Affinity Water

Investor Report

Affinity Water Limited (‘Affinity Water’)

Six Month period ended 30 September 2022’

29 December 2022

Affinity Water
Taking care of your water

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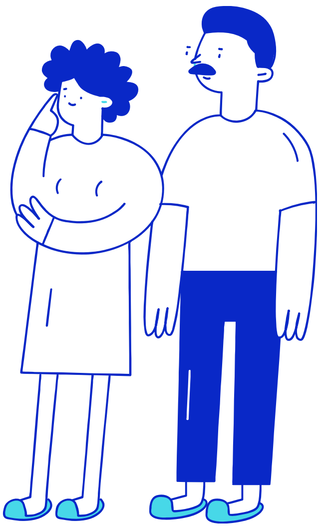

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Affinity Water at a glance

We're the largest water-only supply company in the UK, owning and managing the water assets and network in an area of approximately 4,500km² across three supply regions in the South East of England.

We are focused on providing a high-quality supply of water and to help protect our environment for our communities – now and in the future.

936ml
Daily amount of drinking water supplied

3.86m
Customers served

1.48m
Household properties connected

16,900km
Length of mains network

1,407
Number of employees (excluding directors)

91
Number of water treatment works

Stewards of the local environment	Helping customers use water better	Giving customers an exceptional experience
Our aspiration • To provide a long-term sustainable supply of water through reducing leakage, reducing demand and bringing online new sources of water • To take care of the environment through ending unsustainable abstraction from chalk groundwater sources, working with our communities to restore rivers and improve biodiversity in our supply area. • Achieve Net Zero carbon from operations by 2030	**Our aspiration** • We aim to reduce individual daily water use by 12.5% by 2025 through metering and inspiring our customers to use less through our award winning 'Save Our Streams' campaign • We'll continue to work with government, regulators and across sectors to campaign for the changes we need to make saving water simpler	**Our aspiration** • We'll continue to produce high-quality affordable water • We will improve our customer experience through investing in digitisation and customer service • We'll continue to drive down disruption for our communities by using the latest methods and technology to keep water flowing • We'll support more customers who are struggling to pay, and provide extra support to vulnerable customers through our priority services register

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Financial highlights

Revenue (£m)	161.6	Sep 2021: 159.6
Profit for the Period (£m)	18.4	Sep 2021: (67.5)
Regulatory Capital Value (RCV) (£m)	1,587.0	Sep 2021: 1,379.2
Senior Net Indebtedness (£m)	1,162.8	Sep 2021: 1,042.9
Gearing (%)	73.3%	Sep 2021: 75.6%

Our customer outcomes

Our Business Plan for 2020-25 includes a total of 28 stretching performance commitments that will ensure we deliver our four customer outcomes.

Supplying high quality water you can trust

Commitments

- Reduce the number of contacts about appearance, taste and odour to 0.67 per thousand population by 2024/25
- Meet water quality standards on compliance failures by scoring less than two annually in DWI's new water quality measure CRI

Making sure you have enough water, whilst leaving more water in the environment

Commitments

- 20% leakage reduction on a three-year average from the 2019/20 baseline
- 12.5% reduction in PCC on a three-year average from the 2019/20 baseline
- Complete river restoration and habitat enhancement projects under the Water Framework Directive
- Reduce water abstraction by 27.3 Ml/d by 2024/25
- Complete eight environmental pilot projects working in partnership with our local communities
- Delivery of schemes within the WINEP programme
- Reduce abstraction from environmentally sensitive sites to nil when flows or levels are low

Providing a great service that you value

Commitments

- Improve the overall customer experience provided to our household customers
- Improve the overall experience provided to developer services customers including property developers, self-lay providers and New Appointments and Variations (NAVs)
- Proactively assist more of our customers in vulnerable circumstances by understanding and prioritising their needs
- 90% of customers in vulnerable circumstances receiving help are satisfied with the service from us
- Achieve a score of at least 7.8 out of 10 for customer satisfaction in a value for money survey
- Proactively reducing the number of household properties falsely classed as empty on our billing system to 2.10% in 2024/25

Minimising disruption to you and your community

Commitments

- Reduce supply interruptions to customers to five minutes in 2024/25
- No more than 320 properties affected by a supply interruption per year of more than 12 hours duration
- Improve IT resilience by a 29% reduction in the impact of disruption to customers and employees by 2024/25
- Reduce the properties at risk of receiving low pressure to 1.118 per thousand properties by 2024/25
- Reduce the average time each property experiences low water pressure to less than 8 hours 42 minutes in 2024/25
- To have no customers at risk of experiencing severe restrictions in a 1-in-200 drought on average over 25 years
- Reduce the number of mains repairs to 142.3 per thousand kilometres of network

Operational performance

We have aligned our operational KPI to our key performance commitments in response to customer expectations. We want customers and stakeholders to be able to measure our success and hold us to account.

