Affinity Water
Taking care of your water

Investor Report

Affinity Water Limited ('Affinity Water')

Six Month Period ended 30 September 2021

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1 Affinity Water at a glance

We are the largest water only supply company in the United Kingdom, 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 sub-divide our supply regions into eight different communities, based on our existing water resource zones and each named after a local river, allowing us to tailor a high quality service to customers at a local level.

Facts and figures:

Daily amount of drinking water supplied…**950 Ml**

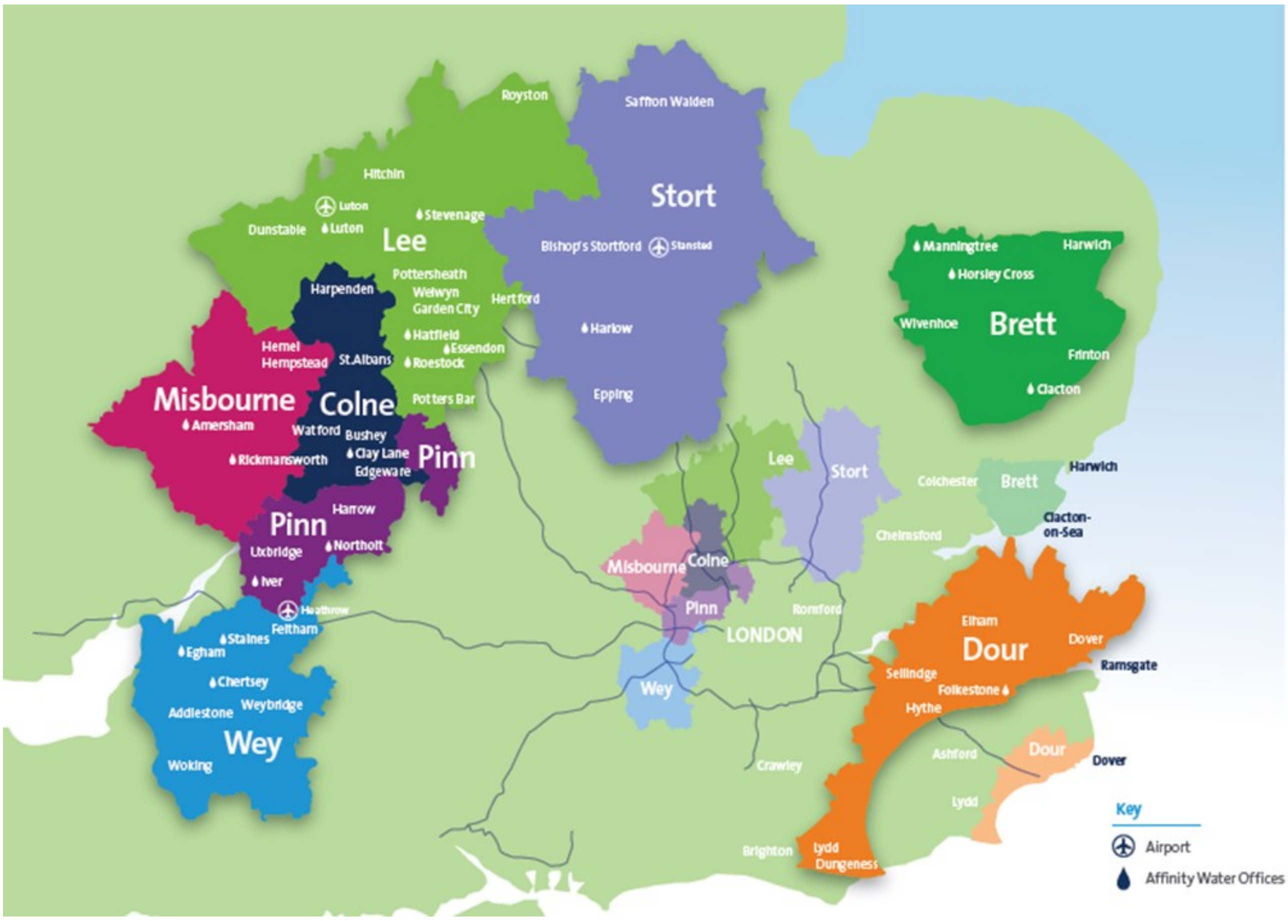
Population served……………………..**3.83 million**

Household properties connected....**1.47 million**

Length of mains network……………......**16,800 km**

Number of water treatment works.................**93**

Planned AMP7 investment………...........**£1.44bn**



2 Our Purpose and Vision

Our Purpose

To provide high quality drinking water for our customers and take care of the environment, for our communities now and in the future

Environment

Aim: Leave the environment in a sustainable and measurably improved state.

