Affinity Water Limited

Unaudited Half-Yearly Financial Report
For the six-month period ended 30 September 2024

Registered Number: 02546950

Affinity Water

Affinity Water Limited

Glossary of key abbreviations and definitions used within this report and the water industry

AMP – Asset Management Plan
The five-year price control period covered by a company's Business Plan. AMP7 runs from 2020 to 2025. AMP8 will run from 2025 to 2030.

C-MeX – Customer measure of experience
A measure of customer service levels being used by Ofwat.

CRI – Compliance Risk Index
A measure of water quality compliance designed to illustrate the risk arising from treated water compliance failures.

D-MeX – Developer measure of experience
A measure of developer service levels being used by Ofwat.

Ml/d – Megalitres per day
A measure of consumption. One megalitre is equal to one million litres.

PCs – Performance Commitments
The metrics used by Ofwat to measure the service that water companies deliver for customers and the environment.

PCC – Per Capita Consumption
The amount of water used by each person, usually measured in litres per person per day (l/p/d).

PR – Periodic Review
The price determination process undertaken by Ofwat ahead of each new AMP. The PR19 process set the price controls for AMP7, and the PR24 process will set the price controls for AMP8.

RCV – Regulatory Capital Value
The economic value of the regulated business, as determined by the price control regime.

WINEP – Water Industry National Environment Programme
A set of actions that water companies must complete in order to meet their environmental obligations as required by the Environment Agency.

WRMP – Water Resources Management Plan
A long-term plan detailing how a water company will maintain a sustainable balance between future demand and supply of water.

Our regulators

CCW – Consumer Council for Water
The regulator tasked with investigating customer complaints relating to service, price and value for money.

Defra – Department for the Environment, Food and Rural Affairs
The UK government department responsible for water policy.

DWI – Drinking Water Inspectorate
The regulator ensuring compliance with drinking water quality regulations.

EA – Environment Agency
A non-governmental organisation which controls, inter alia, how much water we can abstract from the environment.

Ofwat – Water Services Regulation Authority
The economic regulator of the water industry.

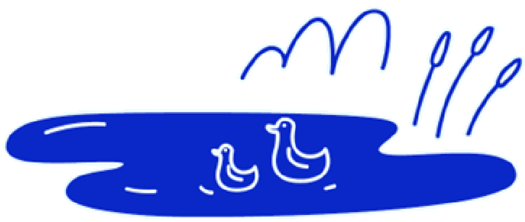
Affinity Water Limited

Interim report and financial statements
for the six months ended 30 September 2024

Contents

Terms used in this report

The 'company' or 'Affinity Water' means Affinity Water Limited; the 'regulated business' or 'regulated activities' means the licensed water activities undertaken by Affinity Water Limited in the South East of England.



Affinity Water Limited

Interim management report

About us

We are the largest 'water only' company in England. That means we supply high-quality clean water to our customers, but we do not collect or treat wastewater or sewage.

We own and manage the water assets and network in an area of approximately 4,500km^2 across three supply regions in the South East of England. We have been supplying water to the local community for more than 170 years.

Introduction

We are pleased to publish our unaudited interim financial and operational results, in what has been a busy six months, including responding to our Draft Determination received from Ofwat in July. We continue to build on our performance improvements, focusing on serving our customers, communities and the environment and making sure our values are embedded across our business.

We have worked hard to continue supporting customers in vulnerable circumstances through social tariffs with over 10% of our customers on the priority services register.

Our purpose, vision and values

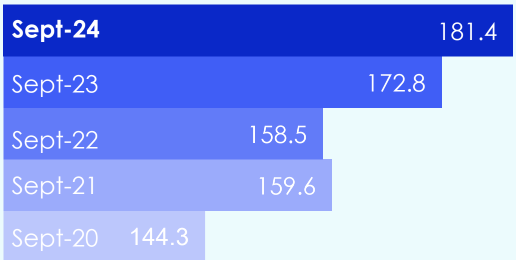
Affinity Water Limited

Interim management report

Our financial performance summary for the six months ended 30 September 2024

Revenue £m

£181.4m



Revenue for the six-month period to 30 September 2024 has increased by £8.6m compared to the same period last year.

The increase is primarily due to our annual inflationary tariff increases on both household and non-household revenue streams.

Operating profit £m

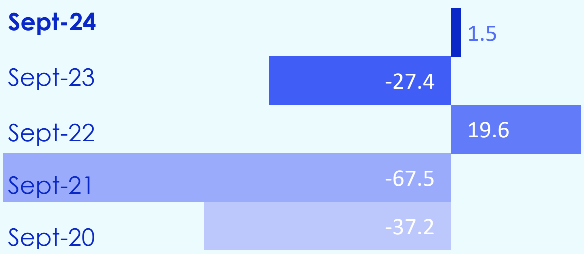
£26.0m

Operating profit has increased by £12.5m compared to the same period last year, driven by increased revenue of £8.6 million and net operational and other costs have reduced by £3.9m due to better resource planning, as well as reduced legal and insurance costs.

Inflationary costs and energy costs continue to increase year on year impacting our results.

Profit for the period £m

£1.5m

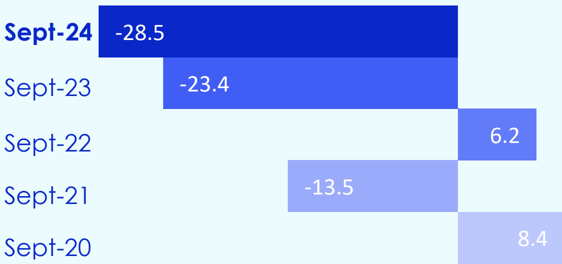


Profit for the period has increased by £28.9m compared to the same period last year.

This has mainly been driven by reduced accretion on financial instruments and the favourable impact on the fair value position on our energy swaps which were put in place to hedge against rising prices since 2022.

Net cash flow before tax and financing[1] £m

£(28.5m)



Our cash flows from operating activities for the six months ended 30 September 2024 were £5.1m lower than the prior period.

The decrease is primarily due to lower cash generated from operations and a higher level of purchases of property, plant and equipment.

[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 condensed statement of cash flows (refer to page 20): cash generated from operations; purchases of property, plant and equipment; deferred grants and contributions; proceeds from sale of property, plant and equipment; purchases of intangible assets; increase in borrowings relating to leasehold property and principal elements of lease payments.

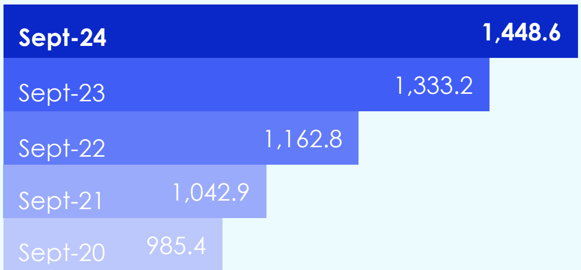
Affinity Water Limited

Interim management report (continued)

Our financial performance summary for the six months ended 30 September 2024

Compliance net debt £m

£1,448.6m

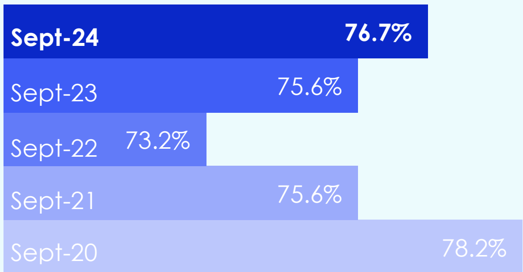


At 30 September 2024, compliance net debt, as defined in the financial covenants in the company's securitisation documentation was £1,448.6m.

This is £115.8m higher than at 30 September 2023, mainly driven by accretion on RPI and CPI linked debt.

Gearing %

76.7%



Gearing, calculated as compliance net debt to RCV, at 30 September 2024 was 76.7%.

Our gearing remains below our internal gearing level of 80.0%. This allows sufficient headroom within the gearing covenants, which are only triggered at a level of more than 90.0%.

Credit ratings

Bonds	Moody's[1]	Standard & Poor's[2]	Fitch
Class A	A3	BBB+	BBB+
Class B	Baa3	BBB-	BBB-
Corporate family rating	Baa1	N/A	N/A

Our credit ratings have not changed since March 2024.

Interest Cover Ratio (ICR)

We have a number of ICR covenants contained within our borrowing programme, that have to be met at the end of each financial year.

Our ICR covenants were met at March 2024 and we continue to monitor and adhere to them throughout each reporting period.

Please refer to page 10 onwards for further information on our financial performance.

[1] Review for downgrade applied by Moody's on 13 November 2024.
[2] Credit Watch with negative implications applied by Standard and Poor's on 12 November 2024.

Affinity Water Limited

Interim management report (continued)

Our operational performance summary for the six months ended 30 September 2024

Summary

As part of our PR19 final determination for AMP7 we have 28 stretching performance commitments to help ensure we deliver on our service.

Each of these commitments has financial rewards, penalties, or reputational incentives. There are ten common commitments across the industry and 18 bespoke, which are specific to Affinity Water.

Internally our performance commitments undergo significant scrutiny throughout the year. Each commitment is reviewed by its respective programme board and reported to directors and the Board monthly. We also undertake mid-year audits in preparation for the Annual Performance Report audits and submission to Ofwat.

