Your local supply, on tap

Investor Report

Affinity Water Limited ('Affinity Water')

Six-month period ended 30 September 2020

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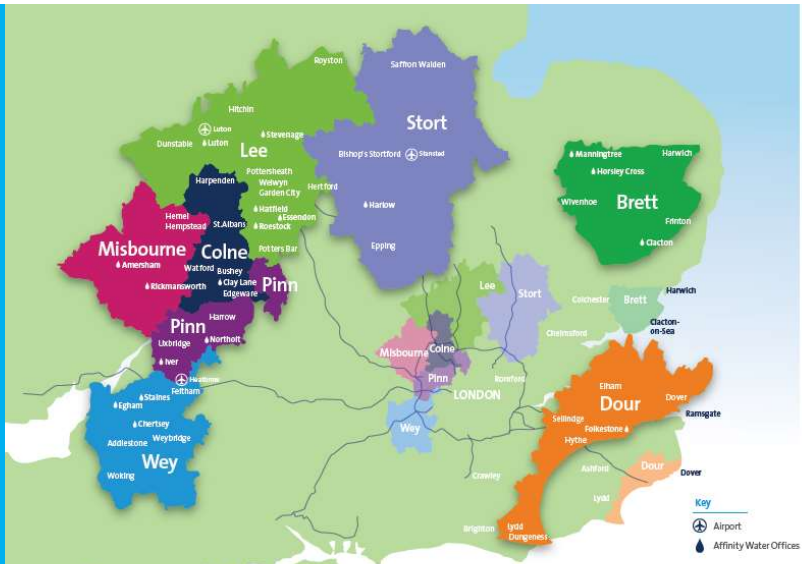
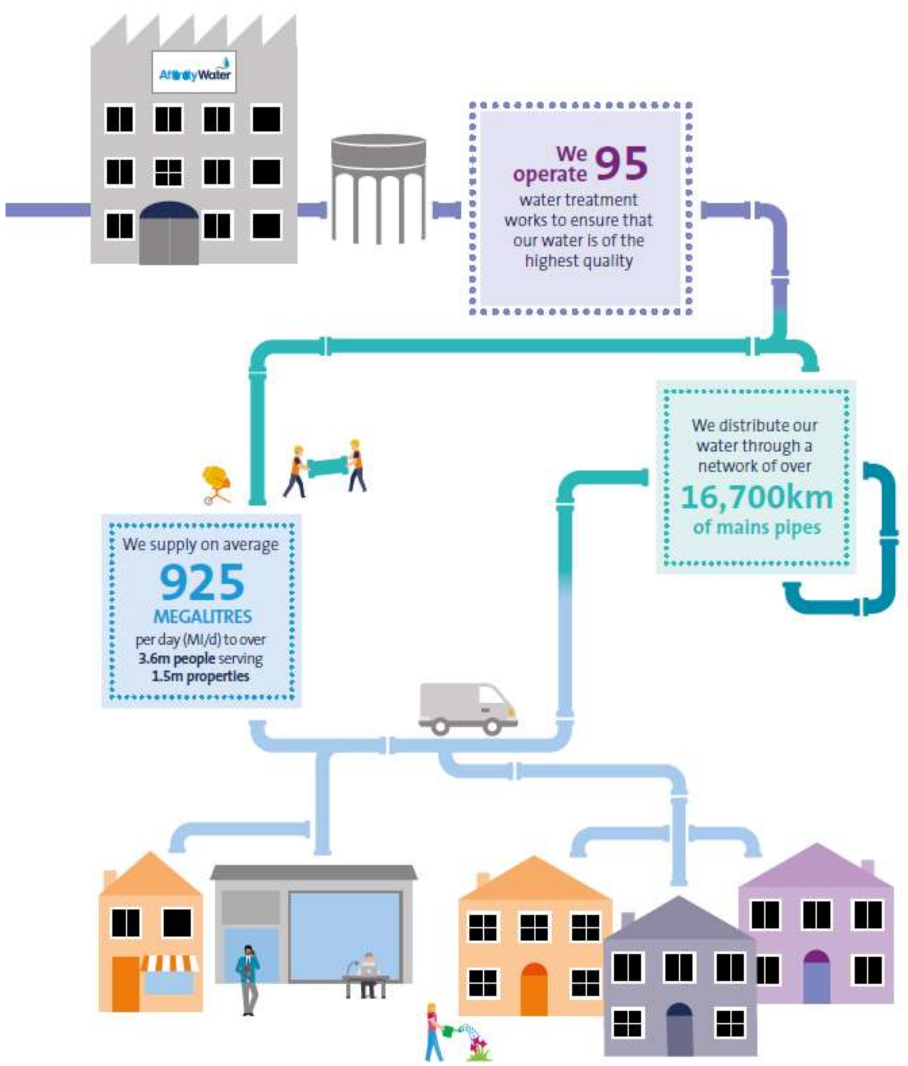
1 Affinity Water at a glance

Affinity Water is the UK's largest water only supply company by revenue and population served. We own and manage the water assets and network in an area of approximately 4,500km^2 split over three regions in the South East of England. Our supply area is split into eight water resource communities each named after a local river. We operate 95 water treatment works to ensure that the highest quality water is supplied to 3.6 million people every single day.





2 Our commitments

Going into Asset Management Plan 7 (‘AMP7’), we have agreed even more challenging commitments with Ofwat. We recognise the difficulty in implementing AMP7, but we owe it to our customers to achieve these targets. These commitments are a response to the significant social and environmental challenges we face of a rising population and increased demand for water, as well as a reduction in the availability of water in years ahead.

