Affinity Water Limited

Unaudited Half-Yearly Financial Report
For the six-month period ended 30 September 2023

(Registered Number 02546950)

Affinity Water
Taking care of your water

Affinity Water Limited

Glossary of key abbreviations and definitions used within this report and the water industry

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

C-MeX – Customer measure of experience
A measure of customer service levels being used by Ofwat in AMP7.

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

D-MeX – Developer services measure of experience
A measure of developer service levels being used by Ofwat in AMP7.

I2S – Interruptions to Supply
The number of minutes per property where interruptions to supply were three hours or greater.

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

MOSL – Market Operator Services Limited
The market operator of England's non-household water market.

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

PCs – Performance Commitments
The metrics used by Ofwat to measure the service that water companies deliver for customers and the environment.

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

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

RCV – Regulatory Capital Value
The economic value of the regulated business, as determined by the price control regime.

RORE – Return on regulated equity
A financial metric used by Ofwat to determine the profitability of the regulated company.

Totex – Total expenditure
The sum of operational expenditure and capital expenditure.

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

Our regulators

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

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

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

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

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

Important information

Terms used in this report
The 'company' or 'Affinity Water' means Affinity Water Limited; the 'regulated business' or 'regulated activities' means the licensed water activities undertaken by Affinity Water Limited in the South East of England.

Our registered office
Tamblin Way
Hatfield
Hertfordshire
AL10 9EZ

Affinity Water Limited

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Affinity Water Limited

Interim management report

Introduction

We are a 'Water Only' company. That means we supply clean water to our customers, but we do not manage or process waste water or sewage. In fact, we are the largest Water Only company. We own and manage the water assets and network in an area of approximately 4,500km^2 across three supply regions in the South East of England. We have been supplying water to the local community for more than 170 years.

Our key facts and figures as reported in our Annual Report and Financial Statements for 31 March 2023 were:

948Ml/d
Daily amount of drinking water supplied
(FY22: 936Ml/d)

3.89m
Customers served
(FY22: 3.86m)

1.49m
Household properties connected
(FY22: 1.48m)

16,900km
Length of mains network
(FY22: 16,800km)

1,460
Number of employees (excluding directors)
(FY22: 1,407)

91
Number of water treatment works
(FY22: 91)

Our purpose

We supply high-quality drinking water and take care of our environment, for our communities now and in the future.

Our vision

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

We are:

Affinity Water Limited

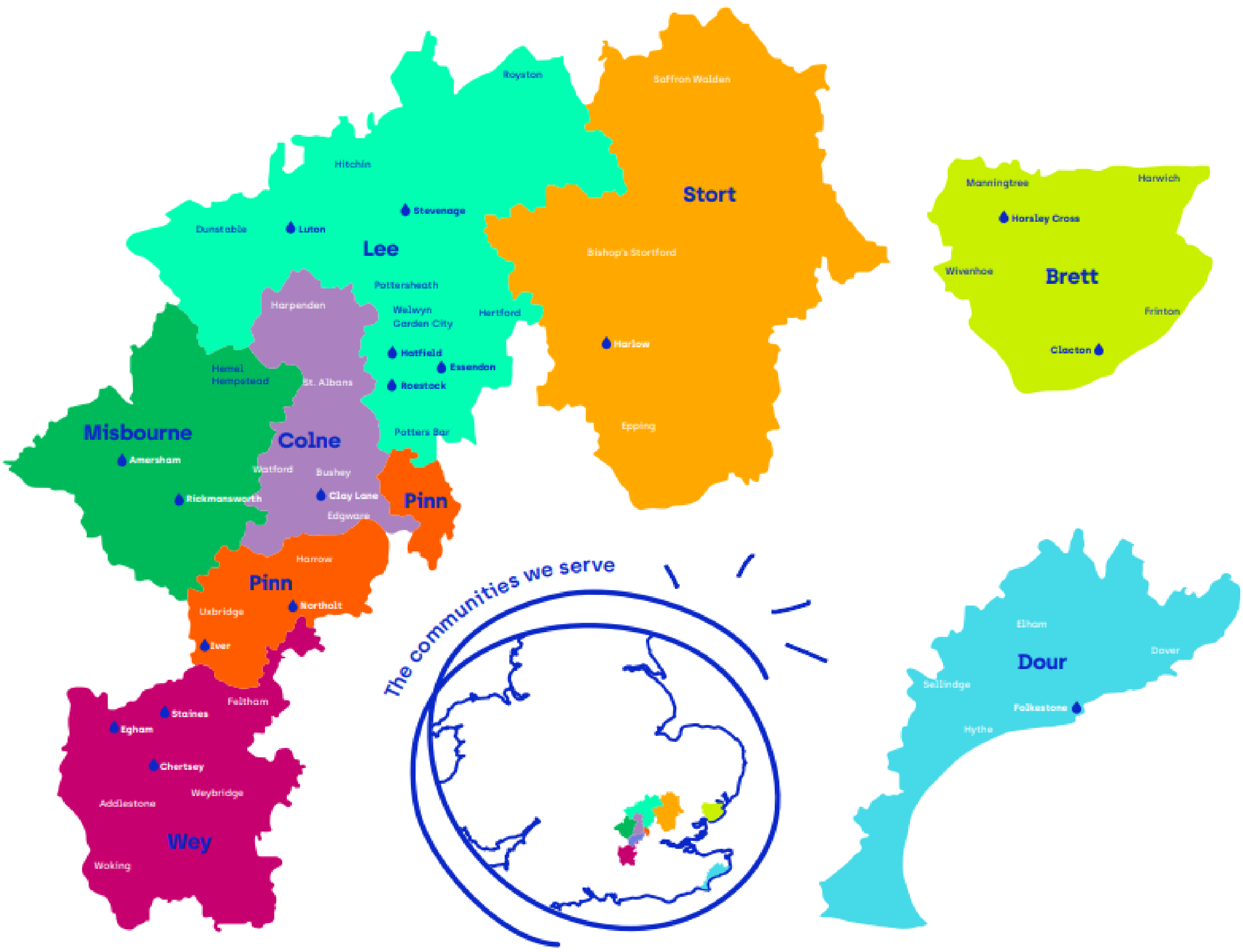
Interim management report (continued)

Introduction (continued)

We divide our supply regions into eight different communities, each named after a local river. This allows us to tailor our services to customers on a local level.

Our financial and operational summaries for the six-month period to 30 September 2023 are presented on pages 5 to 7.

Please refer to pages 11 to 18 for more information on our operational performance and pages 24 to 26 for more detail on our financial performance.



Affinity Water Limited

Interim management report (continued)

Our business model

Our purpose

Why we exist

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

Our aspiration

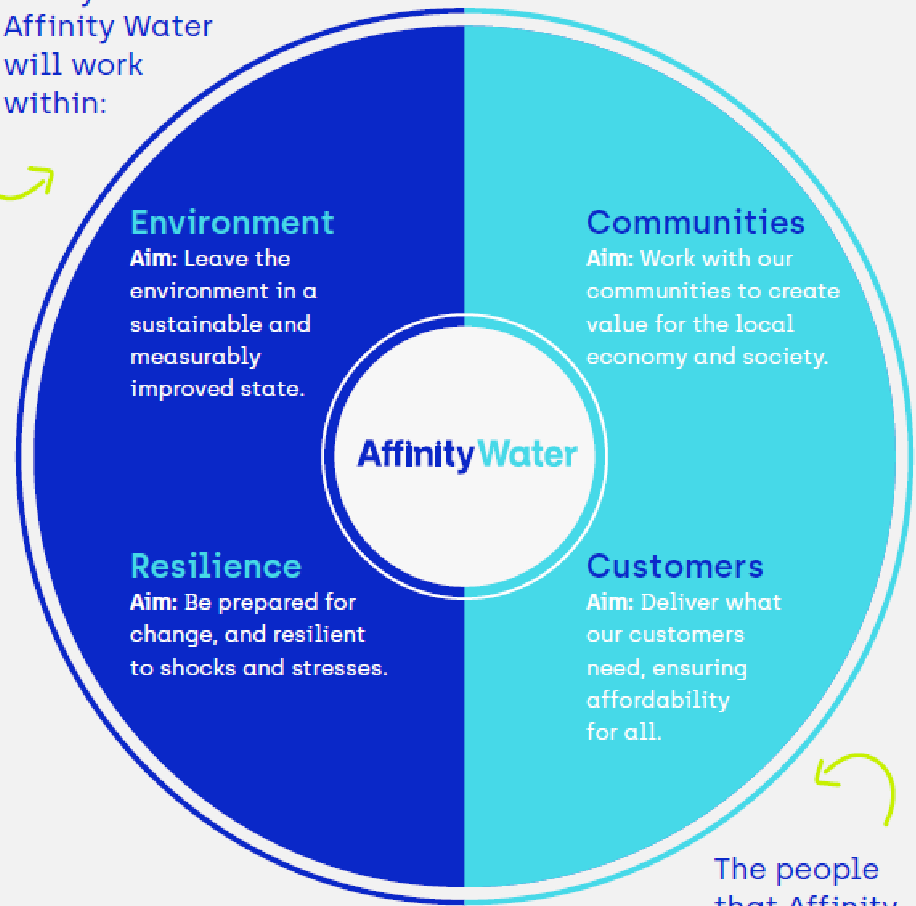
To be the UK's leading community-focused water company.

Our strategy

Our plans to deliver value

Our Strategic Direction Statement ambitions

The systems that Affinity Water will work within:



The people that Affinity Water will work with:

Our culture

Ethical foundation enabling better decisions every day:

Customer-centric culture

We're proud to have outstanding employees that go the extra mile for our customers. For us to meet customers' and colleagues' expectations, it's essential that we understand what these expectations are. Our Principles have been developed to give every one of us direction and guidance, to help support the fantastic work we already undertake.

Our business model (continued)

Our customer outcomes

Our customer outcomes are the commitments we made to customers in our business plan 2020–2025. This plan was shaped by customers and stakeholders on the things they want their company to deliver on.

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

Minimising disruption to you and your community

Our principles

Each person at Affinity Water is guided by our principles – doing the right things for customers and delivering against our commitments and promises.

Our brand genes

These are the three things we want everyone to think about Affinity Water.

Stewards of the local environment

Helping customers use water better

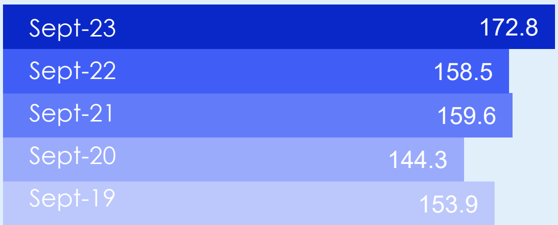
Giving customers an exceptional experience

Interim management report (continued)

Our financial performance summary for the six months ended 30 September 2023

Revenue £m

£172.8m

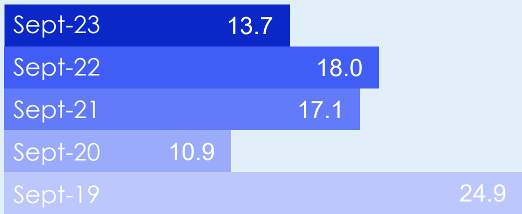


Revenue for the six-month period to 30 September 2023 has increased by £14.3m compared to the same period last year.

The increase is primarily due to higher household consumption and tariff increases. Additionally, there was an increase due to the recognition of non-household wholesale revenue from the previous period.

Operating profit £m

£13.7m

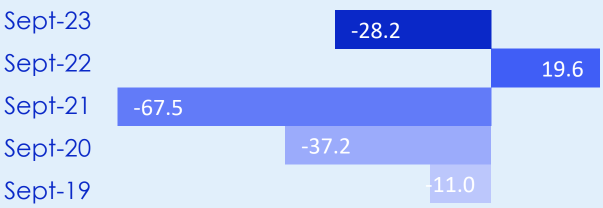


Operating profit has reduced by £4.3m compared to the same period last year.

