Your local supply, on tap

Investor Report

Affinity Water Limited ('Affinity Water')

Twelve-month period ended 31 March 2021

Published on 29 July 2021

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1 Affinity Water at a glance

Affinity Water Limited is 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 as at 31 March 2021:

Daily amount of drinking water supplied……950 Ml

Population served………………………..…....3.83 million

Household properties connected……….........1.47 million

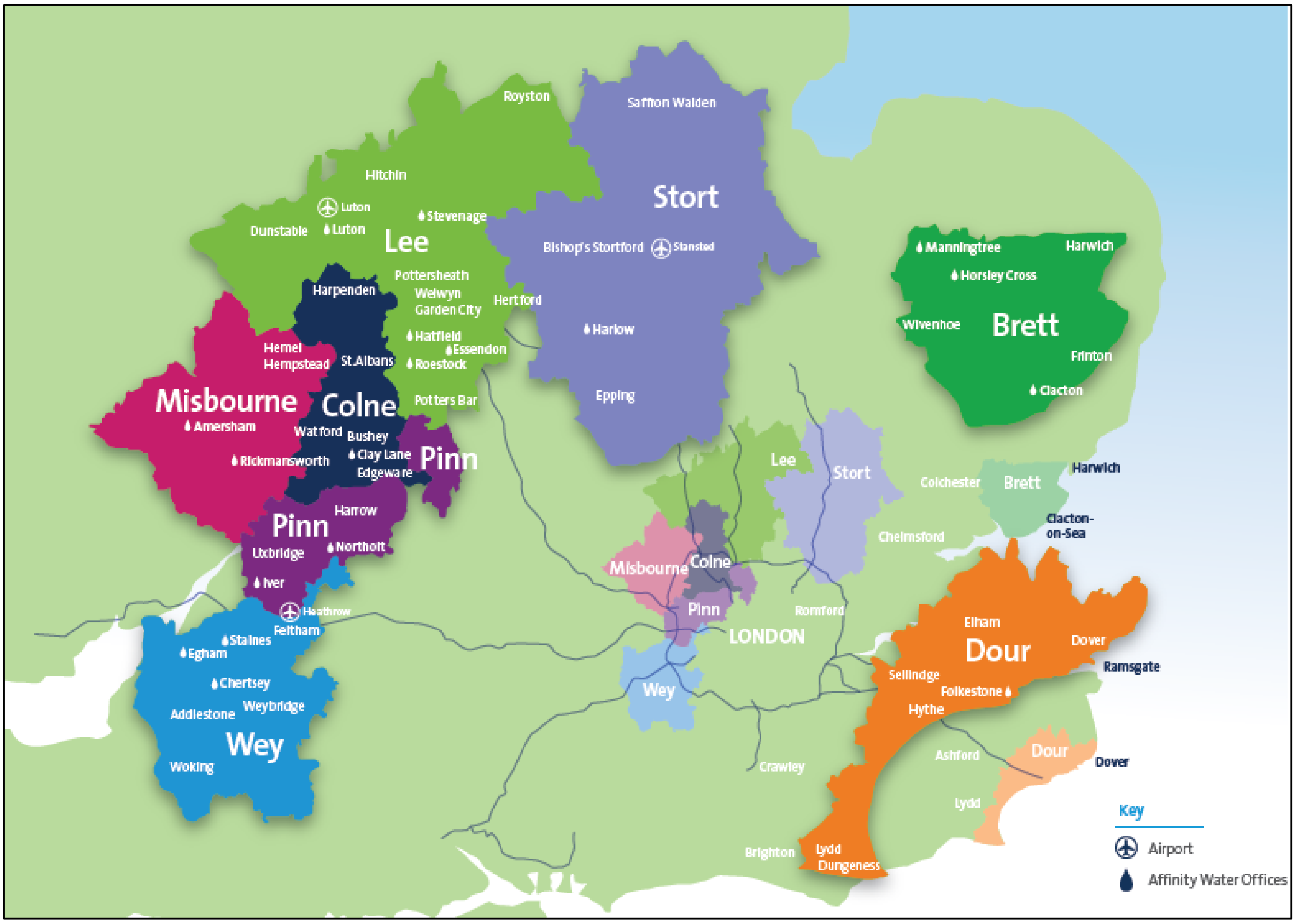
Length of mains network……………………......16,800 km

Number of water treatment works.................93

Planned AMP7 investment……….................£1.44bn

Number of employees (excluding directors)..1,407

Our average RCV in the year………………..….£1.258bn



2 Operational highlights

Supplying high quality drinking water

We recorded a CRI score of 1.31 for the 2020 calendar year, within the deadband of 2.00 and improving upon our 2019 performance of 1.73, where a lower score is a better position

Leaving more water in the environment

We recorded leakage of 171.4 Ml/d, a reduction of 9.7 Ml/d compared to the prior year, although not achieving our target of less than 157.8 Ml/d for 2020/21.

We recorded Per Capita Consumption ('PCC') of 169.3 l/p/d, an increase of 14.3 l/p/d compared to the prior year and above our target of less than 147.4 l/p/d for 2020/21.

We saw a marked improvement in the number of lost time injuries per 100,000 hours worked throughout AMP6 as we revised our strategy and improvement plan to focus on a number of safety and health initiatives.

This trend has continued in 2020/21, as we recorded 0.12 injuries per 100,000 hours worked, compared to a target of 0.20 injuries and 0.20 injuries in 2019/20.

Minimising disruption to our customers

The number of repairs due to bursts per 1,000km of mains during 2020/21 was 155.8 compared to our target of less than 150.7 and prior year performance of 125.4. The number of minutes per property where interruptions to supply exceeded 3 hours during 2020/21 was 5 minutes and 49 seconds compared to our target of 6 minutes and 30 seconds and prior year performance of 13 minutes and 36 seconds.

Providing a value for money service

Our C-MeX score for 2020/21 was 77.88 compared to an industry mean average of 81.62. This score is not comparable to the prior year score due to a change in Ofwat's methodology for this metric. We ranked 15th out of 17 companies, compared to our target of 14th and prior year ranking of 15th. Written complaints have fallen 19.2%, and escalations have fallen 55.2%, compared with 2019/20.

