

AFFINITY WATER LIMITED

**UNAUDITED HALF-YEARLY FINANCIAL REPORT
FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2016**

(Registered Number 02546950)

Affinity Water Limited

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Affinity Water Limited

Interim management report

Introduction

Affinity Water Limited (the 'company') owns and manages the water assets and network in an area of approximately 4,515km² split over three regions, comprising eight separate water resource zones (our communities), in the southeast of England.

We supply on average 900m litres of water a day to over 3.5m people. We operate 98 water treatment works to ensure that our water is of the highest quality, distributing our water through a network of over 16,500km of mains pipes.

Our vision, to be the UK's leading community focused water company, reflects the importance we place on our people working within and for the communities of customers we serve. By understanding and responding to the needs of different community groups, we are accountable to them at a local level for how well we provide our services.

We divide our supply area into eight different communities, each named after a local river, allowing us to tailor a high quality service to customers at a local level.

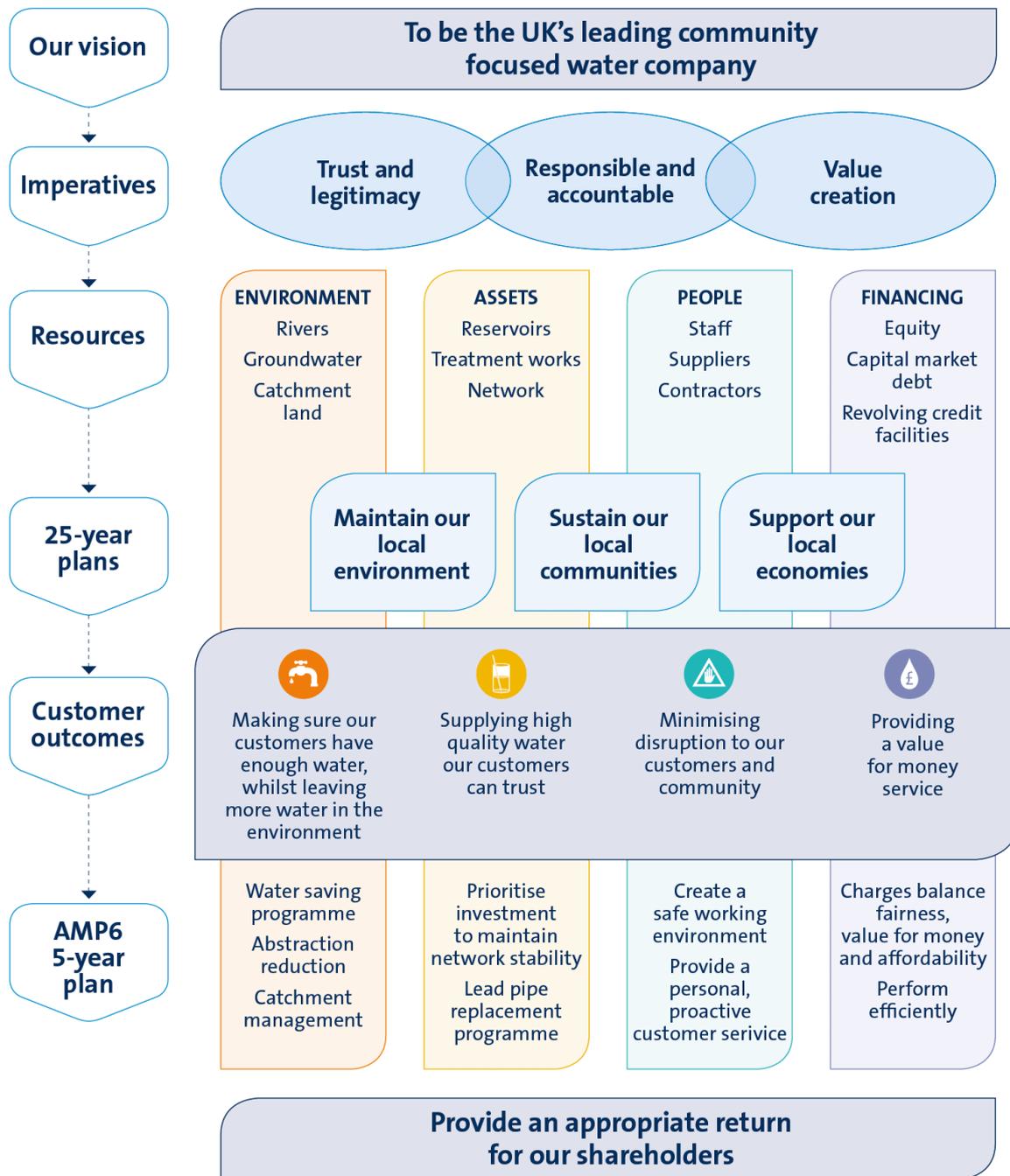
Our business model is presented on the next page.



Affinity Water Limited

Interim management report (continued)

Our business model



Our business model recognises that as a private provider of an essential public service, we need to retain the trust of our customers, operate in a responsible and accountable manner and create value by performing efficiently for our investors, maintaining our local environment, sustaining our local communities and supporting our local economies.

Affinity Water Limited

Interim management report (continued)

Operational performance

We continue to align our operational key performance indicators ('KPIs') and targets to key performance commitments made in our Business Plan for the 2015 – 2020 price control period (Asset Management Plan 6, 'AMP6') in response to our customer outcomes (refer to our business model on the previous page). These are necessarily stretching targets to respond to the significant social and environmental challenges we face – a rising population and increased demand for water, as well as a reduction in the availability of water in the years ahead. We operate in areas that the Secretary of State for the Environment, Food and Rural Affairs has designated as being under serious water stress.

At the end of the first year of AMP6, we recognised that there was more to do to deliver on all of our commitments, reflecting the genuinely challenging targets we have set ourselves. In the first six months of the current financial year we have made good progress in delivering on a number of our key programmes: leakage, our Water Savings Programme ('WSP'), water quality and mains cleaning. We have also been reviewing the progress and priorities of our Customer Experience Improvement Programme ('CEIP') to ensure we are continuing to put our customers at the heart of everything we do.

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

We have committed to reducing the amount of water we take from the environment by 42m litres per day by the end of AMP6. As part of this, we are delivering the reduction in abstraction in line with our Business Plan, ceasing abstraction from our Bow Bridge pumping station on 31 March 2016. Bow Bridge pumping station sits within the River Ver catchment in our Colne community. Now that we have ceased abstraction, we are leaving an additional 5.8m litres of water a day to help improve river flows in the rare chalk stream habitat of the River Ver.

