AFFINITY WATER LIMITED

UNAUDITED HALF-YEARLY FINANCIAL REPORT
FOR THE SIX-MONTH PERIOD ENDED 30 SEPTEMBER 2022

(Registered Number 02546950)

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 in AMP7.
CRI – Compliance Risk Index
A measure of water quality compliance designed to illustrate the risk arising from treated water compliance failures.
D-MeX – Developer services measure of experience
A measure of developer service levels being used by Ofwat in AMP7.
Ml/d – Megalitres per day
A measure of consumption. One megalitre is equal to one million litres.
MOSL – Market Operator Services Limited
The market operator of England's non-household water market.
ODI – Outcome Delivery Incentive
Mechanism for financial rewards or penalties that underpins the Performance Commitments submitted in a company's Business Plan (the 'Plan').
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.
RORE – Return on regulated equity
A financial metric used by Ofwat to determine the profitability of the regulated company.
Totex – Total expenditure
The sum of operational expenditure and capital expenditure.
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.

Important information

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.

Our registered office
Tamblin Way
Hatfield
Hertfordshire
AL10 9EZ

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Introduction

We are the largest water only supply company in the United Kingdom, owning and managing the water assets and network in an area of approximately 4,500km^2 across three supply regions in the South East of England.

Our key facts and figures as reported in our annual report and financial statements for 31 March 2022 were:

936ml Daily amount of drinking water supplied	**3.86m** Customers served	**1.48m** Household properties connected
16,900km Length of mains network	**1,407** Number of employees (excluding directors)	**91** Number of water treatment works

Over the last few years, we've redefined what we want Affinity Water to mean to our people and the communities we serve. In 2020, we defined our purpose as 'to provide high quality drinking water and take care of our environment, for our communities now and in the future'.

This led us to a simple framework that defines three clear things we want everyone to know about Affinity Water. We call these our 'brand genes', and they will help us to achieve our purpose.

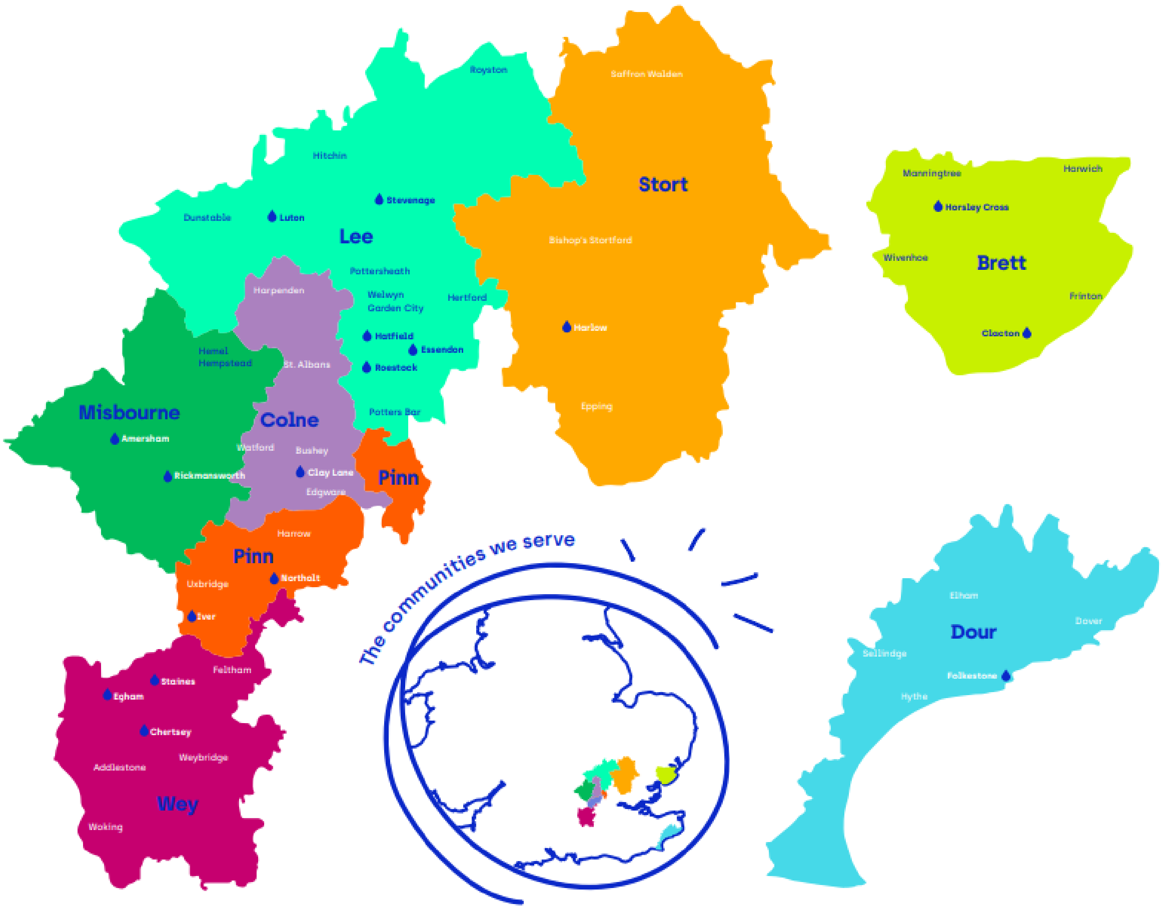
Everything we do can be seen through the lens of our brand genes. These help to guide our people, the activities we carry out and how we work with communities to ensure we continue to deliver a long-term, sustainable supply of water.

Affinity Water Limited

Interim management report

Introduction (continued)

We sub-divide our supply regions into eight different communities, based on our existing water resource zones and each named after a local river, allowing us to tailor a high-quality service to customers at a local level.



Our financial and operational summaries for the six-month period to 30 September 2022 are presented on pages 5 to 7.

Please refer to pages 11 to 18 for more information on our operational performance and pages 25 to 27 for more detail on our financial performance.

Interim management report (continued)

Our business model

Affinity Water Limited

Interim management report (continued)

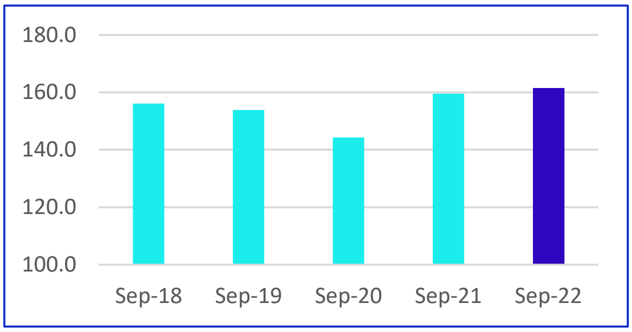
Our business model (continued)

Affinity Water Limited

Interim management report (continued)

Our financial performance summary for the six months ended 30 September 2022

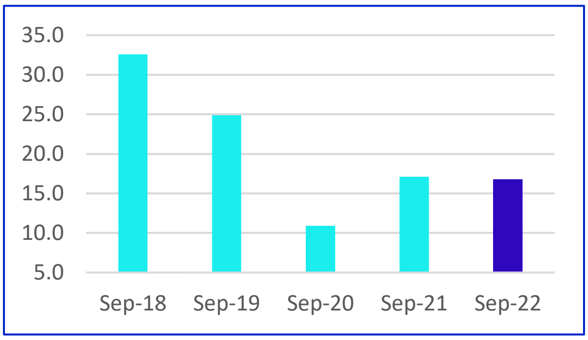
Revenue £m



Revenue for the six-month period to 30 September 2022 has increased by £2.0m compared to the same period last year.

The increase is primarily due to the recognition of additional non-household wholesale revenue dating back to the Covid-19 lockdown period. There was also higher household consumption during the hot summer months of 2022.

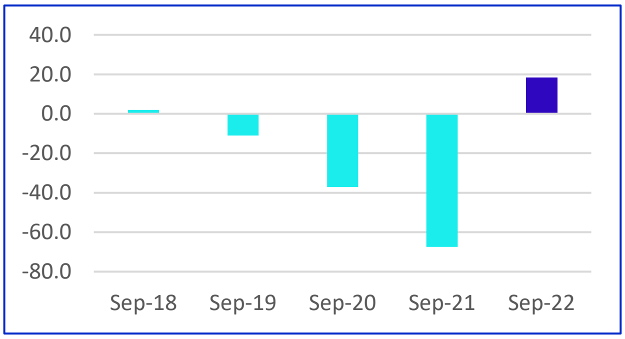
Operating profit £m



Operating profit has reduced by £0.3m compared to the same period last year.

The increase in revenue has been more than offset by increased costs, mainly due to higher inflation, higher production costs linked to the increased demand over the hot summer and rising energy prices, although savings have been made on staff costs following a company restructure last year.

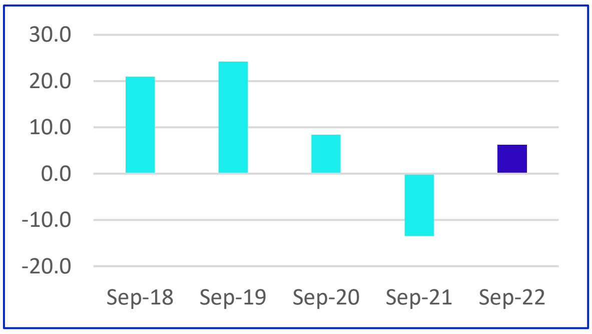
Profit/(loss) for the period £m



Profit for the period has increased by £85.9m compared to the same period last year.

The large increase is driven by fair value gains on our energy swaps which were put in place to hedge against rising electricity prices. The prior year was also impacted by a one-off deferred tax charge as a result of the announcement of a change in tax rate from 19% to 25%.

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



Our cash flows from operating activities for the six months ended 30 September 2022 was £19.7m higher than the prior period.

The increase is primarily due to higher cash generated from operations, driven by favourable movements in net working capital.

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

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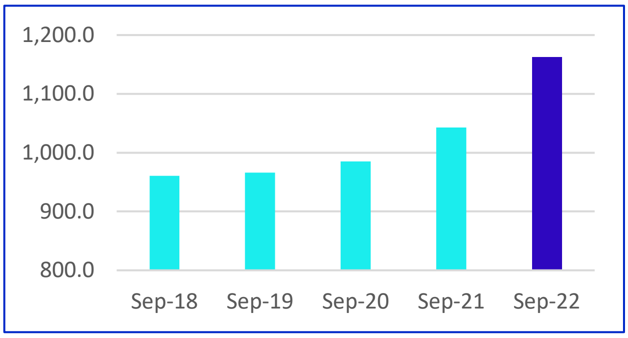
Interim management report (continued)

Our financial performance summary for the six months ended 30 September 2022

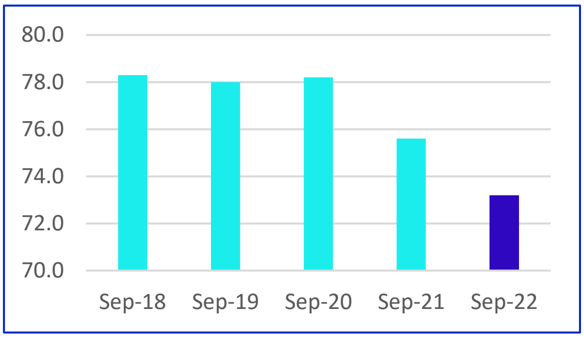
Net debt £m



At 30 September 2022, compliance net debt, as defined in the financial covenants in the company's securitisation documentation was £1,162.5m.

