AFFINITY WATER LIMITED

UNAUDITED HALF-YEARLY FINANCIAL REPORT
FOR THE SIX-MONTH PERIOD ENDED 30 SEPTEMBER 2019

(Registered Number 02546950)

Affinity Water Limited

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Introduction

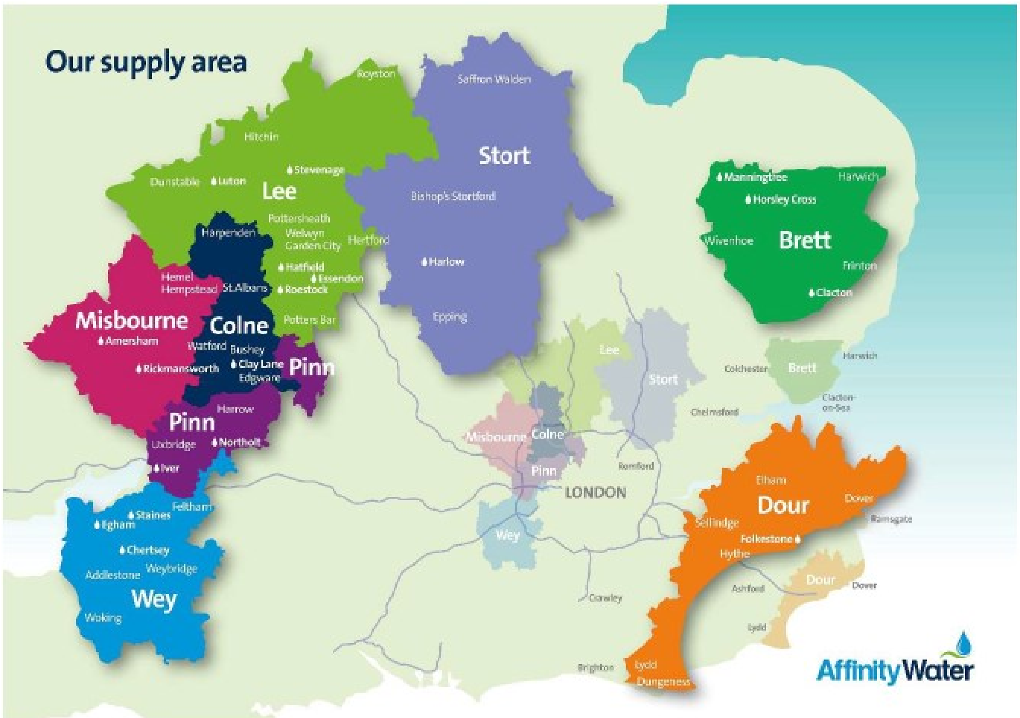
Affinity Water Limited (the ‘company’) owns and manages the water assets and network in an area of approximately 4,515km^2 split over three regions, comprising eight separate water resource zones (our communities), in the South East of England. We supply on average 950 Megalitres of water a day (‘Ml/d’) to over 3.6m people. We operate 95 water treatment works to ensure that our water is of the highest quality, distributing our water through a network of over 16,700km of mains pipes.

Maintaining the high quality of water we supply to customers is vital. Our Mean Zonal Compliance (‘MZC’) for the 2018 calendar year was 99.96%. Our overall compliance performance, as regulated by the Drinking Water Inspectorate (‘DWI’) has remained stable during the six months to 30 September 2019.

A key focus for us this year is getting our business ready to tackle the very stretching targets proposed for the next price control period, 2020-2025 (Asset Management Plan 7, ‘AMP7’) by delivering a major transformation programme to improve productivity and service levels; undertaking a large operational expenditure efficiency programme to deliver the lean and efficient structure that we need; and clarifying accountabilities and strengthening our senior leadership team, bringing in new skills and increasing our pace of change.

We failed to meet our leakage targets for 2017/18 and 2018/19, but are taking action to ensure we meet the industry’s largest leakage percentage reduction target for 2015-20, by introducing a process of assessment, recruitment and training as well as the use of new technology. We are targeting a further 20% reduction in leakage by 2025. Please see page 13 for more details.

Our vision, to be the UK’s leading community-focused water company, reflects the importance we place on our people working within and for the communities of customers we serve. By understanding and responding to the needs of different community groups, we are accountable to them at a local level for how well we provide our services. We divide our supply area into eight different communities, each named after a local river, allowing us to tailor a high quality service to customers at a local level.



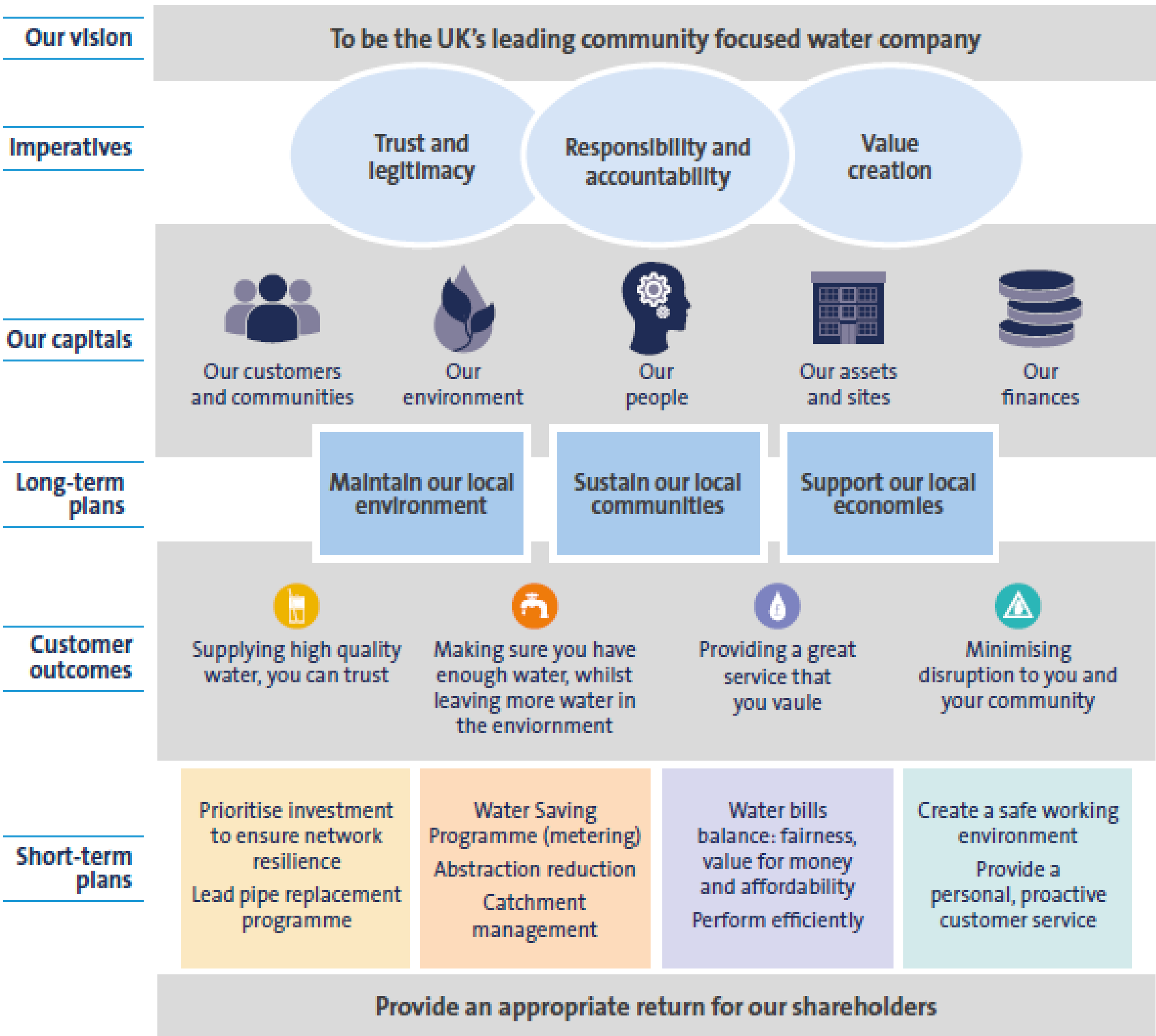
Affinity Water Limited

Interim management report (continued)

Our business model

Our vision is to be the UK's leading community-focused water company, so that we can help our customers better understand the value of water, reduce consumption and support the ongoing protection of the environment. The way in which we operate and utilise our resources is key to creating value. We create long-term value for our customers and stakeholders by maintaining our local environment, sustaining our local communities and supporting our local economies.

We draw upon sources of capitals as inputs for our business and transform them through our operating activities into our customer outcomes, continuously balancing potentially competing imperatives to ensure alignment between the interests of customers, our people, our investors, regulators and stakeholders. This report shows how we are using sources of capitals to better understand our business impacts and dependencies, and the total contribution that we are making to all our stakeholders.



Our financial highlights for the six months ended 30 September 2019

Operating profit[1]: £24.9m

2018: £32.6m

Our operating profit for the six months ended 30 September 2019 was lower than the prior period due mainly to £5.9m higher operating costs and £2.2m lower revenue, partially offset by £0.4m higher other income.

Net cash inflow before tax and financing[2]: £24.2m

2018: £21.0m

Our net cash inflow was higher than the prior period, primarily due to lower net investment in fixed assets in the current period and the cessation of additional pension contributions in November 2018 as a result of our defined benefit pension scheme becoming self-sufficient, partially offset by higher operational expenditure.

Gearing: 78.0%

31 March 2019: 78.3%

Our gearing at 30 September 2019 was slightly lower than at 31 March 2019, and remained below our internal threshold of 80.0% of regulatory capital value ('RCV') throughout the period. This allows sufficient headroom within our financial covenants.

Credit rating: Baa1(Moody's)

31 March 2019: Baa1 (Moody's)

During the period, we continued to maintain an investment grade corporate family credit rating in line with our peers in the water sector, being two notches above investment grade.

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[1] Operating profit for the six months ended 30 September 2019 includes the impact of adopting IFRS 16: Leases ('IFRS 16') for the first time. The impact of adopting this new accounting standard has had an immaterial impact (£0.1m) on operating profit; therefore, the prior period operating profit has not been restated for comparative purposes.

[2] This "non-GAAP" measure is calculated as the total of the following line items per the statement of cash flows (refer to page 31): cash generated from operations; purchases of property, plant and equipment; capital contributions; proceeds from sale of property, plant and equipment; purchase of intangibles; and principal elements of lease payments.

Our operational highlights for the six months ended 30 September 2019

Leaving more water in the environment

We failed to meet our leakage targets for 2017/18 and 2018/19, but are taking action to ensure we meet the industry's largest leakage percentage reduction target for 2015-20.

At the start of June 2019, we changed how we operate in order to maximise our ability to detect and manage leaks.

