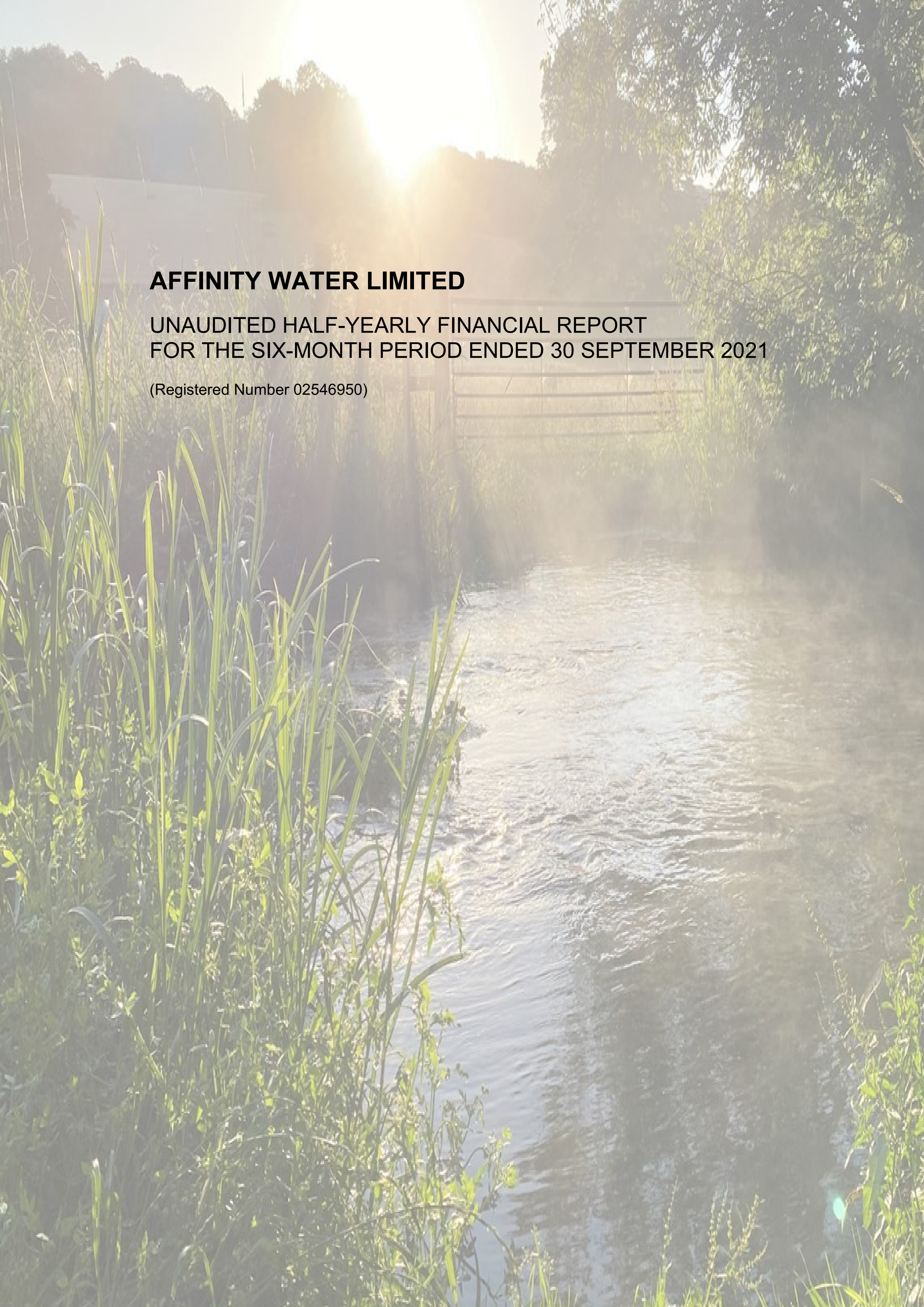

AFFINITY WATER LIMITED

UNAUDITED HALF-YEARLY FINANCIAL REPORT
FOR THE SIX-MONTH PERIOD ENDED 30 SEPTEMBER 2021

(Registered Number 02546950)

Affinity Water Limited

Glossary of key acronyms and definitions commonly used within the water industry

AMP – Asset Management Plan
The five-year price control period covered by a company's Business Plan. AMP7 runs from 2020-25. AMP8 will run from 2025-2030.

C-MeX – Customer Measure of Experience
A measure of customer service levels used by Ofwat.

CCG – Customer Challenge Group
An independent group of individuals who hold us to account on how we are performing against our Performance Commitments.

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

D-MeX – Developer Measure of Experience
A measure of developer service levels used by Ofwat.

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

MOSL – Market Operator Services Limited
The independent operator of the non-household retail market in England and Wales.

ODI – Outcome Delivery Incentive
Mechanism for financial rewards or penalties which underpins the Performance Commitments submitted in a company's Business Plan.

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

PCs – Performance Commitments
Outcomes agreed with Ofwat during the Periodic Review process that reflect customers' views and priorities.

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

R-MeX – Retailer Measure of Experience
A measure of retailer service levels being used by Ofwat.

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.

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

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

Our regulators

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

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

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

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

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

Affinity Water Limited

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Affinity Water Limited

Interim management report

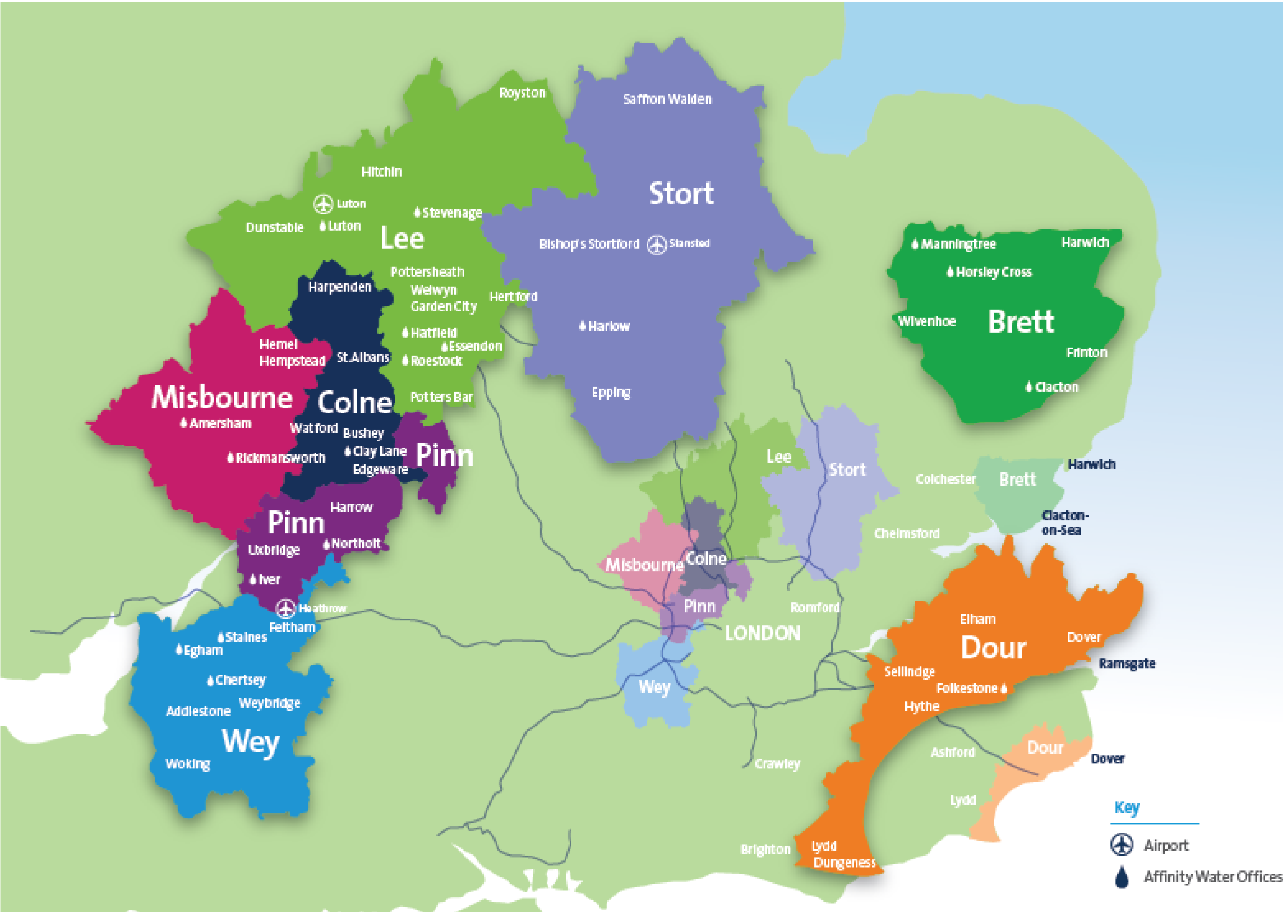
Introduction

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.

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.

Facts and figures

Daily amount of drinking water supplied	**950 Ml**
Population served	**3.83m**
Household properties connected	**1.47m**
Length of mains network	**16,800 km**
Number of water treatment works	**93**
Planned AMP7 investment	**£1.44bn**



Our financial, operational, environmental and social highlights for the six-month period to September 2021 are presented on pages 5 to 8.

Please refer to pages 9 to 10 for more information on our operational performance and pages 20 to 22 for more detail on our financial performance.

Affinity Water Limited

Interim management report

Our purpose and vision

Our purpose is:

To provide high quality drinking water for our customers and take care of the environment, for our communities now and in the future

Our Strategic Direction Statement ambitions are:

Environment

Aim: Leave the environment in a sustainable and measurably improved state.

We will work with our customers and communities to restore the environment into a sustainable regenerative state so that it can continue to provide its assets and services for the enjoyment of current and future generations.

Customers

Aim: Deliver what our customers need, ensuring affordability for all.