This is £119.6m higher than at 30 September 2021, mainly due to the issuance of a £130.0m green bond in October 2021.

Gearing %



Gearing, calculated as compliance net debt to RCV, at 30 September 2022, was 73.2%.

Our gearing has continued on its downward trend over AMP7 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%.

Credit ratings

	Class A	Class B	Corporate family
Moody's	A3	Baa3	Baa1
Standard & Poor's	BBB+	BBB-	N/A
Fitch	BBB+	BBB-	N/A

Our credit ratings have not changed since March 2022, although our ratings from Standard & Poor's have moved to a negative outlook.

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 2022 and we continue to monitor and adhere to them.

Please refer to page 25 onwards for further information on our financial performance.

Interim management report (continued)

Our operational performance summary for the six months ended 30 September 2022

Supplying high-quality water you can trust

We are firmly on track to be below our CRI deadband[1] of 2.0 for the 2022 calendar year.

The contact rate for consumers contacting us expressing dis-satisfaction with the taste, odour or appearance of their water supply is 0.59/1000 customers, which is below our performance commit-ment target of 0.67/1000.

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

Leakage is on track to meet the 2022/23 target of a 14% reduction in the three-year rolling average leakage figure.

We are increasing our proactive work and investment in order to meet our AMP7 reduction target of 20%.

We are not expecting to achieve our PCC target due to the continued shift of more people working from home following the Covid-19 pandemic.

We also saw high demand during the hot summer months, such that consumption still remains higher than pre-pandemic levels.

Providing a great service that you value

Our overall year-to-date C-MeX score for 2022/23 is 75.78, ranking us 15th out of 17 companies, which is one place down from March 2022 and further behind our internal target of being placed mid-table.

Our D-MeX score for Q1 was 86.35 ranking us 9th out of 17 companies, which is one place down from March 2022 but still in line with our internal target of being placed mid-table. NB. Q2 results have not yet been published.

Minimising disruption to you and your community

The impact of the unprecedented hot weather over the summer months of 2022 has caused disruption to our customers.

We have experienced a high number of low pressure events, as a result of the hot weather and are not expecting to meet our target for the year.

We are currently running behind our target for water supply interruptions over 3 hours, and we have already exceeded our target for the number of properties experi-encing an unplanned interruption to supply over 12 hours as a result of a small number of large-scale bursts as the dry ground conditions put significant stress on our infrastructure.

Please refer to page 11 onwards for further information on our operational performance.

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

Affinity Water Limited

Interim management report (continued)

Our commitment to public value

At Affinity Water, we are driven by our purpose of providing high-quality water and taking care of our communities' environment – now and for the future.

We are privileged to provide an essential public service and the opportunities that brings, to create value for the areas we supply, to help improve the environment, support the local economy, invest in our communities and adapt to the challenges that climate change is bringing to our region.

Save Our Streams 2 campaign

Save Our Streams is one of the UK's biggest water-saving initiatives, focused on helping our customers to reduce water consumption to help save our rare chalk streams, while also saving customers money on their bills.

We have launched the next phase of our campaign at a time when conserving water is more important than ever, not only to protect continued water supply but also environmental habitats.

With a simple yet powerful message - save water, save money, and help save our streams - it is about making saving water second nature, by helping our customers understand the simple steps they can take every day to reduce wastage.

We believe our new behaviour change strategy, which includes advertising, a bespoke water calculator tool to check your water footprint, working with influencers and wildlife and river trust partners, underpinned by ongoing engagement and education will encourage even more of our customers to take steps to reduce water wastage, building on the billion litres of water saved over last year alone and support our commitment to reduce per capita consumption.

Head over to our website saveourstreams.co.uk to sign up to join our growing community of water savers.

Affinity Water Limited

Interim management report (continued)

Our commitment to public value (continued)

Seagrass Seeds of Recovery project

Funded through Ofwat's Innovation in Water Challenge, we are leading a project to restore seagrass and improve estuaries and coastal waters by increasing biodiversity and absorbing carbon and nitrogen emissions.

One of the major successes over the last year has been the establishment of a seagrass nursery for the nurture of seagrass plants that can be used to establish new seagrass beds. The nursery, which is located in South Wales, and is the first of its kind in the UK, is now up and running and is generating significant numbers of new seagrass plants for transplantation once sea trials get underway in early 2023.

The intention is to monitor these new seagrass beds to establish a rate of carbon sequestration and to use this to evidence the potential of this approach to support our efforts to reduce carbon dioxide levels in the atmosphere and mitigate our overall contribution to climate change.

Water neutrality project

Innovation and collaboration are at the heart of how we are building a more resilient and sustainable future.

We are leading a partnership to deliver a sustainable, water-saving solution for new housing developments, and help solve the supply challenges that the increased demand creates.

Having secured £2.9m funding through Ofwat's Innovation in Water Challenge, the project will minimise water demand. It will achieve this by installing water saving devices and utilising grey water recycling and rainwater harvesting in new residential builds, as well as reducing water consumption in existing commercial buildings such as schools, by installing new technologies.

Our commitment to public value (continued)

25 years of the Chiltern Chalk Streams Project

The Chiltern Chalk Steams project, led by the Chilterns Conservation Board, aims to conserve and enhance all major chalk streams in the Chilterns Areas of Outstanding Natural Beauty and to encourage enjoyment and understanding of them.

The partnership includes statutory agencies, local authorities and voluntary bodies committed to conserving the Chilterns' chalk stream environment.

Affinity Water is a regular contributor to its important work through raising awareness of chalk streams and through the delivery of abstraction reductions, river restoration and invasive non-native species management.

We will soon be consulting on our draft Water Resources Management Plan which sets out our plans to provide a reliable, resilient, efficient and affordable water supply to our customers between 2025 and 2075. It highlights the challenges we face and how we intend to maintain the balance between water supply and demand, while protecting our environment.

Reducing our carbon emissions

We have installed solar power arrays at two of our water treatment works which will produce a daily average of 4,200 kWh of renewable energy from the sun to help power our operations. This is equivalent to the power demand of 350 4-bed detached properties in the UK

As well as reducing our emissions, and contributing to our goal to reach operational net zero by 2030, the solar arrays will also reduce our energy costs. In their first three months, the arrays have saved more than £215,000 and 296 tonnes of carbon emissions.

Preparations are already underway to construct more solar arrays at a further 26 sites, along with the introduction of battery storage solutions across our sites and the transition of our fleet to Electric Vehicles.

Affinity Water Limited

Interim management report (continued)

Operational performance

Key performance indicators

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, the DWI and Defra. Our annual performance in relation to these targets for the six-month period ended 30 September 2022 is shown in the table below:

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

KPI: Water quality CRI (Score)	
Target: 1.5 (Deadband 2.0) On track	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 2022 calendar year and will not incur a financial penalty. There have been 34 exceedances in the first nine months of 2022, compared to 20 for the same period in 2021. The increase is primarily the result of returning to full 'random' sampling after the lifting of Covid-19 restrictions.
KPI: Leakage Average annual water leakage from our network (Ml/d)	
Target: 14% reduction On track	This measure is reported as a percentage reduction in a three-year average of leakage against a baseline average level for years 2017–20. We are currently on course to achieve the 2022-23 target of 14.0% reduction in the three-year rolling average leakage figure. This is in line with our strategy of outperformance in years 3 and 4 of the AMP and achieving the full 20% reduction by year 5.
KPI: PCC Average water use (l/p/d)	
Target: 7.3% reduction (29 Ml/d) Significantly off track	PCC is reported as a three-year average against a baseline level of 2017-20 average water use. PCC is a measure of water usage in the home. We are forecasting that we will not meet our 2022/23 target. This is the result of the continuing effect of the Covid-19 pandemic on household water usage, with more people working from home than could have been envisaged at the time the targets were set. Whilst we did see reductions in consumption in the early months of 2022/23, this changed with the high demand over the summer months in the unprecedented hot weather. As a result, household consumption remains higher than pre-pandemic levels.
KPI: C-MeX (Score)	
Target: 80.65 Slightly off track	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 with the other water companies in England and Wales. Our overall year-to-date C-MeX score is 75.78 and placing us 15th out of 17 companies. Our Q2 score was slightly down on our Q1 score due to challenges resulting from the extreme hot weather, which impacted the whole industry, although our decline in the second quarter was less than the industry average. We are focused on achieving a score of 80.65 for the full year, by investing in additional resources and training volunteers from other areas of the business to deliver a noticeable improvement in response times to customers across our contact centres and back-office teams.

Affinity Water Limited

Interim management report (continued)

Operational performance (continued)

Key performance indicators (continued)

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

KPI	
KPI: D-MeX (Score)	
Target: 8th position On track	D-MeX is the measure of levels of service in the 'developer services' activity. The index score is made up of both a qualitative and a quantitative element which contribute 50% each to the score. Our overall D-Mex score for Q1 was 86.35 placing us 9th in the league table. Our quantitative score was 100% placing us joint first. Our qualitative score was 72.33 placing us 10th. Q2 results are due to be announced at the end of November 2022, with our full year forecast in line with our internal target and achieving a performance score of around 87.5.
KPI: Mains repairs (due to bursts) (Number per 1,000km mains)	
Target: 146.5 or less Significantly off track	The number of mains repairs for the first half of 2022/23 is above our profiled target. This is due to high demand and hot, dry weather over the summer months. We are expecting the run-rate to remain above target for the rest of the year due to further ground shift as the 'soil moisture deficit' reduces over winter. Long-range Met Office predictions are showing a 'La Niña' weather pattern with the probability of freezing temperatures over winter, therefore the likelihood of a freeze/thaw event is high. We continue to work with the Met Office to look at longer term forecasting and predictions of freeze-thaw events, with a view to moving to a different way of operating the network during 'high risk' periods.
KPI: Water Supply Interruptions > 3 hours (Average minutes per property, water supply interruption)	
Target: 00:05:45 Slightly off track	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 above our target for the first six months, with our current year-end forecast also slightly above our full year target, due to the effects on our supply and distribution infrastructure of the exceptional demand for water during the record hot summer months. Operationally, we were pleased to have maintained supplies to customers throughout this time.
KPI: Properties at risk of low pressure (Number per 10,000 properties)	
Target: 1.381 Significantly off track	This is a measure of the number of properties that are at risk of experiencing low pressure in the mains water supply. Performance for 2022/23 has been impacted significantly by the unprecedented hot weather and associated high demand in the summer, and we do not expect to meet our year-end target.
KPI: Unplanned interruptions to supply over 12 hours (Number of properties)	
Target: 320 or less Significantly off track	We have already exceeded the full-year target of not having more than 320 properties experience unplanned interruptions over 12 hours, as a result of a small number of large-scale incidents that occurred over the extremely hot summer period, when demand for water combined with dry ground conditions put significant stresses on our infrastructure. We are reporting 441 properties for the first six months of 2022/23 and are forecasting a total of around 500 properties by year-end.

