Your local supply, on tap

Investor Report

Affinity Water Limited ('Affinity Water')

Published on 29 July 2019

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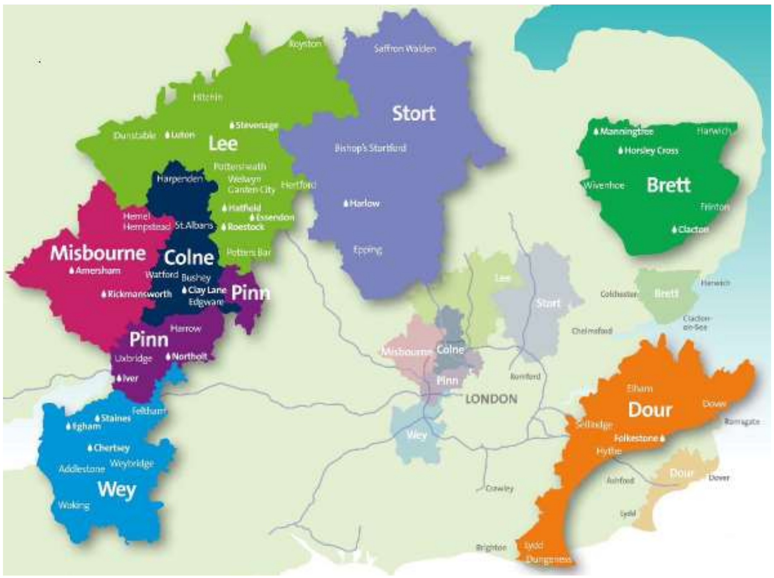
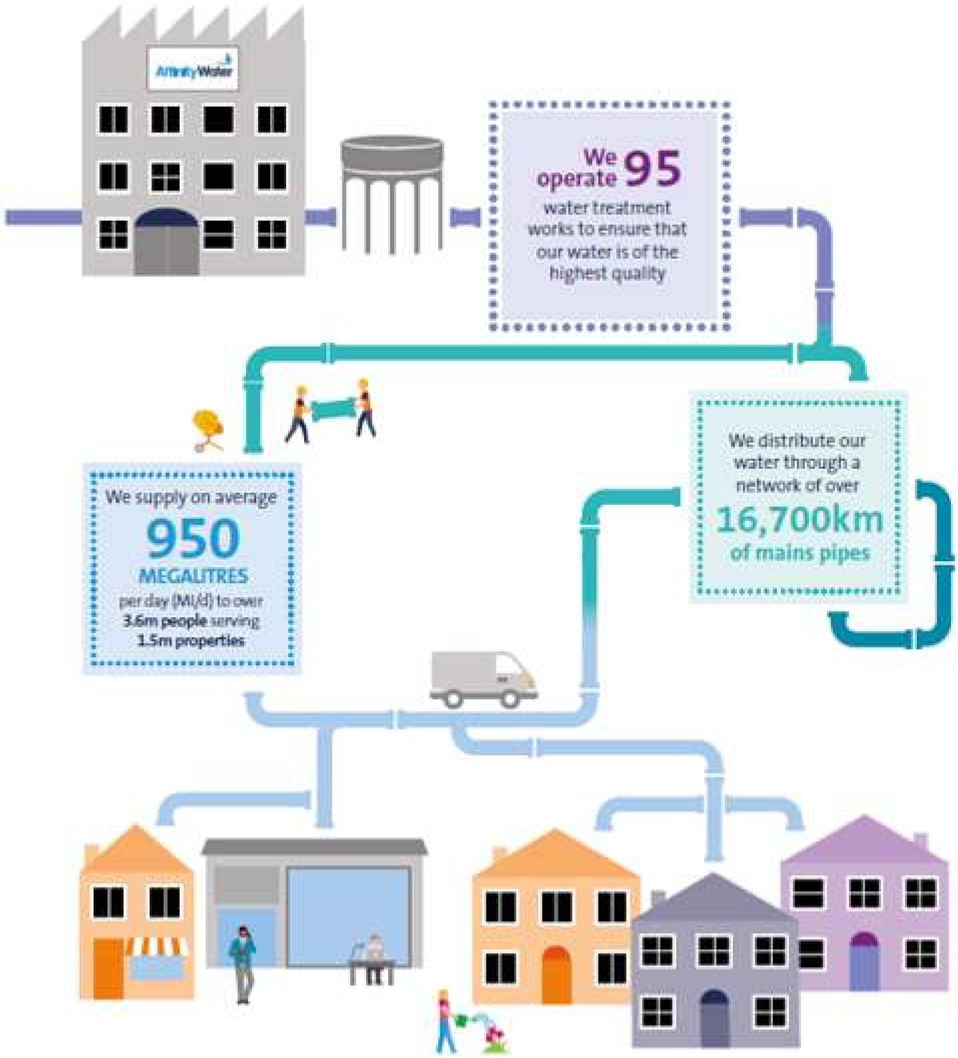
1 Affinity Water at a glance

Affinity Water is the UK's largest water only supply company by revenue and population served. We own and manage the water assets and network in an area of approximately 4,515km^2 split over three regions in the South East of England. We divide our supply area into eight different communities, based on our existing water resource zones and have named each of them after a local river, allowing us to tailor a high quality service to customers at a local level.

