

AFFINITY WATER LIMITED

UNAUDITED HALF-YEARLY FINANCIAL REPORT
FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2017

(Registered Number 02546950)

Affinity Water Limited

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Affinity Water Limited

Interim management report

Introduction

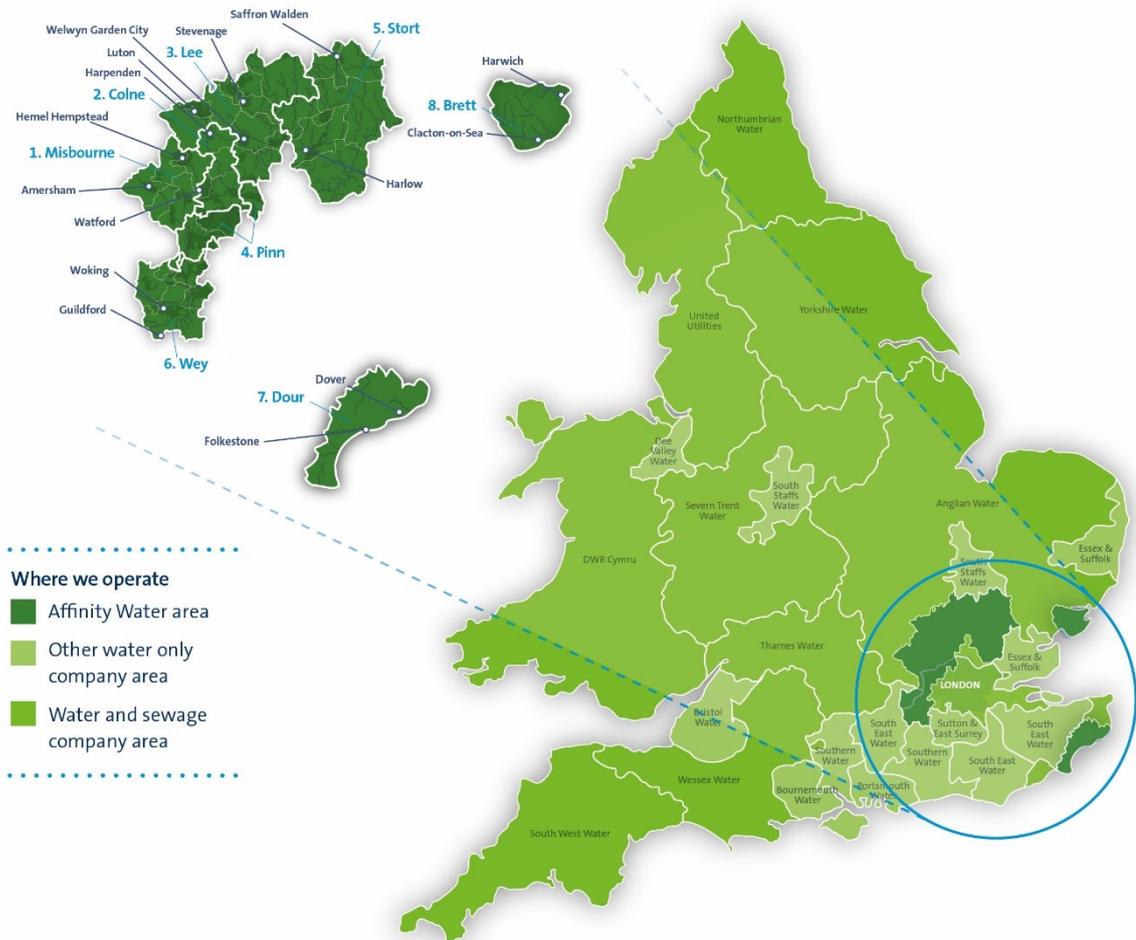
Affinity Water Limited (the 'company') owns and manages the water assets and network in an area of approximately 4,515km² split over three regions, comprising eight separate water resource zones (our communities), in the South East of England.

We supply on average 900m litres of water a day to over 3.6m people. We operate 96 water treatment works to ensure that our water is of the highest quality, distributing our water through a network of over 16,600km of mains pipes.

Our vision, to be the UK's leading community focused water company, reflects the importance we place on our people working within and for the communities of customers we serve. By understanding and responding to the needs of different community groups, we are accountable to them at a local level for how well we provide our services.

We divide our supply area into eight different communities, each named after a local river, allowing us to tailor a high quality service to customers at a local level.

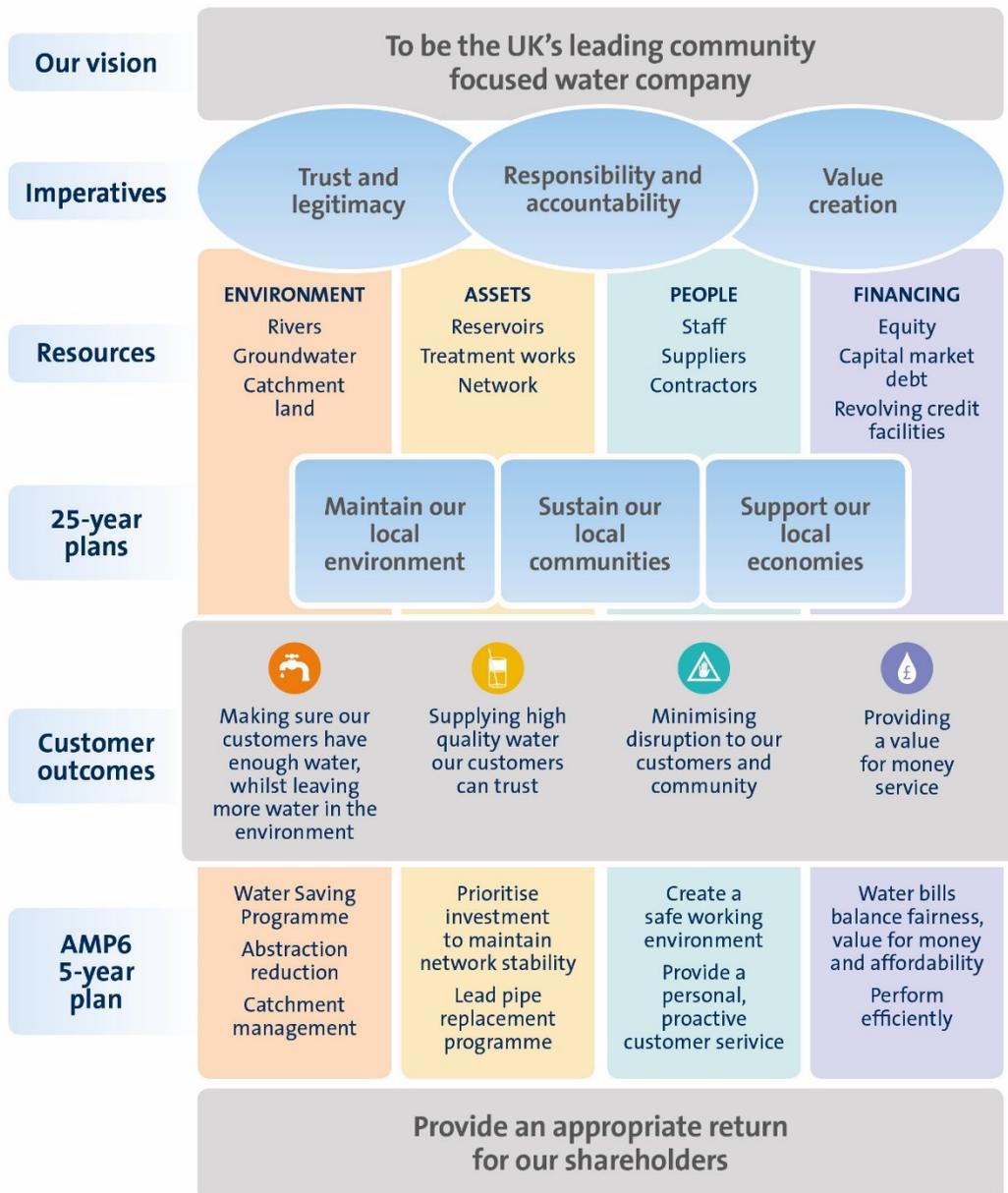
Our outline business model is presented on the next page.