We will develop a constructive, collaborative relationship with our customers that enables us to help them achieve their aspirations for the future.

Resilience

Aim: Be prepared for change, and resilient to shocks and stresses.

We will invest with our stakeholders to create a more resilient community able to cope with and respond to an increasingly uncertain future.

Communities

Aim: Work with our communities to create value for the local economy and society.

Create a collaborative relationship with all our communities allowing us to act together with common purpose to deliver a society and environment that are mutually sustainable.

Our vision is:

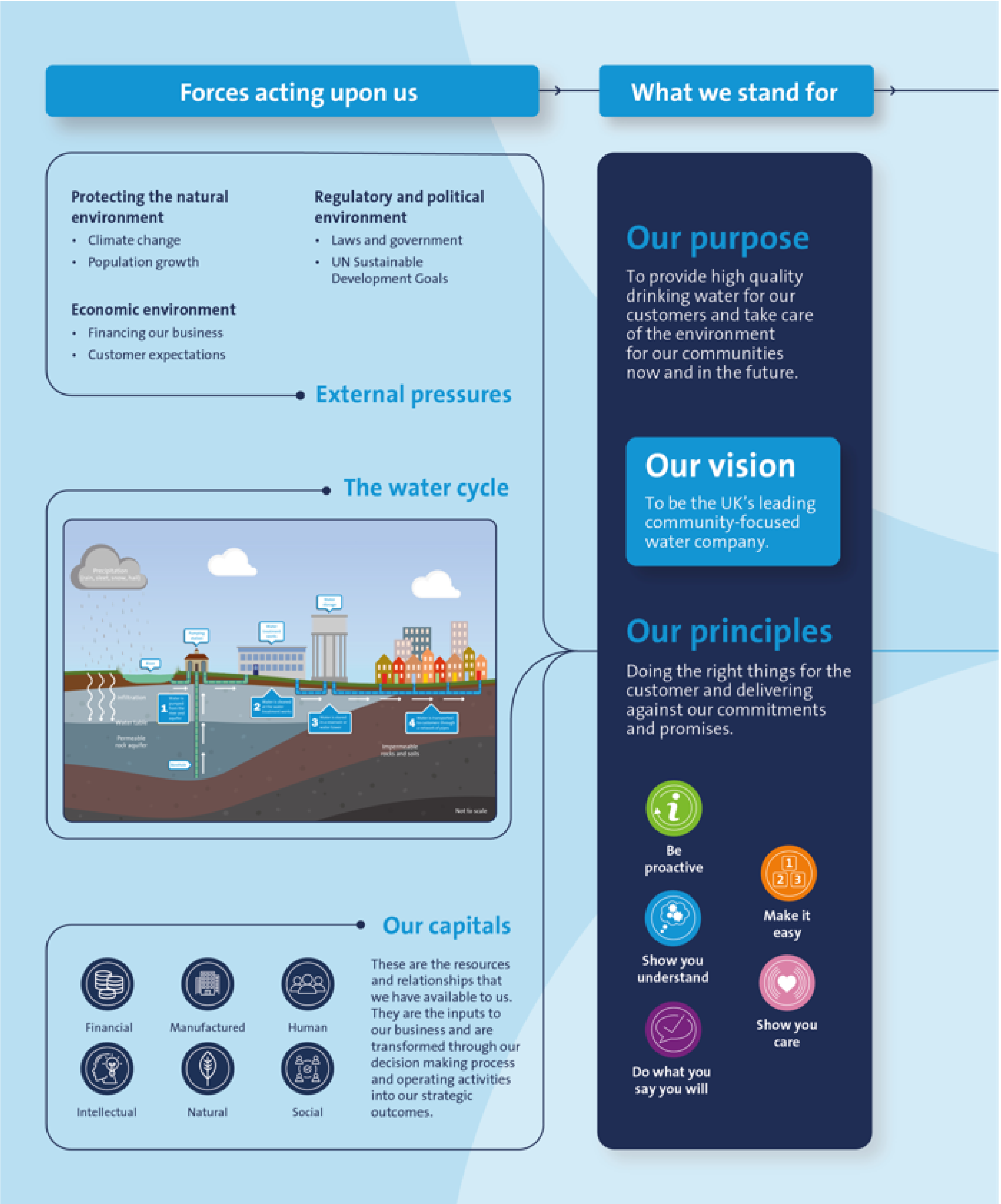
To be the UK's leading community-focused water company

Our people serve our customers and their communities every day of the year. In doing so we understand the needs of our communities at a grass roots level and provide them with the best possible service.

Affinity Water Limited

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 highlights for the six months ended 30 September 2021

Revenue: £159.6m

30 September 2020: £144.3m

Our revenue is £15.3m higher than the prior period. Non-household revenue has returned to pre-pandemic levels, as businesses that were temporarily closed have reopened, and household revenue is also higher due to a tariff increase.

Operating profit: £17.1m

30 September 2020 (restated[1]): £10.9m

Our operating profit was £6.2m higher than the prior period. The increase in revenue has been partially offset by increased costs, mainly due to higher inflation, higher depreciation and rising energy prices as well as a provision for company restructuring.

Cash flows from operating activities: £33.0m

30 September 2020 (restated[1]): £48.0m

Our cash flows from operating activities for the six months ended 30 September 2021 was £15.0m lower than the prior period, primarily due to lower capital contributions received, as well as lower cash generated from operations which is mainly due to adverse movements in working capital, partially offset by increased operating profits.

Gearing: 75.6%

31 March 2021: 76.0%

Our gearing at 30 September 2021 was slightly lower than at 31 March 2021, and remains below our internal threshold of 80.0% of RCV. This allows sufficient headroom within our gearing covenants.

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 2021 and we continue to monitor and adhere to them.

Credit rating:

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

There has been no change to our ratings since 31 March 2021.

All of our ratings remain investment grade.

[1] Prior period results have been restated as a result of a change in accounting policy following the IFRS Interpretations Committee ('IFRIC') agenda decision on the treatment of configuration and customisation costs. Further details are included within note 3.

Our operational highlights for the six months ended 30 September 2021

Leaving more water in the environment

Leakage is running higher than the mid-year target, but we are increasing our investment in order to get back on track to meet our AMP7 reduction target.

We are not expecting to achieve our PCC target as we saw household consumption rise significantly during the COVID-19 pandemic. While consumption has reduced compared to prior year, it still remains higher than pre-pandemic levels.

Supplying high quality drinking water

There have been 20 exceedances[1] in the first nine months of 2021, compared to 17 in the same period in 2020. We are firmly on track to be below our CRI deadband[2] of 2.0 for the 2021 calendar year.

The contact rate for consumers contacting us expressing dissatisfaction with the taste, odour or appearance of their water supply is 0.81/1000 customers, which is above our performance commitment target of 0.67/1000.

Minimising disruption to our customers

We are still experiencing a high number of low pressure events, as a result of the COVID-19 pandemic which has changed the way our customers use water, although to a lesser extent than at March 2021. We are not expecting to meet our target for the year.

We are on track to meet our target for water supply interruptions over 3 hours, although we have already exceeded our target for the number of properties experiencing an unplanned interruption to supply over 12 hours as a result of one large outage.

Providing a value for money service

Our C-MeX score for Q2 was 76.42 against an industry average of 79.70, ranking us 14th out of 17 companies, which is one place up from March 2021 but behind our internal target of 11th.

Our D-MeX score for Q1 was 86.35 against an industry average of 82.90, ranking us 8th out of 17 companies, which is two places up from March 2021 but behind our internal target of 7th.

[1] Exceedances are where we have exceeded a determined threshold for water quality.
[2] We do not incur any regulatory penalties until our CRI score goes beyond the deadband limit.

Our environmental highlights for the six months ended 30 September 2021

Save Our Streams campaign

Our Save Our Streams campaign aims to make our customers understand the link between local rivers and their own water use.

The campaign has featured across many platforms, including TV, radio, newspapers, billboards and social media.

Over 160,000 people have signed up through our dedicated website: saveourstreams.co.uk, and together they are saving around five million litres of water each day.

Water Breakthrough Challenge

Together with our project partners, we have received £2.9m in Ofwat's first Water Breakthrough Challenge to deliver a sustainable, water-saving solution in response to new housing developments being built.

The project will minimise water demand and offset water consumption with new technologies, to ensure the total water use in three trial communities remains the same as it was before the new homes were built.

Green Finance Framework

We have put in place a Green Finance Framework, which aligns our strategic and sustainability priorities with our funding and financial strategy.

We identified four Eligible Green Project categories: sustainable water and wastewater management; pollution prevention and control; terrestrial and aquatic biodiversity conservation; and energy efficiency.

In October 2021, we issued our first green bond with a nominal amount of £130.0m.

Net zero and carbon strategy

Alongside the water industry, we have committed to an industry wide target of achieving net zero carbon emissions by 2030 whilst continuing to provide high quality water.

Our plans include moving to a greener vehicle fleet, planting trees and developing a solar farm. We will also be phasing out our diesel generators and replacing pumps with more energy efficient ones to help us better deliver our objectives on leaving the environment in a measurably better state than it is today.

Interim management report (continued)

Our social highlights for the six months ended 30 September 2021

Supporting our colleagues returning to the office

While the majority of our employees were working from home we took the opportunity to improve the quality and facilities of all our offices and sites, as well as making them COVID-secure.

In August 2021 we received an unannounced visit at our headquarters from the Health and Safety Executive and passed their COVID-19 compliance check.

As staff return to the office, we are encouraging a dynamic workplace with greater collaboration and synergy while enabling a degree of flexibility.

Looking after the wellbeing of our colleagues

It is important that all our employees have someone they can trust to speak about mental health and emotional issues.

We have expanded our team of Mental Health First Aiders to 18 across our directorates and sites, with the final cohort due to complete their training in December 2021 bringing the total number up to 38.

