Interim Investor Report

Affinity Water Limited ('Affinity Water')

Six Month period ended 30 September 2024

Published 18 December 2024

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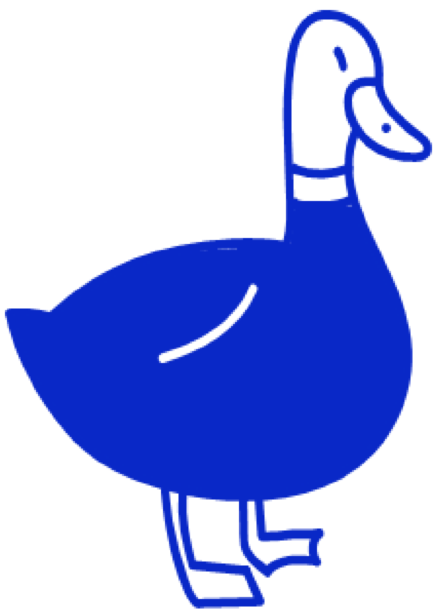


Affinity Water at a glance

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 4,500km² across three supply regions in the South East of England. We have been supplying water to our local communities for more than 170 years.

Purpose

Our purpose is to provide high-quality drinking water for our customers and take care of the environment, for our diverse communities now and in the future

Our vision is to lead the way

We are customer focused

We do the right thing

We work as one team

937Ml/d
Daily amount of drinking water supplied
(FY23: 948Mld)

3.90m
Customers served
(FY23: 3.89m)

1.51m
Household properties connected
(FY23: 1.49m)

90
Number of water treatment works
(FY23: 91)

16,989km
Length of mains network
(FY23: 16,900km)

1,430
Number of employees
(FY23: 1,460)

Financial Highlights

Financial results for the six-month period ended 30 September 2024

Revenue (£m)	181.4	Sep 2023: 172.8
Profit/(Loss) for the Period (£m)	1.5	Sep 2023: (27.4)
Regulatory Capital Value (RCV) (£m)	1,888.2	Sep 2023: 1,763.3
Senior Net Indebtedness (m)	1,448.6	Sep 2023: 1,333.2
Gearing (%)	76.7%	Sep 2023: 75.6%

Our Customer Outcomes

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

Supplying high quality water you can trust

Commitments

• Reduce the number of contacts about appearance, taste and odour to 0.67 per thousand population by 2024/25

• Meet water quality standards on compliance failures by scoring less than two annually in DWI's new water quality measure CRI

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

Commitments

• 20% leakage reduction on a three-year average from the 2019/20 baseline

• 12.5% reduction in PCC on a three-year average from the 2019/20 baseline

• Complete river restoration and habitat enhancement projects under the Water Framework Directive

• Reduce water abstraction by 27.3 Ml/d by 2024/25

• Complete eight environmental pilot projects working in partnership with our local communities

• Delivery of schemes within the WINEP programme

• Reduce abstraction from environmentally sensitive sites to nil when flows or levels are low

Providing a great service that you value

Commitments

• Improve the overall customer experience provided to our household customers

• Improve the overall experience provided to developer services customers including property developers, self-lay providers and New Appointments and Variations (NAVs)

• Proactively assist more of our customers in vulnerable circumstances by understanding and prioritising their needs

• 90% of customers in vulnerable circumstances receiving help are satisfied with the service from us and find us easy to deal with

• Achieve a score of at least 7.8 out of 10 for customer satisfaction in a value for money survey

• Proactively reducing the number of household properties falsely classed as empty on our billing system to 2.10% in 2024/25

Minimising disruption to you and your community

Commitments

• Reduce supply interruptions to customers to five minutes in 2024/25

• No more than 320 properties affected by a supply interruption per year of more than 12 hours duration

• Improve IT resilience by a 29% reduction in the impact of disruption to customers and employees by 2024/25

• Reduce the average time each property experiences low water pressure to less than 8 hours 42 minutes in 2024/25

• To have no customers at risk of experiencing severe restrictions in a 1-in-200 drought on average over 25 years

• Reduce the number of mains repairs to 142.3 per thousand kilometres of network

• To keep outage of production capacity below 2.34% between 2020 and 2025

Operational Performance

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

We are required to report our performance against targets set by Ofwat. Our performance in relation to these targets for the six-month period ended 30 September 2024 is shown in the tables below.