Affinity Water Limited

Interim management report (continued)

Our outline business model



Affinity Water Limited

Interim management report (continued)

Operational performance

Our business model recognises that as a private provider of an essential public service, we need to retain the trust of our customers, operate in a responsible and accountable manner and create value by performing efficiently for our investors while also achieving value for money for customers. We aim to create value by managing each of our resources (environment, assets, people and financial) effectively. The way we use our resources is key to us meeting our long-term plans to maintain our local environment, sustain our local communities and support our local economies, and to us delivering our customer outcomes.

For the 2015 – 2020 price control period (Asset Management Plan 6, 'AMP6'), Ofwat is assessing companies' operational performance against agreed performance commitments as set out in our Business Plan for this period. Each performance commitment contains an Outcome Delivery Incentive ('ODI'), which can carry a financial reward or penalty or both, that will be realised as part of the next price review process.

Investor value can be created by exceeding our performance targets and through effective risk management to reduce cash flow volatility (i.e. offering more predictable cash returns) at the same time as delivering our commitments. Value for money for customers is achieved by delivering the standards of service our customers expect along with the performance commitments at a reasonable price.

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

We want to be the leading community-focused water company to help customers understand the value of water, in turn reducing consumption, and helping to protect the environment. At the end of the second year of AMP6, we recognised that there was more to do to deliver on all of our commitments, reflecting the genuinely challenging targets we have set ourselves. In the first six months of the current financial year, we have made good progress in delivering on a number of our key programmes to ensure we continue to meet our customer outcomes.

Affinity Water Limited

Interim management report (continued)

Operational performance (continued)

Environment

As a community focused organisation we remain committed to those issues which our customers and stakeholders feel strongly about. Protecting the rare and sensitive chalk streams within our operating area is a priority. Through our industry leading initiative of leakage and abstraction reductions within one of the fastest growing regions of the UK, we are addressing the environmental challenges of protecting our precious local rivers and habitats while encouraging behavioural change.

We have committed to reducing the amount of water we take from the environment by 42 Megalitres per day (ML/d) by the end of AMP6. Despite the rainfall over the summer, our ground water levels remain below average. We are continuing to monitor the situation closely with clear plans in place to make sure we are fully prepared should we experience another dry winter in 2017/18. We are also investing £500m over AMP6 to improve our infrastructure to ensure we meet our commitment to make sure our customers have enough water, whilst leaving more water in the environment, which includes a commitment to reduce leakage on our network by 14%.

We estimate that around a third of total network leakage occurs from customers' supply pipes. The installation of meters has been proven to reduce usage by our customers and also offers critical data in our understanding of usage and finding leaks. We believe that the meters installed to date will have highlighted 16MI/d of customer side leakage by the end of AMP6. Our aim is to install over 280,000 meters by 2020. In July 2017 we installed our 100,000th meter as part of our Water Saving Programme ('WSP').

As outlined in our Business Plan, all customers receiving a water meter as part of our WSP can opt to switch to a measured tariff immediately or remain on their unmeasured tariff for a period of two years. September 2017 marked two years since the first meters were installed, and as such, we have started switching customers onto measured tariffs. We anticipate around two thirds of our customers will be financially better off with a meter. We will continue to support the remaining customers to reduce their consumption and value of their bill, through initiatives such as our "Keep Track of the Tap" campaign.



River restoration masterclasses

We are working in partnership with local charities to manage environmental impact and engage in the communities we serve through our Volunteer Policy. This policy supports our staff to engage with community organisations by giving time, money or expertise through 'Affinity Days'.

In June 2017 a number of our employees used an Affinity Day to take part in river restoration masterclasses organised by the Wild Trout Trust and the Environment Agency.

There were workshops at sites on the Rivers Gade, Lee, Misbourne and Colne. Participants took part in practical skill development and knowledge sharing, allowing them to replicate river habitat enhancement on other rivers.

Our partnership with the Herts and Middlesex Wildlife Trust has continued to evolve during the period. We share common objectives with the Trust to maintain resilient water ecosystems in our supply area and conserve and enhance biodiversity in our Pinn, Misbourne, Colne and Lee Communities. We were proud to host the Herts and Middlesex Wildlife Trust 2017 Annual Review at our Hatfield office, and fund the recruitment of a full time Project Officer to manage three of our local nature reserves; Stockers Lake, Springwell Reedbed and Hilfield Park Reservoir, helping to improve important habitat for wildlife and increase community engagement.

Affinity Water Limited

Interim management report (continued)

Operational performance (continued)

Assets

Our assets allow our people to make use of the water resources provided by the environment to supply our customers. Our above ground assets collect water from groundwater or river sources and deliver it to treatment works where we convert raw water into high quality wholesome drinking water. Our below ground network of assets takes water from treatment works and deliver it to homes and commercial premises through more than 16,600km of mains. Asset-related expenditure to maintain, enhance and create assets is a major part of our business.

We aim to survey and complete 4,160 lead pipe replacements this year as part of our £25m AMP6 lead pipe replacement programme. Where possible, we are combining our lead replacement programme with our WSP and mains renewals programme in order to work more efficiently.

<p>Mains Cleaning Programme</p> <p>Our Mains Cleaning project won the prestigious Pipe Industry Guild award in the Utility Pipeline Projects category.</p> <p>The award winning entry focused on the adoption of ice pigging, using mains pressure to drive a thick slurry of ice through the pipe, as the preferred technique for cleaning trunk mains and the application of this technology onto a live potable water network.</p> <p>The awards submission also highlighted the collaboration between our supply chain partners and the adoption of a risk based approach, utilising analytical tools to best determine how to clean cast iron mains which can pose a serious risk to water quality.</p>	
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In August 2017 we experienced a major burst near our Weston Hills Reservoir which left 3,300 properties in Baldock without water. This incident, along with others, will result in an ODI penalty for 2017/18 relating to unplanned interruptions to supply over 12 hours. We are planning on achieving our target of mains renewals of 81.5km for the year and continuously invest in our network, also setting ourselves a target to replace 4.9km of trunk mains this year.