In September, we carried out a sustainability reduction trial which involved making a number of alterations to our network to mimic the water reductions that we have committed to in our Business Plan. This trial allowed us to gather important performance data which will now feed into our various work programmes and help us understand how our network will be operating in the future.

We have recently established a new leakage management team and are investing £500m to improve our infrastructure to ensure we meet our commitment to make sure our customers have enough water, whilst leaving more water in the environment, which includes a commitment to reduce leakage on our network by 14% over AMP6. We estimate that around a third of total network leakage occurs from customers' supply pipes. Installing meters for these customers may allow the leaks to be more readily identified, which could save millions of litres of water every day. Our aim is to install over 280,000 meters by 2020. In August 2016 we carried out our 50,000th meter installation under the WSP, and the uptake of our free Home Water Efficiency Checks continues to rise as we install more meters.

We have also been trialling a new and innovative way of identifying leaks by using satellites to detect water. This technology uses the same principles that were used to search for water on Mars, and is the first large-scale trial of this system in the world. In the trial, we covered over 1,000 square miles of land, representing two thirds of our supply area. Our initial findings have been promising, and we are continuing to analyse the results to enable us to focus our work as part of our leakage strategy.

In addition to our own water resource management initiatives, our WSP continues to progress by supporting customers to save water, save energy and save money by providing free advice and water saving devices. For further information on our WSP, please refer to our corporate responsibility section from page 10 onwards.

Affinity Water Limited

Interim management report (continued)

Operational performance (continued)

Supplying high quality water our customers can trust

We aim to supply high quality water to our customers at all times and to achieve this our water quality monitoring programme extensively samples and analyses our water supply. In July and August we noticed an increase in the number of failures in samples taken from our reservoirs and customers' taps. Where failures are associated with consumers' plumbing systems, we need to remind them about using qualified plumbers and approved products, but we also need to ensure we maintain our own assets. Our current programmes of work, including mains cleaning and lead replacement, aim to do this.

Throughout the period, we have been lining or replacing all our lead pipes in Watford and Finchley, and also proactively investigating the water supply arrangements for high risk groups (nurseries, primary and junior schools, maternity and health centres) across our entire supply area. We aim to survey and complete 10,550 lead pipe replacements this year as part of our £25m AMP6 lead pipe replacement programme. Where possible we are combining our lead replacement programme with our WSP and mains renewals programme in order to work more efficiently.

The mains cleaning programme is currently progressing in line with its timetable within our Stort and Pinn communities. We have completed 520km of cleaning to remove manganese and iron deposits in our strategic and distribution mains pipes situated within Blackford and Harlow. We have also been continuing with our programme of mains flushing in our Wey and Pinn communities to remove aluminium and other loose deposits, which can result in discoloured water and sample failures. So far this year, we have flushed over 50km of pipe across five district meter areas.

We continue to face new pressures to maintain the high quality of our water. Increased use of existing and new pesticides puts additional stresses on our treatment processes. We are managing the risks using a dual approach: using effective catchment management targeting pesticides at source, as well as enhancing our existing treatment and carrying out additional treatment where necessary. Trials at our Iver Water Treatment Works to investigate three treatment solutions for the pesticide, metaldehyde, concluded in July. We will assess each technology in terms of effectiveness, constructability and costs with the outcome of these trials being to support water quality schemes for our 2019 Price Review ('PR19').

In terms of catchment management, we have been working in partnership with other water companies in the Thames River Basin to develop our understanding of high risk areas for pesticide pollution. We have been sampling weekly at over 200 rivers and streams to identify the areas where our work will have the greatest benefit, and have been offering farmers free pesticide applicator training and free servicing and calibration of pesticide and fertiliser machinery.

We have launched two new innovative pilot projects in high risk sub-catchments of the River Thames to reduce the impact of metaldehyde on drinking water quality. These include a Payment for Ecosystem Services scheme which incentivises farm businesses to develop metaldehyde action plans to identify and implement the most effective measures to reduce metaldehyde usage. We are also running a product substitution scheme which incentivises farmers to switch to an alternative pesticide that does not pose a risk to drinking water.

During the period, we hosted the 2016 Farm Business Updates event for Hertfordshire and co-hosted a stand at Cereals 2016, the leading annual agricultural event for the arable sector in the UK, with five other water companies. Both these events enabled us to raise awareness of issues affecting the water environment, particularly pesticides permeating into rivers.

Affinity Water Limited

Interim management report (continued)

Operational performance (continued)

Minimising disruption to you and your community

In June we experienced a major burst on a trunk main in Edgware. Despite our extensive efforts, 772 properties (0.05% of total properties supplied) were without water for a period in excess of twelve hours. This incident, along with others, will result in an Outcome Delivery Incentive ('ODI') penalty for 2016/17. The stretch of main in question was a known single point of failure that could not be bypassed. A project designed to eliminate this network weak spot had been designed and planned, and was scheduled to be completed by the end of 2016.

We continuously invest in our network in an attempt to prevent unplanned interruptions to supply. Our mains renewals programme is slightly behind our planned timeframe at this stage in the year, although we are still planning on achieving our 105km target for the year. We have also set ourselves a target to replace 14.5km of trunk mains this year. In August, our trunk main replacement team completed an eight month project to replace the water main between Wall Hall Pump Station and Bricket Wood Pump Station. This successful replacement of 2km of pipe will reduce risk on a key part of our network, which has had a high burst history over the last ten years.

Providing a value for money service

We want to provide water at affordable prices to all our customers. Our support for vulnerable customers who have a low household income or are claiming benefits has grown in the period with more than 40,000 customers supported by our 'LIFT' social tariff as at 30 September 2016. Customers benefiting from this tariff receive a reduced rate for the year.

Customer satisfaction is of utmost importance to us. We know that customer priorities are changing and their expectations are growing, so we are seeking new ways to anticipate demand and deliver the best possible experience for our customers. Through our newly launched CEIP we are focusing our efforts on the things that can make a real difference to our customers: response times, quicker resolution and keeping our customers informed throughout. We are determined to continually improve our service levels and achieve great results for our customers. Since the launch of the CEIP we have seen a reduction in the number of complaints compared to the same period last year.

Another initiative is our Value for Money survey, which is an innovative approach to understanding our customers' views of the service they receive from us and which formed a key part of our Business Plan commitment. The feedback we gain from 200 customers every month through this survey will be linked into our CEIP so that we continue to adapt and improve in line with customer expectations. We are also going to be strengthening our digital customer channels, making it easier for our customers to interact with us.