The increase in revenue has been more than offset by increased costs, mainly due to rise of inflation, higher staff costs and energy costs linked to higher demand, although savings have been made due to lower spend on consultancy fees and savings in rates.

(Loss)/profit for the period £m

£(28.2m)

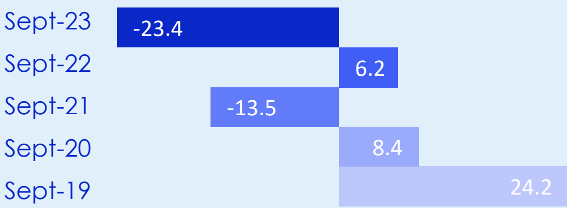


Profit for the period has fallen by £47.8m compared to the same period last year.

The large decrease is driven by fair value losses on our energy swaps which were put in place to hedge against rising prices in 2022. Additionally, fair value gains were much less this period due to market movements.

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

£(23.4m)



Our cash flows from operating activities for the six months ended 30 September 2023 was £29.6m lower than the prior period.

The decrease is primarily due to lower cash generated from operations and a significantly higher level of purchases of property, plant and equipment.

[1] This "non-GAAP" measure, which is used internally to evaluate our financial performance, is calculated as the total of the following lines per the condensed statement of cash flows (refer to page 34): cash generated from operations; purchases of property, plant and equipment; capital contributions; proceeds from sale of property, plant and equipment; purchases of intangible assets; and principal elements of lease payments.

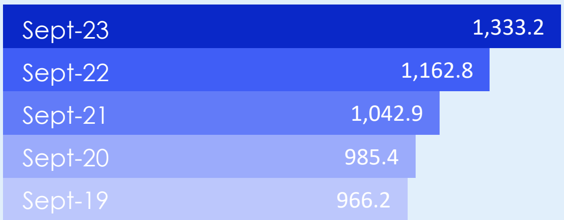
Affinity Water Limited

Interim management report (continued)

Our financial performance summary for the six months ended 30 September 2023

Compliance net debt £m

£1,333.2M

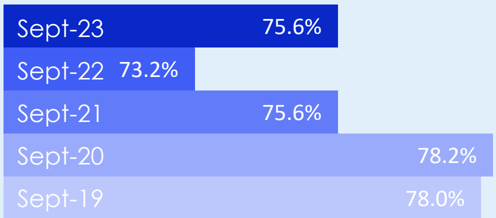


At 30 September 2023, compliance net debt, as defined in the financial covenants in the company's securitisation documentation was £1,333.2m.

This is £174.8m higher than at 30 September 2022, mainly due to rising interest rates.

Gearing %

75.6%



Gearing, calculated as compliance net debt to RCV, at 30 September 2023, was 75.6%.

Our gearing remains below our internal gearing level of 80.0%. This allows sufficient headroom within the gearing covenants, which are only triggered at a level of more than 90.0%.

Credit ratings

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

Our credit ratings have not changed since March 2023 (the rating from Standard & Poor's moved to a negative outlook during 2022/23).

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 2023 and we continue to monitor and adhere to them throughout each reporting period.

Please refer to page 24 onwards for further information on our financial performance.

Our operational performance summary for the six months ended 30 September 2023

Supplying high-quality water you can trust

We are firmly on track to be below our CRI deadband[2] of 2.0 for the 2023 calendar year, which is within our performance commitment target.

The contact rate for consumers contacting us expressing dis-satisfaction with the taste, odour or appearance of their water supply is 0.60/1000 customers, which is within our performance commitment target of 0.67/1000.

Providing a great service that you value

Our Q2 C-MeX score for 2023/24 is 73.05 and 72.89 YTD.YTD this ranks us 14th out of 17 companies, for both customer service and experience. Our Q2 score ranks us 13th moving up one place from quarter 1.

Our D-MeX overall score for Q1 was 85.59 ranking us 13th out of 17 companies, this is three places down from the 2022/23 year end scores. A lower Q1 score was anticipated due to a backlog of construction jobs. We have worked to proactively manage this and anticipate scores returning to former levels. We have not yet received our Q2 survey scores.

Minimising disruption to you and your community

We responded to extreme weather, maintained water availability through proactive maintenance, started work on our new treatment facility at Sundon reservoir to increase network resilience and enable further sustainability reductions by 2025, and enhanced treatment capabilities.

Our performance to date remains strong and we are currently on target to achieve our best ever supply interruption performance. We currently reporting at 1 minute 31 seconds against a YTD target of 2 minutes 40 seconds. (The year performance commitment is 5 minutes 20 seconds). We are reporting below the 320 property commitment for unplanned interruptions greater than 12 at 67 properties and are also on track for our best performance to date.

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

Leakage is on track to meet the full AMP7 target of a 20% reduction in the three-year rolling average leakage figure. We work closely with our supply chain as we test innovative detection methods and equipment to ensure we are doing all we can to reduce leakage.

PCC is the metric used by the water industry to measure water use in the home.

We continue to work to progress towards our challenging ambition to achieve a significant reduction in demand for water. Please see page 11 for further information.

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

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

Interim management report (continued)

Our commitment to public value

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

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

Save Our Streams 3 campaign

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

240,000 customers have claimed a free water-saving device and we have set an even more stretching target for 2023/24 of 120,000 additional sign ups and 30Ml/d saving. It is more important than ever to conserve water, protect the environment and our water supply.

Our globally rare chalk streams are feeling the impact, so we need help from customers to preserve them. We're making water saving easier to help customers save without disrupting their routine.

A simple yet powerful message - save water, save money, and help save our streams.

The high impact TV, radio and digital adverts include prompts for customers to save water. We work with wildlife and river trust partners and have ongoing engagement and education to inspire even more of our customers to take steps to reduce water wastage, building on the billion litres of water saved over last year alone and support our commitment to reduce per capita consumption.

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

Our commitment to public value (continued)

Supporting our customers with our local partners

This year we're supporting up to 30,000 of our customers who are facing the pressures of the increased cost of living. Customers don't need to do anything, they will have a credit on their account.

We've been using our own data and working with referral partner s to make sure we help those who need it the most.

Age Concern
Luton's largest charity has been helping older people and their carers get the services they need and make their voices heard.

Citizens advice
Free advice to millions of people online, over the phone and in person.

National Energy Foundation
One-stop-shop advice service to improve the warmth and well-being of the UK's most vulnerable homes.

Rainbow services
Aim to alleviate poverty, disadvantage, and social exclusion.

Food banks
The foodbanks in Borehamwood and St. Albans support people in crisis with emergency food parcels.

Communication Development Action Herts
Bring together people and communities, champion the disadvantaged and provide advocacy for minorities and excluded groups.

Improving water resilience in Hertfordshire

Population growth, climate change and the demand for water are putting significant pressure on the local environment and water resources in our supply area.

We are carrying out a series of projects to improve water capacity to store water. To start with, we are constructing a new service reservoir near the village of Preston, Hertfordshire, to help ensure the resilience of water supplies and that less water is taken from our region's rare chalk aquifers.

The new service reservoir will provide an additional 20 million litres of storage and will help build the long-term resilience of the storage systems and reduce risk of supply interruptions for customers in these areas.

Our commitment to public value (continued)

Industry leading WaterSave Tariff trial

We're the first water company in England to trial a new-style tariff for how customers are charged based on how much water they use. The trial will help us to understand if this is a fairer way to pay and how we can make water bills more affordable for our customers. We expect that two out of every three households will have lower bills on the WaterSave Tariff.

We also want to see if the trial encourages our customers to use water more wisely, which will help us to leave more water in the local environment and protect our chalk streams.

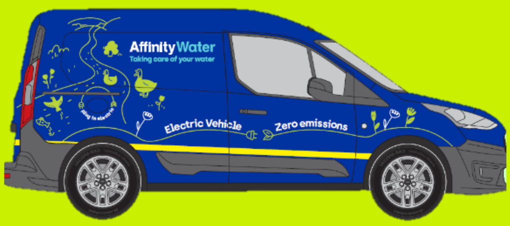
Our key objectives are to obtain evidence on the effects of the WaterSave Tariff on affordability and demand response. As we will also have a control group of customers, we will measure the effects by comparison of the trial group and control group.

Climate change and our Carbon Footprint

We have set out our goal to reach operational net zero by 2030. Last year, we installed solar panels at two of our water treatments works to help power our operations.

We have taken delivery of the first electric vehicle (EV) in our batch of EVs being delivered over the coming months. This marks a huge milestone in our Net Zero strategy as we gradually switch our existing vehicles to new EVs, reducing our CO_2 emissions in the process.

Over the next seven years, we will gradually exchange our existing vans for new electric models.



Affinity Water Limited

Interim management report (continued)

Operational performance

Key performance indicators

We have aligned our operational KPIs to the key performance commitments made in our AMP7 Business Plan and in response to customer expectations. We want customers and stakeholders to be able to assess our track record and hold us to account. We are required to report our performance annually against targets set by Ofwat, the DWI and Defra. Our annual performance in relation to these targets for the six-month period ended 30 September 2023 is shown in the table below:

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

Water quality *CRI (Score)*	
Target: 0 (Deadband 2.0 or less) On track	CRI is a measure to inform the risk arising from treated water compliance failures. Whilst the ultimate target for water quality would be an index score of zero, we are on course to achieve a performance that is within the 'deadband' of between 0 and 2.0 for the 2023 calendar year and will not incur a financial penalty. We anticipate a higher score than 2022 due to the detection of a coliform in a sample at one of our water treatment works that is still under investigation.
Leakage *Average annual water leakage from our network (Ml/d)*	
Target: 17% reduction On track	This measure is reported as a percentage reduction in a three-year average of leakage against a baseline average level of 2019/20. We are currently on course to achieve the 2023/24 target of 17% reduction in the three-year rolling average leakage figure. This is in line with our strategy of outperformance in years 3 and 4 of the AMP and achieving the full 20% reduction by year 5.
PCC *Average water use (l/p/d)*	
Target: 10% reduction (29 Ml/d) Off track	PCC is reported as a three-year average against a baseline level from 2019/20 average water use. PCC is a measure of water usage in the home. We are forecasting that we will not meet our 2023/24 target. Water usage increased during Covid-19 and has remained high since. From the peak in 2020/21, we are slowly bringing yearly PCC down, but this has not yet returned to pre pandemic levels. Alongside our existing water efficiency campaigns, we continue to look for new and innovative ways to educate on the need for reducing consumption.
C-MeX *(Score)*	
Target: 75.75 Slightly off track	Customer Measure of Experience (C-MeX) is a mechanism to incentivise water companies to provide an excellent customer experience for residential customers, across both the retail and wholesale parts of the value chain. C-MeX is based on a league table comparison of performance by the other 17 water companies in England and Wales. Our overall year-to-date C-MeX score is 72.89 placing us 14th out of 17 companies. We are encouraged to see our Q2 score improved on our Q1 score at 73.05. We are focused on achieving a score of 75.75 for the full year, by investing in additional resources and training volunteers from other areas of the business to deliver a noticeable improvement in response times to customers across our contact centres and back-office teams.

Affinity Water Limited

Interim management report (continued)

Operational performance (continued)

Key performance indicators (continued)

D-MeX *(Score)*	
Target: 8th position Off track	D-MeX is the measure of levels of service in the developer services area of activity. The index score is made up of both a qualitative and a quantitative element which contribute 50% each to the score. Our quantitative scores for Q1 was 99.92% and our qualitative score was 71.26 (13th position), overall placing us 13th in the league table with a score of 85.59. This compares to 10th at the end of 2022/23 with a score of 86.36. We anticipated a lower Q1 score due to a backlog of construction jobs. We have worked to proactively manage this and anticipate scores returning to former levels. We have not yet received our Q2 survey scores.

