AFFINITY WATER LIMITED

UNAUDITED HALF-YEARLY FINANCIAL REPORT
FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2018

(Registered Number 02546950)

Affinity Water Limited

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Interim management report

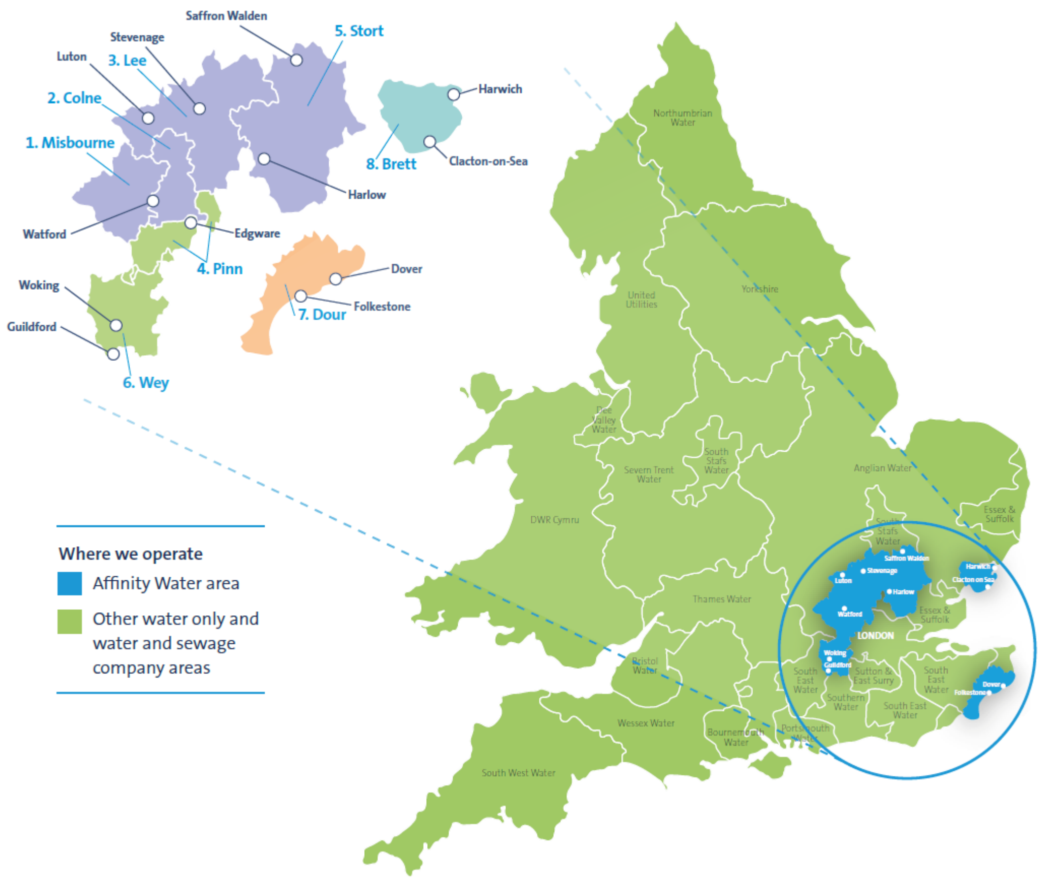
Introduction

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 900 Megalitres of water a day ('ML/d') to over 3.6m people. We operate 94 water treatment works to ensure that our water is of the highest quality, distributing our water through a network of over 16,600km of mains pipes.

We had a period of exceptionally hot, dry weather over the summer months and resultantly had 36 consecutive days where demand exceeded 1,000 ML/d and 12 days where demand exceeded 1,100 ML/d, challenging both our water production plants and our network. By carefully managing our network and working with other water companies to share water, we were able to meet the exceptional demand during the period without the need to introduce temporary usage restrictions. This has impacted the company both operationally and financially over the six month period.

Maintaining the high quality of water we supply to customers is vital in the face of pressures and obligations. Our mean zonal compliance for the 2017 calendar year was 99.96%. Our overall compliance performance, as regulated by the Drinking Water Inspectorate ('DWI') has remained stable during the period.

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.

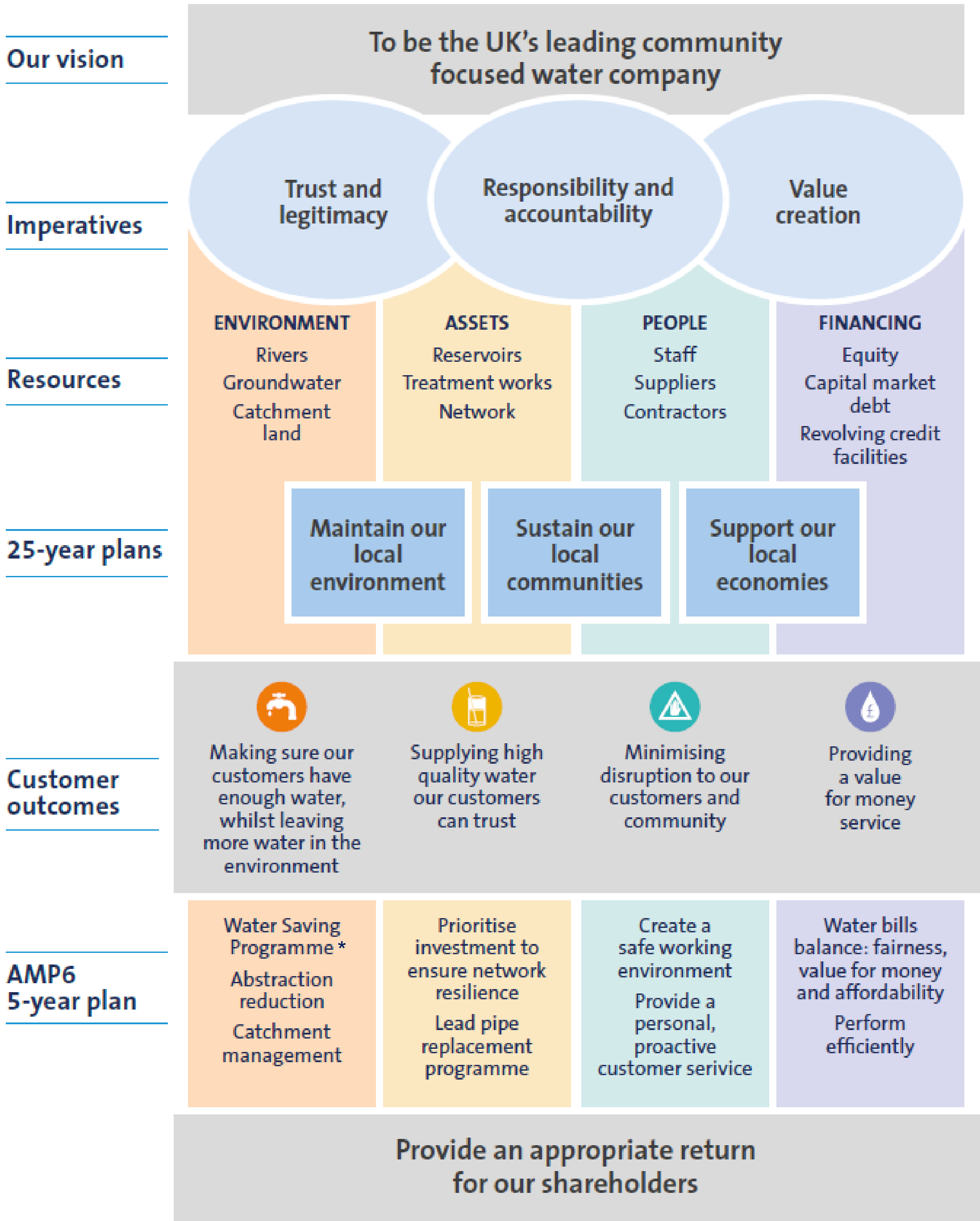


Affinity Water Limited

Interim management report (continued)

Our business model

Our business model for the 2015-2020 price control period, Asset Management Plan 6 ('AMP6') recognises that as a private provider of an essential public service, we need to retain the trust of our customers, operate in a responsible and accountable manner and create value by performing efficiently for our investors while also achieving value for money for customers. We aim to create value by managing our resources and relationships effectively for our customers and stakeholders.



* Our universal metering and water efficiency programme

Affinity Water Limited

Interim management report (continued)

Our financial highlights for the six months ended 30 September 2018

Operating profit: £32.6m

2017: £41.3m

Our operating profit for the six months ended 30 September 2018 was lower than the prior period due mainly to £9.5m higher operating costs partially offset by £0.7m higher revenue.

Net cash inflow before tax and financing[1]: £21.0m

2017: £30.2m

Our net cash inflow was lower than the prior period, primarily due to the £27.0m proceeds on disposal of the non-household retail business received in the prior period partially offset by lower capital expenditure.

The latest actuarial valuation of our Pension Plan was completed in the period and concluded that it was fully funded on a

self sufficiency basis

as at 31 December 2017.

We are at an advanced stage of

substituting our Cayman Islands subsidiary with a UK entity

with a process to obtain bondholder consent to the substitution launched in November 2018.

Gearing: 78.3%

31 March 2018: 78.6%

Gearing remained below the internal threshold of 80.0% at 30 September 2018 and throughout the period from 31 March 2018. This allows sufficient headroom within our financial covenants.

