



Your local supply, on tap

Investor Report

Year ended 31 March 2014

Affinity Water Limited

Published on 24 July 2014

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1 2013/14 Highlights

We ended the year in a strong financial position with earnings before interest, corporation tax, depreciation and amortisation up 8 per cent. We have continued to make operating efficiencies reducing our cost of operations by £7 million.

Revenues	£291 million
EBITDA¹	£167 million
RCV	£997 million
Net debt	£793 million
Average Household Bill	£173 per year

- We continue to make improvements in our operational performance. Our water quality performance was very strong with 99.99 per cent mean zonal compliance in the calendar year 2013 (2012: 99.95 per cent) and the number of customers experiencing unplanned interruptions reduced to 163 (2012/13: 218).
- We continue to invest in our infrastructure which has been classified as “stable” which has enabled us to continue to reduce leakage.
- During the year we completed the operational consolidation of our business following the unification of our East and Southeast regions into Affinity Water Limited. This brought together the teams, processes, websites and billing systems from the three previously separate businesses into one. We expect benefits and efficiencies in the future from this consolidation which will provide an enhanced customer experience.
- As a result of unusually high rainfall, for ten days in February 2014 we operated part of our business under an Emergency Incident due to the risk of flooding to our treatment works and pumping stations, reporting daily to the various local and Government emergency resilience organisations. The floods, in some cases, have had a significant effect on our customers’ lives. We maintained a safe supply of drinking water to our customers throughout, and provided visible support and advice at flood assistance centres.
- In March 2014 Ofwat pre-qualified for “enhanced” status our PR14 Business Plan for the next AMP6 regulatory period based on its high quality, link through to customer research evidence, and its community-focus vision. In April 2014 Ofwat confirmed our “enhanced” status.
- In April 2014 we launched a new social tariff which is designed to support customers who are struggling to pay their bills. The new tariff is designed to complement the existing measures we have, such as the industry WaterSure tariff and flexible payment plans.

¹ “EBITDA” means profit on ordinary activities before interest and taxation before depreciation of infrastructure assets, depreciation of tangible fixed assets, amortisation of goodwill and amortisation of deferred credit.

2 General Overview

Affinity Water owns and manages the water assets and network in an area of approximately 4,515km² split over three regions in the southeast of England.



Affinity Water is the sole supplier of drinking water in these three areas. We supply 904 million litres of water a day to around 3.6 million people, serving 1.5 million households and non-households. We understand the trust and confidence our customers place in us to supply high quality drinking water every day and our business has been fulfilling this vital role in the communities we serve for over 100 years.

2.1 Regulatory and Business Update

Our Vision and Strategic Priorities

Since most of our customers are not able to choose their water supplier, we recognise it is essential we understand the needs of our customers and the communities we serve. For this reason, **our vision is to be the UK's leading community-focused water company.**

It is critical for our success that we maintain legitimacy with our customers as their sole supplier of drinking water. Being community-focused allows our people to respond to the differing needs of our customers across our areas of supply. It enables us to encourage our customers to value water and be efficient in their water use. This vision and approach is something that we believe sets us apart from other water companies.

We are pursuing six strategic priorities in order to be successful in our ambition. These priorities emphasise areas of focus, to ensure that we are a well-run company providing exemplary compliance, the best possible service to our customers and attractive returns to investors.

Our six strategic priorities are to:

1. **Create a working environment to achieve zero harm and improved wellbeing** – we are committed to embedding a safety culture which will improve the safety and wellbeing of our employees and partners which will lead to increased efficiency across the business.
2. **Practise great asset management** – making best use of our assets is critical to the success of our business. We aim to demonstrate to our stakeholders, including Ofwat, our extensive understanding and management of our assets.
3. **Provide great and visible customer experience** – we aim to understand the needs of our customers and their communities to ensure we are able to meet their needs. We aim to improve our on-line and social media capability – providing customers visible access to our business through the web and our mobile app – when it is convenient for our customers. If our customers are affected by an interruption to their supply we are determined to be seen to take responsibility and resolve the issue swiftly and professionally, whilst keeping the community informed of our progress through on-line updates and giving those customers who are more vulnerable and dependent on our water supply direct updates.
4. **Create an engaged, team-based organisation that delivers pioneering performance** – We aim to operate as one business with a common purpose. Our success is dependent on our people working collaboratively to ensure customers' needs are satisfied.
5. **Drive effectiveness, efficiency and innovation through technology and easy processes** – we have committed to addressing an under investment over the past years on technology within our business. We are aiming to invest in proven technology to yield efficiencies and improvement in our business performance.
6. **Secure favourable regulatory and policy outcomes from our regulators and stakeholders** – following our recent success in achieving “enhanced” status in our business plan submission to the Regulator (see below in PR14 Business Submission) we will continue to work with stakeholders to gain the best possible outcome in response to new legislation.

