DAIWATER INVESTMENT LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020

(Registered Number 10738347)

Daiwater Investment Limited

Contents

Daiwater Investment Limited

Directors and advisers

Directors

The directors of the company who were in office during the year and up to the date of signing the financial statements except where noted, were as follows:

Tom Goossens
Jaroslava Korpanec
Anthony Roper
Angela Roshier
Scott Springett

Company secretary

Sunita Kaushal	(appointed 9 April 2020)
Colin Caldwell	(appointed 27 November 2019 and resigned 8 April 2020)
Tim Monod	(resigned 6 November 2019)

Registered office

Tamblin Way
Hatfield
Hertfordshire
AL10 9EZ

Independent auditor

PricewaterhouseCoopers LLP
40 Clarendon Road
Watford
Hertfordshire
WD17 1JJ

Registered number

10738347

Daiwater Investment Limited

Board's welcome

We are delighted to present Daiwater Investment Limited's annual report and financial statements for the year ended 31 March 2020.

The group has continued to focus on achieving its strategic objectives, which are chiefly those of its principal trading subsidiary: Affinity Water Limited. Affinity Water Limited supplies high quality drinking water to communities within the southeast of England.

Affinity Water has now completed the final year of its five-year AMP6 Business Plan which included a number of stretching performance commitments. Ofwat acknowledged the level of ambition in that plan and we are pleased to say that Affinity Water has achieved most of its targets and improved its performance in 2019/20.

COVID-19

Clearly the COVID-19 pandemic is having a very significant impact on the daily lives of our customers, communities, and colleagues. In this unprecedented situation, we have been impressed by the response of our whole team. In March 2020, Affinity Water set up an Incident Response Team with the primary focus to maintain the quality and supply of water for its customers and implement business continuity plans. We very quickly enabled home working for most colleagues, and put in place protocols for field colleagues to do their work safely. As a business we are continuing to supply water, fix leaks, and ensure that our people are safe as they operate everyday as key workers in the community.

We recognise there is a lot of uncertainty for our customers and that many will be impacted financially by COVID-19. We are supporting them, through a variety of channels, with relevant information and updates as they occur, and are offering solutions such as payment breaks, spreading the cost of bills and alternative tariffs. Of course, we are engaging with the government and our regulators as part of managing the situation. At the same time, we are continuing in our plans to invest in our infrastructure and to improve demand management, so that we strengthen the resilience of our supply for current and future customers.

Regulatory update

During the year Affinity Water worked extensively on its AMP7 Business Plan and re-submitted its Water Resources Management Plan ('WRMP').

Ofwat published its Final Determination for AMP7 in December 2019, which gives Affinity Water clarity on what it needs to deliver up to 2025. Affinity Water welcomes Ofwat's support of its investment to protect the environment, improve service and boost resilience. Affinity Water knows that it will be challenging but it is determined to deliver its Plan, both to improve the services it provides to its customers and to improve the environment.

In March 2020, the Secretary of State approved Affinity Water's WRMP, which set out its plans to balance the availability of water supply with the demand for water from our customers for the period to 2080. Affinity Water welcomes this approval and support from the Secretary of State and will work on implementing these plans, in line with its Business Plan.

AMP7 Final Determination summary for Affinity Water Limited

- average bills to fall by 5.5% in real terms in the 2020-25 period;
- total expenditure of £1,441.4m, including:
    - £121m to improve the environment by efficiently delivering our obligations as set out in the Water Industry National Environment Programme ('WINEP');
    - £146m for supply and demand balance schemes and strategic water resource development, including long-term drought resilience; and
    - £57.3m for new meter installations.
- 20% leakage reduction on a three-year average basis; and
- 12.5% reduction in PCC by 2024/25.

Daiwater Investment Limited

Board's welcome (continued)

Our purpose

During 2019/20, Affinity Water refreshed its purpose, values and aspired culture, ensuring it is ready for AMP7. Affinity Water conducted internal and external research, gathering insight from stakeholder interviews, focus groups and opinion polling.

Their research showed that customers, employees and stakeholders have a strong appetite for it to place the environment, and, in particular the local environment, at the heart of its business.

Affinity Water's purpose is to provide high quality drinking water and to take care of its environment for its communities now and in the future. It reflects the importance of the way it works with and for customers and the communities it serves, understanding and responding to their needs and acting as the steward of a very precious resource in the process.

Our stakeholders

The Board and Executive team of Affinity Water are very committed to engaging its customers, communities, stakeholders, and employees. At the beginning of the year Affinity Water held its inaugural Stakeholder Assembly. During the year, it had extensive discussions with customers, regulators, and communities on a range of topics including to: inform its decisions in finalising its AMP7 plan and WRMP; help to develop its purpose; inform its plans for a potential drought after two dry winters in 2017/18 and 2018/19 (fortunately averted by a very wet winter!). Their independent CCG was a vital 'critical friend' throughout. This year Affinity Water also conducted a very thorough culture survey with its employees, and appointed Trevor Didcock as its Designated Director for Employee Engagement.

Our governance

We recognise the importance of demonstrating to customers, investors, communities, regulators and other stakeholders that we operate our business to the highest standards of governance and transparency.

Our Company Secretary, Tim Monod, left the business in November 2019, being replaced by Colin Caldwell as interim Company Secretary until 8 April 2020. I would like to extend my appreciation to both, and also welcome Sunita Kaushal who joined as Company Secretary on 9 April 2020.

Dividends and executive remuneration

We reviewed our dividend policy during the year. Our shareholders are re-investing dividends through the year to enable the substantial investments to improve resilience and protect the environment.

Affinity Water's policy for executive director pay continues to be aligned to its strategy of delivering value through high quality customer service and operational performance whilst ensuring the cost of water remains affordable.

Affinity Water's Board-approved dividend and executive remuneration policies are available on the governance pages of its website: *affinitywater.co.uk/governance-assurance*

Looking forward

As we look forward, we know that Affinity Water has committed to an ambitious plan for the AMP7 with challenging targets to improve customer service and operational performance whilst also investing to protect the environment and enhance resilience. We also know that Affinity Water has re-invigorated the business considerably in the last two years, with: improved performance at the end of AMP6, a new executive team, strengthened Board, committed long-term investors, an excellent team of colleagues, and a clear purpose.

Daiwater Investment Limited

Strategic report
for the year ended 31 March 2020

Introduction

The directors present their strategic report on Daiwater Investment Limited for the year ended 31 March 2020.

Daiwater Investment Limited invests in and manages long term interests in the water industry in the United Kingdom ('UK').

Affinity Water Limited and Castle Water (Southern) Limited (formerly Affinity for Business (Retail) Limited) are the trading subsidiaries of the group. Affinity Water Limited (the principal trading subsidiary) owns and manages the water assets and network in an area of approximately 4,500km^2 split over three regions, comprising eight water resource zones, in the South East of England.

Affinity Water Limited supplies high quality drinking water to communities within the southeast of England. It:

- supplies on average 925 million litres of water a day to around 3.6 million people, serving 1.5 million properties;
- operates 95 water treatment works to ensure that water is of the highest quality;
- distributes water through a network of over 16,700km of mains; and
- carried out 190,000 tests on water leaving water treatment works, at reservoirs and at customers' taps as part of its regulatory monitoring programme for the 2019 calendar year. Its overall compliance performance in 2019, as regulated by the Drinking Water Inspectorate ('DWI'), was 99.97%.

Information on Affinity Water Limited's purpose and business model are detailed in the strategic report of its own annual report and financial statements for the year ended 31 March 2020.

Information on the vision and business model of Castle Water (Southern) Limited (formerly Affinity for Business (Retail) Limited) are detailed in the strategic report of its own company financial statements for the year ended 31 March 2020.

Performance

The group generated a loss for the year of £13,634,000 (2019: £95,700,000 loss). The statements of financial position detailed on pages 57 and 58 show shareholders' funds as at 31 March 2020 amounting to £613,427,000 (2019: £627,152,000) for the group and £763,355,000 (2019: £753,465,000) for the company.

As both the financial and operational results of the group are primarily determined by the results of its trading subsidiaries, Affinity Water Limited and Castle Water (Southern) Limited (formerly Affinity for Business (Retail) Limited) , the operational and financial performance indicators and targets for the group are those of these two entities. These performance indicators, and the performance against targets set, are provided in detail in the strategic report of their own annual reports and financial statements for the year ended 31 March 2020.

Purpose, values and culture

In 2019/20, Affinity Water commenced work on defining its purpose, values and culture. Its purpose is to provide high quality drinking water and to take care of the environment for its communities now and in the future. Please refer to the annual report and financial statements of Affinity Water Limited for more information.

Principal risks and uncertainties

The group has an established framework for identifying, evaluating and managing its key risks. The main risks of the group for the year ended 31 March 2020 are those of its trading subsidiaries, Affinity Water Limited and Castle Water (Southern) Limited (formerly Affinity for Business (Retail) Limited), and hence this section focuses on the risks and uncertainties of those entities (referred to as the 'subsidiaries' throughout the remainder of this section). Castle Water (Southern) Limited (formerly Affinity for Business (Retail) Limited) was sold to Castle Water Limited on 1 April 2020 and resultantly has no ongoing risks to the group post year end.

Operational risks are recorded and assessed, including existing management and control processes, and an action plan is prepared, if necessary, to implement further mitigation. Activities against these plans are monitored on an on-going basis. The key risks of each trading activity are considered and monitored by their own separate senior management team. Given the distinct legal nature of the companies, the principal risks arising differ between the two entities and are detailed below.

Emerging risks

The group has defined emerging risks as potential future events or circumstances which could significantly and negatively impact achievement of our strategic objectives and whose likelihood and impact cannot yet be accurately determined.

As part of the group's overall risk management framework, it carries out regular horizon scanning and analysis of various early warning indicators in order to identify newly emerging risks and determine if any previously identified emerging risks are increasingly likely to become real current operational risks. Where this is the case, such risks will be subject to the same rigorous process described above to evaluate and manage them. The Executive Management team of the principal trading subsidiary `has carried out an exercise to identify and review current emerging risks. Along with the strategic risks, these will be reviewed at least quarterly by the Executive Management Team and at least twice-yearly by the Board.

Climate change

Climate change is one of the greatest challenges for the industry as a whole and this challenge appears likely to increase in the coming years. Sustainability and resilience in the light of this challenge is important in maintaining the trust of our customers and regulators. Climate change can have short and long-term impacts on our assets, our operations and, therefore, the services the group provides. The most recent significant example was the extreme weather much of the UK experienced in March 2018. Whilst the group dealt with that situation very effectively and efficiently, it took the opportunity to review and revise its business continuity and emergency response arrangements. Those arrangements have served the group well thus far in coping with the COVID-19 pandemic.

The group has identified climate change as an underlying cause of many of the principal risks listed below, in particular numbers 2, 6 and 7 of Affinity Water Limited. The group has also, therefore, documented in its risk registers, where appropriate, controls in place to mitigate as far as possible the potential effects of climate change in elevating those risks. The group will continue to monitor climate change and its impacts on its operations as well as the effectiveness and efficiency of its mitigating controls, with the objective of ensuring our ongoing sustainability and resilience.

COVID-19

A national health pandemic, including COVID-19 has been included as a principal operating risk. The group has assessed this risk, and the other principal risks, on the assumption that the impact of COVID-19 only lasts for a relatively short part of AMP7, with the longer term impacts considered as part of Affinity Water Limited's viability assessment in the strategic report of its own annual report and financial statements for the year ended 31 March 2020.

Affinity Water Limited

Affinity Water Limited considers operational risks by ranking them during the year. Based on these rankings the most significant risks are discussed by senior management and included in the strategic risk register, which is presented to the Board and Audit Committee of that subsidiary. The latter reviews senior management's work on risk management and reports to the Board on the effectiveness of risk management processes.

The subsidiary has removed the following three risks which were included in its 2018/19 report:

- Brexit;
- Failure to achieve a favourable Periodic Review 2019 ('PR19') outcome; and
- Failure to achieve approval of our Water Resources Management Plan ('WRMP').

The specific ongoing impacts of Brexit are reflected in some of the operational risks listed below. The other two risks were concerned with regulatory outcomes of its business planning activities which have now been concluded. This year the subsidiary has added the following three risks to its report:

- Environment;
- Managing change; and
- National health pandemic.

These risks were already captured in the subsidiary's operational risk registers and, for different reasons, they have increased in magnitude during 2019/20 such that they now warrant additional management focus.

The subsidiary has gone through significant internal and external change in the past year and we fully expect this to continue for the foreseeable future, not least due to the COVID-19 pandemic. This unprecedented level of change could result in employees becoming disengaged and leaving the company; employees experiencing mental health illnesses; business processes becoming ineffective or inefficient, even if just for short periods of time.

Towards the end of the financial year the COVID-19 pandemic took hold in the UK. So far, the subsidiary's business continuity arrangements have allowed it to continue to provide the vast majority of its services to customers whilst ensuring the health and wellbeing of its employees. Currently, uncertainty remains with regards to how long the pandemic will last; how long it will take for a vaccine to be distributed; and what the long-term impacts on our business might be.

The following have been identified from this risk management process as potentially having a material adverse effect on the subsidiary's business, financial condition, results of operations and reputation. They are managed as described but are not always wholly within its control and may still result in a material adverse impact. Factors beside those listed could also have a material adverse effect on its business activities.

The subsidiary has identified 13 principal risks to its business in three categories:

- Operational risks
- Regulatory risks
- Financial risks

Further detail on each risk and the mitigation we have in place are included in the table on the following pages.

Key:
↔ Residual/net risk unchanged during the year (after the application of control activities)
↑ Residual/net risk increased during the year (after the application of control activities)
↓ Residual/net risk decreased during the year (after the application of control activities)

Operational risks

1. Failure to prevent injuries and accidents to its people and the public ↓	
Risk: Failing to manage this risk may result in personal injury or occupational ill-health, disruption to operations, reputational damage, criminal fines, civil damages and regulatory penalties.	**Mitigation:** The subsidiary seeks to operate its business using its Health & Safety management system, which is externally verified and certified to ISO 45001. This encompasses policies, procedures, guidance and risk assessment protocols. The subsidiary provides its employees with appropriate arrangements (including training and competency) to enable them to take personal responsibility for their own safety, occupational health and well-being, and that of others. This also includes regular safety related communications; safety briefs; tool box talks; safety stand down days and promoting safety leadership evaluations and safety conversations taking place across the organisation. The subsidiary has an established governance framework where Health & Safety related matters and performance are tracked and monitored, spanning Operational, Executive Management Team and Board levels. The subsidiary has an audit and inspection regime and incident review protocols in place to ensure key learnings are captured and any necessary strengthening of controls is actioned appropriately. The subsidiary also has a programme of Health Surveillance assessments, wellbeing initiatives and an employee assistance programme to help ensure the welfare and wellbeing of its people are effectively managed.
2. Failure to meet obligations to provide a sufficient supply of high-quality drinking water ↓	
Risk: The subsidiary has a legal requirement to maintain a continuous supply of high-quality water for customers, this being critical to public health in general and to the overall success of its business. Failure to achieve this could result in consumers losing confidence in their drinking water, and legal and reputational risks for the subsidiary's business. Interruptions to supply (or supply restrictions) caused by drought, water resource restrictions, changes in quality of water supplies, extreme weather events (extremely cold or prolonged hot weather), flooding events, terrorist attacks, cyber events, civil unrest, disease or misinformation in the media with regards to the quality of the subsidiary's water could impact on the health, safety and security of its people or communities, or on its financial position and its reputation.	**Mitigation:** The subsidiary manages this risk through: • competent staff and processes which are reviewed continuously as part of its Quality management System and through Lean A3 improvement processes; • its WRMP which identifies, over a 60 year period, how it will balance available supplies and required demand with sufficient headroom for unplanned outage (the subsidiary submitted its final WRMP covering the period 2020 to 2080 to the Secretary of State on 7 June 2019); • its Water Saving Programme, including new customer meters, water efficiency and leakage reduction, which allows it to maintain headroom as demand grows through new building developments and its supply base is eroded by committed sustainable abstraction reductions; • investment in its trunk main assets to keep their condition stable through targeted renewal. The subsidiary is also implementing trunk main burst mitigation schemes to reduce the number of customers potentially affected by any one incident; • its implementation of improvements to increase resilience through measures such as moving and protecting pipework, protecting electrical and control infrastructure, removing single points of failure, implementing treatment upgrades and increasing connectivity to provide greater flexibility of operation; • its Drought Management Plan which is approved by the Secretary of State; and • its emergency and business continuity plans. Should threats materialise, the subsidiary has plans in place to ensure the provision of essential water supplies at all times. Its contingency plans are audited annually by an independent certifier whose reports are shared with the Secretary of State. The subsidiary has more detailed functional level plans that sit beneath these higher-level emergency plans.

Operational risks (continued)

2. Failure to meet its obligations to provide a sufficient supply of high-quality drinking water ↓	
Risk (continued): The risk with respect to availability of water remains relatively high for the subsidiary, as it operates in an area of serious water stress. This, coupled with high demand (per capita consumption 'PCC') from its consumers, housing and other development in the south-east, the construction of the HS2 railway, and other potential large capital infrastructure projects have the potential to further increase this risk. Furthermore, climate change and long-term weather trends, such as global warming, appear to be contributing to a more unpredictable climate in the UK. A lack of resilience to these extremes could result in disruptions to customer service and impinge on delivery of its business plan.	**Mitigation (continued):** The subsidiary has good working relationships with its neighbouring water companies from whom it imports and to whom it exports water. The subsidiary continues to demonstrate collaborative methods of working to ensure that it collectively meets its customers' needs. During 2019 the subsidiary set up a Water Quality Steering Group composed of Executive Management Team members and senior leaders to focus on improvements to ensure that it delivers its AMP7 water quality performance commitments. Many of the actions are around behavioural changes in its teams and encouraging accountability for improvement. Progress is regularly reported to the Executive Management Team. The subsidiary's drinking water safety plans ('DWSP') provide a comprehensive risk assessment and risk management approach to its supply chain from catchment to tap, supported by its distribution and operations management strategy. It uses these plans to inform its investment and maintenance programmes. DWSP are prepared for full submission to the Drinking Water Inspectorate ('DWI') in October each year and changes are submitted monthly. The DWI is working with the water industry to develop a standard for DWSP risk assessments, which will be externally assessed as part of a formal accreditation to provide independent assurance that risks are being captured accurately and consistently. The subsidiary's laboratory and sampling teams are UKAS accredited against ISO 17025. In addition, National Quality Assurance ('NQA') assesses water quality procedures as part of the ISO 9001 annual audit. Internally the water quality team audits production and storage sites against its own procedures and those used by the DWI. The subsidiary also audits network sites to ensure any interventions are in line with its procedures and do not adversely impact public health or quality standards. There are also several sub-groups that review specific areas of risk including treatment chemicals and reservoir and storage facilities. The water quality senior management team reviews strategic risks on a monthly basis to ensure controls are working effectively and reports this to the Executive Management Team each month. In 2019, the subsidiary carried out 190,000 tests on its water and its Mean Zonal Compliance, the measure used by the DWI, was 99.97%.
3. Failure to attract, develop and retain good quality employees ↔	
Risk: It is vital that the subsidiary introduces talented individuals into the organisation in line with resource planning needs. If it is unable to fill vacant positions at the right time with the right level of skills, it will severely impact the ability of the subsidiary to achieve its business objectives.	**Mitigation:** The subsidiary has a dedicated recruitment team which uses direct resourcing methods and works with identified recruitment suppliers to ensure good quality candidates are sourced. The use of the company's website is crucial in providing a strong Employee Value Proposition that will attract talent. A review of external marketing sites is to take place in 2020/21 including a review of Glassdoor feedback as this can impact perception of the subsidiary. A project is underway to provide consistency on role definition, create job families and provide salary banding for roles. The subsidiary undertook a review of culture during 2019 and it is using the findings to contribute to a transformation programme to deliver greater employee engagement and improvements in a number of areas including performance levels; employee incentivisation and reward; employee development; and career opportunities for individual growth. The subsidiary has appointed Culture Ambassadors to represent their business areas and provide feedback and support on the culture change journey. A revised Personal Best process, for appraisal / performance management, has been introduced to attain high performance levels and achieve its business objectives.

Operational risks (continued)

4. Information security, protection of personal data and data quality failure	↑
Risk: Customer information and data are at risk from unauthorised disclosure and improper use. The General Data Protection Regulation (‘GDPR’) places a legal obligation on organisations to handle personal data securely, in order to avoid that data being put at risk from unauthorised or unlawful processing, accidental loss, destruction or damage. Failure to protect such information may lead to increased costs of operation, reputational damage, criminal fines and civil damages, and a reduction in the confidence that stakeholders place on the information that the subsidiary publishes. Non-compliance with GDPR could result in a fine of up to 4% of worldwide turnover compared to a previous maximum £500,000 fine under the Data Protection Act. As the use of online communications, cloud-based technology and the sophistication of hackers continue to increase, so too do the risks of cyber-attack and other external threats.	**Mitigation:** The subsidiary continues to strengthen its capabilities to ensure that technical and organisational controls to prevent the unauthorised disclosure, loss or improper use of data are kept under review and improved where appropriate. Alignment with ISO 27001, the global information security standard, demonstrates the subsidiary’s commitment to security best practices and ensures that it meets relevant regulatory requirements. The subsidiary continues to monitor and enhance its information security management system, designed to protect it against current and future threats. Privacy impact assessments are carried out for all projects and initiatives to analyse the potential effects on the privacy of individuals. The subsidiary’s enterprise-level security controls, aligned with ISO 27001, are designed to secure all its information assets and therefore contribute to the protection of all the personal data which we process. As part of its Business Plan submission for the 2020-25 price control period (Asset Management Plan 7, ‘AMP7’), the subsidiary published its Data Strategy for AMP7. Following Ofwat’s initial assessment of its AMP7 Business Plan and the 2018 Company Monitoring Framework assessment, the subsidiary initiated a significant programme of work to implement this strategy and achieve a number of objectives, including improvements to increase stakeholders’ trust and confidence in the data and information that it publishes. This work is ongoing throughout 2020/21.
5. Supply chain failure	↔
Risk: Much of the subsidiary’s capital delivery programme and field activity in its Central region is outsourced to third parties. Existing contractors have little or no capacity to take on additional work due to the volume of large-scale infrastructure projects in some of the subsidiary’s operational areas.	**Mitigation:** The subsidiary seeks to ensure that its relationship with critical suppliers is secured under long-term agreements, where appropriate. For key activities, the subsidiary may retain more than one supplier to mitigate the risk of supplier failure. It also undertakes significant due diligence in the selection and on-going management of suppliers through audit, inspection and verification of performance.

Operational risks (continued)

6. Failure to deliver its business plan, commitments and service to customers	↔
Risk: The subsidiary has made a number of performance commitments in its Business Plan which, if not met, may result in it incurring financial penalties and suffering reputational damage in the eyes of its regulators and other stakeholders. In addition, it must implement the investment programme set out in its Business Plan. Failure to do so may lead to the imposition of sanctions, including financial penalties or other enforcement action. It is also crucial that the subsidiary provides consistently high levels of service to all customers and that they are demonstrably satisfied that it is doing so. Failure to maintain and continually improve its levels of service in the eyes of its customers will severely impact customer satisfaction levels, volumes of complaints, and its reputation. From the start of AMP7, two new measures of customer service are being introduced: Customer Measure of Experience (‘C-MeX’) is a mechanism to incentivise water companies to provide an excellent customer experience for residential customers, across both the retail and wholesale parts of the value chain; Developer Measure of Experience (‘D-MeX’) is a mechanism to incentivise water companies to provide an excellent customer experience for developer services (new connections) customers.	**Mitigation:** The subsidiary has an established programme management function with responsibility for delivering the investment programme. The Board and senior management team monitor performance and ensure that corrective action is taken when required. The subsidiary continually monitors its performance on a wide range of Business Plan metrics and commitments, and takes prompt corrective action to address any indicators of under-performance. It continues to actively manage engagement with all its regulators and other stakeholders. In particular, it works closely with its Customer Challenge Group (‘CCG’), an independent body with an independent Chair, which advises, challenges and supports the subsidiary in the development of its plans, to ensure that they reflect customers’ priorities. The subsidiary adopts a continuous improvement strategy with regards to customer service. Its Customer Experience Action Group meets monthly and is attended by representatives from around the Company. This is also supported by weekly Customer Stand-Up sessions to ensure collaboration on continuous improvements to the services it delivers to its customers. The subsidiary has implemented a Company-wide Business Excellence programme to drive a culture of continuous improvement of all business processes. Specific to customer service, the subsidiary is mapping all customer journeys and is critically reviewing all customer communications with regards to tone of voice, use of different media, etc. It is also focusing more than ever on brand and reputation. It has an ongoing programme of improvements to on-line capabilities for customers and to the customer journey in general. The subsidiary actively engages with its customers on a day-to-day basis. As part of its PR19 business planning, it conducted an extensive, multi-phase customer engagement programme in order to fully understand customers’ needs and expectations. The subsidiary employs a third-party customer feedback partner to measure its customer service performance. In 2019/20, their partner surveyed 106,612 customers with whom they had experienced some interaction. Of those surveyed, 88% expressed themselves as “satisfied” or “very satisfied”. The subsidiary analyses all complaints and has increased its focus on root cause analysis which feeds into the continuous improvement cycle. The subsidiary participated in pilot exercises for both C-MeX and D-MeX throughout 2019/20. It has made extensive preparations to ensure that it is able to deliver excellent performance against both these measures throughout AMP7. Since March 2020, the subsidiary has encountered various challenges associated with the COVID-19 pandemic. It has already seen increases in household customer water consumption and expects that this may impact achievement of its PCC performance commitment for 2020/21. However, it believes it has sufficient mitigation in place to cope with the pandemic and that it will continue to successfully deliver against the vast majority of its commitments. It has already seen an increase in its customer satisfaction scores since the beginning of the lockdown period.

Operational risks (continued)

<table>
<tr><th colspan="2">7. Environment #</th></tr>
<tr><td>Risk: There is a risk that, in the course of operating its business, an incident occurs which inadvertently causes damage to the environment, for example through accidental release of stored chemicals or fuels.

Such an incident could cause pollution or other environmental damage, thus impacting ecology or the wider environment.

The subsidiary is also exposed to the possibility of damage to its landholdings and assets caused by external factors such as eco system decline; nearby land-use; carbon climate; third-party pollution events; etc. Any of these could lead to increased operational costs; damage to its reputation; prosecution; loss of customer trust; operational disruption, etc.</td><td>Mitigation: The subsidiary is committed to protection of the environment, prevention of pollution and compliance with environmental legislation, regulations and other requirements that are applicable to it.

To deliver on its commitment, it has set itself a range of objectives to protect and enhance the environment by:

• minimising the amount of waste generated, and not recycled, from its activities;
• optimising its energy use and reducing its greenhouse gas and other emissions where possible;
• controlling the risks and impacts of pollution;
• using trained and competent people;
• working with its supply chain to address risks and minimise environmental impacts;
• investigating incidents and events to learn from them; and
• working with its communities, regulators and government agencies to manage its impact on the environment.

The subsidiary has committed to a significant programme (£81.5m) of expenditure on environmental enhancements during AMP7.

Other mitigations in place include: its National Environment Programme; landholdings management plans; corporate social responsibility schemes; catchment management programme; carbon reduction strategy; and education programmes.

The Environment Agency (‘EA’) has announced that it is to extend the scope of its Environmental Performance Assessment (EPA) to include water-only companies. The subsidiary recently commented on a consultation with the EA on this and are in discussions with them with regards to the rollout.</td></tr>
<tr><th colspan="2">8. Managing change #</th></tr>
<tr><td>Risk: There is a risk that the enormity of changes the subsidiary has made and will continue to make to its organisational structure, its business processes, IT infrastructure, how it interacts with its customers, etc. is such that it is unable to implement the required overall transformation of its business necessary to deliver its business plan obligations.

This could occur for various reasons including:
• change fatigue on the part of its employees, contractors or key strategic suppliers;
• insufficient capacity to introduce multiple concurrent changes in a controlled manner; and
• inadequate programme / project management.</td><td>Mitigation: As previously mentioned, the subsidiary is in the midst of a major cultural transformation programme to ensure, amongst other things, that it has a culture in which its people are comfortable with and embrace the significant changes which are necessary in order to make the step changes necessary to deliver its business plan obligations.

The subsidiary has a well-established and rigorous project methodology in place governing how it delivers its programmes and projects. Its Investment Committee reviews all proposed projects prior to initiation and monitors their delivery to ensure successful outcomes. New projects are approved by reference to available finances, people and other resources as appropriate. Individual members of its Executive Management Team sponsor each project and are ultimately accountable and responsible for delivery to planned budget, time and scope.</td></tr>
</table>

Operational risks (continued)

9. National health pandemic	#
Risk: The ability to effectively and efficiently deliver the services that its customers expect could be significantly impacted by an outbreak of a pandemic disease. At the time of writing, we are in the midst of the Coronavirus COVID-19 crisis affecting the whole country and many other countries around the world. As the provider of an essential service, the subsidiary is expected to continue to maintain the supply of high quality drinking water to all of its customers.	**Mitigation:** The subsidiary has emergency response plans and business continuity plans in place, designed to ensure that it continues to perform its business-critical processes in the event of an actual or potential disruption. These plans have been invoked in order to respond to the COVID-19 crisis and have been found to be robust, allowing the subsidiary to continue to perform the vast majority of the services which it provides to customers. In particular, supply of high quality drinking water has been maintained in all of its customer communities. The subsidiary has temporarily ceased only a few non-essential processes such as customer appointments which require home visits, unless in the case of an emergency. Where possible, its employees have been instructed to work from home. In order to protect its employees and subcontractors, the subsidiary has changed the way in which it performs some of its operational processes and in all cases it has taken steps to ensure it follows the Government's social distancing requirements. At the time of writing many activities have returned to "business as usual" and others will do so as and when the time is right. This includes consideration of whether those processes which have been adapted for the current situation need to return to their previous state or whether they can and should continue to be delivered in their adapted state.

10. Adverse changes to the regulatory framework, or social or political climate	↔
Risk: Changes to the regulatory framework by Ofwat or the government may have an adverse effect on the subsidiary's operational or financial performance. It is also exposed to risks arising from the general social and political climate, for example, debate around the merits of the current water ownership model, political pressure to restrict price increases and other issues, such as the adequacy of its WRMP and some objections to compulsory water metering. These pressures may lead to a reduction in revenue or have a reputational impact. During the year this risk heightened: the final position for PR19 agreed with Ofwat contains substantial challenges. While nationalisation itself has fallen down the political agenda following the December 2019 General Election, political risk remains high due to continued scrutiny of the industry.	**Mitigation:** The subsidiary continues to contribute fully to consultations with its regulators and seek to ensure its voice is heard on emerging changes through strong relationships with all its stakeholders. It continues to engage with its stakeholders, customers and their representatives to understand and respond to their issues and concerns. It regularly engages with stakeholders across the political spectrum to understand and mitigate political risk.