Credit rating: Baa1

31 March 2018: Baa1

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.

[1] This "non-GAAP" measure is calculated for the six month period ended 30 September 2018 as the total of the following line items per the statement of cash flows (refer to page 28): cash generated from operations; purchases of property, plant and equipment; capital contributions; proceeds on disposal of property, plant and equipment; and purchase of intangibles. The figure for the six month period ended 30 September 2017 is as reported in the half-yearly financial report for the six month period ended 30 September 2017.

Affinity Water Limited

Interim management report (continued)

Our operational highlights for the six months ended 30 September 2018

We have seen a

significant improvement

in our unplanned interruptions to supply over 12 hours performance compared to the same period in the prior year.

We remain

on track

to reduce the amount of water we take from environmentally sensitive sites by 42.1 ML/d by 2020. This is around 5% of our resource base.

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 recorded two work related lost time injuries during the period, maintaining our accident frequency rate of

0.29 lost time injuries per 100,000 hours worked

the same as for the year ended 31 March 2018.

There have been

positive movements

in our customer satisfaction measure, increasing each year from an average of 4.42 (out of 5) in 2015/16 to 4.63 in September 2018.

We have seen a

58% reduction

in the number of complaints and unwanted contact since the beginning of AMP6 and 28% compared to the same period last year.

How we create value

<table>
<tr><th>Our capitals</th><th>How we create value</th></tr>
<tr><td>Our customers and communities
Relationship and trust between us and our stakeholders.</td><td rowspan="5">Our vision is to be the UK’s leading community-focused water company, by helping customers to understand the value of water, in turn reducing consumption and supporting 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 our resources and relationships as capitals 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.</td></tr>
<tr><td>Our environment
The natural resources that we rely on.</td></tr>
<tr><td>Our people
Our experience, skills and competences we share.</td></tr>
<tr><td>Our assets and sites
The lifecycle of our assets and investment projects.</td></tr>
<tr><td>Our finances
Finance available to sustain our business.</td></tr>
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Affinity Water Limited

Interim management report (continued)

How we create value (continued)

Our AMP6 commitments	Our customer outcomes
We will reduce the amount of water we take from the environment by 42 million litres per day. We will 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. We will invest £500 million in our network to reduce leakage by 14% - the equivalent of 27 million litres per day.	 Making sure our customers have enough water, whilst leaving more water in the environment
We will maintain high quality drinking water. We will implement a targeted programme of lead pipe replacement to meet more stringent legal standards.	 Supplying high quality water you can trust
We will invest in increased flexibility in our network so we can transfer water more effectively around our communities.	 Minimising disruption to you and your community
Average household bills will reduce before inflation between 2015 and 2020. We will promote our social tariff (LIFT) to support those least able to pay their bill. We will make £106 million of efficiency savings in our running costs to keep bills as low as possible over the five years of AMP6. We will make ourselves accountable to our communities for our performance.	 Providing a value for money service

Operational performance

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, understanding that we are not always best placed to drive change or influence behaviours and should draw on the skills of subject matter experts. We must make use of existing networks and 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.

In March 2018, we established a Community Committee as a subcommittee of the Board to oversee and continue to enhance our Community Strategy. We have worked to develop the Committee over the first six months of this year and following submission of our draft Community Model and Measurement Framework in our Asset Management Plan 7 (‘AMP7’) Business Plan, the Committee are now focusing on how we can co-create our community-focused goals with our customers and stakeholders. We already report our performance at a community level, but are moving towards a more tailored approach.

The way we interact with our customers and communities is key to providing a service that represents value for money. During the first six months of this year, we won two European Contact Centre and Customer Service Awards for ‘Best Customer Insight Initiative’ and ‘Most Effective Business Transformation Programme in Customer Service’. We have continued to use insight gained from surveys to inform customer service decisions and have delivered significant performance improvements. Registrations for ‘My Account’, our digital self-service portal, have increased significantly and we have added in new capabilities to allow our customers to change a name on their account, edit their direct debit details and download a copy of their bill. We have also updated our website pages for pressure and flow issues and made improvements to our refunds and missing payments processes.

Customer satisfaction is of utmost importance to us. While we acknowledge there is still more to do, there have been positive movements in our customer satisfaction measure, increasing each year from an average of 4.42 (out of 5) in 2015/16 to 4.63 in September 2018. The numbers of customers rating themselves satisfied or very satisfied with us grew from 86% in 2015/16 to 91% in September 2018 reflecting improvements in the service levels customers are receiving. From an external position, we have seen an improvement in our Service Incentive Mechanism (‘SIM’) score for billing and clean water, being the third most improved company overall in 2017/18. However our SIM score is still below the industry average and we know we have much more to do to continue the improvements we are making in customer service.

We know that customer priorities are changing and that their expectations are growing. We have seen a 58% reduction in the number of complaints and unwanted contact since the beginning of AMP6 and 28% compared to the same period last year. We have achieved this by communicating better with our customers, redesigning our debt management process and making improvements to our home move process.

We recognise the need to become even more focused on the customer needs within our communities. During the period, we have been improving the accessibility of our website and working towards becoming a dementia-friendly organisation. For more information, refer to the case study on the following page.

The key focus for the remainder of 2018/19 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)

Dementia Friends

Dementia Friends is a programme run by the Alzheimer's Society and its aim is to change people's perception of dementia and to transform the way they think, act and talk about the condition.

We are proud to work towards becoming a dementia-friendly organisation and have committed to carrying out Dementia Friends information sessions throughout the company.

Key stakeholders
- Affinity Water employees
- Alzheimer's Society
- Vulnerable customers

Actions and outputs

- Six Dementia Friends sessions have taken place at our Hatfield and Folkestone offices and we now have 38 Dementia Friends in the organisation. A Dementia Friend learns what it is like to live with dementia and then turns that understanding into action.
- Our Dementia Friends plans have featured in company publications and have been promoted on our intranet site, raising awareness about the initiative to encourage more people to become Dementia Friends.
- Each Dementia Friend has committed to turning understanding into action following the session, for example wearing their Dementia Friends badge and telling five friends about the initiative or carrying out a personal action such as being more patient when out in their community.

Outcomes

Our employees have a better understanding of what dementia is and the small actions that they can take to support people living with dementia.

Demonstrating the principles to overcome the barriers and challenges that people living with dementia may face when interacting with utility companies.

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.

Through our industry leading abstraction reductions initiative, we are addressing the environmental challenges of protecting our precious local rivers and habitats while encouraging behavioural change. In our AMP6 Business Plan, we committed to reducing the amount of water we take from the environment by 42 ML/d. This is a stepped target over AMP6 and in 2017/18 we implemented reductions 12 months earlier than planned, resulting in a cumulative average annual reduction of 33 ML/d against a target of 14 ML/d. As outlined in our latest Water Resource Management Plan, we will be making further sustainability reductions of 36 ML/d by 2024. We will also work with neighbouring water companies to provide the foundation for water trading in the South East of England by transferring water from water-rich areas to drier regions.

Our ground water levels remain stable despite this summer's hot, dry weather with very little rainfall. By carefully managing our network and working with other water companies to share water, we were able to meet the exceptional demand during the hot weather period over the summer months without the need to introduce temporary usage restrictions. In these exceptional conditions, the experience and dedication of our operational teams helped to ensure that we maintained a reliable supply of water for the vast majority of our customers. We are continuing to monitor the situation closely with clear plans in place to make sure we are fully prepared should we experience a third consecutive dry winter in 2018/19.

We are investing £500m over AMP6 to improve our infrastructure to ensure we meet our commitment to make sure our customers have enough water, whilst leaving more water in the environment. We have committed to reducing leakage by 14% by 2020, the largest percentage reductions of any water company in England and Wales. We are targeting a further 15% reduction in leakage by 2025. We deployed extra leakage teams in areas of high demand during the hot weather period to fix leaks where they occurred. However the strain on the network and operation of the business has resulted in higher leakage than planned at this stage of the year. We have employed additional resource to bring the levels back on target. We also continue to use the latest leakage detection technology to identify and fix leaks.

We estimate that around a third of total network leakage occurs from customers' supply pipes. The installation of meters has been proven to reduce usage by our customers and also offers critical data in our understanding of usage and finding leaks. We believe that the meters installed to date will have highlighted 16ML/d of customer side leakage by the end of AMP6. We have installed more than 148,000 meters as part of our Water Saving Programme ('WSP') to date.

As outlined in our AMP6 Business Plan, all customers receiving a water meter as part of our WSP can opt to switch to a measured tariff or remain on their unmeasured tariff for a period of two years. More than 26,000 customers have elected to switch onto a measured tariff before the end of the two-year period. We anticipate around two thirds of our customers will be financially better off with a meter and being on a metered tariff will encourage customers to reduce their consumption. We will continue to support the remaining customers to reduce their consumption and value of their bill through initiatives such as our "Keep Track of the Tap" campaign.

Our Environmental Policy is to protect the environment and continually improve the way we manage our environmental impacts. We have recently launched a scheme to generate 'Green Ideas', which are innovative ideas that could lead to an environmental improvement. The theme of waste prevention, particularly with regards to single use plastics, has been especially prevalent. We have introduced reusable coffee cups at our Head Office, which has saved more than 2,500 disposable cups since June 2018.