Our Independent Challenge Group (ICG) meet regularly. As the 'voice' of water users, they challenge and support us as we develop plans and progress through the year. Performance is reviewed and queried to aid in direction of travel with our customers' best interests in mind. The ICG also play a pivotal role in the sign-off of our Environmental Innovation Project performance commitment.

Alongside internal review, all performance commitments undergo year end scrutiny and audit by our external assurers, AtkinsRéalis.

Overall performance

In 2023/24, we met 24 of our 28 performance commitments, 12 of which were financial and 12 reputational (this excludes C-MeX and D-MeX which are based on comparative reporting).

While no company was called out in Ofwat's Water company performance report (2023/24) as leading, we were noted as a 'top performer' in supply interruptions. We also reported the largest leakage reduction (from base year) in the industry.

Year on year, our performance against our AMP7 commitment improved to 2023/24. While we are forecasting reduced performance for 2024/25, we are working to recover our leakage position in order to hit our target. We anticipate we will be the leading company on leakage reduction in the industry.

Compared to 2023/24 (outside of leakage), those metrics forecasted to fall short of target relate to customer vulnerability and perception surveys. Industry wide customer satisfaction and perception of value for money has been falling. Media cover and perceptions of the overall cost of utilities appear to heavily influence viewpoints as opposed to specifically relating to Affinity Water.

Separate to our performance commitments we recently submitted our draft vulnerability strategy to Ofwat. In November, Ofwat published its assessment of water companies' draft vulnerability strategies. Affinity Water was considered exemplary in many areas of this assessment.

A breakdown of our performance against commitments across the first four years of AMP7 is noted below:

	2020/21	2021/22	2022/23	2023/24
Commitments met (excluding C-Mex and D-Mex)	19	20	20	24
Common (out of 10)	5	6	5	7
Bespoke (out of 18)	14	14	15	17

Operational performance

Key performance indicators (KPIs)

We have aligned our operational KPIs to the key performance commitments made in our AMP7 Business Plan and in response to customer expectations. We want customers and stakeholders to be able to assess our track record and hold us to account. We are required to report our performance annually against targets set by Ofwat. Our annual performance in relation to these targets for the six-month period ended 30 September 2024 is shown in the table below:

Key: ↗ on track to meet or exceed year-end target ↘ off track to meet year-end target

Water Supply Interruptions > 3 hours *(Average minutes per property, water supply interruption)*	
Target: 00:05:00 (Deadband 2.0 or less) ↗	Interruptions are reported as the average number of minutes properties are without water (for interruptions lasting 3 hours or more). Interruptions to supply are running within our target for the first six months (00:01:05 YTD actual compared to a YTD target of 00:02:30), with our current year end forecast achieving the full year target. We are currently on target to achieve our best ever performance, although winter weather can be unpredictable and has a significant effect on this metric.
Leakage *Average annual water leakage from our network (Ml/d)*	
Target: 20% reduction ↘	This measure is reported as a percentage reduction in a three-year average of leakage against a baseline average level of 2019/20. We are forecasting to report 19.2% reduction which does not meet the 2024/25 target of a 20% reduction in the three-year rolling average leakage figure. We have implemented a recovery plan to increase repair capacity and to return to target.
PCC *Average water use (l/p/d)*	
Target: 12.5% reduction ↘	PCC is reported as a three-year average against a baseline level from 2019/20 average water use. PCC is a measure of water usage in the home. Our target is to reduce this consumption by 12.5% (from base year). Since peak usage seen during the Covid-19 pandemic we have been working hard through behavioural change and water saving activities to close the gap to target. Alongside our existing water efficiency campaigns, we continue to look for new and innovative ways to educate on the need for reducing consumption.
Water quality *CRI (Score)*	
Target: 0 (Deadband 2.0 or less) ↗	CRI is a measure to inform the risk arising from treated water compliance failures. Whilst the ultimate target for water quality would be an index score of zero, we are on course to achieve a performance that is within the 'deadband' of between 0 and 2.0 for the 2024 calendar year and will not incur a financial penalty.

Operational performance (continued)

Key performance indicators (continued)

C-MeX
(Score)

Target: 75.75

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 year-to-date C-MeX score is 71.92 placing us 13th out of 17 companies. While our customer experience score improved by 3 places (10th) our service scores dropped one place (14th).

We are focused on achieving a score of 74.00 for the full year. By understanding customers' needs, and improving resolution we are looking to deliver a noticeable improvement in response times and satisfaction to customer interactions.

D-MeX
(Score)

Target: 8th position

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 which contribute 50% each to the score.

Our quantitative score for Q1 was 100% and our qualitative score 78.96, overall placing us 9th in the league table with a score of 89.48. This is our highest quarterly score since D-MeX began. This is a great start to the year and positions us above our company target score of 89.00.

Mains repairs (due to bursts)
(Number per 1,000km mains)

Target: 142.3 or less

The number of mains repairs for the first half of 2024/25 was 34.94, below our profiled target of 44.85.

We are entering the winter period where we may experience an increase, however we are expecting our run rate to remain below the target for the rest of the year and achieve our year-end commitment.

Properties at risk of low pressure
(Number per 10,000 properties)

Target: 1.118

This is a measure of the number of properties that are at risk of experiencing low pressure in the mains water supply.

Performance for 2024/25 is reporting below target, and we do not expect to meet our year end performance commitment.

Unplanned interruptions to supply over 12 hours
(Number of properties)

Target: 320 or less

We are reporting below our target YTD and are currently on target to achieve the commitment for the full year.

As with interruptions to supply ≥ 3 hours, weather has a significant impact on this metric, particularly winter freeze-thaw events.

Affinity Water Limited

Interim management report (continued)

Our operational performance summary for the six months ended 30 September 2024 (continued)

Minimising disruption to you and your community

Our performance for April to September remains strong and we are currently on target to achieve our best performance for supply interruptions greater than 3 hours. For the six-month period we are reporting at 1 minute 05 seconds against a YTD target of 2 minutes 30 seconds. The year performance commitment is 5 minutes 00 seconds.

For unplanned interruptions to supply greater than 12 hours, we are also reporting 36 properties against the target of not more than 320 properties.

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

Our current leakage forecast is to report a 19.2% reduction against an AMP7 target of 20% in the three-year rolling average leakage figure. We are working closely with our supply chain to improve the time taken for detection, fix and repair. We continue to look for ways to improve and reduce leakage across our area and hope to achieve the full target by the end of the year.

Per Capita Consumption is the metric used by the water industry to measure water use in the home. Our target is to reduce this consumption by 12.5% (from base year). It is a challenging target, particularly given the increase in household usage during Covid-19 and ongoing changes in water usage due to more people working from home. We continue to work to achieve reductions in demand, however we will not achieve the target for the five-year period.

Supplying high-quality water you can trust

CRI performance in 2024 has been affected by aluminium exceedances in January and a coliform detection at Harefield reservoir in March, with the DWI making recommendations in respect of these exceedances. To prevent recurrences of these issues, we have an ongoing mains cleaning programme to remove aluminium from the affected mains networks and have improved the turnover of water in Harefield reservoir. We are still within the target CRI performance for the nine months up to the end of September and forecast to be below the CRI deadband[1] of 2.0 for the 2024 calendar year. The performance commitment for CRI is 0.

The contact rate for consumers contacting us expressing dissatisfaction with the taste, odour or appearance of their water supply to date is 0.61/1000 customers, which is within our performance commitment target of 0.67/1000. We are forecasting we will remain under the target for year end.

Providing a great service that you value

C-MeX and D-MeX are reported out of 100 and are split equally 50/50 for customer service and experience and qualitative and quantitative respectively. It is reported on a ranked basis against the 17 water companies in England and Wales.

Our Q1 C-MeX score for 2024/25 was 71.92. For customer 'service' we were ranked 14th out of a total of 17 companies and for customer 'experience' we were ranked 10th. Our total Q1 score ranks us 13th, moving down one place from the 2023/24 Q4 position. We have not yet received our Q2 score.

Our D-MeX overall score for Q1 was 89.48 ranking us 9th out of 17 companies. This is five places up from the 2023/24 Q4 position, and our qualitative score is the highest quarterly score since D-MeX was introduced at the start of AMP7. We worked to proactively manage the backlog of construction jobs which had reduced our 2022/23 scores (which were mainly due to a change in contractor). We achieved 100% in the quantitative element of D-MeX . We have not yet received our Q2 score.

---

[1] We do not incur any regulatory penalties until our CRI score goes beyond the deadband limit

Affinity Water Limited

Interim management report (continued)

Regulatory update

Our business is a regional monopoly 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.

In addition to controlling revenues, Ofwat has determined eight Performance Commitments (PCs) with financial incentives that are common across all companies and nine with financial incentives that are bespoke to us. A further 11 bespoke PCs do not carry financial incentives but if we fail to meet the standards required, are likely to worsen our reputation with stakeholders.

Where PC penalties and rewards become due, these are made in-period with the exception of PCC which is an end of period adjustment considered as part of PR24.

Our PR19 price control determination contains the following key customer outcomes:

- Reduction to the average household bill by 6% in real terms by 2025.
- Our commitment towards service improvements for customers, including a 20% reduction in leakage, a 12.5% reduction in demand per person and significantly fewer minutes of supply unavailability per customer.
- Additional commitments are dedicated towards excellent customer service and supporting customers in vulnerable circumstances including those who would benefit from our Priority Services Register.

