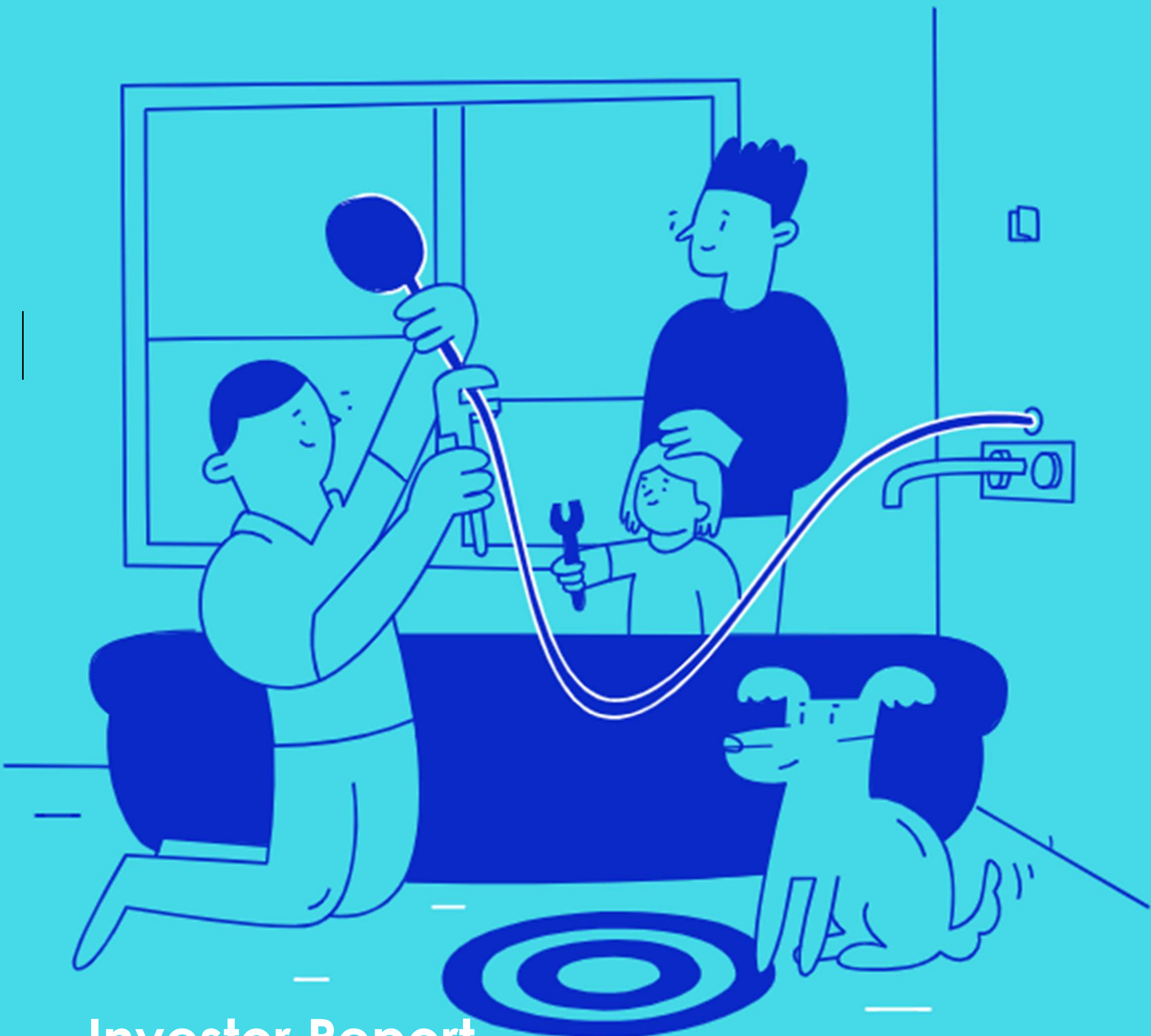
Affinity Water



Investor Report

Affinity Water Limited (‘Affinity Water’)

Twelve-month period ended 31 March 2022’

29 July 2022

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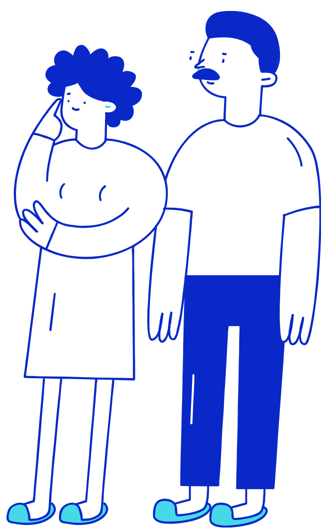