Affinity Water Limited

Interim management report (continued)

Financial performance

Our financial results are prepared in accordance with the recognition and measurement requirements of EU-adopted International Financial Reporting Standards ('IFRS'; refer to note 2 of the condensed interim financial statements for further details). Our unaudited financial results for the six months to 30 September 2016 are summarised as follows:

	2016 £m	2015 £m
Revenue	155.9	152.7
Operating costs	(122.2)	(114.2)
Other income	8.4	8.7
Operating profit	42.1	47.2
Net finance costs	(32.1)	(19.8)
Profit before income tax	10.0	27.4
Income tax credit/(expense)	8.3	(5.6)
Profit for the period	18.3	21.8
Dividends	(36.0)	(28.0)
Transfer to reserves	(17.7)	(6.2)

Revenue for the first six months of the year was £155.9m, being a 2% increase on the same period last year (2015: £152.7m). The increase is primarily due to inflationary price increases, as well as higher new connections activity.

Total operating costs of £122.2m for the first half of the year were 7% higher than in the same period last year (2015: £114.2m). The variance is explained in the table below:

Increases/(decreases) in operating costs	£m
Inflation	1.6
Higher depreciation	3.7
Higher infrastructure renewals activity	2.5
Higher employment costs	1.6
Higher market opening preparation costs	1.3
Higher new connections activity	0.9
IT transformation project costs incurred in the prior period	(2.0)
Others and efficiencies	(1.6)
Net increase in operating costs	8.0

Affinity Water Limited

Interim management report (continued)

Financial performance (continued)

The net finance expense of £32.1m was £12.3m higher than the first half of last year largely as a result of the additional finance costs associated with the £40.0m Class A 2045 bonds issued in October 2015, the additional finance costs associated with the £10.0m Class B 2033 bonds issued in February 2016 and £9.5m of costs expensed in the period as a result of the bond exchange in August 2016 (refer to the next page for further details).

The tax credit in the current period was due to a large deferred tax credit resulting from a reduction in the UK corporation tax enacted in September 2016.

Capital expenditure in the period was £54.3m (2015: £29.9m), and was incurred principally in our mains renewals, trunk main replacement, sustainability reduction, water saving and lead pipe replacement AMP6 programmes. This excludes £8.7m (2015: £6.2m) of infrastructure renewals expenditure, which is treated as an operating cost under the recognition and measurement requirements of IFRS.

The higher capital expenditure in the first half of this year compared to the same period last year reflects higher run rates on our capital programmes in this second year of AMP6.

Net cash inflow before tax and financing¹ for the first six months of the year was £12.2m being a 64% decrease on the same period last year (2015: £33.3m). The decrease was primarily due to £19.5m higher fixed asset net expenditure² (2016: £50.0m; 2015: £30.5m) and pension contributions for the full year ending 31 March 2017 being paid in the period.

Higher equity dividends were paid during the period; £36.0m (2015: £28.0m).

¹ This "non-GAAP" measure, which is used internally to evaluate our financial performance, is calculated as the total of the following line items per the condensed interim statement of cash flows (refer to page 19): cash generated from operations; purchases of property, plant and equipment; capital contributions; proceeds on disposal of property, plant and equipment; and purchase of intangibles.

² Calculated as the total of the following line items per the condensed interim statement of cash flows (refer to page 19): purchases of property, plant and equipment; capital contributions; proceeds on disposal of property, plant and equipment; and purchase of intangibles.

Affinity Water Limited

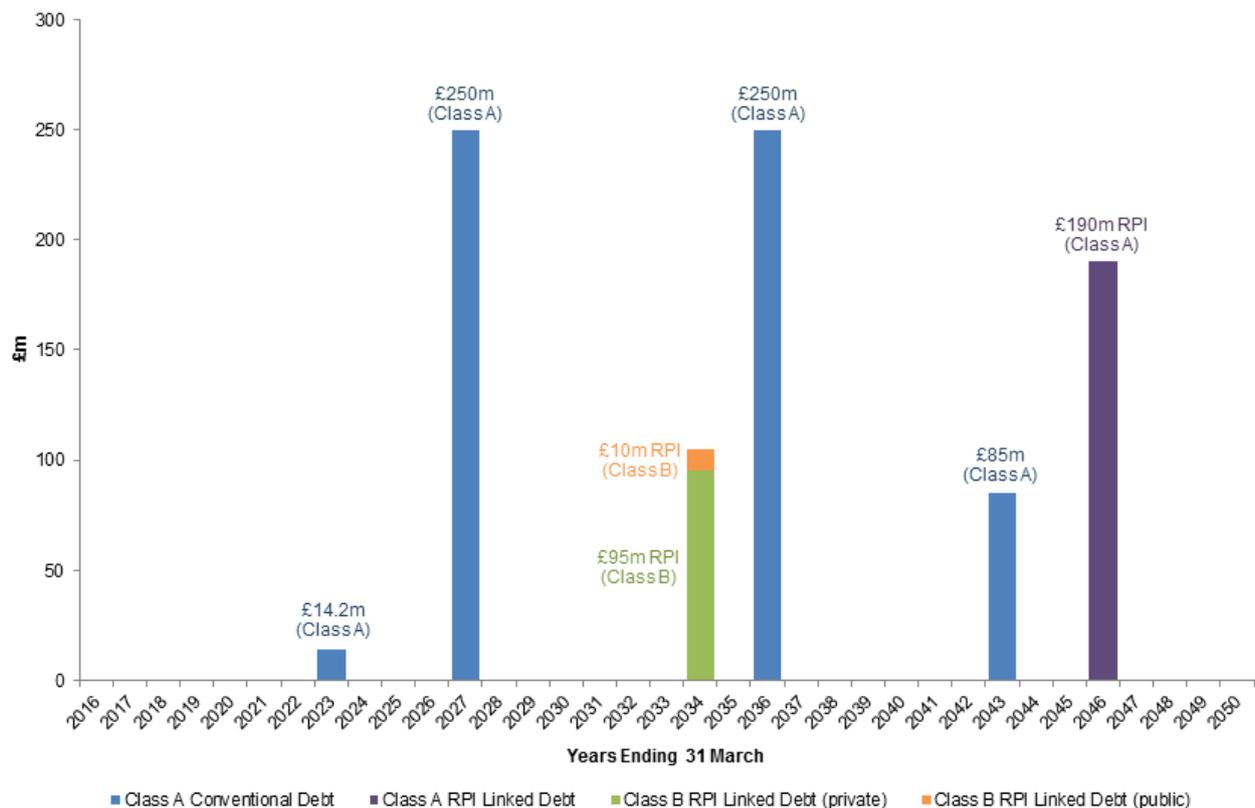
Interim management report (continued)