PR14 Business Plan and Enhanced Status

PR14 Timeline

In July 2013, Ofwat published its final methodology for the PR14 price review process in “*Setting price controls for 2015-20 – final methodology and expectations for companies’ business plans*”. The methodology confirmed the overall framework and timetable for setting price controls for the five years from April 2015 to March 2020 and Ofwat’s expectations of the qualities it would expect a high quality business plan to have. The methodology was supplemented between July and December 2013 by the publication of a series of ‘Information Notices’ providing further guidance in specific areas.

The methodology provided for Ofwat to undertake a “risk based review” of companies’ submissions and for submissions to be categorised by Ofwat as “enhanced”, “standard” or “resubmit” with companies whose plans are categorised as “enhanced” benefiting from an earlier draft determination and a reduced level of scrutiny of their plan. Business Plans were expected to demonstrate a high level of customer engagement in directing the company’s outcomes and commitments.

On 2 December 2013, we submitted our PR14 Business Plan, which set out our proposed prices, performance commitments and levels of investment.

On 27 January 2014, Ofwat published “*Setting process controls for 2015-20 – risk and reward guidance*”. This document provided further guidance to assist companies in aligning their plans to market conditions and the risks that the company and customers should bear.

On 10 March, Ofwat informed Affinity Water that we had pre-qualified and invited us to accept the risk and reward guidance in order to gain “enhanced” status. We accepted the risk and reward guidance on 17 March. On 4 April 2014 Ofwat confirmed our “enhanced” status and on 30 April 2014, Ofwat published Affinity Water’s AMP6 Draft Determination. Affinity Water was one of only two water companies in England and Wales to be awarded “enhanced” status by Ofwat for its PR14 Business Plan submission. As well as having an early Draft Determination, “enhanced” status also means we receive a £4 million reward (recovered by increasing our opening RCV for AMP6) and a totex menu selection with a cost sharing rate that is 5% higher for both over and under performance.

PR14 Business plan at a glance

- Household customer bills will go down over the next five years by an average of 1.4% per year, before inflation.
- We will maintain high quality drinking water.
- We will reduce the amount of water we take from the environment by the end of the five year period by 42 million litres per day.
- We will reduce leakage by 14% by the end of the five year period – the equivalent of 27 million litres per day.
- We will encourage our customers to use less water:
 - We will meter 280,000 properties by 2020 and give those customers a choice to keep paying non-metered charges for up to two years to make the transition easier for them.
 - We will provide advice and water saving devices to support our customers in reducing their water use.
- We will implement a targeted programme of lead pipe replacement to meet more stringent legal standards.
- We will promote our social tariff to support those least able to pay their bill.
- We will make over £100 million of efficiency savings in our running costs to keep bills as low as possible over the next five years.
- We will invest in increased flexibility in our network so we can transfer water more effectively around our communities.
- We will make ourselves accountable to our communities for our performance.

A key element of the price review process was to determine our Outcomes, Performance Commitments and Outcome Delivery Incentives. These were agreed with Ofwat and confirmed within our AMP6 Draft Determination. These Outcomes, Performance Commitments and Outcome Delivery Incentives are set out on the next page.

Customer Outcome	Performance Commitment	Type of Outcome Delivery Incentive
1. Making sure our customers have enough water, whilst leaving more water in the environment	Leakage	Reward and penalty
	Average water use	Penalty only
	Water available for use	Penalty only
	Abstraction incentive mechanism	Non-financial incentive
	Sustainable abstraction reductions	Reward and penalty
2. Supplying high quality water you can trust	Compliance with water quality standards	Penalty only
	Customer contacts for discoloration	Penalty only
3. Minimising disruption to you and your community	Unplanned interruptions to supply over 12 hours	Reward and penalty
	Number of burst mains	Penalty only
	Affected customers not notified of planned interruptions	Compensation payments
	Planned work taking longer to complete than notified	Compensation payments
4. Providing a value for money service	Service incentive mechanism	Reward and penalty
	Value for money survey	No financial incentive

What happens next?