Our vision is to be the UK's leading community focused water company.





2 Operational highlights

Protecting our people

We continually strive to improve our strategy and improvement plan, focusing on a number of safety and health initiatives. In 2018/19, we recorded

0.23 lost time injuries per 100,000 hours worked

compared to actual performance of 0.29 in 2017/18

Minimising disruption

We experienced

2,530 bursts

compared to our target of 3,100 and actual performance in 2017/18 of 2,923

Managing our water resources

We have failed to meet our leakage targets for 2017/18 and 2018/19, but are taking action to ensure we meet the industry's largest leakage percentage reduction target for 2015-20. Since 2015 we have reduced our abstraction of water from environmentally sensitive sites by

42.1 Ml/d

Supplying high quality water

We continued to provide high quality water in terms of our mean zonal compliance ('MZC') of

99.96%

for the 2018 calendar year, compared to a target of 99.95% and actual performance in 2017 of 99.96%

Value for money customer service

Improvements have been seen in our customer service metrics, including a

22% reduction

in complaints and

41% reduction

in escalated complaints

3 Financial highlights

Revenue (£m)	311.6 2018: 308.0
Profit after tax (£m)	10.6 2018: 29.6
Regulatory Capital Value (RCV) (£m)	1,226.1 2018: 1,207.1
Senior Net Indebtedness (£m)	959.5 2018: 949.0
Gearing (%)	78.3% 2018: 78.6%
Conformed Senior Adjusted Interest Cover (times)	1.9 2018: 1.5

4 Our vision and commitments

Our enduring 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. It also reflects the emphasis we place on understanding and responding to the needs of different communities, helping our customers connect with the service they receive to achieve a more water resilient future for our region.

As part the price review process for AMP6 ('Asset Management Plan 6', 'PR14'), we agreed a number of performance commitments with Ofwat, which were shaped by the expectations of our customers. These stretching targets are to respond to the significant social and environmental challenges we face – a rising population and increased demand for water, as well as a reduction in the availability of water in years ahead.

We want our customers and stakeholders to be able to measure our success and hold us to account. The table below summarises our customers' four expectations and the performance commitments we have made for AMP6 and the ones we included in our Business Plan as part of the price review process for AMP7 ('Asset Management Plan 7'). We have aligned our operational key performance indicators ('KPI') to our key performance commitments in response to customer expectations.

Our AMP6 commitments	Our AMP7 commitments	Our customer outcomes
We will maintain high quality drinking water. We will implement a targeted programme of lead pipe replacement to meet more stringent legal standards.	We will continue to support the quality of our water resources through our catchment management and river restoration programmes to help habitats and biodiversity of rivers in our supply area.	Supplying high quality water, you can trust KPI: Water quality
We will reduce the amount of water we take from the environment by 42 million litres per day. We will encourage our customers to use less water through our Water Saving Programme, reducing average water use by 7%. This includes installing 280,000 meters by the end of AMP6. We will invest £500 million in our network to reduce leakage by 14% - the equivalent of 27 million litres per day.	We will reduce the amount of water we take from the environment by 36 million litres per day. We will reduce leakage from water pipes by 18.5% on top of a 14% reduction between 2015 to 2020. We aim to reduce average consumption from 147 to 129 litres per person per day, operating at the forefront of demand-side management, and working with partners and communities to prompt behavioural change with regard to water conservation.	Making sure you have enough water, whilst leaving more water in the environment KPI: Sustainable abstraction reductions KPI: Leakage
Average household bills will reduce before inflation between 2015 and 2020. We will promote our social tariff (LIFT) to support those least able to pay their bill. We will make £106 million of efficiency savings in our running costs to keep bills as low as possible over the five years of AMP6. We will make ourselves accountable to our communities for our performance.	Average annual customer bills will reduce by 1.6%, and we will deliver over £200.0m of efficiencies to keep bills as low as possible. An additional 30,000 customers will benefit from our social tariff and we aim to increase the number of customers on our Priority Services Register. We will listen to customer needs and invest in the right technologies to deliver great customer interaction, increased engagement and cost efficiencies.	Providing a great service that you value KPI: SIM
We will invest in increased flexibility in our network so we can transfer water more effectively around our communities.	We will invest £1.37 billion in our wholesale business to maintain core network assets to keep services running 24 hours a day, 7 days a week and 365 days a year, investing in local level assets such as pumps, mains upgrades, new mains and investment in service reservoirs that allow us to move water to where we need it.	Minimising disruption to you and your community KPI: Mains bursts KPI: Unplanned interruptions to supply over 12 hours

5 Our social and environmental highlights

Our customers

Our customers are at the heart of our business and we continue to respond and adapt to meet their expectations:

- We have seen an **18%** reduction in unwanted contact, a **22%** reduction in the number of complaints received and a **41%** reduction in the number of escalated complaints compared to 2017/18.

- We have used customer feedback to drive improvements on My Account, our digital self-serve portal, and have seen a **75% rise in new customer registrations**.