Mains repairs (due to bursts) *(Number per 1,000km mains)*	
Target: 144.4 or less On track	The number of mains repairs for the first half of 2023/24 was 40.13, below our profiled target of 60.37. We are entering the winter period where we may experience an increase, however we are expecting out run rate to remain below the target for the rest of the year and achieve our year-end commitment.

Water Supply Interruptions > 3 hours *(Average minutes per property, water supply interruption)*	
Target: 00:05:20 On track	Interruptions are reported as the average number of minutes properties are without water (for interruptions lasting 3 hours or more). Interruptions to supply are running below our target for the first six months (00:01:46 YTD actual compared to a YTD target of 00:02:09), with our current year end forecast achieving the full year target. We are currently on target to achieve our best ever performance, although winter weather can be unpredictable and has a significant effect on this metric.

Properties at risk of low pressure *(Number per 10,000 properties)*	
Target: 1.250 Significantly off track	This is a measure of the number of properties that are at risk of experiencing low pressure in the mains water supply. Performance for 2023/24 is reporting below target, and we do not expect to meet our year end performance commitment.

Unplanned *interruptions* to supply over 12 hours *(Number of properties)*	
Target: 320 or less On track	We are reporting below our target YTD and are currently on target to achieve the commitment for the full year. As with interruptions to supply, weather has a significant impact on this metric and can be affected by winter weather.

Interim management report (continued)

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 regularly inspecting the integrity of our storage reservoirs, and operating our distribution systems in a manner that ensures water arrives at our customers' properties in the same condition as it leaves our water treatment works.

Our teams did an amazing job to keep to the high-quality standards that our customers expect, with reservoir inspections which help to achieve our industry-leading CRI score.

Our predicted CRI score for the nine months to September 2023 is 1.02. This is higher than in previous years due to the detection of a coliform at one of our water treatment works. We however expect to achieve CRI scores below 2.0 for the full year and 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 2023 is 0.60/1000 customers. This is better than our performance commitment target of 0.67 and an improvement on the prior period (September 2022: 0.67/1,000 customers).

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 are now running our second solar-farm site, to support our Walton Water Treatment Works, providing power combined from our two installations up to 1,200kW, to reduce our carbon footprint and our reliance on grid electricity. A second phase has been initiated to enhance our energy efficiency further.

We report on our operational emissions annually and have already made significant progress to reduce our carbon and greenhouse gas emissions. We have a published plan for reaching net zero operational emissions by 2030 and full net zero by 2045. We will achieve this by:

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

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

Affinity Water Limited

Interim management report (continued)

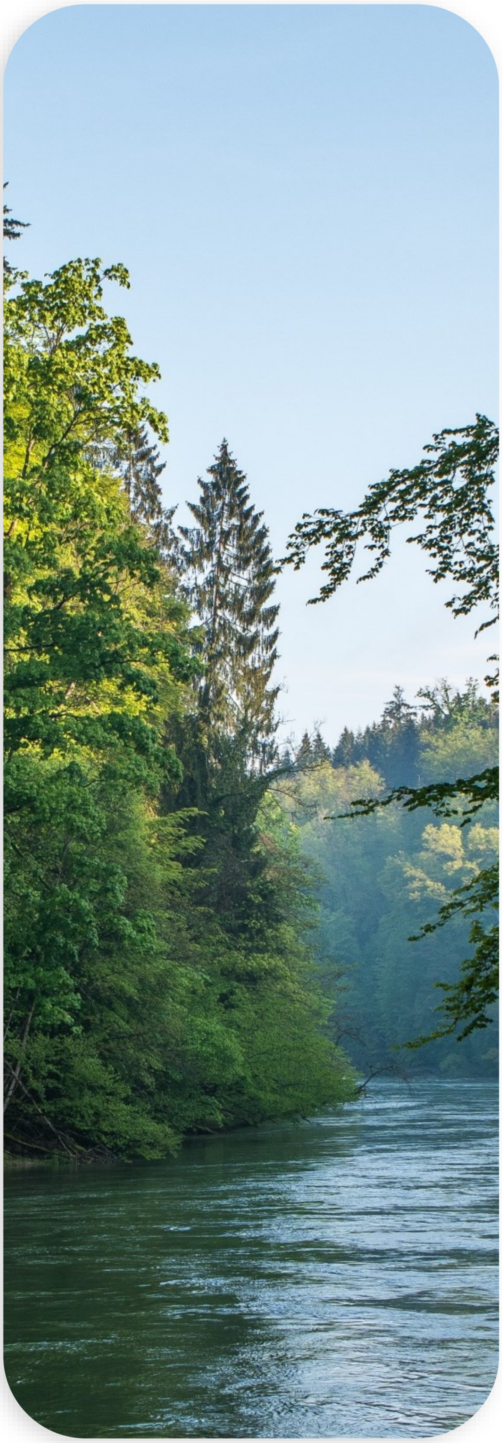
Operational performance (continued)

Supplying high quality water you can trust (continued)

To ensure we maintain a supply of high-quality water, Affinity Water take samples of water from our treatment works, reservoirs and at customer taps. These results are submitted to our regulator, DWI, and give assurance our treatment processes are working and assets are in good condition.

It's important that the samples taken are representative of the water we supply and are not contaminated whilst taking the sample. A workstream has been set up to focus on upgrading our compliance sample points to the current standard.

Together the Water Quality, Production and Sampling Teams have helped identify the top priority sample lines for replacement this AMP. The work is being delivered through the Direct Delivery, Production team and our supply chain. Work has included the disconnection of abandoned sample lines and upgrades of sampling facilities.



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

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

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

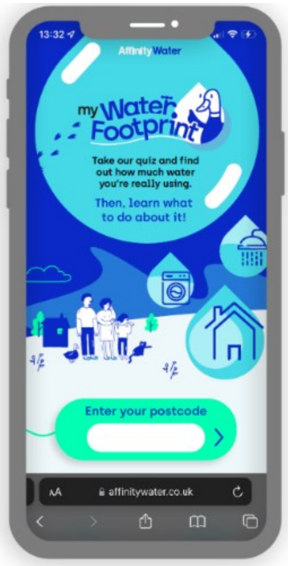
Interim management report (continued)

Operational performance (continued)

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

Population growth, climate change, and higher-than-average water usage per person are putting significant pressure on our local environment and water resources in our region. Water is a precious resource, and we need to balance providing high-quality drinking water with the needs of the local environment. The Water Resource Management Plan ('WRMP') provides a roadmap for a reliable, resilient, sustainable, efficient, and affordable water supply to customers between 2025 and 2075.

To support population growth and the environmental ambition, we need to deliver an ambitious and challenging demand management programme that delivers a mix of leakage reduction (through fixing leaks and replacing pipes), smart metering and water efficiency campaigns for both household and business customers. This also needs to be supported by government-led policies on household water efficiency.



We have now launched our third Save Our Streams (SOS3) campaign, asking customers to save water by using ECO mode on their washing machine and other water saving tips. It is the biggest water saving campaign in the UK, and continues to help our customers start their water saving journey. For more information on SOS3, refer to our case study on page 8 and our website: *affinitywater.co.uk/saveourstreams*.

During the six-month period to 30 September 2023, we installed over 21,510 meters, taking the number installed during AMP7 to date up to 143,000, which will allow customers to monitor their personal usage more easily, and help us to identify customer-side leaks.

When it comes to saving water, our customers expect us to lead the way and we are committed to doing so. We committed to reducing leakage from water pipes by 20% over AMP7, following on from the 15% reduction achieved in AMP6, which was the water industry's largest percentage reduction target for AMP6. We are on track to meet the 2023/24 target of 17% which will place us in a good position to meet the 20% reduction by 2024/25

The Grand Union Canal (GUC) Strategic Resource Option is one of our most innovative strategic resource options. It utilises existing infrastructure to transfer water from the Midlands, down to our Affinity Water supply area. This transfer will take treated water from Severn Trent's Minworth site, via a new closed pipeline transfer. The transfer will utilise the existing canal structure, passing through the Coventry Canal, the Oxford Canal, and the Grand Union Canal. This transfer offers multiple benefits for the existing canal users and owners, the local community and the local environment. Our plan is to deliver the transfer as soon as possible, ideally by 2032, although it could take one or two years more.

Affinity Water Limited

Interim management report (continued)

Operational performance (continued)

Providing a great service that you value

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 authenticity with our customers, and make ourselves 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 2022/23 was £179, the equivalent of just under 49p 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 2023/24 are expected to be about 10% higher than in 2022/23.

We help alleviate affordability difficulties by offering a discounted tariff to eligible, low-income customers, and during the period we continued to work to meet the requirements of Ofwat's May 2022 Paying Fair guidelines. We ran a targeted programme of customer engagement to improve awareness and take-up of the help we offer with bill payments. We also encouraged our customers to save water and money through our Save our Streams campaign, and by providing information about customers' water use on bills.

We provide support for financially vulnerable customers, who have a low household income or are claiming benefits, with more than 104,000 households now supported by our LIFT or Watersure social tariffs. These customers receive a reduced fixed rate spread over 12 months. During the six-month period to 30 September 2023, we have provided payment breaks to an additional 514 customers who are struggling to pay their bill. Our 'debt-help' and 'struggling to pay' webpages show how we have helped other customers in similar financial or vulnerable positions.

Our C-MeX Score for the six-month period ending 30 September 2023 was 72.89 which has placed us 14th out of 17 companies. The C-MeX score consists of two surveys: customer service and customer experience. Year to date we gained two positions in service and moved down one position in experience compared to final year 2022/23. As separate surveys we are reporting 13th in each although 'in quarter' Q2 scores show we improved to 11th. On a ranked basis we once again 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.

Affinity Water Limited

Interim management report (continued)

Operational performance (continued)

Providing a great service that you value (continued)

We are also measured for our service levels provided to developers. Our overall D-MeX score for the first quarter of 2023/24 was 85.59, ranking us 13th out of 17 companies. This score is made up of a quantitative element, and a qualitative element. We recognise we have more work to do in this area. A lower Q1 score was anticipated due to a backlog of construction jobs. We have worked to proactively manage this and anticipate scores returning to former levels. We have not yet received our Q2 survey scores. However, for the quantitative element in both August and September 2023 we reported at 99.99% compared to a score of 99.91 in July 2023.

Minimising disruption to you and your community

Water usage has been lower than anticipated except in June where we saw an increase due to hot weather and supply which also increased the amount of burst mains our teams responded to. However, continued low demand resulted in reduced costs. We've made changes, including new programme boards, improved control, modelling, training, and situational awareness tools.

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

We work with the Met Office on long-term forecasting and weather patterns. Our investment to mitigate low pressure, mains bursts, and leakage will be key to maintaining resilience and making sure our customers have enough water, whilst leaving more water in the environment by delivering sustainable abstraction reductions in line with our draft WRMP and PR24 Business Plan.

Interim management report (continued)

Our people

After a rigorous search and selection process, Keith Haslett was appointed as CEO in January 2023. Additionally, in April 2023, Martin Roughead was appointed as CFO.

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

We are committed to promoting equal opportunity in all areas including recruitment, promotion, training, pay and benefits. It is important that our employees' voice is represented when making strategic decisions. We have a Culture Ambassador Forum, with representation across all departments of the business, which aims to improve our company culture and make Affinity Water a great place to work.

Our 'Tap in' employee engagement survey conducted in August 2023 achieved a response rate of 95% with more than 1,100 employees completing the survey with an overall engagement score of 7.7 out of 10 being recorded (compared to a response rate of 81% and an engagement score of 7.2 in October 2022). The feedback is also helping us shape plans for engagement across various areas of the business including our company strategy and autonomy.

Equality, diversity and inclusion (EDI)

We provide a service that is essential to everyone's lives. We must treat people fairly and with respect and be accessible and responsive to different needs.