Ofwat will publish the Final Determinations for all water companies in December 2014.

Further information on our business plan can be found at our website:

<https://stakeholder.affinitywater.co.uk/business-plan.aspx>

Other Regulatory Developments

Cost of living and affordability

In November 2013, all water companies received requests from the Secretary of State and Ofwat to consider not implementing the full price increases (nominal or real) for 2014/15 that were allowed for in the 2009 Price Review. Companies were asked to consider this request in the context of the cost-of-living pressures experienced by households across the country and the lower costs of financing available to companies than Ofwat had anticipated when setting price limits at PR09. In response to the request, Affinity Water elected to abate half of our allowed nominal increase for 2014/15.

Water Resources Management Plan

Our Water Resources Management Plan is a key component of the delivery of our Business Plan as it formally endorses our proposals to reduce consumption through our water saving programme which in turn will enable us to reduce abstraction at a number of our sites as agreed in principle with the Environment Agency.

Affinity Water consulted extensively on its draft Water Resources Management Plan during the summer of 2013. Affinity Water's revised draft Water Resources Management Plan and Statement of Response (both published in November 2013) took account of representations from a wide range of regulators, stakeholders and interest groups. Following minor clarifications, the Secretary of State directed Affinity Water to publish its Final Water Resources Management Plan for the period 2015 to 2040. In the Appendix there is a link to the Final Water Resources Management Plan on our website.

Policy and legislative development

In May 2013, Defra published its "Strategic Policy Statement" setting out priorities for the regulation of the water industry that Government expects Ofwat to reflect in their decision making. The principle underpinning the guidance is that high-level decisions involving political judgment are undertaken by Government whilst regulatory decisions are taken independently by Ofwat. The guidance requires Ofwat to report on the steps it has taken to respond to the priorities.

The Water Bill was passed on the 14 May 2014 through Parliament and is now the Water Act 2014. The Act is wide ranging but, in particular, it removes regulatory barriers that discourage or prevent new firms competing in the water industry and embeds future resilience into the framework for the sector.

Preparations for the anticipated introduction of competition for non-household customers from April 2017 continue through the Open Water Programme. The programme is steered by a high level group comprising a broad range of stakeholders, and aims to deliver the market architecture, market codes, systems and other arrangements that will be needed to facilitate competition. Funding of the Open Water Programme will be facilitated through a temporary licence condition. On 14 July 2014, Ofwat issued a section 13 notice on the form of the temporary licence condition. The consultation ends on 13 August 2014.

Other Market Announcements

There have been a number market announcements made since our last Investor Report, a full list can be found in the Latest News section of our Investor Relations website:

<https://stakeholder.affinitywater.co.uk/investor-relations-latest-news.aspx>

A number of the announcements related to the PR14 process as discussed earlier. A selection of the other announcements which may be of interest to investors are as follows:

- On 5 June 2014, Affinity Water Finance (2004) Limited announced its intention to transfer its securities from the Main List to the Professional Securities Market (PSM) of the London Stock Exchange on 19 June 2014.
- On 19 June 14, Affinity Water Programme Finance (2004) Limited provided notice that it was changing its Paying Agents. With effect from 7 July 2014, Deutsche Bank AG, London Branch will assume the role of Principal Paying Agent in respect of the Notes. Deutsche Trustee Company Limited as Trustee in respect of the Notes has provided its prior approval to the above in accordance with the Conditions of the Notes.
- On 4 July 2014, it was announced that the Registrar of Companies had issued a certificate of re-registration, certifying that Affinity Water Finance (2004) Limited, formerly a private limited company has been re-registered under the Companies Act 2006 as a public company and is now incorporated under the name of Affinity Water Finance (2004) PLC.
- On 10 July 2014, it was announced that Affinity Water Finance (2004) PLC had its Listing Particulars approved. The Listing Particulars relate to the issue of £50,000,000 5.875% guaranteed notes due 2026 to be consolidated and form a single series with the existing £200,000,000 5.875% guaranteed notes due 2026.
- On 16 July 2014, it was announced that Affinity Water Finance (2004) PLC had issued the £50,000,000 5.875% guaranteed notes due 2026.