We want our customers and stakeholders to be able to measure our success and hold us to account. The table on the following page summarises our key AMP7 commitments and customer outcomes included in our Business Plan. We have aligned our operational key performance indicators (‘KPI’) to our key performance commitments in response to customer expectations.

We draw upon our capitals as inputs for our business and transform them through our operating activities into our strategic outcomes, ensuring alignment between the interests of customers, our people, our investors, regulators and stakeholders.

We publish our performance on our website so our customers can see exactly how we are performing against the commitments we have made for AMP7. Our supply area is broken down into eight communities who are now publishing performance at the community level. More information can be found at:

https://www.affinitywater.co.uk/performance

Our capitals	Our AMP7 commitments	Our customer outcomes and KPIs[1]
Our customers and communities Relationship and trust between us and our stakeholders	To achieve a CRI score of less than 2.0 To continue to support the quality of our water resources through our catchment management and river restoration programmes to help habitats and biodiversity of rivers in our supply area To reduce the number of contacts about water appearance, taste and odour to 0.67 per thousand population per annum by 2024/25	**Supplying high quality water you can trust** KPI: Water quality
Our environment The natural resources that we rely on	To reduce the amount of water we take from the environment by a further 27.3 Ml/d by 2024/25 and reduce abstraction from environmentally sensitive sites when flows or levels are low To reduce leakage from water pipes by 20% on a three year average basis from a 2019/20 baseline To reduce PCC by 12.5% on a three year average basis from a 2019/20 baseline	**Making sure you have enough water, whilst leaving more water in the environment** KPI: Abstraction reduction KPI: Leakage KPI: PCC
Our people Our experience, skills and competences we share	Average annual customer bills will reduce by 5.5% in real terms over AMP7, and we will deliver over £200.0m of TOTEX efficiencies to keep bills as low as possible To proactively provide assistance to more of our customers in vulnerable circumstances by understanding and prioritising their needs To improve customer experience by listening to customer needs and investing in the right technologies to deliver great customer interaction and increased engagement	**Providing a great service** **that you value** KPI: C-Mex KPI: D-Mex
Our assets and sites The lifecycle of our assets and investment projects **Our finances** Finance available to sustain our business	To reduce supply interruptions to customers to 5 minutes per property per year on average by 2024/25 To reduce the number of properties at risk of receiving low pressure to 1.118 properties per 1,000 properties by 2024/25 To invest £1.44 billion in our wholesale business to maintain core network assets to keep services running 24 hours a day, 365 days a year, investing in local level assets such as pumps, mains upgrades, new mains and investment in service reservoirs that allow us to move water to where we need it	**Minimising disruption to you and your community** KPI: Mains repairs (due to bursts) KPI: Unplanned interruptions to supply over 12 hours KPI: Water supply interruptions over 3 hours

[1] Our policies provide for dividends and executive remuneration proportionate with long-term returns and performance of the company, whilst not impairing its longer term financeability. Performance comprises our financial performance as well as an assessment of performance in the following areas: customer service, operational commitments and community commitments, linked to customer outcomes, and people.

3 Operational performance

We continue to align our operational key performance indicators and targets to key performance commitments made in our Business Plan, in response to our customer outcomes. These are necessary stretching targets that respond to the significant social and environmental challenges we face – a rising population and increased demand for water, as well as a reduction in the availability of water in the years ahead.

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.

Our C-MeX score for the six months ended 30 September 2020 was 78.59 against an industry average of 81.53, ranking us 14th out of 17 companies. The C-MeX score is made up of two surveys: Satisfaction and Experience. The actions we took to support our customers through the beginning of the COVID-19 pandemic and the hot, dry summer have helped us to move up to 9th place in the Satisfaction survey. Unfortunately, we did not see the same improvement in the Experience survey, ranking 17th. Customer experience is of utmost importance to us, so we recognise there are areas we need to improve on in order to climb further up the league table.

Our key focus for the remainder of 2020/21 will be to continue improving our customer experiences by ensuring we are proactive in keeping our customers informed and up to date, and striving to complete interactions correctly the first time. We will be rolling out improvements to customer journeys within various areas including metering and complaints. Additionally, we are redesigning a new bill based on customer feedback, and will launch this in time for annual billing.

KPI: C-Mex (Score)	
2020/21 internal target: 13th Projected year end status:	Our C-MeX score for Q2 was 78.59 against an industry average of 81.53, ranking us 14th out of 17 English and Welsh water companies. This is a stable position from March 2020, and an improvement from September 2019 when we scored 70.09 ranking 15th.
KPI: D-Mex (Score)	
2020/21 internal target: 13th Projected year end status:	Our D-MeX score for Q1 was 76.76 against an industry average of 72.17, ranking us 15th out of 17 English and Welsh water companies.

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

Our environment

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

We endeavour to address the environmental challenges of protecting our precious local rivers and habitats through reducing abstraction while also encouraging behavioural change within our catchment areas. In our AMP7 Business Plan, we are committed to reducing the amount of water we take from the environment by 27.3 million litres per day by 2024/25. We will also work with neighbouring water companies to provide a foundation for water trading in the South East of England by transferring water from water-rich areas to drier regions.

When it comes to saving water, our customers expect us to lead the way and we are committed to doing so. We have committed to reducing leakage from water pipes by 20% over AMP7, following a 15% reduction achieved in AMP6, the industry's largest percentage reduction target for AMP6. We did this through a major transformation programme, better use of data, investing in the latest technologies, innovating to improve our productivity and working closely with other companies to share ideas and best practice. We are also aiming to achieve a reduction in Per Capita Consumption by 12.5% over AMP7.