- We received several awards which include: a gold award at the 2018 UK Customer Experience Awards for **'Best Use of Insight and Feedback'** and a bronze award for **'Best Engaging the Customer Online'**. At the 2018 European Contact Centre & Customer Service Awards, we won another gold award for **'Best Customer Insight Initiative'** and were highly commended for **'Most Effective Business Transformation Programme in Customer Service'**. We also won the **'Best Online Customer Experience'** at the 2018 Engage Awards.

european contact centre & customer service awards

CXA'18 UK Customer Experience Awards GOLD AWARD

2018 ENGAGE AWARDS

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. This is central to achieving our vision of being a community focused, sustainable and responsible business.

During the year we continued to hold stakeholder meetings across our communities, including our first **Stakeholder Assembly** with a cross section of delegates.

We maintain a **Priority Services Register** and include messages in our literature and on our bills to signpost customers to the help they need. We have trained our team members to recognise triggers that may indicate that a customer is in a vulnerable circumstance and to act accordingly.

Our environment

During 2018/19, we have delivered **23,000 Home Water Efficiency Checks**. Through taking the time to meet our customers, we have been able to understand their water usage behaviours and reduce their consumption, contributing to the achievement of our Per Capita Consumption (‘PCC’) target in 2018/19.

We also submitted our **Water Resources Management Plan** to the Secretary of State on 7 June 2019, which sets out how we plan to meet long-term resource challenges, having consulted extensively with various stakeholders.

As part of our **National Environment Programme**, we are carrying out river restoration work and habitat improvements across our catchment areas where we are also reducing water abstraction.

Our people

During the year, our Executive Management Team conducted a series of Directors' Roadshows to hear face to face some of the challenges being faced by employees.

We have been recognised by the Science Council by achieving Employer Champion status as we are committed to promoting the values of professional registration and supporting our scientific staff through the registration process.

Our people are members of more than 30 different professional bodies from a range of disciplines including engineering, chemistry, biology, environmental management and accountancy.

Our Assets and Sites

Despite some significant challenges with environmental events, from the 'freeze/thaw' event in March 2018 to the exceptional hot, dry summer weather period, our production estate performed well and we were able to maintain supply to our customers with minimal disturbance.

In 2018/19 we focused on improving our unplanned interruptions to supply over 12 hours, where we had underperformed since the start of AMP6. We established a **24-hour Network Control Desk** and created an interruption to supply delivery team to formulate the procedures that will govern how our restoration and repair solutions will be delivered more rapidly and consistently. As a result, we achieved our target of fewer than 320 properties experiencing unplanned interruptions to supply of more than 12 hours this year, a marked improvement on the previous four years.

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.

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

We delivered a 42.1 Ml/d reduction in abstraction as at 31 March 2019, achieving our sustainability reductions in line with our AMP6 Business Plan.

However, we have fallen short on the leakage reduction we planned to deliver this year, leading to an Outcome Delivery Incentive ('ODI') penalty of £6.972m that will be realised in AMP7. A significant contributor was the discovery of a large burst at the outlet of one of our largest treatment works that ran for a large part of the year that has resulted in us restating out 2017/18 leakage figure. The burst caused an increase in leakage which averaged 5.7Ml/d for 2017/18. This means that instead of meeting our target for 2017/18 we failed by a total of 4.1Ml/d. As a result, we have incurred a penalty of £1.026m through our ODI regime that will be realised in AMP7.

Furthermore, we were also affected by 2018 summer's unusually warm and dry weather with increased bursts and pressure issues caused by the high demand. Our ability to target leakage was further complicated by the high night use seen.

Supplying high quality water our customers can trust

Customers continued to benefit from high quality drinking water during the year. In 2018, our compliance performance was 99.97% while our MZC was 99.96% which exceeded our target of 99.95%.

However, we recognise a need for improvement. On 11 July 2019, the Drinking Water Inspectorate published its annual report, Drinking Water 2018, in which our Harefield Reservoir was highlighted as one of the two sites contributing 50% of the Compliance Risk Index for coliforms. Consequently, the site remained isolated for the rest of 2018 pending network modifications.

Minimising disruption to our customers and communities

We experienced 2,530 bursts in the year, which was within the performance target of 3,100, and 309 unplanned interruptions to supply over 12 hours compared to our target of 320.

Following the freeze/thaw event in March 2018 we reviewed our plans for dealing with unplanned interruptions and made further enhancements. In advance of the winter of 2018/19, we reviewed and updated our winter readiness plans to ensure that we had appropriate triggers and action plans in place for any severe weather event.

Providing a value for money service

Despite narrowly missing our target of 81.3, our overall SIM score improved from 80.9 for 2017/18 to 81.2 for 2018/19.

Although many of our customers live in the most economically thriving parts of our country, we know that some struggle to pay for basic necessities. Our support for financially vulnerable customers who have a low household income or are claiming benefits has grown in the period with 60,000 households now supported by our social tariffs (LIFT and Watersure). We plan to introduce a Customer Assistance Fund by 2020 and aim to expand our social tariff offering support to 82,000 customers in AMP7.