We will work with our customers and communities to restore the environment into a sustainable regenerative state so that it can continue to provide its assets and services for the enjoyment of current and future generations.

Customers

Aim: Deliver what our customers need, ensuring affordability for all.

We will develop a constructive, collaborative relationship with our customers that enables us to help them achieve their aspirations for the future.

Resilience

Aim: Be prepared for change, and resilient to shocks and stresses.

We will invest with our stakeholders to create a more resilient community able to cope with and respond to an increasingly uncertain future.

Communities

Aim: Work with our communities to create value for the local economy and society.

Create a collaborative relationship with all our communities allowing us to act together with common purpose to deliver a society and environment that are mutually sustainable.

Our Vision

To be the UK's leading community focused water company

3 Financial highlights

Revenue (£m)	159.6 Sept 2020: 144.3
Loss for the Period (£m)	(70.1) Sept 2020: (37.2)
Regulatory Capital Value (RCV) (£m)	1,379.2 Sept 2020: 1,232.6
Senior Net Indebtedness (£m)	1,042.9 Sept 2020: 985.6
Gearing (%)	75.6% Sept 2020: 80.0%

4 Operational performance

We have aligned our operational KPIs to the key performance commitments made in our AMP7 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 Defra.

Supplying high quality water you can trust

Water quality is paramount to everything we do. We use the latest treatment technology and sophisticated monitoring systems at our treatment works and across our network. We expect to achieve CRI scores below 2.0 for the rest of AMP7.

One of our key performance commitments is associated with the number of customer contacts we receive in relation to the appearance of water, including discolouration. The contact rate for the year to the end of September 2021 is 0.81/1000 customers. This is above our performance commitment target of 0.67 but slightly better than the prior period (September 2020: 0.84/1000 customers).

There are a number of initiatives looking at reducing the number of contacts we receive. We have carried out in depth investigations to map where these contacts have originated from and to understand the root causes. During the year, we have undertaken a programme of targeting mains cleaning and have liaised with other water companies to understand how they are reducing their discolouration contacts. We are targeting a year end performance contact rate of 0.81/1000 customers (maintaining our current performance), with a view of achieving the 0.67 target by the end of AMP7.

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

Climate change, along with a population increase in our supply area, means that demand for water will outstrip supply by 256Ml/d by 2080. New access to water, improved demand management and increased flexibility in the movement of water are all essential. We are working in collaboration with other water companies to develop strategic regional water resources solutions to secure long-term resilience on behalf of customers while protecting the environment and benefiting wider society.

Protecting the globally rare and sensitive chalk streams within our operating area is a priority for us. In our AMP7 Business Plan, we committed to reducing the amount of water we take from the environment by 27.3 Ml/d by 2024/25. In April 2021, we launched our multi-platform Save Our Streams ('SOS') campaign, in order to help consumers understand why and how they should reduce their water consumption, and ultimately safeguard our local rivers and streams for years to come.

As a company, we are targeting a reduction in PCC by 12.5% over AMP7. Our Demand Management programme is aiming to address the PCC challenge through installation of water efficient devices and campaigns which influence customer behavioural change. We have seen overall consumption rise and remain high during the COVID-19 pandemic, as businesses close and households stay at home.

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 from water pipes by 20% over AMP7, following on from the 15% reduction achieved in AMP6, which was the water industry's largest percentage reduction target for AMP6.

Our leakage reduction target was not achieved in 2020/21, in part due to the COVID-19 pandemic as we balanced the safety of our employees and our customers while executing our plans. Our staff availability was impacted and customers were less responsive to engagement over supply pipe leakage.

As a result, we have put a recovery plan in place to address the shortfall whilst also reviewing our leakage approach for the remainder of the AMP in light of possible new norms. We have accelerated several programmes of work in 2021/22 such as enhanced pressure management and the step test programme, as well as increasing field detection resource levels and expanding our assistance to customers with supply pipe leaks.

The remainder of 2021/22 is challenging, but we remain confident in our ability to deliver the 20% reduction by the end of AMP7.