Regulatory risks

11. Failure to comply with laws, its Instrument of Appointment and other recognised standards ↔	
Risk: The subsidiary needs to ensure that its activities and outputs comply with licence conditions or statutory requirements arising from its appointment, and applicable laws and standards. Failure to do so may result in an enforcement order, a fine up to 10% of appointed turnover or termination of its appointment and special administration.	**Mitigation:** the subsidiary continues to operate its abstraction, treatment and supply activities to environmental standard ISO 14001 and has adopted the principles of other relevant management systems and standards. Its compliance programme is designed to ensure that: • all employees are adequately educated on the legislation and regulations particularly relevant to their specific job roles; and • appropriate assurance activities are in operation to provide positive evidence of compliance The subsidiary has enhanced its approach to compliance during the year through the development of a comprehensive Compliance Obligations Register and introduction of a twice-yearly self-certification process.

Financial risks

12. Failure to secure appropriate financing for its business activities ↑	
Risk: The subsidiary's business has an on-going liquidity requirement, driven by the operational costs of the business and its substantial capital investment programme. This results in liquidity risk in the event that it is unable to meet its cash flow requirements as and when they fall due. The subsidiary is subject to a number of covenants in relation to its borrowings. If a covenant is breached, this could lead to an event of default with any outstanding borrowings, becoming immediately repayable. This could also impact its ability to raise funds on sufficiently favourable terms in the future. During the year the subsidiary finalised its AMP7 Business Plan in which it has increased its expected level of investment, such that further funding will be required in AMP7 which has heightened the risk. If credit rating agencies consider that it has insufficient financial flexibility to accommodate lower returns as a result of the demanding PR19 outcome, there is a risk that it may be downgraded, which may impact on its ability to raise funds on sufficiently favourable terms.	**Mitigation:** The subsidiary has revolving loan facilities, cash balances and standby loan facilities to meet its forecast cash flow needs. Its treasury policy requires it to maintain a minimum level of liquidity capable of covering at least 12 months' forecast cash flow requirements. Longer term financing needs are sourced from the private and public bond markets. The subsidiary has £14.2m of debt maturing in AMP7 and a spread of maturity beyond this. It expects to undertake its next major refinancing exercise in July 2026 when its £250.0m fixed rate bond matures. Its policy is to maintain a diverse portfolio of counterparties through which it can access liquidity at all times. This ensures it is not reliant on any single treasury counterparty. The subsidiary has a regular monitoring and certification process of the financial covenants within its Whole Business Securitisation ('WBS') documentation. This covers information, financial and general covenants. Its treasury policy requires that financial covenants, which include gearing and interest cover ratios, are monitored and reported on a regular basis to the Board.

Financial risks (continued)

13. Macro-economic risk (interest rate and inflation risks)	↔
Risk: Movements in interest rates can result in an increase in the cost of debt. The subsidiary has a financial covenant within its WBS documentation stipulating that at least 85% of its outstanding debt is hedged against movements in interest rates. The subsidiary's wholesale revenues in a given financial year are explicitly linked to the CPIH published the previous November. An inability to control its cost inflation on the same basis would lead to a reduction in the subsidiary's profitability. Its Regulatory Capital Value ('RCV') is also linked to inflation and nominal returns are therefore likely to be further reduced in a low inflation environment. The subsidiary operates a pension plan providing defined benefits based on final pensionable salary. The assets and liabilities within the plan depend on a number of external factors outside its control, including performance of equity markets, interest rates and future inflation, which may increase the cost of its cash contributions. Customer debt and affordability remain key areas of focus for the subsidiary's business. A downturn in the economy may lead to an increase in unpaid water customer bills. The subsidiary is not permitted to disconnect water supplies to household and certain other types of premises in the event of non-payment, resulting in loss of revenue and increased cost of collection.	**Mitigation:** Interest rate risk is primarily managed by using a mixture of fixed rate and inflation-linked borrowings, and approved hedging instruments (refer to note A4 to the financial statements for further information). Each year the subsidiary undertakes a robust and challenging budgeting process to ensure costs are clearly understood and then subsequently controlled during the financial year. It also uses inflation-linked debt to ensure a proportion of its interest costs is linked to inflation and therefore offsets an element of the reduction in revenue and RCV that results from lower inflation. In August 2018, it transacted a Retail Price Index ('RPI') linked inflation swap and in March 2020, it transacted a Consumer Price Index ('CPI') swap increasing the proportion of debt linked to inflation to 53.0%. The defined benefit pension plan has been closed to new members since September 2004 and the assets of the plan are held separately from those of the subsidiary. The plan is in surplus on a technical provisions basis (refer to notes 10 and A5 to the financial statements) and the latest actuarial valuation of the defined benefit section of the Affinity Water Pension Plan ('AWPP'), determined by an independent qualified actuary, completed in the year concluded that the pension plan was fully funded on a self-sufficiency basis as at 31 December 2017. The subsidiary signed a new schedule of contributions effective from October 2018 and no further deficit payments are required. 90% of the interest rate and inflation risk associated with the plan's liabilities are hedged by the plan's assets through Liability Driven Investment. The subsidiary has processes and teams dedicated to the efficient collection of customer debt, and outsource the recovery of debt where initial recovery action has been unsuccessful to a number of debt collection agencies. For those customers who want to pay their bill but struggle to do so, the subsidiary has payment arrangements that are as flexible as possible and it encourages customers who find themselves in difficulty to contact them as early as possible. It also has a social tariff (LIFT) to help support customers who are least able to pay their bills.

Principal risks and uncertainties (continued)

Castle Water (Southern) Limited (formerly Affinity for Business (Retail) Limited)

Castle Water (Southern) Limited (formerly Affinity for Business (Retail) Limited) was sold to Castle Water Limited on 1 April 2020 and resultantly has no ongoing risks to the group post year end. The principal risks and uncertainties of the former subsidiary as at 31 March 2020 as listed in the former subsidiary's individual financial statements are as follows.

1. Health and safety	
Risk: Injuries and accidents to the subsidiary's people and the public: Failing to manage this risk may result in disruption to operations, reputational damage, criminal fines, civil damages and regulatory penalties. The subsidiary achieved accreditation under ISO 45001 safety standard and helps its employees to take personal responsibility for their own safety and the safety of others.	**Mitigation:** The subsidiary's health & safety strategy focuses on staff/team compliance and leadership example. This is backed up with accreditation to ISO 45001 with a series of policies and guidance to support day to day activities. The subsidiary supports initiatives for mental health and encourages staff to become first aiders and fire marshals and encourages all staff to be responsible for themselves and all those around them, whether in the office or in the field.
2. Unavailability of resources (people and materials)	
Risk: The subsidiary relies on the availability of skilled employees and contractor resources to maintain service levels and implement our investment plans. In the event of these resources being unavailable, the subsidiary may experience significant disruption to its service, damage to its reputation and consequent regulatory action.	**Mitigation:** The subsidiary seeks to ensure that its relationship with critical suppliers is secured under long-term agreements, where appropriate. For key activities, it may retain more than one supplier to mitigate the risk of supplier failure. The subsidiary also undertakes significant due diligence in the selection and on-going management of suppliers through audit, inspection and verification of performance. The subsidiary also seeks to mitigate this risk by maintaining a constructive relationship with employees through succession planning and investing in its employees through training and other reward schemes.
3. Failure to supply wholesome drinking water	
Risk: The subsidiary has a duty under section 68 of the Water Industry Act 1991 when supplying water to any premises for domestic or food production purposes to ensure that water is wholesome at the time of supply. Breach of this duty can result in imposition of an enforcement order and/or a financial penalty of up to 10% of its annual turnover and would also cause reputational damage. The Water Supply (Water Quality) Regulations 2016 define "wholesome" and set out other requirements in relation to water quality. It is a criminal offence under section 70 of the Water Industry Act 1991 to supply water unfit for human consumption.	**Mitigation:** The subsidiary maintains a water quality record that details our water supply zones, particulars of any authorised departure from water quality standards in respect of that zone and details of any actions that it had been required to take pursuant to any enforcement order or notice. The Wholesale Retail Code provides for drinking water quality incidents to be managed by the wholesaler under the subsidiary's Wholesale Contracts. It has in place twenty-four hour contact arrangements with its wholesalers to allow it to assist in the event of a drinking water quality incident. It understands its obligations to follow the reasonable instructions of the wholesaler in relation to any water quality incident.

Strategic report
for the year ended 31 March 2020 (continued)

Principal risks and uncertainties (continued)

4. Information security or privacy failure	
Risk: The subsidiary's customer information and data are at risk from unauthorised disclosure and improper use. Failure to protect such information may lead to increased costs of operation, reputational damage, criminal fines and civil damages. As the use of online communications, cloud-based technology and the sophistication of hackers continue to increase, so too does the risk of cyber attack.	**Mitigation:** The subsidiary continued to strengthen its capabilities to ensure that its technical and organisational controls against the unauthorised disclosure, loss or improper use of data are kept under review and improved where appropriate. Alignment with ISO 27001, the global information security standard, will demonstrate the subsidiary's commitment to security best practices and ensure that it meets relevant regulatory requirements. The subsidiary also continues to monitor and enhance its information security management system, designed to protect itself against current and future threats.
5. Failure to adequately protect personal data	
Risk: GDPR places a legal obligation on organisations to handle personal data securely, in order to avoid that data being put at risk from unauthorised or unlawful processing, accidental loss, destruction or damage. Non-compliance with the new regulation could result in a fine of up to 4% of worldwide turnover compared to a previous maximum £500,000 fine under the Data Protection Act.	**Mitigation:** The subsidiary successfully enhanced relevant business processes to take account of GDPR, which came into effect in May 2018. All employees of the subsidiary were trained on the new requirements which are now embedded in the subsidiary's day-to-day operations. Privacy impact assessments are carried out for all projects and initiatives to analyse the potential effects on the privacy of individuals. The subsidiary's enterprise-level security controls, aligned with ISO 27001, are designed to secure all its information assets and therefore contribute to the protection of all personal data which the subsidiary processes.
6. Loss of customers	
Risk: Following the introduction of competition into the Business Retail market, the subsidiary's customers are free to select an alternative supplier.	**Mitigation:** The subsidiary seeks to secure contractual commitment from its in-area customers, using a size and sector specific range of customer offers. It invests in good quality customer service, solving problems first time and a multi-channel approach to contact.
7. Debt risk	
Risk: Customer Debt is a key area of focus for the subsidiary, given the relatively low margins and difficulties in enforcing payment.	**Mitigation:** The subsidiary has processes and teams dedicated to the efficient collection of customer debt, and support from a panel of collection agencies.

Operational performance

The group has aligned its operational KPIs to its key performance commitments in response to customer expectations. We want customers and stakeholders to be able to assess our track record and hold us to account. The group's principal trading subsidiary is required to report its performance against targets set by Ofwat, the DWI and Defra. These targets include the performance commitments made in its AMP6 Business Plan. The subsidiary's performance in relation to these targets for 2019/20 is analysed in the tables below.

For more information on the subsidiary's performance for 2019/20 in relation to all the performance commitments made in its AMP6 Business Plan refer to pages 240 to 247 of its own regulatory Annual Performance Report.

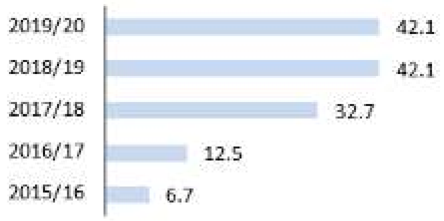
KPI: Water quality
MZC (%)

Actual: **99.97** Target: 99.95

In the calendar year 2019 there were 50 exceedances of standards from 190,000 compliance samples taken from the subsidiary's sites and consumer properties (2018: 64 exceedances from 180,000 compliance samples). Of these, 18 exceedances (2018: 19 exceedances) contributed to the MZC calculation. Another measure of our performance is the number of serious and significant incidents. During 2019 one event notified to the DWI was classified as serious or significant (2018: seven events).

KPI: Sustainable abstraction reductions
Cumulative average annual reduction in water abstracted from river catchments (Ml/d)

Actual: **42.1** Target: 42.1



The subsidiary delivered a 42.1 Ml/d reduction in abstraction as at 31 March 2020, achieving its sustainability reductions in line with its AMP6 Business Plan.

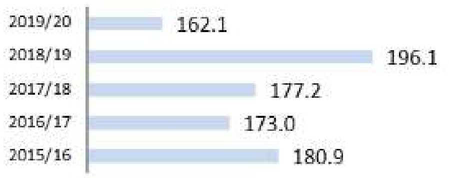
During AMP6 the subsidiary constructed new infrastructure to enable it to move water around the network more effectively to maintain the level of service to its customers whilst also leaving more water in the environment, contributing towards the protection of chalk streams.

The subsidiary also completed projects on six chalk streams in its Central region as part of its river restoration and habitat enhancement programme, using a collaborative approach to deliver this work under our Revitalising Chalk Rivers partnership with the EA.

Operational performance (continued)

KPI: Leakage
Average annual water leakage from the network (Ml/d)

Actual: **162.1** Target: 162.2 or less



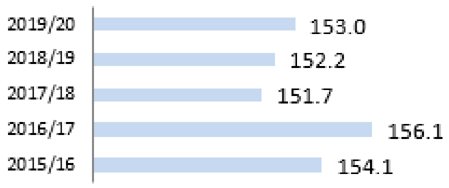
The subsidiary attaches a high priority to meeting leakage reduction targets, as it wants to demonstrate that it is playing its part when it is asking customers to save water, and also to overcome the loss of resources to improve conditions on local catchments.

The subsidiary recovered from the disappointing leakage position reported for 2018/19 in its own annual report. Most of this leakage was from a long-running large pipeline burst, but there were other failings in the way the subsidiary manages and controls leakage that it addressed during 2019/20 by:

- adopting a greater skills-based approach to leakage supported by improved analytics;
- introducing software that improves leakage monitoring and its response time;
- making contractor recruitment competence-based, less reliant on lower skilled workforces and integrated into its own teams;
- breaking down long-running high leakage areas into smaller zones through step testing in order to identity areas of water loss;
- utilising new technology to help its teams and complement its current large estate of permanent and mobile acoustic loggers; and
- putting in place a new policy for customer supply pipe leakage that increases provision of free repair if the leak size justifies this decision.

KPI: PCC
Average water use (l/p/d)

Actual: **153.0** Target: 147.4 or less



During 2019/20 the subsidiary recorded PCC of 153.0 l/p/d, which is an increase of 0.8 l/p/d (0.5%) on the prior year (2019: 152.2 l/p/d), and the subsidiary has incurred a penalty of £1.75m through its ODI regime.

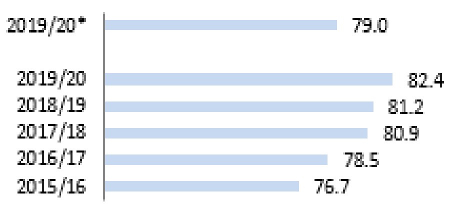
During the year, a new team was created to focus efforts on reducing PCC, resulting in the development of a defined PCC strategy and programme. Data insight work was undertaken to understand the water savings from meter installations and its Home Water Efficiency Checks across different customer demographics, shaping the delivery plan for 2020/21.

The subsidiary improved communications with its customers through its My Account online portal, which now shows customers their personal water use in litres per day as well as average usage in their area in order to drive behaviour change.

The subsidiary also continues to collaborate with the wider industry through regional working groups, Water UK and UKWIR to improve its understanding of current and future household consumption.

KPI: SIM
(Score)

Actual: **82.4** Target: 82.3



*Ofwat has tracked a "proxy" SIM score for the year ended 31 March 2020 which is not consistent with the SIM score in prior years.

In 2019/20, SIM was no longer measured and was replaced with the 'shadow reporting year' C-MeX metric.

Ofwat has tracked a "proxy" SIM score for the year ended 31 March 2020 but this is based on C-MeX and is not consistent with the SIM score in prior years. The subsidiary's "proxy" SIM score is 79.0.

The subsidiary has continued to calculate an internal SIM score, using a methodology consistent with prior years in order to monitor performance improvement. Its internal SIM score is 82.4, which is an increase on the prior year and shows continued steady improvement across AMP6.

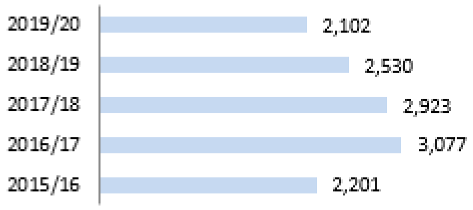
Daiwater Investment Limited

Strategic report
for the year ended 31 March 2020 (continued)

Operational performance (continued)

KPI: Mains bursts
(Number)

Actual: **2,102** Target: 3,100 or less



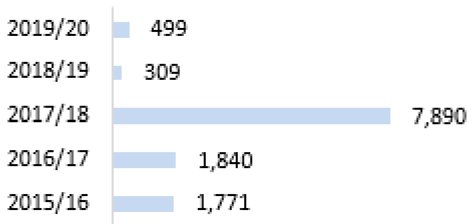
The subsidiary has achieved its target every year of AMP6, achieving its lowest number of bursts this year, benefitting from settled weather conditions.

Moving into AMP7, the mains burst reporting target has changed to mains repairs per 1,000 km of mains, the target for which equates to a significant reduction over that for 2015-20. The subsidiary anticipates this will require significant monitoring and work to continue to ensure it looks for ways to reduce bursts and their effects on customers.

Work will continue to be focused on reducing night pressure, reducing the volatility of the network and providing analysis where and when bursts occur to inform its mains renewals programme, identifying areas in most need of investment.

KPI: Unplanned interruptions to supply over 12 hours
(Number of properties)

Actual: **499** Target: 320 or less



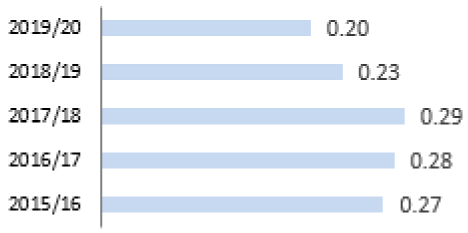
The subsidiary failed to meet its target this year for unplanned interruptions greater than 12 hours, however it has not incurred an ODI penalty. This is still a disappointing result as the subsidiary has worked hard to focus its resources on speedy remedy to such events and to learn from the reasons for delays in restoring customers supplies where it has occurred. 312 of the properties affected arose from a single burst incident in a difficult town-centre location.

For the next five-year AMP period its targets for supply interruptions will focus on reducing both the number and duration of all supply interruption events that last for three hours or longer.

Throughout this year the subsidiary has been working in preparation for this new measure, improving response times, local resources and alternative techniques for repairs and restoration of supplies. Improvements of this nature will continue along with route-cause analysis of events in order to meet a reducing target over the next five years.

KPI: Accident frequency rate
(Number of lost time injuries per 100,000 hours worked)

Actual: **0.20** Target: 0.22 or less



The subsidiary continued to work towards improvements in both health and safety, with a particular focus on occupational and mental health. During 2019/20, it recorded five work related lost time injuries ('LTI's), having an accident frequency rate of 0.20 LTIs per 100,000 hours worked, compared to six LTIs in 2018/19 with an accident frequency rate of 0.23.

The subsidiary made significant improvements at the start of AMP6, as seen by the reduction of its accident frequency rate from 1.02 in 2014/15 (our baseline figure at the start of AMP6) and has continued to reduce this further in the past two years.

Section 172(1) statement

Daiwater Investment Limited

The principal trading subsidiary Affinity Water Limited accounts for the vast majority of the group; the majority of the directors who sit on the Board of Daiwater Investment Limited sit on the Board of Affinity Water Limited and the day-to-day operation of the group is predominantly managed by employees of Affinity Water Limited. Due to this relationship, the group's values are highly integrated with that of Affinity Water Limited and therefore the statements below relating to Affinity Water Limited should be read on behalf of the group. References to company in the statement below refer to Affinity Water Limited.

Separately, the directors of Affinity Water Capital Funds Limited approved the sale of Affinity for Business (Retail) Limited, one of the group's trading subsidiaries, to Castle Water Limited on 1 April 2020.

Our stakeholders

Affinity Water Limited held its inaugural Stakeholder Assembly on 11 April 2019, bringing together people from 48 organisations including local government, environmental groups, regulators and developers and representing a broad range of interests, to better understand what matters most to its stakeholders and how it can further involve them in its decision-making. The Stakeholder Assembly focused on the following four areas: the environment, supply and demand, water efficiency and vulnerability with the aim of gathering information to inform current and future strategy.

In the table on the following pages we present a description of the group's and the Board's engagement activities with each key stakeholder group. The information obtained through these engagement activities enables the Board to weigh up all relevant factors when deciding on a course of action that best leads to the long-term success of the group. This can sometimes mean that certain stakeholders are adversely affected, as the group seeks to operate in an ethical and responsible manner in relation to all its stakeholders.

The Board considers, both individually and together, that it has acted in the way it considers, in good faith, would be most likely to promote the success of the group for the benefit of its members and as a whole having regard to its stakeholders and the following matters set out in section 172(1) (a-f) of the Companies Act 2006:

a. the likely consequences of any decision in the long term;
b. the interests of the company's employees;
c. the need to foster the company's business relationships with suppliers, customers and others;
d. the impact of the company's operations on the community and the environment;
e. the desirability of the company maintaining a reputation for high standards of business conduct; and
f. the need to act fairly between members of the company.

This statement explains how the Board satisfies itself that relationships with each key stakeholder group are managed effectively and that there is sufficient visibility of relevant stakeholder engagement activities in the boardroom to inform decision-making and delivery of strategy.

Section 172(1) statement (continued)

The Board's approach to section 172(1) and decision making

It is the responsibility of the Chair to enable discussions at Board meetings that lead to decisions being made which are sufficiently informed by section 172 factors. Board minutes record decisions made and actions agreed in the context of these factors. The Board approved a refreshed five-step approach to stakeholder engagement in 2019/20:

- Step 1 "Engagement strategy": set vision and level of ambition for future engagement, and review past engagement
- Step 2 "Stakeholder mapping": define criteria for identifying and prioritising stakeholders, and select engagement mechanisms
- Step 3 "Preparation": focus on long-term goals to drive the approach, determine logistics for the engagement, and set the rules
- Step 4 "Engagement": conduct the engagement itself, ensuring equitable stakeholder treatment while remaining focused on priorities
- Step 5 "Action plan": identify opportunities from feedback and determine actions, revisit goals, and plan next steps for follow-up and future engagement.

The Board's role in stakeholder engagement is to:

- ensure that our purpose, strategy and culture are set in the light of views actively sought from relevant stakeholders;
- set an expectation that all key decisions made take into consideration the views of relevant stakeholders;
- require executive directors and other senior managers to engage with relevant stakeholders in a way that ensures views are understood and taken into consideration when making key decisions;
- encourage executive directors and other senior managers to evolve stakeholder engagement in a way that meets all statutory and regulatory requirements but also embraces the principles on which these are based; and
- undertake direct stakeholder engagement that complements day-to-day stakeholder engagement by management.

In 2019/20, the Board's Schedule of Reserved Matters and each Board Committee's terms of reference were reviewed by the Board and updated to ensure that consideration of section 172 factors was appropriately addressed.

Section 172(1) statement (continued)

Section 172(1) in action

In the table below, we present a description of the company's and the Board's role in engagement activities with each key stakeholder group.

Stakeholder	Expected outcomes from engagement	How the company engages	The Board's role in engagement activities
Customers and future customers, including household and non-household customers, and market participants such as retailers and self-lay providers, developers and NAVs	Customers rely on water as an essential service while our business model is based on the payment of water bills by customers. We aim to be a positive contributor to, and able to earn fair returns from, a reliable service that is trusted by and represents value for money for customers. Transparent conversations and engagement with the CCG will support delivery of our purpose and environmental ambitions	• Daily contact • Customer research programme • Tracker polls • Public meetings • Consultations for WRMP, Drought Management Plan and Business Plan • Education programme • Our website, including our specific COVID-19 page • Media/social media • Through our CCG	Information reported to the Board: • The Board receives monthly performance summaries of key customer metrics, including SIM, C-MeX, customer satisfaction, written complaints, developer services and wholesale operations service desk performance. It also received in 2019/20 the results of research conducted with customers and other stakeholders in relation to establishing our purpose and additional customer engagement for PR19 focused on household bills for AMP7 and AMP8 Direct engagement mechanisms: • There is a clear reporting line to the CEO and accountability for arrangements regarding handling customer complaints • In 2019/20 Board members met with the CCG Chair, in particular in relation to the CCG's price review assurance • The regional Chair of CCW attended the November Board meeting and the UK Chair of CCW met with Tony Cocker Customer protection: The Board considers the company's policies around the protection of customer data through its review of the strategic risk register (refer to page 9 for further information) and specifically reviewed compliance with GDPR at the October Board meeting.

Communities, non-governmental organisations and civil society, especially environmental organisations and campaigners	These groups bring distinctive perspectives and influence on key environmental and social issues on behalf of customers and the public.
	
	Engagement will result in us being a progressive, well-regarded company that delivers its purpose and with which communities and civil society want to work in pursuit of common goals
		• Stakeholder Assembly
		• Joint Forums
		• Public meetings
		• Consultation meetings for price review development
		• Public festivals
		• Catchment partnerships
		• Drought Awareness stakeholder consultation
		• Water resources monthly email updates
		• Our Education Services
		• Volunteering days
			Information reported to the Board:
			• The Board receives monthly updates on community projects and our Education Services. It also received feedback from key stakeholder consultations in 2019/20, including on drought awareness
			Direct engagement mechanisms:
			• Our Board-approved Community Engagement Strategy and activities are focused around three core areas:
			  ○ Protecting rivers and habitats
			  ○ Investing in science, technology, engineering and mathematics ('STEM') and future skills
			  ○ Developing community partnerships
			In 2019/20, we refreshed our community strategy through restating our social purpose and defining the programme of work that will help us meet the growing expectations of our stakeholders and add value to our communities
			• Board members attended key community events in 2019/20, including our inaugural Stakeholder Assembly and our #WhyNotWater campaign launch event.

Section 172(1) statement (continued)

Section 172(1) in action (continued)

Stakeholder	Expected outcomes from engagement	How the company engages	The Board's role in engagement activities
Regulators, including Ofwat, MOSL, EA, DWI, Defra, HSE, Natural England and CCW. Government – central and local government and MPs, highways authorities, Highways England and TfL	Our licence to operate and the framework in which we operate is determined by the government and regulators. Engagement will ensure that we are a responsible company which delivers on its purpose	• Industry working groups including committees, panels and forums • Responding to consultations and requests for information • Ongoing dialogue on strategic planning • Events at our sites • Meetings with the Secretary of State for Environment Food and Rural Affairs, and the EA • Regular meetings and calls, including meetings with all key MPs in our supply area • Discussions on our key worker status and priorities in response to COVID-19	Information reported to the Board: • The Board receives monthly updates on regulatory and relevant political developments, and regulatory consultations and requests for additional information. In 2019/20 the Board reviewed and approved key correspondence with regulators, including responses to Ofwat's PR19 draft and final determinations and Defra's information request on our revised draft WRMP Direct engagement mechanisms: • In 2019/20 Board members attended meetings with and gave presentations to Ofwat representatives as part of the PR19 process • Non-executive directors attended regular events with Ofwat, including prior to their appointment • Our CEO met with the Secretary of State for Environment Food and Rural Affairs on drought matters in 2019/20 • The Regional Chair – London and South East of CCW attended one of our Board meetings in 2019/20
Shareholders	Our shareholders have an important role to play and a direct interest in the strong and effective governance and stewardship of our business. We aim to provide a reasonable return on their investment.	• Board meetings attended by shareholders / nominated directors • Monthly financial and operational updates • Regular meetings and calls	• We explain how the Board engages with our shareholders and involves them in decision-making in our publication: "Consulting with our shareholders", available on the governance pages of our website • In 2019/20 the Board engaged directly with shareholders in formulating responses to Ofwat's draft and final PR19 determinations, and in setting budgets for 2020/21 • The Board also reviewed and discussed shareholder objectives in 2019/20

Section 172(1) statement (continued)

Section 172(1) in action (continued)

Stakeholder	Expected outcomes from engagement	How the company engages	The Board's role in engagement activities
The workforce, including both employees and the wider workforce	Our success depends on the shared talents, skills and values of the people who work for our company, and our ability to attract and retain a talented future workforce Successful engagement will mean we are an inclusive employer that successfully retains and attracts people with the talent and skills to achieve our business objective	• Daily contact • Senior leadership forums • Monthly one-to-one meetings • Annual Culture Survey • Culture Ambassadors selected by their departments • Culture Ambassador forums to gain feedback and progress culture development initiatives • Diversity and Inclusion Steering Group to drive a stronger agenda of inclusiveness • Appointment of a Designated Director for Employee Engagement involved directly in these initiatives and reporting issues and progress to the Board • Internal communications • Daily COVID-19 updates and an internal COVID-19 website for employees	Information reported to the Board: • In 2019/20, the Board received a presentation on the output from our inaugural Culture Survey, to which 60% of our employees (randomly selected) responded. The results were debriefed to all employees and Culture Ambassadors were asked to put themselves forward to represent their departments in a rollout of cultural improvement. 48 employees became Cultural Ambassadors and these are engaged in the rollout through quarterly Culture Ambassador Forums, regular communication and support in the creation and execution of changes relevant to their departments • Information on productivity, attrition levels, learning participation, training and development plans, wellbeing and output from exit interviews is reported monthly to the Board • Whistleblowing incidents are reported to the Board. All incidents are taken extremely seriously and are thoroughly investigated, working with external reviewers if required. Direct engagement mechanisms: • In 2019/20, the Board appointed Trevor Didcock to take on responsibility for employee liaison in accordance with the Code. The overriding purpose of the role is to ensure that the voice of the workforce is heard and considered at Board level. A key secondary purpose is to improve the transparency of Board activities, discussion and decision-making and in so doing improve alignment between the Board and the workforce. Trevor attends quarterly Culture Forums with cultural ambassadors from within the business that provide training to ambassadors, reporting and discussion of corrective action taken. Trevor is also a member of our Diversity and Inclusion Committee, established in 2019/20 to bring to life our commitment to build a more inclusive culture, allowing all members of our workforce to bring their true selves to work. Details on company culture are reported to the Board on a monthly basis following discussions between the Executive Management Team and the CEO. In AMP7, feedback will be sought at meetings attended by Trevor with the workforce and reported to the Board in order for it to consider the effectiveness of this employee engagement mechanism. • Our Executive Management Team, including our executive directors, conducted a series of Directors' Roadshows at each of our sites in 2019/20 to hear face to face some of the challenges being faced by our employees. Actions to address the resultant findings have been taken to ensure we achieve an improvement in employee engagement going forwards • All of our workforce are entitled to be trade union members. Our CFO is a member of the Joint Negotiation and Consultative Committee ('JNCC') which, together with employee trade union representatives and other company nominated representatives, meets quarterly to consult on workforce practices and policies and negotiate workforce pay. Workforce policies and practices: • Refer to the annual report and financial statements of Affinity Water Limited for our key workforce policies and workforce concerns, and details of what the Board is doing about gender equality and reducing our gender pay gap. • In February 2020, the Board approved our Code of Conduct, revised to capture the company's purpose to ensure that our business conduct, both internally and externally, is clearly aligned with our values and culture • The Board received regular updates on the COVID-19 pandemic, see the key decisions made in 2019/20 on page 28 for more details

Section 172(1) statement (continued)

Section 172(1) in action (continued)

Stakeholder	Expected outcomes from engagement	How the company engages	The Board's role in engagement activities
Supply chain	We rely on our supply chain for delivery of operations and capital projects, and partners provide investment and support delivery as well as acting as a source of innovation and new ways of working. Successful engagement will mean we are a good company to work with, to partner and do business with, ensuring that we and our partners maximise the greatest mutual value.	• Integration of contractors into our teams • Sharing of reporting and management systems for collaborative and shared learning • Quarterly forums with all our Maintenance and Repair and Traffic Management suppliers, to discuss "lean" processes and improvements • Regular meetings and calls with our largest suppliers • Monthly performance meetings with our largest suppliers • Discussions with suppliers on how we perform key essential work in response to COVID-19	Board's involvement in the agreement of supplier terms: • We have a standard set of purchase order terms and conditions and a Supply of Goods and Services Agreement published on our website: *affinitywater.co.uk/policies*, which is reviewed and amended (where necessary) by our Procurement and Legal teams who report to our executive members of the Board • We have a Contracts Committee, attended by executive members of the Board, which approves the award of material contracts • In 2019/20 a subset of the wider Board was involved in formulating a strategy for contracting our key Maintenance and Repair suppliers for AMP7, including determining key principles, contract scopes and tender evaluation criteria. • The Board considers the company's policies around compliance with the Modern Slavery Act and GDPR as they relates to suppliers through the approval of the company's Modern Slavery Statement and review of the appropriateness of mitigation detailed in the strategic risk register in relation to the principal risk: "Information security, protection of personal data and data quality failure". Information reported to the Board: • The Board receives information on a monthly basis on street works and service strikes performance. Half yearly payment practice information is also reported to the Board to enable it to consider our performance and how it compares to industry peers • The Safety, Health, Environment and Drinking Water Quality ('SHEDWQ') Committee also reviews and monitors, on behalf of the Board, safety and health matters arising from our activities and operations, including in relation to our supply chain • The Board considers the risk of supply chain failure through its consideration of the strategic risk register Direct engagement mechanisms: • Executive directors attend meetings with key members of the supply chain based on a supplier strategy included in AMP7 readiness work formulated by a steering group of executive members of the Board, the work of which is regularly fed back to the whole Board and addresses zero harm

Strategic report
for the year ended 31 March 2020 (continued)

Section 172(1) statement (continued)

Section 172(1) in action (continued)

<table>
<tr><th>Stakeholder</th><th>Expected outcomes from engagement</th><th>How the company engages</th><th>The Board's role in engagement activities</th></tr>
<tr><td>The environment</td><td>We need to manage the impact of taking water from sensitive habitats and to maintain flows in local rivers whilst also ensuring a continuous supply of high quality water for customers in line with our purpose.

