DAIWATER INVESTMENT LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2025

(Registered Number 10738347)

Daiwater Investment Limited

Contents

Daiwater Investment Limited

Directors and advisers

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Roxana Tataru
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Company secretary

Patrick Makoni (resigned 31 March 2025)
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Registered number

10738347

Daiwater Investment Limited

Board’s welcome

Highlights

- Sector leading performance on the measures which matter most to customers – water quality, unplanned outages and interruptions to supply.
- Successful delivery of the AMP7 enhancement programme and early mobilisation with supply chain for delivery of AMP8.
- Positive financial performance with increases in revenue and operating profit and growth in Regulatory Capital Value (RCV).
- Ofwat’s Final Determination sustainable and deliverable – but challenging and ambitious.
- Financial resilience strengthened with committed £150 million equity injection and £350 million green bond issuance. Gearing to be reduced.

Performance

We have met or exceeded our regulatory targets in the majority of the areas which we know matter most to customers such as water quality, unplanned outages and interruptions to supply. We have also delivered all our AMP7 obligations under the Water Industry National Environment Programme and all other statutory requirements. While we have just missed our three-year average leakage target we have met our in-year WRMP commitment and are in a good position to start year one of the next AMP. We have not achieved our targets for per capita consumption and C-MeX – the customer experience measure used by Ofwat.

Future Investment

Affinity Water has clearly navigated the periodic review process very effectively. The company’s representations on the Draft Determinations were instrumental in achieving an outcome at Final Determination (FD), which is sustainable and deliverable, but remains ambitious and challenging. Over the next five years we will be delivering a £2.3 billion investment programme, designed to make sure we can continue to provide high-quality and affordable water services for our customers now and in the future. The positive outcome at FD combined with the steps taken over the last two years to improve operational performance means that Affinity Water is well-placed to deliver on its business plan for customers and the environment in the next asset management period.

Financial Strength and Strategic Refinancing

Following the FD, our shareholders committed to inject £150 million in equity by 31 March 2026, which will enable us to maintain gearing at around 70% across the next AMP. Following affirmation of our credit ratings, which are now amongst the strongest in the sector, we have also been able to move quickly to successfully issue a £350 million green bond on favourable terms in early March.

Financial Performance

We have continued to see improved financial performance with increases in both revenue and operating profit, as well as growth in regulatory capital value ('RCV') reflecting the high levels of investment over the last 12 months.

Board's welcome (continued)

Operational Excellence

This has been another strong year in our delivery of public service for customers and the environment. Keith Haslett goes into more detail on operational performance in the CEO's review, but the whole company is to be congratulated on taking Affinity from being one of the lowest ranked companies on performance to be one of the leaders over the last five years. Although I have not been with the company long, it is clear that the focus on developing a new leadership culture and the effort put in to engage with colleagues right across the organisation has, combined with a drive for operational excellence, transformed Affinity in a relatively short space of time. I know that the team is in no way complacent and will be looking to further build on this over the next five years.

As we reach the end of the current five-year period and the start of the next, this is a good time to reflect on the progress which we have made over recent years in transforming the performance of Affinity Water.

It is timely to look to the significant challenges of delivering a very ambitious programme for customers and the environment in the next AMP. This is also a time of potentially profound change in the water industry and we are committed to playing an active and constructive role in the various reviews which are underway and which could lead to legislative change coming forward in early 2026.

Performance overview – focus on people, culture and operational excellence.

The improvements in our performance set out in last year's annual report have continued and this means that over the last few years, from being one of the weaker performers in the sector we have become one of the strongest.

This change has been delivered by a clear management focus on: people, culture, engagement and operational excellence. In people and culture, we have simplified our purpose, vision and values and worked to ensure that all colleagues in the organisation are aware of what these mean and are clear on the role which they play in delivering our purpose.

This focus on engagement has brought about a steady improvement in our Peakon scores, which measure colleague engagement across a number of metrics. Our ratings now place us in the top 25 per cent of the energy and utilities sector and our aim is to continue this improvement.

To ensure that all our colleagues are prepared for the start of the next AMP and the challenges it will bring, we ran a series of roadshows in January and February 2025. These covered topics including our ambitious smart metering programme, how we're planning to transform our customer experience and the targets and performance commitments we've signed up to. Over 900 colleagues attended the 19 sessions we ran across 6 locations.

Our work on equality and diversity has also shown results. Our gender pay gap has reduced, our managers and leaders are more reflective of the gender balance amongst our employees and our female retention rate has improved.

Our work to transform the maintenance of our assets is a great example of our focus on operational excellence. This project, using international best practice has set out to shift the balance between reactive and proactive maintenance and to enhance the capability of our workforce. Our maintenance excellence programme stands out because it demonstrates that data driven asset management is achievable. It is also a people led approach which empowers the workforce to drive change and ensures that data driven decision making is understood and embraced.

The programme has significantly improved our asset maintenance maturity and boosted our compliance. It has mitigated our unplanned outage risk and also freed resource allowing teams to focus on planned maintenance.

Daiwater Investment Limited

Board’s Welcome (continued)

Public and Political Engagement

The new AMP starts in a period of unprecedented public and political interest in the future structure and direction of the sector. There is no doubt that performance in some areas of the sector has fallen short of what the public have a right to expect and that there have been significant shortcomings in the behaviour of some water companies. The new government moved quickly to deliver on its manifesto commitments, passing the Water (Special Measures) Act with new provisions for executive remuneration and a new regime of environmental fines. The Act contains some governance provisions, giving customers a role in decision making, which could prove transformational. Our intent at Affinity is to embrace the spirit of these provisions and find ways in which we can really innovate, going beyond minimum compliance. We intend to move at pace to implement these and have taken account of the Act’s provisions on performance related pay and the subsequent rules issued by Ofwat when making our decisions on executive remuneration.

We are also engaging with the Independent Water Commission (‘IWC’) under Sir Jon Cunliffe and are keen to assist him and his secretariat in their important work. Our objective is to help the Commission achieve the best possible outcome in the national interest. As a water only company our priority is water security and we are focusing on how this can be achieved whilst supporting the need for growth in the economy. Our supply area is challenging in this regard: a growing population and a highly sensitive environment mean that we have a difficult balance to achieve on water resources. New industries, drivers of growth such as data centres add to that challenge, but we want to work with the IWC and government to find innovative ways to achieve this balance. The IWC published its report and recommendations on 21 July 2025 and the government and industry will respond to the report in detail over the coming months. We expect a considered response after the summer recess, in the form of a consultation which will kickstart the legislative process for a new Water Reform Bill. Over the coming months, we will be engaging with government and stakeholders, at both a national and regional level, to better understand how the implementation of these new proposals will happen.

Commitment to Public Service

Affinity is one of the few remaining companies in the sector which has never been nationalised and therefore always provided public service with private finance. As such we understand very well that public expectations of us are much higher than is the case with public sector suppliers. We set ourselves high standards in this regard and seek to engage closely with customers, stakeholders and environmental groups in the way in which we deliver our service. I have been impressed that the Board has a strong focus on the public value and sustainability of our operations and I expect this to increase to match public expectations.

Helping customers with price increases

We are very conscious that our business plan involves a significant price increase for our customers, of 19% for measured customers and 29% for unmeasured in the first year of the new AMP. We have also increased the support available to customers through our various social tariffs and are actively promoting the ways in which customers can access our social tariffs. In the longer term we are trialling new ways of charging for water to incentivise water saving and save money for those on lower incomes. Our initial trial on 1500 households in Stevenage is showing very positive results at the halfway stage. We are seeing a material reduction in per capita consumption from households on the trial and arrears and bad debt have also fallen indicating that there are affordability benefits as well. We are looking to run a larger scale trial next year and are also talking to government about the results to help their development of future policy in this area.

We know that the next AMP brings major challenges as we will be delivering a £2.3 billion programme which is significantly larger than any previous programme. Although we have taken prudent steps to ensure we are well prepared, we know that we will have to continue the performance improvements we have shown in the last two years to deliver our commitments to customers. I would like to thank all my colleagues at Affinity for the dedication they’ve shown in the last two years to take us to this point and I know that they will show the same levels of commitment to deliver our exciting programme in the next AMP.

Board's Welcome (continued)

The Final Determination and look forward to AMP8

Our draft business plan for 2025-2030 achieved the highest quality rating in the industry from Ofwat and its Final Determination, received in December 2024, closely matches our original submission. Ofwat recognised the risks associated with our new obligations to remove PFAS chemicals from raw water during treatment and allowed an uncertainty mechanism which will enable us to develop efficient costs before scheme sign off.

We conducted a thorough analysis of the deliverability and finance ability of the plan under the terms set out in the Final Determination. As a result of this analysis, the Board has concluded that the plan is deliverable and we have accepted the determination. I am delighted that our investors have agreed to back the plan with further unconditional committed equity investment. It was also very pleasing to be the first water company to raise green bond finance in the UK Sterling bond market after the Final Determination.

Although we are pleased that we now have clarity over the next five years, we are also aware that delivering a much larger investment programme, will be a significant challenge. We have taken early steps to ensure that we are prepared for this and now have all our key contracts in place with our supply chain meaning that we are well placed for an early mobilisation of the investment programme.

Focus on sustainability

As a Board our purpose is to provide high-quality drinking water for our customers and take care of the environment, for our diverse communities, now and in the future. Sustainability is embedded in our strategic thinking as a business and integrated into our daily activities.

To Affinity Water, Environment, Social and Governance (ESG) provides:

- A quantifiable measure of our impact on the environment and society;
- A management philosophy that seeks to convert social and environmental risks into opportunities to generate sustainable growth and build business resilience;
- A holistic approach to demonstrating the long-term value of our organization– both in a qualitative and quantitative manner.

We are on the journey to implementing our strategy by:

- Establishing ESG Governance and Leadership
- Aligning existing Policies and Strategies with ESG objectives
- Developing Internal and External Communication Plan for ESG
- Integrating ESG into Decision Making Frameworks
- Developing Approach for articulating ESG value creation
- Establishing ESG metrics for measuring and monitoring progress

The Environment, Social, Governance (ESG) Board Committee is established to ensure strategic focus and direction is given to sustainability matters at Board level, performance is regularly monitored to maximise opportunities to increase both public and shareholder value and enhance outcomes for customer, communities and natural environment.

In 2024/25 we took further steps to ensure strategic focus and direction is given to sustainability matters by:

- starting to articulate the value created through the above three themes;
- incorporating ESG themes and indicators across our planning and operational activities and through our relationships with shareholders, customers, suppliers, and other stakeholders;
- increasing awareness and ownership of ESG issues throughout our business and our culture;
- actively managing and mitigating ESG risks and working to embed ESG into our company risk management processes; and
- engaging with the Board through ESG Committee with responsibility for providing leadership on ESG and driving awareness and ownership of ESG issues and measurement throughout the organisation.

Strategic report
for the year ended 31 March 2025

Introduction

The directors present their strategic report on Daiwater Investment Limited for the year ended 31 March 2025.

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 prior year.

Affinity Water Limited owns and manages the water assets and network in an area of approximately 4,500km^2 split over three regions, comprising eight water resource zones, in the South East of England.

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

- supplies on average 937 million litres of water a day to around 3.99 million people, serving 1.57 million properties;
- operates 91 water treatment works to ensure that water is of the highest quality; and
- distributes water through a network of over 17,042km 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 2024 on its website: *affinitywater.co.uk/library*.

Performance

The group generated a loss for the year of £637,000 (2024 restated: loss of £22,556,000). Prior operating loss has been restated by £2,461,000 further details can be found on pages 62 to 64. The statements of financial position detailed on pages 54 and 55 show accumulated losses as at 31 March 2025 amounting to £303,887,000 (2024 restated: £304,757,000) for the group and £757,163,000 (2024: £757,163,000) for the company.

The group was acquired by a consortium of investors led by Infracapital Partners II, the infrastructure investment fund managed by M&G (the European Investment arm of Prudential Plc), and Morgan Stanley Infrastructure Partners on 28 June 2012 and has applied acquisition accounting since that date. All group dividends had been made from sufficient distributable reserves.

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 of Affinity Water Limited for 2024/25 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 2025 on its website: *affinitywater.co.uk/library*.

Our Goal for Corporate Risk Management

The group strives to manage risk holistically across its business, using a transparent and timely process which focuses equally on the protection of tangible and intangible assets (including communities and the environment) and the achievement of both financial and non-financial objectives (e.g. Net Zero). We mobilise technology and expertise from sources inside and outside the business to support management in making decisions which maximise the level of risk reduction delivered by investing resource investment in risk control.

Risk Governance

The group has a documented and established risk management governance model, based on the Three Lines of Defence[1], which involves its operational business, the dedicated risk function and other internal and external Assurance and Audit functions in the management of risks in the pursuit of delivering the objectives of the organisation. The main risks of the group for the year ended 31 March 2025 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). ARAC ('Audit Risk and Assurance Committee') reviews senior management's work on risk management at least six monthly, and reports to the Board on the effectiveness of the system of risk management and controls. At senior management level, the subsidiary's ELT ('Executive Leadership Team') regularly reviews high-priority risks and horizon scanning exercises. The Risk function owns and manages the corporate risk database, provides internal consultancy to the operational business and decision support services to management. Together the operational business ('First Line of Defence'), the Risk Management function ('Second Line of Defence') and the Assurance functions ('Third Line of Defence') manage risk according to the Corporate Risk Framework. The Internal Audit function provides assurance on the effectiveness of the management and controls framework annually. Our cyclical risk management process identifies and assesses risk, implements appropriate mitigation measures, checks the implementation of the control framework and assigns remedial actions where necessary.

Summary of Main Changes During 2024/25

This year we have conducted a comprehensive review of our principal risks to ensure that they align to our key business processes and reflect our strategic priorities and regulatory obligations for AMP8. This has resulted in some aggregation and disaggregation of some of the risks which result in the list set out below. Overall, we have reduced the number of risks from 16 to 12. There are three new risks which have been disaggregated from our previous risks. Of the risks which las year, we assessed as critical: (1) Supply Chain risk is now subsumed within risk 11 - Capital Projects Underdelivery, which is the main area in which supply chain risk would manifest itself; (2) Data Compromise risk remains intact, with an ever-increasing emphasis on cyber risk; (3) Adverse Regulatory Change has been combined with legal obligations to form risk 8 – Fail to meet regulatory and legal obligations, as we believe the two areas are inextricably linked; and (4) Unsatisfactory PR24 has been removed from the list given our largely satisfactory final determination from Ofwat.

We have disaggregated the water quality element of our 'Failure to supply' risk into a new risk 'Failure to supply high quality water'. We have aggregated the customer impact of a number of previous risks into a new risk 'Fail to meet customer expectations'. We have aggregated the previous legal and regulatory risks into a single risk reflecting the interrelationship of the political and regulatory landscape.

[1] The three lines of defence model was developed in 2008-10 by the Federation of European Risk Management Associations ('FERMA') and the European Confederation of Institutes of Internal Auditing ('ECIIA') and adopted by the former UK Financial Services Authority. In 2013 it was published by the UK Institute of Internal Auditors.

Horizon Scanning for 'Emerging' Risks (continued)

The ELT holds regular sessions to identify and review current and emerging risks. Along with the strategic risks, these are reviewed at least quarterly by the ELT and at least biannually by the subsidiary's Board. The following table shows our 2025 emerging risks:

Emerging Risk	Year of Identification
In the long term, the value and utility of assets and infrastructure may be reduced as a consequence of environmental change.	**2023**
Shifts in societal and political expectations and perceptions, and rising levels of activism disrupt our external governance and internal operations	**2023**
'Forever' Chemicals: PFAS and PFOS become the focus of litigation and regulatory change	**2024**
The organisation is disrupted through failure to manage the use of complex models and advanced technologies, e.g. 'AI'/machine learning	**2024**

Our principal risks

This year we have conducted a comprehensive review of our principal risks to ensure that they align to our key business processes and reflect our strategic priorities and regulatory obligations for AMP8. This has resulted in some aggregation and disaggregation of some of the risks which result in the list set out below. Overall, we have reduced the number of risks from 16 to 12. There are three new risks which have been disaggregated from our previous risks. Of the risks which las year, we assessed as critical: (1) Supply Chain risk is now subsumed within risk 11 - Capital Projects Underdelivery, which is the main area in which supply chain risk would manifest itself; (2) Data Compromise risk remains intact, with an ever-increasing emphasis on cyber risk; (3) Adverse Regulatory Change has been combined with legal obligations to form risk 8 – Fail to meet regulatory and legal obligations, as we believe the two areas are inextricably linked; and (4) Unsatisfactory PR24 has been removed from the list given our largely satisfactory final determination from Ofwat.

We have disaggregated the water quality element of our 'Failure to supply' risk into a new risk 'Failure to supply high quality water'. We have aggregated the customer impact of a number of previous risks into a new risk 'Fail to meet customer expectations'. We have aggregated the previous legal and regulatory risks into a single risk reflecting the interrelationship of the political and regulatory landscape. The following risks have been identified as having the potential to adversely affect our business assets and goals. They are managed as described in the tables below but are not always wholly within our control and may still result in material adverse impacts. Factors other than those listed could also have a material adverse effect on our business activities.

Our principal risks (continued)

1. Health, safety & wellbeing
2. Failure to supply
3. Failure to supply high quality water
4. Data compromise
5. Environmental damage
6. Adverse climate impact
7. Fail to meet customer expectations
8. Fail to meet regulatory and legal obligations
9. Funding challenges
10. Adverse Macro-economics
11. Capital projects underdelivery
12. Asset deterioration

We have identified 12 principal risks to our business in 2025, described below with their Control Mitigation Strategies, Associated Metrics and Major Impacts on Our Corporate Objectives Scorecard.

We recognise that risk events have multi-dimensional impacts on our business and its environment. We monitor these carefully and specifically against our corporate objectives and the associated metrics.

Corporate Objective Scorecard Against Which Risk Impacts Are Projected

Corporate Value	Objective	Description	Metrics
Customer Focus	Satisfactory Supply	Affinity Water provides a water supply which is of satisfactory quantity and pressure to its customers	Unplanned Outage, Main repairs/1000km, Low Pressure
	Satisfactory Quality	Affinity Water supplies water of a quality which satisfies its customers	CRI (DWI Water Quality Risk Measure), Customer Contacts re Quality per 1,000 population
	Satisfied Customers	Affinity Water's customers are satisfied with the service they receive and the price they pay for it.	C-MeX, D-MeX, I2S
One team	Satisfied Employees	Affinity Water's employees are satisfied with their working environment, what they are asked to deliver and how they are developed and rewarded.	LTI
Do the right thing	Financial Stability	Affinity Water is financially stable in terms of its business model and funding.	Base Costs, Enhancement, Cash generation
	Sustainable Environment	Affinity Water's operations contribute positively to a sustainable environment, both locally and globally	PCC (Per Capital Consumption saving in Ml/day), Leakage (Percentage Reduction in Leakage for the AMP), Net Zero
	Reputable Company	Affinity Water is considered a reputable organisation, both within the industry and in the wider public arena.	Agency Ratings, Media Profile Analysis
	Compliant Organisation	Affinity Water demonstrates compliance with its regulatory obligations.	Litigation Record, Regulatory Breach Record

Our principal risks (continued)

<table>
<tr><th colspan="2">1 – Health, safety & wellbeing</th></tr>
<tr><td>Description

Failing to manage dangerous working practices may result in personal injury/fatality or occupational ill-health to AWL employees/contractors, the public, including our customers, also resulting in consequent disruption to operations reputational damage, criminal fines, civil damages or regulatory penalties.

Impact on
• Satisfied customers
• Satisfied workforce
• Reputable company
• Compliant organisation
• Financial stability</td><td>Control Measures

• Our H&S management system is externally verified and certified to ISO 45001.
• Our safety system includes mandated appropriate technical and certificated health and safety training.
• Regular health and safety communications including safety briefings, toolbox talks, safety stand-down days; safety leadership evaluations and safety conversations across the organisation.
• Contractors and suppliers are required to have externally recognised health and safety accreditation, and adhere to our H&S common standards, with regular audits and performance reviews undertaken.
• Our governance framework ensures health and safety performance is tracked and monitored at operational management, Executive Leadership Team and Board levels.
• Our health and safety audit and inspection regime includes Root cause analysis, captured on our EcoOnline system, and incident review protocols to ensure key learnings are captured and any necessary strengthening of controls is actioned appropriately.

Update
• Particular focus areas in the year included reducing the risk of strikes on other utilities' services; and improving controls around our chemical storage usage and handling; action plans have been developed and are being tracked through to completion.
• We have made significant progress in understanding our risks around Process Safety and have developed a strategy to identify the risks at our key sites so we can ensure appropriate control measures are implemented.
• Deep dive reviews covered street works, occupational road risk, worker fatigue, service avoidance, chemical management, lone working, mental health, fire and CDM, and resulting recommendations actioned.</td></tr>
</table>

Our principal risks (continued)

<table>
<tr><th colspan="2">2 - Failure to supply</th></tr>
<tr><td>
Description

The subsidiary may become unable to meet our obligations to provide a sufficient supply of drinking water to meet customer demand during periods of peak supply.