Operational performance (continued)

Ecological surveys

A range of ecological surveys was undertaken at a number of Affinity Water sites during the summer as part of our Biodiversity Programme. These have been carried out for a number of reasons:

- to establish a baseline of what species are present and if there any rare or protected species;
- to monitor changes in biodiversity;
- to identify habitat enhancement to increase biodiversity where possible; and
- to fulfil regulatory and legislative obligations.

Key stakeholders

- Affinity Water employees
- Herts and Middlesex Wildlife Trust

Actions and outputs

- Butterfly surveys were carried out at 43 of our sites, some of which were previously unmonitored. 27 different species of butterfly were recorded, including two new species of butterfly – the Chalk Hill Blue (pictured above) and the Silver-Washed Fritillary.

- Moth surveys were carried out at five different sites. In total, 122 different species of moth were recorded including 53 species that had not previously been recorded. Since surveying began in 2016, we have seen a rise in the number of different species being recorded as new sites are surveyed.

- A reptile survey was carried out at one of our sites which was recognised for having huge potential for reptiles due to its suitable habitats. Four surveys were undertaken, and the results found that four different species of reptile were present. These were the common lizard, grass snake, slow-worm and the locally rare adder. This makes the site one of the most important sites for biodiversity in our Central region.

Outcomes

The survey data has informed decisions on the management of selected sites, which will benefit their ecosystems and encourage different species on to the site.

The survey outcomes will be shared externally, which will encourage engagement with local wildlife groups and help monitor populations in the local area going forward.

Operational performance (continued)

Our people

Continuous innovation is embedded in everything we do and is driven from our Board through our Executive Management Team to all parts of our organisation. We are continuing to shift our working practices to be more agile and more responsive as well as transforming customer experience. We have created new teams during the period, offering new roles and training opportunities. In order to stay within our target of unplanned interruptions to supply over 12 hours we have established a Rapid Response and Restoration team to maintain or restore supplies. We have seen a significant improvement in our performance as a result, compared to the same period in the prior year. Furthermore, our Wholesale Operations Service Desk team, which is a dedicated resource to support our wholesale customers, is regularly top of the Market Operator's industry leader board in terms of compliance with the operational performance standards.

We have created 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 continue to use innovation to identify new ways of working and to develop our own teams to reach their full potential. A new digital learning portal was launched in April 2018 offering a catalogue of online training courses. Through this platform, all our team members completed General Data Protection Regulations training ahead of the new legislation coming into effect in May 2018.

We take the safety, health and wellbeing of our people and suppliers very seriously. We are committed to operating our business without harm and our vision and our customer outcomes are all set in this context. During the period, we recorded two work related lost time injuries maintaining our accident frequency rate of 0.29 lost time injuries per 100,000 hours worked for the 12 month period ended 30 September 2018, the same as for the year ended 31 March 2018.

We remain fully committed to achieving zero harm and have launched a new programme aimed at making safety personal. All employees have a licence to access Rivo, our system for recording and managing health and safety incidents. We have also invested in the Rivo mobile application, allowing community based colleagues to report incidents in real time. Awareness of health and safety has steadily increased during the period, with the number of safety observations reported on Rivo increasing from 2.17 per person per month in March 2018 to 3.15 in September 2018.

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 2018:

	Men	Women
Our Board	7	4
Executive Management Team	3	3
All other employees	857	523

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. Our people have been involved in the Riverfly for Schools Programme (for more information, refer to the case study on the following page) and have twice volunteered with the White Cliffs Countryside Partnership during the period, firstly on World Environment Day: 12 employees helped to clear the River Dour by removing litter from the water, river banks and surrounding areas; and secondly, in September, members of the Executive Management Team carried out fen clearance in our Dour region.

Operational performance (continued)

Riverfly for Schools programme

The Riverfly for Schools programme is a pilot being run by Affinity Water and delivered by Thames21 - a charity working with communities to improve rivers and canals for people and wildlife. The programme aims to support young people to gain valuable and practical scientific experience working in the environment whilst engaging with their local waterways. The programme works in line with the Riverfly Partnership's Citizen Science initiative which supports the Environment Agency in biological river monitoring.

Key stakeholders
- Affinity Water employees
- Thames21
- Local schools

Actions and outputs

- Over 250 young people have engaged with their local river through hands on scientific fieldwork experience in the first phase of the pilot between June and October 2018, which took place at Colne Valley Park on the River Misbourne and at Eastcote House Gardens on the River Pinn. The next phase of the pilot aims to engage with a wider base of schools and young people throughout 2019.
- Our new partnership with Thames21 has allowed for key water resource management messages to be shared with, and expertly delivered by, a third party.
- A comprehensive resource package has been created to support National Curriculum linked learning throughout and beyond the Riverfly for Schools programme.
- Our water conservation and resource management messages have been shared with young people within our operating area, which has enabled them to contribute to a wider river monitoring Citizen Science initiative.

Outcomes

- Young people will have a greater appreciation of the health of their local river and an understanding of the challenges faced to manage water resources in their catchment area.
- Schools participate in a nationally recognised initiative, whilst meeting their curriculum needs, and connect with their local waterways in an applied and meaningful way.
- Students gain practical fieldwork experience which may inspire further studies or employment in this sector in the future.

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 delivers it to treatment works where we convert raw water into high quality wholesome drinking water. Our below ground network of assets takes water from treatment works and deliver it to homes and commercial premises through more than 16,600km of mains. Asset-related activity to maintain, enhance and create assets is a major part of our business.

We continuously invest in our network and are making steady progress against our mains renewals target of 46km by 31 March 2019, as well as replacing 9.8km of trunk mains this year. We aim to survey and complete 3,235 lead pipe replacements this year as part of our £25m AMP6 lead pipe replacement programme.

Our capital programmes have been disrupted slightly during the period by the increased operational needs of the business. The exceptionally hot, dry weather over the summer months resulted in sustained high distribution inputs during both the day and night, increasing the pressure on our network. Our network teams faced a huge challenge as the ground contracted and we experienced a spike in the number of mains bursts occurring. Despite this we remain below our year-to-date target and below the number of bursts experienced in the comparative period of the prior year.

We had prepared our assets for high temperatures by installing air conditioning and cooling fans. Our production sites were pushed to the maximum flow, and in certain locations where we have lower abstraction licences to help support the environment, we needed to move water around the network effectively so that there was enough to manage peak demand. We cancelled all non-essential maintenance as we switched our focus onto fixing leaks and bursts. As a result, network, production and supply costs were higher than the same period in the prior year due to the increased demand and the increased number of operational jobs undertaken.

We are constantly innovating and explaining new ideas and techniques to check whether our assets are running at optimum efficiency. We can now monitor our pumps in real time and identify the optimum mix of pumps to use by measuring small temperature changes across a pump to within one thousandth of a degree. We have also developed an instrument that monitors bacterial sized particles at our production sites. This will help us gain a better understanding of what comes through our filters and whether there is a possibility of bacterial regrowth in our distribution system.

We have also completed upgrades or renovation works on several of our sites including a major infrastructure programme at our Heronsgate Pumping Station. For more information, refer to the case study on the following page. We have also re-opened one of our oldest wells dating back to 1858 and have made improvements to our Education Centre, which has engaged with over 250,000 children since it was built 20 years ago. We have installed a second 400-gallon water butt to collect rain water from the roof of the Education Centre, which is then used to keep our dipping pond topped up. We have also constructed a sheltered outdoor teaching space.

Operational performance (continued)

Heronsgate Pumping Station

Our Sustainability Reductions Programme supports our commitment to protect rare chalk stream habitats by reducing the amount of water we abstract from the ground.

In our River Gade catchment area, we have been constructing new infrastructure at Heronsgate Pumping Station and Bovingdon Reservoir to enable us to move water around our network more effectively, to compensate for the planned abstraction reductions.

Key stakeholders

- The Environment Agency
- Our customers
- Affinity Water employees
- A key contractor

Actions and outputs

- We have reduced the amount of water abstracted from our groundwater source at Piccotts End by 10 ML/d.
- We have installed two new 560kW pumps each weighing 7.2 tonnes and powerful enough to pump 26 ML/d at 12 bar, doubling both the previous flow rate and the pressure.
- This £4 million project has been a tremendous collaboration between us and our contractor. Extensive testing has now been completed with the pumping station becoming operational in October.

Outcomes

Our customers will have enough water, whilst leaving more water in the environment.

Our employees and our contractors have successfully collaborated on a major infrastructure programme.

Affinity Water Limited

Interim management report (continued)

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 debt 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 18).

We want to provide water at affordable prices to all our customers. Our support for financially vulnerable customers who have a low household income or are claiming benefits has grown in the period with 50,000 households now supported by our social tariffs (LIFT and Watersure). At 31 March 2018 the number of households supported by our social tariffs was the second highest in the industry, including as a proportion of total households served. Customers benefitting from these tariffs receive a reduced fixed rate. We plan to introduce a Customer Assistance Fund by 2020 and aim to expand our social tariff offering by an additional 30,000 customers in AMP7. We continue to donate to community organisations across our supply area through our Community Engagement Fund. Individual projects are usually awarded up to £2,500, which at a local level makes a real difference in terms of equipment, materials or tailored support. For more information, refer to the case study on the following page.