We need to attract, retain, and develop talented people from across our diverse communities, ensuring everyone has an equal chance to progress. Reflecting our communities will help us build trust and better serve our customers. With diversity comes a breadth of knowledge, insights, and different ways of thinking that will help us innovate and meet the big challenges we face.

We have published our first EDI strategy. We will apply the 5 Es to deliver change and achieve the outcomes listed below:

- Equip people with knowledge and skills so they understand the importance of EDI
- Embed EDI in our policies and practices
- Engage everyone and inspire them to play their part in creating an inclusive culture
- Encourage people who are under-represented or may have felt excluded to join, participate and thrive in our workplace
- Evaluate our progress through good quality and reliable data and insights

Our full policy is available on our website: *affinitywater.co.uk/corporate/reports-publications*.

Interim management report (continued)

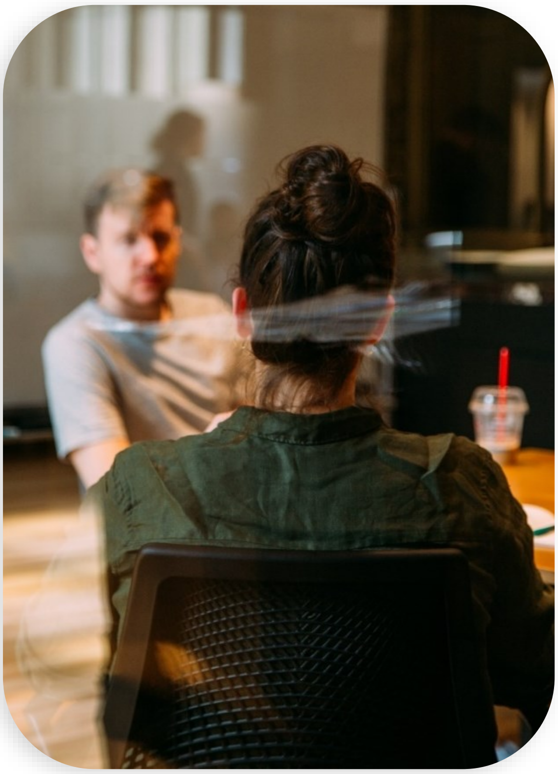
Our people (continued)

The table below provides a breakdown of the gender of directors and employees as at 30 September 2023 and 31 March 2023:

	30 September 2023		31 March 2023	
	Men	Women	Men	Women
Our Board	8	1	7	2
Senior Leadership	39	18	42	15
All other employees	906	501	946	514
Total	**953**	**520**	**995**	**531**

The number of Independent Non-Executive Directors on our Board has ensured that the balance of independent and non-independent views are represented, and that no one individual or group of individuals dominate the Board's decision making. Since April 2023, the proportion of women employees has begun to rise, and we are continuing to take steps to further improve diversity in recruitment and to improve the retention, development, and progression of women through our Women's network and creating a more supportive and flexible working environment. Additionally, we're partnering with the Women in Utilities Network to ensure good access to networking, mentoring and sponsorship, as well as career development advice and opportunities.

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



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

During September 2023, we launched our new Internal Mentoring Scheme. Mentoring brings great value; from enhancing skillsets, knowledge and business acumen to empowering and enabling others in their careers. It helps realise an individual's full potential through stretching, motivating and building self awareness, and ultimately helping the mentee to be the best they can be. The aim of mentoring is to facilitate an approach that can help accelerate development. It opens new channels of communication and learning and is about sharing experiences and expertise.

Interim management report (continued)

Our people (continued)

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

Since 1 April 2023, we have reported one RIDDOR (Reporting of Injuries, Disease and Dangerous Occurrences Regulation) incident and have recorded three lost time injuries (including the one RIDDOR), compared to one RIDDOR and two lost time injuries for the same period last year. At 30 September 2023 our Lost Time Injury Frequency Rate was 0.11 injuries per 100,000 hours worked, having increased from 0.04 injuries per 100,000 hours worked as at March 2023.

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 decreased (27 days for the period 1 April 2023 to 30 September 2023 compared to 54 days for the period 1 April 2022 to 30 September 2022) and late payments have also decreased (from 31% to 23%). We will continue to monitor our performance and maintain ongoing communication with all stakeholders to facilitate efficient invoice processing and payments.

Zero Harm strategy

A new Health and Safety Policy was launched in April 2023, resetting expectations around the approach to health, safety and wellbeing, focusing on three pillars of: Awareness, Collaboration and Prevention.

We are continually reviewing our data, incident trends and risks as a business to support building a culture in which we send our people home safe, healthy and well every day by creating a business where everyone understands their role as a safety leader and supports our Zero Harm aspirations as a business to be industry leading.

Affinity Water Limited

Interim management report (continued)

Regulatory update

Our business is a regional monopoly and is subject to incentive-based economic regulation by Ofwat. We are subject to a strict revenue control regime designed to incentivise efficiency in operations and investment decisions. Our AMP7 price controls were published in December 2019 and we accepted them in February 2020.

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

In addition to controlling revenues, Ofwat has determined eight Performance Commitments (PCs) with financial incentives that are common across all companies and nine with financial incentives that are bespoke to us. A further 11 bespoke PCs do not carry financial penalties, but if we fail to meet the standards required, are likely to worsen our reputation with stakeholders.

Where PC penalties and rewards become due, these are made in-period, not at the end of the five-year period as previously, with the exception of PCC which has been deferred and will now be considered as part of PR24.

Our PR19 price control determination contains the following key customer outcomes:

- Reduction to the average household bill by 6% in real terms by 2025;
- Our commitment towards service improvements for customers, including a 20% reduction in leakage, a 12.5% reduction in demand per person and significantly fewer minutes of supply unavailability per customer; and
- Additional commitments are dedicated towards excellent customer service and supporting customers in vulnerable circumstances including those who would benefit from our Priority Services Register.

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

Affinity Water Limited

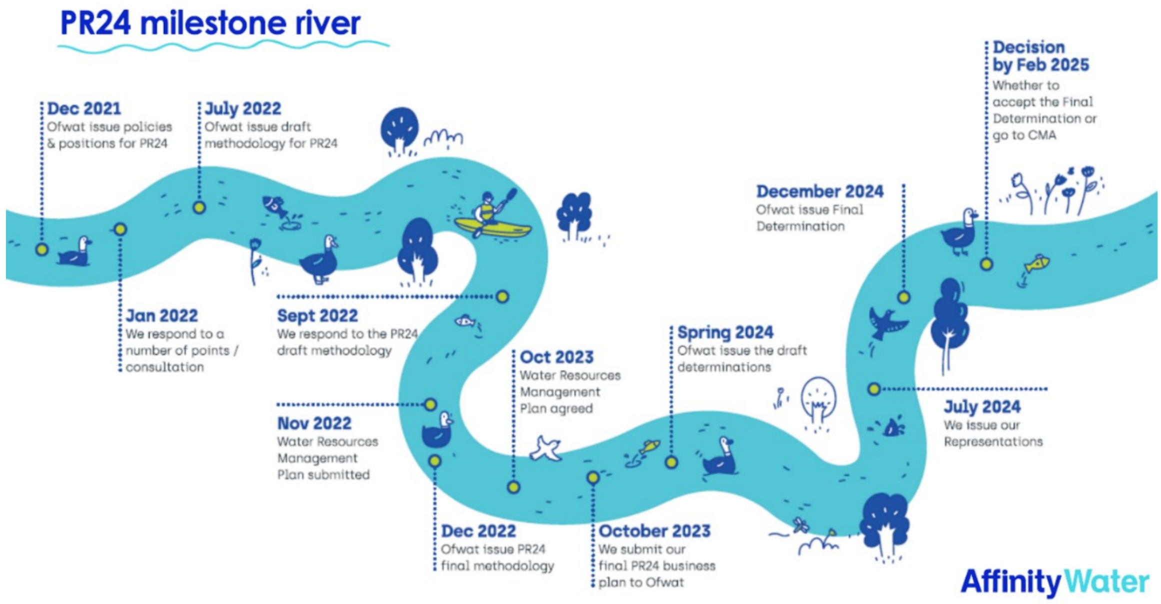
Interim management report (continued)

Regulatory update (continued)

Our draft water resources management plan, published in November 2022, set out our approach to keeping water supply and demand in balance. The South East of the UK is a particularly water-stressed area, and this is only due to become more so in the future. Our Business Plan addresses the significant challenges posed by climate change, demand for water, population growth and how we will take care of the environment going forward. Throughout the process, we have engaged with thousands of customers and stakeholders to really understand what they want to see from their local water company and their feedback has really helped to shape our Business Plan. This is our most ambitious plan to date and represents an investment of £2.12 billion between 2025-2030 to ensure we can meet the challenges we face and take care of our environment for our communities now and in the future.

Our Business Plan was finalised and submitted to Ofwat in October 2023. Here is a snapshot of our key commitments for 2025-2030:

- Reduce leakage by 31% (reduction from 2019/20 baseline);
- Reduce individual demand for water by 16%;
- Reduce water taken from chalk groundwater by a further 35 million litres a day;
- Reduce operational emissions by 55,800 tonnes of CO_2e to help meet Net Zero ambitions;
- Reduce water supply interruptions to 3 minutes, 40 seconds (based on the average minutes of interruptions over three hours across our customer base);
- Maintain industry leading water quality performance by investing £76million in water quality treatment upgrades;
- Support more customers struggling to pay and extend our social tariff to 150,000 customers and continue with tariff trials to help make bills fairer;
- Further improvements to our natural environment through river restoration schemes, biodiversity improvements and catchment management; and
- Delivering the strategic regional water resources across our region, which are scheduled for preparatory work between 2025 and 2030 and delivery from 2030 to 2035 and beyond.

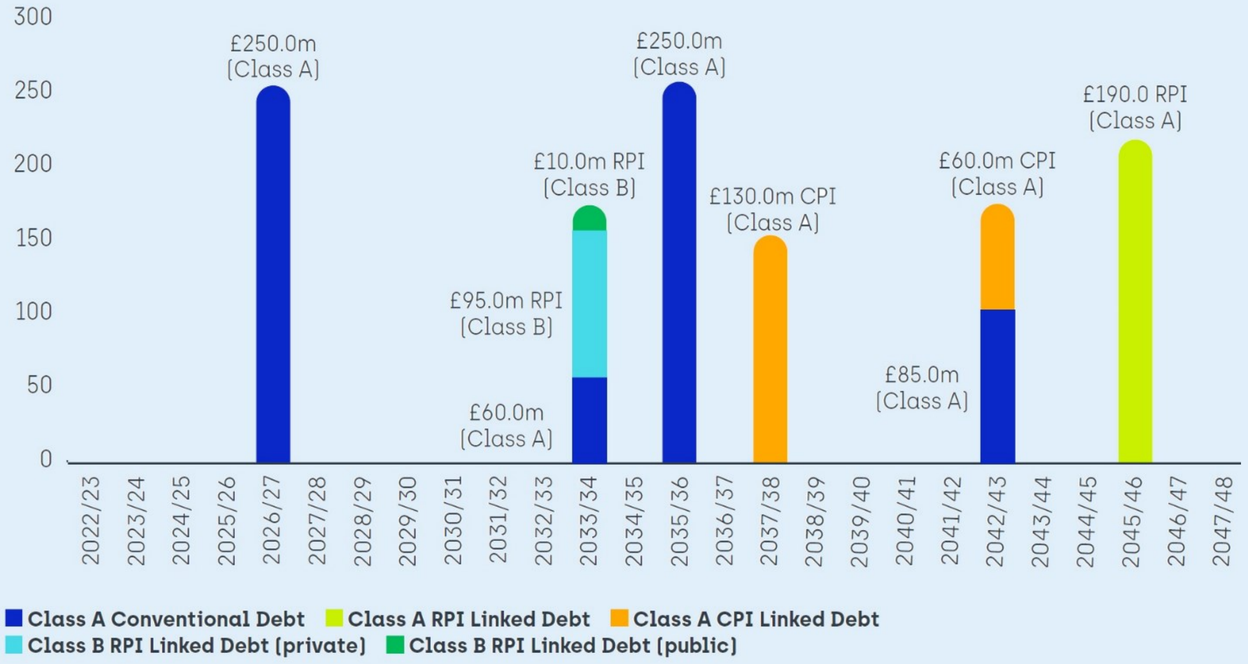


Interim management report (continued)

Financing update

As we are a business with a long-term outlook and expenditure commitments, we need to match this with long-term sources of debt finance. We consider the most cost-effective way to raise long-term debt to be through the debt capital markets. Our financing subsidiaries have outstanding external bonds totalling £1,130.0m, raised in the debt capital markets and on-lent to the company on the same terms. 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 2023:



The credit ratings for our subsidiaries' bonds assigned by the rating agencies, Moody's, Standard & Poor's and Fitch, have not changed since March 2023 (the rating from Standard & Poor's moved to a negative outlook during 2022/23).