Impact On

• Satisfactory supply
• Satisfied customers
• Reputable company
• Compliant organisation
• Financial stability
</td><td>
Control Measures
• Water supply planning:
  • Short-term: daily and weekly plans to ensure sufficient storage and production capacity to meet demand
  • Long-term: our long term plans extend as far as 50 years to plan the investment required to meet growth and demand patterns
• Extensive programmes of work to manage demand and limit volumes lost through leakage in the network
• Demand management strategies, including ongoing roll-out of water meters to customers and campaigns to educate customers on using water efficiently
• Robust emergency plans in place to ensure that we can quickly mobilise repair damage to our network and mitigate disruption when incidents occur
• Emergency plans are regularly tested to ensure that they remain robust and fit for purpose

Update

• This year we have commenced our extensive smart metering programme that will provide our operational teams and customers with regular insight into how they use water and how they can reduce consumption
• We have invested in new assets to ensure we have both a resilient supply of water and the ability to move water more readily across the communities we supply
• Construction of new storage assets so that we can hold more water in reserve when we need it most
• Our final water resources management plan has now been published, see affinitywater.co.uk for more details.
</td></tr>
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Our principal risks (continued)

3 – Failure to supply high quality water	
Description The subsidiary may fail to supply wholesome high quality water to our customers in line with our legal requirements. • Satisfied customers • Reputable company • Compliant organisation	**Control Measures** • We design, build and operate our drinking water treatment works so that they can adequately treat the range of raw water quality that occurs in our source waters. • Our planning processes look for changes in raw water quality or drinking water standards to plan upgrades to our treatment processes. • We regularly inspect all our treated water storage reservoirs. • We maintain our distribution networks by replacing older mains and flushing mains in areas where deposits can accumulate. • We have a comprehensive sampling programme in place from source to tap, with the sampling and analysis carried out by UKAS accredited teams. • Drinking water safety plans (‘DWSP’) are in place for all our supply systems, from abstraction points all the way through to the customers’ taps. **Update** • For the calendar year 2024, our water quality performance, as measured by the Compliance Risk Index (‘CRI’), puts us in the upper half of industry performance, continuing our strong underlying performance for this metric. • Our performance for the Event Risk Index (‘ERI’) was 0.08 against a full-year target of 50, which evidences our high operational performance and indicates that drinking water quality is not adversely impacted by our day-to-day activities

Our principal risks (continued)

<table>
<tr><th colspan="2">4 – Data compromise</th></tr>
<tr>
<td>

Description

The availability, confidentiality or integrity of information or data could become compromised, due to malicious attempts to access our data, information and systems by third parties.

Impact On

Financially stability
Reputable company
Compliant organisation

</td>
<td>

Control Measures

External threats to all businesses continue to escalate, as evidenced by recent, very public, cyber attacks on well-known high street brands, However, we continue to adopt innovative approaches in order to continuously enhance our defences against such attacks.
We maintain a strong cyber security posture through continual assurance activities, extensive exercising of our protection capabilities and approaching traditional cyber security problems in new, innovative ways.
We have incorporated a series of recurring validation activities to ensure that our information remains accurate and current, while enabling us to remain flexible in our approach and adapt to the changing threat landscape in an efficient and effective manner.
We conduct regular internal phishing tests to ensure the continued awareness by all employees of the nature of phishing attacks and assess our overall cyber security readiness.

Update

We have employed new technologies to enhance our existing posture, supported by mature processes aligned to industry best practice standards such as ISO27001
Further investments are planned as part of the AMP8 Cyber Enhancement Programme including:

development of an in-house Cyber Defence Centre;
bringing together multiple different defence capabilities; and
orchestrating our ability to respond to the ever evolving cyber threat landscape.

We continue to comply with the requirements of the NCSC Cyber Assessment Framework and achieved full compliance with the Sector Specific Profile, which was independently validated by a specialist third party partner.

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Our principal risks (continued)

5 – Environmental damage	

Description
 	
There is a risk that, while operating our business, an incident occurs which inadvertently causes damage to the environment, and also brings about financial and reputational impacts.
 	
Impact On
 	
• Sustainable environment
• Compliant organisation
• Reputable company
• Satisfied workforce
	Control Measures
	
	As a clean water only company our inherent business risk is lower than our peers who treat waste water, however we are committed to the protection of the environment, prevention of pollution and compliance with environmental legislation, regulations and requirements, as set out in the Water Industry Strategic Environmental Requirements (‘WISER’).
	
	• We are reviewing our Net Zero Strategy and reporting annually on our greenhouse gas emissions, identifying opportunities to reduce our carbon footprint.
	• Through our WINEP we are working with farmers and landowners to deliver catchment and nature-based solutions, to help improve water quality and quantity in our chalk stream catchments.
	• Our river restoration and biodiversity programmes are also working to enhance habitats and provide benefits to wildlife in our communities
	
	Update
	
	• Our AMP8 plans are aligned to meeting the WISER, including:
	    ◦ Investing £2 million in resilience and environment community pilot schemes, one for each of our communities, working in partnership with local business and environmental groups
	    ◦ Evaluating the environmental benefits of taking a whole catchment approach to sustainable water management
	• We have set ourselves a range of objectives to protect and enhance the environment which includes ISO 9001 (Quality), ISO 14001 (Environment) and ISO14064-1 (greenhouse gas emissions) certification, as well as delivering against our Water Industry National Environment Programme (‘WINEP’).
	• During the year we established additional internal programme boards, an Environment Steering group and launched a new ESG Committee, as part of our governance of environmental risks
	• All operational staff have been trained in dealing with environmental incidents and we have invested in other mitigation measures such as silt mats.

Our principal risks (continued)

<table>
<tr><th colspan="2">6 – Adverse climate impact</th></tr>
<tr><td>Description

Climate change and other environmental factors could negatively impact the subsidiary’s business operations through damage to its landholdings, assets and ability to supply wholesome water.

Impact On

• Satisfactory supply
• Satisfactory quality
• Satisfied customers
• Reputable company</td><td>Control Measures

• Working in collaboration with other companies within the industry, we have secured an allowance for, and are in the design process of, key strategic resource options to reduce the impact of an increase in competition for raw water imports.
• We are developing procedures for conducting site climate risk assessments, with a focus on delivering schemes for flooding and power resilience to mitigate the impacts of extreme weather events.
• We are working with landowners and farmers to improve soil health and raw water quality through our Catchment Management programme and are regularly sampling and monitoring for changes in quality of our abstractions.

Update
• In December 2024 we published our Climate Adaptation Report, developed in line with the latest DEFRA reporting requirements, which sets out how we are managing and adapting to our climate change risks.
• We have also published our Water Resources Management Plan 2024 which sets out measures to mitigate the reduced availability of ground and surface water.</td></tr>
<tr><th colspan="2">7 – Fail to meet customer expectations</th></tr>
<tr><td>Description

We may fail to meet customers' evolving expectations to deliver consistent, high-quality experiences across all customer interactions, that could lead to a loss of trust, reputational damage and regulatory responses to reduced C-MeX performance scores.

Impact On

• Financial stability
• Compliant organisation</td><td>Control Measures

• We have implemented a Customer Experience Strategy that aligns with regulatory expectations to ensure we consistently meet and exceed customer needs. This includes a Service for All strategy which outlines our customer vulnerability ambitions.
• We regularly track customer insights and satisfaction to inform actionable improvements and ensure we are responsive to customer feedback.
• We provide enhanced training and resourcing for customer-facing teams, especially during high-risk periods, to ensure they are well-equipped to handle customer inquiries and issues.
• We maintain ongoing engagement with Consumer Council for Water (‘CCW’) and Ofwat to anticipate and respond to emerging expectations, ensuring we're aligned to regulatory requirements and customer needs.

Update
• We have begun investing in new digital platforms and self-serve capabilities, including a new website and account area to provide customers with easy access to our services and enhance their overall experience.
• We have enhanced our customer communication and marketing and proactive contact planning to ensure clarity and transparency in our interactions.
• We've implemented stretched targets on our service levels and the quality standard for each customer channel and track our performance against these, implementing action and recovery plans when these levels are not met.</td></tr>
</table>

Strategic report
for the year ended 31 March 2025 (continued)

Our principal risks (continued)

<table>
<tr><th colspan="2">8 – Fail to meet regulatory and legal obligations</th></tr>
<tr><td>Description

We may fail to comply with obligations under our instrument of appointment, or regulations and laws relevant to our business activities, resulting in a prosecution, fines or special administration.

Impact On

• Financially stable
• Compliant organisation
• Reputable company</td><td>Control Measures

• We continue to contribute fully to consultations with our regulators and seek to ensure our voice is heard on emerging changes through strong relationships with all our staff.
• We continue to engage with all of our stakeholders (including regulators and policy makers) and their representatives to understand and respond to their issues and concerns
• We have a dedicated in-house Regulatory and Legal team with broad and detailed industry knowledge, which follow and review all new industry-relevant legislation and regulation both internally and through trade bodies e.g. Water UK, as well as an active horizon scanning programme

Update

• We recognise a heightened risk of complying with ongoing and rapid change given the significant scrutiny on the sector that has led to a number of interventions including the Special Measures Bill, and Cunliffe Review.
• The final Cunliffe report will be published in July with a government response in September leading to legislation in 2026. We have formed a working group of colleagues from regulation, public affairs, legal and finance to track the implications for Affinity from this process and to instigate necessary changes.</td></tr>
<tr><th colspan="2">9 – Funding challenges</th></tr>
<tr><td>Description

We may fail to maintain or have access to sufficient financial resources to continue our business activities.

Impact On

• Financial stability
• Compliant organisation</td><td>Control Measures

• We have undrawn revolving loan facilities, cash balances and standby loan facilities to meet our treasury policy of at least 15 months of forecast cashflows.
• Longer-term financing needs are sourced from the private and public bond markets.
• Our policy is to maintain a diverse portfolio of counterparties through which we can access liquidity at all times. This ensures we are not reliant on any single treasury counterparty.
• We have a regular monitoring and certification process of the financial covenants within our Whole Business Securitisation (‘WBS’) documentation. This covers information, financial and general covenants.

Update
• Access to markets has improved following the Final Determination, and in March 2025 we issued a £350 million, 15.5-year bond.
• Our next major maturity is scheduled for July 2026, which has been prefunded by our recent debt issuance.
• We have maintained strong investment-grade credit ratings with credit-rating agencies and these were affirmed during the year.
• Our strong credit ratings are based on our Final Determination, our strong operational performance and equity support from shareholders.</td></tr>
</table>

Our principal risks (continued)

<table>
<tr><th colspan="2">10 – Adverse Marco-economics</th></tr>
<tr><td>

Description

Macro-economic factors (interest rate, inflation, energy prices, cost of living crisis and tax risks) could have a material adverse effect on our financial performance.

Impact On

- Financial stability
- Satisfied customers
- Satisfied workforce

</td><td>

Control Measures

- We have implemented efficiency programmes to reduce the amount of energy we use and developed self-generating assets (solar) to reduce our reliance on grid-imported energy.
- 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).
- We have a financial covenant within our WBS documentation stipulating that at least 85% of our outstanding debt is hedged against movements in interest rates. Interest rate risk is monitored and reported regularly to the Board.
- We use inflation-linked debt to ensure a proportion of our interest costs are linked to inflation, thus offsetting an element of the movement in revenue and RCV that results from changes in inflation.

Update

- As part of our regulatory settlement we now benefit from an energy indexation mechanism which will lead to an end of AMP 'true up' of our energy cost against a market index, thus reducing the risk we face due to energy price fluctuations.

</td></tr>
<tr><th colspan="2">11 – Capital projects underdelivery</th></tr>
<tr><td>

Description

We may fail to deliver our planned capital investment programme, resulting in deteriorating asset health and performance, as well as the loss of cost allowances via regulatory true up mechanisms and price control deliverables.

Impact On

- Financial stability
- Reputable company

</td><td>

Control Measures

- Our Asset Strategy and Capital Delivery directorate operates a project risk management process where costs and delivery risk are actively managed and carefully controlled via an Investment Committee.
- We also closely monitor the key milestones of our enhancement investments to ensure we meet regulatory expectations, with progress reported company wide as one of our key KPIs.
- Development of staff through bespoke contract training and project management training ensure that governance and processes are followed to deliver project outcomes.

Update

- Major enhancements have been made in Investment Portfolio Management processes and platforms to meet more onerous reporting requirements for AMP8 and to monitor the effectiveness of delivery plans
- A new supply chain has been selected through a collaborative framework suite of contracts to ensure early engagement in delivery risks; and to control programme delivery and prices to ensure deliverability and financial viability of programme outcomes

</td></tr>
</table>

Our principal risks (continued)

<table>
<tr><th colspan="2">12 – Asset deterioration</th></tr>
<tr><td>Description

The health of our assets may deteriorate in future years ahead of our current expectations such that water supply or quality is compromised, in addition to employee safety.

Impact On

• Satisfactory supply
• Satisfactory quality
• Satisfied customers
• Reputable company
• Satisfied workforce</td>
<td>Control Measures

• The maintenance of our existing assets to maintain service to customers is funded from the base capital maintenance element of our regulatory settlement.
• We have autonomy to decide how to allocate funds to best deliver our performance commitments. We use a ‘risk and value’ based approach to inform our decision making, enabling us to prioritise investment to those areas that most need it to maintain service and protect our employees.
• We are actively participating in Ofwat’s innovation funding initiatives, aiming to leverage these funds for various projects, including those focused on network optimisation.

Update
• We have added new tools to the asset identification process, to ensure we are selecting the optimal asset. These tools include ACMFs (Asset Class Management Frameworks) – strategic guidance documents, for each of the key asset cohorts, that set out performance and health criteria to develop investment candidates.
• We have developed AMP8 class plans to develop highly targeted asset intervention plans.
• We are working on enhancing the accuracy and completeness of our data and the suite of asset health metrics we use to measure risk, to continuously improve our ability to target investment to reduce the greatest amount of risk.</td></tr>
</table>

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 2024/25 is analysed in the tables below. For more information on the subsidiary's performance for 2024/25 in relation to all the performance commitments made in its AMP7 Business Plan refer its own regulatory Annual Performance Report.

Performance key:

↗ increased ↘ decreased ● performance met ● performance not met

KPI: Water quality Compliance Risk Index (CRI) Score	
Actual: **1.44** Deadband Target: 2.0 ↗ (performance met)	The Compliance Risk Index ('CRI') is a measure to inform the risk arising from treated water compliance failures. In 2025, we saw a significant improvement in our CRI score from 2024, improving from 8.05 to 1.44, and back to the levels seen in the first three years of AMP7. The underlying quality of our drinking water supplies remains high and our expectation for future CRI performance is that our scores will remain below the deadband during AMP8.
KPI: Leakage reduction Percentage reduction	
Actual: **19.4%** Target: 20% or more ↗ (performance not met)	This measure is reported as a percentage reduction in a three-year average of leakage against a baseline level of 2019/20. In AMP7, we committed to reducing leakage by 20%, as set out in our Water Resources Management Plan ('WRMP'). Whilst we have fallen slightly short of our targeted 20% reduction in the three-year rolling average, we have managed to increase our percentage reduction from 18.3% at the end of 2023/24 to 19.4% at the end of 2024/25. This is a result of driving down the in-year leakage by 5.4Ml/d from our 2023/24 position. This will see us achieve the in-year WRMP commitment.
KPI: PCC Average water use percentage change from 2019/20 baseline	
Actual: **0.6% reduction** Target: 12.5% reduction ↗ (performance not met)	The performance commitment aims to incentivise us to help customers reduce their water consumption. The water reduction in our three-year rolling average period has continued to come down from –1.5% in 2023/24 to -0.6% in 2024/25. We are determined to drive per capita consumption down with the continuation of demand activities and the introduction of new initiatives. Our home visits with customers continue to help install water efficient devices and repair internal leaks to reduce plumbing losses. Alongside discussions on water behaviour, we provide customers with the tools to carry these water savings into the future.

Operational performance (continued)

KPI: C-Mex (Score)	
Actual: **70.10 (13 out of 17)** Target: league table position	This customer focused performance commitment measures direct customer feedback on satisfaction with our services. We dropped one position to 13th place in our C-Mex score. We recognise that customers are expressing dissatisfaction with a broad range of issues within the water industry, which includes prices increases and leakage. Customers expect faster resolution times for all services. We are committed to enhancing customer satisfaction through a series of strategic initiatives which will significantly improve our performance going forward. We are focusing on improving customer resolution, reducing wait times and getting it right first time for our customers.
KPI: D-Mex (Score)	
Actual: **89.50 (10 of 17)** Target: league table position	D-MeX is the measure of levels of service in the developer services area of activity. The index score is made up of both a qualitative and a quantitative element. Our D-MeX performance has gradually improved throughout this year. We know that pro-active communication, delivering against timescales and quality of works are key service elements for our customers. We have shown improvements throughout this year and look forward to continued improvements into the next.
KPI: Water Supply Interruptions > 3 hours (Average minutes per property, water supply interruption)	
Actual: **3 minutes 21 seconds** Target: 5 minutes 0 seconds	Performance during the 2024/25 reporting year has remained very good, keeping us below our target of 5 minutes for the year. We prioritise restoration of supply over repair and ensuring that disruptions to our customers are kept to a minimum. We continue to respond to events rapidly, remain committed to maintaining good asset health, while also optimising our network and assets. We look to mitigate and reduce the length of interruptions experienced and provide a high level of service for our customers.
KPI: Unplanned interruptions to supply over 12 hours (Number of properties)	
Actual: **184** Target: 320 or less	The unplanned interruptions >12 hours measure is our second supply interruption performance commitment. The improvements seen in our average minutes metric have also been reflected in unplanned interruptions >12 hours.
KPI: Mains repairs (due to bursts) (Number per 1,000km mains)	
Actual: **113.4** Target: 142.3	We have outperformed our target this year on the number of repairs per 1000km of mains, achieving 113.4 repairs against a score of no more than 142.3. We continue to invest in the proactive replacement of mains pipes and adopt new ways of working to improve our performance.
KPI: Properties at risk of low pressure (Number per 10,000 properties)	
Actual: **118.569** Target: 1.118	The low pressure performance commitment measures the number of properties at risk of receiving water pressure below the prescribed standard per 10,000 properties. We continue to consider that the measurement of the performance commitment is not reliable or comparable with peers across the industry. We have not achieved the target for this performance commitment since it was introduced. Our average minutes metric provides more indication of the impact felt by our customers.

Financial performance

KPI: Financial Gearing (Ratio of net debt to RCV, %)	
Actual: **77.5%** Internal threshold: 80.0%	Our net debt as at 31 March 2025 was £1,487.3 million, an increase of £105.0 million since last year (2024: £1,382.3 million). This increase is primarily driven by capital expenditure on our network. In addition, our index linked bonds and swaps have increased by prevailing RPI and CPI. This non-cash accretion is designed to match growth in nominal RCV and is included within net debt. Our gearing as at 31 March 2025 is higher than some of our peers, however in February 2025 we announced that the shareholders had entered into a legally binding and unconditional agreement to inject £150 million equity into the company in the financial year 2026. We also announced our intention to maintain gearing around 70% which is consistent with our target credit ratings of A3/BBB+/BBB+ for our Class A Bonds with Moody's, Standard & Poor's, and Fitch. [1] This Alternative Performance Measure is calculated as borrowings and accrued interest less loans from intermediate parent company and all company cash and short-term deposits. It is reconciled to our regulatory net debt in table 1E of our regulatory Annual Performance Report.
KPI: Cash flow (Net cash flow before tax and financing)	
Actual: (£32.6m) Prior year: (£36.0m)	The net cash flow before tax and financing for the year was a £32.6 million outflow, £3.4 million lower than last year (2024: £36.0 million outflow). This movement is mainly due to improved operational performance that supports our continued investment in fixed assets as part of the 2020-2025 plan. For information on performance commitments, refer to the Regulatory Annual Performance Report for the year ending 31 March 2025 (page 73, table 3A) at affinitywater.co.uk/reports-publications.

Our Net debt and Gearing Alternative Performance Measure is calculated as borrowings and accrued interest less loans and all company cash and short-term deposits.

The cashflow performance Measure is calculated as the total of the following line items per the statement of cash flows (refer to page 58): cash generated from operations; capital contributions; purchases of property, plant and equipment; proceeds from sale of property, plant and equipment; purchase of intangible assets; and principal elements of lease payments.

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 Affinity Water Holdco Finance 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 centred on issues which are of importance to our customers and stakeholders and to the responsible delivery of our 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 next page, 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 our 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 group's employees;
c. the need to foster the group's business relationships with suppliers, customers and others;
d. the impact of the group's operations on the community and the environment;
e. the desirability of the group maintaining a reputation for high standards of business conduct; and
f. the need to act fairly between members of the group.

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.

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.