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. In our AMP7 Business Plan we have proposed that, on average, household bills will increase by 71p per year between 2019/20 and 2024/25, starting at £170.90 and rising to £174.44, a total increase of £3.54 before allowing for inflation[1]. This small increase is due to the significant investment being made to meet the environmental requirements and commitments supported by our customers. We have mostly offset this increase with our proposals to deliver £200m of efficiencies in AMP7.

We plan to invest £1.37bn in the period from 2020 to 2025. This 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 Water Resources Management Plan for the 60-year period from 2020 to 2080. We will invest in local level assets such as pumps, mains upgrades and invest in service reservoirs. 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. 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 investment during the first half of AMP7, which is already funded (refer to page 18).

Our Board has approved revised 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.

[1] The average bill amounts are presented using the November 2016 CPIH index to represent a consistent 2017/18 price base; using the November index preceeding the price base year in use is consistent with the Discover Water method applied for valuing average real bills through time.

Operational performance (continued)

Community Engagement Fund

Our Community Engagement Fund was set up to give local charities and community groups an opportunity to apply for support for specific projects. The projects they promote must have a strong link to our core business, such as sustainable water use, benefitting the environment or helping vulnerable customers. Each year we donate £50,000 to around 25 local community groups and charitable causes.

Applications are assessed by a panel of our staff from across the business, providing a great staff development opportunity, whilst also bringing individual experiences and community knowledge to inform the decision making process.

Key stakeholders
- Affinity Water employees
- Local charities and communities

Actions and outputs

- Applications to the Community Engagement Fund can be made twice each year. We reach out to local partners, media and our communities to encourage local charities and organisations to apply.

- In the first round of funding, which took place this spring, we received over 80 applications from which 15 local groups were awarded grants of up to £2,500 each and totalling £25,000.

Outcomes

Shepway Young Persons at Risk will be able to purchase a laptop so they can offer a job search and CV drop in service which will enable young people to look for jobs and training courses.

Hertfordshire Boat Rescue has purchased water rescue equipment which includes lifejackets and throw bags for children so they are able to learn how to save lives.

Hertfordshire Independent Living Service (pictured) will be able to provide hydration packs to help reduce health risks relating to dehydration in older people living in the community.

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, the Department for the Environment, Food and Rural Affairs ('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.

The debate over water companies' regulation and governance, and their long-term requirements has continued during the period, with renationalisation of the industry remaining a key topic. The Labour Party has stated that it intends water and sewerage companies to be run by local councils, workers and customers, although it has not yet commented on the risks involved with a local government-run water industry, or how it would meet future funding and investment requirements.

In September 2018 we submitted our AMP7 Business Plan to Ofwat. It builds on our vision to be the UK's leading community-focused water company, setting out our plans and the funding we require, to meet the expectations of our customers and stakeholders. We will help customers understand the true value of water, support them to manage and reduce their consumption and so support the ongoing protection of the environment and future resilience of supplies.

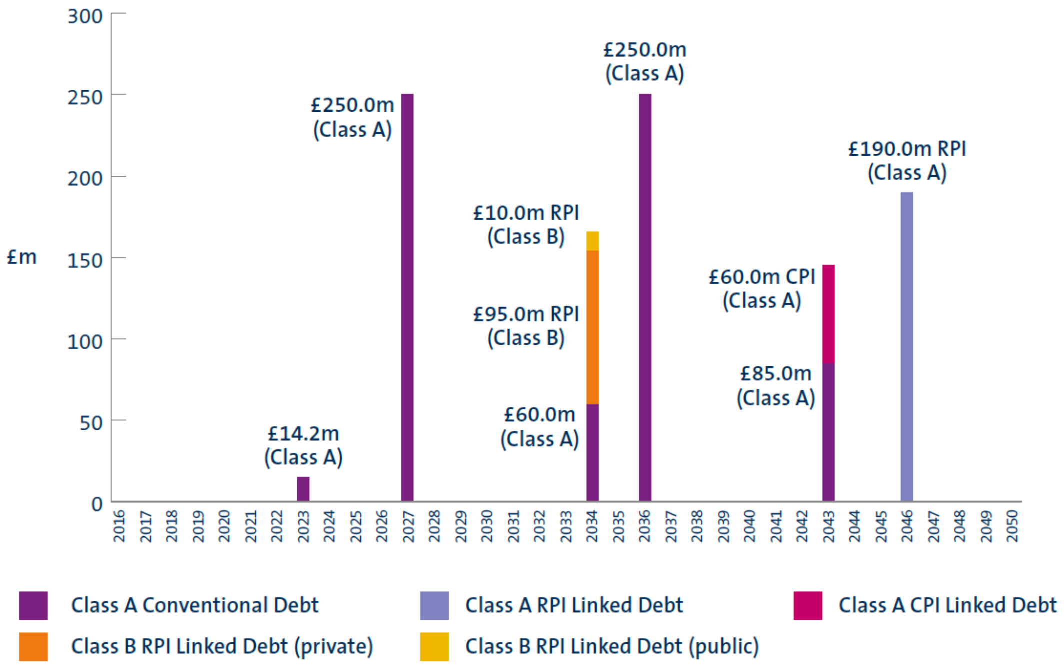
Highlights of our AMP7 Business Plan include:

- reducing leakage by 15% in AMP7, equivalent to 24.5 ML/d and building on the 14% reduction in AMP6 compared to the industry average of 4%;
- reducing the amount of water abstracted from the environment by 36 ML/d in AMP7, following the successful delivery of 42 ML/d reductions (around 5% of our resource base) since 2015;
- continuing to protect the quality of water resources through our catchment management and river restoration programmes, to help habitats and biodiversity of rivers in our supply area;
- continuing our water saving (metering) programme, helping customers to manage their water use, with the aim of reducing average water consumption in our supply area from 147 litres to 129 litres per person per day;
- improving the sharing of regional resources with other water companies and the investment in upgraded treatment and conditioning works to allow the transfer of water from and to other water companies; and
- increasing the help we provide to customers in vulnerable circumstances, building on the support we currently deliver to more than 50,000 customers through a number of different schemes.

We are currently awaiting a response from Ofwat before entering into a process of agreement, which must be completed by December 2019.

Financing update

The following chart shows the maturity profile of the bonds issued by the company's subsidiaries as at 30 September 2018:



There has been no change during the period in credit ratings for the Class A bonds, rated A3 and A- by Moody's and Standard & Poors respectively, or the Class B bonds, rated Baa3 and BBB.

At 30 September 2018, net debt, as defined in the financial covenants in the company's securitisation documentation ('compliance net debt'), was £960.5m (at 31 March 2018: £949.0m - refer to note 1E in the Annual Performance Report for the year ended 31 March 2018 for the basis of the calculation). Gearing, calculated as compliance net debt to Regulatory Capital Value ('RCV') at 30 September 2018, was 78.3% (31 March 2018: 78.6%) 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%.

The company has a relatively high proportion of nominal debt (65.0%) versus index-linked debt when compared to the rest of the water industry. This means that we have a relatively high cash interest payable compared to our peers, which can put pressure on our interest cover covenant. We will be further affected by the lower weighted average cost of capital allowed in PR19, as our future funding requirement is minimal. An RPI linked inflation swap with a nominal value of £135.0m, which is linked to the maturity of the Class A fixed rate £250.0m bond (July 2026), was entered into in August 2018 as this was the most efficient way to switch to a higher proportion of index linked debt. This will lead to net interest receivable cashflow over the life of the swap, which is expected to increase the headroom against our covenant limits, offset by an accretion payment on maturity. Movements in RPI forward rates create fair value profits or losses, which will flow through the income statement. A fair value loss arose in the period due to an upwards movement in the forward curve since inception.

The directors have announced their intention to substitute Affinity Water Programme Finance Limited, a wholly owned subsidiary of the company registered in the Cayman Islands, with a UK registered entity, Affinity Water Finance PLC, incorporated on 13 November 2018. The assets and liabilities of Affinity Water Programme Finance Limited are expected to be transferred to Affinity Water Finance PLC in the near future.

Affinity Water Limited

Interim management report (continued)

Financing update (continued)

We operate a pension plan, the Affinity Water Pension Plan (‘AWPP’) comprising both defined benefit and defined contribution sections. The latest actuarial valuation of the defined benefit section of the AWPP, determined by an independent qualified actuary, has been completed in the period and concluded that the pension scheme was funded on a self sufficiency basis as at 31 December 2017. The company has signed a new schedule of contributions effective from October 2018 and no further deficit payments are required.

On 26 October 2018 the High Court ruled that pension trustees are under a duty to amend pension schemes in order to equalise benefits for men and women so as to alter the result produced in relation to Guaranteed Minimum Pensions (‘GMPs’). Given the proximity of this ruling to the reporting date, the directors cannot reliably estimate the impact on the company’s post-employment benefit surplus.