Please see section 2.7 for further details of the £50 million tap issue.

Rating Agencies

On 28 February 2014, S&P published a Transaction Update on Affinity Water.

On 24 June 2014, Moody's affirmed our ratings with a stable outlook. On 26 June 2014, Moody's published an updated Credit Opinion and on 3 July, Moody's published a credit focus entitled "Affinity Water: Resilient to the Challenges of AMP6 Investment Plan".

Our current credit ratings are shown in the table below:

Bonds	Moody's	Standard & Poor's
Class A	A3	A -
Class B	Baa3	BBB
Corporate Family Rating for Affinity Water Limited	Baa1	Not applicable

2.2 Service and Financial Performance

Service Performance Overview

Year ended 31 March 2014

Ofwat reporting

We measure our performance against a set of targets consistent with the guidelines set by Ofwat using a “traffic light system”, where green indicates performance within target. The indicators provide our customers, regulators and investors with an overall view of our performance which is set out in the table below.

Ofwat key performance indicators		Central region	East region	Southeast region	Affinity Water Limited
Environmental impact					
Greenhouse gas emissions	tCO ₂ e				110,823
Reliability and availability					
Serviceability water non-infrastructure		Stable	Stable	Stable	
Serviceability water infrastructure		Stable	Stable	Stable	
Leakage	MI/d	169.8	4.3	6.6	
Security of supply index	Score	100	100	100	
Customer experience					
Service Incentive Mechanism	Score				78.7
Interruptions to supply	Hrs/prop	0.12	0.10	0.00	

We report the performance for the three separate regions of Affinity Water for certain asset and customer experience measures. We will continue to report asset measures separately during the remainder of the current price control period.

Drinking Water Inspectorate reporting

We report our water quality performance against a range of measures established by the Drinking Water Inspectorate (‘DWI’). ‘Mean zonal compliance’ is the principal measure used by the DWI and involves 39 separate parameters tested to establish the quality of drinking water.

In the calendar year 2013, we carried out over 217,500 tests on treated water from our treatment works at service reservoirs and at customers’ taps as part of our regulatory monitoring programme. Our mean zonal compliance with drinking water quality standards was 99.99%.

Service Incentive Mechanism (SIM)

SIM is Ofwat’s mechanism for measuring both the qualitative and quantitative service given to customers by a company. Our overall performance for the period remains strong, with a performance score of 78.7 (2012/13: 80.4) out of a maximum possible 100.

Water quality

Water quality performance is measured on a calendar year and continues to be high. Our ‘mean zonal compliance’ for the period was 99.99% (2012: 99.95%).

Leakage

Our enhancement to leakage detection activity has been successful which resulted in a leakage figure of 180.7 mega litres per day (Ml/d) (2012/13: 189.5 Ml/d) across the regions. We are below our Ofwat leakage target of 197.7 Ml/d for the period.

Serviceability

Our assessment of serviceability remains 'stable' for both infrastructure and non-infrastructure assets. To continue to maintain our 'stable' assessment and to reduce risks further we are specifically investing in the mains network at 'hotspots' where we know that if the water main were to burst, disruptions affecting large numbers of customers are likely to last for a long time. However, the overall number of bursts remains below the Ofwat reference level.

Financial Performance Overview

Year ended 31 March 2014

Turnover for the financial year was £291.4 million (2012/13: £290.5 million). The prior year includes results for the three regulated business prior to unification which became effective on the on 27 July 2012.

Price limits are set by Ofwat every five years through a periodic review. The last review was concluded in November 2009 (PR09) and determined price limits for the period 2010/11 to 2014/15. As part of a determination, Ofwat publish a 'k' factor for each company per year, being the limit to the annual change in price charged by a company prior to RPI inflation being applied. A 'k' factor can be negative as well as positive. The 'k' factors set at PR09 for 2013/14 and 2014/15 for the three separate regions of Affinity Water Limited are as follows:

	2013/14	2014/15
	(%)	(%)
Central region	-2.8	-2.3
East region	-0.7	-0.9
Southeast region	+1.6	-0.9

Turnover in 2013/14 remained comparable to the previous year as the change in RPI for the 2013/14 price setting was 3.0%, and therefore largely offset by the negative k factor in our central region.