As part of our AMP6 capital programme, two major projects were completed during the period in our Stort community. Uttlesford Bridge water treatment works was upgraded to provide a more reliable and resilient supply to our customers. Existing booster pumps were replaced with new high pressure borehole pumps and new water treatment technology and a standby power generator was installed. The project won the 2017 British Construction Industry Award for the Application of Technology.

The construction of our new Sibley reservoir will support the 13MI/d of water treated at Uttlesford Bridge by providing an additional storage capacity of 9MI. It will work in parallel with our existing 18ML storage facility to meet the peak average demand for projected housing growth in the area to 2040. The new reservoir was commissioned and put into service in July 2017 on budget and ahead of schedule. The project was completed with no interruption to supply in and out of the existing reservoir, and minimal impact on the neighbouring businesses with no road closures or earthworks material needing to be imported or exported from the site.

Affinity Water Limited

Interim management report (continued)

Operational performance (continued)

People

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.

The safety, health and wellbeing of our people and suppliers are matters we take very seriously. Our vision and the customer outcomes that we will continue to meet are all set in the context of our commitment to operating our business without harm. During the period, we recorded two work related lost time injuries and our accident frequency rate fell to 0.24 lost time injuries per 100,000 hours worked, from 0.28 for the year ended 31 March 2017.

In May 2017, 120 people from across the business took part in our second Customer Excellence Day. This was followed by our Customer Relations Leaders Day in August 2017. These events included keynote speakers and interactive sessions to ensure we deliver our best possible service to our customers. Our Customer Engagement Improvement Programme ('CEIP') continues to improve the customer journey by understanding the areas that require focus and taking remedial action. We are focusing our efforts on the things that can make a real difference to our customers: response times, quicker resolution and keeping our customers informed.

Customer satisfaction is of utmost importance to us. We know that customer priorities are changing and their expectations are growing. We have seen a reduction in the number of complaints and unwanted contact compared to the same period last year, and we won two silver awards at the UK Customer Experience Awards for 'Best Customer Insight and Feedback' and 'Customers at the Heart of Everything' in September 2017. In the most recent Ofwat Service Incentive Mechanism ('SIM') survey, the results of which were released at the end of September 2017, we achieved our highest ever score in clean water and one of our highest ever scores in billing, to place us in 8th position in the industry overall.



Challenge: Water

Challenge: Water is a dynamic action-focused water efficiency initiative designed to engage and inspire secondary school students aged 11-14 years to come up with pioneering solutions to save water.

The programme, developed in partnership with WaterAid and delivered by Affinity Water's education team challenges school teams to design a water efficient product and deliver a behaviour change campaign on a real life water problem that they identify through research.

The challenge allows students to discover how water scarcity is a global issue and how they can influence and make change on water issues locally.

Our Education Team has worked with over 10,000 students in 2017, either welcoming them to our Education Centre in Bushey or through our outreach programme, visiting pupils in schools to deliver curriculum activities. The team also delivered the Challenge: Water programme (see case study above). Our production and community team in Dour recently hosted students from two local colleges at our Drellingore pumping station, where they gained an insight into some of our operational procedures and received an explanation of the water treatment processes. We support our local economies through our role as a local employer offering apprenticeships and graduate schemes. In September 2017, we welcomed 15 new graduates to the company who will develop broad business knowledge and experience through their programme over the next 24 months.

Affinity Water Limited

Interim management report (continued)

Operational performance (continued)

Financial

We are a business with a long-term outlook and expenditure commitments. We want to provide water at affordable prices to all our customers. Our support for vulnerable customers who have a low household income or are claiming benefits has grown in the period with 47,000 customers now supported by our Low Income Fixed social Tariff ('LIFT'). Customers benefiting from this tariff receive a reduced fixed rate.

Another initiative is our Value for Money index, which is an innovative approach to understanding our customers' views of the service they receive from us and which formed a key part of our Business Plan commitment. The feedback we gain from in depth telephone surveys with our customers every month is linked into our CEIP so that we continue to adapt and improve in line with customer expectations. We are also going to be strengthening our digital customer channels, making it easier for our customers to interact with us.

We continue to invest in community organisations across our supply area through our Community Engagement Fund. This allows a diverse range of local projects which support sustainable water use, have a positive environmental impact or help disadvantaged groups in the community to apply for funding from an annual total sum of £50,000. Individual projects are usually awarded around £2,500, which at a local level makes a real difference in terms of equipment, materials or tailored support.

Funding for Crossroads Care

Our Community Review Panel recently visited Crossroads Care Hertfordshire North, one of the local charities supported through the Community Engagement Fund to find out more about their work and present our donation of £2,400.

Crossroads Care supports unpaid carers who are looking after a family member or friend who is vulnerable through illness, frailty or disability and cannot manage without their help.

The charity helps bring carers together to socialise and share experiences, while also learning what professional support is available in their community.



Applications are assessed by a panel of our staff from across the business, each bringing his or her individual experience and community knowledge to inform the decision making process. Being part of the panel also provides a great staff development opportunity as well a chance to meet the people involved and to follow up on the progress of successful applications. In May, twelve local community organisations benefitted from the latest round of awards. These included support for isolated carers, and funding for a community garden and a toy library.

Affinity Water Limited

Interim management report (continued)

Regulatory update

The industry in which we operate is subject to extensive legal and regulatory requirements with which we must comply. We need to comply with the laws, regulations and standards, and the policies published by Ofwat, the Environment Agency, the Department for the Environment, Food and Rural Affairs, the Drinking Water Inspectorate, Natural England and other regulators.

The water industry is undertaking progressive reform to facilitate greater competition. On 1 April 2017, the retail market for all non-household water and sewerage customers in England opened to competition. Our retail non-household operating unit was rebranded as Affinity for Business. It became a separate legal entity, Affinity for Business (Retail) Limited, on 1 April 2017 outside the Affinity Water Limited group, to which the retail non-household business was sold (see to note 8).

All retailers must be treated by our wholesale business in the same way, and it is particularly important that no preference, either deliberate or inadvertent, is shown by the company to Affinity for Business. Preferential treatment could lead to failure to operate effectively in the new market, a principal risk for the company. For more information, refer to our principal risks and uncertainties section on page 12. In order to mitigate this risk, we have undertaken an extensive training programme in order to make our employees become aware of what behaviours are and are not acceptable in the new environment.



Market Reform Performance

The opening of the non-household retail market on 1 April 2017 went to plan. From the company's perspective, the new market is operating smoothly, with only the minor issues that can be expected with new systems arising.

Our Wholesale Operations Service Desk has been working hard since the non-household retail market opened which has helped us to achieve second position out of 24 wholesalers in the industry for Operational Performance in both the first and second quarters of the live market.

We achieved 97.06% of market service level agreements in the second quarter which are the timescales as determined for all operational activities for our new retailer customers.