KPI: Abstraction reduction: Cumulative average annual reduction in water abstracted from our river catchments (Ml/d)	
AMP7 target: 27.3 Ml/d Projected AMP7 status:	Our AMP7 projects are on track to meet our overall AMP7 target. There are no targets set in the first four years of the AMP.
KPI: Leakage Average annual water leakage from our network (Ml/d)	
2020/21 target: 2.7% reduction Projected year end status:	Leakage is running slightly higher than the mid-year target, but we have plans in place for the remainder of the year and we anticipate meeting our year-end target.
KPI: PCC Average water use (l/p/d)	
2020/21 target: 1.7% reduction Projected year end status:	We are not expecting to achieve this target as we have seen household consumption rise during the period, as businesses close and households stay at home, following the UK Government's COVID-19 advice.

Taking action to restore priceless English chalk streams

On World Rivers Day we celebrated our chalk streams by voluntarily stopping abstraction from two boreholes in our Chess River catchment, within the Chiltern Hills, an Area of Outstanding Natural Beauty. On the day, we also sponsored the Chess Valley Challenge, a 10 mile walk along the River Chess bringing the local community together and raising awareness of the value of local rivers

Key stakeholders:

- Chilterns Conservation Board
- Environment Agency
- River Chess Association
- Chalk Stream Project
- Herts and Middlesex Wildlife Trust

Our people

We aspire to embed continuous innovation in everything we do. We are continuing to shift our working practices to be more agile and more responsive as well as transforming customer experience. As a business we have been closely monitoring the UK Government's COVID-19 advice and have adapted our operations to protect our people, as well as allowing much of our support services staff to work effectively from home.

We have created a strong culture of learning and development through significant investment in training and are building a culture of coaching and mentoring to release the potential of our people. Throughout the year, we continued with the Enhance Management Development Programme, where line managers, new to their positions, undertake an eight-month programme developing their leadership and management skills. We have also organised regular, live webinar sessions for all employees focusing on all aspects of our business for our people to increase their knowledge and awareness of the business.

We have established a Culture Ambassador forum to improve our culture across the organisation and make Affinity Water a great place to work. We have 39 Culture Ambassadors who represent all departments and directorates throughout the company. During the early months of the COVID-19 pandemic the Culture Ambassadors played a key role in sharing messages with the business and providing insight to how the teams were feeling, helping to shape future communications and an inaugural Wellbeing Survey which was conducted in October 2020.

We take the safety, health and wellbeing of our people and suppliers very seriously and we are committed to operate our business without harm. We encourage our people to spot unsafe behaviour and take ownership to stop it. Since 1 April 2020, we have reported one RIDDOR (Reporting of Injuries, Disease and Dangerous Occurrences Regulation) incident and have recorded one other lost time injury. At 30 September 2020 both our Accident Frequency Rate ('AFR') and Lost Time Injury Frequency Rate ('LTIFR') measures were at 0.04 compared to 0.16 at 31 March 2020 for the AFR and 0.20 for the LTIFR. A period of 422 days without a work-related lost time injury has been a significant feature in this improvement.

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 2020:

	Men	Women
Our Board	7	5
Senior Leadership	58	20
All other employees	801	517

Our AMP7 investment programme has been delayed slightly as all non-essential work ceased during the UK's Government's first national COVID-19 lockdown period, although we still anticipate meeting this year's mains renewals target of 14.4km by 31 March 2021, of which 0.8km are trunk mains. This investment will be key to maintaining resilience and making sure our customers have enough water, whilst leaving more water in the environment by delivering sustainable abstraction reductions in line with our Water Resources Management Plan ('WRMP') for the 60-year period from 2020 to 2080.

During AMP7, we have committed to reduce the number of properties at risk of receiving low pressure. We now check low pressures throughout our operational area using continually monitored pressure loggers in all of our leakage zones. We have embarked on an extensive pressure improvement programme targeting the areas falling under our pressure threshold, at times, during 2019/20. However, the combined effect of the first national COVID-19 lockdown and the hot, dry summer weather increased customer consumption significantly such that many more properties were affected in wider spread areas. We are continuing with our programme of improvements but are putting in place additional measures to reduce the likelihood of poor pressures next year although not planning for another extreme lockdown scenario.

The High Speed 2 ('HS2') project is a major national infrastructure project to develop the UK's new high speed rail network, with the proposed route cutting through our supply area. We have worked hard to overcome complex design and construction challenges while limiting the impact of the planned outages on the wider network.

During the period, we have made each of our manned sites COVID-19 secure in line with UK Government guidance. We have also worked hard in the period to reduce our energy usage and carbon emissions across all of our sites as part of the formulation of our energy strategy for the next 20 years, supporting our AMP7 Business Plan and our WRMP. We are aiming to use electricity more efficiently to reduce usage and cost, as well as reduce carbon emissions.

KPI: Mains repairs (due to bursts) (Number per 1,000km mains)	
2020/21 target: 150.7 or less Projected year end status:	Mains repairs are running slightly higher than our profiled target to date. However, following the hot weather burst numbers have begun return to a more stable position and we hope to achieve the year-end target.
KPI: Unplanned interruptions to supply over 12 hours (Number of properties)	
2020/21 target: 320 or less Projected year end status:	We have already exceeded this target for the year due to a single incident in Harrow Weald on 31 May 2020. This was caused by the air-locking of a main due to extreme high demand resulting from the hot weather combined with the UK Government's COVID-19 advice to stay at home.
KPI: Water supply interruptions over 3 hours (Minutes beyond 3 hours per property)	
2020/21 internal target: 11:00 Projected year end status:	We are currently outperforming against our internal mid-year target, and are on a glide-path to achieve our Business Plan PC as we progress through the AMP.