Financial performance

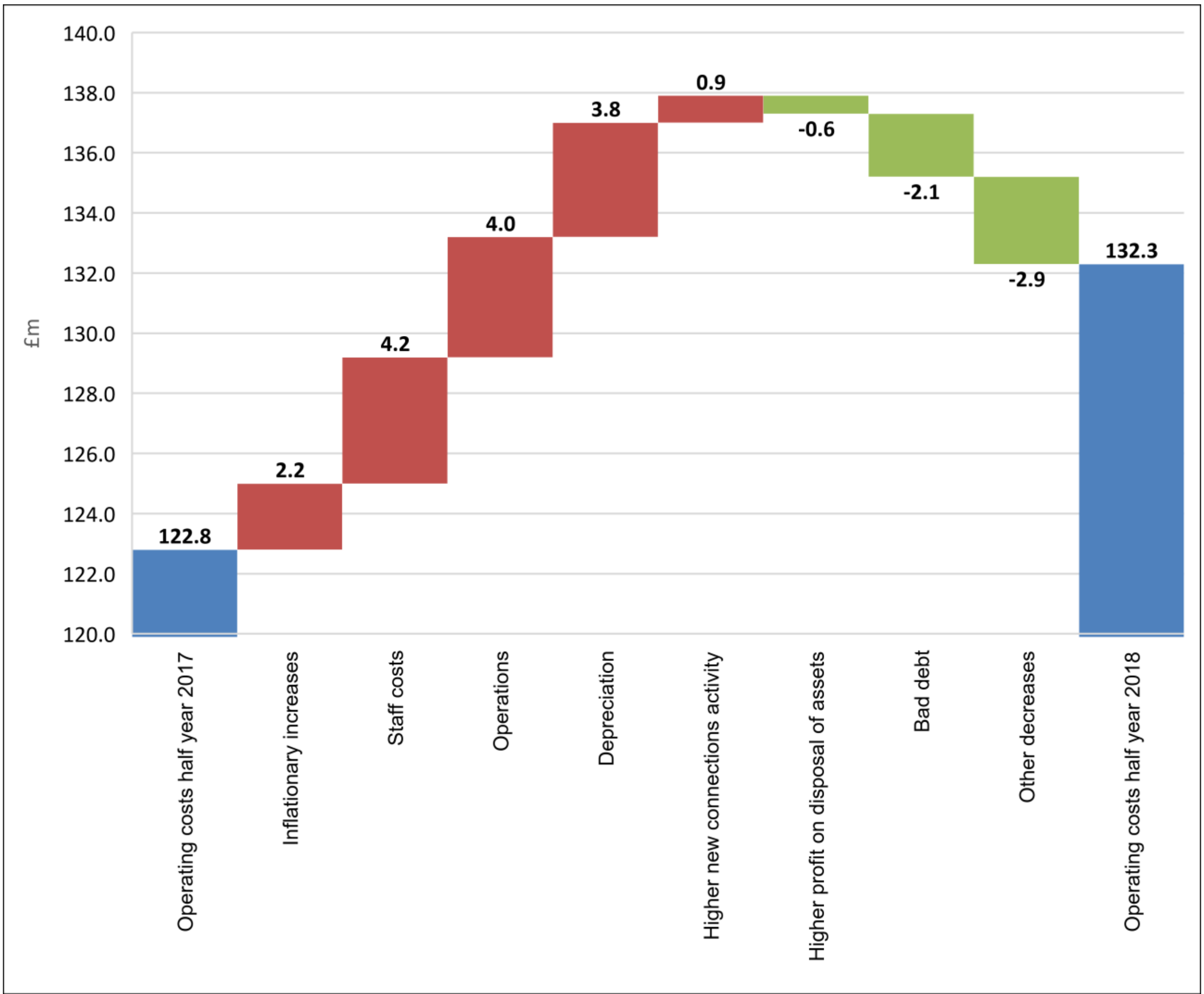
Our financial results are prepared in accordance with the recognition and measurement requirements of EU-adopted International Financial Reporting Standards (‘IFRS’; refer to note 2 of the condensed interim financial statements for further details). Our unaudited financial results for the six months to 30 September 2018 are summarised as follows:

	2018 **£m**	2017 £m
Revenue	**155.3**	154.6
Operating costs	**(132.3)**	(122.8)
Other income	**9.6**	9.5
Operating profit	**32.6**	41.3
Profit on disposal of non-household retail business	**-**	11.0
Net finance costs	**(25.7)**	(25.9)
Fair value loss on financial instrument	**(4.5)**	-
Profit before tax	**2.4**	26.4
Tax expense	**(0.5)**	(4.2)
Profit for the period	**1.9**	22.2

Financial performance (continued)

Revenue for the first six months of the year was £155.3m, being a 0.5% increase on the same period last year (2017: £154.6m). The increase is primarily due to higher summer consumption and higher new connections activity, partially offset by lower household prices.

Total operating costs of £132.3m for the first half of the year were £9.5m higher than for the same period last year (2017: £122.8m). The variance is explained in the graph below:



Staff costs have increased by £4.2m over the period due to annual staff salary increases, higher staff numbers as we have brought services in-house, and a reduction in staff time recharged to capital projects in the current year.

Operations costs were £4.0m higher in the current year due to an increase in the number of operational jobs undertaken in the period, as well as additional costs incurred following the increased demand during the hot weather over the summer months.

Depreciation and amortisation is £3.8m higher largely due to completing the roll out of our new fieldwork management system in June 2018 and other software projects in the second half of the prior year.

Affinity Water Limited

Interim management report (continued)

Financial performance (continued)

Other income of £9.6m consisting largely of commission earned from billing and collecting charges in respect of sewerage and infrastructure on behalf of other companies was £0.1m higher than the prior period.

The net finance expense of £25.7m was £0.2m lower than the first half of last year primarily due to £0.8m higher finance income partially offset by £0.6m higher interest payable on the bonds. The £4.5m fair value loss on financial instrument was due to the RPI linked inflation swap which was entered into in August 2018.

Profit before tax decreased by £24.0m (90.9%) to £2.4m (2017: £26.4m), primarily due to the increase in operating costs and the fair value loss on financial instrument as explained above, as well as the effect of the disposal of the non-household retail business in the prior year.

Income tax expense is £3.7m lower than the prior period primarily due to lower operating profit. The effective tax rate of 21.2% is higher than the current corporation tax rate of 19.0% and higher than the effective tax rate for the prior year, which was impacted by the non-taxable sale of the non-household retail business.

We overpaid corporation tax in respect of the prior year, and are, therefore, not required to make any corporation tax payments during the current year. The prior year tax charge was lower than expected due to claiming Enhanced Capital Allowances on our investment in water and energy saving technology. We have an obligation to minimise our tax liability in order that our customers are not funding excessive and unnecessary charges through increased bills, and we are able to reduce our corporation tax charge by making beneficial claims and elections, such as those available for investment in water and energy saving technology and in research and development activities. This reflects the scale of our investment in assets vital to securing the ongoing delivery of an essential service to our customers and communities.

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 tax legislation. Details of the tax strategy for the Affinity Water Limited regulated business can be found on page 209 in our regulatory Annual Performance Report for the year ended 31 March 2018, 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: *stakeholder.affinitywater.co.uk/investor-library.aspx*.

Lower equity dividends were paid during the period of £5.0m (2017: £28.5m) primarily due to the proceeds of disposal of the non-household retail business in the prior year (refer to page 15 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 2018).

Capital expenditure in the period was £45.9m (2017: £66.5m), and was incurred principally on our mains renewals, trunk main replacement, water saving and lead pipe replacement AMP6 programmes. The total excludes £7.7m (2017: £6.7m) of infrastructure renewals expenditure, which is treated as an operating cost under the recognition and measurement requirements of IFRS. The lower capital expenditure in the first half of this year compared to the same period last year reflects a temporary deceleration in the pace of our investment programmes, as the business focused on the operational running of the business to meet the higher demand experienced due to the hot weather period. Capital expenditure is expected to accelerate in the second half of the year, although the total spend is forecast to remain lower than the prior year.

Net cash inflow before tax and financing[1] for the first six months of the year was £21.0m being a £9.2m (30.5%) decrease on the same period last year (2017: £30.2m). The decrease was primarily due to the £27.0m proceeds on disposal of the non-household retail business received in the prior period partially offset by the lower capital expenditure explained above.

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[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 28): cash generated from operations; purchases of property, plant and equipment; capital contributions; proceeds from sale of property, plant and equipment; proceeds on disposal of non-household retail business; and purchases of intangible assets.

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 2018.

The principal risks and uncertainties reported for the year ended 31 March 2018 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 secure appropriate resources (people and materials)
  - Information security failure
  - Failure to adequately protect personal data
  - Failure to provide adequate levels of customer service

- Regulatory risks:
  - Adverse 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

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

Further information on these risks and uncertainties can be found on pages 36 to 44 of the company's annual report and financial statements for the year ended 31 March 2018, which is available on our website: *https://stakeholder.affinitywater.co.uk/investor-library.aspx.*

During the period we submitted our AMP7 Business Plan in which we have increased our expected level of investment, such that some of it is now currently unfunded, which has heightened the risk: "Failure to secure appropriate financing for our business activities".

Principal risks and uncertainties (continued)

Vote to leave the European Union

The Board anticipates that whilst the company's activities may be impacted by the UK's decision to leave the European Union over the long term, the impact is unlikely to be significant in the near term. The company's exposure to inflation is broadly hedged because (i) its revenue is linked to inflation and (ii) the fact that some significant costs are already secured to the end of AMP6. The company has also secured financing for the remainder of AMP6 and into the beginning of the next price control period, AMP7. The company is exposed to foreign exchange rate movements, as some foreign purchase contracts are unhedged; however this exposure is minimal. Although the company's pension plan is currently in an accounting surplus, large market movements may reduce or eliminate this surplus. Finally, the company may be impacted by the ability of its suppliers and subcontractors to secure appropriate resources (materials and people).