Section 172(1) statement (continued)

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

The Board's role in stakeholder engagement is to:

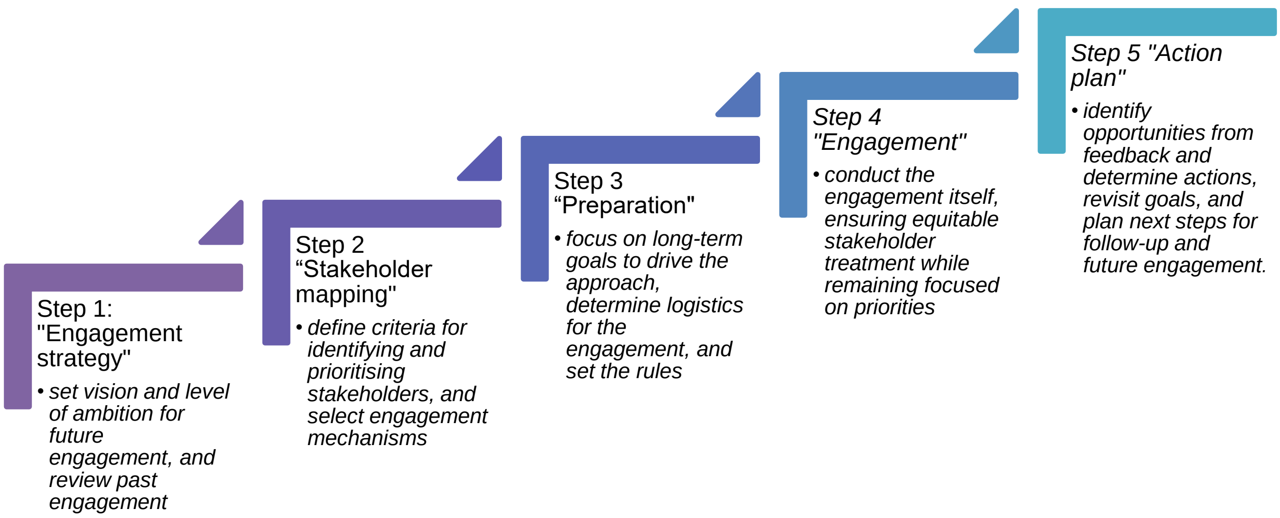
- ensure that our purpose, strategy and culture are set in the light of views actively sought from relevant stakeholders;
- set an expectation that all key decisions made take into consideration the views of relevant stakeholders;
- require executive directors and other senior managers to engage with 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 2024/25, each Board Committee's Terms of Reference were reviewed by the relevant Committee to ensure that consideration of section 172 factors and Ofwat's 2019 board leadership, transparency and governance (BLTG) principles were appropriately addressed. Directors are reminded of the section 172 requirements at the start of every Board meeting. The Board reviews and approves the Matters Reserved to the Board annually.

The Board conducts an annual review of its stakeholder engagement and takes steps to adopt a risk-based approach. Armed with the baseline perception position and policy priorities, a strategic stakeholder engagement plan has been developed based on a mapping exercise and identification of priority stakeholders to focus activity and maximise effective engagement to fulfil objectives within the plan.

These can be accessed on our website at affinitywater.co.uk/corporate/about/governance-assurance.

The group's approach to stakeholder engagement is:



Strategic report
for the year ended 31 March 2025 (continued)

Section 172(1) statement (continued)

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

We have identified key stakeholders and, using a 'power and influence' model, mapped the stakeholders by our impact on them, and their influence on the company.

Horizon scanning is used to identify the key trends and emerging issues, and to assign a priority based on impact and influence. Full horizon scans are conducted at regular intervals throughout the year to ensure we can adapt our strategic approach to stakeholder engagement as issues, risks and priorities can change quickly. We continue to use media monitoring, political monitoring, and social listening, alongside internal workshops across the business, to identify emerging issues for horizon scanning activity and help to define objectives for engagement.

Section 172(1) in action

In the table below, we present a description of the group'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 other market participants such as developers, retailers, companies contracted to install infrastructure under self-lay arrangements and other companies appointed to provide water and sewerage services (NAVs).

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 Independent Challenge Group ('ICG') will support delivery of our purpose and environmental ambitions.

How the company engages
Our Board remains committed to upholding transparency, accountability, and strategic oversight.

- *Daily contact with customers*
- *Customer research programme*
- *Public meetings*
- *Our website*
- *Media and social media*
- *Through our ICG*
- *Providing fair and affordable bills*
- *Supporting customers in vulnerable circumstances through social tariffs and Priority Services Register.*
- *Through our digital platforms: enhancing online access for customer self-service and real-time updates.*

How the Board engages
Information reported to the Board:

- *The Board received 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.*
- *The Board received updates on the impact of customers as a result of weather events and the impact on our key performance commitments.*
- *The Board received updates on the National Drought Group to reduce per capita consumption by focusing on preserving water to get ahead of future dry spells.*
- *The Board received information around the Save Our Steams Campaign and behavioural campaigns around water conservation.*
- *The Board received updates on the ICG, which was refreshed and reinvigorated as part of the PR24 process.*

Direct engagement mechanisms:

- *There is a clear reporting line to the CEO and accountability for arrangements regarding handling customer complaints.*
- *Engagement with partnership groups to further support customers (National Debtline, StepChange, Citizens Advice Bureau ('CAB') and our website signpost Turn2us and Money Helper for financial assistance and guidance.*
- *Supporting customers in vulnerable circumstances, addressing local needs and promoting social well-being by collaborating with various charitable organisations to support community initiatives.*

Customer protection:

The Board considers the company's policies around the protection of customer data through its review of the strategic risk register and our GDPR policy. The PR24 plan includes a customer protection plan that ensures that customers are not paying more than they should for services, and those services are of high quality. Customers can access our user friendly and engaging Privacy Notice on our website.

Section 172(1) statement (continued)

Section 172(1) in action (continued)

Communities
Communities, non-governmental organisations and civil society, especially environmental organisations and campaigners.

Why engagement is important

These groups bring distinctive perspectives and influence on key environmental and social issues on behalf of customers and the public. By engaging with them, we strengthen trust, enhance our reputation, and create opportunities for meaningful partnerships that contribute to sustainable water management and environmental conservation.

How the company engages

- *Joint forums- Facilitating discussions with key stakeholders on water sustainability*
- *Public meetings - Engaging local communities to address concerns and share updates*
- *Consultation meetings for business plan development*
- *Catchment partnerships - Collaborating on river and land conservation projects*
- *Water resources monthly email updates*
- *Volunteering days to help local communities and charities*

How the Board engages

Throughout 2024/25 the Board remained actively informed about key community and environmental matters, including:

- *Water Resources Management Plan - Reviewing stakeholder consultation findings and progress updates*
- *Water resource levels and drought management – Receiving regular reports on rainfall, groundwater conditions, and potential drought response measures, such as hosepipe restrictions*
- *Community project updates – Monthly insights into social impact initiatives and engagement efforts.*

Direct engagement mechanisms:

Our Board oversees and approves our Community Engagement Strategy and activities are focused around three core areas:
a. Protecting rivers and habitats - Supporting conservation efforts to safeguard ecosystems.
b. Investing in science, technology, engineering and mathematics ('STEM') and future skills - Encouraging innovation and career development in water-related industries.
c. Developing community partnerships.

Over the past year, we have deepened our commitment to social impact and stakeholder engagement through:

- *Affinity Days – A volunteering initiative that connects employees with local communities. Activities have included river clean-ups, fundraising, assembling community aid packages, and habitat restoration projects.*
- *Environmental partnerships – We work within Catchment Partnerships to improve and protect local chalk streams across our supply area, enhance local nature reserves and support biodiversity efforts. This includes Herts and Middlesex Wildlife Trust, Chilterns Chalk Stream Project and Groundwork South. Expanding our educational outreach by developing Water Smart Education Programme, a school initiative aimed at promoting water conservation. In collaboration with educational specialists, we have designed a programme to engage primary schools across our region with curriculum-based water-saving educational materials.*

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 is built on the talents, skills, and shared values of the people who work for our company. To achieve our strategic objectives, we must continue to attract, develop, and retain a skilled and diverse workforce that reflects the communities we serve.

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 who are aligned with the diversity of the communities we serve.

How the company engages

Throughout 2024/25, we have strengthened our employee engagement efforts through a variety of channels, including:

- *Senior leadership forums by providing employees with direct access to leadership for updates and discussions.*
- *Engagement 'Tap in' surveys and regular pulse surveys and results shared in an all company newsletter.*
- *Monthly one-to-one meetings and personal best check-ins supporting career development and performance management.*
- *CEO podcasts and communications, company announcements – keeping employees informed on company progress and priorities.*
- *Diversity, Inclusion and Dignity at Work Steering Group driving an inclusive workplace culture.*
- *Designated Board Director for Employee Engagement – ensuring employee concerns are represented at Board level.*
- *Internal communications and monthly team leader briefings communicated to all line managers.*
- *Company wide live events, including roadshows and Connect Days with market stalls to engage employees across all departments.*
- *Customer delivery roadshows to update front-line operational teams on company performance and future plans.*
- *Enhanced new starter and training programmes – expanding onboarding and leadership training initiatives.*
- *Mandatory e-learning and inclusion training – reinforcing our commitment to a diverse and respectful workplace.*

How the Board engages

The Board remains committed to fostering a positive workplace culture and receives regular updates on key workforce matters, including:

- *Cultural transformation across the business. Culture Ambassadors represent different departments.*
- *Training & development – reviewing learning participation, skills development, and career progression opportunities.*
- *Wellbeing, health and safety - updates on productivity, attrition, health and safety, and feedback from exit interviews.*
- *Whistleblowing incidents are reported to the Board, ensuring all concerns raised are thoroughly investigated, with external reviews conducted where necessary.*

Direct engagement mechanisms:

- *Chris Newsome, Director of Employee Engagement, continues to ensure that the workforce's voice is heard at Board level. His role also enhances transparency, aligning Board decisions with workforce expectations. 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. Chris is a member of our Equality, Diversity and Inclusion Committee, established 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. The company's CFO and Director of People and Culture were members of the Joint Negotiation and Consultative Committee ('JNCC') during the year 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.*
- *Keith Haslett, as CEO, has continued to meet employees across the business recognising their contributions and gaining first-hand insight into operational challenges and opportunities.*
- *Don't Walk By campaign – continue raising awareness and reinforcing our zero-harm ambition across all sites and teams.*

Workforce policies and practices:

- *Refer to the Governance Report for further detail on workforce policies, workforce concerns, and board actions on gender equality and reducing our gender pay gap.*

Key workforce achievements in 2024/25

- *Progress on Gender Pay Gap – continued reduction in the gender pay gap, demonstrating our commitment to workplace equality.*
- *Strengthening industry partnerships – collaborating with the Women's Utilities Network to support women in building long-term careers in the utilities sector*
- *EDI Commitment & Code of Ethics – continuing to develop equality, diversity and inclusion strategy to reinforce our workplace values.*

Daiwater Investment Limited

Strategic report
for the year ended 31 March 2025 (continued)

Section 172(1) statement (continued)

Section 172(1) in action (continued)

<table>
<tr><td>Shareholders
Owners of shares in the company</td><td>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.</td></tr>
<tr><td>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.</td><td>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 ensures that we are a responsible company which delivers on its purpose.</td></tr>
<tr><td>How the company engages

• Board and committee meetings attended by shareholders/nominated directors.
• Monthly financial and operational updates.
• 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.
• More sustainable activities to drive delivery of sustainable ‘good profits and dividends’.</td><td>How the company engages

• Industry working groups, including committees, panels and forums.
• Responding to consultations and requests for information.
• Ongoing dialogue on strategic planning, investment in future water resources and land disposals.
• Regular meetings and calls, including meetings with key MPs in our supply area.
• Working with our regulators to produce robust and ambitious plans that benefit customers and the environment.</td></tr>
<tr><td>How the Board engages

Information reported to the Board:

• Ensured alignment with Ofwat’s governance principles, with details available in our updated ‘Engaging with our Shareholders’ publication on the governance and assurance section of our website
• The Board engaged directly with shareholders in setting and approving the budgets, discussing the viability statement and results of stress testing on financial covenants. Information on Affinity Water Limited’s viability statement are detailed in the strategic report of its own Annual Report and Financial Statements for the year ended 31 March 2025 on its website: affinitywater.co.uk/library.
• Continued discussions on Board composition and governance enhancements, following recommendations from an independent board evaluation.</td><td>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.
• The Board receives monthly updates on correspondence with regulators, including communications with Ofwat.
• Updates on the development of our 2025-2030 as we transition into AMP8
Direct engagement mechanisms
• The Board engaged with Ofwat during site visits including a visits to our various sites to include Chaul End, Minworth, Grand Union Canal, Hatfield and the Integrated Control Centre, to discuss future plans WRMP24, the Water Industry National Environment Programme (‘WINEP’) and PR24.
• The Board engaged with Ofwat consultations on PR24 draft methodology and Financial Resilience and provided Ofwat with updates on our leakage performance.
• Non-executive and shareholder directors attended key Ofwat-led events throughout the year.
• The Board received updates on proposals to submit to Ofwat for Innovation Competition funding, including further developments in our Water Neutrality project, following previous success.
• The CEO had meetings with the EA, Ofwat and the DWI on operational events, risk assessments and the impact on ODIs and abstraction licences.
• Delivery Steering Group and monthly performance reviews to drive the achievement of performance commitments in AMP, ensuring readiness for AMP8.
• Throughout 2024/25 the CEO had meetings with Ofwat representatives to discuss rising energy costs, financial resilience and hedging for PR24.
• The Board attended forums held by the CCW.</td></tr>
</table>

Section 172(1) statement (continued)

Section 172(1) in action (continued)

<table>
<tr><th>Environmental bodies</th><th>Providers of finance and credit rating agencies</th></tr>
<tr><td>Why engagement is important

We need to manage the impact of taking water from sensitive habitats and to maintain flows in local rivers while also ensuring a continuous supply of high-quality water for customers in line with our purpose.

Successful engagement will mean we protect water sources and the quality of water supplied and minimise our impact on the environment.</td><td>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 ensures we continue to deliver reliable returns and remain transparent in our reporting.</td></tr>
<tr><td>How the company engages
• Water Resources Management Plan ('WRMP').
• Catchment management to ensure sustainability of our water sources.
• River restoration programme that is comprehensive.
• Company environmental policy to ensure we meet our purpose to provide high-quality drinking water for our customers and take care of the environment.
• Supporting local community and environmental groups for initiatives such as river clean-ups.</td><td>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.</td></tr>
<tr><td>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. 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 Environmental, Social and Governance ('ESG') Committee reviews and monitors, on behalf of the Board, environmental matters arising from our activities and operations, including monitoring performance against targets.
• Environmental and climate considerations are embedded into our principal risks and the management of these risks. In particular the principal risk 'Failure to meet our obligations to provide a sufficient supply of high-quality drinking water', is continuously monitored by the Board. We conduct a risk review each year to ensure effective management and mitigation.
• 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.

Climate Change:
The Board considers climate change in four key areas:
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-plan). The ESG Board Committee oversees this process with guidance from external technical experts.
2. Affinity Water has worked closely with other water companies through the WRSE and WRE groups to create and publish the first ever regional plan for water. Our WRMP feeds into the regional plan ensuring a coordinated approach to stakeholder and media engagement to align messaging and demonstrate the industry working together to plan for the future.
3. The ESG Board Committee continued to oversee the delivery of our Net Zero programme. This included regular review of Net Zero metrics and milestones, with a route map to reduce carbon emissions to Net Zero by 2030 and all carbon by 2045. The ESG Board Committee also continued supporting our review of REGO backed energy purchase.
4. We continued to roll out the solar build programme, with the Board receiving updates on planned delivery, costs and benefits in the current energy market and further investment required.</td><td>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 Treasury activities such as covenants and gearing headroom, and financial results.

Direct engagement mechanisms:

• The CFO, on behalf of the Board, met with lenders and credit rating agencies during the year to discuss the company's financial performance and plans.
• The Board approved a 364-day extension of the revolving credit facilities
• Refer to note A4 of the statutory financial statements for further information on our risk management processes and the Board's role in these.</td></tr>
</table>

Section 172(1) statement (continued)

Section 172(1) in action (continued)

Supply chain
Why engagement is important *We rely on our supply chain to be able to run operations and capital projects, and partners provide investment and support delivery as well as acting as a source of innovation and new ways of working.* *Successful engagement will mean we are a good company to do business with, ensuring that we and our partners maximise the greatest mutual value in a zero-harm 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.* • *Working with suppliers to create exceptional relationships and to innovate and increase resilience for the benefit of customers and the environment.*
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, which approves the award of material contracts.* • *A subset of the wider Board was involved in formulating a strategy for contracting our key Maintenance and Repair suppliers for AMP7, including determining key principles, contract scopes and tender evaluation criteria.* • *The Board considers the company's policies around compliance with the Modern Slavery Act and GDPR as they 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 operational ODI performance and biannually on payment practice, to enable it to consider our performance and how it compares to industry peers.* • *The Board also reviews and monitors, health and safety matters arising from our activities and operations, including in relation to our supply chain by way of regular reports.* • *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. The Board has engaged with supply partners across all levels of our supply chain and confirmed the scale and scope of works for our PR24 plans are deliverable.*

Priorities ahead

As we complete AMP7 and prepare for AMP8, the Board has identified key priorities to ensure a seamless transition and successful delivery of our long-term commitments:

• Deliver on our AMP7 objectives, maintaining momentum and building a strong foundation for AMP8.
• Ensure our AMP8 plan is robust, ambitious, and achievable, with confidence in its deliverability.
• Seamlessly transition into AMP8, ensuring operational and financial readiness.
• Drive performance and innovation in AMP8, delivering on our commitments to customers, communities, and the environment.

Section 172(1) statement (continued)

Key decisions made in 2024/25

We set out below key decisions made in 2024/25 and the Board's consideration of section 172 factors in making these. Refer to page 22 for further information on matters considered by the Board in 2024/25.

Water Resources Management Plan and regional plans	We are pleased to announce that following approval by the Secretary of State for the Environment we have now published our final Water Resources Management Plan 2024 ('WRMP24'). This plan sets out a clear roadmap for securing a resilient, sustainable, and efficient water supply for the communities we serve between 2025 and 2075. Our WRMP24 was developed in collaboration with other water companies through the Water Resources South East ('WRSE') and Water Resources East ('WRE') groups. This coordinated approach ensures that our regional planning aligns with national water strategies and that resources are managed efficiently across the industry. A key element of this collaboration is the Grand Union Canal Transfer, a strategic resource option that will enhance regional water resilience. The launch of our WRMP24 gained significant media coverage and engagement, including two parliamentary events attended by company representatives, MPs, and key stakeholders, reinforcing our industry's shared commitment to long-term water security.
Looking ahead	Our WRMP24 represents a bold step forward in securing water for future generations. Through smart investments, innovation, and collaboration, we are committed to delivering a resilient, sustainable, and affordable water supply while protecting the environment. We will continue to engage with customers, regulators, and stakeholders as we implement these initiatives, ensuring that our strategy evolves to meet future challenges
Approved the annual budget and ten-year base case cash flow forecast	The Board approved the 2024/25 annual budget and ten-year base-case cash flow forecast after a thorough review of our strategic priorities and business risks, ensuring we are well-prepared for AMP8. As part of this process, the Board assessed company viability, stress testing, and key assumptions, particularly in response to ongoing energy price fluctuations and rising living costs. Our budgeting approach combined both bottom-up and top-down methodologies. A bottom-up approach engaged cost centre managers across the business to ensure operational alignment. A top-down approach incorporated shareholder perspectives and factored in Ofwat's Final Determination, aligning financial planning with both regulatory requirements and shareholder objectives.
Approved the 2024/25 workforce pay settlement	In 2024/25, the Board reviewed progress of pay negotiations with trade unions. The Board considered the importance of creating value for shareholders, while balancing the need for investment in the workforce and the ongoing energy and cost-of-living crisis. Employees were consulted through their trade unions, of which all employees are entitled to be a member. The Board concluded that it was in the best interests of the company to support the CEO's decision to approve the proposed pay increase of 3.3% in order to increase employee engagement, retention rates and productivity, leading to increased value creation.
PR24 Final Determination	We accepted Ofwat's Final Determination for our 2025-2030 business plan. This plan will help us deliver high-quality, affordable, and sustainable water services for the future.

Approval of the strategic report

Approved by the Board and signed on its behalf:

Roxana Tataru
Director
19 September 2025

Daiwater Investment Limited

Directors’ report
for the year ended 31 March 2025

Introduction

The directors present their Annual Report and audited consolidated Financial Statements of Daiwater Investment Limited (‘the company’) for the year ended 31 March 2025.

Future developments

Likely future developments in the business, resulting from expected changes in the regulatory and competitive environments that we operate in, are discussed in the Strategic Report.

The company was incorporated on 24 April 2017 to acquire the Affinity Water group through the purchase of Affinity Water Acquisitions (Investments) Limited (now liquidated). 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 26 of these financial statements. The address of the principal place of business is Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ.

The strategic report from pages 6 to 31 provides information relating to the group, its strategy and its results and financial position for the year ended 31 March 2025. Details of the risks and principal uncertainties facing the group are set out on pages 8 to 18.

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:

Jonathan Carter
Andrew Cox (resigned 10 June 2024)
Michael Osborne
Roxana Tataru
Adam Waddington

Company Secretary

Patrick Makoni (resigned 31 March 2025)
Simon Pugsley (appointed 1 April 2025)

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 2025 on its website: *affinitywater.co.uk/library*.

No dividends were paid in the year ended 31 March 2025 from the company. Interim dividends of £112,000 (2024: £104,000) were paid to non-controlling interests from group subsidiaries. No final dividend is proposed (2024: £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 performance highlights, Chair's welcome, CEO's introduction and financial review section of its own Annual Report and Financial Statements for the year ended 31 March 2025 on its website: *affinitywater.co.uk/library*.

There were no significant events relating to other entities within the group.

Events after the reporting period

There have been no post balance sheet events that require adjustment to or disclosure in the financial statements.

Results and financial performance

The group generated a profit for the year of £637,000 (2024 restated: loss of £22,556,000). The statements of financial position detailed on pages 54 and 55 show shareholders' funds as at 31 March 2025 amounting to £303,887,000 (2024 restated: £304,757,000) for the group and £757,163,000 (2024: £757,163,000) for the company. Further analysis of our financial performance can be found in the Financial Review by the Chief Financial Officer on Affinity Water Annual Report and Financial Statements for the year ended 31 March 2025 on its website: *affinitywater.co.uk/library*.

