DAIWATER INVESTMENT LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

(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:

Neeti Anand (appointed 1 April 2021)
Tom Goossens (resigned 1 April 2021)
Jaroslava Korpanec (resigned 1 July 2021)
Anthony Roper
Angela Roshier
Scott Springett (resigned 30 June 2021)
Roxana Tataru (appointed 1 July 2021)

Company secretary

Sunita Kaushal	(appointed 9 April 2020)
Colin Caldwell	(resigned 8 April 2020)

Registered office

Tamblin Way
Hatfield
Hertfordshire
AL10 9EZ

Independent auditors

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 2021.

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 3.8 million people across the South East of England.

AMP7

Going into AMP7, Affinity Water Limited agreed challenging commitments with its regulator, Ofwat. We recognise these commitments, and we owe it to our customers to achieve these targets.

These commitments are a response to the significant environmental, social and governance ('ESG') challenges we face of a rising population and increased demand for water, as well as a reduction in the availability of water in years ahead.

We want our customers and stakeholders to be able to measure our success and hold us to account. We have aligned our operational key performance indicators ('KPIs') to our key performance commitments in response to customer expectations.

ESG principles

Affinity Water Limited recognises the importance of ESG principles in operating an effective and ethical company.

We recognise that causing damage to the environment we operate in is a key risk for the group (see our principal risks on page 19). In August 2020, Affinity Water Limited published its internal digital Environmental Handbook which provides an easy-to-use reference guide to help us check and understand our environmental requirements within our daily operations, helping us carry out every job with the environment in mind.

More details on our ESG principles are included on Affinity Water Limited's website at:
affinitywater.co.uk/responsibility.

Sustainable Development Goals

Last year we outlined the United Nations' Sustainable Development Goals ('SDG's').

The SDG's are a blueprint to achieve a better and more sustainable future for all. The 17 related goals address the global challenges we face including those related to poverty, inequality, climate, environmental degradation, prosperity, peace and justice.

As Affinity Water Limited is a water company supplying a vital resource to its communities, we have identified which goals are particularly applicable to the group and its long-term ambitions and have set these out on page 5 to highlight where we feel we are making a contribution towards these goals.

COVID-19

The COVID-19 pandemic has changed the way we live and the way we work. Throughout 2020/21, our teams have been exceptional in ensuring our customers receive the high-quality drinking water they rely on. More details on the operational impacts of COVID-19 are given on pages 20 to 22 and the impact on going concern is detailed on page 49.

Brexit

The UK withdrew from the European Union ('EU') on 31 January 2021 and Affinity Water Limited has been in contact with critical suppliers on the impact of Brexit on its supply chain. We require a number of supplies and spares from the EU, and the disruption of these components would present an operational risk to the group. We have contingency plans in place that mean we are able to continue to supply water to our customers should these critical suppliers become unavailable. For example, we have our pumps and chemical supplies multi-sourced within the UK and outside the EU.

Daiwater Investment Limited

Board's welcome (continued)

Governance

The Board of Affinity Water Limited has a strong ethos with two female non-executive directors ('NEDs') and five male NEDs. In addition, we have representatives from each of our three shareholders and two executive directors: Pauline Walsh[1], our Chief Executive Officer ('CEO') and Stuart Ledger, our Chief Financial Officer ('CFO'). In total we had seven men and five women on the Board as at 31 March 2021. Diversity is an area we will be focusing on in 2021/22 across the whole group to better reflect the communities we serve.

The Board met 11 times during 2020/21, albeit virtually due to the COVID-19 pandemic. Justin Read was appointed to the Board in July 2020 as an Independent Non-Executive Director. Justin brings immense financial and managerial experience working across a number of different industries. Justin replaces Patrick O'Donnell Bourke as the Chair of the Audit, Risk and Assurance Committee. Patrick left the Board in September 2020.

In the executive management team, Sunita Kaushal was appointed as General Counsel and Company Secretary on 1 April 2020. Sunita is an accomplished solicitor with experience in global businesses. She has worked for Bakkavor Plc, De Vere Group and Cushman and Wakefield.

Executive remuneration

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

Affinity Water Limited has continued to keep the reward packages for its Executive Directors and other senior managers under review to ensure they remain market competitive, incentivise company and individual performance, and focus on the achievement of short-term targets that will enable the group to fulfil its long-term vision and purpose.

Affinity Water Limited's Executive Directors have committed to not receiving an increase in their salary for either 2020/21 or 2021/22. Its Board-approved executive remuneration policy is available on its website:
affinitywater.co.uk/governance-assurance.

Dividends

Affinity Water Limited is restricting dividends to its shareholders throughout AMP7 to enable the substantial investments to improve resilience and protect the environment. Equity dividends of £1.0m were paid from its non-appointed business (the parts of our business not regulated by Ofwat) during the year (2020: £nil), in order to service group debt, reflecting the shareholders' commitment to re-invest all planned returns from the company's appointed business for the benefit of its customers.

Affinity Water Limited's dividend policy is available on its website:
affinitywater.co.uk/governance-assurance.

Looking forward

We look forward to leading the group to excel in the KPIs Affinity Water Limited has agreed with its regulator, Ofwat. 2020/21 was not an easy year operationally, due to the COVID-19 pandemic and the restrictions and new ways of working that were put in place as a result, but the management team and our people have made firm commitments to build on what we have learnt and deliver for all stakeholders as we progress through AMP7 and beyond.

[1] On 9 September 2021, it was announced that Pauline Walsh has stepped down as CEO of Affinity Water Limited, handing over leadership of the business to Stuart Ledger as Interim CEO.

Daiwater Investment Limited

Strategic report
for the year ended 31 March 2021

Introduction

The directors present their strategic report on Daiwater Investment Limited for the year ended 31 March 2021.

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

Affinity Water Limited is the only trading subsidiary of the group for the current year and was the principal trading subsidiary of the group in the prior year. Castle Water (Southern) Limited (formerly Affinity for Business (Retail) Limited) was also a trading subsidiary of the group until its sale on 1 April 2020. The financial results of Castle Water (Southern) Limited (formerly Affinity for Business (Retail) Limited) are therefore included in these consolidated financial statements in the prior year only.

Affinity Water Limited 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 South East of England. It:
- supplies on average 950 million litres of water a day to around 3.83 million people, serving 1.47 million properties;
- operates 93 water treatment works to ensure that water is of the highest quality; and
- distributes water through a network of over 16,800km of mains.

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 2021 on its website: *affinitywater.co.uk/library*.

The holding companies within the Daiwater Investment Limited group have commenced a project to simplify the group structure by way of the following steps:

1) forgiveness of intragroup loan notes, together with interest obligations;
2) a capital reduction by way of solvency statements; and
3) a horizontal restructure of the holding companies to become direct subsidiaries of Daiwater Investment Limited.

Step 1) in the above points has been completed and is reflected in these financial statements for the year ended 31 March 2021. Step 2) has been completed post year end and is not reflected in these numbers. Step 3) will be completed in the year ending 31 March 2022.

Following completion of steps 1), 2) and 3) above, the directors propose to liquidate the relevant holding companies.

Performance

The group generated a loss for the year of £46,645,000 (2020: £13,634,000 loss). The statements of financial position detailed on pages 66 and 67 show shareholders' funds as at 31 March 2021 amounting to £523,625,000 (2020: £613,427,000) for the group and £747,907,000 (2020: £763,355,000) for the company.

As both the financial and operational results of the group are primarily determined by the results of its trading subsidiary, Affinity Water Limited, the operational and financial performance indicators and targets for the group are those of Affinity Water Limited. These performance indicators, and the performance against targets set, are provided in detail in the strategic report of its own Annual Report and Financial Statements for the year ended 31 March 2021 on its website: *affinitywater.co.uk/library*.

Daiwater Investment Limited

Strategic report
for the year ended 31 March 2021 (continued)

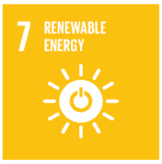
Purpose, values and culture

The purpose of Affinity Water Limited is to provide high quality drinking water and take care of the environment for its communities now and in the future. 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 2021 on its website: *affinitywater.co.uk/library*.

Sustainable Development Goals

The United Nations' SDG's are a blueprint to achieve a better and more sustainable future for all. The 17 related goals address the global challenges we face including those related to poverty, inequality, climate, environmental degradation, prosperity, peace and justice.

As Affinity Water Limited is a water company supplying a vital resource to our communities, the group has identified which goals are particularly applicable to it and its long-term ambitions.

SDG	Core activities	The way the group operates	Stakeholders
	Providing training and employment for our people	The group has created a strong culture of learning and development through significant investment in training, in order to ensure our employees feel they are valued and continuously learning. This will ultimately help the group become more efficient as a business and improve customer satisfaction.	Employees Customers Shareholders
	Promoting a culture of diversity and inclusivity throughout the workplace	Affinity Water Limited's Equality, Diversity and Inclusion Committee are tasked with understanding the challenges our industry faces, including gender equality. The group has set long-term goals to ensure its employee diversity is representative of the communities it serves. Affinity Water Limited's gender pay report is published on its website: *affinitywater.co.uk/responsibility*	Employees
	Supplying quality water, working alongside sewerage companies regarding sanitation	The group uses the latest treatment technology and monitoring systems to ensure a consistent supply of high quality water to its customers, benefitting the wider communities and positively impacting the environment.	Employees Customers Communities Regulators
	Net Zero and carbon neutral solutions	Affinity Water Limited has developed a carbon reduction strategy with its stakeholders which was published in July 2021. Plans include moving to a greener vehicle fleet, planting trees and developing a solar farm. As Affinity Water Limited is a utility company, it is vital that the group contributes to the ongoing environmental challenges we all face.	Environment Communities Regulators Shareholders

Daiwater Investment Limited

Strategic report
for the year ended 31 March 2021 (continued)

Sustainable Development Goals (continued)

SDG	Core activities	The way we operate	Stakeholders
8 GOOD JOBS AND ECONOMIC GROWTH	Ensuring employees are engaged, making Affinity Water a great place to work	The group's culture and ways of working are based on five key principles which are embedded in everything it does. The group wants to ensure it is a responsible employer and is contributing to both its shareholder returns and providing wealth and income to the communities it serves and where its employees live.	Employees Communities Suppliers Shareholders
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	Securing sustainable quality water and supplying to domestic and commercial customers	The group continuously invests in its physical assets, both above and below ground to ensure it has stable long-term assets available to continue to provide water to future generations.	Environment Customers Communities Shareholders
10 REDUCED INEQUALITIES	Supporting vulnerable customers that need help paying their bill or accessing their water	The group treats all members of its communities fairly and inclusively, providing a flexible service that can be used by all consumers equally, regardless of their health, age or personal circumstances.	Customers Communities
12 RESPONSIBLE CONSUMPTION	Securing the long term provision of sustainable water for all	Affinity Water Limited's Water Resources Management Plan identifies, over a 60-year period, how it will balance available supplies with required demand, to ensure a reliable water supply for future generations. The WRMP is available on its website: *affinitywater.co.uk/water-resources.*	Environment Customers Communities Regulators Shareholders
13 CLIMATE ACTION	Supplying quality water for all and protecting the environment	The group is continuously adapting to the challenges that climate change poses on our industry as well as considering its own impact on climate change, by looking at ways it manages its natural capital.	Environment Communities
14 LIFE BELOW WATER	Ensuring sustainable water sourcing and protecting the environment	The group is working with stakeholders to address the environmental challenges of protecting precious local rivers and habitats while encouraging behavioural change. The group is reducing groundwater abstraction in order to leave more water in the environment to ensure it can meet future demand.	Environment Communities Regulators
15 LIFE ON LAND	Increasing biodiversity and a sustaining the environment	The group's catchment management programme aims to make a positive impact on the environment by improving soil and water quality, capturing carbon, and managing flood risk.	Environment Communities

Risk management

The group has an established framework for identifying, evaluating and managing its key risks. A key aim is to foster a culture in which teams throughout the business manage risks as part of their management of day-to-day operations. The main risks of the group for the year ended 31 March 2021 are those of its trading subsidiary, Affinity Water Limited and hence this section focuses on the risks and uncertainties of Affinity Water Limited (referred to as the ‘subsidiary’ throughout the remainder of this section). The subsidiary’s Executive Management Team (‘EMT’) also carries out regular assessments of emerging risks, including horizon scanning and monitoring of early warning indicators.

Operational risks are recorded and assessed, including existing management and control processes, and action plans are prepared, if necessary, to implement further mitigation. Activities against these plans are monitored on an on-going basis. Operational risks are also ranked by the subsidiary’s teams during the year. Based on these rankings the most significant risks are discussed by its senior management and included in the strategic risk register, which is reviewed by the Board and the Audit, Risk and Assurance Committee of the subsidiary. The latter reviews senior management’s work on risk management and reports to the Board on the effectiveness of risk management processes.

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 EMT of the subsidiary holds regular sessions to identify and review current and emerging risks. Along with the strategic risks, these are reviewed at least quarterly by the EMT and at least twice-yearly by the Board.

The group’s current emerging risks are as follows:

A. Failure to respond to shifts in societal and political expectations and perceptions and rising levels of activism.
B. Skills gaps or unavailability due to an increasingly nomadic workforce, and ongoing pandemic impacts including economic uncertainty.
C. Changes to our supply chain (in particular, materials and resources) and to the water sector arising from Brexit, the COVID-19 pandemic and general economic uncertainty.
D. Changes to the power industry, including regional differences in pricing, reliability of service, etc.
E. Failure to sufficiently quickly react to changes in society; and customer demand and expectations (including environmental considerations) post-pandemic and post-Brexit.

The group will continue to keep these and other emerging risks under regular and close review.

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 will significantly reduce over the course of 2021/22. The potential longer term impacts of COVID-19 are assessed 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 2021 on its website: *affinitywater.co.uk/library*.

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 continued to serve the group well throughout 2020/21 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, 5 and 7. 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.

On a positive note, the group fully embraces the part it has to play in combatting the effects of climate change. As part of an industry-wide project, the group has committed to an industry wide target of achieving net zero carbon emissions by 2030.

Principal risks

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

We have identified 14 principal risks to our business in three categories:

Operational risks

1. Some of our work activities could cause serious harm to our employees, contractors or members of the public
2. We may become unable to meet our obligations to provide a sufficient supply of high-quality drinking water
3. We may fail to attract, develop and retain employees with the competencies, values and behaviours required to engage with and promote our corporate culture, and deliver our strategic ambition and business outcomes
4. Availability, confidentiality or integrity of information or data could become compromised
5. We may fail to deliver our business plan, commitments and service to customers
6. Our supply chain may fail to deliver the goods and services we need to operate our business
7. i) We could cause damage to the environment in the course of our business activities; or ii) climate change and other environmental factors could negatively impact our business operations
8. We may fail to implement the cultural and operational transformation of our business necessary to deliver our business plan obligations
9. A national health pandemic or similar event could cause severe disruption to our normal business activities
10. The health of our assets may deteriorate such that water supply or quality is compromised

Principal risks (continued)

Regulatory risks

11. Changes could occur in the legal and regulatory framework, or social or political climate, which have significant effects on our operational or financial performance
12. We may inadvertently fail to comply with laws and obligations under our instrument of appointment

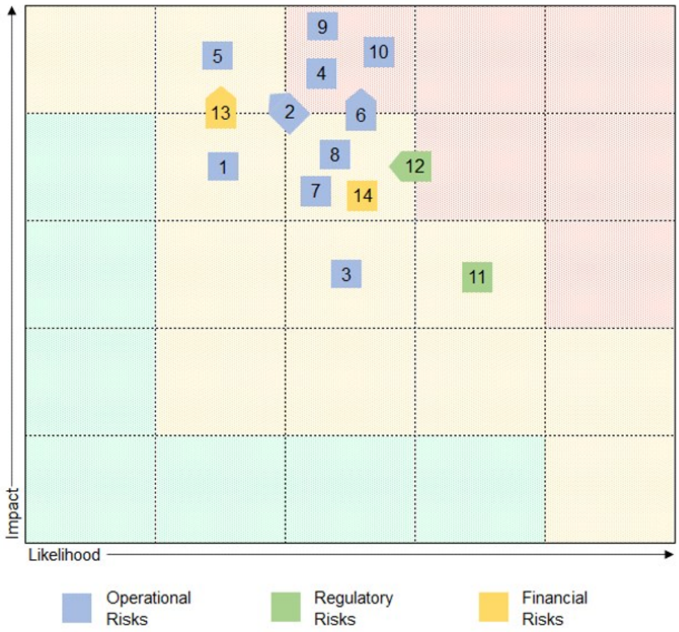
Financial risks

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

The heat map on the right shows a summary view of our current assessments of our principal risks. In this heatmap we have highlighted those risks where, during the financial year, we have revised the impact and / or likelihood assessments for individual risks due to changing circumstances.

The group's Risk Management Framework defines its methodology for assessing likelihood and impact scores for its strategic and operational risks. To determine impact scores the group takes account of the estimated extent of various types of consequences, including health and safety; people; financial; and reputational. Likelihood scores are assessed on the basis of estimated frequency of occurrence and probability of occurrence within a 5-year period.

The following pages describe these risks in more detail, including descriptions of the main mitigating controls which we have operated throughout the financial year.



Main changes since 2019/20

The group has carried out an exercise to rearticulate its principal risks in order to ensure that they clearly describe the events which, if they were to occur, could result in significant detrimental impacts on its operational or financial performance.

This year the group has added the following risk to its report:

10. The health of our assets may deteriorate such that water supply or quality is compromised.

This risk had already been captured in the operational risk registers and as an underlying cause for other principal risks. However, during the year the group came to recognise that this needed to be identified and monitored as a principal risk in its own right, particularly due to the increased importance of corporate resilience in ensuring that the group can effectively deal with the challenges posed by changing patterns of demand caused by the COVID-19 pandemic.

As mentioned elsewhere in this report, throughout the financial year the group has been dealing with the various operational and financial impacts on its business caused by the COVID-19 pandemic. The group’s business continuity arrangements have continued to allow the group to continue to provide the vast majority of services to its customers whilst ensuring the health and wellbeing of its employees. Currently, there is continued uncertainty with regards to how long the pandemic will last; the rollout of various vaccines have allowed lockdown restrictions to be lifted, however the number of confirmed cases and deaths are slowly increasing again. We do not under-estimate the challenges that will arise in the near future as and when new “normal” societal behaviours emerge.

Operational risks

<table>
<tr><th colspan="2">1. Some of the subsidiary's work activities could cause serious harm to its employees, contractors or members of the public</th></tr>
<tr><td>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.</td><td>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 wellbeing, 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.</td></tr>
<tr><th colspan="2">2. The subsidiary may become unable to meet its obligations to provide a sufficient supply of high-quality drinking water</th></tr>
<tr><td>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.</td><td>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 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;
• 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;
• 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.</td></tr>
</table>

Operational risks (continued)

2. The subsidiary may become unable to meet its obligations to provide a sufficient supply of high-quality drinking water (continued)	
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. In particular, during AMP7, the subsidiary is working in collaboration with other water companies to develop strategic regional water resources solutions to secure long-term resilience on behalf of customers while protecting the environment and benefiting wider society. Over the course of the subsidiary's reviews of this risk during the year, it determined that as this is one of its most significant risks, the impact score should be increased; but at the same time, the various developments as referred to above mean that the likelihood has reduced somewhat.
3. The subsidiary may fail to attract, develop and retain employees with the competencies, values and behaviours required to engage with and promote its corporate culture, and deliver its strategic ambition and business outcomes	
Risk: It is vital that the subsidiary introduces talented individuals into the organisation at all levels, 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 subsidiary's website is crucial in providing a strong Employee Value Proposition that will attract talent. A project is underway to provide consistency on role definition, create job families and provide salary banding for roles. During the year the subsidiary has delivered 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. The subsidiary has also embedded a revised Personal Best process, for appraisal / performance management, to attain high performance levels and achieve its business objectives. Throughout the year, the subsidiary also delivered a programme of communications, webinars and management development training courses in order to ensure that its leaders and employees were provided with as much support as possible to enable them to cope with the unique challenges posed on their working lives by the COVID-19 pandemic.

Operational risks (continued)

4. Availability, confidentiality or integrity of information or data could become compromised	
Risk: Customer information and the subsidiary's data are at risk from unauthorised disclosure and improper use. In addition, the subsidiary's operational resilience is always subject to threats in respect of its operational technology. 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 its commitment to security best practices and ensures that the subsidiary 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 it processes. As part of its AMP7 Business Plan submission, the subsidiary published its Data Strategy for AMP7. Following Ofwat's initial assessment of its AMP7 Business Plan and its 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 has been ongoing throughout 2020/21 and has continued into 2021/22.