Financial performance (continued)

Financing update

On 22 August 2016, Affinity Water Programme Finance Limited, a wholly owned financing subsidiary of the company, exchanged £65.8m of its 3.625% guaranteed bonds due 2022 for a new issue of 3.278% guaranteed bonds due 2042. An additional £19.2m of 3.278% guaranteed bonds due 2042 were issued, which form part of the same series as, and are fungible with, such bonds. The total proceeds of the issue have been lent on to the company on the same terms and are being used to fund its capital expenditure programmes. The effect of the transaction was to achieve longer term funding for the company at a lower coupon.

The following chart shows the maturity profile of all the bonds issued by the company's subsidiaries as at 30 September 2016:



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

At 30 September 2016, net debt, as defined in the financial covenants in the company's securitisation documentation ('compliance net debt'), was £854.3m (at 31 March 2016: £809.3m). Gearing, calculated as compliance net debt to Regulatory Capital Value ('RCV') at 30 September 2016, was 76.5% (31 March 2016: 74.9%) and remains below the Board-approved gearing level of 80.0%. This allows sufficient headroom within the financial covenants, which are only triggered at a level of more than 90.0% with a restricted payment condition at 85.0%.

Affinity Water Limited

Interim management report (continued)

Regulatory update

From April 2017 all business customers, charities and public sector organisations (non-household customers) will be able to choose their retailers for water and wastewater services. We are embracing the opportunity this represents and have been progressing with the internal organisational changes required to our business. We have established a Wholesale Operations Service Desk, which will be the main point of contact with retailers. Additionally, Helen Gillett has joined as our Director of Retail Non-Household and will use her experience in operational and strategic leadership to drive forward our sales and business development strategy.

We have rebranded our non-household customer retail services as Affinity for Business. Our dedicated team will continue to work with these customers to save water, save energy and save money, reducing the environmental impact of their operations in the process. A separate company, Affinity for Business (Retail) Limited, has been established and granted a licence to provide water supply and wastewater services throughout England. We intend to use the Exit Regulations laid out by the Department for Environment, Food and Rural Affairs to transfer our existing non-household retail customer base to the new organisation when the market opens.



In advance of April 2017, a Shadow Market opened on 3 October 2016. This gives us the opportunity to test our processes and systems for six months and ensure our staff are trained, in order to demonstrate that we are fully compliant in all aspects ahead of the market opening to competition next April.

Ofwat has also published its findings on the costs and benefits of introducing competition to the household retail water market in England. It concluded that competition could offer some small savings for household customers as well as better customer service, innovation in offers and products, and environmental benefits. However it still remains uncertain whether there will be a competitive household retail market in the near future.

In May 2016 Ofwat published further thinking confirming its preferred approach to the design of the future regulatory framework for the water industry for PR19. The new framework aims to make greater use of markets in relation to the areas of sludge and water resources with separate binding price controls for each. For PR19 Ofwat has also set out its intention to use the Consumer Price Index ('CPI'), rather than Retail Price Index ('RPI'), for indexing revenues (and therefore prices) and RCV to be indexed using a combination of CPI and RPI.

Affinity Water Limited

Interim management report (continued)

Corporate responsibility

Maintaining our local environment

As a community focused organisation we remain committed to those issues which our customers and stakeholders feel strongly about.

Protecting the rare and sensitive chalk streams within our operating area is a priority. Through our industry leading initiative of leakage and abstraction reductions within one of the fastest growing regions of the UK, we are addressing the environmental challenges of protecting our precious local rivers and habitats while encouraging behavioural change.

Our commitment to protecting rivers goes beyond compliance. By focusing our resources and partnering with local experts we have ceased abstraction ahead of schedule at Bow Bridge Pumping Station, directly improving flows on the Mimram and Beane rivers. Please refer to our operational performance section on page 3 for more information on how we are working to reduce the amount of water we take from the environment.



Case study: Protecting local rivers

We took the first major step in meeting our AMP6 abstraction reduction target by turning off our first pumping station at Bow Bridge near St Albans earlier this year.

A team including the Environment Agency and The Ver Valley Society took part in an event on the River Ver to mark the occasion. A demonstration of river monitoring techniques was given, including spot gauging to measure river flows and river fly kick sampling, which looks for macroinvertebrates used as biological indicators to assess changes in environmental conditions.

The demonstration showed how we are using river monitoring to capture the ecological benefits of our sustainability reductions and raised awareness of the importance of long term monitoring in protecting our rivers.

Sections of this rare and protected waterway were further enhanced by our partnership approach to targeted restorations aimed at maximising the benefits from improved flows, these included volunteering days with the Wild Trout Trust to provide habitats for fish-spawning and working with the Herts and Middlesex Wildlife Trust ('HMWT') to remove Himalayan Balsam, a non-native invasive weed species which suppresses the growth of native grasses and other flora.

Over the coming months we will build on our long term partnership with the HMWT to create a strategic partnership with wildlife trusts across our supply areas. We aim to promote both organisations through strong messaging and communications around our work on shared objectives and priorities.

We also received recognition of our achievements at the Business in The Community Responsible Business Awards where we were shortlisted in the environmental leadership category.



Affinity Water Limited

Interim management report (continued)

Corporate responsibility (continued)

Sustaining our local communities

We continue to invest in community organisations across our supply area through our Community Engagement Fund. This allows a diverse range of local projects to apply for funding from an annual sum of £50,000. Individual projects are usually awarded around £2,500, which at a local level makes a real difference in terms of equipment, materials or tailored support.

Applications are assessed by a panel of our own staff from across the business, each bringing their individual experience and community knowledge to inform the decision making process. Being part of the panel also provides a great development opportunity as well a chance to meet the people involved and to follow up on the progress of successful applications.

Earlier this year, twelve local community organisations benefitted from the latest round of awards. These included a sensory garden for stroke survivors, bespoke equipment for a local hospice and a community café run by young adults with learning difficulties to improve employability skills.

Case study: Funding for Cherry Trees

Adam Warner, Chair of the Community Review Panel, recently visited Cherry Trees, one of the local charities supported through the Community Engagement Fund.