As mentioned earlier, Affinity Water elected to abate part of our allowed price increase for 2014/15.

2.3 Governance and Management

Since the publication of the last Investor Report in December 2013 the following changes to the directors and management of Affinity Water Limited have taken place.

- Fiona Woolf CBE resigned as independent non-executive director on 31 December 2013.
- Andrew Dench resigned as non-executive director on 31 December 2013 and was replaced by Olivier Bret.

- On 1 April 2014, Philip Nolan's role as Chairman became non-executive.

In October 2013 Ofwat published for consultation: *"Board leadership: governance and transparency"*. The document set out for consultation a number of principles and expectations with respect to these matters and invited companies to develop and publish a governance code explaining how they met the principles and expectations. In response, we published our Governance Code in March 2014.

2.4 Permitted Subsidiaries Acquired

There were no Permitted Subsidiaries acquired pursuant to a Permitted Acquisition in the period to 31 March 2014.

2.5 Capital Expenditure

Regulated capital investment in our assets during the year was £105.3 million, this being net of £8.2 million in grants and contributions. This was a 13% increase on the same period last year (£93.3 million) and is primarily a result of increased capital works towards the end of AMP5.

2.6 Outsourcing

Affinity Water Limited continues to monitor and comply with the Outsourcing Policy as detailed under the Common Terms Agreement which states that we will act in accordance with Good Industry Practices and all applicable laws and regulations in regards to this area.

2.7 Financing

£50 million Tap of the Existing 5.875% Notes due 2026

On 16 July 2014, Affinity Water Finance (2004) PLC (formerly Affinity Water Finance (2004) Limited) successfully issued a further £50 million of Notes on the same terms as the existing £200 million 5.875% Guaranteed Notes due 2026. The Joint Lead Managers on the transaction were HSBC and RBS. Further details, including the Listing Particulars and Investor Presentation, can be found on our Investor Relations website.

Renewal of O&M Reserve and DSR Liquidity Facilities

The O&M Reserve and DSR Liquidity facilities were renewed in February 2014. These facilities are provided by a syndicate of banks as follows: HSBC, Royal Bank of Canada and National Australia Bank.

2.8 Surplus

Affinity Water Limited's dividend policy is to remain consistent with the requirements of Condition F of the licence. This states that any dividends declared or paid will not impair the ability of the Appointee to finance the Appointed Business; and under a system of incentive regulation dividends would be expected to reward efficiency and the management of economic risk.

During the 2013/14 financial year, Affinity Water Limited paid dividends totalling £45.8 million.

2.9 Debt Service Reserve Accounts

There is no balance in each of the Debt Service Reserve Accounts as at 31 March 2014. The required debt service reserve is provided by a liquidity facility totalling £35.0 million from a syndicate of banks.

2.10 Authorised Investments

Detailed breakdown of all Authorised Investments as at 31 March 2014 are as follows:

Counterparty	Bank Deposits (£m)	Total (£m)
Barclays Bank plc	11.2	11.2

3 Financial Ratios

3.1 Summary of Financial Ratios

Affinity Water Limited confirms that in respect of the Calculation Date on 31 March 2014, by reference to the most recent financial statements that we are obliged to deliver to you in accordance with Paragraph 1 (Financial Statements) of Part 1 (Information Covenants) of Schedule 4 (Covenants) to the Common Terms Agreement the ratios detailed in the tables below.

Date	Year 1 31 March 14 Actual	Year 2 31 March 15 Forecast	Year 3 31 March 16 Forecast
Class A RAR (at such Calculation Date or, in the case of forward-looking ratios, as at 31 March falling in the relevant Test Period)	0.70	0.70	0.70
Senior RAR (at such Calculation Date or, in the case of forward-looking ratios, as at 31 March falling in the relevant Test Period)	0.79	0.80	0.80

Test Period	Year 1 1 April 2013 to 31 March 2014 Actual	Year 2 1 April 2014 to 31 March 2015 Forecast	Year 3 1 April 2015 to 31 March 2016 Forecast
Class A Adjusted ICR	1.54	1.79	5.37
Senior Adjusted ICR	1.42	1.61	4.81
Class A ICR	4.82	5.24	5.37
Class A Average Adjusted ICR	2.90	2.90	2.90
Senior Average Adjusted ICR	2.61	2.61	2.61

Affinity Water Limited confirms that each of the above Ratios has been calculated in respect of each of the relevant period(s) for which it is required under the Common Terms Agreement and has not breached the Trigger Event Ratio Levels and has not caused Paragraph 16 (Ratios) of Part 2 (Events of Default Non AWHL) of Schedule 6 (Events of Default) to the Common Terms Agreement to be breached.