PR24 is the process by which Ofwat determine the revenues we need and the outcomes we must deliver in the 2025-30 period. Ofwat base their determination on analysis of our Final Business Plan (FBP) that we submitted on 3 October 2023. Our FBP projected bill increases of about 13%, expenditure of £2.12bn and the following key service improvements:

- Reduction in leakage by 31% compared to the 2019/20 baseline.
- Reduction in per capita consumption by 16%.
- Reduction of unplanned supply interruptions to 3 minutes 40 seconds per customer.
- £76m investment in improvements to drinking water quality.
- Delivery of strategic water resources schemes, smart metering and transfer schemes.
- Affordability support including increasing social tariff uptake to 150,000 customers.
- Environmental improvements through 35Ml/d sustainability reductions, reduction of carbon emissions, river restoration works and further promoting biodiversity on our land.

In July 2024, Ofwat published their draft determination for consultation, assessing our plan as one of the leaders for quality and ambition and awarding a reward of 10 basis points. However, Ofwat's draft determination also contains significant challenge to enhancement costs and the distribution of performance risks. It also introduces new price control deliverable (PCD) incentives towards capital delivery.

We responded to Ofwat's draft determination on 29 August 2024, setting out the most important areas where the draft determination requires adjustment. We also included £150m additional investment for new statutory obligations to address PFAS risks. We met Ofwat and have provided additional evidence through the query process to inform their final decisions. Whilst the precise date is to be confirmed, we now await Ofwat's final determination at the end of the calendar year, or early 2025.

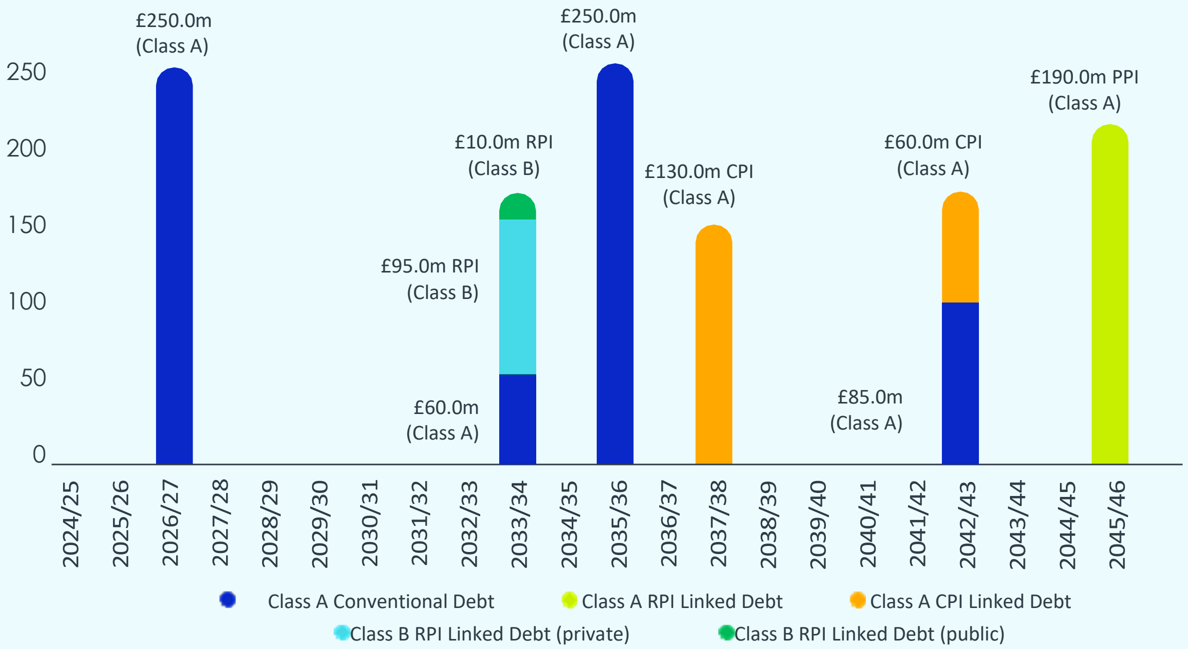
Affinity Water Limited

Interim management report (continued)

Financing update

As we are a business with a long-term outlook and expenditure commitments, we need to match this with long-term sources of debt finance. We consider the most cost-effective way to raise long-term debt to be through the debt capital markets. Our financing subsidiaries have outstanding external bonds totalling £1,130.0m, raised in the debt capital markets and on-lent to the company on the same terms. Our next significant debt maturity is in July 2026 when a £250.0m fixed rate bond matures. We expect to finalise our capital structure and refinancing plans in early 2025, after we receive our final determination from Ofwat. As is typical under our system of economic regulation it is likely that this debt maturity will be refinanced in the debt capital markets.

The following chart shows the maturity profile of the bonds issued by the company's subsidiaries as at 30 September 2024:



The credit ratings for our subsidiaries' bonds assigned by the rating agencies, Moody's, Standard & Poor's[1] and Fitch, have not changed since March 2024.

Bonds	Moody's[1]	Standard & Poor's[2]	Fitch
Class A	A3	BBB+	BBB+
Class B	Baa3	BBB-	BBB-
Corporate family rating	Baa1	N/A	N/A

At 30 September 2024, compliance net debt, as defined in the financial covenants in the company's securitisation documentation, was £1,448.6m (at 31 March 2024: £1,382.3m - refer to note 1E in the Annual Performance Report for the year ended 31 March 2024 for the basis of the calculation). Gearing, calculated as compliance net debt to RCV at 30 September 2024, was 76.7% (31 March 2024: 74.6%) and remains below our internal gearing level of 80.0%. This allows sufficient headroom within the gearing covenants, which are only triggered at a level of more than 90.0%.

[1] Review for downgrade applied by Moody's on 13 November 2024.
[2] Credit Watch with negative implications applied by Standard and Poor's on 12 November 2024.

Affinity Water Limited

Interim management report (continued)

Financial performance

Our financial results are prepared in accordance with the recognition and measurement requirements UK adopted International Accounting Standard (IAS) 34: 'Interim financial reporting' (IAS 34) and the requirements of the Companies Act 2006; refer to note 2 of the condensed interim financial statements for further details. Our unaudited financial results for the six months to 30 September 2024 are summarised as follows:

	2024 **£m**	2023 *(restated)* £m
Revenue	**181.4**	172.8
Operating costs	**(165.5)**	(169.8)
Other operating income	**10.1**	10.5
Operating profit	**26.0**	13.5
Net finance costs	**(24.6)**	(38.3)
Fair value gain/(loss) on energy swaps	**0.5**	(9.8)
Profit/(loss) before tax	**1.9**	(34.6)
Income tax (charge)/credit	**(0.4)**	7.2
Profit/(loss) for the period	**1.5**	(27.4)

Revenue

Revenue for the first six months of the year was £181.4m, being a £8.6m (5.0%) increase on the same period last year (six-month period ended 30 September 2023: £172.8m). The increase is primarily due to our annual inflationary tariff increases on both household and non-household revenue streams.

Other income for the period was £10.1m, being a £0.4m (3.8%) decrease on the same period last year (six-month period ended 30 September 2023: £10.5m).

Operating costs

Total operating costs of £165.5m for the first half of the year were £4.3m (2.5%) lower than for the same period last year (six-month period ended 30 September 2023: £169.8m restated). Average CPIH inflation for the six-month period to September being 2.9% higher year-on-year has added £3.8m onto our costs.

Despite wholesale energy prices falling, our energy costs were £1.3m higher than the prior period due to increased bulk water imports for treatment and distribution of water to our customers. We manage the risk of fluctuating energy prices with our hedging strategy. We have an increase of £1.1m to bad debt costs as a result of timing of costs accrued, with the full year charge anticipated to be in line with expectations.

We have had a reduction of £3.4m in depreciation primarily as we have assessed construction in progress assets and as a result some assets have a longer useful life than originally assumed. Additionally, some of our technology projects have reached the end of their useful economic life. We have reduced consultancy and insurance spend by £1.0m due to active monitoring and reduction in spend on external consultants. Furthermore net operational and other costs have reduced by £4.6m due to better resource planning and we have had further favourable negotiations with our business rates.