Supplying high quality drinking water

We are on track to meet our MZC target of 99.95% for the 2019 calendar year.

There have been 14 exceedances that contribute to MZC in the first nine months of 2019 compared to 15 in the same period in 2018.

Minimising disruption to our customers

The number of bursts experienced during the period is below our year-to-date target and below the number experienced in the comparative period of the prior year.

We are also on track to meet our target for unplanned interruptions to supply over 12 hours.

Providing a value for money service

Operational complaints have reduced by

28%

in the six-month period to September 2019 compared to the same period in 2018.

Affinity Water Limited

Interim management report (continued)

How we create value

Our capitals	Our AMP6 commitments
Our customers and communities Relationship and trust between us and our stakeholders.	To maintain high quality drinking water. To implement a targeted programme of lead pipe replacement to meet more stringent legal standards.
Our environment The natural resources that we rely on.	To reduce the amount of water we take from the environment by 42Ml/d. To encourage our customers to use less water through our Water Saving Programme, reducing average water use by 7%. This includes installing 280,000 meters by the end of AMP6. To invest £500.0m in our network to reduce leakage by 14% - the equivalent of 27Ml/d.
Our people Our experience, skills and competences we share.	To reduce average household bills before inflation between 2015 and 2020. To promote our social tariff (LIFT) to support those least able to pay their bill. To make £106.0m of efficiency savings in our running costs to keep bills as low as possible over the five years of AMP6. To make ourselves accountable to our communities for our performance.
Our assets and sites The lifecycle of our assets and investment projects.	To invest in increased flexibility in our network so we can transfer water more effectively around our communities.
Our finances Finance available to sustain our business.	

Affinity Water Limited

Interim management report (continued)

How we create value (continued)

Our AMP7 commitments →	Our customer outcomes and AMP6 KPIs[1]
We will continue to support the quality of our water resources through our catchment management and river restoration programmes to help habitats and biodiversity of rivers in our supply area.	 **Supplying high quality water you can trust** KPI: Water quality (page 11)
We will reduce the amount of water we take from the environment by 36Ml/d. We will reduce leakage from water pipes by 20% on top of a 14% reduction between 2015 to 2020. We aim to achieve a reduction in average consumption from 147 to 129 litres per person per day (Per Capital Consumption, 'PCC'), operating at the forefront of demand-side management, and working with partners and communities to prompt behavioural change with regard to water conservation.	 **Making sure you have enough water, whilst leaving more water in the environment** KPI: Sustainable abstraction reductions (page 11) KPI: Leakage (page 11)
Average annual customer bills will reduce by 2.3%, and we will deliver over £200.0m of efficiencies to keep bills as low as possible. An additional 22,000 customers will benefit from our social tariff and we aim to increase the number of customers on our Priority Services Register. We will listen to customer needs and invest in the right technologies to deliver great customer interaction, increased engagement and cost efficiencies.	 **Providing a great service that you value** KPI: Service Incentive Mechanism ('SIM')[2] (page 11)
We will invest £1.38bn in our wholesale business to maintain core network assets to keep services running 24 hours a day, 7 days a week and 365 days a year, investing in local level assets such as pumps, mains upgrades, new mains and investment in service reservoirs that allow us to move water to where we need it.	 **Minimising disruption to you and your community** KPI: Mains bursts (page 11) KPI: Unplanned interruptions to supply over 12 hours (page 11)

[1] Our policies provide for dividends and executive remuneration proportionate with long-term returns and performance of the company, whilst not impairing its longer term financeability. Performance comprises our financial performance as well as an assessment of performance in the following areas: customer service, operational commitments and community commitments, linked to customer outcomes, and people.
[2] SIM is a measure of customer service levels used by Ofwat in AMP6. One element is quantitative (the volume of unwanted contact and complaints we receive) and the other is qualitative (the quality of the experience derived from an independent quarterly survey).

Interim management report (continued)

Our purpose, values and culture

During the year, we commenced work on defining our purpose, values and culture. We have conducted internal and external research, gathering insight from stakeholder interviews, focus groups and opinion polling. Our research showed that customers, employees and stakeholders have a strong appetite for us to place the environment, and in particular the local environment, at the heart of our business.

We are currently in the process of finalising our purpose and linking it to our values and ideal culture. We conducted a Culture Survey amongst our people during the period, inviting all our senior managers and a cross-section of employees to take part. We are now analysing the results, which provide an in-depth view of our current culture and will help us to identify strategies for achieving our ideal culture.

We operate our business as if it were a separate listed company having regard to the principles of good governance of the 2018 UK Corporate Governance Code ('the Code') and the objectives of Ofwat's 2018 revised Board Leadership, Transparency and Governance principles.

By defining our purpose, values and culture, we believe we can demonstrate leadership, execute strategy and improve decision-making processes, and improve dialogue with key decision-makers and their influencers. We take full responsibility for understanding and delivering what is right for our stakeholders.

Affinity Water Limited

Interim management report (continued)

Operational performance

Key performance indicators

We have aligned our operational KPIs to the key performance commitments made in our AMP6 Business Plan and in response to customer expectations. We want customers and stakeholders to be able to assess our track record and hold us to account. We are required to report our performance annually against targets set by Ofwat, the DWI and the Department for the Environment, Food and Rural Affairs ('Defra'). Our indicative annual performance in relation to these targets for the six-month period ended 30 September 2019 is shown in the table below:

KPI: Water quality MZC (%)	
2019 target: 99.95 Status:	Our MZC performance is on track to meet our target of 99.95% for the 2019 calendar year. There have been 14 exceedances that contribute to MZC in the first nine months of 2019 compared to 15 in the same period in 2018.
KPI: Sustainable abstraction reductions Cumulative average annual reduction in water abstracted from our river catchments (Ml/d)	
2019/20 target: 42.1 Status:	We delivered our 42.1 Ml/d reduction in abstraction by 31 March 2019, achieving our sustainability reductions one year earlier than outlined in our AMP6 Business Plan. We maintained our 42.1 Ml/d reduction in abstraction during the period to 30 September 2019.
KPI: Leakage Average annual water leakage from our network (Ml/d)	
2019/20 target: 162.2 or less Status:	We failed to meet our leakage targets for 2017/18 and 2018/19, but are taking action to ensure we meet the industry's largest leakage percentage reduction target for 2015-20, by introducing a process of assessment, recruitment and training as well as the use of new technology.
KPI: SIM (Score)	
2019/20 target: 82.3 Status:	In 2019/20 SIM is no longer being measured and has been replaced with the 'shadow reporting year' Customer Measure of Experience ('C-Mex'[1]) metric. Ofwat aim to track a 'proxy' SIM score at year end but this will be based on C-Mex and will not be consistent with the SIM score in prior years.
KPI: Mains bursts (Number)	
2019/20 target: 3,100 or less Status:	We have had fewer mains bursts during the six month period to 30 September 2019 than the same period in the prior year. As such, our indicative performance for the period to 30 September 2019 would suggest that we are on track to meet our FY 2019/20 target. We continue to monitor and look for ways to reduce bursts and their effects on customers. We analyse where and when bursts occur to inform our mains renewals programme as to the areas of the network most in need of replacement.
KPI: Unplanned interruptions to supply over 12 hours (Number of properties)	
2019/20 target: 320 or less Status:	We have had more unplanned interruptions to supply over 12 hours during the six month period to 30 September 2019 than during the same period in the prior year. Our 2018/19 performance which was the first year in this AMP period that the performance commitment was met. However, we believe that we are still on track to meet our FY 2019/20 target as we continue to focus on innovative solutions for restoring supplies to customers by alternative means where repair of a main is likely to be difficult and protracted.

[1] C-Mex is a measure of customer service levels to be used by Ofwat in AMP7.

Affinity Water Limited

Interim management report (continued)

Operational performance (continued)

Our customers and communities

We are privileged to serve our communities. Being the monopoly supplier and steward of a precious resource for future generations, we are acutely aware that we must continually invest in building trust and legitimacy with our customers and make ourselves accountable to our communities for our performance. This is central to achieving our vision of being a community-focused, sustainable and responsible business. We are adopting a partnership approach with our communities, working in collaboration to develop a view of what we want the future to look like and a shared plan on how we will get there together. It will require us to be catalysts, supporting communities to facilitate and advocate change.

The way Ofwat measures customer satisfaction is changing in AMP7. A new measure, C-MeX, will replace the SIM score. Our C-MeX score for the six months ended 30 September 2019 was 70.09 against an industry average of 76.69, ranking us 15th out of 17. Customer satisfaction is of utmost importance to us, so we recognise this is an area we need to improve on.

In April 2019, we moved our internal customer satisfaction measure from a 1-5 scale to a 0-10 scale to align with C-MeX, In September 2019, we achieved a score of 9.22 out of 10 compared to 4.65 out of 5 for 2018/19. We have continued to deliver a reduction in operational complaints, which have reduced by 28% in the six-month period to September 2019 compared to the same period in the prior year. However, the number of escalated complaints has increased from 42 in the prior year to 49 for the six-month period to September 2019.

Over the summer we rolled out our new Customer Experience Principles to the business. Our customer principles are set out from the point of view of customers and borne out of the things that research has shown us matter most to our customers. Our ambition as a business is to apply these principles to every decision we make and to everything we do, so that we can deliver the experience our customers deserve.

Over the last year, we have been working hard to improve the website experience for our customers and in October 2019 launched an updated website, making it easier to navigate and accessible for all.

Our self-serve platform 'My Account' continues to grow, with over 10,000 customers registering each month. We have continued to build more digital enhancements including our new 'Moving Home' journey, which is now available to any new customer moving in or out of our area. We have also been enhancing our email capabilities, allowing us to better communicate with customers through the channel of their choice. Our email communications have consistently seen strong opening rates that are significantly higher than the industry average. Our recent campaign informing customers of potential water restrictions in Spring 2020 had a 60.5% opening rate (the water industry average is 17.8%). Within three days of sending the email, over 23,000 customers clicked through to our website to find out ways they could save water, with a significant increase in the number of free water saving devices being ordered as a result.

The key focus for the remainder of 2019/20 will be on reducing the volume of escalated complaints across all areas of the business. Looking further forward, as well as continuing to build on the success of this year, we plan to continue delivering our customer service transformation by rolling out more digital services. As part of our AMP7 Business Plan submission, we engaged with over 15,000 customers, including some who are in vulnerable circumstances or are harder to reach. This has helped us ensure that we have developed a truly representative view of what matters to customers today and what they want from us in the future.

Operational performance (continued)

Our environment

As a community-focused organisation we remain committed to those issues which our customers and stakeholders feel strongly about. We operate in geographical areas that the Secretary of State for the Environment, Food and Rural Affairs has designated as being under serious water stress. Protecting the rare and sensitive chalk streams within our operating area is a priority.