Successful engagement will mean we protect water sources and the quality of water supplied and minimise our impact on the environment</td><td>• WRMP
• AMP7 Business Plan
• Catchment management
• River restoration</td><td>Governance arrangements:
• The Board of Affinity Water Limited is composed of individuals who have appropriate knowledge, skills, experience and background to take decisions informed by an awareness and understanding of environment related threats and opportunities. In particular, the Board benefits from the presence of Susan Hooper on the Board who is a director of Chapter Zero, an organisation dedicated to providing education, insight and support on climate change to non-executive Board directors. Our shareholder directors are focused on environmental issues, as part of our shareholders' wider environmental, social and governance ('ESG') programmes and alignment to the UN's Sustainable Development Goals ('SDGs')
• The SHEDWQ Committee reviews and monitors, on behalf of the Board, environmental matters arising from our activities and operations, including monitoring performance against targets
• Environmental considerations are embedded into our principal risks and the management of these risks, in particular the principal risk "failure to meet our obligations to supply high-quality drinking water", which are monitored by the Board
• In 2019/20 the Board approved a revised approach to managing compliance-related risks, which include developments in environmental legislation
• The Board receives monthly information on our performance in relation to key environmental metrics, including in relation to water quality, leakage, sustainable abstraction reductions, average water use and water available for use, to enable it to monitor the success of strategies implemented.
Local environment:
• The Board reviewed customer feedback when approving our company purpose and considered customers' views on the environment, including our treatment of chalk streams. The Board approved the proposal to secure UNESCO World Heritage Status for chalk rivers.
Climate change:
• The Board considers climate change in two principal ways:
    o the potential impacts of climate change are addressed through long-term planning as part of the statutory WRMP (available on our website: affinitywater.co.uk/water-resources, addressed in Technical Reports 1.2 and 1.3). A Board sub-committee on the WRMP oversaw this work and was advised by external technical experts; and
    o the Board discusses how the environment and climate change have informed company strategy through its work on PR19 submissions and the WRMP. Additionally, in 2019/20, the Board conducted several special sessions on corporate purpose, which focused heavily on environmental issues.
• In 2019/20 our CEO met with Number 10 officials regarding the UK's bid to host the United Nations' 2020 Climate Change Conference (COP26) submit and on drought. We pledged our support for the UK's bid to host COP26 through a joint letter with some of Britain's biggest businesses, which called on the government to do everything in its power to bring this key event to the UK.</td></tr>
</table>

Strategic report
for the year ended 31 March 2020 (continued)

Section 172(1) statement (continued)

Section 172(1) in action (continued)

Stakeholder	Expected outcomes from engagement	How the company engages	The Board's role in engagement activities
Providers of finance and credit rating agencies	It is imperative that we maintain effective relationships and ongoing dialogues with our banks and credit rating agencies to ensure access to financial services as well as capital markets. Successful engagement means we will be a responsible company that delivers reliable returns and is transparent in our reporting	• Annual review meetings with credit rating agencies • Regular meetings and calls with banks • Financial reports • Engaged with banking groups and credit rating agencies on the impact of COVID-19	Information reported to the Board: • A treasury report is provided to the Board on a quarterly basis, which includes details of the company's borrowings, its lenders and deposit counter-parties. It also includes treasury counterparty credit risk and our credit ratings Direct engagement mechanisms: • The CFO, on behalf of the Board, and the treasurer met with lenders and credit rating agencies during the year • Refer to note A4 of the statutory financial statements for further information on our risk management processes and the Board's role in these

Following a review of direct engagement mechanisms in 2019/20, the Board identified the following priorities for 2020/21:

- engagement with a wide range of stakeholders to ascertain levels of environmental ambition to deliver the company's purpose in preparation of the next WRMP;
- pan-regional engagement with partners to understand views on strategic resource options;
- engagement to explain our purpose in light of a changing legislative and regulatory framework;
- activities and partnerships with stakeholders in the context of COP26; and
- engagement with our CCG relating to delivery of purpose and environmental ambitions.

Section 172(1) statement (continued)

Key decisions made in 2019/20

We set out below key decisions made in 2019/20 and the Board's consideration of section 172 factors in making these.

Approved our final WRMP	The Board approved our final WRMP in 2019/20. This was the culmination of a process which comprised at each stage extensive consultation with customer focus groups and other external stakeholders, including the EA, Ofwat, Natural England, local authorities, the Group Against Reservoir Development ('GARD') and the Canal & River Trust. The Board worked closely with our CCG from the start of the revised draft WRMP further consultation process through to the formation of a CCG sub-group. The CCG sub-group reviewed the findings and feedback from our further consultation and engagement. In approving the final WRMP, the Board considered the strong and consistent support from customers for the options proposed in our revised draft WRMP and the supportive response from our regulators of the work done on the revised draft WRMP, who also asked us to provide further detail in our final WRMP19 in relation to some topics such as our demand management programme. Their response asked for ambition and robust information and emphasised the importance of on-going studies on strategic options for additional water storage in collaboration with other water companies. Our final WRMP built on our revised draft WRMP taking into account further consultation responses. The plan ensures that our customers will have enough water in the future, whilst also leaving more water in the environment. The Board also ensured that our plan represented the most cost effective and sustainable long-term solution, and met all legal requirements and relevant guidelines set by our regulators.
Approved our response to Ofwat's Draft Determination on our March 2019 AMP7 Business Plan resubmission	The Board was fully engaged in the design, development and preparation of representations on Ofwat's Draft Determination (our "Represented Plan"), owning the strategy and providing strategic direction to management. Following publication of the Draft Determination, the Board met formally and informally on a number of occasions specifically to discuss and set the strategy for and oversee the development of our Represented Plan. Our response took on board most of Ofwat's Draft Determination interventions and focused on proposals and recommendations for change in a few critical areas where we believed the risks would be too great for the business and for our customers. In particular, we highlighted concerns over financeability but believed that the proposed plan in our response would enable us to remain financeable and deliver the best outcomes for our customers and our communities. The Board reviewed the additional customer research programme completed as part of the evidence for our Represented Plan as well as further customer engagement in line with our commitment to test the final AMP7 and AMP8 household bill before the publication of the Draft Determination. The CCG Chair attended Board meetings to present the CCG's feedback. As part of the approval of our Represented Plan, the Board agreed with our shareholders to reduce gearing over AMP7 through investing all the planned earnings from the non-appointed business (after servicing any debt above Affinity Water Limited) along with retaining all the earnings from the appointed business. This is in addition to the returns generated by the appointed business being used to fund significant investments to secure supplies for our customers today and in the future.

Section 172(1) statement (continued)

Key decisions made in 2019/20 (continued)

Accepted Ofwat's Final Determination on our Represented Plan	Our Board engaged with Ofwat in an open and constructive manner throughout the PR19 process, including the acceptance of the Final Determination in February 2020. We believe our Final Determination will be challenging to deliver, but we do accept the need to improve performance for our customers and for the environment and we are determined to transform our business to achieve this.
Approved our purpose, values and culture, and mechanism for monitoring culture	In approving our purpose, the Board considered the output from research with customers, employees and other stakeholders. The Board further considered our Customer Experience Principles, which are set out from the point of view of customers. In light of the results of our inaugural Culture Survey, to which 60% of our employees responded, the Board approved a mechanism for monitoring culture involving cultural ambassadors and Culture Forums with these ambassadors attended by Trevor Didcock. The Board's review of the results of the Culture Survey further led to the Board deciding that the Director of HR role on the Executive Management Team should be expanded to take responsibility for monitoring culture.
Approved the annual budget and ten-year base case cash flow forecast	The 2020/21 annual budget and ten-year base case cash flow forecast were approved by the Board following a comprehensive review of our strategic priorities and risks to our business in light of Ofwat's Final Determination. Our budget process took both a bottom-up approach, which engaged all cost centre managers in the business, and a top-down approach, which engaged our shareholders and considered Ofwat's Final Determination in light of shareholder objectives. The Board considers our plans challenging but that they will position the company well against our longer-term value creation vision whilst honouring our commitments to stakeholders. The material risks and how we are managing these are set out on page 5.
Approved the 2020/21 workforce pay settlement	In 2019/20, the Board reviewed progress of pay negotiations with trade unions. The Board considered the importance of creating value for shareholders while balancing the need for investment in the workforce. Employees were consulted through their trade unions of which all employees are entitled to be a member of. The Board concluded that it was in the best interests of the company to support the Chief Executive Officer's decision to approve the proposed pay increase in order to increase employee engagement, retention rates and productivity, leading to increased value creation.
Approved the company's response to COVID-19	The Board received regular updates on the company's response to COVID-19, having weekly calls at the start of the pandemic to assess the implications and agree the company strategy in response to the change in working environment. The Board reviewed the emergency plan and agreed it was crucial to continue to meet the demands of the public whilst ensuring the upmost safety of employees. The Board reviewed updates on financial implications, regulations and risk assessments and reviewed plans for a phased return to work.

Approval of the strategic report

Approved by the Board and signed by its order:

Anthony Roper
Director
17 December 2020

Daiwater Investment Limited

Directors' report
for the year ended 31 March 2020

Introduction

The directors present their annual report and the audited consolidated financial statements of Daiwater Investment Limited ('the company') for the year ended 31 March 2020.

The company was incorporated on 24 April 2017 to acquire the Affinity Water group through the purchase of Affinity Water Acquisitions (Investments) Limited. This transaction completed on 19 May 2017.

The company is a limited liability company registered in England and Wales and it was the ultimate holding and controlling company of the Affinity Water group in the United Kingdom throughout the year. Details of the ownership of the company and the group structure are set out on the following pages and in note 27 of these financial statements. The address of the principal place of business is Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ.

The strategic report from pages 4 to 29 provides information relating to the group, its strategy and its results and financial position for the year ended 31 March 2020. Details of the risks and principal uncertainties facing the group are set out on pages 5 to 29.

Dividends and dividend policy

The company's dividend policy is to distribute all surplus cash (to the maximum extent permitted by applicable laws and any relevant requirement) subject to there being adequate provision for working capital, approved forecast expenditure and debt servicing (excluding any outstanding shareholder loans). All surplus cash is distributed first, by way of payment of interest on any outstanding shareholder loans and second, by way of interim or, as the case may be, final dividend on the shares in issue. The amount of the dividend is, therefore, subject to the dividend policy of Affinity Water Limited, the group's principal trading subsidiary, which is disclosed in its own annual report and financial statements for the year ended 31 March 2020.

No dividends were paid during the year ended 31 March 2020.

This compares to dividends of £6,600,000 declared and paid year ended 31 March 2019. All of the dividends declared and paid in the year ended 31 March 2019 related to the group's non-appointed business.

No final dividend is proposed (2019: £nil).

Significant events during the year

Details of the significant events relating to Affinity Water Limited, that occurred during the year are set out in the highlights, Chairman's statement and Chief Executive Officer's introduction of its own annual report and financial statements for the year ended 31 March 2020.

Details of the significant events relating to Castle Water (Southern) Limited (formerly Affinity for Business (Retail) Limited), that occurred during the year are set out in the Chairman's statement of its own annual report and financial statements for the year ended 31 March 2020.

Daiwater Investment Limited

Directors' report
for the year ended 31 March 2020 (continued)

Ownership

We consider the following entities to be our ultimate controllers, as they are in a position to exercise material influence over our policy and affairs:

- Allianz Infrastructure Holding I Pte. Limited (during the period and up to 20 November 2019 Allianz Infrastructure Luxembourg I Sarl)
- DIF Management Holding BV
- DIF Management UK Limited
- HICL Infrastructure plc
- InfraRed Capital Partners (Management) LLP
- Sun Life Financial Inc[1]

These entities, have provided the group's principal trading subsidiary, Affinity Water Limited, with legally enforceable undertakings that they will:

- give Affinity Water Limited such information as may be necessary to enable the group to comply with its obligations under the Water Industry Act 1991 and Instrument of Appointment;

- refrain from any action which would cause the Affinity Water Limited to breach any of its obligations under the Water Industry Act 1991 or the conditions of its Instrument of Appointment; and

- use their best endeavours to ensure that the Board of Affinity Water Limited maintains three independent non-executive directors, who shall be persons of standing with relevant experience and who shall collectively have connections with and knowledge of the areas for which the group's principal trading subsidiary is a water undertaker and an understanding of the interests of the group's customers and how these can be respected and protected.

The Board is satisfied that these undertakings are being properly discharged and that Affinity Water Limited is able fully to meet its regulatory obligation to operate its appointed business as if it were substantially its sole business and were a separate listed company. Further, no issues have been identified at the group level which may materially impact on Affinity Water Limited during the year.

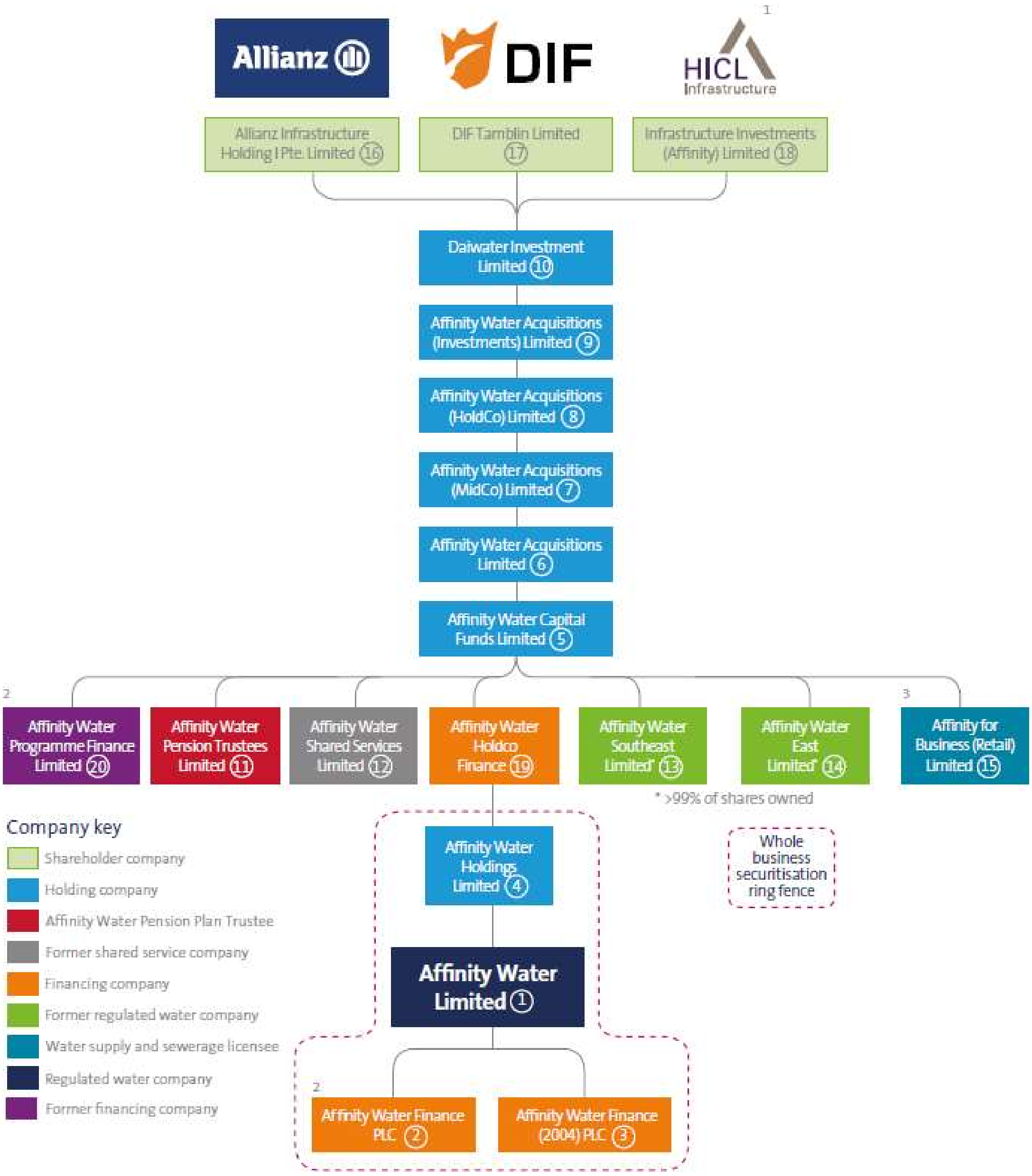
[1] On 1 July 2020 Sun Life Financial Inc acquired an 80% interest in the InfraRed business from InfraRed Capital Partners (Management) LLP and became an ultimate controller.

Daiwater Investment Limited

Directors' report
for the year ended 31 March 2020 (continued)

Ownership (continued)

The chart below shows the effective equity interests held by each owner as at 31 March 2020, and the group structure, excluding dormant subsidiaries. Unless otherwise indicated, all companies are wholly owned by the parent company shown. The numbers listed alongside the companies within the group structure may be cross referenced to the table on pages 33 and 34.



[1] HICL Infrastructure sold down 3.4% of their interest to a small group of co-investors, comprising UK local authority pension funds in June 2017.
[2] In January 2019, Affinity Water Limited transferred its investment in Affinity Water Programme Finance Limited to Affinity Water Capital Funds Limited and acquired Affinity Water Finance PLC from Affinity Water Capital Funds Limited.
[3] Affinity for Business (Retail) Limited was sold to Castle Water Limited effective on 1 April 2020. The entity has been renamed Castle Water (Southern) Limited.

Daiwater Investment Limited

Directors' report
for the year ended 31 March 2020 (continued)

Group structure

The following table provides further explanation of the group structure in keeping with the first principle set out in Ofwat's publication: *Board leadership, transparency and governance – holding company principles*: transparency.

Structure chart reference	Company	Description	Place of registration
①	Affinity Water Limited	A water undertaker holding an appointment under the Water Industry Act 1991, supplying water to a population of around 3.6 million people in the southeast of England. It is the principal trading company of the group.	England and Wales
②	Affinity Water Finance PLC	A financing subsidiary of Affinity Water Limited established in 2018 to issue bonds under a Euro Medium Term Note ('EMTN') programme. It lends monies raised from its bonds to Affinity Water Limited.	England and Wales
③	Affinity Water Finance (2004) PLC	A financing subsidiary of Affinity Water Limited established in 2004 to issue a bond. It lends monies raised from its bond to Affinity Water Limited.	England and Wales
④	Affinity Water Holdings Limited	Affinity Water Limited's immediate holding company. Its equity is provided as security to bondholders in the event of default.	England and Wales
⑤	Affinity Water Capital Funds Limited	The original holding company for Veolia's regulated water businesses, which was acquired by the group in June 2012 through Affinity Water Acquisitions Limited, which provides management services to the company.	England and Wales
⑥	Affinity Water Acquisitions Limited	The company which bid for and acquired Affinity Water Capital Funds Limited and its subsidiaries from Veolia Water UK Limited in 2012. It issued subordinated debt notes to Affinity Water Acquisitions (Midco) Limited as part of the acquisition finance.	England and Wales
⑦	Affinity Water Acquisitions (Midco) Limited	The holding company of Affinity Water Acquisitions Limited which holds subordinated debt notes issued by Affinity Water Acquisitions Limited. It issued subordinated debt notes and exists to enable the introduction or withdrawal of shareholder subordinated debt without impacting on agreements between the original acquisition consortium in 2012 and Veolia Water UK Limited.	England and Wales
⑧	Affinity Water Acquisitions (Holdco) Limited	The holding company of Affinity Water Acquisitions (Midco) Limited. The inclusion of a holding company between Affinity Water Acquisitions (Midco) Limited and Daiwater Investment Limited enables the introduction or withdrawal of additional shareholders without impacting on shareholder agreements between the original acquisition consortia.	England and Wales
⑨	Affinity Water Acquisitions (Investments) Limited	The ultimate holding company of the group in the United Kingdom up until 19 May 2017.	England and Wales
⑩	Daiwater Investment Limited	The ultimate holding company of the group in the United Kingdom, paying dividends to the acquisition consortium subsidiaries.	England and Wales

Daiwater Investment Limited

Directors' report
for the year ended 31 March 2020 (continued)

Group structure (continued)

Structure chart reference	Name	Description	Place of registration
⑪	Affinity Water Pension Trustees Limited	The trustee company of the Affinity Water Pension Plan.	England and Wales
⑫	Affinity Water Shared Services Limited	A company which provided administrative and technical services solely to Affinity Water Limited until 31 March 2015. Prior to the acquisition by investors of Veolia Water UK Limited's 90% equity interest in the group in June 2012 (and for a 12 month transitional period following), the company also provided services to the non-regulated businesses of Veolia Water UK Limited.	England and Wales
⑬	Affinity Water Southeast Limited	A company which formerly held an Instrument of Appointment as water undertaker for the Dour community of Affinity Water Limited's water supply area. The appointment was transferred to Affinity Water Limited on 27 July 2012. The company is no longer trading but continues to honour income assurances made to minority shareholders on transfer of its water undertaking to Affinity Water Limited.	England and Wales
⑭	Affinity Water East Limited	A company which formerly held an Instrument of Appointment as water undertaker for the Brett community of Affinity Water Limited's water supply area. The appointment was transferred to Affinity Water Limited on 27 July 2012. The company is no longer trading but continues to honour income assurances made to minority shareholders on transfer of its water undertaking to Affinity Water Limited.	England and Wales
⑮	Affinity for Business (Retail) Limited	As at 31 March 2020, Affinity for Business (Retail) Limited was a subsidiary of Affinity Water Capital Funds Limited operating as a water and wastewater retailer in the non-household retail market. The entity was sold to Castle Water Limited effective from 1 April 2020 and renamed Castle Water (Southern) Limited.	England and Wales
⑯	Allianz Infrastructure Holding I Pte. Limited	A company which holds indirectly Allianz Capital Partners' investment in the group.	Singapore
⑰	DIF Tamblin Limited	A company established in 2017 to hold indirectly DIF's investment in the group.	England and Wales
⑱	Infrastructure Investments (Affinity) Limited	A company established in 2017 to hold indirectly HICL Infrastructure plc's investment in the group, together with the co-investment by certain local authority pension funds.	England and Wales
⑲	Affinity Water Holdco Finance Limited	A financing subsidiary of Affinity Water Capital Funds Limited established in 2017. It lends monies raised to Affinity Water Capital Funds Limited.	England and Wales
⑳	Affinity Water Programme Finance Limited	A former financing subsidiary of Affinity Water Limited established in 2013 to issue bonds under a EMTN programme. Its assets and liabilities were transferred to Affinity Water Finance PLC in 2019. The company is dormant and will be liquidated in 2020/21.	Cayman Islands

Debt financing

Affinity Water Limited is the group's principal trading company and is financially and operationally 'ring-fenced' from the rest of the Affinity Water group by way of a WBS. The securitisation further enhances the ring-fencing provisions already in its licence. The sole business of its immediate holding company, Affinity Water Holdings Limited, is holding the shares of Affinity Water Limited.

The group has two financing subsidiaries which have issued bonds which are listed by the UK Listing Authority ('UKLA') and the proceeds of which have been lent on to and are guaranteed by the group's principal trading company:

- Affinity Water Finance (2004) PLC has issued an external bond of £250.0m; and
- Affinity Water Finance PLC has issued external bonds totalling £764.2m.

The group believes that the ring-fencing structure provides significant corporate benefits, providing better access to long-term debt markets and an opportunity to reduce the cost of capital employed in the regulated business for the benefit of customers.

Certain bonds issued by both Affinity Water Finance (2004) PLC and Affinity Water Finance PLC are subject to the Listing Rules and Disclosure and Transparency Rules, being listed by the UKLA.

The bonds issued by the group can be summarised as follows:

Debt	**Bond £m**	**Coupon**	**Maturity Date**
Class A fixed rate bond 2026*	250.0	5.875%	July 2026
Class A fixed rate bond 2036*	250.0	4.500%	March 2036
Class A RPI linked bond 2045*	190.0	1.548% (real)	June 2045
Class A fixed rate bond 2042*	85.0	3.278%	August 2042
Class A fixed rate bond 2033*	60.0	2.699%	November 2033
Class A CPI linked bond 2042*	60.0	0.230% (real)	November 2042
Class A fixed rate bond 2022*	14.2	3.625%	September 2022
Total Class A	**909.2**		
Class B RPI linked bond 2033	95.0	3.249% (real)	June 2033
Class B RPI linked bond 2033*	10.0	1.024% (real)	June 2033
Total Class B	**105.0**		
Total	**1,014.2**		

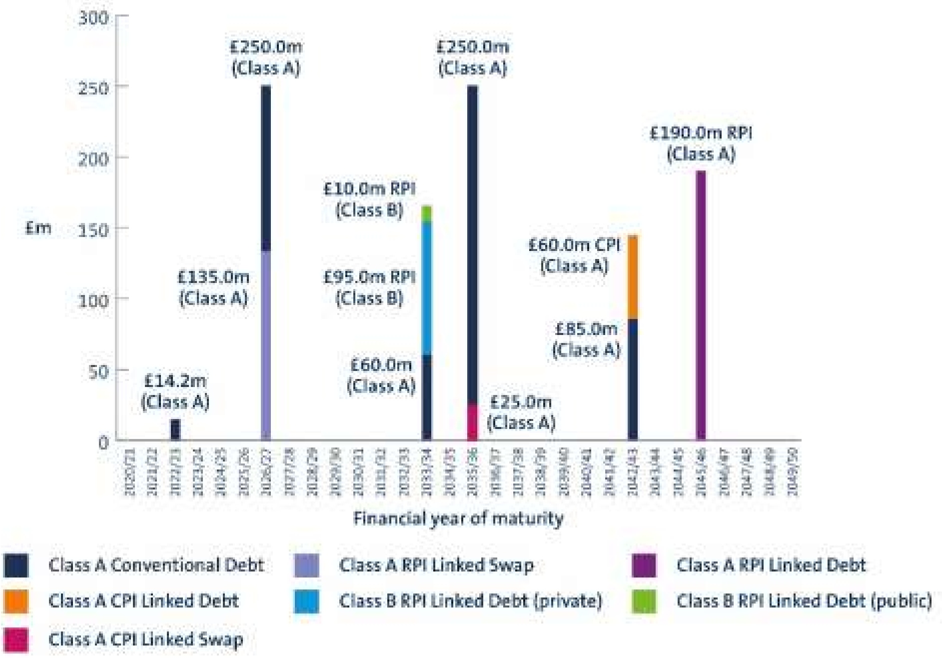
*Listed on the London Stock Exchange

Daiwater Investment Limited

Directors' report
for the year ended 31 March 2020 (continued)

Debt financing (continued)

The following chart shows the maturity profile of the bonds and related index linked swaps at 31 March 2020:



The credit ratings for the group's bonds assigned by the rating agencies, Moody's, Standard & Poor's and Fitch at 31 March 2020 were as follows:

Bonds	Moody's	Standard & Poor's	Fitch
Class A	A3	BBB+	BBB+
Class B	Baa3	BBB-	BBB-
Corporate family rating for Affinity Water Limited	Baa1	Not applicable	Not applicable

Moody's credit ratings were last affirmed in March 2020.