Providing a great service that you value

We are privileged to serve our communities. Being the monopoly supplier and steward of a precious resource, water and the environment, for future generations, we are acutely aware that we must continually invest in building trust with our customers and hold our performance accountable to our communities and wider stakeholders. This is central to achieving our vision of being a community-focused, sustainable and responsible business.

Our challenge is to achieve value for money for customers whilst also creating value for investors. Value for money for customers is achieved by delivering the standards of service customers expect along with the performance commitments included in our Business Plan at a reasonable price. Our average annual household bill for 2020/21 was £173, the equivalent of just 47p per day, which we think represents great value for money. Our AMP7 price control set an initial drop in revenue, followed by real terms increases, so household bills in 2021/22 are expected to be about 6.6% higher than in 2020/21. We aim to create investor value by outperforming in selected areas, thereby receiving regulatory rewards for doing so and through effective risk management to reduce cash flow volatility.

We have publicised our Priority Services Register and promoted our collaboration with the National Debtline charity in order to better aid our customers with any debt-related issues. As at 30 September 2021, we have provided payment breaks to more than 7,400 customers. Our support for financially vulnerable customers, who have a low household income or are claiming benefits, has grown with more than 110,000 households now supported by our social tariffs. These customers receive a reduced fixed rate spread over 12 months. Our 'debt-help' and 'struggling to pay' webpages show how we have helped other customers in similar financial or vulnerable positions.

Our C-MeX score for the six-month period ended 30 September 2021 was 77.22 against an industry average of 79.80, which has placed us 14th out of 17 companies. The C-MeX score consists of two surveys: customer service and customer experience. Once again, we performed better in the customer service survey, with customer experience, which is based on customer perception and awareness, pulling our overall performance down. Both elements are of utmost importance to us, thus we recognise there are areas we need to improve on in order to climb up the league table.

We are also measured for our service levels provided to developers and retailers. Our D-MeX score for the first quarter of 2021/22 was 86.35 against an industry average of 82.90, ranking us 8th out of 17 companies, which shows a steady improvement since March 2021 in line with our transformation plan. Our R-Mex score for the first half of 2021/22 ranks us as 1st out of 15 companies, with an overall service score of 7.9 out of 10, which reflects the fantastic service we provide to retailers in the non-household market.

Minimising disruption to you and your community

Our AMP7 investment programme was delayed slightly in 2020/21 as all non-essential work ceased during the UK's Government's COVID-19 lockdown period, but we are on track to fully deliver our planned 2021/22 capital programme.

We have accommodated additional requirements by finding efficiencies through working with our supply chain to innovate and value engineer solutions. We continue to invest to mitigate low pressure, mains bursts, and leakage. 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. We have started to develop our thoughts for AMP8 investment needs and beyond, in preparing our PR24 Business Plan.

We have a performance commitment to reduce the number of properties at risk of receiving low pressure. We now check low pressures throughout our operational area using continually monitored pressure loggers. The loggers are permanent installations and cover around 87% of all connected properties on our network. They are telemetered, recording at 15-minute intervals and relaying data to a central server, where our Duty Network Control Managers have been trained to identify potential low pressure events at the earliest possible moment.

We have experienced a lower number of bursts than our internal target and appear to be on track to meet our performance commitment for 2021/22, having failed this target in 2020/21. We have rebranded our steering group looking at this measure and have created a programme of works to ensure we mitigate the consequences of freeze-thaw events on our network, as well as creating triggers as part of our Seasonal Readiness plan. We have also hosted our first Industry Working Group, relating to this measure, with other water companies.

We have made considerable improvements to our interruptions to supply performance in AMP7 by changing the company mentality to prioritise 'water always on' rather than fixing the burst. We have also moved the ownership of unplanned interruptions from the Operational Service Desk to Control Operations, such that Control Operations have the overarching view of our network as a whole and can coordinate multiple activities within different teams and departments. We are continuing to look at reductions in response times, availability of resources, staffing out of hours and innovative methods of ensuring water is always on.