We are endeavouring to address the environmental challenges of protecting our precious local rivers and habitats through reducing abstraction while also encouraging behavioural change. In our AMP6 Business Plan, we committed to reducing the amount of water we take from the environment by 42.1 Ml/d over five years, which we achieved 12 months earlier than planned in March 2019. As outlined in our latest Water Resource Management Plan ('WRMP') covering the period from 2020 to 2080, we will be making further sustainability reductions of 36.3 Ml/d by 2024. We will also work with neighbouring water companies to provide a foundation for water trading in the South East of England by transferring water from water-rich areas to drier regions.

In September 2019 we launched an awareness campaign for a potential future drought. We sent an email to 500,000 customers in our most affected area, advising them that we are experiencing drought conditions following three drier-than-average years and asking them to consider ways of reducing their consumption. We have experienced an increase in traffic to our website where there is more information about water saving and there has been a significant increase in orders of our free water saving devices. In our AMP7 Business Plan we are aiming to achieve a reduction in PCC from 147 to 129 litres per person per day by March 2025.

When it comes to saving water, our customers expect us to lead the way and we are committed to doing so. We committed to reducing leakage by 14% over AMP6, which was the largest percentage reduction of any water company in England and Wales. In our AMP7 Business Plan, we are targeting a further 20% reduction in leakage by 2025. To meet these commitments, we have restructured our teams to give them stronger and more direct ownership and greater decision-making authority.

We have also taken measures to improve our leakage detection with the use of technology. We now frequently monitor and compare our distribution input to the demand in each zone across our supply area. Using our leakage software, we are able to pinpoint the location of the leak. We have reconfigured our acoustic loggers to report night usage measurements at a district level to better observe leakage and have increased the use of leak noise mapping to help identify genuine leakage as opposed to higher use.

We have introduced a process of assessment, recruitment and training that ensures we have operational teams capable of meeting our leakage reduction targets for this year and into the new AMP. We are managing and responding to leakage as it occurs, tackling leakage zones that have been high for some time, and embarking on a step-test programme to pinpoint leaks down to a street level. We are also focusing on enhancing our free repairs for customer supply pipes and reducing the overall repair time.

Groundswell

For two days this year, Affinity Water was Groundswell's headline sponsor. The event is the UK's largest farming event for those interested in food production, eager to learn and apply principles of conservative agriculture to improve soil health and water resources.

Key stakeholders:

- Leading international soil health experts
- Experienced arable and livestock farmers
- Agricultural policy experts
- Technological innovators

Our capitals

Our catchment team with our Director of Communications, Communities and Corporate Affairs were directly involved during the event to share expertise

Raised awareness of the impact of diffuse polution from farming and encouragement to farmers to make positive choices for the long-term sustainability of their business, to benefit the wider environment and water sources

Actions and outputs

- We held informative break-out sessions and presented a ‘catchment augmented reality sandbox’ to explain how cover crops can simultaneously improve soil health and sources of water
- We used a rainfall simulator to display how soil health impacts run-off and infiltration
- We led a panel debate, which covered the role cover crops play in building soil health and providing wider ecosystem services, such as reducing nitrate leaching and sediment loss
- We issued free re-fillable water bottles to the 1,900 attendees to embed the water saving message

Operational performance (continued)

Our people

We aspire to embed continuous innovation in everything we do. We are continuing to shift our working practices to be more agile and more responsive as well as transforming customer experience.

We are creating a strong culture of learning and development and are building a culture of coaching and mentoring to release the potential of our people. We are investing in training and up-skilling to maximise our own internal talent through development and succession planning. We will also use innovation to identify new ways of working and to develop our own teams to reach their full potential. During the period, we organised lunch and learn sessions for our people to learn and develop their skills. We also organised full day workshops to equip our people with skills that will help the business transform.

We remain fully committed to achieving zero harm and have launched a new programme aimed at making safety personal and have set a challenging target that will enable us to embed our safety culture in everything we do. Our people are encouraged to spot unsafe behaviour and take ownership to stop it. Challenging unsafe behaviour has steadily increased during the period, with the number of safety conversations reported increasing from 0.10 per person in April 2019 to 0.50 in September 2019. Despite this, we recorded five work related lost time injuries increasing our accident frequency rate to 0.35 lost time injuries per 100,000 hours worked for the 12-month period ended 30 September 2019 from 0.23 for the year ended 31 March 2019.

We are committed to promoting equality of opportunity in all areas of employment including recruitment, promotion, opportunities for training and pay and benefits. The following table provides a breakdown of the gender of directors and employees as at 30 September 2019:

	Men	Women
Our Board	6	4
Executive Management Team	8	2
All other employees	801	512

We believe that our people play a critical role in creating long term value. They are our ambassadors, living and working in the communities we serve. They have the local knowledge and understanding to make sure we deliver what our communities expect of us and ensure our contribution to those communities makes a difference. It is important that their voice is represented when making strategic decisions.

During the year, we appointed Trevor Didcock to take on additional responsibility for employee liaison in accordance with the Code. The overriding purpose of the role is to ensure that the voice of the workforce is heard and considered at Board level. A key secondary purpose is to improve the transparency of Board activities, discussion and decision-making and in so doing improve alignment between the Board and the workforce.

Trevor Didcock is also a member of our newly established Diversity and Inclusion Committee set up to bring to life our commitment to build a more inclusive culture, allowing every member of our workforce to bring their true selves to work.

We also conducted an inaugural Culture Survey during the period, with 60% of our employees (randomly selected) responding to the survey. The results are being used to gauge our current company culture and gain insight into how we create an open, empowered and inclusive culture capable of supporting a high-performing business.

Affinity Water Limited

Interim management report (continued)

Operational performance (continued)

Our assets and sites

Our assets allow our people to make use of the water resources provided by the environment to supply our customers. Our above ground assets collect water from groundwater or river sources and deliver it to treatment works where we convert raw water into high quality wholesome drinking water. Our below ground network of assets take water from treatment works and deliver it to homes and commercial premises through more than 16,700km of mains. Our activity to maintain, enhance and create assets is a major part of our business.

We supply drinking water to millions of people every single day and we recognise that we have to make sure our product is the right quality, every single time. We continuously invest in our network and are making steady progress against our mains renewals target of 17.5km by 31 March 2020, as well as replacing 4.5km of trunk mains this year. We aim to survey and complete 6,343 lead pipe replacements this year as part of our £17.0m AMP6 lead pipe replacement programme.

The High Speed 2 ('HS2') project is a major national infrastructure project to develop the UK's new high speed rail network, with the proposed route cutting through our supply area and across some of our critical trunk mains supplying a large area of North London. We have faced complex design and construction challenges with significant third-party and environmental constraints to divert our trunk mains under the existing and planned railway lines, while limiting the impact of the planned outages on the wider network.

During the period, we refurbished one of our key water treatment works, redesigning the abstraction intake point, clearing the granular activated carbon filters and sludge tanks, and cleaning the ozone generators in order to improve water quality, increase production capacity, and enable them to operate more efficiently, which will result in an annual cost saving.

We have also worked hard in the period to reduce our energy usage and carbon emissions across all of our sites as part of the formulation of our energy strategy for the next 20 years, supporting our AMP7 Business Plan and our WRMP. We are aiming to use electricity more efficiently to reduce usage and cost, as well as reduce carbon emissions.

During AMP7, we plan to invest £1.38bn in our wholesale business, including £740m in local level assets to keep services running across each of our eight communities 24 hours a day, 7 days a week and 365 days a year, through investing in local level assets such as pumps, mains upgrades, new mains and investment in service reservoirs.

This investment will be key to maintaining resilience and making sure our customers have enough water, whilst leaving more water in the environment by delivering sustainable abstraction reductions in line with our WRMP for the 60-year period from 2020 to 2080. Our enhancement programmes will contribute to ensuring resilience by delivering new access to water and increased capacity and flexibility to transfer water into and across our supply area.

Life at the Lake

In collaboration with our strategic partner - Herts and Middlesex Wildlife Trust ('HMWT') who manage our sites people and wildlife, our Education Services team delivered a series of 'family fun' drop-in sessions based at our Stocker's Lake nature reserve in Rickmansworth, Hertfordshire, which is an important wildlife refuge.

Each session was focused on a different topic, from 'Adaptions and Lifecycles' to 'Pollution and Seasonal Changes' and raised awareness of the importance of wetland habitat to the wider ecosystem.

Key stakeholders:

- HMWT
- Stocker's Lake
- Communities

Our capitals

We engage with our communities at a number of events across all our regions throughout the year

We hosted the series of events at Stocker's Lake, which is one of our assets that we maintain

Actions and outputs

- We engaged with 800 visitors across the six weeks
- We helped the public to better understand where their drinking water comes from
- We promoted our #whynotwater campaign and shared water saving tips, and encouraged visitors to use water wisely, which supports our commitment to leave more water in the natural environment

Operational performance (continued)

Our finances

We are a business with a long-term outlook and expenditure commitments, which need to be matched with long-term sources of debt finance. We consider the most cost-effective way to raise long-term finance is through the debt capital markets. We have secured financing for the remainder of AMP6 and into the beginning of AMP7. We have issued debt with a book value of £1,014.2m in total with only £14.2m of debt maturing in AMP7 and a spread of maturity beyond this (refer to our financing update on page 21).

Our plan for AMP7 keeps customers' bills as low as possible and ensures our business is financeable and able to withstand financial shocks. We have assessed these through stress testing our plan, whilst maintaining the ratios within our covenants at a level consistent with our family credit rating of BBB+/Baa1. The plan is built on the strong financial structure the company has in place and on access to the long-term financing needed for our investment during AMP7.

Our average annual household bill for 2019/20 is £170.50, the equivalent of just 47 pence per day, which we think represents great value for money. We have worked hard to keep our bills low whilst maintaining a high quality and trusted service. Our water bills are consistently lower than the industry average and will have reduced in real terms by almost 7% across AMP6. We plan to reduce it by a further 2.3% across AMP7 to £166.60 by 2024/25.

We want to provide water at an affordable price to all customers. Our support for financially vulnerable customers who have a low household income or are claiming benefits has grown with 60,000 households now supported by our social tariffs. Customers benefitting from these tariffs receive a reduced fixed rate which can be spread over 12 months, rather than requiring payment either once or twice a year. We plan to introduce a Customer Assistance Fund by 2020 and are projecting that the number of customers receiving support through our social tariff will increase to 82,000 customers in 2024/25.

We have reviewed our dividend policy and executive pay policy during the year. Our dividend policy is to pay a dividend commensurate with the long-term returns and performance of the business and to allow shareholders to earn an appropriate return from their investment, whilst not impairing on the company's longer term financeability and taking into account commitments to its stakeholders and customers.