Standard & Poor's downgraded the ratings of our Class A and Class B Bonds by one notch each in February 2020 following our acceptance of Ofwat's Final Determination.

In March 2020, the group obtained an additional credit rating from Fitch Ratings.

Debt financing (continued)

The total value of the issued bonds can be reconciled to the group's net debt position at 31 March 2020 as follows:

	2020 **£000**
Nominal value of Class A fixed interest bonds issued	659,204
Nominal value of Class A index linked bonds issued	250,000
Nominal value of Class B index linked bonds issued	105,000
Total nominal value of bonds issued	1,014,204
Accretion on Class A index linked bonds	37,112
Accretion on Class B index linked bonds	18,512
Accretion on financial derivative	5,036
Capitalised bond issue costs and net premium/discount related to Class A bonds	18,408
Capitalised bond issue costs relating to Class B bonds	(1,178)
Capitalised issue costs relating to financial derivative	(61)
Fair value adjustment on acquisition	349,630
Amortisation of fair value adjustment	(70,423)
Bank term loan	25,000
Debentures	34
Cash in hand	(110,956)
Net debt	**1,285,318**

Affinity Water Limited, the group's principal trading subsidiary has two revolving credit facilities, £60.0m (2019: £60.0m) provided by Barclays Bank PLC and £40.0m (2019: £40.0m) provided by Lloyds Bank PLC. The facilities are intended for the purpose of financing capital expenditure and working capital requirements to the extent that additional funding is required by the subsidiary.

Affinity Water Limited also has available two standby facilities with different counterparties in the event of a liquidity shortfall: a 364 day revolving Debt Service Reserve Facility of £38.0m (2019: £38.0m), which is intended for the purpose of funding any debt service payments, and a 364 day revolving Operations and Maintenance Reserve Facility of £23.0m (2019: £23.0m), which is intended for the purpose of funding operating and capital maintenance expenditure.

At 31 March 2020, Affinity Water Holdco Finance Limited had £25.0m (2019: £25.0m) of external debt due for repayment 31 July 2020. These funds were on-lent to Affinity Water Capital Funds Limited and then onto the non-household retail trading subsidiary, Castle Water (Southern) Limited (formerly Affinity for Business (Retail) Limited), to enable it to operate successfully in the non-household retail market. On 2 July 2020, Affinity Water Holdco Finance Limited refinanced its £25.0m bank term loan. The loan was increased to £42.0m and due for repayment 30 June 2023.

Daiwater Investment Limited

Directors' report
for the year ended 31 March 2020 (continued)

Board of directors

The directors of Daiwater Investment Limited who were in office during the year and up to the date of signing the financial statements are disclosed on page 1.

Certain Board members are also directors of other group companies. The numbers listed alongside their name in the table below may be cross referenced to the relevant company shown on the structure chart on page 32.

The table below sets out attendance at Board meetings for the year ended 31 March 2020.

	Number of meetings
Tom Goossens ④⑤⑥⑦⑧⑨⑲	1/6
Jaroslava Korpanec ①②③④⑤⑥⑦⑧⑨⑯⑲⑳	4/6
Anthony Roper ①②③④⑤⑥⑦⑧⑨⑲⑳	6/6
Angela Roshier ①②③④⑤⑥⑦⑧⑨⑰⑲⑳	4/6
Scott Springett ⑤⑥⑦⑧⑨⑲	6/6

Directors' qualifying third party indemnity provisions

The company has not granted any indemnity to its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in Section 234 of the Companies Act 2006.

Corporate governance

The group and company benefits from the corporate governance arrangements established by both Affinity Water Limited and Castle Water (Southern) Limited (formerly Affinity for Business (Retail) Limited), full details of which can be found in each company's own annual report and financial statements for the year ended 31 March 2020, together with more detailed corporate reporting disclosures.

Affinity Water Limited, the group's principal trading subsidiary, remains committed to the highest standards of governance and supports the principles of good corporate governance set out in the 2018 UK Corporate Governance Code ('the Code') and the UK Stewardship Code. It is ultimately owned by private investors and therefore Affinity Water Limited applies 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 to monitor conformity with the Guidelines; the OECD Principles of Corporate Governance (2004); and Ofwat's revised board leadership, transparency and governance principles.

The principal trading subsidiary complied with the principles of the Code during 2019/20, except in terms of Board, Audit Committee and Remuneration Committee composition, appointment of a senior independent director ('SID'), prior approval of directors' external appointments and pension contributions for executives. This is explained in detail in its own annual report and financial statements. The reason for each departure is explained within the relevant section of Affinity Water Limited's corporate governance report for the year ended 31 March 2020. The Board of Affinity Water Limited considers its governance arrangements appropriate for a company owned by private investors.

The Board has overall responsibility for the group's and company's systems of internal control and for reviewing the effectiveness of these systems. It is responsible for ensuring the group and company meets its obligations to its shareholders and meets from time to time to facilitate this.

There are certain matters that the Board of Affinity Water Limited has reserved for shareholder approval. These matters are published on Affinity Water Limited's website: *affinitywater.co.uk*.

Financial and business reporting

Having taken into account all matters considered by the Board and brought to its attention during the year, the directors are satisfied that the annual report and financial statements taken as a whole are fair, balanced and understandable.

The Board believes that the disclosures set out on pages 4 to 29 of the annual report and financial statements provide the information necessary for shareholders to assess the group's performance, business model, financial risk management and strategy.

Directors' report
for the year ended 31 March 2020 (continued)

Market environment

The retail market for all non-household water and sewerage customers in England opened to competition on 1 April 2017. The group's non-household trading subsidiary, Castle Water (Southern) Limited (formerly Affinity for Business (Retail) Limited), operates in this market.

Future developments

It is anticipated the company will continue to invest and manage its long-term interests in the water industry in the United Kingdom for the foreseeable future.

Likely future developments in the business resulting from expected changes in the regulatory and competitive environments that both trading subsidiaries of the group operate in are discussed in the strategic report in their own annual reports and financial statements for the year ended 31 March 2020.

Affinity for Business (Retail) Limited, one of the group's trading subsidiaries, was sold to Castle Water Limited on 1 April 2020.

Research and development activities

The development and application of new techniques and technology is an important part of the group's principal trading subsidiary's activities. Affinity Water Limited is a member of UK Water Industry Research ('UKWIR'), and participates and benefits from its research programme. The UKWIR programme relating to Affinity Water Limited is currently divided into the following topics: drinking water quality and health; toxicology; water resources; climate change; water mains and services; leakage and metering and regulatory issues. Affinity Water is also a member of other water industry research and innovation groups: Technology Approval Group, Sensor for Water Interest Group, the Water Regulations Advisory Scheme and Cranfield Water Network. In addition, Affinity Water Limited carried out more specific research during the year in the fields of treatment optimisation, new technologies for micro-pollutant removal and emerging contaminants and risks to water quality when changing sources of supply.

As a non-household water retailer, Castle Water (Southern) Limited (formerly Affinity for Business (Retail) Limited) does not conduct any research and development activities other than the development of software products for use in the company's business.

Political contributions

No political contributions were made during the year, in accordance with the group's policy of not making political contributions.

Information required under the Listing Rules

During the year no interest was capitalised by the group.

The remuneration report in Affinity Water Limited's annual report and financial statements for the year ended 31 March 2020 provides disclosures in relation to relevant requirements of the Listing Rules.

The remuneration of the directors of Castle Water (Southern) Limited (formerly Affinity for Business (Retail) Limited) is detailed in its own individual company financial statements for the year ended 31 March 2020.

Employee matters

Affinity Water Limited maintains a network of trained mental health first aiders within its business and continues to publicise offerings for its Employee Assistance Programme.

Affinity Water Limited aims to ensure that each employee or applicant for employment receives the same treatment irrespective of race, gender, disability, sexual orientation, religious belief, creed, marital or parental status. This extends through all company policies including recruitment where the candidate's particular aptitudes and abilities are consistent with the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion. Employees who become disabled whilst employed by the group are actively supported to maintain and/or find appropriate employment within the business.

Engagement with employees

Affinity Water Limited consults and informs its employees on all aspects of business performance through formal and informal consultation bodies, regular team meetings, email and the intranet. The subsidiary discusses ways to enhance and improve its communications and consultation channels directly with employees as well as with the Trade Unions to which a number of employees belong.

Employees are kept informed of changes in the business, and general, financial and economic factors influencing the company together with performance targets. This is achieved through regular briefings or presentations and electronic mailings. Affinity Water Limited also produces a regular employee magazine, which is sent to all company sites.

Castle Water (Southern) Limited (formerly Affinity for Business (Retail) Limited) engages proactively with its employees, keeping them informed on the performance of the business and up to date with news via weekly emails, briefings and posters.

See page 24 for details in our section 172(1) statement on how directors have engaged with employees and taken their interest in accounts.

Going concern

The directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements. The group 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 group and consideration of the group's budgeted cash flows, short and long term forecasts and ability to generate future revenues, related assumptions, as well as available debt facilities and the principal trading subsidiary's viability statement in its own annual report.

Whilst the current economic environment as a result of COVID-19 is clearly challenging, the group has put in place suitable mitigating actions to ensure that even under a severe but plausible downside scenario, the group is not forecasting any covenant breaches. To assess the severe but plausible downside scenario, management of the group have considered a base case scenario that reflects the current market conditions under the pandemic and have applied a series of severe downside assumptions including a reduction in revenue and an increase in bad debt as a result of the pandemic. Management also considered the impact of a severe cold weather event over the winter period and a further increase in operating expenditure.

Going concern (continued)

COVID-19 is projected to have an adverse impact on the group financials in 2020/21, however it is expected that forecasted revenues and cash flows will return to pre-pandemic levels in following years. Due to the nature of the principal trading subsidiary's regulated water business, the directors consider it appropriate to place reliance on projected financials.

Engagement with other stakeholders

See pages 20 to 29 for details in our section 172(1) statement on how directors have engaged with suppliers, customers and other stakeholders.

Greenhouse gas emissions

The greenhouse gases emitted by the group are those of its principal trading subsidiary, Affinity Water Limited, which are reported in the strategic report of its annual report and financial statements for the year ended 31 March 2020. Due to the nature of the group's non-household trading subsidiary, Castle Water (Southern) Limited (formerly Affinity for Business (Retail) Limited), it's energy consumption and CO2 output are immaterial to the group, equating to less than 0.1% of total CO2 output, and therefore no figures are disclosed for this entity. See the company's individual financial statements for details on their environmental considerations and policies.

Financial instruments disclosures

Details are included within risk number 13 on page 14 of the strategic report and in note A4 of the financial statements.

Events after the reporting period

Affinity for Business (Retail) Limited, one of the company's fellow group undertakings, was sold to Castle Water Limited on 1 April 2020. The entity changed its name on 3 April 2020 to Castle Water (Southern) Limited.

Following on from the £25.0m CPI linked inflation swap entered into in March 2020, the group has entered into further CPI linked inflation swaps, bringing the total nominal value up to £250.0m. In October 2020, the group entered into an RPI swap with nominal value £75.0m backdated to 1 August 2020.

On 2 July 2020, the group refinanced its £25.0m bank term loan. The loan was increased to £42.0m, and due for repayment 30 June 2023.

Daiwater Investment Limited

Directors' report
for the year ended 31 March 2020 (continued)

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and parent company financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the EU.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the EU, have been followed for the group and parent company financial statements, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the parent company and group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and parent company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the group and parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance and strategy.

Daiwater Investment Limited

Directors' report
for the year ended 31 March 2020 (continued)

Statement of directors' responsibilities (continued)

Each of the directors, whose names are listed on page 1, confirm that, to the best of his/her knowledge:

- the financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position, loss of the group and profit of the parent company; and
- the strategic report contained in the annual report includes a fair review of the development and performance of the business and the position of the group and company, together with a description of the principal risks and uncertainties that they face.

Disclosure of information to auditors

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- he or she has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent auditors

The auditors, PricewaterhouseCoopers LLP ('PwC') have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed by the Board.

By order of the Board

Anthony Roper
Director
17 December 2020

Registered Office:

Tamblin Way
Hatfield
Hertfordshire
AL10 9EZ

Independent auditors' report to the members of Daiwater Investment Limited

Report on the audit of the financial statements

Opinion

In our opinion, Daiwater Investment Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2020 and of the group's loss and the group's and the company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Consolidated and Company statements of financial position as at 31 March 2020; the Consolidated income statement and statement of comprehensive income, the Consolidated and Company statements of cash flows, and the Consolidated and Company statements of changes in equity for the year then ended; the Accounting policies; and the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview

- Overall group materiality: £4.27 million (2019: £4.34 million), based on 3.5% of earnings before interest, tax, depreciation and amortisation ('EBITDA').

- The group has one finance function. There is one significant component requiring a full scope audit, being Affinity Water Limited. The audit was carried out by one team at the UK headquarters in Hatfield, Hertfordshire, with the majority of work being performed remotely due to the impact of COVID-19.

- Accuracy of the measured income accrual (group)
- Adequacy of the expected credit loss on receivables (group)
- Assessment of cost capitalisation (group)
- Assessment of pension assumptions applied in the valuation of plan liabilities (group)
- Impairment of goodwill (group)
- Assessment of impact of COVID-19 (group)

Independent auditors’ report to the members of Daiwater Investment Limited (continued)

Report on the audit of the financial statements (continued)

Our audit approach (continued)

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors’ professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Accuracy of the measured income accrual (group) The directors have recorded a measured income accrual of £36.6 million (2019: £46.4 million) relating to revenue from the provision of water services to customers on water meters that had not been billed at the year end date. Revenue recognition in respect of the measured income accrual is a critical accounting estimate and impacts directly on reported revenue and profit. The measured income accrual accounts for the timing difference between the last meter reading and the consumption of water from this point to the year end. It is calculated based on the average consumption over the past two years by small geographical groupings of customers. Given the range of factors underlying the estimate, there is a risk that the measured income accrual and associated revenue could be misstated.	The measured income accrual is a manual calculation underpinned by data from the HiAffinity billing system. We tested the mechanics of the spreadsheet used to calculate the measured income accrual without exception. We also understood and ensured the methodology had been consistently applied compared to previous years. With regard to the integrity of the data within HiAffinity, we tested the design and operating effectiveness of key controls within the revenue and receivables cycle, including the reconciliation of reports produced from the HiAffinity billing system and the revenue journals posted to the Oracle general ledger, and the quarterly review of tariff changes made in the HiAffinity billing system, with no exceptions noted. To validate the accuracy of the data in the HiAffinity billing system we agreed a sample of meter readings to the system and then traced the consumption from HiAffinity to the bills raised by the group (which we obtained directly from customers), with no exceptions noted. We also investigated significant variances in the measured income accrual compared to the prior year and corroborated these movements to supporting information, including property statistic reports detailing additional households in the group’s geographical catchment area and the movement of customers from unmeasured to measured tariffs.

Independent auditors' report to the members of Daiwater Investment Limited (continued)

Report on the audit of the financial statements (continued)

Our audit approach (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Accuracy of the measured income accrual (group) (continued)	We tested a sample of household customer amounts accrued for as at 31 March 2020 to subsequent billing post year end and noted immaterial differences. We extrapolated the results of this testing across the remaining accrual and noted no material difference. We also evaluated the historical accuracy of the estimation process by reviewing bills raised in the current year for all amounts accrued at the prior year end. We considered management's approach not to record an adjustment to reflect increased consumption over the lockdown period (arising as a result of COVID-19) for household customers – based on the sensitivity analysis performed on the potential impact of the lockdown period we have concluded this approach is materially reasonable. We also obtained evidence of the subsequent payment of the major wholesale customer of the group and consider the accrued income for the non-household customers to be materially accurate.
Adequacy of the expected credit loss on receivables (group) The provision for expected credit loss of £34.6m (2019: £30.4m) is calculated by applying a percentage based on actual collection history to individual aged debt categories, with management also considering any significant economic changes that may impact future credit losses. In order to account for the increased risk of credit loss as a result of the COVID-19 pandemic, management made use of a third-party tool, Acorn consumer classification, to segment their existing customers based on their postcode into demographic segments. These demographic segments were then grouped into three risk buckets (low, medium and high) and allocated a percentage reflecting management's estimate of the likelihood of potential default. The weighted average across the three buckets was then applied to the previously unprovided debt book to calculate the COVID-19 overlay.	We reviewed the methodology for calculating the provision for the expected credit loss. The current year calculation has been produced by applying a methodology consistent with prior years to calculate the 'regular' provision and then applying an additional adjustment to reflect the additional risks arising from the impact of COVID-19 on the economic environment. We have understood and tested the mechanics of the spreadsheet used to calculate the regular provision by type of customer, the measurement basis (measured versus unmeasured) and the methodology applied to calculate provision rates and noted that they are consistent with the prior year. To ensure the appropriate classification of customers into sub-categories to apply the historical expected credit loss methodology, we selected a sample of debts and ensured they have been allocated the appropriate provision rate based on ageing, customer type and measurement basis. No exceptions were noted during this testing. In addition, we compared the actual rates used in the provision to prior year provision rates and reviewed the level of bad debt write offs which occurred during the year to 31 March 2020 to ensure the accuracy of management's estimates. We have not noted significant levels of bad debt which were not previously provided for.

Independent auditors' report to the members of Daiwater Investment Limited (continued)

Report on the audit of the financial statements (continued)

Our audit approach (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Adequacy of the expected credit loss on receivables (group) (continued) Some customers have difficulty paying their bills or, in certain instances, choose not to pay them. As there are limited steps that a water company can take to recover debt from domestic customers, there is an ongoing risk of aged debts not being collected which is increased in the current economic environment. The provision for expected credit loss is an estimate which needs to take account all these factors and accordingly could be materially misstated. Our audit focused on the risk that the expected credit loss on trade receivables could be materially understated.	For the additional provision in relation to COVID-19, we assessed management's use of the Acorn consumer classification system and reviewed the demographic groupings assigned to the household customers together with the risk grouping performed by management. The Acorn consumer classification system is a tool provided by a reputable third party and underpins the UK House Price Index and we therefore consider it to be a reasonable basis for management's assessment. We applied sensitivity analysis on the allocation of demographic segments into the risk buckets, moving each segment into a higher risk bucket, which did not result in a material difference to the COVID-19 overlay. We also applied sensitivity analysis on the percentages allocated to each risk bucket which did not result in a material difference. We have subsequently reviewed the post year end cash collection rates and have not identified any material write-offs or any material differences in the level of provision recognised.
Assessment of cost capitalisation (group) The group capitalises expenditure with respect to its infrastructure assets where such expenditure enhances or increases the capacity of the network or relates to material replacements of network components. The allocation of costs between capital and non-capital spend can be judgemental and has a direct impact on profit in any one year. The key judgement is management's assessment of what constitutes enhancement compared to maintenance expenditure and the allocation of overheads. Given the magnitude of capital spend at £124.2m (2019: £104.2m) there is a risk that incorrect classification could give rise to material misstatement.	We reviewed the process for allocating costs to capital projects and are satisfied that this allocation was made on an appropriate basis and is in line with the group's capitalisation policy. We selected a sample of items capitalised in the year and ensured these were consistent with the group's accounting policy and were appropriately capitalised in line with IAS 16. We examined the process of capitalising staff time through the inspection of timesheet data and tested a sample of staff costs capitalised. We did not note any exceptions from our testing and concluded that the time capitalised relates to spend on valid capital projects. We challenged the assumptions and judgements made in allocating overheads to capital projects, through understanding the nature of activities performed. There continue to be a number of projects capitalised as construction in progress and therefore not yet depreciated. At 31 March 2020, assets with a total cost of £119.8m (2019: £123.0m) have been included as assets under construction. There have been no material exceptions noted through the procedures performed.

Independent auditors' report to the members of Daiwater Investment Limited (continued)

Report on the audit of the financial statements (continued)

Our audit approach (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Assessment of pension assumptions applied in the valuation of the pension scheme (group) The group has a defined benefit pension plan and has recognised a net retirement benefit surplus of £104.6m (2019: £101.2m). The plan liabilities as at 31 March 2020 amounted to £396.9m (2019: £417.7m). The valuation of the plan liabilities requires significant levels of estimation and technical expertise including the use of actuarial experts to support the directors in selecting appropriate assumptions – changes in a number of key financial and demographic assumptions (including salaries increase, inflation, discount rates and mortality rates) can have a material impact on the calculation of the net surplus recognised.	We used our own actuarial experts to evaluate the assumptions made in relation to the valuation of the scheme assets and liabilities. We benchmarked the key assumptions used, including the discount rate, RPI and CPI, and compared them to our internally developed benchmarks; assessed the salary increase assumption against the group's historical trends and expected future outlook; considered the consistency and appropriateness of methodology and assumptions applied compared to the prior year end and the most recent actuarial valuation. We tested the accuracy of the retirement benefit obligation disclosures. We confirmed that the group's actuarial experts are qualified, appropriately affiliated to third party industry bodies and are independent of the group.
Impairment of goodwill (group) The group has a material of goodwill of £327.0m (2019: £327.0m) and management therefore conduct an annual impairment assessment to test whether the carrying value of goodwill is supported by projected future cash flows, in particular those of Affinity Water Limited, being the group's principal trading company.	We tested the principles and mathematical integrity of the group's discounted cash flow model used to assess goodwill for potential impairment. With the assistance of our valuation specialists, we have assessed the key assumptions used in this impairment calculation, including the discount rate and terminal value assumptions. We also tested the sensitivity of the impairment calculation to changes in the underlying assumptions, including consideration of the impact of applying our own independent assumptions, and have concluded that there is sufficient headroom within the model such that no impairments are required. We challenged the cash flow projections used within the model by reference to current performance in the year (including the impact of COVID-19) and analysis of management's historical forecasting accuracy. We also held discussions with both financial and non-financial management, corroborating the explanations provided to supporting documentation. We have also considered the appropriateness of the implied enterprise/regulatory capital value of the discounted cash flow model prepared, performing sensitivity analysis to reflect the multiples of listed peers and the lack of recent transaction activity within the industry, with the use of lower multiples not giving rise to an indication of impairment.

Independent auditors’ report to the members of Daiwater Investment Limited (continued)

Report on the audit of the financial statements (continued)

Our audit approach (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill (group) (continued)	We have assessed the disclosures made in respect of the impairment of goodwill and whether they appropriately reflect the risks inherent in the valuation of goodwill. Through review of the impairment assessment performed by management, and the related disclosures made, we did not identify any material misstatements.
Assessment of impact of COVID-19 (group) The COVID-19 pandemic commenced before the financial year end, impacting the results of the group for the year, with this continuing to have a significant impact on the economic environment and therefore performance of the group throughout the course of the subsequent financial year to date. In order to conclude that it is appropriate for the financial statements to be prepared as a going concern, management have prepared detailed cash flow forecasts, including the expected impact of COVID-19. In doing so, management have made estimates and judgements that are critical to the assessment of the group’s liquidity and future covenant compliance. The results of the severe but plausible downside modelling on liquidity and covenants have resulted in the directors concluding that there is no material uncertainty in respect of going concern. Moreover, management have considered the impact of COVID-19 on the estimates and judgements made within the financial statements. As a result of the impact of COVID-19 on the financial statements, the group and the wider economic environment, we have determined management's consideration of the potential impact of COVID-19, including the associated estimates and judgements, to be a key audit matter.	We assessed both the base case going concern model prepared by management, which covers the AMP7 period to 31 March 2025 and which includes the anticipated ongoing impact of COVID-19, and the downside scenario which have been used to sensitise the base case model. In relation to the base case model, we have agreed the key inputs back to budgets approved by the Board. In addition, we have considered the historical accuracy of the budgeting process to assess the reliability of the data. Specifically, in relation to the severe but plausible downside modelling conducted by management, we have obtained management’s revised forecasts and assessed the underlying assumptions. This included consideration of the adequacy of expected credit losses (as detailed in the related key audit matter above) and an understanding of both the mitigating actions already taken and future possible actions identified by management. We have challenged these assumptions based on our understanding of the business and our knowledge of the industry. In conjunction with the above we have reviewed management’s analysis of both liquidity and covenant compliance to satisfy ourselves that no covenant breaches are anticipated over the period of assessment in either the base case or the severe but plausible downside scenarios, including consideration of the impact of potential mitigating actions. On the basis of the analysis performed we are satisfied that management’s going concern assessment provides an appropriate basis for management’s conclusion that there is no material uncertainty regarding the group’s ability to operate as a going concern and that the related disclosures within the financial statements are appropriate.

Report on the audit of the financial statements (continued)

Our audit approach (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Assessment of impact of COVID-19 (group)	We assessed the impact of COVID-19 on the adequacy of the expected credit loss on receivables and impairment of goodwill, as addressed through the respective key audit matters above. We assessed whether the nature and extent of the disclosures made by management were sufficiently complete to articulate the impact of the pandemic on the business and supported by the information and evidence available. Based on the procedures performed, we determined that management has appropriately assessed the impact of COVID-19 and that the disclosures made in this respect are supported by the information and evidence available.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

The group has one finance function. There is one significant component requiring a full scope audit, being Affinity Water Limited. The audit was carried out by one team at the UK headquarters in Hatfield, Hertfordshire, with the majority of work being performed remotely due to the impact of COVID-19.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£4.27 million (2019: £4.34 million).
How we determined it	3.5% of earnings before interest, tax, depreciation and amortisation ('EBITDA')
Rationale for benchmark applied	Consistent with the prior year, we have used EBITDA as this is the measure that management focus on internally in their reporting, due to the capital-intensive nature of the business. EBITDA also provides us with a consistent year-on-year basis for our determining materiality for our audit.

Independent auditors’ report to the members of Daiwater Investment Limited (continued)

Report on the audit of the financial statements (continued)

Our audit approach (continued)

Materiality (continued)

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £2.02 million and £4.17 million. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the directors that we would report to them misstatements identified during our audit above £208,250 (group audit) (2019: £215,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors’ use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group’s and company’s ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group’s and company’s ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors’ report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Independent auditors' report to the members of Daiwater Investment Limited (continued)

Report on the audit of the financial statements (continued)

Reporting on other information (continued)

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 March 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 43, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Independent auditors' report to the members of Daiwater Investment Limited (continued)

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility

Owen Mackney (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Watford
18 December 2020

Daiwater Investment Limited

Consolidated income statement
for the year ended 31 March 2020
(Registered Number 10738347)

	Note	**2020**	2019 restated[1]
		£000	£000
Continuing operations			
Revenue	1	**307,240**	311,569
Cost of sales		**(229,322)**	(218,142)
Gross profit		**77,918**	93,427
Administrative expenses	2.1	**(49,948)**	(174,799)
Net impairment losses on financial and contract assets	2.1	**(9,470)**	(6,128)
Other income	2.2	**17,328**	17,148
Operating profit/(loss)	2	**35,828**	(70,352)
Finance income	4	**32,436**	32,892
Finance costs	4	**(52,865)**	(49,750)
Fair value loss on financial derivative	4	**(1,816)**	(2,389)
Finance costs – net		**(22,245)**	(19,247)
Profit/(loss) before tax		**13,583**	(89,599)
Tax expense	5	**(26,321)**	(6,361)
Loss for the year from continuing operations		**(12,738)**	(95,960)
(Loss)/profit from discontinued operation (attributable to equity holders of the group)	22	**(896)**	260
Loss for the year		**(13,634)**	(95,700)
(Loss)/profit is attributable to:			
Owners of the group		**(13,758)**	(95,822)
Non-controlling interests		**124**	122
		(13,634)	(95,700)

The notes on pages 63 to 131 are an integral part of these financial statements.

[1] Prior year figures have been restated to show continued and discontinued operations separately

Daiwater Investment Limited

Consolidated statement of comprehensive income for the year ended 31 March 2020

(Registered Number 10738347)

	Note	**2020** **£000**	2019 £000
Loss for the year		**(13,634)**	(95,700)
Other comprehensive income/(loss) for the year which will not be reclassified to profit or loss:			
Remeasurements of post-employment benefit assets	10	**38**	(8,747)
Deferred tax (charge)/credit on items that will not be reclassified	5	**(7)**	1,487
Other comprehensive income/(loss) for the year, net of tax		**31**	(7,260)
Total comprehensive loss for the year		**(13,603)**	(102,960)
Total comprehensive (loss)/income is attributable to:			
Owners of the group		**(13,727)**	(103,082)
Non-controlling interests		**124**	122
		(13,603)	(102,960)
Total comprehensive income/(loss) attributable to owners of the group arises from:			
Continuing operations	22	**(12,831)**	(103,342)
Discontinued operations	22	**(896)**	260
		(13,727)	(103,082)

The notes on pages 63 to 131 are an integral part of these financial statements.

Daiwater Investment Limited

Consolidated statement of financial position as at 31 March 2020
(Registered Number 10738347)

	Note	2020 £000	2019 *restated*[1] £000
Assets			
Non-current assets			
Property, plant and equipment	6	**1,573,637**	1,516,087
Right-of-use assets	7	**12,436**	-
Intangible assets	8	**672,617**	681,915
Investments	9	**51**	51
Retirement benefit surplus	10	**104,619**	101,194
Other receivables	11	**2,300**	2,215
		2,365,660	2,301,462
Current assets			
Inventories	12	**3,017**	2,716
Other investments	9	**25,202**	15,049
Trade and other receivables	11	**79,561**	101,524
Current tax assets		**-**	135
Cash and cash equivalents	13	**85,754**	98,266
Assets classified as held for sale	22	**32,618**	-
		226,152	217,690
Total assets		**2,591,812**	2,519,152
Equity and liabilities			
Equity			
Share capital	14	**744,133**	744,133
Accumulated losses		**(133,477)**	(119,750)
Non-controlling interests		**2,771**	2,769
Total equity		**613,427**	627,152
Liabilities			
Non-current liabilities			
Trade and other payables	15	**132,694**	115,759
Borrowings	16	**1,391,298**	1,405,956
Lease liabilities	17	**9,068**	-
Derivative financial instrument	18	**9,149**	3,997
Deferred tax liabilities	19	**223,278**	199,159
Provisions for other liabilities and charges	20	**5,507**	4,907
		1,770,994	1,729,778
Current liabilities			
Trade and other payables	15	**195,445**	160,060
Current tax liabilities		**246**	-
Lease liabilities	17	**3,491**	-
Provisions for other liabilities and charges	20	**607**	2,162
Liabilities directly associated with assets classified as held for sale	22	**7,602**	-
		207,391	162,222
Total liabilities		**1,978,385**	1,892,000
Total equity and liabilities		**2,591,812**	2,519,152

The notes on pages 63 to 131 are an integral part of these financial statements. The statutory financial statements on pages 55 to 131 were approved by the Board of Directors and were signed and authorised for issue on 17 December 2020 on its behalf by:

Anthony Roper, Director

[1] Prior year figures have been restated by £15.049m, moving this amount from cash and cash equivalents to other investments.