3 Financial highlights

Revenue (£m)	286.8	2020: 307.2
Loss for the year (£m)	(51.3)	2020: (21.7)
Regulatory Capital Value (RCV) (£m)	1,303.2	2020: 1,232.6
Senior Net Indebtedness (£m)	990.7	2020: 972.9
Gearing (%)	76.0%	2020: 78.9%
Conformed Senior Adjusted Interest Cover (times)	1.5	2020: 1.6

4 Our purpose, vision and commitments

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 vision is:

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

Our vision to be the UK’s leading community-focused water company reflects the importance we place on the way our people work within the communities we serve. By continually increasing our focus on customers we strive to deliver improvements in the service we provide.

Going into AMP7, we agreed challenging commitments with our regulator, Ofwat. We recognise these commitments, and we owe it to our customers to achieve these targets. We want our customers and stakeholders to be able to measure our success and hold us to account. Our AMP7 commitments and customer outcomes included in our Business Plan are summarised on the next page.

These commitments are a response to the significant environmental, social and governance (‘ESG’) challenges we face of a rising population and increased demand for water, as well as a reduction in the availability of water in years ahead. We continue to align our operational KPIs and targets to the key performance commitments made in our Business Plan in response to our customer outcomes:

- Supplying high quality water you can trust;
- Making sure you have enough water, whilst leaving more water in the environment;
- Providing a great service that you value; and
- Minimising disruption to you and your community.

Outcomes	Commitments	Financial/ reputational
Supplying high quality water you can trust	• Reduce the number of contacts about appearance, taste and odour to 0.67 per thousand population by 2024/25	Financial
	• Meet water quality standards on compliance failures by scoring less than 2 annually in DWI's new water quality measure CRI	Financial
Making sure you have enough water, whilst leaving more water in the enviornment	• 20% leakage reduction on a 3-year average from the 2019/20 baseline	Financial
	• 12.5% reduction in PCC on a 3-year average from the 2019/20 baseline	Financial
	• Complete river restoration and habitat enhancement projects under the Water Framework Directive	Financial
	• Reduce water abstraction by 27.3 Ml/d by 2024/25	Financial
	• Complete 8 environmental pilot projects working in partnership with our local communities	Financial
	• Delivery of schemes within the WINEP programme	Reputational
	• Reduce abstraction from environmentally sensitive sites to nil when flows or levels are low	Financial
Providing a great service that you vaule	• Improve the overall customer experience provided to our household customers	Financial
	• Improve the overall experience provided to developer services customers including property developers, self-lay providers and New Appointments and Variations ('NAVs')	Financial
	• Proactively provide assistance to more of our customers in vulnerable circumstances by understanding and prioritising their needs	Reputational
	• 90% of customers in vulnerable circumstances receiving financial help are satisfied with the service from us	Reputational
	• 90% of customers in vulnerable circumstances receiving financial help found us easy to deal with	Reputational
	• 90% of customers in vulnerable circumstances receiving non-financial help are satisfied with the service from us	Reputational
	• 90% of customers in vulnerable circumstances receiving non-financial help found us easy to deal with	Reputational
	• Maintain the BSI standard for inclusive service provision throughout 2020-2025, ensuring our services are accessible, easy and supportive for all	Reputational
	• Achieve a score of at least 7.8 out of 10 for customer satisfaction in a Value for Money survey	Reputational
	• Identify at least 50 household property gap sites per year	Financial
	• Proactively reducing the number of household properties falsely classed as empty on our billing system to 2.10% in 2024/25	Financial
Minimising disruption to you and your community	• Reduce supply interruptions to customers to 5 minutes in 2024/25	Financial
	• No more than 320 properties affected by a supply interruption per year of more than 12 hours duration - this includes planned interruptions	Financial
	• Improve IT resilience by a 29% reduction in the impact of disruption to customers and employees by 2024/25	Reputational
	• Reduce the properties at risk of receiving low pressure to 1.118 per thousand properties by 2024/25	Financial
	• Reduce the average time each property experiences low water pressure to less than 8 hours 42 minutes in 2024/25	Reputational
	• To have no customers at risk of experiencing severe restrictions in a 1-in-200 drought on average over 25 years	Reputational
	• Reduce the number of mains repairs to 142.3 per thousand kilometres of network	Financial
	• To keep outage of production capacity below 2.34% between 2020-2025	Financial

5 Our social and environmental highlights

Our customers

Customer service is of utmost importance to us, and we recognise there are many areas we need to improve on in order to climb up the league table and reach our ultimate goal of a top 4 ranking by the end of AMP7. We are launching a brand campaign in 2021/22 aimed at improving customer awareness, perception of value for money, and trust, in addition to changing behaviors around water usage.

- Written complaints have fallen **19.2%,** and escalations have fallen **55.2%,** compared with 2019/20
- We have achieved a Customer Measure of Experience (‘C-MeX’) score of **77.88** which we aim to continually improve against an industry average of 81.62, ranking us 15th out of 17.
- Our Developer Measure of Experience (‘D-MeX’) score during the year ended 31 March 2021 equated to **84.39** compared to an industry mean average of 82.44. We were placed 10th out of 17 companies in the industry league table, up from 16th in the shadow year 2019/20, with consistent improvement in position quarter-on-quarter during 2020/21

85,000 households are now supported by our social tariffs, and **66,000** households are listed on our Priority Services Register

Since its inception in 1992, our Asset Performance Lab has processed more than **6,600 pipe samples** allowing us to determine deterioration rates and inform future investment

Our assets and sites

We continuously invest in our physical assets, both above and below ground, as well as meeting our environmental obligations such as biodiversity. We balance costs, risks, and performance to ensure we prioritise our investments.

This year, we have spent £128.2m to meet our commitments to our customers and the environment. This investment will be key to maintaining resilience in our network.

To minimise disruption in our communities, we have a proactive approach to replacing our underground assets based on age, condition, and burst history. We met our mains renewals target of 13.6km by 31 March 2021, of which 0.8km were trunk mains, despite our AMP7 investment programme being delayed slightly as all non-essential work ceased during the UK Government's first national lockdown period.