7 Financial performance

Financial results for the year ended 31 March 2019

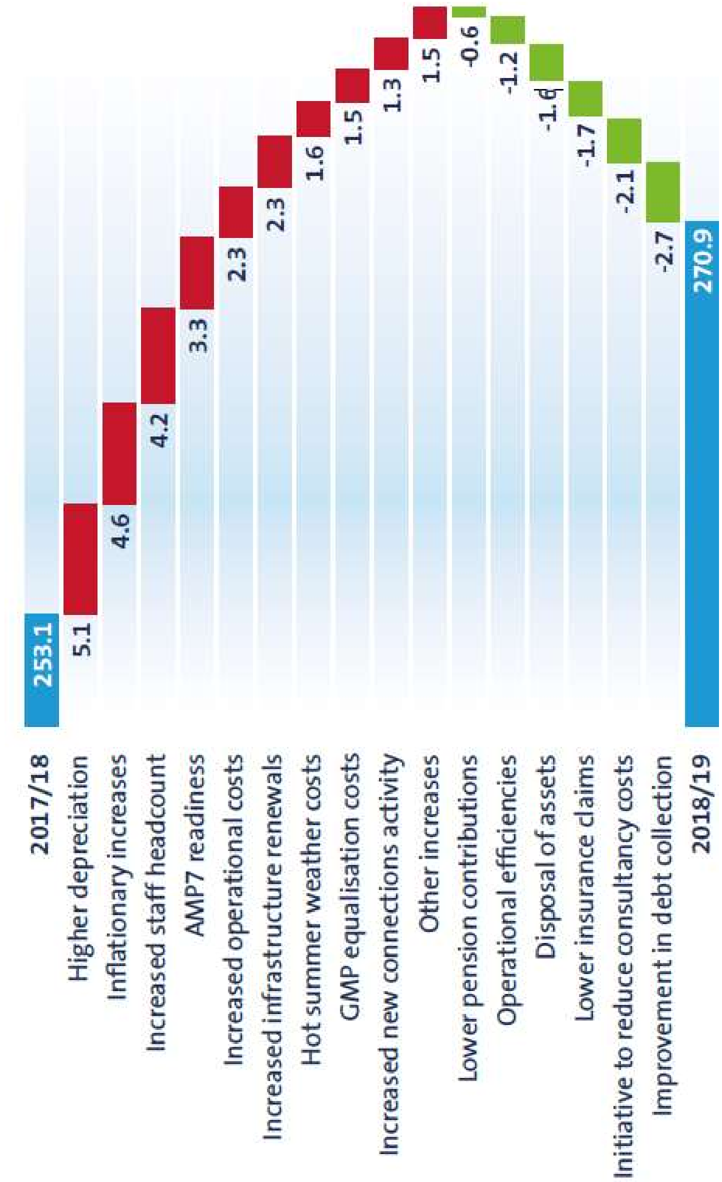
This year has been a challenging year both operationally and financially. In particular the increased demand during summer 2018's hot and dry weather, resulting in additional expenditures to ensure continuous supply of high quality water to our customers. We have continued to invest in our assets during the year to improve the resilience of our network and reduce leakage.

	2019 £000	2018 £000
Revenue	**311,569**	307,969
Cost of sales	**(216,643)**	(201,584)
Gross profit	**94,926**	106,385
Administrative expenses	**(48,117)**	(42,612)
Net impairment losses on financial and contract assets	**(6,128)**	(8,884)
Other income	**17,896**	17,379
Operating profit	**58,577**	72,268
Profit on disposal of subsidiary	**25**	-
Profit on disposal of non-household retail business	**-**	10,958
Finance income	**6,590**	2,208
Finance costs	**(49,131)**	(49,496)
Fair value loss on financial instrument	**(2,389)**	-
Net finance costs	**(44,930)**	(47,288)
Profit before tax	**13,672**	35,938
Tax expense	**(3,103)**	(6,303)
Profit for the year	**10,569**	29,635

Revenue for 2018/19 was £311.6m, being a £3.6m (1.2%) increase on the prior year (2018: £308.0m). This increase is primarily due to higher summer consumption and new connections activity, partially offset by lower household prices.

Operating expenditure

Operating costs for the year increased by £17.8m (7.0%) to £270.9m (2018: £253.1m), as explained in the graph below:



Finance costs

The net finance expense of £44.9m was £2.4m lower than last year, primarily as a result of the net interest receivable on the £135.0m RPI linked inflation swap, which was entered into in August 2018, though it was partially offset by a £2.4m fair value loss on the swap.

Profit before tax

Profit before tax decreased by £22.2m (61.8%) to £13.7m (2018: £35.9m), primarily due to the increase in operating costs and the swap's fair value loss, as well as the effect of the disposal of the non-household retail business in the prior year.

Taxation

The income tax expense on profit before tax was £3.1m (2018: £6.3m). The effective current tax rate (28.6%; 2018: 7.5%) was lower (2018: lower) than the UK corporation tax rate of 19.0% (2018: 19.0%). 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 tax legislation and in February 2019, we were awarded the Fair Tax Mark.

We paid no corporation tax during the year (2018: £10.7m), as a result of an overpayment in the prior year. Our indirect taxes paid for the year were £29.4m (2018: £29.1m) consisting of business rates payable to local authorities, employer's national insurance, environmental taxes and streetworks permits.

Capital expenditure

Capital expenditure in the year was £107.2m (2018: £123.3m), and was incurred principally in our water treatment, integrated water savings, mains renewal, trunk mains replacement, leakage, IT asset, sustainability reductions, National Environment and lead pipe replacement AMP6 programmes.