Affinity Water
Taking care of your water

Affinity Water at a glance

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

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

936ml
Daily amount of drinking water supplied
950ml in the prior year

3.86m
Customers served
3.83m in the prior year

1.48m
Household properties connected
1.47m in the prior year

16,900km
Length of mains network
16,800km in the prior year

1,407
Number of employees (excluding directors)
1,407 in prior year

91
Number of water treatment works
93 treatment works in prior year

£1.48bn
Our Regulatory Capital Value (RCV)

£1.44bn
Planned AMP7 investment

Net loss (after tax)
£96.9m
£43.1m in the prior year

Stewards of the local environment

Our aspiration

• To provide a long-term sustainable supply of water through reducing leakage, reducing demand and bringing online new sources of water

• To take care of the environment through ending unsustainable abstraction from chalk groundwater sources, working with our communities to restore rivers and improve biodiversity in our supply area.

• Achieve Net Zero carbon from operations by 2030

Helping customers use water better

Our aspiration

• We aim to reduce individual daily water use by 12.5% by 2025 through metering and inspiring our customers to use less through our award winning 'Save Our Streams' campaign

• We'll continue to work with government, regulators and across sectors to campaign for the changes we need to make saving water simpler

Giving customers an exceptional experience

Our aspiration

• We'll continue to produce high-quality affordable water

• We will improve our customer experience through investing in digitisation and customer service

• We'll continue to drive down disruption for our communities by using the latest methods and technology to keep water flowing

• We'll support more customers who are struggling to pay, and provide extra support to vulnerable customers through our priority services register

Affinity Water
Taking care of your water

Financial highlights

Revenue (£m)	319.7 Mar 2021: 286.8
Loss for the Period (£m)	(96.9) Mar 2021: (43.1)
Regulatory Capital Value (RCV) (£m)	1,478.4 Mar 2021: 1,303.2
Senior Net Indebtedness (£m)	1,079.8 Mar 2021: 990.7
Gearing (%)	73.0% Mar 2021: 76.0%
Conformed Senior Adjusted ICR	1.7x Mar 2021: 1.5x

Our customer outcomes

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

Supplying high quality water you can trust

Commitments

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

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

Commitments

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

Providing a great service that you value

Commitments

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

Minimising disruption to you and your community

Commitments

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

Operational performance

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

The first two years of the 2020–25 period have now been completed. We are required to report our performance against targets as set by Ofwat in our final determination 2019. These targets include the performance commitments made in our Business Plan. Our performance in relation to these targets for 2021/22 is analysed in the tables below.

We are forecasting we will achieve 19 of our 28 performance commitments.

Ten of these are common performance commitments and nine bespoke.

Water Quality

Compliance Risk Index (CRI)

Performance

Actual: 0.87
Target: 2.00

The Compliance Risk Index (CRI) is a measure to inform the risk arising from treated water compliance failures. Our score of 0.87 is our best performance against this measure to date, continuing the downward (improving) trend in performance seen over the last four years.

While the ultimate target for water quality would be a score of 0, our score of 0.87 is likely to show us as one of the best performing companies in this important area of performance.

Our thorough investigation of the exceedances resulted in very few recommendations from the DWI.

PCC

Average water use (litres/person/day)

Performance

Actual: 2.5% (157l/p/d)
Target: 4.9%(147.5l/p/d)

During 2021/22, we recorded PCC of 157 l/p/d, which is a reduction from 171 l/p/d recorded in 2020/21. However, this did not achieve the targeted reduction of 4.9% in the three-year average from the 2017–20 baseline.

We have undertaken major campaigns over the year with our flagship SOS 'Save Our Streams' campaign, home water efficiency checks and innovation projects targeted to water use reduction.

D-Mex

Score

Performance

Actual: 8th
Target: Mid table

D-MeX is the measure of levels of service in the developer services area of activity. The index score is made up of both a qualitative and a quantitative element. Our D-MeX score during the year ended 31 March 2021 was 85.54 compared to an industry median of 85.26. We were placed 8th out of 17 companies in the industry league table; an improvement from 10th in 2020/21, and 16th in the 2019/20 shadow reporting year. We have seen consistent improvement in position quarter-on-quarter during this time.

Leakage

Average Annual water leakage (Ml/d)

Performance

Actual: 10.5%
Target: 11.1%

This measure is reported as a percentage reduction in a three-year average of leakage against a baseline level of 2017–20 average over three years. Our leakage for the 12 months of 2021/22 was 161.5Ml/d; a reduction of 10Ml/d from the previous year.

During the year, we made significant investment in resources, applied new technologies and applied the new customer-side policy allowing free repairs on significant leaks. Despite this, we were unable to meet the three-year average reduction target of 11.1%.

We knew this would be a challenging year, due to the impact of the prior years' performance, combined with a steep target reduction of achieving an 8.4% drop in a single year (the largest reduction required in any year of the AMP 7 period). However, we are in a strong position for year three and are well placed to deliver on the remaining years of the AMP.