5 Financial performance

Financial results for the period ended 30 September 2021

	2021	2020 (Restated)
	£000	£000
Revenue	**159.6**	144.3
Operating costs	**(152.3)**	(142.0)
Other Income	**9.8**	8.6
Operating profit	**17.1**	10.9
Finance costs	**(41.1)**	(56.6)
(Loss)/profit before tax	**(24.0)**	(45.7)
Tax credit/(expense)	**(46.1)**	8.5
Loss for the period	**(70.1)**	(37.2)

Revenue

Revenue for the first six months of the year was £159.6m, being a £15.3m (10.6%) increase on the same period last year (six-month period ended 30 September 2020: £144.3m). The increase is primarily due to higher non-household wholesale revenue as businesses were temporarily closed due to COVID-19 in the prior year. Household revenue is also higher due to a 6.6% volumetric tariff increase for 2021/22.

Other income for the period was £9.8m, being a £1.2m (14.0%) increase on the same period last year (six-month period ended 30 September 2020: £8.6m) due to increased laboratory income and additional income for operating assets specifically for HS2.

Operating costs

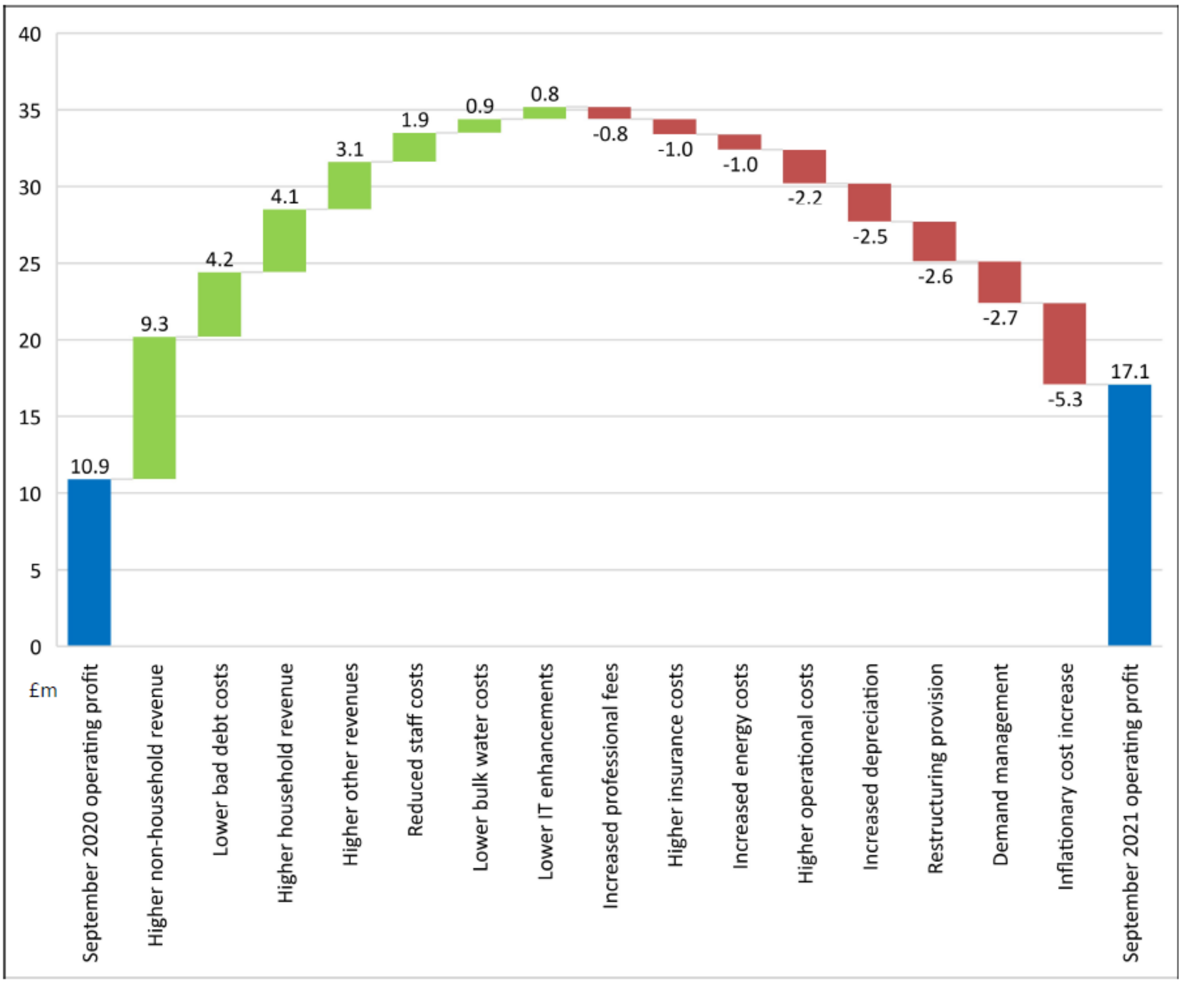
Total operating costs of £152.3m for the first half of the year were £10.3m (7.3%) higher than for the same period last year (six-month period ended 30 September 2020 (restated): £142.0m). Of the £10.3m increase, £5.3m was due to inflation being 4.86% higher year-on-year, while £2.5m was due to increased depreciation on our growing asset base.