We are a business with a long-term outlook and expenditure commitments, which need to be matched with long-term sources of debt finance. 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.

Net debt and gearing

Our net debt as at 31 March 2019 was £959.5m, an increase of £10.5m since last year (2018: £949.0m) due to accretion on index-linked bonds, the fair value loss on financial derivative and lower cash held at the year end.

Our gearing of net debt to RCV at 31 March 2019 was 78.3% (2018: 78.6%). While we have at first sight higher gearing than some of our peers in the water industry, this measure does not necessarily reflect the actual cost of this debt, and our strong pension position. It is our intention to reduce our gearing over AMP7.

Dividends

Equity dividends of £6.6m were paid during the year (2018: £58.5m), none of which related to the regulated business (2018: £50.5m) reflecting the anticipated penalty in relation to not achieving our leakage reduction target and financial underperformance in the year.

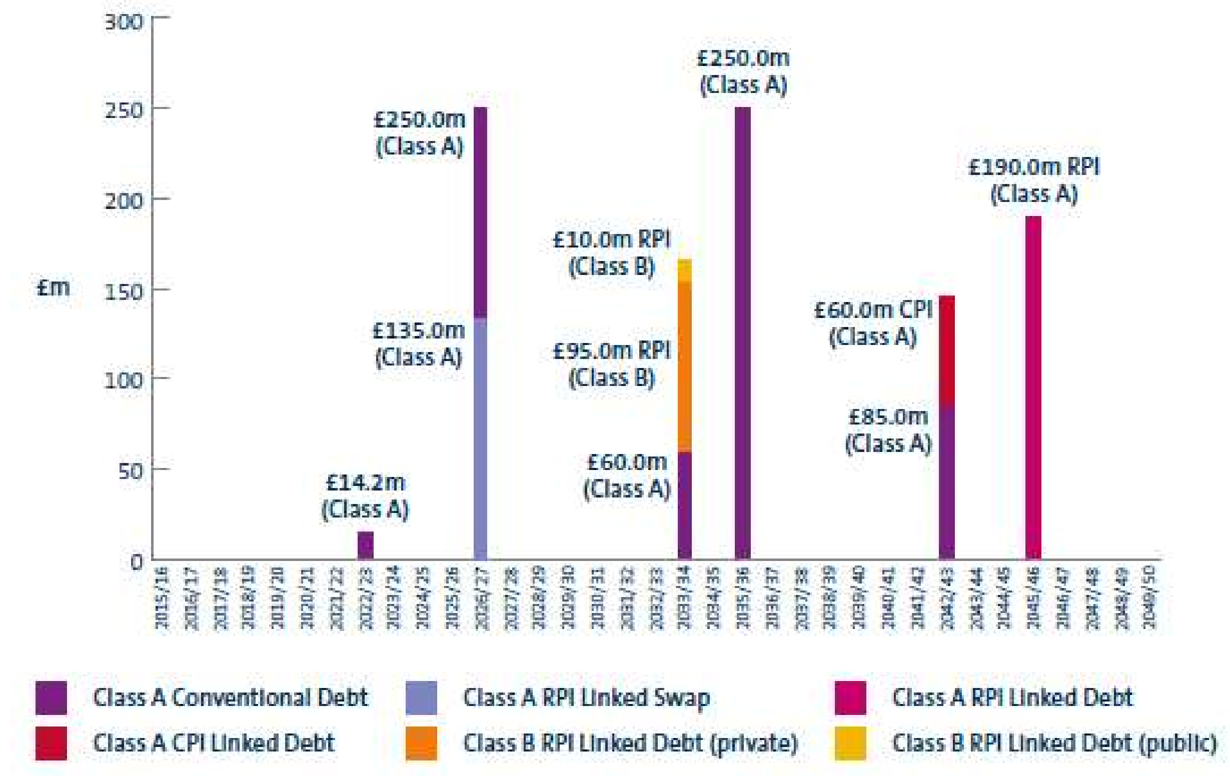
AMP6 total expenditure ('totex')

Our totex forecast included in our re-submitted AMP7 Business Plan results in an overall AMP6 overspend of 2.5%, £30.5m, although the amount we expect customers to fund through the sharing mechanism is only £2.8m (in 17/18 prices). This is primarily due to higher pension deficit costs than allowed in our PR14 Final Determination (we have paid more into our pension scheme to take it to a fully funded basis on a self-sufficiency basis), which are outside of the sharing mechanism and therefore have been fully at the company's expense, and offsetting the financing cost of the underspend in the first few years.

8 Financing Update

On 29 August 2018, Affinity Water transacted its first swap in the form of £135.0m RPI linked super senior swap aligned with the terms of the Affinity Water Finance (2004) PLC £250.0m bond which matures on 13 July 2026. The swap was executed within the Whole Business Securitisation (‘WBS’) structure and will result in a substantial increase in the Interest Cover Ratio headroom. The transaction is expected to help the business with the challenges faced by the water industry for the rest of the current AMP and throughout Price Review 19 (‘PR19’).