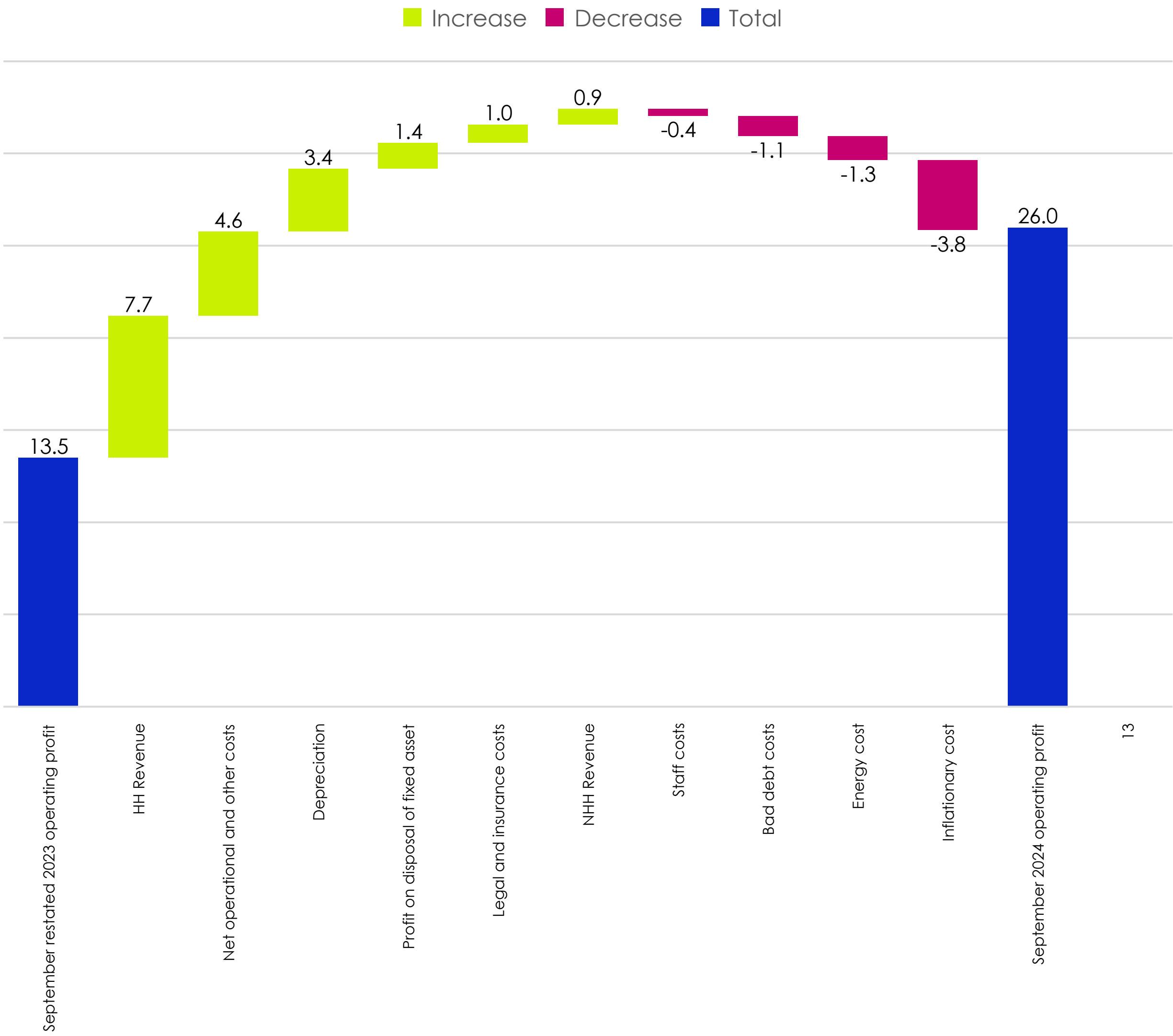
Affinity Water Limited

Interim management report (continued)

Financial performance (continued)

Operating profit

Operating profit increased by £12.5m to £26.0m (an increase of 92.6%) compared to the same period last year (six-month period ended 30 September 2023: £13.5 million restated). The key variances are explained in the following graph:



Interest and fair value movements

The net finance cost of £24.6m was £13.7m (35.8%) lower in the current period, primarily due to £18.3m lower accretion on our index-linked bonds due to a fall in interest and inflation rates. This reduction in finance costs is offset by fair value movements[1] on our inflation swaps, due to a lower fair value gain of £11.4m in the current

[1] Gains or losses arising from fair value changes reflect the market conditions at the time and are non-cash in nature. They are accounting entries only, impacting the condensed interim income statement but not the condensed interim statement of cash flows during the period.

Financial performance (continued)

Interest and fair value movements (continued)

period compared to a £13.7m gain in the prior period due to more favourable mark to market movements last year.

There was also a £0.5m fair value gain on our energy swaps which increased by £10.4m from the prior period (£9.8m loss) due to favourable mark to market movements driven by forecast energy prices reducing compared to the price we locked in at.

Taxation

The tax charge in the condensed interim financial statements for the period ended 30 September 2024 is a deferred tax charge. No corporation tax was charged during the period ended 30 September 2024 as we are forecasting a tax loss for 2024/25 therefore no tax was expected to be payable (six-month period ended 30 September 2023: £nil).

All our profits are taxed in the UK, and we do not use artificial tax avoidance schemes or tax havens to reduce our tax liabilities. We comply with what we understand to be both the letter and the spirit of the law. Details of the tax strategy for the Affinity Water Limited regulated business can be found in our regulatory Annual Performance Report for the year ended 31 March 2024, and the group tax strategy of Daiwater Investment Limited, our ultimate holding and controlling company in the United Kingdom, both of which can be found on our website: *affinitywater.co.uk/library*.

Dividends

We are restricting dividends to our shareholders throughout AMP7 to enable the substantial investments to improve resilience and protect the environment. No equity dividends were paid during the six-month period ended 30 September 2024 (six-month period ended 30 September 2023: £nil), as our shareholders have agreed to re-invest all AMP7 planned returns from our appointed business for the benefit of our customers.

Capital expenditure and cashflow

Capital expenditure in the six-month period ended 30 September 2024 was £101.0m (six-month period ended 30 September 2023: £80.1m). This includes £16.5m in respect of the purchase of our office in Hatfield. Our 2020-2025 investment programme spend was principally incurred on the development of assets under our sustainability reductions schemes and on the construction of new service reservoirs to meet future demand, as well as continued investment in leakage reduction and our existing water treatment assets. The total excludes £10.3m (six-month period ended 30 September 2023: £13.1m) of infrastructure renewals expenditure, which is treated as an operating cost under Financial Reporting Standard 101: 'Reduced disclosure framework' (FRS 101).

Net cash flow before tax and financing[1] for the first six months of the year was a £28.5m outflow being a £5.1m (21.8%) decrease on the same period last year (six-month period ended 30 September 2023: £23.4m outflow). The decrease is primarily due to lower cash generated from operations and a higher level of property, plant and equipment purchases.

[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 condensed interim statement of cash flows (refer to page 20): cash generated from operations; purchases of property, plant and equipment; deferred grants and contributions; proceeds from sale of property, plant and equipment; purchases of intangible assets; increase in borrowings relating leasehold and principal elements of lease payments.

Affinity Water Limited

Interim management report (continued)

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. Our Executive Leadership Team ('ELT') carries out regular assessments of emerging risks, including horizon scanning and monitoring of early warning indicators.

Operational risks are recorded and assessed, including existing management and control processes, and an action plan is prepared, if necessary, to implement 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 these rankings, the most significant risks are discussed by our senior leadership and included in the strategic risk register, which is reviewed by the Board and the Audit, Risk and Assurance Committee. The latter reviews senior management's work on risk management and reports to the Board on the effectiveness of risk management processes.

We have kept our principal risks and uncertainties under regular review and they remain unchanged from those reported in the Annual Report and Financial Statements for the year ended 31 March 2024. The principal risks and uncertainties reported for the year ended 31 March 2024 were as follows:

Principal risks	Post-control rating *	Trend re: 2023
1. Health, Safety & Wellbeing Compromised	High	Stable
2. Failure to Supply	High	Stable
3. Fail to Retain Right Skills	Moderate	Stable
4. Data Compromise	Critical	Stable
5. Supply Chain Failure	High	Stable
6. Environmental Damage	Moderate	Stable
7. Adverse Climate Impact	High	Stable
8. Fail Business Transformation	Low	Down
9. Crisis Event Disruption	Low	Stable
10. Asset Deterioration	Low	Down
11. Adverse Regulatory Change	Critical	Stable
12. Fail Legal Obligations	Low	Stable
13. Unsatisfactory PR24	Critical	Stable
14. Funding Challenges	Low	Stable
15. Adverse Macro-economic Change	High	Stable
16. Capital Projects Under delivery	Moderate	New for 2024

***Risk rating scale**
Critical High Moderate Low

Further information on these risks and uncertainties can be found on pages 80 to 89 of the company's Annual Report and Financial Statements for the year ended 31 March 2024, which is available on our website: *affinitywater.co.uk/corporate/investors/library*.

At the time of approving this unaudited half-yearly financial report, the disclosure given in the Annual Report and Financial Statements is still applicable and relevant, and the conclusions reached remain based upon our best understanding of these risks.

Affinity Water Limited

Interim management report (continued)

Going concern

The directors consider it appropriate to adopt the going concern basis of accounting in preparing these condensed interim financial statements as they believe that 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 and for a period of at least 12 months from the date of approval of these condensed interim financial statements. This is based on assessment of the principal risks of the company as well as consideration of the company's budgeted cash flows, short and long term forecasts and ability to generate future revenues, related assumptions and available debt facilities.

Although it falls outside the going concern assessment period, the directors are already considering refinancing plans for the next bond maturity of £250.0m, and associated swap accretion of approximately £90.0m, in July 2026. Based on previous experience of Affinity Water, recent experiences of our peers in the sector, and meetings between management and debt investors, the directors are confident that the debt capital markets will provide the required funding for refinancing in due course. This will be further considered in the 31 March 2025 Annual Report and Financial Statements, when the bond maturity falls within the going concern assessment period.

To assess a severe but plausible downside scenario, management have considered a base case forecast that reflects the current market conditions in the economy and have applied a series of severe downside assumptions. These are increased costs from the financial impacts of operational events, including, for example, the impact of a severe cold weather event over the winter period, and an increase in bad debt representing approximately 3.5% of debt not currently subject to loss allowance provision. The severe but plausible downside scenario is overlaid on our base case forecast which has taken into consideration the impact of inflation, interest rates, supply chain cost pressures, energy prices and the cost of living crisis.