In determining the level of the dividend, the financial performances of our regulated and non-regulated businesses are considered separately. The base dividend for our regulated business is determined by reference to the company's internal business plan and will not exceed a nominal 5% yield on equity as an annual average over the AMP, based on the company's actual financial structure, which is in line with Ofwat's expectations. Our dividend policy was changed during the year to ensure that any group debt can be serviced from the non-appointed business before a distribution to shareholders is considered.

Our policy for executive director pay continues to be aligned to the company's performance and strategy of delivering value through high quality customer and operational performance whilst ensuring the cost of water remains affordable for customers by incentivising financial efficiencies as well as the value created for shareholders. Annual bonus plan targets continue to be aligned for the executive director, senior manager, selected manager and company-wide schemes. This ensures there is a common focus across the business.

To meet our commitment of being open and transparent, we published our inaugural 'Understanding our finances' report in November 2019. The purpose of this report is to help our customers and other stakeholders understand our business and our finances, including how we fund our operations and how we spend our customers' money. The full report is available on our website:
www.affinitywater.co.uk/performance

Regulatory update

The industry in which we operate is subject to extensive legal and regulatory requirements with which we must comply. We need to comply with the laws, regulations and standards, and the policies published by Ofwat, the Environment Agency, Defra, the Drinking Water Inspectorate, Natural England and other regulators.

For the current price control period, Ofwat is assessing companies' operational performance against agreed performance commitments as set out in their AMP6 Business Plans. Each performance commitment contains an Outcome Delivery Incentive ('ODI'), which can carry a financial reward or penalty or both.

Ofwat has consulted on outcomes and customer measures for the next price control period from 2020 to 2025. Ofwat and the industry have conducted projects to 'standardise' the measurement of certain metrics in the industry, in particular, leakage and supply interruptions. This will enable Ofwat to use comparative information in setting and agreeing target benchmarks.

We submitted our AMP7 Business Plan in September 2018. Ofwat's Initial Assessment of Plans published in January 2019 placed us in the 'significant scrutiny' category. Ofwat challenged us to make a set of very demanding targets proposed for AMP7 even more 'stretching'.

We carefully listened to Ofwat's feedback and improved our original plan in a range of specific areas to deliver even more for our customers and communities.

As set out in our resubmission in March 2019, we plan to do more for less, by:

- reducing the average household bill. We now plan to reduce our average bill by 1.6% in real terms by 2025 compared to an increase of 2.1% proposed in our September 2018 submission;
- stretching ourselves further through our commitments, including on leakage where we have increased our reduction target from 15.0% to 18.5% (equivalent to 30 Ml/d); and
- adding additional commitments that are dedicated to supporting customers in vulnerable circumstances, and those who will benefit from our Priority Services Register.

In July 2019, Ofwat published its draft determination of our March 2019 resubmission. Following this, we further improved our plan to deliver even more to our customers and communities. The key changes were:

- increasing the number of performance commitments ('PCs') in our plan to 28 to ensure we deliver an all-round excellent service;
- targeting a 20% reduction in leakage and a reduction in PCC from 147 to 129 litres per person per day by 2024-25;
- reducing our supply interruptions by 50% by the end of the AMP;
- increasing allowed expenditure to evaluate strategic regional water resource solutions in partnership with other companies, third parties such as the Canal and River Trust and alongside our regulators.

We submitted our response to Ofwat's draft determination on 30 August 2019; this is detailed on our website: *www.affinitywater.co.uk/plans.* In our response we made proposals and recommendations for change in a few critical areas where we believe the risks would be too great for the business and for our customers under draft determination parameters. In particular, we highlighted concerns over financeability but believe that the proposed plan in our response would enable us to remain financeable and deliver the best outcomes for our customers and our communities. We hope that Ofwat will accept our arguments and supporting evidence, so that we can focus on getting ready and delivering our very challenging plan for AMP7.

We met with senior Ofwat executives at the end of September 2019 to discuss our response. Ofwat will publish its Final Determination for all companies on 16 December 2019.

#WhyNotWater

Water efficiency is critical to climate change but in our view, it is not sufficiently part of the debate.

This is why we have launched our #WhyNotWater manifesto and campaign to encourage a national debate to ensure that water conservation is at the heart of our actions and behaviour. Our petition at *change.org* asks the UK Government to change legislation in order to promote the conservation of water and our natural environment. We are petitioning for:

1. mandatory water efficiency labelling;
2. the rights of tenants to use water efficient goods;
3. domestic water efficiency through fittings and fixtures through mandatory certification; and
4. the inclusion of a target of 110 litres per person per day in every local plan in a severely water stressed area.

Key stakeholders:

- Defra
- The UK Government
- Employees
- Waterwise
- Northumbrian Water
- Customers
- Communities

Our capitals

We have targeted our presence at landlords' forum meetings, various festivals and sports events

To highlight our campaign, we installed a giant ice block outside St Albans Cathedral and over 1,300 members of the public have signed our petition so far

Actions and outputs

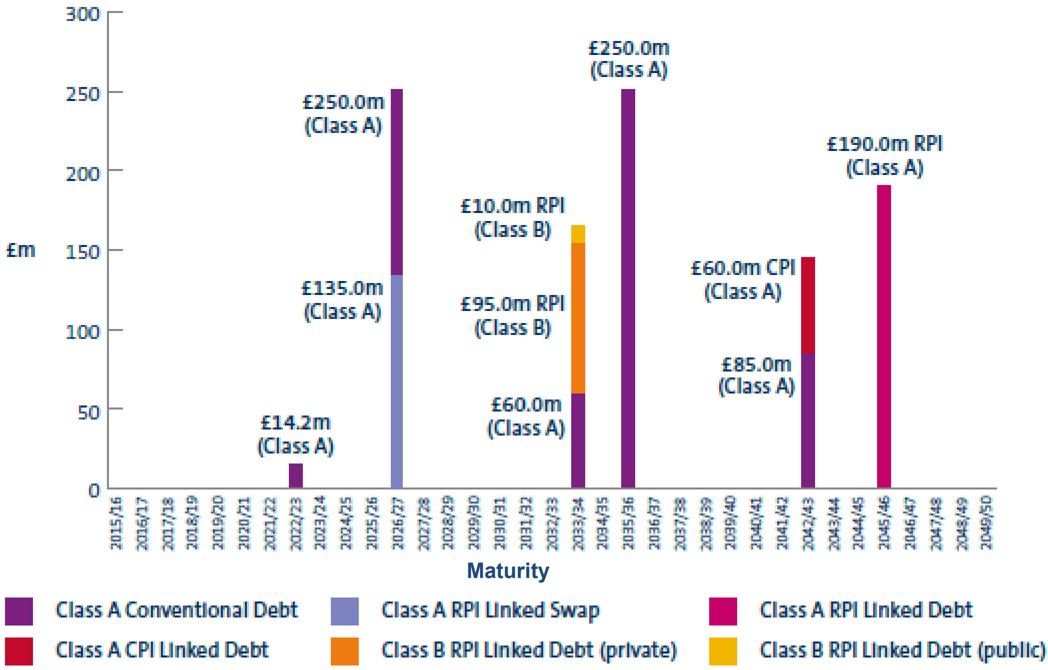
- Campaign and manifesto urging policy makers to help us create water efficient communities and asked our customers to support it
- Launch event in St Albans to raise awareness of the water issue as part of climate change debate and need for the policy change
- Series of podcasts with industry experts endorsing our campaign and advocating for change that help to engage with hundreds more customers

Affinity Water Limited

Interim management report (continued)

Financing update

The following chart shows the maturity profile of the bonds issued by the company's subsidiaries as at 30 September 2019:



There has been no change during the period in credit ratings for our Class A bonds, rated A3 and A- by Moody's and Standard & Poor's ('S&P') respectively, or our Class B bonds, rated Baa3 and BBB, although both Moody's and S&P have placed the company on a negative outlook. The S&P outlook was changed in September 2019 following responses by Ofwat to our AMP7 business plan submissions (refer to page 19 for further information) and the Moody's outlook changed in May 2018 because of the challenging regulatory environment. We have highlighted concerns over financeability under draft determination proposals in our response to Ofwat on 30 August 2019 but we believe that the proposed plan in our response is financeable and should enable us to maintain an investment grade corporate family credit rating.

At 30 September 2019, net debt, as defined in the financial covenants in the company's securitisation documentation ('compliance net debt'), was £966.2m (at 31 March 2019: £959.5m - refer to note 1E in the Annual Performance Report for the year ended 31 March 2019 for the basis of the calculation). Gearing, calculated as compliance net debt to RCV at 30 September 2019, was 78.0% (31 March 2019: 78.3%) and remains below our internal gearing level of 80.0%. This allows sufficient headroom within the financial covenants, which are only triggered at a level of more than 90.0% with a restricted payment condition at 85.0%.

Affinity Water Limited

Interim management report (continued)

Financial performance

Our financial results are prepared in accordance with the recognition and measurement requirements of EU-adopted International Financial Reporting Standards ('IFRS'; refer to note 2 of the condensed interim financial statements for further details). Our unaudited financial results for the six months to 30 September 2019 are summarised as follows:

	2019[1] **£m**	2018 £m
Revenue	**153.9**	156.1
Operating costs	**(138.2)**	(132.3)
Other income	**9.2**	8.8
Operating profit	**24.9**	32.6
Net finance costs	**(36.6)**	(30.2)
(Loss)/profit before tax	**(11.7)**	2.4
Tax credit/(expense)	**0.7**	(0.5)
(Loss)/profit for the period	**(11.0)**	1.9

Revenue for the first six months of the year was £153.9m, being a 1.4% decrease on the same period last year (2018: £156.1m). The decrease is primarily due to lower non-household wholesale revenue and lower new connections activity partially offset by higher household revenue due to higher measured consumption.