The Water Act 2014 paved the way for further reform of upstream activities in the water sector. Ofwat published its draft price setting methodology in July 2017. This document clarified that prices in the industry will, in future, be indexed to the Consumer Price Index ('CPI') instead of the Retail Price Index ('RPI'). In order to help the transition from RPI to CPI, a portion of water companies' Regulatory Capital Value ('RCV') will still be indexed to RPI beyond 2020.

Ofwat has also recently consulted on outcomes and customer measures for the 2020 – 2025 price control period ('AMP7'). Ofwat and the industry are also conducting projects to 'standardise' the measurement of certain metrics in the industry, in particular, leakage and supply interruptions. This will enable Ofwat to use comparative information in setting and agreeing target benchmarks.

Affinity Water Limited

Interim management report (continued)

Change in ownership

On 19 May, Affinity Water Limited was sold by Infracapital Partners II and North Haven Infrastructure Partners LP to a consortium comprising Allianz Capital Partners on behalf of the Allianz Group, HICL Infrastructure Company Limited (advised by InfraRed Capital Partners Limited) and DIF, an independent and specialist fund management company.

Infracapital Partners II and North Haven Infrastructure Partners LP signed an agreement to sell their 100% interest in Affinity Water Acquisitions (Investments) Limited, which indirectly owned 90% of Affinity Water Limited. As part of the transaction, the buyers acquired Veolia Water UK Limited's 10% stake in Affinity Water Limited.

Following the sale we continue to operate as normal, focused on achieving our strategic objective to become the leading community focused water company in the UK, by continuing to deliver our enhanced business plan for our customers.

See note 23 in these condensed interim financial statements for more details.

Financial performance

Our financial results are prepared in accordance with the recognition and measurement requirements of EU-adopted International Financial Reporting Standards ('IFRS'; refer to note 2 of the condensed interim financial statements for further details). Our unaudited financial results for the six months to 30 September 2017 are summarised as follows:

	2017 £m	2016 £m
Revenue	154.6	155.9
Operating costs	(122.1)	(122.2)
Other income	8.8	8.4
Operating profit	41.3	42.1
Profit on disposal of non-household business	11.0	-
Net finance costs	(25.9)	(32.1)
Profit before tax	26.4	10.0
Tax (expense)/credit	(4.2)	8.3
Profit for the period	22.2	18.3
Dividends	(28.5)	(36.0)
Transfer to reserves	(6.3)	(17.7)

Note that prior year figures include revenue and expenditure arising from the non-household business which transferred to Affinity for Business (Retail) Limited from 1 April 2017. See page 8 and note 8 for more details.

Revenue for the first six months of the year was £154.6m, being a 1% decrease on the same period last year (2016: £155.9m). The decrease is primarily due to the disposal of the non-household retail business and lower new connections activity, partially offset by inflationary price increases.

Affinity Water Limited

Interim management report (continued)

Financial performance (continued)

Total operating costs of £122.1m for the first half of the year were £0.1m lower than in the same period last year (2016: £122.2m). The variance is explained in the table below:

Increases/(decreases) in operating costs	£m
Inflation	3.1
Lower infrastructure renewals activity	(2.1)
Market opening preparation costs in the prior period	(1.3)
Costs relating to the non-household business in the prior period	(0.6)
Higher employment costs	1.1
Higher network costs due to increased job volumes	1.0
Higher leakage detection and repair costs	0.5
Lower production and supply costs	(1.1)
Other decreases	(0.7)
Net decrease in operating costs	<u>(0.1)</u>

Other income of £8.8m consisted of sundry income, rental income and non-appointed income and was £0.4m higher than the prior year (2016: £8.4m).

Profit on disposal of the non-household business to Affinity for Business (Retail) Limited on 1 April 2017 was £11.0m.

The net finance expense of £25.9m was £6.2m lower than the first half of last year primarily due to £9.5m transaction costs written off in the prior year, partially offset by an increase in indexation on the RPI-linked notes.

Profit before tax increased by £16.4m (164%) to £26.4m (2016: £10.0m), primarily due to the profit on disposal of the non-household retail business and lower finance costs as outlined above.

The tax credit in the prior period was due to a large deferred tax credit resulting from a reduction in the UK corporation tax rate enacted in September 2016.

Lower equity dividends were paid during the period; £28.5m (2016: £36.0m).

Capital expenditure in the period was £66.5m (2016: £54.3m), and was incurred principally in our mains renewals, trunk main replacement, sustainability reduction, water saving and lead pipe replacement AMP6 programmes. This excludes £6.7m (2016: £8.7m) of infrastructure renewals expenditure, which is treated as an operating cost under the recognition and measurement requirements of IFRS.

The higher capital expenditure in the first half of this year compared to the same period last year reflects the acceleration in the pace of investment in our mains renewals, trunk mains, lead pipe replacement and meter installation programmes.

Net cash inflow before tax and financing¹ for the first six months of the year was £30.2m being an £18.0m (148%) increase on the same period last year (2016: £12.2m). The increase was primarily due to the proceeds on disposal of the non-household business offset by higher capital expenditure.

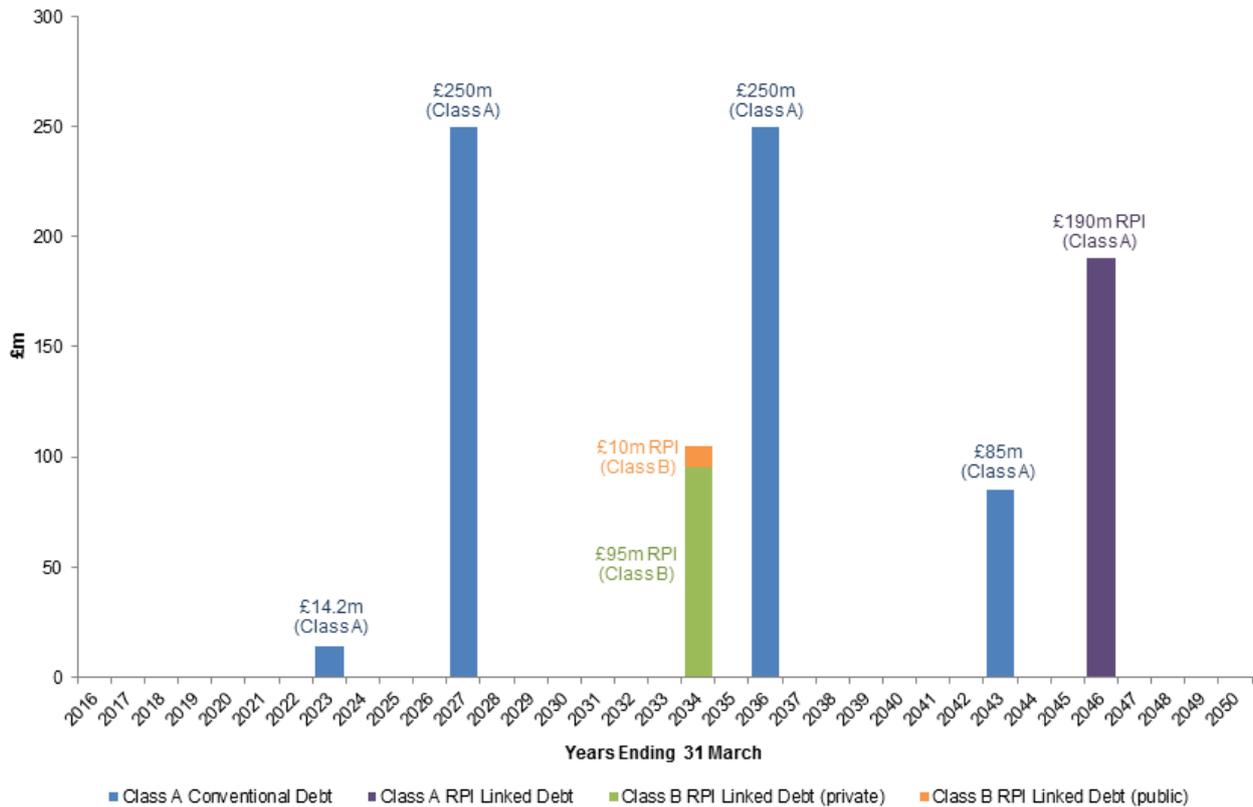
¹ This "non-GAAP" measure, which is used internally to evaluate our financial performance, is calculated as the total of the following lines per the statement of cash flows (refer to page 18): cash generated from operations; purchases of property, plant and equipment; capital contributions; proceeds from sale of property, plant and equipment; proceeds on disposal of non-household business; and purchases of intangibles.