We also have regular company-wide wellbeing webinar sessions with further information and support available through our intranet site.

Providing our customers with inclusive services

We aim to provide a service that is inclusive for all. We have recently partnered with Sign Solutions which allows deaf people to call organisations and communicate in their first language of British Sign Language through a remote video interpreter.

We have also teamed up with national charity Access Adventures to help disabled people participate more fully in water sports, such as waterskiing and wakeboarding, by providing a long-term lease at Heron Lake in Middlesex for free.

Improving our culture, diversity and inclusivity

We conducted our second company-wide Culture Survey in June 2021, following on from our inaugural survey in July 2019.

A detailed analysis will now be conducted to assess what have changed over the past two years, and what more needs to be done in order to reach our ideal culture.

During the period we have ran a series of webinars focusing on equality, diversity and inclusivity, with sessions celebrating Pride and Black History Month.

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 projected annual performance in relation to these targets for the six-month period ended 30 September 2021 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)	
2021 deadband target: 2.0 or less	We will not meet our overall performance commitment target of 0, but we are on course to achieve our deadband performance commitment of less than 2.0 for the 2021 calendar year and will not incur a financial penalty. There have been 20 exceedances in the first nine months of 2021, which is broadly similar to the number of exceedances in the prior year (2020: 17).
KPI: Leakage Average annual water leakage from our network (Ml/d)	
2021/22 target: 11.1% reduction	This year requires the largest change of single year leakage performance in AMP7 to meet our rolling three-year target. Delivering this year's target is challenging and with winter yet to come there is still a great degree of uncertainty. We are investing significantly more than planned in this area to deliver this key performance measure, and remain confident that we will make a significant reduction in leakage this year and achieve our overall AMP7 target of a 20.7% leakage reduction.
KPI: PCC Average water use (l/p/d)	
2021/22 target: 4.9% reduction	We are not expecting to achieve this target as we saw household consumption rise considerably during 2020/21 as a result of COVID-19, as businesses closed and households stayed at home. While consumption has reduced in the first half of 2021/22, it remains higher than pre-pandemic levels.
KPI: C-MeX (Score)	
2021/22 internal target: 11th out of 17 companies	Our C-MeX score for Q2 was 76.42 against an industry average of 79.70, ranking us 14th out of 17 English and Welsh water companies. This is up one place from March 2021, however we are currently behind where we would like to be and enablers have been put in place for the second half of the year to help us improve. This metric ranks companies, so our position is not only determined by our own improvements but also by improvements across the industry overall.
KPI: D-MeX (Score)	
2021/22 internal target: 7th out of 17 companies	Our D-MeX score for Q1 was 86.35 placing us 8th in the league table. Given our transformation plan for 2021/22, and the positive results of Q1, our current forecast is in line with our internal target of 7th position and a performance score of around 87.0.

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: Mains repairs (due to bursts) (Number per 1,000km mains)	
2021/22 target: 148.6 or less	Mains repairs are running within our profiled target to date, and we are currently on course to achieve the target at year end. However, we must remain conscious of the potential for mains repairs numbers to increase with enhanced leakage detection activity and should we get a severe winter this year. We have created a programme of works to ensure we mitigate the consequences of freeze-thaw events on our network. These include working with the Meteorological Office to look at longer term forecasting and predictions of freeze-thaw events, moving to a different way of operating the network during 'high risk' periods and continuing to look at our overall strategy and Network Calming programmes.
KPI: Properties at risk of low pressure (Number per 10,000 properties)	
2021/22 target: 1.513	We are still experiencing a high number of low pressure events, as a result of the COVID-19 pandemic which has changed the way our customers use water, although to a lesser extent than at March 2021. The considerably improved performance over the six-month period to 30 September 2021 is due to the cool and wet summer of 2021, which has suppressed demand for water, as well as a number of pressure improvement schemes being completed during the period. However, it will not be possible for us to achieve our 2021/22 target.
KPI: Unplanned interruptions to supply over 12 hours (Number of properties)	
2021/22 target: 320 or less	We have already exceeded this target for the year due to a single incident in Harpenden in May 2021. Despite best efforts and significantly reducing the potential impact on average number of minutes for a water supply interruption (see target below), 431 properties did not have their water restored in the 12 hours. Aside from this one incident, our performance in this area has been good.
KPI: Water supply interruptions over 3 hours (Minutes beyond 3 hours per property)	
2021/22 internal target: 6 minutes and 8 seconds	We are currently outperforming against our internal mid-year target and remain hopeful of achieving our 2021/22 target, following on from our success in meeting the 2020/21 target. Considerable improvements have been made in recent years. Changing the company mentality to prioritise 'water always on' rather than fixing the burst has been instrumental in improving our performance. We are continuing to look at reductions in response times, availability of resources, staffing out of hours and innovative methods of ensuring water is always on.

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 expect to achieve CRI scores 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 2021 is 0.81/1000 customers. This is above our performance commitment target of 0.67 but slightly better than the prior period (September 2020: 0.84/1000 customers).

There are a number of initiatives looking at reducing the number of contacts we receive. We have carried out in depth investigations to map where these contacts have originated from and to understand the root causes. During the year, we have undertaken a programme of targeting mains cleaning and have liaised with other water companies to understand how they are reducing their discolouration contacts. We are targeting a year end performance contact rate of 0.81/1000 customers (maintaining our current performance), with a view of achieving the 0.67 target by the end 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. In July 2021, we published our plan for reaching net zero operational emissions by 2030. 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.

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.

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)

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. In April 2021 we launched our multi-platform Save Our Streams ('SOS') campaign, 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. For more information on our SOS campaign, refer to our case study on page 13.

As a company, we are targeting a reduction in PCC by 12.5% over AMP7. Our Demand Management programme is aiming to address the PCC challenge through installation of water efficient devices and campaigns which influence customer behavioural change. We have seen overall consumption rise and remain high during the COVID-19 pandemic, as businesses close and households stay at home.

In addition to the extra demand, COVID-19 also impacted several of our customer facing delivery mechanisms, including Home Water Efficiency Checks. However, we have continued the strong delivery focus of our programme and pivoted activities where necessary, increasing our online presence as part of our campaign activities and offering virtual water audits as a service.

Whilst the long-term impacts of COVID-19 on demand and PCC are not yet fully understood, we will be considering any consumption trends from 2022/23 onwards as 'new normal' demand profiles and will adapt our programme to deliver against these new expectations.

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.

Our leakage reduction target was not achieved in 2020/21, in part due to the COVID-19 pandemic as we balanced the safety of our employees and our customers while executing our plans. Our staff availability was impacted and customers were less responsive to engagement over supply pipe leakage.

As a result, we have put a recovery plan in place to address the shortfall whilst also reviewing our leakage approach for the remainder of the AMP in light of possible new norms. We have accelerated several programmes of work in 2021/22 such as enhanced pressure management and the step test programme[1], as well as increasing field detection resource levels and expanding our assistance to customers with supply pipe leaks.

We now frequently monitor and compare our distribution input to the demand in each zone across our supply area and we have continued to improve our leakage detection. We are working with the University of Birmingham on quantum sensors to pinpoint leaks by looking through the ground – using technology that was purely theoretical until six years ago. The remainder of 2021/22 is challenging, but we remain confident in our ability to deliver the 20% reduction by the end of AMP7.

[1] Step-testing uses a series of short steps isolating sections of pipe to check for leaks,

Interim management report (continued)

Operational performance (continued)

Save Our Streams ('SOS') campaign

In April 2021, we launched our SOS campaign as part of committing to ending unsustainable abstraction. The campaign helps consumers to understand why and how they should reduce their water consumption, and ultimately safeguard our local rivers and streams for years to come.

The campaign has featured on local radio and ITV's Good Morning Britain programme, as well as in local and national newspapers and on over 500 billboard sites. We have also toured a 10,000 litre bath tub around our supply area and led an exclusive stand-up comedy event, with performers standing in the River Chess.

Key stakeholders:

- Media and social media
- Customers
- Local environment groups

Actions and outputs

- The water abstraction reduction, equivalent to 7.27 Ml/d annual average deployable output, follows years of investigation, trials, and collaborative efforts with local groups in the Chilterns and confirms our commitment to contribute to the restoration of globally rare chalk streams, and to protect the River Chess, a globally rare habitat.

- The voluntary abstraction reduction is an important part of company's response to protecting environment and managing the increasing challenges that impact our water resources such as climate change, growing population and higher than average water consumption in the region.

- This campaign has resulted in more than 160,000 customers signing up to our dedicated Save Our Streams website and the company receiving accolades from key stakeholders.

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 2020/21 was £173, the equivalent of just 47p 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 2021/22 are expected to be about 6.6% higher than in 2020/21. We aim to create investor value by outperforming in selected areas, thereby receiving regulatory rewards for doing so and through effective risk management to reduce cash flow volatility.

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. As at 30 September 2021, we have provided payment breaks to more than 7,400 customers. Our support for financially vulnerable customers, who have a low household income or are claiming benefits, has grown with more than 110,000 households now supported by our social tariffs. These customers receive a reduced fixed rate spread over 12 months. 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 2021 was 77.22 against an industry average of 79.80, which has placed us 14th out of 17 companies. The C-MeX score consists of two surveys: customer service and customer experience. 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.

We are investing more within the customer service arena to ensure we deliver a sustained improvement in the areas that matter most to our customers, through continued attention on turnaround time of customer resolution, enhancements to our website and self-service portal, along with simplification of our processes. We are rolling out new capability and ways of working as well as our ability to proactively keep customers updated. As a result, we have seen our customer service survey score increase in the first half of 2021/22, achieving 11th place in the Q2 survey up from 14th for 2020/21.

We have also seen some improvement in the customer experience survey, ranking 14th at September 2021, up from 17th at March 2021. 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 will continue to invest in our reputation and perception through the creation of dedicated marketing and communications capability in-house, supported by the revitalisation of our brand which launched on 17 November 2021.