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 22. 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 2016 UK Corporate Governance Code ('the Code') and meeting the principles and provisions of Ofwat's publication: Board leadership, transparency and governance – principles (January 2014). We support the updated principles for regulated companies and holding companies published for consultation in July 2018. Our Governance Code was updated in September 2017 and reflects the requirements of the Code. Our business is owned by private investors and we therefore apply the principles of the Code in this context, 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 have been 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 2018

	Note	**30 September 2018 £000 Unaudited**	30 September 2017 £000 Unaudited
Revenue	5	**155,323**	154,609
Cost of sales		**(105,567)**	(96,583)
Gross profit		**49,756**	58,026
Administrative expenses		**(26,775)**	(26,228)
Other income		**9,646**	9,542
Operating profit	6	**32,627**	41,340
Profit on disposal of non-household retail business	7	**-**	10,958
Finance income	8	**2,193**	1,011
Finance costs	8	**(27,904)**	(26,890)
Fair value loss on financial instrument	8	**(4,493)**	-
Profit before tax		**2,423**	26,419
Tax expense	9	**(513)**	(4,169)
Profit for the period		**1,910**	22,250

All profits of the company in the current period and prior period are from continuing operations[1].

The notes on pages 29 to 44 are an integral part of these condensed interim financial statements.

[1] Profit for the prior period includes the gain on disposal of the non-household retail business to Affinity for Business (Retail) Limited.

Affinity Water Limited

Condensed interim statement of comprehensive income for the six months ended 30 September 2018

	Note	**30 September 2018 £000 Unaudited**	30 September 2017 £000 Unaudited
Profit for the period		**1,910**	22,250
Other comprehensive income for the period which will not be reclassified to profit or loss:			
Remeasurements of post-employment benefit obligations		**(6,761)**	9,707
Deferred income tax credit/(charge) on items that will not be reclassified	18	**1,150**	(1,650)
Other comprehensive (loss)/income for the period, net of tax		**(5,611)**	8,057
Total comprehensive (loss)/income for the period		**(3,701)**	30,307

The notes on pages 29 to 44 are an integral part of these condensed interim financial statements.

Affinity Water Limited

Condensed interim statement of financial position as at 30 September 2018

	Note	30 September 2018 £000 Unaudited	31 March 2018 £000 Audited
Assets			
Non-current assets			
Property, plant and equipment	11	**1,390,209**	1,375,366
Goodwill		**14,961**	14,961
Other intangible assets	11	**34,359**	36,395
Investments in subsidiaries		**60**	60
Post-employment benefits surplus	12	**102,340**	105,558
Other receivables	13	**2,236**	-
		1,544,165	1,532,340
Current assets			
Inventories		**1,828**	1,631
Trade and other receivables	13	**112,685**	65,066
Cash and cash equivalents		**104,546**	114,842
		219,059	181,539
Total assets		**1,763,224**	1,713,879
Equity and liabilities			
Equity			
Ordinary shares	14	**26,506**	26,506
Share premium	14	**1,400**	1,400
Capital contribution reserve	14	**30,150**	30,150
Retained earnings		**145,159**	153,860
Total equity		**203,215**	211,916
Liabilities			
Non-current liabilities			
Trade and other payables	15	**102,391**	99,291
Borrowings	16	**1,079,795**	1,072,543
Derivative financial instrument	17	**5,789**	-
Deferred tax liabilities	18	**180,059**	181,266
Provisions for other liabilities and charges	18	**6,173**	3,232
		1,374,207	1,356,332
Current liabilities			
Trade and other payables	15	**184,948**	145,347
Current tax liabilities		**854**	284
		185,802	145,631
Total liabilities		**1,560,009**	1,501,963
Total equity and liabilities		**1,763,224**	1,713,879

The notes on pages 29 to 44 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 2018

	Share capital	Share premium	Capital contribution reserve	Retained earnings	Total
	£000	£000	£000	£000	£000
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
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**
Balance at 1 April 2017	26,506	1,400	30,150	158,661	216,717
Profit for the period	-	-	-	22,250	22,250
Other comprehensive income	-	-	-	8,057	8,057
Total comprehensive income	-	-	-	30,307	30,307
Dividends	-	-	-	(28,500)	(28,500)
Total transactions with owners recognised directly in equity	-	-	-	(28,500)	(28,500)
Balance as at 30 September 2017	26,506	1,400	30,150	160,468	218,524

The notes on pages 29 to 44 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 2018

	Note	30 September 2018 £000 Unaudited	30 September 2017 £000 Unaudited
Cash flows from operating activities			
Cash generated from operations	19	**58,683**	63,428
Interest paid		**(26,607)**	(25,596)
Tax paid		**-**	(3,840)
Group relief paid		**-**	(2,000)
Net cash flows from operating activities		**32,076**	31,992
Cash flows from investing activities			
Purchases of property, plant and equipment		**(44,874)**	(60,583)
Capital contributions		**9,448**	2,749
Proceeds from sale of property, plant and equipment		**927**	84
Proceeds on disposal of non-household retail business		**-**	27,000
Purchases of intangible assets		**(3,221)**	(2,473)
Interest received		**348**	76
Net cash used in investing activities		**(37,372)**	(33,147)
Cash flows from financing activities			
Proceeds from loan from bank		**-**	20,000
Equity dividends	10	**(5,000)**	(28,500)
Net cash used in financing activities		**(5,000)**	(8,500)
Net decrease in cash and cash equivalents		**(10,296)**	(9,655)
Cash and cash equivalents at start of period		**114,842**	45,129
Cash and cash equivalents at end of period		**104,546**	35,474

The notes on pages 29 to 44 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 24 for details of the company's ultimate parent.

These condensed interim financial statements were approved for issue on 28 November 2018.

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 2018 were approved by the Board of directors on 20 June 2018 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 2018 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 annual financial statements for the year ended 31 March 2018 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 2018, which is available on our website: *https://stakeholder.affinitywater.co.uk/investor-library.aspx.*

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 22) and consideration of the company's budgeted cash flows, long term forecasts and related assumptions, and available debt facilities.

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

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 2018, except in relation to taxation and new standards effective since 1 April 2018, 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.

Two new standards became applicable for the current reporting period:

- IFRS 9: 'Financial instruments'; and
- IFRS 15: 'Revenue from contracts with customers'.

The impact of the adoption of these standards and the new accounting policies are disclosed below.

IFRS 9: 'Financial instruments'

IFRS 9: 'Financial instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39: 'Financial instruments' that relates to the classification and measurement of financial instruments. The standard became effective for reporting periods beginning on 1 April 2018.

Recognition and subsequent measurement of financial instruments

All loans are recognised initially at fair value plus directly attributable transaction costs. The carrying amount of the debt is increased by the amortisation of the finance and transaction costs determined using the effective interest rate in respect of the accounting period and reduced by any payments made in the period. The finance cost recognised in the income statement is allocated to accounting periods over the term of the debt using the effective interest method.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

The accounting policies adopted by the company for initial recognition and subsequent measurement of financial instruments in the current and previous periods are in line with IFRS 9 requirements. There is therefore no impact on the valuation of financial instruments on initial recognition or subsequent measurement as a result of applying the new accounting standard.

The company did not hold any derivative financial instruments in the previous reporting periods and therefore has not previously disclosed an accounting policy in relation to these. A derivative contract has been entered into during the period, and the following accounting policy, which is in line with the requirements of IFRS 9, has been adopted. Derivatives are initially recognised at fair value on the date the derivative contract is entered into and are subsequently re-measured at their fair value in each reporting period. Gains or losses arising on revaluation are recorded in the income statement in the period in which they arise.

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

3. Accounting policies (continued)

Expected credit loss model

With the exception of retail customers operating in the non-household retail market, the provision for impairment of receivables is based on experience and calculated by applying a range of different percentages to trade receivables of different ages. These percentages also vary between categories of trade receivables. Higher percentages are applied to those categories of trade receivables which are considered to be of greater risk and also to trade receivables of greater age; these receivables have higher expected credit losses.

Since 1 April 2017, the company has supplied wholesale water to retailers operating in the non-household market. Retailers operating in the non-household market have all been granted a licence by Ofwat, with the financial resources of the retailer assessed on licence application and monitored on a continual basis. The company uses this assurance and monitors the recoverability of these debtors by assessing cash collection rates since market opening to ensure any uncertain debt is provided for.

Management has concluded that, given the nature of the company's financing arrangements, the procedure currently in place to assess the impairment of financial instruments detailed above is deemed sufficient under the expected credit loss model; historical recoverability of trade receivables has shown to be a good indicator of future expected losses, both in the next 12 months and across the lifetime of the instrument. Therefore, no adjustment has been made to provisions for impairment as a result of adopting IFRS 9. Management will take into consideration any significant economic changes that may impact the model and future credit losses at each reporting date.