Operational performance (continued)

Supplying high quality water you can trust

Water quality is paramount to everything we do. We use the latest treatment technology and sophisticated monitoring systems at our treatment works and across our network. We have had no exceedances at any of our treatment works and our reservoir cleaning and maintenance programme is delivering benefit so that we are in line with industry performance levels. We are mitigating the detection of iron and aluminium in our distribution networks through targeted mains flushing projects.

The CRI programme workstreams also include communication and behavioural activities, catchment management projects and sampling system improvements. Risk reduction activities are recorded and reported through the Drinking Water Safety Plans which are closely reviewed alongside other asset risks.

Our predicted CRI score for the nine months to September 2022 is 0.95. We expect to achieve CRI scores below 1.3 for 2022 full year and below 2.0 for the rest of AMP7.

One of our key performance commitments is associated with the number of customer contacts we receive in relation to the appearance of water, including discolouration. The contact rate for the year to the end of September 2022 is 0.59/1000 customers. This is better than our performance commitment target of 0.67 and an improvement on the prior period (September 2021: 0.81/1,000 customers). We have reduced our contacts through a number of initiatives including carrying out in depth investigations to map where these contacts have originated from and to understand the root causes. We believe we can maintain this level of performance for the final two years of AMP7.

Our operations require a large amount of energy to get water from source to tap. Energy is used to lift water from rivers and aquifers, for treatment processes required for wholesome water supply, to move water around the network and to pressurise the water for customers' use.

We report on our operational emissions annually and have already made significant progress to reduce our carbon and greenhouse gas emissions. We have a published plan for reaching net zero operational emissions by 2030 and full net zero by 2050. We will achieve this by:

- reducing our carbon footprint through energy efficiency, demand reduction, and electric vehicles;
- developing renewables energy such as solar and wind;
- planting new forests, restoring soils, restoring chalk grassland in the Chilterns, and regrowing seagrass forests in the estuaries of Essex; and
- purchasing green electricity tariffs.

As part of our Energy Strategy, we are currently developing our medium and long-term plans for how we optimise our performance to minimise the energy we consume. These plans will look at our asset infrastructure, improving energy data and insight, building resilience and developing our people and culture.

Operational performance (continued)

Supplying high quality water you can trust (continued)

For the short-term, we have created our first Energy and Carbon Performance Dashboard. This tool details the energy, carbon and cost performance of over 140 of our production sites, using telemetry data to compare the volume of energy used against the number of megalitres of water produced. This will be a vital tool for how we manage and optimise sites to make sure we are minimising energy consumption as much as possible.

During the period we have also launched our first two solar panel sites as part of our renewables programme to deliver an ability to self-generate power and reduce our carbon footprint and our electricity bills, which is ultimately reflected in the price we charge our customers. We aim to install solar panels on a further 26 sites during the remainder of AMP7 and beyond. For more information on how we are reducing our carbon emissions, refer to our case study on page 10.

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

As a community-focused organisation we remain committed to those issues which our customers and stakeholders feel strongly about. We operate in geographical areas that the Secretary of State for the Environment, Food and Rural Affairs has designated as being under serious water stress. The South East of England has the highest demand in the UK, with a growing population and limited strategic resources.

Climate change, along with a population increase in our supply area, means that demand for water will outstrip supply by 256Ml/d by 2080. New access to water, improved demand management and increased flexibility in the movement of water are all essential. We are working in collaboration with other water companies to develop strategic regional water resources solutions to secure long-term resilience on behalf of customers while protecting the environment and benefiting wider society.

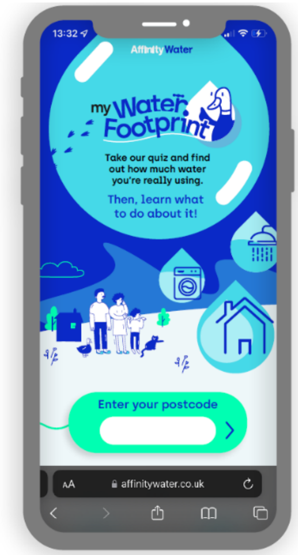
Sustainable growth is essential given the ongoing impact of climate change. Through Ofwat's Water Breakthrough Challenge, we will kick start the launch of water neutrality in the UK with the world's first at scale project. Our partnership of industry leading providers will install water reduction and recycling technologies and engage communities to ensure water savings and carbon reductions.

Operational performance (continued)

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

In November 2022, we set out our draft Water Resources Management Plan (WRMP) for consultation, asking our customers and stakeholders how they would like us to plan for our water supplies in the short and longer terms, especially with the challenges that an increasing population and climate change present. The draft plan sets out our roadmap to provide a reliable, resilient, sustainable, efficient, and affordable water supply to customers between 2025 and 2075. It highlights the challenges we will face and how we intend to maintain the balance between water supply and demand, while protecting the environment.

Protecting the globally rare and sensitive chalk streams within our operating area is a priority for us. In our AMP7 Business Plan, we committed to reducing the amount of water we take from the environment by 27.3 Ml/d by 2024/25. We are on track in terms of delivering the assets and changes to our network required to implement the abstraction reductions by December 2024.



Following on from our successful multi-platform Save Our Streams (SOS) campaign, which launched in April 2021 in order to help consumers understand why and how they should reduce their water consumption, and ultimately safeguard our local rivers and streams for years to come, we have now launched our second Save Our Streams (SOS2 campaign), asking customers to save water by reducing their shower by two minutes and using a water butt in the garden. For more information on our SOS campaign, refer to our case study on page 8 and our website: *affinitywater.co.uk/saveourstreams*

Our Demand Management programme is aiming to address the PCC challenge through home water efficiency checks and innovation projects targeting water use reduction. We have seen overall consumption rise and remain high since the Covid-19 pandemic, as working from home becomes the norm.

During the six-month period to 30 September 2022, we installed over 28,000 meters, taking the number installed during AMP7 to date up to 111,000, which will allow customers to monitor their personal usage more easily, and help us to identify customer-side leaks.

When it comes to saving water, our customers expect us to lead the way and we are committed to doing so. We committed to reducing leakage from water pipes by 20% over AMP7, following on from the 15% reduction achieved in AMP6, which was the water industry's largest percentage reduction target for AMP6.

We won the Institute of Asset Management Excellence Award for team achievement for our significant leakage reduction efforts last year, despite not meeting our ambitious target for 2021/22. This year has been challenging due to the hot, dry summer weather, as excessive ground movement has led to a significant increase in bursts in the period. We are still working hard to catch up the repairs that are needed to bring the backlog in line with our normal levels before any winter impact, but we retain a high degree of confidence that we will achieve our leakage target for 2022/23 and for AMP7, having put in place a recovery plan and accelerating several programmes of work scheduled for later in the AMP.

Affinity Water Limited

Interim management report (continued)

Operational performance (continued)

Providing a great service that you value

We are privileged to serve our communities. Being the monopoly supplier and steward of a precious resource, water and the environment, for future generations, we are acutely aware that we must continually invest in building trust with our customers and hold our performance accountable to our communities and wider stakeholders. This is central to achieving our vision of being a community-focused, sustainable and responsible business.

Our challenge is to achieve value for money for customers whilst also creating value for investors. Value for money for customers is achieved by delivering the standards of service customers expect along with the performance commitments included in our Business Plan at a reasonable price.

Our average annual household bill for 2021/22 was £181, the equivalent of just under 50p per day, which we think represents great value for money. Our AMP7 price control set an initial drop in revenue, followed by real terms increases, so household bills in 2022/23 are expected to be about 4% higher than in 2021/22.

We are acutely aware of the cost-of-living pressures facing households and have already been acting on these affordability challenges to ensure that households have full access to the range of services and support that we provide. We have publicised our Priority Services Register and promoted our collaboration with the National Debtline charity in order to better aid our customers with any debt-related issues. We have also funded local projects including a Christians Against Poverty Debt centre to help families with debt advice and support.

We provide support for financially vulnerable customers, who have a low household income or are claiming benefits, with more than 98,000 households now supported by our LIFT or Watersure social tariffs. These customers receive a reduced fixed rate spread over 12 months. During the six-month period to 30 September 2022, we have provided payment breaks to an additional 284 customers who are struggling to pay their bill. Our 'debt-help' and 'struggling to pay' webpages show how we have helped other customers in similar financial or vulnerable positions.

Our C-MeX score for the six-month period ended 30 September 2022 was 75.78 which has placed us 15th out of 17 companies. The C-MeX score consists of two surveys: customer service and customer experience. We gained one position in both surveys, although our overall position has remained constant since March 2022. Once again, we performed better in the customer service survey, with customer experience, which is based on customer perception and awareness, pulling our overall performance down. Both elements are of utmost importance to us, thus we recognise there are areas we need to improve on in order to climb up the league table.

Operational performance (continued)

Providing a great service that you value (continued)

We are investing additional resources to deliver a noticeable improvement in response times to customers across our contact centres and our back-office teams with the aim of boosting our customer service survey score. The success of our SOS campaign has helped drive advocacy through awareness, trust and value for money, however, we know there is more to be done. We have just launched our SOS2 campaign with a series of adverts on TV, radio and social media. We believe these should help drive further improvements to our customer experience survey score.

We are also measured for our service levels provided to developers. Our overall D-MeX score for the first quarter[1] of 2022/23 was 86.35, ranking us 9th out of 17 companies, dropping one position since March 2022. This score is made up of a quantitative element for which scored 100% and ranked equal first, and a qualitative element which scored 72.33 placing us 10th. We recognise we have more work to do in this area.

Minimising disruption to you and your community

The unprecedented hot weather and associated high demand for water during the summer of 2022 has had an adverse impact on our operational performance for the period, with low pressure incidents, interruptions to supply and mains bursts all being higher than our target at this stage of the year. However, we did manage to maintain supplies to customers throughout this time, with our people working around the clock to keep the water flowing.

We have a performance commitment to reduce the number of properties at risk of receiving low pressure, although we have seen a rise since March 2022 as a result of the high demand. We check low pressures throughout our operational area using continually monitored pressure loggers. The loggers are permanent installations and cover around 87% of all connected properties on our network. They are telemetered, recording at 15-minute intervals and relaying data to a central server, where our Duty Network Control Managers have been trained to identify potential low-pressure events at the earliest possible moment.

In addition to the high demand putting additional strain on our network, the dry ground conditions can put further stress on our network, and we have experienced a higher number of bursts as a result. We work with the Met Office on long-term forecasting and weather patterns, and believe we are at risk of a freeze-thaw event during the winter, so do not expect to meet our performance commitment for mains repairs due to bursts for 2022/23, having met this target in 2021/22. We have created a programme of works to ensure we mitigate the consequences of freeze-thaw events on our network, as we move to a different way of operating the network during extreme weather periods.

[1] The C-MeX and D-MeX results are both published quarterly, but not at the same time. At the date of the publication of this half-yearly report, we had received second quarter results for C-MeX but not D-MeX, hence the D-MeX results refer to the first quarter of 2022/23 only.

Affinity Water Limited

Interim management report (continued)

Operational performance (continued)

Minimising disruption to you and your community (continued)

We have also experienced more interruptions to supply than our target, which is disappointing as we have made considerable improvements to our interruptions to supply performance in the first two years of AMP7 by changing the company mentality to prioritise 'water always on' rather than prioritising fixing the burst. A small number of large-scale incidents over the hot summer period has led to 441 properties experiencing an unplanned interruption of more than 12 hours in the six months to September 2022. The average number of minutes per property receiving an interruption greater than three hours is also behind our target as a result.