Daiwater Investment Limited

Company statement of financial position as at 31 March 2020
(Registered Number 10738347)

	Note	**2020**	2019
		£000	£000
Non-current assets			
Investments	9	**612,524**	614,524
Amounts due from group undertakings	A7	**131,241**	131,241
		743,765	745,765
Current assets			
Amounts due from group undertakings	A7	**23,629**	11,420
Assets classified as held for sale	22	**2,000**	-
		25,629	11,420
Total assets		**769,394**	757,185
Equity			
Share capital		**744,133**	744,133
Retained earnings[1]		**19,222**	9,332
		763,355	753,465
Current liabilities			
Current tax liabilities		**6,039**	3,720
Total equity and liabilities		**769,394**	757,185

The notes on pages 63 to 131 are an integral part of these financial statements. The statutory financial statements on pages 55 to 131 were approved by the Board of Directors and were signed and authorised for issue on 17 December 2020 on its behalf by:

Anthony Roper
Director

[1] Profit for the year of £9,890,000 for the company consisting of interest from its subsidiary undertakings (2019: £15,708,000 consisting of interest and dividend income from its subsidiary undertakings), is included within retained earnings. All of this income is from continuing operations. No dividends (2019: £6,600,000) were paid to the company's shareholders.

Daiwater Investment Limited

Consolidated statement of changes in equity for the year ended 31 March 2020

(Registered Number 10738347)

	Note	Attributable to owners of the group				
		Share capital	**Accumulated losses**	**Total**	**Non-controlling interests**	**Total**
		£000	**£000**	**£000**	**£000**	**£000**
Balance as at 1 April 2018		744,133	(10,068)	734,065	2,766	736,831
(Loss)/profit for the year		-	(95,822)	(95,822)	122	(95,700)
Other comprehensive loss for the year		-	(7,260)	(7,260)	-	(7,260)
Total comprehensive (loss)/profit for the year		-	(103,082)	(103,082)	122	(102,960)
Dividends	21	-	(6,600)	(6,600)	(119)	(6,719)
Total transactions with owners recognised directly in equity		-	(6,600)	(6,600)	(119)	(6,719)
Balance as at 31 March 2019		744,133	(119,750)	624,383	2,769	627,152
Balance as at 1 April 2019		**744,133**	**(119,750)**	**624,383**	**2,769**	**627,152**
(Loss)/profit for the year		**-**	**(13,758)**	**(13,758)**	**124**	**(13,634)**
Other comprehensive income for the year		**-**	**31**	**31**	**-**	**31**
Total comprehensive (loss)/income for the year		**-**	**(13,727)**	**(13,727)**	**124**	**(13,603)**
Dividends	21	**-**	**-**	**-**	**(122)**	**(122)**
Total transactions with owners recognised directly in equity		**-**	**-**	**-**	**(122)**	**(122)**
Balance as at 31 March 2020		**744,133**	**(133,477)**	**610,656**	**2,771**	**613,427**

The notes on pages 63 to 131 are an integral part of these financial statements.

Daiwater Investment Limited

Company statement of changes in equity
for the year ended 31 March 2020
(Registered Number 10738347)

	Note	**Share capital £000**	**Retained earnings £000**	**Total £000**
Balance as at 1 April 2018		744,133	224	744,357
Profit for the year		-	15,708	15,708
Total comprehensive income for the year		-	15,708	15,708
Dividends	21	-	(6,600)	(6,600)
Total transactions with owners recognised directly in equity		-	(6,600)	(6,600)
Balance as at 31 March 2019		744,133	9,332	753,465
Balance as at 1 April 2019		**744,133**	**9,332**	**753,465**
Profit for the year		**-**	**9,890**	**9,890**
Total comprehensive income for the year		**-**	**9,890**	**9,890**
Dividends	21	**-**	**-**	**-**
Total transactions with owners recognised directly in equity		**-**	**-**	**-**
Balance as at 31 March 2020		**744,133**	**19,222**	**763,355**

The notes on pages 63 to 131 are an integral part of these financial statements.

Daiwater Investment Limited

Consolidated statement of cash flows for the year ended 31 March 2020

(Registered Number 10738347)

	Note	2020 £000	2019 restated[1] £000
Cash flows from operating activities			
Cash generated from operations	23.1	**110,154**	114,254
Interest paid		**(36,166)**	(40,351)
Tax paid		**(2,175)**	-
Net cash generated from operating activities excluding capital contributions		**71,813**	73,903
Capital contributions		**57,690**	30,746
Net cash generated from operating activities		**129,503**	104,649
Cash flows from investing activities			
Investment in short-term deposits		**(10,153)**	(15,049)
Purchases of property, plant and equipment		**(123,024)**	(101,037)
Proceeds from sale of property, plant and equipment		**1,630**	1,058
Purchase of intangibles		**(7,469)**	(6,490)
Interest received		**962**	809
Net cash used in investing activities		**(138,054)**	(120,709)
Cash flows from financing activities			
Principal elements of lease payments		**(3,839)**	-
Dividends paid to group's shareholders		**-**	(6,600)
Dividends paid to non-controlling interests in subsidiary undertakings		**(122)**	(119)
Net cash used in from financing activities		**(3,961)**	(6,719)
Net decrease in cash and cash equivalents		**(12,512)**	(22,779)
Cash and cash equivalents at beginning of year		**98,266**	121,045
Cash and cash equivalents at end of year	13	**85,754**	98,266
Cash flows of discontinued operation	22	**4,233**	(2,497)

The notes on pages 63 to 131 are an integral part of these financial statements.

[1] Prior year figures have been restated by £15.049m, moving this amount from cash and cash equivalents to other investments, and include a £30.746m reclassification of capital contributions from investing activities to operating activities.

Daiwater Investment Limited

Company statement of cash flows for the year ended 31 March 2020

(Registered Number 10738347)

	Note	**2020 £000**	2019 £000
Cash flows from operating activities			
Cash generated from operations	23.1	**-**	6,600
Net cash generated from operating activities		**-**	6,600
Cash flows from investing activities			
Interest received		**-**	-
Net cash used in investing activities		**-**	-
Cash flows from financing activities			
Dividends paid to shareholders		**-**	(6,600)
Net cash used in financing activities		**-**	(6,600)
Net increase in cash and cash equivalents		**-**	-
Cash and cash equivalents at beginning of year		**-**	-
Cash and cash equivalents at end of year	13	**-**	-
Cash flows of discontinued operation	22	**-**	-

The notes on pages 63 to 131 are an integral part of these financial statements.

Daiwater Investment Limited

Accounting policies

Basis of preparation

These financial statements have been prepared under the historical cost convention, modified by revaluation of financial assets and financial liabilities held at fair value through profit and loss, and in accordance with IFRS and IFRS Interpretations Committee ('IFRS IC') interpretations issued, effective and ratified by the EU as at 31 March 2020, and in compliance with the Companies Act 2006 as applicable to companies using IFRS.

Going concern

The directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements as the group 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 group and consideration of the group's budgeted cash flows, short and long term forecasts and ability to generate future revenues, related assumptions, as well as available debt facilities and the principal trading subsidiary's viability statement in its own annual report.

Whilst the current economic environment as a result of COVID-19 is clearly challenging, the group has put in place suitable mitigating actions to ensure that even under a severe but plausible downside scenario, the group is not forecasting any covenant breaches. To assess the severe but plausible downside scenario, management of the group have considered a base case scenario that reflects the current market conditions under the pandemic and have applied a series of severe downside assumptions including a reduction in revenue and an increase in bad debt as a result of the pandemic. Management also considered the impact of a severe cold weather event over the winter period and a further increase in operating expenditure.

COVID-19 is projected to have an adverse impact on the group financials in 2020/21, however it is expected that forecasted revenues and cash flows will return to pre-pandemic levels in following years. Due to the nature of the principal trading subsidiary's regulated water business, the directors consider it appropriate to place reliance on projected financials.

Basis of consolidation

The group financial statements consolidate the financial statements of Daiwater Investment Limited and its subsidiaries from the date of the acquisition of Affinity Water Acquisitions (Investments) Limited, 19 May 2017. The subsidiary companies have been included in the group financial statements using the acquisition method of accounting.

The purchase consideration has been allocated to the assets and liabilities on the basis of fair value at the date of acquisition.

The company was the parent undertaking of the largest group to prepare consolidated financial statements.

As permitted by Section 408 of the Companies Act 2006, the company's income statement has not been included in the financial statements. The parent company's profit for the year has been included within the company's statement of financial position on page 58 by reference to a footnote.

Principles of consolidation

Subsidiaries are all entities over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred. They are deconsolidated from the date that control ceases.

Accounting policies (continued)

Principles of consolidation (continued)

Intercompany transactions and balances between group companies are eliminated on consolidation.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position and consolidated statement of changes in equity respectively.

Principal accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out in note A3. These policies have been consistently applied to all the years presented, unless otherwise stated.

Adoption of new and revised standards

The following new standard became applicable for the current reporting period:

IFRS 16: ‘Leases’ (‘IFRS 16’)

The impact of the adoption of this standard and the new accounting policies are disclosed below.

The standard addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces IAS 17 ‘Leases’ (‘IAS 17’), and related interpretations. The standard is effective for reporting periods beginning 1 January 2019.

The group has adopted IFRS 16 from 1 April 2019, but has not restated comparatives for the prior reporting period, as permitted under the specific transitional provisions in the standard. Reclassifications and adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 April 2019.

On adoption of IFRS 16, the group has recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17. These liabilities have been measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate for each type of asset as at 1 April 2019, as the group could not identify the implicit rate for existing leases, equal to the right-of-use asset recognised. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 2.37%. The group had no leases previously classified as finance leases.

	£000
Operating lease commitments disclosed as at 31 March 2019	**17,279**
Discounted using the lessee’s incremental borrowing rate	**15,957**
(Less): short-term leases recognised on a straight-line basis as expense	**(178)**
(Less): low-value leases recognised on a straight-line basis as expense	**(15)**
Lease liability recognised as at 1 April 2019	**15,764**
Of which:	
Current lease liabilities	**3,455**
Non-current lease liabilities	**12,309**
	15,764

Accounting policies (continued)

Adoption of new and revised standards (continued)

The change in accounting policy affected the following items in the balance sheet at 1 April 2019:

- Right-of-use assets – increase by £15,764,000; and
- Lease liabilities – increase by £15,764,000.

There was no net impact on retained earnings at 1 April 2019.

In applying IFRS 16 for the first time, the group has used the following practical expedients permitted by the standard:

- the use of a single discount rate for a portfolio of leases with reasonably similar characteristics;
- the accounting for operating leases, with a remaining lease term of less than 12 months as at 1 April 2019, as short-term leases;
- the exclusion of initial direct costs for the measurement of right-of-use assets at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The group has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the company relied on its assessment made applying IAS 17 and IFRIC 4 'Determining whether an arrangement contains a lease'. The group leases its two head office buildings, IT server space and vehicles.

The group enters into agreements with employees to use vehicles that it leases from a third party as a company car. These agreements are considered by the group to be part of the overall compensation package of an employee and, as such, the group has applied IAS 19 'Employee benefits' in accounting for these arrangements rather than considering the arrangements as subleases of vehicles to employees under IFRS 16.

Rental contracts for IT server space and vehicles are typically for fixed periods of two to five years. The group has an option to extend its leases; however no contracts are reasonably certain to be extended after their lease term has expired. The lease contracts of the head office buildings have remaining periods of 6.5 years and 8.0 years respectively. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The group's lease agreements do not impose any covenants, but leased assets cannot be used as security for borrowing purposes.

Until 31 March 2019, all the group's leases of property, plant and equipment were classified as operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease. From 1 April 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The group's ongoing accounting policy is for assets and liabilities arising from a lease to be initially measured on a present value basis. Lease liabilities include the net present value of one or more of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Accounting policies (continued)

Adoption of new and revised standards (continued)

Lease payments may be discounted using the lessee's incremental borrowing rate if the interest rate implicit in the lease cannot be determined. The incremental borrowing rate is the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. The group uses an independent third-party to determine the incremental borrowing rate.

Right-of-use assets are measured at cost comprising one or more of the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise small items of office equipment and IT equipment.

New standards, amendments and interpretations not yet adopted

There are no standards and interpretations, which are not yet effective and have not been early adopted by the group, that will have a material effect on future years.

Critical accounting estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates.

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below and on the following page.

Where sensitivities are included in the notes below, these relate only to continuing operations.

Measured income accrual

The group records an accrual for measured consumption of water that has not yet been billed (refer to note 11). The accrual is estimated using a defined methodology based upon weighted average water consumption by tariff, which is calculated based upon historical information. Revenue for the year ended 31 March 2019 included a measured income accrual of £32,618,000. The value of billing recognised in the year ended 31 March 2020 for consumption in the prior year was £33,230,000. This resulted in an increase of £592,000 in the current year's revenue due to the under-estimation of the prior year's revenue. This represented 0.2% of 2019/20 revenue and is within acceptable tolerance for accounting estimates.

Daiwater Investment Limited

Accounting policies (continued)

Critical accounting estimates (continued)

Loss allowance of trade receivables and contract assets

The group makes an estimate of the recoverable value of trade receivables and contract assets and records a loss allowance based on experience (refer to note 11). This provision is based on, amongst other things, a consideration of actual collection history. At each reporting date, the group takes into consideration any significant economic changes that may impact its credit loss model and future credit losses and resultantly has accounted for an additional bad debt charge given the national health pandemic. This was calculated by applying an additional loss allowance provision to each segment of our customer base, based on the likely impact to that segment of the pandemic. The actual level of receivables collected may differ from the estimated levels of recovery, which could impact operating results positively or negatively. A 2% increase in the loss allowance for trade receivables and contract assets would result in an additional bad debt charge of £757,000 and a corresponding reduction in net assets. A 2% decrease in the loss allowance for trade receivables and contract assets would result in a reduction in the bad debt charge of £757,000 and corresponding increase in net assets.

Defined benefit pension plan

The group has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including: life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the statement of financial position. The assumptions (refer to note A5) reflect historical experience and current trends, and may differ from actual results due to changing market and economic conditions and longer or shorter lives of participants. There are no restrictions to the realisability of the surplus relating to the defined benefit section of the pension plan; therefore no adjustment has been made to the retirement benefit surplus recognised in accordance with International Financial Reporting Interpretations Committee 14: 'The limit on a defined benefit asset, minimum funding requirements and their interaction'. A sensitivity analysis has been performed based on changing different assumptions – see note A5 for the impact of changes in assumptions used.

Impairment of goodwill and the water licence

Determining whether goodwill and water licence have been impaired requires an estimation of Affinity Water Limited's, the group's main cash generating unit ('CGU') constituting the smallest identifiable group of assets that generate cash flows for the group for which the carrying amount of the goodwill and water licence are allocated to, fair value less transaction costs. This fair value has been determined using a discounted cash flow, developed from a detailed business forecast, and applying a terminal value, in addition to an estimate of costs of disposal based on transaction costs paid on acquisition of the group in May 2017. No impairment to goodwill (2019: £120,000,000) has been recognised in the year ended 31 March 2020 (refer to note 7). A 1% impairment of goodwill would result in a charge of £3,279,000 and a corresponding reduction in net assets. No impairment to the water licence has been recognised in the year ended 31 March 2020 (2019: £nil) (refer to note 7). A 1% impairment of the water licence would result in a charge of £3,008,000 and a corresponding reduction in net assets.

Accounting policies (continued)

Critical accounting estimates (continued)

Impairment of investment in subsidiary

Determining whether the company's investment in its subsidiary has been impaired also requires an estimation of Affinity Water Limited's fair value less transaction costs. As described in the previous paragraph, this has been determined using the RCV of Affinity Water Limited at 31 March 2020, an estimate of the market premium that a private entity would pay for Affinity Water Limited and an estimate of costs of disposal based on transaction costs paid on acquisition of the group in May 2017. The net present value of remaining debt payments associated with Affinity Water Limited's debt at the year-end has been considered in the impairment assessment. The carrying amount of the investment in subsidiary at the date of the statement of financial position was £612,524,000 (2019: £614,524,000) with no impairment loss recognised in either the year ended 31 March 2020 or 2019. A 1% impairment of investment in subsidiary would result in a charge of £6,125,000 and a corresponding reduction in net assets.

Useful economic lives of property, plant and equipment

The annual depreciation charge for property, plant and equipment is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on management's judgement and experience, which include the knowledge and research of the group's dedicated asset management teams. Refer to note 6 for the carrying amount of property, plant and equipment and note A3 for the useful economic lives for each class of assets.

Based on the current useful lives, the carrying amount of property, plant and equipment is £1,573,637,000 at 31 March 2020. If the useful lives of the assets were 10% shorter, the carrying amount would instead be £1,282,863,000 and if they were 10% longer, the carrying amount would be £1,864,411,000 at 31 March 2020.

Based on the current useful lives, the carrying amount of intangible assets, excluding goodwill, is £345,582,000 at 31 March 2020. If the useful lives of the assets were 10% shorter, the carrying amount would instead be £338,604,000 and if they were 10% longer, the carrying amount would be £352,560,000 at 31 March 2020.

The above estimates have been calculated using the average useful life for each class of asset and assumes that the assets in each category are midway through their useful life.

Accounting policies (continued)

Critical accounting judgements in applying the entity's accounting policies

The preparation of financial statements also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity are disclosed below.

Revenue recognition

IFRS 15: 'Revenue from contracts with customers' ('IFRS 15') requires revenue to be recognised in line with the satisfaction of performance obligations identified within contracts between an entity and its customers, at an amount that reflects the transaction price allocated to each performance obligation. Particular challenges exist within the water industry as formal written contracts do not exist for most transactions with customers. Contracts are instead implied through statute and regulation. Judgement is therefore required in identifying the services contained within the contract and the customer with whom the contract is entered into, which in turn impacts on how the performance obligations are considered and therefore revenue recognised. Refer to note 1 for the amount of revenue recognised in the income statement.

Grants and contributions

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

Contributions received in respect of diversions, requisitioned mains/extensions and infrastructure charges are recognised over a period of time. Contributions received in respect of connections charges are recognised immediately in the income statement. Refer to note A3 for more further detail on our accounting policies in relation to these. Refer to note 1 for the amount of revenue recognised in the income statement.

Cost capitalisation

The group capitalises expenditure on its infrastructure assets to property, plant and equipment where such expenditure enhances or increases the capacity of the network, or relates to material replacements of network components. Any expenditure classed as maintenance is expensed in the period it is incurred. Distinguishing between enhancement and maintenance expenditure is a subjective area, particularly when projects have both elements within them. Refer to note 6 for the carrying amount of property, plant and equipment.

Daiwater Investment Limited

Accounting policies (continued)

Prior year restatements as a result of error and change in presentation

During the year, it was assessed that term deposits with maturity of greater than three months and that were irredeemable prior to maturity should be disclosed as short-term deposits within other investments, having previously been disclosed as cash and cash equivalents in error. Prior year figures have been restated by £15,049,000, moving this amount from cash and cash equivalents to other investments in the consolidated statement of financial position. Both are treated as current assets.

Capital contributions received have been presented as operating cash flows in 2019/20 as these credits are released to operating costs over the useful economic life of the non-current asset to which they relate. These were presented as investment cash flows in prior years. Comparatives have been restated increasing operating cash inflows by £30,746,000 and increasing investing cash outflows by the same amount.

Finally, in note 13, a change in presentation has resulted in £10,076,000 being shown as cash at bank and in hand in this note, having previously been shown as term deposits. Both are shown as cash and cash equivalents in the consolidated statement of financial position, with no change to the consolidated statement of financial position as a result of this change in presentation.

Restatement as a result of discontinued operations

On 11 March 2020, Castle Water Limited announced plans to merge with Affinity for Business (Retail) Limited, one of the group's trading subsidiaries. The entity was sold to Castle Water Limited on 1 April 2020 and subsequently changed its name on 3 April 2020 to Castle Water (Southern) Limited. As a result, the trading subsidiary is shown as a discontinued operation in these financial statements. The prior year figures in the consolidated income statement, note 1, notes 2.1 and 2.2, note 4 and note 5 have been restated to exclude discontinued operations.

Daiwater Investment Limited

Notes to the financial statements

1. Revenue

1.1 Disaggregation of revenue from contracts with customers

	2020	2019 restated
	£000	£000
Timing of revenue recognition – at a point in time		
Unmeasured supplies	**106,577**	116,829
Measured supplies	**178,768**	173,376
Non-household wholesale revenue	**8,673**	9,455
Connection charges	**10,076**	9,317
Chargeable services	**45**	84
	304,139	309,061
Timing of revenue recognition – over time		
Requisitioned mains/extensions	**576**	569
Diversions	**1,375**	827
Infrastructure charges	**992**	956
Other	**158**	156
	3,101	2,508
	307,240	311,569

All revenue is derived in the United Kingdom.

1.2 Assets and liabilities related to contracts with customers

The group has recognised the following assets and liabilities related to contracts with customers:

	31 March 2020 £000	31 March 2019 £000	1 April 2018 £000
Net trade receivables	**26,868**	39,579	36,954
Contract assets			
Unbilled accrual for metered customers – household customers	**36,013**	32,392	28,722
Unbilled accrual for metered customers – non-household customers	**598**	14,004	11,947
Contract liabilities			
Payments received in advance – water supplies	**34,285**	37,263	33,650
Deferred income – water supplies	**72**	1,194	486
Deferred income – other	**1,605**	2,049	2,133
Deferred grants and contributions	**134,933**	117,894	100,515
Payments received in advance – grants and contributions	**77,577**	35,685	22,655

‘Payments received in advance – grants and contributions’ in the table above relate to contributions received from developers where the asset is still work in progress and not yet being depreciated. Once the asset is complete, the contribution is moved from ‘payments received in advance – grants and contributions’ to ‘deferred grants and contributions’ and amortised, to ensure the accounting treatment is consistent.

Notes to the financial statements

1. Revenue (continued)

1.2 Assets and liabilities related to contracts with customers (continued)

Significant changes in contract assets and liabilities

Up to 31 March 2020, the group had been reimbursed £79,123,000 (2019: £30,494,000) for its costs incurred in relation to the HS2 rail project, which will cross the Affinity Water supply area. During the year, in line with the group's accounting policy for grants and contributions received in respect of property, plant and equipment, which include contributions received for diversions, £13,408,000 (2019: £10,510,000) relating to costs for assets that have been commissioned was reclassified from payments in advance – grants and contributions to deferred grants and contributions. At 31 March 2020, £55,205,000 (2019: £19,984,000) of payments received were included in payments in advance – grants and contributions.

Recognition of trade receivables, contract assets and contract liabilities

For metered customers, a receivable is recognised when the customer is billed for the usage. At this point, the consideration is unconditional because only the passage of time is required before the payment is due. Where the group has provided the service before payment is due, an accrual for the consumption of water that has not yet been billed is recognised in the income statement and the group discloses this as a contract asset in the statement of financial position (see table on the previous page). Where the group has not provided the service before payment is due, deferred income is recognised and the group discloses this as a contract liability in the statement of financial position (see table on the previous page).

For unmetered customers, the customer pays a fixed amount determined by the transaction prices set out in the group's charging scheme and tariff documents. If the payments received exceed the amount the group has the right to receive, the group recognises a payment received in advance and discloses this as a contract liability in the statement of financial position (see table on the previous page).

Some non-household retailers are billed monthly in advance for wholesale charges determined by billing/volume reports created by the market operator. The group recognises deferred income in relation to these accounts and presents this as a contract liability within payables. Where the group has not provided the service before payment is due, deferred income is recognised and the group discloses this as a contract liability in the statement of financial position (see table on the previous page).

Developers are billed for connection charges and contributions towards diversions and requisitioned mains/extensions in advance of work being performed by the group. The group recognises these payments as being received in advance and discloses them as contract liabilities in the statement of financial position (see table on the previous page).

Developers are billed for infrastructure charges once the connection has been completed; a trade receivable is immediately recognised at this point as the consideration is unconditional. These receivables are included in net trade receivables in the table on the previous page.

The group does not incur any costs to obtain or fulfil contracts that would be recognised as an asset under IFRS 15.

Daiwater Investment Limited

Notes to the financial statements

1. Revenue (continued)

1.2 Assets and liabilities related to contracts with customers (continued)

Revenue recognised in relation to contract liabilities

The following table sets out how much of the revenue recognised in the current reporting period relates to carried forward contract liabilities and how much relates to performance obligations that were satisfied in a prior year:

	2020	2019
	£000	£000
Revenue recognised that was included in the contract liability balance at the beginning of the year		
Payments received in advance – water supplies	**37,263**	33,650
Deferred income – water supplies	**1,194**	486
Deferred income – other	**1,208**	2,217
Deferred grants and contributions	**3,101**	2,508
Payments received in advance – grants and contributions	**9,027**	7,669
Revenue recognised from performance obligations satisfied in previous years		
Unbilled accrual for metered customers – household customers	**592**	339
Unbilled accrual for metered customers – non-household customers	**-**	(69)

Revenue expected to be derived from unsatisfied performance obligations

IFRS 15 requires the disclosure of the aggregate amount of revenue which is expected to be derived from performance obligations which are unsatisfied as at the end of the reporting period, i.e. the aggregate amount of future revenues from existing ongoing contracts. At 31 March 2020 £14,033,000 (2019: £10,364,000) of revenue is expected to be derived from performance obligations relating to non-household customers which were unsatisfied at the end of the reporting period. The group has applied the practical expedient, set out in paragraph 121(a) of IFRS 15, not to disclose the amount in relation to household water charges as the performance obligation is part of a contract that has an original expected duration of one year or less.

At 31 March 2020, £134,933,000 (2019: £117,894,000) of grants and contributions is expected to be derived from performance obligations which were unsatisfied at the end of the reporting period.

Variable consideration

The unbilled accrual for measured income is a contract asset under IFRS 15 and is deemed to be variable consideration. Historical information has proved to be an accurate indicator of current consumption and therefore the group deems it reasonable to conclude that the measured income accrual is materially correct.

Notes to the financial statements (continued)

2. Operating profit/(loss)

2.1 Operating costs

The following items have been charged/(credited) to either cost of sales or administrative expenses in the consolidated income statement:

	2020 **£000**	2019 restated £000
Staff costs (note 3.1)	**67,773**	70,377
Profit on disposal of property, plant and equipment	**(1,630)**	(1,058)
Loss on disposal of infrastructure assets	**1,262**	1,714
Loss on disposal of intangible assets	**12**	-
Purchase of bulk water and water supplied under statutory entitlement	**7,960**	6,911
Water abstraction charges	**3,791**	4,122
Business rates	**15,446**	15,922
Chargeable services direct expenditure	**444**	372
Depreciation of infrastructure assets (note 6)	**12,057**	12,618
Depreciation of other property, plant and equipment (note 6)	**52,835**	47,176
Depreciation of right-of-use assets (note 7)	**3,859**	-
Amortisation of intangible assets (note 8)	**15,768**	16,250
Impairment of goodwill (note 8)	**-**	120,000
Impairment of trade receivables and contract assets (note 11)	**9,470**	6,781
Research and development	**114**	192
Operating lease rentals – land and buildings	**-**	1,719
Operating lease rentals – other	**-**	2,659
Short-term lease rentals	**10**	-
Low-value lease rentals	**44**	-
Auditors' remuneration (note 2.3)	**555**	805
Cost of inventories used	**1,106**	351

2.2 Other income

	2020 **£000**	2019 restated £000
Timing of revenue recognition – at a point in time		
Commission and rentals	**17,328**	17,148

The majority of other income relates to commission earned by Affinity Water Limited billing and collecting charges in respect of sewerage and infrastructure within its area on behalf of Thames Water Utilities Limited and Anglian Water Services Limited.

2. Operating profit (continued)

2.3 Auditors' remuneration

During the year the group obtained the following services from its auditor and its associates:

	2020 £000	2019 £000
Fees payable to the company's auditor and its associates for the audit of the parent company and consolidated financial statements	**8**	5
Fees payable to the company's auditor and its associates for other services:		
Audit of the company's subsidiaries	**285**	241
Audit-related assurance services		
– regulatory reporting	**59**	55
– Thames Water and Anglian Water annual returns	**9**	9
– audit related assurance service - other	**36**	34
Other assurance services including services related to bond issue	**38**	6
Other non-audit services	**120**	455
Total auditors' remuneration	**555**	805

3. Employees

3.1 Employee benefit expense (including executive directors)

Group

	2020 £000	2019 £000
Wages and salaries	**63,134**	65,128
Social security costs	**6,279**	6,366
Defined benefit pension costs (note 10)	**4,100**	5,880
Defined contribution pension costs (note A5)	**3,470**	3,599
Other pension administration costs	**1,319**	1,285
Staff costs	**78,302**	82,258
Staff costs capitalised	**(10,529)**	(11,881)
Staff costs recognised in the income statement	**67,773**	70,377

Notes to the financial statements (continued)

3. Employees (continued)

3.2 Average number of people employed

The average monthly number of persons (including executive directors) employed by the group during the year was:

By activity	**2020**	2019
Operations	**776**	830
Customer service	**325**	328
Administration	**285**	284
	1,386	1,442

The company had no employees during the current year or prior year.

3.3 Directors' remuneration

The disclosure is provided in respect of the directors of Daiwater Investment Limited and their services in respect of the Daiwater Investment Limited group.

All of the directors who sat on the Board of Daiwater Investment Limited were appointed by Allianz Capital Partners on behalf of the Allianz Group, DIF and InfraRed Capital Partners Limited on behalf of HICL Infrastructure plc did not receive any remuneration from the company, or any company within the Affinity Water group. Therefore the disclosure below also reflects the highest paid director of the company.

	2020	2019
	£000	£000
Aggregate remuneration in respect of qualifying services	**-**	-

None of the directors of the company participate in the group's pension plans. The company does not have any listed shares and so the directors have not been offered any share incentives.

3.4 Key management personnel compensation

	2020	2019
	£000	£000
Short-term employee benefits	**1,837**	1,649
Post-employment benefits	**104**	104
	1,941	1,753

Key management personnel are considered to be directors of group companies who do not sit on the Board of the company. Only executive directors and independent non-executive directors of Affinity Water Limited receive remuneration for their services as directors. Further information can be found within the remuneration report of Affinity Water Limited's annual report and financial statements for the year ended 31 March 2020, and statutory disclosures in the financial statements of Castle Water (Southern) Limited (formerly Affinity for Business (Retail) Limited) for the year ended 31 March 2020.