Ownership

On 19 May 2017, Affinity Water Acquisitions (Investments) Limited (now liquidated) was acquired by a consortium comprising DIF, HICL Infrastructure Company Limited (advised by InfraRed Capital Partners Limited) and Allianz Capital Partners on behalf of the Allianz Group. As part of the transaction, the consortium also acquired Veolia Water UK Limited's 10% equity interest stake in the company. Subsequent to the initial acquisition, HICL Infrastructure Company Limited (advised by InfraRed Capital Partners Limited) sold down 3.4% of its interest to a small group of co-investors, comprising UK local authority pension funds in June 2017. On 1 April 2019, HICL Infrastructure Company Limited transferred its investment portfolio, assets, and liabilities to HICL Infrastructure plc, a new listed UK registered investment trust, and shareholders of HICL Infrastructure Company Limited became shareholders of HICL Infrastructure plc. On 1 July 2020, Sun Life Financial Inc acquired an 80% interest in the InfraRed business from InfraRed Capital Partners (Management) LLP and became an ultimate controller.

The consortium made its investment through Daiwater Investment Limited, which has been our UK holding company since 19 May 2017.

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
- 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;

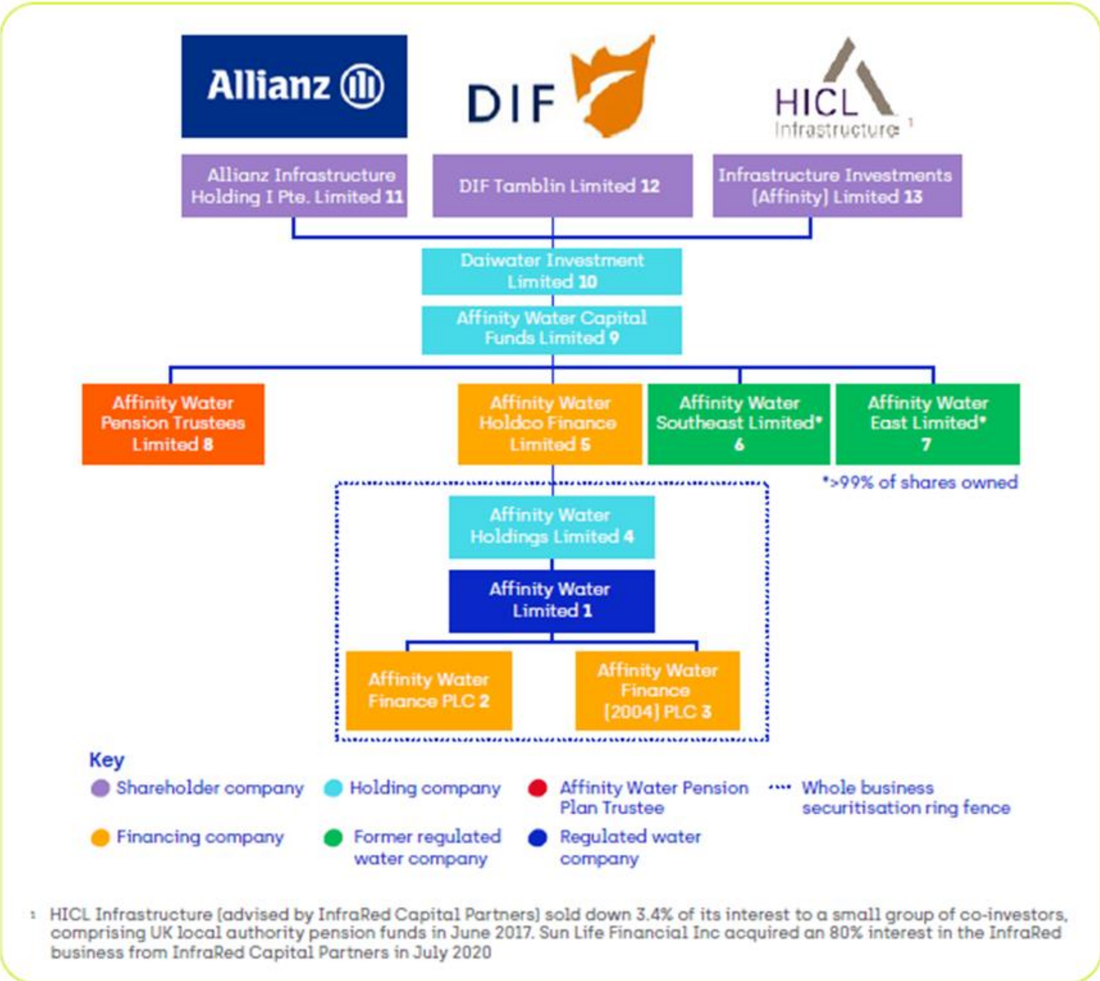
Ownership (continued)

- 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 ('INEDs'), 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 to fully meet its regulatory obligation to operate its appointed business as if it were, substantially, its sole business and the company 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.

The chart below shows the group structure, excluding dormant subsidiaries, as at 31 March 2025. 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 page 35.



Directors' report
for the year ended 31 March 2025 (continued)

Group structure

The following table provides further explanation of the group structure.

Structure chart ref	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 3.99 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 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
7	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
8	Affinity Water Pension Trustees Limited	The trustee company of the Affinity Water Pension Plan.	England and Wales
9	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 (now liquidated), which provides management services to the company.	England and Wales
10	Daiwater Investment Limited	The ultimate holding company of the group in the United Kingdom, paying dividends to the acquisition consortium subsidiaries.	England and Wales
11	Allianz Infrastructure Holding I Pte. Limited	A company which holds indirectly Allianz Capital Partners' investment in the group.	Singapore
12	DIF Tamblin Limited	A company established in 2017 to hold indirectly DIF's investment in the group.	England and Wales
13	Infrastructure Investments (Affinity) Limited	A company established in 2017 to hold indirectly HICL Infrastructure plc's investment in the group, together with the co-investment by certain local authority pension funds.	England and Wales

Our 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 Whole Business Securitisation (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 that 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 issued an external bond of £250.0 million in previous years. During the year, the company repaid part of this bond, with the remaining balance now £102.7 million; and
- Affinity Water Finance PLC issued external bonds totalling £880.0 million in previous years. Following completion of a new £350.0 million bond issuance during the year, this amount has increased to £1,230.0 million. This new bond is classified as a Class A Green Bond.

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 2025 can be summarised as follows:

Debt	Bond £m	Coupon %	Maturity Date	Issuing Entity
Class A fixed rate bond 2026*	102.7	5.875%	July 2026	Affinity Water Finance (2004) PLC
Class A fixed rate bond 2036*	250.0	4.500%	March 2036	Affinity Water Finance PLC
Class A RPI linked bond 2045*	190.0	1.548% (real)	June 2045	Affinity Water Finance PLC
Class A CPI linked green bond 2038	130.0	0.010% (real)	September 2038	Affinity Water Finance PLC
Class A fixed rate bond 2042*	85.0	3.278%	August 2042	Affinity Water Finance PLC
Class A fixed rate bond 2033*	60.0	2.699%	November 2033	Affinity Water Finance PLC
Class A CPI linked bond 2042*	60.0	0.230% (real)	November 2042	Affinity Water Finance PLC
Class A Fixed rate green bond 2040*	350.0	6.250%	September 2040	Affinity Water Finance PLC
Total Class A	**1,227.7**			
Class B RPI linked bond 2033	95.0	3.249% (real)	June 2033	Affinity Water Finance PLC
Class B RPI linked bond 2033*	10.0	1.024% (real)	June 2033	Affinity Water Finance PLC
Total Class B	**105.0**			
Total	**1,332.7**			

**Listed on the London Stock Exchange*

Affinity Water Limited's next significant debt maturity is in July 2026, when our £102.7m fixed rate bond matures. The maturity profile of all our borrowings is set out in note A4 to our statutory financial statements.

Our financing (continued)

The subsidiary's, Affinity Water Limited, net debt[1] as at 31 March 2025 was £1,487.3 million, an increase of £105.0 million since last year (2024: £1,382.3 million), primarily due increased capital expenditure on our network in addition to accretion on the index-linked bonds. Affinity Water's gearing, as measured by net debt to RCV at 31 March 2025, was 77.5% (2024: 74.6%), and remains below our internal maximum gearing level of 80.0% of RCV.

Interest rate exposure is, primarily, managed by using a mixture of fixed rate, floating rate, and index-linked borrowings (refer to note A4 to our statutory financial statements). At the year-end, 54.1% of the subsidiary's gross borrowings were at fixed rates (2024: 48.3%), 30.2% (2024: 33.8%) at rates indexed to RPI and 15.8% (2024: 17.9%) at rates indexed to CPI. Considering our index-linked inflation swaps, the proportion of borrowings at fixed rates decreased to 7.5% (2024: 14.4%), the proportion indexed to RPI increased to 50.6% (2024: 49.2%), the proportion indexed to CPI increased to 37.2% (2024: 36.4%), there was also a proportion indexed to floating of 4.8% (2024: nil). The credit ratings for our subsidiaries' bonds assigned by the rating agencies, Moody's, Standard & Poor's, and Fitch were as follows. Our credit ratings have not changed since March 2024.

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

* Negative outlook applied by Standard & Poor's

The total value of the issued bonds can be reconciled to the group's net debt position as at 31 March 2025 as follows:

	2025 £000
Nominal value of Class A fixed interest bonds issued	847,676
Nominal value of Class A index linked bonds issued	380,000
Nominal value of Class B index linked bonds issued	105,000
Total nominal value of bonds issued	1,332,676
Accretion on Class A index linked bonds	158,778
Accretion on Class B index linked bonds	61,362
Accretion on financial derivative	140,946
Capitalised bond issue costs and net premium/discount related to Class A bonds	21,525
Capitalised bond issue costs relating to Class B bonds	(1,004)
Capitalised issue costs relating to financial derivative	(186)
Fair value adjustment on acquisition	349,630
Amortisation of fair value adjustment	(187,697)
Bank term loan	41,514
Debentures	34
Cash in hand	(222,948)
Financial liability relating to leasehold property	18,782
Net debt	**1,713,412**

Net debt as at 31 March 2025 was £1,713.4 million, an increase of £93.8 million since last year (2024: £1,619.6 million) primarily due to accretion on the index-linked bonds.

[1] This Alternative Performance Measure is calculated as borrowings and accrued interest less loan from intermediate parent company and all company cash and short-term deposits; it is reconciled to the regulatory net debt in table 1E of Affinity Water Limited's Annual Performance Report

Our financing (continued)

Affinity Water Limited's liquidity is managed through banking arrangements and adequate (though not excessive) cash resources, borrowing arrangements and standby facilities. This enables us to have the level of funds available that are necessary for the achievement of our business and service objectives at all times. At 31 March 2025, we had cash balances of £142.2 million (2024: £67.8 million) and short-term deposits held as investments of £80.8 million (2024: £21.6 million). The increase in cash from the prior year is primarily due to the issuance of the new bond of £350.0 million and after a part repayment of an existing bond the proceeds of which have been deposited into various deposit accounts.

To the extent that additional funding is required, as well as Affinity Water Limited's cash balances we have access to two revolving credit facilities totalling £100.0 million (2024: £100.0 million), which were undrawn at 31 March 2025 (2024: undrawn), to finance capital expenditure and working capital requirements. An amount of £15.0 million was drawn down for a few weeks in early 2025 but was fully repaid by the end of February 2025.

In addition, Affinity Water Limited has access to a further £57.0 million of liquidity facilities (2024: £57.0 million), consisting of a 364-day revolving £29.0 million facility to fund any debt service payments in the event of a liquidity shortfall, which would, otherwise, prevent such payments being made, and a 364-day revolving facility of £28.0 million to fund operating and capital maintenance expenditure in the event of a liquidity shortfall.

On 2 September 2022, Affinity Water Holdco Finance Limited refinanced its £42.0 million bank term loan, extending the repayment date from 30 June 2023 to 2 September 2027, with an option to extend for a further two years. The facility also contains an uncommitted accordion feature to increase the loan size to £75.0 million. The carrying amount of the loan at 31 March 2025 was £41.5 million (2024: £41.3 million).

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 the directors report on page 32.

Certain Board members are also directors of other group companies.

The table below sets out attendance at Board meetings for the year ended 31 March 2025.

	Number of meetings
Jonathan Carter*	0/1
Andrew Cox	0/0
Michael Osborne*	1/1
Roxana Tataru*	1/1
Adam Waddington*	1/1

* Current directors

The Board convened once during the year via video call. All other matters that require board approval were made by written resolution.

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.

Directors' report
for the year ended 31 March 2025 (continued)

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 2025, together with more detailed corporate reporting disclosures.

Affinity Water Limited remains committed to high standards of corporate governance and transparency. The Board governs the group in accordance with the UK Corporate Governance Code 2018 ('the 2018 Code') up until the 1st January 2025 when the UK Corporate Governance Code 2024 ('the 2024 Code') came into effect, which we continue to comply with. We also meet the provisions of the Ofwat Board leadership, transparency and governance principles 2019 ('BLTG principles') and the Affinity Water corporate governance code ('AW Code'). It is ultimately owned by private investors and therefore Affinity Water Limited applies the principles of the Code in this context, having regard to: the Guidelines for Disclosure and Transparency in Private Equity (the Walker Guidelines) and the work of the Private Equity Reporting Group to monitor conformity with the Guidelines; the OECD Principles of Corporate Governance (2004); and Ofwat's revised BLTG principles.

The trading subsidiary complied with the principles of the Code during 2024/25, except for (1) Division of Responsibilities: Provision 11 of the Code states at least half the Board, excluding the Chair, should be non-executive directors whom the Board considers to be independent. Excluding the Chair, the Affinity Water Limited Board comprises three independent Non-Executive Directors, three shareholder-nominated non-executive directors and two executive directors. By virtue of the two executive directors, our CEO and CFO, being ex-officio Board members and, therefore, excluded for the purposes of Provision 11, we have carried out our own annual independence assessment and consider the Board to be independent. (2) Composition of ARAC and Remuneration Committee: Provisions 24 and 32: Our ARAC and Renumeration Committees each comprise a majority of independent Non-Executive Directors in addition to a shareholder-nominated independent director.

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

There are certain matters that the Board of Affinity Water Limited has reserved for shareholder approval. These matters are published on Affinity Water Limited's website: affinitywater.co.uk//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 6 to 32 of the Annual Report and Financial Statements provide the information necessary for shareholders to assess the group's performance, business model, financial risk management and strategy.

Directors' report
for the year ended 31 March 2025 (continued)

Future developments

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 2025 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 activities. The group is a contributing member of UK Water Industry Research ('UKWIR') and participates widely in, and benefits from, its research programme. The UKWIR programme focuses on the most significant challenges for the UK and Irish water industry, with the most significant for Affinity Water being drinking water quality; water resources and catchment management; climate change; water mains and services; demand management, leakage and smart metering.

In addition to UKWIR, the group 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 Instrument User Group, the Water Regulations Advisory Scheme and Cranfield Water Network. Throughout the year, Affinity Water has carried out a number of research and development projects in association with these groups and individually. Most notably, research into the effectiveness treatment technologies in treating for PFAS, a group of "manmade" chemicals widely used within industrial processes.

Political contributions

No political contributions were made during the year (2024: £nil), in accordance with the group's policy of not making political contributions.

Financial instruments disclosures

Details of financial instruments risk management are included within risk number 9 on page 16 of the strategic report and in note A4 of the financial statements.

Directors' report
for the year ended 31 March 2025 (continued)

Employee matters

The trading subsidiary maintains a network of trained mental health first aiders within the business and continues to publicise its Employee Assistance Programme.

The subsidiary 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

The trading subsidiary consults and informs its employees on all aspects of business performance through formal and informal consultation bodies, regular team meetings, email and the intranet. It discusses ways to enhance and improve its communications and consultation channels directly with its employees as well as with the Trade Unions to which a number of its 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 27 for details in our section 172(1) statement on how directors have engaged with employees.

Engagement with other stakeholders

See pages 22 to 30 for details in our section 172(1) statement on how directors have engaged with suppliers, customers and other stakeholders.

Greenhouse Gas Emissions

This section provides information about our energy consumption, greenhouse gas ('GHG') emissions and our performance in managing them. We have been confidently reporting our Scope 1 and 2 emissions for several years now and are now in the third year of reporting our full carbon footprint (Scope 1, 2 and 3 emissions).

Market Based and Location Based Reporting

A location-based method reflects the average emissions intensity of the electricity grid on which energy consumption occurs (using mostly grid-average emission factor data). A market-based method reflects emissions from electricity that companies have purposefully chosen. For Affinity Water, this means market-based reporting reflects when our electricity is provided by renewable sources, using a REGO-backed green tariff.

The Renewable Energy Guarantees of Origin ('REGO') scheme provides certificates called REGOs, which demonstrate electricity has been generated from renewable sources.

How we report our emissions

We account for all energy and operational emissions for which Affinity Water Ltd has 'operational control' as defined by the GHG Protocol.

Our carbon footprint is calculated by converting the main GHGs into a carbon dioxide equivalent (tCO2e).

Emissions are categorised into scopes (based on the GHG Protocol) as follows:

- scope 1 emissions (direct emissions) are those from activities we own or control, including those from our treatment processes, company vehicles, and burning of fossil fuels for heating.
- Scope 2 emissions (indirect emissions) result from purchased heat and electricity.
- Scope 3 emissions (indirect emissions) arise from activities we do not own or control, but which we can influence. These include from the products and services we buy.

We use a combination of methods to estimate the emissions associated with our carbon footprint following the principles of the 2015 GHG Protocol Corporate Accounting and Reporting Standard. For Scope 1 and 2 emissions we follow the most common approach to calculate GHG emissions, which is to take activity data (e.g. units of electricity consumed, or distance travelled) and convert the activity data into tCO2e. For Scope 3, where possible this is estimated using activity data and where this is not possible, estimates have been derived from spend-based data or other benchmarks.

We also align to the 2019 UK Government Environmental Reporting Guidelines, including the requirements for Streamlined Energy and Carbon Reporting ('SECR'). We have reported the common intensity metric for the Water Industry, which is carbon (tCO2e) per Ml of water, which is our tCO2e divided by water into supply (Ml).

Daiwater Investment Limited

Directors' report
for the year ended 31 March 2025 (continued)

How we report our emissions (continued)

Scope 1 and 2 greenhouse gas emissions		**2024/25 kWh**	**2023/24 kWh**
Energy consumption used to calculate emissions		227,076,053	222,414,764
		tCO2e	**tCO2e**
Scope 1			
Direct emissions from burning of fossil fuels		1,172	982
Process and fugitive emissions from water treatment works and refrigerants		2,022	1,943
Transport: company-owned or leased vehicles		2,050	2,070
Total Scope 1		5,244	4,995
Scope 2			
Grid electricity purchased	Location-based	45,847	45,053
	Market-based	82,594	39,500
Electric Vehicles		4.33	-
Total scope 2	Location-based	45,851	45,053
	Market-based	82,598	39,500
Scope 3			
Category 1: Purchased goods and services		48,948	50,546
Category 2: Capital goods		25,650	31,236
Category 3: Fuel and energy-related activities		15,818	15,185
Category 4: Upstream transportation and distribution		486	321
Category 5: Waste generated in operations		9,158	10,053
Category 6: Business travel		237	227
Category 7: Employee commuting		898	836
Category 13: Downstream leased assets		97	197
Total Scope 3		101,292	108,601
Total annual net emissions (location-based)		152,389	158,650
Total annual net emissions (market-based)		189,136	153,096

	Kg CO_2e per Ml	**Kg CO_2e per Ml**
Intensity Ratio – Water Treated[1]	146	145

1 We state our emissions per mega litre of water treated. We include within this intensity metric Scope 1 and Scope 2 market-based emissions

For 2024/25 we have recorded an increase in scope 1 emissions due to increased use of generators for heating and to provide power to our operations.

Our scope 2 location-based emissions have increased by 1.8%, which is in line with an increase of 1.7% in electricity purchased. Our market-based scope 2 emissions are calculated using supplier specific emissions factors. From October 2023 we have been using our supplier's residual tariff as significant increases in the cost for 'green tariffs' in the UK mean we do not consider this offer customers good value for money. We are therefore reporting more scope 2 market-based emissions than in 2022/23 and 2023/24. Alternative options for both purchasing and generating our own renewable energy remain under review as part of our Net Zero strategy.

How we report our emissions (continued)

For 2024/25, we recorded a decrease in Scope 3 emissions compared to 2023/24, driven primarily by reductions in category 1 (purchased goods and services), category 2 (capital goods), and category 5 (waste generated from operations). Category 1 and category 2 emissions fell by 3% and 18% respectively, despite a 13% increase in spend. This is likely due to updates to the Comprehensive Environmental Data Archive (CEDA), which we use to estimate emissions, or the use of more supplier-specific emissions factors.
The largest increase within our Scope 3 inventory was in category 4 (upstream transport and distribution), reflecting higher spend and mileage related to upstream courier services.

Our Scope 3 inventory provides important insights to help us better target emissions reduction initiatives and collaborate more effectively with our supply chain. In 2024, we launched a supplier engagement project to assess suppliers' carbon maturity and their ability to report Scope 1 and 2 emissions, supporting more accurate Scope 3 estimates. This programme will continue to expand into 2025, engaging a broader range of suppliers.