During 2020/21, we assessed 10% of the monitoring equipment on our larger diameter pipes, upgrading where our risk assessment found it necessary. We also explored innovation in leakage detection and network monitoring to be able to find and respond to bursts, and to resolve any water supply issues as quickly as possible.

Our community

We are privileged to serve our communities. Being the monopoly supplier and steward of a precious resource for future generations, we are acutely aware that we must continually invest in building trust and legitimacy with our customers and make ourselves accountable to our communities for our performance.

For our customers, we have publicised our Priority Services Register and promoted our collaboration with the National Debtline charity in order to better aid our customers with any debt-related issues. We also proactively contacted customers who we thought could be more impacted by the pandemic, for example cash payers and have facilitated direct debit payments instead.

More than 7,000 people were given payment breaks during 2020/21 and we continue to support 85,000 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.

We also teamed up with seven other utility networks to provide a boost to local community foundations, contributing £15,000.

We donated **£105,000** to Community Foundations and the Chilterns Conservation Board during 2020/21

Our environment

14.3km of river improved across our catchments during 2020/21, bringing rivers back to a more natural state to improve habitat for wildlife

We produced **16,400 tonnes** of sludge cake at two of our water treatments works sites which is then taken and used for agricultural purposes

Affinity Water is at the forefront of climate change – our operations must be sensitive to the environment in which we operate – in the provision of water for society, in its abstraction from the environment and in the protection of water and the environment for future generations. Alongside the water industry, we have committed to achieving net zero carbon emissions by 2030 whilst continuing to provide high quality water.

In October 2020, we commenced a new water efficiency campaign using social media influencers and connecting consumers' water usage with the streams and rivers near their homes.

Our WhyNotWater campaign continued with its call to action to demand key changes to legislation and policy to help ensure long-term water sustainability. Some of the "asks" we set out are being incorporated into legislation, with mandatory water efficiency labelling on all goods and the target of restricting water use to 110 l/p/d in water stressed areas now on the Government's "to do" list.

As part of our environmental responsibilities, we have been working with Cambridge Water to pioneer a successful EnTrade online reverse auction to cut nitrate in soils. In 2020/21 we worked with 18 farms using an exciting cover crop scheme, aiming to capture 37.4 tonnes of nitrate which could otherwise leach into the chalk aquifers that are used to supply drinking water.

Taking action to restore priceless English chalk streams

On World Rivers Day we celebrated our chalk streams by voluntarily and permanently stopping abstraction from two boreholes in our Chess River catchment, within the Chiltern Hills, an Area of Outstanding Natural Beauty. Our action will help improve the ecology of the River Chess and maintain the amenity value for local communities.

We also sponsored the Chess Valley Challenge, a 10 mile walk along the River Chess bringing the local community together and raising awareness of the value of local rivers to us all.

Key stakeholders:

- Chilterns Conversation Board
- Environment Agency
- River Chess Association
- Chalk Stream Project
- Herts and Middlesex Wildlife Trust

Our people

242 line managers have been trained in Mental Health Awareness to raise their understanding of mental health

38 people appointed as Culture Ambassadors and **13** people appointed as Diversity and Inclusion Ambassadors

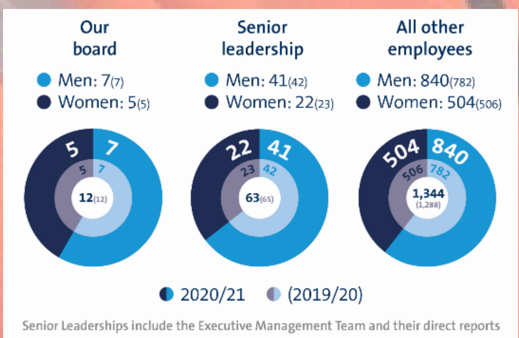
86% of respondents to our wellbeing survey conducted in May 2020, agreed that the company was supporting their health and wellbeing during the COVID-19 pandemic

Our people play a critical role in creating long-term value. Attracting and retaining highly motivated people who are proud to work for us is central to our ability to deliver outstanding service for customers.

We aspire to embed continuous innovation and improvement 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. 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 implemented a Business Excellence programme which is delivering tangible benefits to our customers and our employees and helping us drive efficiencies in our everyday ways of working.

We went 422 Days without a work-related lost-time injury between 1 August 2019 and 26 September 2020

Lost Time Injury Frequency Rate: 0.12 injuries per 100,000 hours worked



We published our Gender Pay report of April 2020 data on our website:

affinitywater.co.uk/responsibility

which showed a 1.6% widening in our mean gender pay gap from 19.0% in April 2019 to 20.6% in April 2020, primarily due to the proportion of women in administrative roles increasing, whilst the proportion in senior leadership decreased.

6 Operational performance

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

Supplying high quality water you can trust

A new measure, CRI, has been introduced to measure water quality performance in AMP7 which measures the compliance risk of every exceedance. The Drinking Water Inspectorate ('DWI') has published our CRI score for 2020 which is 1.31, this met our performance commitment of having a CRI score of 2.0 or less. Another measure of our performance is the number of serious and significant water quality events. During 2020 three events notified to the DWI were classified as serious or significant (2019: one event).

In the calendar year 2020 there were 30 exceedances of the relevant water quality standards from just under 180,000 compliance tests (0.017%) taken from our sites and consumer properties (2019: 50 exceedances from 190,000 compliance tests, 0.026%). Due to COVID-19 related restrictions, we were unable to take samples from randomly chosen properties, as required by the Water Supply (Water Quality) Regulations 2016 (as amended), from March 2020 onwards. Where possible we used fixed sample points and managed to collect over 85% of our expected consumer property sampling programme. This reduction in sample and associated tests as well as the non-random nature of the sampling does account for some of the reduction in exceedances seen in 2020.

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

We have committed to reducing leakage by 20% across the whole of AMP7, on top of the 15% delivered in AMP6, but we did not meet our target for the year despite investing both in additional resources and new technology to improve our leakage performance.