Adam took the opportunity to find out more about their work and present the donation of £2,350. Cherry Trees is a small charity which, over the last ten years, has helped over 400 families by providing home from home, short breaks for children and young people living with a range of disabilities.

The funding has made an immediate difference, allowing Cherry Trees to purchase six electronic ceiling hoists. Being able to invest in new equipment will help to make the home an even safer and more comfortable environment for everyone.



Our Education Centre in Bushey currently welcomes more than 6,000 visitors each year, and visits over 7,000 pupils in schools delivering curriculum activities. Support for our local schools will continue to be improved through a specific programme of outreach projects developed under our WSP. We have partnered with local schools to pilot a range of innovative engagement programmes that link directly to valuing water and protecting local rivers in the areas where we install water meters.

Our focus on serving our local communities has been further strengthened this year through the publication of our Volunteer Policy. The policy supports our staff to engage with community organisations by giving time, money or expertise through 'Affinity Days'.

Affinity Water Limited

Interim management report (continued)

Corporate responsibility (continued)

Supporting our local economies

Our support for local economies through our role as a local employer is highlighted through the success of our bespoke Customer Relations Apprenticeship Scheme in the Dour Community. The first four apprentices to enrol on the scheme have all successfully graduated and, as the quality of the candidates was so high, we have offered them all permanent full time employment.

As for all our directly employed staff, their new careers will pay a living wage and provide further development opportunities. We continue to work with our supply chain towards achieving Living Wage Institute Certification.

A pilot project with Citizens Advice Bureau will provide useful insight to take through into our debt management strategies. Our approach is to move beyond a transactional relationship with our customers and stakeholders by providing useful practical information and help. This will ensure we are putting our customers first and will help to ensure we improve our customer satisfaction levels.

Our “Save Water, Save Energy, Save Money” campaign gives customers free expert advice and devices to help them achieve savings. This will enable us as a business to meet our water reduction targets and is essential given the water pressures that our region is facing. Please refer to our operational performance section on page 3 for more information on how we are working to reduce the amount of water we take from the environment.



Case study: Water Saving Squad

Our Water Saving Squad is a team of staff volunteers who attend various fetes, carnivals, festivals and markets in our communities to encourage water efficiency throughout the year.

The team are armed with an array of free water saving devices designed to save people water, energy and money.

The schemes have been very successful at promoting our water saving messaging and ensuring that customers in our regions are committed to reducing their water usage.

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. Operational risks are recorded and assessed, including existing management processes, and an action plan is prepared, if necessary, for further mitigation. Activities against these plans are monitored on an on-going basis. Operational risks are also ranked by our teams during the year. Based on the rankings given by these teams, the most significant risks are discussed by our senior management and included in the strategic risk register, presented to the Board and the Audit Committee. The latter reviews senior management's work on risk management and reports to the Board on the effectiveness of risk management processes.

The principal risks and uncertainties remain unchanged from those reported in the annual report and financial statements for the year ended 31 March 2016. We do however note a change in macro economic risk as a result of the UK's decision to leave the European Union, discussed on the following page. The principal risks and uncertainties reported in the annual report and financial statements for the year ended 31 March 2016 were as follows:

- Operational risks:
 - Injuries and accidents to our people and the public
 - Failure to supply wholesome water
 - Unavailability of resources (people and materials)
 - Information security or privacy failure
- Regulatory risks:
 - Adverse changes to the regulatory framework
 - Adverse change in the social and/or political climate
 - Failure to comply with laws, our instrument of appointment and other recognised standards
 - Failure to deliver our business plan obligations
 - Being required to undertake unremunerated activity
- Market reform risk:
 - Failure to prepare for market reform
- Financial risks:
 - Liquidity risk
 - Macro economic risk (interest rate, inflation and taxation risk)
 - Breach of and changes to our financial covenants
 - Revenue and debtor risk

Further information on these risks and uncertainties can be found on pages 33 to 39 of the company's published annual report and financial statements for the year ended 31 March 2016, which is available at: <https://stakeholder.affinitywater.co.uk/investor-library.aspx>.

Affinity Water Limited

Interim management report (continued)

Principal risks and uncertainties (continued)

Vote to leave the European Union

The Board anticipates that whilst the company's activities may be impacted by the UK's decision to leave the European Union over the long term, the impact is unlikely to be significant in the near term. The company exposure to inflation rates is broadly hedged with revenue and some significant costs being already secured to the end of AMP6. The company has also secured financing for AMP6 and for the next price control period, AMP7. The company is exposed to foreign exchange rate movements, as some foreign purchase contracts are unhedged; however this exposure is minimal. Finally, although the company's pension plan is currently in an accounting surplus, large market movements may reduce or eliminate this surplus.

Going concern

The company has adequate resources to meet its current operational and financial obligations, and the directors have a reasonable expectation that this will continue for the foreseeable future. This is based on assessment of the principal risks of the company, as detailed on the previous page, and consideration of the company's budgeted cash flows, long term forecasts and related assumptions, and available debt facilities. For this reason, the directors continue to adopt the going concern basis in preparing the condensed interim financial statements.

Related parties

Details of significant related party transactions can be found in note 20. 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 remain committed to the highest standards of governance and support the principles of good corporate governance set out in the 2014 UK Corporate Governance Code ('the Code') and the UK Stewardship Code. Our business is owned by private investors and we therefore apply the principles of the Code in this context, having regard to the Guidelines for Disclosure and Transparency in Private Equity (the Walker Guidelines) and the work of the Private Equity Reporting Group. Our Governance Code, updated in March 2016, sets out for our customers, investors, regulators and other stakeholders how we govern and operate our business to high standards of governance and transparency.

Forward-looking statements

Certain statements in this interim management report are forward-looking. Although the company believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements.

The company undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

Affinity Water Limited

Condensed interim income statement for the six months ended 30 September 2016

	Note	30 September 2016 £000 Unaudited	30 September 2015 £000 Unaudited
Revenue	6	155,919	152,677
Cost of sales		(94,915)	(84,561)
Gross profit		61,004	68,116
Administrative expenses		(27,266)	(29,603)
Other income		8,364	8,651
Operating profit	7	42,102	47,164
Finance income	8	1,577	1,022
Finance costs	8	(33,690)	(20,828)
Profit before income tax		9,989	27,358
Income tax credit/(expense)	9	8,327	(5,610)
Profit for the period		18,316	21,748

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

The notes on pages 20 to 29 are an integral part of these condensed interim financial statements.