Notes to the financial statements (continued)

4. Finance income and costs

Group

	2020 £000	2019 restated £000
Finance income:		
Bank interest income	**954**	814
Net interest receivable on RPI linked inflation swap	**4,950**	2,955
Fair value gains on bonds	**24,045**	26,294
Net income from post-employment benefits	**2,487**	2,829
	32,436	32,892
Finance costs:		
Accretion payable in respect of interest on bonds	**(10,202)**	(9,483)
Interest payable on bonds	**(37,449)**	(37,293)
Accretion payable on financial instrument	**(3,357)**	(1,679)
Interest payable on lease liabilities	**(383)**	-
Other	**(1,474)**	(1,295)
	(52,865)	(49,750)
Fair value loss on financial instrument	**(1,816)**	(2,389)
Net finance costs	**(22,245)**	(19,247)

Company

	2020 £000	2019 restated £000
Interest receivable from subsidiary undertakings	**12,210**	11,244
Total finance income	**12,210**	11,244

Daiwater Investment Limited

Notes to the financial statements (continued)

5. Tax expense

5.1 Tax expense included in the consolidated income statement

	2020	2019 restated
	£000	£000
Current tax:		
– UK corporation tax on profits for the year	**3,621**	4,424
– Adjustment in respect of prior years	**(1,453)**	(417)
Total current tax	**2,168**	4,007
Deferred tax:		
– Origination and reversal of temporary differences	**1,208**	2,220
– Impact of change in tax rate	**21,726**	-
– Adjustment in respect of prior years	**1,219**	134
Total deferred tax	**24,153**	2,354
Tax expense	**26,321**	6,361

Tax expense assessed for the year is higher (2019: higher) than the standard rate of corporation tax in the UK for the year ended 31 March 2020 of 19% (2019: 19%). The differences are explained below:

	2020	2019 restated
	£000	£000
Profit/(loss) before tax	**13,583**	(89,599)
Tax calculated at the standard rate of tax in the UK of 19% (2019: 19%)	**2,581**	(17,024)
Tax effects of:		
– Adjustments in respect of prior years	**(234)**	(283)
– Impairment of goodwill	**-**	22,800
– Other expenses not deductible for tax purposes	**2,248**	868
– Impact of change in tax rate on deferred tax	**21,726**	-
Tax expense	**26,321**	6,361

5.2 Tax expense included in the statement of comprehensive income

	2020 £000	2019 £000
Deferred tax:		
- Origination and reversal of temporary differences on retirement benefit surplus	**7**	(1,487)

5. Tax expense (continued)

5.3 Factors that may affect future tax charges

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

In the Spring Budget 2020, the Government announced that from 1 April 2020 the Corporation Tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020.

5.4 Reconciliation of current and deferred tax charge

	2020 £000	**2020 %**	2019 £000	2019 %
Group profit/(loss) before tax	**13,583**		(89,599)	
Tax on profit/(loss) on ordinary activities at standard UK tax rate of 19% (2019: 19%)	**2,581**	**19.0%**	(17,024)	19.0%
Tax effect of:				
Depreciation in excess of capital allowances	**4,022**	**29.6%**	2,327	(2.6)%
Write down of fair value adjustment on acquisition of the Affinity Water Acquisitions (Investments) Limited group	**(3,033)**	**(22.3)%**	(3,465)	3.9%
Impairment of goodwill	**-**	**0.0%**	22,800	(25.4)%
Pension movements	**(644)**	**(4.7)%**	(833)	0.9%
Increase in provisions	**576**	**4.2%**	56	(0.1)%
Expenses not deductible for tax purposes	**119**	**0.9%**	563	(0.6)%
Adjustment to tax charge in respect of prior years	**(1,453)**	**(10.7)%**	(417)	0.5%
Reported current tax charge and effective rate	**2,168**	**16.0%**	4,007	(4.5)%
Depreciation in excess of capital allowances	**(2,937)**	**(21.6)%**	(1,647)	1.8%
Write down of fair value adjustment on acquisition of the Affinity Water Acquisitions (Investments) Limited group	**3,660**	**26.9%**	3,172	(3.5)%
Pension movements	**576**	**4.2%**	745	(0.8)%
Impact of change in tax rate on deferred tax	**21,726**	**159.9%**	-	0.0%
Increase in provisions	**(91)**	**(0.7)%**	(50)	0.1%
Adjustments to tax charge in respect of prior years	**1,219**	**9.0%**	134	(0.1)%
Reported deferred tax charge and effective rate	**24,153**	**177.7%**	2,354	(2.6)%
Group tax charge and effective rate	**26,321**	**193.7%**	6,361	(7.1)%

Impact of change in tax rate

In the 2020 Spring Budget the Government announced that the Corporation Tax rate would remain at 19% from 1 April 2020, rather than reducing to 17% as had been previously announced. The deferred tax liability at 31 March 2020 has been recalculated at 19%, resulting in an additional deferred tax charge of £21.726m.

All other significant adjustments to taxable profits for the year ended 31 March 2020 are timing differences. These will reverse in future years, so a higher tax charge in 2019/20 will result in a lower tax charge in a later year and vice versa. The impact on the tax charge in future years is reflected in the deferred tax account.

Daiwater Investment Limited

Notes to the financial statements (continued)

5. Tax expense (continued)

5.4 Reconciliation of current and deferred tax charge (continued)

Depreciation in excess of capital allowances

The tax relief on our infrastructure assets is different from the depreciation of these assets in the financial statements (although over the total life of the assets the two amounts will be equal). In 2019/20 the amount written off for tax purposes was lower than the depreciation in the financial statements, resulting in a higher tax charge for the year.

Write down of fair value adjustment

The write down of the Fair Value adjustment in respect of the acquisition of the Affinity Water Acquisitions (Investments) Ltd group relates to the gain on revaluation of the assets and liabilities of the companies acquired in 2017/18. It is an accounting adjustment and is not subject to Corporation Tax.

Impairment of goodwill

An impairment to goodwill of £120,000,000 was recognised in the year ended 31 March 2019. This was not tax deductible.

Pension movements

Tax relief is given for the amount actually paid into the company's pension funds in the year, not the amount charged in the financial statements. In 2019/20 the amount paid into the pension funds was higher than the amount charged in the financial statements, resulting in a lower tax charge for the year.

Increase in provisions

Some provisions charged in the financial statements are not deductible until the amounts provided are actually paid. This has the effect of increasing taxable profit, and results in a higher tax charge for the year.

Expenses not deductible for tax purposes

These will not reverse in future years, therefore the increase in the tax charge is permanent. Permanent disallowable expenses include fines, business entertaining and certain legal fees.

Adjustment to tax charge in respect of prior years

The tax provision in the financial statements is a best estimate at the time. The estimate is corrected when the tax returns are finalised and submitted to HMRC 12 months after the year end. The correction made to the tax return for the year ended 31 March 2019 resulted in a lower tax charge, mainly as a result of claiming capital allowances.

Compliance with the group's tax strategy

All group companies were compliant with the group's published tax strategy during the year ended 31 March 2020. The tax strategy is published on Affinity Water Limited's website:
https://stakeholder.affinitywater.co.uk/investor-library.aspx

Daiwater Investment Limited

Notes to the financial statements (continued)

5. Tax expense (continued)

5.5 Taxation and country by country reporting

Our consolidated turnover is below the threshold for mandatory country by country reporting, however we recognise that this information is helpful for readers of our financial statements and have chosen to provide it voluntarily.

The country by country analysis for the years ended 31 March 2020 and 2019 is as follows:

Country of incorporation	Tax residence	Net asset value	Revenue	Profit/ (loss) before tax	Total tax charge	Effective tax rate	Current tax	Number of employees	Staff costs
		£000	£000	£000	£000	%	£000	Nr	£000
United Kingdom	United Kingdom	**2,601,535**	**307,240**	**13,583**	**26,321**	**193.7**	**2,168**	**1,386**	**67,773**
Cayman Islands	United Kingdom	**35**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Group total as at 31 March 2020		**2,601,570**	**307,240**	**13,583**	**26,321**	**193.7**	**2,168**	**1,386**	**67,773**
United Kingdom	United Kingdom	2,519,117	311,569	(89,604)	6,360	(7.1)	4,006	1,442	70,377
Cayman Islands	United Kingdom	35	-	5	1	19.0	1	-	-
Group total as at 31 March 2019		2,519,152	311,569	(89,599)	6,361	(7.1)	4,007	1,442	70,377

On 22 January 2019, the assets and liabilities of Affinity Water Programme Finance Limited, incorporated in the Cayman Islands, were transferred to the group’s UK incorporated subsidiary Affinity Water Finance PLC.

6. Property, plant and equipment

Group

	Land, buildings and operational structures £000	Potable water distribution mains £000	Raw water pipes £000	Fixed plant £000	Vehicles and mobile plant £000	Assets in course of construction £000	Total £000
Cost or deemed cost							
At 1 April 2019	314,974	851,849	23,874	836,121	66,992	122,967	**2,216,777**
Additions	14	-	-	12	-	124,137	**124,163**
Transfers	7,391	54,635	-	47,769	17,540	(127,335)	**-**
Assets classified as held for sale and other disposals	(450)	(1,345)	(14)	(88)	(1,483)	-	**(3,380)**
At 31 March 2020	321,929	905,139	23,860	883,814	83,049	119,769	**2,337,560**
Accumulated depreciation							
At 1 April 2019	(92,495)	(55,090)	(1,701)	(522,583)	(28,821)	-	**(700,690)**
Charge for the year	(4,711)	(11,725)	(332)	(42,420)	(5,704)	-	**(64,892)**
Assets classified as held for sale and other disposals	54	96	1	25	1,483	-	**1,659**
At 31 March 2020	(97,152)	(66,719)	(2,032)	(564,978)	(33,042)	-	**(763,923)**
Net book amount							
At 1 April 2019	222,479	796,759	22,173	313,538	38,171	122,967	**1,516,087**
Movement in year	2,298	41,661	(345)	5,298	11,836	(3,198)	**57,550**
At 31 March 2020	224,777	838,420	21,828	318,836	50,007	119,769	**1,573,637**

All land and buildings are held as freehold.

Company

The company does not have any property, plant or equipment.

Daiwater Investment Limited

Notes to the financial statements (continued)

7. Right-of-use assets

Group

	Buildings £000	Vehicles £000	Other £000	Total £000
Cost				
At 1 April 2019	10,349	5,013	402	**15,764**
Additions	-	1,822	-	**1,822**
Assets classified as held for sale and other disposals	(1,270)	(46)	-	**(1,316)**
At 31 March 2020	9,079	6,789	402	**16,270**
Accumulated depreciation				
At 1 April 2019	-	-	-	**-**
Charge for the year	(1,397)	(2,232)	(230)	**(3,859)**
Assets classified as held for sale and other disposals	-	25	-	**25**
At 31 March 2020	(1,397)	(2,207)	(230)	**(3,834)**
Net book amount				
At 1 April 2019	10,349	5,013	402	**15,764**
Movement in year	(2,667)	(431)	(230)	**(3,328)**
At 31 March 2020	7,682	4,582	172	**12,436**

Company

The company does not have any right-of-use assets.

Daiwater Investment Limited

Notes to the financial statements (continued)

8. Intangible assets

Group

	Goodwill	Billing relationships	Water licence	Computer software development costs	Other	Total
	£000	£000	£000	£000	£000	£000
Cost						
At 1 April 2019	447,036	32,800	300,800	73,082	48	**853,766**
Accumulated impairment	(120,000)	-	-	-	-	**(120,000)**
Additions	-	-	-	7,513	-	**7,513**
Impairment	-	-	-	-	-	**-**
Assets classified as held for sale and other disposals	-	(11)	-	(3,779)	(48)	**(3,838)**
At 31 March 2020	327,036	32,789	300,800	76,816	-	**737,441**
Accumulated amortisation						
At 1 April 2019	-	(12,257)	-	(39,588)	(6)	**(51,851)**
Charge for the year	-	(6,578)	-	(9,190)	-	**(15,768)**
Assets classified as held for sale and other disposals	-	9	-	2,780	6	**2,795**
At 31 March 2020	-	(18,826)	-	(45,998)	-	**(64,824)**
Net book amount						
At 1 April 2019	327,036	20,543	300,800	33,494	42	**681,915**
Movement in year		(6,580)	-	(2,676)	(42)	**(9,298)**
At 31 March 2020	327,036	13,963	300,800	30,818	-	**672,617**

Goodwill includes £447,036,000 arising on the acquisition of Affinity Water Acquisitions (Investments) Limited on 19 May 2017, with an impairment of £120,000,000 being recognised in the prior year. Goodwill is reviewed at least annually for impairment and upon any indication of impairment.

The economic life of the water licence held by Affinity Water Limited has been determined to be indefinite, as the water licence is issued on a perpetual basis with a 25 year notice period. Therefore the water licence is also reviewed at least annually for impairment and upon any indication of impairment.

No impairment to the water licence has been recognised in the year ended 31 March 2020 (2019: £nil).

Affinity Water Limited, the group's principal trading company, is the main cash generating unit ('CGU'). It constitutes the smallest identifiable group of assets that generate cash flows for the entity, by means of supplying drinking water to customers, for which the carrying amount of the goodwill and water licence are allocated to. The recoverable amount is based on the CGU's fair value less transaction costs, which has been determined using a discounted cash flow, developed from a detailed business forecast, and applying a terminal value, in addition to an estimate of costs of disposal based on transaction costs paid on acquisition of the group in May 2017. This approach has been used, as it is an industry-recognised valuation methodology.

8. Intangible assets (continued)

An estimate of the terminal value has been determined through an analysis of the current market conditions, taking a prudent approach, using recent transactions in the UK water industry, publicly available share price information for listed water supply companies, and consideration of Affinity Water Limited's risk profile compared to other companies in the sector. This is a subjective area and changes in the conditions for judgements used in estimating a reasonable market premium could significantly affect the assessed value of goodwill in future periods. Each 1% decrease to this terminal value would lead to a £4,053,000 increase to the impairment at 31 March 2020 (2019: £3,682,000 increase).

Included in the computer software asset category above is £9,895,000 (2019: £8,080,000) of capitalised intangible assets under construction, which is not amortised. £5,156,000 (2019: £4,385,000) of intangible projects under construction were completed in the year, and amortisation was charged as at the point in time that the software became fit for purpose and ready to use.

There were no individually material computer software development costs in the year ended 31 March 2020 (2019: £nil).

Company

The company does not have any intangible assets.

9. Investments

Group

	2020	2019 *restated*
	£000	£000
Non-current assets		
Investments	**51**	51
Current assets		
Short-term deposits	**25,202**	15,049

The directors confirm that the carrying value of investments is supported by their underlying net assets.

Company

	2020	2019
	£000	£000
Investment in subsidiary	**612,524**	614,524

The investment balance in the company relates to Affinity Water Acquisitions (Investments) Limited. Determining whether the company's investment in its subsidiary has been impaired requires an estimation of the investment's fair value less transaction costs. This has been determined using the RCV of Affinity Water Limited at 31 March 2020, an estimate of the market premium that a private entity would pay for Affinity Water Limited and an estimate of costs of disposal based on transaction costs paid on acquisition of the group in May 2017. The net present value of remaining debt payments associated with Affinity Water Limited's debt at the year-end has been considered in the impairment assessment. The directors confirm that the carrying value of the investment at 31 March 2020 and 31 March 2019 is supported by its underlying net assets and that the headroom is such that no reasonable change in any key assumptions is expected to result in impairment of the investment in subsidiary.

The movement in the investment in subsidiary is due to the investment held in Affinity for Business (Retail) Limited being reclassified as held for sale following the sale of the subsidiary outside of the group on 1 April 2020.

Daiwater Investment Limited

Notes to the financial statements (continued)

10. Retirement benefit surplus

Group - Defined benefit section

The net pension expense before taxation recognised in the income statement in respect of the defined benefit plan is:

	2020 £000	2019 £000
Current service cost	**(3,952)**	(4,132)
Past service cost	**(148)**	(1,748)
Pension expense charged to operating profit	**(4,100)**	(5,880)
Net pension interest income credited to finance income (note 4)	**2,487**	2,829
Net pension expense charged before taxation	**(1,613)**	(3,051)

The opening and closing retirement benefit surpluses included in the statement of financial position are summarised as follows:

	£000	£000
At 1 April 2019 / 1 April 2018	**101,194**	105,558
Employer contributions	**5,000**	7,434
Current service cost	**(3,952)**	(4,132)
Past service cost	**(148)**	(1,748)
Net interest income	**2,487**	2,829
Net re-measurement gain/(loss)	**38**	(8,747)
At 31 March 2020 / 31 March 2019	**104,619**	101,194

Re-measurement gains and losses are recognised directly in the statement of comprehensive income and are summarised as follows:

	2020 £000	2019 £000
Re-measurement (losses)/gains on plan assets	**(18,556)**	2,485
Re-measurement gains/(losses) on plan liabilities	**18,594**	(11,232)
	38	(8,747)

The past service cost in the prior year fully relates to the impact of the court ruling in October 2018 to remove historical gender inequalities in relation to Guaranteed Minimum Pensions.

Further analysis and underlying valuation assumptions of the defined benefit plan are provided in note A5.

Company

The company does not have any retirement benefits.

Notes to the financial statements (continued)

11. Trade and other receivables

Group

	2020 £000	2019 £000
Non-current:		
Other receivables	**2,300**	2,215
Current:		
Trade receivables	**61,453**	69,964
Less: loss allowance for trade receivables	**(34,585)**	(30,385)
	26,868	39,579
Interest receivable from external parties	**5,051**	4,044
Other receivables	**5,412**	5,958
Unbilled accrual for metered customers	**36,611**	46,396
Prepayments and accrued income	**5,619**	5,547
	52,693	101,524
	79,561	103,739

The carrying amounts of trade and other receivables approximate to their fair value.

11.1 Loss allowance for trade receivables and contract assets

Trade receivables and contract assets do not carry interest and are stated net of a loss allowance, as follows:

	Trade receivables		Unbilled accrual for metered customers		Total	
	2020 £000	2019 £000	2020 £000	2019 £000	2020 £000	2019 £000
At 1 April	**30,385**	29,700	**307**	306	**30,692**	30,006
Loss allowance for receivables charged to income statement	**9,508**	6,780	**(38)**	1	**9,470**	6,781
Receivables written off during the year as uncollectable	**(2,719)**	(6,095)	**-**	-	**(2,719)**	(6,095)
Assets classified as held for sale	**(2,589)**	-	**-**	-	**(2,589)**	-
At 31 March	**34,585**	30,385	**269**	307	**34,854**	30,692

See note A4 for details of the nature and the calculation of the loss allowance.

£1,680,000 of the £9,470,000 total provision for receivables impairment charged to the income statement in the year is an additional charge arising as a result of COVID-19.

11. Trade and other receivables (continued)

11.2 Ageing analysis of trade receivables

The aged analysis of receivables at the reporting date is as follows:

	2020	2019
	£000	£000
Aged less than one year	**14,891**	25,628
Aged between one year and two years	**9,369**	12,528
Aged greater than two years	**2,608**	1,423
	26,868	39,579

Company

The company does not have any trade or other receivables.

12. Inventories

Group

	2020	2019
	£000	£000
Raw materials and consumables	**3,017**	2,716

Inventories are stated after provisions for impairment of £538,000 (2019: £538,000).

Company

The company does not have any inventories.

13. Cash and cash equivalents

Group

	2020	2019 *restated*
	£000	£000
Cash at bank and in hand	**28,535**	33,047
Term deposits	**57,219**	65,219
	85,754	98,266

The carrying amounts of cash and cash equivalents approximate to their fair value.

Company

The company does not have any cash or cash equivalents.

14. Share capital

Group and company

Allotted, called up and fully paid share capital	**2020**	2019
	£000	£000
744,133,355 (2019: 744,133,355) ordinary shares of £1 (2019: £1) each	**744,133**	744,133

The company was incorporated on 24 April 2017 with a share capital of 3 ordinary £1 shares. There was a further capital injection on 19 May 2017 for an amount of £744,133,352 upon the issuance of 272,070,036 Class B £1 shares, 199,993,280 Class C shares and 272,070,036 Class D £1 shares. On the same date the 3 original ordinary shares were converted into one Class B, one Class C and one Class D share.

Each share class rank pari passu on distribution of profits or capital. Voting rights for each share differs, with Class B carrying 0.92 votes, Class C carrying 1.24 votes and Class D carrying 0.91 votes at a general meeting and on a written resolution of the shareholders.

Allianz Capital Partners owned 272,070,037 of the above Class B shares, DIF owned 199,993,281 of the above Class C shares and HICL Infrastructure plc owned 272,070,037 of the above Class D shares.

On acquisition, each of the parties was granted an option to convert the voting rights attaching to Class B, C and D shares to Class A1, A2, and A3 shares. The option was exercised by Infrastructure Investments (Affinity) Limited via InfraRed Capital Partners Limited, the Investment Manager to HICL Infrastructure plc, on 7 January 2019 and the conversion occurred on 11 February 2019.

On 14 May 2019, InfraRed Capital Partners Limited triggered a further conversion right, which ultimately converted the Class A1, A2 and A3 shares to a single class of ordinary shares. The conversion to ordinary shares occurred on 12 June 2019, under which voting rights become proportional to the shareholders' economic interest.

Daiwater Investment Limited

Notes to the financial statements (continued)

15. Trade and other payables

Group

	2020 £000	2019 £000
Non-current		
Amounts falling due after more than one year		
Deferred grants and contributions	**10,187**	10,458
Amounts falling due after more than five years		
Deferred grants and contributions	**122,507**	105,301
	132,694	115,759
Current		
Amounts falling due within one year		
Trade payables	**9,544**	13,620
Interest payable to external parties	**14,058**	13,898
Social security and other taxes	**1,559**	1,680
Other payables	**6,062**	9,140
Capital accruals	**14,498**	13,149
Deferred grants and contributions	**2,239**	2,135
Payments received in advance	**111,862**	72,948
Other accruals	**33,573**	32,184
Deferred income	**1,677**	1,306
Bank overdraft	**373**	-
	195,445	160,060
	328,139	275,819

The carrying amounts of trade and other payables approximate to their fair value.

Company

The company does not have any trade and other payables.

16. Borrowings

Group

	2020 £000	2019 £000
Non-current		
Borrowings measured at amortised cost:		
Bonds	**1,366,264**	1,380,922
Bank term loan	**25,000**	25,000
3.5% irredeemable consolidated debenture stock	**-**	-
4% irredeemable consolidated debenture stock	**8**	8
4% irredeemable debenture stock	**1**	1
4.25% irredeemable debenture stock	**-**	-
5% irredeemable debenture stock	**24**	24
5.25% irredeemable debenture stock	**1**	1
	1,391,298	1,405,956

On 13 July 2004, Affinity Water Finance (2004) PLC, a subsidiary of the group, issued a £200,000,000 bond at an interest rate of 5.875% and repayable in July 2026. On 16 July 2014 Affinity Water Finance (2004) PLC completed a tap issue of £50,000,000 on the same terms as the existing £200,000,000 bond. The net proceeds of the bond issues and the tap issue were lent to Affinity Water Limited on the same terms.

On 4 February 2013, the group's subsidiary Affinity Water Programme Finance Limited issued £80,000,000 Class A Guaranteed Notes maturing in September 2022 with a coupon of 3.625%, £250,000,000 Class A Guaranteed Notes maturing in March 2036 with a coupon of 4.500%, £150,000,000 Class A Guaranteed RPI linked Notes maturing in June 2045 with a coupon of 1.548% and £95,000,000 Class B Guaranteed RPI linked Notes maturing in June 2033 with a coupon of 3.249%.

On 29 October 2015, Affinity Water Programme Finance Limited completed a tap issue of its 1.548% RPI linked Notes maturing in June 2045 of £40,000,000 on the same terms as the existing 2045 Notes.

On 19 February 2016, Affinity Water Programme Finance Limited issued £10,000,000 Class B Guaranteed RPI linked Notes maturing in June 2033 with a coupon rate of 1.024%.

On 22 August 2016, Affinity Water Programme Finance Limited exchanged £65,800,000 of its 3.625% Guaranteed Notes due 2022 for a new issue of 3.278% Guaranteed Notes due 2042. An additional £19,200,000 of 3.278% Guaranteed Notes due 2042 were issued at the same time.

On 22 November 2017, Affinity Water Programme Finance Limited issued £60,000,000 Class A Guaranteed Notes maturing in November 2033 with a coupon of 2.699% and £60,000,000 Class A Guaranteed CPI linked Notes maturing in November 2042 with a coupon of 0.230%.

The net proceeds of the bond issues and the tap issue were lent to Affinity Water Limited on the same terms.

16. Borrowings (continued)

On 22 January 2019, the assets and liabilities of Affinity Water Programme Finance Limited were transferred to the group's subsidiary Affinity Water Finance PLC.

Affinity Water Limited, a subsidiary of the group, has unconditionally and irrevocably guaranteed the due and punctual payment of all sums from time to time payable by Affinity Water Finance (2004) PLC and Affinity Water Finance PLC in respect of the bonds issued by these companies. These guarantees constitute direct, general and unconditional obligations of the company which will at all times rank at least pari passu with all other present and future unsecured obligations. The bonds issued are also guaranteed by Affinity Water Holdings Limited, the immediate parent undertaking of Affinity Water Limited.

The fair value of the bonds on-lent from the two financing subsidiaries at 31 March 2020 is £1,348,245,000 (2019 restated: £1,378,075,000). The fair value of Class A bonds has been derived from 'level 1' fair value measurements: quoted prices (unadjusted) in active markets for identical liabilities. The fair value of Class B bonds has been derived from 'level 2' fair value measurements: directly observable market inputs other than level 1 inputs.

Affinity Water Limited is subject to a number of covenants in relation to its borrowings, which, if breached, would result in its loans becoming immediately repayable. These covenants specify certain limits in terms of key ratios such as net cash flow to debt interest and net debt to RCV. At the year end Affinity Water Limited was not in breach of any financial covenants.

On 28 September 2017, Affinity Water Holdco Finance Limited borrowed £25,000,000 under a term loan facility with a commercial bank. The initial term of the loan was twelve months. The proceeds of this loan were lent to Affinity Water Capital Funds Limited on the same terms in order to fund an intercompany loan to Castle Water (Southern) Limited (formerly Affinity for Business (Retail) Limited). In March 2019, the term of the loan was extended to 31 July 2020. In July 2020, the term of the loan was extended to 30 June 2023. As a result, it has subsequently been reclassified as a non-current liability on the statement of financial position.

Company

The company does not have any borrowings.

17. Lease liabilities

Group

	31 March 2020 £000	1 April 2019 £000
Non-current:		
Lease liabilities	**9,068**	12,309
Current:		
Lease liabilities	**3,491**	3,455

Depreciation charge of right-of-use assets recognised in consolidated income statement for the year ended 31 March 2020 is £3,859,000 (refer to note 7).

The interest expense on lease liabilities recognised in the consolidated income statement for the year ended 31 March 2020 is £383,000 (refer to note 4).

Expense relating to short-term leases recognised in the consolidated income statement for the year ended 31 March 2020 is £10,000 (refer to note 2.1).

Expense relating to leases of low-value assets that are not shown above as short-term leases recognised in the consolidated income statement for the year ended 31 March 2020 is £44,000 (refer to note 2.1).

Total cash outflow for leases for the year ended 31 March 2020 was £4,094,000, of which £3,711,000 was principal elements of lease payments and £383,000 was interest payments.

Additions to right-of-use assets in the year ending 31 March 2020 was £1,822,000 (refer to note 7). The carrying amount of right-of-use assets at 31 March 2020 is £12,436,000 (refer to note 7).

Company

The company does not have any lease liabilities.

18. Derivative financial instrument

Group

	2020 £000	2019 £000
Non-current		
Fair value of RPI linked inflation swap	**2,430**	2,389
Accretion on RPI linked inflation swap	**4,975**	1,608
Fair value of CPI linked inflation swap	**1,775**	-
Accretion on CPI linked inflation swap	**(31)**	-
	9,149	3,997

An RPI linked inflation swap with a nominal value of £135.0m, which is linked to the maturity of the Class A fixed rate £250.0m bond (maturity July 2026), was entered into in August 2018.

A CPI linked inflation swap with a nominal value of £25.0m, which is linked to the maturity of the Class A fixed rate £250.0m bond (maturity March 2036), was entered into in March 2020.

Notes to the financial statements (continued)

18. Derivative financial instrument (continued)

Company

The company does not have any derivative financial instruments.

19. Deferred tax liabilities

19.1 Analysis of deferred tax assets and deferred tax liabilities

Group

	2020	2019
	£000	£000
Deferred tax assets:		
– Deferred tax asset to be recovered within 12 months	**(4,793)**	(3,436)
– Deferred tax asset to be recovered after more than 12 months	**(48,979)**	(48,744)
	(53,772)	(52,180)
Deferred tax liabilities:		
– Deferred tax liability to be settled within 12 months	**1,531**	1,370
– Deferred tax liability to be settled after more than 12 months	**275,519**	249,969
	277,050	251,339
Deferred tax liabilities - net	**223,278**	199,159

The gross movement on the deferred tax account is as follows:

	£000
At 1 April 2018	198,290
Charged to the income statement	2,356
(Credited) to other comprehensive income	(1,487)
At 31 March 2019	199,159
Charged to the income statement	**24,153**
Charged to other comprehensive income	**7**
Reclassification of liabilities as held for sale	**(41)**
At 31 March 2020	**223,278**

Notes to the financial statements (continued)

19. Deferred tax liabilities (continued)

The movement in deferred tax assets and liabilities during the year is as follows:

19.2 Deferred tax liabilities

	Fair value adjustment on acquisition £000	Accelerated capital allowances £000	Retirement benefit obligations £000	Total £000
At 1 April 2018	73,136	163,948	17,944	255,028
(Credited)/charged to the income statement	(1,297)	(1,650)	745	(2,202)
Credited to other comprehensive income	-	-	(1,487)	(1,487)
At 31 March 2019	71,839	162,298	17,202	251,339
Charged to the income statement	**5,939**	**17,138**	**2,668**	**25,745**
Charged to other comprehensive income	**-**	**-**	**7**	**7**
Liabilities directly associated with assets classified as held for sale	**-**	**(41)**	**-**	**(41)**
At 31 March 2020	**77,778**	**179,395**	**19,877**	**277,050**

19.3 Deferred tax assets

	Fair value adjustment on acquisition £000	Provisions £000	Total £000
At 1 April 2018	56,150	588	56,738
Charged to the income statement	(4,469)	(89)	(4,558)
At 31 March 2019	51,681	499	52,180
Charged to the income statement	**1,463**	**129**	**1,592**
At 31 March 2020	**53,144**	**628**	**53,772**

Deferred tax balances were recognised on the fair value adjustments made to the assets and liabilities acquired by the group on 19 May 2017.