£2.6m of atypical costs were incurred in September 2021, as a company restructure was announced resulting in 51 roles being made redundant, as well as a change of leadership of the business. A further £2.7m was incurred in the period for demand management, as we campaign to reduce consumption across our customer base. Energy costs were £1.0m higher than the prior period due to an increase in wholesale prices, while core operational costs, insurance costs and professional fees were all slightly higher than the prior year.

These additional costs were partially offset by some savings being made in staff costs due to lower headcount than the prior year, and reduced bulk water costs as demand was lower during the summer months as a result of the cooler, wetter weather. The prior year had included costs for the configuration of a new ERP system, which reduced in the current period. Bad debt was also lower than the previous period, which had included an additional provision for the impact of COVID-19.

Operating profit

Operating profit of £17.1m was £6.2m (56.9%) higher than the same period last year (six-month period ended 30 September 2020 (restated): £10.9m). The key variances are shown in the following graph:



Interest and fair value movements

The net finance cost of £41.1m was £15.5m (27.4%) lower in the current period, primarily due to fair value movements1 on our inflation swaps and energy swaps. The inflation swaps made a fair value loss, but £22.9m lower than the prior period loss. There was also an £11.3m fair value gain on energy swaps, which were transacted between June 2021 and September 2021. There was £1.0m increased finance income, with all these favourable variances offset by £19.7m higher accretion on our bonds.

Taxation

Income tax charge of £46.1m was £54.6m (642.3%) adverse to the prior period primarily due to a £57.4m deferred tax charge for the future increase in corporation tax rate from 19% to 25%. The underlying £11.3m tax credit is higher than the £8.5m prior period credit as a result of an increased effective tax rate, which at 47.2% is higher than the current corporation tax rate of 19.0%. No corporation tax was paid during the period ended 30 September 2021 as we are forecasting a tax loss for 2021/22 therefore no tax will be payable (six-month period ended 30 September 2020: £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.

Dividends and executive pay

We are restricting dividends to our shareholders throughout AMP7 to enable the substantial investments to improve resilience and protect the environment. No equity dividends were paid during the six-month period ended 30 September 2021 (six-month period ended 30 September 2020: £nil), 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 and 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 strategy of delivering value through high quality customer service and operational performance whilst ensuring the cost of water remains affordable.

Capital expenditure and cashflow

Capital expenditure in the six-month period ended 30 September 2021 was £71.6m (six-month period ended 30 September 2020 (restated): £63.1m), and was incurred principally on our mains renewals, trunk main replacement, sustainability reductions, metering, leakage and water treatment programmes. The total excludes £9.5m (six-month period ended 30 September 2020: £8.3m) of infrastructure renewals expenditure, which is treated as an operating cost under FRS 101. The higher capital expenditure in the first half of this year reflects the increased investment planned for the second year of AMP7.

Net cash outflow before tax and financing1 for the first six months of the year was £13.5m being a £21.8m (262.7%) decrease on the same period last year (six-month period ended 30 September 2020 (restated): £8.3m inflow). The decrease is primarily due to higher net investment in fixed assets in the current period in line with our AMP7 plan, and lower cash generated from operations which is mainly due to adverse movements in working capital, partially offset by increased operating profits.