IFRS 15: 'Revenue from contracts with customers'

The standard became effective for reporting periods beginning on 1 April 2018. IFRS 15: 'Revenue from contracts with customers' introduces a new revenue recognition model, and replaces IAS 18: 'Revenue' and IAS 11: 'Construction contracts' and related interpretations. The standard requires revenue to be recognised in line with the satisfaction of performance obligations identified within contracts between an entity and its customers, at an amount that reflects the transaction price allocated to each performance obligation. Particular challenges exist within the water industry as formal written contracts do not exist for most transactions with customers. Contracts are instead implied through statute and regulation. Judgement is therefore required in identifying the services contained within the contract and the customer with whom the contract is entered into, which in turn impacts on how the performance obligations are considered and therefore revenue recognised.

The standard has not had an impact on the company's revenue streams detailed in note 5 of these condensed interim financial statements or grants and contributions received in respect of property, plant and equipment, as set out on the following page. Therefore, no transitional adjustments are required.

3. Accounting policies (continued)

Revenue recognition

The company's core revenue stream is from the supply of clean water. The IFRS 15 definition of a contract is met since the government has contracted with the company on behalf of customers by granting the company its water supply licence. The underlying performance obligation is the development and maintenance of the network and ensuring its continued availability to customers. Therefore revenue should be recognised as the customer receives the benefit of this through consuming the water. Under IFRS 15 revenue is required to be recognised as the amount which the company has a right to receive:

- for metered customers, the amount which the company has a right to receive is determined by the meter reading, hence no change to the IAS 18 revenue recognition pattern for measured supplies; and
- for unmetered customers, the amount which the company has a right to receive is determined by the passage of time during which a customer occupies a property supplied by the company, hence no change to the IAS 18 revenue recognition pattern for unmeasured supplies.

The company has contracts with companies operating in the non-household retail market for the supply of clean water (wholesale supply). The underlying performance obligation is the development and maintenance of the network, and ensuring its continued availability to non-household consumers. Therefore revenue should be recognised as water is consumed. Under IFRS 15, revenue is required to be recognised as the amount which the company has a right to receive. For non-household retailers, the amount which the company has a right to receive is determined by non-household consumption volume data, hence no change to the IAS 18 revenue recognition pattern for non-household wholesale revenue.

IFRS 15 requires that revenue is recognised if it is probable that it will be received. The company is under a statutory obligation to maintain water services to domestic properties within the areas defined in its water supply licence. As a result, the company might provide water services to customers who are unlikely to pay for these services. Under IFRS 15, such revenue is not recognised. As the company did not recognise such revenue under IAS 18, this does not impact on the company's revenue recognition policy.

Grants and contributions

The company receives income (typically from property developers) under the Water Industry Act 1991 as a result of providing new connections to its existing network, and for diverting and extending its existing network. These grants and contributions are not government grants within the scope of IAS 20: 'Accounting for government grants and disclosure of government assistance' and fall within the scope of IFRS 15, as, whilst there may not be a written contract with the customer, the legal duties of a company under the Water Industry Act 1991 would seem to constitute a legally enforceable contract with the transaction prices set out in the company's charges scheme, tariff documents and invoices.

Grants and contributions considered to be given in compensation for expenses incurred with no future related costs, including charges billed to developers for new connections ('connection charges'), have previously been recognised in revenue in the income statement in the period that they became receivable. There has been no change in the treatment of these grants and contributions on application of IFRS 15, as the performance obligation has been identified as the connection of a service pipe to the main. Therefore once the connection is made, the performance obligation is fulfilled and the income recognised immediately in the income statement.

3. Accounting policies (continued)

Grants and contributions (continued)

Grants and contributions considered to be received in respect of property, plant and equipment (including infrastructure charges, and contributions for diversions and requisitioned mains/extensions) have previously been treated as deferred income and released to cost of sales over the useful economic life of the property, plant and equipment to which they related. There has been no change in the treatment of these on application of IFRS 15, as the performance obligations are deemed to be satisfied over time; however the release to the income statement (2018: £833,000; 2017: £750,000) previously included within cost of sales has been represented in other income.

Infrastructure charges are charges levied on developers for network reinforcement which is not site specific, i.e. to fund expenditure which will contribute towards wider network reinforcement work away from the development site. Therefore there is deemed to be an implied ongoing performance obligation to improve and maintain the wider network in order to provide ongoing supply of water services.

For contributions received in respect of diversions and requisitioned mains/extensions, the assets constructed are considered to have no economic value without the promise to provide ongoing supply of water services; therefore the performance obligation is considered to be satisfied over the period that the property, plant and equipment constructed are in service.

Financing components

The company does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and the payment terms exceed one year. Consequently under IFRS 15 the company is not required to adjust any of its transaction prices for the time value of money, which does not represent a change to the previous treatment of revenue.

The following standard is not yet effective and has not been early adopted by the company:

IFRS 16: 'Leases'

The standard addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful 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', and related interpretations. The standard is effective for reporting periods beginning 1 January 2019. Management have concluded that IFRS 16 will have a material impact on the recognition, measurement, presentation and disclosure of the company's lease arrangements in its financial statements with effect from 1 April 2019. The most significant impact has been assessed as the recognition of a right-of-use asset and lease liability for the company's land and buildings lease. Following adoption of IFRS 16, the operating expense related to this lease will be replaced in the income statement by interest and depreciation charges.

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 2018, which are available on our website: *https://stakeholder.affinitywater.co.uk/investor-library.aspx.* Judgements in relation to identifying the services contained within a contract and the customer with whom a contract is entered into, which in turn impacts on how performance obligations are considered, and therefore the recognition of revenue, are disclosed in the IFRS 15: 'Revenue from contracts with customers' section of note 3.

5. Revenue

	Six months ended 30 September 2018 £000 Unaudited	Six months ended 30 September 2017 £000 Unaudited
Unmeasured supplies	**59,559**	64,675
Measured supplies	**62,372**	58,899
Non-household wholesale revenue	**28,588**	27,467
Connection charges	**4,759**	3,526
Chargeable services	**45**	42
	155,323	154,609

6. Operating profit

	Six months ended 30 September 2018 £000 Unaudited	Six months ended 30 September 2017 £000 Unaudited
Operating profit is stated after charging:		
Water abstraction charges	**2,057**	2,054
Business rates	**8,020**	8,150
Depreciation of tangible fixed assets	**28,052**	26,145
Amortisation of other intangible assets	**4,902**	2,724
Infrastructure renewals expense	**7,702**	6,653

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. Profit on disposal of non-household retail business

Affinity Water Limited used the Exit Regulations laid out by Defra to transfer its existing non-household retail base to Affinity for Business (Retail) Limited, a member of the wider Affinity Water group, on 1 April 2017. The company received £27,000,000 in consideration for the non-household debt book and associated customer base, and recognised a £10,958,000 gain on disposal in the prior period. No other assets were transferred as part of the sale.

8. Finance income and costs

	Six months ended 30 September 2018 £000 Unaudited	Six months ended 30 September 2017 £000 Unaudited
Finance income:		
Bank interest income	**347**	59
Net interest receivable on RPI linked inflation swap	**456**	-
Net income from post-employment benefits	**1,390**	952
	2,193	1,011
Finance costs:		
Interest payable on loan from parent company	**(80)**	(80)
Interest payable on loans from subsidiary undertakings	**(18,666)**	(17,680)
Accretion payable in respect of interest on loans from subsidiary undertakings	**(7,638)**	(8,867)
Accretion payable on financial instrument	**(1,296)**	-
Other	**(224)**	(263)
	(27,904)	(26,890)
Net finance costs	**(25,711)**	(25,879)
Fair value loss on financial instrument	**(4,493)**	-

9. 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 2019 is 21.20% (the estimated tax rate for the year to 31 March 2018 was 15.78%).

In September 2016 changes were enacted to the main rate of corporation tax in the UK, from 19% to 17% effective from 1 April 2020.

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

10. Dividends

	Six months ended 30 September 2018 £000	Six months ended 30 September 2017 £000
	Unaudited	Unaudited
Ordinary:		
Paid: First interim of 1.89p per share (2017: 2.45p)	**5,000**	6,500
Paid: Nil (2017: second interim of 8.30p per share)	**-**	22,000
	5,000	28,500

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

	PPE £000	**Other intangible assets £000**
	Unaudited	**Unaudited**
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**
Six months ended 30 September 2017		
Opening net book amount as at 1 April 2017	1,320,792	36,728
Additions	62,651	3,871
Disposals	(1,344)	-
Depreciation and amortisation	(26,145)	(2,724)
Closing net book amount as at 30 September 2017	1,355,954	37,875

12. Post-employment 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 2018	Year ended 31 March 2018	Six months ended 30 September 2017
	Unaudited	Audited	Unaudited
Discount rate	**2.85% pa**	2.60% pa	2.70% pa
Salary growth	**3.15% pa**	3.05% pa	3.15% pa
RPI	**3.15% pa**	3.05% pa	3.15% pa
CPI	**2.15% pa**	2.05% 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	25
Life expectancy from age 65 (years) for a male participant currently aged 45 (years)	**23**	23	24
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 2.15% per annum (2017: 2.20% 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 2018 £000	Six months ended 30 September 2017 £000
	Unaudited	Unaudited
Total current service cost of the Affinity Water Pension Plan	**(2,358)**	(2,550)
Contributions from participating employer	**52**	44
Interest cost on defined benefit obligation	**(5,198)**	(5,448)
Interest return on assets	**6,588**	6,400
	(916)	(1,554)

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

	30 September 2018 £000	31 March 2018 £000
	Unaudited	Audited
Fair value of plan assets	**495,488**	511,943
Present value of funded obligations	**(393,148)**	(406,385)
Post-employment benefit surplus in the statement of financial position	**102,340**	105,558

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 has 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)

13. Trade and other receivables

	30 September 2018 £000 Unaudited	31 March 2018 £000 Audited
Non-current:		
Other receivables	**2,236**	-
Current:		
Trade receivables	**71,915**	26,900
Amounts owed by group undertakings	**346**	483
Unbilled accrual for metered customers	**32,113**	29,028
Prepayments and accrued income	**5,297**	5,446
Other receivables	**3,014**	3,209
	112,685	65,066
	114,921	65,066

Trade receivables are stated after provisions for impairment of £28,111,000 (at 31 March 2018: £28,070,000).