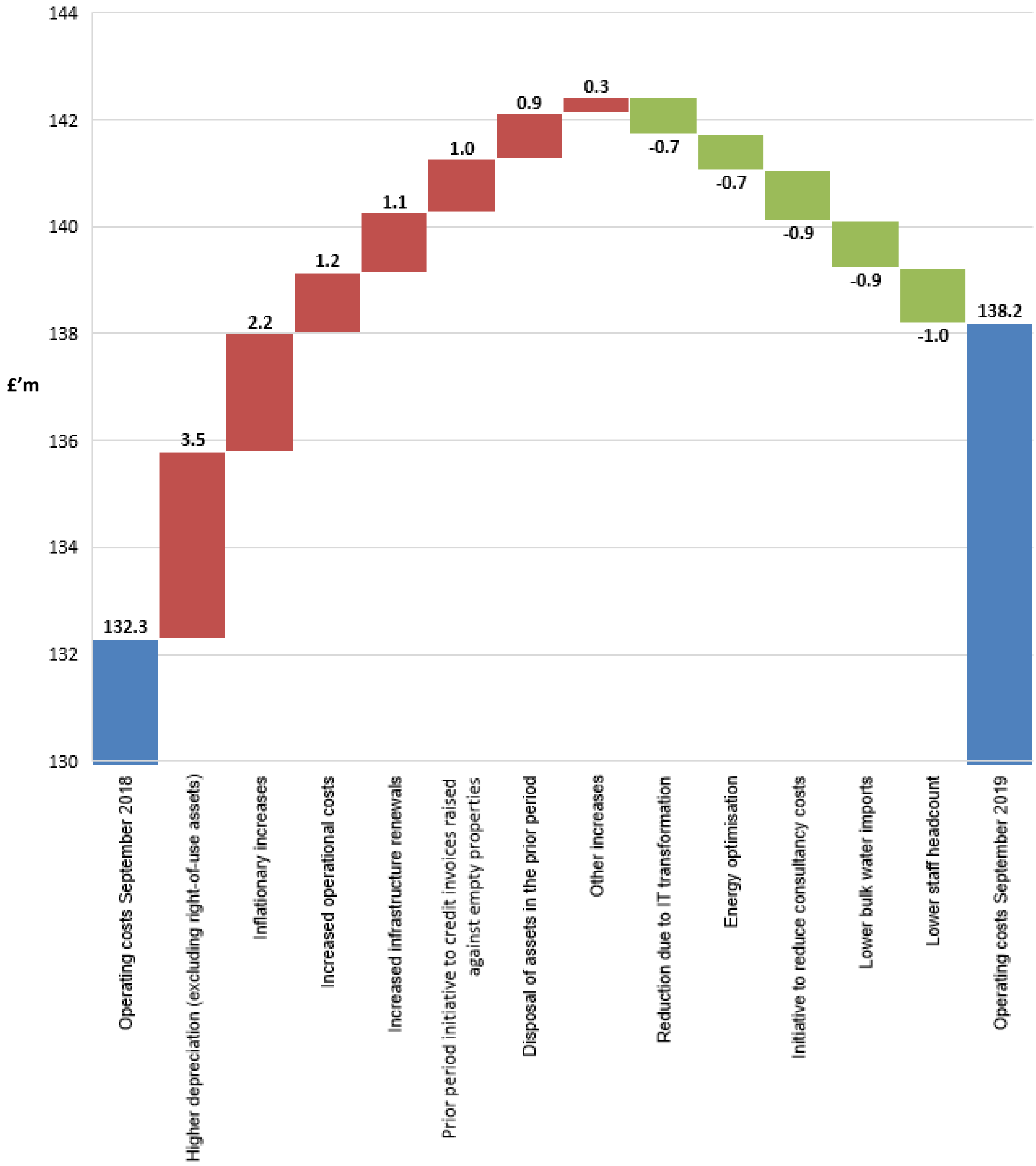
Total operating costs of £138.2m for the first half of the year were £5.9m higher than for the same period last year (2018: £132.3m). The variance is explained in the graph on the following page:

[1] The application of IFRS 16 in the current period has removed £1.9m of rental expenses within operating costs and replaced it with depreciation of £1.8m within operating costs and financing costs of £0.2m. The impact on profit for the period is therefore a reduction in profit of £0.1m. Comparatives for the prior period have not been restated, as permitted under the specific transitional provisions in the standard.

Affinity Water Limited

Interim management report (continued)

Financial performance (continued)



The largest cost increases were due to depreciation (excluding right-of-use assets) as a result of the ongoing investment in our mains network and IT software, as more assets have been capitalised and are therefore now being depreciated, and inflation, which at September 2019 was 2.43% higher year-on-year.

Our operational costs increased due to higher unit costs as a result of the complexity of jobs being carried out, higher reinstatement costs, and increased leakage detection. The location of mains bursts in our network also had an impact with a number of bursts causing significant damage to customer property and some requiring the use of costly specialist equipment.

Interim management report (continued)

Financial performance (continued)

A number of initiatives continued throughout the period aimed at reducing our costs. Through procuring and locking into favourable base rate prices for our energy usage we realised savings on our energy costs. We also continued to optimise our production sites to reduce energy usage. Furthermore, an initiative to decrease the number of consultants being used by the business has continued into the current year, resulting in a cost saving. The restructuring of the business in order to be able to deliver the significant efficiencies planned for AMP7 has also led to cost savings through a lower headcount.

The net finance cost of £36.6m was £6.4m higher in the current year primarily as a result of unfavourable movements in RPI resulting in higher accretion on our index-linked bonds and a fair value loss on financial derivative in relation to the RPI linked inflation swap.

Profit before tax decreased by £14.1m (587.5%) to a £11.7m loss (2018: £2.4m profit), primarily due to the reduction in revenue, the increase in operating costs and higher net finance costs as explained above.

Income tax credit of £0.7m was £1.2m favourable to the prior period due to lower taxable profits. The effective tax rate of 6.0% is lower than the current corporation tax rate of 19.0% and lower than the effective tax rate for the prior year (21.2%).

All our profits are taxed in the UK, and we do not use tax avoidance schemes or tax havens to reduce our tax liabilities. We comply with what we understand to be both the letter and the spirit of the law. Details of the tax strategy for the Affinity Water Limited regulated business can be found on page 244 of our regulatory Annual Performance Report for the year ended 31 March 2019, and the group tax strategy of Daiwater Investment Limited, our ultimate holding and controlling company in the United Kingdom, can be found on our website: *www.affinitywater.co.uk/investors*.

£2.2m of corporation tax was paid during the period (2018: £nil). No corporation tax was paid in the prior period as a result of an overpayment in 2017/18.

No equity dividends were paid during the period (2018: £5.0m), as our shareholders have agreed to re-invest all planned returns from our appointed business for the benefit of our customers for the time being (refer to page 18 for further details of our dividend policy, which has been revised since the publication of our annual report and financial statements for the year ended 31 March 2019 to ensure that any group debt can be serviced from the non-appointed business before a distribution to shareholders is considered).

Capital expenditure in the period was £56.6m (2018: £48.1m), and was incurred principally on our mains renewals, trunk main replacement, lead pipe replacement, water treatment and integrated water savings programmes. The total includes expenditure relating to our work on the HS2 project but excludes £8.8m (2018: £7.7m) of infrastructure renewals expenditure, which is treated as an operating cost under the recognition and measurement requirements of IFRS. The higher capital expenditure in the first half of this year reflects our increased work in the current period on the HS2 project, for which we also received higher capital contributions offsetting these costs.

Net cash inflow before tax and financing[1] for the first six months of the year was £24.2m being a £3.2m (15.2%) increase on the same period last year (2018: £21.0m). The increase is primarily due to lower net (including capital contributions) investment in fixed assets in the current period and the cessation of additional pension contributions since November 2018 as a result of our defined benefit pension scheme becoming self-sufficient, partially offset by higher operational expenditure.

[1] This “non-GAAP” measure, which is used internally to evaluate our financial performance, is calculated as the total of the following lines per the statement of cash flows (refer to page 31): cash generated from operations; purchases of property, plant and equipment; capital contributions; proceeds from sale of property, plant and equipment; purchases of intangible assets; and principal elements of lease payments.

Principal risks and uncertainties

We have an established framework for identifying, evaluating and managing the key risks we face. A key aim is to foster a culture in which teams throughout the business manage 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. Operational risks are also ranked by our teams during the year. Based on the rankings given by these teams, the most significant risks are discussed by our senior management and included in the strategic risk register, and 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.

The principal risks and uncertainties remain unchanged from those reported in the annual report and financial statements for the year ended 31 March 2019, although there has been a heightening in the period of the risk: *"Failure to achieve a favourable PR19 outcome"* following Ofwat's publication of its draft determinations in July 2019 (refer to page 19 for further information).

The principal risks and uncertainties reported for the year ended 31 March 2019 were as follows:

- Operational risks:
  - Failure to prevent injuries and accidents to our people and the public
  - Failure to meet our water supply obligations
  - Failure to supply high-quality drinking water
  - Failure to recruit and retain good quality employees
  - Information security, protection of personal data and data quality failure
  - Failure to provide adequate levels of customer service
  - Supply chain failure
  - Brexit

- Regulatory risks:
  - Changes to the regulatory framework
  - Adverse change in the social and/or political climate
  - Failure to comply with laws, our Instrument of Appointment and other recognised standards
  - Failure to deliver our Business Plan obligations
  - Failure to achieve a favourable PR19 outcome
  - Failure to achieve approval of our WRMP

- Financial risks:
  - Failure to secure appropriate financing for our business activities
  - Macro-economic risk (interest rate and inflation risks)

Further information on these risks and uncertainties can be found on pages 48 to 57 of the company's annual report and financial statements for the year ended 31 March 2019, which is available on our website: *www.affinitywater.co.uk/investors.*

At the time of approving this unaudited half-yearly financial report, the disclosure given in the annual report in respect of Brexit (or any other risk), is still applicable and relevant, and the conclusions reached remain based upon our best understanding of the risk.

Affinity Water Limited

Interim management report (continued)

Going concern

The company has adequate resources to meet its current operational and financial obligations, and the directors have a reasonable expectation that this will continue for the foreseeable future. This is based on assessment of the principal risks of the company, as detailed on the previous page, and consideration of the company'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 preparing the condensed interim financial statements.

Related parties

Details of significant related party transactions can be found in note 21. There has been no change to the nature of related party transactions in the first six months of the financial year which has materially affected the financial position or performance of the company.

Governance

We recognise the importance of demonstrating to customers, investors, communities, regulators and other stakeholders that we operate our business to the highest standards of governance and transparency. As required by our water supply licence, we operate our business as if it were a separate listed company having regard to the principles of good governance of the Code and the objectives of Ofwat's 2018 revised publication: Board Leadership, Transparency and Governance principles. Our business is owned by private investors and we therefore apply the principles of the Code in this context, also having regard to the Guidelines for Disclosure and Transparency in Private Equity (the Walker Guidelines) and the work of the Private Equity Reporting Group.

Forward-looking statements

Certain statements in this interim management report are forward-looking. Although the company believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to be correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements. The company undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

Affinity Water Limited

Condensed interim income statement
for the six months ended 30 September 2019

	Note	**30 September 2019 £000 Unaudited**	30 September 2018 £000 Unaudited
Revenue	5	**153,935**	156,156
Cost of sales		**(111,110)**	(105,567)
Gross profit		**42,825**	50,589
Administrative expenses		**(23,143)**	(23,271)
Net impairment losses on financial and contract assets		**(3,980)**	(3,504)
Other income		**9,227**	8,813
Operating profit	6	**24,929**	32,627
Finance income	7	**4,185**	2,193
Finance costs	7	**(31,126)**	(27,904)
Fair value loss on financial instrument	7	**(9,721)**	(4,493)
Net finance costs		**(36,662)**	(30,204)
(Loss)/profit before tax		**(11,733)**	2,423
Tax credit/(expense)	8	**707**	(513)
(Loss)/profit for the period		**(11,026)**	1,910

All profits of the company in the current period and prior period are from continuing operations.