The first two years of the 2020–25 period have now been completed. We are required to report our performance against targets as set by Ofwat, the DWI and Defra. These targets include the performance commitments made in our Business Plan. Our annual performance in relation to these targets for the six-month period ended 30 September 2022 is shown in the table below.

Ten of these are common performance commitments and nine bespoke.

Key:
- ● on track to meet or exceed year-end target
- ● slightly off track
- ● significantly off track/failed

Water Quality

Compliance Risk Index (CRI)

Target: 1.5

CRI is a measure to inform the risk arising from treated water compliance failures. Whilst the ultimate target for water quality would be an index score of zero, we are on course to achieve a performance that is within the 'deadband' of between 0 and 2.0 for the 2022 calendar year and will not incur a financial penalty.

There have been 34 exceedances in the first nine months of 2022, compared to 20 for the same period in 2021. The increase is primarily the result of returning to full 'random' sampling after the lifting of Covid-19 restrictions.

PCC

Average water use (litres/person/day)

Target: 7.3%(29 Ml/d) decrease

PCC is reported as a three-year average against a baseline level of 2017-20 average water use.

PCC is a measure of water usage in the home.

We are forecasting that we will not meet our 2022/23 target. This is the result of the continuing effect of the Covid-19 pandemic on household water usage, with more people working from home than could have been envisaged at the time the targets were set. Whilst we did see reductions in consumption in the early months of 2022/23, this changed with the high demand over the summer months in the unprecedented hot weather. As a result, household consumption remains higher than pre-pandemic levels.

D-Mex

Score

Target: 8TH

D-MeX is the measure of levels of service in the 'developer services' activity. The index score is made up of both a qualitative and a quantitative element which contribute 50% each to the score.

Our overall D-Mex score for Q1 was 86.35 placing us 9th in the league table. Our quantitative score was 100% placing us joint first. Our qualitative score was 72.33 placing us 10th. Our full year forecast is in line with our internal target of achieving a performance score of around 87.5.

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Leakage

Average Annual water leakage (Ml/d)

Target: 14% reduction

This measure is reported as a percentage reduction in a three-year average of leakage against a baseline average level for years 2017–20.
We are currently on course to achieve the 2022-23 target of 14.0% reduction in the three-year rolling average leakage figure. This is in line with our strategy of outperformance in years 3 and 4 of the AMP and achieving the full 20% reduction by year 5.

C-Mex

Score

Target: 80.65

C-MeX is a mechanism to incentivise water companies to provide an excellent customer experience for residential customers, across both the retail and wholesale parts of the value chain. C-MeX is based on a league table comparison of performance with the other water companies in England and Wales.
Our overall year-to-date C-MeX score is 75.78 and placing us 15th out of 17 companies. Our Q2 score was slightly down on our Q1 score due to challenges resulting from the extreme hot weather, which impacted the whole industry, although our decline in the second quarter was less than the industry average.

We are focused on achieving a score of 80.65 for the full year, by investing in additional resources and training volunteers from other areas of the business to deliver a noticeable improvement in response times to customers across our contact centres and back-office teams.

Mains Repairs

Number per 1000km mains

Target: 146.5

The number of mains repairs for the first half of 2022/23 is above our profiled target. This is due to high demand and hot, dry weather over the summer months. We are expecting the run-rate to remain above target for the rest of the year due to further ground shift as the 'soil moisture deficit' reduces over winter.
Long-range Met Office predictions are showing a 'La Niña' weather pattern with the probability of freezing temperatures over winter, therefore the likelihood of a freeze/thaw event is high. We continue to work with the Met Office to look at longer term forecasting and predictions of freeze-thaw events, with a view to moving to a different way of operating the network during 'high risk' periods.

Water supply interruptions >3 hours

Average minutes per property, water supply interruption

Target: 00:05:45

Interruptions are reported as the average number of minutes properties are without water (forinterruptions lasting 3 hours or more).
Interruptions to supply are running above our target for the first six months, with our current
year-end forecast also slightly above our full year target, due to the effects on our supply and distribution infrastructure of the exceptional demand for water during the record hot summer
months. Operationally, we were pleased to have maintained supplies to customers
throughout this time..