Operational risks (continued)

5. The subsidiary may fail 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 have been introduced: 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; 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 take 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 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 Programme Steerco 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 we deliver to its customers. The subsidiary has implemented a company-wide Business Excellence programme to drive a culture of continuous improvement of all business processes. This is delivering tangible benefits to its customers and its employees and helping the subsidiary drives efficiencies in its everyday ways of working. The subsidiary has trained over 100 people on Yellow and Green Belt in Lean/Six Sigma and they are using their newly acquired skills to help identify and solve issues, making improvements every day. The subsidiary is investing in new technologies and ways of working which will help standardise the way the subsidiary works and ensure its customers receive a seamless experience regardless of where they interact with us; online, over the telephone or in their home and local community. The subsidiary actively engages with its customers on a day-to-day basis. As part of its PR19 business planning, the subsidiary 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 2020/21, their partner surveyed 116,724 customers with whom they had experienced some interaction. Of those surveyed, 90% expressed themselves as "satisfied" or "very satisfied". The subsidiary analyses all complaints and have increased its focus on root cause analysis which feeds into the continuous improvement cycle. Since March 2020, the subsidiary has encountered various challenges associated with the COVID-19 pandemic. It has seen increases in household customer water consumption and this has impacted achievement of its PCC performance commitment for 2020/21. However, the subsidiary believes it has sufficient mitigation in place to cope with the pandemic and that it will successfully deliver against many of its commitments over AMP7. During 2020/21 the subsidiary has seen a 19% reduction in customer complaints year on year. In addition, the subsidiary has outperformed its expectations on its supply interruptions greater than three hours (property minutes) performance at a time when its customers have relied on its essential services more than ever.

Operational risks (continued)

6. The subsidiary's supply chain may fail to deliver the goods and services it needs to operate its business	
Risk: Much of the subsidiary's capital delivery programme and field activity in its Central region is outsourced to third parties. Existing contractors could have limited capacity to take on additional work due to the volume of large-scale infrastructure projects in some of its operational areas. The subsidiary is also facing particular challenges with regards to supply of certain chemicals which are essential for its water treatment processes. In some cases these are concentrated in single suppliers. There is a shift of chemical production abroad which could present further supply chain risks.	**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. The subsidiary also undertakes significant due diligence in the selection and on-going management of suppliers through audit, inspection and verification of performance. During the year the subsidiary secured a new 5-year framework with three partners for its above-ground capital delivery projects, which provides certainty of supply and quality of delivery for the remainder of AMP7. The subsidiary secured new contracts for field fix and repair, metering installation and developer services. The subsidiary also changed its contracting model for below ground capital works which provides further resilience in the delivery of this. The subsidiary continues to work with other companies in the industry to address the short-term and long-term challenges associated with supply of water treatment chemicals in the UK as a whole.
7. (i) We could cause damage to the environment in the course of our business activities; or (ii) climate change and other environmental factors could negatively impact our business operations	
Risk: There is a risk that, in the course of operating our 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. We are also exposed to the possibility of damage to our landholdings and assets caused by emerging global trends such as climate change, eco system decline; nearby land-use; carbon climate; and third-party pollution events. Any of these could lead to increased operational costs; damage to our reputation; prosecution; loss of customer trust; and/or operational disruption.	**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 expenditure (forecast £72.6m) 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 subsidiary undertakes a range of activities to strengthen environmental compliance and promote best practice including the maintenance of a company environmental handbook, monthly environmental communications and company environmental awareness events. The Environment Agency ('EA') has announced that it is to extend the scope of its Environmental Performance Assessment ('EPA') to include water-only companies. Reporting commenced in 2021 with the intention to make public a benchmark comparison in Summer 2022. The subsidiary has been in discussions with the EA while this is rolled out.

Operational risks (continued)

<table>
<tr><th colspan="2">8. The subsidiary may fail to implement the cultural and operational transformation of our business necessary to deliver our business plan obligations</th></tr>
<tr><td>Risk: There is a risk that the changes the subsidiary has made and will continue to make to its organisational structure, and its business processes, including its IT infrastructure and how the subsidiary interacts with its customers is such that the subsidiary 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: The subsidiary is in the midst of a 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>

<table>
<tr><th colspan="2">9. A national health pandemic or similar event could cause severe disruption to our normal business activities</th></tr>
<tr><td>Risk: The subsidiary's ability to effectively and efficiently deliver the services that its customers expect could be significantly impacted by an outbreak of a pandemic disease.

Throughout the financial year, the subsidiary has continued to face the challenges posed by the 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.</td><td>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 temporarily ceased only a few non-essential processes such as customer appointments which require home visits, unless in the case of an emergency. All these activities have restarted.

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, the subsidiary continues to follow the Government's COVID-secure guidelines for businesses.

At the time of writing, the subsidiary is developing its plans for returning to "business as usual" as and when the time is right to do so in line with the Government's roadmap.</td></tr>
</table>

Operational risks (continued)

10. The health of the subsidiary's assets may deteriorate such that water supply or quality is compromised	
Risk: The health of the subsidiary's assets is critical in facilitating the ongoing supply of sufficient quantities of high-quality water to its customers and ensuring the operational resilience of the business. The health of its assets is also important in ensuring that they can be operated safely by its employees.	**Mitigation:** Due to the subsidiary's funding constraints, it makes asset investment decisions based on a "risk and value" system and extracts as much value from its assets as much as it reasonably can, but not to the detriment of water supply or quality. The subsidiary is working on enhancing the accuracy and completeness of the data it maintains and the resulting suite of asset health metrics, in order to further improve its decision-making in this area. The subsidiary is subject to a number of legislative obligations relating to particular categories of operational assets and the subsidiary is diligent in complying with them. For these obligations the subsidiary operates a comprehensive suite of 1st and 2nd line internal controls, including regular maintenance and inspections.

Regulatory risks

11. Changes could occur in the legal and regulatory framework, or social or political climate, which have significant effects on our operational or financial performance	
Risk: Changes to the regulatory framework by Ofwat or the Government may have an adverse effect on the subsidiary's operational or financial performance. The subsidiary 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. Nationalisation itself has fallen down the political agenda but there is now great focus on COVID-19, and Brexit, such that 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. The subsidiary continues to engage with its stakeholders, customers and their representatives to understand and respond to their issues and concerns. The subsidiary regularly engages with stakeholders across the political spectrum to understand and mitigate political risk. The subsidiary conducts periodic horizon scanning exercises to identify new or changing legislation early so that it is prepared and can adapt business processes accordingly.

Regulatory risks (continued)

12. The subsidiary may inadvertently fail to comply with laws and obligations under its instrument of appointment	
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:** All legal requirements are captured in the Compliance Obligations Register ('CORe') which is regularly reviewed by senior management to ensure the subsidiary is aware of all relevant obligations. The CORe provides a reference point for the biannual Compliance Returns process whereby EMT members are required to provide a declaration that they and their teams are fully compliant with relevant procedures and controls, or otherwise record any risk of non-compliance for areas of the business for which they are accountable. An action plan is required to address any heightened risk of non-compliance in appropriate timeframes. 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.

Financial risks

13. The subsidiary could fail to maintain or renew 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 the subsidiary 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.	**Mitigation:** The subsidiary has undrawn revolving loan facilities, cash balances and standby loan facilities to meet its forecast cash flow needs. The subsidiary's 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. The subsidiary expects to raise further financing for AMP7 of £100.0m. Its next major refinancing exercise is scheduled for July 2026 when its £250.0m fixed rate bond matures. The subsidiary's credit ratings remain investment grade and its policy is to maintain a diverse portfolio of counterparties through which the subsidiary can access liquidity at all times. This ensures the subsidiary 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. The subsidiary continues to maintain investment grade credit ratings with credit rating agencies.

Financial risks (continued)

14. Macro-economic factors (interest rate, inflation and tax risks) could have a material adverse effect on the subsidiary's financial performance	
Risk: Movements in interest rates can result in an increase in the cost of the subsidiary's 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. The subsidiary 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. During the financial year the subsidiary entered into CPI linked inflation swaps with a notional value of £225m and RPI linked inflation swaps with a notional value of £75m in order to increase the proportion of its debt that is linked to inflation. In total, the subsidiary now has inflation linked swaps with a notional value of £250m (CPI) and £210m (RPI). The proportion of debt linked to inflation is now 80.8% (2020: 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') as at 31 December 2017, determined by an independent qualified actuary, concluded that the pension plan was fully funded on a self-sufficiency basis. The subsidiary signed a new schedule of contributions effective from October 2018 and no further deficit payments were required. An updated actuarial valuation as at 31 December 2020 is currently being undertaken. 92.5% of the interest rate and inflation risk associated with the plan's liabilities are hedged by the plan's assets through Liability and Cashflow 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 struggle to pay their bill, 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.

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 AMP7 Business Plan. The subsidiary's performance in relation to these targets for 2020/21 is analysed in the tables below. For more information on the subsidiary's performance for 2020/21 in relation to all the performance commitments made in its AMP7 Business Plan refer to pages 252 to 260 of its own regulatory Annual Performance Report.

KPI: Water quality CRI (Score)	
Actual: **1.31** Target: 2.0	In the calendar year 2020 there were 30 exceedances of the relevant water quality standards from just under 180,000 compliance tests (0.017%) taken from the subsidiary's sites and consumer properties (2019: 50 exceedances from 190,000 compliance tests, 0.026%). Due to COVID-19 related restrictions, the subsidiary was unable to take samples from randomly chosen properties, as required by the Water Supply (Water Quality) Regulations 2016 (as amended), from March 2020 onwards. Where possible the subsidiary used fixed sample points and managed to collect over 85% of its expected consumer property sampling programme. This reduction in sample and associated tests as well as the non-random nature of the sampling does account for some of the reduction in exceedances seen in 2020. A new measure, CRI, has been introduced to measure water quality performance in AMP7 which measures the compliance risk of every exceedance. The subsidiary has estimated its CRI score for 2020 to be 1.31 (final score to be published in July 2021 by the DWI) which met its performance commitment of having a CRI score within the deadband of 2.0 or less. Another measure of its performance is the number of serious and significant water quality events. During 2020 three events notified to the DWI were classified as serious or significant (2019: one event).
KPI: Leakage Average annual water leakage from our network (Ml/d)	
Actual: **171.4** Target: 157.8 or less	The subsidiary has committed to reducing leakage by 20% across the whole of AMP7, on top of the 15% delivered in AMP6, but it did not meet its target for the year despite investing both in additional resources and new technology to improve its leakage performance. The subsidiary recorded leakage of 171.4 Ml/d, a reduction of 9.7 Ml/d compared to the prior year, although not achieving its target of less than 157.8 Ml/d for 2020/21. The subsidiary invested in the latest acoustic leak detection equipment at the same time as using artificial intelligence to enhance its existing equipment and infrastructure. The subsidiary also introduced a new customer side leakage policy and process that enables them to carry out free repairs on high volume leaks. The subsidiary continues to closely monitor lower volume leaks, working collaboratively with its customers to get them fixed. Leakage is really important to the subsidiary and it is very disappointed to have missed the target. The subsidiary understands that it is a critical customer priority and one that raises significant emotion. The subsidiary acknowledges the need to change its approach if it is to succeed in meeting the stretching leakage targets and are making significant changes to how it manages leakage. This includes bringing in new methods and technologies and targeting its approach to maximise the benefit delivered both in amount of water saved and in managing visible leaks. The subsidiary has set up an internal taskforce to manage this critically important work.
KPI: PCC Average water use (l/p/d)	
Actual: **169.3** Target: 147.4 or less	During 2020/21 the subsidiary recorded PCC of 169.3 l/p/d, which is an increase of 14.3 l/p/d (9.2%) on the prior year (2020: 155.0 l/p/d). The subsidiary experienced an unprecedented year for demand due to more people staying at home and within its supply area as a result of COVID-19, coupled with the hot weather period from May 2020 to August 2020, and had to adapt its delivery plan as a result, including offering virtual Home Water Efficiency Checks and retraining technicians. The subsidiary also launched its 'Save 10 a Day' marketing campaign, detailed in its own financial statements, and followed this up in April 2021 with the launch of its "Save Our Streams" campaign. The subsidiary also met its target of installing 25,000 new meters during 2020/21 as part of its Universal Metering Programme which aims to install 200,000 meters across AMP7, as part of a plan to reduce water wastage by 130 Ml/d by 2025. The subsidiary met its 2020/21 target despite putting the programme on hold during the first half of the year, and then working to new COVID-19 guidelines when it was safe for them to resume this activity.

Operational performance (continued)

KPI: C-MeX (Score)	
Actual: **15th** Target: 14th	In 2020/21, C-MeX, the new mechanism introduced by Ofwat for measuring customer experience, went live. This followed its successful testing during the 2019/20 shadow year. There are two elements of C-MeX, the Customer Service Survey and the Customer Experience Survey. The subsidiary's overall C-MeX score during the year ended 31 March 2021 equated to 77.88, compared to an industry average of 81.62. Whilst its score represented a small improvement upon the shadow year, its ranking of 15th of the 17 water companies remained static. This year, the subsidiary has worked to bring together Community Operations and Customer Experience into one directorate focused on delivering improved experience right across the customer journey. The subsidiary has introduced new operating models in operational teams, multi-skilled all contact centres to create a single team, enhanced its customer insights and defined new customer journeys including targeted communications with a single tone of voice, based on newly created personas. The subsidiary recognises that it is the Customer Experience element of C-MeX, based on customer perception and awareness, that has pulled down its score this year. In 2021/22 the subsidiary will be launching an unprecedented brand campaign aimed at improving customer awareness, perception of value for money, and trust, in addition to changing behaviours around water usage. Together, this will ensure the subsidiary is in a stronger position to climb up the C-MeX league table.
KPI: D-MeX (Score)	
Actual: **10th** Target: 13th	D-MeX is the measure of developer service levels being used by Ofwat in AMP7, following a shadow year in 2019/20. The score is made up of both a qualitative and a quantitative element. The subsidiary's D-MeX score during the year ended 31 March 2021 equated to 84.39 compared to an industry mean average of 82.44. The subsidiary placed 10th out of 17 companies in the industry league table, up from 16th in the shadow year 2019/20, with consistent improvement in position quarter-on-quarter during 2020/21. The subsidiary halted Developer Service works during the first national lockdown as a result of COVID-19, which impacted negatively on its compliance levels of service metric. However, this was recovered following successful remobilisation of its teams at the end of May 2020, as effective planning helped to clear the backlog of jobs, with its quantitative performance average for the year recovering to 98%.
KPI: Mains repairs (due to bursts) (Number per 1,000km mains)	
Actual: **155.8** Target: 150.7 or less	The subsidiary has failed to meet our target of 150.7 burst repairs per 1,000km of mains in the year. This has been a challenging target and performance was on track until the severe weather hit in February 2021, as the number of bursts rose significantly during the freeze and subsequent thaw, with the impact being similar to the previous such incident, the 'Beast from the East' in 2018. Moving into the new year the subsidiary will continue to focus on reducing night pressures, reducing volatility of its network and continuing analysis of where and when bursts occur to inform its mains renewals programme.

Operational performance (continued)

KPI: Water Supply Interruptions > 3 hours (Average minutes per property, water supply interruption)	
Actual: **5 minutes and 49 seconds** Target: 6 minutes and 30 seconds	The subsidiary has achieved its target of 6 minutes and 30 seconds as the average number of minutes its customer base has been affected by a supply interruption in the year. This is the first year this has been a performance commitment for the subsidiary, although the metric has been tracked in preceding years. Considerable improvements have been made over the year reducing its impact to customers, reducing its prior year performance by nearly eight minutes from 13 minutes and 36 seconds in 2019/20. Changing the subsidiary's mentality to concentrate on 'water always on' rather than fixing the burst has been instrumental in improving its performance. The subsidiary is continuing to look at reductions in response times, availability of resources and innovative methods of ensuring water is always on.
KPI: Properties at risk of low pressure (Number per 10,000 properties)	
Actual: **196.850** Target: 1.645	The subsidiary has failed to meet its target of 1.645 properties at risk of low pressure per 10,000 properties, as the COVID-19 pandemic has significantly changed the way its customers are using water. Typically, the subsidiary's water networks are designed to cope with two peaks in demand during the day. The first in the morning before its customers go to work and school, and the second, in the early evening when they return home. This has not been the case during 2020/21 due to the actions taken to control the pandemic, with lockdowns, school closures and more people working at home changing the balance of water consumed by customers and businesses, as well as the volume, and time of day, which has ultimately increased the risk of properties receiving low pressure. Going forward the subsidiary will continue to monitor pressure on the network to understand what the "new normal" is, and how it can best respond to the pressure needs of its customers. The subsidiary may need to adjust its current normal management of the network, with more of its customers working at home for at least part of the week.
KPI: Unplanned interruptions to supply over 12 hours (Number of properties)	
Actual: **538** Target: 320 or less	The subsidiary has failed to meet its target for unplanned interruptions greater than 12 hours and has incurred the full Outcome Delivery Incentive ('ODI') penalty. This is a very disappointing result as the subsidiary has been working hard to focus its resources to a 'water always on' mindset. 468 of the properties affected were the result of a single incident where there was no alternative method of supply to these customers. Focus for the coming year remains on improving response times, increasing local resources and alternative methods of continuing to ensure the water supply to customers properties is not interrupted.
KPI: Accident frequency rate (Number of lost time injuries per 100,000 hours worked)	
Actual: **0.12** Target: 0.20 or less	As part of the subsidiary's drive for continuous improvement and to ensure it strengthen its Safety, Health and Environmental ('SHE') practices, the subsidiary developed a 2020/21 SHE Improvement Plan. This has five key areas of focus which include Embrace Leadership Behaviours and Enhance Capabilities, Occupational and Functional Safety, and Wellbeing and Health. Teams across the business are helping to deliver the plan. During 2020/21, the subsidiary recorded three work related lost time injuries, having a frequency rate of 0.12 lost time injuries per 100,000 hours worked. This is the lowest score the subsidiary has ever recorded and compares to five lost time injuries in 2019/20 with a frequency rate of 0.20. The subsidiary has continued to see improvements in its safety performance, but the subsidiary knows it cannot become complacent.

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.

Our stakeholders

The group's responsible business approach is the way it does business. It is centered on issues which are of importance to its customers and stakeholders and to the responsible delivery of its business plans. The group has had discussions with stakeholders across all areas of its business to better understand what matters most to them and how it can further involve them in its decision-making. The group focused on the following four areas: the environment, supply and demand, water efficiency and vulnerability with the aim of gathering information to inform its 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 group's approach to stakeholder engagement is:

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 2020/21, 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 and Ofwat's 2019 Board leadership, transparency and governance principles were appropriately addressed. Directors are reminded of the section 172 requirements at the start of every Board meeting and undertook a training session delivered by external advisors on their responsibilities during the year.

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.