Our finances

As we are a business with a long-term outlook and expenditure commitments, we need to match this with long-term sources of debt finance. We consider the most cost-effective way to raise long-term debt to be through the debt capital markets. Our financing subsidiaries have outstanding external bonds totalling £1,014.2m, raised in the debt capital markets and on-lent to the company on the same terms. We have only £14.2m of debt maturing in AMP7 and a spread of maturity beyond this (refer to our financing update on page 15). We expect to undertake our next major refinancing exercise prior to July 2026 when our £250.0m fixed rate bond matures.

Our challenge is to achieve value creation for investors by performing efficiently while also achieving value for money for customers by maintaining our local environment, sustaining our local communities and supporting our local economies. Investor value can be created by outperforming in selected areas, thereby receiving regulatory rewards for doing so and through effective risk management to reduce cash flow volatility. Value for money for customers is achieved by delivering the standards of service customers expect along with the performance commitments included in our Business Plan at a reasonable price.

Our forecast average annual household bill for 2020/21 is £163, the equivalent of just 45 pence per day, which we think represents great value for money. We have worked hard to keep our bills low across AMP7 whilst maintaining a high quality and trusted service, with our forecast average bill for 2020/21 reducing by 6.9% in real terms from a 2019/20 baseline.

We are restricting dividends to our shareholders throughout AMP7 to enable the substantial investments to improve resilience and protect the environment. Our policy for executive director pay continues to be aligned to the company's strategy of delivering value through high quality customer service and operational performance whilst ensuring the cost of water remains affordable.

Our Board-approved dividend and executive remuneration policies are available on our website: *affinitywater.co.uk/governance-assurance*. Whilst the current economic environment as a result of COVID-19 is clearly challenging, the company has put in place suitable mitigating actions to ensure that even under a severe but plausible downside scenario, the company is not forecasting any covenant breaches. 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.

To meet our commitment of being open and transparent, we published our second 'Understanding our finances' report in November 2020. The purpose of this report is to help our customers and other stakeholders understand our business and our finances, including how we fund our operations and how we spend our customers' money. The full report is available on our website: *affinitywater.co.uk/performance.*

4 Financial performance

Financial results for the period ended 30 September 2020

Our financial results are prepared in accordance with the recognition and measurement requirements of EU-adopted International Financial Reporting Standards ('IFRS'). Our unaudited financial results for the six months to 30 September 2020 are summarised as follows:

	2020 £m	2019 £m
Revenue	**144.3**	153.9
Operating costs	**(140.5)**	(138.2)
Other income	**8.6**	9.2
Operating profit	**12.4**	24.9
Net finance costs	**(56.6)**	(36.6)
Loss before tax	**(44.2)**	(11.7)
Tax credit	**8.2**	0.7
Loss for the period	**(36.0)**	(11.0)

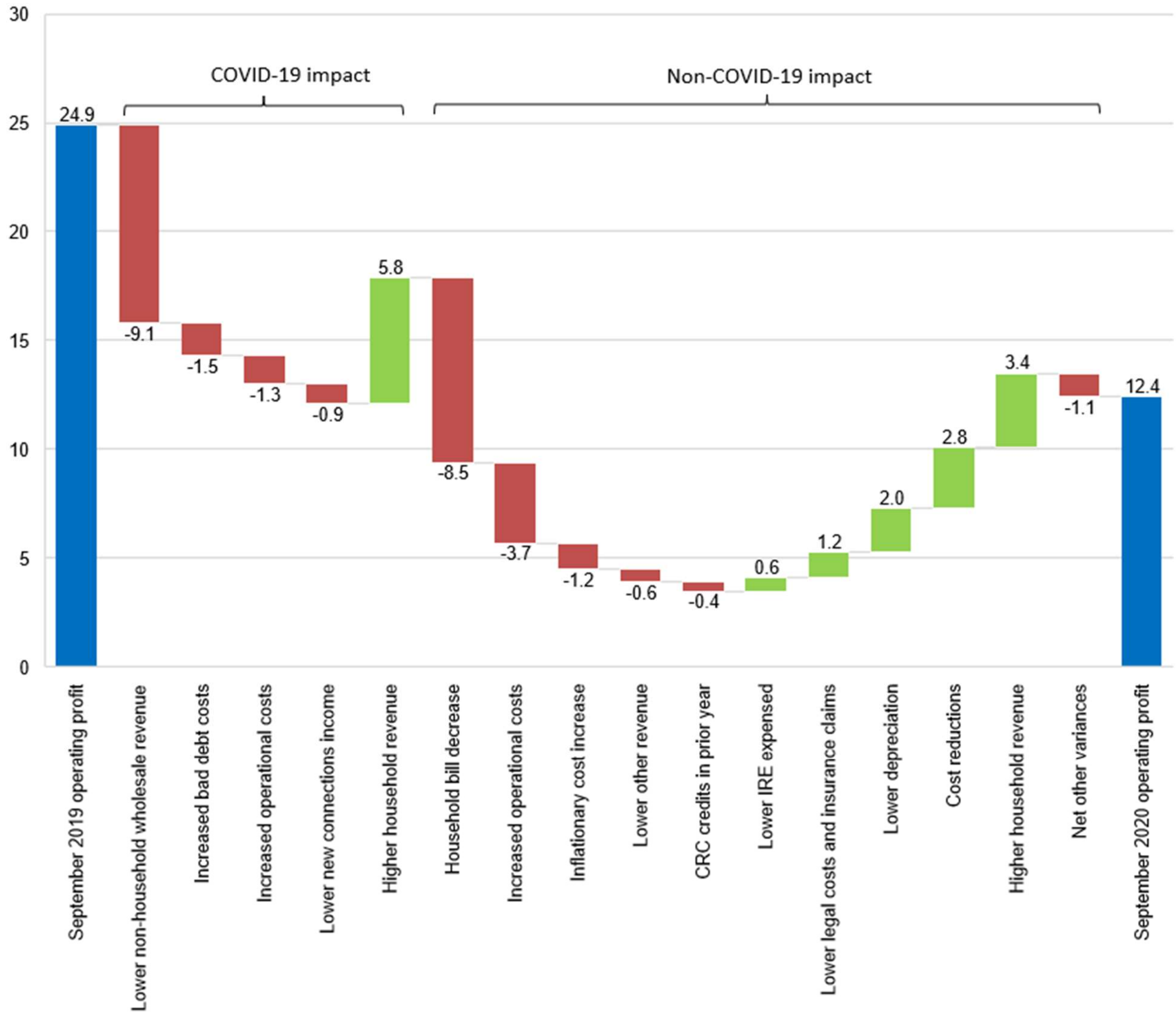
Revenue for the first six months of the year was £144.3m, being a £9.6m (6.3%) decrease on the same period last year (2019: £153.9m). The decrease is primarily due to lower non-household wholesale revenue as a result of businesses temporarily closing due to COVID-19. Conversely, household revenue increased significantly due to increased measured consumption while more people stayed at home following the Government's COVID-19 advice further, increased due to the hot and dry summer both factors have been offset by customer bill reduction.