We are also measured for our service levels provided to developers and retailers. Our D-MeX score for the first quarter[1] of 2021/22 was 86.35 against an industry average of 82.90, ranking us 8th out of 17 companies, which shows a steady improvement since March 2021 in line with our transformation plan. Our R-Mex score for the first half of 2021/22 ranks us as 1st out of 15 companies, with an overall service score of 7.9 out of 10, which reflects the fantastic service we provide to retailers in the non-household market.

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[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 2021/22. R-MeX is published half-yearly.

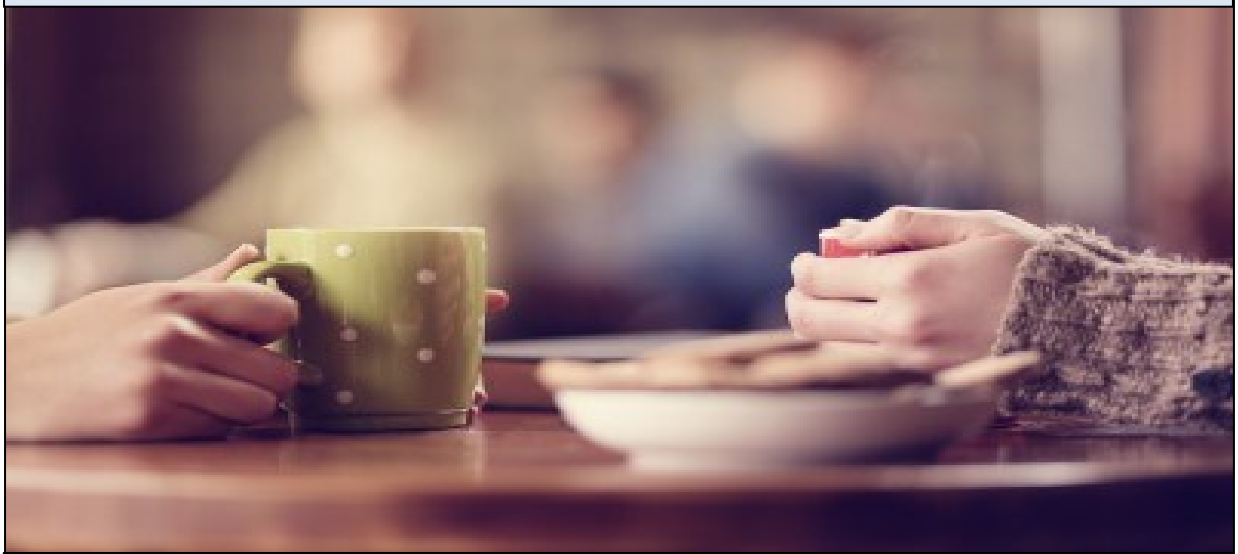
Interim management report (continued)

Operational performance (continued)

Inclusive service and support for customers

We aim to provide a service that is inclusive for all. We have recently partnered with Sign Solutions which allows deaf people to call organisations and communicate in their first language of British Sign Language through a remote video interpreter.

We are also working in partnership with UK Power Networks to support customers who are struggling financially and provide information on the help available to them. We recognise that there are a number of current external factors, including the ending of the furlough scheme on 30 September 2021, the removal of the universal credit uplift on 6 October 2021, increasing energy prices and high inflation, which are putting pressures on customer affordability.



Actions and outputs

- We have been working with a local charity 'Small Acts of Kindness' for a second year to provide information on our Priority Services Register to senior residents in Hertfordshire via the Purple Pages Information packs.
- We have provided payment breaks to more than 7,400 customers.
- We continue to support 110,000 households in our region with Social Tariffs – a reduced fixed rate which can be spread over 12 months, rather than requiring payment either once or twice a year.

Operational performance (continued)

Minimising disruption to you and your community

Our AMP7 investment programme was delayed slightly in 2020/21 as all non-essential work ceased during the UK's Government's COVID-19 lockdown period, but we are on track to fully deliver our planned 2021/22 capital programme.

We have accommodated additional requirements by finding efficiencies through working with our supply chain to innovate and value engineer solutions. We continue to invest to mitigate low pressure, mains bursts, and leakage. This investment will be key to maintaining resilience and making sure our customers have enough water, whilst leaving more water in the environment by delivering sustainable abstraction reductions in line with our WRMP for the 60-year period from 2020 to 2080. We have started to develop our thoughts for AMP8 investment needs and beyond, in preparing our PR24 Business Plan.

We have a performance commitment to reduce the number of properties at risk of receiving low pressure. We now check low pressures throughout our operational area using continually monitored pressure loggers. 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.

We have experienced a lower number of bursts than our internal target and appear to be on track to meet our performance commitment for 2021/22, having failed this target in 2020/21. We have rebranded our steering group looking at this measure and have created a programme of works to ensure we mitigate the consequences of freeze-thaw events on our network, as well as creating triggers as part of our Seasonal Readiness plan. We have also hosted our first Industry Working Group, relating to this measure, with other water companies.

The High Speed 2 ('HS2') project is a major national infrastructure project to develop the UK's new high speed rail network, with the proposed route cutting through our supply area. Since work started, we have diverted ten network assets, and have had to overcome complex design and construction challenges while limiting the impact of the planned outages on the wider network. We have also worked with HS2 contractors to minimise turbidity (cloudiness caused by a large number of tiny individual particles) from construction works to ensure there are no water quality issues and have reinforced three of our treatment works to protect against turbidity, by installing extra filtration equipment.

We have made considerable improvements to our interruptions to supply performance in AMP7 by changing the company mentality to prioritise 'water always on' rather than fixing the burst. We have also moved the ownership of unplanned interruptions from the Operational Service Desk to Control Operations, such that Control Operations have the overarching view of our network as a whole and can coordinate multiple activities within different teams and departments. We are continuing to look at reductions in response times, availability of resources, staffing out of hours and innovative methods of ensuring water is always on.

Our people

A company restructure was announced on 8 September. After reviewing short, medium and long-term plans to deliver the company's business plan targets and prepare for AMP8, 120 people in 56 roles were placed at risk of redundancy through collective consultation. On 9 September, it was further announced that Pauline Walsh had stepped down as CEO, handing over leadership of the business to Stuart Ledger as Interim CEO. Pauline Walsh resigned as a director on 17 September 2021.

We aspire to embed continuous innovation in everything we do. We are continuing to shift our working practices to be more agile and more responsive as well as transforming customer experience. As a business we have continued to monitor the UK Government's COVID-19 advice and in August 2021 began a phased return to the office for much of our support services staff.

We have created a strong culture of learning and development through significant investment in training and are building a culture of coaching and mentoring to release the potential of our people. We have provided training for line managers on how to support their teams in a post-COVID world, and have increased the number of mental health first aiders to 18 across our directorate and sites, as staff return to our offices. Our next cohort are due to complete their training in December 2021 bringing the total number of mental health first aiders up to 38.

We take the safety, health and wellbeing of our people and suppliers very seriously and we are committed to operate our business without harm. We continue to adapt our systems and ways of working and have recently made improvements to help our lone workers and users of display screen equipment. We encourage our people to spot unsafe behaviour and take ownership to prevent it. Unfortunately, we have reported two RIDDOR (Reporting of Injuries, Disease and Dangerous Occurrences Regulation) incidents and have recorded five lost time injuries during the six-month period to 30 September 2021, with our Lost Time Injury Frequency Rate of 0.26 injuries per 100,000 hours worked being an increase from 0.12 injuries per 100,000 hours worked as at March 2021.

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. It is important that their 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.

We are committed to promoting equal opportunity in all areas of employment including recruitment, promotion, training, pay and benefits. The table below provides a breakdown of the gender of directors and employees as at 30 September 2021 and 31 March 2021:

	30 September 2021		**31 March 2021**	
	Men	**Women**	**Men**	**Women**
Our Board	7	4	7	5
Senior Leadership	52	19	41	22
All other employees	812	463	840	504

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 remained constant (at 46 days for the period 1 October 2020 to 31 March 2021 and 46 days for the period 1 April 2021 to 30 September 2021) although late payments have decreased (from 44% to 36%). We will continue to monitor our performance and maintain ongoing communication with all stakeholders to facilitate more efficient invoice processing and payments.

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 further 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.

We have commenced preparations for PR24 where Ofwat will determine the revenues we need to operate in AMP8. This includes considering our ambitions for 2025-30 as well as our long-term ambitions. Our approach is to front load our programme as far as possible and be comprehensive in our plan development by starting early across the entire scope of the plan, focusing early on our long-term vision and strategy, and to embed that vision and strategy as we develop our plans. 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.