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

At 30 September 2023, compliance net debt, as defined in the financial covenants in the company's securitisation documentation (compliance net debt), was £1,333.2m (at 31 March 2023: £1,257.7m - refer to note 1E in the Annual Performance Report for the year ended 31 March 2023 for the basis of the calculation). Gearing, calculated as compliance net debt to RCV at 30 September 2023, was 75.6% (31 March 2023: 73.4%) 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 UK-adopted international accounting standards and the requirements of the Companies Act 2006; refer to note 2 of the condensed interim financial statements for further details. Our unaudited financial results for the six months to 30 September 2023 are summarised as follows:

	2023 **£m**	2022 (restated) £m
Revenue	**172.8**	158.5
Operating costs	**(169.6)**	(150.9)
Other income	**10.5**	10.4
Operating profit	**13.7**	18.0
Net finance costs	**(39.6)**	(28.4)
Fair value gain on energy swaps	**(9.8)**	36.3
(Loss)/profit before tax	**(35.7)**	25.9
Tax credit/(expense)	**7.5**	(6.3)
(Loss)/profit for the period	**(28.2)**	19.6

Revenue

Revenue for the first six months of the year was £172.8m, being a £14.3m (9.0%) increase on the same period last year (six-month period ended 30 September 2022: £158.5m restated). The increase is primarily due to higher household consumption and tariff increases. Additionally, non-household wholesale revenue has been higher as the final settlement run from the previous period showed an increase on the previous settlement reporting.

Other income for the period was £10.5m, being a £0.1m (0.9%) increase on the same period last year (six-month period ended 30 September 2022: £10.4m).

Operating costs

Total operating costs of £169.6m for the first half of the year were £18.7m (12.4%) higher than for the same period last year (six-month period ended 30 September 2022: £150.9m restated). Average CPIH inflation for the six-month period to September being 7.0% higher year-on-year has added £8.0m onto our costs, while a further £3.1m was due to increased depreciation on our growing asset base.

Energy costs were £3.8m higher than the prior period due to increased usage across our sites, although wholesale prices have now started to fall. We have an increase of £2.9m to staff costs in addition to the inflationary pay rise.

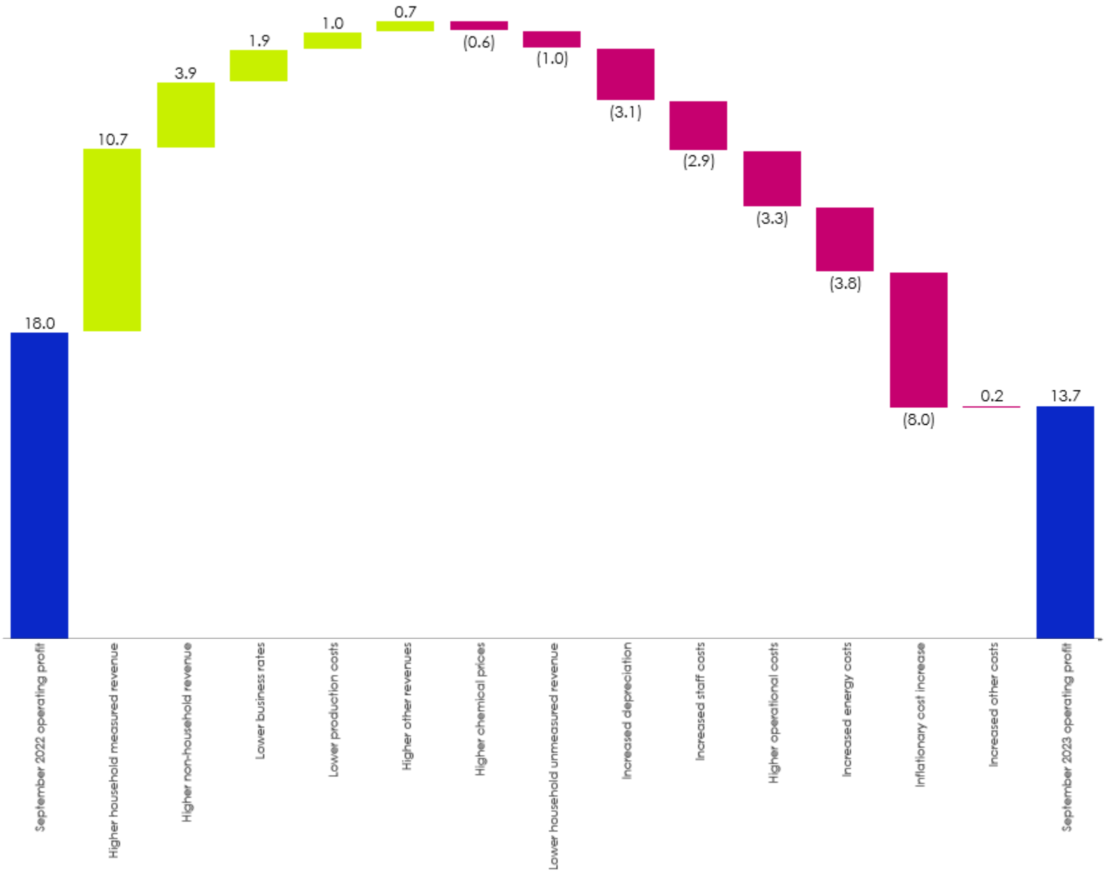
Financial performance (continued)

Operating costs (continued)

Additionally, infrastructure renewals, materials and subcontracting have increased by £3.3m compared to the prior period. The growth in costs have been slightly offset by £1.9m savings in rates and £0.5m reduction due to lower bulk water import.

Operating profit

Operating profit of £13.7m was £4.3m (23.9%) lower than the same period last year (six-month period ended 30 September 2022: £18.0m restated). The key variances are explained on the previous page and in the following graph:



Interest and fair value movements

The net finance cost of £39.6m was £11.2m (39.4%) higher in the current period, primarily due to fair value movements[1] on our inflation swaps, which made a fair value gain of £13.7m in the current period compared to a £58.4m gain in the prior period due to more favourable mark to market movements last year.

[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.

Financial performance (continued)

Interest and fair value movements (continued)

This was partially offset by £32.1m higher accretion on our index-linked bonds. There was also a £9.8m fair value loss on our energy swaps which was £46.1m lower than the gain made in the prior period (£36.3m), as a result of unfavourable mark to market movements driven by forecast energy prices reducing compared to the price we locked in at.

Taxation

Income tax credit of £7.5m was £13.8m (219%) higher than to the prior period primarily due a loss in the current period. No corporation tax was paid during the period ended 30 September 2023 as we are forecasting a tax loss for 2023/24 therefore no tax is expected to be payable (six-month period ended 30 September 2022: £nil). The tax credit in the condensed interim financial statements for the period ended 30 September 2023 is a deferred tax credit.

All our profits are taxed in the UK, and we do not use artificial tax avoidance schemes or tax havens to reduce our tax liabilities. We comply with what we understand to be both the letter and the spirit of the law. Details of the tax strategy for the Affinity Water Limited regulated business can be found in our regulatory Annual Performance Report for the year ended 31 March 2023, and the group tax strategy of Daiwater Investment Limited, our ultimate holding and controlling company in the United Kingdom, both of which can be found on our website: *affinitywater.co.uk/library*.

Dividends

We are restricting dividends to our shareholders throughout AMP7 to enable the substantial investments to improve resilience and protect the environment. No equity dividends were paid during the six-month period ended 30 September 2023 (six-month period ended 30 September 2022: £nil), as our shareholders have agreed to re-invest all AMP7 planned returns from our appointed business for the benefit of our customers.

Capital expenditure and cashflow

Capital expenditure in the six-month period ended 30 September 2023 was £80.1m (six-month period ended 30 September 2022: £58.6m). This was incurred principally on sustainability reductions, increased spend on universal metering, strong spend at Sundon, and on leakage and water treatment programmes. The total excludes £13.1m (six-month period ended 30 September 2022: £10.1m) 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 will continue for the second half of the year.

Net cash flow before tax and financing[1] for the first six months of the year was a £23.4m outflow being a £29.6m (477.4%) decrease on the same period last year (six-month period ended 30 September 2022: £6.2m inflow). The decrease is primarily due to lower cash generated from operations and a significantly higher level of property, plant and equipment purchases.

[1] This "non-GAAP" measure, which is used internally to evaluate our financial performance, is calculated as the total of the following lines per the condensed interim statement of cash flows (refer to page 35): cash generated from operations; purchases of property, plant and equipment; capital contributions; proceeds from sale of property, plant and equipment; purchases of intangible assets; and principal elements of lease payments.

Affinity Water Limited

Interim management report (continued)

Principal risks and uncertainties

We have an established framework for identifying, evaluating and managing the key risks we face. A key aim is to foster a culture in which teams throughout the business manage risks as part of their management of day-to-day operations. Our Executive Leadership Team ('ELT') 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 leadership 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 2023. The principal risks and uncertainties reported for the year ended 31 March 2023 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. Our supply chain may fail to deliver the goods and services we need to operate our business
6. We could cause damage to the environment during our business activities
7. 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 ambitions
9. A significant disruptive event could impact our ability to deliver normal business activities
10. The health of our assets may deteriorate such that water supply or quality is compromised

Regulatory risks:

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

Financial risks:

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

Further information on these risks and uncertainties can be found on pages 108 to 120 of the company's Annual Report and Financial Statements for the year ended 31 March 2023, 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 and Financial Statements is still applicable and relevant, and the conclusions reached remain based upon our best understanding of these risks.

Going concern

The directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements as they believe that the company has adequate resources to meet its current operational and financial obligations, and the directors have a reasonable expectation that this will continue for the foreseeable future and for a period of at least 12 months from the date of approval of these financial statements. This is based on assessment of the principal risks of the company as well as consideration of the company's budgeted cash flows, short and long term forecasts and ability to generate future revenues, related assumptions and available debt facilities.

To assess a severe but plausible downside scenario, management have considered a base case forecast that reflects the current market conditions in the economy and have applied a series of severe downside assumptions. These are increased costs from the financial impacts of operational events, including, for example, the impact of a severe cold weather event over the winter period, and an increase in bad debt representing approximately 8% of debt not currently subject to loss allowance provision. The severe but plausible downside scenario is overlaid on our base case forecast which has taken into consideration the impact of inflation, interest rates, supply chain cost pressures, the energy price crisis and the cost of living crisis.