Customers *Current and future customers, including household and non-household customers, and market participants such as retailers and self-lay providers, developers and NAVs*	**Communities** *Communities, non-governmental organisations and civil society, especially environmental organisations and campaigners*
Why engagement is important *Customers rely on water as an essential service and are at the heart of our business model. 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*	Why engagement is important *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*
How the company engages • *Daily contact with customers* • *Customer research programme* • *Public meetings* • *Our website, including our specific COVID-19 page* • *Media/social media* • *Through our CCG*	How the company engages • *Stakeholder Assembly* • *Joint Forums* • *Public meetings* • *Catchment partnerships* • *Water resources monthly email updates* • *Volunteering days*

How the Board engages
Information reported to the Board:
• *The Board receives monthly performance summaries of our AMP7 performance commitments including leakage, PCC, C-MeX and D-MeX and supply interruptions, and other key metrics including customer satisfaction and written complaints*
Direct engagement mechanisms:
• *There is a clear reporting line to the CEO and accountability for arrangements regarding handling customer complaints*
• *Chair of the CCG attended the Board Strategy meeting*
• *Quarterly meeting with the CCG to discuss key performance metrics*
• *The regional Chair of CCW attended the November 2020 Board meeting discussing performance, response to COVID-19 and social tariffs available*
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 7 for further information) and revised our GDPR policy during the year to make this more engaging and user friendly
	How the Board engages
	Information reported to the Board:
	• *The Board receives monthly updates on community projects*
	• *The Board received updates on the proposed company rebranding, based on customer feedback received, and how this will impact customers and communities*
	Direct engagement mechanisms:
	• *Our Board-approved Community Engagement Strategy and activities are focused around three core areas:*
	    o *Protecting rivers and habitats*
	    o *Investing in science, technology, engineering and mathematics ('STEM') and future skills*
	    o *Developing community partnerships*
	Throughout 2020/21, we continued to build on 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 2020/21, including World Rivers Day in the Chess Valley.*

Section 172(1) statement (continued)

Section 172(1) in action (continued)

Employees
The workforce, including both employees and the wider workforce

Why engagement is important

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 and diverse future workforce

Successful engagement will mean we are an inclusive employer that retains and attracts people with the talent and skills to achieve our business objectives and whose make-up is aligned with the diversity of the communities we serve

How the company engages

- *Senior leadership forums*
- *Engagement surveys, focusing in 2020/21 on the changing working environment as a result of COVID-19*
- *Monthly one-to-one meetings and personal best check-ins three times a year*
- *Wellbeing fortnight focussing on mental health and wellbeing of employees*
- *Weekly podcasts from the CEO*
- *Culture Ambassador forums to gain feedback and progress culture development initiatives*
- *Diversity and Inclusion Steering Group to drive a stronger agenda of inclusiveness*
- *Designated Director for Employee Engagement reporting issues and progress to the Board*
- *Internal communications and monthly team leader briefings communicated to all line managers*
- *Management Enhancement Program introduced, with a Manager Corporate Induction*
- *COVID-19 updates and an internal COVID-19 website for employees*
- *Customer Hero Awards launched in October 2020 to reward behaviours that support our principles*

How the Board engages

Information reported to the Board:

- *Following an inaugural Culture Survey in 2019/20, we have continued to drive cultural change across the business in 2020/21. Culture Ambassadors represent their departments in the rollout of cultural improvement and progress made. We have 38 Cultural Ambassadors who meet every two months to continue to drive change and support in the creation and execution of changes relevant to their departments. Cultural Ambassadors were key in delivering COVID-19 messages to departments during the pandemic. The Board received updates from engagement surveys conducted in the year.*
- *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.*
- *Details on the company's return to work plans as a result of COVID-19 and the impact the pandemic is having on employees*

Direct engagement mechanisms:

- *Trevor Didcock, Director of Employee Engagement is responsible 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 the Culture Forums with Cultural Ambassadors from within the business, providing training to ambassadors, reporting and holding discussions of the corrective actions 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.*
- *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.*
- *The CEO met employees across the business to thank them for their work during the pandemic and understand the issues on the ground and the new ways of working.*

Workforce policies and practices:

- *Refer to Affinity Water Limited's own annual report and financial statements for further detail on workforce policies and practice and workforce concerns, and details of what the Board is doing about gender equality and reducing our gender pay gap.*

Section 172(1) statement (continued)

Section 172(1) in action (continued)

Shareholders *Owners of shares in the company*	**Regulators** *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*
Why engagement is important *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 long-term return on their investment*	Why engagement is important *To ensure we maintain our licence to operate and that our actions are in accordance with the framework determined by the Government and regulators* *Engagement will ensure that we are a responsible company which delivers on its purpose*
How the company engages • *Board meetings attended by shareholders / nominated directors* • *Monthly financial and operational updates, including the impact of COVID-19 on our financial results* • *Regular meetings and calls* • *Annual Report and Financial Statements, which gives details of the performance, strategy, viability and company business model, approved by the Board*	How the company engages • *Industry working groups including committees, panels and forums* • *Responding to consultations and requests for information* • *Ongoing dialogue on strategic planning and land disposals* • *Regular meetings and calls, including meetings with key MPs in our supply area* • *Discussions on our key worker status and priorities in response to COVID-19*
How the Board engages • *We explain how the Board engages with our shareholders and involves them in decision-making in our revised publication: "Consulting with our shareholders", approved by the Board in June 2020 to include the Ofwat 2019 principles, available on the governance pages of our website.* • *In 2020/21 the Board engaged directly with shareholders in setting and approving budgets for 2021/22* • *The Board engaged with shareholders on the £4.0m equity injection into the company in March 2021, including objectives from the funding and the source of the finance* • *The Board conducted an effectiveness review, including responses from shareholder appointed non-executive directors, in the year.*	How the Board engages *Information reported to the Board:* • *The Board receives monthly updates on regulatory and relevant political developments, and regulatory consultations and requests for additional information* • *Risk assessments reviewed to ensure sites are all COVID-19 compliant, in line with Government guidance* *Direct engagement mechanisms:* • *Board approved updated terms of reference, to include Ofwat's 2019 Board leadership, transparency and governance principles* • *The Board received updates on proposals to submit to Ofwat for Innovation Competition funding* • *Throughout 2020/21 the CEO had meetings with Ofwat representatives and Water UK on the impact of COVID-19 on the industry and performance commitments* • *The CEO had meetings with the EA, Ofwat and the DWI on the hot weather event over the summer and the impact on ODIs and abstraction licences* • *Delivery Steering Group set up in 2020/21 to drive the achievement of performance commitments in AMP7.* • *Non-executive directors attended regular events with Ofwat, including prior to their appointment* • *The Chair of the CCW attended one of our Board meetings in 2020/21*

Section 172(1) statement (continued)

Section 172(1) in action (continued)

Environmental bodies	**Providers of finance and credit rating agencies**
Why engagement is important *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*	Why engagement is important *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*
How the company engages • *WRMP* • *Catchment management* • *River restoration* • *Launch of company environmental policy during the year to ensure we meet our purpose to provide high quality drinking water for our customers and take care of the environment*	How the company engages • *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 and the issue of new swaps.*
How the Board engages *Governance arrangements:* • *The Board 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 Safety, Health, Environment and Drinking Water Quality ('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 "We may become unable to meet our obligations to provide a sufficient supply of high-quality drinking water", which are monitored by the Board. A full review of risks was undertaken in January 2021.* • *The Board receives monthly information on our performance in relation to key environmental metrics, including 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, and in 2020/21 the Board approved stopping extraction from boreholes at the top of the Chess Valley, highlighting the company's commitment to restoring chalk streams* • *The Board undertook a deep dive exercise on leakage plans, targets and current performance* *Climate change:* • *The Board considers climate change in two principal ways:* *1) 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* *2) in 2020/21, we worked alongside other water companies and Water UK to develop a route map to reduce carbon emissions to net zero by 2030, an industry wide target.*	How the Board engages *Information reported to the Board:* • *A treasury report is provided to the Board on a quarterly basis, which includes details of the company's covenants and gearing headroom, financial results and the impact of COVID-19 on the financials.* *Direct engagement mechanisms:* • *The CFO, on behalf of the Board, and the treasurer met with lenders and credit rating agencies during the year and renewed the credit facility, using SONIA as the reference rate and which has sustainability performance measures included* • *The Board approved the strategy to enter into a power hedging arrangement when market conditions were favourable (this was not entered into during the year to 31 March 2021).* *Refer to note A4 of the statutory financial statements for further information on our risk management processes and the Board's role in these*

Section 172(1) statement (continued)

Section 172(1) in action (continued)

Supply chain
Why engagement is important *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. We are in contact with critical suppliers on the impact of Brexit on our supply chain.* *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 and we can continue to operate in a post Brexit working environment.*
How the company engages • *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, including monthly performance meetings with our largest suppliers* • *Discussions with suppliers on how we perform key essential work in response to COVID-19*
How the Board engages *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. In 2020/21, the Board agreed changes to key suppliers.* • *The Board considers the company's policies around compliance with the Modern Slavery Act and GDPR as they relate 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: "Availability, confidentiality or integrity of information or data could become compromised") The Board receives information on a monthly basis on operational ODI performance. Annual payment practice information is also reported to the Board to enable it to consider our performance and how it compares to industry peers* • *The 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*

Following a review of direct engagement mechanisms in 2020/21, the Board identified the following priorities for 2021/22 and the remainder of AMP7:

- Achieving and outperforming our financial commitments
- Meeting our health, safety, regulatory and compliance obligations
- Developing a supportive culture, which enables everyone to perform to their best
- Striving to make a positive impact on the environment in all that we do

Strategic report
for the year ended 31 March 2021 (continued)

Section 172(1) statement (continued)

Key decisions made in 2020/21

We set out below key decisions made in 2020/21 and the Board's consideration of section 172 factors in making these.

<table>
<tr><td>Approved the company's ongoing response to COVID-19</td><td>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 utmost safety of employees. The Board considered updates from Public Health England, the NHS, World Health Organisation and the Foreign and Commonwealth Office.

The Board reviewed updates on financial implications, regulations and risk assessments and reviewed plans for a phased return to work.

The Board engaged with the following stakeholders in assessing its response to COVID-19:

Customers
• The CEO met with vulnerable customers to understand the impact of the financial hardship they are facing as a result of the COVID-19 pandemic, to allow us to provide relevant financial support
Employees
• The CEO met employees across the business to thank them for their work during the pandemic and understand the issues on the ground and the new ways of working
• The Board reviewed results from engagement surveys, completed by all employees, to understand the impact of COVID-19 on the workforce and draft 'return to work' plans
Shareholders
• The Board shared with shareholders the impact that COVID-19 has had on the company financials, and consulted with them on best course of mitigating actions to put in place
Regulators
• The Board had discussions with regulators regarding key worker status, not using the furlough schemes, and discussed our operational priorities and the impact the pandemic has had on our ODI performance
Providers of finance
• The CFO, on behalf of the Board, engaged with banking groups and credit rating agencies on the impact of COVID-19 and the issue of new swaps to mitigate against our interest cover ratio covenant
Supply chain
• The Executive Team, on behalf of the Board, had discussions with suppliers on how we perform key essential work in response to COVID-19, to ensure we are aligned and continue to meet our customer outcomes during the pandemic</td></tr>
</table>

Section 172(1) statement (continued)

Key decisions made in 2020/21 (continued)

Formulated and approved the long-term Strategic Direction Statement	The Board was fully engaged with and received regular updates on the Strategic Direction Statement, which will be published on our website shortly. This sets out the company's long term strategy and plans in place to achieve this. The Board engaged with the following stakeholders in formulating our long term strategy: **Communities and Customers** • We led extensive feedback sessions with customers and communities to understand all viewpoints when formulating our strategy. Communities want us to collaborate and bring everyone together to address the challenges and share knowledge and resources to create a more resilient and sustainable future • Our customers understand water is crucial and it is our responsibility to shape a more sustainable future by changing the way in which they use water and increase understanding of why this is key. One of the things they told us is that affordability continues be a key concern for our customers, especially in the wake of the pandemic and we understand we must support customers through the journey of adaptation **Regulators** • We engaged with Ofwat and the DWI when formulating our Strategy, taking on board feedback received on the direction of the wider water industry **The environment and environmental regulators** • Demand pressures and environmental protection in the South East, including the climate change emergency we are facing formed the basis of our Strategic Direction Statement. We have considered abstraction targets, population growth, our natural geography and our asset health and consulted with the Environmental Agency, Defra and other environmental agencies in formulating our Statement **Providers of finance** • It is fundamental that we continue to maintain resilience in our finances in order to continue to deliver and invest in services. We engaged with Investors and other financial agencies to understand the need to balance between investing in our services, offering investors a fair return and maintaining affordable water bills
Approved the appointment of the company Chair and Chair of the Audit, Risk and Assurance Committee	The Nomination Committee approved the appointment of the company Chair, Ian Tyler, and Chair of the Audit, Risk and Assurance Committee, Justin Read, during the year. The Committee engaged with the following stakeholders in approving the appointments: **Shareholders** • The Committee as a whole was involved in shortlisting candidates and once preferred candidates had been identified the other Directors were included in the interview process. Shareholder appointed directors sit on the Nomination Committee. **Communities** • The Committee engaged the services of independent search consultants Korn Ferry to evaluate, screen and identify suitable candidates. Extensive references were sought in respect of the preferred candidates, from peers and companies for which they had previously worked **Regulators** • Ian Tyler and Justin Read attended a pre-appointment meeting with Ofwat to allow them to get an understanding of Ofwat's expectations for the role of non-executive directors of a regulated company

Section 172(1) statement (continued)

Key decisions made in 2020/21 (continued)

Approved the AMP7 investment plan and transformation program	We believe our Final Determination will be challenging to deliver, but we accept the need to improve performance for our customers and for the environment. Over the year, we have been determined to continue to transform our business to achieve this. The Board reviewed and approved the AMP7 transformation program in June 2020, consisting of capital expenditure plans, delivery of operational efficiencies, delivery of enabling projects and meeting our performance commitments, all ensuring we are "getting fit for the future". The Committee engaged with the following stakeholders in approving the plan: **Customers** • Investment plans and proposed initiatives have customers at the forefront of all decisions to deliver what matters most to them **Employees** • Delivery Steering Group set up, consisting of members of the Board, Executive Management Team and Senior Leaders to ensure delivery of the plan and that objectives of Shareholders, Regulators, Customers and Employees are met • Employees can access a dedicated Business Excellence page on our internal website which includes details of the plans and transformation projects and encourages all employees to deliver more efficient outcomes **Shareholders** • Shareholders were made aware of all investment plans and proposed initiatives and consulted with when approving the final investment plan and transformation program **Regulators** Stretch targets set by Ofwat as part of the PR19 process and the business is working to find ways to ensure we achieve these commitments

Daiwater Investment Limited

Strategic report
for the year ended 31 March 2021 (continued)

Section 172(1) statement (continued)

Key decisions made in 2020/21 (continued)

Approved our sustainability plans to protect the chalk streams within our supply area	The Board reviewed customer feedback when approving our company purpose and considered customers' views on the environment, and in 2020/21 the Board approved stopping extraction from boreholes at the top of the Chess Valley, highlighting the company's commitment to restoring chalk streams. The company will develop a strategy in 2021/22 for achieving our pledge to end unsustainable abstraction, assess the impact and will benchmark with the local community to revise the Upper River Chess and cut groundwater abstraction in our supply region. Across our supply area, we will be significantly reducing groundwater abstraction in the Ver, Mimram, Upper Lea and Misbourne catchments by 2024 to leave more water in the environment. The Committee engaged with the following stakeholders in approving the plans: **Customers** • Feedback from customers was obtained when approving the company purpose and environmental plans **Communities** • Discussions were had with the River Chess Association on the use of the river within our communities, especially during the recent COVID-19 pandemic. Communities are being brought together to help in the task of protecting our chalk streams. **Regulators** • Investigation, trials, and collaborative efforts with local groups in the Chilterns, the Chilterns Conservation Board ('CCB') and the EA were held and we will continue to work with these partners to understand the longer term beneficial impacts **The environment** • The chalk streams that flow through the Chilterns are widely regarded as the most threatened of all chalk streams in the world and have suffered increasingly from chronic low flows and dry periods. Reducing abstraction will go a long way towards reversing the decline in flow of these streams

Approval of the strategic report

Approved by the Board and signed on its behalf by:

Anthony Roper
Director
30 September 2021

Daiwater Investment Limited

Directors' report
for the year ended 31 March 2021

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 2021.

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 33 provides information relating to the group, its strategy and its results and financial position for the year ended 31 March 2021. Details of the risks and principal uncertainties facing the group are set out on pages 7 to 19.

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 2021 on its website: *affinitywater.co.uk/library*.

Dividends of £17,000,000 were paid during the year ended 31 March 2021 from the proceeds on disposal of Castle Water (Southern) Limited (formerly Affinity for Business (Retail) Limited), one of the group's trading subsidiaries.

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

No final dividend is proposed (2020: £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 welcome and Chief Executive Officer's introduction of its own Annual Report and Financial Statements for the year ended 31 March 2021 on its website: *affinitywater.co.uk/library*.

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

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
- DIF Management Holding BV
- DIF Management UK Limited
- HICL Infrastructure plc
- InfraRed Capital Partners (Management) LLP
- Sun Life Financial Inc.

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 it 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.

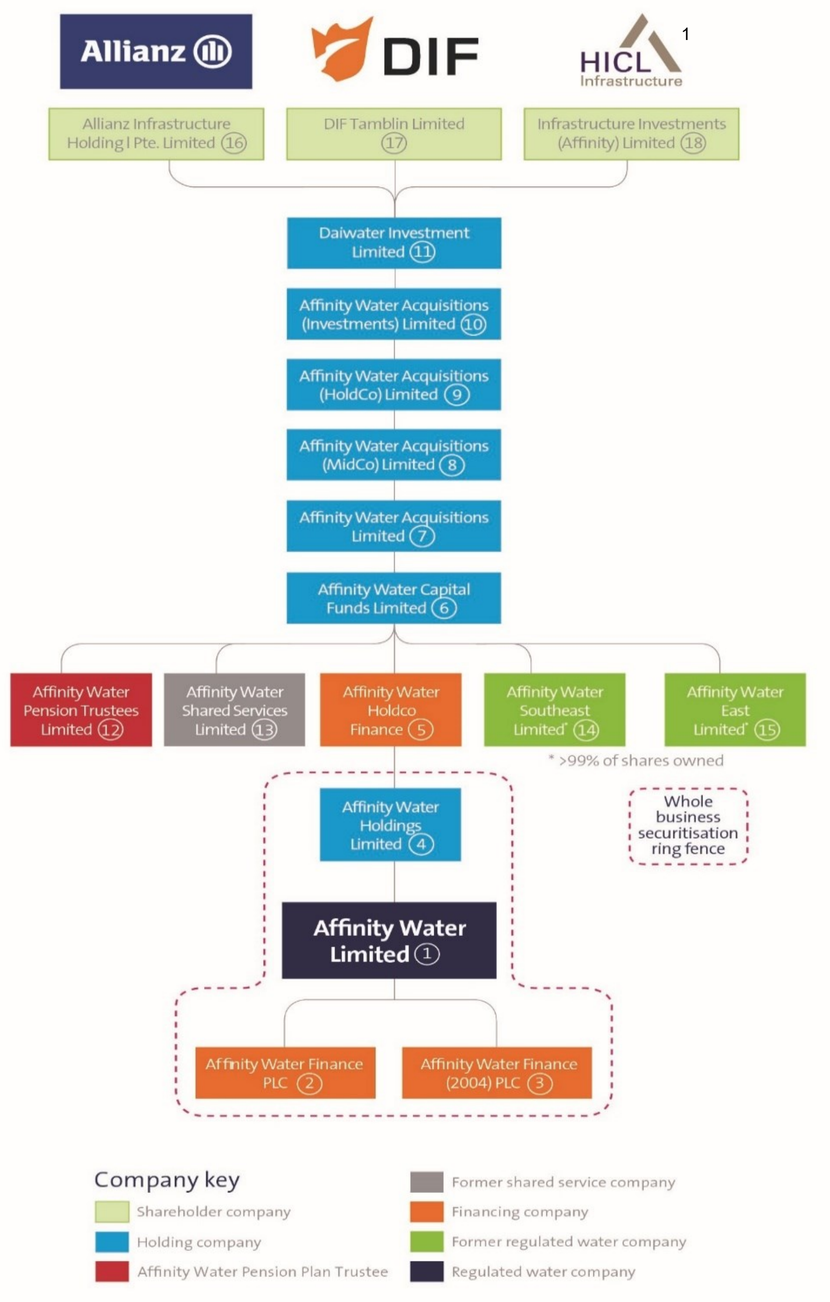
The Board is satisfied that these undertakings are being properly discharged and that Affinity Water Limited is able fully to meet its regulatory obligation to operate its appointed business as if it were substantially its sole business and were a separate listed company. Further, no issues have been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

Daiwater Investment Limited

Directors' report
for the year ended 31 March 2021 (continued)

Ownership (continued)

The chart below shows the group structure, excluding dormant subsidiaries, as at 31 March 2021. 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 37 and 38.



[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.