Affinity Water Limited

Condensed interim statement of comprehensive income for the six months ended 30 September 2016

	30 September 2016 £000 Unaudited	30 September 2015 £000 Unaudited
Profit for the period	18,316	21,748
<i>Other comprehensive income for the period which will not be reclassified to profit or loss:</i>		
Remeasurement of post-employment benefit surplus	(12,284)	11,498
Deferred tax on item that will not be reclassified	2,088	(2,300)
Other comprehensive (expense)/income for the period, net of tax	(10,196)	9,198
Total comprehensive income for the period	8,120	30,946

The notes on pages 20 to 29 are an integral part of these condensed interim financial statements.

Affinity Water Limited

Condensed interim statement of financial position as at 30 September 2016

	Note	30 September 2016 £000 Unaudited	31 March 2016 £000 Audited
Assets			
Non-current assets			
Property, plant and equipment	11	1,274,952	1,259,527
Goodwill		14,961	14,961
Other intangible assets	11	37,087	28,673
Investments in subsidiaries		60	60
Retirement benefit asset	12	64,977	72,588
		1,392,037	1,375,809
Current assets			
Inventories		1,270	1,222
Trade and other receivables	13	131,723	79,901
Cash and cash equivalents		66,237	93,444
		199,230	174,567
Total assets		1,591,267	1,550,376
Equity and liabilities			
Equity			
Ordinary shares	14	26,506	26,506
Share premium	14	1,400	1,400
Capital contribution reserve	14	30,150	30,150
Retained earnings		153,517	181,397
Total equity		211,573	239,453
Liabilities			
Non-current liabilities			
Trade and other payables	15	91,043	87,977
Borrowings	16	939,250	902,243
Deferred income tax liabilities	17	173,309	184,652
Provisions for other liabilities and charges	17	2,416	2,885
		1,206,018	1,177,757
Current liabilities			
Trade and other payables	15	170,735	131,153
Current income tax liabilities		2,941	2,013
		173,676	133,166
Total liabilities		1,379,694	1,310,923
Total equity and liabilities		1,591,267	1,550,376

The notes on pages 20 to 29 are an integral part of these condensed interim financial statements.

Affinity Water Limited

Condensed interim statement of changes in equity for the six months ended 30 September 2016

	Share capital £000	Share premium £000	Capital contribution reserve £000	Retained earnings £000	Total equity £000
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
Balance at 1 April 2016	26,506	1,400	30,150	181,397	239,453
Profit for the period	-	-	-	18,316	18,316
Other comprehensive expense	-	-	-	(10,196)	(10,196)
Total comprehensive income	-	-	-	8,120	8,120
Dividends	-	-	-	(36,000)	(36,000)
Total transactions with owners recognised directly in equity	-	-	-	(36,000)	(36,000)
Balance as at 30 September 2016	26,506	1,400	30,150	153,517	211,573
Balance at 1 April 2015	26,506	1,400	30,150	144,718	202,774
Profit for the period	-	-	-	21,748	21,748
Other comprehensive income	-	-	-	9,198	9,198
Total comprehensive income	-	-	-	30,946	30,946
Dividends	-	-	-	(28,000)	(28,000)
Total transactions with owners recognised directly in equity	-	-	-	(28,000)	(28,000)
Balance as at 30 September 2015	26,506	1,400	30,150	147,664	205,720

The notes on pages 20 to 29 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 2016

	Note	30 September 2016 £000 Unaudited	30 September 2015 £000 Unaudited
Cash flows from operating activities			
Cash generated from operations	18	62,195	63,826
Income taxes paid		-	(3,547)
Interest paid		(25,081)	(25,224)
Net cash flows from operating activities		37,114	35,055
Cash flows from investing activities			
Purchases of property, plant and equipment		(40,073)	(30,286)
Capital contributions		3,490	2,583
Proceeds on disposal of property, plant and equipment		39	61
Purchase of intangible assets		(13,420)	(2,844)
Interest received		234	231
Net cash used in investing activities		(49,730)	(30,255)
Cash flows from financing activities			
Proceeds from loan from subsidiary undertaking	16	21,409	-
Equity dividends	10	(36,000)	(28,000)
Net cash used in financing activities		(14,591)	(28,000)
Net decrease in cash and cash equivalents		(27,207)	(23,200)
Cash and cash equivalents at start of period		93,444	58,928
Cash and cash equivalents at end of period		66,237	35,728

The notes on pages 20 to 29 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 22 for details of the company's ultimate parent.

These condensed interim financial statements were approved for issue on 29 November 2016.

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 2016 were approved by the Board of directors on 27 June 2016 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 been reviewed, but not audited by the independent auditor.

In the same way that financial information was reported on a monthly basis to the Board, the company's chief operating decision maker, during the current and previous financial period on a combined basis, the company presents its results under a single segment for financial reporting purposes.

2. Basis of preparation

These condensed interim financial statements for the six months ended 30 September 2016 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority ('FCA') and International Accounting Standard ('IAS') 34: 'Interim financial reporting' ('IAS 34'), as adopted by the European Union ('EU').

The company prepared its statutory financial statements for the year ended 31 March 2016 in compliance with the requirements of Financial Reporting Standard 101: 'Reduced disclosure framework' ('FRS 101'). Those financial statements were the first statutory financial statements prepared by the company in accordance with FRS 101.

Under FRS 101, the company applies the recognition and measurement requirements of IFRS, but makes amendments where necessary in order to comply with the Companies Act 2006 and The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410).

The condensed interim financial statements should be read in accordance with the annual financial statements for the year ended 31 March 2016.

Going concern

The directors considered it appropriate to adopt the going concern basis of accounting in preparing the condensed interim financial statements. This is based on assessment of the principal risks of the company (refer to page 13) and consideration of the company's budgeted cash flows, long term forecasts and related assumptions, and available debt facilities.

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

3. Accounting policies

The accounting policies adopted in the preparation of these condensed interim financial statements are consistent with those followed in the preparation of the financial statements for the year ended 31 March 2016, except in relation to taxation. Taxes on income in the interim periods are accrued using the tax rate that would be applicable to the expected total annual profit or loss.

There are no new Standards and Interpretations which have an impact on the company's condensed interim financial statements.

4. Estimates

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 2016.

5. Financial risk management and financial instruments

The company's activities primarily expose it to interest rate risk and liquidity risk.

The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the company's annual financial statements for the year ended 31 March 2016 (refer to note A4 to the financial statements for the year ended 31 March 2016).