Operating expenditure

Total operating costs of £140.5m for the first half of the year were £2.3m (1.7%) higher than for the same period last year (2019: £138.2m).

Our operational costs increased by £5.0m as a result of increased demand and supply of water, particularly increasing our bulk water import and electricity costs. Of this, it has been estimated that £1.3m can be attributed to COVID-19 as more people stay at home following the Government's advice, with £1.5m relating to the hot, dry summer weather. Bad debt costs have also increased by approximately £1.5m as a result of COVID-19. Inflation, which at September 2020 was 1.13% higher year-on-year, also caused a £1.2m cost increase.

A number of initiatives continued throughout the period aimed at reducing our costs. The restructuring of the business in order to be able to deliver the significant efficiencies planned for AMP7 has led to cost savings of £2.8m through a lower headcount. Furthermore, legal costs and insurance claims have decreased by £1.2m due to an initiative to decrease the number of consultants being used by the business and also one-off corporate legal costs in the prior year which have not repeated. Depreciation has also reduced by £2.0m as COVID-19 has delayed projects from completing in the six month period to 30 September 2020.



Finance costs

The net finance cost of £56.6m was £19.9m (54.3%) higher in the current year primarily as a result of fair value losses on financial derivatives, mainly in relation to the CPI linked inflation swaps, which were incepted between March 2020 and June 2020. The fair value loss on the financial derivative reflects the market conditions at 30 September 2020 and is non-cash in nature.

Loss before tax

Loss before tax increased by £32.5m (276.6%) to a £44.2m loss (2019: £11.7m loss), primarily due to the reduction in revenue and higher net finance costs as explained above.

Taxation

Income tax credit of £8.2m was £7.5m (1056.2%) favourable to the prior period due to higher taxable losses. The effective tax rate of 18.5% is lower than the current corporation tax rate of 19.0%.

All our profits are taxed in the UK, and we do not use tax avoidance schemes or tax havens to reduce our tax liabilities. We comply with what we understand to be both the letter and the spirit of the law. The group tax strategy of Daiwater Investment Limited, our ultimate holding and controlling company in the United Kingdom, can be found on our website: *affinitywater.co.uk/investors*.

No corporation tax was paid during the period as we are forecasting a tax loss for 2020/21 therefore no tax will be payable (2019: £2.2m).

No equity dividends were paid during the period (2019: £nil), as our shareholders have agreed to re-invest all planned returns from our appointed business for the benefit of our customers for the time being to ensure that any group debt can be serviced from the non-appointed business before a distribution to shareholders is considered.