Affinity Water Limited

Interim management report (continued)

Financing update

The following chart shows the maturity profile of the bonds issued by the company’s subsidiaries as at 30 September 2017:



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

At 30 September 2017, net debt, as defined in the financial covenants in the company’s securitisation documentation (‘compliance net debt’), was £896.6m (at 31 March 2017: £885.2m - refer to note 1E in the Annual Performance Report for the year ended 31 March 2017 for the basis of the calculation). Gearing, calculated as compliance net debt to RCV at 30 September 2017, was 75.9% (31 March 2017: 76.6%) and remains below the Board-approved gearing level of 80.0%. This allows sufficient headroom within the financial covenants, which are only triggered at a level of more than 90.0% with a restricted payment condition at 85.0%.

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. Operational risks are recorded and assessed, including existing management processes, and an action plan is prepared, if necessary, for 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 the rankings given by these teams, the most significant risks are discussed by our senior management and included in the strategic risk register, presented to the Board and the Audit Committee. The latter reviews senior management's work on risk management and reports to the Board on the effectiveness of risk management processes.

The principal risks and uncertainties remain unchanged from those reported in the annual report and financial statements for the year ended 31 March 2017. The principal risks and uncertainties reported in the annual report and financial statements for the year ended 31 March 2017 were as follows:

- Operational risks:
 - Injuries and accidents to our people and the public
 - Failure to supply wholesome water
 - Unavailability of resources (people and materials)
 - Information security or privacy failure
- Regulatory risks:
 - Adverse changes to the regulatory framework
 - Adverse change in the social and/or political climate
 - Failure to comply with laws, our instrument of appointment and other recognised standards
 - Failure to deliver our business plan obligations
 - Being required to undertake unremunerated activity
 - Failure to operate effectively as a wholesaler in the non-household retail market
- Financial risks:
 - Liquidity risk
 - Macro economic risk (interest rate, inflation and tax risks)
 - Breach of and changes to our financial covenants
 - Revenue and debtor risk

Further information on these risks and uncertainties can be found on pages 43 to 49 of the company's annual report and financial statements for the year ended 31 March 2017, which is available at: <https://stakeholder.affinitywater.co.uk/investor-library.aspx>.

Vote to leave the European Union

The Board anticipates that whilst the company's activities may be impacted by the UK's decision to leave the European Union over the long term, the impact is unlikely to be significant in the near term. The company's exposure to inflation is broadly hedged with revenue and the fact that some significant costs are already secured to the end of AMP6. The company has also secured financing for the remainder of AMP6 and into the next price control period, AMP7. The company is exposed to foreign exchange rate movements, as some foreign purchase contracts are unhedged; however this exposure is minimal. Finally, although the company's pension plan is currently in an accounting surplus, large market movements may reduce or eliminate this surplus.

Affinity Water Limited

Interim management report (continued)

Going concern

The company has adequate resources to meet its current operational and financial obligations, and the directors have a reasonable expectation that this will continue for the foreseeable future. This is based on assessment of the principal risks of the company, as detailed on the previous page, and consideration of the company's budgeted cash flows, long term forecasts and related assumptions, and available debt facilities. For this reason, the directors continue to adopt the going concern basis in preparing the condensed interim financial statements.

Related parties

Details of significant related party transactions can be found in note 21. Other than the addition of Affinity for Business (Retail) Limited as a related party, 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 remain committed to the highest standards of governance and support the principles of good corporate governance set out in the 2016 UK Corporate Governance Code ('the Code') and the UK Stewardship Code. Our business is owned by private investors and we therefore apply the principles of the Code in this context, having regard to the Guidelines for Disclosure and Transparency in Private Equity (the Walker Guidelines) and the work of the Private Equity Reporting Group. Our Governance Code, updated in September 2016 to reflect the requirements of the 2016 Code, sets out for our customers, investors, regulators and other stakeholders how we govern and operate our business to high standards of governance and transparency.

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 have been 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 months ended 30 September 2017

	Note	30 September 2017 £000 Unaudited	30 September 2016 £000 Unaudited
Revenue	6	154,609	155,919
Cost of sales		(95,833)	(94,915)
Gross profit		58,776	61,004
Administrative expenses		(26,228)	(27,266)
Other income		8,792	8,364
Operating profit	7	41,340	42,102
Profit on disposal of non-household retail business	8	10,958	-
Finance income	9	1,011	1,577
Finance costs	9	(26,890)	(33,690)
Profit before tax		26,419	9,989
Tax (expense)/credit	10	(4,169)	8,327
Profit for the period		22,250	18,316

All profits of the company in the current period and prior period are from continuing operations¹.

The notes on pages 19 to 30 are an integral part of these condensed interim financial statements.

¹ The profit of the prior period include results for the non-household retail business which was transferred to Affinity for Business (Retail) Limited effective 1 April 2017. As disclosed in the accounting policies for the year ended 31 March 2017, these operations were not presented as discontinued as they were not considered to represent a material and separate major line of the company's business. Profit for the current period includes the gain on disposal of the non-household retail business to Affinity for Business (Retail) Limited.

Affinity Water Limited

Condensed interim statement of comprehensive income for the six months ended 30 September 2017

	30 September 2017 £000 Unaudited	30 September 2016 £000 Unaudited
Profit for the period	22,250	18,316
<i>Other comprehensive income for the period which will not be reclassified to profit or loss:</i>		
Remeasurement of post-employment benefit assets	9,707	(12,284)
Deferred tax on items that will not be reclassified	(1,650)	2,088
Other comprehensive income/(expense) for the period, net of tax	8,057	(10,196)
Total comprehensive income for the period	30,307	8,120

The notes on pages 19 to 30 are an integral part of these condensed interim financial statements.