We invested in the latest acoustic leak detection equipment at the same time as using artificial intelligence to enhance our existing equipment and infrastructure. We also introduced a new customer side leakage policy and process that enables us to carry out free repairs on high volume leaks. We continue to closely monitor lower volume leaks, working collaboratively with our customers to get them fixed.

During 2020/21 we recorded PCC of 169.3 l/p/d, which is an increase of 14.3 l/p/d (9.2%) on the prior year (2020: 155.0 l/p/d). We experienced an unprecedented year for demand due to more people staying at home and within our supply area as a result of COVID-19, coupled with the hot weather period from May 2020 to August 2020, and had to adapt our delivery plan as a result, including offering virtual Home Water Efficiency Checks and retraining technicians.

We also met our target of installing 25,000 new meters during 2020/21 as part of our Universal Metering Programme which aims to install 200,000 meters across AMP7, as part of a plan to reduce water wastage by 130 Ml/d by 2025. We met our 2020/21 target despite putting the programme on hold during the first half of the year, and then working to new COVID-19 guidelines when it was safe for us to resume this activity.

Providing a great service that you value

In 2020/21, C-MeX, the new mechanism introduced by Ofwat for measuring customer experience, went live. Our overall C-MeX score during the year ended 31 March 2021 equated to 77.88, compared to an industry average of 81.62. Whilst our score represented a small improvement upon the shadow year, our ranking of 15th of the 17 water companies remained static.

This year, we have worked to bring together Community Operations and Customer Experience into one directorate focused on delivering improved experience right across the customer journey. We have introduced new operating models in operational teams, multi-skilled all contact centres to create a single team, enhanced our customer insights and defined new customer journeys including targeted communications with a single tone of voice, based on newly created personas.

We recognise that it is the Customer Experience element of C-MeX, based on customer perception and awareness, that has pulled down our score this year. In 2021/22 we will be launching an unprecedented brand campaign aimed at improving customer awareness, perception of value for money, and trust, in addition to changing behaviours around water usage. Together, this will ensure we are in a stronger position to climb up the C-MeX league table.

Our D-MeX score during the year ended 31 March 2021 equated to 84.39 compared to an industry average of 82.44. We placed 10th out of 17 companies in the industry league table, up from 16th in the shadow year 2019/20, with consistent improvement in position quarter-on-quarter during 2020/21. We halted Developer Service works during the first national lockdown as a result of COVID-19, which impacted negatively on our compliance levels of service metric. However, this was recovered following successful remobilisation of our teams at the end of May 2020, as effective planning helped to clear the backlog of jobs, with our quantitative performance average for the year recovering to 98%.

Minimising disruption to you and your community

We have failed to meet our target of 150.7 burst repairs per 1,000km of mains in the year. This has been a challenging target particularly over a very cold winter, and performance was on track until the severe weather hit in February 2021, as the number of bursts rose significantly during the freeze and subsequent thaw, with the impact being similar to the previous such incident, the ‘Beast from the East’ in 2018.

We have achieved our target of 6 minutes and 30 seconds as the average number of minutes our customer base has been affected by a supply interruption in the year.

This is the first year this has been a performance commitment for the company, although the metric has been tracked in preceding years. Considerable improvements have been made over the year reducing our impact to customers, reducing our prior year performance by nearly eight minutes from 13 minutes and 36 seconds in 2019/20.

We have failed to meet our target for unplanned interruptions greater than 12 hours and have incurred the full ODI penalty.

We have failed to meet our target of 1.645 properties at risk of low pressure per 10,000 properties, as the COVID-19 pandemic has significantly changed the way our customers are using water.

7 Financial performance

Financial results for the year ended 31 March 2021

	2021 £000	2020 £000
Revenue	**286,782**	307,240
Cost of sales	**(243,634)**	(227,820)
Gross profit	**43,148**	79,420
Administrative expenses	**(38,918)**	(42,839)
Impairment losses on financial and contract assets	**(8,318)**	(9,470)
Other operating income	**17,657**	18,449
Operating profit	**13,569**	45,560
Finance income	**15,770**	8,391
Finance costs	**(48,621)**	(52,044)
Fair value loss on financial instrument	**(44,218)**	(1,816)
Net finance costs	**(77,069)**	(45,469)
(Loss)/profit before tax	**(63,500)**	91
Income tax credit/(expense)	**12,222**	(21,773)
Loss for the financial year	**(51,278)**	(21,682)

Revenue

Revenue for 2020/21 was £286.8m, being a £20.4m (6.7%) decrease on the prior year (2020: £307.2m). Our non-household ('NHH') revenue decreased significantly due to businesses temporarily closing as a result of the pandemic. Household revenue increased only slightly as despite consumption significantly increasing (as households follow the UK Government's advice to stay at home) there was a bill reduction and a significant number of customers are on unmetered tariffs. New connections activity was also reduced during the year, resulting in lower contributions received.