Properties at risk of low pressure

Per 10,000 properties

Target: 1.381

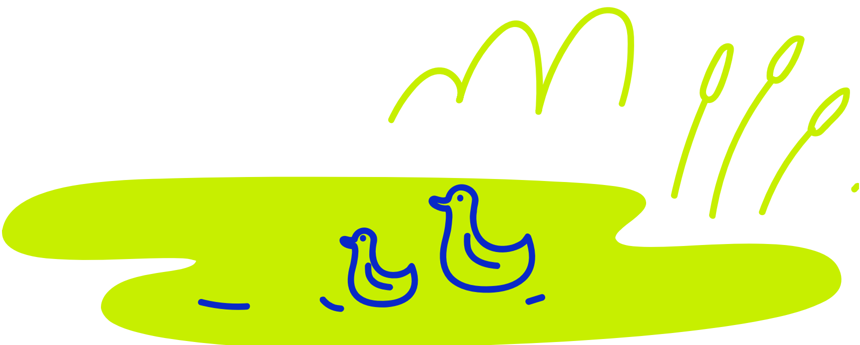
This is a measure of the number of properties that are at risk of experiencing low pressure in the mains water supply.
Performance for 2022/23 has been impacted significantly by the unprecedented hot weather
and associated high demand in the summer, and we do not expect to meet our year-end target.

Unplanned interruptions to supply over 12 hours

Number of properties

Target: 320

We have already exceeded the full-year target of not having more than 320 properties
experience unplanned interruptions over 12 hours, as a result of a small number of largescale
incidents that occurred over the extremely hot summer period, when demand for water
combined with dry ground conditions put significant stresses on our infrastructure.
We are reporting 441 properties for the first six months of 2022/23 and are forecasting a total
of around 500 properties by year-end.



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Financial performance

Financial results for the year ended 30 September 2022

	2022	2021 (restated)
	£000	£000
Revenue	161,566	159,571
Cost of sales	(135,338)	(127,311)
Gross profit	**26,228**	32,260
Administrative expenses	(17,302)	(22,161)
Impairment losses on financial and contract assets	(2,568)	(2,852)
Other operating income	10,428	9,808
Operating profit	**16,786**	17,055
Finance income	9,149	8,034
Finance costs	(95,924)	(45,432)
Fair value loss on inflation swaps	58,366	(12,328)
Net finance costs	(28,409)	(49,726)
Fair value gain on energy swaps	36,345	11,343
Profit/ (Loss) before tax	**24,722**	(21,328)
Income tax credit/(expense)	(6,348)	(46,139)
Profit/(Loss) for the year	**18,374**	(67,467)

Revenue

Revenue for the first six months of the year was £161.6m, being a £2.0m (1.3%) increase on the same period last year (six-month period ended 30 September 2021: £159.6m). The increase is primarily due to higher non-household wholesale revenue as a result of final settlement reports issued by MOSL showing higher business consumption dating back to the Covid-19 lockdown period. There was also higher household consumption during the hot summer months of 2022 as well as a tariff increase.

Other income for the period was £10.4m, being a £0.6m (6.1%) increase on the same period last year (six-month period ended 30 September 2021: £9.8m) due to increased recharges for operating assets, specifically for High Speed 2 ('HS2'), as well as additional recharges to developers for improving water quality.