Affinity Water Limited

Condensed interim statement of financial position as at 30 September 2017

	Note	30 September 2017 £000 Unaudited	31 March 2017 £000 Audited
Assets			
Non-current assets			
Property, plant and equipment	12	1,355,954	1,320,792
Goodwill		14,961	14,961
Other intangible assets	12	37,875	36,728
Investments in subsidiaries		60	60
Retirement benefit surplus	13	87,550	72,997
		1,496,400	1,445,538
Current assets			
Inventories		1,482	1,430
Trade and other receivables	14	113,910	89,682
Cash and cash equivalents		35,474	45,129
		150,866	136,241
Total assets		1,647,266	1,581,779
Equity and liabilities			
Equity			
Ordinary shares	15	26,506	26,506
Share premium	15	1,400	1,400
Capital contribution reserve	15	30,150	30,150
Retained earnings		160,468	158,661
Total equity		218,524	216,717
Liabilities			
Non-current liabilities			
Trade and other payables	16	95,514	94,190
Borrowings	17	949,902	941,428
Deferred tax liabilities	18	174,072	172,736
Provisions for other liabilities and charges	18	3,027	2,462
		1,222,515	1,210,816
Current liabilities			
Trade and other payables	16	199,348	146,010
Current tax liabilities		6,879	8,236
		206,227	154,246
Total liabilities		1,428,742	1,365,062
Total equity and liabilities		1,647,266	1,581,779

The notes on pages 19 to 30 are an integral part of these condensed interim financial statements.

Affinity Water Limited

Condensed interim statement of changes in equity for the six months ended 30 September 2017

	Share capital £000 Unaudited	Share premium £000 Unaudited	Capital contribution reserve £000 Unaudited	Retained earnings £000 Unaudited	Total £000 Unaudited
Balance at 1 April 2017	26,506	1,400	30,150	158,661	216,717
Profit for the period	-	-	-	22,250	22,250
Other comprehensive income	-	-	-	8,057	8,057
Total comprehensive income	-	-	-	30,307	30,307
Dividends	-	-	-	(28,500)	(28,500)
Total transactions with owners recognised directly in equity	-	-	-	(28,500)	(28,500)
Balance as at 30 September 2017	26,506	1,400	30,150	160,468	218,524
Balance at 1 April 2016	26,506	1,400	30,150	181,397	239,453
Profit for the period	-	-	-	18,316	18,316
Other comprehensive expense	-	-	-	(10,196)	(10,196)
Total comprehensive income	-	-	-	8,120	8,120
Dividends	-	-	-	(36,000)	(36,000)
Total transactions with owners recognised directly in equity	-	-	-	(36,000)	(36,000)
Balance as at 30 September 2016	26,506	1,400	30,150	153,517	211,573

The notes on pages 19 to 30 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 2017

	Note	30 September 2017 £000 Unaudited	30 September 2016 £000 Unaudited
Cash flows from operating activities			
Cash generated from operations	19	63,428	62,195
Interest paid		(25,596)	(25,081)
Tax paid		(3,840)	-
Group relief paid		(2,000)	-
Net cash flows from operating activities		31,992	37,114
Cash flows from investing activities			
Purchases of property, plant and equipment		(60,583)	(40,073)
Capital contributions		2,749	3,490
Proceeds from sale of property, plant and equipment		84	39
Proceeds on disposal of non-household business		27,000	-
Purchases of intangible assets		(2,473)	(13,420)
Interest received		76	234
Net cash used in investing activities		(33,147)	(49,730)
Cash flows from financing activities			
Proceeds from loan from subsidiary undertaking	17	-	21,409
Proceeds from loan from bank		20,000	-
Equity dividends	11	(28,500)	(36,000)
Net cash used in financing activities		(8,500)	(14,591)
Net decrease in cash and cash equivalents		(9,655)	(27,207)
Cash and cash equivalents at start of period		45,129	93,444
Cash and cash equivalents at end of period		35,474	66,237

The notes on pages 19 to 30 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 29 November 2017.

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 2017 were approved by the Board of directors on 27 June 2017 and delivered to the Registrar of Companies. The report of the auditor on those accounts was unqualified, did not contain an emphasis of matter and did not contain any statement under section 498 of the Companies Act 2006.

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

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

2. Basis of preparation

These condensed interim financial statements for the six months ended 30 September 2017 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority ('FCA') and International Accounting Standard ('IAS') 34: 'Interim financial reporting' ('IAS 34'), as adopted by the European Union ('EU').

The company prepared its annual financial statements for the year ended 31 March 2017 in compliance with the requirements of Financial Reporting Standard 101: 'Reduced disclosure framework' ('FRS 101').

Under FRS 101, the company applies the recognition and measurement requirements of IFRS, 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 annual financial statements for the year ended 31 March 2017.

Going concern

The directors consider it appropriate to adopt the going concern basis of accounting in preparing the condensed interim financial statements. This is based on assessment of the principal risks of the company (refer to page 12) and consideration of the company's budgeted cash flows, long term forecasts and related assumptions, and available debt facilities.

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

3. Accounting policies

The accounting policies adopted in the preparation of these condensed interim financial statements are consistent with those followed in the preparation of the financial statements for the year ended 31 March 2017, except in relation to taxation. Taxes on income in the interim period are accrued using the tax rate that would be applicable to the expected total annual profit or loss.

There are no new Standards and Interpretations which have an impact on the company's condensed interim financial statements.

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 2017.

5. Financial risk management and financial instruments

The company's activities primarily expose it to interest rate 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 annual financial statements for the year ended 31 March 2017 (refer to note A4 to the financial statements for the year ended 31 March 2017).

There have been no changes in any risk management policies since 31 March 2017.

Fair value of financial assets and liabilities measured at amortised cost

Between 1 April 2017 and 30 September 2017, increased indexation on our RPI-linked notes more than offset the increase in market interest rates, increasing the overall fair value of the bonds on-lent from the company's two financing subsidiaries, as follows:

	30 September 2017 £000 Unaudited	31 March 2017 £000 Audited
Borrowings	1,203,164	1,188,729

The fair value has been derived from 'level 1' fair value measurements: quoted prices (unadjusted) in active markets for identical liabilities.

The remaining financial assets and liabilities of the company approximate to their carrying amount.