The notes on pages 32 to 47 are an integral part of these condensed interim financial statements.

Affinity Water Limited

Condensed interim statement of comprehensive income for the six months ended 30 September 2019

	Note	**30 September 2019 £000 Unaudited**	30 September 2018 £000 Unaudited
(Loss)/profit for the period		**(11,026)**	1,910
Other comprehensive income for the period which will not be reclassified to profit or loss:			
Remeasurements of post-employment benefit obligations		**2,753**	(6,761)
Deferred income tax (charge)/credit on items that will not be reclassified	17	**(468)**	1,150
Other comprehensive income/(loss) for the period, net of tax		**2,285**	(5,611)
Total comprehensive loss for the period		**(8,741)**	(3,701)

The notes on pages 32 to 47 are an integral part of these condensed interim financial statements.

Affinity Water Limited

Condensed interim statement of financial position as at 30 September 2019

	Note	30 September 2019 £000 Unaudited	31 March 2019 £000 Audited
Assets			
Non-current assets			
Property, plant and equipment	10	**1,453,623**	1,419,556
Intangible assets	10	**45,650**	47,903
Investments		**100**	100
Retirement benefits surplus	11	**105,661**	101,194
Other receivables	12	**2,419**	2,215
		1,607,453	1,570,968
Current assets			
Inventories		**2,630**	2,716
Trade and other receivables	12	**120,642**	74,763
Cash and cash equivalents		**112,488**	111,531
		235,760	189,010
Total assets		**1,843,213**	1,759,978
Equity and liabilities			
Equity			
Ordinary shares	13	**26,506**	26,506
Share premium	13	**1,400**	1,400
Capital contribution reserve	13	**30,150**	30,150
Retained earnings		**141,828**	150,569
Total equity		**199,884**	208,625
Liabilities			
Non-current liabilities			
Trade and other payables	14	**118,258**	115,759
Borrowings	15	**1,100,059**	1,081,253
Derivative financial instrument	16	**16,937**	3,997
Deferred tax liabilities	17	**176,772**	178,961
Provisions for other liabilities and charges	17	**5,972**	4,907
		1,417,998	1,384,877
Current liabilities			
Trade and other payables	14	**217,561**	160,109
Borrowings	15	**3,214**	-
Current tax liabilities		**3,915**	4,205
Provisions for other liabilities and charges	17	**641**	2,162
		225,331	166,476
Total liabilities		**1,643,329**	1,551,353
Total equity and liabilities		**1,843,213**	1,759,978

The notes on pages 32 to 47 are an integral part of these condensed interim financial statements.

Affinity Water Limited

Condensed interim statement of changes in equity for the six months ended 30 September 2019

	Share capital	Share premium	Capital contribution reserve	Retained earnings	Total
	£000	£000	£000	£000	£000
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
Balance at 1 April 2019	**26,506**	**1,400**	**30,150**	**150,569**	**208,625**
Loss for the period	**-**	**-**	**-**	**(11,026)**	**(11,026)**
Other comprehensive income	**-**	**-**	**-**	**2,285**	**2,285**
Total comprehensive loss	**-**	**-**	**-**	**(8,741)**	**(8,741)**
Dividends	**-**	**-**	**-**	**-**	**-**
Total transactions with owners recognised directly in equity	**-**	**-**	**-**	**-**	**-**
Balance as at 30 September 2019	**26,506**	**1,400**	**30,150**	**141,828**	**199,884**
Balance at 1 April 2018	26,506	1,400	30,150	153,860	211,916
Profit for the period	-	-	-	1,910	1,910
Other comprehensive loss	-	-	-	(5,611)	(5,611)
Total comprehensive loss	-	-	-	(3,701)	(3,701)
Dividends	-	-	-	(5,000)	(5,000)
Total transactions with owners recognised directly in equity	-	-	-	(5,000)	(5,000)
Balance as at 30 September 2018	26,506	1,400	30,150	145,159	203,215

The notes on pages 32 to 47 are an integral part of these condensed interim financial statements.

Affinity Water Limited

Condensed interim statement of cash flows for the six months ended 30 September 2019

	Note	**30 September 2019 £000 Unaudited**	30 September 2018 £000 Unaudited
Cash flows from operating activities			
Cash generated from operations	18	**58,546**	58,683
Interest paid		**(21,512)**	(26,607)
Tax paid		**(2,239)**	-
Net cash flows from operating activities		**34,795**	32,076
Cash flows from investing activities			
Purchases of property, plant and equipment		**(54,255)**	(44,874)
Capital contributions		**23,904**	9,448
Proceeds from sale of property, plant and equipment		**3**	927
Purchases of intangible assets		**(2,295)**	(3,221)
Interest received		**494**	348
Net cash used in investing activities		**(32,149)**	(37,372)
Cash flows from financing activities			
Principal elements of lease payments		**(1,689)**	-
Equity dividends	9	**-**	(5,000)
Net cash used in financing activities		**(1,689)**	(5,000)
Net increase/(decrease) in cash and cash equivalents		**957**	(10,296)
Cash and cash equivalents at start of period		**111,531**	114,842
Cash and cash equivalents at end of period		**112,488**	104,546

The notes on pages 32 to 47 are an integral part of these condensed interim financial statements.

Affinity Water Limited

Notes to the condensed interim financial statements

1. General information

The company is a private company and is incorporated and domiciled in the United Kingdom. The address of its registered office is Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ.

Refer to note 23 for details of the company's ultimate parent.

These condensed interim financial statements were approved for issue on 26 November 2019.

These condensed interim financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 March 2019 were approved by the Board of directors on 25 June 2019 and delivered to the Registrar of Companies. The report of the auditor on those accounts was unqualified, did not contain an emphasis of matter and did not contain any statement under section 498 of the Companies Act 2006.

These condensed interim financial statements have not been audited by the independent auditor.

In the same way that financial information was reported on a monthly basis to the Board, the company's chief operating decision maker, during the current and previous financial period on a combined basis, the company presents its results under a single segment for financial reporting purposes.

2. Basis of preparation

These condensed interim financial statements for the six months ended 30 September 2019 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority ('FCA') and International Accounting Standard ('IAS') 34: 'Interim financial reporting' ('IAS 34'), as adopted by the European Union ('EU').

The company prepared its financial statements for the year ended 31 March 2019 in compliance with the requirements of Financial Reporting Standard 101: 'Reduced disclosure framework' ('FRS 101').

Under FRS 101, the company applies the recognition and measurement requirements of IFRS, but makes amendments where necessary in order to comply with the Companies Act 2006 and The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410).

The condensed interim financial statements should be read in accordance with the company's annual report and financial statements for the year ended 31 March 2019, which is available on our website: *www.affinitywater.co.uk/investors.*

Going concern

The directors consider it appropriate to adopt the going concern basis of accounting in preparing the condensed interim financial statements. This is based on assessment of the principal risks of the company (refer to page 25) and consideration of the company's budgeted cash flows, long term forecasts and related assumptions, and available debt facilities.

3. Accounting policies

The accounting policies adopted in the preparation of these condensed interim financial statements are consistent with those followed in the preparation of the financial statements for the year ended 31 March 2019, except in relation to taxation and new standards effective since 1 April 2019, detailed below. Taxes on income in the interim period are accrued using the tax rate that would be applicable to the expected total annual profit or loss.

One new standard became applicable for the current reporting period:

- IFRS 16: 'Leases' ("IFRS 16")

The impact of the adoption of this standard and the new accounting policies are disclosed below.

The standard addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces IAS 17 'Leases' ("IAS 17"), and related interpretations. The standard is effective for reporting periods beginning 1 January 2019.

The company has adopted IFRS 16 retrospectively from 1 April 2019, but has not restated comparatives for the prior reporting period, as permitted under the specific transitional provisions in the standard. Reclassifications and adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 April 2019.

On adoption of IFRS 16, the company has recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17. These liabilities have been measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate for each type of asset as at 1 April 2019, as the company could not identify the implicit rate for existing leases. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 2.37%. The company had no leases previously classified as finance leases.

	£000 Unaudited
Operating lease commitments disclosed as at 31 March 2019	15,785
Discounted using the lessee's incremental borrowing rate	14,687
(Less): short-term or low-value leases recognised on a straight-line basis as expense	(193)
Lease liability recognised as at 1 April 2019	14,494
Of which:	
Current lease liabilities	3,327
Non-current lease liabilities	11,167
	14,494

3. Accounting policies (continued)

The company has applied a transitional exemption under IFRS 16 to record the associated right-of-use assets at the amount equal to the lease liability at the date of initial application. Right-of-use assets relate to the following types of asset:

	1 April 2019 £000 Unaudited
Property	9,078
Motor vehicles	5,013
Equipment	403
Total right-of-use assets	14,494

The change in accounting policy affected the following items in the balance sheet at 1 April 2019:

- Right-of-use assets – increase by £14,494,000;
- Deferred tax liabilities – increase by £2,464,000;
- Lease liabilities – increase by £14,494,000; and
- Deferred tax assets – increase by £2,464,000.

There was no net impact on retained earnings at 1 April 2019.

In applying IFRS 16 for the first time, the company has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the accounting for operating leases, with a remaining lease term of less than 12 months as at 1 April 2019, as short-term leases;
- the exclusion of initial direct costs for the measurement of right-of-use assets at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The company has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the company relied on its assessment made applying IAS 17 and IFRIC 4 ‘Determining whether an arrangement contains a lease’.

The company leases its head office building, IT server space and cars.

The company enters into agreements with employees to use cars that it leases from a third party as a company car. These agreements are considered by the company to be part of the overall compensation package of an employee and, as such, the company has applied IAS 19 ‘Employee benefits’ in accounting for these arrangements rather than considering the arrangements as subleases of cars to employees under IFRS 16.

Rental contracts for IT server space and cars are typically for fixed periods of two to five years. The company has an option to extend its leases; however no contracts will be extended after their lease term has expired. The lease contract of the head office building is for a significantly longer period. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The company’s lease agreements do not impose any covenants, but leased assets cannot be used as security for borrowing purposes.

3. Accounting policies (continued)

Until 31 March 2019, all the company's leases of property, plant and equipment were classified as operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 April 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The company's ongoing accounting policy is for assets and liabilities arising from a lease to be initially measured on a present value basis. Lease liabilities include the net present value of one or more of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising one or more of the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise small items of office equipment and IT equipment.