14. Share capital

	Number of shares of £0.10 (thousands)	**Ordinary shares £000**	**Share premium £000**	**Capital contribution reserve £000**	**Total £000**
At 30 September 2018 (unaudited), 1 April 2018 (audited), 30 September 2017 (unaudited) and 1 April 2017 (audited)	**265,058**	**26,506**	**1,400**	**30,150**	**58,056**

15. Trade and other payables

	30 September 2018 £000 Unaudited	31 March 2018 £000 Audited
Non-current:		
Deferred grants and contributions	**102,391**	99,291
Current:		
Trade payables	**8,514**	15,319
Amounts due to group undertakings	**229**	245
Interest payable to subsidiary companies	**6,441**	13,701
Interest payable to external parties	**519**	55
Social security and other taxes	**1,578**	1,588
Other payables	**7,778**	7,673
Capital accruals	**7,892**	10,045
Deferred grants and contributions	**1,264**	1,224
Payments received in advance	**55,167**	55,405
Other accruals and deferred income	**95,566**	40,092
	184,948	145,347
	287,339	244,638

16. Borrowings and loans

	30 September 2018 £000 Unaudited	31 March 2018 £000 Audited
Non-current		
Loan from Affinity Water Finance (2004) PLC financed by bond issue	**254,137**	254,346
Loan from Affinity Water Programme Finance Limited financed by bond issue	**822,074**	814,613
Loan from intermediate parent company	**3,550**	3,550
Debenture stock	**34**	34
	1,079,795	1,072,543

Movements in borrowings are analysed as follows:

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**

Six months ended 30 September 2017	£000 Unaudited
Opening amount as at 1 April 2017	941,428
Indexation on loans from subsidiary undertakings	8,867
Amortisation on loans from subsidiary undertakings	(393)
Closing amount as at 30 September 2017	949,902

The company has the following undrawn committed borrowing facilities:

	30 September 2018 £000 Unaudited	31 March 2018 £000 Audited
Floating rate:		
Expiring within one year	**58,000**	58,000
Expiring beyond five years	**100,000**	100,000
	158,000	158,000

17. Derivative financial instrument

	30 September 2018 £000 Unaudited	31 March 2018 £000 Audited
Non-current		
Fair value of RPI linked inflation swap	**4,493**	-
Accretion on RPI linked inflation swap	**1,296**	-
	5,789	-

18. Provisions for other liabilities and charges

Six months ended 30 September 2018	**Deferred tax £000 Unaudited**	**Insurance £000 Unaudited**	**Other £000 Unaudited**	**Total £000 Unaudited**
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**
Six months ended 30 September 2017				
Opening amount at 1 April 2017	172,736	1,792	670	175,198
(Credited)/charged to the income statement	(314)	881	-	567
Charged to other comprehensive income	1,650	-	-	1,650
Utilised in the period	-	(316)	-	(316)
Closing amount at 30 September 2017	174,072	2,357	670	177,099

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 £2,236,000, which would be recoverable from the company's insurer and is, therefore, disclosed as a non-current other receivable on the company's condensed interim statement of financial position.

Other provisions

Other provisions include £670,000 in relation to unfunded pension liabilities for a former non-executive director, which it is expected will be utilised over the 20 years from January 2019.

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

19. Notes to the condensed interim statement of cash flows

a) Cash generated by operations

	30 September 2018 £000 Unaudited	30 September 2017 £000 Unaudited
Profit before income tax	**2,423**	26,419
Adjustments for:		
Depreciation of property, plant and equipment	**28,052**	26,145
Amortisation of intangible assets	**4,902**	2,724
Amortisation of grants and contributions	**(833)**	(750)
Profit on sale of property, plant and equipment	**(927)**	(84)
Profit on disposal of non-household retail business	**-**	(10,958)
Loss on disposal of infrastructure assets	**550**	1,212
Post-employment benefits	**(2,154)**	(3,895)
Finance costs - net	**25,711**	25,879
Fair value loss on financial instrument	**4,493**	-
Changes in working capital:		
- Inventories	**(197)**	(52)
- Trade and other receivables	**(49,855)**	(24,228)
- Trade and other payables	**46,518**	21,016
Cash generated from operations	**58,683**	63,428

b) Reconciliation of liabilities arising from financing activities

	At 1 April 2018 £000 Unaudited	**Cash flow £000 Unaudited**	**Non-cash flows £000 Unaudited**	**At 30 September 2018 £000 Unaudited**
Loan from Affinity Water Finance (2004) PLC financed by bond issue	**254,346**	**-**	**(209)**	**254,137**
Loan from Affinity Water Programme Finance Limited financed by bond issue	**814,613**	**-**	**7,461**	**822,074**
Loan from intermediate parent company	**3,550**	**-**	**-**	**3,550**
Debenture stock	**34**	**-**	**-**	**34**
Total liabilities arising from financing activities	**1,072,543**	**-**	**7,252**	**1,079,795**

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

20. 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 annual financial statements for the year ended 31 March 2018 (refer to note A4 to the financial statements for the year ended 31 March 2018).

There have been no changes in any risk management policies since 31 March 2018.

Fair value of financial assets and liabilities

	30 September 2018 £000	31 March 2018 £000
	Unaudited	Audited
Non-current:		
Bonds	**1,334,944**	1,374,726
Derivative financial instrument	**5,789**	-
	1,340,733	1,374,726

Between 1 April 2018 and 30 September 2018, market interest rates increased, decreasing 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.

21. 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 amounts to £16,946,000 (at 31 March 2018: £19,377,000).

Notes to the condensed interim financial statements (continued)

22. Related party transactions

The following transactions were carried out with related parties:

Receipts	Nature of relationship	In respect of	Six months ended 30 September 2018 Value £000 Unaudited	Six months ended 30 September 2018 Balance £000 Unaudited	Six months ended 30 September 2017 Value £000 Unaudited	Six months ended 30 September 2017 Balance £000 Unaudited
Affinity for Business (Retail) Limited	Group undertaking	Water services and support services	**28,765**	**346**	26,595	(4,257)

Payments	Nature of relationship	In respect of	Six months ended 30 September 2018 Value £000 Unaudited	Six months ended 30 September 2018 Balance £000 Unaudited	Six months ended 30 September 2017 Value £000 Unaudited	Six months ended 30 September 2017 Balance £000 Unaudited
Allianz Global Corporate and Specialty AG	Common ownership	Insurance	**726**	**-**	666	-
Allianz Insurance plc	Common ownership	Insurance	**1**	**-**	1	-
Affinity Water Finance (2004) PLC	Subsidiary undertaking	Interest on loan	**7,154**	**3,179**	7,166	3,179
Affinity Water Programme Finance Limited	Subsidiary undertaking	Interest on loan	**19,150**	**3,263**	19,381	2,562
Affinity for Business (Retail) Limited	Group undertaking	Water services	**1**	**-**	17	87

The prior year balance from Affinity for Business (Retail) Limited includes £75,000 receipts due, offset by a prepayment by Affinity for Business (Retail) Limited of £4,332,000 for the supply of water for October 2017.

Details of the loans from Affinity Water Finance (2004) PLC and Affinity Water Programme Finance Limited, the company's subsidiary undertakings, can be found in note 16.

Details of the dividends paid 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)

23. Events occurring after the reporting period

A process to obtain bondholder consent to the substitution of Affinity Water Programme Finance Limited, a wholly owned subsidiary of the company registered in the Cayman Islands, with a UK registered entity incorporated on 13 November 2018, Affinity Water Finance PLC, was launched in November 2018.

On 26 October 2018 the High Court ruled that pension trustees are under a duty to amend pension schemes in order to equalise benefits for men and women so as to alter the result produced in relation to GMPs. Given the proximity of this ruling to the reporting date, the directors cannot reliably estimate the impact on the company's post-employment benefit surplus.

24. 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 2018 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 Luxembourg I Sarl
- DIF Management Holding BV
- DIF Management UK Limited
- HICL Infrastructure Company Limited
- 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 Company Limited 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 Adviser 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 Rule ('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 2018, with the exception of the following changes in the period: Gareth Craig resigned and Tony Roper was appointed in his place on 25 July 2018; and Simon Cocks stepped down after not seeking re-election at the Annual General Meeting on 1 October 2018. A list of current directors is maintained on the governance pages of the company's website:
https://stakeholder.affinitywater.co.uk/management-team.aspx.

By order of the Board

Stuart Ledger

Director

28 November 2018