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



There has been no change during the period in credit ratings for the Class A bonds, rated A3 and A- by Moody’s and Standard & Poor’s respectively, or the Class B bonds, rated Baa3 and BBB.

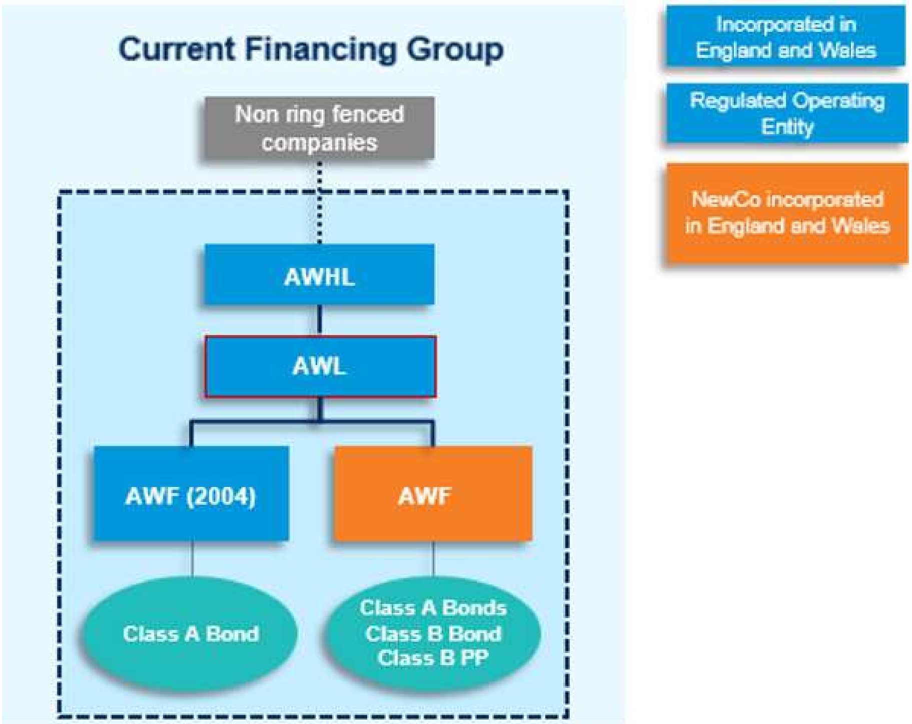
Cayman Islands Substitution

On 23 August 2018, the directors released an announcement through Regulatory News Service on their intention to substitute Affinity Water Programme Finance Limited ('AWPFL'), a wholly owned subsidiary of the company registered in the Cayman Islands, with a UK registered entity. Following this, a special purpose vehicle, Affinity Water Finance PLC ('AWF'), was incorporated on 13 November 2018.

On 7 December 2018, we announced the result of the STID proposal relating to the substitution of AWPFL. The Majority Creditors voted in favour of the STID proposal which will allow us to replace the Cayman Islands entity with AWF, the UK incorporated entity.

On 21 January 2019, we completed the substitution and all the assets and liabilities of AWPFL has since been transferred to AWF. The change has had no impact on the ratings of the public issuances and was tax neutral, hence the tax status of the financing group has not been affected.

The below chart illustrates the updated structure of the WBS.



9 Regulatory update

PR19

On 18 July 2019 Ofwat published our Draft Determination which set out what we need to deliver, the allowed revenue that we can recover from our customers and how it was determined based on their calculation of efficient costs and the allowed return on capital.

The main points of the determination include the below:

- A reduction in average customer bills by 12.4% in real terms, compared to the proposed 1.4% in our April resubmission. This results in an average bill of £156 instead of £170 in the April submission.
- We are to reduce leakage by 20%, compared to the proposed reduction of 23%, calculated on a rolling 3 year basis.
- Our proposal of 12.5% reduction in PCC, the largest in the industry, has been accepted, with the aim of achieving PCC of 133 litres per household per day by the end of the AMP.
- Ofwat have softened the performance commitment and penalty targets from their Initial Assessment of Plans and these are more in line with our April Resubmitted Plan. The targets remain challenging.
- Supply interruptions are to reduce by 50% by the end of the AMP, with an increase of underperformance payments for supply interruptions greater than 12 hours.
- Ofwat have set lower burst targets than in our plan with higher penalty rates.
- Ofwat have allowed £1,321.2m of total expenditure, including third party costs, compared to the £1,373.8m proposed in our business plan.
- Ofwat have updated the cost of capital for the industry which is now 3.19% (on a CPIH basis, 2.19% on a RPI basis), a reduction of 0.21% from their early view in the methodology.
- Ofwat have adjusted the level of proposed pay as you go rates from 7.6% to 1.3% and the adjusted cash interest cover ratio from 2.20 to 1.50.
- We have a target of 20% reduction for mains repairs by the end of the AMP to give additional customer protection.
- Ofwat have allowed £254.0m of investment in improvements to service, resilience and the environment, with an additional £83.0m to evaluate potential strategic regional water resource solutions.
- Ofwat have also reduced RCV run off rates by 0.2% on average (4.57% compared to the proposed 4.41%).

We are currently reviewing the plan and will respond by the end of August with the Final Determinations to be published in December 2019.

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*.