This increased operational burden of the hot summer weather has taken some of the focus off of our investment programme, which is running behind our target for the period, although we are expecting to make this up over the second half of the year. Our investment to mitigate low pressure, mains bursts, and leakage will be key to maintaining resilience and making sure our customers have enough water, whilst leaving more water in the environment by delivering sustainable abstraction reductions in line with our draft WRMP and PR24 Business Plan.

Our people

On 7 September 2022, it was announced that Stuart Ledger would be stepping down from his position as Interim CEO, with the Board appointing Keith Haslett as the new CEO, who is expected to join the company in January 2023. It was further announced that after a handover period, Stuart would not resume his old position as CFO, and would be leaving the company with a search for a new permanent CFO underway.

Our policy for executive director pay continues to be aligned to the company's strategy of delivering value through high quality customer service and operational performance whilst ensuring the cost of water remains affordable. Our Board-approved executive remuneration policy is available on our website: *affinitywater.co.uk/governance-assurance*.

We are committed to promoting equal opportunity in all areas of employment including recruitment, promotion, training, pay and benefits. We have launched a new training tool for hiring managers to provide them with the knowledge to conduct a successful interview, select a candidate in a fair way without bias and deliver a great onboarding experience for new starters.

It is important that our employees' voice is represented when making strategic decisions. We have a Culture Ambassador Forum, with representation across all departments of the business, which aims to improve our company culture and make Affinity Water a great place to work.

Our inaugural 'Tap in' employee engagement survey conducted in September 2022 achieved a response rate of 81% with more than 1,100 employees completing the survey with an overall engagement score of 7.2 out of 10 being recorded. We will conduct further pulse surveys in targeting specific areas of improvement before repeating the full survey next year.

Equality, diversity and inclusion (EDI)

We want all employees to feel valued, supported and respected at work. To help us achieve this, we have a number of networks which are open to colleagues who identify with a particular network, as well as colleagues who want to help the group achieve its goals.

Our networks and EDI Committee have organised events to raise awareness, including working collaboratively with other water companies to deliver a series of Black History Month events that were open to all our employees.

In October 2022, we rolled out a new EDI e-learning module for all employees. We also launched new training for all hiring managers as part of work we are doing to ensure our recruitment and selection decisions are free from bias and are maximising the opportunity to improve diversity and equality of opportunity. We have also recently moved to blind shortlisting for all roles.

In consultation with our women's network, we are developing an action plan to improve gender equality. It builds on the insights from the Inclusive Employers audit carried out earlier in 2022 and the recent findings of our employee engagement survey.

Later in 2022/23 we plan to publish our first EDI strategy.

Affinity Water Limited

Interim management report (continued)

Our people (continued)

The table below provides a breakdown of the gender of directors and employees as at 30 September 2022 and 31 March 2022:

	30 September 2022		31 March 2022	
	Men	Women	Men	Women
Our Board	6	2	7	5
Senior Leadership	37	17	50	13
All other employees	860	464	853	462

The number of Independent Non-Executive Directors on our Board reduced by two, although have ensured that the balance of independent and non-independent views are represented, and that no one individual or group of individuals dominate the Board's decision making. We also have a vacant position for the CFO. The number of senior leaders in the business has also reduced as we reshape the responsibilities and reporting lines as we begin work on PR24 which will lead us into AMP8. For more information of our PR24 plan, please refer to our Regulatory update starting on page 22.

We believe that our people play a critical role in creating long term value. They are our ambassadors, living and working in the communities we serve. They have the local knowledge and understanding to make sure we deliver what our communities expect of us and ensure our contribution to those communities makes a difference.

We aspire to embed continuous innovation in everything we do. We are continuing to shift our working practices to be more agile and more responsive as well as transforming customer experience. Since the Covid-19 pandemic, we have adapted to a hybrid working environment for most of our office staff, with our employees working collaboratively at our sites on average two days per week and at home on the remaining days.

Our focus on workplace competence has continued following investment in a new competency management system in April 2022. The new platform has enabled us to consolidate all training into one place and presents each colleague with their skills and competency record, and each manager with a view of their team and the level of competence for the tasks being undertaken, giving greater visibility and assurance in the allocation of workplace activities. The platform is viewable across all devices supporting our employees regardless of whether they are field or office based. Further functionality in the platform supports performance management and career planning, incorporating objective setting and performance reviews and colleagues being able to compare their current skill set to that of a future role, supporting internal talent development and succession planning.

Interim management report (continued)

Our people (continued)

We are committed to the health, safety and wellbeing of our people and believe Zero Harm is achievable. Our people are encouraged to discuss safety at every opportunity, spot unsafe behaviour and take ownership to stop it, and to report and resolve unsafe conditions. No one should ever compromise on the health, safety or wellbeing of our workforce, customers, members of the public and other stakeholders.

Zero Harm strategy

We have reset our Zero Harm strategy, so we now have a clear framework and identity on which to base our plans moving forward, focusing on three pillars of: Awareness, Collaboration and Prevention.

We are continually reviewing our data, incident trends and risks as a business to be more proactive in our approach to health and safety, strengthening our teams and working collaboratively with our colleagues, contractors and stakeholders to ensure we have safe and healthy working environments.

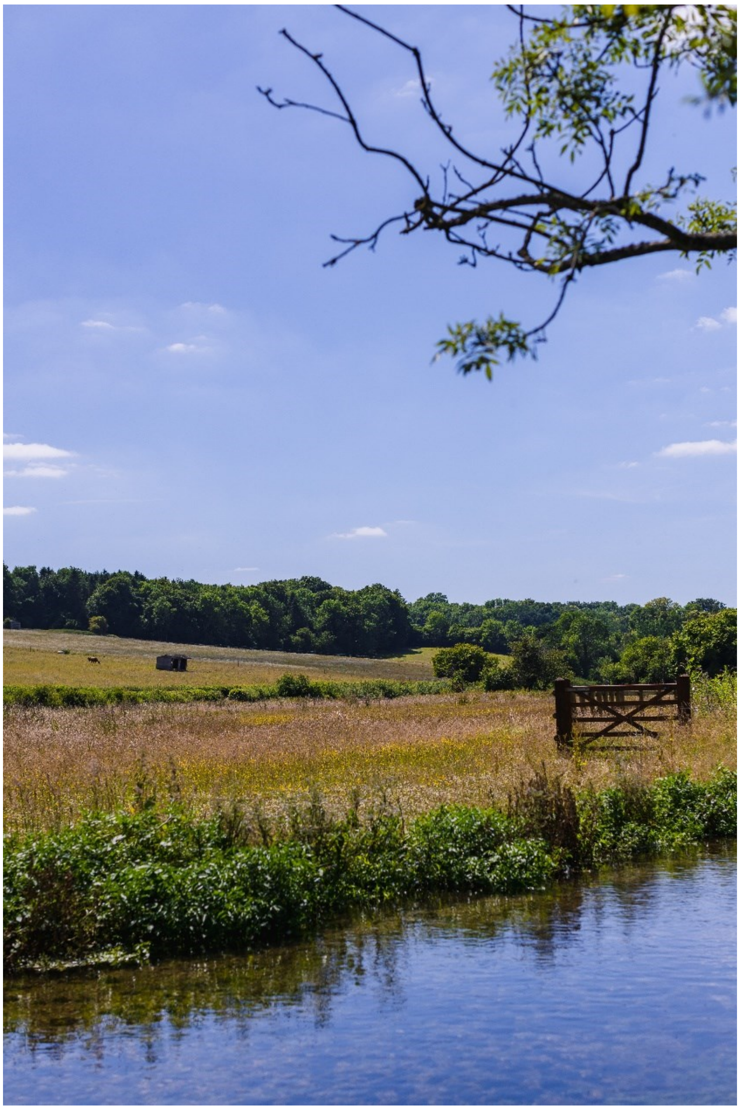
Since 1 April 2022, we have reported one RIDDOR (Reporting of Injuries, Disease and Dangerous Occurrences Regulation) incident and have recorded two lost time injuries (including the one RIDDOR), compared to two RIDDORs and five lost time injuries for the same period last year. At 30 September 2022 our Lost Time Injury Frequency Rate was 0.11 injuries per 100,000 hours worked, having decreased from 0.23 injuries per 100,000 hours worked as at March 2022.

Our suppliers and contractors provide us with essential services which we rely on to deliver our short and long-term plans. Our average time to pay invoices has increased (54 days for the period 1 April 2022 to 30 September 2022 compared to 46 days for the period 1 April 2021 to 30 September 2021) although late payments have decreased (from 36% to 31%). We will continue to monitor our performance and maintain ongoing communication with all stakeholders to facilitate more efficient invoice processing and payments.

Affinity Water Limited

Interim management report (continued)

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. Our AMP7 price controls were published in December 2019 and we accepted them in February 2020.

From 2020, our new wholesale price control is disaggregated into a 'water resources' control (abstraction) and a 'network plus' control (raw water transport, storage, treatment and treated water distribution) which intends to support trading in water resources. Our retail household price control continues to operate on a maximum allowed revenue per customer basis.

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 penalties, 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, not at the end of the five-year period as previously, with the exception of PCC which has been deferred and will now be 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.

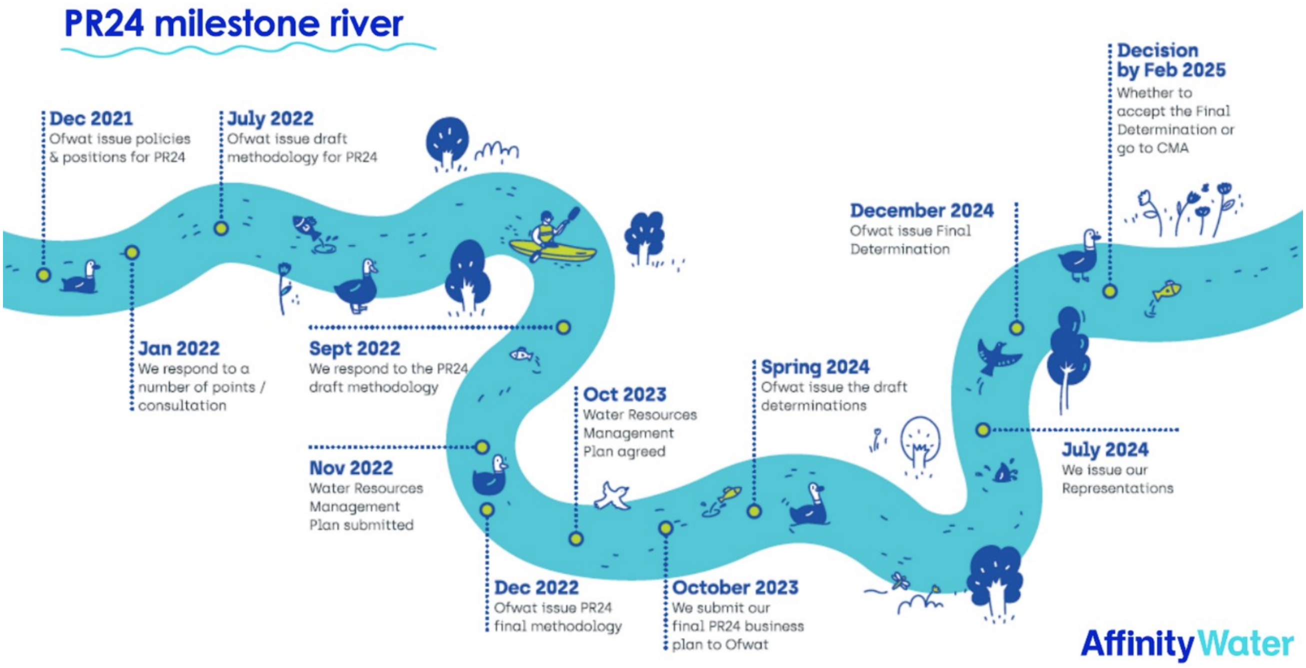
Regulatory update (continued)

PR24 is the process by which Ofwat will determine the revenues we need and outcomes we need to deliver in AMP8. We have made an early start to this process and have fully mobilised our PR24 team, involving people from across the business with the ambition to develop a high quality and deliverable Business Plan.