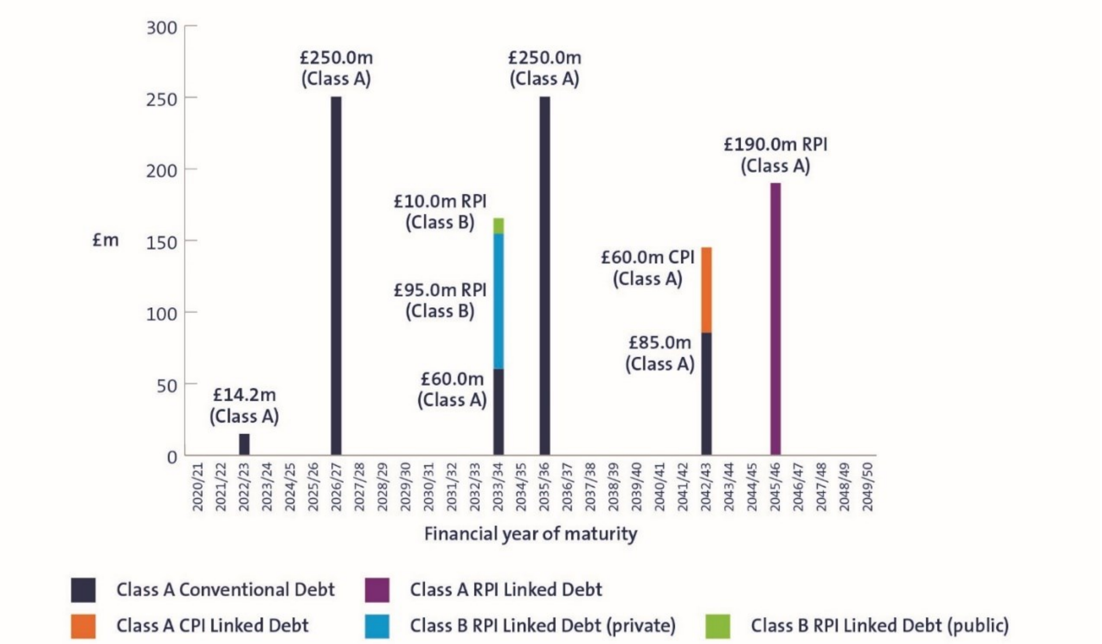
In August 2021, we published our long-term Strategic Direction Statement ('SDS') which sets out our vision to 2050, focused around four ambition statements relating to the environment, customers, communities and resilience, which are set out in full on page 2. We refreshed our SDS in November 2021 with our new brand and a foreword from our Interim Chief Executive Officer, Stuart Ledger, and will hold an event early in 2022 to continue the conversation we started with our customers and stakeholders during its preparation. The SDS is both a key corporate document, guiding the entire business' long-term vision and a starting point for preparing our business plans for PR24.

We have fully mobilised our PR24 team, involving people from across Affinity Water with the ambition to develop a high quality and deliverable plan. This starts with a five-year strategy, that we are developing now. Our strategy sets out the steps we will take towards the long-term vision we set out in our SDS, building in further detail about what we intend to deliver, the strategic choices we will need to make and our current knowledge of the regulatory framework for PR24. At the same time, we are working on the detailed evidence for our plan and continue to adapt this evidence as further information about the regulatory framework emerges.

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 £1,014.2m, raised in the debt capital markets and on-lent to the company on the same terms. We have only £14.2m of debt maturing in AMP7 and a spread of maturity beyond this. 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 2021:



During the period we put in place a Green Finance Framework, which aligns our strategic and sustainability priorities with our funding and financial strategy. In October 2021, we issued our first green bond with a nominal amount of £130.0m and total proceeds of £147.8m, which will be used to fund projects which are fundamental to our Sustainability Strategy and will support our environmental objectives.

The credit ratings for our subsidiaries' bonds assigned by the rating agencies, Moody's, Standard & Poor's and Fitch, have not changed since March 2021:

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 2021, net debt, as defined in the financial covenants in the company's securitisation documentation ('compliance net debt'), was £1,042.9m (at 31 March 2021: £990.7m - refer to note 1E in the Annual Performance Report for the year ended 31 March 2021 for the basis of the calculation). Gearing, calculated as compliance net debt to RCV at 30 September 2021, was 75.6% (31 March 2021: 76.0%) 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%.

Affinity Water Limited

Interim management report (continued)

Financial performance

Our financial results are prepared in accordance with the recognition and measurement requirements of International Financial Reporting Standards ('IFRS'; refer to note 2 of the condensed interim financial statements for further details). Our unaudited financial results for the six months to 30 September 2021 are summarised as follows:

	2021 £m	2020 (restated) £m
Revenue	**159.6**	144.3
Operating costs	**(152.3)**	(142.0)
Other income	**9.8**	8.6
Operating profit	**17.1**	10.9
Net finance costs	**(41.1)**	(56.6)
Loss before tax	**(24.0)**	(45.7)
Tax credit	**(46.1)**	8.5
Loss for the period	**(70.1)**	(37.2)

Revenue

Revenue for the first six months of the year was £159.6m, being a £15.3m (10.6%) increase on the same period last year (six-month period ended 30 September 2020: £144.3m). The increase is primarily due to higher non-household wholesale revenue as businesses were temporarily closed due to COVID-19 in the prior year. Household revenue is also higher due to a 6.6% volumetric tariff increase for 2021/22.

Other income for the period was £9.8m, being a £1.2m (14.0%) increase on the same period last year (six-month period ended 30 September 2020: £8.6m) due to increased laboratory income and additional income for operating assets specifically for HS2.

Operating costs

Total operating costs of £152.3m for the first half of the year were £10.3m (7.3%) higher than for the same period last year (six-month period ended 30 September 2020 (restated): £142.0m). Of the £10.3m increase, £5.3m was due to inflation being 4.86% higher year-on-year, while £2.5m was due to increased depreciation on our growing asset base.

£2.6m of atypical costs were incurred in September 2021, as a company restructure was announced resulting in 51 roles being made redundant, as well as a change of leadership of the business. A further £2.7m was incurred in the period for demand management, as we campaign to reduce consumption across our customer base. Energy costs were £1.0m higher than the prior period due to an increase in wholesale prices, while core operational costs, insurance costs and professional fees were all slightly higher than the prior year.

These additional costs were partially offset by some savings being made in staff costs due to lower headcount than the prior year, and reduced bulk water costs as demand was lower during the summer months as a result of the cooler, wetter weather. The prior year had included costs for the configuration of a new ERP system, which reduced in the current period. Bad debt was also lower than the previous period, which had included an additional provision for the impact of COVID-19.

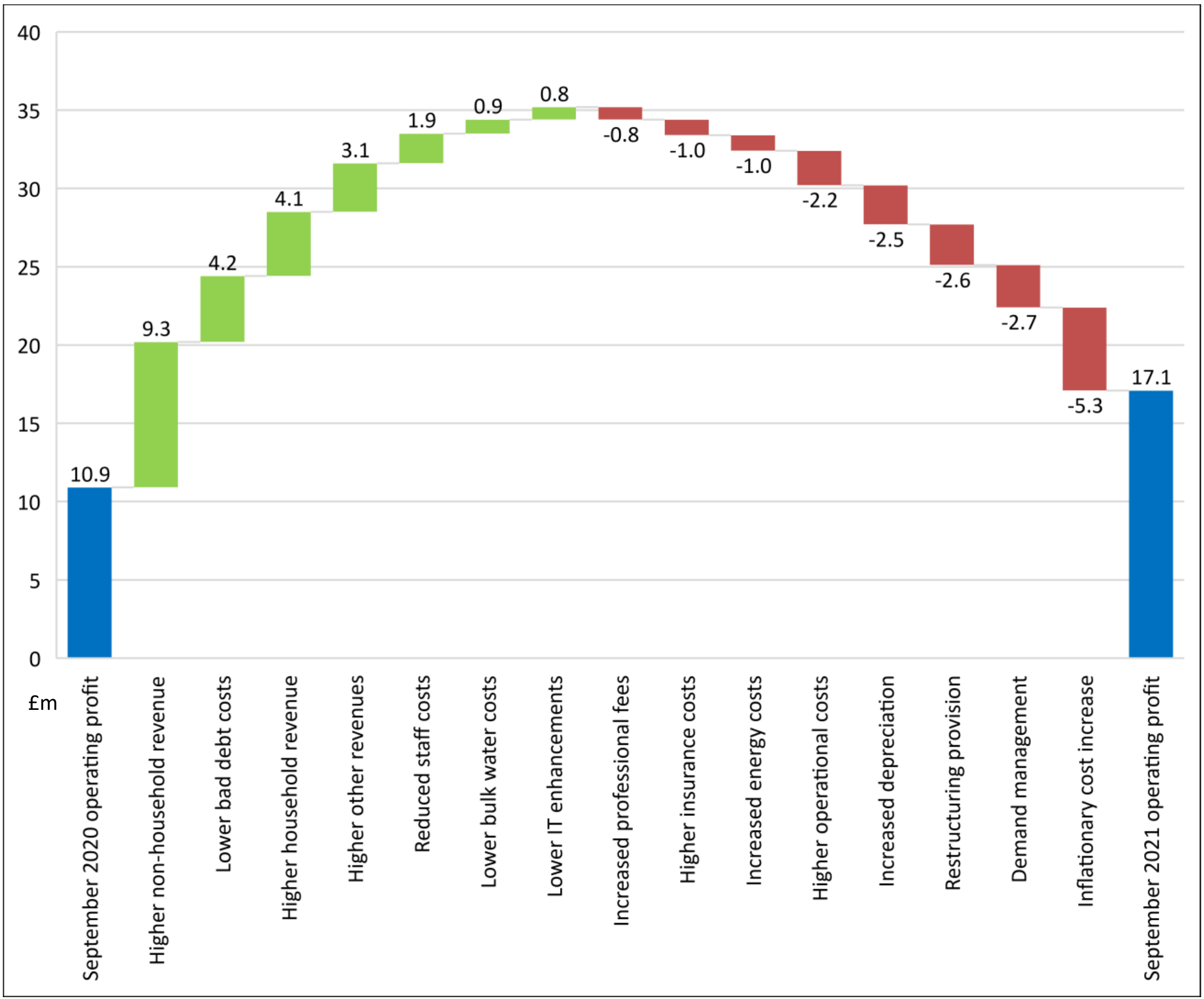
Affinity Water Limited

Interim management report (continued)

Financial performance (continued)

Operating profit

Operating profit of £17.1m was £6.2m (56.9%) higher than the same period last year (six-month period ended 30 September 2020 (restated): £10.9m). The key variances are explained on the previous page and shown in the following graph:



Interest and fair value movements

The net finance cost of £41.1m was £15.5m (27.4%) lower in the current period, primarily due to fair value movements[1] on our inflation swaps and energy swaps. The inflation swaps made a fair value loss, but £22.9m lower than the prior period loss. There was also an £11.3m fair value gain on energy swaps, which were transacted between June 2021 and September 2021. There was £1.0m increased finance income, with all these favourable variances offset by £19.7m higher accretion on our bonds.

[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.