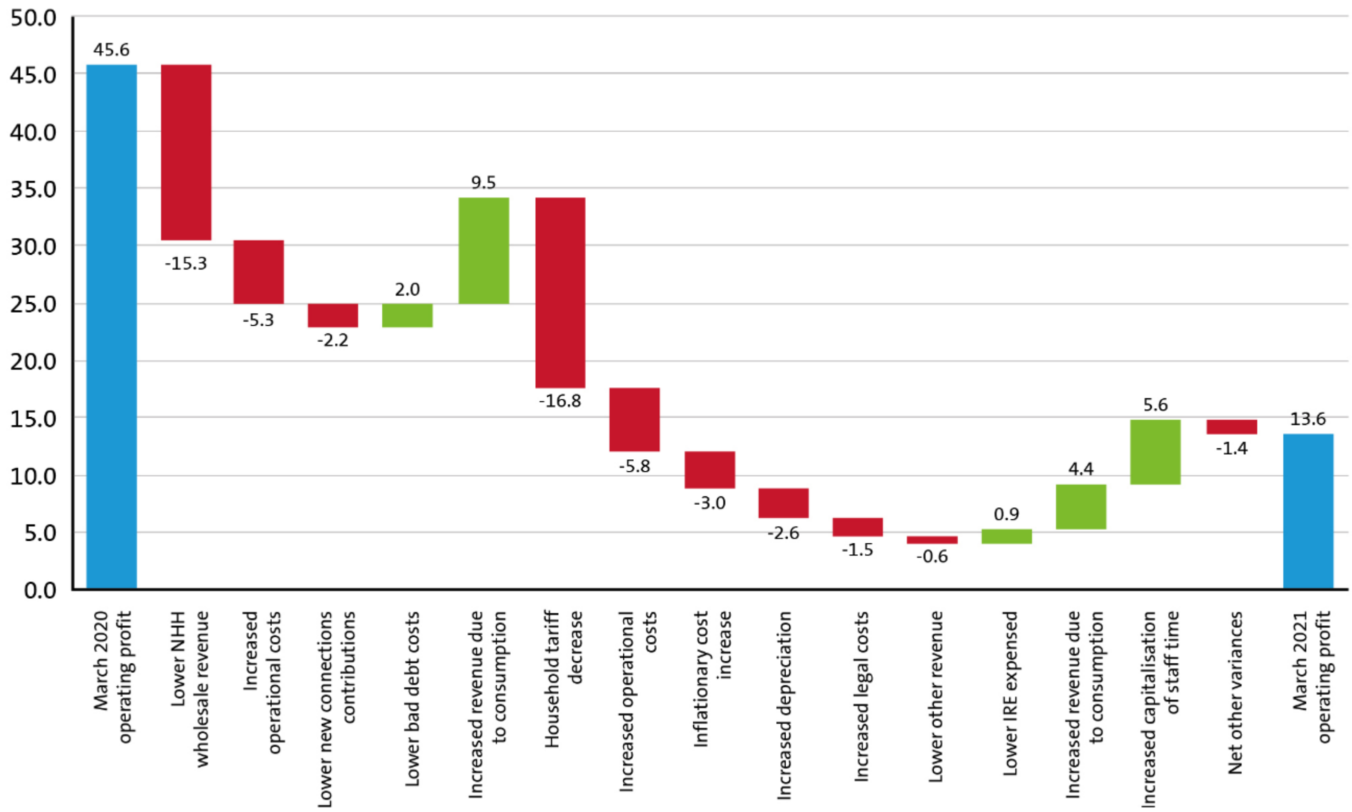
Operating expenditure

Operating costs for the year increased by £10.8m (3.9%) to £290.9m (2020: £280.1m). Of this, it has been estimated that £5.3m can be attributed to COVID-19 due to the increased demand and supply of water, particularly increasing our bulk water import and electricity costs as more people stay at home and within our supply area. There was a further £1.5m increase relating to the hot, dry summer weather, with the remainder relating to increased spend on materials and maintenance.

Inflation and depreciation continue to be higher year on year. Inflation increased by 1.47% between March 2020 and March 2021, increasing our cost base by £3.0m, whereas depreciation was £2.6m higher than the prior year as a result of increased investment in our assets. The £1.1m payment into Ofwat's innovation fund was also an added expense this year. These increases were partially offset by a lower bad debt charge for the year, and reduced staff costs, as more time was charged to capital projects in 2020/21.

Finance costs

The net finance expense of £77.1m was £31.6m (69.5%) higher than last year (2020: £45.5m), primarily as a result of the significantly increased fair value loss on our swaps due to the additional swap transactions during the year, and the mark to market movement thereon, although this was partially offset by increased interest income received on those swaps.



Loss before tax

Loss before tax for 2020/21 was £63.5m, being a £63.6m decrease on prior year (2020: profit of £0.1m).

Taxation

The income tax credit on loss before tax was £12.2m (2020: £21.8m charge). The effective current tax rate (19.2%; 2020: 23,929%) was slightly higher than (2020: higher than) the UK corporation tax rate of 19% (2020: 19%). 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.

In February 2021, we were reaccredited with the Fair Tax Mark for the third year running. Details of the tax strategy for our regulated business can be found within our regulatory Annual

Performance Report. Our group tax strategy of Daiwater Investment Limited, our ultimate holding and controlling company in the UK, is published on our website.

Capital expenditure

Capital expenditure in the year was £139.4m (2020: £129.9m), and was incurred principally in our mains renewals, trunk main replacement, water treatment (including pesticide treatment) and integrated water savings programmes. This excluded £16.5m (2020: £17.2m) of infrastructure renewal expenditure, which is treated as an operating cost under FRS 101. Our capital expenditure programme has been impacted by COVID-19, with some expenditure scheduled for 2020/21 having been delayed until later in AMP7.

Net debt and gearing

Our net debt as at 31 March 2021 was £994.1m, an increase of £21.2m since last year (2020: £972.9m) due to accretion on the index-linked bonds coupled with lower cash balances. Our gearing as measured by net debt to RCV at 31 March 2021 was 76.0% (2020: 78.9%), so has decreased during 2020/21 despite lower inflation, and remains below our internal maximum gearing level of 80.0% of RCV.

While we have higher gearing than some of our peers in the water industry, there is sufficient headroom within our financial covenants, which are only triggered at a level of more than 90.0%. It is our intention to continue to reduce our gearing over AMP7.

Dividends

Equity dividends of £1.0m were paid from our non-appointed business during the year (2020: £nil), in order to service group debt, reflecting the shareholders' commitment to re-invest all planned returns from the company's appointed business for the benefit of our customers.