C-Mex

Score

Performance

Actual: 14th
Target: Mid table

Customer Measure of Experience (C-Mex) is a mechanism to incentivise water companies to provide an excellent customer experience for residential customers, across both the retail and wholesale parts of the value chain. C-MeX is based on a league table comparison of performance by the other 17 water companies in England and Wales.

Our C-MeX score for 2021/22 was 76.57 against an industry median of 80.43. The rating represented an improvement on the prior year's performance, moving our position up one place in the company rankings.

Although Written complaints increased by 14.8% this was as driven by the Universal Metering Programme installation rollout, as during 21/22 we have installed over double than in the previous year. Whilst the increase in UMP installations has inevitably resulted in an increase in metering related contacts, the % of Written complaints to meters installed remained at encouragingly low levels, and continues on a downward trajectory to 0.57%, down from 1.63% in 19/20 and 0.60% 20/21. The percentage of escalation (2nd stage complaints) has also fallen Year-on-Year -0.1pp to 3.4% of Written Complaints.

Mains Repairs

Number per 1000km mains

Performance

Actual: 100.7
Target: 148.6

We have comfortably met our target of ≤148.6 repairs per 1,000km of mains in the year. It should be noted the number of mains repairs required in any year is heavily influenced by weather, with extremes in both hot and cold weather adversely affecting mains burst rates. In this respect, weather in 2021/22 was unusually benign, while that experienced in 2020/21 saw significant extremes of both hot and cold. By comparison, our 2020/21 'performance' was some 58% higher at 158.9 repairs per 1,000km of main.

Mains repairs need to be viewed over a longer period to understand the overall trend where year-on-year peaks and troughs can be taken in account and our overall improving trend in performance understood. We continue to focus on reducing night pressures, reducing olatility of our network, and continuing analysis of where and when bursts occur to inform our mains renewals programme. We are working with the Met Office to develop a weather prediction tool to understand when the greatest risks to mains occur, during this time planned works can be postponed ensuring any undue pressure of the network is minimised.

Water supply interruptions

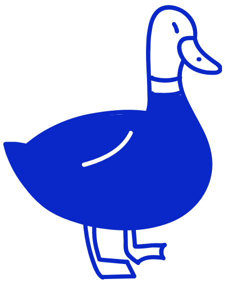
>3 hours

average minutes per property, water supply interruption

Performance

Actual: 00:03:43
Target: 00:06:08

We have, again, achieved the target for this measure, and further improved by over two minutes on our 2020/21 performance. This is a significant achievement. Considerable improvements have been made over the last few years, adopting a 'water always on' mentality and reducing our impact on customers. To put the improvements in performance into perspective, we were over 13 minutes in 2019/20 and over 32 minutes in 2017/18.



Properties at risk of low pressure

Per 10,000 properties

Performance

Actual: 48.204
Target: 1.513

We have not met the target of 1.513 properties at risk of low pressure per 10,000 properties, although the frequency and number of properties experiencing low pressure reduced considerably from that seen in 2020/21. The high numbers seen in 2020/21 were predominantly the result of hot, dry weather in the summer of 2020, combined with the significant change in water consumption patterns and volumes during Covid lockdown. These factors were not prominent during summer 2021.

We have more than 1,100 telemetered pressure monitoring devices installed at critical points across our network, so have a very good understanding and record of mains pressures. The basis of the common reporting guidance for properties at risk of receiving low pressure is now more than thirty years old, and dates to when data and understanding of mains pressures was very limited. Given this, and the number of pressure monitoring points that we now have, it is unlikely we will ever be able to meet the prescribed target for this measure.

Unplanned interruptions to

supply over 12 hours

Number of properties

Performance

Actual: 477
Target: 320

Although a reduction on 2020/21, we did not meet our target for unplanned interruptions lasting more than 12 hours. This is a disappointing result as we have been working hard to focus our resources to a 'water always on' mindset.

The work that we have undertaken in respect to supply interruptions has borne considerable improvements in the industry common metric of average minutes per connected property; however, the number of individual properties impacted for over 12 hours is still above committed performance. Some 421 of 477 properties were the result of a single major burst incident with no other option for maintaining the mains water supply to those customers. The remaining 56 properties were the result of one-off property events such as a defective meter or a boundary stopcock being left turned off.

Focus for the coming year remains on improving response times, increasing local resources and alternative methods of maintaining the water supply to customers' properties.