Operating expenditure

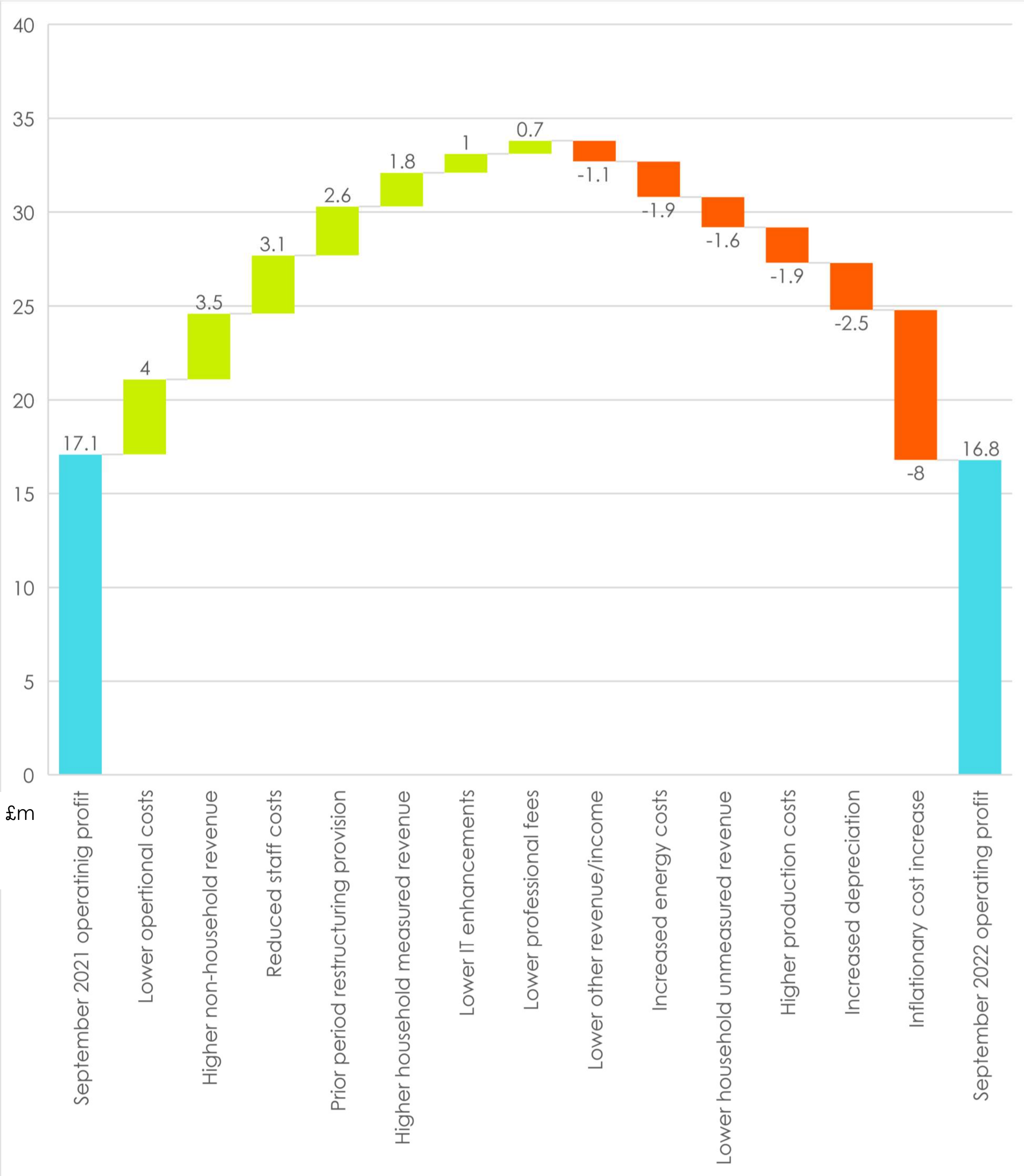
Total operating costs of £155.2m for the first half of the year were £2.9m (1.9%) higher than for the same period last year (six-month period ended 30 September 2021: £152.3m). Average CPIH inflation for the six months period to September being 8.34% higher year-on-year has added £8.0m onto our costs, while a further £2.5m was due to increased depreciation on our growing asset base.

We have also incurred £1.9m increased production costs (for abstraction charges and chemicals) driven by the high demand over the hot summer. Energy costs were £1.9m higher than the prior period due to an increase in wholesale prices, although this was partially offset by efficient usage. Our energy costs would have also been significantly higher had we not hedged in the prior year.

These additional costs were partially offset by a £3.1m saving in staff costs due to lower headcount than the prior year, following a restructure in the prior period. The £2.6m one-off costs of that restructure have also not been repeated in the current year. After stripping out the effect of inflation, our operational costs (for infrastructure maintenance and renewals, materials and subcontractors) have reduced by £4.0m. There was also £1.0m of IT enhancement costs for the configuration of a new ERP system in the prior period which have not been incurred this year. An initiative to reduce the amount spent on consultants has also reduced costs by £0.7m.

Operating Profit

Operating profit of £16.8m was £0.3m (1.8%) lower than the same period last year (six-month period ended 30 September 2021: £17.1m). The key variances are explained on this page and shown in the following graph:



Interest and Fair Value Movements

The net finance cost of £28.4m was £21.3m (42.9%) lower in the current period, primarily due to fair value movements on our inflation swaps, which made a fair value gain of £58.4m in the current period due to lower forecast inflation causing favourable mark to market movements, compared to a £12.3m loss in the prior period. This was partially offset by £50.5m higher accretion on our index-linked bonds. There was also a £36.3m fair value gain on our energy swaps which was £25.0m higher than the gain made in the prior period (£11.3m), as a result of favourable mark to market movements driven by forecast energy prices remaining higher than the price we locked in at.