Notes to the condensed interim financial statements (continued)

4. Critical accounting estimates and judgements

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed interim financial statements, the significant judgements made by management in applying the company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements for the year ended 31 March 2019, which are available on our website: *www.affinitywater.co.uk/investors.*

5. Revenue

	Six months ended 30 September 2019 £000 Unaudited	Six months ended 30 September 2018 £000 Unaudited
Timing of revenue recognition – at a point in time		
Unmeasured supplies	**55,642**	59,559
Measured supplies	**67,831**	62,372
Non-household wholesale revenue	**24,362**	28,588
Connection charges	**4,612**	4,759
Chargeable services	**37**	45
	152,484	155,323
Timing of revenue – over time		
Requisitioned mains/extensions	**285**	276
Diversions	**609**	19
Infrastructure charges	**478**	462
Other	**79**	76
	1,451	833
	153,935	156,156

6. Operating profit

	Six months ended 30 September 2019 £000 Unaudited	Six months ended 30 September 2018 £000 Unaudited
Operating profit is stated after charging:		
Water abstraction charges	**2,046**	2,057
Business rates	**7,751**	8,020
Depreciation of tangible fixed assets	**31,758**	28,052
Amortisation of other intangible assets	**4,480**	4,902
Depreciation of right-of-use assets	**1,750**	-
Infrastructure renewals expense	**8,815**	7,702

These items are included in cost of sales or administrative costs in the condensed interim income statement.

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

7. Finance income and costs

	Six months ended 30 September 2019 £000 Unaudited	Six months ended 30 September 2018 £000 Unaudited
Finance income:		
Bank interest income	**494**	347
Net interest receivable on RPI linked inflation swap	**2,469**	456
Net income from post-employment benefits	**1,222**	1,390
	4,185	2,193
Finance costs:		
Interest payable on loan from parent company	**(80)**	(80)
Interest payable on loans from subsidiary undertakings	**(18,726)**	(18,666)
Accretion payable in respect of interest on loans from subsidiary undertakings	**(8,712)**	(7,638)
Accretion payable on financial instrument	**(3,213)**	(1,296)
Interest payable on lease liabilities	**(182)**	-
Other	**(213)**	(224)
	(31,126)	(27,904)
Fair value loss on financial instrument	**(9,721)**	(4,493)
Net finance costs	**(36,662)**	(30,204)

8. Tax expense

Tax expense is recognised based on management's estimate of the weighted average annual corporation tax rate expected for the full financial year. The estimated average annual tax rate used for the year to 31 March 2020 is 6.0% (the estimated tax rate for the year to 31 March 2019 was 21.2%).

The company is forecasting a tax credit that is lower than the standard rate of corporation tax in the UK of 19.0% for the year ending 31 March 2020. The total tax credit comprises a corporation tax charge and a deferred tax credit. The corporation tax charge is due to the effect of depreciation, which is disallowable for corporation tax purposes. The tax relief on fixed assets is expected to be lower than the depreciation charged in the accounts, resulting in a profit for tax purposes and therefore a corporation tax charge.

In September 2016 changes were enacted to the main rate of corporation tax in the UK, from 19.0% to 17.0% effective from 1 April 2020.

Notes to the condensed interim financial statements (continued)

9. Dividends

	Six months ended 30 September 2019 £000 Unaudited	Six months ended 30 September 2018 £000 Unaudited
Ordinary:		
Paid: First interim of £nil per share (2018: 1.89p)	**-**	5,000
	-	5,000

10. Property, plant and equipment ('PPE') and other intangible assets

	PPE £000 Unaudited	**Other intangible assets £000 Unaudited**
Six months ended 30 September 2019		
Opening net book amount as at 1 April 2019	**1,419,556**	**47,903**
Recognition of right-of-use assets on adoption of IFRS 16	**14,494**	**-**
Restated opening net book amount as at 1 April 2019	**1,434,050**	**47,903**
Additions	**53,500**	**2,238**
Disposals	**(419)**	**(11)**
Depreciation and amortisation	**(33,508)**	**(4,480)**
Closing net book amount as at 30 September 2019	**1,453,623**	**45,650**
Six months ended 30 September 2018		
Opening net book amount as at 1 April 2018	1,375,366	36,395
Additions	43,076	2,866
Disposals	(181)	-
Depreciation and amortisation	(28,052)	(4,902)
Closing net book amount as at 30 September 2018	1,390,209	34,359

The balance of right-of-use assets included in PPE as at 30 September 2019 was £13,658,000. During the period there were right-of-use additions of £924,000, disposals of £10,000 and depreciation of £1,750,000. Please refer to note 3 for our accounting policy for IFRS 16, including the recognition of a right-of-use asset.

11. Retirement benefit surplus

Defined benefit scheme

In calculating the liabilities of the Affinity Water Pension Plan ('AWPP'), the following financial assumptions have been used:

	Six months ended 30 September 2019	Year ended 31 March 2019	Six months ended 30 September 2018
	Unaudited	Audited	Unaudited
Discount rate	**1.80% pa**	2.40% pa	2.85% pa
Salary growth	**3.20% pa**	3.15% pa	3.15% pa
RPI	**3.00% pa**	3.15% pa	3.15% pa
CPI	**2.20% pa**	2.15% pa	2.15% pa
Life expectancy for a male pensioner from age 65 (years)	**22**	22	22
Life expectancy for a female pensioner from age 65 (years)	**24**	24	24
Life expectancy from age 65 (years) for a male participant currently aged 45 (years)	**23**	23	23
Life expectancy from age 65 (years) for a female participant currently aged 45 (years)	**26**	25	26

Deferred pensions are revalued to retirement age in line with the CPI assumption of 2.20% per annum (2018: 2.15% per annum) unless otherwise prescribed by statutory requirements or the plan rules.

The amounts recognised in the income statement were as follows:

	Six months ended 30 September 2019 £000	Six months ended 30 September 2018 £000
	Unaudited	Unaudited
Total current service cost of the Affinity Water Pension Plan	**(2,008)**	(2,358)
Contributions from participating employer	**46**	52
Interest cost on defined benefit obligation	**(4,937)**	(5,198)
Interest return on assets	**6,159**	6,588
	(740)	(916)

The amounts recognised in the statement of financial position were as follows:

	30 September 2019 £000	31 March 2019 £000
	Unaudited	Audited
Fair value of plan assets	**574,366**	518,686
Present value of funded obligations	**(468,705)**	(417,492)
Post-employment benefit surplus in the statement of financial position	**105,661**	101,194

The latest actuarial valuation of the AWPP, determined by an independent qualified actuary, was at 31 December 2017 which concluded that the pension scheme was funded on a self-sufficiency basis. The company signed a new schedule of contributions effective from October 2018 and no further deficit payments are required.

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

12. Trade and other receivables

	30 September 2019 £000 Unaudited	31 March 2019 £000 Audited
Non-current:		
Other receivables	**2,419**	2,215
Current:		
Trade receivables	**105,295**	55,806
Less: provision for impairment of trade receivables	**(30,734)**	(27,796)
	74,561	28,010
Amounts owed by group undertakings	**464**	207
Unbilled accrual for metered customers	**34,669**	32,392
Prepayments and accrued income	**5,036**	5,547
Interest receivable from external parties	**1,085**	4,044
Other receivables	**4,827**	4,563
	120,642	74,763
	123,061	76,978

13. Share capital

	Number of shares of £0.10 (thousands)	Ordinary shares £000	Share premium £000	Capital contribution reserve £000	Total £000
At 30 September 2019 (unaudited), 1 April 2019 (audited), 30 September 2018 (unaudited) and 1 April 2018 (audited)	**265,058**	**26,506**	**1,400**	**30,150**	**58,056**

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

14. Trade and other payables

	30 September 2019 £000 Unaudited	31 March 2019 £000 Audited
Non-current:		
Deferred grants and contributions	**118,258**	115,759
Current:		
Trade payables	**9,293**	13,506
Amounts due to group undertakings	**1,074**	250
Interest payable to subsidiary companies	**6,499**	13,761
Interest payable to external parties	**65**	63
Social security and other taxes	**1,276**	1,618
Other payables	**7,474**	8,448
Capital accruals	**11,414**	13,149
Deferred grants and contributions	**2,112**	2,135
Payments received in advance	**86,737**	71,832
Other accruals and deferred income	**91,617**	35,347
	217,561	160,109
	335,819	275,868

15. Borrowings and loans

	30 September 2019 £000 Unaudited	31 March 2019 £000 Audited
Non-current		
Loan from Affinity Water Finance (2004) PLC financed by bond issue	**253,690**	253,922
Loan from Affinity Water Finance PLC financed by bond issue	**832,280**	823,747
Loan from intermediate parent company	**3,550**	3,550
Lease liabilities	**10,505**	-
Debenture stock	**34**	34
	1,100,059	1,081,253
Current		
Lease liabilities	**3,214**	-
	1,103,273	1,081,253

Please refer to note 3 for our accounting policy for IFRS 16 including the recognition of lease liabilities.

Notes to the condensed interim financial statements (continued)

15. Borrowings and loans (continued)

Movements in borrowings are analysed as follows:

Six months ended 30 September 2019	**£000**
	Unaudited
Opening amount as at 1 April	**1,081,253**
Recognition of lease liabilities on adoption of IFRS 16	**14,494**
Restated opening amount as at 1 April 2019	**1,095,747**
Recognition of additional lease liabilities	**924**
Disposals of lease liabilities	**(10)**
Lease capital repaid	**(1,689)**
Indexation on loans from subsidiary undertakings	**8,711**
Amortisation on loans from subsidiary undertakings	**(410)**
Closing amount as at 30 September 2019	**1,103,273**

Six months ended 30 September 2018	£000
	Unaudited
Opening amount as at 1 April 2018	1,072,543
Indexation on loans from subsidiary undertakings	7,638
Amortisation on loans from subsidiary undertakings	(386)
Closing amount as at 30 September 2018	1,079,795

The company has the following undrawn committed borrowing facilities:

	30 September 2019 £000	31 March 2019 £000
	Unaudited	Audited
Floating rate:		
Expiring within one year	**61,000**	58,000
Expiring beyond five years	**100,000**	100,000
	161,000	158,000

16. Derivative financial instrument

	30 September 2019 £000	31 March 2019 £000
	Unaudited	Audited
Non-current		
Fair value of RPI linked inflation swap	**12,110**	2,389
Accretion on RPI linked inflation swap	**4,827**	1,608
	16,937	3,997

17. Provisions for other liabilities and charges

Six months ended 30 September 2019	**Deferred tax £000**	**Insurance £000**	**Other £000**	**Total £000**
	Unaudited	**Unaudited**	**Unaudited**	**Unaudited**
Opening amount at 1 April 2019	**178,961**	**4,237**	**2,832**	**186,030**
(Credited)/charged to the income statement	**(2,657)**	**1,676**	**-**	**(981)**
Charged to other comprehensive income	**468**	**-**	**-**	**468**
Utilised in the period	**-**	**(611)**	**(1,521)**	**(2,132)**
Closing amount at 30 September 2019	**176,772**	**5,302**	**1,311**	**183,385**
Six months ended 30 September 2018				
Opening amount at 1 April 2018	181,266	2,562	670	184,498
(Credited)/charged to the income statement	(57)	3,037	-	2,980
Credited to other comprehensive income	(1,150)	-	-	(1,150)
Utilised in the period	-	(96)	-	(96)
Closing amount at 30 September 2018	180,059	5,503	670	186,232

Deferred tax

Deferred tax provisions include amounts relating to both accelerated capital allowances and retirement benefit obligations.