Financial performance

Financial results for the year ended 31 March 2022

	2022	2021 (restated)
	£000	£000
Revenue	**319,747**	286,782
Cost of sales	**(258,553)**	(243,634)
Gross profit	**61,194**	43,148
Administrative expenses	**(38,159)**	(40,621)
Impairment losses on financial and contract assets	**(7,444)**	(8,318)
Other operating income	**18,972**	17,657
Operating profit	**34,563**	11,866
Finance income	**16,043**	15,770
Finance costs	**(102,873)**	(48,621)
Fair value loss on inflation swaps	**(31,295)**	(32,452)
Net finance costs	**(118,125)**	(65,303)
Fair value gain on energy swaps	**27,988**	-
Loss before tax	**(55,574)**	(53,437)
Income tax credit/(expense)	**(41,331)**	10,311
Loss for the year	**(96,905)**	(43,126)

Revenue

Revenue for 2021/22 was £319.7m, being a £32.9m (11.5%) increase on the prior year (2021: £286.8m). The increase is primarily due to higher non-household ('NHH') wholesale revenue, which has returned to pre-pandemic levels as a result of businesses reopening after having been closed during the first national lockdown in the prior year, as well as an increase in household ('HH') tariffs.

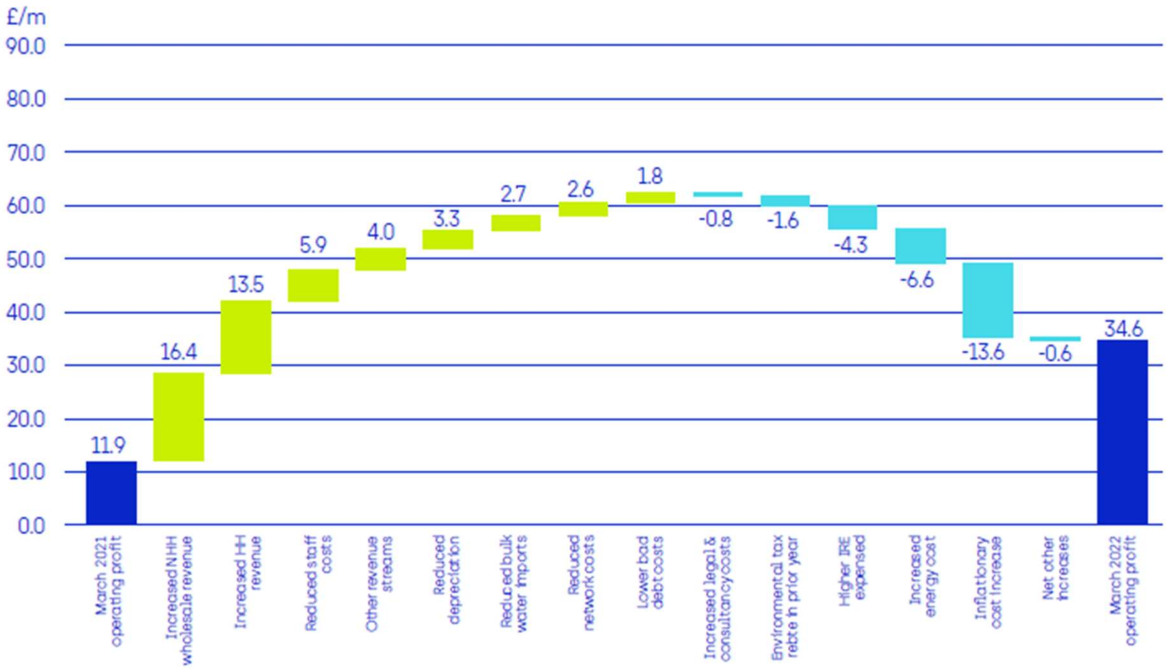
Operating expenditure

Operating costs for the year increased by £11.5m (3.9%) to £304.1m (2021 restated: £292.6m) with year-on-year inflation being 8.96% higher, and higher wholesale energy prices although this was mitigated by entering into a series of energy swaps between

May and October 2021. Additional expenditure was also incurred on infrastructure renewals.

Savings were made on staff costs which were lower than the prior year following a restructure during the year, and due to capitalising more staff time as work on our capital programmes increased. Network costs decreased as a result of fewer bursts, and fewer bulk water imports were required, further reducing costs. Bad debt costs were also lower than prior year, with collection rates improving during the year despite the COVID-19 pandemic. The depreciation charge was also lower than the prior year as some significant intangible assets have now finished depreciating.

As a result, operating profit increased by £22.7m (190.8%) to £34.6m (2021 restated: £11.9m) as shown in the graph below.



Finance costs

The net finance expense of £118.1m was £52.8m (80.9%) higher than last year (2021: £65.3m), primarily due to increased finance costs as a result of higher accretion on our index-linked bonds, and a fair value loss on inflation swaps. There was a fair value gain of £27.9m on energy swaps which were transacted during the year.

Loss before tax

Loss before tax for 2021/22 was £55.6m, being a £2.2m increase on prior year (2021 restated: loss of £53.4m).