Capital expenditure

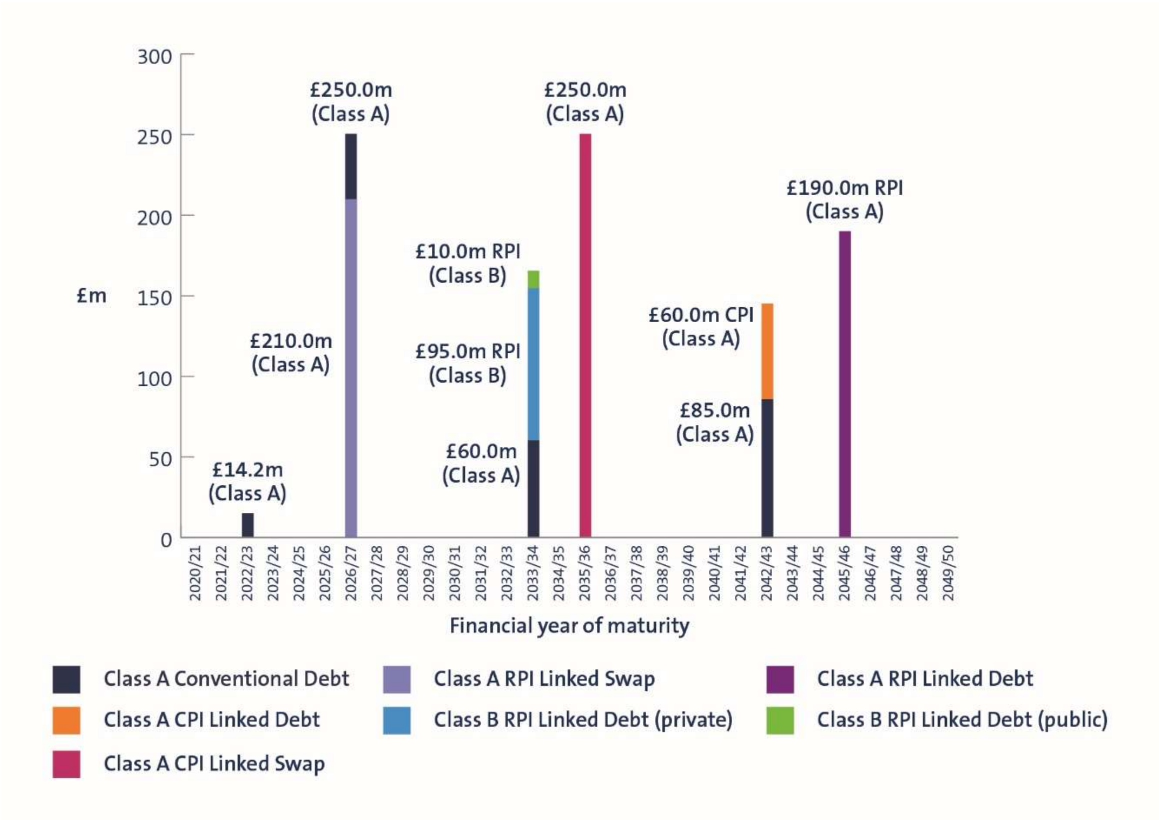
Capital expenditure in the period was £64.7m (2019: £56.6m), and was incurred principally on our mains renewals, trunk main replacement and water treatment programmes. The total includes expenditure relating to our work on the HS2 project but excludes £8.3m (2019: £8.8m) of infrastructure renewals expenditure, which is treated as an operating cost under the recognition and measurement requirements of IFRS. The higher capital expenditure in the first half of this year reflects our increased work in the current period on the HS2 project, for which we also received higher capital contributions offsetting these costs.

Net cash inflow before tax and financing[2] for the first six months of the year was £8.4m being a £15.8m (65.2%) decrease on the same period last year (2019: £24.2m). The decrease is primarily due to higher operational expenditure, partially offset by lower net (including capital contributions) investment in fixed assets in the current period.

[2] 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 25): cash generated from operations; purchases of property, plant and equipment; capital contributions; proceeds from sale of property, plant and equipment; purchases of intangible assets; and principal elements of lease payments.

5 Financing update

The company has transacted £225.0m of CPI linked inflation swaps and £75.0m of RPI linked inflation swaps during the period in order to increase the proportion of our debt to index linked and to mitigate our interest cover ratio covenant. These transactions lead to a net interest receivable cashflow over the life of the swap, offset by an accretion payment on maturity (2026 for the RPI swap and 2036 for the CPI swap). There is no liquidity risk prior to these dates as there is no requirement to pay collateral prior to maturity. The chart below shows the maturity profile of all the bonds issued by Affinity Water's financing subsidiaries.



The credit ratings for our subsidiaries' bonds assigned by the rating agencies, Moody's, Standard & Poor's and Fitch, have not changed since March 2020:

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

6 Regulatory and business update

COVID-19

The provision of high-quality water and the health and well-being of our people are of utmost importance and as a company we are closely managing the situation through our COVID-19 Incidence Response Team.

Financial Impact of COVID-19

We have been operationally and financially impacted by COVID-19 throughout the six-month period to 30 September 2020. Our non-household revenue has decreased by £9.1m mainly due to businesses temporarily closing as a result of the pandemic. Household revenue has only increased by £0.7m despite consumption significantly increasing as households follow the UK Government's advice to stay at home during a hot, dry summer, due to a bill reduction and a significant number of customers being on unmetered tariffs. Our operational costs, particularly bulk water imports and electricity costs, have increased as a result of higher demand and supply. The impact of COVID-19 along with a significant fair value loss[3] on financial derivatives has resulted in a £36.0m loss for the six-month period.

Customers and Community

We understand the importance of our communities and customers and we recognise our responsibility to not only continue to provide high quality water as well as support them during the current pandemic. We have increased the financial help available to our customers with a range of different payment options, alternative tariffs and budgeting schemes. Partnering with the Money Advice Trust and National Debtline we are also providing as much information and financial support as possible.

Operational changes

Affinity Water continues to follow Government health advice to make sure our customers and our colleagues stay safe; we have put all the necessary measures in place to ensure this advice is followed by everyone.

We understand this is a challenging time for everybody and we have put our robust business continuity plans into action so we can make sure we can still supply our water services to all our customers in the South East. We are focusing our teams on essential work to ensure we have sufficient resources available to continue to supply high quality drinking water.

To reduce the risk of spreading the virus, our colleagues are practising the social distancing measures as instructed by the Government. Teams have been provided with the appropriate protective equipment to allow them to do this safely; other teams are working from home where possible and we have increased the distance between workspaces in our call centres.

We also believe that keeping our people well informed is important. Our people are regularly updated on the company policies on COVID-19. We have created an intranet site to directly inform colleagues on update in the pandemic. In addition, our Executive Management Team regularly release company updates through weekly newsletter and recordings regarding COVID-19.

[3] Profits or losses arising from fair value changes are accounting entries only, impacting the condensed interim income statement but not the condensed interim statement of cash flows during the period.

BREXIT

Affinity Water requires a number of supplies and spares from the European Union, the disruption of these components present an operational risk to the company. We have contingency plans in place that mean we are able to continue to supply water to our customers should these critical suppliers become unavailable. We have our pumps and chemical supplies multi-sourced within the UK and outside the EU. In addition, we are in contact with critical suppliers on the impact of Brexit on our supply chain.