Affinity Water Limited

Interim management report (continued)

Financial performance (continued)

Taxation

Income tax charge of £46.1m was £54.6m (642.3%) adverse to the prior period primarily due to a £57.4m deferred tax charge for the future increase in corporation tax rate from 19% to 25%. The underlying £11.3m tax credit is higher than the £8.5m prior period credit as a result of an increased effective tax rate, which at 47.2% is higher than the current corporation tax rate of 19.0%. No corporation tax was paid during the period ended 30 September 2021 as we are forecasting a tax loss for 2021/22 therefore no tax will be payable (six-month period ended 30 September 2020: £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 on page 287 of our regulatory Annual Performance Report for the year ended 31 March 2021, and the group tax strategy of Daiwater Investment Limited, our ultimate holding and controlling company in the United Kingdom, can be found on our website: *affinitywater.co.uk/library*.

Dividends and executive pay

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 2021 (six-month period ended 30 September 2020: £nil), as our shareholders have agreed to re-invest all planned returns from our appointed business for the benefit of our customers for the time being and to ensure that any group debt can be serviced from the non-appointed business before a distribution to shareholders is considered.

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

Capital expenditure and cashflow

Capital expenditure in the six-month period ended 30 September 2021 was £71.6m (six-month period ended 30 September 2020 (restated): £63.1m), and was incurred principally on our mains renewals, trunk main replacement, sustainability reductions, metering, leakage and water treatment programmes. The total excludes £9.5m (six-month period ended 30 September 2020: £8.3m) of infrastructure renewals expenditure, which is treated as an operating cost under FRS 101. The higher capital expenditure in the first half of this year reflects the increased investment planned for the second year of AMP7.

Net cash outflow before tax and financing[1] for the first six months of the year was £13.5m being a £21.8m (262.7%) decrease on the same period last year (six-month period ended 30 September 2020 (restated): £8.3m inflow). The decrease is primarily due to higher net investment in fixed assets in the current period in line with our AMP7 plan, and lower cash generated from operations which is mainly due to adverse movements in working capital, partially offset by increased operating profits.

[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 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.

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 now also 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 2021. The principal risks and uncertainties reported for the year ended 31 March 2021 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 national health pandemic or similar event could cause severe disruption to our 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 legal and regulatory framework, or social or political climate, which 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

Financial risks:
13. We could fail to maintain or renew appropriate financing for our business activities
14. 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 38 to 49 of the company's annual report and financial statements for the year ended 31 March 2021, 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.

Affinity Water Limited

Interim management report (continued)

Going concern

The company has adequate resources to meet its current operational and financial obligations, and the directors have a reasonable expectation that this will continue for the foreseeable future. This is based on assessment of the principal risks of the company, as detailed on the previous page, and consideration of the company's budgeted cash flows, short- and long-term forecasts and ability to generate future revenues, related assumptions and available debt facilities.

Whilst the current economic environment as a result of COVID-19 is clearly challenging, the company has put in place suitable mitigating actions to ensure that even under a severe but plausible downside scenario, the company is not forecasting any covenant breaches.

To assess the severe but plausible downside scenario, management have considered a base case scenario that reflects the current market conditions under the pandemic and have applied a series of severe downside assumptions including a reduction in revenue and an increase in bad debt as a result of the pandemic. Management also considered the impact of a severe cold weather event over the winter period and a further increase in operating expenditure. The base case has taken into consideration the impact of COVID-19 on the company, reflecting that the pandemic has impacted non-household and household revenues, with only the latter adjusted for as part of the revenue adjustment mechanism. The pandemic has also increased our adverse bad debt projections and customer collections and has reprofiled capital expenditure from projects delayed during the first year of AMP7.

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

For this reason, the directors continue to adopt the going concern basis in preparing the condensed interim financial statements.

Related parties

Details of significant related party transactions can be found in note 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 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 2021

	Note	**30 September 2021 £000**	30 September 2020 (restated) £000
		Unaudited	Unaudited
Revenue	5	**159,571**	144,270
Cost of sales		**(121,630)**	(112,627)
Gross profit		**37,941**	31,643
Administrative expenses		**(30,704)**	(28,810)
Impairment losses on financial and contract assets		**10**	(587)
Other income		**9,808**	8,633
Operating profit	6	**17,055**	10,879
Finance income	7	**8,034**	7,106
Finance costs	7	**(45,432)**	(25,738)
Fair value loss on inflation swaps	7	**(14,995)**	(37,936)
Fair value gain on energy swaps	7	**11,343**	-
Net finance costs		**(41,050)**	(56,568)
Loss before tax		**(23,995)**	(45,689)
Tax (expense)/credit	8	**(46,139)**	8,461
Loss for the period		**(70,134)**	(37,228)

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

The prior period has been restated as a result of a change in accounting policy following the IFRIC agenda decision on the treatment of configuration and customisation costs. Further details are included within note 3.

The notes on pages 30 to 45 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 2021

	Note	**30 September 2021 £000 Unaudited**	30 September 2020 (restated) £000 Unaudited
Loss for the period		**(70,134)**	(37,228)
Other comprehensive income/(expense) for the period which will not be reclassified to profit or loss:			
Remeasurements of post-employment benefit obligations	10	**8,052**	(18,356)
Deferred income tax (charge)/credit on items that will not be reclassified	17	**(1,530)**	3,488
Other comprehensive income/(loss) for the period, net of tax		**6,522**	(14,868)
Total comprehensive loss for the period		**(63,612)**	(52,096)

The prior period results have been restated as a result of a change in accounting policy following the IFRIC agenda decision on the treatment of configuration and customisation costs. Further details are included within note 3.

The notes on pages 30 to 45 are an integral part of these condensed interim financial statements.

Affinity Water Limited

Condensed interim statement of financial position as at 30 September 2021

	Note	30 September 2021	31 March 2021 (restated)
		£000	£000
Assets		**Unaudited**	Audited
Non-current assets			
Property, plant and equipment	9	**1,577,653**	1,540,949
Right-of-use assets	9	**8,998**	9,508
Intangible assets	9	**48,647**	45,783
Investments		**100**	100
Retirement benefit surplus	10	**83,684**	74,532
Derivative financial instruments	11	**11,343**	-
Other receivables	12	**-**	184
		1,730,425	1,671,056
Current assets			
Inventories		**4,496**	4,080
Short-term investments		**15,060**	15,132
Trade and other receivables	12	**125,004**	84,201
Cash and cash equivalents		**57,717**	84,766
		202,277	188,179
Total assets		**1,932,702**	1,859,235
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
Retained earnings		**(15,327)**	48,285
Total equity		**46,729**	110,341
Liabilities			
Non-current liabilities			
Trade and other payables	14	**214,759**	150,806
Borrowings	15	**1,109,039**	1,095,079
Lease liabilities	16	**5,834**	6,016
Derivative financial instruments	11	**84,574**	57,691
Deferred tax liabilities	17	**228,219**	180,550
Provisions for other liabilities and charges	17	**3,275**	3,396
		1,645,700	1,493,538
Current liabilities			
Trade and other payables	14	**230,832**	247,900
Lease liabilities	16	**3,346**	3,667
Current tax liabilities		**3,495**	3,611
Provisions for other liabilities and charges	17	**2,600**	178
		240,273	255,356
Total liabilities		**1,885,973**	1,748,894
Total equity and liabilities		**1,932,702**	1,859,235

The prior period results have been restated as a result of a change in accounting policy following the IFRIC agenda decision on the treatment of configuration and customisation costs. Further details are included within note 3.

The notes on pages 30 to 45 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 2021

	Share capital	Share premium	Capital contribution reserve	Retained earnings	Total
	£000	£000	£000	£000	£000
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
Balance as at 1 April 2021	**30,506**	**1,400**	**30,150**	**50,589**	**112,645**
Adjustment to opening balance	**-**	**-**	**-**	**(2,304)**	**(2,304)**
Restated balance as at 1 April 2021	**30,506**	**1,400**	**30,150**	**48,285**	**110,341**
Loss for the period	**-**	**-**	**-**	**(70,134)**	**(70,134)**
Other comprehensive income	**-**	**-**	**-**	**6,522**	**6,522**
Total comprehensive loss	**-**	**-**	**-**	**(63,612)**	**(63,612)**
Balance as at 30 September 2021	**30,506**	**1,400**	**30,150**	**(15,327)**	**46,729**
Balance as at 1 April 2020 (restated)	26,506	1,400	30,150	127,767	185,823
Loss for the period (restated)	-	-	-	(37,228)	(37,228)
Other comprehensive loss	-	-	-	(14,868)	(14,868)
Total comprehensive loss (restated)	-	-	-	(52,096)	(52,096)
Balance as at 30 September 2020 (restated)	26,506	1,400	30,150	75,671	133,727

The prior period results have been restated as a result of a change in accounting policy following the IFRIC agenda decision on the treatment of configuration and customisation costs. Further details are included within note 3.

The notes on pages 30 to 45 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 2021

	Note	30 September 2021 £000 Unaudited	30 September 2020 (restated) £000 Unaudited
Cash flows from operating activities			
Cash generated from operations	18	**40,771**	43,470
Interest paid		**(26,799)**	(25,277)
Tax paid		**(118)**	(1)
Net cash flows from operating activities excluding capital contributions		**13,854**	18,192
Capital contributions		**19,166**	29,855
Net cash flows from operating activities		**33,020**	48,047
Cash flows from investing activities			
Investment in short-term deposits		**72**	5,012
Purchases of property, plant and equipment		**(63,076)**	(59,884)
Proceeds from sale of property, plant and equipment		**-**	32
Purchases of intangible assets		**(8,545)**	(3,255)
Interest received		**13,276**	6,585
Net cash flows used in investing activities		**(58,273)**	(51,510)
Cash flows from financing activities			
Principal elements of lease payments		**(1,796)**	(1,851)
Net cash flows used in financing activities		**(1,796)**	(1,851)
Net decrease in cash and cash equivalents		**(27,049)**	(5,314)
Cash and cash equivalents at start of period		**84,766**	85,587
Cash and cash equivalents at end of period		**57,717**	80,273

The prior period results have been restated as a result of a change in accounting policy following the IFRIC agenda decision on the treatment of configuration and customisation costs. Further details are included within note 3.