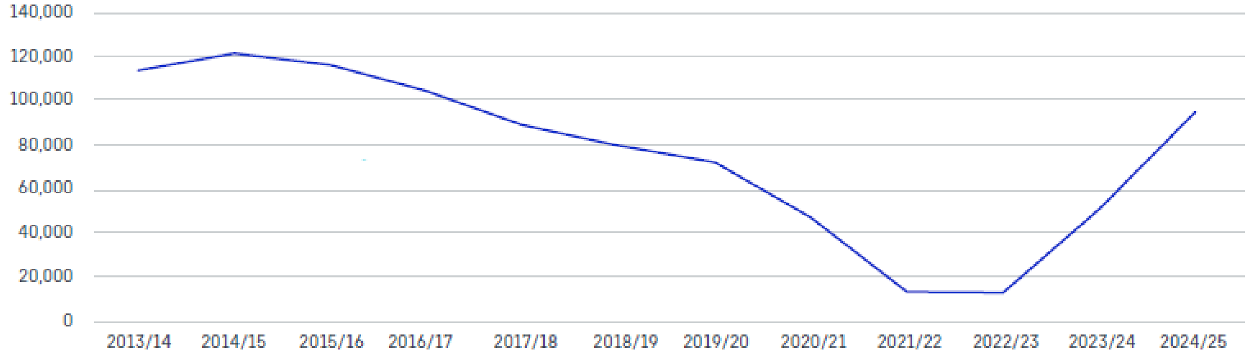
During 2024/25, we implemented energy efficiency schemes largely through our successful pump replacement programme. These projects have saved 1.4GWh this year. We have also generated 1.9GWh through our solar installations.

In 2024/25 we continued our Electric fleet vehicle programme, with 25 electric vehicles in use by the end of 2024/2025, and 60 more to be delivered at the start of 2025/26. This represents 17% of our total fleet, and our aim is to have transitioned 90% of our fleet to electric vehicles by the end of 2029/2030. From 1 January 2025 we committed to not ordering any new petrol or diesel operational vehicles unless the transition of certain vehicle type is not supported by the technology. We also completed installation of charging infrastructure at several sites.

Progress towards Net Zero

In 2019, we joined other water companies in pledging to reach Net Zero operational emissions by 2030. The graph below shows a further rise in our reported emissions for 2024/25, continuing the upward trend from 2023/24. This increase is linked to our decision in October 2023 to pause the purchase of a specific 'green' electricity tariff. The cost of REGO-backed electricity had risen significantly, and we judged that continuing with the tariff no longer offered good value for our customers.
Despite this, we remain committed to reducing our direct emissions by improving energy efficiency and reviewing further opportunities for energy production. Our progress towards Net Zero will also depend heavily on how the UK electricity grid decarbonises and how accessible affordable renewable electricity becomes in the coming years. We are currently reviewing our Net Zero strategy, including further consideration of our Scope 3 emissions, in line with the UK Government's wider Net Zero goals.

Net Zero 2030 Emissions (Market Based) (tCO2e)



Going concern

Group

The directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements as they believe that the group has adequate resources to meet its current operational and financial obligations, and the directors have a reasonable expectation that this will continue for the foreseeable future and for a period of at least 12 months from the date of approval of these financial statements.

This is based on assessment of the principal risks of the group and the other matters discussed in connection with the viability statement, which is detailed in Affinity Water Limited's strategic report within the Annual Report and Financial Statements of Affinity Water Limited for the year ended 31 March 2025, available on its website: affinitywater.co.uk/library, as well as consideration of the group's budgeted cash flows, short and long term forecasts and ability to generate future revenues, covenant compliance, related assumptions and available debt facilities. The group is forecast to remain compliant with all financial covenants, including the interest cover ratio (ICR).

The group has significant debt maturities (£102,676,000) and inflation swap maturities estimated at £106,000,000 that mature in July 2026. The directors have assessed existing cash balances and forecast cash flows, including the future receipt of the £150,000,000 equity injection (announced in February 2025) in the financial year ending 31 March 2026 and are satisfied that there is sufficient liquidity to meet these liabilities as they fall due. The equity injection is subject to a legally binding contract and is unconditional in nature, therefore the directors consider it appropriate to include this in their liquidity assessment.

To assess a severe but plausible downside scenario, management have considered a base case scenario that reflects the current market conditions in the economy and have applied a downside scenario that assumes a penalty, fine or one-off cost of £6,000,000 which would impact cash through either higher costs or lower revenue.

The severe but plausible downside scenario is overlaid on the base case forecast, which is based on the Final Determination provided by our regulator in December 2024. The forecast has taken into consideration the impact of inflation, interest rates, supply chain cost pressures, energy prices and the cost of living crisis. Based on this forecast and the ability to absorb the impact of the severe but plausible downside scenario, the directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

The cash flows required to service the borrowings of Affinity Water Holdco Finance Limited will vary with outturn interest rates and this introduces some uncertainty when considering if the group has sufficient resources to meet its obligations. There are two potential mitigations to offset any increase in interest rates which lead to an increase in interest payable over and above the current expectations. These are:

- The Affinity Water Holdco Finance Limited lends £25,000,000 to its parent undertaking, Affinity Water Capital Funds Limited and could demand cash settlement of interest from Affinity Water Capital Funds Limited which would increase the liquid resources available to it.
- The Affinity Water Holdco Finance Limited anticipates that it will receive dividends in 2025/26 in line with the plans approved by the Board of its principal trading subsidiary, Affinity Water Limited. If received, these dividends would provide ample liquidity to service debt.

Details of the group's cash and short-term investment are included in the statement of financial position on page 54, and undrawn committed borrowing facilities are included in note A4.

Due to the nature of the regulated water company's business, the directors consider it appropriate to place reliance on projected financials. There have been no events after the reporting period significantly affecting liquidity headroom or forecast covenant compliance.

Directors' report
for the year ended 31 March 2025 (continued)

Company

The directors consider it appropriate to adopt the going concern basis of accounting in preparing the company financial statements as the company has sufficient resources to meet its current operational and financial obligations, and the directors have a reasonable expectation that this will continue for the foreseeable future, for the duration of the term of the company's borrowings, and for a period of at least 12 months from the date of approval of these financial statements.

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 UK-adopted international accounting standards.

Under company law, 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 company and of the profit or loss of the group for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed, 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 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.

Daiwater Investment Limited

Directors' report
for the year ended 31 March 2025 (continued)

Directors' confirmations

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.

Information required under listing rules

During the year, interest was capitalised by the company in accordance with International Accounting Standard (IAS) 23: 'Borrowing costs' (IAS 23), with a restatement to the prior year. For disclosures relating to borrowing costs, refer to pages 62 to 64. For disclosures relating to the relevant requirements of the Listing Rules, refer to the Remuneration Report on Affinity Water Limited Annual Report and Financial Statements for the year ended 31 March 2025 on its website: *affinitywater.co.uk/library*.

Independent auditors

In accordance with Section 485 of the Companies Act 2006, a resolution to reappoint PricewaterhouseCoopers LLP will be proposed at the forthcoming AGM.

On behalf of the Board

Roxana Tataru
Director
19 September 2025

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 2025 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 UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Consolidated and Company statements of financial position as at 31 March 2025; 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, comprising material accounting policy information and other explanatory information.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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 2025 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

Report on the audit of the financial statements (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'), the Water Industry Act 1991, health and safety regulation (including the requirements of The Health and Safety at Work etc Act 1974) and environmental regulation, 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 UK tax legislation, pensions legislation and 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, 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, the extent of costs capitalised or the impairment assessment of goodwill, the water licence and investments in subsidiary. 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 during the year and up to the date of approval of financial statements;
- discussions with the Head of Legal and Head of Ethics & Compliance to discuss both the litigation report and summary of whistleblowing matters arising;
- 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 the impairment assessment of goodwill, the water licence and investments in subsidiary; and
- identifying and testing journal entries posted, such as those with unusual account combinations, and incorporating an element of unpredictability into the audit procedures performed.

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.

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

Report on the audit of the financial statements (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 obtained 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.

Simon Bailey (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Watford

19 September 2025

Daiwater Investment Limited

Consolidated income statement
for the year ended 31 March 2025
(Registered Number 10738347)

	Note	**2025** **£000**	2024 (restated) £000
Revenue	1	**363,595**	347,651
Cost of sales		**(299,597)**	(301,191)
Gross profit		**63,998**	46,460
Administrative expenses	2.1	**(42,617)**	(38,914)
Impairment losses on financial and contract assets	2.1	**(9,618)**	(8,297)
Other operating income	2.2	**20,168**	21,104
Operating profit	2	**31,931**	20,353
Finance income	4	**43,784**	42,094
Finance costs	4	**(81,575)**	(93,735)
Fair value gain on inflation swaps	4	**10,772**	16,048
Net finance costs	4	**(27,019)**	(35,593)
Fair value gain/(loss) on energy swaps		**1,426**	(13,075)
Profit/(loss) before tax		**6,338**	(28,315)
Income tax (expense)/credit	5	**(6,975)**	5,759
Loss for the financial year		**(637)**	(22,556)
(Loss)/profit is attributable to:			
Owners of the group		**(752)**	(22,631)
Non-controlling interests		**115**	75
		(637)	(22,556)

All results of the group in the current year and prior year are from continuing operations.

The prior year has been restated due to an error in relation to accounting for borrowing costs in accordance with IAS 23. Further details are included on pages 62 to 64.

The notes on pages 60 to 1344 are an integral part of these financial statements.

Daiwater Investment Limited

Consolidated statement of comprehensive income
for the year ended 31 March 2025
(Registered Number 10738347)

	Note	**2025**	2024 (restated)
		£000	£000
Loss for the financial year		**(637)**	(22,556)
Other comprehensive expense for the year which will not be reclassified to profit or loss:			
Re-measurements of post-employment benefit assets	10	**(161)**	**(8,638)**
Deferred tax credit on items that will not be reclassified	5,19	**40**	**2,160**
Other comprehensive expense for the year, net of tax		**(121)**	**(6,478)**
Total comprehensive expense for the year		**(758)**	(29,034)
Total comprehensive (expense)/income is attributable to:			
Owners of the group		**(873)**	(29,109)
Non-controlling interests		**115**	75
		(758)	(29,034)

The prior year has been restated due to an error in relation to accounting for borrowing costs in accordance with IAS 23 and restated to correct the retirement benefit surplus. Further details are included on pages 62 to 64.

The notes on pages 60 to 1344 are an integral part of these financial statements.

Daiwater Investment Limited

Consolidated statement of financial position as at 31 March 2025

(Registered Number 10738347)

	Note	**2025 £000**	2024 (restated) £000	2023 (restated) £000
Assets				
Non-current assets				
Property, plant and equipment	6	**2,023,994**	1,901,667	1,812,894
Right-of-use assets	7	**6,580**	7,153	7,649
Intangible assets	8	**634,330**	637,452	640,948
Investments	9	**51**	51	51
Retirement benefit surplus	10	**49,746**	47,505	53,615
Derivative financial instruments	11	**21**	1,127	3,283
Long term financial receivable		**1,000**	-	-
		2,715,722	2,594,955	2,518,440
Current assets				
Inventories	13	**5,794**	4,451	4,833
Current tax assets		**301**	355	296
Trade and other receivables	12	**125,980**	114,639	102,739
Derivative financial instruments	11	**955**	517	6,068
Short-term investments	9	**80,795**	21,552	66,709
Cash and cash equivalents	14	**142,153**	67,770	89,854
Short term financial receivable		**1,793**	-	-
		357,771	209,284	270,499
Total assets		**3,073,493**	2,804,239	2,788,939
Equity and liabilities				
Equity				
Called up share capital	15	**7,441**	7,441	7,441
Retained earnings		**293,708**	294,581	323,690
Equity attributable to owners of the group		**301,149**	302,022	331,131
Non-controlling interests		**2,738**	2,735	2,764
Total equity		**303,887**	304,757	333,895
Liabilities				
Non-current liabilities				
Trade and other payables	16	**342,426**	329,690	315,242
Borrowings	17	**1,795,603**	1,586,253	1,579,932
Lease liabilities	18	**4,412**	3,974	4,785
Derivative financial instruments	11	**132,742**	126,364	121,983
Deferred tax liabilities	19	**242,230**	235,297	243,216
Provisions for other liabilities and charges	20	**2,676**	3,473	3,319
		2,520,089	2,285,051	2,268,477
Current liabilities				
Trade and other payables	16	**245,640**	205,869	177,286
Borrowings	17	**128**	-	-
Lease liabilities	18	**2,333**	3,343	3,053
Derivative financial instruments	11	**253**	1,119	2,128
Provisions for other liabilities and charges	20	**1,163**	4,100	4,100
		249,517	214,431	186,567
Total liabilities		**2,769,606**	2,499,482	2,455,044
Total equity and liabilities		**3,073,493**	2,804,239	2,788,939

The prior year has been restated due to an error in relation to accounting for borrowing costs in accordance with IAS 23 and restated to correct the retirement benefit surplus and net deferred tax liabilities. Further details are included on pages 62 to 64.

The notes on pages 60 to 134 are an integral part of these financial statements. The statutory financial statements on pages 52 to 134 were approved by the Board of Directors and were signed and authorised for issue on 19 September 2025 on its behalf by:

Roxana Tataru
Director

Daiwater Investment Limited

Company statement of financial position
as at 31 March 2025
(Registered Number 10738347)

	Note	2025 £000	2024 £000
Assets			
Non-current assets			
Investments	9	**754,027**	754,027
		754,027	754,027
Current assets			
Current tax asset		**3,126**	3,126
Cash and cash equivalents	14	**10**	10
		3,136	3,136
Total assets		**757,163**	757,163
Equity and liabilities			
Equity			
Called up share capital		**7,441**	7,441
Retained earnings[1]		**749,722**	749,722
Total equity		**757,163**	757,163
Current liabilities			
Current tax liabilities		**-**	-
Total equity and liabilities		**757,163**	757,163

The notes on pages 60 134 to are an integral part of these financial statements. The statutory financial statements on pages 52 to 134 were approved by the Board of Directors and were signed and authorised for issue on 19 September 2025 on its behalf by:

Roxana Tataru
Director

[1] Result for the year of £nil (2024: £nil) for the company is included within retained earnings. Dividends of £nil (2024: £nil) were paid to the company's shareholders.

Daiwater Investment Limited

Consolidated statement of changes in equity for the year ended 31 March 2025
(Registered Number 10738347)

	Note	Attributable to owners of the group				
		Called up share capital £000	**Retained earnings (restated) £000**	**Total £000**	**Non-controlling interests £000**	**Total £000**
Balance as at 1 April 2023		7,441	306,208	313,649	2,764	316,413
Prior period restatement – borrowing costs		-	6,766	6,766	-	6,766
Prior period restatement – deferred tax asset		-	10,716	10,716	-	10,716
Restated balance as at 1 April 2023		7,441	323,690	331,131	2,764	333,895
(Loss)/profit for the year (restated)		-	(22,631)	(22,631)	75	(22,556)
Other comprehensive expense (restated)		-	(6,478)	(6,478)	-	(6,478)
Total comprehensive (expense)/income		-	(29,109)	(29,109)	75	(29,034)
Dividends	21	-	-	-	(104)	(104)
Total transactions with owners recognised directly in equity		-	-	-	(104)	(104)
Balance as at 31 March 2024		7,441	294,581	302,022	2,735	304,757
Balance as at 1 April 2024		**7,441**	**294,581**	**302,022**	**2,735**	**304,757**
(Loss)/profit for the year		**-**	**(752)**	**(752)**	**115**	**(637)**
Other comprehensive expense		**-**	**(121)**	**(121)**	**-**	**(121)**
Total comprehensive (expense)/income		**-**	**(873)**	**(873)**	**115**	**(758)**
Dividends	21	**-**	**-**	**-**	**(112)**	**(112)**
Total transactions with owners recognised directly in equity		**-**	**-**	**-**	**(112)**	**(112)**
Balance as at 31 March 2025		**7,441**	**293,708**	**301,149**	**2,738**	**303,887**

The prior year has been restated due to an error in relation to accounting for borrowing costs in accordance with IAS 23 and restated to correct the retirement benefit surplus and net deferred tax liabilities. Further details are included on pages 62 to 64.

The notes on pages 60 to 134 are an integral part of these financial statements.

Daiwater Investment Limited

Company statement of changes in equity
for the year ended 31 March 2025
(Registered Number 10738347)

	Note	Called up share capital £000	Retained earnings £000	Total £000
Balance as at 1 April 2023		7,441	749,722	757,163
Profit for the year		-	-	-
Total comprehensive income for the year		-	-	-
Dividends		-	-	-
Total transactions with owners recognised directly in equity		-	-	-
Balance as at 31 March 2024		7,441	749,722	757,163
Balance as at 1 April 2024		**7,441**	**749,722**	**757,163**
Profit for the year		**-**	**-**	**-**
Total comprehensive income for the year		**-**	**-**	**-**
Dividends	21	**-**	**-**	**-**
Total transactions with owners recognised directly in equity		**-**	**-**	**-**
Balance as at 31 March 2025		**7,441**	**749,722**	**757,163**

The notes on pages 60 to1344 are an integral part of these financial statements.

Daiwater Investment Limited

Consolidated statement of cash flows
for the year ended 31 March 2025
(Registered Number 10738347)

	Note	2025	2024
		£000	£000
Cash flows from operating activities			
Cash generated from operations	22.1	**127,736**	103,173
Interest paid		**(58,705)**	(52,678)
Net cash inflow from operating activities excluding deferred grants and contributions		**69,031**	50,495
Deferred grants and contributions		**17,763**	23,423
Net cash inflow from operating activities		**86,794**	73,918
Cash flows from investing activities			
(Investment)/realisation of short-term deposits		**(59,243)**	45,157
Purchases of property, plant and equipment		**(164,321)**	(155,866)
Proceeds from sale of property, plant and equipment		**2,790**	944
Purchases of intangible assets		**(4,356)**	(4,056)
Interest received		**15,955**	21,252
Net cash outflow from investing activities		**(209,175)**	(92,569)
Cash flows from financing activities			
Proceeds from loan from subsidiary undertaking		**-**	-
Principal elements of lease payments		**(2,710)**	(3,329)
Increase in borrowings		**347,130**	-
Repayment of borrowings		**(147,544)**	-
Dividends paid to non-controlling interests in subsidiary undertakings	21	**(112)**	(104)
Net cash inflow/(outflow) from financing activities		**196,764**	(3,433)
Net increase/(decrease) in cash and cash equivalents		**74,383**	(22,084)
Cash and cash equivalents at the beginning of the year		**67,770**	89,854
Cash and cash equivalents at end of year	14	**142,153**	67,770

The group has accounted for the acquisition and simultaneous sale and leaseback of its Hatfield head office as a financing arrangement, recognising the property as an owned asset and measuring the related liability at amortised cost. This is a non-cash transaction (refer to note 17 for more details).

The notes on pages 60 to 1344 are an integral part of these financial statements.

Daiwater Investment Limited

Company statement of cash flows
for the year ended 31 March 2025
(Registered Number 10738347)

	Note	**2025 £000**	2024 £000
Cash flows from operating activities			
Cash generated from operations	22.1	**-**	-
Net cash inflow from operating activities		**-**	-
Net increase in cash and cash equivalents		**-**	-
Cash and cash equivalents at beginning of year		**10**	10
Cash and cash equivalents at end of year	14	**10**	10

The notes on pages 60 to 1344 are an integral part of these financial statements.

Daiwater Investment Limited

Notes to the financial statements - accounting policies

Basis of preparation

These financial statements have been prepared under the historical cost convention, modified by revaluation of financial assets and financial liabilities held at fair value through profit and loss.

The group financial statements and company financial statements have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

Going concern

Group

The directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements as they believe that the company has adequate resources to meet its current operational and financial obligations, and the directors have a reasonable expectation that this will continue for the foreseeable future and for a period of at least 12 months from the date of approval of these financial statements.

This is based on assessment of the principal risks of the group and the other matters discussed in connection with the viability statement, which is detailed in Affinity Water Limited's strategic report within the Annual Report and Financial Statements of Affinity Water Limited for the year ended 31 March 2025, available on its website: affinitywater.co.uk/library, as well as consideration of the group's budgeted cash flows, short and long term forecasts and ability to generate future revenues, related assumptions and available debt facilities. The group is forecast to remain compliant with all financial covenants, including the interest cover ratio (ICR).

The group has significant debt maturities (£102,676,000) and inflation swap maturities estimated at £106,000,000 that mature in July 2026. The directors have assessed existing cash balances and forecast cash flows, including the future receipt of the £150,000,000 equity injection (announced in February 2025) in the financial year ending 31 March 2026 and are satisfied that there is sufficient liquidity to meet these liabilities as they fall due. The equity injection is subject to a legally binding contract and is unconditional in nature, therefore the directors consider it appropriate to include this in their liquidity assessment.

To assess a severe but plausible downside scenario, management have considered a base case scenario that reflects the current market conditions in the economy and have applied a downside scenario that assumes a penalty, fine or one-off cost of £6,000,000 which would impact cash through either higher costs or lower revenue.

The severe but plausible downside scenario is overlaid on the base case forecast, which is based on the Final Determination provided by our regulator in December 2024. The forecast has taken into consideration the impact of inflation, interest rates, supply chain cost pressures, energy prices and the cost of living crisis. Based on this forecast and the ability to absorb the impact of the severe but plausible downside scenario, the directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

The cash flows required to service the borrowings of Affinity Water Holdco Finance Limited will vary with outturn interest rates and this introduces some uncertainty when considering if the group has sufficient resources to meet its obligations. There are two potential mitigations to offset any increase in interest rates which lead to an increase in interest payable over and above the current expectations. These are:

- The Affinity Water Holdco Finance Limited lends £25,000,000 to its parent undertaking, Affinity Water Capital Funds Limited and could demand cash settlement of interest from Affinity Water Capital Funds Limited which would increase the liquid resources available to it.
- The Affinity Water Holdco Finance Limited anticipates that it will receive dividends in 2025/26 in line with the plans approved by the Board of its principal trading subsidiary, Affinity Water Limited. If received, these dividends would provide ample liquidity to service debt.