Macroeconomic

Many regulated aspects of the business adjust with inflation such as revenue, capital and operating expenditure. However, as we will see the immediate impact of inflation on our cost base there will be a delay in recognition of revenue. Therefore post financing and tax cash flows as well as Regulatory Capital Value are impacted by high or low inflation. .

However as around 80% of the company's debt is index linked, the gearing impact of low inflation is minimised.

Legal Impact

The majority of our contracts are governed by the law of England and Wales, BREXIT is therefore not expected to have a significant impact on the business.

7 Governance update

Our Board is collectively responsible for the long-term success of the company. It sets our strategic aims, ensures that the necessary financial and human resources are in place to meet our objectives and reviews management performance. It sets our values and standards and ensures that our obligations to shareholders and others are understood and met.

Executive management team changes

Sue Flower started as Director of HR and Culture on 19 February 2020. Sue has a track record of successfully implementing HR strategies, particularly in companies undergoing transformation and change. She's worked in a variety of companies including Motorola Solutions/Airwave, Barclays Bank and Bristol Myers Squibb and has led improvements in management competencies, employee relations and productivity levels.

Sunita Kaushal was appointed as General Counsel and Company Secretary on 1 April 2020. Sunita is an accomplished solicitor with experience in global businesses. She has worked for Bakkavor Plc, a global food manufacturing business, De Vere Group who specialise in the hospitality sector and Cushman and Wakefield, a global real estate business.

Board changes

Justin Read was appointed to the Board in July 2020 as an Independent Non-Executive Director. Justin brings immense experience in financial and managerial experience working across a number of different industries. Justin replaces Patrick O'Donnell Bourke as the Chair of the Audit Risk and Compliance Committee. Patrick left the Board in September 2020.

Chairman of the Board Tony Cocker will step down from his position effective June 2021. We are in the final stages of the recruitment process for Tony's successor.

8 Common Terms Agreement compliance

Calculation of financial ratios

Test period		Calculation Date	Year 1 1 April 2020 to 31 March 2021 Forecast	Year 2 1 April 2021 to 31 March 2022 Forecast	Year 3 1 April 2022 to 31 March 2023 Forecast	Year 4 1 April 2023 to 31 March 2024 Forecast	Year 5 1 April 2024 to 31 March 2025 Forecast
Net Cash Flow divided by	£m	108.7	93.7	100.8	113.4	125.2	136.9
Class A Debt Interest	£m	29.1	22.2	20.8	21.1	21.7	22.5
Class A ICR	**Ratio**	3.7	4.2	4.8	5.4	5.8	6.1
Net Cash Flow less	£m	108.7	93.7	100.8	113.4	125.2	136.9
CCD and IRC	£m	0	0	0	0	0	0
Adjusted Net Cash Flow divided by	£m	108.7	93.7	100.8	113.4	125.2	136.9
Class A Debt Interest	£m	29.1	22.2	20.8	21.1	21.7	22.5
Class A Adjusted ICR	**Ratio**	3.7	4.2	4.8	5.4	5.8	6.1

Test period		Calculation Date	Year 1 1 April 2020 to 31 March 2021 Forecast	Year 2 1 April 2021 to 31 March 2022 Forecast	Year 3 1 April 2022 to 31 March 2023 Forecast	Year 4 1 April 2023 to 31 March 2024 Forecast	Year 5 1 April 2024 to 31 March 2025 Forecast
Net Cash Flow less	£m	108.7	93.7	100.8	113.4	125.2	136.9
CCD and IRC	£m	0	0	0	0	0	0
Adjusted Net Cash Flow divided by	£m	108.7	93.7	100.8	113.4	125.2	136.9
Senior Debt Interest	£m	32.8	29.1	24.8	25.1	25.8	26.7
Senior Adjusted ICR	**Ratio**	**3.3**	**3.2**	**4.1**	**4.5**	**4.9**	**5.1**
Year 1	Ratio	3.7	4.2	4.8	5.4	5.4	5.4
Year 2	Ratio	4.2	4.8	5.4	5.8	5.8	5.8
Year 3	Ratio	4.8	5.4	5.8	6.1	6.1	6.1
Class A Average Adjusted ICR	**Average**	4.3	4.8	5.3	5.7	5.7	5.7
Year 1	Ratio	3.3	3.2	4.1	4.5	4.5	4.5
Year 2	Ratio	3.2	4.1	4.5	4.9	4.9	4.9
Year 3	Ratio	4.1	4.5	4.9	5.1	5.1	5.1
Senior Average Adjusted ICR	**Average**	3.5	3.9	4.5	4.8	4.8	4.8

Test period		Calculation Date	Year 1 1 April 2020 to 31 March 2021 Forecast	Year 2 1 April 2021 to 31 March 2022 Forecast	Year 3 1 April 2022 to 31 March 2023 Forecast	Year 4 1 April 2023 to 31 March 2024 Forecast	Year 5 1 April 2024 to 31 March 2025 Forecast
Net Cash Flow less	£m	108.7	93.7	100.8	113.4	125.2	136.9
RCV Depreciation and Capitalised IRE	£m	54.8	57.5	70.3	74.6	81.6	91.4
Conformed Adjusted Net Cash Flow divided by	£m	53.9	36.2	30.5	38.8	43.6	45.5
Class A Debt Interest	£m	29.1	22.2	20.8	21.1	21.7	22.5
Conformed Class A Adjusted ICR	**Ratio**	1.9	1.6	1.5	1.8	2.0	2.0
Net Cash Flow less	£m	108.7	93.7	100.8	113.4	125.2	136.9
RCV Depreciation & Capitalised IRE	£m	54.8	57.5	70.3	74.6	81.6	91.4
Conformed Adjusted Net Cash Flow divided by	£m	53.9	36.2	30.5	38.8	43.6	45.5
Senior Debt Interest	£m	32.8	29.1	24.8	25.1	25.8	26.7
Conformed Senior Adjusted ICR	**Ratio**	1.6	1.4	1.2	1.6	1.7	1.7
Year 1	Ratio	1.9	1.6	1.5	1.8	1.8	1.8
Year 2	Ratio	1.6	1.5	1.8	2.0	2.0	2.0
Year 3	Ratio	1.5	1.8	2.0	2.0	2.0	2.0