Total Expenditure

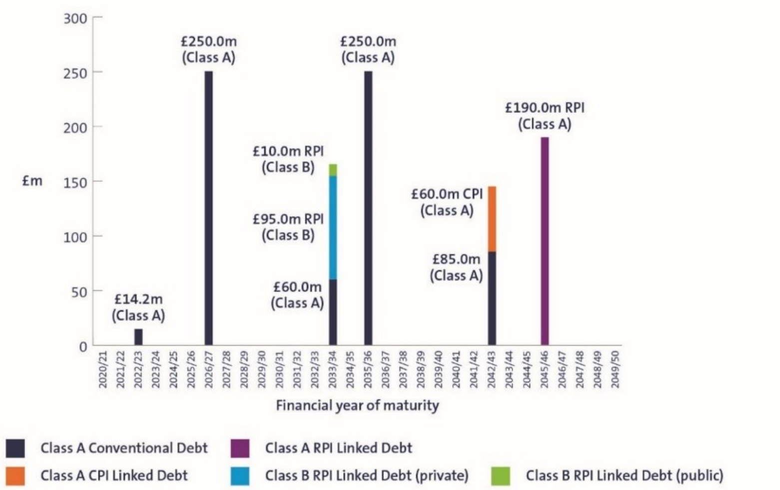
Our overall totex for 2020/21 showed an underspend of £30.7m (10.8%) in outturn prices compared to our allowed expenditure, although the amount we expect customers to fund through the sharing mechanism is only £2.9m (in 20/21 prices). This was primarily due to the reprofiling of capex works later in the AMP as a result of the COVID-19 pandemic.

8 Financing Update

We transacted £225.0m of CPI linked inflation swaps and £75.0m of RPI linked inflation swaps during 2020/21 in order to mitigate our interest cover ratio covenant. These transactions lead to a net interest receivable cashflow over the life of the swap, offset by an accretion payment on maturity (2026 for the RPI swap and either 2030 or 2036 for the CPI swap). There is no liquidity risk created by these transactions prior to these dates as there is no requirement to pay collateral prior to maturity.

In total, we now have inflation linked swaps with a notional value of £250m (CPI) and £210m (RPI). The proportion of debt linked to inflation is now 80.8% (2020: 53.0%).

The chart below shows the maturity profile of all the bonds issued by Affinity Water's financing subsidiaries:



The credit ratings for our subsidiaries' bonds assigned by the rating agencies, Moody's, Standard & Poor's and Fitch, at 31 March 2021 were as follows:

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

All three agencies affirmed credit ratings in April 2021.

9 Regulatory update

Asset Management Plan 7 ('AMP7')

During 2020/21, we have operated in extraordinary circumstances, against the political backdrop of the COVID-19 pandemic and the Government's restrictions intended to safeguard public health. We have implemented all the changes necessary to our operations to comply with the Government's instructions and to prioritise service continuity, adapting our ways of working as the pandemic evolved throughout the year. We have continued to cooperate with the Government, our regulators and other authorities to maintain the vital public water supply service.

Our new price controls for the period 2020-25 took effect this year. We have operated our business to deliver against the substantial challenges embodied in our five-year settlement although circumstances this year have been extremely difficult.

The Competition and Markets Authority ('CMA') published its final determination of 2020-25 controls for the four companies who appealed against their Final Determination, bringing PR19 to a close. Ofwat has already began work on the next price control review, PR24.

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 2% higher than in 2020/21.

Ofwat

Ofwat assess our operational performance against agreed performance commitments. Each performance commitment contains an operational delivery incentives ('ODI') which can carry a financial reward, penalty or both, which from 2021 onwards, for PCC, will not be realised 'in-period' due to COVID-19 and will be part of PR24. There are also reputational consequences for failures against performance commitments.

During 2020/21 we paid £1.1m into Ofwat's Innovation in Water Challenge, an industry-wide initiative to drive transformational change and better meet the evolving needs of customers, society and the environment.

In April 2021, Ofwat announced 11 winning projects, two of which we had led on – Seagrass Seeds of Recovery and Smarter Tanks, both of which will improve the efficiency and resilience of our water supplies.

10 Governance update

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

The Ofwat Board Leadership, Transparency and Governance Principles 2019 ('BLTG Principles') and the UK Corporate Governance Code 2018 served to change our corporate governance landscape. Our Board used this as a positive opportunity to refresh our approach to corporate governance, by adopting a new Affinity Water Corporate Governance Code ('AW Code'), which sets out how we seek to govern the company. It incorporates the BLTG Principles, relevant provisions of the UK Corporate Governance 2018.

Executive appointments

Steve Plumb joined as our Asset Strategy and Capital Delivery Director in April 2021 bringing a wealth of experience in infrastructure management, with a specific focus on asset strategy. He has a strong background in the Water Sector having worked with both Thames Water and Anglian Water, and more recently he has led transformation projects across the utility sector with PA Consulting.

In May 2021, **Dr Nicky Fomes** joined us as a Regulation and Strategy Consultant on an interim basis. Nicky previously worked with us in developing our final PR19 business plan.

In July 2021, **Tania Flasck** joined Affinity Water as Interim Director of HR and Culture. Tania comes with 30 years' experience in the water sector and brings broad experience that will support the HR & Culture team and build on some of the great transformation activities that we have embarked on.

Board appointments

On 29 January 2021, Tony Cocker stepped down as Chair and **Ian Tyler** was appointed as Chair of the board. Ian brings a wealth of experience and knowledge having worked across a number of different industry sectors. He qualified as a chartered accountant with Arthur Andersen in 1985, and over his career has gained considerable experience in building and transforming businesses in the UK and United States. An accomplished leader, Ian held a number of senior finance and operational positions within listed companies including Group Financial Controller at Storehouse plc, Financial Controller at Hanson plc, Finance Director at ARC Limited, Finance Director and Chief Operating Officer at Balfour Beatty plc before being appointed its Chief Executive for the period from 2005 to 2013.

On 1 July 2021, **Roxana Tataru** was appointed to the board as a non-executive director. Roxana has previously been a Board Observer for Allianz Capital Partners bringing a wealth of experience in banking, finance and capital markets across the sector.

11 Significant Business Developments

COVID-19

COVID-19, and responses to it, affected the personal and professional lives of all our stakeholders. We immediately recognised the need to adapt our ways of working to make sure the safety of our people, customers and suppliers remained our highest priority. Our robust business continuity plans were put into action so that we could ensure the continued supply of water to all our customers in the South East.

The Board received regular updates on the company's response to COVID-19, having weekly calls at the start of the pandemic to assess the implications and agree the company strategy in response to the change in working environment. The Board reviewed the emergency plan and agreed it was crucial to continue to meet the demands of the public whilst ensuring the utmost safety of employees. The Board considered updates from Public Health England, the NHS, World Health Organisation and the Foreign and Commonwealth Office.