Notes to the financial statements - accounting policies (continued)

Going concern (continued)

Details of the company's cash and short-term investment are included in the statement of financial position on page 54, and undrawn committed borrowing facilities are included in note A4.

Due to the nature of the regulated water company's business, the directors consider it appropriate to place reliance on projected financials. There have been no events after the reporting period significantly affecting liquidity headroom or forecast covenant compliance.

Company

The directors consider it appropriate to adopt the going concern basis of accounting in preparing the company financial statements as the company has sufficient resources to meet its current operational and financial obligations, and the directors have a reasonable expectation that this will continue for the foreseeable future, for the duration of the term of the company's borrowings, and for a period of at least 12 months from the date of approval of these financial statements.

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 (now liquidated), 19 May 2017. The subsidiary companies have been included in the group financial statements using the acquisition method of accounting. The purchase consideration has been allocated to the assets and liabilities on the basis of fair value at the date of acquisition.

The company was the parent undertaking of the largest group to prepare consolidated financial statements. As permitted by Section 408 of the Companies Act 2006, the company's income statement has not been included in the financial statements. The parent company's result (2024: nil) for the year has been included within the company's statement of financial position on page 55 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. Intercompany transactions and balances between group companies are eliminated on consolidation. 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.

Material accounting policy information

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

Adoption of new and revised standards

Affinity Water Limited has applied the following standards and amendments for the first time for its annual reporting period commencing 1 April 2024.

Notes to the financial statements - accounting policies (continued)

Adoption of new and revised standards (continued)

- Classification of Liabilities as Current or Non-current and Non-current liabilities with covenants – Amendments to IAS 1 ‘Presentation of financial statements’;
- Lease Liability in Sale and Leaseback – Amendments to IFRS 16: ‘Leases’ (‘IFRS 16’);
- Supplier Finance Arrangements – Amendments to IAS 7: ‘Statement of cash flows’ and IFRS 7: ‘Financial instruments: disclosures’; and
- International Tax Reform – Pillar Two Model Rules – Amendments to IAS 12: ‘Income taxes’.

The amendments listed above did not have any material impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

New standards, amendments and interpretations not yet adopted

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

Prior year restatements

Prior year restatements as a result of error

Capitalisation of borrowing costs

Management have assessed borrowing costs on qualifying assets and have now capitalised such costs in accordance with International Accounting Standard (IAS) 23: ‘Borrowing costs’ (IAS 23), having completed an assessment including the impact on prior years.

Retirement benefit surplus

The prior year retirement benefit surplus has been restated to correct for re-measurement experience adjustments on the present value of the defined benefit liabilities.

Deferred tax liabilities

Net deferred tax liabilities in the prior year have been restated due to a reassessment in recognising deferred tax assets in accordance with International Accounting Standard (IAS) 12: ‘Income taxes’ (IAS12).

Notes to the financial statements - accounting policies (continued)

Prior year restatements (continued)

A summary of the financial statement line items affected by the restatement are included in the following table.

Income statement (extract)	31 March 2024 (as previously presented) £000	Adjustment due to capitalisation of borrowing costs £000	Adjustment due to pension correction £000	Adjustment due to deferred tax asset correction £000	31 March 2024 (restated) £000
Cost of sales	**(300,858)**	**(333)**	**-**	**-**	**(301,191)**
Operating profit	**20,686**	**(333)**	**-**	**-**	**20,353**
Finance costs	(97,347)	3,612	-	-	(93,735)
Loss before tax	**(31,594)**	**3,279**	**-**	**-**	**(28,315)**
Income tax credit	6,577	(818)	-	-	5,759
Loss for the year	**(25,017)**	**2,461**	**-**	**-**	**(22,556)**

Statement on comprehensive income (extract)	31 March 2024 (as previously presented) £000	Adjustment due to capitalisation of borrowing costs £000	Adjustment due to pension correction £000	Adjustment due to deferred tax asset correction £000	31 March 2024 (restated) £000
Loss for the year	**(25,017)**	**2,461**	**-**	**-**	**(22,556)**
Remeasurements of post-employment benefit assets	(27,443)	-	18,805	-	(8,638)
Deferred income tax on items that will not be reclassified	6,861	-	(4,701)	-	2,160
Other comprehensive expense for the year, net of tax	(20,582)	-	14,104	-	(6,478)
Total comprehensive expense for the year	**(45,599)**	**2,461**	**14,104**	**-**	**(29,034)**

Statement of financial position (extract)	31 March 2024 (as previously presented) £000	Adjustment due to capitalisation of borrowing costs £000	Adjustment due to pension correction £000	Adjustment due to deferred tax asset correction £000	31 March 2024 (restated) £000
Property, plant and equipment	1,889,558	12,109	-	-	1,901,667
Intangible assets	637,258	194	-	-	637,452
Retirement benefit surplus	28,700	-	18,805	-	47,505
Total assets	**2,773,131**	**12,303**	**18,805**	**-**	**2,804,239**
Accumulated losses	(260,534)	(9,227)	(14,104)	(10,716)	(294,581)
Deferred tax liabilities	(238,235)	(3,077)	(4,701)	10,716	(235,297)
Total liabilities	**(2,502,421)**	**(3,076)**	**(4,701)**	**10,716**	**(2,499,482)**
Total equity and liabilities	**(2,773,131)**	**(12,303)**	**(18,805)**	**-**	**(2,804,239)**

Notes to the financial statements - accounting policies (continued)

Prior year restatements (continued)

Statement of cash flows and related notes (extract)	31 March 2024 (as previously presented)	Adjustment due to capitalisation of borrowing costs	Adjustment due to pension correction	Adjustment due to deferred tax asset correction	31 March 2024 (restated)
	£000	**£000**	**£000**	**£000**	**£000**
Loss before tax	(31,594)	3,279	-	-	(28,315)
Depreciation	79,147	283	-	-	79,430
Amortisation of intangible fixed assets	7,592	50	-	-	7,642
Finance costs – net	39,203	(3,612)	-	-	35,591
Cash generated from operations	**103,173**	**-**	**-**	**-**	**103,173**

Statement of financial position (extract)	31 March 2023 (as previously presented)	Adjustment due to capitalisation of borrowing costs	Adjustment due to deferred tax asset correction	31 March 2023 (restated)
	£000	**£000**	**£000**	**£000**
Property, plant and equipment	1,804,023	8,871	-	1,812,894
Intangible assets	640,795	153	-	640,948
Total assets	**2,779,915**	**9,024**	**-**	**2,788,939**
Accumulated losses	(306,208)	(6,766)	(10,716)	(323,690)
Deferred tax liabilities	(251,674)	(2,258)	10,716	(243,216)
Total liabilities	**(2,463,502)**	**(2,258)**	**10,716**	**(2,455,044)**
Total equity and liabilities	**(2,779,915)**	**(9,024)**	**-**	**(2,788,939)**

Notes to the financial statements - accounting policies (continued)

Critical accounting estimates (continued)

The preparation of financial statements in conformity with UK-adopted International Accounting Standards 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.

Loss allowance of trade receivables and contract assets

The group makes an estimate of the recoverable value of trade receivables and contract assets and records a loss allowance based on experience (refer to note A3). 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. The actual level of receivables collected may differ from the estimated levels of recovery, which could impact operating results positively or negatively. If collection rates improve or deteriorate by a value of 1%, the calculation for provision loss allowance will increase or decrease accordingly by £615,000 (2024: £800,000).

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.

Critical accounting estimates (continued)

Impairment of goodwill and the water licence

Determining whether goodwill and the water licence have been impaired requires an estimation of value in use of Affinity Water Limited. Affinity Water Limited is the group's main cash generating unit (CGU) constituting the smallest identifiable group of assets that generate cash flows for the group to which the carrying amount of the goodwill and water licence are allocated. This value in use has been determined using discounted cash flows up to 2065 which are influenced by the regulatory settlement for each AMP period and is consistent with the benefits the group expects to derive from its operations.

The cash flows are discounted using a discount rate of 5.02% (2024: 5.02%) and applying a terminal value using an exit multiple of 1.26x (2024: 1.26x). Increasing the discount rate by 100 basis points will decrease the value in use by 59% and a 10% decrease in the exit multiple would lead to a 3% decrease in the value in use.

Neither of these scenarios will lead to an impairment, either individually or in aggregate.

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 company's dedicated asset management teams and the company's plans to achieve Net Zero operational emissions by 2030, and total Net Zero by 2045. 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 at 31 March 2025 is £2,023,994,000 (2024 restated: £1,901,667,000). If the useful lives of the assets were 10% shorter, the carrying amount would instead be £1,666,003,000 (2024 restated: £1,559,135,000) and if they were 10% longer, the carrying amount would be £2,381,987,000 (2024 restated: £2,244,201,000).

Based on the current useful lives, the carrying amount of intangible assets, excluding goodwill and water license, at 31 March 2025 is £16,524,000 (2024 restated: £19,646,000). If the useful lives of the assets were 10% shorter, the carrying amount would instead be £15,310,000 (2024 restated: £17,233,000) and if they were 10% longer, the carrying amount would be £17,738,000 (2024 restated: £22,060,000).

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.

Notes to the financial statements – 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 consolidated income statement.

Grants and contributions

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

Contributions received in respect of new connections, diversions, requisitioned mains/extensions and infrastructure charges are recognised over a period of time. Refer to note A3 for 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 deferred grants and 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 year 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.

Capital risk management policy

The group's capital structure comprises borrowings, derivatives, debentures, cash and liquid resources. Refer to notes 17 and 14 for more details. 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. Refer to note A4 for more details.

Notes to the financial statements – accounting policies (continued)

Critical accounting judgements in applying the entity's accounting policies (continued)

Climate change

The natural environment within which the company operates is constantly evolving due to the effects of climate change. This will influence how water is delivered by the company in the future.

The group is continually developing its assessment of the impact that climate change has on the assets and liabilities recognised and presented in its financial statements, such as the valuation of the property, plant and equipment, which could be impacted by either flooding or drought, or management's decision to replace assets as part of the company's Net Zero strategy. Management has considered the useful economic lives of assets impacted by climate change and environmental regulation and has considered whether any impairment has arisen as a result of climate change. There has been no revaluation of assets or change in the assessment of assets' useful economic lives during 2024/25 as a result of this review.

The group established a Green Finance Framework during 2024/25 and issued its first green bond in October 2022 to finance projects which will adapt to and mitigate the effects of climate change. Updates on the proceeds and impact of the Green Funding can be found on our website at **affinitywater.co.uk/about us/investorslibrary.**

Daiwater Investment Limited
Notes to the financial statements

1. Revenue

1.1 Disaggregation of revenue from contracts with customers

	2025	2024
	£000	£000
Timing of revenue recognition – at a point in time		
Unmeasured supplies	**92,625**	92,741
Measured supplies	**200,398**	182,958
Non-household wholesale revenue	**64,517**	62,656
Connection charges	**627**	712
	358,167	339,067
Timing of revenue recognition – over time		
Requisitioned mains/extensions	**437**	380
Diversions	**3,010**	6,146
Infrastructure charges	**908**	855
New connections	**639**	505
Other	**434**	698
	5,428	8,584
	363,595	347,651

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:

	2025	2024
	£000	£000
Net trade receivables	**43,230**	43,753
Contract assets		
Unbilled accrual for metered customers – household customers	**52,909**	47,548
Unbilled accrual for metered customers – non-household customers	**6,480**	5,010
Contract liabilities		
Payments received in advance – household water supplies	**61,983**	54,306
Deferred income – other	**539**	496
Deferred grants and contributions	**348,948**	336,613
Payments received in advance – grants and contributions	**10,830**	12,896

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

Notes to the financial statements (continued)

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 2025, the group had been reimbursed £163,810,000 (2024: £159,660,000) for its costs incurred in relation to the HS2 rail project, which will cross the Affinity Water supply area. This project is near completion and the group does not expect to incur significant costs for this in future periods. 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, £5,405,000 (2024: £8,493,000) 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 2025, £4,335,583 (2024: £2,739,000) 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, irrespective of usage. 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).

Where non-household retailers are billed monthly in advance for wholesale charges, as 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 trade and other payables. Where the group has not provided the service before payment is due, deferred income is recognised and the group discloses this as a contract liability in the statement of financial position (see table on the previous page).

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

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

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

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 financial year relates to carried forward contract liabilities and how much relates to performance obligations that were satisfied in a prior year:

	2025 £000	2024 £000
Revenue recognised that was included in the contract liability balance at the beginning of the year		
Payments received in advance – household water supplies	**54,306**	48,500
Payments received in advance – non-household water supplies	**-**	591
Deferred income – water supplies	**-**	76
Deferred income – other	**496**	506
Deferred grants and contributions	**5,428**	8,584
Payments received in advance – grants and contributions	**271**	250
Revenue recognised from performance obligations satisfied in previous years		
Unbilled accrual for metered customers – household customers	**286**	-

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 year, i.e., the aggregate amount of future revenues from existing ongoing contracts.

The group has applied the practical expedient, set out in paragraph 121(a) of IFRS 15, not to disclose this amount in relation to 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 2025, £348,948,000 (2024: £336,613,000) of grants and contributions is expected to be derived from performance obligations which were unsatisfied at the end of the reporting year.

In the prior year, there has been a change to the ‘Payments received in advance – grants and contributions’ balance and ‘Deferred grants and contributions’ to present more accurate balances.

Notes to the financial statements (continued)

2. Operating 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:

	2025 £000	2024 (restated) £000
Staff costs (note 3.1)	**66,769**	65,698
Energy costs	**49,227**	49,779
Profit on disposal of property, plant and equipment	**(2,273)**	(944)
Loss on disposal of infrastructure assets	**502**	1,154
Purchase of bulk water and water supplied under statutory entitlement	**14,441**	12,938
Water abstraction charges	**6,267**	6,345
Business rates	**12,973**	12,890
Chargeable services direct expenditure/(income)	**102**	(209)
Depreciation of infrastructure assets (note 6)	**15,511**	10,313
Depreciation of other property, plant and equipment (note 6)	**63,158**	69,117
Depreciation of right-of-use assets (note 7)	**2,501**	3,295
Amortisation of intangible assets (note 8)	**7,479**	7,642
Impairment of trade receivables and contract assets (note 12)	**9,618**	8,297
Chemicals and gases	**7,078**	6,742
Computer and telephone	**9,055**	8,087
Consultancy fees and fines	**10,353**	9,550
Infrastructure renewals expenditure	**19,672**	20,607
Insurance	**7,673**	8,423
Materials, equipment and supplies	**6,472**	5,588
Subcontracting	**29,409**	29,786
Vehicle costs	**3,697**	3,637
Research and development	**204**	205
Short-term lease rentals	**5**	5
Low-value lease rentals	**84**	80
Auditors’ remuneration (note 2.3)	**814**	805
Cost of inventories used	**1,915**	1,913

Further details of the restatements are disclosed on pages 62 to 64.

2.2 Other operating income

	2025 £000	2024 £000
Timing of revenue recognition – at a point in time		
Commission and rentals	**20,168**	21,104

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 24).

2. Operating profit (continued)

2.3 Auditors' remuneration

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

	2025 £000	2024 £000
Fees payable to the company's auditors and its associates for the audit of the parent company and consolidated financial statements	**25**	27
Fees payable to the company's auditors and its associates for other services:		
Audit of the company's associates and subsidiaries	**542**	488
Audit-related assurance services		
– regulatory reporting	**98**	76
– Thames Water and Anglian Water annual returns	**9**	9
– audit related assurance service - other	**55**	69
Other non-audit services	**85**	136
Total Auditors' remuneration	**814**	805

3. Employees

3.1 Employee benefit expense (including Executive directors)

Group

	2025 £000	2024 £000
Wages and salaries	**82,213**	77,013
Social security costs	**8,299**	7,681
Other pension costs	**8,209**	7,734
Staff costs	**98,721**	92,428
Staff costs capitalised	**(31,952)**	(26,730)
Staff costs recognised in the consolidated income statement	**66,769**	65,698

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	2025 Number	2024 Number
Operations	**950**	904
Customer service	**265**	258
Administration	**247**	268
	1,462	1,430

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 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

	2025 £000	2024 £000
Short-term employee benefits	**1,975**	1,059
Post-employment benefits	**70**	72
	2,045	1,131

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 2025 on its website: *affinitywater.co.uk/library*.

4. Finance income and finance costs

Group

	2025 £000	2024 (restated) £000
Finance income:		
Bank interest income	**2,090**	5,459
Net interest receivable on RPI linked inflation swaps	**6,200**	6,381
Net interest receivable on CPI linked inflation swaps	**6,104**	6,210
Fair value gains on bonds	**27,072**	21,648
Net income from post-employment benefits	**2,318**	2,396
	43,784	42,094
Finance costs:		
Accretion payable in respect of interest on bonds	**(22,331)**	(30,023)
Interest payable on bonds	**(40,497)**	(38,311)
Accretion payable on financial instrument	**(18,234)**	(24,577)
Interest payable on lease liabilities	**(210)**	(249)
Other	**(5,593)**	(4,186)
	(86,865)	(97,346)
Finance costs capitalised	**5,290**	3,611
Finance costs expensed	**(81,575)**	(93,735)
Fair value gain on financial instruments:		
Fair value gain on inflation swaps	**10,772**	16,048
	10,772	16,048
Net finance costs	**(27,019)**	(35,593)

Company

	2025 £000	2024 £000
Interest receivable from subsidiary undertakings	**-**	-
Total finance income	**-**	-

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's general borrowings during the year, in this case 3.19% (2024: 3.19%).

Further details of the restatement are disclosed on page 62 to 64.

Daiwater Investment Limited

Notes to the financial statements (continued)

5. Income tax (expense)/credit

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

	2025 **£000**	2024 (restated) £000
Current tax:		
– UK corporation tax on losses for the year	**(2)**	(2)
Total current tax	**(2)**	(2)
Deferred tax:		
– Origination and reversal of temporary differences	**(8,528)**	4,578
– Impact of change in tax rate	**1,171**	-
– Adjustment in respect of prior years	**384**	1,183
Total deferred tax	**(6,973)**	5,761
Income tax (expense)/credit	**(6,975)**	5,759

Tax charge assessed for the year is higher (2024: tax credit was lower) than the standard rate of corporation tax in the UK for the year ended 31 March 2025 of 25% (2024: 25%). The differences are explained below:

	2025 **£000**	2024 (restated) £000
(Profit)/Loss before tax	**(6,338)**	28,315
Tax calculated at the standard rate of tax in the UK of 25% (2024: 25%)	**(1,584)**	7,079
Tax effects of:		
– Adjustment in respect of prior years	**384**	1,183
– Expenses not deductible for tax purposes	**(6,085)**	(1,717)
– Impact of change in tax rate on deferred tax	**1,171**	-
– Unrelieved tax losses carried forward	**(861)**	(786)
Income tax (expense)/credit	**(6,975)**	5,759

5.2 Income tax credit included in the statement of comprehensive income

	2025 **£000**	2024 (restated) £000
Deferred tax:		
- Origination and reversal of temporary differences on retirement benefit surplus	**40**	2,160
	40	2,160

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

5.3 Factors that may affect future tax charges

An increase in the UK corporation tax from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. The deferred tax has been calculated based on these rates, reflecting the expected timing of reversal of the related timing differences (2024: 25%).

In July 2023, the UK enacted legislation to implement the Organisation for Economic Co-operation and Development (OECD) Pillar Two global minimum tax rules. These rules apply to multinational groups with annual consolidated revenue exceeding €750,000,000.

The Group does not currently exceed this threshold and is therefore not within the scope of the Pillar Two rules. The group will continue to monitor its position in future periods if its circumstances change.

The Group applies the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes.

5.4 Reconciliation of current and deferred tax charge

	2025	**2025**	2024 (restated)	2024 (restated)
	£000	**%**	£000	%
Group (profit)/loss before tax	**(6,388)**		28,315	
Tax on (loss)/profit on ordinary activities at standard UK tax rate of 25% (2024: 25%)	**(1,584)**	**25%**	7,079	(25%)
Tax effect of:				
Depreciation in excess of capital allowances	**(4,442)**	**70%**	(11,180)	39%
Write down of fair value adjustment on acquisition of the Affinity Water Acquisitions (Investments) Limited (now liquidated) group	**6,393**	**(101%)**	5,036	(18%)
Pension movements	**722**	**(11%)**	632	(2%)
Provisions movements	**(120)**	**2%**	82	0%
Expenses not deductible for tax purposes	**(110)**	**2%**	(865)	3%
Profit on sale of subsidiary	**-**	**0%**	-	0%
Unutilised tax losses carried forward	**(861)**	**13%**	(786)	3%
Reported current tax charge and effective rate	**(2)**	**0%**	(2)	0%
Depreciation in excess of capital allowances	**(1,531)**	**24%**	10,329	(36%)
Write down of fair value adjustment on acquisition of the Affinity Water Acquisitions (Investments) Limited (now liquidated) group	**(6,393)**	**100%**	(5,036)	18%
Pension movements	**(601)**	**9%**	(632)	2%
Impact of change in tax rate on deferred tax	**1,171**	**(18%)**	-	0%
Provisions movements	**(3)**	**0%**	(83)	0%
Adjustment in respect of prior years	**384**	**(6%)**	1,183	(4%)
Reported deferred tax credit and effective rate	**(6,973)**	**109%**	5,761	(20%)
Group tax (expense)/credit and effective rate	**(6,975)**	**109%**	5,759	(20%)

Notes to the financial statements (continued)

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

5.4 Reconciliation of current and deferred tax charge (continued)

Depreciation in excess of capital allowances

The tax relief on our infrastructure assets is different from the depreciation of these assets in the accounts (although over the total life of the assets the two amounts will be equal). In 2024/25 the amount written off for tax purposes was lower than the depreciation in the accounts, resulting in a higher tax charge for the year.