The company is able to withstand the severe but plausible downside scenario without the occurrence of an ICR Trigger Event or an ICR Default Event. Management are confident that mitigation actions within their control could be implemented that would prevent a trigger or default event from occurring.

Management have also considered recent actions by the Credit Rating Agencies, as under the terms of our borrowing documents a Trigger Event occurs if two Class A debt ratings are rated at Baa2/BBB. Our Class A debt ratings are currently on review for downgrade with Moody's and Credit Watch Negative with Standard and Poor's. A one notch downgrade of Class A debt from Moody's and Standard and Poor's would not result in a Trigger Event. Management expects the Credit Rating Agencies to consider the final determination (due on 19 December), and the company's response to the final determination, before taking any rating action.

Under a Trigger Event, the company would be subject to certain constraints such as restrictions on dividends and restriction on debt buybacks. However, the directors are satisfied that a Trigger Event would not fundamentally constrain the company's ability to carry out its business. Under a Default Event, each finance party may declare all amounts outstanding under the applicable Finance Documents to be immediately due and payable.

The company continues to monitor and manage the risks associated with the covenants through the forecasting and reporting process and continues to monitor potential mitigations.

The directors have also considered the ring fence structure in place and have obtained comfort that the existence of external borrowings outside of this structure, namely that within Affinity Water Holdco Finance Limited, does not impact the conclusions reached regarding the ability of the company to continue as a going concern. This is due to the fact that the company has no obligation to distribute funds through the holding company structure in order to meet such liabilities.

Affinity Water Limited

Interim management report (continued)

Going concern (continued)

Details of the company's cash and short-term investment are included in the condensed interim statement of financial position on page 18, and undrawn committed borrowing facilities are included in note 15. Due to the nature of the regulated water company's business, the directors consider it appropriate to place reliance on projected financials. There have been no events after the reporting period significantly affecting liquidity headroom.

Related parties

Details of significant related party transactions can be found in note 21. 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 UK Corporate Governance Code and the objectives of Ofwat's publication: Board Leadership, Transparency and Governance principles, revised in January 2019. Our business is owned by private investors and we therefore apply the principles of the Code in this context, also 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 be 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-month period ended 30 September 2024

	Note	30 September 2024 £000 Unaudited	30 September 2023 (restated) £000 Unaudited
Revenue	5	**181,433**	172,825
Cost of sales		**(141,234)**	(146,485)
Gross profit		**40,199**	26,340
Administrative expenses		**(20,254)**	(20,481)
Impairment losses on financial and contract assets		**(4,000)**	(2,810)
Other operating income		**10,080**	10,476
Operating profit	6	**26,025**	13,525
Finance income	7	**8,033**	10,612
Finance costs	7	**(44,040)**	(62,568)
Fair value gain on inflation swaps	7	**11,358**	13,682
Net finance costs		**(24,649)**	(38,274)
Fair value gain/(loss) on energy swaps		**503**	(9,849)
Profit/(loss) before tax		**1,879**	(34,598)
Income tax (charge)/credit	8	**(359)**	7,233
Profit/(loss) for the period		**1,520**	(27,365)

All results of the company in the current period and prior period are from continuing operations.

The prior year has been restated due to an error in relation to accounting for borrowing costs in accordance with International Accounting Standard (IAS) 23: 'Borrowing costs' (IAS 23). Further details are included on pages 23 and 24.

The notes on pages 21 to 38 are an integral part of these condensed interim financial statements.

Affinity Water Limited

Condensed interim statement of comprehensive income for the six-month period ended 30 September 2024

	Note	**30 September 2024 £000**	30 September 2023 (restated) £000
		Unaudited	Unaudited
Profit/(loss) for the period		**1,520**	(27,365)
Other comprehensive income/(expense) for the period which will not be reclassified to profit or loss:			
Remeasurements of post-employment benefit obligations		**19,249**	(13,304)
Deferred tax (charge)/credit on items that will not be reclassified	17	**(4,602)**	3,429
Other comprehensive income/(expense) for the period, net of tax		**14,647**	(9,875)
Total comprehensive income/(expense) for the period		**16,167**	(37,240)

The prior year has been restated due to an error in relation to accounting for borrowing costs in accordance with IAS 23. Further details are included on pages 23 and 24.

The notes on pages 21 to 38 are an integral part of these condensed interim financial statements.

Affinity Water Limited

Condensed interim statement of financial position as at 30 September 2024

	Note	30 September 2024 £000	31 March 2024 (restated) £000
Assets		**Unaudited**	Unaudited
Non-current assets			
Property, plant and equipment	9	**1,877,941**	1,812,888
Right-of-use assets	9	**6,481**	7,153
Intangible assets	9	**34,297**	34,577
Investments		**100**	100
Retirement benefit surplus	10	**48,603**	28,700
Derivative financial instruments	11	**122**	1,127
Long-term financial receivable	3	**2,725**	-
		1,970,269	1,884,545
Current assets			
Inventories		**5,005**	4,451
Derivative financial instruments	11	**423**	493
Trade and other receivables	12	**158,074**	115,134
Short-term investments		**5,492**	21,552
Cash and cash equivalents		**29,051**	59,777
		198,045	201,407
Total assets		**2,168,314**	2,085,952
Equity and liabilities			
Equity			
Called up share capital	13	**30,506**	30,506
Share premium account	13	**1,400**	1,400
Capital contribution reserve	13	**30,150**	30,150
Accumulated losses		**(192,418)**	(208,585)
Total equity		**(130,362)**	(146,529)
Liabilities			
Non-current liabilities			
Trade and other payables	14	**335,334**	329,690
Borrowings	15	**1,391,998**	1,359,485
Lease liabilities	16	**4,608**	3,974
Derivative financial liabilities	11	**125,457**	126,364
Deferred tax liabilities	17	**196,244**	191,284
Provisions for other liabilities and charges	17	**3,210**	3,473
		2,056,851	2,014,270
Current liabilities			
Trade and other payables	14	**233,894**	206,227
Borrowings	15	**198**	-
Lease liabilities	16	**2,023**	3,343
Derivative financial liabilities	11	**581**	1,119
Provision for other liabilities and charges	17	**1,650**	4,100
Current tax liabilities		**3,479**	3,422
		241,825	218,211
Total liabilities		**2,298,676**	2,232,481
Total equity and liabilities		**2,168,314**	2,085,952

The prior year has been restated due to an error in relation to accounting for borrowing costs in accordance with IAS 23. Further details are included on pages 23 and 24.

The notes on pages 21 to 38 are an integral part of these condensed interim financial statements.

Affinity Water Limited

Condensed interim statement of changes in equity for the six-month period ended 30 September 2024

	Called up share capital £000	Share premium account £000	Capital contribution reserve £000	Accumulated losses (restated) £000	Total £000
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
Balance as at 1 April 2024	**30,506**	**1,400**	**30,150**	**(217,660)**	**(155,604)**
Prior year restatement	**-**	**-**	**-**	**9,075**	**9,075**
Restated balance as at 1 April 2024	**30,506**	**1,400**	**30,150**	**(208,585)**	**(146,529)**
Profit for the period	**-**	**-**	**-**	**1,520**	**1,520**
Other comprehensive income	**-**	**-**	**-**	**14,647**	**14,647**
Total comprehensive income	**-**	**-**	**-**	**16,167**	**16,167**
Balance as at 30 September 2024	**30,506**	**1,400**	**30,150**	**(192,418)**	**(130,362)**
Balance as at 1 April 2023	30,506	1,400	30,150	(159,756)	(97,700)
Prior year restatement	-	-	-	6,673	6,673
Restated balance as at 1 April 2023	30,506	1,400	30,150	(153,083)	(91,027)
Loss for the period (restated)	-	-	-	(27,365)	(27,365)
Other comprehensive expense	-	-	-	(9,875)	(9,875)
Total comprehensive expense	-	-	-	(37,240)	(37,240)
Balance as at 30 September 2023	30,506	1,400	30,150	(190,323)	(128,267)

The prior year has been restated due to an error in relation to accounting for borrowing costs in accordance with IAS 23. Further details are included on pages 23 and 24.

The notes on pages 21 to 38 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 2024

	Note	30 September 2024 £000	30 September 2023 £000
		Unaudited	Unaudited
Cash flows from operating activities			
Cash generated from operations	18	**49,385**	49,755
Interest paid		**(31,858)**	(23,960)
Net cash flows from operating activities excluding deferred grants and contributions		**17,527**	25,795
Deferred grants and contributions		**7,727**	8,602
Net cash flows from operating activities		**25,254**	34,397
Cash flows from investing activities			
Disinvestment of short-term deposits		**16,059**	14,162
Proceeds from sale of property, plant and equipment		**1,417**	-
Purchases of property, plant and equipment		**(98,613)**	(74,797)
Purchases of intangible assets		**(3,052)**	(5,300)
Interest received on financial assets held as investments		**1,165**	3,037
Net cash flows used in investing activities		**(83,024)**	(62,898)
Cash flows from financing activities			
Increase in borrowings	3	**15,630**	-
Interest received on inflation swaps		**12,430**	12,651
Principal elements of lease payments		**(1,016)**	(1,620)
Net cash flows from financing activities		**27,044**	11,031
Net decrease in cash and cash equivalents		**(30,726)**	(17,470)
Cash and cash equivalents at beginning of period		**59,777**	78,783
Cash and cash equivalents at end of period		**29,051**	61,313

The notes on pages 21 to 38 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 23 for details of the company's ultimate parent.