The prior period has also reclassified £6,437,000 of interest receivable on inflation swaps to interest received. Previously this was netted off against interest paid.

The notes on pages 30 to 45 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 2021.

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 2021 were approved by the Board of directors on 28 June 2021 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 Board, the company's chief operating decision maker, during the current and previous financial period on a combined basis, the company presents its results under a single segment for financial reporting purposes.

2. Basis of preparation

These condensed interim financial statements for the six months ended 30 September 2021 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 2021 in compliance with the requirements of Financial Reporting Standard 101: 'Reduced disclosure framework' ('FRS 101').

Under FRS 101, the company applies the recognition and measurement requirements of international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union 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 2021, which is available on our website: *affinitywater.co.uk/performance.*

Going concern

The directors consider it appropriate to adopt the going concern basis of accounting in preparing the condensed interim 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. This is based on assessment of the principal risks of the company (refer to page 23) and consideration of the company's budgeted cash flows, short- and long-term forecasts and ability to generate future revenues, related assumptions and available debt facilities.

Whilst the current economic environment as a result of COVID-19 is clearly challenging, the company has put in place suitable mitigating actions to ensure that even under a severe but plausible downside scenario, the company is not forecasting any covenant breaches.

Notes to the condensed interim financial statements (continued)

2. Basis of preparation (continued)

Going concern (continued)

To assess the severe but plausible downside scenario, management have considered a base case scenario that reflects the current market conditions under the pandemic and have applied a series of severe downside assumptions including a reduction in revenue and an increase in bad debt as a result of the pandemic. Management also considered the impact of a severe cold weather event over the winter period and a further increase in operating expenditure. The base case has taken into consideration the impact of COVID-19 on the company, reflecting that the pandemic has impacted non-household and household revenues, with only the latter adjusted for as part of the revenue adjustment mechanism. The pandemic has also increased our adverse bad debt projections and customer collections and has reprofiled capital expenditure from projects delayed during the first year of AMP7.

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.

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 2021, except in relation to taxation and cloud computing arrangements.

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 year restatement

In April 2021, the IFRS Interpretations Committee agenda decision on the treatment of configuration and customisation costs in a cloud computing arrangement was ratified by the International Accounting Standards Board. As such, the company has changed its accounting policy from capitalising all costs directly attributable to configuration and customisation in a cloud computing arrangement, to expensing such costs if the company does not have control of the developed software.

This change in accounting policy has led to a restatement of the income statement and statement of financial position in prior period as per detailed below:

Income statement	**Six months ended 30 September 2020 £000**
Administrative expenses – cost of ERP system	(1,595)
Administrative expenses – write back of depreciation on ERP system	93
Tax (expense)/credit – deferred tax impact of the above	287
Total restatement of profit/(loss) for the period	(1,215)

Notes to the condensed interim financial statements (continued)

3. Accounting policies (continued)

Prior year restatement (continued)

Statement of financial position	31 March 2021 £000	31 March 2020 £000
Intangible assets	(2,895)	(1,192)
Total assets	**(2,895)**	**(1,192)**
Retained earnings	(2,304)	(1,151)
Deferred tax liabilities	(591)	(41)
Total equity and liabilities	**(2,895)**	**(1,192)**

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 2021, which are available on our website: *affinitywater.co.uk/performance.*

Notes to the condensed interim financial statements (continued)

5. Revenue

	Six months ended 30 September 2021 £000 Unaudited	Six months ended 30 September 2020 £000 Unaudited
Timing of revenue recognition – at a point in time		
Unmeasured supplies	**49,959**	50,487
Measured supplies	**78,323**	73,710
Non-household wholesale revenue	**24,601**	15,256
Connection charges	**4,048**	3,753
Chargeable services	**-**	13
	156,931	143,219
Timing of revenue – over time		
Requisitioned mains/extensions	**298**	292
Diversions	**1,690**	168
Infrastructure charges	**562**	515
Other	**90**	76
	2,640	1,051
	159,571	144,270

6. Operating profit

	Six months ended 30 September 2021 £000 Unaudited	Six months ended 30 September 2020 (restated) £000 Unaudited
Operating profit is stated after charging:		
Water abstraction charges	**2,098**	1,993
Business rates	**7,835**	7,839
Depreciation of tangible fixed assets	**30,639**	29,352
Amortisation of other intangible assets	**5,681**	4,353
Depreciation of right-of-use assets	**1,802**	1,877
Provision for company restructure	**2,600**	-
Infrastructure renewals expense	**9,533**	8,281

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

The prior period results have been restated as a result of a change in accounting policy following the IFRIC agenda decision on the treatment of configuration and customisation costs. Further details are included within note 3.

Notes to the condensed interim financial statements (continued)

7. Finance income and costs

	Six months ended 30 September 2021 £000	Six months ended 30 September 2020 £000
	Unaudited	Unaudited
Finance income:		
Bank interest income	**20**	148
Net interest receivable on RPI linked inflation swaps	**3,778**	2,951
Net interest receivable on CPI linked inflation swaps	**3,500**	2,794
Net income from post-employment benefits	**736**	1,213
	8,034	7,106
Finance costs:		
Interest payable on loan from parent company	**(80)**	(80)
Interest payable on loans from subsidiary undertakings	**(18,893)**	(18,789)
Accretion payable in respect of interest on loans from subsidiary undertakings	**(14,388)**	(4,833)
Accretion payable on financial instrument	**(11,880)**	(1,355)
Interest payable on lease liabilities	**(144)**	(158)
Other	**(47)**	(523)
	(45,432)	(25,738)
Fair value gain/(loss) on financial instruments:		
Fair value loss on inflation swaps	**(14,995)**	(37,936)
Fair value gain on energy swaps	**11,343**	-
	(3,652)	(37,936)
Net finance costs	**(41,050)**	(56,568)

8. Tax (expense)/credit

Tax (expense)/credit is recognised based on management's estimate of the weighted average annual corporation tax rate expected for the full financial year. The estimated average annual tax rate used for the year to 31 March 2022 is 47.2% (the estimated tax rate for the year to 31 March 2021 was 18.5%).

The company is forecasting a loss before tax for the year to 31 March 2022; therefore, no corporation tax will be charged. The tax expense in the condensed interim financial statements for the period ended 30 September 2021 is a deferred tax charge.

In the Spring Budget 2020, the Government announced that from 1 April 2020 the Corporation Tax rate would remain at 19.0% (rather than reducing to 17.0%, as previously enacted). This new law was substantively enacted on 17 March 2020.

In the Spring Budget 2021, the Government announced that from 1 April 2023 the Corporation Tax rate will increase to 25.0%. This new law was substantively enacted on 24 May 2021. The deferred tax liability has increased by £57.4m as a result, with an equivalent charge to the income statement made in the six-month period ended 30 September 2021.

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 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**

	PPE	Right-of-use assets	Other intangible assets (restated)
	£000	£000	£000
	Unaudited	Unaudited	Unaudited
Six months ended 30 September 2020			
Opening net book amount as at 1 April 2020	1,479,039	12,436	44,576
Additions	59,997	401	3,255
Disposals	(982)	-	-
Depreciation and amortisation	(29,352)	(1,877)	(4,353)
Closing net book amount as at 30 September 2020	1,508,702	10,960	43,478

The prior period results have been restated as a result of a change in accounting policy following the IFRIC agenda decision on the treatment of configuration and customisation costs. Further details are included within note 3.

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 2021	Year ended 31 March 2021	Six months ended 30 September 2020
	Unaudited	Audited	Unaudited
Discount rate	**1.95% pa**	1.95% pa	1.50% pa
Salary growth	**3.40% pa**	3.25% pa	3.05% pa
RPI	**3.40% pa**	3.25% pa	2.85% pa
CPI	**2.90% pa**	2.75% pa	2.05% pa
Life expectancy for a male pensioner from age 65 (years)	**22**	22	22
Life expectancy for a female pensioner from age 65 (years)	**24**	24	24
Life expectancy from age 65 (years) for a male participant currently aged 45 (years)	**23**	23	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 2.90% per annum (31 March 2021: 2.75% 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 2021 £000	Six months ended 30 September 2020 £000
	Unaudited	Unaudited
Total current service cost of the Affinity Water Pension Plan	**(2,059)**	(1,329)
Contributions from participating employer	**-**	40
Interest cost on defined benefit obligation	**(4,485)**	(4,495)
Interest return on assets	**5,221**	5,708
	(1,323)	(76)

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

	30 September 2021 £000	31 March 2021 £000
	Unaudited	Audited
Fair value of plan assets	**566,497**	540,370
Present value of funded obligations	**(482,813)**	(465,838)
Post-employment benefit surplus in the statement of financial position	**83,684**	74,532

The latest actuarial valuation of the AWPP, determined by an independent qualified actuary, was at 31 December 2020. This actuarial valuation showed that the AWPP had a funding deficit relative to its statutory funding objective. To eliminate this shortfall and fund the future cost of benefits being accrued, the company signed a new schedule of contributions effective from July 2021.