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 accounts. In 2024/25 the amount paid into the pension funds was higher than the amount charged in the accounts, resulting in a lower tax charge for the year.

Increase in provisions

Some provisions charged in the accounts are not deductible until the amounts provided are actually paid. Taxable profits in 2024/25 have been reduced by payments made in respect of provisions charged in previous years.

Other 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.

Impact of change in tax rate

This is a true up of temporary differences relating to contributions to mains, extensions and diversions which would unwind at the applicable corporation tax rate of 25%.

Adjustment to tax charge in respect of prior years

The tax provision in the accounts is a best estimate at the time. The estimate is corrected when the tax returns are finalised and submitted to HMRC within 12 months after the year end. The correction made to the tax return for the year ended 31 March 2024 resulted in a lower tax charge, mainly as a result of claiming capital allowances.

Prior year restatements

The prior year tax workings are restated to account for the prior year adjustments in relation to the capitalisation of borrowing costs, the adjustment to the retirement benefit surplus and the recognition of a deferred tax asset on unused tax losses brought forward, in line with disclosure in the financial statements. Further details of the restatement are disclosed on pages 62 to 64.

Notes to the financial statements (continued)

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

5.4 Reconciliation of current and deferred tax charge (continued)

Compliance with the group's tax strategy

All group companies were compliant with the group's published Tax Strategy during the period ended 31 March 2025. The Tax Strategy is published on the website of Affinity Water Ltd - https://www.affinitywater.co.uk/docs/reports/2024/Group-Tax-Strategy.

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 (restated) £000	Total £000
Cost or deemed cost							
At 1 April 2024 (restated)	335,688	1,088,152	30,429	1,126,859	177,057	189,003	2,947,188
Additions	-	-	-	-	-	201,512	201,512
Transfers	27,821	47,596	161	60,140	20,764	(156,482)	-
Disposals	(180)	(584)	-	(12,895)	(25)	-	(13,684)
At 31 March 2025	**363,329**	**1,135,164**	**30,590**	**1,174,104**	**197,796**	**234,033**	**3,135,016**
Accumulated depreciation							
At 1 April 2024 (restated)	(116,229)	(117,609)	(3,748)	(743,287)	(64,648)	-	(1,045,521)
Charge for the year	(5,263)	(15,129)	(382)	(46,806)	(11,089)	-	(78,669)
Disposals	165	83	-	12,895	25	-	13,168
At 31 March 2025	**(121,327)**	**(132,655)**	**(4,130)**	**(777,198)**	**(75,712)**	**-**	**(1,111,022)**
Net book amount							
At 1 April 2024 (restated)	219,459	970,543	26,681	383,572	112,409	189,003	1,901,667
Movement in year	22,543	31,966	(221)	13,334	9,675	45,030	122,327
At 31 March 2025	**242,002**	**1,002,509**	**26,460**	**396,906**	**122,084**	**234,033**	2,023,994

Daiwater Investment Limited

Notes to the financial statements (continued)

6. Property, plant and equipment (continued)

	Land, buildings and operational structures	Potable water distribution mains	Raw water pipes	Fixed plant	Vehicles and mobile plant	Assets in course of construction	Total
	£000	£000	£000	£000	£000	£000	£000
Cost or deemed cost							
As at 1 April 2023	327,937	1,070,592	23,511	1,071,797	132,451	143,267	**2,769,555**
Restatement of opening balance due to change in accounting policy	472	5,918	-	3,162	68	-	**9,620**
Restatement of opening balance due to asset reclass	2,062	(7,452)	-	(2,610)	8,000	-	**-**
At 1 April 2023 restated	330,471	1,069,058	23,511	1,072,349	140,519	143,267	2,779,175
Prior year restatement due to policy change	-	982	-	2,540	-	-	3,522
Prior year restatement due to asset reclass	470	17,063	-	(17,050)	(483)	-	-
Additions	-	-	-	-	-	165,835	**165,835**
Transfers (restated)	4,749	2,386	6,923	69,020	37,021	(120,099)	**-**
Disposals	(2)	(1,337)	(5)	-	-	-	**(1,344)**
At 31 March 2024	335,688	1,088,152	30,429	1,126,859	177,057	189,003	**2,947,188**
Accumulated depreciation							
As at 1 April 2023	(111,491)	(107,667)	(2,978)	(692,103)	(51,294)	-	**(965,533)**
Restatement of opening balance due to change in accounting policy	679	(975)	-	(123)	(329)	-	(748)
Restatement of opening balance due to asset reclass	(496)	(2,226)	-	2,126	596	-	-
At 1 April 2023 restated	(111,308)	(110,868)	(2,978)	(690,100)	(51,027)	-	**(966,281)**
Prior year restatement due to policy change	-	-	-	-	-	-	**-**
Prior year restatement due to asset reclass	136	2,612	-	(471)	(2,277)	-	**-**
Charge for the year	(5,057)	(9,543)	(770)	(52,716)	(11,344)	-	**(79,430)**
Disposals	-	190	-	-	-	-	**190**
At 31 March 2024	(116,229)	(117,609)	(3,748)	(743,287)	(64,648)	-	(1,045,521)
Net book amount							
At 1 April 2023 (restated)	219,163	958,190	20,533	382,249	89,492	143,267	**1,812,894**
Movement in year	296	12,353	6,148	1,323	22,917	45,736	**88,773**
At 31 March 2024	**219,459**	**970,543**	**26,681**	**383,572**	**112,409**	**189,003**	**1,901,667**

All land and buildings are held as freehold. Assets were reclassified between potable water distribution mains, fixed plant, vehicles and mobile plant and land, building and operational structures in this statutory note, as shown in the line “Prior year restatement due to asset reclass” within both cost and accumulated depreciation. This is a disclosure adjustment only with no impact on the net book amount.

Borrowing costs have been capitalised to fixed assets in line with IAS 23. There has been a restatement in the line “Prior year restatement due to error” in relation to the capitalisation in prior years. Further details of the restatement is disclosed on pages 62 to 64.

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Notes to the financial statements (continued)

6. Property, plant and equipment (continued)

Assets were reclassified between categories during 1 April 2023 and 31 March 2024 as shown within the 'Transfers (restated)' line within both cost and accumulated depreciation in the statutory note. This is a disclosure adjustment only with no impact on depreciation charged to date.

Restatement in transfers during 1 April 2023 to 31 March 2024

	Land, buildings and operational structures	Potable water distribution mains	Raw water pipes	Fixed plant	Vehicles and mobile plant	Assets in course of construction (restated)	Total
	£000	£000	£000	£000	£000	£000	£000
Cost or deemed cost							
Transfers (as originally reported)	2,697	57,987	-	32,041	42,460	(135,185)	-
Restatement	2,052	(55,601)	6,923	36,979	(5,439)	15,086	-
Transfers (restated)	4,749	2,386	6,923	69,020	37,021	(120,099)	**-**
Accumulated depreciation							
Transfers (restated)	136	2,612	-	(471)	(2,277)	-	**-**

Assets in course of construction are not amortised.

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	Total £000
Cost			
At 1 April 2024	9,079	13,196	**22,275**
Additions	-	4,032	**4,032**
Disposals	(9,079)	(1,927)	**(11,006)**
At 31 March 2025	-	15,301	**15,301**
Accumulated depreciation			
At 1 April 2024	(6,984)	(8,138)	**(15,122)**
Charge for the year	-	(2,501)	**(2,501)**
Disposals	6,984	1,918	**8,902**
At 31 March 2025	-	(8,721)	**(8,721)**
Net book amount			
At 1 April 2024	2,095	5,058	**7,153**
Movement in year	(2,095)	1,522	**(573)**
At 31 March 2025	**-**	**6,580**	**6,580**

	Buildings £000	Vehicles £000	Total £000
Cost			
At 1 April 2023	9,079	11,089	20,168
Additions	-	2,859	2,859
Disposals	-	(752)	(752)
At 31 March 2024	9,079	13,196	22,275
Accumulated depreciation			
At 1 April 2023	(5,587)	(6,932)	(12,519)
Charge for the year	(1,397)	(1,898)	(3,295)
Disposals	-	692	692
At 31 March 2024	(6,984)	(8,138)	(15,122)
Net book amount			
At 1 April 2023	3,492	4,157	7,649
Movement in year	(1,397)	901	(496)
At 31 March 2024	2,095	5,058	7,153

Leasing arrangements

Lease income from operating leases where the group is a lessor is recognised in income on a straight-line basis over the lease term. Lease payments for some contracts include CPI increases, but there are no other variable lease payments that depend on an index or rate.

Although the group is exposed to changes in the residual value at the end of the current leases, the group typically enters into new operating leases and therefore will not immediately realise any reduction in residual value at the end of these leases. Expectations about the future residual values are reflected in the fair value of the assets.

Notes to the financial statements (continued)

7. Right-of-use assets (continued)

Leasing arrangements (continued)

Minimum lease payments receivable on leases are as follows:

	2025 £000	2024 £000
Within 1 year	**463**	625
Between 1 and 2 years	**423**	463
Between 2 and 3 years	**412**	423
Between 3 and 4 years	**368**	412
Between 4 and 5 years	**309**	368
Later than 5 years	**280**	763
	2,255	3,054

Properties are held at cost in line with property, plant and equipment policy provided in note A3.

Company

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

Daiwater Investment Limited

Notes to the financial statements (continued)

8. Intangible assets

Group

	Goodwill £000	Billing relationships £000	Water licence £000	Computer software development costs (restated) £000	Total £000
Cost					
As at 1 April 2024	317,006	32,789	300,800	100,257	**750,852**
Prior year restatement due to error	-	-	-	336	**336**
At 1 April 2024 (restated)	317,006	32,789	300,800	100,593	**751,188**
Additions	-	-	-	4,357	**4,357**
Disposals	-	-	-	(3,107)	**(3,107)**
At 31 March 2025	317,006	32,789	300,800	101,843	**752,438**
Accumulated amortisation					
As at 1 April 2024	-	(32,789)	-	(80,805)	**(113,594)**
Prior year restatement due to error	-	-	-	(142)	**(142)**
At 1 April 2024 (restated)	-	(32,789)	-	(80,947)	**(113,736)**
Charge for the year	-	-	-	(7,479)	**(7,479)**
Disposals	-	-	-	3,107	**3,107**
At 31 March 2025	-	(32,789)	-	(85,319)	**(118,108)**
Net book amount					
At 1 April 2024 (restated)	317,006	-	300,800	19,646	**637,452**
Movement in year	-	-	-	(3,122)	**(3,122)**
At 31 March 2025	**317,006**	**-**	**300,800**	**16,524**	**634,330**

Daiwater Investment Limited

Notes to the financial statements (continued)

8. Intangible assets (continued)

Group (continued)

	Goodwill	Billing relationships	Water licence	Computer software development costs	Total
	£000	£000	£000	£000	**£000**
Cost					
As at 1 April 2023 (restated)	317,006	32,789	300,800	96,202	746,797
Restatement of opening balance due error	-	-	-	245	245
At 1 April 2023 (restated)	317,006	32,789	300,800	96,447	747,042
Prior year restatement due to error	-	-	-	91	91
Additions	-	-	-	4,055	4,055
At 31 March 2024	317,006	32,789	300,800	100,593	751,188
Accumulated amortisation					
As at 1 April 2023	-	(32,789)	-	(73,213)	(106,002)
Restatement of opening balance due to error	-	-	-	(92)	(92)
At 1 April 2023 (restated)	-	(32,789)	-	(73,305)	(106,094)
Prior year restatement due to error	-	-	-	-	-
Charge for the year	-	-	-	(7,642)	(7,642)
At 31 March 2024	-	(32,789)	-	(80,947)	(113,736)
Net book amount					
At 1 April 2023 (restated)	317,006	-	300,800	23,142	640,948
Movement in year	-	-	-	(3,496)	(3,496)
At 31 March 2024	317,006	-	300,800	19,646	637,452

8. Intangible assets (continued)

Group (continued)

Goodwill includes £447,036,000 arising on the acquisition of Affinity Water Acquisitions (Investments) Limited (now liquidated) on 19 May 2017, with an impairment of £120,000,000 being recognised in 2018/19, and a £10,030,000 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.

Following the release of Affinity Water Limited’s Draft Determination for AMP8 by Ofwat, management has reviewed the value of the goodwill and this has not given rise to an impairment to the water licence recognised in the year ended 31 March 2025 (2024: £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, 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.

Included in the software asset category above is £10,454,000 (2024: £7,580,000) of capitalised intangible assets under construction, which is not amortised. £1,483,000 (2024: £6,227,000) of intangible projects under construction were completed in the year, and amortisation was charged from the point in time that the software became fit for purpose and ready to use.

There were no individually material computer software development costs in the years ended 31 March 2025 or 31 March 2024.

Company

The company does not have any intangible assets.

Notes to the financial statements (continued)

9. Investments

Group

	2025 £000	2024 £000
Non-current assets		
Investments	**51**	51
Current assets		
Short-term deposits	**80,795**	21,552

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

The term deposits are fixed term deposits which are irredeemable until the end of the deposit term which is no more than 12 months from when deposit is entered into per the group's treasury policy.

Company

	2025 £000	2024 £000
Investment in subsidiary	**754,027**	754,027

The investment balance in the company relates to Affinity Water Capital Funds Limited.

The shares of Affinity Water Capital Funds Limited were transferred to Daiwater Investment Limited from Affinity Water Acquisitions Limited (now liquidated) on 3 October 2022 for a consideration of £301,413. An application was made to HMRC by Daiwater Investment Limited to claim relief from stamp duty under Section 42 of the Finance Act 1930 (as amended) on this share transfer. HMRC subsequently confirmed acceptance of the stamp duty relief claim.

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 2025 (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 2025 and 31 March 2024 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 income/(expense) before taxation recognised in the income statement in respect of the defined benefit plan is:

	2025 £000	2024 £000
Total current service cost of the Affinity Water Pension Plan	(1,583)	(1,695)
Pension expense charged to operating profit	(1,583)	(1,695)
Net pension interest income credited to finance income (note 4)	2,318	2,396
Net pension income/(expense) expense charged before taxation	735	701

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

	2025 £000	2024 (restated) £000
At 1 April	47,505	53,615
Principal employer contributions	1,667	1,827
Net current service cost (per above)	(1,583)	(1,695)
Net interest income	2,318	2,396
Net re-measurement loss	(161)	(8,638)
At 31 March	49,746	47,505

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

	2025 £000	2024 (restated) £000
Re-measurement losses on plan assets	(35,193)	(19,955)
Re-measurement gains on plan liabilities	35,032	11,317
	(161)	(8,638)

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

Further details of the restatement are disclosed on pages 62 to 64.

Company

The company does not have any retirement benefits.

11. Derivative financial instruments

Group

	2025 £000	2024 £000
Non-current assets		
Fair value of energy swaps	**21**	18
Fair value of CPI linked inflation swaps	**-**	1,109
Current assets		
Fair value of energy swaps	**955**	493
Fair value of interest swaps	**-**	24
	976	1,644
Non-current liabilities		
Fair value and accretion of RPI linked inflation swaps	**80,258**	71,741
Fair value and accretion of CPI linked inflation swaps	**48,960**	54,529
Fair value of energy swaps	**-**	94
Fair value of floating interest swap	**3,524**	-
	132,742	126,364
Current liabilities		
Fair value of energy swaps	**253**	1,119
	132,995	127,483

Affinity Water has hedged wholesale energy prices since 2021 and we continue to assess requirements on an annual basis.

The fair value of energy swaps have been derived from ‘Level 2’ fair value measurements: directly observable market inputs other than Level 1 inputs. The fair value of energy swaps is calculated by discounting expected future cashflows based on market expectations of energy prices in the future.

A series of RPI linked inflation swaps with a total nominal value of £210.0m, with a date of maturity of July 2026, were entered into between August 2018 and October 2020. A series of CPI linked inflation swaps with a total nominal value of £250.0m, were entered into between March 2020 and June 2020. Of these swaps, £100.0m are maturing in March 2030 and £150.0m are maturing in March 2036.

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. The fair value of RPI and CPI linked inflation swaps is calculated by discounting expected future cashflows based on market expectations of RPI and CPI. The discount rate used reflects the credit risk of the company, which is consistent with IFRS 13: ‘Fair value measurement’ (‘IFRS 13’).

As part of the Class A fixed rate £350,000,000 bond issuance in March 2025 (maturing in September 2040), a tender offer was made against the £250,000,000 bond maturing in July 2026. A floating rate swap with a nominal value of £280,000,000, which is linked to the maturity of the Class A fixed rate £350,000,000 bond (maturing September 2040) was also taken out in March 2025.

11. Derivative financial instruments (continued)

In October 2022 the group entered into a swap agreement with nominal value £31,500,000, with effective date 30 September 2022 and maturity date 30 September 2024. This transaction swapped interest payable at a SONIA linked floating rate for interest payable at a fixed rate for £31,500,000 of the £42,000,000 bank term loan.

The fair value of the interest swaps have been derived from ‘Level 2’ fair value measurements: directly observable market inputs other than Level 1 inputs. The fair value of the interest swaps is calculated based on market expectations of the interest rate.

Company

The company does not have any derivative financial instruments.

12. Trade and other receivables

Group

	2025 **£000**	2024 £000
Current:		
Trade receivables	**80,998**	80,853
Less: loss allowance for trade receivables	**(37,768)**	(37,100)
	43,230	43,753
Receivables transferred on sale of subsidiary	**9,054**	9,507
Less: loss allowance for receivables transferred on sale	**(9,054)**	(9,507)
	-	-
Interest receivable from external parties	**7,575**	7,318
Other receivables	**5,368**	3,129
Unbilled accrual for metered customers	**59,389**	52,558
Prepayments and accrued income	**10,418**	7,881
	82,750	70,886
	125,980	114,639

Trade receivables in Affinity Water Limited that were fully provided for were sold in both the current and prior year, resulting in a reduction to trade receivables of £5,661,000 (2024: £5,100,000) and a corresponding reduction in the loss allowance for trade receivables.

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

The other receivables balance primarily relates to VAT receivables.

Measured income accrual

The company records an accrual for measured consumption of water that has not yet been billed (refer to note 12). 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 2024 included a measured income accrual of £47,935,000. The value of billing recognised in the year ended 31 March 2025 for consumption in the prior year was £48,221,000.

This resulted in an increase of £286,000 in the current year’s revenue due to the under-estimation of the prior year’s revenue. A 1% change in consumption would lead to a change of 1% in the measured income accrual.

12. Trade and other receivables (continued)

12.1 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	
	2025 £000	2024 £000	**2025 £000**	2024 £000	**2025 £000**	2024 £000	**2025 £000**	2024 £000
At 1 April	**37,100**	36,968	**9,507**	9,844	**220**	303	**46,827**	47,115
Provision for receivables impairment charged/(credited) to the income statement	**9,538**	8,380	**(453)**	(337)	**80**	(83)	**9,165**	7,960
Sale of trade receivables that were fully provided for	**(5,661)**	(5,100)	**-**	-	**-**	-	**(5,661)**	(5,100)
Receivables written off during the year as uncollectable	**(3,209)**	(3,148)	**-**	-	**-**	-	**(3,209)**	(3,148)
At 31 March	**37,768**	37,100	**9,054**	9,507	**300**	220	**47,122**	46,827

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

In the current year, a charge of £9,618,000 (2024: £8,297,000) was recorded in the income statement. The charge includes the impact of economic conditions such as cost of living and inflation in addition to cash collection patterns.

This includes reversal of revenue of £5,014,000 (2024: £5,571,000) for customers that have been through the full debt recovery process. We have increased our focus on customer debt recovery, with additional internal and external resources deployed to enhance our collection efforts.

12.2 Ageing analysis of trade receivables

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

	2025 £000	2024 £000
Aged less than one year	**35,159**	36,143
Aged between one year and two years	**16,043**	15,494
Aged greater than two years	**29,796**	29,216
	80,998	80,853

Company

The company does not have any trade or other receivables.

Notes to the financial statements (continued)

13. Inventories

Group

	2025 £000	2024 £000
Raw materials and consumables	**5,794**	4,451

Inventories are stated after provisions for impairment of £50,000 (2024: £50,000).

Company

The company does not have any inventories.

14. Cash and cash equivalents

Group

	2025 £000	2024 £000
Cash at bank and in hand	**62,153**	48,360
Term deposits	**80,000**	19,410
	142,153	67,770

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

Company

	2025 £000	2024 £000
Cash at bank and in hand	**10**	10

Notes to the financial statements (continued)

15. Share capital

Group and company

Allotted, called up and fully paid share capital	**2025 £000**	2024 £000
744,133,355 (2024: 744,133,355) ordinary shares of £0.01 each	**7,441**	**7,441**

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.