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

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

6. Revenue

	Six months ended 30 September 2017 £000	Six months ended 30 September 2016 £000
	Unaudited	Unaudited
Unmeasured supplies	64,675	65,621
Measured supplies	86,366	85,889
Connection charges	3,526	4,056
Chargeable services	42	353
	154,609	155,919

7. Operating profit

	Six months ended 30 September 2017 £000	Six months ended 30 September 2016 £000
	Unaudited	Unaudited
Operating profit is stated after charging:		
Water abstraction charges	2,054	2,035
Business rates	8,150	8,345
Depreciation of tangible fixed assets	26,145	25,480
Amortisation of other intangible assets	2,724	3,282
Infrastructure renewals expense	6,653	8,722

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

8. Disposal of non-household business

Affinity Water Limited used the Exit Regulations laid out by the Department for the Environment, Food and Rural Affairs ('Defra') to transfer its existing non-household retail base to Affinity for Business (Retail) Limited, a member of the wider Affinity Water group, on 1 April 2017. The company received £27,000,000 in consideration for the non-household debt book and associated customer base, and recognised a £10,958,000 gain on disposal. No other assets were transferred as part of the sale.

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

9. Finance income and costs

	Six months ended 30 September 2017 £000	Six months ended 30 September 2016 £000
	Unaudited	Unaudited
Finance income:		
Bank interest income	59	234
Net income from post-employment benefits	952	1,343
	1,011	1,577
Finance costs:		
Loan from parent company	(80)	(80)
Loans from subsidiary undertakings	(17,680)	(18,393)
Accretion payable in respect of interest on loans from subsidiary undertakings	(8,867)	(5,512)
Costs expensed due to extinguishment of loans from subsidiary undertakings	-	(9,451)
Other	(263)	(254)
	(26,890)	(33,690)
Net finance costs	(25,879)	(32,113)

10. 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 2018 is 15.78% (the estimated tax rate for the year to 31 March 2017 was 19.81%).

In September 2016 changes were enacted to the main rate of corporation tax in the UK, from 19% to 17% effective from 1 April 2020.

11. Dividends

	Six months ended 30 September 2017 £000	Six months ended 30 September 2016 £000
	Unaudited	Unaudited
Ordinary:		
Paid: First interim of 2.45p per share (2016: 11.32p)	6,500	30,000
Paid: Second interim of 8.30p per share (2016: 2.26p)	22,000	6,000
	28,500	36,000

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

12. Property, plant and equipment ('PPE') and other intangible assets

	PPE	Other intangible assets
	£000	£000
	<u>Unaudited</u>	<u>Unaudited</u>
Six months ended 30 September 2017		
Opening net book amount as at 1 April 2017	1,320,792	36,728
Additions	62,651	3,871
Disposals	(1,212)	-
Depreciation and amortisation	(26,277)	(2,724)
Closing net book amount as at 30 September 2017	<u>1,355,954</u>	<u>37,875</u>
Six months ended 30 September 2016		
Opening net book amount as at 1 April 2016	1,259,527	28,673
Additions	42,641	11,696
Disposals	(1,736)	-
Depreciation and amortisation	(25,480)	(3,282)
Closing net book amount as at 30 September 2016	<u>1,274,952</u>	<u>37,087</u>

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

13. Retirement benefit asset

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 2017 Unaudited	Year ended 31 March 2017 Audited	Six months ended 30 September 2016 Unaudited
Discount rate	2.70% pa	2.55% pa	2.30% pa
Salary growth	3.15% pa	3.10% pa	3.00% pa
RPI	3.15% pa	3.10% pa	3.00% pa
CPI	2.15% pa	2.10% pa	2.00% pa
Life expectancy for a male pensioner from age 65 (years)	22	22	22
Life expectancy for a female pensioner from age 65 (years)	25	25	24
Life expectancy from age 65 (years) for a male participant currently aged 45 (years)	24	24	24
Life expectancy from age 65 (years) for a female participant currently aged 45 (years)	26	26	26

The amounts recognised in the income statement were as follows:

	Six months ended 30 September 2017 £000 Unaudited	Six months ended 30 September 2016 £000 Unaudited
Current service cost	(2,506)	(1,955)
Net income from post-employment benefits	952	1,343
	(1,554)	(612)

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

	30 September 2017 £000 Unaudited	30 September 2016 £000 Unaudited
Present value of defined benefit obligations	(414,266)	(443,023)
Fair value of the plan's assets	501,816	508,000
Asset in the statement of financial position	87,550	64,977

The latest triennial actuarial valuation of the AWPP, determined by an independent qualified actuary, was at 31 December 2015.

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

14. Trade and other receivables

	30 September 2017 £000	31 March 2017 £000
	Unaudited	Audited
Trade receivables	73,790	32,256
Amounts owed by group undertakings	174	5,284
Amounts owed by related parties	40	195
Other receivables	3,756	5,242
Unbilled accrual for metered customers	30,527	40,413
Prepayments and accrued income	5,623	6,292
	113,910	89,682

Trade receivables are stated after provisions for impairment of £28,288,000 (at 31 March 2017: £27,879,000).

15. Share capital

	Number of shares of £0.10 (thousands)	Ordinary shares £000	Share premium £000	Capital contribution reserve £000	Total £000
At 30 September 2017 (unaudited), 1 April 2017 (audited), 30 September 2016 (unaudited) and 1 April 2016 (audited)	265,058	26,506	1,400	30,150	58,056

16. Trade and other payables

	30 September 2017 £000	31 March 2017 £000
	Unaudited	Audited
Non-current:		
Deferred grants and contributions	95,514	94,190
Current:		
Trade payables	4,921	18,620
Bank loan (drawdown of revolving credit facility)	20,000	-
Amounts due to group undertakings	4,469	176
Amounts due to related parties	-	35
Interest payable to subsidiary companies	5,742	12,987
Interest payable to immediate parent company	80	-
Interest payable to external parties	64	62
Social security and other taxes	1,459	1,491
Other payables	8,115	8,286
Capital accruals	17,872	14,406
Deferred grants and contributions	1,279	1,251
Payments received in advance	42,279	48,400
Other accruals and deferred income	93,068	40,296
	199,348	146,010
	294,862	240,200

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

17. Borrowings and loans

	30 September 2017 £000 Unaudited	31 March 2017 £000 Audited
Non-current		
Loan from Affinity Water Finance (2004) PLC financed by bond issue	254,549	254,747
Loan from Affinity Water Programme Finance Limited financed by bond issue	691,769	683,097
Loan from intermediate parent company	3,550	3,550
Debenture stock	34	34
	949,902	941,428

Movements in borrowings are analysed as follows:

Six months ended 30 September 2017	£000 Unaudited
Opening amount as at 1 April 2017	941,428
Indexation on loans from subsidiary undertakings	8,867
Amortisation on loans from subsidiary undertakings	(393)
Closing amount as at 30 September 2017	949,902
 Six months ended 30 September 2016	
Opening amount as at 1 April 2016	902,243
Proceeds of new borrowings from subsidiary undertakings	21,409
Premium due to issuance of loans from subsidiary undertakings	9,451
Indexation on loans from subsidiary undertakings	5,512
Amortisation on loans from subsidiary undertakings	635
Closing amount as at 30 September 2016	939,250

The company has the following undrawn committed borrowing facilities:

	30 September 2017 £000 Unaudited	31 March 2017 £000 Audited
Floating rate:		
Expiring within one year	58,000	58,000
Expiring beyond five years	80,000	100,000
	138,000	158,000

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

18. Provisions for other liabilities and charges

Six months ended 30 September 2017	Deferred tax	Insurance	Other	Total
	£000	£000	£000	£000
	Unaudited	Unaudited	Unaudited	Unaudited
Opening amount at 1 April 2017	172,736	1,792	670	175,198
(Credited)/charged to the income statement	(314)	881	-	567
Charged to other comprehensive income	1,650	-	-	1,650
Utilised in the period	-	(316)	-	(316)
Closing amount at 30 September 2017	174,072	2,357	670	177,099
Six months ended 30 September 2016				
Opening amount at 1 April 2016	184,652	1,510	1,375	187,537
(Credited)/charged to the income statement	(9,255)	220	-	(9,035)
Credited to other comprehensive income	(2,088)	-	-	(2,088)
Utilised in the period	-	(64)	(625)	(689)
Closing amount at 30 September 2016	173,309	1,666	750	175,725

Deferred tax

Deferred tax provisions include amounts relating to both accelerated capital allowances and retirement benefit obligations.