There have been no changes in any risk management policies since 31 March 2016.

Fair value of financial assets and liabilities measured at amortised cost

Between 1 April 2016 and 30 September 2016, market interest rates decreased, increasing the fair value of the bonds on-lent from the company's two financing subsidiaries, as follows:

	30 September 2016 £000 Unaudited	31 March 2016 £000 Audited
Non-current	1,272,381	1,056,079

The fair value has been derived from 'level 1' fair value measurements: quoted prices (unadjusted) in active markets for identical liabilities.

The remaining financial assets and liabilities of the company approximate to their carrying amount.

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

6. Revenue

	Six months ended 30 September 2016 £000	Six months ended 30 September 2015 £000
	Unaudited	Unaudited
Unmeasured supplies	65,621	66,150
Measured supplies	85,889	83,893
Connection charges	4,056	2,511
Chargeable services	353	123
	155,919	152,677

7. Operating profit

	Six months ended 30 September 2016 £000	Six months ended 30 September 2015 £000
	Unaudited	Unaudited
Operating profit is stated after charging:		
Water abstraction charges	2,035	2,336
Business rates	8,345	8,278
Depreciation of tangible fixed assets	25,480	22,856
Amortisation of other intangible assets	3,282	2,179

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

8. Finance income and costs

	Six months ended 30 September 2016 £000	Six months ended 30 September 2015 £000
	Unaudited	Unaudited
Finance income:		
Bank interest income	234	232
Net income from post-employment benefits	1,343	790
	1,577	1,022
Finance costs:		
Loan from parent company	(80)	(80)
Loans from subsidiary undertakings	(18,393)	(17,283)
Accretion payable in respect of interest on loans from subsidiary undertakings	(5,512)	(3,190)
Costs expensed due to extinguishment of loans from subsidiary undertakings	(9,451)	-
Other	(254)	(275)
	(33,690)	(20,828)
Net finance costs	(32,113)	(19,806)

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

9. Income tax

Income tax expense is recognised based on management's estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the year to 31 March 2017 is 19.8% (the estimated tax rate for the year to 31 March 2016 was 20.5%).

In October 2015 and September 2016 changes were enacted to the main rate of corporation tax in the UK, from 20% to 19% effective from 1 April 2017 and from 19% to 17% effective from 1 April 2020. A deferred tax credit of £10,318,000 arose in the period due to the impact on the company's deferred tax liability of the reduction in the UK corporation tax enacted in September 2016.

10. Dividends

	Six months ended 30 September 2016 £000	Six months ended 30 September 2015 £000
	Unaudited	Unaudited
Ordinary:		
Paid: First interim of 11.32p per share (2015: 3.40p)	30,000	9,000
Paid: Second interim of 2.26p per share (2015: 2.08p)	6,000	5,500
Third interim (2015: 5.09p)	-	13,500
	36,000	28,000

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

	PPE £000	Other intangible assets £000
	Unaudited	Unaudited
Six months ended 30 September 2016		
Opening net book amount as at 1 April 2016	1,259,527	28,673
Additions	42,641	11,696
Disposals	(1,736)	-
Depreciation and amortisation	(25,480)	(3,282)
Closing net book amount as at 30 September 2016	1,274,952	37,087
Six months ended 30 September 2015		
Opening net book amount as at 1 April 2015	1,234,907	22,593
Additions	27,092	2,829
Disposals	(234)	-
Depreciation and amortisation	(22,856)	(2,179)
Closing net book amount as at 30 September 2015	1,238,909	23,243

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

12. Retirement benefit asset

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 2016 Unaudited	Year ended 31 March 2016 Audited	Six months ended 30 September 2015 Unaudited
Discount rate	2.30% pa	3.55% pa	3.75% pa
Salary growth	3.00% pa	2.85% pa	2.95% pa
RPI	3.00% pa	2.85% pa	2.95% pa
CPI	2.00% pa	1.85% pa	1.95% pa
Life expectancy for a male pensioner from age 65 (years)	22	22	22
Life expectancy for a female pensioner from age 65 (years)	24	24	25
Life expectancy from age 65 (years) for a male participant currently aged 45 (years)	24	24	24
Life expectancy from age 65 (years) for a female participant currently aged 45 (years)	26	26	27

The amounts recognised in the income statement were as follows:

	Six months ended 30 September 2016 £000 Unaudited	Six months ended 30 September 2015 £000 Unaudited
Current service cost	(1,955)	(2,541)
Net income from post-employment benefits	1,343	790
	(612)	(1,751)

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

	30 September 2016 £000 Unaudited	31 March 2016 £000 Audited
Present value of funded obligations	(443,023)	(349,912)
Fair value of plan assets	508,000	422,500
Asset in the statement of financial position	64,977	72,588

The latest triennial actuarial valuation of the AWPP, determined by an independent qualified actuary, was at 31 December 2015.

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

13. Trade and other receivables

	30 September 2016 £000 Unaudited	31 March 2016 £000 Audited
Trade receivables	79,733	28,570
Amounts owed by related parties	365	583
Other receivables	4,596	3,478
Unbilled accrual for metered customers	41,178	41,455
Prepayments and accrued income	5,851	5,815
	131,723	79,901

Trade receivables are stated after provisions for impairment of £28,449,000 (at 31 March 2016: £26,313,000).

14. Share capital

	Number of shares of £0.10 (thousands)	Ordinary shares £000	Share premium £000	Capital contribution reserve £000	Total £000
At 30 September 2016 (unaudited), 1 April 2016 (audited), 30 September 2015 (unaudited) and 1 April 2015 (audited)	265,058	26,506	1,400	30,150	58,056

15. Trade and other payables

	30 September 2016 £000 Unaudited	31 March 2016 £000 Audited
Non-current:		
Deferred grants and contributions	91,043	87,977
Current:		
Trade payables	11,518	8,120
Amounts due to group undertakings	126	308
Amounts due to related parties	25	206
Interest payable to subsidiary companies	5,663	12,642
Interest payable to external parties	64	63
Social security and other taxes	1,333	1,237
Other payables	6,551	8,111
Capital accruals	13,194	17,022
Deferred grants and contributions	1,235	1,187
Payments received in advance	37,932	47,522
Other accruals and deferred income	93,094	34,735
	170,735	131,153
	261,778	219,130