We continue to develop our team to ensure we are resourced with the right mix of skills and expertise and that we support our people through our programme of team development. In taking this approach, we seek to learn lessons from PR19 – our approach already feels very different from how we prepared the previous Business Plan.

We are carrying out our PR24 work according to a project plan, overseen by a dedicated Project Board, with regular Board engagement and oversight. Our plan development this year started with our five-year strategy, setting out the steps we will take towards the long-term vision we set out in our November 2021 Strategic Direction Statement. This set out further detail about what we intend to deliver and the strategic choices we will need to make. We are now working on developing the detailed evidence for our plan, principally around costs, service and performance, leading to an initial draft plan by the end of the year which we will further develop and refine.

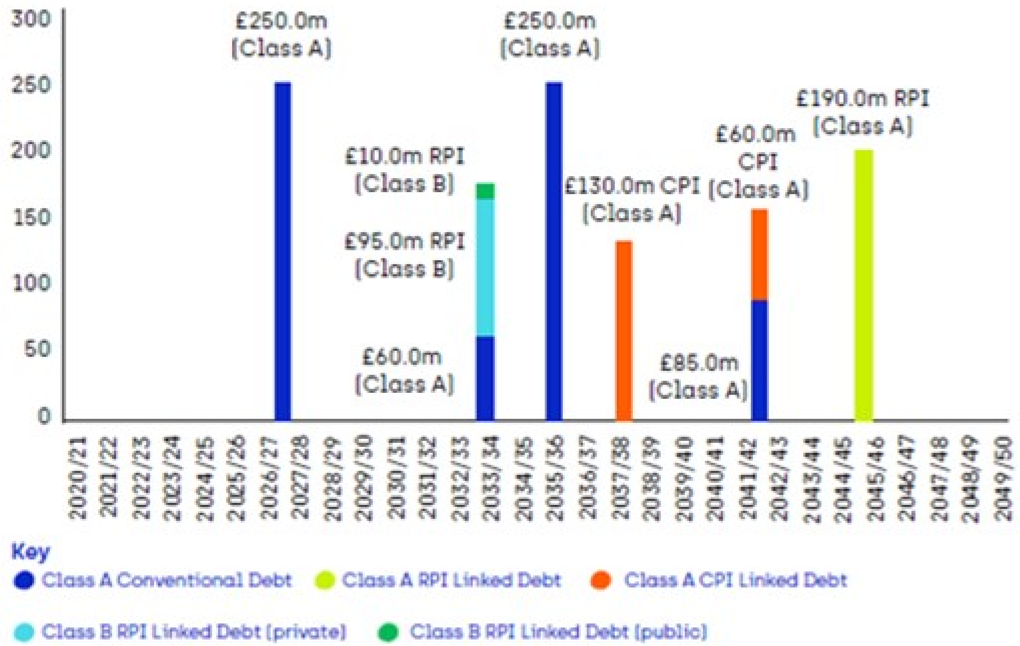
Our draft water resources management plan, published in November 2022, sets out our approach to keeping water supply and demand in balance. We are continuing our customer research work to establish our customers' priorities, alongside stakeholder engagement, and to make sure these are well reflected in our Business Plan. In parallel, over the last year we have contributed to numerous consultation documents and participated in working groups and discussions to inform, influence and shape Ofwat's methodological framework.



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. £14.2m of debt matured on 30 September 2022 and was repaid in cash on this date. Our next significant debt maturity is in July 2026 when a £250.0m fixed rate bond matures.

The following chart shows the maturity profile of the bonds issued by the company's subsidiaries as at 30 September 2022:



The credit ratings for our subsidiaries' bonds assigned by the rating agencies, Moody's, Standard & Poor's and Fitch, have not changed since March 2022, although the rating from Standard & Poor's has moved to a negative outlook.

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

At 30 September 2022, net debt, as defined in the financial covenants in the company's securitisation documentation (compliance net debt), was £1,162.5m (at 31 March 2022: £1,079.8m - refer to note 1E in the Annual Performance Report for the year ended 31 March 2022 for the basis of the calculation). Gearing, calculated as compliance net debt to RCV at 30 September 2022, was 73.2% (31 March 2022: 73.0%) 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%.

Financial performance

Our financial results are prepared in accordance with the recognition and measurement requirements of UK-adopted international accounting standards 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 2022 are summarised as follows:

	2022	2021 (restated)
	£m	£m
Revenue	**161.6**	159.6
Operating costs	**(155.2)**	(152.3)
Other income	**10.4**	9.8
Operating profit	**16.8**	17.1
Net finance costs	**(28.4)**	(49.7)
Fair value gain on energy swaps	**36.3**	11.3
Profit/(loss) before tax	**24.7**	(21.3)
Tax expense	**(6.3)**	(46.2)
Profit(/loss) for the period	**18.4**	(67.5)

Revenue

Revenue for the first six months of the year was £161.6m, being a £2.0m (1.3%) increase on the same period last year (six-month period ended 30 September 2021: £159.6m). The increase is primarily due to higher non-household wholesale revenue as a result of final settlement reports issued by MOSL showing higher business consumption dating back to the Covid-19 lockdown period. There was also higher household consumption during the hot summer months of 2022 as well as a tariff increase.

Other income for the period was £10.4m, being a £0.6m (6.1%) increase on the same period last year (six-month period ended 30 September 2021: £9.8m) due to increased recharges for operating assets, specifically for High Speed 2 (‘HS2’), as well as additional recharges to developers for improving water quality.

Operating costs

Total operating costs of £155.2m for the first half of the year were £2.9m (1.9%) higher than for the same period last year (six-month period ended 30 September 2021: £152.3m). Average CPIH inflation for the six-month period to September being 8.34% higher year-on-year has added £8.0m onto our costs, while a further £2.5m was due to increased depreciation on our growing asset base.

We have also incurred £1.9m increased production costs (for abstraction charges and chemicals) driven by the high demand over the hot summer. Energy costs were £1.9m higher than the prior period due to an increase in wholesale prices, although this was partially offset by efficient usage. Our energy costs would have also been significantly higher had we not hedged in the prior year.

Affinity Water Limited

Interim management report (continued)

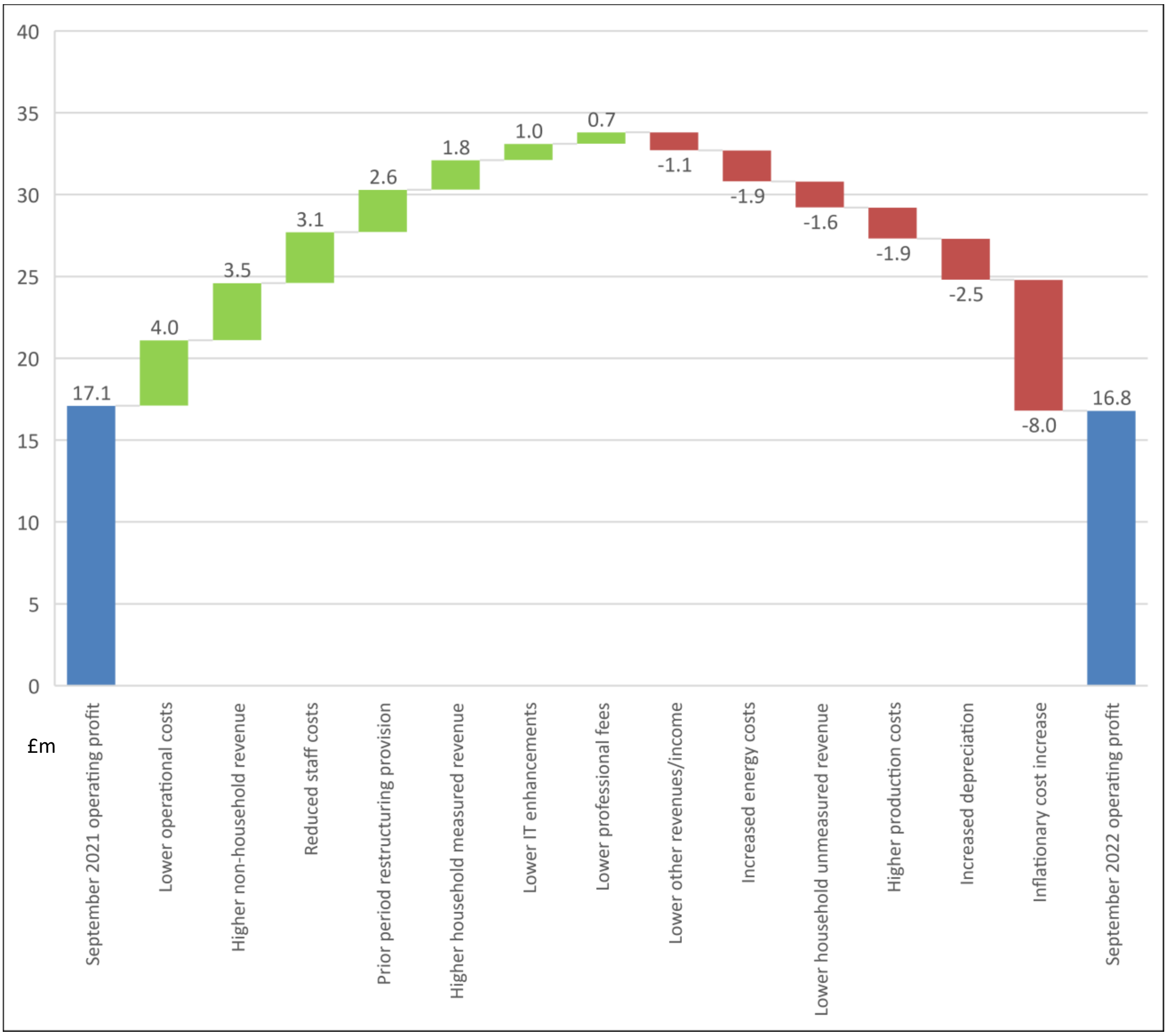
Financial performance (continued)

Operating costs (continued)

These additional costs were partially offset by a £3.1m saving in staff costs due to lower headcount than the prior year, following a restructure in the prior period. The £2.6m one-off costs of that restructure have also not been repeated in the current year. After stripping out the effect of inflation, our operational costs (for infrastructure maintenance and renewals, materials and subcontractors) have reduced by £4.0m. There was also £1.0m of IT enhancement costs for the configuration of a new ERP system in the prior period which have not been incurred this year. An initiative to reduce the amount spent on consultants has also reduced costs by £0.7m.