Insurance

Insurance represents 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.

Other provisions

Other provisions include £670,000 in relation to unfunded pension liabilities for a former non-executive director, which will be utilised over the 20 years from January 2019.

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

19. Notes to the condensed interim statement of cash flows

a) Cash generated by operations

	Six months ended 30 September 2017 £000 Unaudited	Six months ended 30 September 2016 £000 Unaudited
Profit before tax	26,419	9,989
<i>Adjustments for:</i>		
Depreciation of property, plant and equipment	26,145	25,480
Amortisation of intangible fixed assets	2,724	3,282
Amortisation of grants and contributions	(750)	(742)
Profit on sale of property, plant and equipment	(84)	(39)
Profit on disposal of non-household business	(10,958)	-
Loss on disposal of infrastructure assets	1,212	1,736
Post-employment benefits	(3,895)	(3,330)
Finance costs - net	25,879	32,113
Changes in working capital:		
- Inventories	(52)	(48)
- Trade and other receivables	(24,228)	(51,822)
- Trade and other payables	21,016	45,576
Cash generated from operations	63,428	62,195

b) Reconciliation of liabilities arising from financing activities

	At 1 April 2017 £000 Unaudited	Cash flow £000 Unaudited	Non cash flows £000 Unaudited	At 30 September 2017 £000 Unaudited
Loan from Affinity Water Finance (2004) PLC financed by bond issue	254,747	-	(198)	254,549
Loan from Affinity Water Programme Finance Limited financed by bond issue	683,097	-	8,672	691,769
Loan from intermediate parent company	3,550	-	-	3,550
Debenture stock	34	-	-	34
Total non current liabilities arising from financing activities	941,428	-	8,474	949,902
Bank loan	-	20,000	-	20,000
Total current liabilities arising from financing activities	-	20,000	-	20,000
Total liabilities arising from financing activities	941,428	20,000	8,474	969,902

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

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 amounts to £22,839,000 (at 31 March 2017: £32,342,000).

21. Related party transactions

The following transactions were carried out with related parties:

Receipts	Nature of Relationship	In respect of	Six months ended 30 September 2017		Six months ended 30 September 2016	
			Value £000	Balance £000	Value £000	Balance £000
			Unaudited	Unaudited	Unaudited	Unaudited
Affinity for Business (Retail) Limited	Group undertaking	Water services and support services	26,595	(4,257)	-	-

Payments	Nature of Relationship	In respect of	Six months ended 30 September 2017		Six months ended 30 September 2016	
			Value £000	Balance £000	Value £000	Balance £000
			Unaudited	Unaudited	Unaudited	Unaudited
Affinity Water Finance (2004) PLC	Subsidiary undertaking	Interest on loan	7,166	3,179	7,179	3,179
Affinity Water Programme Finance Limited	Subsidiary undertaking	Interest on loan	19,381	2,562	16,726	2,484
Affinity for Business (Retail) Limited	Group undertaking	Water services	17	87	-	-

The balance from Affinity for Business (Retail) Limited includes £75,000 receipts due, offset by a pre-payment of £4,332,000 for the supply of water for October 2017.

Details of the loans from Affinity Water Finance (2004) PLC and Affinity Water Programme Finance Limited, the company's subsidiary undertakings, can be found in note 17.

Details of the dividends paid to Affinity Water Holdings Limited, the company's immediate parent undertaking, can be found in note 11.

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

22. Events occurring after the reporting period

On 22 November 2017, Affinity Water Programme Finance Limited, a wholly owned subsidiary of the company, issued £60,000,000 of 2.699% Class A guaranteed notes due 2033 and £60,000,000 of 0.23% Class A guaranteed CPI linked notes due 2042. The proceeds of these issues have been lent on to the company on the same terms and are being used to repay the revolving credit facility (refer to note 16) and fund its capital expenditure programmes.

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

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 Affinity Water Acquisitions (Investments) Limited, a company registered in England and Wales. Affinity Water Acquisitions (Investments) Limited was the parent undertaking of the smallest and largest group to consolidate the annual financial statements of this company for the year ended 31 March 2017.

Copies of the group financial statements of Affinity Water Acquisitions (Investments) Limited for the year ended 31 March 2017 may be obtained from the Company Secretary, Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ.

Affinity Water Acquisitions (Investments) Limited was owned by a consortium of investors led by Infracapital Partners II (consisting of Infracapital Partners II LP and Infracapital Partners (NT) II LP) and North Haven Infrastructure Partners LP until 19 May 2017. Veolia Environnement S.A. held a 10% shareholding in Affinity Water Acquisitions (Holdco) Limited, the direct subsidiary of Affinity Water Acquisitions (Investments) Limited, through its subsidiary Veolia Water UK Limited until the same date. The directors considered Infracapital Partners II and North Haven Infrastructure Partners LP to be the company's ultimate controllers up to that date, as they were in a position to exercise material influence over the company's policy and affairs.

On 19 May 2017, Affinity Water Acquisitions (Investments) Limited was acquired by a consortium comprising DIF, HICL Infrastructure Company Limited (advised by InfraRed Capital Partners Limited) and Allianz Capital Partners on behalf of the Allianz Group. As part of the transaction, the consortium also acquired Veolia Water UK Limited's 10% equity interest stake in the company.

The consortium made its investment through Daiwater Investment Limited which is now the company's UK holding company. 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 Luxembourg I Sarl
- DIF Management Holding BV
- DIF Management UK Limited
- HICL Infrastructure Company Limited
- InfraRed Capital Partners (Management) LLP

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 Company Limited is a long-term investor in infrastructure assets which are predominantly operational and yielding steady returns. HICL 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 Adviser to HICL is InfraRed Capital Partners Limited, a leading international investment manager focused on infrastructure and real estate.

Affinity Water Limited

Statement of directors' responsibilities

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

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

The directors of Affinity Water Limited are listed in the company's annual report and financial statements for the year ended 31 March 2017. A list of current directors is maintained on the governance pages of the company's website: <https://stakeholder.affinitywater.co.uk/management-team.aspx>.

By order of the Board

Stuart Ledger

Director

29 November 2017