On track to meet or exceed year-end target

Off track to meet year-end target

Water Quality

Compliance Risk Index (CRI)

Target: 0.0

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.

PCC

Average water use (litres/person/day)

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.

Leakage

Average Annual water leakage (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.

Properties at risk of low pressure

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

Mains Repairs

Number per 1000km 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.

Water supply interruptions >3 hours

Average minutes per property

Target: 00:05:00

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

C-Mex

Position

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

Position

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.

Financial Performance

Financial results for the six-month period ended 30 September 2024

	2024	2023
	£000	£000
Revenue	181,433	172,825
Cost of sales	(141,234)	(146,485)
Gross profit	40,199	26,340
Administrative expenses	(20,254)	(20,481)
Impairment loss on financial and contract assets	(4,000)	(2,810)
Other income	10,080	10,476
Operating profit	26,025	13,525
Finance income	8,033	10,612
Finance costs	(44,040)	(62,568)
Fair value gain on inflation swaps	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	(359)	7,233
Profit/(Loss) for the year	1,520	(27,365)

Revenue

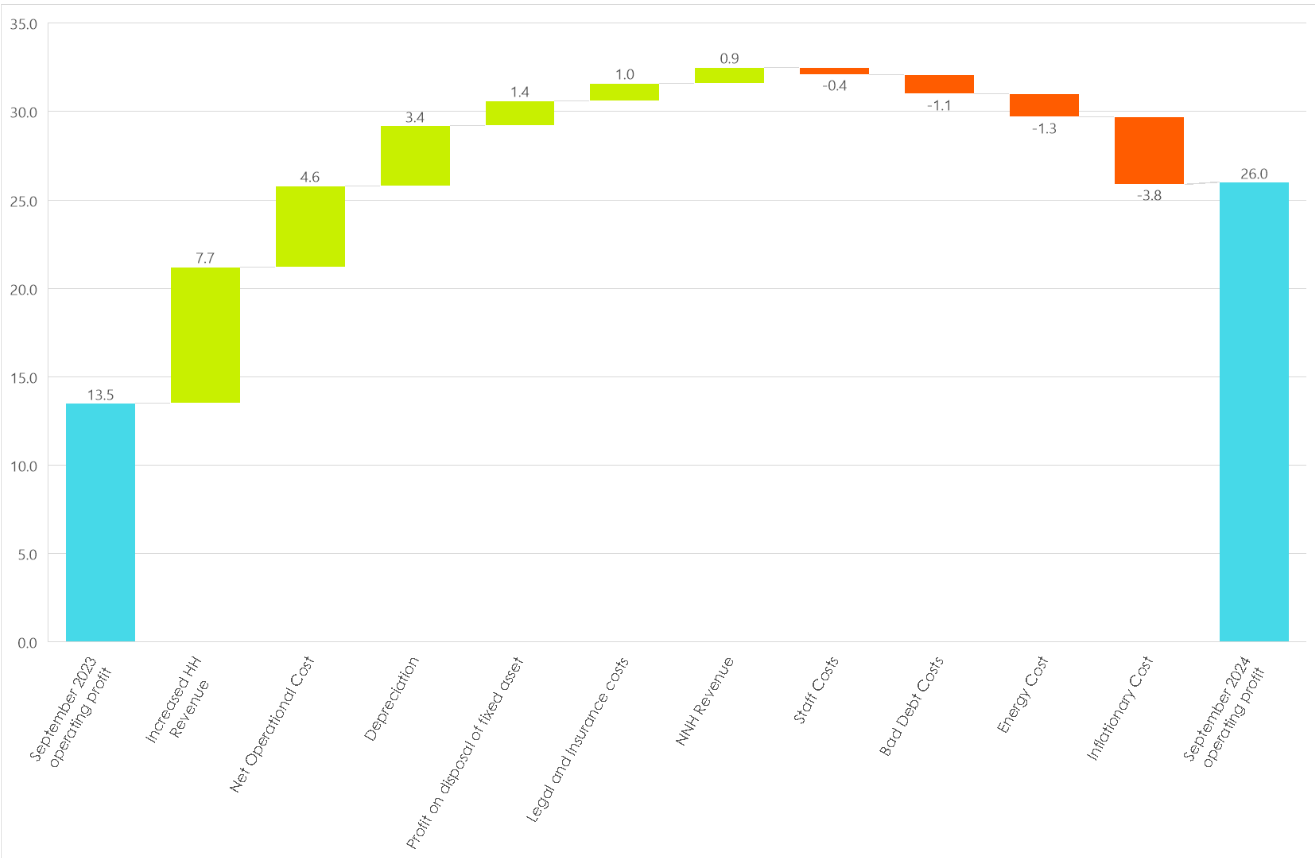
Revenue for the first six months of the year was £181.4m, a £8.6m (5.0%) increase on the same period last year (six-month period ended 30 September 2023: £172.8m). The increase is primarily due to our annual inflationary tariff increases on both household and non-household revenue streams. Other income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