These condensed interim financial statements were approved for issue on 27 November 2024.

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 2024 were approved by the Board of directors on 8 July 2024 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 company's chief operating decision maker (the Board), 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 2024 have been prepared in accordance with the UK adopted International Accounting Standard (IAS) 34: 'Interim financial reporting' (IAS 34).

The company prepared its financial statements for the year ended 31 March 2024 in compliance with the requirements of Financial Reporting Standard 101: 'Reduced disclosure framework' (FRS 101).

Under FRS 101, the company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the UK (UK-adopted international accounting standards) 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 have been prepared by applying the accounting policies and presentation that were applied in the preparation of the company's Annual Report and Financial Statements for the year ended 31 March 2024. There is an exception to this in relation to tax, which is calculated based on the estimated average effective tax rate for the year ending 31 March 2025.

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 2024, which is available on our website: *affinitywater.co.uk/corporate/investors/library*.

2. Basis of preparation (continued)

Going concern

The directors consider it appropriate to adopt the going concern basis of accounting in preparing these condensed interim financial statements as they believe that 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 and for a period of at least 12 months from the date of approval of these condensed interim financial statements. This is based on assessment of the principal risks of the company as well as consideration of the company's budgeted cash flows, short and long term forecasts and ability to generate future revenues, related assumptions and available debt facilities.

Although it falls outside the going concern assessment period, the directors are already considering refinancing plans for the next bond maturity of £250.0m, and associated swap accretion of approximately £90.0m, in July 2026. Based on previous experience of Affinity Water, recent experiences of our peers in the sector, and meetings between management and debt investors, the directors are confident that the debt capital markets will provide the required funding for refinancing in due course. This will be further considered in the 31 March 2025 Annual Report and Financial Statements, when the bond maturity falls within the going concern assessment period.

To assess a severe but plausible downside scenario, management have considered a base case forecast that reflects the current market conditions in the economy and have applied a series of severe downside assumptions. These are increased costs from the financial impacts of operational events, including, for example, the impact of a severe cold weather event over the winter period, and an increase in bad debt representing approximately 3.5% of debt not currently subject to loss allowance provision. The severe but plausible downside scenario is overlaid on our base case forecast which has taken into consideration the impact of inflation, interest rates, supply chain cost pressures, energy prices and the cost of living crisis.

The company is able to withstand the severe but plausible downside scenario without the occurrence of an ICR Trigger Event or an ICR Default Event. Management are confident that mitigation actions within their control could be implemented that would prevent a trigger or default event from occurring.

Management have also considered recent actions by the Credit Rating Agencies, as under the terms of our borrowing documents a Trigger Event occurs if two Class A debt ratings are rated at Baa2/BBB. Our Class A debt ratings are currently on review for downgrade with Moody's and Credit Watch Negative with Standard and Poor's. A one notch downgrade of Class A debt from Moody's and Standard and Poor's would not result in a Trigger Event. Management expects the Credit Rating Agencies to consider the final determination (due on 19 December), and the company's response to the final determination, before taking any rating action.

Under a Trigger Event, the company would be subject to certain constraints such as restrictions on dividends and restriction on debt buybacks. However, the directors are satisfied that a Trigger Event would not fundamentally constrain the company's ability to carry out its business. Under a Default Event, each finance party may declare all amounts outstanding under the applicable Finance Documents to be immediately due and payable.

The company continues to monitor and manage the risks associated with the covenants through the forecasting and reporting process and continues to monitor potential mitigations.

The directors have also considered the ring fence structure in place and have obtained comfort that the existence of external borrowings outside of this structure, namely that within Affinity Water Holdco Finance Limited, does not impact the conclusions reached regarding the ability of the company to

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

2. Basis of preparation (continued)

Going concern (continued)

continue as a going concern. This is due to the fact that the company has no obligation to distribute funds through the holding company structure in order to meet such liabilities.

Details of the company's cash and short-term investment are included in the condensed interim statement of financial position on page 18, and undrawn committed borrowing facilities are included in note 15. Due to the nature of the regulated water company's business, the directors consider it appropriate to place reliance on projected financials. There have been no events after the reporting period significantly affecting liquidity headroom.

Seasonality of interim operations

Due to the nature of the business of the company, there are no significant seasonality or cyclicity impacts.

3. Material accounting policy information

The material accounting policy information adopted in the preparation of these condensed interim financial statements have been consistently applied to all years stated, unless otherwise stated. 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.

No new standards became applicable for the current reporting period that have a material impact on the company.

Sale and leaseback transaction

During the period, the company completed a transaction acquiring the freehold interest in its head office building in Hatfield for an amount of £16,103,000. At the same time, a sale and leaseback transaction of the property was entered into at an equivalent value. The transaction provides the company with a call option to reacquire the property at the end of the lease term in December 2045 for £1.

The company has recognised the property in accordance with IAS 16: 'Property, Plant and Equipment'. The property will be held at cost of £16,472,000 which includes costs directly attributable to this transaction and this will be depreciated over its useful economic life of 40 years. The addition of the property is disclosed within the reconciliation of the carrying amounts of property, plant and equipment in note 9.

Neither the corresponding sale of the property or its leaseback have been recognised as a lease and have instead been recorded as a financing arrangement. The financial liability relating to leasehold property of £19,130,000, included in note 15, consists of £15,630,000 relating to the office building and a further £3,500,000 for a capital contribution for qualifying expenditure. The financial liability relating to leasehold property is held at amortised cost using an effective interest rate to calculate the unwinding of the liability so that the final settlement is equal to the option price of £1 at the end of the term. At 30 September 2024, £775,000 of the capital contribution had been utilised on qualifying expenditure, with the remaining £2,725,000 being shown as a long-term financial receivable on the face of the condensed interim statement of financial position. The company has derecognised the existing right-of-use asset and lease liability of the Hatfield property originally booked under International Financial Reporting Standard (IFRS) 16: 'Leases'.

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

3. Material accounting policy information (continued)

Prior period restatements as a result of error

Management have assessed borrowing costs on qualifying assets and have now capitalised such costs in accordance with International Accounting Standard (IAS) 23: 'Borrowing costs' (IAS 23), having completed an assessment including the impact on prior years.

A summary of the financial statement line items affected by the restatement is included in the following table. This includes the cumulative effect of the change in accounting policy being effective from 1 April 2016, being the transition date to reporting under FRS 101.

Condensed interim income statement (extract)	30 September 2023 (as previously presented) £000	Change due to restatement £000	30 September 2023 (restated) £000
Cost of Sales	(146,357)	(128)	(146,485)
Operating profit	**13,653**	**(128)**	**13,525**
Finance costs	(63,863)	1,295	(62,568)
(Loss)/profit before tax	**(35,765)**	**1,167**	**(34,598)**
Income tax (charge)/credit	7,525	(292)	7,233
(Loss)/profit for the period	**(28,240)**	**875**	**(27,365)**

Condensed interim statement of financial position (extract)	31 March 2024 (as previously presented) £000	Change due to restatement £000	31 March 2024 (restated) £000
Property, plant and equipment	1,800,958	11,930	1,812,888
Intangible assets	34,408	169	34,577
Total assets	**2,073,853**	**12,099**	**2,085,952**
Accumulated losses	217,660	(9,075)	208,585
Deferred tax liabilities	(188,260)	(3,024)	(191,284)
Total liabilities	**(2,229,457)**	**(3,024)**	**(2,232,481)**
Total equity and liabilities	**(2,073,853)**	**(12,099)**	**(2,085,952)**

Condensed interim statement of cash flows and related notes (extract)	30 September 2023 (as previously presented) £000	Change due to restatement £000	30 September 2023 (restated) £000
Loss before tax	(35,765)	1,167	(34,598)
Depreciation	37,691	115	37,806
Amortisation of intangible fixed assets	4,038	13	4,051
Finance costs – net	39,569	(1,295)	38,274
Net cash flows from operating activities	**34,397**	**-**	**34,397**

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

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 2024, which are available on our website: *affinitywater.co.uk/corporate/investors/library*.

5. Revenue

	Six months ended 30 September 2024 £000	Six months ended 30 September 2023 £000
	Unaudited	Unaudited
Timing of revenue recognition – at a point in time		
Unmeasured supplies	**47,202**	47,406
Measured supplies	**98,541**	90,823
Non-household wholesale revenue	**33,341**	32,052
Connection charges	**301**	583
	179,385	170,864
Timing of revenue – over time		
Requisitioned mains/extensions	**231**	330
Diversions	**821**	892
Infrastructure charges	**443**	360
New connections	**328**	-
Other	**225**	379
	2,048	1,961
	181,433	172,825

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

6. Operating profit

	Six months ended 30 September 2024 £000 Unaudited	Six months ended 30 September 2023 (restated) £000 Unaudited
Operating profit is stated after charging:		
Staff costs	**31,687**	30,999
Energy costs	**24,158**	22,908
(Profit)/loss on disposal of property, plant and equipment	**(692)**	266
Purchase of bulk water and water supplied under statutory entitlement	**6,110**	4,616
Water abstraction charges	**3,222**	3,170
Business rates	**6,578**	6,525
Depreciation of tangible fixed assets	**33,163**	37,806
Amortisation of intangible assets	**3,332**	4,051
Depreciation of right-of-use assets	**1,160**	1,588
Infrastructure renewals expense	**10,335**	13,078

These items are included in cost of sales or administrative expenses in the condensed interim income statement.