Affinity Water

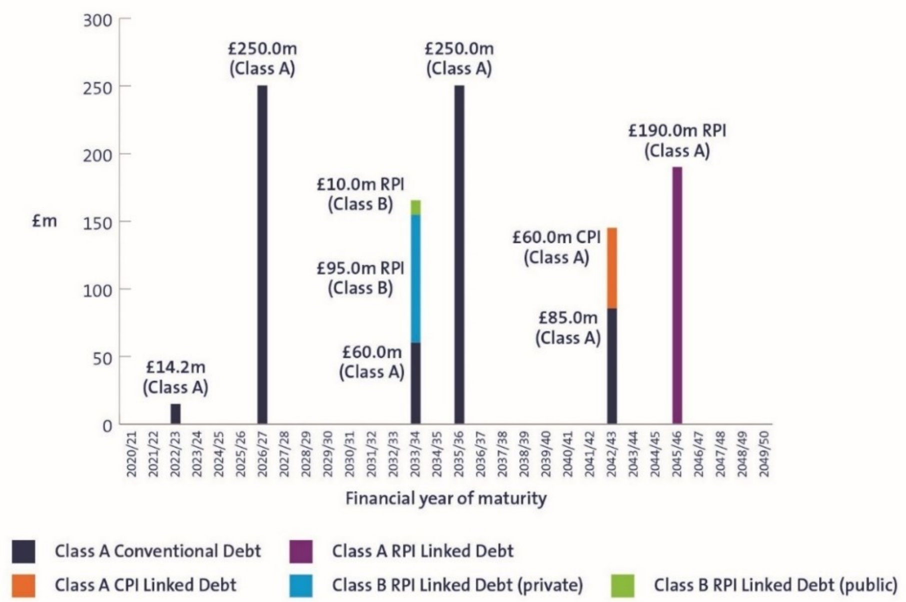
6 Financing update

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.

Our financing subsidiaries have outstanding external bonds totaling £1,014.2m, raised in the debt capital markets and on-lent to the company on the same terms. We have only £14.2m of debt maturing in AMP7 and a spread of maturity beyond this. Our next significant debt maturity is in July 2026 when a £250.0m fixed rate bond matures.

During the period we put in place a Green Finance Framework, which aligns our strategic and sustainability priorities with our funding and financial strategy. In October 2021, we issued our first green bond with a nominal amount of £130.0m and total proceeds of £147.8m, which will be used to fund projects which are fundamental to our Sustainability Strategy and will support our environmental objectives.

The chart below shows the maturity profile of all the bonds issued by Affinity Water's financing subsidiaries as at September 2021.



Credit ratings as at 30 September 2021 were:

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

Affinity Water

7 Regulatory update and Business 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. Our AMP7 price controls were published in December 2019 and we accepted them in February 2020.

From 2020, our new wholesale price control is further disaggregated into a 'water resources' control (abstraction) and a 'network plus' control (raw water transport, storage, treatment and treated water distribution) which intends to support trading in water resources. Our retail household price control continues to operate on a maximum allowed revenue per customer basis.

In addition to controlling revenues, Ofwat has determined eight Performance Commitments ('PCs') with financial incentives that are common across all companies and nine with financial incentives that are bespoke to us. A further 11 bespoke PCs do not carry financial penalties, but if we fail to meet the standards required, are likely to worsen our reputation with stakeholders. Where PC penalties and rewards become due, these are made in-period, not at the end of the five-year period as previously, with the exception of PCC which has been deferred and will now be considered as part of PR24.

We have commenced preparations for PR24 where Ofwat will determine the revenues we need to operate in AMP8. This includes considering our ambitions for 2025-30 as well as our long-term ambitions. Our approach is to front load our programme as far as possible and be comprehensive in our plan development by starting early across the entire scope of the plan, focusing early on our long-term vision and strategy, and to embed that vision and strategy as we develop our plans. 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 have fully mobilised our PR24 team, involving people from across Affinity Water with the ambition to develop a high quality and deliverable plan. This starts with a five-year strategy, that we are developing now. Our strategy sets out the steps we will take towards the long-term vision we set out in our Strategic Direction Statement, building in further detail about what we intend to deliver, the strategic choices we will need to make and our current knowledge of the regulatory framework for PR24. At the same time, we are working on the detailed evidence for our plan and continue to adapt this evidence as further information about the regulatory framework emerges.

8 Governance update

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: *Engaging with our Shareholders*.

The Ofwat Board Leadership, Transparency and Governance Principles 2019 ('BLTG Principles') and the UK Corporate Governance Code 2018 served to change our corporate governance landscape. Our Board used this as a positive opportunity to refresh our approach to corporate governance, by adopting a new Affinity Water Corporate Governance Code ('AW Code'), which sets out how we seek to govern the company. It incorporates the BLTG Principles, relevant provisions of the UK Corporate Governance 2018.