Operating profit

Operating profit of £16.8m was £0.3m (1.8%) lower than the same period last year (six-month period ended 30 September 2021: £17.1m). The key variances are explained on the previous page and shown in the following graph:



Financial performance (continued)

Interest and fair value movements

The net finance cost of £28.4m was £21.3m (42.9%) lower in the current period, primarily due to fair value movements[1] on our inflation swaps, which made a fair value gain of £58.4m in the current period due to lower forecast inflation causing favourable mark to market movements, compared to a £12.3m loss in the prior period. This was partially offset by £50.5m higher accretion on our index-linked bonds. There was also a £36.3m fair value gain on our energy swaps which was £25.0m higher than the gain made in the prior period (£11.3m), as a result of favourable mark to market movements driven by forecast energy prices remaining higher than the price we locked in at.

Taxation

Income tax charge of £6.3m was £39.9m (86.4%) lower than to the prior period primarily due to a £57.5m deferred tax charge for the future increase in corporation tax rate from 19% to 25% being booked in the prior period. The underlying £17.6m increase is due to an increase in profits in the current period, compared to the loss made in the prior period. No corporation tax was paid during the period ended 30 September 2022 as we are forecasting a tax loss for 2022/23 therefore no tax is expected to be payable (six-month period ended 30 September 2021: £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 2022, 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 2022 (six-month period ended 30 September 2021: £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 2022 was £58.6m (six-month period ended 30 September 2021: £71.6m), and was incurred principally on our mains renewals, trunk main replacement, strategic regional solutions, sustainability reductions, metering, leakage and water treatment programmes. The total excludes £10.1m (six-month period ended 30 September 2021: £9.5m) of infrastructure renewals expenditure, which is treated as an operating cost under FRS 101. The lower capital expenditure in the first half of this year can be attributed to the increased operational activity as teams focused on keeping the water running for our customers during the unprecedented hot weather during the summer months of 2022. We are forecasting a significant increase in capital expenditure for the second half of the year.

Net cash flow before tax and financing[2] for the first six months of the year was a £6.2m inflow being a £19.7m (145.9%) increase on the same period last year (six-month period ended 30 September 2021: £13.5m outflow). The increase is primarily due to higher cash generated from operations which is mainly due to favourable movements in net working capital.

[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.
[2] This "non-GAAP" measure, which is used internally to evaluate our financial performance, is calculated as the total of the following lines per the condensed statement of cash flows (refer to page 29): cash generated from operations; purchases of property, plant and equipment; capital contributions; proceeds from sale of property, plant and equipment; purchases of intangible assets; and principal elements of lease payments.

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 Management Team 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 management 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 2022. The principal risks and uncertainties reported for the year ended 31 March 2022 were as follows:

Operational risks:
1. Some of our work activities could cause serious harm to our employees, contractors or members of the public
2. We may become unable to meet our obligations to provide a sufficient supply of high-quality drinking water
3. We may fail to attract, develop and retain employees with the competencies, values and behaviours required to engage with and promote our corporate culture, and deliver our strategic ambition and business outcomes
4. Availability, confidentiality or integrity of information or data could become compromised
5. We may fail to deliver our business plan, commitments and service to customers
6. Our supply chain may fail to deliver the goods and services we need to operate our business
7. i) We could cause damage to the environment in the course of our business activities; or ii) climate change and other environmental factors could negatively impact our business operations
8. We may fail to implement the cultural and operational transformation of our business necessary to deliver our business plan obligations
9. A significant disruptive event could impact our ability to deliver normal business activities
10. The health of our assets may deteriorate such that water supply or quality is compromised

Regulatory risks:
11. Changes could occur in the regulatory framework, or social or political climate, which could have significant effects on our operational or financial performance
12. We may inadvertently fail to comply with laws and obligations under our instrument of appointment
13. Failure to achieve a satisfactory outcome from the price review PR24

Financial risks:
14. We could fail to maintain or renew appropriate financing for our business activities
15. Macro-economic factors (interest rate, inflation and tax risks) could have a material adverse effect on our financial performance

Further information on these risks and uncertainties can be found on pages 98 to 111 of the company's annual report and financial statements for the year ended 31 March 2022, which is available on our website: *affinitywater.co.uk/performance.*

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

Going concern

The directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements as 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, ability to generate future revenues, compliance with lending covenants, related assumptions and available debt facilities.

In order to assess the going concern status, a severe but plausible downside scenario has been considered. The severe but plausible downside scenario includes both increased costs from the financial impacts of operational events, including the impact of a severe cold weather event over the winter period, and an increase in bad debt representing approximately 5% of debt not currently subject to loss allowance provision. This 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, the energy price crisis and the cost of living crisis.

The company is able to withstand the financial impacts of this severe but plausible downside scenario without the occurrence of an Event of Default under its borrowing covenants. However, an ICR Trigger Event would occur in the severe but plausible downside scenario (excluding any mitigating action).

Under an ICR 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 an ICR Trigger Event would not fundamentally constrain the company's ability to carry out its business, particularly after considering the company's strong cash position meaning that the company has no further funding requirement in AMP7.

The company continues to monitor and manage the risks associated with the ICR covenant through the forecasting and reporting process and has identified mitigations, the most prominent of which is working capital management.

Details of the company's cash and short-term investment are included in the statement of financial position on page 33 and undrawn committed borrowing facilities are included in note 15. There have been no events after the reporting period significantly affecting liquidity headroom.

Due to the nature of the regulated water company's business, the directors consider it appropriate to place reliance on projected financials.

Affinity Water Limited

Interim management report (continued)

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 2022

	Note	30 September 2022 £000 Unaudited	30 September 2021 (restated) £000 Unaudited
Revenue	5	**161,566**	159,571
Cost of sales		**(135,338)**	(127,311)
Gross profit		**26,228**	32,260
Administrative expenses		**(17,302)**	(22,161)
Impairment losses on financial and contract assets		**(2,568)**	(2,852)
Other income		**10,428**	9,808
Operating profit	6	**16,786**	17,055
Finance income	7	**9,149**	8,034
Finance costs	7	**(95,924)**	(45,432)
Fair value gain/(loss) on inflation swaps	7	**58,366**	(12,328)
Net finance costs		**(28,409)**	(49,726)
Fair value gain on energy swaps		**36,345**	11,343
Profit/(loss) before tax		**24,722**	(21,328)
Tax expense	8	**(6,348)**	(46,139)
Profit/(loss) for the period		**18,374**	(67,467)

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

The prior year has been restated to include a Debit Value Adjustment on the inflation swap derivative financial instruments. There has been a change of presentation of fair value gain on energy swaps which was previously included within net finance costs. There has also been a reclassification of amortisation of intangible assets and impairment losses on financial and contract assets. Further details are included on pages 38 to 39.

The notes on pages 36 to 52 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 2022

	Note	**30 September 2022 £000 Unaudited**	30 September 2021 (restated) £000 Unaudited
Profit/(loss) for the period		**18,374**	(67,467)
Other comprehensive (expense)/income for the period which will not be reclassified to profit or loss:			
Remeasurements of post-employment benefit obligations	10	**(30,935)**	8,052
Deferred income tax credit/(charge) on items that will not be reclassified	17	**7,734**	(1,530)
Other comprehensive (expense)/income for the period, net of tax		**(23,201)**	6,522
Total comprehensive loss for the period		**(4,827)**	(60,945)

The prior year has been restated to include a Debit Value Adjustment on the inflation swap derivative financial instruments. Further details are included on pages 38 to 39.

The notes on pages 36 to 52 are an integral part of these condensed interim financial statements.

Affinity Water Limited

Condensed interim statement of financial position as at 30 September 2022

	Note	**30 September 2022**	31 March 2022
		£000	£000
Assets		**Unaudited**	Audited
Non-current assets			
Property, plant and equipment	9	**1,634,773**	1,615,571
Right-of-use assets	9	**8,491**	9,440
Intangible assets	9	**41,200**	43,266
Investments		**100**	100
Retirement benefit surplus	10	**73,945**	104,247
Derivative financial instruments	11	**23,877**	7,342
		1,782,386	1,779,966
Current assets			
Inventories		**6,194**	4,348
Derivative financial instruments	11	**43,633**	20,646
Trade and other receivables	12	**141,009**	103,821
Short-term investments		**65,635**	70,179
Cash and cash equivalents		**118,805**	135,604
		375,276	334,598
Total assets		**2,157,662**	2,114,564
Equity and liabilities			
Equity			
Ordinary shares	13	**30,506**	30,506
Share premium	13	**1,400**	1,400
Capital contribution reserve	13	**30,150**	30,150
Accumulated losses		**(22,580)**	(17,753)
Total equity		**39,476**	44,303
Liabilities			
Non-current liabilities			
Trade and other payables	14	**252,665**	247,074
Borrowings	15	**1,302,821**	1,275,788
Lease liabilities	16	**5,131**	6,329
Derivative financial instruments	11	**86,068**	106,818
Deferred tax liabilities	17	**230,144**	231,530
Provisions for other liabilities and charges	17	**3,346**	3,107
		1,880,175	1,870,646
Current liabilities			
Trade and other payables	14	**230,980**	192,817
Lease liabilities	16	**3,549**	3,317
Current tax liabilities		**3,482**	3,481
		238,011	199,615
Total liabilities		**2,118,186**	2,070,261
Total equity and liabilities		**2,157,662**	2,114,564

The notes on pages 36 to 52 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 2022

	Share capital	Share premium	Capital contribution reserve	(Accumulated losses)/ Retained earnings	Total
	£000	£000	£000	£000	£000
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
Balance as at 1 April 2022	**30,506**	**1,400**	**30,150**	**(17,753)**	**44,303**
Profit for the period	**-**	**-**	**-**	**18,374**	**18,374**
Other comprehensive loss	**-**	**-**	**-**	**(23,201)**	**(23,201)**
Total comprehensive loss	**-**	**-**	**-**	**(4,827)**	**(4,827)**
Balance as at 30 September 2022	**30,506**	**1,400**	**30,150**	**(22,580)**	**39,476**
Balance as at 1 April 2021	30,506	1,400	30,150	57,590	119,646
Loss for the period as previously reported	-	-	-	(70,134)	(70,134)
Impact of restatement	-	-	-	2,667	2,667
Other comprehensive income	-	-	-	6,522	6,522
Total comprehensive loss (restated)	-	-	-	(60,945)	(60,945)
Balance as at 30 September 2021 (restated)	30,506	1,400	30,150	(3,355)	58,701

The prior year has been restated to include a Debit Value Adjustment on the inflation swap derivative financial instruments. Further details are included on pages 38 to 39.