Taxation

Income tax charge of £6.3m was £39.9m (86.4%) lower than to the prior period primarily due to a £57.5m deferred tax charge for the future increase in corporation tax rate from 19% to 25% being booked in the prior period. The underlying £17.6m increase is due to an increase in profits in the current period, compared to the loss made in the prior period. No corporation tax was paid during the period ended 30 September 2022 as we are forecasting a tax loss for 2022/23 therefore no tax is expected to be payable (six-month period ended 30 September 2021: £nil).

All our profits are taxed in the UK, and we do not use artificial 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 in our regulatory Annual Performance Report for the year ended 31 March 2022, and the group tax strategy of Daiwater Investment Limited, our ultimate holding and controlling company in the United Kingdom.

Dividends

No equity dividends were paid during the year reflecting the shareholders' commitment to re-invest all planned returns from the company's appointed business for the benefit of our customers.

Capital expenditure

Capital expenditure in the six-month period ended 30 September 2022 was £58.6m (six-month period ended 30 September 2021: £71.6m), and was incurred principally on our mains renewals, trunk main replacement, strategic regional solutions, sustainability reductions, metering, leakage and water treatment programmes.

The total excludes £10.1m (six-month period ended 30 September 2021: £9.5m) of infrastructure renewals expenditure, which is treated as an operating cost under FRS 101. The lower capital expenditure in the first half of this year can be attributed to the increased operational activity as teams focused on keeping the water running for our customers during the unprecedented hot weather during the summer months of 2022.
We are forecasting a significant increase in capital expenditure for the second half of the year.

Net debt and gearing

At 30 September 2022, net debt, as defined in the financial covenants in the company's securitisation documentation (compliance net debt), was £1,162.8m (at 31 March 2022: £1,079.8m) Gearing, calculated as compliance net debt to RCV at 30 September 2022, was 73.3% (31 March 2022: 73.0%) and remains below our internal gearing level of 80.0%. This allows sufficient headroom within the gearing covenants, which are only triggered at a level of more than 90.0%.

Cash flow

Net cash flow before tax and financing for the first six months of the year was a £6.2m inflow being a £19.7m (145.9%) increase on the same period last year (six-month period ended 30 September 2021: £13.5m outflow). The increase is primarily due to higher cash generated from operations which is mainly due to favourable movements in net working capital.

Financing Update

Structure

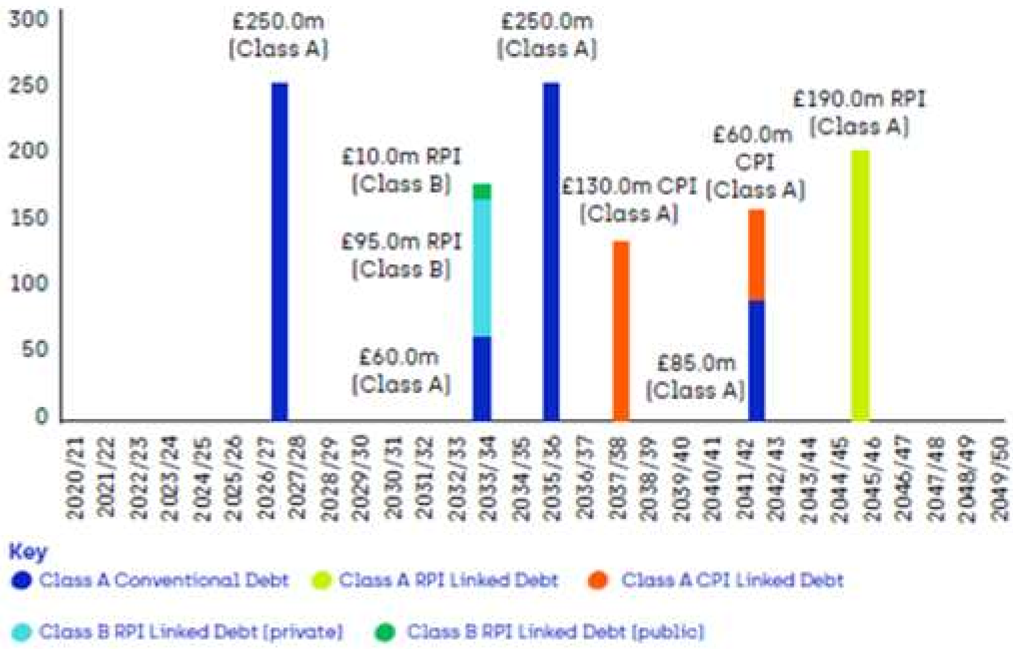
Affinity Water Limited is financially and operationally 'ring-fenced' from the rest of the Affinity Water Group by way of a Whole Business Securitisation ('WBS'). The securitisation further enhances the ring-fencing provisions already in our licence.