Executive appointments

- **Gurvinder Badesha** has left the business as we integrate our Assurance function into existing teams across the business.

Board appointments

- **Stuart Ledger** was appointed interim CEO on 9 September as Pauline Walsh stood down with immediate effect. Stuart was previously CFO at Affinity Water.

9 Common Terms Agreement compliance

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.

Calculation of financial ratios

Test period		Year 1 1 April 2020 To 31 March 2021	Year 2 1 April 2021 To 31 March 2022	Year 3 1 April 2022 To 31 March 2023	Year 4 1 April 2023 To 31 March 2024	Year 5 1 April 2024 To 31 March 2025
Net Cash Flow divided by	£m	98.1	96.3	115.6	122.7	147.7
Class A Debt Interest	£m	24.9	20.8	21.2	21.3	21.6
Class A ICR	**Ratio**	**3.9**	**4.6**	**5.5**	**5.8**	**6.8**

Test period		Year 1 1 April 2020 To 31 March 2021	Year 2 1 April 2021 To 31 March 2022	Year 3 1 April 2022 To 31 March 2023	Year 4 1 April 2023 To 31 March 2024	Year 5 1 April 2024 To 31 March 2025
Adjusted Net Cash Flow divided by	£m	98.1	96.3	115.6	122.7	147.7
CCD and IRC	£m	0	0	0	0	0
Class A Debt Interest	£m	24.9	20.8	21.2	21.3	21.6
Class A Adjusted ICR	**Ratio**	**3.9**	**4.6**	**5.5**	**5.8**	**6.8**

Test period		Year 1 1 April 2020 To 31 March 2021	Year 2 1 April 2021 To 31 March 2022	Year 3 1 April 2022 To 31 March 2023	Year 4 1 April 2023 To 31 March 2024	Year 5 1 April 2024 To 31 March 2025
Net Cash Flow less	£m	98.1	96.3	115.6	122.7	147.7
CCD and IRC	£m	0	0	0	0	0
Senior Debt Interest	£m	28.7	24.8	25.3	25.6	26.0
Senior Adjusted ICR	**Ratio**	**3.4**	**3.9**	**4.6**	**4.8**	**5.7**

Test period		Year 1 1 April 2020 To 31 March 2021	Year 2 1 April 2021 To 31 March 2022	Year 3 1 April 2022 To 31 March 2023	Year 4 1 April 2023 To 31 March 2024	Year 5 1 April 2024 To 31 March 2025
Year 1	Ratio	3.9	4.6	5.5	5.5	5.5
Year 2	Ratio	4.6	5.5	5.8	5.8	5.8
Year 3	Ratio	5.5	5.8	6.8	6.8	6.8
Class A Average Adjusted ICR	**Average**	**4.7**	**5.3**	**6.0**	**6.0**	**6.0**

Test period		Year 1 1 April 2020 To 31 March 2021	Year 2 1 April 2021 To 31 March 2022	Year 3 1 April 2022 To 31 March 2023	Year 4 1 April 2023 To 31 March 2024	Year 5 1 April 2024 To 31 March 2025
Year 1	Ratio	3.4	3.9	4.6	4.6	4.6
Year 2	Ratio	3.9	4.6	4.8	4.8	4.8
Year 3	Ratio	4.6	4.8	5.7	5.7	5.7
Senior Average Adjusted ICR	**Average**	**4.0**	**4.4**	**5.0**	**5.0**	**5.0**

Test period		Year 1 1 April 2020 To 31 March 2021	Year 2 1 April 2021 To 31 March 2022	Year 3 1 April 2022 To 31 March 2023	Year 4 1 April 2023 To 31 March 2024	Year 5 1 April 2024 To 31 March 2025
Net Cash Flow less	£m	98.1	96.3	115.6	122.7	147.7
RCV Depreciation and Capitalised IRE	£m	(56.0)	(60.2)	(76.2)	(84.0)	(91.5)
Class A Debt Interest	£m	24.9	20.8	21.2	21.3	21.6
Conformed Class A Adjusted ICR	**Ratio**	**1.7**	**1.7**	**1.9**	**1.8**	**2.6**