Finance Costs

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 on our inflation swaps, due to a lower fair value gain of £11.4m in the current period compared to a £13.7m fain 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.

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.

Dividends

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

Capital expenditure in the six-month period ended 30 September 2024 was £101.0m (six-month period ended 30 September 2023: £80.1m) including £16.5m 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.

Net debt and gearing

At 30 September 2024, compliance net debt, as defined in the financial covenants in the company's securitisation documentation, was £1,448.6m. Gearing, calculated as compliance net debt to RCV at 30 September 2024, was 76.7% (30 September 2023: 75.6%) 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%.

Cash flow

Net cash flow before tax and financing 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.

Structure

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

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

Credit ratings

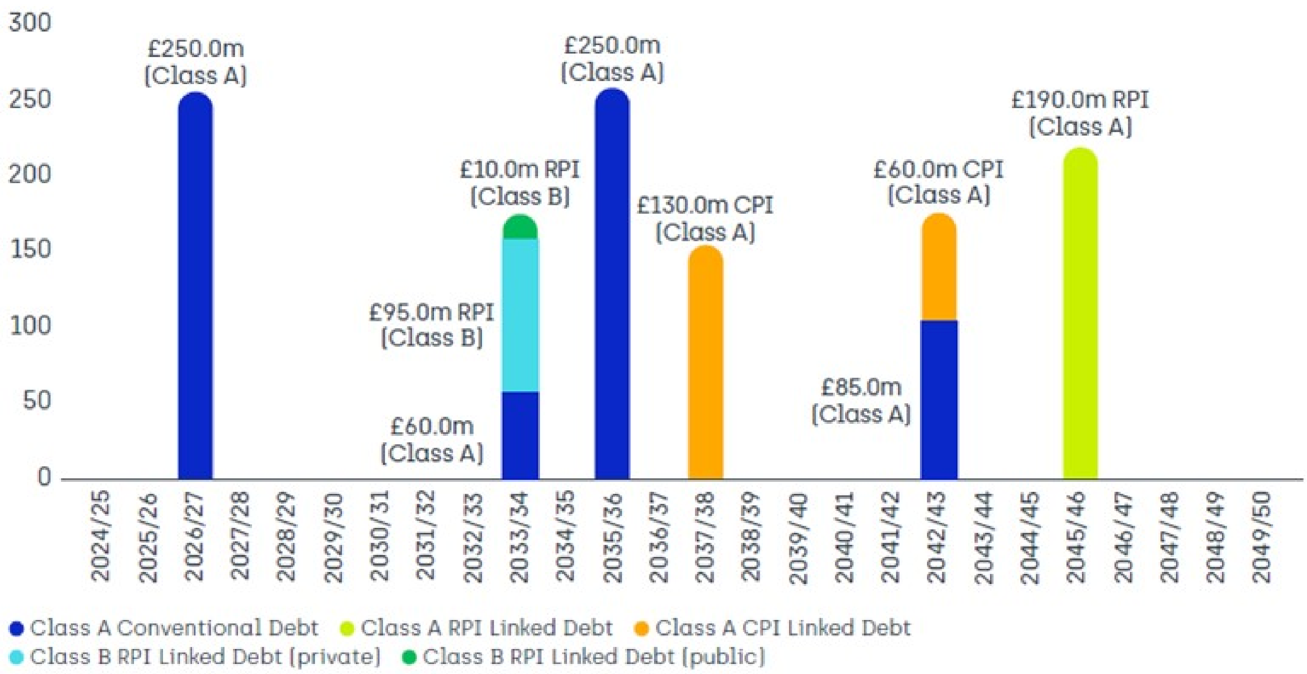
The credit ratings for our subsidiaries' bonds assigned by the rating agencies, Moody's, Standard & Poor's, and Fitch have not changed since March 2023.