The company is able to withstand the severe but plausible downside scenario without the occurrence of an ICR Default Event. However, it is possible an ICR Trigger Event could occur, although this is based on the assumption that no mitigating actions would be taken. Management are confident that mitigation actions within their control could be implemented that would prevent a trigger or default event from occurring. Under an ICR Trigger Event, the company would be subject to certain constraints such as restrictions on dividends and restriction on debt buybacks. However, the directors are satisfied that an ICR Trigger Event would not fundamentally constrain the company's ability to carry out its business, particularly after considering the company's strong cash position meaning that the company has no further funding requirement in AMP7. Under an ICR Default Event, each finance party may declare all amounts outstanding under the applicable Finance Documents to be immediately due and payable.

The company continues to monitor and manage the risks associated with the ICR covenant through the forecasting and reporting process and continues to monitor potential mitigations, the most prominent of which are working capital management and operating expenditure reviews.

The directors have also considered the ring fence structure in place and have obtained comfort that the existence of external borrowings outside of this structure, namely that within Affinity Water Holdco Finance Limited, does not impact the conclusions reached regarding the ability of the company to continue as a going concern. This is due to the fact that the company has no obligation to distribute funds through the holding company structure in order to meet such liabilities.

Details of the company's cash and short-term investment are included in the statement of financial position on page 32, and undrawn committed borrowing facilities are included in note 15. Due to the nature of the regulated water company's business, the directors consider it appropriate to place reliance on projected financials. There have been no events after the reporting period significantly affecting liquidity headroom.

Affinity Water Limited

Interim management report (continued)

Related parties

Details of significant related party transactions can be found in note 21. There has been no change to the nature of related party transactions in the first six months of the financial year which has materially affected the financial position or performance of the company.

Governance

We recognise the importance of demonstrating to customers, investors, communities, regulators and other stakeholders that we operate our business to the highest standards of governance and transparency. As required by our water supply licence, we operate our business as if it were a separate listed company having regard to the principles of good governance of the UK Corporate Governance Code and the objectives of Ofwat's publication: Board Leadership, Transparency and Governance principles, revised in January 2019. Our business is owned by private investors and we therefore apply the principles of the Code in this context, also having regard to the Guidelines for Disclosure and Transparency in Private Equity (the Walker Guidelines) and the work of the Private Equity Reporting Group.

Forward-looking statements

Certain statements in this interim management report are forward-looking. Although the company believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to be correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements. The company undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

Affinity Water Limited

Condensed interim income statement for the six-month period ended 30 September 2023

	Note	**30 September 2023 £000**	30 September 2022 (restated) £000
		Unaudited	Unaudited
Revenue	5	**172,825**	158,546
Cost of sales		**(146,357)**	(131,034)
Gross profit		**26,468**	27,512
Administrative expenses		**(20,481)**	(17,302)
Impairment losses on financial and contract assets		**(2,810)**	(2,568)
Other income		**10,476**	10,428
Operating profit	6	**13,653**	18,070
Finance income	7	**10,612**	9,149
Finance costs	7	**(63,863)**	(95,924)
Fair value gain on inflation swaps	7	**13,682**	58,366
Net finance costs		**(39,569)**	(28,409)
Fair value (loss)/gain on energy swaps		**(9,849)**	36,345
(Loss)/profit before tax		**(35,765)**	26,006
Tax (credit)/expense	8	**7,525**	(6,348)
(Loss)/profit for the period		**(28,240)**	19,658

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

The prior year has been restated to reflect the change in accounting policy relating to contributions for new connections related to developer services activity. Further details are included on page 37.

The notes on pages 35 to 51 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 2023

	Note	**30 September 2023 £000**	30 September 2022 (restated) £000
		Unaudited	Unaudited
(Loss)/profit for the period		**(28,240)**	19,658
Other comprehensive expense for the period which will not be reclassified to profit or loss:			
Remeasurements of post-employment benefit obligations		**(13,304)**	(30,935)
Deferred income tax credit on items that will not be reclassified	17	**3,429**	7,734
Other comprehensive expense for the period, net of tax		**(9,875)**	(23,201)
Total comprehensive expense for the period		**(38,115)**	(3,543)

The prior year has been restated to reflect the change in accounting policy relating to contributions for new connections related to developer services activity. Further details are included on page 37.

The notes on pages 35 to 51 are an integral part of these condensed interim financial statements.

Affinity Water Limited

Condensed interim statement of financial position as at 30 September 2023

	Note	30 September 2023 £000	31 March 2023 (restated) £000
Assets		**Unaudited**	Unaudited*
Non-current assets			
Property, plant and equipment	9	**1,746,094**	1,709,253
Right-of-use assets	9	**7,213**	7,649
Intangible assets	9	**43,873**	42,611
Investments		**100**	100
Retirement benefit surplus	10	**41,168**	53,615
Derivative financial instruments	11	**2,985**	3,283
		1,841,433	1,816,511
Current assets			
Inventories		**4,634**	4,833
Derivative financial instruments	11	**1,477**	6,068
Trade and other receivables	12	**145,619**	102,566
Short-term investments		**52,547**	66,709
Cash and cash equivalents		**61,313**	78,783
		265,590	258,959
Total assets		**2,107,023**	2,075,470
Equity and liabilities			
Equity			
Ordinary shares	13	**(30,506)**	(30,506)
Share premium	13	**(1,400)**	(1,400)
Capital contribution reserve	13	**(30,150)**	(30,150)
Accumulated losses		**197,871**	159,756
Total equity		**135,815**	97,700
Liabilities			
Non-current liabilities			
Trade and other payables	14	**(321,990)**	(315,242)
Borrowings	15	**(1,354,835)**	(1,331,716)
Lease liabilities	16	**(4,185)**	(4,785)
Derivative financial instruments	11	**(129,435)**	(121,719)
Deferred tax liabilities	17	**(195,376)**	(206,738)
Provisions for other liabilities and charges	17	**(3,324)**	(3,319)
		(2,009,145)	(1,983,519)
Current liabilities			
Trade and other payables	14	**(217,090)**	(176,889)
Lease liabilities	16	**(3,185)**	(3,053)
Derivative financial liabilities	11	**(5,895)**	(2,128)
Current tax liabilities		**(3,423)**	(3,481)
Provision for other liabilities and charges	17	**(4,100)**	(4,100)
		(233,693)	(189,651)
Total liabilities		**(2,242,838)**	(2,173,170)
Total equity and liabilities		**(2,107,023)**	(2,075,470)

* The prior year has been restated to reflect the change in accounting policy relating to contributions for new connections related to developer services activity. Further details are included on page 37.

The notes on pages 35 to 51 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 2023

	Share capital £000	Share premium £000	Capital contribution reserve £000	Accumulated losses £000	Total £000
	Unaudited	**Unaudited**	**Unaudited**	**Unaudited**	**Unaudited**
Balance as at 1 April 2023	**30,506**	**1,400**	**30,150**	**(157,783)**	**(95,727)**
Prior year restatement	**-**	**-**	**-**	**(1,973)**	**(1,973)**
Restated balance as at 1 April 2023	**30,506**	**1,400**	**30,150**	**(159,756)**	**97,700**
Loss for the period	**-**	**-**	**-**	**(28,240)**	**(28,240)**
Other comprehensive expense	**-**	**-**	**-**	**(9,875)**	**(9,875)**
Total comprehensive expense	**-**	**-**	**-**	**(38,115)**	**(38,115)**
Balance as at 30 September 2023	**30,506**	**1,400**	**30,150**	**(197,871)**	**(135,815)**
Balance as at 1 April 2022	30,506	1,400	30,150	(17,753)	44,303
Prior year restatement	-	-	-	(2,568)	(2,568)
Restated balance as at 1 April 2022	30,506	1,400	30,150	(20,321)	41,735
Profit for the period	-	-	-	19,658	19,658
Other comprehensive expense	-	-	-	(23,201)	(23,201)
Total comprehensive expense	-	-	-	(3,543)	(3,543)
Balance as at 30 September 2022	30,506	1,400	30,150	(23,864)	38,192

The prior year has been restated to reflect the change in accounting policy relating to contributions for new connections related to developer services activity. Further details are included on page 37.

The notes on pages 35 to 51 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 2023

	Note	**30 September 2023 £000**	30 September 2022 (restated) £000
		Unaudited	Unaudited
Cash flows from operating activities			
Cash generated from operations	18	**49,755**	66,488
Interest paid		**(23,960)**	(27,305)
Net cash flows from operating activities excluding capital contributions		**25,795**	39,183
Capital contributions		**8,602**	4,533
Net cash flows from operating activities		**34,397**	43,716
Cash flows from investing activities			
Disinvestment of short-term deposits		**14,162**	4,543
Purchases of property, plant and equipment		**(74,797)**	(59,944)
Purchases of intangible assets		**(5,300)**	(3,195)
Interest received on financial assets held as investments		**3,037**	998
Net cash flows used in investing activities		**(62,898)**	(57,598)
Cash flows from financing activities			
Repayments of borrowings		**-**	(14,204)
Interest received on inflation swaps		**12,651**	13,011
Principal elements of lease payments		**(1,620)**	(1,724)
Net cash flows from/(used in) financing activities		**11,031**	(2,917)
Net decrease in cash and cash equivalents		**(17,470)**	(16,799)
Cash and cash equivalents at start of period		**78,783**	135,604
Cash and cash equivalents at end of period		**61,313**	118,805

The notes on pages 35 to 51 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 23 November 2023.

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 2023 were approved by the Board of directors on 12 July 2023 and delivered to the Registrar of Companies. The report of the auditor on those accounts was unqualified, did not contain an emphasis of matter and did not contain any statement under section 498 of the Companies Act 2006.

These condensed interim financial statements have not been audited by the independent auditor.

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

2. Basis of preparation

These condensed interim financial statements for the six months ended 30 September 2023 have been prepared in accordance with the UK adopted International Accounting Standard (IAS) 34: 'Interim financial reporting' (IAS 34).

The company prepared its financial statements for the year ended 31 March 2023 in compliance with the requirements of Financial Reporting Standard 101: 'Reduced disclosure framework' (FRS 101).

Under FRS 101, the company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the UK (UK-adopted international accounting standards) but makes amendments where necessary in order to comply with the Companies Act 2006 and The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410).

The condensed interim financial statements should be read in accordance with the company's Annual Report and Financial Statements for the year ended 31 March 2023, which is available on our website: *affinitywater.co.uk/performance*.

Notes to the condensed interim financial statements (continued)

2. Basis of preparation (continued)

Going concern

The directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements as they believe that the company has adequate resources to meet its current operational and financial obligations, and the directors have a reasonable expectation that this will continue for the foreseeable future and for a period of at least 12 months from the date of approval of these financial statements. This is based on assessment of the principal risks of the company as well as consideration of the company's budgeted cash flows, short and long term forecasts and ability to generate future revenues, related assumptions and available debt facilities.

To assess a severe but plausible downside scenario, management have considered a base case forecast that reflects the current market conditions in the economy and have applied a series of severe downside assumptions. These are increased costs from the financial impacts of operational events, including, for example, the impact of a severe cold weather event over the winter period, and an increase in bad debt representing approximately 8% of debt not currently subject to loss allowance provision. The severe but plausible downside scenario is overlaid on our base case forecast which has taken into consideration the impact of inflation, interest rates, supply chain cost pressures, the energy price crisis and the cost of living crisis.

The company is able to withstand the severe but plausible downside scenario without the occurrence of an ICR Default Event. However, it is possible an ICR Trigger Event could occur, although this is based on the assumption that no mitigating actions would be taken. Management are confident that mitigation actions within their control could be implemented that would prevent a trigger or default event from occurring. Under an ICR Trigger Event, the company would be subject to certain constraints such as restrictions on dividends and restriction on debt buybacks. However, the directors are satisfied that an ICR Trigger Event would not fundamentally constrain the company's ability to carry out its business, particularly after considering the company's strong cash position meaning that the company has no further funding requirement in AMP7. Under an ICR Default Event, each finance party may declare all amounts outstanding under the applicable Finance Documents to be immediately due and payable.