Although we have reported against the 2014 Ofwat's Board Leadership, Transparency and Governance principles that were in place during the year, our Board has undertaken a review of our governance arrangements in relation to revised principles published in January 2019.

We continue to meet Ofwat's expectations for independent non-executive directors to form the largest single group on the Board, compared to investor-appointed non-executive directors and executive directors. During the year the Board has continued to focus on the company's risk management and internal control systems.

Furthermore, our Board has also made preparations for implementing changes within the business to adhere to the revised UK Corporate Governance Code published in July 2018 that came into effect from 1 April 2019.

Executive appointments

Jo Smith started as HR Director on 21 January 2019. She has held senior roles with a range of FTSE 100 companies, including various regulated companies within both the energy and transport sector. Prior to her recent consultancy roles Joanne was HR Director at G4S and Heathrow Airport and held various senior HR positions in National Grid.

In February 2019 we appointed **Jake Rigg** as our Director of Corporate Affairs, Communities and Communications. He has a longstanding track record of helping companies in the utilities industry, including Iberdrola and National Grid.

Keith Gardner joined as our Asset Strategy, Data and Innovation Director on 23 April 2019 from Black and Veatch where he was Head of Strategic Business Consultancy. Prior to his consultancy roles, Keith has worked extensively across the water sector.

We also appointed **Marie Whaley** as Director of Regulation on an interim basis in May 2019. Marie was our Interim Director of Asset Strategy since 3 July 2018 as a secondment from ARUP. Before joining ARUP, she worked at Northumbrian Water for over 20 years. She is also a Board Member of the Institute of Water and Institute of Asset Management

Joe Brownless joined as our Customer Experience Director on 10 June 2019 from Mars, Inc, where he held the position of Consumer Relations Director, Europe. Prior to that, Joe has worked across a range of businesses including Capita and Tesco Mobile.

In June 2019 **Michael Akers** took over the role of Transformation Programme Director, initially on a one-year contract. Michael is a highly experienced Operations leader and has also led several major transformation programmes. He holds a Lean Six Sigma Master Black Belt qualification and most recently implemented a new operating model at the Post Office.

Graham Turk was promoted to the new position of Director of Production and Supply on 1 July 2019. He previously held the position of Head of Production and Supply.

Gurvinder Badesha will fill our newly created position of Assurance Director on 5 August 2019. He joins from National Grid where he led the development and delivery of a robust second line assurance function for the UK's Gas Transmission business.

Board appointments

On 24 January 2019, **Chris Newsome** was appointed as an Independent Non-Executive Director. Chris has over 40 years' experience within the water industry at Yorkshire Water, Kelda Water and Anglian Water. He is a member of the government's Green Construction Board and Chairman of the Infrastructure Working Group driving down carbon in infrastructure assets. He is also Chairman of UK Water Industry Research Limited, President and Chairman of the Institute of Asset Management, a director of UK Water Partnership Limited and a board advisor for Barhale Limited. His appointment means that we are fully compliant with the UK Corporate Governance Code in relations to the board composition.

We have also appointed **Chris Bolt** as the Senior Independent Non-Executive Director in March 2019, which means that we have been fully compliant with the UK Corporate Governance Code requirement from the appointment date.

11 CTA compliance

Calculation of financial ratios

Test period		Year 1 1 April 2018 to 31 March 2019 Actual	Year 2 1 April 2019 to 31 March 2020 Forecast	Year 3 1 April 2020 to 31 March 2021 Forecast
Net Cash Flow divided by	£m	122.8	116.8	133.3
Class A Debt Interest	£m	31.1	30.1	30.5
Class A ICR	**Ratio**	**3.9**	**3.9**	**4.4**
Net Cash Flow less	£m	122.8	116.8	133.3
CCD and IRC	£m	0	0	0
Adjusted Net Cash Flow divided by	£m	122.8	116.8	133.3
Class A Debt Interest	£m	31.1	30.1	30.5
Class A Adjusted ICR	**Ratio**	**3.9**	**3.9**	**4.4**

Test period		**Year 1** **1 April 2018 to 31 March 2019** **Actual**	**Year 2** **1 April 2019 to 31 March 2020** **Forecast**	**Year 3** **1 April 2020 to 31 March 2021** **Forecast**
Net Cash Flow less	£m	122.8	116.8	133.3
CCD and IRC	£m	0	0	0
Adjusted Net Cash Flow divided by	£m	122.8	116.8	133.3
Senior Debt Interest	£m	34.8	33.9	34.4
Senior Adjusted ICR	**Ratio**	**3.5**	**3.4**	**3.9**
Year 1	Ratio	3.9	3.9	3.9
Year 2	Ratio	3.9	3.9	3.9
Year 3	Ratio	4.4	4.4	4.4
Class A Average Adjusted ICR	**Average**	**4.1**	**4.1**	**4.1**
Year 1	Ratio	3.5	3.5	3.5
Year 2	Ratio	3.4	3.4	3.4
Year 3	Ratio	3.9	3.9	3.9
Senior Average Adjusted ICR	**Average**	**3.6**	**3.6**	**3.6**