Test period		Year 1 1 April 2020 To 31 March 2021	Year 2 1 April 2021 To 31 March 2022	Year 3 1 April 2022 To 31 March 2023	Year 4 1 April 2023 To 31 March 2024	Year 5 1 April 2024 To 31 March 2025
Net Cash Flow less	£m	98.1	96.3	115.6	122.7	147.7
RCV Depreciation & Capitalised IRE	£m	(56.0)	(60.2)	(76.2)	(84.0)	(91.5)
Senior Debt Interest	£m	28.7	24.8	25.3	25.6	26.0
Conformed Senior Adjusted ICR	**Ratio**	**1.5**	**1.5**	**1.6**	**1.5**	**2.2**

Test period		Year 1 1 April 2020 To 31 March 2021	Year 2 1 April 2021 To 31 March 2022	Year 3 1 April 2022 To 31 March 2023	Year 4 1 April 2023 To 31 March 2024	Year 5 1 April 2024 To 31 March 2025
Year 1	Ratio	1.7	1.7	1.9	1.9	1.9
Year 2	Ratio	1.7	1.9	1.8	1.8	1.8
Year 3	Ratio	1.9	1.8	2.6	2.6	2.6
Conformed Class A Average Adjusted ICR	**Average**	**1.8**	**1.8**	**2.1**	**2.1**	**2.1**

Test period		Year 1 1 April 2020 To 31 March 2021	Year 2 1 April 2021 To 31 March 2022	Year 3 1 April 2022 To 31 March 2023	Year 4 1 April 2023 To 31 March 2024	Year 5 1 April 2024 To 31 March 2025
Year 1	Ratio	1.5	1.5	1.6	1.6	1.6
Year 2	Ratio	1.5	1.6	1.5	1.5	1.5
Year 3	Ratio	1.6	1.5	2.2	2.2	2.2
Conformed Senior Average Adjusted ICR	**Average**	**1.5**	**1.5**	**1.7**	**1.7**	**1.7**

Date		Calculation Date	Year 2 1 April 2021 To 31 March 2022	Year 3 1 April 2022 To 31 March 2023	Year 4 1 April 2023 To 31 March 2024	Year 5 1 April 2024 To 31 March 2025
Class A Net Indebtedness divided by	£m	912.0	936.0	1,009.4	1,068.4	1,087.1
RCV	£m	1,379.2	1,446.1	1,550.8	1,637.6	1,687.5
Class A RAR	**Ratio**	**0.661**	**0.647**	**0.651**	**0.652**	**0.644**

Date		Calculation Date	Year 2 1 April 2021 To 31 March 2022	Year 3 1 April 2022 To 31 March 2023	Year 4 1 April 2023 To 31 March 2024	Year 5 1 April 2024 To 31 March 2025
Senior Net Indebtedness divided by	£m	1,042.9	1,068.3	1,145.4	1,208.3	1,231.0
RCV	£m	1,379.2	1,446.1	1,550.8	1,637.6	1,687.5
Senior RAR	**Ratio**	**0.756**	**0.739**	**0.739**	**0.738**	**0.729**

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

Date	**30 September 2021 £m**
Borrowings	1,109.0
Exclude Permitted Legacy Loan	(3.6)
Add Back Unamortised Debt Issue Costs and Bond Premium	(16.0)
Add Accrued Interest	5.0
Add Swap Accretion	21.2
Less Cash and cash equivalents	(72.8)
Senior Net Indebtedness	**1042.9**
Remove Class B Debt Amounts	(130.1)
Class A Net Indebtedness	**912.0**

10 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	10.0	34.1	44.1
3 Months	15.0	-	15.0
6 Months	-	-	-
9 Months	-	-	-
1 Year	-	-	-
Total	25.0	34.1	59.1

Debt Service Reserve Accounts

There is no balance in each of the Debt Service Reserve Accounts as at 30 September 2021. The required debt service reserve is provided by a liquidity facility from HSBC Bank PLC totalling £32.0m.

Permitted Subsidiaries acquired

There were no Permitted Subsidiaries acquired pursuant to a Permitted Acquisition in the period to 31 September 2021.

Annual Finance Charge

Affinity Water Limited has calculated the Annual Finance Charge for the period from 1 April 2021 to 31 March 2022 as £23.8m.

	1 April 2021 to 31 March 2022 (£m)
Forecast interest paid on bonds and swap	23.4
Forecast interest paid on loans	0.0
Other recurring finance fees paid	0.4
Total	**23.8**

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,

Stuart Ledger

Chief Executive Officer

For and on behalf of

Affinity Water Limited

(in its capacity asTransaction Agent)