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

Debt portfolio

As we are a business with a long-term outlook and expenditure commitments, we need to match this with long-term sources of debt finance. We consider the most cost-effective way to raise long-term debt to be through the debt capital markets. Our financing subsidiaries have outstanding external bonds totalling £1,130.0m, raised in the debt capital markets and on-lent to the company on the same terms. £14.2m of debt matured on 30 September 2022 and was repaid in cash on this date. Our next significant debt maturity is in July 2026 when a £250.0m fixed rate bond matures.

The following chart shows the maturity profile of the bonds issued by the company's subsidiaries as at 30 September 2022:



Credit ratings

Moody's, Fitch and Standard and Poor's all affirmed our credit rating this year. The table below shows the current credit rating held with each agency. The credit ratings for our subsidiaries' bonds assigned by the rating agencies, Moody's, Standard & Poor's and Fitch, have not changed since March 2022, although the rating from Standard & Poor's has moved to a negative outlook.

Liquidity

Bonds	Moody's	Standard & Poor's	Fitch
Class A	A3	BBB+	BBB+
Class B	Baa3	BBB-	BBB-
Corporate family rating	Baa1	Not applicable	Not applicable

Our liquidity is managed through banking arrangements and adequate, though not excessive, cash resources, borrowing arrangements and standby facilities to enable us at all times to have the level of funds available, which are necessary for the achievement of our business and service objectives. At 30 September 2022, we had cash balances of £118.8 million (2021: £135.6 million) and short-term deposits held as investments of £65.6 million (2021: £70.2 million).

To the extent that additional funding is required, as well as our cash balances, we have access to two revolving credit facilities totalling £100.0m (2021: £100.0m), which were undrawn at 30 September 2022 (2021: undrawn), to finance capital expenditure and working capital requirements.

In addition, we have access to a further £55.0m of liquidity facilities (2021: £55.0m), consisting of a 364 day revolving £32.0m facility to fund any debt service payments in the event of a liquidity shortfall that would otherwise prevent such payments being made and a 364 day revolving facility of £23.0m to fund operating and capital maintenance expenditure in the event of a liquidity shortfall.

Regulatory update

Our business is a regional monopoly and is subject to incentive-based economic regulation by Ofwat. We are subject to a strict revenue control regime designed to incentivise efficiency in operations and investment decisions.

AMP7

Our AMP7 price controls were published in December 2019 and we accepted them in February 2020. We have now completed two years of AMP7, and we're half way through the third. Year three is hugely important because, if we're achieving in our core business, we have the legitimacy to take the things we're doing, and want to do, into our next price-control submission and into our longer-term strategic direction statements.

PR24

PR24 is the process by which Ofwat will determine the revenues we need and outcomes we need to deliver in AMP8. We have made an early start to this process and have fully mobilised our PR24 team, involving people from across the business with the ambition to develop a high quality and deliverable Business Plan.

We continue to develop our team to ensure we are resourced with the right mix of skills and expertise and that we support our people through our programme of team development. In taking this approach, we seek to learn lessons from PR19 – our approach already feels very different from how we prepared the previous Business Plan.

We are carrying out our PR24 work according to a project plan, overseen by a dedicated Project Board, with regular Board engagement and oversight. Our plan development this year started with our five-year strategy, setting out the steps we will take towards the long-term vision we set out in our November 2021 Strategic Direction Statement. This set out further detail about what we intend to deliver and the strategic choices we will need to make. We are now working on developing the detailed evidence for our plan, principally around costs, service and performance, leading to an initial draft plan by the end of the year which we will further develop and refine.