Daiwater Investment Limited

Directors' report
for the year ended 31 March 2021 (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 3.8 million people in the South East 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 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
⑥	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
⑦	Affinity Water Acquisitions Limited[2]	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
⑧	Affinity Water Acquisitions (Midco) Limited[1]	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
⑨	Affinity Water Acquisitions (Holdco) Limited[1]	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
⑩	Affinity Water Acquisitions (Investments) Limited[1]	The holding company of Affinity Water Acquisitions (Holdco) Limited. It was the ultimate holding company of the group in the United Kingdom up until 19 May 2017, when it was acquired by Daiwater Investment Limited.	England and Wales

[2] The financial statements of these companies have not been prepared on the going concern basis of accounting, as the Daiwater Investment Limited group have commenced a project to simplify the group structure. It is the intention of the directors of the respective companies that they will be wound up in the year ending 31 March 2022

Directors' report
for the year ended 31 March 2021 (continued)

Group structure (continued)

Structure chart reference	Name	Description	Place of registration
⑪	Daiwater Investment Limited	The ultimate holding company of the group in the United Kingdom, paying dividends to the acquisition consortium subsidiaries.	England and Wales
⑫	Affinity Water Pension Trustees Limited	The trustee company of the Affinity Water Pension Plan.	England and Wales
⑬	Affinity Water Shared Services Limited[3]	A company which provided administrative and technical services solely to Affinity Water Limited until 31 March 2015. Its employees were transferred over to Affinity Water Limited on that date. Since the transfer, the company has ceased trading and it is the intention of the directors that the company will be wound up in the near future.	England and Wales
⑭	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
⑮	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
⑯	Allianz Infrastructure Holding I Pte. Limited	A company which indirectly holds Allianz Capital Partners' 36.6% investment in the group.	Singapore
⑰	DIF Tamblin Limited	A company established in 2017 to indirectly hold DIF's 26.8% investment in the group.	England and Wales
⑱	Infrastructure Investments (Affinity) Limited	A company established in 2017 to indirectly hold HICL Infrastructure plc's investment in the group, together with the co-investment by certain local authority pension funds, a total investment of 36.6%.	England and Wales

[3] The financial statements of these companies have not been prepared on the going concern basis of accounting, as the Daiwater Investment Limited group have commenced a project to simplify the group structure. It is the intention of the directors of the respective companies that they will be wound up in the year ending 31 March 2022

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.

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.

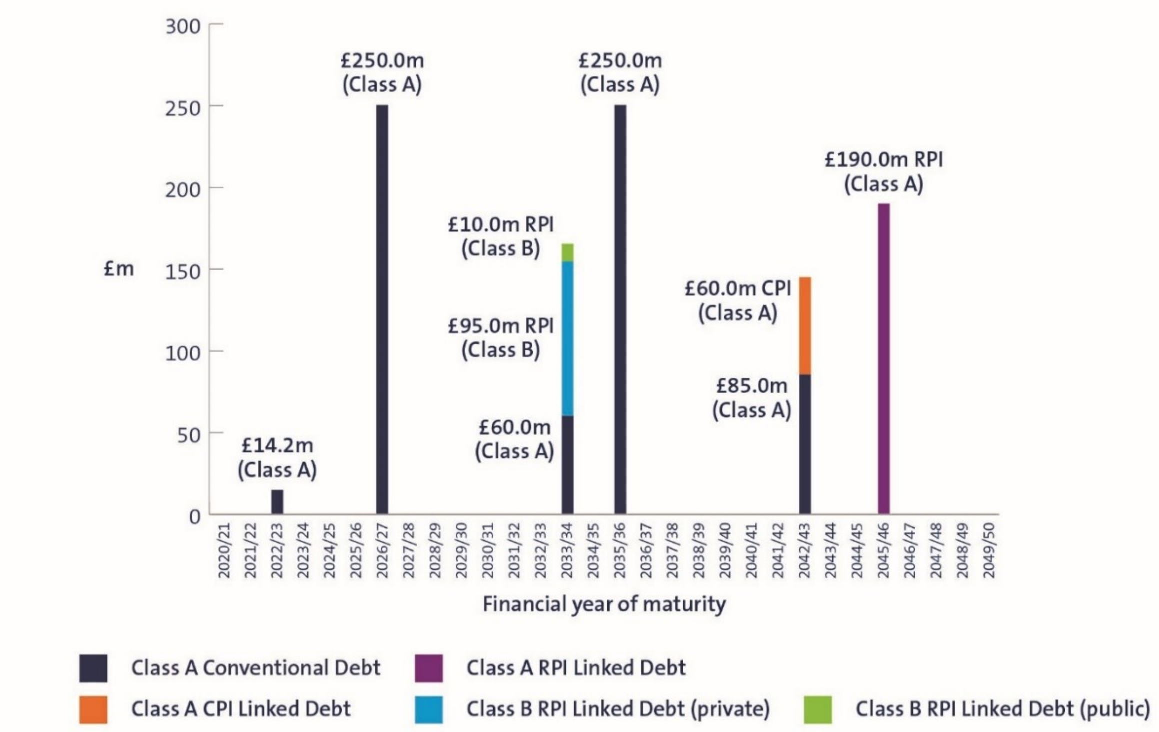
The bonds issued by the group at 31 March 2021 can be summarised as follows:

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

Debt financing (continued)

The following chart shows the maturity profile of the bonds as at 31 March 2021:



The credit ratings for the group's bonds assigned by the rating agencies, Moody's, Standard & Poor's and Fitch at 31 March 2021 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

All three agencies affirmed credit ratings in April 2021.

Directors' report
for the year ended 31 March 2021 (continued)

Debt financing (continued)

The total value of the issued bonds can be reconciled to the group's net debt position as at 31 March 2021 as follows:

	2021 **£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	40,666
Accretion on Class B index linked bonds	20,212
Accretion on financial derivative	9,599
Capitalised bond issue costs and net premium/discount related to Class A bonds	17,333
Capitalised bond issue costs relating to Class B bonds	(1,105)
Capitalised issue costs relating to financial derivative	(331)
Fair value adjustment on acquisition	349,630
Amortisation of fair value adjustment	(93,857)
Bank term loan	40,973
Debentures	34
Cash in hand	(114,711)
Net debt	**1,282,647**

Affinity Water Limited, the group's principal trading subsidiary has two revolving credit facilities, £60.0m (2020: £60.0m) provided by Barclays Bank PLC and £40.0m (2020: £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 £32.0m (2020: £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 (2020: £23.0m), which is intended for the purpose of funding operating and capital maintenance expenditure.

On 2 July 2020, Affinity Water Holdco Finance Limited refinanced its £25,000,000 bank term loan. The loan was increased to £42,000,000, and due for repayment on 30 June 2023. The carrying amount of the loan at 31 March 2021 was £40,973,000 (2020: £25,000,000).

Directors' report
for the year ended 31 March 2021 (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 36.

The table below sets out attendance at Board meetings for the year ended 31 March 2021.

	Number of meetings
Neeti Anand ④⑤⑥⑦⑧⑨⑩⑪	2/3
Tom Goossens ④⑤⑥⑦⑧⑨⑩⑪	3/3
Jaroslava Korpanec ①②③④⑤⑥⑦⑧⑨⑩⑪	1/3
Anthony Roper ①②③④⑤⑥⑦⑧⑨⑩⑪	3/3
Angela Roshier ①②③④⑤⑥⑦⑧⑨⑩⑪	2/3
Scott Springett ④⑤⑥⑦⑧⑨⑩⑪	3/3
Roxana Tataru ①②③④⑤⑥⑦⑧⑨⑩⑪	2/3

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 Affinity Water Limited, full details of which can be found in its own Annual Report and Financial Statements for the year ended 31 March 2021, together with more detailed corporate reporting disclosures.

Affinity Water Limited 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'), the UK Stewardship Code and Ofwat's 2019 board leadership, transparency and governance principles. 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 trading subsidiary complied with the principles of the Code during 2020/21, except in terms of aligning executive directors pension contributions with those of its workforce. This is explained in detail in its own Annual Report and Financial Statements on its website: *affinitywater.co.uk/library*. The reason for the departure is explained within the relevant section of Affinity Water Limited's corporate governance report for the year ended 31 March 2021. 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.ukl/governance-assurance*

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 33 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.

Market environment

The retail market for all non-household water and sewerage customers in England opened to competition on 1 April 2017. The group operated in this market through its non-household trading subsidiary, Castle Water (Southern) Limited (formerly Affinity for Business (Retail) Limited) until it was sold on 1 April 2020.

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 Affinity Water Limited operates in are discussed in the strategic report in its own Annual Reports and Financial Statements for the year ended 31 March 2021 on its website: *affinitywater.co.uk/library*.

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 widely in, 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 Limited is also a member of other water industry research and innovation groups: Technology Approval Group, the Water Treatment Technical Working Group, the 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 process performance and energy optimisation, novel technologies for plumbosolvency control, monitoring of biological risks in the network and risks to water quality when changing sources of supply.

Political contributions

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

Financial instruments disclosures

Details are included within risk number 14 on page 19 of the strategic report and in note A4 of the financial statements.

Information required for Affinity Water Limited under the Listing Rules

During the year no interest was capitalised by Affinity Water Limited.

The remuneration report in Affinity Water Limited's Annual Report and Financial Statements for the year ended 31 March 2021 provides disclosures in relation to relevant requirements of the Listing Rules.

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.

See page 26 for details in our section 172(1) statement on how directors have engaged with employees and taken their interest in accounts.

Energy and carbon reporting

Scope 1

The annual quantity of emissions in tonnes of CO_2 equivalent resulting from activities for which the group is responsible (scope 1) is 5,003 tCO_2e (2020: 8,811 tCO_2e), shown in the table on the next page. Sources of fuel emissions from burning of fossil fuels is the use of Natural Gas used for the heating and cooling of our buildings, and Gas Oil and other fuels used primarily by generators at our water treatment works. Fugitive emissions include ozone used in the disinfection process and waste sludge recycled to land or landfill and refrigerant gases. Fleet fuel emissions result from the combustion of purchased fuel for fleet liveried vehicles.

Scope 2

The annual quantity of emissions in tonnes of CO_2 equivalent resulting from activities for which the group is responsible (scope 2) is 52,200 tCO_2e (2020: 58,350 tCO_2e), shown in the table on the next page. Purchased electricity is total grid electricity which we primarily use for the pumping and treatment of water and a small amount for office use.

Total energy consumption

Our total energy consumption including electricity, natural gas, gas oil, self-generated and fleet vehicles was 244,565,000 kWh (2020: 236,683,000 kWh).

Daiwater Investment Limited

Directors' report
for the year ended 31 March 2021 (continued)

Energy and carbon reporting (continued)

Methodology used

For Scope 1, Scope 2 and selected Scope 3 Greenhouse Gas ('GHG') emissions, we follow the most common approach to calculate GHG emissions from emission sources, which is to take activity data (e.g. units of electricity consumed, or distance travelled) and covert the activity data into tCO_2e. We have reported the common intensity metric for the Water Industry, which is Carbon tCO_2e per Ml, which is our tCO_2e divided by water into supply (Ml).

Greenhouse gas ('GHG') emissions statement[1]

GHG emission source	2020/21		2019/20	
	Gross[2] (tCO_2e)	**Intensity ($kgCO_2e$/Ml)**	Gross (tCO_2e)	Intensity ($kgCO_2e$/Ml)
Scope 1	**5,003**	**14.3**	8,811	25.4
Fuel combustion	**683**	**2.0**	1,679	4.8
Process and fugitive emissions	**2,420**	**6.9**	5,198	15.0
Vehicle fleet	**1,900**	**5.4**	1,934	5.6
Scope 2	**52,200**	**149.1**	58,350	168.2
Purchased electricity	**52,200**	**149.1**	58,350	168.2
Statutory total (scope 1 & 2)[3]	**57,203**	**163.4**	67,161	193.6
Scope 3	**7,198**	**20.5**	5,018	14.5
Business travel in other vehicles	**81**	**0.2**	33	0.1
Outsourced activities	**2,627**	**7.5**	31	0.1
Electricity- transmission and distribution	**4,490**	**12.8**	4,954	14.3
Total gross emissions	**64,401**	**183.9**	72,179	208.1
Net emissions Green tariff electricity purchased	**(25,200)**	**N/A**	-	N/A
Total annual net emissions	**39,201**	**112.0**	72,179	208.1

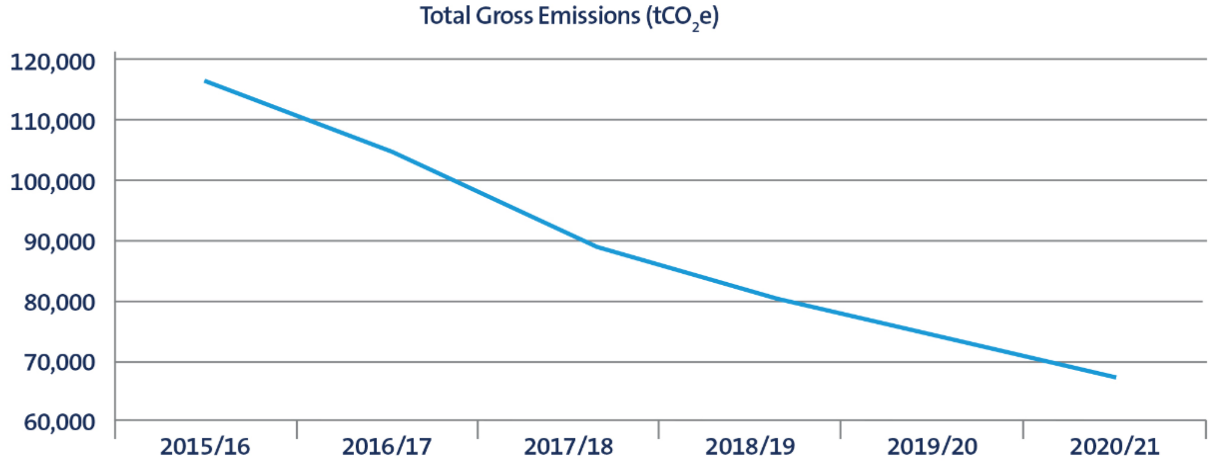
[1] We report our GHG emissions following the 2013 UK Government Environmental Reporting Guidance and using the 2018 UK Government Conversion Factors for Company Reporting. We have included emissions within the direct management responsibility of the company. This is consistent with our financial reporting boundary with the exception of scope 3 emissions, which are off-balance sheet emissions. Significant scope 3 emissions have been quantified for outsourced data support and emissions from the distribution and transmission of grid electricity. The data has been externally verified as part of our regulatory reporting requirements. All emissions reported relate to emissions in the United Kingdom and offshore area.
[2] We measure our gross GHG emissions in tonnes of carbon dioxide equivalent ('tCO_2e').
[3] Statutory carbon reporting disclosures required by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

Daiwater Investment Limited

Directors' report
for the year ended 31 March 2021 (continued)

Greenhouse gas ('GHG') emissions statement (continued)

The net operational emissions this year were 39,201 tCO_2e, compared to 72,179 in 2019/20, which is a 45.68% reduction due to 25,200 tCO_2e attributed to green tariff electricity purchased, the gross is a 10.77% reduction, as shown in the graph below:



The group supplies water to 3,830,000 consumers in our supply area (2020: 3,780,000). The COVID-19 pandemic developed rapidly in 2020 resulting in an increased demand for water we supply due to the impact of the virus and the hot summer of 2020. The way the group operates also had to change with the majority of office-based staff working from home, and just a small number of employees at the group's office locations. The group's front-line delivery teams have continued to work at our operational sites and in the community.

We are currently piloting ways to reduce whole life emissions (both operational and embodied) of several large capital projects. There is significant evidence that to evaluate a project through a carbon lens finds efficiencies in both carbon and costs which we aim to achieve though the use of the PAS2080 standard. We are also finding opportunities for wider benefits such as environmental net gain through our carbon reduction projects.

The group's plans include moving to a greener vehicle fleet, to develop significant renewable energy and to be part of the water industry's commitment to plant 11 million trees. In addition to this we are working closely with our supply chain partners to reduce carbon emissions (scope 3) from our daily activities and planned investment, both from the materials and energy we use.

This year has seen a decrease of 10.8%, of our gross greenhouse gas emissions compared to last year. Scope 1 Direct Emissions have reduced from 8,811 tCO_2e in the prior year to 5,003 tCO_2e in 2020/21.

There has been a reduction of 3.4% in natural gas usage from last year. This is due to consumption data being supplied which facilitated in more accurate billing of consumption and work was done to reduce consumption outside normal operating times.

There has been a decrease in gas oil consumption against prior year of 30.6%, due to a reduction in projects at sites requiring generators for standby power.

Electricity usage for pumping and treating water accounts for 87.3% of our gross emissions.

Greenhouse gas ('GHG') emissions statement (continued)

Electricity consumption and emissions from outsourced activities, IT services, administration services and courier mileage have been included and in line with the Ofwat net zero road map, it is envisaged this will continue to expand.

There has also been a reduction in the conversion factors for grid electricity and transmission and distribution.

The water distributed input has increased by 3.6%, which is used in the intensity measure (kgCO2e/Ml). We used the WKWIR CAWv15 to calculate emissions.

There has been a 0.2% increase in petrol and diesel consumption relating to transport owned by the company, which contributes to our total emissions, due to an increase in petrol consumption, but a small reduction in emissions due to changes in reporting factors of 1.8%.

This compares to an increase in emissions from transport by public transport and private vehicles, this is 0.2% of our total net emissions. This was due to a decrease of 88.2% in air travel. There was also a dramatic drop in the kilometres travelled by national rail of 99.2%. Governance rules for claiming mileage expenses have changed, and expenses must now be claimed in the month they occur, eliminating tardy claims, which in the prior year resulted in an impression at the time of a reduction. There has been an overall reduction in mileage claimed of 53.5% on the revised 2019/20 mileage.

We have also included in our scope 3 emissions:

- Water treatment waste recycled to land;
- Water treatment waste sent to landfill; and
- Other wastes including scrap metals, plastics, cardboard and glass.

During 2020/21 we replaced a number of our borehole, booster and high lift pumps. We have also been optimising one of our main water treatment works to use the most efficient sources where possible. We have also installed new pumps at four of our sites, and refurbished the high lift pumps at a further two sites to improve efficiency. At another of our main water treatment works we have completed ozone upgrades which has reduced the ozone demand thereby reducing the power consumption of the generators.

We have employed microthermal pump monitoring at three of our pump sets to identify the real time pump efficiency and to ensure that we are running in the most energy efficient way. Energy savings of 2-4% have been achieved and we are looking to continue the roll out of these to other sites.

Additionally, by working with Datumpin, we have been able to make better use of the data that we have on our sites, to identify the impact of small changes on the operation of the site. The energy savings of this work are less easy to quantify but it has led to reduced chemical consumption during Ion Exchange regeneration and a lower waste volume needing to be taken away.

Going concern

Group

The directors consider it appropriate to adopt the going concern basis of accounting in preparing the consolidated 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 at least the next twelve months and the foreseeable future beyond that. 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, available debt facilities and the principal trading subsidiary's viability statement in its own Annual Report and Financial Statements.

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. The base case has taken into consideration the impact of COVID-19 on the group, reflecting that the pandemic has impacted non-household and household revenues, with only the latter adjusted for as part of the revenue adjustment mechanism. The pandemic has also increased our adverse bad debt projections and customer collections and has reprofiled capital expenditure from projects delayed during the first year of AMP7.

COVID-19 is projected to have an adverse impact on the financials in 2021/22, 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 group's regulated business, the directors consider it appropriate to place reliance on projected financials.

Company

The directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements as the company has adequate resources to meet its current operational and financial obligations, and the directors have a reasonable expectation that this will continue for at least the next twelve months and the foreseeable future beyond that.

Engagement with other stakeholders

See pages 23 to 33 for details in our section 172(1) statement on how directors have engaged with suppliers, customers and other stakeholders.

Financial instruments disclosures

Details are included within risk number 14 on page 19 of the strategic report and in note A4 of the financial statements.

Events after the reporting period

Following approval to transact a power hedging swap when conditions were favourable, as detailed in the section 172(1) statement on pages 23 to 33, Affinity Water Limited entered into its first energy swap in May 2021, fixing the price on a proportion of its future energy costs. This will be reflected in the group's financial numbers in the year ending 31 March 2022.

In April 2021, the IFRS Interpretations Committee ('IFRIC') agenda decision on the treatment of configuration and customisation costs in a cloud computing arrangement was ratified by the International Accounting Standards Board. The group has worked through the implications of this guidance, concluding this will not have a material impact on the financial statements for the year ended 31 March 2021, but will include adjustments relating to the treatment of costs associated with cloud computing arrangements in the financial statements for the year ending 31 March 2022, moving these from capitalised costs to expensed items.

The holding companies within the Daiwater Investment Limited group have commenced a project to simplify the group structure by way of the following steps:

1) forgiveness of intragroup loan notes, together with interest obligations;
2) a capital reduction by way of solvency statements; and
3) a horizontal restructure of the holding companies to become direct subsidiaries of Daiwater Investment Limited.