Test period		Year 1 1 April 2018 to 31 March 2019 Actual	Year 2 1 April 2019 to 31 March 2020 Forecast	Year 3 1 April 2020 to 31 March 2021 Forecast
Net Cash Flow less	£m	122.8	116.8	133.3
RCV Depreciation and Capitalised IRE	£m	56.9	56.8	70.6
Conformed Adjusted Net Cash Flow divided by	£m	65.9	60.0	62.7
Class A Debt Interest	£m	31.1	30.1	30.5
Conformed Class A Adjusted ICR	**Ratio**	**2.1**	**2.0**	**2.1**
Net Cash Flow less	£m	122.8	116.8	133.3
RCV Depreciation & Capitalised IRE	£m	56.9	56.8	70.6
Conformed Adjusted Net Cash Flow divided by	£m	65.9	60.0	62.7
Senior Debt Interest	£m	34.8	33.9	34.4
Conformed Senior Adjusted ICR	**Ratio**	**1.9**	**1.8**	**1.8**
Year 1	Ratio	2.1	2.1	2.1
Year 2	Ratio	2.0	2.0	2.0
Year 3	Ratio	2.1	2.1	2.1
Conformed Class A Average Adjusted ICR	**Average**	**2.1**	**2.1**	**2.1**

Test period		Year 1 1 April 2018 to 31 March 2019 Actual	Year 2 1 April 2019 to 31 March 2020 Forecast	Year 3 1 April 2020 to 31 March 2021 Forecast
Year 1	Ratio	1.9	1.9	1.9
Year 2	Ratio	1.8	1.8	1.8
Year 3	Ratio	1.8	1.8	1.8
Conformed Senior Average Adjusted ICR	**Average**	**1.8**	**1.8**	**1.8**

Date		31 March 2019 Actual	31 March 2020 Forecast	31 March 2021 Forecast
Class A Net Indebtedness divided by	£m	838.0	844.3	907.7
RCV	£m	1,226.1	1,237.1	1,304.1
Class A RAR	**Ratio**	**0.68**	**0.68**	**0.70**
Senior Net Indebtedness divided by	£m	959.5	969.6	1,035.6
RCV	£m	1,226.1	1,237.1	1,304.1
Senior RAR	**Ratio**	**0.78**	**0.78**	**0.79**

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

Date	**31 March 2019 £m**
Borrowings	1,081.3
Exclude Permitted Legacy Loan	(3.6)
Add Back Unamortised Debt Issue Costs and Bond Premium	(18.0)
Add Accrued Interest	9.7
Add Swap Accretion	1.6
Less Cash and cash equivalents	(111.5)
Senior Net Indebtedness	**959.5**
Remove Class B Debt Amounts	(121.5)
Class A Net Indebtedness	**838.0**

12 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, Affinity Water Limited paid equity dividends totalling £6.6m (2018: £58.5m).

Authorised Investments

Terms	Bank Deposits (£m)	Liquidity Funds (£m)	Total (£m)
Overnight	10.0	30.0	50.0
3 Months	20.0	-	20.0
6 Months	15.0	-	15.0
9 Months	5.0	-	5.0
1 Year	10.0	-	10.0
Total	60.0	30.0	90.0

Debt Service Reserve Accounts

There is no balance in each of the Debt Service Reserve Accounts as at 31 March 2019. The required debt service reserve is provided by a liquidity facility from HSBC Bank PLC totalling £38.0m.

Permitted Subsidiaries acquired

There were no Permitted Subsidiaries acquired pursuant to a Permitted Acquisition in the period to 31 March 2019.

Annual Finance Charge

Affinity Water Limited has calculated the Annual Finance Charge for the period from 1 April 2019 to 31 March 2020 as £29.8m after incorporating the swap executed back in August 2018 and the Monthly Payment Amount to be £2.5m. Calculation of the Annual Finance Charge is set out in the table to the right.

	1 April 2019 to 31 March 2020 (£m)
Forecast interest paid on bonds and swap	29.3
Forecast interest paid on loans	0.0
Other recurring finance fees paid	0.4
Total	**29.8**

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.

Affinity Water adopted two new standards for the current reporting period:

(a) IFRS 9: 'Financial instruments' and

(b) IFRS 15: 'Revenue from contracts with customers'.

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://stakeholder.affinitywater.co.uk/docs/reports-publications/Affinity-Water-Charges-Scheme-2019-20-Publication-Version-30-April-2019.pdf

Affinity Water Limited's annual drinking water quality report

https://www.affinitywater.co.uk/docs/water-quality-report-2017-final.PDF

Affinity Water Limited's environmental performance

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

Risk, strengths and weaknesses statement

https://stakeholder.affinitywater.co.uk/docs/Risks-Strengths-Weaknesses-Statement-March-2019.pdf

Customer performance report[1]

https://stakeholder.affinitywater.co.uk/docs/Our-Year-In-Review-2017-18.pdf

Draft water resources management plan 2019

https://www.affinitywater.co.uk/docs/Draft_Final_Water_Resources_Management_Plan_2019_Published_June_2019.pdf

Governance code

https://stakeholder.affinitywater.co.uk/docs/Governance-Code-September-2017.pdf

Gender pay gap report

https://stakeholder.affinitywater.co.uk/docs/Gender_Pay_Gap-2018.pdf

[1] The Customer Performance report for 2018/19 will be available shortly