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

16. Borrowings and loans

	30 September 2016 £000 Unaudited	31 March 2016 £000 Audited
Non-current		
Loan from Affinity Water Finance (2004) PLC financed by bond issue	254,872	255,045
Loan from Affinity Water Programme Finance Limited financed by bond issue	680,794	643,614
Loan from immediate parent company	3,550	3,550
Debenture stock	34	34
	939,250	902,243

Movements in borrowings are analysed as follows:

Six months ended 30 September 2016

	£000 Unaudited
Opening amount as at 1 April 2016	902,243
Proceeds of new borrowings from subsidiary undertakings	21,409
Premium due to issuance of loans from subsidiary undertakings	9,451
Indexation on loans from subsidiary undertakings	5,512
Amortisation on loans from subsidiary undertakings	635
Closing amount as at 30 September 2016	939,250

Six months ended 30 September 2015

Opening amount as at 1 April 2015	835,076
Indexation on loans	3,190
Amortisation on loans	(6)
Closing amount as at 30 September 2015	838,260

The company has the following undrawn committed borrowing facilities:

	30 September 2016 £000 Unaudited	31 March 2016 £000 Audited
Floating rate:		
Expiring within one year	58,000	58,000
Expiring beyond five years	100,000	100,000
	158,000	158,000

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

17. Provisions for other liabilities and charges

Six months ended 30 September 2016	Deferred tax	Insurance	Other	Total
	£000	£000	£000	£000
	Unaudited	Unaudited	Unaudited	Unaudited
Opening amount at 1 April 2016	184,652	1,510	1,375	187,537
(Credited)/charged to the income statement	(9,255)	220	-	(9,035)
Credited to other comprehensive income	(2,088)	-	-	(2,088)
Utilised in the period	-	(64)	(625)	(689)
Closing amount at 30 September 2016	173,309	1,666	750	175,725
Six months ended 30 September 2015				
Opening amount at 1 April 2015	196,617	1,624	1,124	199,365
Charged to the income statement	4,247	-	250	4,497
Charged to other comprehensive income	2,300	-	-	2,300
Utilised in the period	-	(263)	-	(263)
Closing amount at 30 September 2015	203,164	1,361	1,374	205,899

Insurance

Insurance represents the amount of the company's liability in respect of individual claims. This is based upon data provided by loss adjusters to insurers and is calculated on settlement experience.

Other provisions

Other provisions include £670,000 in relation to unfunded pension liabilities for a former non-executive director, which will be utilised over the 20 years from January 2019. The remaining balance relates to outstanding legal claims at 30 September 2016.

18. Cash generated from operations

	Six months ended 30 September 2016 £000 Unaudited	Six months ended 30 September 2015 £000 Unaudited
Profit before income tax	9,989	27,358
<i>Adjustments for:</i>		
Depreciation of tangible fixed assets	25,480	22,856
Amortisation of intangible assets	3,282	2,179
Amortisation of deferred grants and contributions	(742)	(700)
Profit on disposal of property, plant and equipment	(39)	(61)
Loss on disposal of infrastructure assets	1,736	234
Post-employment benefits	(3,330)	(2,351)
Finance costs - net	32,113	19,806
Changes in working capital:		
- Inventories	(48)	(69)
- Trade and other receivables	(51,822)	(50,798)
- Trade and other payables	45,576	45,372
Cash generated from operations	62,195	63,826

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

19. Commitments

The directors have authorised a programme of asset-related expenditure, of which the contracted capital element not provided for in the financial statements amounts to £24,767,000 (at 31 March 2016: £23,233,000).

20. Related party transactions

The following transactions were carried out with related parties:

Payments	Nature of Relationship	In respect of	Six months ended 30 September 2016		Six months ended 30 September 2015	
			Value	Balance	Value	Balance
			£000	£000	£000	£000
			Unaudited	Unaudited	Unaudited	Unaudited
Affinity Water Finance (2004) PLC	Subsidiary undertaking	Interest on loan	7,179	3,179	7,169	3,146
Affinity Water Programme Finance Limited	Subsidiary undertaking	Interest on loan	16,726	2,484	13,304	1,897

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

Details of the dividends paid to Affinity Water Holdings Limited, the company's immediate parent undertaking, can be found in note 10.

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

21. Events occurring after the reporting period

There were no significant events after the end of the reporting period.

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

22. 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 majority owned by Affinity Water Acquisitions (Investments) Limited, a company registered in England and Wales. Affinity Water Acquisitions (Investments) Limited is the parent undertaking of the smallest and largest group to consolidate the statutory financial statements of this company.

The directors consider that Affinity Water Acquisitions (Investments) Limited is the ultimate holding and controlling company in the United Kingdom.

Copies of the group financial statements of Affinity Water Acquisitions (Investments) Limited for the year ended 31 March 2016 may be obtained from the Company Secretary, Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ.

Affinity Water Acquisitions (Investments) Limited is owned by a consortium of investors led by Infracapital Partners II (consisting of Infracapital Partners II LP and Infracapital Partners (NT) II LP) and North Haven Infrastructure Partners LP. Veolia Environnement S.A. holds a 10% shareholding in Affinity Water Acquisitions (Holdco) Limited, the direct subsidiary of Affinity Water Acquisitions (Investments) Limited, through its subsidiary Veolia Water UK Limited. The directors consider Infracapital Partners II and North Haven Infrastructure Partners LP to be the company's ultimate controllers, as they are in a position to exercise material influence over the company's policy and affairs.

Infracapital Partners II is a European infrastructure fund managed by M&G Alternatives Investment Management Limited, a subsidiary of Prudential plc. Infracapital Partners II LP was established in 2010 and Infracapital Partners (NT) II LP was established in 2012, to make investments in income-generative infrastructure assets and businesses, including electricity and gas networks, water companies, transport infrastructure and renewable energy.

North Haven Infrastructure Partners LP is a leading global infrastructure investment fund. It is managed by Morgan Stanley Infrastructure Inc., part of the investment management division of Morgan Stanley. North Haven Infrastructure Partners LP targets core infrastructure assets that provide essential public goods and services to societies across the globe and seeks to improve asset performance using active management.

Affinity Water Limited

Statement of directors' responsibilities

The directors confirm that these condensed interim financial statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union, and that the interim management report includes a fair review of the information required by the Disclosure and Transparency Rule ('DTR') 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

The directors of Affinity Water Limited are listed in the company's annual report and financial statements for the year ended 31 March 2016. A list of current directors is maintained on the governance pages of the company's website: www.affinitywater.co.uk.

By order of the Board

Duncan Bates

Director

29 November 2016