The company continues to monitor and manage the risks associated with the ICR covenant through the forecasting and reporting process and continues to monitor potential mitigations, the most prominent of which are working capital management, operating expenditure reviews and debt buy backs.

The directors have also considered the ring fence structure in place and have obtained comfort that the existence of external borrowings outside of this structure, namely that within Affinity Water Holdco Finance Limited, does not impact the conclusions reached regarding the ability of the company to continue as a going concern. This is due to the fact that the company has no obligation to distribute funds through the holding company structure in order to meet such liabilities.

Details of the company's cash and short-term investment are included in the statement of financial position on page 32, and undrawn committed borrowing facilities are included in note 15. Due to the nature of the regulated water company's business, the directors consider it appropriate to place reliance on projected financials. There have been no events after the reporting period significantly affecting liquidity headroom.

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

2. Basis of preparation (continued)

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 2023, except in relation to taxation, and contributions and associated costs relating to new connections (see prior period restatements section below).

Taxes on income in the interim period are accrued using the tax rate that would be applicable to the expected total annual profit or loss.

No new standards became applicable for the current reporting period that have a material impact on the company.

Prior period restatements

Grants and contributions from developer services (consisting of contributions for new connections, diversions and requisitioned mains/extensions, and infrastructure charges) are received in respect of property, plant and equipment. Judgement is required in identifying what the performance obligation is for each type of contribution, which in turn impacts how revenue is recognised.

In the year ended 31 March 2023 and in the prior interim six-month period to 30 September 2022, contributions received in respect of new connections were recognised immediately in the income statement. Following changes to the Ofwat charging scheme for new connections in recent years, and a further review of industry practice, the accounting treatment has been reviewed and as a result of the charges being on a per plot basis, it is felt more appropriate to treat developer services as a bundle of services with a consistent accounting treatment across all types of contribution on the basis that the new connection has no economic value without the promise to provide an ongoing supply of water. Therefore, contributions in respect of new connections, and associated costs, are now also recognised over a period of time, consistent with the period over which the performance obligation is satisfied (the period over which water is supplied, the expected asset life). Prior period comparatives have been restated on that basis and in accordance with IAS 8: 'IAS 8 — Accounting Policies, Changes in Accounting Estimates and Errors' (IAS 8).

A summary of the financial statement line items affected by the restatement is included in the following table. This includes the cumulative effect of the change in accounting policy being effective from 1 April 2016. Retrospective application of the changes prior to this date is deemed impracticable due to the accounting system not previously set up to collate the coding of developer services activity in sufficient detail. This means the impact of the changes summarised below cannot be collated in a consistent, meaningful or reliable manner prior to this date.

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

3. Accounting policies (continued)

Prior period restatements (continued)

Condensed interim income statement (extract)	30 September 2022 (as previously presented) £000	Change due to restatement £000	30 September 2022 (restated) £000	**30 September 2023 (impact) £000**
Revenue	161,566	(3,020)	158,546	**(4,223)**
Cost of sales	(135,338)	4,304	(131,034)	**3,996**
Gross profit	26,228	1,284	27,512	**(227)**
Operating profit	16,786	1,284	18,070	**(227)**
Profit/(loss) before tax	24,722	1,284	26,006	**(227)**
Profit/(loss) for the period	18,374	1,284	19,658	**(227)**

Condensed interim statement of financial position (extract)	31 March 2023 (as previously presented) Audited £000	Change due to restatement £000	31 March 2023 (restated) Unaudited £000	**30 September 2023 (impact) £000**
Property, plant and equipment	1,658,058	51,195	1,709,253	**55,191**
Total assets	2,024,275	51,195	2,075,470	**55,191**
Accumulated losses	(157,783)	(1,973)	(159,756)	**(2,201)**
Trade and other payables (non current)	(262,074)	(53,168)	(315,242)	**(57,392)**
Total liabilities	(2,120,002	(53,168)	(2,173,170)	**(57,392)**
Total equity and liabilities	(2,024,275)	(51,195)	(2,075,470)	**(57,392)**

Condensed interim statement of cash flows (extract)	30 September 2022 (as previously presented) £000	Change due to restatement £000	30 September 2022 (restated) £000	**30 September 2023 (impact) £000**
Net cash flows from operating activities	39,213	4,503	43,716	**4,233**
Net cash flows used in investing activities	(53,095)	(4,503)	(57,598)	**(4,233)**

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 2023, which are available on our website: *affinitywater.co.uk/performance*.

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

5. Revenue

	Six months ended 30 September 2023 £000	Six months ended 30 September 2022 (restated) £000
	Unaudited	Unaudited
Timing of revenue recognition – at a point in time		
Unmeasured supplies	**47,406**	48,389
Measured supplies	**90,823**	80,155
Non-household wholesale revenue	**32,052**	28,129
Connection charges	**583**	1,102
	170,864	157,775
Timing of revenue – over time		
Requisitioned mains/extensions	**330**	319
Diversions	**892**	(247)
Infrastructure charges	**360**	667
Other	**379**	32
	1,961	771
	172,825	158,546

6. Operating profit

	Six months ended 30 September 2023 £000	Six months ended 30 September 2022 (restated) £000
	Unaudited	Unaudited
Operating profit is stated after charging:		
Staff costs	**30,999**	25,509
Energy costs	**22,908**	17,874
Loss on disposal of infrastructure assets	**266**	426
Purchase of bulk water and water supplied under statutory entitlement	**4,616**	5,050
Water abstraction charges	**3,170**	3,172
Business rates	**6,525**	7,833
Depreciation of tangible fixed assets	**37,637**	33,600
Amortisation of other intangible assets	**4,038**	5,261
Depreciation of right-of-use assets	**1,271**	1,707
Infrastructure renewals expense	**13,078**	10,087

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

Notes to the condensed interim financial statements (continued)

7. Finance income and costs

	Six months ended 30 September 2023 £000	Six months ended 30 September 2022 £000
	Unaudited	Unaudited
Finance income:		
Bank interest income	**3,037**	998
Net interest receivable on RPI linked inflation swaps	**3,185**	3,448
Net interest receivable on CPI linked inflation swaps	**3,122**	3,299
Net income from post-employment benefits	**1,268**	1,404
	10,612	9,149
Finance costs:		
Interest payable on loan from parent company	**(80)**	(80)
Interest payable on loans from subsidiary undertakings	**(19,091)**	(18,823)
Accretion payable in respect of interest on loans from subsidiary undertakings	**(24,133)**	(42,211)
Accretion payable on financial instrument	**(20,190)**	(34,423)
Interest payable on lease liabilities	**(106)**	(123)
Other	**(264)**	(264)
	(63,863)	(95,924)
Fair value gain on financial instruments:		
Fair value gain on inflation swaps	**13,682**	58,366
	13,682	58,366
Net finance costs	**(39,569)**	(28,409)

8. Tax expense

Tax expense is recognised based on management's estimate of the weighted average annual corporation tax rate expected for the full financial year. The estimated average annual tax rate used for the year to 31 March 2024 is 24.6% (the estimated tax rate for the year to 31 March 2023 was 25.7%).

The company is forecasting a loss before tax for the year to 31 March 2024; therefore, no corporation tax is expected to be charged. The tax credit in the condensed interim financial statements for the period ended 30 September 2023 is a deferred tax credit.

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

	PPE £000	Right-of-use assets £000	Other intangible assets £000
	Unaudited	**Unaudited**	**Unaudited**
Six months ended 30 September 2023			
Opening net book amount as at 1 April 2023	**1,658,058**	**7,649**	**42,611**
Prior year restatement	**51,195**	**-**	**-**
Restated balance as at 1 April 2023	**1,709,253**	**7,649**	**42,611**
Additions	**74,798**	**1,189**	**5,300**
Disposals	**(320)**	**(354)**	**-**
Depreciation and amortisation	**(37,691)**	**(1,588)**	**(4,038)**
Disposals – depreciation	**54**	**317**	**-**
Closing net book amount as at 30 September 2023	**1,746,094**	**7,213**	**43,873**
Six months ended 30 September 2022 (restated)			
Opening net book amount as at 1 April 2022	1,657,784	9,440	43,266
Prior year restatement	42,213	-	-
Restated balance as at 1 April 2022	1,657,784	9,440	43,266
Additions	57,645	758	3,195
Disposals	(540)	-	-
Depreciation and amortisation	(33,600)	(1,707)	(5,261)
Closing net book amount as at 30 September 2022	1,681,289	8,491	41,200

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

10. Retirement benefit surplus

Defined benefit scheme

In calculating the liabilities of the Affinity Water Pension Plan (AWPP), the following financial assumptions have been used:

	Six months ended 30 September 2023	Year ended 31 March 2023	Six months ended 30 September 2022
	Unaudited	Unaudited	Unaudited
Discount rate	**5.50% pa**	4.75% pa	5.20% pa
Salary growth	**3.20% pa**	3.20% pa	3.50% pa
RPI	**3.20% pa**	3.20% pa	3.55% pa
CPI	**2.70% pa**	2.70% pa	3.00% 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)	**24**	24	23
Life expectancy from age 65 (years) for a female participant currently aged 45 (years)	**26**	26	26

Deferred pensions are revalued to retirement age in line with the CPI assumption of 2.70% per annum (31 March 2023: 2.70% 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 2023 £000	Six months ended 30 September 2022 £000
	Unaudited	Unaudited
Current service cost	**(913)**	(1,668)
Interest cost on defined benefit obligation	**(7,742)**	(5,884)
Interest return on assets	**9,010**	7,288
	355	(264)

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

	30 September 2023 £000	31 March 2023 £000
	Unaudited	Unaudited
Fair value of plan assets	**346,724**	387,699
Present value of funded obligations	**(305,556)**	(334,084)
Post-employment benefit surplus in the statement of financial position	**41,168**	53,615

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

10. Retirement benefit surplus (continued)

Defined benefit scheme (continued)

The latest actuarial valuation of the AWPP, determined by an independent qualified actuary, was at 31 December 2020, which concluded that the pension plan was 96% funded on a self-sufficiency basis.

Based on the latest actuarial valuation at 31 December 2020, and to eliminate the funding shortfall identified, as well as funding the future cost of benefits being accrued within the plan, the company agreed to pay contributions of £1,250,000 prior to 31 July 2021, £1,600,000 prior to 31 December 2021, and £1,600,000 per annum commencing from 1 January 2022 onwards.

The contributions expected to be paid by the company into the AWPP for the year ending 31 March 2024 are £1,600,000 (£1,600,000 in the year ended 31 March 2023).