In November 2024, Moody's put Affinity Water Limited's Class A, Class B and Corporate Family rating on review for downgrade from a stable outlook. Also in November, S&P put the ratings for Affinity Water's debt instruments on negative credit watch indicating the possibility of one or two notch downgrade.

Bonds	Moody's	Standard & Poors	Fitch
Class A	A3	BBB+	BBB+
Class B	Baa3	BBB-	BBB-
Corporate family rating	Baa1	Not applicable	Not applicable
Outlook	Review for Downgrade	Credit Watch Negative	Stable

Debt portfolio

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.



Liquidity

Our liquidity is managed through banking arrangements and adequate (though not excessive) cash resources, borrowing arrangements and standby facilities. This enables us, at all times, to have the level of funds available that are necessary for the achievement of our business and service objectives. At 30 September 2024, the company had £134,500,000 (2023: £210,400,000) of available liquidity, which comprised £34,500,000 (2023: £110,400,000) of cash and term deposits and £100,000,000 (2023: £100,000,000) of undrawn committed borrowing facilities.

Regulatory update

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

In October 2023, we submitted our business plan for the five year regulatory period starting on 1 April 2025. Our business plan addresses the significant challenges posed by climate change, demand for water, population growth and how we will take care of the environment going forward.

In July 2024, we received feedback on our business plan from Ofwat. We have received an overall categorisation of ‘standard’ in the QAA assessment (with only two companies receiving a categorisation of ‘outstanding’). This attracted a reward of £2m and 50:50 cost sharing rates. We passed the quality assessment in 24 of the 26 tests, the highest in the industry.

Summary of Affinity Water’s Draft Determination

- Our TOTEX allowance is £1,897m compared to 2,205m in our business plan (14% decrease)
  - Pre-efficiency base allowance is £1,551m compared to Ofwat’s £1,688m (8% decrease)
  - Pre-efficiency enhancement allowance is £415m compared to £521m from Ofwat (20% decrease)
  - Retail control saw marginal change from 164m to 165m

- WACC increased to 3.72%

- We have until 28th August to respond to the draft determination.

Summary of Affinity Water’s Draft Determination Representation

On 28th August 2024 we submitted our Draft Determination Representation, the full document is available on our website: https://www.affinitywater.co.uk/corporate/plans/business-plan

Our Representation outlines five key issues for Ofwat to address in its Final Determination, these are:

- Investability
- Risk and return balance
- Enhancement investment
- Outcome Delivery Incentives
- Pre– and Polyfluroalkly Substances (PFAS) Uncertainty

The Final Determination will be published on 19th December 2024. If desired, Affinity Water can refer the Final Determination to the Competition and Markets Authority (CMA) before 19th February 2025 for Redetermination.