Taxation

The income tax charge for 2021/22 was £41.3m (2021 restated: £10.3m credit), consisting mainly of a deferred tax charge due to the planned tax rate increase from 19% to 25%, partially offset by a tax credit on losses recognised in the year. The effective current tax rate (74.0%; 2021: 19.0%) was higher than (2021: higher than) the UK corporation tax rate of 19% (2021: 19%). 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.

Capital expenditure

Capital expenditure in the year was £139.9m (2021: £139.4m), and was incurred principally in our leakage, mains renewals, trunk main replacement, water treatment and integrated water savings programmes.

This excluded £22.2m (2021: £16.5m) of infrastructure renewal expenditure, which is treated as an operating cost under FRS 101. Our total capital expenditure for 2021/22 includes an element on spend that had been scheduled for 2020/21, but was delayed due to COVID-19 restrictions in place at the time.

We are planning to phase out diesel generators and replace pumps with more energy efficient ones, as part of our carbon reduction strategy, but do not anticipate this having a material impact on our financial statements going forward.

Net debt and gearing

As we are a business with a long-term outlook and expenditure commitments, we need to match this with long-term sources of debt finance. We consider the most cost effective way to raise long-term debt to be through the debt capital markets.

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

Our financing subsidiaries have outstanding external bonds totalling £1,144.2m, raised in the debt capital markets and on-lent to the company on the same terms.

Our net debt as at 31 March 2022 was £1,079.8m, an increase of £89.1m since last year (2021: £990.7m) primarily due to accretion on the index-linked bonds.

Our gearing as measured by net debt to RCV at 31 March 2022 was 73.0% (2021: 76.0%), so has decreased during 2021/22 and remains below our internal maximum gearing level of 80.0% of RCV.

Cash flow

Net cash flow before tax and financing for the year was £16.1m outflow being a £31.2m decrease on last year (2021 restated: £15.1m inflow). The decrease is primarily due to higher net investment in fixed assets in the current period in line with our 2020 - 25 plan. Cash generated from operations was broadly in line with the prior year with increased operating profits being offset by adverse movements in working capital.

Dividends

No equity dividends were paid during the year (2021: £1.0m from our non-appointed business in order to service group debt), reflecting the shareholders' commitment to re-invest all planned returns from the company's appointed business for the benefit of our customers.

Total Expenditure

We have spent £303.0m in 2021/22, which is an underspend of £0.6m (0.2%) in outturn prices compared to our allowed expenditure of £303.6m. We planned to invest £1.44bn during AMP7 with this investment being key to maintaining resilience and making sure our customers have enough water, whilst leaving more water in the environment by delivering sustainable abstraction reductions in line with our WRMP for the 60-year period from 2020 to 2080.

Financing Update

Structure

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

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

Green Bond

During the year, our financing subsidiary, Affinity Water Finance PLC, issued a Class A £130 million 0.01% CPI-linked private placement due September 2038. The issuance is Affinity Water's first green bond. The proceeds will be used to finance expenditure outlined in our recently published Green Finance Framework, which is available on our website.

The Green Finance Framework has helped to attract investors who are supportive of these goals, and who will act as valuable partners in supporting our journey to a more sustainable society. The Framework covers several different initiatives including: sustainable water management; pollution prevention and control; terrestrial and aquatic biodiversity conservation; and energy efficiency.

Credit ratings

Moody's, Fitch and Standard and Poor's all affirmed our credit rating this year. The table below shows the current credit rating held with each agency.

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

Debt portfolio

At the year-end, 52.7% of our gross borrowings were at fixed rates (2021: 61.3%), 30.4% (2021: 33.0%) at rates indexed to RPI and 16.9% (2021: 5.7%) at rates indexed to CPI. Considering our index-linked inflation swaps, the proportion of borrowings at fixed rates decreased to 16.6% (2021: 19.2%), the proportion indexed to RPI increased to 46.8% (2021: 52.5%) and the proportion indexed to CPI increased to 36.6% (2021: 28.3%).

Our next significant debt maturity is in July 2026 when our £250.0m fixed rate bond matures.