Step 1) in the above points has been completed and is reflected in these financial statements for the year ended 31 March 2021. Step 2) has been completed post year end and is not reflected in these numbers. Step 3) will be completed in the year ending 31 March 2022.

Following completion of steps 1), 2) and 3) above, the directors propose to liquidate the relevant holding companies.

Affinity Water Limited announced a company restructure on 8 September. After reviewing short, medium and long-term plans to deliver its business plan targets and prepare for AMP8, 56 roles have been placed at risk of redundancy through collective consultation.

On 9 September, it was announced by Ian Tyler that Pauline Walsh has stepped down as CEO of Affinity Water Limited, handing over leadership of the business to Stuart Ledger as Interim CEO.

Directors' report
for the year ended 31 March 2021 (continued)

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and the company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. Additionally, the Financial Conduct Authority's Disclosure Guidance and Transparency Rules require the directors to prepare the group financial statements in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

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;
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union have been followed for the group financial statements and international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are 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 are also responsible for keeping adequate accounting records that are sufficient to show and explain the group and 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.

Directors' confirmations

Each of the directors, whose names and functions are listed in the directors' report confirm that, to the best of their knowledge:

- the group financial statements, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the group;
- the company financial statements, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and profit of the company; and
- the strategic 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 it faces.

Daiwater Investment Limited

Directors’ report
for the year ended 31 March 2021 (continued)

Directors’ confirmations (continued)

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 group’s and company’s auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the group’s and company’s auditors are aware of that information.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, 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

Sunita Kaushal
Company Secretary
30 September 2021

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 2021 and of the group's loss and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements 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 2021; the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and Company statements of changes in equity, and the Consolidated and Company statements of cash flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Board of Directors.

Separate opinion in relation to international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union

As explained in the 'Basis of preparation' section within the financial statements, the group, in addition to applying international accounting standards in conformity with the requirements of the Companies Act 2006, has also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the group financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

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, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 2.3, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

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

Report on the audit of the financial statements (continued)

Our audit approach

Overview

Audit scope

- The group has one finance function, with the audit being carried out by one team – this was predominantly performed remotely due to the impact of COVID-19.
- The only significant component requiring a full scope audit within the group is Affinity Water Limited - testing has also been performed over certain balances and transactions in other entities within the group, including the borrowings and finance costs financial statement line items within Affinity Water Finance PLC and Affinity Water Finance (2004) PLC, to obtain sufficient coverage for the consolidated financial statements.

Key audit matters

- Accuracy of the measured income accrual (group)
- Adequacy of loss allowance for trade receivables (group)
- Impairment of goodwill (group)
- Impact of the COVID-19 pandemic (group)

Materiality

- Overall group materiality: £3.9 million (2020: £4.3 million), based on 3.5% of the three year average earnings before interest, tax, depreciation and amortisation ('EBITDA') (2020: based on 3.5% of EBITDA)
- Overall company materiality: £7.5 million (2020: £7.7 million) based on 1% of total assets.
- Performance materiality: £2.9 million (group) and £5.7 million (company).

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.

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.

'Assessment of cost capitalisation' and 'Assessment of pension assumptions applied in the valuation of the pension scheme', which were key audit matters last year, are no longer included because, in our professional judgment, the risk of misstatement has reduced compared to the prior year based on a consistently applied methodology underpinning management's estimates. We therefore no longer consider them to be the areas of most significance to our audit, with the level of audit effort spent in these areas having reduced compared to the prior year. Otherwise, the key audit matters below are consistent with last year.

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) Refer to page 72 (accounting policies) and page 78 (note 1.2). A measured income accrual of £36.6 million (31 March 2020: £36.0 million) has been recognised relating to revenue from the provision of water services to metered household customers that had not been billed at the year end date. The determination of the measured income accrual impacts directly on both reported revenue and operating profit. The measured income accrual accounts for the timing difference between the last meter reading and the estimated consumption of water from that point to the year end and is calculated based on the average consumption over the past two years by small geographical groupings of customers. Given the range of factors underlying this estimate, there is a risk that the measured income accrual and associated revenue could be misstated.	The measured income accrual is a manual calculation prepared using data from the Hi-Affinity billing system. We understood the methodology and ensured that it had been applied consistently with previous years. We also tested the mechanics of the spreadsheet used to calculate the measured income accrual. In respect of the integrity of the data within Hi-Affinity, we tested the design and operating effectiveness of key controls within the revenue and receivables cycle, including the reconciliation of reports produced from the Hi-Affinity billing system and the revenue journals posted to the general ledger, and the quarterly review of tariff changes made in the Hi-Affinity billing system. We also validated the accuracy of the data within Hi-Affinity by agreeing a sample of meter readings to the system and tracing actual consumption to the bills raised. We 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 within the geographical catchment area within which the group operates and the movement of customers from unmeasured to measured tariffs. To assess the overall reasonableness of the accrual, we performed an independent roll forward of the accrual recognised at 31 March 2020 to calculate an expected accrual at 31 March 2021, reflecting the underlying changes in the number of metered customers, pricing tariffs, levels of water consumption and the timing of meter readings. In order to assess the ability of management to prepare appropriate estimates in respect of the measured income accrual, we evaluated the historical accuracy of the estimation process by comparing the bills raised through the year to the amount accrued at 31 March 2020. We also compared the billing subsequent to 31 March 2021 and extrapolated the difference identified against the remainder of the accrual. Based on the procedures performed, we did not identify any material misstatements.

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 loss allowance for trade receivables (group) Refer to page 72 (accounting policies), page 95 (note 11) and page 125 (note A4). The loss allowance for trade receivables of £42.4 million (31 March 2020: £34.8 million) principally relates to the balance held within Affinity Water Limited of £34.0 million (31 March 2020: £34.6 million). This is calculated by applying a range of different percentages to trade receivables based on their respective ageing, with higher percentages applied to those categories of trade receivables which are considered to be of greater risk. We have also considered any significant economic changes that may impact future credit losses. Some customers have difficulty paying their bills or, in certain instances, choose not to pay them. As a result, given there are limited steps that a water company can take to recover debt from household customers, there is an ongoing risk of aged trade receivables not being collected, with this risk being heightened by the economic impact of COVID-19. In order to account for the increased risk of credit loss as a result of COVID-19 in respect of household customers, consistent with the prior year, management have made use of a third-party tool (Acorn consumer classification) to segment their existing customers 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 trade receivables in order to calculate an incremental loss allowance for trade receivables to reflect the increased risk caused by COVID-19. Given the quantum of trade receivables, and the range of assumptions used in preparing the loss allowance for trade receivables, there is a risk that this estimate could be materially misstated.	We reviewed the methodology for calculating the loss allowance for trade receivables and ensured it had been consistently applied with the prior year. We also understood and tested the mechanics of the spreadsheet used to calculate the initial loss allowance, the measurement basis (measured and unmeasured) and the methodology applied to calculate provision rates and agreed 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 trade receivables and tested that they have been allocated the appropriate provision rate based on ageing, customer type and measurement basis. In addition, we compared the actual rates used in the calculation of the loss allowance to prior year rates and reviewed the level of bad debt write offs which occurred during the year ended 31 March 2021 to assess the ability of management to prepare appropriate estimates. For the additional loss allowance recognised 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 and the subsequent 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 the assessment performed by management. We applied sensitivity analysis on this additional adjustment to previously unprovided trade receivables to consider the risk of this being materially understated or overstated, in light of both cash collection rates and the current economic outlook. Based on the procedures performed, we did not identify any material differences within the loss allowance for trade receivables.

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) Refer to page 72 (accounting policies) and page 91 (note 8). The group has a material goodwill balance of £317.0m (31 March 2020: £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. We challenged the cash flow projections used within the model by reference to current performance (including the impact of COVID-19) and analysis of management's historic 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 with respect to the multiples of listed peers and recent transaction activity within the industry. We have assessed whether the disclosures made regarding the sensitivity of the outcome of the impairment assessment to changes in key assumptions 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.

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
Impact of the COVID-19 pandemic (group) Refer to page 4 (Strategic report), page 34 (Directors' report) and page 72 (accounting policies). The COVID-19 pandemic has impacted the financial results of the group for the year ended 31 March 2021 and is expected to continue to impact the group into the next financial year, albeit the severity of the impact is expected to reduce over time. Management has considered the impact of COVID-19 on the financial statements including the ability of the group to continue as a going concern, with the directors concluding that there is no material uncertainty in this respect, as well as the impact on other estimates and judgements. Disclosure of the risk to the group of COVID-19 and management’s conclusions on going concern and viability have been included within the relevant sections of the financial statements.	In advance of the year end, and throughout the course of our audit procedures, we assessed the risks arising from COVID-19. We focused on areas where significant additional audit effort might be required, as well as those areas that we considered might be susceptible to a material financial impact on the performance and position of the group. We assessed the base case going concern model prepared by management which includes the anticipated future impacts of COVID-19, as well as the downside scenario which has been used to sensitise the base case model. In relation to the base case model, we have agreed the key inputs back to Board approved budgets and have considered the historical accuracy of the budgeting process to assess the reliability of the data. Specifically, in relation to the potential future impact of COVID-19 and the severe but plausible downside modelling conducted by management, we assessed the underlying assumptions within management’s forecasts. We challenged these assumptions based on our understanding of the business and our knowledge of the industry, and used sensitivity analysis to consider the impact of changes in these assumptions on the forecasts. We also reviewed management’s analysis of both liquidity and covenant compliance to obtain comfort that the group has sufficient liquidity and that there are no covenant breaches anticipated over the period of the assessment in either the base case or the downside scenario prepared. We considered any potential impairment indicators to the carrying value of other assets and the broader impact to the group’s financial statements and did not identify any material misstatements. We also considered the impact of COVID-19 on the accuracy of the measured income accrual, the adequacy of the loss allowance for trade receivables and the impairment assessment performed over goodwill, as set out within the respective key audit matters above. We assessed the COVID-19 disclosures included in the financial statements and consider them to be appropriate.

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

Report on the audit of the financial statements (continued)

Our audit approach (continued)

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, with the audit being carried out by one team – this was predominantly performed remotely due to the impact of COVID-19.

In scoping our audit, with reference to our risk assessment, we identified and included all material financial statement line items within the scope of our audit procedures.

The only significant component requiring a full scope audit within the group is Affinity Water Limited, with this component contributing all revenue to the consolidated financial statements of Daiwater Investment Limited.

In order to obtain the necessary coverage over each financial statement line item contributing to the consolidated financial statements, testing has also been performed over certain balances and transactions in other entities within the group, including the borrowings and finance costs financial statement line items within Affinity Water Finance PLC and Affinity Water Finance (2004) PLC.

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:

	Financial statements - group	Financial statements - company
Overall materiality	£3.9 million (2020: £4.3 million).	£7.5 million (2020: £7.7 million).
How we determined it	Based on 3.5% of the three year average earnings before interest, tax, depreciation and amortisation ('EBITDA') (2020: based on 3.5% of EBITDA).	Based on 1% of total assets.
Rationale for benchmark applied	We have used EBITDA as this is the measure that management focus on internally within their reporting. The use of EBITDA is also consistent with the prior year, though a three year average has been used in the current year due to the impact of COVID-19 on current year profitability.	We believe that total assets is an appropriate metric as it is the primary measure used by the shareholders in assessing the performance of the company and is a generally accepted auditing benchmark for non-trading entities. This materiality relates to the audit for the statutory entity only, as the company was not in scope for the group 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 £2.8 million to £3.7 million. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £2.9 million for the group financial statements and £5.7 million for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Board of Directors that we would report to them misstatements identified during our audit above £0.2 million (group audit) (2020: £0.2 million) and £0.4 million (company audit) (2020: £0.4 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors’ assessment of the group's and the company’s ability to continue to adopt the going concern basis of accounting included:

- testing the mathematical accuracy of the base case going concern model prepared by management and agreeing this to Board approved budgets;
- assessing the inputs and underlying assumptions of the base case model, which includes the anticipated future impacts of COVID-19;
- assessing the downside scenario which has been used to sensitise the base case model, including consideration of the underlying assumptions; and
- reviewing management's analysis of both liquidity and covenant compliance to ensure there is sufficient liquidity and no forecast covenant breaches during the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company’s ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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

Report on the audit of the financial statements (continued)

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.

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 our work undertaken in the course of the audit, the Companies Act 2006 requires 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 2021 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 in respect of the financial statements, 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.

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

Report on the audit of the financial statements (continued)

Responsibilities for the financial statements and the audit (continued)

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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to industry regulation, including the requirements of The Water Services Regulation Authority (‘Ofwat’), employment law and regulation, UK tax legislation and pensions legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management’s incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure, in doing so increasing overall profitability, and management bias within accounting estimates, in particular the potential manipulation of the measured income accrual, loss allowance for trade receivables or impairment assessment of goodwill. Audit procedures performed by the engagement team included:

- discussions with management, internal audit and the group's legal team, including inquiring of known or suspected instances of non-compliance with laws and regulation and fraud, and review of board minutes and internal audit reports;
- challenging assumptions made by management when preparing accounting estimates, in particular those that involve the assessment of future events, which are inherently uncertain – the key estimates determined in this respect are those relating to the measured income accrual, loss allowance for trade receivables and impairment assessment of goodwill; and
- identifying and testing journal entries posted, such as those with unusual account combinations or those posted by senior management.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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.

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

Report on the audit of the financial statements (continued)

Responsibilities for the financial statements and the audit (continued)

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.

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.

Appointment

Following the recommendation of the Board of Directors, we were appointed by the members on 13 November 2018 to audit the financial statements for the year ended 31 March 2019 and subsequent financial periods. The period of total uninterrupted engagement is 3 years, covering the years ended 31 March 2019 to 31 March 2021.

Owen Mackney (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Watford
4 October 2021

Daiwater Investment Limited

Consolidated income statement for the year ended 31 March 2021

(Registered Number 10738347)

	Note	**2021 £000**	2020 £000
Continuing operations			
Revenue	1	**286,782**	307,240
Cost of sales		**(245,133)**	(229,322)
Gross profit		**41,649**	77,918
Administrative expenses	2.1	**(49,830)**	(49,948)
Impairment losses on financial and contract assets	2.1	**(13,388)**	(9,470)
Other operating income	2.2	**17,657**	17,328
Operating (loss)/profit	2	**(3,912)**	35,828
Finance income	4	**39,204**	32,436
Finance costs	4	**(49,636)**	(52,865)
Fair value loss on financial instruments	4	**(44,218)**	(1,816)
Net finance costs		**(54,650)**	(22,245)
(Loss)/profit before tax		**(58,562)**	13,583
Income tax credit/(expense)	5	**10,316**	(26,321)
Loss for the year from continuing operations		**(48,246)**	(12,738)
Gain/(loss) from discontinued operation (attributable to equity holders of the group)	22	**1,601**	(896)
Loss for the year		**(46,645)**	(13,634)
(Loss)/profit is attributable to:			
Owners of the group		**(46,737)**	(13,758)
Non-controlling interests		**92**	124
		(46,645)	(13,634)

The notes on pages 72 to 142 are an integral part of these financial statements.

Daiwater Investment Limited

Consolidated statement of comprehensive income for the year ended 31 March 2021

(Registered Number 10738347)

	Note	**2021 £000**	2020 £000
Loss for the financial year		**(46,645)**	(13,634)
Other comprehensive (loss)/income for the year which will not be reclassified to profit or loss:			
Re-measurements of post-employment benefit assets	10	**(32,162)**	38
Deferred tax credit/(charge) on items that will not be reclassified	5	**6,111**	(7)
Other comprehensive (loss)/income for the year, net of tax		**(26,051)**	31
Total comprehensive loss for the year		**(72,696)**	(13,603)
Total comprehensive (loss)/income is attributable to:			
Owners of the group		**(72,788)**	(13,727)
Non-controlling interests		**92**	124
		(72,696)	(13,603)
Total comprehensive loss attributable to owners of the group arises from:			
Continuing operations	22	**(74,389)**	(12,831)
Discontinued operations	22	**1,601**	(896)
		(72,788)	(13,727)

The notes on pages 72 to 142 are an integral part of these financial statements.

Daiwater Investment Limited

Consolidated statement of financial position as at 31 March 2021

(Registered Number 10738347)

	Note	2021 £000	2020 £000
Assets			
Non-current assets			
Property, plant and equipment	6	**1,634,328**	1,573,637
Right-of-use assets	7	**10,507**	12,436
Intangible assets	8	**658,936**	672,617
Investments	9	**51**	51
Retirement benefit surplus	10	**74,532**	104,619
Other receivables	11	**184**	2,300
		2,378,538	2,365,660
Current assets			
Inventories	12	**4,080**	3,017
Other investments	9	**15,132**	25,202
Trade and other receivables	11	**88,250**	79,561
Cash and cash equivalents	13	**99,579**	85,754
Assets classified as held for sale	22	**-**	32,618
		207,041	226,152
Total assets		**2,585,579**	2,591,812
Equity and liabilities			
Equity			
Share capital	14	**7,441**	744,133
Retained earnings/(Accumulated losses)		**513,427**	(133,477)
Non-controlling interests		**2,757**	2,771
Total equity		**523,625**	613,427
Liabilities			
Non-current liabilities			
Trade and other payables	15	**150,806**	132,694
Borrowings	16	**1,388,275**	1,391,298
Lease liabilities	17	**6,891**	9,068
Derivative financial instrument	18	**57,691**	9,149
Deferred tax liabilities	19	**207,678**	223,278
Provisions for other liabilities and charges	20	**3,396**	5,507
		1,814,737	1,770,994
Current liabilities			
Trade and other payables	15	**243,154**	195,445
Current tax liabilities		**84**	246
Lease liabilities	17	**3,801**	3,491
Provisions for other liabilities and charges	20	**178**	607
Liabilities directly associated with assets classified as held for sale	22	**-**	7,602
		247,217	207,391
Total liabilities		**2,061,954**	1,978,385
Total equity and liabilities		**2,585,579**	2,591,812

The notes on pages 72 to 142 are an integral part of these financial statements. The statutory financial statements on pages 64 to 142 were approved by the Board of Directors and were signed and authorised for issue on 30 September 2021 on its behalf by:

Anthony Roper
Director

Daiwater Investment Limited

Company statement of financial position as at 31 March 2021

(Registered Number 10738347)

	Note	2021 £000	2020 £000
Non-current assets			
Investments	9	**754,027**	612,524
Amounts due from group undertakings	A7	**-**	131,241
		754,027	743,765
Current assets			
Amounts due from group undertakings	A7	**-**	23,629
Assets classified as held for sale		**-**	2,000
		-	25,629
Total assets		**754,027**	769,394
Equity			
Share capital		**7,441**	744,133
Retained earnings[1]		**740,466**	19,222
		747,907	763,355
Current liabilities			
Current tax liabilities		**6,120**	6,039
Total equity and liabilities		**754,027**	769,394

The notes on pages 72 to 142 are an integral part of these financial statements. The statutory financial statements on pages 64 to 142 were approved by the Board of Directors and were signed and authorised for issue on 30 September 2021 on its behalf by:

Anthony Roper
Director

[1] Profit for the year of £1,552,000 for the company consisting of interest and dividend income from its subsidiary undertakings (2020: £9,890,000 consisting of interest from its subsidiary undertakings), is included within retained earnings. All of this income is from continuing operations. Dividends of £17,000,000 (2020: £nil) were paid to the company's shareholders.

Daiwater Investment Limited

Consolidated statement of changes in equity for the year ended 31 March 2021

(Registered Number 10738347)

	Note	Attributable to owners of the group Share capital	Accumulated losses / Retained earnings	Total	Non-controlling interests	Total
		£000	£000	£000	£000	£000
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)/profit 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
Balance as at 1 April 2020		**744,133**	**(133,477)**	**610,656**	**2,771**	**613,427**
(Loss)/profit for the year		**-**	**(46,737)**	**(46,737)**	**92**	**(46,645)**
Other comprehensive loss for the year		**-**	**(26,051)**	**(26,051)**	**-**	**(26,051)**
Total comprehensive (loss)/income for the year		**-**	**(72,788)**	**(72,788)**	**92**	**(72,696)**
Capital reduction	14	**(736,692)**	**736,692**	**-**	**-**	**-**
Dividends	21	**-**	**(17,000)**	**(17,000)**	**(106)**	**(17,106)**
Total transactions with owners recognised directly in equity		**(736,692)**	**719,692**	**(17,000)**	**(106)**	**(17,106)**
Balance as at 31 March 2021		**7,441**	**513,427**	**520,868**	**2,757**	**523,625**

The notes on pages 72 to 142 are an integral part of these financial statements.