During the pandemic, we have remained consistent with Government advice. Our depots and offices are COVID-19 secure and compliant, and more than 1,000 of our people have worked from home, including our customer contact centre which has been maintained throughout. Our IT teams and systems have ensured that we have been able to operate seamlessly, with none of our direct employees being furloughed. All of our employees are key workers and we have more than 750 people in the field. We have had new high-vis outerwear designed with a "Keep your distance" message in order to keep our people safe. Operationally we have continued to ensure that we provide high quality water to all our communities as well as support them during the current pandemic.

We experienced unprecedented high demand during the hot summer period, whilst more people stayed at home and within our supply area under COVID-19 travel restrictions. Our engineers and technicians worked around the clock to treat and pump more water into the network. During this time, demand for our water saving devices also surged by 40%.

As a result of the impact of COVID-19, revenue for 2020/21 was £8.0m lower than the prior year, while additional costs of £5.3m were incurred. The decrease in revenue was primarily due to lower non-household wholesale revenue as a result of businesses temporarily closing, although partially offset by increased household consumption. The increase in costs was largely due to increased production costs as a result of the higher demand.

Brexit

The UK withdrew from the European Union ('EU') on 31 January 2020 and we have been in contact with critical suppliers on the impact of Brexit on our supply chain. We require a number of supplies and spares from the EU, and the disruption of these components would present an operational risk to the company. We have contingency plans in place that mean we are able to continue to supply water to our customers should these critical suppliers become unavailable. For example, we have our pumps and chemical supplies multi-sourced within the UK and outside the EU.

12 CTA compliance

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

Calculation of financial ratios

Test period		Year 1 1 April 2020 To 31 March 2021	Year 2 1 April 2021 To 31 March 2022	Year 3 1 April 2022 To 31 March 2023	Year 4 1 April 2023 To 31 March 2024	Year 5 1 April 2024 To 31 March 2025
Net Cash Flow divided by	£m	98.1	100.7	111.4	121.0	136.0
Class A Debt Interest	£m	24.9	20.5	21.0	21.7	22.8
Class A ICR	**Ratio**	**3.9**	**4.9**	**5.3**	**5.6**	**6.0**

Test period		Year 1 1 April 2020 To 31 March 2021	Year 2 1 April 2021 To 31 March 2022	Year 3 1 April 2022 To 31 March 2023	Year 4 1 April 2023 To 31 March 2024	Year 5 1 April 2024 To 31 March 2025
Net Cash Flow less	£m	98.1	100.7	111.4	121.0	136.0
CCD and IRC	£m	0	0	0	0	0
Adjusted Net Cash Flow divided by	£m	98.1	100.7	111.4	121.0	136.0
Class A Debt Interest	£m	24.9	20.5	21.0	21.7	22.8
Class A Adjusted ICR	**Ratio**	**3.9**	**4.9**	**5.3**	**5.6**	**6.0**

Test period		Year 1 1 April 2020 To 31 March 2021	Year 2 1 April 2021 To 31 March 2022	Year 3 1 April 2022 To 31 March 2023	Year 4 1 April 2023 To 31 March 2024	Year 5 1 April 2024 To 31 March 2025
Net Cash Flow less	£m	98.1	100.7	111.4	121.0	136.0
CCD and IRC	£m	0	0	0	0	0
Adjusted Net Cash Flow divided by	£m	98.1	100.7	111.4	121.0	136.0
Senior Debt Interest	£m	28.7	24.5	25.2	26.3	27.8
Senior Adjusted ICR	**Ratio**	**3.4**	**4.1**	**4.4**	**4.6**	**4.9**

Test period		Year 1 1 April 2020 To 31 March 2021	Year 2 1 April 2021 To 31 March 2022	Year 3 1 April 2022 To 31 March 2023	Year 4 1 April 2023 To 31 March 2024	Year 5 1 April 2024 To 31 March 2025
Year 1	Ratio	3.9	4.9	5.3	5.3	5.3
Year 2	Ratio	4.9	5.3	5.6	5.6	5.6
Year 3	Ratio	5.3	5.6	6.0	6.0	6.0
Class A Average Adjusted ICR	**Average**	**4.7**	**5.3**	**5.6**	**5.6**	**5.6**

Test period		Year 1 1 April 2020 To 31 March 2021	Year 2 1 April 2021 To 31 March 2022	Year 3 1 April 2022 To 31 March 2023	Year 4 1 April 2023 To 31 March 2024	Year 5 1 April 2024 To 31 March 2025
Year 1	Ratio	3.4	4.1	4.4	4.4	4.4
Year 2	Ratio	4.1	4.4	4.6	4.6	4.6
Year 3	Ratio	4.4	4.6	4.9	4.9	4.9
Senior Average Adjusted ICR	**Average**	**4.0**	**4.4**	**4.6**	**4.6**	**4.6**

Test period		Year 1 1 April 2020 To 31 March 2021	Year 2 1 April 2021 To 31 March 2022	Year 3 1 April 2022 To 31 March 2023	Year 4 1 April 2023 To 31 March 2024	Year 5 1 April 2024 To 31 March 2025
Net Cash Flow less	£m	98.1	100.7	111.4	121.0	136.0
RCV Depreciation and Capitalised IRE	£m	56.0	63.3	73.6	80.6	87.3
Conformed Adjusted Net Cash Flow divided by	£m	42.0	37.5	37.8	40.3	48.8
Class A Debt Interest	£m	24.9	20.5	21.0	21.7	22.8
Conformed Class A Adjusted ICR	**Ratio**	**1.7**	**1.8**	**1.8**	**1.9**	**2.1**