Notes to the condensed interim financial statements (continued)

11. Derivative financial instruments

	30 September 2021 £000 Unaudited	31 March 2021 £000 Audited
Non-current assets:		
Fair value of energy swaps	**11,343**	-
	11,343	-
Non-current liabilities:		
Fair value of RPI linked inflation swaps	**14,772**	7,976
Accretion on RPI linked inflation swaps	**14,719**	7,721
Fair value of CPI linked inflation swaps	**48,646**	40,447
Accretion on CPI linked inflation swaps	**6,437**	1,547
	84,574	57,691

12. Trade and other receivables

	30 September 2021 £000 Unaudited	31 March 2021 £000 Audited
Non-current:		
Other receivables	-	184
Current:		
Trade receivables	**102,843**	58,532
Less: loss allowance for trade receivables	**(34,040)**	(34,027)
	68,803	24,505
Amounts owed by group undertakings	**57**	-
Interest receivable from external parties	**1,666**	7,630
Other receivables	**7,619**	4,868
Unbilled accrual for metered customers	**40,335**	39,452
Prepayments and accrued income	**6,524**	7,746
	125,004	84,201
	125,004	84,385

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 2021 (unaudited) and 1 April 2021 (audited)	**305,058**	**30,506**	**1,400**	**30,150**	**62,056**
At 30 September 2020 (unaudited) and 1 April 2020 (audited)	265,058	26,506	1,400	30,150	58,056

In March 2021, the company issued 40,000,000 shares of £0.10 each, increasing its ordinary share capital by £4,000,000 to £30,506,000.

14. Trade and other payables

	30 September 2021 £000 Unaudited	31 March 2021 £000 Audited
Non-current:		
Deferred grants and contributions	**214,759**	150,806
Current:		
Trade payables	**10,658**	23,678
Amounts due to group undertakings	**541**	537
Interest payable to subsidiary companies	**6,642**	13,858
Commitment fees	**69**	55
Social security and other taxes	**1,641**	1,654
Other payables	**5,687**	8,615
Capital accruals	**21,443**	16,833
Deferred grants and contributions	**17,003**	3,369
Payments received in advance	**80,024**	145,319
Deferred income	**52,072**	1,144
Other accruals	**35,052**	32,838
	230,832	247,900
	445,591	398,706

Notes to the condensed interim financial statements (continued)

15. Borrowings and loans

	30 September 2021 £000 Unaudited	31 March 2021 £000 Audited
Non-current		
Loan from Affinity Water Finance (2004) PLC financed by bond issue	**252,751**	252,999
Loan from Affinity Water Finance PLC financed by bond issue	**852,704**	838,496
Loan from intermediate parent company	**3,550**	3,550
Debenture stock	**34**	34
	1,109,039	1,095,079

Movements in borrowings are analysed as follows:

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**

Six months ended 30 September 2020	£000 Unaudited
Opening amount as at 1 April 2020	1,090,641
Indexation on loans from subsidiary undertakings	4,833
Amortisation on loans from subsidiary undertakings	(401)
Closing amount as at 30 September 2020	1,095,073

The company has the following undrawn committed borrowing facilities:

	30 September 2021 £000 Unaudited	31 March 2021 £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 2021 £000	31 March 2021 £000
Non-current:		
Lease liabilities	**5,834**	6,016
Current:		
Lease liabilities	**3,346**	3,667

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

	30 September 2021 £000	30 September 2020 £000
Depreciation charge of right-of-use assets (refer to note 9)	**1,802**	1,877
Interest expense on lease liabilities (refer to note 7)	**144**	158
Principal elements of lease payments included within cash flows from financing activities	**1,796**	1,851
Interest payments included within cash flows from operating activities	**144**	158
Total cash outflow for leases in the statement of cash flows	**1,940**	2,009
Additions to right-of-use assets (refer to note 9)	**1,292**	401
Carrying amount of right-of-use assets (refer to note 9)	**8,998**	10,960

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

17. Provisions for other liabilities and charges

Six months ended 30 September 2021	**Deferred tax £000**	**Insurance £000**	**Other £000**	**Total £000**
	Unaudited	**Unaudited**	**Unaudited**	**Unaudited**
Opening amount at 1 April 2021	**181,141**	**2,726**	**848**	**184,715**
Adjustment to opening balance	**(591)**	**-**	**-**	**(591)**
Restated amount at 1 April 2021	**180,550**	**2,726**	**848**	**184,124**
Impact of change in tax rate	**57,455**	**-**	**-**	**57,455**
(Credited)/charged to the income statement	**(11,316)**	**89**	**2,600**	**(8,627)**
Credited to other comprehensive income	**1,530**	**-**	**-**	**1,530**
Utilised in the period	**-**	**(210)**	**(178)**	**(388)**
Closing amount at 30 September 2021	**228,219**	**2,605**	**3,270**	**234,094**
Six months ended 30 September 2020				
Opening amount at 1 April 2020	198,644	4,837	1,277	204,758
Adjustment to opening balance	(41)	-	-	(41)
Restated amount at 1 April 2020	198,603	4,837	1,277	204,717
(Credited)/charged to the income statement (restated)	(8,461)	524	-	(7,937)
Credited to other comprehensive income	(3,488)	-	-	(3,488)
Utilised in the period	-	(322)	(114)	(436)
Closing amount at 30 September 2020 (restated)	186,654	5,039	1,163	192,856

The prior period results have been restated as a result of a change in accounting policy following the IFRIC agenda decision on the treatment of configuration and customisation costs. Further details are included within note 3.

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 £2,605,000 is presented as a non-current liability in the statement of financial position.

Included within the provision as at 30 September 2020 is an amount of £2,298,000, which was recoverable from the company's insurer. The provision above is shown gross, with the corresponding receivable disclosed as a non-current other receivable in the company's condensed interim statement of financial position.

Other provisions

Other provisions include £2,600,000 (30 September 2020: £494,000) in relation to a corporate reorganisation, which is expected will be utilised by 31 March 2022 and is therefore presented as a current liability in the company's condensed interim statement of financial position, and £670,000 (30 September 2020: £670,000) in relation 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.

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

18. Notes to the condensed interim statement of cash flows

a) Cash generated from operations

	30 September 2021	30 September 2020 (restated)
	£000	£000
	Unaudited	Unaudited
Loss before tax	**(23,995)**	(45,689)
Adjustments for:		
Depreciation of property, plant and equipment	**30,639**	29,352
Depreciation of right-of-use assets	**1,802**	1,877
Amortisation of intangible assets	**5,681**	4,353
Amortisation of grants and contributions	**(2,640)**	(1,051)
Profit on sale of property, plant and equipment	**-**	(32)
Loss on disposal of infrastructure assets	**344**	933
Post-employment benefits	**(364)**	(1,172)
Net finance costs	**41,050**	56,568
Changes in working capital:		
- Inventories	**(416)**	(908)
- Trade and other receivables	**(40,619)**	(36,325)
- Trade and other payables	**29,289**	35,564
Cash generated from operations	**40,771**	43,470

The prior period results have been restated as a result of a change in accounting policy following the IFRIC agenda decision on the treatment of configuration and customisation costs. Further details are included within note 3.

b) Reconciliation of liabilities arising from financing activities

	At 1 April 2021	**Cash flow**	**Non-cash flows**	**At 30 September 2021**
	£000	**£000**	**£000**	**£000**
	Audited	**Unaudited**	**Unaudited**	**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**

	At 1 April 2020	Cash flow	Non-cash flows	At 30 September 2020
	£000	£000	£000	£000
	Audited	Unaudited	Unaudited	Unaudited
Loan from Affinity Water Finance (2004) PLC financed by bond issue	253,462	-	(223)	253,239
Loan from Affinity Water Finance PLC financed by bond issue	833,595	-	4,655	838,250
Loan from intermediate parent company	3,550	-	-	3,550
Lease liabilities	12,559	(2,009)	560	11,110
Debenture stock	34	-	-	34
Total liabilities arising from financing activities	1,103,200	(2,009)	4,992	1,106,183

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 2021 (refer to note A4 to the financial statements for the year ended 31 March 2021).

There have been no changes in any risk management policies since 31 March 2021.

Fair value of financial assets and liabilities

	30 September 2021 £000 Unaudited	31 March 2021 £000 Audited
Non-current:		
Bonds	**1,457,905**	1,496,837
Inflation swaps	**84,574**	57,691
	1,542,479	1,554,528

Between 1 April 2021 and 30 September 2021, market interest rates increased, 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 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 £12,544,000 at 30 September 2021 (31 March 2021: £20,828,000).

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 2021** Value £000 Unaudited	**Six months ended 30 September 2021** Balance £000 Unaudited	Six months ended 30 September 2020 Value £000 Unaudited	Six months ended 30 September 2020 Balance £000 Unaudited
Affinity Water Capital Funds Limited	Group undertaking	Support services	**122**	**57**	201	201
Vistry Group PLC	Shared director (since 11 January 2021)	Water bills and new connection charges	**17**	**1**	-	-

Payments	Nature of relationship	In respect of	**Six months ended 30 September 2021** Value £000 Unaudited	**Six months ended 30 September 2021** Balance £000 Unaudited	Six months ended 30 September 2020 Value £000 Unaudited	Six months ended 30 September 2020 Balance £000 Unaudited
Allianz Global Corporate and Specialty AG	Common ownership	Insurance	**1,084**	**-**	**1,009**	**-**
Allianz Insurance plc	Common ownership	Insurance	**-**	**-**	**1**	**-**
SSE plc	Shared director (up until 29 January 2021)	Electricity	**-**	**-**	**5,296**	**160**
Affinity Water Capital Funds Limited	Group undertaking	Interest on loan	**80**	**-**	**80**	**-**
Affinity Water Finance (2004) PLC	Subsidiary undertaking	Interest on loan	**7,116**	**3,179**	**7,129**	**3,179**
Affinity Water Finance PLC Limited	Subsidiary undertaking	Interest on loan	**26,174**	**3,462**	**16,492**	**3,368**

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.

22. Events occurring after the reporting period

In October 2021, we issued our first green bond with a nominal amount of £130,000,000 and total proceeds of £147,762,000, which will be used to fund projects which are fundamental to our Sustainability Strategy and will support our environmental objectives.

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 2021 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.

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 2021, with the exception that Jaroslava Korpanec resigned as a director on 1 July 2021 and Roxana Tataru was appointed on 1 July 2021. Pauline Walsh also resigned as a director on 17 September 2021. 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 2021