Daiwater Investment Limited

Company statement of changes in equity for the year ended 31 March 2021
(Registered Number 10738347)

	Note	**Share capital £000**	**Retained earnings £000**	**Total £000**
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
Balance as at 1 April 2020		**744,133**	**19,222**	**763,355**
Profit for the year		**-**	**1,552**	**1,552**
Total comprehensive income for the year		**-**	**1,552**	**1,552**
Capital reduction	14	**(736,692)**	**736,692**	**-**
Dividends	21	**-**	**(17,000)**	**(17,000)**
Total transactions with owners recognised directly in equity		**(736,692)**	**719,692**	**(17,000)**
Balance as at 31 March 2021		**7,441**	**740,466**	**747,907**

The notes on pages 72 to 142 are an integral part of these financial statements.

Daiwater Investment Limited

Consolidated statement of cash flows
for the year ended 31 March 2021
(Registered Number 10738347)

	Note	2021 £000	2020 £000
Cash flows from operating activities			
Cash generated from operations	23.1	**96,219**	110,154
Interest paid		**(36,433)**	(36,166)
Tax received/(paid)		**303**	(2,175)
Net cash inflow from operating activities excluding capital contributions		**60,089**	71,813
Capital contributions		**56,407**	57,690
Net cash inflow from operating activities		**116,496**	129,503
Cash flows from investing activities			
Investment in short-term deposits		**10,070**	(10,153)
Purchases of property, plant and equipment		**(125,779)**	(123,024)
Proceeds from sale of property, plant and equipment		**1,061**	1,630
Proceeds on disposal of trading subsidiary		**23,772**	-
Purchases of intangible assets		**(13,487)**	(7,469)
Interest received		**6,548**	962
Net cash outflow from investing activities		**(97,815)**	(138,054)
Cash flows from financing activities			
Proceeds of loan from bank		**15,973**	-
Principal elements of lease payments		**(3,723)**	(3,839)
Dividends paid to group's shareholders		**(17,000)**	-
Dividends paid to non-controlling interests in subsidiary undertakings		**(106)**	(122)
Net cash outflow from financing activities		**(4,856)**	(3,961)
Net increase/(decrease) in cash and cash equivalents		**13,825**	(12,512)
Cash and cash equivalents at the beginning of the year		**85,754**	98,266
Cash and cash equivalents at end of year	13	**99,579**	85,754
Cash flows of discontinued operation	22	**-**	4,233

The notes on pages 72 to 142 are an integral part of these financial statements.

Daiwater Investment Limited

Company statement of cash flows for the year ended 31 March 2021

(Registered Number 10738347)

	Note	2021 £000	2020 £000
Cash flows from operating activities			
Cash generated from operations	23.1	**1,213**	-
Net cash inflow from operating activities		**1,213**	-
Cash flows from investing activities			
Interest received		**419**	-
Net cash inflow from investing activities		**419**	-
Cash flows from financing activities			
Loan principal received		**15,368**	-
Dividends paid to shareholders		**(17,000)**	-
Net cash outflow from financing activities		**(1,632)**	-
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 72 to 142 are an integral part of these financial statements.

Daiwater Investment Limited

Accounting policies

Basis of preparation

The group financial statements and company financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, with the group financial statements also being prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Going concern

Group

The directors consider 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 at least the next twelve months and the foreseeable future beyond that. 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 and Financial Statements on its website: *affinitywater.co.uk/library*.

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.

The base case has taken into consideration the impact of COVID-19 on the group, reflecting that the pandemic has impacted non-household and household revenues, with only the latter adjusted for as part of the revenue adjustment mechanism, that the pandemic has increased the group's adverse bad debt projections and customer collections and has reprofiled capital expenditure from projects delayed during the first year of AMP7.

COVID-19 is projected to have an adverse impact on the financials in 2021/22, 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 regulated water company's business, the directors consider it appropriate to place reliance on projected financials.

Company

The directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements as the company has adequate resources to meet its current operational and financial obligations, and the directors have a reasonable expectation that this will continue for at least the next twelve months and the foreseeable future beyond that.

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.

Accounting policies (continued)

Basis of consolidation (continued)

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 67 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.

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 periods presented, unless otherwise stated.

Adoption of new and revised standards

No new standards became applicable for the current reporting period.

The following standards have been revised, although the amendments listed did not have any impact on the amounts recognised in prior periods and are not expected to materially affect the current or future periods:

- Definition of Material – amendments to IAS 1 and IAS 8;
- Definition of a Business – amendments to IFRS 3;
- Interest Rate Benchmark Reform – amendments to IFRS 9, IAS 39 and IFRS 7; and
- Revised Conceptual Framework for Financial Reporting.

New standards, amendments and interpretations not yet adopted

In April 2021, the IFRIC agenda decision on the treatment of configuration and customisation costs in a cloud computing arrangement was ratified by the International Accounting Standards Board. The group has worked through the implications of this guidance, concluding this will not have a material impact on the financial statements for the year ended 31 March 2021, but and will include adjustments relating to the treatment of costs associated with cloud computing arrangements in the financial statements for the year ending 31 March 2022, moving these from capitalised costs to expensed items.

There are no other new 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.

Accounting policies (continued)

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

Staff costs capitalised in prior year in disclosure note 3 have been restated as a result of a change in reporting methodology used following the implementation of a new ERP system and the availability of more detailed data. This restatement has not had an impact on the income statement or statement of financial position, nor any other note in these financial statements, except for note 2.1.

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.

Where sensitivities are included in the notes below, the prior year comparative figure relates only to the continuing operations of the group, and is therefore consistent with the current year figure.

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 2020 included a measured income accrual of £36,282,000. The value of billing recognised in the year ended 31 March 2021 for consumption in the prior year was £36,018,000. This resulted in a decrease of £264,000 in the current year's revenue due to the over-estimation of the prior year's revenue. This represented 0.09% of 2020/21 revenue and is within acceptable tolerance for accounting estimates.

Loss allowance of trade receivables and contract assets

The group makes an estimate of the recoverable value of trade and receivables and contract assets, including the trade receivables that were transferred into the group as part of the sale proceeds of the sale of a former trading subsidiary, and records a loss allowance based on the age of the debt and 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 COVID-19 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 £848,000 (2020: £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 £848,000 (2020: £757,000) and corresponding increase in net assets.

Daiwater Investment Limited

Accounting policies (continued)

Critical accounting estimates (continued)

Non-household wholesale revenue

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 at 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. As a result of changing consumption levels due to the COVID-19 pandemic, the group has used DI (distribution input) figures to estimate non-household consumption and have recognised revenue on this basis.

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, inflation, 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 the 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 (2020: £nil) has been recognised in the year ended 31 March 2021 (refer to note 8). Each 1% decrease to this terminal value would lead to a £4,937,000 increase to the impairment at 31 March 2021 (2020: £4,053,000 increase). No impairment to the water licence has been recognised in the year ended 31 March 2021 (2020: £nil) (refer to note 8). A 1% impairment of the water licence would result in a charge of £3,008,000 (2020: £3,008,000) and a corresponding reduction in net assets.

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 2021, 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 fair 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 £754,027,000 (2020: £612,524,000) with no impairment loss recognised in either the year ended 31 March 2021 or 2020. A 1% impairment of investment in subsidiary would result in a charge of £7,540,000 (2020: £6,125,000) and a corresponding reduction in net assets.

Accounting policies (continued)

Critical accounting estimates (continued)

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 £1,634,328,000 at 31 March 2021 (2020: £1,573,637,000). If the useful lives of the assets were 10% shorter, the carrying amount would instead be £1,339,474,000 (2020: £1,282,863,000) and if they were 10% longer, the carrying amount would be £1,929,182,000 (2020: 1,864,411,000).

Based on the current useful lives, the carrying amount of intangible assets, excluding goodwill, at 31 March 2021 is £341,930,000 (2020: £345,582,000). If the useful lives of the assets were 10% shorter, the carrying amount would instead be £336,396,000 (2020: £338,604,000) and if they were 10% longer, the carrying amount would be £347,464,000 (2020: £352,560,000).

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.

Daiwater Investment Limited

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.

Included within grants and contributions are contributions received relating to the HS2 rail programme, which crosses our supply area. These are shown within capital contributions in the statement of cash flows.

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.

Notes to the financial statements

1. Revenue

1.1 Disaggregation of revenue from contracts with customers

	2021 £000	2020 £000
Timing of revenue recognition – at a point in time		
Unmeasured supplies	**96,981**	106,577
Measured supplies	**144,124**	178,768
Non-household wholesale revenue	**34,732**	8,673
Connection charges	**7,904**	10,076
Chargeable services	**-**	45
	283,741	304,139
Timing of revenue recognition – over time		
Requisitioned mains/extensions	**576**	576
Diversions	**1,201**	1,375
Infrastructure charges	**1,111**	992
Other	**153**	158
	3,041	3,101
	286,782	307,240

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 2021 £000	31 March 2020 £000	1 April 2019 £000
Net trade receivables	**24,505**	26,868	39,579
Contract assets			
Unbilled accrual for metered customers – household customers	**36,742**	36,013	32,392
Unbilled accrual for metered customers – non-household customers	**2,710**	598	14,004
Contract liabilities			
Payments received in advance – household water supplies	**41,217**	34,285	37,263
Payments received in advance – non-household water supplies	**2,948**	-	-
Deferred income – water supplies	**138**	72	1,194
Deferred income – other	**1,004**	1,605	2,049
Deferred grants and contributions	**154,175**	134,933	117,894
Payments received in advance – grants and contributions	**108,100**	77,577	35,685

'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.

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 2021, the group had been reimbursed £128,376,000 (2020: £79,123,000) 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, £14,621,000 (2020: £13,408,000) 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 2021, £91,916,000 (2020: £55,205,000) 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). As a result of changing consumption levels due to the COVID-19 pandemic, the group has used DI (distribution input) figures to estimate non-household consumption and have recognised revenue on this basis.

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 (continued)

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:

	2021	2020
	£000	£000
Revenue recognised that was included in the contract liability balance at the beginning of the year		
Payments received in advance – household water supplies	**34,285**	37,263
Deferred income – water supplies	**72**	1,194
Deferred income – other	**434**	1,208
Deferred grants and contributions	**3,041**	3,101
Payments received in advance – grants and contributions	**11,320**	9,027
Revenue recognised from performance obligations satisfied in previous years		
Unbilled accrual for metered customers – household customers	**(264)**	592

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. In the prior year £14,033,000 of revenue was expected to be derived from performance obligations relating to non-household customers which were unsatisfied at the end of the reporting period. As Castle Water (Southern) Limited (formerly Affinity for Business (Retail) Limited) was sold to Castle Water Limited on 1 April 2020, none of this revenue will subsequently be collected by the group.

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.

The unbilled accrual for measured income is a contract asset under IFRS 15. 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

At 31 March 2021, £154,175,000 (2020: £134,933,000) of grants and contributions is expected to be derived from performance obligations which were unsatisfied at the end of the reporting period.

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Daiwater Investment Limited

Notes to the financial statements (continued)

2. Operating (loss)/profit

2.1 Operating costs

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

	2021	2020 (restated)
	£000	£000
Staff costs (note 4.1)	**55,189**	60,238
Profit on disposal of property, plant and equipment	**(1,061)**	(1,630)
Loss on disposal of infrastructure assets	**1,408**	1,262
Loss on disposal of intangible assets	**-**	12
Purchase of bulk water and water supplied under statutory entitlement	**10,255**	7,960
Water abstraction charges	**3,984**	3,791
Business rates	**15,448**	15,446
Chargeable services direct expenditure	**282**	444
Depreciation of infrastructure assets (note 6)	**15,240**	12,057
Depreciation of other property, plant and equipment (note 6)	**51,085**	52,835
Depreciation of right-of-use assets (note 7)	**3,786**	3,859
Amortisation of intangible assets (note 8)	**17,137**	15,768
Impairment of trade receivables and contract assets (note 11)	**13,388**	9,470
Research and development	**126**	114
Short-term lease rentals	**115**	10
Low-value lease rentals	**91**	44
Auditors' remuneration (note 2.3)	**421**	555
Cost of inventories used	**714**	1,106

Staff costs have been restated from the £67,773,000 reported in prior year. Refer to note 3.1 for more details.

2.2 Other operating income

	2021	2020
	£000	£000
Timing of revenue recognition – at a point in time		
Commission and rentals	**17,657**	17,328

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 (refer to note 25).

Notes to the financial statements (continued)

2. Operating (loss)/profit (continued)

2.3 Auditors' remuneration

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

	2021 **£000**	2020 £000
Fees payable to the company's auditors and its associates for the audit of the parent company and consolidated financial statements	**15**	8
Fees payable to the company's auditors and its associates for other services:		
Audit of the company's subsidiaries	**289**	285
Audit-related assurance services		
– regulatory reporting	**56**	59
– Thames Water and Anglian Water annual returns	**10**	9
– audit related assurance service - other	**38**	36
Other assurance services including services related to bond issue	**6**	38
Other non-audit services	**7**	120
Total auditors' remuneration	**421**	555

3. Employees

3.1 Employee benefit expense (including executive directors)

Group

	2021 **£000**	2020 (restated) £000
Wages and salaries	**59,742**	60,390
Social security costs	**6,168**	6,007
Pension costs	**8,223**	8,609
Staff costs	**74,133**	75,005
Staff costs capitalised	**(18,944)**	(14,767)
Staff costs recognised in the income statement	**55,189**	60,238

Staff costs for 2020 have been restated to exclude £3,297,000 associated with Castle Water (Southern) Limited (formerly Affinity for Business (Retail) Limited) as these were presented as discontinued operations in the prior year income statement. Staff costs capitalised in 2020 have also been restated from the £10,529,000 reported in prior year as a result of a change in reporting methodology used following the implementation of a new ERP system and the availability of more detailed data. This restatement has not had an impact on the income statement or statement of financial position, nor any other note in these financial statements, except for note 2.1.

3. Employees (continued)

3.2 Average number of people employed

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

By activity	**2021 Number**	2020 Number
Operations	**760**	776
Customer service	**240**	325
Administration	**262**	285
	1,262	1,386

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 group of companies headed by Daiwater Investment Limited. 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

	2021 £000	2020 £000
Short-term employee benefits	**1,270**	1,837
Post-employment benefits	**120**	104
	1,390	1,941

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 2021 on its website: *affinitywater.co.uk/library*.

Daiwater Investment Limited

Notes to the financial statements (continued)

4. Finance income and costs

Group

	2021 £000	2020 £000
Finance income:		
Bank interest income	**213**	954
Net interest receivable on RPI linked inflation swap	**6,792**	4,950
Net interest receivable on CPI linked inflation swap	**6,297**	-
Fair value gains on bonds	**23,434**	24,045
Net income from post-employment benefits	**2,468**	2,487
	39,204	32,436
Finance costs:		
Accretion payable in respect of interest on bonds	**(5,254)**	(10,202)
Interest payable on bonds	**(37,502)**	(37,449)
Accretion payable on financial instrument	**(4,564)**	(3,357)
Interest payable on lease liabilities	**(343)**	(383)
Other	**(1,973)**	(1,474)
	(49,636)	(52,865)
Fair value loss on financial instrument	**(44,218)**	(1,816)
Net finance costs	**(54,650)**	(22,245)

Company

	2021 £000	2020 £000
Interest receivable from subsidiary undertakings	**419**	12,210
Total finance income	**419**	12,210

5. Income tax (credit)/expense

5.1 Income tax (credit)/expense included in the consolidated income statement

	2021 £000	2020 £000
Current tax:		
– UK corporation tax on (losses)/profits for the year	**3**	3,621
– Adjustment in respect of prior years	**(830)**	(1,453)
Total current tax	**(827)**	2,168
Deferred tax:		
– Origination and reversal of temporary differences	**(9,909)**	1,208
– Impact of change in tax rate	**-**	21,726
– Adjustment in respect of prior years	**420**	1,219
Total deferred tax	**(9,489)**	24,153
Income tax (credit)/expense	**(10,316)**	26,321

Tax credit assessed for the year is lower (2020: tax expense is higher) than the standard rate of corporation tax in the UK for the year ended 31 March 2021 of 19% (2020: 19%). The differences are explained below:

	2021 £000	2020 £000
(Loss)/profit before tax	**(58,562)**	13,583
Tax calculated at the standard rate of tax in the UK of 19% (2020: 19%)	**(11,127)**	2,581
Tax effects of:		
– Adjustments in respect of prior years	**(410)**	(234)
– Other expenses not deductible for tax purposes	**1,221**	2,248
– Impact of change in tax rate on deferred tax	**-**	21,726
Income tax (credit)/expense	**(10,316)**	26,321

5.2 Income tax (credit)/expense included in the statement of comprehensive income

	2021 £000	2020 £000
Deferred tax:		
- Origination and reversal of temporary differences on retirement benefit surplus	**(6,111)**	7

Notes to the financial statements (continued)

5. Income tax (credit)/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.

In the Spring Budget 2021, the Government announced that from 1 April 2023 the Corporation Tax rate will increase to 25%. As this proposal had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements.

5.4 Reconciliation of current and deferred tax charge

	2021 £000	**2021 %**	2020 £000	2020 %
Group (loss)/profit before tax	**(58,562)**		13,583	
Tax on (loss)/profit on ordinary activities at standard UK tax rate of 19% (2020: 19%)	**(11,127)**	**19.0%**	2,581	19.0%
Tax effect of:				
Depreciation in excess of capital allowances	**12,492**	**-21.4%**	4,022	29.6%
Write down of fair value adjustment on acquisition of the Affinity Water Acquisitions (Investments) Limited group	**(2,921)**	**5.1%**	(3,033)	(22.3)%
Pension movements	**(394)**	**0.7%**	(644)	(4.7)%
Provisions movements	**(29)**	**0.1%**	576	4.2%
Expenses not deductible for tax purposes	**965**	**-1.7%**	119	0.9%
Unutilised tax losses carried forward	**1,017**	**-1.8%**	-	-
Adjustment to tax charge in respect of prior years	**(830)**	**1.5%**	(1,453)	(10.7)%
Reported current tax charge and effective rate	**(827)**	**1.5%**	2,168	16.0%
Depreciation in excess of capital allowances	**(12,237)**	**21.5%**	(2,937)	(21.6)%
Write down of fair value adjustment on acquisition of the Affinity Water Acquisitions (Investments) Limited group	**2,922**	**-5.1%**	3,660	26.9%
Pension movements	**394**	**-0.7%**	576	4.2%
Impact of change in tax rate on deferred tax	**-**	**-**	21,726	159.9%
Provisions movements	**29**	**-0.1%**	(91)	(0.7)%
Unutilised tax losses carried forward	**(1,017)**	**1.8%**	-	-
Adjustments to tax charge in respect of prior years	**420**	**-0.7%**	1,219	9.0%
Reported deferred tax charge and effective rate	**(9,489)**	**16.7%**	24,153	177.7%
Group tax charge and effective rate	**(10,316)**	**18.2%**	26,321	193.7%

5. Income tax (credit)/expense (continued)

5.4 Reconciliation of current and deferred tax charge (continued)

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 was recalculated at 19%, resulting in an additional deferred tax charge of £21,726,000 in the prior year.

All other significant adjustments to taxable profits for the year ended 31 March 2021 are timing differences. These will reverse in future years, so a higher tax charge in 2020/21 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.

The proposal to increase the Corporation Tax rate to 25% had not been substantively enacted at the balance sheet date, therefore its effects have not been included in these financial statements. Had it been substantively enacted, its overall effect would have resulted in an additional deferred tax charge in the income statement of approximately £65,583,000, with an equivalent increase to the deferred tax liability.

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 2020/21 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. Some tax allowances were not claimed in order to reduce the amount of unutilised tax losses carried forward.

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) Limited 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.

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 2020/21 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.

Provisions movements

Some provisions charged in the financial statements are not deductible until the amounts provided are actually paid. Taxable profits in 2020/21 have been reduced by payments made in respect of provisions charged in previous years.

Notes to the financial statements (continued)

5. Tax expense (continued)

5.4 Reconciliation of current and deferred tax charge (continued)

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 and the write down of assets transferred from Castle Water (Southern) Limited (formerly Affinity for Business (Retail) Limited) as part of the proceeds of disposal.

A penalty that was previously disallowed for tax purposes has been written back in the 2020/21 accounts. The amount written back is not taxable, and this has resulted in a decrease in taxable profits for the year.