3.2 Calculation of Financial Ratios

We have set out below the computation of the following ratios set out in the table in Section 2.1 above for your information:

Test Period		Year 1 1 April 2013 to 31 March 2014 Actual	Year 2 1 April 2014 to 31 March 2015 Forecast	Year 3 1 April 2015 to 31 March 2016 Forecast
Net Cash Flow divided by	£'000	147,363	154,700	159,471
Class A Debt Interest	£'000	30,551	29,518	29,673
Class A ICR	Ratio	4.82	5.24	5.37
Net Cash Flow less	£'000	147,363	154,700	159,471
CCD and IRC	£'000	(100,285)	(101,929)	0 ¹
Adjusted Net Cash Flow divided by	£'000	47,078	52,771	159,471
Class A Debt Interest	£'000	30,551	29,518	29,673
Class A Adjusted ICR	Ratio	1.54	1.79	5.37
Net Cash Flow less	£'000	147,363	154,700	159,471
CCD and IRC	£'000	(100,285)	(101,929)	0 ¹
Adjusted Net Cash Flow divided by	£'000	47,078	52,771	159,471
Senior Debt Interest	£'000	33,137	32,485	33,156
Senior Adjusted ICR	Ratio	1.42	1.61	4.81
Year 1	Ratio	1.54	1.53	1.53
Year 2	Ratio	1.79	1.79	1.79
Year 3	Ratio	5.37	5.37	5.37
Class A Average Adjusted ICR	Ratio	2.90	2.90	2.90
Year 1	Ratio	1.42	1.42	1.42
Year 2	Ratio	1.61	1.61	1.61
Year 3	Ratio	4.81	4.81	4.81
Senior Average Adjusted ICR	Ratio	2.61	2.61	2.61

¹See Section 3.3

Date		Year 1 1 April 2013 to 31 March 2014 Actual	Year 2 1 April 2014 to 31 March 2015 Forecast	Year 3 1 April 2015 to 31 March 2016 Forecast
Class A Net Indebtedness divided by	£'000	693,805	710,957	739,914
RCV	£'000	997,462	1,015,955	1,058,616
Class A RAR	Ratio	0.70	0.70	0.70
Senior Net Indebtedness divided by	£'000	792,516	812,468	846,916
RCV	£'000	997,462	1,015,955	1,058,616
Senior RAR	Ratio	0.79	0.80	0.80

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

Date	31 March 2014 £000
Net Debt as Reported (Note c to the cash flow statement)	793,336
Exclude Permitted Legacy Loan (Loan from intermediate parent company)	(3,550)
Exclude Grafham Water Arrangement and Ardleigh Arrangement (Financing of assets used by the company and operated by other parties)	(19,401)
Add Back Unamortised Debt Issue Costs	11,875
Add Accrued Interest	10,256
Senior Net Indebtedness	792,516
Remove Class B Debt Amounts	(98,711)
Class A Net Indebtedness	693,805

3.3 Equivalent Financial Ratios for 2015/16

As part of the revised methodology for PR14, Ofwat announced certain changes to the principles adopted in its financial modelling for the AMP6 Period.

Two accounting measures, which will no longer be used by Ofwat and therefore will not be “published” numbers in the Final Price Determination, are: (i) the ‘Current Cost Depreciation’ charge (CCD) which applied to above-ground assets, such as treatment works; and (ii) the ‘Infrastructure Renewals Charge’ (IRC) which applied to underground assets, such as pipes, owing to Ofwat’s new “simplified depreciation approach” based on totex (total expenditure).