Our draft water resources management plan, published in November 2022, sets out our approach to keeping water supply and demand in balance. We are continuing our customer research work to establish our customers' priorities, alongside stakeholder engagement, and to make sure these are well reflected in our Business Plan. In parallel, over the last year we have contributed to numerous consultation documents and participated in working groups and discussions to inform, influence and shape Ofwat's methodological framework

Governance update

The company is committed to high standards of corporate governance and transparency, believing these to be essential in delivering the long-term success of our business. The Board governs the company in accordance with the Affinity Water Corporate Governance Code. This incorporates the Ofwat Board Leadership, Transparency and Governance Principles 2019 in their entirety, and those parts of the UK Corporate Governance Code 2018 that are deemed relevant to our business.

Our shareholders have an important role to play and a direct interest in the strong and effective governance and stewardship of our business. We explain how we engage with our shareholders and involve them in decision making in our publication: *Consulting with our Shareholders.*

Board appointments

Keith Haslett has been appointed the new permanent CEO of the company. Keith will join on 1st January 2023 and was previously Water Director at Northumbrian Water. Keith brings with him extensive experience of the industry having previously worked for both Northern Ireland Water and United Utilities.

Interim CEO Stuart Ledger will leave the company in December 2022, Stuart has led the business as interim CEO for the last 15 months and previously was CFO for four years, permanent CFO recruitment is underway.

Ann Bishop and Mark Horsley stepped down as independent non executive directors effective 18th July 2022.

Executive appointments

Company Treasurer **Michael Blake** has been appointed Interim CFO while the recruitment of a permanent CFO is underway.

Common Terms Agreement Compliance

Calculation of financial ratios

Test period		Year 1 1 April 2022 To 31 March 2023	Year 2 1 April 2023 To 31 March 2024	Year 3 1 April 2024 To 31 March 2025
Net Cash Flow divided by	£m	109.3	134.0	139.6
Class A Debt Interest	£m	19.7	22.8	23.2
Class A ICR	**Ratio**	**5.5**	**5.9**	**6.0**

Test period		Year 1 1 April 2022 To 31 March 2023	Year 2 1 April 2023 To 31 March 2024	Year 3 1 April 2024 To 31 March 2025
Net Cash Flow less	£m	109.3	134.0	139.6
CCD and IRC	£m	0	0	0
Adjusted Net Cash Flow divided by	£m	109.3	134.0	139.6
Class A Debt Interest	£m	19.7	22.8	23.2
Class A Adjusted ICR	**Ratio**	**5.5**	**5.9**	**6.0**

Test period		Year 1 1 April 2022 To 31 March 2023	Year 2 1 April 2023 To 31 March 2024	Year 3 1 April 2024 To 31 March 2025
Net Cash Flow less	£m	109.3	134.0	139.6
CCD and IRC	£m	0	0	0
Adjusted Net Cash Flow divided by	£m	109.3	134.0	139.6
Senior Debt Interest	£m	24.2	27.6	28.2
Senior Adjusted ICR	**Ratio**	**4.5**	**4.9**	**5.0**

Test period		Year 1 1 April 2022 To 31 March 2023	Year 2 1 April 2023 To 31 March 2024	Year 3 1 April 2024 To 31 March 2025
Year 1	Ratio	5.5	5.5	5.5
Year 2	Ratio	5.9	5.9	5.9
Year 3	Ratio	6.0	6.0	6.0
Class A Average Adjusted ICR	**Average**	**5.8**	**5.8**	**5.8**

Test period		Year 1 1 April 2022 To 31 March 2023	Year 2 1 April 2023 To 31 March 2024	Year 3 1 April 2024 To 31 March 2025
Year 1	Ratio	4.5	4.5	4.5
Year 2	Ratio	4.9	4.9	4.9
Year 3	Ratio	5.0	5.0	5.0
Senior Average Adjusted ICR	**Average**	**4.8**	**4.8**	**4.8**

Test period		Year 1 1 April 2022 To 31 March 2023	Year 2 1 April 2023 To 31 March 2024	Year 3 1 April 2024 To 31 March 2025
Net Cash Flow less	£m	109.3	134.0	139.6
RCV Depreciation and Capitalised IRE	£m	(81.6)	(93.5)	(102.0)
Conformed Adjusted Net Cash Flow divided by	£m	27.7	40.5	37.6
Class A Debt Interest	£m	19.7	22.8	23.2
Conformed Class A Adjusted ICR	**Ratio**	**1.4**	**1.8**	**1.6**

Test period		Year 1 1 April 2022 To 31 March 2023	Year 2 1 April 2023 To 31 March 2024	Year 3 1 April 2024 To 31 March 2025
Net Cash Flow less	£m	109.3	134.0	139.6
RCV Depreciation & Capitalised IRE	£m	(81.6)	(93.5)	(102.0)
Conformed Adjusted Net Cash Flow divided by	£m	27.7	40.5	37.6
Senior Debt Interest	£m	24.2	27.6	28.2
Conformed Senior Adjusted ICR	**Ratio**	**1.1**	**1.5**	**1.3**