Governance update

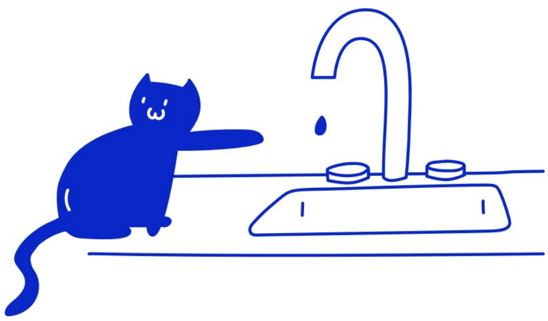
The company is committed to high standards of corporate governance and transparency, believing these to be essential in delivering the long-term success of our business. The Board governs the company in accordance with the Affinity Water Corporate Governance Code. This incorporates the Ofwat Board Leadership,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

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

Board appointments

Michael Brown has been appointed as an independent non-executive director and Chair designate with effect from 14 October 2024 and will be formally appointed as Chair with effect from 17 February 2025.

Adam Stephens has been appointed as CFO, joining the company and Board in January 2025. Adam is currently Chief Financial Officer at Hafren Dyfrdwy and Treasurer at Severn Trent. Adam is replacing Martin Roughead who stepped down from the position in October.



Common Terms Agreement Compliance

Calculation of financial ratios[1]

Test Period		Year 1 1 April 2023 To 31 March 2024	Year 2 1 April 2024 To 31 March 2025
Revenue less operating expenditure	£'000	105,221	115,454
Add back one-off re-striking of existing energy trades to market prices	£'000	-	10,000
Net Cash Flow less	**£'000**	**105,221**	**125,454**
Class A Debt Interest	£'000	18,022	21,845
Class A ICR	**Ratio**	**5.8**	**5.7**

Test Period		Year 1 1 April 2023 To 31 March 2024	Year 2 1 April 2024 To 31 March 2025
Revenue less operating expenditure	£'000	105,221	115,454
Add back one-off re-striking of existing energy trades to market prices	£'000	-	10,000
Net Cash Flow less		**105,221**	**125,454**
CCD and IRC	£'000	-	-
Class A Debt Interest	£'000	18,022	21,845
Class A Adjusted ICR	**Ratio**	**5.8**	**5.7**

1 – This Investor Report contains a high-level summary of covenant calculations. The detailed calculations were provided to the Trustee and other relevant parties on 28th November 2024 along with the Compliance Certificate.

Test Period		**Year 1** **1 April 2023** **To** **31 March 2024**	**Year 2** **1 April 2024** **To** **31 March 2025**
Revenue less operating expenditure	£'000	105,221	115,454
Add back one-off re-striking of existing energy trades to market prices	£'000	-	10,000
Net Cash Flow less	**£'000**	**105,221**	**125,454**
CCD and IRC	£'000	-	-
Adjusted Net Cash Flow divided by	£'000	105,221	125,454
Senior Debt Interest	£'000	22,910	26,914
Senior Adjusted ICR	**Ratio**	**4.6**	**4.6**

Test Period	**Year 1** **1 April 2023** **To** **31 March 2024**	**Year 2** **1 April 2024** **To** **31 March 2025**
Year 1	5.9	5.9
Year 2	5.8	5.8
Year 3	5.7	5.7
Class A Average Adjusted ICR **3 year average**	**5.8**	**5.8**

Test Period	**Year 1** **1 April 2023** **To** **31 March 2024**	**Year 2** **1 April 2024** **To** **31 March 2025**
Year 1	4.7	4.7
Year 2	4.6	4.6
Year 3	4.7	4.7
Senior Average Adjusted ICR **3 year average**	**4.7**	**4.7**