Company

The company does not have any deferred tax assets or liabilities.

20. Provisions for other liabilities and charges

Group

	Insurance £000	Other £000	Total £000
At 1 April 2018	2,562	670	3,232
Charged to the income statement	3,163	2,162	5,325
Utilised in the year	(1,488)	-	(1,488)
At 31 March 2019	4,237	2,832	7,069
Charged to the income statement	808	-	808
Utilised in the year	(208)	(1,555)	(1,763)
At 31 March 2020	**4,837**	**1,277**	**6,114**

Insurance

Provisions for insurance represent the amount of the group's liability in respect of individual claims. This is based upon data provided by loss adjusters to insurers and is calculated on settlement experience.

Included within these provisions is an amount of £2,300,000 (2019: £2,215,000), which is expected to be recoverable from the group's insurer. The provision above is shown gross, with the corresponding receivable disclosed as a non-current other receivable on the group's consolidated statement of financial position.

Other provisions

Other provisions include £607,000 (2019: £2,162,000) in relation to a corporate reorganisation, which is expected will be utilised by 31 March 2021 and therefore presented as a current liability in the statement of financial position, and £670,000 (2019: £670,000) in relation to unfunded pension liabilities for a former non-executive director, which it is expected will be utilised by January 2051.

Company

The company does not have any provision for liabilities and other charges.

21. Dividends

	2020 £000	2019 £000
No first interim dividend paid (2019: 0.672p per share)	**-**	5,000
No second interim dividend paid (2019: 0.215p per share)	**-**	1,600
	-	6,600

22. Discontinued operations

22.1 Description

On 11 March 2020, Castle Water Limited announced plans to merge with Affinity for Business (Retail) Limited, one of the group's trading subsidiaries. The entity was sold to Castle Water Limited on 1 April 2020 and subsequently changed its name on 3 April 2020 to Castle Water (Southern) Limited.

The associated assets and liabilities of Affinity for Business (Retail) Limited were consequently presented as held for sale in the consolidated statement of financial position and the results reported as a discontinued operation in these financial statements.

22.2 Financial performance and cash flow information

The financial performance and cash flow information presented are for the full years to 31 March 2020 and 31 March 2019 as the entity was not sold until 1 April 2020.

Group

	2020 £000	2019 £000
Revenue	**26,346**	16,945
Expenses	**(27,988)**	(17,089)
Net finance costs	**(42)**	3
Loss before income tax	**(1,684)**	(141)
Income tax credit	**788**	401
(Loss)/profit after income tax of discontinued operation	**(896)**	260

	2020 £000	2019 £000
Net cash inflow/(outflow) from operating activities	**4,999**	(2,202)
Net cash outflow from investing activities	**(638)**	(295)
Net cash outflow from financing activities	**(128)**	-
Net increase/(decrease) in cash generated by the subsidiary	**4,233**	(2,497)

Company

All of the income and cash flows of the company relates to continuing operations.

Notes to the financial statements (continued)

22. Discontinued operations (continued)

22.3 Assets and liabilities of the disposal group classified as held for sale

Group

The following assets and liabilities were reclassified as held for sale in relation to the discontinued operation as at 31 March 2020.

	2020	2019
	£000	£000
Assets classified as held for sale		
Property, plant and equipment	**389**	-
Right-of-use assets	**1,122**	-
Intangible assets	**912**	-
Inventories	**-**	-
Trade and other receivables	**28,976**	-
Current tax assets	**1,219**	-
Total assets of disposal group held for sale	**32,618**	-
Liabilities directly associated with assets classified as held for sale		
Trade and other payables	**6,419**	-
Borrowings	**-**	-
Lease liabilities	**1,142**	-
Deferred tax liabilities	**41**	-
Provisions for other liabilities and charges	**-**	-
Total liabilities of disposal group held for sale	**7,602**	-

Company

The following assets and liabilities were reclassified as held for sale in relation to the discontinued operation as at 31 March 2020.

	2020	2019
	£000	£000
Assets classified as held for sale		
Investments	**2,000**	-
Total assets of disposal group held for sale	**2,000**	-

There were no liabilities directly associated with assets classified as held for sale by the company.

Daiwater Investment Limited

Notes to the financial statements (continued)

23. Notes to the statement of cash flows

23.1 Cash generated from operations

Group

	2020	2019
	£000	£000
Profit/(loss) before tax from:		
Continuing operations	**13,583**	(89,881)
Discontinued operations	**(1,684)**	141
Profit/(loss) before tax including discontinued operations	**11,899**	(89,740)
Adjustments for:		
Depreciation of property, plant and equipment	**64,962**	59,794
Amortisation of grants and contributions	**(3,101)**	(2,508)
Depreciation of right-to-use assets	**4,007**	-
Amortisation of intangible fixed assets	**15,885**	16,250
Impairment of goodwill	**-**	120,000
Profit on disposal of property, plant and equipment	**(1,630)**	(1,058)
Loss on disposal of infrastructure assets	**1,262**	1,714
Loss on disposal of intangible assets	**12**	-
Post-employment benefits	**(900)**	(1,554)
Net finance costs	**22,288**	19,244
Changes in working capital		
– Inventories	**(301)**	(1,085)
– Trade and other receivables	**(12,311)**	(11,949)
– Trade and other payables		
– provision element	**(955)**	3,837
– other	**9,037**	1,309
Cash generated from operations	**110,154**	114,254

Company

	2020	2019
	£000	£000
Profit before tax from:		
Continuing operations	**12,210**	17,844
Discontinued operations	**-**	-
Profit before tax including discontinued operations	**12,210**	17,844
Adjustments for:		
Finance income (note 4)	**(12,210)**	(11,244)
Changes in working capital		
– Trade and other receivables	**-**	-
Cash generated from operations	**-**	6,600

Notes to the financial statements (continued)

23. Notes to the statement of cash flows (continued)

23.2 Reconciliation of liabilities arising from financing activities

Group

	At 1 April 2019	Cash flow	Non-cash flows	At 31 March 2020
	£000	£000	£000	£000
Bonds	1,380,922	-	(14,658)	1,366,264
Bank term loan	25,000	-	-	25,000
Lease liabilities	15,764	(4,266)	938	12,436
Debenture stock	34	-	-	34
Total liabilities arising from financing activities	**1,421,720**	**(4,266)**	**(13,720)**	**1,403,734**

	At 1 April 2018	Cash flow	Non-cash flows	At 31 March 2019
	£000	£000	£000	£000
Bonds	1,398,500	-	(17,578)	1,380,922
Bank term loan	25,000	-	-	25,000
Debenture stock	34	-	-	34
Total liabilities arising from financing activities	1,423,534	-	(17,578)	1,405,956

Non-cash flows relate to loan indexation and amortisation of bond issuance costs, and net additions of leases.

Company

The company has no liabilities arising from financing activities.

24. Commitments

24.1 Capital commitments

Capital expenditure contracted for at the end of the reporting period but not yet incurred is as follows:

Group

	2020 £000	2019 £000
Property, plant and equipment	15,442	18,616
Intangible assets	1,137	1,191
	16,579	19,807

Company

The company does not have any capital commitments.

24. Commitments (continued)

24.2 Commitments under operating leases

The group leases its two head office buildings, IT server space and vehicles under non-cancellable operating leases expiring within a maximum of eight years. The leases have varying terms, clauses and renewal rights. With the exception of the head office buildings, the group does not expect to extend any leases after their lease term has expired. The group will assess closer to the expiry of lease of the head office buildings whether another formal agreement will be entered in to.

From 1 April 2019, the group has recognised right-of-use assets for these leases, except short-term and low-value leases, see note 17 for further information.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

Group

	2020		2019	
	Land and buildings	**Other**	Land and buildings	Other
	£000	**£000**	£000	£000
No later than one year	**-**	**72**	1,719	2,302
Later than one year and no later than five years	**-**	**212**	6,877	3,558
Later than five years	**-**	**-**	2,823	-
	-	**284**	11,419	5,860

Company

The company does not have any commitments under operating leases.

25. Billing on behalf of Thames Water and Anglian Water

The group's principal trading subsidiary, Affinity Water Limited, bills and collects charges in respect of sewerage and infrastructure within its area on behalf of Thames Water Utilities Limited and Anglian Water Services Limited. No amounts are included in these financial statements in respect of uncollected sewerage and sewerage infrastructure charges at 31 March 2020 (2019: £nil), and the group incurs no bad debt risk in relation to this service.

26. Events after the reporting period

Affinity for Business (Retail) Limited, one of the group's subsidiaries, was sold to Castle Water Limited on 1 April 2020. The entity changed its name on 3 April 2020 to Castle Water (Southern) Limited.

Following on from the £25,000,000 CPI linked inflation swap entered into in March 2020, the group has entered into further CPI linked inflation swaps, bringing the total nominal value up to £250,000,000. In October 2020, the group entered into an RPI swap with nominal value £75,000,000 backdated to 1 August 2020.

On 2 July 2020, the group refinanced its £25,000,000 bank term loan. The loan was increased to £42,000,000, and due for repayment 30 June 2023.

Daiwater Investment Limited

Notes to the financial statements (continued)

27. Ultimate parent company and controlling party

Daiwater Investment Limited, a company registered in England and Wales, is the parent undertaking of the largest group to consolidate the statutory financial statements of this group for the year ended 31 March 2020, and only group to consolidate the company.

Copies of the group financial statements of Daiwater Investment Limited for the year ended 31 March 2020 may be obtained from the Company Secretary, Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ.

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

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

- Allianz Infrastructure Holding I Pte. Limited (during the period and up to 20 November 2019 Allianz Infrastructure Luxembourg I Sarl)
- DIF Management Holding BV
- DIF Management UK Limited
- HICL Infrastructure plc
- InfraRed Capital Partners (Management) LLP
- Sun Life Financial Inc[1]

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

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

HICL Infrastructure plc is a long-term investor in infrastructure assets which are predominantly operational and yielding steady returns. HICL has a portfolio of infrastructure investments, which are positioned at the lower end of the risk spectrum, in three target market segments: public-private partnerships, regulated assets and demand-based assets. The Investment Manager to HICL is InfraRed Capital Partners Limited, a leading international investment manager focused on infrastructure and real estate.

[1] On 1 July 2020 Sun Life Financial Inc acquired an 80% interest in the InfraRed business from InfraRed Capital Partners (Management) LLP and became an ultimate controller.

Daiwater Investment Limited

Notes to the financial statements – appendices

A1. General information

The group owns and manages the water assets and network in an area of approximately 4,515km^2 split over three regions, comprising eight separate water resource zones, in the southeast of England. Affinity Water Limited, the group's principal trading indirect subsidiary, is the sole supplier of drinking water in these areas for household customers. Castle Water (Southern) Limited (formerly Affinity for Business (Retail) Limited) is operating in the non-household retail market, with Affinity Water Limited remaining as the wholesaler for these customers.

The company manages an investment in Affinity Water Acquisitions (Investments) Limited.

The company is a private company limited by shares 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 27 for details of the company's controlling company.

A2. Segmental reporting

The group's reportable segments are as follows:

- Affinity Water Limited, operating as the wholesaler for household and non-household customers, and the retailer for household customers.
- Castle Water (Southern) Limited (formerly Affinity for Business (Retail) Limited), operating as a retailer in the non-household market.

Both entities have separate management teams with each monitoring the operating results of the individual business segment separately. Each entity's individual management team are responsible for the decision making and resource allocation of that entity alone. Each operating segment reviews their own results, including revenue, expenditure and profit before tax. Therefore, these are the segmental results presented in the financial statements. As detailed in note 22, Castle Water (Southern) Limited was sold to Castle Water Limited on 1 April 2020 and is presented as a discontinued operation in these financial statements. All transactions between operating segments are carried out at arms-length. All operations are within the UK.

	Year ended 31 March 2020				
	Affinity Water Limited	**Castle Water (Southern) Limited (formerly Affinity for Business (Retail) Limited)**	**Less: Intersegmental**	**Less: discontinued operations**	**Total continuing operations for reportable segments**
	£000	**£000**	**£000**	**£000**	**£000**
Revenue	**307,240**	**67,346**	**(41,342)**	**(26,004)**	**307,240**
Cost of sales	**(227,820)**	**(65,968)**	**41,342**	**24,626**	**(227,820)**
Gross profit	**79,420**	**1,378**	**-**	**(1,378)**	**79,420**
Administrative expenses	**(42,839)**	**(3,824)**	**1,121**	**2,703**	**(42,839)**
Net impairment losses	**(9,470)**	**(659)**	**-**	**659**	**(9,470)**
Other income	**18,449**	**342**	**(1,121)**	**(342)**	**17,328**
Operating profit/(loss)	**45,560**	**(2,763)**	**-**	**1,642**	**44,439**
Net finance costs	**(45,469)**	**(1,409)**	**-**	**42**	**(46,836)**
Profit/(loss) before tax	**91**	**(4,172)**	**-**	**1,684**	**(2,397)**

A2. Segmental reporting (continued)

	Year ended 31 March 2019				
	Affinity Water Limited	Castle Water (Southern) Limited (formerly Affinity for Business (Retail) Limited)	Less: Intersegmental	Less: discontinued operations	Total continuing operations for reportable segments
	£000	£000	£000	£000	£000
Revenue	311,569	61,768	(45,127)	(16,641)	311,569
Cost of sales	(216,643)	(58,037)	45,212	12,825	(216,643)
Gross profit	94,926	3,731	85	(3,816)	94,926
Administrative expenses	(168,117)	(5,202)	663	3,611	(169,045)
Net impairment losses	(6,128)	(653)	-	653	(6,128)
Other income	17,896	304	(748)	(304)	17,148
Operating profit	(61,423)	(1,820)	-	144	(63,099)
Profit on disposal of subsidiary	25	-	-	-	25
Net finance costs	(44,930)	(1,188)	-	(3)	(46,121)
Loss before tax	(106,328)	(3,008)	-	141	(109,195)

See note 1 for the timing of revenue recognition for the total of the reportable segments.

A3. Accounting policies

Property, plant and equipment

Property, plant and equipment are held at the fair value on acquisition on 19 May 2017 less accumulated depreciation and impairment charges.

Infrastructure assets comprise a network of mains and associated underground pipe-work. Infrastructure assets are held at deemed cost established through an event-driven valuation on acquisition by Daiwater Investment Limited and subsequent additions are recorded at historical cost less accumulated depreciation and impairment charges.

For accounting purposes the network is segmented into components based on the material used to construct the pipe concerned. The estimated useful economic lives of infrastructure pipes are based on management's judgement and experience, which includes the knowledge and research of the group's dedicated asset management teams. Where management identifies that the actual useful economic life of an asset significantly differs from the estimate used to calculate its depreciation, the depreciation charge is adjusted prospectively.

Expenditure on infrastructure assets relating to increases in capacity, enhancements or material replacements of network components is capitalised where it can be reliably measured and it is probable that incremental future economic benefits will flow to the group. The carrying amount of the replaced part is derecognised. Costs of day-to-day servicing of network components are recognised in the income statement as they arise.

A3. Accounting policies (continued)

Property, plant and equipment (continued)

Cost of other property, plant and equipment includes own work capitalised comprising the direct costs of materials, labour and applicable overheads.

Property, plant and equipment are depreciated to their estimated residual values over their estimated useful lives using the straight-line method, with the exception of freehold land which is not depreciated. Assets in the course of construction are not depreciated until commissioned.

The estimated useful lives of property, plant and equipment are:

Infrastructure assets	
Potable water distribution mains	50-150 years
Raw water pipes	50-150 years
Other property, plant and equipment	
Buildings	40-60 years
Operational structures	5-85 years
Fixed plant – short life	3-10 years
– other	10-30 years
Vehicles and mobile plant	3-10 years
Leasehold improvements[1]	The duration of the lease

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in operating profit.

The group is required to evaluate the carrying value of its property, plant and equipment for impairment whenever circumstances indicate, in management's judgement, that the carrying value of such assets may not be recoverable. An impairment review in such circumstances requires management to make subjective judgements concerning the future cash flows, growth rates and discount rates of the asset under review.

Intangible assets

Goodwill

Goodwill represents the excess of the fair value of purchase consideration over the fair value of the net assets of the subsidiary acquired. Fair value adjustments based on provisional estimates are amended within one year of the acquisition, if required, with a corresponding adjustment to goodwill.

Goodwill is not amortised but is reviewed for impairment at least annually. Impairment reviews are also carried out if there is an indication that impairment may have occurred, or, where otherwise required, to ensure that intangible assets are not carried above their estimated recoverable amounts. Goodwill is allocated to the CGU that derives benefit from the goodwill for impairment testing purposes. Impairments are recognised immediately in the income statement.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold

[1] Leasehold improvements are included within buildings and operational structures in note 6

Daiwater Investment Limited

Notes to the financial statements – appendices (continued)

A3. Accounting policies (continued)

Intangible assets (continued)

Computer software development costs

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the group are recognised as intangible assets only if they meet the criteria of IAS 38: ‘Intangible Assets’.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred.

Computer software development costs recognised as assets are amortised on a straight-line basis over their estimated useful lives, which does not exceed five years. Amortisation charged on assets with finite lives is recognised in the income statement in operating costs.

Water licence

The remaining economic life of the water licence has been determined to be indefinite, as the water licence is issued on a perpetual basis with a 25 year notice period.

Billing relationships

A remaining economic life of five years has been determined for the billing relationships based on the length of the revenue stream forecast used in calculating the fair value of the billing relationships on acquisition. Amortisation charged is recognised in the income statement in operating costs.

Impairment

Computer software development costs are reviewed for impairment where indicators of impairment exist. Impairments are recognised immediately in the income statement.

Grants and contributions

Grants and contributions received in respect of property, plant and equipment where the performance obligation is deemed to be satisfied over time (consisting of contributions for diversions and requisitioned mains/extensions, and infrastructure charges), are treated as deferred income and released to revenue over the useful economic life of the property, plant and equipment to which they relate once these assets have been commissioned.

The group may be contracted by developers in its statutory supply area to relocate a pipe which is already in the ground; this is known as a diversion. The group may also be contracted by developers in its statutory supply area to provide a new water main or new sewer; this is known as a requisition/extension. Contributions received in respect of diversions and requisitioned mains/extensions are treated as deferred income and released to revenue over time as the group considers that the obligation to provide these services is highly interrelated with the ongoing obligation to provide water services; therefore the performance obligation is considered to be satisfied over the period that the property, plant and equipment constructed are in service.

A3. Accounting policies (continued)

Grants and contributions (continued)

Infrastructure charges are charges levied on developers for network reinforcement which is not site specific, i.e. to fund expenditure which will contribute towards wider network reinforcement work away from the development site. Infrastructure charges are treated as deferred income and released to revenue over time as there is an implied ongoing performance obligation to improve and maintain the wider network in order to provide ongoing supply of water services.

Grants and contributions received in respect of property, plant and equipment where the performance obligation is deemed to be satisfied at a point in time (comprising payments for connection charges) are recognised immediately in the income statement, once the performance obligation is fulfilled.

Connection charges are billed to developers for the provision of a connection to an existing water main, laying a pipe to the boundary of customers' properties and connecting to their supply pipes. Connection charges are recognised in revenue in the income statement in the period that they became receivable; the performance obligation has been identified as the connection of a service pipe to the main. Once the connection is made, the performance obligation is fulfilled and the income recognised immediately in the income statement.

Each of these types of grants and contributions (contributions for diversions and requisitioned mains/extensions, infrastructure charges, and connection charges) is not a government grant within the scope of IAS 20: 'Accounting for government grants and disclosure of government assistance' as the contributions are received from developers. Whilst there may not be a written contract with the customer, the legal duties of the group under the Water Industry Act 1991 would seem to constitute a legally enforceable contract based on the transaction prices set out in the group's charges scheme, tariff documents and invoices; accordingly these grants and contributions fall within the scope of IFRS 15.

Investments

Investment in subsidiaries

The company's investments in subsidiaries are held at cost less accumulated impairment losses.

Other investments

Other investments include short-term deposits that cannot be withdrawn prior to maturity and are held at cost.

Trade and other receivables

Trade and other receivables are recognised initially at transaction price. The company holds the trade receivables with the objective of collecting the contractual cash flows, and therefore the trade and other receivables are subsequently measured at amortised cost using the effective interest method, less expected credit losses.

Expected credit losses are based on historical recoverability and calculated by applying a range of different percentages to trade receivables of different ages. These percentages also vary between categories of trade receivables. Higher percentages are applied to those categories of trade receivable which are considered to be of greater risk and also to trade receivables of greater age. The historical recoverability of trade receivables is deemed a good estimate of future expected credit losses. At each reporting date the group takes into consideration any significant economic changes that may impact its credit loss model and future credit losses.

Daiwater Investment Limited

Notes to the financial statements – appendices (continued)

A3. Accounting policies (continued)

Trade and other receivables (continued)

To estimate the impairment to our trade receivables from COVID-19, we have assessed our debtors based on postcode driven customer demographics. We have assessed what we believe to be the sensitivity of each demographic to the current and emerging effects of the pandemic on household finances and ability to maintain payments.

The group applies the IFRS 9: 'Financial Instruments' ('IFRS 9') simplified approach for measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure expected credit losses, trade receivables and contract assets are grouped based on shared credit risk characteristics and overdue days. Contract assets relate to unbilled metered consumption and have substantially the same risk characteristics as trade receivables for the same types of contract. The group has therefore concluded that expected loss rates for trade receivables are a reasonable approximation for loss rates for contract assets.

Inventories

Inventories are valued at the lower of cost or net realisable value after allowance for obsolete and slow moving items. In accordance with established practice in the water industry, no value has been placed upon the water in reservoirs, mains or in the course of treatment.

Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of twelve months or less. Term deposits with original maturities longer than three months can be redeemed early, subject to the interest income being forfeited or reduced to reimburse any cost incurred by the counterparty. These are classed as cash and cash equivalents if the deposit can be redeemed to meet short term cash needs and there is no risk of a significant change in value as the result of an early withdrawal. Deposits that cannot be withdrawn prior to maturity are classed as investments.

Current and deferred tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in shareholder's funds. In this case, the tax is also recognised in other comprehensive income or directly in shareholder's funds, respectively.

The current tax charge is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the date of the statement of financial position.

Deferred taxation is provided in full, using the liability method, on taxable temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. A deferred tax asset is only recognised to the extent that it is probable that sufficient taxable profits will be available in the future to utilise it. Deferred taxation is measured on a non-discounted basis using the tax rates and laws that have been enacted or substantively enacted by the date of the statement of financial position and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Notes to the financial statements – appendices (continued)

A3. Accounting policies (continued)

Current and deferred tax (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to taxes levied by the same taxation authority and the group intends to settle its current tax assets and liabilities on a net basis.

Payables

Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Payments received in advance and measured and unmeasured deferred income are contract liabilities under IFRS 15 and relate to advance contributions received in respect of connection charges, diversions and requisitioned mains/extensions and customer payments in advance for measured and unmeasured supplies.

Borrowings

All loans are recognised initially at fair value plus directly attributable transaction costs. The carrying amount of the debt is increased by the amortisation of the finance and transaction costs determined using the effective interest rate in respect of the accounting period and reduced by any payments made in the year. The finance cost recognised in the income statement is allocated to accounting periods over the term of the debt using the effective interest method.

An exchange of debt with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. At the point of refinancing, all costs relating to the previous debt are written off to the income statement in full.

Derivatives

Financial instruments such as derivatives are initially recognised at fair value on the date the derivative contract is entered into and are subsequently re-measured at their fair value at each reporting period. Gains or losses arising on revaluation are recorded in the income statement in the period in which they arise.

Provisions

A provision is recognised when the group has a legal or constructive obligation as the result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount can be reliably estimated.

Ofwat assesses the principal trading subsidiary's operational performance against agreed performance commitments. Certain performance commitments contain an Outcome Delivery Incentive ('ODI'), which can carry a financial reward or penalty, or both, that for the first four years of AMP6 was to be realised as part of the AMP7 price review process in the form of revenue or RCV adjustments (end-of-period ODIs), and for the final year of AMP6 will be recognised as a revenue adjustment in AMP7. In AMP7, the ODIs will be in-period and recognised as a revenue adjustment in the next charging period. For both in-period and end-of-period ODIs, the principal trading subsidiary adjusts future tariffs to reflect such amounts and therefore the benefit or cost is linked to the provision of future services as well as future performance. Resultantly the group does not recognise a provision for penalties or rewards in the financial year in which they are incurred or achieved as these amounts are not an asset or liability at the balance sheet date.

A3. Accounting policies (continued)

Assets held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the noncurrent asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations. The results of discontinued operations are presented separately in the statement of profit or loss.

Revenue recognition

The group's core revenue stream is derived from the supply of clean water. The IFRS 15 definition of a contract is met since the UK government has contracted with the group on behalf of customers by granting the group its water supply licence, where the underlying performance obligation is the development and maintenance of the network and ensuring its continued availability to customers. Under IFRS 15, revenue is measured at the transaction price and is recognised as the customer receives the benefit of the water supply through consuming the water:

- for metered customers, the amount which the group has a right to receive is determined by the volume of water consumed; and
- for unmetered customers, the amount which the group has a right to receive is determined by the passage of time during which a customer occupies a property to which water is supplied by the group.

Since 1 April 2017 the group has been operating in the competitive non-household retail water market, securing customer contracts for both clean water and waste water services. The underlying performance obligation is the provision of clean water and waste water services, therefore revenue should be recognised as the customer receives the benefit of this. Under IFRS 15, revenue is required to be recognised as the amount which the group has a right to receive:

A3. Accounting policies (continued)

Revenue recognition (continued)

- for metered customers, the amount which the group has a right to receive is determined by the volume of water consumed, hence no change to the IAS 18 revenue recognition pattern for measured supplies; and
- for unmetered customers, the amount which the group has a right to receive is determined by the passage of time during which a customer occupies a property to which water is supplied by the group, hence no change to the IAS 18 revenue recognition pattern for unmeasured supplies.

The group has contracts with third parties operating in the non-household retail market for the supply of clean water (wholesale supply). The underlying performance obligation is the development and maintenance of the network, and ensuring its continued availability to such third party retailers on behalf of non-household consumers. Revenue is recognised at the point in which the group has a right to receive the revenue. For non-household retailers, the amount which the group has a right to receive is determined by non-household consumption volume data.

For metered household customers, a receivable is recognised when the customer is billed for the usage. At this point, the consideration is unconditional because only the passage of time is required before the payment is due. Where the group has provided the service before payment is due, an accrual for the consumption of water that has not yet been billed is recognised in the income statement offset by a contract receivable within assets. The accrual for household customers is estimated using a defined methodology based upon weighted average water consumption by tariff, which is calculated based upon historical information. The accrual for non-household customers is estimated based on consumption data provided by MOSL, the market operator of England's non-household retail water market.

Unmetered customers pay a fixed amount determined by the transaction prices set out in the group's charging scheme and tariff documents. If the payments received exceed the amount the group has the right to receive (i.e. unearned income), the group recognises a payment received in advance and discloses this as a contract liability within payables.

Where non-household retailers are billed in advance monthly for wholesale charges, as determined by billing/volume reports created by the market operator, the company recognises deferred income in relation to these accounts and discloses this as a contract liability within payables.

The recognition of revenue from grants and contributions billed to developers is detailed in the grants and contributions accounting policy.

Revenue is recognised if it is probable that it will be received considering the customer's ability and intention to pay that amount of consideration when it is due. The group is under a statutory obligation to maintain water services to domestic properties within the areas defined in its water supply licence. As a result, the group may provide water services to customers who are unlikely to pay for these services. The group does not recognise revenue where historical evidence indicates that the group will probably never be able to collect the revenue billed.

The group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and the payment terms exceeds one year. The group therefore does not adjust any of its transaction prices for the time value of money.

The recognition of connection charges billed to developers is detailed in the grants and contributions accounting policy.

A3. Accounting policies (continued)

Other income

Other income includes all income derived from sources associated with the ordinary activities of the business, other than revenue derived from the regulatory activities of the business. Other income, including mast rentals and billing and collections services, involves readily identifiable contracts with customers with clearly defined performance obligations to which prices are allocated. Income is recognised as the contracts are completed and the performance obligations satisfied. It is stated net of value added taxes.

Interest income

Interest income is recognised using the effective interest method. When a loan receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

Leases

The group leases its two head office buildings, IT server space and vehicles.

Rental contracts for IT server space and vehicles are typically for fixed periods of two to five years. The group has an option to extend its leases; however no contracts are reasonably certain to be extended after their lease term has expired. The lease contract of the two head office buildings is for a significantly longer period. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The group's lease agreements do not impose any covenants, but leased assets cannot be used as security for borrowing purposes.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The group's ongoing accounting policy is for assets and liabilities arising from a lease to be initially measured on a present value basis. Lease liabilities include the net present value of one or more of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Right-of-use assets are measured at cost comprising one or more of the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs; and
- restoration costs.

A3. Accounting policies (continued)

Leases (continued)

Lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. The group uses an independent third-party to determine the incremental borrowing rate.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise small items of office equipment and IT equipment.

The group enters into agreements with employees to use vehicles that it leases from a third party as a company vehicle. These agreements are considered by the group to be part of the overall compensation package of an employee and, as such, the group has applied IAS 19 'Employee benefits' in accounting for these arrangements rather than considering the arrangements as subleases of vehicles to employees under IFRS 16.

The group does not use sale and leaseback transactions.

Grafham reservoir

Under the Great Ouse Water Act of 1961, the group has an entitlement to water from the Grafham reservoir owned and operated by Anglian Water Services Limited ('Anglian Water'). The group pays Anglian Water a charge for the supply of water, which covers its share of the overall costs of running Grafham reservoir. These costs are recognised as an expense in the income statement as incurred.

Retirement benefits

The group operates a pension plan, the Affinity Water Pension Plan ('AWPP') providing defined benefits based on final pensionable salary. The assets of the plan are held separately from those of the group. The plan's corporate trustee is a subsidiary of the group.

The cost of providing benefits under the defined benefit plan is determined using the projected unit method, which attributes entitlement to benefits to the current year (to determine current service cost) and to the current and prior years (to determine the present value of defined benefit obligations) and is based on actuarial advice. Past service costs are recognised immediately in the income statement.