Test period		Calculation Date	Year 1 1 April 2020 to 31 March 2021 Forecast	Year 2 1 April 2021 to 31 March 2022 Forecast	Year 3 1 April 2022 to 31 March 2023 Forecast	Year 4 1 April 2023 to 31 March 2024 Forecast	Year 5 1 April 2024 to 31 March 2025 Forecast
Conformed Class A Average Adjusted ICR	**Average**	1.7	1.6	1.8	2.0	2.0	2.0
Year 1	Ratio	1.6	1.4	1.2	1.6	1.6	1.6
Year 2	Ratio	1.4	1.2	1.6	1.7	1.7	1.7
Year 3	Ratio	1.2	1.6	1.7	1.7	1.7	1.7
Conformed Senior Average Adjusted ICR	**Average**	1.4	1.4	1.5	1.7	1.7	1.7

Date		30 September 2020 Actual	31 March 2021 Forecast	31 March 2022 Forecast	31 March 2023 Forecast	31 March 2024 Forecast	31 March 2025 Forecast
Class A Net Indebtedness divided by	£m	861.3	877.1	958.1	1,036.3	1,084.2	1,103.1
RCV	£m	1,232.6	1,305.5	1,405.0	1,499.4	1,575.8	1,615.4
Class A RAR	**Ratio**	0.697	0.672	0.682	0.691	0.688	0.683
Senior Net Indebtedness divided by	£m	985.6	1,004.3	1,087.9	1,168.7	1,219.3	1,240.9
RCV	£m	1,232.6	1,305.5	1,405.0	1,499.4	1,575.8	1,615.4
Senior RAR	**Ratio**	0.800	0.769	0.774	0.779	0.774	0.768

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

Date	30 September 2020 £m
Borrowings	1,106.2
Exclude Permitted Legacy Loan	(3.6)
Add Back Unamortised Debt Issue Costs and Bond Premium	(16.8)
Add Accrued Interest	4.9
Add Swap Accretion	6.4
Less Cash and cash equivalents	(100.5)
Exclude Lease Liabilities	(11.1)
Senior Net Indebtedness	**985.6**
Remove Class B Debt Amounts	(126.3)
Class A Net Indebtedness	**859.3**

The impact of the IFRS16, which changed the accounting treatment for operating leases in the financial statements has been backed out of the ratios. If included, the accounting change would be positive to the ICR ratios.

9 Further certifications

Surplus

No equity dividends were paid during the six month period ending 30 September 2020 (2019: £nil), as our shareholders have agreed to re-invest all planned returns from our appointed business for the benefit of our customers for the time being to ensure that any group debt can be serviced from the non-appointed business before a distribution to shareholders is considered.

Authorised Investments

Terms	Bank Deposits (£m)	Liquidity Funds (£m)	Total (£m)
Overnight	10.0	52.0	62.0
3 Months	15.0	-	15.0
6 Months	0.0	-	0.0
9 Months	5.0	-	5.0
1 Year	0.0	-	0.0
Total	30.0	52.0	82.0

Annual Finance Charge

Affinity Water Limited has calculated the Annual Finance Charge for the period from 1 April 2020 to 31 March 2021 as £33.7m and the Monthly Payment Amount to be £2.85m. Calculation of the Annual Finance Charge is set out in the table to the right.

	1 April 2020 to 31 March 2021 (£m)
Forecast interest paid on bonds	33.7
Forecast interest paid on loans	0.0
Other recurring finance fees paid	0.5
Total	**34.2**

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 Financial Officer

For and on behalf of

Affinity Water Limited

(in its capacity as Transaction Agent)

Affinity Water

Your local supply, on tap

Additional periodic information

We have included links below to the following documents which may be of further interest to investors.

Affinity Water Limited's annual charges scheme and details of tariffs

https://www.affinitywater.co.uk/docs/charges/202021/Charges-Scheme-2020-2021.pdf

Affinity Water Limited's annual drinking water quality report

https://www.affinitywater.co.uk/my-water/water-quality/quality-in-your-area

Affinity Water Limited's environmental performance

https://www.affinitywater.co.uk/corporate/environment

Risk, strengths and weaknesses statement

https://www.affinitywater.co.uk/docs/governance_assurance/Risks,%20Strengths%20and%20Weaknesses%20Statement%20November%202019%20FINAL.pdf

Customer performance report

https://www.affinitywater.co.uk/docs/corporate/Our-Year-In-Review-2018-19-March-20.pdf

Draft Water Resources Management Plan 2019

https://www.affinitywater.co.uk/docs/corporate/plans/portal/Draft_Water_Resources_Management_Plan_2020-2080_March%202018.pdf

Governance code

https://www.affinitywater.co.uk/corporate/about/governance-assurance

Gender pay gap report

https://www.affinitywater.co.uk/docs/reports/Gender-Pay-Gap-2019.pdf

Understanding our Finances

https://www.affinitywater.co.uk/docs/corporate/Affinity-Water-Understanding-Our-Finances-November-2020.pdf