11. Derivative financial instruments

	30 September 2023 £000	31 March 2023 £000
	Unaudited	Unaudited
Non-current assets		
Fair value of energy swaps	**1,146**	3,283
Fair value of CPI linked inflation swaps	**1,839**	-
	2,985	3,283
Current assets		
Fair value of energy swaps	**1,477**	6,068
	4,462	9,351
Non-current liabilities		
Fair value of RPI linked inflation swaps	**5,986**	6,937
Accretion on RPI linked inflation swaps	**65,298**	55,062
Fair value of CPI linked inflation swaps	**-**	10,893
Accretion on CPI linked inflation swaps	**52,924**	42,953
Fair value of energy swaps	**5,227**	5,874
	129,435	121,719
Current liabilities		
Fair value of energy swaps	**5,895**	2,128
	135,330	123,847

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

12. Trade and other receivables

	30 September 2023 £000	31 March 2023 £000
	Unaudited	Unaudited
Trade receivables	**116,447**	73,807
Less: loss allowance for trade receivables	**(37,432)**	(36,968)
	79,015	36,839
Amounts owed by group undertakings	**30**	40
Interest receivable from external parties	**3,452**	7,642
Other receivables	**7,116**	7,574
Unbilled accrual for metered customers	**51,628**	43,444
Prepayments and accrued income	**4,378**	7,027
	66,604	65,727
	145,619	102,566

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 2023 (unaudited), 1 April 2023 (unaudited), 30 September 2022 (unaudited) and 1 April 2022 (audited)	305,058	30,506	1,400	30,150	62,056

14. Trade and other payables

	30 September 2023 £000	31 March 2023 (restated) £000
	Unaudited	Unaudited*
Non-current:		
Deferred grants and contributions	**321,990**	315,242
Current:		
Trade payables	**6,208**	12,069
Amounts due to group undertakings	**697**	679
Interest payable to subsidiary companies	**12,937**	14,409
Interest payable to external parties	**111**	60
Social security and other taxes	**2,032**	1,848
Other payables	**12,256**	5,681
Capital accruals	**10,769**	13,519
Deferred grants and contributions	**7,139**	6,965
Payments received in advance	**69,429**	73,216
Deferred income	**51,855**	3,263
Other accruals	**43,657**	45,180
	217,090	176,889
	539,080	492,131

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

15. Borrowings

	30 September 2023 £000	31 March 2023 £000
	Unaudited	Unaudited
Non-current		
Loan from Affinity Water Finance (2004) PLC financed by bond issue	**251,679**	251,968
Loan from Affinity Water Finance PLC financed by bond issue	**1,099,572**	1,076,164
Loan from intermediate parent company	**3,550**	3,550
Debenture stock	**34**	34
	1,354,835	1,331,716

Movements in borrowings are analysed as follows:

Six months ended 30 September 2023	**£000**
	Unaudited
Opening amount as at 1 April 2023	**1,331,716**
Repayment of borrowings	**-**
Indexation on loans from subsidiary undertakings	**24,133**
Amortisation on loans from subsidiary undertakings	**(1,014)**
Closing amount as at 30 September 2023	**1,354,835**

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

The company has the following undrawn committed borrowing facilities:

	30 September 2023 £000	31 March 2023 £000
	Unaudited	Unaudited
Floating rate:		
Expiring within one year	**52,000**	52,000
Expiring beyond five years	**100,000**	100,000
	152,000	152,000

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

16. Lease liabilities

	30 September 2023 £000	31 March 2023 £000
	Unaudited	Unaudited
Non-current:		
Lease liabilities	**4,185**	4,785
Current:		
Lease liabilities	**3,185**	3,053

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

	30 September 2023 £000	30 September 2022 £000
	Unaudited	Unaudited
Depreciation charge of right-of-use assets (refer to note 9)	**1,588**	1,707
Interest expense on lease liabilities (refer to note 7)	**106**	123
Principal elements of lease payments included within cash flows from financing activities	**1,620**	1,724
Interest payments included within cash flows from operating activities	**106**	123
Total cash outflow for leases in the statement of cash flows	**1,726**	1,847
Additions to right-of-use assets (refer to note 9)	**1,189**	758
Carrying amount of right-of-use assets (refer to note 9)	**7,213**	8,491

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

17. Provisions for other liabilities and charges

Six months ended 30 September 2023	**Deferred tax £000**	**Insurance £000**	**Other £000**	**Tax £000**	**Total £000**
	Unaudited	**Unaudited**	**Unaudited**	**Unaudited**	**Unaudited**
Opening amount at 1 April 2023	**206,740**	**2,649**	**670**	**4,100**	**214,159**
Prior period adjustment	**(410)**	**-**	**-**	**-**	**(410)**
Restated balance as at 1 April 2023	**206,330**	**2,649**	**670**	**4,100**	**213,749**
Charged to the income statement	**(7,525)**	**5**	**-**	**-**	**(7,520)**
Credited to other comprehensive income	**(3,429)**	**-**	**-**	**-**	**(3,429)**
Closing amount at 30 September 2023	**195,376**	**2,654**	**670**	**4,100**	**202,800**
Six months ended 30 September 2022					
Opening amount at 1 April 2022	231,530	2,437	670	-	234,637
Charged to the income statement	6,348	438	-	-	6,786
Credited to other comprehensive income	(7,734)	-	-	-	(7,734)
Utilised in the period	-	(199)	-	-	(199)
Closing amount at 30 September 2022	230,144	2,676	670	-	233,490

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 £2,654,000 is presented as a non-current liability in the statement of financial position.

Tax provision
A tax provision of £4,100,000 (2022: £nil) was charged to the income statement and included within administrative expenses in the year to 31 March 2023 as an estimate of an outstanding charge relating to a potential PAYE and NI claim. There has been no movement in the six month period to 30 September 2023.

Other provisions
Other provisions of £670,000 (2022: £670,000) relate to unfunded pension liabilities for a former Non-Executive director, which it is expected will be utilised by January 2051, and, therefore, presented as a non-current liability in the statement of financial position.

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 2023 £000	30 September 2022 (restated) £000
	Unaudited	Unaudited
(Loss)/profit before tax	**(35,765)**	26,006
Adjustments for:		
Depreciation of property, plant and equipment	**37,637**	33,600
Depreciation of right-of-use assets	**1,271**	1,707
Amortisation of intangible assets	**4,038**	5,261
Amortisation of grants and contributions	**(1,961)**	(771)
Loss on disposal of infrastructure assets	**266**	426
Post-employment benefits	**1,726**	772
Net finance costs	**39,569**	28,408
Net gain on energy swaps	**9,849**	(36,345)
Changes in working capital:		
- Inventories	**199**	(1,846)
- Trade and other receivables	**(43,053)**	(37,188)
- Trade and other payables	**35,979**	46,458
Cash generated from operations	**49,755**	66,488

b) Reconciliation of liabilities arising from financing activities

	At 1 April 2023 £000	Cash flow £000	Non-cash flows £000	At 30 September 2023 £000
	Unaudited	**Unaudited**	**Unaudited**	**Unaudited**
Loan from Affinity Water Finance (2004) PLC financed by bond issue	**251,967**	**-**	**(288)**	**251,679**
Loan from Affinity Water Finance PLC financed by bond issue	**1,076,165**	**-**	**23,407**	**1,099,572**
Loan from intermediate parent company	**3,550**	**-**	**-**	**3,550**
Lease liabilities	**7,839**	**(1,726)**	**1,257**	**7,370**
Debenture stock	**34**	**-**	**-**	**34**
Total liabilities arising from financing activities	**1,339,555**	**(1,726)**	**24,376**	**1,362,205**

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

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 2023 (refer to note A4 to the financial statements for the year ended 31 March 2023).

There have been no changes in any risk management policies since 31 March 2023.

Fair value of financial assets and liabilities

	30 September 2023 £000	31 March 2023 £000
	Unaudited	Unaudited
Non-current:		
Bonds	**1,028,926**	1,328,133
Inflation swaps	**122,369**	115,845
Energy swaps	**8,499**	17,354
	1,159,794	1,461,332

Between 1 April 2023 and 30 September 2023, market interest rates significantly increased and to a lesser extent, credit spreads widened, decreasing the overall fair value of the bonds on-lent from the company's two financing subsidiaries.

The fair value of Class A bonds has been derived from 'level 1' fair value measurements: quoted prices (unadjusted) in active markets for identical liabilities. The fair values of Class B bonds and the derivative financial instrument have been derived from 'level 2' fair value measurements: directly observable market inputs other than Level 1 inputs. The fair value of Class B bonds is calculated by discounting expected future cashflows at a discount rate which is derived from the yield on comparable instruments which are observable in the market.

The remaining financial assets and liabilities of the company, which are measured at amortised cost, approximate to their carrying amount.

There were no changes to valuation techniques or transfers between fair value measurement hierarchies during the period.

20. Commitments

The directors have authorised a programme of asset-related expenditure, of which the contracted capital element not provided for in the condensed interim financial statements amounted to £30,977,000 at 30 September 2023 (31 March 2023: £29,366,000).

Notes to the condensed interim financial statements (continued)

21. Related party transactions

The following transactions were carried out with related parties:

Receipts	Nature of relationship	In respect of	Six months ended 30 September 2023 Value £000	Six months ended 30 September 2023 Balance £000	Six months ended 30 September 2022 Value £000	Six months ended 30 September 2022 Balance £000
			Unaudited	**Unaudited**	Unaudited	Unaudited
Affinity Water Capital Funds Limited	Group undertaking	Support services	**30**	**30**	41	41
Vistry Group PLC *	Shared director	New connection charges	**-**	**-**	85	85

* no longer a related party due to resignation of directorship.

Payments	Nature of relationship	In respect of	Six months ended 30 September 2023 Value £000	Six months ended 30 September 2023 Balance £000	Six months ended 30 September 2022 Value £000	Six months ended 30 September 2022 Balance £000
			Unaudited	**Unaudited**	Unaudited	Unaudited
Allianz Global Corporate and Specialty AG	Common ownership	Insurance	**-**	**-**	616	-
Allianz Insurance plc	Common ownership	Insurance	**26**	**-**	539	-
Affinity Water Capital Funds Limited	Group undertaking	Interest on loan	**80**	**-**	80	-
Affinity Water Finance (2004) PLC	Subsidiary undertaking	Interest on loan	**7,067**	**3,170**	7,102	3,179
Affinity Water Finance PLC Limited	Subsidiary undertaking	Interest on loan	**36,038**	**4,044**	53,932	3,782

Details of the loans from fellow group undertaking, Affinity Water Capital Funds Limited, and Affinity Water Finance (2004) PLC and Affinity Water Finance PLC, the company's subsidiary undertakings, can be found in note 15.

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

Notes to the condensed interim financial statements (continued)

22. Events occurring after the reporting period

There were no significant events after the reporting period.

23. Ultimate parent company and controlling party

The immediate parent undertaking of the company is Affinity Water Holdings Limited, a company registered in England and Wales.

Affinity Water Holdings Limited is wholly owned by Daiwater Investment Limited, a company registered in England and Wales. Daiwater Investment Limited is the parent undertaking of the largest group to consolidate the statutory financial statements of the company. The statutory 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 2023 may be obtained from the Company Secretary, Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ.

The directors consider Daiwater Investment Limited as the ultimate holding and controlling company in the United Kingdom.

The directors consider the following entities to be the company's ultimate controllers, as they are in a position to exercise material influence over the company's policy and affairs:

- Allianz Infrastructure Holding I Pte. Limited
- DIF Management Holding BV
- DIF Management UK Limited
- HICL Infrastructure plc
- Sun Life Financial Inc.

Allianz Capital Partners is the Allianz Group's in-house investment manager for alternative equity investments. The investment focus is on infrastructure and renewables as well as private equity funds. Allianz Capital Partners' investment strategy is targeted to generate attractive, long-term and stable returns while diversifying the overall investment portfolio for the Allianz Group insurance companies.

DIF is an independent and specialist fund management company, which invests in infrastructure assets that generate long-term stable cash flows, including public-private partnerships, regulated infrastructure assets and renewable energy projects in Europe, North America and Australia.

HICL Infrastructure plc is a long-term investor in infrastructure assets which are predominantly operational and yielding steady returns. HICL Infrastructure plc has a portfolio of infrastructure investments, which are positioned at the lower end of the risk spectrum, in three target market segments: public-private partnerships, regulated assets and demand-based assets. The Investment Manager to HICL Infrastructure plc is InfraRed Capital Partners Limited, a leading international investment manager focused on infrastructure and renewable energy investments. On 1 July 2020, Sun Life Financial Inc acquired an 80% interest in the InfraRed business from InfraRed Capital Partners (Management) LLP and became an ultimate controller.

Affinity Water Limited

Statement of directors' responsibilities

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

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and

- material related-party transactions in the first six months and any material changes in the related-party transactions described in the last Annual Report and Financial Statements.

The directors of Affinity Water Limited are listed in the company's Annual Report and Financial Statements for the year ended 31 March 2023, with the exception that Andrew Cox joined the Board on 15 November 2023. 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

Keith Haslett	Martin Roughead
Chief Executive Officer	Chief Financial Officer

23 November 2023

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