuarial gains/(losses) on scheme assets	57,787	(19,043)
Actuarial (losses)/gains on scheme liabilities	(30,059)	36,884
Effect of asset limit	(3,425)	(2,933)
Total credit	24,303	14,908
Deferred tax arising thereon	(4,861)	(2,806)
Credit after deferred tax	19,442	12,102

Affinity Water Acquisitions (Investments) Limited

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

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 year.

The group finances its operations through a mixture of retained profits, borrowings from its subsidiary companies, borrowings from Affinity Water Capital Funds Limited and debentures. Treasury policies are agreed in conjunction with the wider Affinity Water group (including policies relating to liquidity and interest rate risks). 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 16, 17 and 19.

Financial liabilities: excluding non-debt current liabilities

The interest rate profile of the group's financial liabilities, excluding non-debt current liabilities and on deferred credits, was as follows:

	Total	Fixed rate financial liabilities	Floating rate financial liabilities	RPI-linked financial liabilities
	£000	£000	£000	£000
31 March 2015	982,347	731,274	-	251,073
31 March 2014	936,632	671,261	17,200	248,171

Fixed rate liabilities represent the bonds issued by Affinity Water Finance (2004) PLC 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.

Affinity Water Acquisitions (Investments) Limited

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

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*	Weighted average period until maturity
	%	Years	Years
31 March 2015			
- Bonds	4.1	17.9	17.9
- Loans from shareholders	9.0	12.3	12.3
- Other	6.1	26.9	26.9
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

*This calculation excludes the irredeemable debenture stock where the interest rate is fixed in perpetuity (see note 17).

The maturity profile of the group's financial liabilities at 31 March 2015 was as follows:

	2015 £000	2014 £000
In one year or less or on demand*	1,201	18,205
In more than one year but not more than two years	885	1,078
In more than two years but not more than five years	2,650	1,509
In more than five years	977,611	915,840
	982,347	936,632

* 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 2015 in respect of which all conditions precedent had been met were as follows:

	2015 £000	2014 £000
Expiring in one year or less	58,000	55,000
Expiring in more than one year but not more than two years	-	-
Expiring in more than two years	100,000	82,800
	158,000	137,800

The group had access to a borrowing facility of £100,000,000 with a tenor of five years from 28 June 2012. This facility consisted of a £70,000,000 capital expenditure facility and a £30,000,000 working capital facility. As at 31 March 2015, the group had not drawn on any of its facilities.

Affinity Water Acquisitions (Investments) Limited

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

28. Financial instruments and risk management (continued)

On 15 July 2015, the group signed a £60,000,000 revolving loan facility with Barclays Bank PLC and a £40,000,000 revolving loan facility with Lloyds Bank PLC. The £100,000,000 facility existing at 31 March 2015 was cancelled with effect from 20 July 2015.

The group has available a 364 day revolving Debt Service Reserve Liquidity Facility of £38,000,000. 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 operating and capital maintenance expenditure in the event of a 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 2015, 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	
	2015 £000	2014 £000	2015 £000	2014 £000
Primary financial instruments held or issued to finance the group's operations:				
Bonds	831,492	769,975	1,006,791	812,848
	831,492	769,975	1,006,791	812,848

The fair value of the bonds, having a combined book value of £831,492,000, 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. 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 2015 (2014: £nil).

Affinity Water Acquisitions (Investments) Limited

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

30. Related party transactions

Purchases	Nature of relationship	In respect of	Group 2015		Group 2014	
			Value £000	Balance £000	Value £000	Balance £000
Infracapital F2 Rift S.à.r.l. and MSIP Dalis B.V.	Shareholders	Interest paid on loan	10,532	-	10,532	(17)*
Infracapital F2 Rift S.à.r.l. and MSIP Dalis B.V.	Shareholders	Dividend	21,464	-	46,117	-
Veolia Water UK Limited	Shareholder	Interest paid on loan	1,170	-	1,170	-
Veolia Water UK Limited	Shareholder	Dividend	2,385	-	5,124	-
Veolia Water UK Limited	Shareholder	Management and technical support	50	422	50	2,739
Other Veolia entities	Common ownership	Waste water disposal	409	159	346	-
North Haven Infrastructure Partners LP (formerly Morgan Stanley Infrastructure Partners)/ Infracapital Partners II/Veolia Water UK Limited	Shareholders	Support services	100	210	100	150
Sales	Nature of relationship	In respect of	Value £000	Balance £000	Value £000	Balance £000
Veolia Water UK Limited	Shareholder	Transitional services and capability sharing agreement	178	17	252	891
Other Veolia entities	Common ownership	Transitional services, capability sharing agreement and laboratory services	112	548	388	2,213

* This was the amount of interest prepaid at the year end.

Loans payable outstanding at 31 March 2015 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.

Affinity Water Acquisitions (Investments) Limited

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

31. Post balance sheet events

On 29 July 2015 Affinity Water Programme Finance Limited, a wholly owned financing subsidiary of the group, announced that it intends to tap its 1.548 per cent RPI Linked Guaranteed Bonds due 2045 (the "Bonds") and (subject to contract) has agreed an issuance of an additional £40,000,000 of the Bonds which will form part of the same series as the Bonds and be fungible with such Bonds. The proposed issuance was priced on 29 July 2015 by reference to the yield on the UK Government 0.75 per cent index-linked gilt due 2047 and is anticipated to settle within three months.

32. Ultimate parent company and controlling party

Affinity Water Acquisitions (Investments) Limited, a company registered in England and Wales, is the parent undertaking of the smallest and largest group to consolidate the statutory financial statements of this 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 North Haven Infrastructure Partners LP (formerly Morgan Stanley Infrastructure Partners). Veolia Environnement S.A. holds a 10 per cent shareholding in Affinity Water Acquisitions (Holdco) Limited, the direct subsidiary of Affinity Water Acquisitions (Investments) Limited, through its subsidiary Veolia Water UK Limited. The directors consider Infracapital Partners II and North Haven Infrastructure Partners LP (formerly Morgan Stanley Infrastructure Partners) to be the company's ultimate controllers, as they are in a position to exercise material influence over the company's policy and affairs.

Infracapital Partners II is one of a number of European infrastructure funds managed by M&G Investment Management Limited, a subsidiary of Prudential Plc. It was established in 2010 to make investments in income-generative infrastructure assets and businesses, including electricity and gas networks, water companies, transport infrastructure and renewable energy.

North Haven Infrastructure Partners LP (formerly Morgan Stanley Infrastructure Partners) is a leading global infrastructure investment fund. It is managed by Morgan Stanley Infrastructure Inc., part of the investment management division of Morgan Stanley. North Haven Infrastructure Partners LP (formerly Morgan Stanley Infrastructure Partners) targets core infrastructure assets that provide essential public goods and services to societies across the globe and seeks to improve asset performance using active management.