Unutilised tax losses carried forward

Tax losses that could not be utilised in the year have been carried forward to be offset against future profits. The losses carried forward will reduce tax payable in future years.

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 returns for the year ended 31 March 2019 and 31 March 2020 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 2021. The tax strategy is published on Affinity Water Limited’s website: *affinitywater.co.uk/investors*

Daiwater Investment Limited

Notes to the financial statements (continued)

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 2020	321,929	905,139	23,860	883,814	83,049	119,769	**2,337,560**
Additions	310	-	-	-	-	128,114	**128,424**
Transfers	3,237	43,081	-	40,398	1,108	(87,824)	**-**
Disposals	-	(1,541)	(14)	-	-	-	**(1,555)**
At 31 March 2021	**325,476**	**946,679**	**23,846**	**924,212**	**84,157**	**160,059**	**2,464,429**
Accumulated depreciation							
At 1 April 2020	(97,152)	(66,719)	(2,032)	(564,978)	(33,042)	-	**(763,923)**
Charge for the year	(4,650)	(14,910)	(329)	(41,613)	(4,823)	-	**(66,325)**
Disposals	-	146	1	-	-	-	**147**
At 31 March 2021	**(101,802)**	**(81,483)**	**(2,360)**	**(606,591)**	**(37,865)**	**-**	**(830,101)**
Net book amount							
At 1 April 2020	224,777	838,420	21,828	318,836	50,007	119,769	**1,573,637**
Movement in year	(1,103)	26,776	(342)	(1,215)	(3,715)	40,290	**60,691**
At 31 March 2021	**223,674**	**865,196**	**21,486**	**317,621**	**46,292**	**160,059**	**1,634,328**

	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 2020	9,079	6,789	402	**16,270**
Additions	1,101	756	-	**1,857**
Disposals	-	(24)	-	**(24)**
At 31 March 2021	**10,180**	**7,521**	**402**	**18,103**
Accumulated depreciation				
At 1 April 2020	(1,397)	(2,207)	(230)	**(3,834)**
Charge for the year	(1,499)	(2,115)	(172)	**(3,786)**
Disposals	-	24	-	**24**
At 31 March 2021	**(2,896)**	**(4,298)**	**(402)**	**(7,596)**
Net book amount				
At 1 April 2020	7,682	4,582	172	**12,436**
Movement in year	(398)	(1,359)	(172)	**(1,929)**
At 31 March 2021	**7,284**	**3,223**	**-**	**10,507**

	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.

Notes to the financial statements (continued)

8. Intangible assets

Group

	Goodwill	Billing relationships	Water licence	Computer software development costs	Total
	£000	£000	£000	£000	£000
Cost					
At 1 April 2020	327,036	32,789	300,800	76,816	**737,441**
Additions	-	-	-	13,486	**13,486**
Disposals	(10,030)	-	-	-	**(10,030)**
At 31 March 2021	**317,006**	**32,789**	**300,800**	**90,302**	**740,897**
Accumulated amortisation					
At 1 April 2020	-	(18,826)	-	(45,998)	**(64,824)**
Charge for the year	-	(6,560)	-	(10,577)	**(17,137)**
At 31 March 2021	**-**	**(25,386)**	**-**	**(56,575)**	**(81,961)**
Net book amount					
At 1 April 2020	327,036	13,963	300,800	30,818	**672,617**
Movement in year	(10,030)	(6,560)	-	2,909	**(13,681)**
At 31 March 2021	**317,006**	**7,403**	**300,800**	**33,727**	**658,936**

	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

8. Intangible assets (continued)

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 2018/19, and a disposal of goodwill relating to Castle Water (Southern) Limited (formerly Affinity for Business (Retail) Limited) in 2020/21. 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 2021 (2020: £nil).

Affinity Water Limited, the group's trading subsidiary, 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.

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 £4,937,000 increase to the impairment at 31 March 2021 (2020: £4,053,000 increase).

Included in the computer software asset category above is £13,461,000 (2020: £9,895,000) of capitalised intangible assets under construction, which is not amortised. £9,921,000 (2020: £5,156,000) 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 computer software development costs in the year ended 31 March 2021 of £2,148,000 (2020: £1,192,000) for the implementation of a new ERP system.

The group has capitalised costs relating to cloud computing arrangements, and these are currently included within computer software development costs in the table above. The group has worked through the implications of the IFRIC agenda decision on the treatment of configuration and customisation costs in a cloud computing arrangement, concluding this will not have a material impact on the financial statements for the year ended 31 March 2021, but will include adjustments relating to the treatment of costs associated with cloud computing arrangements in the financial statements for the year ending 31 March 2022, moving these from capitalised costs to expensed items.

Company

The company does not have any intangible assets.

9. Investments

Group

	2021	2020
	£000	£000
Non-current assets		
Investments	**51**	51
Current assets		
Short-term deposits	**15,132**	25,202

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

Company

	2021	2020
	£000	£000
Investment in subsidiary	**754,027**	612,524

The investment balance in the company relates to Affinity Water Acquisitions (Investments) Limited. The movement is the year is explained in the table below:

	£000
At 1 April 2020	**612,524**
Forgiveness of the loan to Affinity Water Acquisitions (Midco) Limited	**117,018**
Forgiveness of accrued interest on the loan to Affinity Water Acquisitions (Midco) Limited	**22,485**
Other movement during the year	**2,000**
At 31 March 2021	**754,027**

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 2021 (being the group's principal trading subsidiary), 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 fair 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 as at 31 March 2021 and 31 March 2020 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.

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:

	2021	2020
	£000	£000
Current service cost	**(3,310)**	(3,952)
Past service cost	**(31)**	(148)
Pension expense charged to operating (loss)/profit	**(3,341)**	(4,100)
Net pension interest income credited to finance income (note 4)	**2,468**	2,487
Net pension expense charged before taxation	**(873)**	(1,613)

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

	£000	£000
At 1 April 2020 / 1 April 2019	**104,619**	101,194
Employer contributions	**2,948**	5,000
Current service cost	**(3,310)**	(3,952)
Past service cost	**(31)**	(148)
Net interest income	**2,468**	2,487
Net re-measurement (loss)/gain	**(32,162)**	38
At 31 March 2021 / 31 March 2020	**74,532**	104,619

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

	2021	2020
	£000	£000
Re-measurement gains/(losses) on plan assets	**40,373**	(18,556)
Re-measurement (losses)/gains on plan liabilities	**(72,535)**	18,594
	(32,162)	38

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.

11. Trade and other receivables

Group

	2021 £000	2020 £000
Non-current:		
Other receivables	**184**	2,300
Current:		
Trade receivables	**58,532**	61,453
Less: loss allowance for trade receivables	**(34,027)**	(34,585)
	24,505	26,868
Receivables transferred on sale of subsidiary	**11,019**	-
Less: loss allowance for receivables transferred on sale	**(8,319)**	-
	2,700	-
Sales proceeds receivable	**1,023**	-
Interest receivable from external parties	**7,630**	5,051
Other receivables	**5,194**	5,412
Unbilled accrual for metered customers	**39,452**	36,611
Prepayments and accrued income	**7,746**	5,619
	61,045	52,693
	88,250	79,561

Trade receivables in Affinity Water Limited that were fully provided for were sold in the year, resulting in a reduction to trade receivables of £2,213,000 and a corresponding reduction in the loss allowance for trade receivables. 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		**Receivables transferred on sale of subsidiary**		**Unbilled accrual for metered customers**		**Total**	
	2021 £000	2020 £000	**2021 £000**	2020 £000	**2021 £000**	2020 £000	**2021 £000**	2020 £000
At 1 April	**34,585**	30,385	**-**	-	**269**	307	**34,854**	30,692
Provision for receivables acquired during the year	**-**	-	**3,249**	-	**-**	-	**3,249**	-
Provision for receivables impairment charged to income statement during the year	**8,536**	9,508	**5,070**	-	**(218)**	(38)	**13,388**	9,470
Sale of trade receivables that were fully provided for	**(2,213)**	-	**-**	-	**-**	-	**(2,213)**	-
Receivables written off during the year as uncollectable	**(6,881)**	(2,719)	**-**	-	**-**	-	**(6,881)**	(2,719)
Assets classified as held for sale	**-**	(2,589)	**-**	-	**-**	-	**-**	(2,589)
At 31 March	**34,027**	34,585	**8,319**	-	**51**	269	**42,397**	34,854

Notes to the financial statements (continued)

11. Trade and other receivables (continued)

11.1 Loss allowance for trade receivables and contract assets (continued)

See note A4 for details of the nature and the calculation of the loss allowance. £2,346,000 (2020: £1,680,000) of the £13,388,000 (2020: £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. A further £5,070,000 of the £13,388,000 relates to the receivables transferred on sale of subsidiary.

11.2 Ageing analysis of trade receivables

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

	2021	2020
	£000	£000
Aged less than one year	**22,406**	23,697
Aged between one year and two years	**29,862**	23,610
Aged greater than two years	**17,283**	14,146
	69,551	61,453

Company

The company does not have any trade or other receivables.

12. Inventories

Group

	2021	2020
	£000	£000
Raw materials and consumables	**4,080**	3,017

Inventories are stated after provisions for impairment of £364,000 (2020: £538,000).

Company

The company does not have any inventories.

Daiwater Investment Limited

Notes to the financial statements (continued)

13. Cash and cash equivalents

Group

	2021 £000	2020 £000
Cash at bank and in hand	**58,463**	28,535
Term deposits	**41,116**	57,219
	99,579	85,754

The carrying amounts of cash and cash equivalents approximate to their fair value. Term deposits are held in money market funds with same day access facilities.

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	2021 £000	2020 £000
744,133,355 (2020: 744,133,355) ordinary shares of £0.01 (2020: £1) each	**7,441**	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.

In March 2021, the company effected a capital reduction by way of solvency statements, reducing the value of each share from £1 to £0.01, with the equity being transferred from share capital to retained earnings.

Notes to the financial statements (continued)

15. Trade and other payables

Group

	2021	2020
	£000	£000
Non-current		
Amounts falling due after more than one year		
Deferred grants and contributions	**10,286**	10,187
Amounts falling due after more than five years		
Deferred grants and contributions	**140,520**	122,507
	150,806	132,694
Current		
Amounts falling due within one year		
Trade payables	**23,678**	9,544
Interest payable to external parties	**14,544**	14,058
Social security and other taxes	**1,654**	1,559
Other payables	**3,373**	6,062
Capital accruals	**16,833**	14,498
Deferred grants and contributions	**3,369**	2,239
Payments received in advance	**145,319**	111,862
Other accruals	**33,240**	33,573
Deferred income	**1,144**	1,677
Bank overdraft	**-**	373
	243,154	195,445
	393,960	328,139

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

	2021 £000	2020 £000
Non-current		
Borrowings measured at amortised cost:		
Bonds	**1,347,268**	1,366,264
Bank term loan	**40,973**	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
	1,388,275	1,391,298

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 former 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 2021 is £1,496,837,000 (2020: £1,348,245,000). The £1,319,350,000 (2020: £1,187,652,000) 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 £177,487,000 (2020: £160,593,000) 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, which was subsequently extended. The proceeds of this loan were lent to Affinity Water Capital Funds Limited on the same terms. 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.

Company

The company does not have any borrowings.

17. Lease liabilities

Group

	2021 £000	2020 £000
Non-current:		
Lease liabilities	**6,891**	9,068
Current:		
Lease liabilities	**3,801**	3,491

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

	2021 £000	2020 £000
Depreciation charge of right-of-use assets (refer to note 7)	**3,786**	3,859
Interest expense on lease liabilities (refer to note 4)	**343**	383
Expense relating to short-term leases (refer to note 2.1)	**115**	10
Expense relating to leases of low-value assets (refer to note 2.1)	**91**	44
Principal elements of lease payments included within cash flows from financing activities	**3,723**	3,711
Interest payments included within cash flows from operating activities	**343**	383
Total cash outflow for leases in the statement of cash flows	**4,066**	4,094
Additions to right-of-use assets (refer to note 7)	**1,857**	1,822
Carrying amount of right-of-use assets (refer to note 7)	**10,507**	12,436

Company

The company does not have any lease liabilities.

18. Derivative financial instrument

Group

	2021	2020
	£000	£000
Non-current		
Fair value of RPI linked inflation swap	**7,976**	2,430
Accretion on RPI linked inflation swap	**7,721**	4,975
Fair value of CPI linked inflation swap	**40,447**	1,775
Accretion on CPI linked inflation swap	**1,547**	(31)
	57,691	9,149

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 further RPI linked inflation swap with a nominal value of £75.0m, which is also linked to the maturity of the Class A fixed rate £250.0m bond (maturity July 2026), was entered into in October 2020, with an effective date of 1 August 2020.

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. Further CPI linked inflation swaps with a total nominal value of £225.0m, which are also linked to the maturity of the Class A fixed rate £250.0m bond (maturity March 2036), were entered into between April 2020 and June 2020.

The fair value of RPI and CPI linked inflation swaps have been derived from ‘Level 2’ fair value measurements: directly observable market inputs other than Level 1 inputs.

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

	2021	2020
	£000	£000
Deferred tax assets:		
– Deferred tax asset to be recovered within 12 months	**(3,912)**	(4,793)
– Deferred tax asset to be recovered after more than 12 months	**(46,395)**	(48,979)
	(50,307)	(53,772)
Deferred tax liabilities:		
– Deferred tax liability to be settled within 12 months	**1,531**	1,531
– Deferred tax liability to be settled after more than 12 months	**256,454**	275,519
	257,985	277,050
Deferred tax liabilities - net	**207,678**	223,278

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

	£000
At 1 April 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**
Credited to the income statement	**(9,489)**
Credited to other comprehensive income	**(6,111)**
At 31 March 2021	**207,678**

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 2019	71,839	162,298	17,202	251,339
Charged to the income statement	5,939	17,138	2,668	25,745
Credited 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**
(Credited)/charged to the income statement	**(1,531)**	**(11,817)**	**394**	**(12,954)**
Credited to other comprehensive income	**-**	**-**	**(6,111)**	**(6,111)**
At 31 March 2021	**76,247**	**167,578**	**14,160**	**257,985**

19.3 Deferred tax assets

	Fair value adjustment on acquisition £000	Provisions £000	Unrelieved tax losses £000	Total £000
At 1 April 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**
(Credited)/charged to the income statement	**(4,453)**	**(29)**	**1,017**	**(3,465)**
At 31 March 2021	**48,691**	**599**	**1,017**	**50,307**

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.

Notes to the financial statements (continued)

20. Provisions for other liabilities and charges

Group

	Insurance £000	Other £000	Total £000
At 1 April 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**
Charged to the income statement	**469**	**-**	**469**
Utilised in the year	**(2,580)**	**(429)**	**(3,009)**
At 31 March 2021	**2,726**	**848**	**3,574**

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. The full balance of £2,726,000 is presented as a non-current liability in the group's consolidated statement of financial position.

Included within these provisions is an amount of £184,000 (2020: £2,300,000), 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 £178,000 (2020: £607,000) in relation to a corporate reorganisation, which is expected will be utilised by 31 March 2022 and therefore presented as a current liability in the statement of financial position, and £670,000 (2020: £670,000) in relation to unfunded pension liabilities for a former non-executive director, which it is expected will be utilised by January 2051, and therefore presented as a non-current liability in the group's consolidated statement of financial position.

Company

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

21. Dividends

	2021 £000	2020 £000
First interim dividend paid of 2.2845p per share (2020: nil per share)	**17,000**	-
	17,000	-

22. Discontinued operations

22.1 Description

On 11 March 2020, Castle Water Limited announced plans to merge with Castle Water (Southern) Limited (formerly 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.

The group received consideration of £11,895,000 and recognised a gain on disposal of £1,601,000 in the current year. As part of the sales proceeds, the company acquired the outstanding trade receivables of Castle Water (Southern) Limited (formerly Affinity for Business (Retail) Limited) and has continued to collect these receivables throughout the current year.

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

22.2 Current year sales proceeds and gain on disposal

	2021 £000
Sales proceeds	
Initial consideration	9,500
Additional proceeds received	2,395
	11,895
Less:	
Liabilities arising on sale	(10,294)
Gain on disposal	**1,601**

Daiwater Investment Limited

Notes to the financial statements (continued)

22. Discontinued operations (continued)

22.3 Prior year financial performance and cash flow information

The financial performance and cash flow information presented in the prior year is for the full year to 31 March 2020 as the entity was not sold until 1 April 2020.

Group

	2020 £000
Revenue	26,346
Expenses	(27,988)
Net finance costs	(42)
Loss before income tax	(1,684)
Income tax credit	788
Loss after income tax of discontinued operation	(896)

	2020 £000
Net cash inflow from operating activities	4,999
Net cash outflow from investing activities	(638)
Net cash outflow from financing activities	(128)
Net increase in cash generated by the subsidiary	4,233

Company

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

22.4 Prior year 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 £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

22. Discontinued operations (continued)

22.4 Prior year assets and liabilities of the disposal group classified as held for sale (continued)

	2020
	£000
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

There were no assets or liabilities directly associated with assets classified as held for sale in relation to the discontinued operation as at 31 March 2020.

Daiwater Investment Limited

Notes to the financial statements (continued)

23. Notes to the statement of cash flows

23.1 Cash generated from operations

Group

	2021 £000	2020 £000
(Loss)/profit before tax from:		
Continuing operations	**(58,562)**	13,583
Discontinued operations	**1,601**	(1,684)
(Loss)/profit before tax including discontinued operations	**(56,961)**	11,899
Adjustments for:		
Depreciation of property, plant and equipment (note 6)	**66,325**	64,962
Amortisation of grants and contributions	**(3,041)**	(3,101)
Depreciation of right-to-use assets (note 7)	**3,786**	4,007
Amortisation of intangible fixed assets (note 8)	**17,137**	15,885
Profit on disposal of property, plant and equipment	**(1,061)**	(1,630)
Profit on disposal of trading subsidiary	**(1,601)**	-
Loss on disposal of infrastructure assets	**1,408**	1,262
Loss on disposal of intangible assets	**-**	12
Post-employment benefits	**393**	(900)
Net finance costs (note 4)	**54,650**	22,288
Changes in working capital		
– Inventories	**(1,063)**	(301)
– Trade and other receivables	**24,777**	(12,311)
– Trade and other payables		
– provision element	**(2,540)**	(955)
– other	**(5,990)**	9,037
Cash generated from operations	**96,219**	110,154

Company

	2021 £000	2020 £000
Profit before tax from:		
Continuing operations	**1,632**	12,210
Discontinued operations	**-**	-
Profit before tax including discontinued operations	**1,632**	12,210
Adjustments for:		
Finance income (note 4)	**(419)**	(12,210)
Cash generated from operations	**1,213**	-

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 2020	Cash flow	Non-cash flows	At 31 March 2021
	£000	£000	£000	£000
Bonds	1,366,264	-	(18,996)	1,347,268
Bank term loan	25,000	15,631	342	40,973
Lease liabilities	12,559	(4,064)	2,197	10,692
Debenture stock	34	-	-	34
Total liabilities arising from financing activities	**1,403,857**	**11,567**	**(16,457)**	**1,398,967**

	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)	1,061	12,559
Debenture stock	34	-	-	34
Total liabilities arising from financing activities	1,421,720	(4,266)	(13,597)	1,403,857

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.

Notes to the financial statements (continued)

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

	2021	2020
	£000	£000
Property, plant and equipment	**19,072**	15,442
Intangible assets	**1,756**	1,137
	20,828	16,579

Company

The company does not have any capital commitments.

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 seven years. The leases have varying terms, clauses and renewal rights.

The group does not expect to extend any vehicles leases after their lease term has expired. The IT server space expired on 31 December 2020 and was renewed until 31 December 2021. The group will assess closer to the expiry of the lease of the head office buildings whether another formal agreement will be entered in to.

From 1 April 2019, the group has applied IFRS 16 and recognised right-of-use assets for these leases, (except for short-term and low-value leases which are not within the scope of IFRS 16), see note 17 for further information.

The future aggregate minimum lease payments for operating leases not within the scope of IFRS 16 are as follows:

Group

	2021		2020	
	Land and buildings	**Other**	Land and buildings	Other
	£000	**£000**	£000	£000
No later than one year	**-**	**90**	-	72
Later than one year and no later than five years	**-**	**168**	-	212
Later than five years	**-**	**-**	-	-
	-	**258**	-	284

Company

The company does not have any commitments under operating leases.