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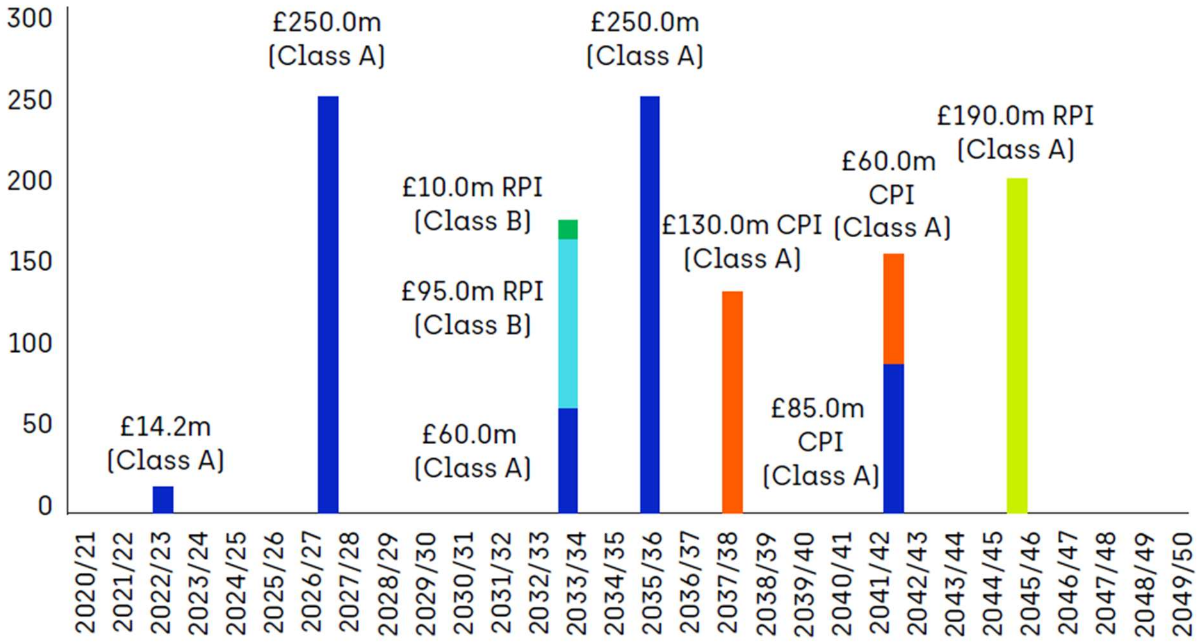
The chart below shows the maturity profile of all the bonds issued by Affinity Water's financing subsidiaries.



Liquidity

Our liquidity is managed through banking arrangements and adequate, though not excessive, cash resources, borrowing arrangements and standby facilities to enable us at all times to have the level of funds available, which are necessary for the achievement of our business and service objectives. At 31 March 2022, we had cash balances of £135.6 million (2021: £84.8 million) and short-term deposits held as investments of £70.2 million (2021: £15.1 million). The increase in cash from the prior year is primarily due to the proceeds from the issuance of a green bond in October 2021.

To the extent that additional funding is required, as well as our cash balances, we have access to two revolving credit facilities totalling £100.0m (2021: £100.0m), which were undrawn at 31 March 2022 (2021: undrawn), to finance capital expenditure and working capital requirements.

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

Regulatory update

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

AMP7

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

Although we've made great progress, we need to get more of our performance commitments to a point where we are achieving targets.

Each performance commitment contains an outcome delivery incentive (ODI) which can carry a financial reward, penalty or both. From 2021 onwards, for PCC, any reward/penalty will not be realised 'in-period' due to COVID-19 and will be part of PR24.

During 2021/22 we paid £1.1m into Ofwat's Innovation in Water Challenge, an industry-wide initiative to drive transformational change and better meet the evolving needs of customers, society and the environment.

In April 2021, Ofwat announced 11 winning projects, two of which we had led on – Seagrass Seeds of Recovery and Smarter Tanks, both of which will improve the efficiency and resilience of our water supplies.

PR24

We have commenced preparations for PR24 where we will engage Ofwat who will ultimately determine the revenues, investment and service package for AMP8.

We have fully mobilised our PR24 team, involving people from across Affinity Water with the ambition to develop a high quality and deliverable plan. This starts with a five-year strategy, that we are developing now. Our strategy sets out the steps we will take towards the long-term vision we set out in our Strategic Direction Statement, building in further detail about what we intend to deliver, the strategic choices we will need to make and our current knowledge of the regulatory framework for PR24.

In July 2022 Ofwat published the Draft Methodology for PR24 and we are working on the detailed evidence for our plan and will continue to adapt this evidence as further information about the regulatory framework emerges.

We very much welcome Ofwat's focus for this price review to take a more long-term approach to business planning over the next 25 years. Water is a long-term business – more so than ever with the challenges we face. This is great news for the industry and certainly a step in the right direction

Governance update

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

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

Board appointments

Following Pauline Walsh's departure with effect from 8 September 2021, **Stuart Ledger** was appointed Interim CEO. Stuart was previously CFO at Affinity Water.

In January 2022, **Jaroslava Korpanec** re-joined the Board as an alternate director to Roxana Tataru.

On 31 March 2022, Susan Hooper and Tony Roper stepped down from the Board. Tony Roper was succeeded by **Mike Osborne**. Mike is a Director at InfraRed Capital Partners. He spent six years with Corsair Capital as a Principal, where he also served as a director of Corsair portfolio company Kelda Holdings (from 2013) and its regulated subsidiary Yorkshire Water Services (from 2017).

On 18 July 2022, Ann Bishop and Mark Horsley stepped down from the Board.