Test Period		Year 1 1 April 2023 To 31 March 2024	Year 2 1 April 2024 To 31 March 2025
Revenue less operating expenditure	£'000	112,346	123,324
Add back one-off re-striking of existing energy trades to market prices	£'000	-	10,000
Net Cash Flow	**£'000**	**112,346**	**133,324**
RCV Depreciation and Capitalised IRE	£'000	(75,130)	(88,712)
Class A Debt Interest	£'000	18,022	21,845
Conformed Class A Adjusted ICR	**Ratio**	**2.1**	**2.0**

Test Period		Year 1 1 April 2023 To 31 March 2024	Year 2 1 April 2024 To 31 March 2025
Revenue less operating expenditure	£'000	112,346	123,324
Add back one-off re-striking of existing energy trades to market prices	£'000	-	10,000
Net Cash Flow	**£'000**	**112,346**	**133,324**
RCV Depreciation and Capitalised IRE	£'000	(75,130)	(88,712)
Senior Debt Interest	£'000	22,910	26,914
Conformed Senior Adjusted ICR	**Ratio**	**1.6**	**1.6**

Test Period	Year 1 1 April 2023 To 31 March 2024	Year 2 1 April 2024 To 31 March 2025
Year 1	1.8	1.8
Year 2	2.1	2.1
Year 3	2.0	2.0
Conformed Class A Average Adjusted ICR 3 year average	**1.9**	**1.9**

Test Period	Year 1 1 April 2023 To 31 March 2024	Year 2 1 April 2024 To 31 March 2025
Year 1	1.5	1.5
Year 2	1.6	1.6
Year 3	1.7	1.7
Conformed Senior Average Adjusted ICR 3 year average	**1.6**	**1.6**

Test Period		31 March 2024	31 March 2025
Class A Net Indebtedness divided by	£'000	1,282,212	1,299,015
RCV	£'000	1,888,212	1,924,440
Class A RAR		**0.679**	**0.675**

Test Period		31 March 2024	31 March 2025
Senior Net Indebtedness divided by	£'000	1,448,577	1,467,974
RCV	£'000	1,888,212	1,924,440
Senior RAR		**0.767**	**0.763**

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

Date	**30 September 2024** **£'000**
Borrowings	1,392,196
Less Permitted Legacy Loan	(3,550)
Less Financial Liability related to Leasehold property	(19,028)
Add Unamortised Debt Issue Costs and Bond Premium	(26,967)
Add Accrued Interest	6,143
Add Swap Accretion	134,326
Less Cash and cash equivalents	(34,543)
Senior Net Indebtedness	**1,448,577**
Less Class B Indebtedness	(166,366)
Class A Net Indebtedness	**1,282,211**
RCV	1,888,212

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

Further Certifications

Surplus

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

Authorised Investments

Terms	Bank Deposits (£m)	Liquidity Funds (£m)	Total (£m)
Overnight	14.1	14.9	29.0
3 Months	5.5	-	5.5
6 Months	-	-	-
9 Months	-	-	-
1 Year	-	-	-
Total	19.6	14.9	34.5

Debt Service Reserve Accounts

There is no balance in each of the Debt Service Reserve Accounts as at 30 September 2024. The required debt service reserve is provided by a liquidity facility from National Australia Bank PLC totalling £29.0m.

Permitted Subsidiaries acquired

There were no Permitted Subsidiaries acquired pursuant to a Permitted Acquisition in the period to 30 September 2024.

Annual Finance Charge

Affinity Water Limited has calculated the Annual Finance Charge for the period from 1 April 2024 to 31 March 2025 as £26.9m.

	1 April 2024 to 31 March 2025
Forecast interest paid on bonds and swap	26.3
Forecast interest paid on loans	0.0
Other recurring finance fees paid	0.6
Total	**26.9**

Additional confirmations

Affinity Water Limited also confirms that:

- no Default or Potential Trigger Event is outstanding; and
- that Affinity Water Limited's insurances are being maintained in accordance with the Common Terms Agreement.

Yours faithfully,

Keith Haslett

Chief Executive Officer

Affinity Water Limited

(in its capacity as Transaction Agent)