Test period		Year 1 1 April 2022 To 31 March 2023	Year 2 1 April 2023 To 31 March 2024	Year 3 1 April 2024 To 31 March 2025
Year 1	Ratio	1.4	1.4	1.4
Year 2	Ratio	1.8	1.8	1.8
Year 3	Ratio	1.6	1.6	1.6
Conformed Class A Average Adjusted ICR	**Average**	**1.6**	**1.6**	**1.6**

Test period		Year 1 1 April 2022 To 31 March 2023	Year 2 1 April 2023 To 31 March 2024	Year 3 1 April 2024 To 31 March 2025
Year 1	Ratio	1.1	1.1	1.1
Year 2	Ratio	1.5	1.5	1.5
Year 3	Ratio	1.3	1.3	1.3
Conformed Senior Average Adjusted ICR	**Average**	**1.3**	**1.3**	**1.3**

Date		Calculation Date	31 March 2023	31 March 2024	31 March 2025
Class A Net Indebtedness divided by	£m	1,015.4	1,086.5	1,167.2	1,199.6
RCV	£m	1,587.0	1,686.7	1,783.6	1,837.6
Class A RAR	**Ratio**	**0.640**	**0.644**	**0.654**	**0.653**

Test period		Calculation Date	31 March 2023	31 March 2024	31 March 2025
Senior Net Indebtedness divided by	£m	1,162.8	1,237.8	1,326.1	1,363.4
RCV	£m	1,587.0	1,686.7	1,783.6	1,837.6
Senior RAR	**Ratio**	**0.733**	**0.734**	**0.744**	**0.742**

The following table reconciles the Class A Net Indebtedness and Senior Net Indebtedness to the amounts reported in the financial statements.

Date	**30 September 2022 £m**
Borrowings	1,302.8
Less Permitted Legacy Loan	(3.6)
Add Unamortised Debt Issue Costs and Bond Premium	(30.8)
Add Accrued Interest	5.4
Add Swap Accretion	73.3
Less Cash and cash equivalents	(184.4)
Senior Net Indebtedness	**1,162.8**
Less Class B Indebtedness	(147.4)
Class A Net Indebtedness	**1,015.4**

AWL has adopted IFRS 16: 'Leases' ('IFRS 16') 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. The key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees, thereby impacting the Income Statement and Statement of Financial Position from the adoption date. In particular IFRS 16 would result in the removal of operating lease costs from Operating Expenditure, being replaced with additional depreciation and interest charges. This accounting treatment has been excluded for the purposes of calculating the ratios.

Further certifications

Surplus

Our Board has approved dividend and executive remuneration policies that provide for dividends and executive remuneration proportionate with long-term returns and performance of the company, whilst not impairing its longer term financeability. The performance of the company comprises our financial performance as well as an assessment of performance in the following areas: customer service, operational commitments, community commitments and people.

Authorised Investments

Terms	Bank Deposits (£m)	Liquidity Funds (£m)	Total (£m)
Overnight	10.2	86.3	96.5
3 Months	10.0	-	10.0
6 Months	40.2	-	40.2
9 Months	15.0	-	15.0
1 Year	0.0	-	0.0
Total	75.4	86.3	161.7

Debt Service Reserve Accounts

There is no balance in each of the Debt Service Reserve Accounts as at 30 September 2022. The required debt service reserve is provided by a liquidity facility from National Australia Bank PLC totalling £32.0m.

Permitted Subsidiaries acquired

There were no Permitted Subsidiaries acquired pursuant to a Permitted Acquisition in the period to 30 September 2022.

Annual Finance Charge

Affinity Water Limited has calculated the Annual Finance Charge for the period from 1 April 2022 to 31 March 2023 as £24.2m.

	1 April 2022 to 31 March 2023 (£m)
Forecast interest paid on bonds and swap	23.9
Forecast interest paid on loans	0.0
Other recurring finance fees paid	0.3
Total	**24.2**

Additional confirmations

Affinity Water Limited also confirms that:

(a) no Default or Potential Trigger Event is outstanding; and

(b) that Affinity Water Limited's insurances are being maintained in accordance with the Common Terms Agreement.

Yours faithfully,

Affinity Water Limited

(in its capacity as Transaction Agent)