Test period		Year 1 1 April 2020 To 31 March 2021	Year 2 1 April 2021 To 31 March 2022	Year 3 1 April 2022 To 31 March 2023	Year 4 1 April 2023 To 31 March 2024	Year 5 1 April 2024 To 31 March 2025
Net Cash Flow less	£m	98.1	100.7	111.4	121.0	136.0
RCV Depreciation & Capitalised IRE	£m	56.0	63.3	73.6	80.6	87.3
Conformed Adjusted Net Cash Flow divided by	£m	42.0	37.5	37.8	40.3	48.8
Senior Debt Interest	£m	28.7	24.5	25.2	26.3	27.8
Conformed Senior Adjusted ICR	**Ratio**	**1.5**	**1.5**	**1.5**	**1.5**	**1.8**

Test period		Year 1 1 April 2020 To 31 March 2021	Year 2 1 April 2021 To 31 March 2022	Year 3 1 April 2022 To 31 March 2023	Year 4 1 April 2023 To 31 March 2024	Year 5 1 April 2024 To 31 March 2025
Year 1	Ratio	1.7	1.8	1.8	1.8	1.8
Year 2	Ratio	1.8	1.8	1.9	1.9	1.9
Year 3	Ratio	1.8	1.9	2.1	2.1	2.1
Conformed Class A Average Adjusted ICR	**Average**	**1.8**	**1.8**	**1.9**	**1.9**	**1.9**

Test period		Year 1 1 April 2020 To 31 March 2021	Year 2 1 April 2021 To 31 March 2022	Year 3 1 April 2022 To 31 March 2023	Year 4 1 April 2023 To 31 March 2024	Year 5 1 April 2024 To 31 March 2025
Year 1	Ratio	1.5	1.5	1.5	1.5	1.5
Year 2	Ratio	1.5	1.5	1.5	1.5	1.5
Year 3	Ratio	1.5	1.5	1.8	1.8	1.8
Conformed Senior Average Adjusted ICR	**Average**	**1.5**	**1.5**	**1.6**	**1.6**	**1.6**

Date		Year 1 1 April 2020 To 31 March 2021	Year 2 1 April 2021 To 31 March 2022	Year 3 1 April 2022 To 31 March 2023	Year 4 1 April 2023 To 31 March 2024	Year 5 1 April 2024 To 31 March 2025
Class A Net Indebtedness divided by	£m	864.2	928.3	978.1	1,024.1	1,042.1
RCV	£m	1,303.2	1,412.7	1,504.5	1,577.6	1,614.0
Class A RAR	**Ratio**	**0.66**	**0.66**	**0.65**	**0.65**	**0.65**

Test period		Year 1 1 April 2020 To 31 March 2021	Year 2 1 April 2021 To 31 March 2022	Year 3 1 April 2022 To 31 March 2023	Year 4 1 April 2023 To 31 March 2024	Year 5 1 April 2024 To 31 March 2025
Senior Net Indebtedness divided by	£m	990.7	1,056.0	1,127.9	1,179.7	1,202.4
RCV	£m	1,303.2	1,412.7	1,504.5	1,577.6	1,614.0
Senior RAR	**Ratio**	**0.76**	**0.75**	**0.75**	**0.75**	**0.75**

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

Date	31 March 2021 £m
Borrowings	1,095.1
Exclude Permitted Legacy Loan	(3.6)
Add Back Unamortised Debt Issue Costs and Bond Premium	(16.4)
Add Accrued Interest	6.2
Add Swap Accretion	9.3
Less Cash and cash equivalents	(99.9)
Senior Net Indebtedness	**990.7**
Remove Class B Debt Amounts	(126.5)
Class A Net Indebtedness	**864.2**

13 Further certifications

Surplus

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

During the financial year, equity dividends of £1.0m were paid from our non-appointed business (the parts of our business not regulated by Ofwat) (2020: £nil)

Authorised Investments

Terms	Bank Deposits (£m)	Liquidity Funds (£m)	Total (£m)
Overnight	10.0	41.0	51.0
3 Months	15.0	-	15.0
6 Months	0.0	-	0.0
9 Months	0.0	-	0.0
1 Year	0.0	-	0.0
Total	25.0	41.0	66.0

Debt Service Reserve Accounts

There is no balance in each of the Debt Service Reserve Accounts as at 31 March 2021. The required debt service reserve is provided by a liquidity facility from HSBC Bank PLC totalling £32.0m.

Permitted Subsidiaries acquired

There were no Permitted Subsidiaries acquired pursuant to a Permitted Acquisition in the period to 31 March 2021.

Annual Finance Charge

Affinity Water Limited has calculated the Annual Finance Charge for the period from 1 April 2021 to 31 March 2022 as £23.8m.

	1 April 2021 to 31 March 2022 (£m)
Forecast interest paid on bonds and swap	23.4
Forecast interest paid on loans	0.0
Other recurring finance fees paid	0.4
Total	**23.8**

Additional confirmations

Affinity Water Limited also confirms that:

(a) no Default or Potential Trigger Event is outstanding; and

(b) that Affinity Water Limited's insurances are being maintained in accordance with the Common Terms Agreement.

Yours faithfully,

Stuart Ledger

Chief Financial Officer

For and on behalf of

Affinity Water Limited

(in its capacity as Transaction Agent)

Appendix

Additional periodic information

We have included links below to the following documents which may be of further interest to investors.

Affinity Water Limited's annual charges scheme and details of tariffs

https://www.affinitywater.co.uk/docs/charges/202122/Charges%20Scheme%202021-22.pdf

Affinity Water Limited's annual drinking water quality report

https://www.affinitywater.co.uk/my-water/water-quality/quality-in-your-area

Affinity Water Limited's environmental performance

https://stakeholder.affinitywater.co.uk/environment.aspx

Water resources management plan

https://www.affinitywater.co.uk/docs/Affinity_Water_Final_WRMP19_April_2020.pdf

Governance code

https://www.affinitywater.co.uk/corporate/about/governance-assurance

Gender pay gap report

https://www.affinitywater.co.uk/docs/reports/Gender-Pay-Gap-2020.pdf

Understanding Our Finances 2020

https://www.affinitywater.co.uk/docs/corporate/Affinity-Water-Understanding-Our-Finances-November-2020.pdf

Assurance Plan

https://www.affinitywater.co.uk/docs/corporate/DRAFT-Assurance-Plan-AMP7-FINAL.pdf