In July 2022 it was announced that Jaroslava Korpanec would step down as alternate non-executive director from the Board on 31 July 2022. **Roxana Tataru** will return to the Board on 1 August 2022 following her absence since January 2022.

Executive appointments

In January 2022, **Rachel Hollings** joined Affinity Water as People Director. Rachael brings with her a wealth of experience from 20 years at Thames Water, where she built a reputation for being a passionate and collaborative HR leader with a wide range of experience across all aspects of HR and cultural change.

Also in January, **Mike Thomas** was appointed Interim CFO bringing a wealth of experience from the utility sector in both the UK and abroad having worked with companies such as Virgin Mobile, E.on and O2.

Anton Gazzard was appointed as Director of Customer Delivery. Anton joined Affinity Water as a graduate in 2007 and has moved through all levels of the business to join the Executive Management Team in January 2022.

In March, 2022, **Liv Walton** became Director of Regulation and Strategy. Liv is a highly experienced regulatory and economics strategist who has an extensive understanding of the UK water industry. Most recently she has led the PR24 programme for Yorkshire Water, and has also previously worked at Ofwat and South West Water.

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Common Terms Agreement Compliance

Calculation of financial ratios

Test period		Year 1 1 April 2021 To 31 March 2022	Year 2 1 April 2022 To 31 March 2023	Year 3 1 April 2023 To 31 March 2024	Year 4 1 April 2024 To 31 March 2025
Net Cash Flow divided by	£m	106.4	112.1	126.5	134.9
Class A Debt Interest	£m	20.7	20.9	22.1	22.4
Class A ICR	**Ratio**	**5.1**	**5.4**	**5.7**	**6.0**

Test period		Year 1 1 April 2021 To 31 March 2022	Year 2 1 April 2022 To 31 March 2023	Year 3 1 April 2023 To 31 March 2024	Year 4 1 April 2024 To 31 March 2025
Net Cash Flow less	£m	106.4	112.1	126.5	134.9
CCD and IRC	£m	0	0	0	0
Adjusted Net Cash Flow divided by	£m	106.4	112.1	126.5	134.9
Class A Debt Interest	£m	20.7	20.9	22.1	22.4
Class A Adjusted ICR	**Ratio**	**5.1**	**5.4**	**5.7**	**6.0**

Test period		Year 1 1 April 2021 To 31 March 2022	Year 2 1 April 2022 To 31 March 2023	Year 3 1 April 2023 To 31 March 2024	Year 4 1 April 2024 To 31 March 2025
Net Cash Flow less	£m	106.4	112.1	126.5	134.9
CCD and IRC	£m	0	0	0	0
Adjusted Net Cash Flow divided by	£m	106.4	112.1	126.5	134.9
Senior Debt Interest	£m	24.7	25.2	26.6	27.0
Senior Adjusted ICR	**Ratio**	**4.3**	**4.4**	**4.8**	**5.0**

Test period		Year 1 1 April 2021 To 31 March 2022	Year 2 1 April 2022 To 31 March 2023	Year 3 1 April 2023 To 31 March 2024	Year 4 1 April 2024 To 31 March 2025
Year 1	Ratio	5.1	5.4	5.4	5.4
Year 2	Ratio	5.4	5.7	5.7	5.7
Year 3	Ratio	5.7	6.0	6.0	6.0
Class A Average Adjusted ICR	**Average**	**5.4**	**5.7**	**5.7**	**5.7**

Test period		Year 1 1 April 2021 To 31 March 2022	Year 2 1 April 2022 To 31 March 2023	Year 3 1 April 2023 To 31 March 2024	Year 4 1 April 2024 To 31 March 2025
Year 1	Ratio	4.3	4.4	4.4	4.4
Year 2	Ratio	4.4	4.8	4.8	4.8
Year 3	Ratio	4.8	5.0	5.0	5.0
Senior Average Adjusted ICR	**Average**	**4.5**	**4.7**	**4.7**	**4.7**

Test period		Year 1 1 April 2021 To 31 March 2022	Year 2 1 April 2022 To 31 March 2023	Year 3 1 April 2023 To 31 March 2024	Year 4 1 April 2024 To 31 March 2025
Net Cash Flow less	£m	106.4	112.1	126.5	134.9
RCV Depreciation and Capitalised IRE	£m	(65.1)	(78.4)	(90.1)	(98.1)
Conformed Adjusted Net Cash Flow divided by	£m	41.3	33.7	36.4	36.8
Class A Debt Interest	£m	20.7	20.9	22.1	22.4
Conformed Class A Adjusted ICR	**Ratio**	**2.0**	**1.6**	**1.6**	**1.6**