The notes on pages 36 to 52 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 2022

	Note	30 September 2022 £000	30 September 2021 (restated) £000
		Unaudited	Unaudited
Cash flows from operating activities			
Cash generated from operations	18	**61,985**	40,771
Interest paid		**(27,305)**	(26,799)
Tax paid		**-**	(118)
Net cash flows from operating activities excluding capital contributions		**34,680**	13,854
Capital contributions		**4,533**	19,166
Net cash flows from operating activities		**39,213**	33,020
Cash flows from investing activities			
Investment in short-term deposits		**4,543**	72
Purchases of property, plant and equipment		**(55,441)**	(63,076)
Purchases of intangible assets		**(3,195)**	(8,545)
Interest received on financial assets held as investments		**998**	20
Net cash flows used in investing activities		**(53,095)**	(71,529)
Cash flows from financing activities			
Repayments of borrowings		**(14,204)**	-
Interest received on inflation swaps		**13,011**	13,256
Principal elements of lease payments		**(1,724)**	(1,796)
Net cash flows (used in)/from financing activities		**(2,917)**	11,460
Net decrease in cash and cash equivalents		**(16,799)**	(27,049)
Cash and cash equivalents at start of period		**135,604**	84,766
Cash and cash equivalents at end of period		**118,805**	57,717

The prior year has been restated to reclassify interest received on inflation swaps to cash flows from financing activities. Previously these were presented within cashflows from investing activities. Further details are included on pages 38 to 39.

The notes on pages 36 to 52 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 24 November 2022.

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 2022 were approved by the Board of directors on 12 July 2022 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 2022 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).

The company prepared its financial statements for the year ended 31 March 2022 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 should be read in accordance with the company's annual report and financial statements for the year ended 31 March 2022, which is available on our website: *affinitywater.co.uk/performance.*

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

2. Basis of preparation (continued)

Going concern

The directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements as 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, ability to generate future revenues, compliance with lending covenants related assumptions and available debt facilities.

In order to assess the going concern status, a severe but plausible downside scenario has been considered. The severe but plausible downside scenario includes both increased costs from the financial impacts of operational events, including the impact of a severe cold weather event over the winter period, and an increase in bad debt representing approximately 5% of debt not currently subject to loss allowance provision. This 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, the energy price crisis and the cost of living crisis.

The company is able to withstand the financial impacts of this severe but plausible downside scenario without the occurrence of an Event of Default under its borrowing covenants. However, an ICR Trigger Event would occur in the severe but plausible downside scenario (excluding any mitigating action).

Under an ICR 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 an ICR Trigger Event would not fundamentally constrain the company's ability to carry out its business, particularly after considering the company's strong cash position meaning that the company has no further funding requirement in AMP7.

The company continues to monitor and manage the risks associated with the ICR covenant through the forecasting and reporting process and has identified mitigations, the most prominent of which is working capital management.

Details of the company's cash and short-term investment are included in the statement of financial position on page 33 and undrawn committed borrowing facilities are included in note 15. There have been no events after the reporting period significantly affecting liquidity headroom.

Due to the nature of the regulated water company's business, the directors consider it appropriate to place reliance on projected financials.

Seasonality of interim operations

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

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 2022, except in relation to taxation.

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.

Prior period restatements

Restatements identified at March 2022

1. Debit Value Adjustment on inflation swap derivative financial instruments

The fair value of derivative financial instrument liabilities now includes a Debit Value Adjustment (DVA), which is calculated by discounting the potential future cashflows at a rate that reflects the credit risk of the company, which is consistent with IFRS 13: 'Fair value measurement'.

The omission of the DVA in the prior period was an error and has led to a prior period restatement of the condensed interim income statement, reducing the loss by £2,667,000, as detailed in the table on the following page.

The derivative financial instruments liabilities within the condensed interim statement of financial position as at 30 September 2021 and the statement of financial position as at 31 March 2021 (neither of which are presented within these financial statements) would be reduced by £14,432,000 and £11,765,000 respectively.

This omission has also impacted the condensed interim statement of changes in equity, to reflect the reduced loss of £2,667,000, but has not had any impact on the condensed interim statement of cash flows.

2. Change in presentation of fair value gain on energy swaps

The prior period condensed interim income statement has been restated to present fair value gain on energy swaps as a separate financial statement line item. Previously this was included within net finance costs.

This restatement has not had any impact on the condensed interim statement of financial position, condensed interim statement of changes in equity or condensed interim statement of cash flows.

3. Reclassification of impairment losses on financial and contract assets

The prior period condensed interim income statement has been restated to reclassify £2,862,000 of impairment losses on financial and contract assets. Previously this was incorrectly included within administrative expenses, as detailed in the table on the following page.

This restatement has not had any impact on the condensed interim statement of financial position, condensed interim statement of changes in equity or condensed interim statement of cash flows.

Notes to the condensed interim financial statements (continued)

3. Accounting policies (continued)

Prior period restatements (continued)

Restatements identified at September 2022

4. Amortisation of intangible assets

The prior period condensed interim income statement has been restated to reclassify £5,681,000 of amortisation of intangible assets to cost of sales. Previously this was incorrectly included within administrative expenses, as detailed in the table below.

This restatement has not had any impact on the condensed interim statement of financial position, condensed interim statement of changes in equity or condensed interim statement of cash flows.

5. Change in presentation of interest received on inflation swaps

The prior period condensed interim cash flow statement has been restated to present interest received on inflation swaps within cash flows from financing activities. Previously these were presented within cashflows from investing activities.

This restatement has not had any impact on the condensed interim income statement, condensed interim statement of financial position or condensed interim statement of changes in equity.

Income statement (extract)	30 September 2021 (as previously presented) £000	Increase due to adjustment 1 £000	Increase/ (decrease) due to adjustment 3 £000	Increase/ (decrease) due to adjustment 4 £000	30 September 2021 (restated) £000
Cost of sales	(121,630)	-	-	(5,681)	(127,311)
Administrative expenses	(30,704)	-	2,862	5,681	(22,161)
Impairment losses on financial and contract assets	10	-	(2,862)	-	(2,852)
Fair value gain/(loss) on inflation swaps	(14,995)	2,667	-	-	(12,328)
Loss for the period	**(70,134)**	**2,667**	**-**	**-**	**(67,467)**

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 2022, which are available on our website: *affinitywater.co.uk/performance.*

5. Revenue

	Six months ended 30 September 2022 £000 Unaudited	Six months ended 30 September 2021 £000 Unaudited
Timing of revenue recognition – at a point in time		
Unmeasured supplies	**48,389**	49,959
Measured supplies	**80,155**	78,323
Non-household wholesale revenue	**28,129**	24,601
Connection charges	**4,122**	4,048
	160,795	156,931
Timing of revenue – over time		
Requisitioned mains/extensions	**319**	298
Diversions	**(247)**	1,690
Infrastructure charges	**667**	562
Other	**32**	90
	771	2,640
	161,566	159,571

Diversions in the six months to 30 September 2022 includes a £3.1m true up of amortisation of deferred contributions relating to the HS2 project which should have been recognised in prior periods, to ensure that the contributions received are recognised over the life of the underlying assets created. This has resulted in a reduction in revenue recognised in this period. This true up was performed in the six months to 30 September 2022 and therefore was not reflected in the financials for the year ended 31 March 2022 as, in the opinion of the directors, it was not material to the financial statements.

This does materially impact the financials in the six months to 30 September 2022 but, in the opinion of the directors, is not likely to be material to the financial statements for the year ended 31 March 2023.

6. Operating profit

	Six months ended 30 September 2022 £000 Unaudited	Six months ended 30 September 2021 £000 Unaudited
Operating profit is stated after charging:		
Staff costs	**25,509**	26,825
Loss on disposal of infrastructure	**426**	344
Purchase of bulk water and water supplied under statutory entitlement	**5,050**	4,317
Water abstraction charges	**3,172**	2,098
Business rates	**7,833**	7,835
Depreciation of tangible fixed assets	**33,400**	30,639
Amortisation of other intangible assets	**5,261**	5,681
Depreciation of right-of-use assets	**1,707**	1,802
Provision for company restructure	**-**	2,600
Infrastructure renewals expense	**10,087**	9,533

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

7. Finance income and costs

	Six months ended 30 September 2022 £000 Unaudited	Six months ended 30 September 2021 (restated) £000 Unaudited
Finance income:		
Bank interest income	**998**	20
Net interest receivable on RPI linked inflation swaps	**3,448**	3,778
Net interest receivable on CPI linked inflation swaps	**3,299**	3,500
Net income from post-employment benefits	**1,404**	736
	9,149	8,034
Finance costs:		
Interest payable on loan from parent company	**(80)**	(80)
Interest payable on loans from subsidiary undertakings	**(18,823)**	(18,893)
Accretion payable in respect of interest on loans from subsidiary undertakings	**(42,211)**	(14,388)
Accretion payable on financial instrument	**(34,423)**	(11,880)
Interest payable on lease liabilities	**(123)**	(144)
Other	**(264)**	(47)
	(95,924)	(45,432)
Fair value gain/(loss) on financial instruments:		
Fair value gain/(loss) on inflation swaps	**58,366**	(12,328)
	58,366	(12,328)
Net finance costs	**(28,409)**	(49,726)

The prior year has been restated to include a Debit Value Adjustment on the inflation swap derivative financial instruments. There has also been a change of presentation of fair value gain on energy swaps which was previously included within net finance costs. Further details are included on pages 38 to 39.

Notes to the condensed interim financial statements (continued)

8. Tax expense

Tax expense 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 2023 is 25.7% (the estimated tax rate for the year to 31 March 2022 was 47.2%).

The company is forecasting a loss before tax for the year to 31 March 2023; therefore, no corporation tax is expected to be charged. The tax expense in the condensed interim financial statements for the period ended 30 September 2022 is a deferred tax charge.

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

	PPE	Right-of-use assets	Other intangible assets
	£000	£000	£000
	Unaudited	Unaudited	Unaudited
Six months ended 30 September 2022			
Opening net book amount as at 1 April 2022	**1,615,571**	**9,440**	**43,266**
Additions	**53,142**	**758**	**3,195**
Disposals	**(540)**	**-**	**-**
Depreciation and amortisation	**(33,400)**	**(1,707)**	**(5,261)**
Closing net book amount as at 30 September 2022	**1,634,773**	**8,491**	**41,200**
Six months ended 30 September 2021			
Opening net book amount as at 1 April 2021	1,540,949	9,508	45,783
Additions	67,687	1,292	8,545
Disposals	(344)	-	-
Depreciation and amortisation	(30,639)	(1,802)	(5,681)
Closing net book amount as at 30 September 2021	1,577,653	8,998	48,647

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 2022	Year ended 31 March 2022	Six months ended 30 September 2021
	Unaudited	Audited	Unaudited
Discount rate	**5.20% pa**	2.70% pa	1.95% pa
Salary growth	**3.50% pa**	3.60% pa	3.40% pa
RPI	**3.55% pa**	3.65% pa	3.40% pa
CPI	**3.00% pa**	3.10% pa	2.90% 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**	24	23
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 3.00% per annum (31 March 2022: 3.10% per annum) unless otherwise prescribed by statutory requirements or the plan rules.