When a settlement or a curtailment occurs, the changes in the present value of the plan liabilities and the fair value of the plan assets reflect the gain or loss which is recognised in the income statement. Losses are measured at the date that the employer becomes demonstrably committed to the transaction and gains when all parties whose consent is required are irrevocably committed to the transaction.

The retirement benefit surplus or deficit in the statement of financial position comprises the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less any past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published bid price.

A3. Accounting policies (continued)

Retirement benefits (continued)

Re-measurement gains and losses arising from changes in actuarial assumptions are charged or credited to shareholder's funds in other comprehensive income in the period in which they arise.

The amount charged or credited to finance costs is a net interest amount calculated by applying the liability discount rate to the net defined benefit asset or liability.

Contributions to the defined contribution section of the plan are recognised in the income statement in the period in which they become payable.

The group also has an obligation to pay pensions to former non-executive directors of predecessor companies. A provision in respect of the obligation is included within the net pension asset or liability.

Dividend distributions

Dividend distributions to the group's shareholders are recognised as a liability in the group's financial statements in the period in which the dividends are approved.

A4. Financial instruments and risk management

Risk management

The group's financial instruments comprise borrowings, derivatives, debentures, cash and liquid resources, lease liabilities and various items, such as trade receivables and trade payables that arise directly from operations. The main purpose of these financial instruments is to provide finance for the group's operations. The group finances its operations through a mixture of retained profits, borrowings from its subsidiary companies and debentures.

It is the group's policy, and has been throughout the year under review, that no trading in financial instruments shall be undertaken.

The main risks arising from the group's financial instruments are liquidity risk, credit risk, and interest rate and inflation risk. Treasury policies in relation to these risks are agreed in conjunction with the wider Affinity Water group.

The Board reviews and agrees policies for managing each of these risks (refer to page 5 of the strategic report for further information on management of these risks). These policies have remained unchanged during the year.

Daiwater Investment Limited

Notes to the financial statements – appendices (continued)

A4. Financial instruments and risk management (continued)

Risk management (continued)

Day-to-day responsibility for operational compliance with the treasury policies rests with the treasurer. A treasury report is provided quarterly to the Board, which summarises treasury activities and includes details on the group's position in regard to debt and cash at the end of each quarter.

The group's treasury function does not act as a profit centre and does not undertake speculative transactions.

Liquidity risk

The objective of the group's liquidity risk management policy is to ensure that the group has banking arrangements and adequate, though not excessive, cash balances, revolving credit facilities and standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business and service objectives.

Liquidity risk is primarily managed by maintaining a level of liquidity such that there are sufficient cash balances and committed loan facilities capable of immediate draw down to cover as a minimum the next 12 months' forecast cash requirement ensuring that over-reliance is not placed on any one counterparty, whether through cash holdings or available facilities.

Liquidity is actively monitored by the group's treasury function and reported to the relevant company's Board on a quarterly basis through the treasury report.

At 31 March 2020, the group had £271,956,000 (2019: £274,315,000) of available liquidity, which comprised £110,956,000 (2019: £113,315,000) of cash and term deposits and £161,000,000 (2019: £161,000,000) of undrawn committed borrowing facilities.

In August 2018, the group entered into an RPI linked inflation swap, and in March 2020, the group entered into a CPI linked inflation swap, as detailed in the interest rate and inflation risk section of note A4.

These transactions lead to a net interest receivable cashflow over the life of the swap, offset by an accretion payment on maturity (2026 for the RPI swap and 2036 for the CPI swap). There is no liquidity risk prior to these dates as there is no requirement to pay collateral prior to maturity. On maturity, a final accretion payment will be made based on the mark to market valuation at that date, resulting in a total forecast cash payment of £40,544,000 (2019: £38,027,000), included in this maturity analysis table. The mark to market valuation is reviewed on a monthly basis and a forecast accretion payment is reviewed annually to ensure sufficient cash balances can be made available if required.

Undrawn borrowing facilities:

	2020	2019
	£000	£000
Floating rate:		
– Expiring within one year	**61,000**	61,000
– Expiring in more than one year	**100,000**	100,000
	161,000	161,000

A4. Financial instruments and risk management (continued)

Liquidity risk (continued)

The facilities expiring within one year comprise two standby facilities with different counterparties in the event of a liquidity shortfall: a 364 day revolving Debt Service Reserve Facility of £38,000,000 (2019: £38,000,000), which is intended for the purpose of funding any debt service payments, and a 364 day revolving Operations and Maintenance Reserve Facility of £23,000,000 (2019: £23,000,000), which is intended for the purpose of funding operating and capital maintenance expenditure.

The facilities expiring in more than one year comprise two revolving credit facilities, £60,000,000 (2019: £60,000,000) provided by Barclays Bank PLC and £40,000,000 (2019: £40,000,000) provided by Lloyds Bank PLC. The facilities are intended for the purpose of financing capital expenditure and working capital requirements to the extent that additional funding is required and have a maturity date of July 2024 and July 2023 respectively. These facilities were renewed on 24 June 2020 and use SONIA as the reference rate and have sustainability performance measures included.

Maturity analysis

Additional risk may arise if large cash flows are concentrated within particular time periods. The maturity profile in the following table represents the forecast future contractual principal and interest cash flows in relation to the group’s non-derivative financial liabilities (borrowings and lease liabilities) with agreed repayment periods on an undiscounted basis.

At 31 March 2020	**1 year or less**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**More than 5 years**	**Total**
Non-derivatives	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Bonds	**38,403**	**38,628**	**52,807**	**38,585**	**38,830**	**1,432,315**	**1,639,568**
Bank term loan	**25,285**	**-**	**-**	**-**	**-**	**-**	**25,285**
Lease liabilities	**3,798**	**3,045**	**2,506**	**1,845**	**1,547**	**645**	**13,386**
	67,486	**41,673**	**55,313**	**40,430**	**40,377**	**1,432,960**	**1,678,239**

At 31 March 2019	1 year or less	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total
	£000	£000	£000	£000	£000	£000	£000
Non-derivatives							
Bonds	38,231	38,421	38,577	52,684	38,389	1,442,910	1,649,212
Bank term loan	871	25,301	-	-	-	-	26,172
	39,102	63,722	38,577	52,684	38,389	1,442,910	1,675,384

On 2 July 2020, the group refinanced its £25,000,000 bank term loan. The loan was increased to £42,000,000, and due for repayment 30 June 2023.

Daiwater Investment Limited

Notes to the financial statements – appendices (continued)

A4. Financial instruments and risk management (continued)

Liquidity risk (continued)

Maturity analysis (continued)

The maturity profile in the following table represents the forecast future net cash flows in relation to the group's derivatives estimated using the forward rates applicable at the year end. No comparatives have been presented for the CPI linked swap as it was entered into during the year.

At 31 March 2020	**1 year or less**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**More than 5 years**	**Total**
Derivatives	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
RPI linked inflation swap net payment/ (receivable)	**(4,876)**	**(4,784)**	**(4,690)**	**(4,592)**	**(4,492)**	**20,580**	**(2,854)**
CPI linked inflation swap net payment/ (receivable)	**(715)**	**(706)**	**(698)**	**(689)**	**(681)**	**2,664**	**(825)**
Total derivatives	**(5,591)**	**(5,490)**	**(5,388)**	**(5,281)**	**(5,173)**	**23,244**	**(3,679)**

At 31 March 2019	1 year or less	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total
Derivatives	£000	£000	£000	£000	£000	£000	£000
RPI linked inflation swap net payment/ (receivable)	(3,930)	(4,856)	(4,758)	(4,656)	(4,551)	23,166	415
Total derivatives	(3,930)	(4,856)	(4,758)	(4,656)	(4,551)	23,166	415

Credit risk

Credit risk arises principally from trading (the supply of services to customers) and treasury activities (the depositing of cash). The financial assets that are subject to the expected credit loss model are trade and other receivables, contract assets relating to the unbilled accrual for metered customers and cash and cash equivalents. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss is nil.

Contract assets and trade and other receivables

The group applies the IFRS 9 simplified approach for measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure expected credit losses, trade receivables and contract assets are grouped based on shared credit risk characteristics and overdue days.

A4. Financial instruments and risk management (continued)

Credit risk (continued)

Contract assets and trade and other receivables (continued)

Contract assets relate to unbilled metered consumption and have substantially the same risk characteristics as trade receivables for the same types of contract. The group has therefore concluded that expected loss rates for trade receivables are a reasonable approximation for loss rates for contract assets.

The group manages its credit risk of trade and other receivables through effective management of customer relationships. Concentrations of credit risk with respect to trade receivables are limited due to the group's customer base consisting of a large number of unrelated households and non-household retailers. The Water Industry Act 1991 (as amended by the Water Industry Act 1999) prohibits the disconnection of a water supply and the limiting of supply with the intention of enforcing payment for certain premises, including domestic dwellings. However allowance is made by Ofwat, in revenue limits at each price review for a proportion of receivables deemed to be irrecoverable.

With the exception of retail customers operating in the non-household retail market, expected credit losses for receivables are based on historical recoverability and calculated by applying a range of different percentages to trade receivables of different ages. These percentages also vary between categories of trade receivables. Higher percentages are applied to those categories of trade receivables which are considered to be of greater risk and also to trade receivables of greater age; these receivables have higher expected credit losses. The group's policy is to write-off closed and live accounts that fall under the following categories: bankruptcy, liquidation, debt relief orders, deceased accounts where there is no estate, failed legal action and receivable amounts from customers who have moved out of the property with no forwarding address or are no longer responsible for payment of a water bill; the group concludes that there is no reasonable expectation of recovery under these circumstances. The historical recoverability of trade receivables is deemed a good estimate of future expected credit losses. At each reporting date the group takes into consideration any significant economic changes that may impact its credit loss model and future credit losses.

Amounts are also written off on accounts where the group is still supplying the customer and where all reasonable internal and external debt collection activities have been undertaken. Under these circumstances, if the total receivable contains amounts over six years old, the amount over six years old or more is written off. The group's write-off policy on household receivables has remained unchanged and has been consistently applied in the current year compared with the previous year.

Since 1 April 2017, the group has supplied wholesale water to third party retailers operating in the non-household market. Retailers operating in the non-household market have been granted a licence by Ofwat, with the financial resources of the retailer assessed on licence application and monitored on a continual basis. The group uses this assurance and monitors the recoverability of these receivables by assessing cash collection rates since market opening to ensure any uncertain receivables are provided for. At each reporting date the group takes into consideration any significant economic changes that may impact the recoverability of these debtors and future credit losses.

The group has concluded that, given the nature of its financing arrangements, the procedure currently in place to assess the impairment of financial instruments detailed above is deemed sufficient under the expected credit loss model; historical recoverability of trade receivables has shown to be a good indicator of future expected losses, both in the next 12 months and across the lifetime of the instrument. At each reporting date management takes into consideration any significant economic changes that may impact the model and future credit losses. Therefore the directors of the group do not believe there is any further credit risk provision required in excess of the expected credit losses of trade receivables (see note 11).

Daiwater Investment Limited

Notes to the financial statements – appendices (continued)

A4. Financial instruments and risk management (continued)

Credit risk (continued)

Contract assets and trade and other receivables (continued)

The loss allowance as at 31 March 2020 and 31 March 2019 was determined as follows for both trade receivables and contract assets (unbilled accrual for metered customers):

At 31 March 2020	**Current**	**Less than 1 year**	**1 – 2 years**	**2 – 3 years**	**3 – 4 years**	**More than 4 years past due**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Expected loss rate – metered household receivables	0.74%	8%	26%	47%	66%	100%	
Gross carrying amount – metered household receivables	-	15,805	4,855	2,850	2,147	2,862	28,519
Gross carrying amount – unbilled accrual for metered customers	36,282	-	-	-	-	-	36,282
Provision at expected loss rate	269	1,203	1,273	1,349	1,416	2,862	8,372
Additional provision for COVID-19	-	840	-	-	-	-	840
Amounts provided at 100%	-	2,689	3,287	1,830	1,097	820	9,723
Loss allowance	269	4,732	4,560	3,179	2,513	3,682	18,935
Expected loss rate – unmetered household receivables	0.00%	9%	19%	35%	54%	100%	
Gross carrying amount – unmetered household receivables	-	7,000	3,897	2,492	1,853	3,228	18,470
Provision at expected loss rate	-	633	743	863	1,005	3,228	6,472
Amounts provided at 100%	-	840	-	-	-	-	840
	-	2,169	2,295	1,656	1,035	75	7,230
Loss allowance	-	3,642	3,038	2,519	2,040	3,303	14,542

	Less than 3 months	**3 – 6 months**	**6 – 9 months**	**9 – 12 months**	**More than 12 months past due**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Expected loss rate – developer services	0%	49%	50%	74%	98%	
Gross carrying amount – developer services	2,064	593	155	87	959	3,858
Loss allowance	0	290	78	64	945	1,377
Total loss allowance						**34,854**

A4. Financial instruments and risk management (continued)

Credit risk (continued)

At 31 March 2019	Current £000	Less than 1 year £000	1 – 2 years £000	2 – 3 years £000	3 – 4 years £000	More than 4 years past due £000	Total £000
Expected loss rate – metered household receivables	0.9%	8%	26%	42%	62%	100%	
Gross carrying amount – metered household receivables	-	16,759	5,156	3,000	1,893	2,453	29,261
Gross carrying amount – unbilled accrual for metered customers	32,699	-	-	-	-	-	32,699
Provision at expected loss rate	307	1,424	1,325	1,263	1,177	2,453	7,949
Amounts provided at 100%	-	1,484	1,233	1,086	868	1,742	6,413
Loss allowance	307	2,908	2,558	2,349	2,045	4,195	14,362
Expected loss rate – unmetered household receivables	-	19%	28%	42%	61%	100%	
Gross carrying amount – unmetered household receivables	-	8,157	4,959	3,086	2,240	3,271	21,713
Provision at expected loss rate	-	1,518	1,395	1,309	1,360	3,271	8,853
Amounts provided at 100%	-	1,122	908	728	667	404	3,829
Loss allowance	-	2,640	2,303	2,037	2,027	3,675	12,682

	Less than 3 months £000	3 – 6 months £000	6 – 9 months £000	9 – 12 months £000	More than 12 months past due £000	Total £000
Expected loss rate – developer services	0%	48%	49%	65%	99%	
Gross carrying amount – developer services	1,939	384	254	39	734	3,350
Loss allowance	-	184	125	25	725	1,059
Total loss allowance						28,103

A reconciliation between the opening and closing loss allowances for trade receivables and contract assets for the year ended 31 March 2020 is shown in note 11.

Notes to the financial statements – appendices (continued)

A4. Financial instruments and risk management (continued)

Credit risk (continued)

At 31 March 2020 and 31 March 2019, the maximum exposure to credit risk was represented by the carrying amount of each financial asset in the statement of financial position:

	2020 £000	2019 restated £000
Cash and term deposits (note 13)	**85,754**	98,266
Short-term deposits (note 9)	**25,202**	15,049
Trade and other receivables (excluding prepayments)	**84,300**	97,496
	195,256	210,811

The group manages its risk from treasury activities by ensuring counterparties meet the minimum credit requirements approved by the Affinity Water Limited Board, which include a maximum peak exposure limit and minimum credit rating. Credit exposure is monitored regularly by the group's treasury function and is reported quarterly to the Affinity Water Limited Board through the treasury report.

The breakdown of cleared cash and cash equivalents and short-term deposits treated as investments exposed to credit risk at each of the external credit ratings at 31 March 2020 is:

	2020 £000	2019 £000
AAA*	**42,106**	30,060
A-1+*	**10,105**	5,017
A-1*	**58,126**	62,737
A-2*	**-**	809
P-1**	**-**	10,005
	110,337	108,628

*ratings per Standard & Poor's at 31 March
**rating per Moody's at 31 March

These are all short-term ratings.

Notes to the financial statements – appendices (continued)

A4. Financial instruments and risk management (continued)

Interest rate and inflation risk

The group seeks to manage its interest rate risk by maintaining its exposure within a board approved range, primarily through using a mixture of fixed, inflation linked and floating rate borrowings. An RPI linked inflation swap with a nominal value of £135.0m, which is linked to the maturity of the Class A fixed rate £250.0m bond (July 2026), was entered into in August 2018 as this was the most efficient way to switch to a higher proportion of index linked debt. This will lead to net interest receivable cashflow over the life of the swap, which is expected to increase the headroom against our covenant limits, offset by an accretion payment on maturity. Movements in RPI forward rates create fair value profits or losses, which will flow through the income statement.

A CPI linked inflation swap with a nominal value of £25.0m, which is linked to the maturity of the Class A fixed rate £250.0m bond (March 2036), was entered into in March 2020.

The group earns an economic return on its RCV, comprising a real return through revenues and an inflation return as an uplift to its RCV. To the extent that nominal debt liabilities finance a proportion of the RCV, there is an asset liability mismatch which potentially exposes the group to the risk of economic loss where actual inflation is lower than that implicitly locked in through nominal debt. The group's index-linked borrowings, which are linked to inflation, form a partial economic hedge of the group's regulatory assets, which are also linked to inflation. Interest rate and inflation risk is reported quarterly to the Affinity Water Limited Board through the treasury report.

The interest rate profile of the group's debt is as follows:

As at	Fixed rate debt £000	RPI-linked debt £000	CPI-linked debt £000	Total £000
31 March 2020	**823,510**	**505,787**	**62,001**	**1,391,298**
31 March 2019	839,376	505,693	60,887	1,405,956

Sensitivity analysis

Sensitivity analysis has not been performed on movements in interest rates as the group's fixed rate debts had no exposure to interest rates as at 31 March 2020. The following table details the sensitivity of profit before taxation to changes in RPI and CPI on the group's index-linked borrowings, RPI linked inflation swap and CPI linked inflation swap. The analysis relates to the position at the reporting date and is not indicative of the years then ended, as these factors would have varied throughout the year. Comparative figures exclude the impact of the CPI linked inflation swap as this was entered into during the year to 31 March 2020.

Impact on profit before taxation	**2020 £000**	2019 £000
1% increase in RPI	**(3,542)**	(3,450)
1% decrease in RPI	**3,542**	3,450
1% increase in CPI	**(625)**	(614)
1% decrease in CPI	**625**	614

Currency risk

The group has no material net exposure to movements in currency rates.

Notes to the financial statements – appendices (continued)

A4. Financial instruments and risk management (continued)

Capital risk management

The gearing policy approved by the Board of Affinity Water Limited is a target, measured as net debt (as defined in Affinity Water Limited's WBS documentation) to RCV, of 80%. This allows sufficient headroom within the group's financial covenants, which are triggered at a level of more than 90%. Affinity Water Limited's gearing on this basis was 78.9% at 31 March 2020 (78.3% at 31 March 2019).

Assuming no significant changes to existing credit rating agencies' methodologies or sector risk assessments, the group aims to maintain its existing credit ratings of A3 with Moody's, BBB+ with Standard & Poor's and BBB+ with Fitch for the Class A bonds issued by its financing subsidiaries. These ratings are used by the industry's economic regulator, Ofwat, to assess the group's ability to comply with its licence requirement to maintain an investment grade credit rating.

The group looks to manage its risk by monitoring and maintaining the relevant key financial ratios used by the credit rating agencies to determine the credit ratings given. Further detail on the precise measures and methodologies used to assess water companies' credit ratings can be found in the methodology papers published by the rating agencies. Gearing and credit ratings are reported quarterly to the Board of Affinity Water Limited through the treasury report.

Daiwater Investment Limited

Notes to the financial statements – appendices (continued)

A5. Retirement benefits

Defined benefit section

The group's pension plan providing benefits based on final pensionable salary is closed to new members (the two precursor plans closing in April 1996 and September 2004). The assets of the AWPP are held separately from those of the group. The plan's corporate trustee (the 'Trustee') is a subsidiary of the group.

The risks of the plan are as follows:

Asset volatility

The plan liabilities are calculated using a discount rate set with reference to high quality corporate bond yields. If plan assets underperform this yield, this will create a deficit.

The assets of the plan include a proportion of equities, which are expected to outperform corporate bonds in the long-term while providing volatility and risk in the short-term. As the plan has matured, the Trustee has commenced reducing the level of investment risk and will be investing more in assets that better match the liabilities of the plan and expected cash outflows based on the plan's maturity profile.

The group believes that due to the strength of its business and the long-term nature of the plan liabilities, a level of continuing equity investment is an appropriate element of the Trustee's long term strategy to manage the plan efficiently.

Changes in bond yield

A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plan's bond holdings.

Life expectancy

The majority of the plan's obligations are to provide benefits for the life of its members, so increases in life expectancy will result in an increase in the plan's liabilities.

Inflation risk

The pension obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect the plan against extreme inflation).

Following a Trustee investment strategy review in the prior year, and the focus towards a 'cashflow driven investment' strategy, the Trustee implemented the following changes to the plan's portfolio during the year:

- increased the level of interest rate and inflation hedging provided by the plan's assets from 90% to 92.5%; and
- introduced a new segregated actively managed investment 'liability driven investment/cashflow driven investment' portfolio managed by Insight Investment Management Limited, which is expected to provide stable returns and regular income to meet the plan's outgoings.

Notes to the financial statements – appendices (continued)

A5. Retirement benefits (continued)

Defined benefit section (continued)

The latest actuarial valuation of the AWPP, determined by an independent qualified actuary, was at 31 December 2017, which concluded that the pension plan was fully funded on a self-sufficiency basis. This actuarial valuation was made on the "attained age" funding method, based on the following assumptions:

RPI inflation:	measured by reference to the Bank of England gilt inflation curve;
CPI inflation:	measured by reference to the RPI inflation curve described above less 1.0% per annum;
Pre-retirement discount rate:	measured by reference to the Bank of England gilt yield curves plus 0.25% per annum;
Post retirement discount rate:	measured by reference to the Bank of England gilt yield curves plus 0.25% per annum;
Salary increases:	measured by reference to the CPI inflation curve described above plus 1% per annum;
Deferred pension increases:	measured by reference to the CPI or RPI inflation curves described above with an appropriate adjustment for any caps and collars; and
Pension increases:	measured by reference to the CPI or RPI inflation curves described above with an appropriate adjustment for any caps and collars.

Defined benefit section – employer contributions

Based on the latest actuarial valuation at 31 December 2017, no further deficit payments are required. The contributions expected to be paid into the AWPP for the year ending 31 March 2021 are £5,000,000 (£5,000,000 in the year ended 31 March 2020).

The weighted average duration of the defined benefit obligation is 16.3 years (2019: 17.1 years).

Defined benefit section - financial and demographic assumptions

Adjustments to actuarial valuations have been made based on the following assumptions:

	2020	2019
Discount rate	**2.30% pa**	2.40% pa
Salary growth	**2.70% pa**	3.15% pa
RPI	**2.50% pa**	3.15% pa
CPI	**1.70% pa**	2.15% pa
Life expectancy for a male pensioner from age 65 (years)	**22**	22
Life expectancy for a female pensioner from age 65 (years)	**24**	24
Life expectancy from age 65 (years) for a male participant currently aged 45 (years)	**24**	23
Life expectancy from age 65 (years) for a female participant currently aged 45 (years)	**26**	25

Deferred pensions are revalued to retirement age in line with the CPI assumption of 1.70% per annum (2019: 2.15% per annum) unless otherwise prescribed by statutory requirements or the plan rules.

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Notes to the financial statements – appendices (continued)

A5. Retirement benefits (continued)

Defined benefit section - sensitivity analysis

	Change in assumption	Impact on defined benefit obligation	Change in assumption	Impact on defined benefit obligation
2020				
Discount rate	**0.5% decrease**	**8.5% increase**	**0.5% increase**	**8.5% decrease**
Salary growth	**0.5% increase**	**0.9% increase**	**0.5% decrease**	**0.9% decrease**
Pension growth rate	**0.5% increase**	**6.9% increase**	**0.5% decrease**	**6.9% decrease**
Life expectancy	**1 year increase**	**4.0% increase**	**1 year decrease**	**4.0% decrease**
2019				
Discount rate	0.5% decrease	9.0% increase	0.5% increase	9.0% decrease
Salary growth	0.5% increase	1.0% increase	0.5% decrease	1.0% decrease
Pension growth rate	0.5% increase	7.0% increase	0.5% decrease	7.0% decrease
Life expectancy	1 year increase	4.0% increase	1 year decrease	4.0% decrease

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit asset to significant actuarial assumptions, the same method (present value of the defined benefit asset calculated using the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension asset recognised within the statement of financial position.

Defined benefit section - net retirement benefit surplus

At 31 March, the fair values of the plan's assets recognised in the statement of financial position were as follows:

	Plan assets %	**2020 £000**	Plan assets %	2019 £000
Equity securities	**4%**	**21,840**	5%	27,129
Debt securities	**71%**	**358,785**	25%	127,658
Diversified growth funds	**0%**	**-**	10%	51,770
Property	**0%**	**288**	0%	654
Infrastructure	**2%**	**9,066**	2%	11,726
Liability driven investments	**18%**	**88,691**	57%	296,596
Cash and cash equivalents	**5%**	**22,857**	1%	3,337
Total fair value of the plan's assets	**100%**	**501,527**	100%	518,870
Present value of defined benefit obligations		**(396,908)**		(417,676)
Net retirement benefit surplus		**104,619**		101,194

Daiwater Investment Limited

Notes to the financial statements – appendices (continued)

A5. Retirement benefits (continued)

Defined benefit section - fair value of plan assets

Movements in the fair value of the plan's assets were as follows:

	£000	£000
At 1 April 2019 / 1 April 2018	**518,870**	512,030
Benefits paid	**(16,670)**	(16,899)
Employer contributions	**5,000**	7,434
Contributions by plan participants	**557**	615
Interest income	**12,326**	13,205
Re-measurement (losses)/gains	**(18,556)**	2,485
At 31 March 2020 / 31 March 2019	**501,527**	518,870

Defined benefit section - present value of plan liabilities

Movements in the present value of the defined benefit liabilities are as follows:

	£000	£000
At 1 April 2019 / 1 April 2018	**(417,676)**	(406,472)
Benefits paid	**16,670**	16,899
Contributions by plan participants	**(557)**	(615)
Current service cost	**(3,952)**	(4,132)
Past service cost	**(148)**	(1,748)
Interest expense	**(9,839)**	(10,376)
Re-measurement gains/(losses)	**18,594**	(11,232)
At 31 March 2020 / 31 March 2019	**(396,908)**	(417,676)

Defined contribution section

At the same time that the defined benefit section became closed to new entrants, the group established a defined contribution section to provide pension benefits to qualifying employees.

The total pension charge for the defined contribution section of the AWPP for the year ended 31 March 2020 was £3,470,000 (2019: £3,599,000). There are no amounts prepaid or outstanding in respect of the defined contribution section at 31 March 2020 (2019: £nil).

Daiwater Investment Limited

Notes to the financial statements – appendices (continued)

A6. Subsidiaries

Name of company	Country of registration/ incorporation	Registered address	Nature of business	Type of holding	Proportion of voting rights and shares held
Affinity Water Acquisitions (Investments) Limited*	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Holding company	Ordinary shares	100%
Affinity Water Acquisitions (Holdco) Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Holding company	Ordinary shares	100%
Affinity Water Acquisitions (Midco) Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Holding company	Ordinary shares	100%
Affinity Water Acquisitions Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Holding company	Ordinary shares	100%
Affinity Water Capital Funds Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Holding company	Ordinary shares	100%
Affinity Water Holdco Finance Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Finance company	Ordinary shares	100%
Affinity Water Holdings Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Holding company	Ordinary shares	100%
Affinity Water Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Water supply	Ordinary shares	100%
Affinity Water Finance (2004) PLC	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Finance company	Ordinary shares	100%
Affinity Water Finance PLC	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Finance company	Ordinary shares	100%
Affinity Water East Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Investment company	Ordinary shares	99%
				Ordinary non-voting shares	88%
				10% preference shares	98%
Affinity Water Southeast Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Investment company	Ordinary shares	99%
				Ordinary non-voting shares	92%
				14% preference shares	98%

* held directly by Daiwater Investment Limited

Notes to the financial statements – appendices (continued)

A6. Subsidiaries (continued)

Name of company	Country of registration/ incorporation	Registered address	Nature of business	Type of holding	Proportion of voting rights and shares held
Affinity Water Shared Services Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Service company	Ordinary shares	100%
Affinity Water Pension Trustees Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Pension trustee	Ordinary shares	100%
Castle Water (Southern) Limited (formerly Affinity for Business (Retail) Limited)	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Water supply	Ordinary shares	100%
Affinity Water Programme Finance Limited	Cayman Islands	PO Box 309, Ugland House, Grand Cayman, KY1-1104	Former finance company	Ordinary shares	100%
Three Valleys Water Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Dormant company	Ordinary shares	100%
Tendring Hundred Water Services Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Dormant company	Ordinary shares	100%
Folkestone and Dover Water Services Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Dormant company	Ordinary shares	100%
White Cliffs Water Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Dormant company	Ordinary shares	100%

* held directly by Daiwater Investment Limited

Daiwater Investment Limited

Notes to the financial statements – appendices (continued)

A7. Related party transactions

Group

Purchases of goods and services

Related party	Nature of Relationship	In respect of	2020 Value £000	2020 Balance £000	2019 Value £000	2019 Balance £000
Allianz Capital Partners, DIF and HICL Infrastructure plc	Shareholders	Dividends	**-**	**-**	6,600	-
Allianz Global Corporate & Speciality	Common ownership	Insurance	**1,852**	**(1,009)**	1,569	(930)
Allianz Engineering	Common ownership	Insurance	**2**	**(1)**	2	(1)
SSE plc	Shared director	Electricity	**26,068**	**5,991**	21,879	1,857

See notes 3.3 and 3.4 for directors' remuneration and key management personnel compensation disclosures respectively.

Company

Sales of goods and services

Related party	Nature of Relationship	In respect of	2020 Value £000	2020 Balance £000	2019 Value £000	2019 Balance £000
Affinity Water Acquisitions (Investments) Limited	Subsidiary undertaking	Dividend	**-**	**-**	6,600	-
Affinity Water Acquisitions (Midco) Limited	Subsidiary undertaking	Loans receivable and interest	**11,717**	**139,503**	10,768	127,786
Affinity Water Capital Funds Limited	Subsidiary undertaking	Loans receivable and interest	**493**	**15,368**	476	14,875

Purchases of goods and services

Related party	Nature of Relationship	In respect of	2020 Value £000	2020 Balance £000	2019 Value £000	2019 Balance £000
Allianz Capital Partners, DIF and HICL Infrastructure plc	Shareholders	Dividend	**-**	**-**	6,600	-