Test period		Year 1 1 April 2021 To 31 March 2022	Year 2 1 April 2022 To 31 March 2023	Year 3 1 April 2023 To 31 March 2024	Year 4 1 April 2024 To 31 March 2025
Net Cash Flow less	£m	106.4	112.1	126.5	134.9
RCV Depreciation & Capitalised IRE	£m	(65.1)	(78.4)	(90.1)	(98.1)
Conformed Adjusted Net Cash Flow divided by	£m	41.3	33.7	36.4	36.8
Senior Debt Interest	£m	24.7	25.2	26.6	27.0
Conformed Senior Adjusted ICR	**Ratio**	**1.7**	**1.3**	**1.4**	**1.4**

Test period		Year 1 1 April 2021 To 31 March 2022	Year 2 1 April 2022 To 31 March 2023	Year 3 1 April 2023 To 31 March 2024	Year 4 1 April 2024 To 31 March 2025
Year 1	Ratio	2.0	1.6	1.6	1.6
Year 2	Ratio	1.6	1.6	1.6	1.6
Year 3	Ratio	1.6	1.6	1.6	1.6
Conformed Class A Average Adjusted ICR	**Average**	**1.8**	**1.6**	**1.6**	**1.6**

Test period		Year 1 1 April 2021 To 31 March 2022	Year 2 1 April 2022 To 31 March 2023	Year 3 1 April 2023 To 31 March 2024	Year 4 1 April 2024 To 31 March 2025
Year 1	Ratio	1.7	1.3	1.3	1.3
Year 2	Ratio	1.3	1.4	1.4	1.4
Year 3	Ratio	1.4	1.4	1.4	1.4
Conformed Senior Average Adjusted ICR	**Average**	**1.5**	**1.4**	**1.4**	**1.4**

Date		Calculation date	31 March 2023	31 March 2024	31 March 2025
Class A Net Indebtedness divided by	£m	943.4	1,039.7	1,110.3	1,141.7
RCV	£m	1,478.4	1,624.5	1,717.7	1,769.7
Class A RAR	**Ratio**	**0.638**	**0.640**	**0.646**	**0.645**

Test period		Calculation date	31 March 2023	31 March 2024	31 March 2025
Senior Net Indebtedness divided by	£m	1,079.8	1,185.3	1,260.3	1,296.2
RCV	£m	1,478.4	1,624.5	1,717.7	1,769.7
Senior RAR	**Ratio**	**0.730**	**0.730**	**0.734**	**0.732**

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

Date	**31 March 2022 £m**
Borrowings	1,275.8
Less Permitted Legacy Loan	(3.6)
Add Unamortised Debt Issue Costs and Bond Premium	(31.8)
Add Accrued Interest	6.3
Add Swap Accretion	38.9
Less Cash and cash equivalents	(205.8)
Senior Net Indebtedness	**1,079.8**
Less Class B Indebtedness	(136.4)
Class A Net Indebtedness	**943.4**

AWL has adopted IFRS 16: 'Leases' ('IFRS 16') from 1 April 2019, but has not restated comparatives for the prior reporting period, as permitted under the specific transitional provisions in the standard. Reclassifications and adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 April 2019. The key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees, thereby impacting the Income Statement and Statement of Financial Position from the adoption date. In particular IFRS 16 would result in the removal of operating lease costs from Operating Expenditure, being replaced with additional depreciation and interest charges. This accounting treatment has been excluded for the purposes of calculating the ratios.

Further certifications

Surplus

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

During the financial year, Affinity Water Limited paid no equity dividends (2021: £1.0m from our non-appointed business in order to service group debt).

Authorised Investments

Terms	Bank Deposits (£m)	Liquidity Funds (£m)	Total (£m)
Overnight	10.2	101.0	111.2
3 Months	25.0	-	25.0
6 Months	35.0	-	35.0
9 Months	10.0	-	10.0
1 Year	0.0	-	0.0
Total	80.2	101.0	181.2

Debt Service Reserve Accounts

There is no balance in each of the Debt Service Reserve Accounts as at 31 March 2022. The required debt service reserve is provided by a liquidity facility from National Australia Bank PLC totalling £32.0m.

Permitted Subsidiaries acquired

There were no Permitted Subsidiaries acquired pursuant to a Permitted Acquisition in the period to 31 March 2022.

Affinity Water
Taking care of your water

Annual Finance Charge

Affinity Water Limited has calculated the Annual Finance Charge for the period from 1 April 2022 to 31 March 2023 as £25.2m.

	1 April 2022 to 31 March 2023 (£m)
Forecast interest paid on bonds and swap	24.4
Forecast interest paid on loans	0.0
Other recurring finance fees paid	0.8
Total	**25.2**

Additional confirmations

Affinity Water Limited also confirms that:

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

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

Yours faithfully,

Stuart Ledger

Chief Executive Officer

For and on behalf of

Affinity Water Limited

(in its capacity as Transaction Agent)