Notes to the financial statements (continued)

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 2021 (2020: £nil), and the group incurs no bad debt risk in relation to this service.

26. Events after the reporting period

Following approval to transact a power hedging swap when conditions were favourable, as detailed in the section 172(1) statement on pages 23 to 33, Affinity Water Limited entered into its first energy swap in May 2021, fixing the price on a proportion of its future energy costs. This will be reflected in the group's financial statements for the year ending 31 March 2022.

In April 2021, the IFRIC agenda decision on the treatment of configuration and customisation costs in a cloud computing arrangement was ratified by the International Accounting Standards Board. The group has worked through the implications of this guidance, concluding this will not have a material impact on the financial statements for the year ended 31 March 2021, but will include adjustments relating to the treatment of costs associated with cloud computing arrangements in the financial statements for the year ending 31 March 2022, moving these from capitalised costs to expensed items.

The holding companies within the Daiwater Investment Limited group have commenced a project to simplify the group structure by way of the following steps:

1) forgiveness of intragroup loan notes, together with interest obligations;
2) a capital reduction by way of solvency statements; and
3) a horizontal restructure of the holding companies to become direct subsidiaries of Daiwater Investment Limited.

Step 1) in the above points has been completed and is reflected in these financial statements for the year ended 31 March 2021. Step 2) has been completed post year end and is not reflected in these financial statements. Step 3) will be completed in the year ending 31 March 2022.

Following completion of steps 1), 2) and 3) above, the directors propose to liquidate the relevant holding companies.

Affinity Water Limited announced a company restructure on 8 September. After reviewing short, medium and long-term plans to deliver its business plan targets and prepare for AMP8, 56 roles have been placed at risk of redundancy through collective consultation.

On 9 September, it was announced by Ian Tyler that Pauline Walsh has stepped down as CEO of Affinity Water Limited, handing over leadership of the business to Stuart Ledger as Interim CEO.

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 2021, and only group to consolidate the company.

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 Pts. Limited (up until 20 November 2019, Allianz Infrastructure Luxembourg I S.à r.l)
- DIF Management Holding BV
- DIF Management UK Limited
- HICL Infrastructure plc
- Sun Life Financial Inc (up until 1 July 2020, InfraRed Capital Partners (Management) LLP).

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

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

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

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 4,500km^2 split over three supply regions, comprising eight separate water resource zones, in the South East of England. Affinity Water Limited, the group's principal trading indirect subsidiary, is the sole supplier of drinking water in these areas.

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

In the same way that financial information is reported on a quarterly basis to the Board, the group's chief operating decision maker, during the current financial year on a combined basis, the group and company present their results under a single segment for financial reporting purposes.

The group's reportable segments for the prior year were 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 had separate management teams with each monitoring the operating results of the individual business segment separately. Each entity's individual management team were responsible for the decision making and resource allocation of that entity alone. Each operating segment reviewed 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 the prior year within these financial statements. All transactions between operating segments were carried out at arms-length. All operations were 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)

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.

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

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.

Notes to the financial statements – appendices (continued)

A3. Accounting policies (continued)

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

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', in that it is a separable, identifiable asset and it has a future economic benefit.

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.

In April 2021, the IFRIC agenda decision on the treatment of configuration and customisation costs in a cloud computing arrangement was ratified by the International Accounting Standards Board. The group has worked through the implications of this guidance, concluding this will not have a material impact on the financial statements for the year ended 31 March 2021, but will include adjustments relating to the treatment of costs associated with cloud computing arrangements in the financial statements for the year ending 31 March 2022, moving these from capitalised costs to expensed items. See note 8 for details of the group's intangible assets.

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

Intangible assets are reviewed for impairment where indicators of impairment exist. Impairments are recognised immediately in the income statement.

Daiwater Investment Limited

Notes to the financial statements – appendices (continued)

A3. Accounting policies (continued)

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.

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.

A3. Accounting policies (continued)

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, for example COVID-19. To estimate the impairment to its trade receivables from COVID-19, the group has assessed its receivables based on postcode driven customer demographics. The group has assessed what it believes 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.

A3. Accounting policies (continued)

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.

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.

A3. Accounting policies (continued)

Financial instruments

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 and are shown on the line 'fair value loss on financial instruments' on the face of the consolidated income statement. Interest received or incurred on these derivative financial instruments is shown within finance income and finance costs on the face of the consolidated income statement.

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, which can carry a financial reward or penalty, or both, which will be recognised as a revenue adjustment in the next charging period. 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.

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 income statement.

A3. Accounting policies (continued)

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 variable, 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.

From 1 April 2017 to 1 April 2020, the group was operating in the competitive non-household retail water market, securing customer contracts for both clean water and waste water services. The underlying performance obligation was the provision of clean water and waste water services, therefore revenue was recognised as the customer received the benefit of this. Under IFRS 15, revenue is required to be recognised as the amount which the group has a right to receive:

- 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, 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. As a result of changing consumption levels due to the COVID-19 pandemic, we have used DI (distribution input) figures to estimate non-household consumption and have recognised revenue on this basis.

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 is estimated using a defined methodology based upon weighted average water consumption by tariff, which is calculated based upon historical information, with an adjustment made for COVID-19.

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.

A3. Accounting policies (continued)

Revenue recognition (continued)

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.

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 calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Leases

The group leases its two head office buildings, and most of its vehicles.

Rental contracts for 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 two head office buildings have remaining periods of 5.5 years and 6.5 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.

The group also leases some physical IT server space that was accounted for under IFRS 16 up to 31 December 2020. The lease was subsequently renewed to 31 December 2021 and treated as a short-term operating lease. All remaining IT server space has been provided through a hosting service, therefore is out of scope of IFRS 16 as there is not a physically distinct identifiable asset. Costs are recognised on a straight-line basis as an expense in profit or loss.

A3. Accounting policies (continued)

Leases (continued)

The group applies recognition exemptions to short-term leases and leases of low-value assets. Short-term leases are leases with a term of 12 months or less. Low-value assets comprise small items of office equipment and IT equipment, typically costing no more than £5,000. Costs are recognised on a straight-line basis as an expense in profit or loss.

Leases falling within the scope of IFRS 16 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 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.

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 company uses an independent third-party to determine the incremental borrowing rate for each class of lease. The weighted average lessee's incremental borrowing rate applied to the lease liabilities during the year was 2.37%. The incremental borrowing rate is re-determined annually and applied to new leases for the subsequent year.

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.

Notes to the financial statements – appendices (continued)

A3. Accounting policies (continued)

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.

Former group company Castle Water (Southern) Limited (formerly Affinity for Business (Retail) Limited), a fellow subsidiary of the group until its sale on 1 April 2020, contributed to the AWPP on behalf of its eligible employees up until 31 August 2020. Since this date, Affinity Water Limited has been the sole employer. The group bears all the risks and rewards associated with the scheme and therefore recognises all the remeasurement gains and losses on the plan assets and liabilities.

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 period (to determine current service cost) and to the current and prior periods (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.

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.

Daiwater Investment Limited

Notes to the financial statements – appendices (continued)

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 group of companies headed by Daiwater Investment Limited.

The Board reviews and agrees policies for managing each of these risks (refer to page 7 of the strategic report for further information on management of these risks). These policies have remained unchanged during the year.

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.

A4. Financial instruments and risk management (continued)

Liquidity risk

Group

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 2021, the group had £269,711,000 (2020: £271,956,000) of available liquidity, which comprised £114,711,000 (2020: £110,956,000) of cash and term deposits and £155,000,000 (2020: £161,000,000) of undrawn committed borrowing facilities.

The group entered into RPI linked inflation swaps in August 2018 and October 2020, and between March 2020 and June 2020 entered into a series of CPI linked inflation swaps, 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 swaps, offset by an accretion payment on maturity (2026 for the RPI swaps and either 2030 or 2036 for the CPI swaps). 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 £76,653,000 (2020: £40,544,000), included in the 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:

	2021	2020
	£000	£000
Floating rate:		
– Expiring within one year	**55,000**	61,000
– Expiring in more than one year	**100,000**	100,000
	155,000	161,000

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 £32,000,000 (2020: £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 (2020: £23,000,000), which is intended for the purpose of funding operating and capital maintenance expenditure.

Notes to the financial statements – appendices (continued)

A4. Financial instruments and risk management (continued)

Liquidity risk (continued)

Group (continued)

The facilities expiring in more than one year comprise two revolving credit facilities, £60,000,000 (2020: £60,000,000) provided by Barclays Bank PLC and £40,000,000 (2020: £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.

Company

At 31 March 2021 and 31 March 2020, the company had no available liquidity and no available undrawn borrowing facilities.

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.

Group

At 31 March 2021	**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	**38,464**	**52,561**	**38,255**	**38,411**	**38,571**	**1,377,401**	**1,583,663**
Bank term loan	**1,241**	**1,241**	**41,283**	**-**	**-**	**-**	**43,765**
Lease liabilities	**3,339**	**2,808**	**2,138**	**1,781**	**769**	**179**	**11,014**
	43,044	**56,610**	**81,676**	**40,192**	**39,340**	**1,377,580**	**1,638,442**

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
	£000	£000	£000	£000	£000	£000	£000
Non-derivatives							
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

On 2 July 2020, the group refinanced its £25,000,000 bank term loan. The loan was increased to £ to £39,500,000, and due for repayment 30 June 2023. On 30 July 2020, the group and company drew down a further £2,500,000, taking the total loan to £42,000,000.

Notes to the financial statements – appendices (continued)

A4. Financial instruments and risk management (continued)

Liquidity risk (continued)

Maturity analysis (continued)

Company

The company has no non-derivative financial liabilities.

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.

Group

At 31 March 2021	**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 swaps net payment/ (receivable)	**(7,439)**	**(7,575)**	**(7,479)**	**(7,382)**	**(7,283)**	**15,080**	**(22,078)**
CPI linked inflation swaps net payment/ (receivable)	**(7,057)**	**(7,004)**	**(6,951)**	**(6,897)**	**(6,843)**	**(1,652)**	**(36,404)**
Total derivatives	**(14,496)**	**(14,579)**	**(14,430)**	**(14,279)**	**(14,126)**	**13,428**	**(58,482)**

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)

Company

The company has no derivative instruments.

A4. Financial instruments and risk management (continued)

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. 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, for example COVID-19.

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.

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)

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 receivables 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).

The loss allowance as at 31 March 2021 and 31 March 2020 was determined as follows for trade receivables, receivables transferred upon sale of subsidiary and contract assets (unbilled accrual for metered customers):

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)

Group

At 31 March 2021 (£000)	Current	Current	Less than 1 year	1 – 2 years	2 – 3 years	3 – 4 years	More than 4 years past due	Total
Expected loss rate – metered household receivables	0.14%	0%	2%	7%	16%	33%	100%	
Gross carrying amount – metered household receivables	-	-	15,679	3,506	2,119	1,344	1,649	24,297
Gross carrying amount – unbilled accrual for metered customers (household)	36,793	-	-	-	-	-	-	36,793
Gross carrying amount – unbilled accrual for metered customers (non-household)	-	2,710	-	-	-	-	-	2,710
Provision at expected loss rate	51	-	236	238	329	443	1,649	2,946
Additional provision for COVID-19	-	-	1,612	-	-	-	-	1,612
Amounts provided at 100%	-	-	3,748	4,192	3,230	1,979	1,614	14,763
Loss allowance	**51**	**-**	**5,596**	**4,430**	**3,559**	**2,422**	**3,263**	**19,321**

	Current	Less than 1 year	1 – 2 years	2 – 3 years	3 – 4 years	More than 4 years past due	Total
Expected loss rate – unmetered household receivables	0%	2%	5%	11%	27%	100%	
Gross carrying amount – unmetered household receivables	-	5,845	3,084	1,630	1,105	1,402	13,066
Provision at expected loss rate	-	114	139	186	297	1,402	2,138
Additional provision for COVID-19	-	734	-	-	-	-	734
Amounts provided at 100%	-	2,635	3,023	2,544	1,850	684	10,736
Loss allowance	**-**	**3,483**	**3,162**	**2,730**	**2,147**	**2,086**	**13,608**

	Less than 1 year	1-2 years	More than 2 years past due	Total
Expected loss rate – non-household receivables	0%	63%	93%	
Gross carrying amount – non-household receivables	-	6,390	4,629	11,019
Loss allowance	**-**	**4,010**	**4,309**	**8,319**

	Less than 3 months	3 – 6 months	6 – 9 months	9 – 12 months	More than 12 months past due	Total
Expected loss rate – developer services	0%	43%	59%	70%	100%	
Gross carrying amount – developer services	1,569	353	184	240	724	3,070
Loss allowance	**-**	**150**	**108**	**167**	**724**	**1,149**
Total loss allowance						**42,397**

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)

At 31 March 2020 (£000)	Current	Less than 1 year	1 – 2 years	2 – 3 years	3 – 4 years	More than 4 years past due	Total
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

	Current	Less than 1 year	1 – 2 years	2 – 3 years	3 – 4 years	More than 4 years past due	Total
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
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**

A reconciliation between the opening and closing loss allowances for trade receivables and contract assets for the year ended 31 March 2021 is shown in note 11.

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)

Company

The company has no loss allowance for trade receivables and contract assets.

At 31 March 2021 and 31 March 2020, the maximum exposure to credit risk was represented by the carrying amount of each financial asset in the statement of financial position:

Group

	2021	2020
	£000	£000
Cash and term deposits (note 13)	**99,579**	85,754
Short-term deposits (note 9)	**15,132**	25,202
Trade and other receivables (excluding prepayments and amounts recoverable from the group's insurer)	**83,805**	84,300
	198,516	195,256

Company

The company has no such financial assets.

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 credit ratings per Standard & Poor's at 31 March is:

Group

	2021	2020
	£000	£000
AAA	**41,116**	42,106
A-1+	**-**	10,105
A-1	**66,911**	58,126
A-2	**5,084**	-
	113,111	110,337

These are all short-term ratings.

Company

The company has no cash and cash equivalents.

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. A further RPI linked inflation swap with a nominal value of £75.0m, also linked to the maturity of the Class A fixed rate £250.0m bond (July 2026), was entered into in October 2020, although backdated to 1 August 2020. A series of CPI linked inflation swaps with a total nominal value of £250.0m, linked to the maturity of the Class A fixed rate £250.0m bond (March 2036), were entered into between March 2020 and June 2020.

These swaps will lead to net interest receivable cashflow over the life of the swaps, which is expected to increase the headroom against our covenant limits, offset by an accretion payment on maturity. Movements in RPI/CPI forward rates create fair value profits or losses, which will flow through the income statement.

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 risks are 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 2021	**827,592**	**501,754**	**62,480**	**1,391,826**
31 March 2020	823,510	505,787	62,001	1,391,298

The company had no debt at 31 March 2021 or 31 March 2020.

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 2021. The following table details the sensitivity of (loss)/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.

Impact on (loss)/profit before taxation	**2021 £000**	2020 £000
1% increase in RPI	**(3,559)**	(3,542)
1% decrease in RPI	**3,640**	3,542
1% increase in CPI	**(630)**	(625)
1% decrease in CPI	**631**	625

A4. Financial instruments and risk management (continued)

Currency risk

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

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 76.0% at 31 March 2021 (78.9% at 31 March 2020).

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.

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).

Investment strategy

Following a Trustee investment strategy review in 2018/19, and the focus towards a 'cashflow driven investment' strategy, the Trustee implemented the following changes to the plan's portfolio during the prior 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.

Daiwater Investment Limited

Notes to the financial statements – appendices (continued)

A5. Retirement benefits (continued)

Defined benefit section (continued)

An actuarial valuation of the AWPP, determined by an independent qualified actuary, as at 31 December 2017[1], 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 1.0% 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 actuarial valuation at 31 December 2017, no further deficit payments were required. At 31 March 2021, the contributions expected to be paid into the AWPP for the year ending 31 March 2022 were £5,000,000 (£5,000,000 in the year ended 31 March 2021).

The weighted average duration of the defined benefit obligation is 17.5 years (2020: 16.3 years).

Defined benefit section - financial and demographic assumptions

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

	2021	2020
Discount rate	**1.95% pa**	2.30% pa
Salary growth	**3.25% pa**	2.70% pa
RPI	**3.25% pa**	2.50% pa
CPI	**2.75% pa**	1.70% 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)	**23**	24
Life expectancy from age 65 (years) for a female participant currently aged 45 (years)	**26**	26

Deferred pensions are revalued to retirement age in line with the CPI assumption of 2.75% per annum (2020: 1.70% per annum) unless otherwise prescribed by statutory requirements or the plan rules.

[1] Another actuarial valuation, as at 31 December 2020, has been completed and signed on 30 July 2021. As this valuation was completed post year-end, its assumptions will be reflected in the disclosures for the 2021/22 Annual Report and Financial Statements. The annual employer defined benefit contributions will be £1,600,000 per calendar year, 1 January to 31 December, going forward.

Daiwater Investment Limited

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
2021				
Discount rate	**0.5% decrease**	**9.2% increase**	**0.5% increase**	**9.2% decrease**
Salary growth	**0.5% increase**	**0.9% increase**	**0.5% decrease**	**0.9% decrease**
Pension growth rate	**0.5% increase**	**7.5% increase**	**0.5% decrease**	**7.5% decrease**
Life expectancy	**1 year increase**	**4.0% increase**	**1 year decrease**	**4.0% decrease**
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

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 %	**2021 £000**	Plan assets %	2020 £000
Equity securities	**6%**	**33,415**	4%	21,840
Debt securities	**73%**	**392,880**	71%	358,785
Property	**0%**	**266**	0%	288
Infrastructure	**2%**	**9,575**	2%	9,066
Liability driven investments	**13%**	**70,344**	18%	88,691
Cash and cash equivalents	**6%**	**33,941**	5%	22,857
Total fair value of the plan's assets	**100%**	**540,421**	100%	501,527
Present value of defined benefit obligations		**(465,889)**		(396,908)
Net retirement benefit surplus		**74,532**		104,619

The total of assets which are quoted is £450,448,000 (2020: £331,334,000) and the total of assets which are unquoted is £89,973,000 (2020: £170,193,000).

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 2020 / 1 April 2019	**501,527**	518,870
Benefits paid	**(16,395)**	(16,670)
Employer contributions	**2,948**	5,000
Contributions by plan participants	**552**	557
Interest income	**11,416**	12,326
Re-measurement gains/(losses)	**40,373**	(18,556)
At 31 March 2021 / 31 March 2020	**540,421**	501,527

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 2020 / 1 April 2019	**(396,908)**	(417,676)
Benefits paid	**16,395**	16,670
Contributions by plan participants	**(552)**	(557)
Current service cost	**(3,310)**	(3,952)
Past service cost	**(31)**	(148)
Interest expense	**(8,948)**	(9,839)
Re-measurement (losses)/gains	**(72,535)**	18,594
At 31 March 2021 / 31 March 2020	**(465,889)**	(396,908)

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 2021 was £3,573,000 (2020: £3,470,000). There are no amounts prepaid or outstanding in respect of the defined contribution section at 31 March 2021 (2020: £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 and investment 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

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%
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 and dividends paid

Related party	Nature of Relationship	In respect of	2021 Value £000	2021 Balance £000	2020 Value £000	2020 Balance £000
Allianz Capital Partners, DIF and HICL Infrastructure plc	Shareholders	Dividends	**17,000**	**-**	-	-
Allianz Global Corporate & Speciality	Common ownership	Insurance	**2,093**	**(1,084)**	1,852	(1,009)
Allianz Engineering	Common ownership	Insurance	**1**	**-**	2	(1)
SSE plc	Shared director	Electricity	**21,965**	**-**	26,068	5,991

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

Company

Sales of goods and services and dividends received

Related party	Nature of Relationship	In respect of	2021 Value £000	2021 Balance £000	2020 Value £000	2020 Balance £000
Affinity Water Acquisitions (Investments) Limited	Subsidiary undertaking	Dividend	**1,213**	**-**	-	-
Affinity Water Acquisitions (Midco) Limited	Subsidiary undertaking	Loans receivable and interest	**-**	**-**	11,717	139,503
Affinity Water Capital Funds Limited	Subsidiary undertaking	Loans receivable and interest	**419**	**-**	493	15,368

Purchases of goods and services and dividends paid

Related party	Nature of Relationship	In respect of	2021 Value £000	2021 Balance £000	2020 Value £000	2020 Balance £000
Allianz Capital Partners, DIF and HICL Infrastructure plc	Shareholders	Dividend	**17,000**	**-**	-	-