CCD and IRC both feed into Affinity Water’s Financial Ratios (namely, the Senior Adjusted ICR, Senior Average Adjusted ICR, Class A Adjusted ICR and Class A Average Adjusted ICR). As set out under “Common Terms Agreement – Covenants – Information Covenants”, Affinity Water is required to deliver within the Investor Report, a statement as to what the historical and forward-looking Financial Ratios calculated as at the most recent Calculation Date are, together with a copy of the computations made in respect of the calculation of such Financial Ratios as above.

In respect of calculations for the 2015/16, the first year of AMP6, Affinity Water has calculated the relevant Financial Ratios by inputting CCD and IRC as zero.

We have decided to supply to investors within this report, calculations using “equivalent” measures for illustrative purposes in order to assist investors with drawing comparisons notwithstanding the discontinuation of the CCD and IRC measures. The “equivalent” measures are ‘RCV Depreciation’ and ‘Infrastructure Renewals Expenditure’ respectively. Our intention would be to engage further on this matter with investors after the publication of our Final Determination by Ofwat. The “equivalent” financial ratios on this basis are set out below:

		Year 3 1 April 2015 to 31 March 2016 Equivalent Forecast
Net Cash Flow less	£'000	159,471
RCV Depreciation and Infrastructure Renewals Expenditure	£'000	(78,581)
Adjusted Net Cash Flow divided by	£'000	80,890
Class A Debt Interest	£'000	29,673
Class A Adjusted ICR	Ratio	2.73
Net Cash Flow less	£'000	159,471
RCV Depreciation and Infrastructure Renewals Expenditure	£'000	(78,581)
Adjusted Net Cash Flow divided by	£'000	80,890
Senior Debt Interest	£'000	33,156
Senior Adjusted ICR	Ratio	2.44

		Year 3 1 April 2015 to 31 March 2016 Equivalent Forecast
Year 1	Ratio	1.53
Year 2	Ratio	1.79
Year 3	Ratio	2.73
Class A Average Adjusted ICR	Ratio	2.02
Year 1	Ratio	1.42
Year 2	Ratio	1.61
Year 3	Ratio	2.44
Senior Average Adjusted ICR	Ratio	1.82

4 Further Certifications

4.1 Annual Finance Charge

Affinity Water Limited certifies that on 31 March 2014 the Annual Finance Charge for the period from 1 April 2014 to 31 March 2015 was calculated to be £32.6 million and the Monthly Payment Amount was calculated to be £2.7 million. Calculation of the Annual Finance Charge is set out as follows:

	1 April 2014 to 31 March 2015 (£m)
Forecast interest paid on bonds	31.5
Forecast interest paid on loans	0.3
Other recurring finance fees paid	0.8
Total	32.6

4.2 Additional Confirmations

Affinity Water Limited also confirms that:

- (a) no Default or Potential Trigger Event is outstanding; and
- (b) that Affinity Water Limited's insurances are being maintained in accordance with the Common Terms Agreement;

Affinity Water Limited has not adopted any new Accounting Standards during the period.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Duncan Bates'.

Duncan Bates
Chief Financial Officer
For and on behalf of
Affinity Water Limited
(in its capacity as Transaction Agent)

Appendix

Additional Periodic Information

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

Affinity Water Limited's annual charges scheme and details of tariffs for 2014/15

<https://www.affinitywater.co.uk/docs/Charges-Scheme-2014-15v2.pdf>

Affinity Water Limited's annual drinking water quality report 2013

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

Affinity Water Limited's annual conservation and access report 2013

<https://stakeholder.affinitywater.co.uk/docs/Conservation-Access-Recreation-Report-2013.pdf>

Risk and Compliance Statement 2013/14

<https://stakeholder.affinitywater.co.uk/docs/Risk-Compliance-Statement-2014.pdf>

Customer Annual Performance Report 2014

<https://stakeholder.affinitywater.co.uk/docs/Performance-Report-2014.pdf>

Latest Business Plan (PR14) and Risk & Reward Submission

<https://stakeholder.affinitywater.co.uk/docs/AW-business-plan-2015-2020v4.pdf>

<https://stakeholder.affinitywater.co.uk/docs/AW-business-plan-risk-and-reward.pdf>

Final Water Resources Management Plan 2014

<https://stakeholder.affinitywater.co.uk/docs/FINAL-WRMP-Jun-2014.pdf>

Governance Code 2014

<https://stakeholder.affinitywater.co.uk/docs/AW-Governance-Code-March-2014.pdf>