The amounts recognised in the income statement were as follows:

	Six months ended 30 September 2022 £000	Six months ended 30 September 2021 £000
	Unaudited	Unaudited
Current service cost	**(1,668)**	(2,059)
Interest cost on defined benefit obligation	**(5,884)**	(4,485)
Interest return on assets	**7,288**	5,221
	(264)	(1,323)

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

	30 September 2022 £000	31 March 2022 £000
	Unaudited	Audited
Fair value of plan assets	**390,361**	547,502
Present value of funded obligations	**(316,416)**	(443,255)
Post-employment benefit surplus in the statement of financial position	**73,945**	104,247

10. Retirement benefit surplus (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 2023 are £1,600,000 (£5,000,000 in the year ended 31 March 2022, based on the former Schedule of Contributions and dependent on the outcome of the actuarial valuation as at 31 December 2020 being undertaken at the time).

11. Derivative financial instruments

	30 September 2022 £000	31 March 2022 £000
	Unaudited	Audited
Non-current assets:		
Fair value of energy swaps	**20,701**	7,342
Fair value of CPI linked inflation swap	**3,176**	-
	23,877	7,342
Current assets:		
Fair value of energy swaps	**43,633**	20,646
	67,510	27,988
Non-current liabilities:		
Fair value of RPI linked inflation swaps	**12,762**	24,224
Accretion on RPI linked inflation swaps	**42,473**	23,702
Fair value of CPI linked inflation swaps	**-**	43,729
Accretion on CPI linked inflation swaps	**30,833**	15,163
	86,068	106,818

12. Trade and other receivables

	30 September 2022 £000	31 March 2022 £000
	Unaudited	Audited
Trade receivables	**115,359**	66,517
Less: loss allowance for trade receivables	**(33,236)**	(33,037)
	82,123	33,480
Amounts owed by group undertakings	**41**	25
Interest receivable from external parties	**1,538**	7,786
Other receivables	**7,367**	7,964
Unbilled accrual for metered customers	**43,387**	44,353
Prepayments and accrued income	**6,553**	10,213
	58,886	70,341
	141,009	103,821

Notes to the condensed interim financial statements (continued)

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 2022 (unaudited), 1 April 2022 (audited), 30 September 2021 (unaudited) and 1 April 2021 (audited)	305,058	30,506	1,400	30,150	62,056

14. Trade and other payables

	30 September 2022 £000 Unaudited	31 March 2022 £000 Audited
Non-current:		
Deferred grants and contributions	**252,665**	247,074
Current:		
Trade payables	**8,180**	22,166
Amounts due to group undertakings	**661**	615
Interest payable to subsidiary companies	**6,960**	14,052
Interest payable to external parties	**65**	63
Social security and other taxes	**1,886**	1,796
Other payables	**8,086**	5,391
Capital accruals	**19,289**	21,587
Deferred grants and contributions	**5,955**	5,698
Payments received in advance	**71,935**	81,980
Deferred income	**53,456**	843
Other accruals	**54,507**	38,626
	230,980	192,817
	483,645	439,891

15. Borrowings

	30 September 2022 £000 Unaudited	31 March 2022 £000 Audited
Non-current		
Loan from Affinity Water Finance (2004) PLC financed by bond issue	**252,236**	252,498
Loan from Affinity Water Finance PLC financed by bond issue	**1,047,001**	1,019,706
Loan from intermediate parent company	**3,550**	3,550
Debenture stock	**34**	34
	1,302,821	1,275,788

Movements in borrowings are analysed as follows:

Six months ended 30 September 2022	**£000 Unaudited**
Opening amount as at 1 April 2022	**1,275,788**
Repayment of borrowings	**(14,204)**
Indexation on loans from subsidiary undertakings	**42,211**
Amortisation on loans from subsidiary undertakings	**(974)**
Closing amount as at 30 September 2022	**1,302,821**

Six months ended 30 September 2021	£000 Unaudited
Opening amount as at 1 April 2021	1,095,079
Indexation on loans from subsidiary undertakings	14,388
Amortisation on loans from subsidiary undertakings	(428)
Closing amount as at 30 September 2021	1,109,039

The company has the following undrawn committed borrowing facilities:

	30 September 2022 £000 Unaudited	31 March 2022 £000 Audited
Floating rate:		
Expiring within one year	**55,000**	55,000
Expiring beyond five years	**100,000**	100,000
	155,000	155,000

16. Lease liabilities

	30 September 2022 £000	31 March 2022 £000
Non-current:		
Lease liabilities	**5,131**	6,329
Current:		
Lease liabilities	**3,549**	3,317

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

	30 September 2022 £000	30 September 2021 £000
Depreciation charge of right-of-use assets (refer to note 9)	**1,707**	1,802
Interest expense on lease liabilities (refer to note 7)	**123**	144
Principal elements of lease payments included within cash flows from financing activities	**1,724**	1,796
Interest payments included within cash flows from operating activities	**123**	144
Total cash outflow for leases in the statement of cash flows	**1,847**	1,940
Additions to right-of-use assets (refer to note 9)	**758**	1,292
Carrying amount of right-of-use assets (refer to note 9)	**8,491**	8,998

17. Provisions for other liabilities and charges

Six months ended 30 September 2022	**Deferred tax £000**	**Insurance £000**	**Other £000**	**Total £000**
	Unaudited	**Unaudited**	**Unaudited**	**Unaudited**
Opening amount at 1 April 2022	**231,530**	**2,437**	**670**	**234,637**
Charged to the income statement	**6,348**	**438**	**-**	**6,786**
Credited to other comprehensive income	**(7,734)**	**-**	**-**	**(7,734)**
Utilised in the period	**-**	**(199)**	**-**	**(199)**
Closing amount at 30 September 2022	**230,144**	**2,676**	**670**	**233,490**
Six months ended 30 September 2021				
Opening amount at 1 April 2021 (restated)	183,011	2,726	848	186,585
Impact of change in tax rate	57,455	-	-	57,455
(Credited)/charged to the income statement	(11,316)	89	2,600	(8,627)
Charged to other comprehensive income	1,530	-	-	1,530
Utilised in the period	-	(210)	(178)	(388)
Closing amount at 30 September 2021 (restated)	230,680	2,605	3,270	236,555

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 £2,676,000 is presented as a non-current liability in the statement of financial position.

Other provisions

Other provisions of £670,000 (2021: £3,270,000) 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 statement of financial position. There was also an amount of £2,600,000 in relation to a company restructuring included within other provisions at 30 September 2021, which has since been fully utilised.

18. Notes to the condensed interim statement of cash flows

a) Cash generated from operations

	30 September 2022 £000 Unaudited	30 September 2021 (restated) £000 Unaudited
Profit/(loss) before tax	**24,722**	(21,328)
Adjustments for:		
Depreciation of property, plant and equipment	**33,400**	30,639
Depreciation of right-of-use assets	**1,707**	1,802
Amortisation of intangible assets	**5,261**	5,681
Amortisation of grants and contributions	**(771)**	(2,640)
Loss on disposal of infrastructure assets	**426**	344
Post-employment benefits	**772**	(364)
Net finance costs	**28,408**	49,726
Net gain on energy swaps	**(36,345)**	(11,343)
Changes in working capital:		
- Inventories	**(1,846)**	(416)
- Trade and other receivables	**(37,188)**	(40,619)
- Trade and other payables	**43,439**	29,289
Cash generated from operations	**61,985**	40,771

The prior year has been restated to include a Debit Value Adjustment on the inflation swap derivative financial instruments, and to split net gain on energy swaps out from net finance costs. Further details are included on pages 38 to 39.

b) Reconciliation of liabilities arising from financing activities

	At 1 April 2022 £000 Audited	**Cash flow £000 Unaudited**	**Non-cash flows £000 Unaudited**	**At 30 September 2022 £000 Unaudited**
Loan from Affinity Water Finance (2004) PLC financed by bond issue	**252,498**	**-**	**(262)**	**252,236**
Loan from Affinity Water Finance PLC financed by bond issue	**1,019,706**	**(14,204)**	**41,499**	**1,047,001**
Loan from intermediate parent company	**3,550**	**-**	**-**	**3,550**
Lease liabilities	**9,646**	**(1,847)**	**881**	**8,680**
Debenture stock	**34**	**-**	**-**	**34**
Total liabilities arising from financing activities	**1,285,434**	**(16,051)**	**42,118**	**1,311,501**

	At 1 April 2021 £000 Audited	Cash flow £000 Unaudited	Non-cash flows £000 Unaudited	At 30 September 2021 £000 Unaudited
Loan from Affinity Water Finance (2004) PLC financed by bond issue	252,999	-	(248)	252,751
Loan from Affinity Water Finance PLC financed by bond issue	838,496	-	14,208	852,704
Loan from intermediate parent company	3,550	-	-	3,550
Lease liabilities	9,683	(1,940)	1,437	9,180
Debenture stock	34	-	-	34
Total liabilities arising from financing activities	1,104,762	(1,940)	15,397	1,118,219

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 2022 (refer to note A4 to the financial statements for the year ended 31 March 2022).

There have been no changes in any risk management policies since 31 March 2022.

Fair value of financial assets and liabilities

	30 September 2022 £000	31 March 2022 £000
	Unaudited	Audited
Non-current:		
Bonds	**1,104,787**	1,560,813
Inflation swaps	**82,892**	106,818
Energy swaps	**64,334**	27,988
	1,252,013	1,695,619

Between 1 April 2022 and 30 September 2022, market interest rates significantly 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 £24,383,000 at 30 September 2022 (31 March 2022: £34,054,000).

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 2022** Value £000 Unaudited	**Six months ended 30 September 2022** Balance £000 Unaudited	Six months ended 30 September 2021 Value £000 Unaudited	Six months ended 30 September 2021 Balance £000 Unaudited
Affinity Water Capital Funds Limited	Group undertaking	Support services	**41**	**41**	122	57
Vistry Group PLC	Shared director	New connection charges	**85**	**85**	17	1

Payments	Nature of relationship	In respect of	**Six months ended 30 September 2022** Value £000 Unaudited	**Six months ended 30 September 2022** Balance £000 Unaudited	Six months ended 30 September 2021 Value £000 Unaudited	Six months ended 30 September 2021 Balance £000 Unaudited
Allianz Global Corporate and Specialty AG	Common ownership	Insurance	**616**	**-**	1,084	-
Allianz Insurance plc	Common ownership	Insurance	**539**	**-**	-	-
Allianz Engineering	Common ownership	Insurance	**-**	**-**	1	-
Affinity Water Capital Funds Limited	Group undertaking	Interest on loan	**80**	**-**	80	-
Affinity Water Finance (2004) PLC	Subsidiary undertaking	Interest on loan	**7,102**	**3,179**	7,116	3,179
Affinity Water Finance PLC Limited	Subsidiary undertaking	Interest on loan	**53,932**	**3,783**	26,174	3,462

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.

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. These 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 period ended 31 March 2022 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
- 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.

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.

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 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.

The directors of Affinity Water Limited are listed in the company's annual report and financial statements for the year ended 31 March 2022, with the exception that Susan Hooper and Tony Roper resigned as directors on 31 March 2022, with Michael Osborne joining on 1 April 2022. Ann Bishop and Mark Horsley resigned as directors on 18 July 2022. Jaroslava Korpanec resigned as a director on 1 August 2022. 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

Stuart Ledger	Ian Tyler
Interim Chief Executive Officer	Chairman

24 November 2022