Insurance

Insurance represents the amount of the company's liability in respect of individual claims. This is based upon data provided by loss adjusters to insurers and is calculated on settlement experience.

Included within this provision is an amount of £2,419,000, which would be recoverable from the company's insurer and is, therefore, also disclosed as a non-current other receivable in the company's condensed interim statement of financial position.

Other provisions

Other provisions include £641,000 (2018: £nil) in relation to a corporate reorganisation, which is expected will be utilised by 31 March 2020 and is therefore presented as a current liability in the company's condensed interim statement of financial position, and £670,000 (2018: £670,000) in relation to unfunded pension liabilities for a former non-executive director, which it is expected will be utilised by January 2051.

18. Notes to the condensed interim statement of cash flows

a) Cash generated by operations

	30 September 2019 £000	30 September 2018 £000
	Unaudited	Unaudited
(Loss)/profit before tax	**(11,733)**	2,423
Adjustments for:		
Depreciation of property, plant and equipment	**33,508**	28,052
Amortisation of intangible assets	**4,480**	4,902
Amortisation of grants and contributions	**(1,451)**	(833)
Profit on sale of property, plant and equipment	**(3)**	(927)
Loss on disposal of infrastructure assets	**420**	550
Post-employment benefits	**(492)**	(2,154)
Net finance costs	**36,662**	30,204
Changes in working capital:		
- Inventories	**86**	(197)
- Trade and other receivables	**(45,880)**	(49,855)
- Trade and other payables	**42,949**	46,518
Cash generated from operations	**58,546**	58,683

b) Reconciliation of liabilities arising from financing activities

	At 1 April 2019 £000	**Cash flow £000**	**Non-cash flows £000**	**At 30 September 2019 £000**
	Audited	**Unaudited**	**Unaudited**	**Unaudited**
Loan from Affinity Water Finance (2004) PLC financed by bond issue	**253,922**	**-**	**(232)**	**253,690**
Loan from Affinity Water Finance PLC financed by bond issue	**823,747**	**-**	**8,533**	**832,280**
Loan from intermediate parent company	**3,550**	**-**	**-**	**3,550**
Lease liabilities	**14,494**	**(1,689)**	**914**	**13,719**
Debenture stock	**34**	**-**	**-**	**34**
Total liabilities arising from financing activities	**1,095,747**	**(1,689)**	**9,215**	**1,103,273**

Non-cash flows relate to loan indexation and amortisation of bond issuance costs and net additions of leases.

Notes to the condensed interim financial statements (continued)

19. Financial risk management and financial instruments

The company's activities primarily expose it to interest rate risk and liquidity risk.

The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the company's financial statements for the year ended 31 March 2019 (refer to note A4 to the financial statements for the year ended 31 March 2019).

There have been no changes in any risk management policies since 31 March 2019.

Fair value of financial assets and liabilities

	30 September 2019 £000	31 March 2019 £000
	Unaudited	Audited
Non-current:		
Bonds	**1,499,794**	1,426,572
Derivative financial instrument	**16,937**	3,997
	1,516,731	1,430,569

Between 1 April 2019 and 30 September 2019, market interest rates decreased, increasing the overall fair value of the bonds on-lent from the company’s two financing subsidiaries.

The fair value of Class A bonds has been derived from ‘level 1’ fair value measurements: quoted prices (unadjusted) in active markets for identical liabilities. The fair values of Class B bonds and the derivative financial instrument have been derived from ‘level 2’ fair value measurements: directly observable market inputs other than Level 1 inputs.

The remaining financial assets and liabilities of the company, which are measured at amortised cost, approximate to their carrying amount.

There were no changes to valuation techniques or transfers between fair value measurement hierarchies during the period.

20. Commitments

The directors have authorised a programme of asset-related expenditure, of which the contracted capital element not provided for in the condensed interim financial statements amounted to £15,632,000 at 30 September 2019 (at 31 March 2019: £19,657,000).

Notes to the condensed interim financial statements (continued)

21. Related party transactions

The following transactions were carried out with related parties:

Receipts	Nature of relationship	In respect of	Six months ended 30 September 2019 Value £000 Unaudited	Six months ended 30 September 2019 Balance £000 Unaudited	Six months ended 30 September 2018 Value £000 Unaudited	Six months ended 30 September 2018 Balance £000 Unaudited
Affinity for Business (Retail) Limited	Group undertaking	Water services and support services	**21,493**	**465**	28,765	346

Payments	Nature of relationship	In respect of	Six months ended 30 September 2019 Value £000 Unaudited	Six months ended 30 September 2019 Balance £000 Unaudited	Six months ended 30 September 2018 Value £000 Unaudited	Six months ended 30 September 2018 Balance £000 Unaudited
Allianz Global Corporate and Specialty AG	Common ownership	Insurance	**843**	**-**	726	-
Allianz Insurance plc	Common ownership	Insurance	**1**	**-**	1	-
Affinity Water Finance (2004) PLC	Subsidiary undertaking	Interest on loan	**7,123**	**3,170**	7,154	3,179
Affinity Water Finance PLC Limited	Subsidiary undertaking	Interest on loan	**20,314**	**3,329**	-	-
Affinity Water Programme Finance Limited	Subsidiary undertaking	Interest on loan	**-**	**-**	19,150	3,263
Affinity for Business (Retail) Limited	Group undertaking	Water services	**5**	**800**	1	-

Details of the loans from Affinity Water Finance (2004) PLC and Affinity Water Finance PLC, the company's subsidiary undertakings, can be found in note 15.

Details of dividends paid in the prior period to Affinity Water Holdings Limited, the company's immediate parent undertaking, can be found in note 10.

There were no other significant related party transactions which required disclosure.

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

22. Events occurring after the reporting period

There were no significant events after the reporting period.

23. Ultimate parent company and controlling party

The immediate parent undertaking of the company is Affinity Water Holdings Limited, a company registered in England and Wales.

Affinity Water Holdings Limited is wholly owned by Daiwater Investment Limited, a company registered in England and Wales. Daiwater Investment Limited is the parent undertaking of the largest group to consolidate the statutory financial statements of the company. These financial statements are also consolidated in the financial statements of Affinity Water Holdco Finance Limited, the smallest group to consolidate the financial statements of the company.

Copies of the group financial statements of Daiwater Investment Limited and Affinity Water Holdco Finance Limited for the period ended 31 March 2019 may be obtained from the Company Secretary, Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ.

The directors consider Daiwater Investment Limited as the ultimate holding and controlling company in the United Kingdom.

The directors consider the following entities to be the company's ultimate controllers, as they are in a position to exercise material influence over the company's policy and affairs:

- Allianz Infrastructure Holding I Pte. Limited (during the period and up to 20 November 2019 Allianz Infrastructure Luxembourg I Sarl)
- DIF Management Holding BV
- DIF Management UK Limited
- HICL Infrastructure plc
- InfraRed Capital Partners (Management) LLP

Allianz Capital Partners is the Allianz Group's in-house investment manager for alternative equity investments. The investment focus is on infrastructure and renewables as well as private equity funds. Allianz Capital Partners' investment strategy is targeted to generate attractive, long-term and stable returns while diversifying the overall investment portfolio for the Allianz Group insurance companies.

DIF is an independent and specialist fund management company, which invests in infrastructure assets that generate long-term stable cash flows, including public-private partnerships, regulated infrastructure assets and renewable energy projects in Europe, North America and Australia.

HICL Infrastructure plc is a long-term investor in infrastructure assets which are predominantly operational and yielding steady returns. HICL has a portfolio of infrastructure investments, which are positioned at the lower end of the risk spectrum, in three target market segments: public-private partnerships, regulated assets and demand-based assets. The Investment Manager to HICL is InfraRed Capital Partners Limited, a leading international investment manager focused on infrastructure and real estate.

Affinity Water Limited

Statement of directors' responsibilities

The directors confirm that these condensed interim financial statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union, and that the interim management report includes a fair review of the information required by the Disclosure and Transparency Rules ('DTR') 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and

- material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

The directors of Affinity Water Limited are listed in the company's annual report and financial statements for the year ended 31 March 2019, with the exception that Chris Bolt stepped down as a director on 3 September 2019 for personal reasons. A list of current directors is maintained on the governance pages of the company's website: *www.affinitywater.co.uk/board.*

By order of the Board

Stuart Ledger

Director

26 November 2019

Affinity Water Limited

Interim management report (continued)

Glossary of key terms used in this report or in the water industry

AMP – Asset Management Plan

The five-year price control period covered by a company's Business Plan. AMP6 runs from 2015-2020 and AMP7 will run from 2020-2025.

CCW – Consumer Council for Water

The regulator tasked with investigating customer complaints relating to service, price and value for money.

C-MeX – Customer Measure of Experience

A measure of customer service levels to be used by Ofwat in AMP7.

D-MeX – Developer Measure of Experience

A measure of developer service levels to be used by Ofwat in AMP7.

DWI – Drinking Water Inspectorate

The regulator ensuring compliance with drinking water quality regulations.

Ml/d – Megalitres per day

The amount of water used in one day. One megalitre is equal to one million litres.

MOSL – Market Operator Service Limited

The independent operator of the non-household retail market in England and Wales.

MZC – Mean Zonal Compliance

A measure of water quality compliance derived from monitoring samples taken from customers' taps.

ODI – Outcome delivery incentive

The mechanism for financial rewards and penalties which underpins the Performance Commitments submitted in a company's Business Plan.

Ofwat – Water Services Regulation Authority

The economic regulator of the water industry.

PCs – Performance Commitments

Outcomes agreed with Ofwat during the Periodic Review process that reflect customers' views and priorities.

PCC – Per capita consumption

The amount of water used by each person, usually measured in litres per day.

PR – Periodic Review

The price determination process undertaken by Ofwat ahead of each new AMP. PR19 will conclude in 2019, setting price controls for AMP7.

RCV – Regulatory Capital Value

The economic value of the regulated business, as determined by the price control regime.

RORE – Return on regulated equity

A financial metric used by Ofwat to determine the profitability of the regulated business.

SIM – Service Incentive Mechanism

A measure of customer service levels used by Ofwat in AMP6.

Totex – Total expenditure

The sum of operational expenditure and capital expenditure.

WRMP – Water Resources Management Plan

A long-term plan detailing how a water company will maintain a sustainable balance between future demand and supply of water.