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

7. Finance income and costs

	Six months ended 30 September 2024 £000	Six months ended 30 September 2023 (restated) £000
	Unaudited	Unaudited
Finance income:		
Bank interest income	**1,164**	3,037
Net interest receivable on RPI linked inflation swaps	**3,115**	3,185
Net interest receivable on CPI linked inflation swaps	**3,059**	3,122
Net income from post-employment benefits	**695**	1,268
	8,033	10,612
Finance costs:		
Interest payable on loan from parent company	**(85)**	(80)
Interest payable on loans from subsidiary undertakings	**(16,834)**	(17,795)
Accretion payable in respect of interest on loans from subsidiary undertakings	**(14,689)**	(24,133)
Accretion payable on financial instrument	**(11,465)**	(20,190)
Interest payable on lease liabilities	**(88)**	(106)
Other	**(879)**	(264)
	(44,040)	(62,568)
Fair value gain on financial instruments:		
Fair value gain on inflation swaps	**11,358**	13,682
	11,358	13,682
Net finance costs	**(24,649)**	(38,274)

8. Tax (charge)/credit

Tax (charge)/credit 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 2025 is 19.13% (the estimated tax rate for the year to 31 March 2024 was 21.32%).

The company is forecasting a loss before tax for the year to 31 March 2025; therefore, no corporation tax is expected to be charged. The tax charge in the condensed interim financial statements for the period ended 30 September 2024 is a deferred tax charge.

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

9. Property, plant and equipment (PPE), right-of-use assets and intangible assets

	PPE £000	Right-of-use assets £000	Intangible assets £000
	Unaudited	Unaudited	Unaudited
Six months ended 30 September 2024			
Opening net book amount as at 1 April 2024	**1,800,958**	**7,153**	**34,408**
Prior year restatement (note 3)	**11,930**	**-**	**169**
Restated balance as at 1 April 2024	**1,812,888**	**7,153**	**34,577**
Additions	**98,612**	**2,593**	**3,052**
Disposals	**(547)**	**(10,544)**	**-**
Depreciation and amortisation	**(33,163)**	**(1,160)**	**(3,332)**
Disposals – depreciation	**151**	**8,439**	**-**
Closing net book amount as at 30 September 2024	**1,877,941**	**6,481**	**34,297**
Six months ended 30 September 2023			
Opening net book amount as at 1 April 2023	1,709,253	7,649	42,611
Prior year restatement	13,471	-	(4,574)
Restated balance as at 1 April 2023	1,722,724	7,649	38,037
Additions	76,050	1,189	5,343
Disposals	(320)	(354)	-
Depreciation and amortisation	(37,806)	(1,588)	(4,051)
Disposals – depreciation	54	317	-
Closing net book amount as at 30 September 2023	1,760,702	7,213	39,329

The 30 September 2023 fixed asset position has been restated to reclassify £4,668,000 from intangible assets to property, plant and equipment.

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

10. Retirement 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 2024 Unaudited	Year ended 31 March 2024 Audited	Six months ended 30 September 2023 Unaudited
Discount rate	**5.05% pa**	4.80% pa	5.50% pa
Salary growth	**3.10% pa**	3.15% pa	3.20% pa
RPI	**3.05% pa**	3.15% pa	3.20% pa
CPI	**2.60% pa**	2.65% pa	2.70% 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	24
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**	26	26

Deferred pensions are revalued to retirement age in line with the CPI assumption of 2.60% per annum (31 March 2024: 2.65% per annum) unless otherwise prescribed by statutory requirements or the plan rules.

The amounts recognised in the condensed interim income statement were as follows:

	Six months ended 30 September 2024 £000	Six months ended 30 September 2023 £000
	Unaudited	Unaudited
Current service cost	**(842)**	(913)
Interest cost on defined benefit obligation	**(7,995)**	(7,742)
Interest return on assets	**8,690**	9,010
	(147)	355

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

	30 September 2024 £000	31 March 2024 £000
	Unaudited	Audited
Fair value of plan assets	**364,048**	370,339
Present value of funded obligations	**(315,445)**	(341,639)
Post-employment benefit surplus in the condensed interim statement of financial position	**48,603**	28,700

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

10. Retirement benefit surplus (continued)

Defined benefit scheme (continued)

The latest actuarial valuation of the AWPP, determined by an independent qualified actuary, was at 31 December 2020, which concluded that the pension plan was 96% funded on a self-sufficiency basis.

Based on the latest actuarial valuation at 31 December 2020, and to eliminate the funding shortfall identified, as well as funding the future cost of benefits being accrued within the plan, the company agreed to pay contributions of £1,250,000 prior to 31 July 2021, £1,600,000 prior to 31 December 2021, and £1,600,000 per annum commencing from 1 January 2022 onwards.

The contributions expected to be paid by the company into the AWPP for the year ending 31 March 2025 are £1,600,000 (£1,600,000 in the year ended 31 March 2024), although this is based on the current Schedule of Contributions and will be dependent on the outcome of the actuarial valuation as at 31 December 2023 currently being undertaken.

11. Derivative financial instruments

	30 September 2024 £000	31 March 2024 £000
	Unaudited	Audited
Non-current assets		
Fair value of energy swaps	**122**	18
Fair value of CPI linked inflation swaps	**-**	1,109
	122	1,127
Current assets		
Fair value of energy swaps	**423**	493
	545	1,620
Non-current liabilities		
Accretion and fair value on RPI linked inflation swaps	**76,366**	71,741
Accretion and fair value on CPI linked inflation swaps	**48,927**	54,529
Fair value of energy swaps	**164**	94
	125,457	126,364
Current liabilities		
Fair value of energy swaps	**581**	1,119
	126,038	127,483

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

12. Trade and other receivables

	30 September 2024 £000	31 March 2024 £000
	Unaudited	Audited
Trade receivables	**125,948**	80,853
Less: loss allowance for trade receivables	**(40,920)**	(37,100)
	85,028	43,753
Amounts owed by group undertakings	**135**	29
Interest receivable from external parties	**1,397**	7,567
Other receivables	**3,939**	3,348
Unbilled accrual for metered customers	**54,581**	52,556
Prepayments and accrued income	**12,994**	7,881
	73,046	71,381
	158,074	115,134

13. Share capital

	Number of shares (thousands)	Ordinary shares of £0.10 each £000	Share premium £000	Capital contribution reserve £000	Total £000
At 30 September 2024 (unaudited), 1 April 2024 (unaudited), 30 September 2023 (unaudited) and 1 April 2023 (unaudited)	305,058	30,506	1,400	30,150	62,056

14. Trade and other payables

	30 September 2024 £000	31 March 2024 £000
	Unaudited	Audited
Non-current:		
Deferred grants and contributions	**335,334**	329,690
Current:		
Trade payables	**8,648**	21,355
Amounts due to group undertakings	**732**	701
Interest payable to subsidiary companies	**7,540**	20,468
Commitment fees	**-**	38
Social security and other taxes	**2,053**	1,996
Other payables	**11,171**	1,435
Capital accruals	**28,381**	21,941
Deferred grants and contributions	**7,031**	6,923
Payments received in advance	**75,707**	82,924
Deferred income	**50,709**	3,149
Other accruals	**41,922**	45,297
	233,894	206,227
	569,228	535,917

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

15. Borrowings

	30 September 2024 £000 Unaudited	31 March 2024 £000 Audited
Non-current		
Loan from Affinity Water Finance (2004) PLC financed by bond issue	**251,113**	251,395
Loan from Affinity Water Finance PLC financed by bond issue	**1,118,471**	1,104,506
Financial liability relating to leasehold property	**18,830**	-
Loan from intermediate parent company	**3,550**	3,550
Debenture stock	**34**	34
	1,391,998	1,359,485
Current		
Financial liability relating to leasehold property	**198**	-
	1,392,196	1,359,485

Movements in borrowings are analysed as follows:

Six months ended 30 September 2024 / 30 September 2023	£000 Unaudited	£000 Unaudited
Opening amount as at 1 April 2024 / 1 April 2023	**1,359,485**	1,331,716
Increase in leasehold borrowings	**19,130**	-
Repayment of leasehold borrowings	**(102)**	-
Indexation on loans from subsidiary undertakings	**14,688**	24,133
Amortisation on loans from subsidiary undertakings	**(1,005)**	(1,014)
Closing amount as at 30 September 2024 / 30 September 2023	**1,392,196**	1,354,835

The company has the following undrawn committed borrowing facilities:

	30 September 2024 £000 Unaudited	31 March 2024 £000 Audited
Floating rate:		
Expiring within one year	**57,000**	57,000
Expiring beyond one year	**100,000**	100,000
	157,000	157,000

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

16. Lease liabilities

	30 September 2024 £000	31 March 2024 £000
	Unaudited	Audited
Non-current:		
Lease liabilities	**4,608**	3,974
Current:		
Lease liabilities	**2,023**	3,343

The following amounts in respect of leases are included within these financial statements:

	30 September 2024 £000	30 September 2023 £000
	Unaudited	Unaudited
Depreciation charge of right-of-use assets (refer to note 9)	**1,160**	1,588
Interest expense on lease liabilities (refer to note 7)	**88**	106
Principal elements of lease payments included within cash flows from financing activities	**1,016**	1,620
Interest payments included within cash flows from operating activities	**88**	106
Total cash outflow for leases in the condensed interim statement of cash flows	**1,104**	1,726
Additions to right-of-use assets (refer to note 9)	**2,593**	1,189
Carrying amount of right-of-use assets (refer to note 9)	**6,481**	7,213

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

17. Provisions for other liabilities and charges

	Deferred tax £000 Unaudited	Insurance £000 Unaudited	Other £000 Unaudited	Tax provision £000 Unaudited	Total £000 Unaudited
Six months ended 30 September 2024					
Opening amount at 1 April 2024	**188,260**	**2,803**	**670**	**4,100**	**195,833**
Prior period adjustment	**3,024**	**-**	**-**	**-**	**3,024**
Restated balance as at 1 April 2024	**191,284**	**2,803**	**670**	**4,100**	**198,857**
Charged/(credited) to the income statement	**358**	**(263)**	**-**	**-**	**95**
Charged to other comprehensive income	**4,602**	**-**	**-**	**-**	**4,602**
Utilised in the period	**-**	**-**	**-**	**(2,450)**	**(2,450)**
Closing amount at 30 September 2024	**196,244**	**2,540**	**670**	**1,650**	**201,104**
Six months ended 30 September 2023					
Balance as at 1 April 2023	206,330	2,649	670	4,100	213,749
Prior period adjustment	2,224	-	-	-	2,224
Restated balance as at 1 April 2023	208,554	2,649	670	4,100	215,973
Credited to the income statement	(7,233)	5	-	-	(7,228)
Credited to other comprehensive income	(3,429)	-	-	-	(3,429)
Closing amount at 30 September 2023	197,892	2,654	670	4,100	205,316

Deferred tax
Deferred tax provisions include amounts relating to both accelerated capital allowances and retirement benefit obligations.

Insurance
Provisions for insurance represent 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. The full balance of £2,540,000 is presented as a non-current liability in the condensed interim statement of financial position.

Tax provision
A tax provision of £4,100,000 was charged to the income statement and included within administrative expenses in the year to 31 March 2023 as an estimate of an outstanding charge relating to a potential PAYE and NI claim. During the period, an advance amount of £2,450,000 was paid to HMRC on a voluntary basis.

Other provisions
Other provisions of £670,000 (2023: £670,000) relate to unfunded pension liabilities for a former Non-Executive director, which it is expected will be utilised by January 2051, and, therefore, presented as a non-current liability in the condensed interim statement of financial position.

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

18. Notes to the condensed interim statement of cash flows

a) Cash generated from operations

	30 September 2024 £000	30 September 2023 (restated) £000
	Unaudited	Unaudited
Profit/(loss) before tax	**1,879**	(34,598)
Adjustments for:		
Depreciation of property, plant and equipment	**33,163**	37,806
Depreciation of right-of-use assets	**1,160**	1,588
Amortisation of intangible assets	**3,332**	4,051
Amortisation of grants and contributions	**(2,048)**	(1,961)
(Profit)/loss on sale of property, plant and equipment	**(692)**	266
Post-employment benefits	**42**	1,726
Net finance costs	**24,649**	38,274
Net (gain)/loss on energy swaps	**(503)**	9,849
Changes in working capital:		
- Inventories	**(554)**	199
- Trade and other receivables	**(42,940)**	(43,424)
- Trade and other payables	**31,897**	35,979
Cash generated from operations	**49,385**	49,755

b) Reconciliation of liabilities arising from financing activities

	At 1 April 2024 £000	**Cash flow £000**	**Non-cash flows £000**	**At 30 September 2024 £000**
	Unaudited	**Unaudited**	**Unaudited**	**Unaudited**
Loan from Affinity Water Finance (2004) PLC financed by bond issue	**251,395**	**-**	**(282)**	**251,113**
Loan from Affinity Water Finance PLC financed by bond issue	**1,104,506**	**-**	**13,965**	**1,118,471**
Financial liability relating to leasehold property	**-**	**-**	**19,028**	**19,028**
Loan from intermediate parent company	**3,550**	**-**	**-**	**3,550**
Lease liabilities	**7,317**	**(1,105)**	**419**	**6,631**
Debenture stock	**34**	**-**	**-**	**34**
Total liabilities arising from financing activities	**1,366,802**	**(1,105)**	**33,130**	**1,398,827**

	At 1 April 2023 £000	Cash flow £000	Non-cash flows £000	At 30 September 2023 £000
	Unaudited	Unaudited	Unaudited	Unaudited
Loan from Affinity Water Finance (2004) PLC financed by bond issue	251,967	-	(288)	251,679
Loan from Affinity Water Finance PLC financed by bond issue	1,076,165	-	23,407	1,099,572
Loan from intermediate parent company	3,550	-	-	3,550
Lease liabilities	7,839	(1,726)	1,257	7,370
Debenture stock	34	-	-	34
Total liabilities arising from financing activities	1,339,555	(1,726)	24,376	1,362,205

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

19. Financial risk management and financial instruments

The company's activities primarily expose it to interest rate risk, inflation 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 financial statements for the year ended 31 March 2024 (refer to note A4 to the financial statements for the year ended 31 March 2024).

There have been no changes in any risk management policies since 31 March 2024.

Fair value of financial liabilities

	30 September 2024 £000 Unaudited	31 March 2024 £000 Audited
Non-current:		
Bonds	**1,186,433**	1,199,706
Inflation swaps	**125,293**	125,161
Energy swaps	**200**	702
	1,311,926	1,325,569

Between 1 April 2024 and 30 September 2024, market interest rates increased and, to a lesser extent, credit spreads widened, 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 fair value of Class B bonds is calculated by discounting expected future cashflows at a discount rate which is derived from the yield on comparable instruments which are observable in the market.

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.

20. 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 amounted to £31,437,000 at 30 September 2024 (31 March 2024: £34,633,000).

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

21. Related party transactions

The following transactions were carried out with related parties:

Receipts	Nature of relationship	In respect of	Six months ended 30 September 2024		Six months ended 30 September 2023	
			Value £000	Balance £000	Value £000	Balance £000
			Unaudited	Unaudited	Unaudited	Unaudited
Affinity Water Capital Funds Limited	Group undertaking	Support services	161	136	30	30

Payments	Nature of relationship	In respect of	Six months ended 30 September 2024		Six months ended 30 September 2023	
			Value £000	Balance £000	Value £000	Balance £000
			Unaudited	Unaudited	Unaudited	Unaudited
Allianz Insurance plc	Common ownership	Insurance	**62**	**-**	36	-
Affinity Water Capital Funds Limited	Group undertaking	Interest on loan	**80**	**-**	80	-
Affinity Water Finance (2004) PLC	Subsidiary undertaking	Interest on loan	**7,070**	**3,141**	7,067	3,170
Affinity Water Finance PLC Limited	Subsidiary undertaking	Interest on loan	**26,744**	**4,399**	36,038	4,044

Details of the loans from fellow group undertaking, Affinity Water Capital Funds Limited, and Affinity Water Finance (2004) PLC and Affinity Water Finance PLC, the company's subsidiary undertakings, can be found in note 15.

There were no other significant related party transactions which require disclosure.

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

22. Events occurring after the reporting period

There were no significant events after the reporting period.

23. 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. The statutory 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 year ended 31 March 2024 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 Holding I Pte. Limited
- CVC Capital Partners[1]
- DIF Management Holding BV
- DIF Management UK Limited
- HICL Infrastructure plc
- Sun Life Financial Inc.

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. On 3 July 2024, CVC Capital Partners acquired an initial 60% interest in DIF Capital Partners and became an ultimate controller[1]. DIF Capital Partners has been rebranded CVC DIF.

HICL Infrastructure plc is a long-term investor in infrastructure assets which are predominantly operational and yielding steady returns. HICL Infrastructure plc 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 Manager to HICL Infrastructure plc is InfraRed Capital Partners Limited, a leading international investment manager focused on infrastructure and renewable energy investments. On 1 July 2020, Sun Life Financial Inc acquired an 80% interest in the InfraRed business from InfraRed Capital Partners (Management) LLP and became an ultimate controller.

---

[1] CVC Capital Partners acquired an initial 60% stake of DIF Capital Partners on 3 July 2024, with an additional 20% to be acquired shortly after 31 December 2026 and the final 20% to be acquired shortly after 31 December 2028.

Affinity Water Limited

Statement of directors' responsibilities

The directors confirm that these condensed interim financial statements have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting', and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and that the interim management report includes a fair review of the information required by the Disclosure and Transparency Rules (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 and Financial Statements.

The maintenance and integrity of the Affinity Water Limited website is the responsibility of the directors. The work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that might have occurred to the interim financial statement since they were initially presented on the website.

The directors of Affinity Water Limited are listed in the company's Annual Report and Financial Statements for the year ended 31 March 2024, with the exception that Andrew Cox stepped down from the Board as an alternate non-executive director on 10 June 2024. Martin Roughead resigned on 4 October 2024 and Michael Brown was appointed as Chair Designate on 14 October 2024. A list of current directors is maintained on the governance pages of the company's website: *affinitywater.co.uk/board*.

By order of the Board

Keith Haslett Chief Executive Officer	Ian Tyler Chair

27 November 2024

Affinity Water

Tamblin Way
Hatfield
Hertfordshire
AL10 9EZ

Tel: 0345 878 0900

affinitywater.co.uk