Daiwater Investment Limited

Notes to the financial statements (continued)

16. Trade and other payables

Group

	2025	2024
	£000	£000
Non-current		
Amounts falling due after more than one year		
Deferred grants and contributions	**25,878**	28,118
Amounts falling due after more than five years		
Deferred grants and contributions	**316,548**	301,572
	342,426	329,690
Current		
Amounts falling due within one year		
Trade payables	**43,215**	21,355
Interest payable to subsidiary companies	**9,746**	20,335
Commitment fees	**85**	38
Social security and other taxes	**2,100**	1,995
Other payables	**14,013**	1,951
Capital accruals	**35,525**	21,941
Deferred grants and contributions	**6,522**	6,923
Payments received in advance	**84,529**	82,924
Deferred income	**2,817**	3,149
Other accruals	**47,088**	45,258
	245,640	205,869
	588,066	535,559

The carrying amounts of trade and other payables approximate to their fair value. Interest payable to subsidiary companies relates to accrued interest on bonds.

In the prior year, a presentational reclassification of £9,224,000 was made between 'other payables' and 'payments received in advance' to better reflect the nature of the balances.

Company

The company does not have any trade and other payables.

17. Borrowings

Group

	2025 £000	2024 £000
Borrowings measured at amortised cost:		
Non-current:		
Bonds	**1,735,271**	1,544,906
Bank term loan	**41,516**	41,313
Financial liability relating to leasehold property	**18,782**	-
4% irredeemable consolidated debenture stock	**8**	8
4% irredeemable debenture stock	**1**	1
5% irredeemable debenture stock	**24**	24
5.25% irredeemable debenture stock	**1**	1
	1,795,603	1,586,253
Current		
Financial liability relating to leasehold property	**128**	-
	128	-

Affinity Water Finance (2004) PLC

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. The company repaid £147,324,000 of the bonds to Affinity Water Finance (2004) PLC during the year. The amount was paid to Affinity Water Finance (2004) PLC in March 2025.

Affinity Water Finance PLC

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%, £190,000,000 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%.

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.

17. Borrowings (continued)

Group (continued)

Affinity Water Finance PLC (continued)

On 20 October 2021, Affinity Water Finance PLC issued £130,000,000 Class A Guaranteed CPI linked Notes maturing in September 2038 with a coupon rate of 0.010%, a Green bond used to fund expenditure outlined in the group's Green Finance Framework.

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

On 12 March 2025, Affinity Water Finance PLC issued £350,000,000 Class A Guaranteed Notes maturing in September 2040 with a coupon of 6.250%.

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 financing subsidiaries at 31 March 2025 is £1,361,000,000 (2024: £1,199,706,000). The fair value of Class A bonds has been derived from 'Level 1' fair value measurements: quoted prices (unadjusted) in active markets for identical liabilities. The fair value of Class B bonds has been derived from 'Level 2' fair value measurements: directly observable market inputs other than Level 1 inputs. The fair value of Class B bonds is calculated by discounting expected future cashflows at a discount rate which is derived from the yield on comparable instruments which are observable in the market.

Affinity Water Limited and Affinity Water Holdco Finance Limited are subject to a number of covenants in relation to their borrowings, which, if breached, would result in the 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, neither Affinity Water Limited nor Affinity Water Holdco Finance Limited were in breach of any financial covenants. See additional details on our financial covenants included within the going concern statement in accounting policies.

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

On 2 September 2022, the company refinanced its £42,000,000 bank term loan, extending the repayment date from 30 June 2023 to 2 September 2027, with an option to extend for a further two years. The facility also contains an uncommitted accordion feature to increase the loan size to £75,000,000.

Notes to the financial statements (continued)

17. Borrowings (continued)

Group (continued)

Financial liability relating to leasehold property

Sale and leaseback transaction

During the year, the Affinity Water Limited completed a transaction acquiring the freehold interest in its head office building in Hatfield for an amount of £16,103,000. At the same time, a sale and leaseback transaction of the property was entered into at an equivalent value. The transaction provides the company with a call option to reacquire the property at the end of the lease term in December 2045 for £1.

The group has recognised the property in accordance with IAS 16: ‘Property, Plant and equipment’.

The property will be held at cost of £16,472,000 which includes costs directly attributable to this transaction and this will be depreciated over its useful economic life of 40 years. The addition of the property is disclosed within the reconciliation of the carrying amounts of property, plant and equipment in note 6.

Neither the corresponding sale of the property or its leaseback have been recognised as a lease and have instead been recorded as a financing arrangement. The financial liability relating to leasehold property of £19,130,000, included in the above note consists of £15,630,000 relating to the office building and a further £3,500,000 for a capital contribution for qualifying expenditure. The financial liability relating to leasehold property is held at amortised cost using an effective interest rate to calculate the unwinding of the liability so that the final settlement is equal to the option price of £1 at the end of the term. At 31 March 2025, £707,000 of the capital contribution had been utilised on qualifying expenditure, with the remaining £2,793,000 being shown as a financial receivable split between current and non-current on the face of the statement of financial position. The Company has derecognised the existing right-of-use asset and lease liability of the Hatfield property originally booked under IFRS 16.

The leasehold property is held at an effective interest rate of 7.81%.

The financial liability is secured as the rights to the leased asset revert to the lessor in the event of default.

Company

The company does not have any borrowings.

18. Lease liabilities

Group

	2025 £000	2024 £000
Non-current:		
Lease liabilities	**4,412**	3,974
Current:		
Lease liabilities	**2,333**	**3,343**

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

	2025 £000	2024 £000
Depreciation charge of right-of-use assets (refer to note 7)	**2,501**	3,295
Interest expense on lease liabilities (refer to note 4)	**210**	249
Expense relating to short-term leases (refer to note 2.1)	**5**	5
Expense relating to leases of low-value assets (refer to note 2.1)	**84**	80
Principal elements of lease payments included within cash flows from financing activities	**2,710**	3,329
Interest payments included within cash flows from operating activities	**210**	249
Total cash outflow for leases in the statement of cash flows	**2,920**	3,578
Additions to right-of-use assets (refer to note 7)	**4,032**	2,859
Carrying amount of right-of-use assets (refer to note 7)	**6,580**	7,153

Company

The company does not have any lease liabilities.

19. Deferred tax liabilities

19.1 Analysis of deferred tax assets and deferred tax liabilities

Group

	2025 £000	2024 (restated) £000
Deferred tax assets:		
– Deferred tax asset to be recovered within 12 months	**(6,877)**	(5,432)
– Deferred tax asset to be recovered after more than 12 months	**(46,194)**	(54,474)
	(53,071)	(59,906)
Deferred tax liabilities:		
– Deferred tax liability to be settled within 12 months	**375**	375
– Deferred tax liability to be settled after more than 12 months	**294,926**	294,828
	295,301	295,203
Deferred tax liabilities - net	**242,230**	235,297

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

	£000
At 1 April 2023	251,674
Prior year adjustment – borrowing costs	2,258
Prior year adjustment – deferred tax asset on losses	(10,716)
At 1 April 2023	243,216
Adjustment to prior year (restated)	(689)
Prior year adjustment – borrowing costs	(492)
Credited to the income statement (restated)	(4,578)
Credited to other comprehensive income (restated)	(2,160)
At 31 March 2024	235,297
Adjustment to prior year	**(384)**
Impact of change in tax rate	**(1,171)**
Charged to the income statement	**8,528**
Credited to other comprehensive income	**(40)**
At 31 March 2025	**242,230**

The ‘adjustment to prior year’ line above includes an adjustment of £384,000 due to the tax provision in the accounts being a best estimate at the time. The estimate is corrected when the tax returns are finalised and submitted to HMRC within 12 months after the year-end.

An adjustment was made in the prior year to recognise a deferred tax asset of £10,716,000 due to a reassessment in recognising deferred tax assets in accordance with International Accounting Standard (IAS) 12: ‘Income taxes’ (IAS 12). The group’s net deferred tax liabilities reflects this restatement.

Further details of the restatement are disclosed on pages 62 to 64.

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 2023	97,724	193,991	13,404	305,119
Prior year adjustment - borrowing costs	-	2,258	-	2,258
At 1 April 2023 (restated)	**97,724**	**196,249**	**13,404**	**307,377**
(Credited)/charged to the income statement (restated)	(375)	(10,271)	632	(10,014)
Credited to other comprehensive income	-	-	(2,160)	(2,160)
At 31 March 2024 (restated)	97,349	185,978	11,876	295,203
Impact of change in tax rate	-	(1,171)	-	(1,171)
(Credited)/charged to the income statement	(375)	1,083	601	1,309
Credited to other comprehensive income	-	-	(40)	(40)
At 31 March 2025	**96,974**	**185,890**	**12,437**	**295,301**

19.3 Deferred tax assets

	Fair value adjustment on acquisition £000	Provisions £000	Unrelieved tax losses £000	Total £000
At 1 April 2023 (restated)	52,788	657	-	53,445
Prior year adjustment – deferred tax asset on losses	-	-	10,716	10,716
At 1 April 2023 (restated)	**52,788**	**657**	**10,716**	**64,161**
(charged)/credited to the income statement	(5,413)	1,158	-	(4,255)
At 31 March 2024	47,375	1,815	10,716	59,906
Charged to the income statement	(6,768)	(67)	-	(6,835)
At 31 March 2025	**40,607**	**1,748**	**10,716**	**53,071**

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

At 31 March 2025, the group had unused tax losses of £17,821,000 (2024 restated: £14,376,000) available for offset against future profits. No deferred tax asset has been recognised in respect of these losses due to restrictions over accessing these losses in the future.

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	Tax £000	Other £000	Total £000
At 1 April 2023	2,649	4,100	670	7,419
Charged to the income statement (restated)	1,248	-	-	1,248
Utilised in the year (restated)	(1,094)	-	-	(1,094)
At 31 March 2024	2,803	4,100	670	7,573
Charged/(credited) to the income statement	**2,271**	**(486)**	**-**	**1,785**
Utilised in the year	**(3,068)**	**(2,451)**	**-**	**(5,519)**
At 31 March 2025	**2,006**	**1,163**	**670**	**3,839**

Insurance

Provisions for insurance represent the amount of the company's liability in respect of individual claims. This is based upon data provided by loss adjusters to insurers and is calculated on settlement experience. The full balance of £2,006,000 is presented as a non-current liability in the statement of financial position.

Tax provision

A tax provision of £4,100,000 was charged to the income statement and included within administrative expenses in the year to 31 March 2023. This provision represents an estimate for an outstanding liability related to a potential PAYE and National Insurance claim.

During the period, a voluntary payment of £2,451,000 was made to HMRC. Additionally, a reduction of £486,000 was applied to the provision and recognised in the income statement, leaving a remaining balance of £1,163,000.

Other provisions

Other provisions of £670,000 (2024: £670,000) relate to unfunded pension liabilities for a former Non-Executive director, which it is expected will be utilised by January 2051, and, therefore, presented as a non-current liability in the statement of financial position.

In the prior year, a presentational reclassification was made between 'credited to the income statement' and 'utilised in the year' to better reflect the nature of the balances.

Company

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

Notes to the financial statements (continued)

21. Dividends

	2025 £000	2024 £000
First interim dividend paid of nil per share (2024: nil per share)	**112**	104

Dividends of £112,000 (2024: £104,000) were paid to non-controlling interest from group subsidiaries.

22. Notes to the statement of cash flows

22.1 Cash generated from operations

Group

	2025 £000	2024 (restated) £000
(Loss)/profit before tax from:		
Continuing operations	**6,338**	(28,315)
(Loss)/profit before tax including discontinued operations	**6,338**	(28,315)
Adjustments for:		
Depreciation of property, plant and equipment (note 6)	**78,669**	79,430
Amortisation of grants and contributions	**(5,428)**	(8,584)
Depreciation of right-to-use assets (note 7)	**2,501**	3,295
Amortisation of intangible fixed assets (note 8)	**7,479**	7,642
Profit on disposal of property, plant and equipment	**(2,273)**	(944)
Loss on disposal of infrastructure assets	**502**	1,154
Post-employment benefits	**(83)**	(132)
Net finance costs (note 4)	**27,019**	35,591
Net (gain)/loss on energy swap	**(1,426)**	13,075
Changes in working capital		
– Inventories	**(1,343)**	382
– Trade and other receivables	**(13,754)**	(11,900)
– Trade and other payables		
– provision element	**(3,734)**	154
– other	**33,269**	12,325
Cash generated from operations	**127,736**	103,173

Changes in working capital – trade and other receivables of £(13,754,000) in the year (2024: £(11,900,000)) primarily relates to an increase in unbilled accrual for metered customers, and a short term cash payment in advance to Affinity Water Finance PLC for interest due to be settled during 2026.

Changes in working capital – trade and payables – other of £33,269,000 in the year (2024: £12,325,000) primarily relates to an increase in trade payables and an increase in current deferred grants and contributions.

Further details of the restatement are disclosed on pages 62 to 64.

Daiwater Investment Limited

Notes to the financial statements (continued)

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

Company

	2025 £000	2024 £000
Profit before tax	**-**	-
Adjustments for:		
Changes in working capital		
– Trade and other receivables	**-**	-
Cash used in operations	**-**	-

22.2 Reconciliation of liabilities arising from financing activities

Group

	At 1 April 2024 £000	**Cash flow £000**	**Non-cash flows £000**	**At 31 March 2025 £000**
Bonds	**1,544,906**	**199,586**	**(9,221)**	**1,735,271**
Bank term loan	**41,313**	**-**	**203**	**41,516**
Financial liability relating to leasehold property	**-**	**-**	**18,910**	**18,910**
Lease liabilities	**7,317**	**(2,710)**	**2,138**	**6,745**
Debenture stock	**34**	**-**	**-**	**34**
Total liabilities arising from financing activities	**1,593,570**	**196,876**	**12,030**	**1,802,476**

	At 1 April 2023 £000	Cash flow £000	Non-cash flows £000	At 31 March 2024 £000
Bonds	1,538,786	-	6,120	1,544,906
Bank term loan	41,112	-	201	41,313
Lease liabilities	7,838	(3,578)	3,057	7,317
Debenture stock	34	-	-	34
Total liabilities arising from financing activities	1,587,770	(3,578)	9,378	1,593,570

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)

23. Commitments

23.1 Capital commitments

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

Group

	2025 **£000**	2024 (restated) £000
Property, plant and equipment	**23,003**	**32,018**
	23,003	**32,018**

The prior year comparative has been restated to reflect a more accurate assessment of capital commitments. Previously, the disclosure was based on an average estimate of project spend. The revised approach is based on a detailed review of contractual obligations and purchase orders, providing a more reliable representation of the company's committed expenditure.

Company

The company does not have any capital commitments.

23.2 Commitments under operating leases

The group leases its vehicles under non-cancellable leases expiring within a maximum of five 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.

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 18 for further information.

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

Group

	2025 **£000**	2024 £000
No later than one year	**54**	45
Later than one year and no later than five years	**111**	1
	165	46

Company

The company does not have any commitments under operating leases.

24. 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 2025 (2024: £nil) and the company incurs no bad debt risk in relation to this service.

25. Events after the reporting period

There have been no post balance sheet events that require adjustment to or disclosure in the financial statements.

26. 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 2025, 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 Pte. Limited
- DIF Management Holding BV
- DIF Management UK Limited
- HICL Infrastructure plc
- Sun Life Financial Inc.

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

DIF is an independent and specialist fund management company, which invests in infrastructure assets that generate long-term stable cash flows, including public-private partnerships, regulated infrastructure assets and renewable energy projects in Europe, North America and Australia. On 3 July 2024, CVC Capital Partners acquired an initial 60% interest in DIF Capital Partners, with DIF Capital Partners then being rebranded CVC DIF. CVC Capital Partners is not considered to have become an ultimate controller as a result of this transaction[1].

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

[1] CVC Capital Partners acquired an initial 60% stake of DIF Capital Partners on 3 July 2024, with an additional 20% to be acquired shortly after 31 December 2026 and the final 20% to be acquired shortly after 31 December 2028.

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 Capital Funds 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 260 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 and previous financial year on a combined basis, the group and company present their results under a single segment for financial reporting purposes. Management do not consider climate change to have had an impact on reporting results under a single segment.

A3. Material accounting policy information

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.

A3. Material accounting policy information (continued)

Property, plant and equipment (continued)

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	3-15 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.

Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Other borrowing costs are expensed in the period in which they are incurred.

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.

Notes to the financial statements – appendices (continued)

A3. Material accounting policy information (continued)

Intangible assets

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, including costs associated with cloud computing arrangements.

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.

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

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.

A3. Material accounting policy information (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 new connections, 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. The group may also be contacted by developers in its statutory supply area to lay a pipe to the boundary of customers' properties to connect to the group's existing supply pipes; this is known as a connection charge. Contributions received in respect of new connections, 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 an ongoing supply of water services.

Each of these types of grants and contributions (contributions for new connections, diversions and requisitioned mains/extensions, and infrastructure 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. While 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

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

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

Notes to the financial statements – appendices (continued)

A3. Material accounting policy information (continued)

Trade and other receivables

Trade and other receivables are recognised initially at transaction price. The group 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 that 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. To estimate the impairment to its trade receivables from either of these factors, 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 these factors 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 12 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 short-term investments.

Notes to the financial statements – appendices (continued)

A3. Material accounting policy information (continued)

Current and deferred tax

The tax charge for the year (and credit in the prior 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.

Trade and other 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 consolidated income statement in full.

A3. Material accounting policy information (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 year. Gains or losses arising on revaluation are recorded in the income statement in the year in which they arise and are shown within either fair value gain/(loss) on inflation swaps or fair value gain/(loss) on energy swaps on the face of the income statement. Interest received or incurred on these derivative financial instruments is shown within finance income and finance costs on the face of the income statement.

The fair value of derivative financial instruments includes a Debit Value Adjustment (‘DVA’), which is calculated by discounting the potential future cashflows at a rate that reflects the credit risk of the company, consistent with IFRS 13.

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.

A3. Material accounting policy information (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.

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 company has a right to receive the revenue. For non-household retailers, the amount which the company has a right to receive is determined by non-household consumption volume data provided by the market operator.

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 company 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.

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

Where non-household retailers are billed monthly in advance 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 presents this as a contract liability within trade and other payables. Revenue is recognised at the time of invoicing.

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 is currently seeing higher levels of consumption due to increases in temperature, a risk associated with the ongoing effects of climate change and has taken this into consideration regarding the recognition of revenue.

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.

Notes to the financial statements – appendices (continued)

A3. Material accounting policy information (continued)

Other income

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

Interest income

Interest income is 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 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 contract of the head office building was terminated during the year. The company purchased the building and entered a sale and leaseback agreement. 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.

All IT server space has been provided through a hosting service, therefore, it 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.

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.

A3. Material accounting policy information (continued)

Leases (continued)

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 2.25%, reflecting the current high interest rates in the market as a result of the ongoing high levels of inflation. 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 as a lessor

The group does not currently recognise any investment properties on the balance sheet, as none meet the criteria for recognition under applicable accounting standards. However, the group acts as a lessor under operating lease arrangements.

The properties are leased to tenants under operating leases with rentals payable monthly. Lease income from operating leases where the company is a lessor is recognised in income on a straight-line basis over the lease term.

Lease payments for some contracts include CPI increases, but there are no other variable lease payments that depend on an index or rate. Although the company is exposed to changes in the residual value at the end of the current leases, the company typically enters into new operating leases and therefore will not immediately realise any reduction in residual value at the end of these leases. Expectations about the future residual values are reflected in the fair value of the assets.

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 within cost of sales in the income statement as incurred.

A3. Material accounting policy information (continued)

Retirement benefits

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

The 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 year (to determine current service cost) and to the current and prior years (to determine the present value of defined benefit obligations) and is based on actuarial advice. Past service costs are recognised immediately in the income statement.

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

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

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 year 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 within cost of sales and administrative expenses in the income statement in the year 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 year in which the dividends are approved, until they are paid.

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, energy risk, interest rate risk 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 our principal risks and uncertainties section beginning on page 8 for further information on management of these risks). These policies have been updated during the year to reflect changes in our risk management approach.

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

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

Liquidity risk

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 2025, the group had £379,948,000 (2024: £246,320,000) of available liquidity, which comprised £222,948,000 (2024: £89,322,000) of cash and term deposits and £157,000,000 (2024: £157,000,000) of undrawn committed borrowing facilities.

Notes to the financial statements – appendices (continued)

A4. Financial instruments and risk management (continued)

Liquidity risk (continued)

Group (continued)

The group has entered into RPI and 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 £202,545,000 (2024: £235,338,000), 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:

	2025 **£000**	2024 £000
Floating rate:		
– Expiring within one year	**57,000**	57,000
– Expiring in more than one year	**100,000**	100,000
	157,000	157,000

The facilities expiring within one year comprise two standby facilities with one counterparty (2024: one counterparty) in the event of a liquidity shortfall: a 364 day revolving Debt Service Reserve Facility of £29,000,000 (2024: £29,000,000), which is intended for the purpose of funding any debt service payments, and a 364 day revolving Operations and Maintenance Reserve Facility of £28,000,000 (2024: £28,000,000), which is intended for the purpose of funding operating and capital maintenance expenditure.

The facilities expiring in more than one year comprise two revolving credit facilities, £60,000,000 (2024: £60,000,000) provided by Barclays Bank PLC and £40,000,000 (2024: £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 2028 and July 2027 respectively. These facilities use SONIA as the reference rate and contain embedded sustainability performance measures.

The facility, expiring in 2027 with the option to extend to 2029, comprises of a committed lending of £42,000,000, which is fully drawn. The facility is provided by ING Bank N.V. with HSBC Bank Plc acting as agent. The purpose of this facility is to fund operations outside of the ringfenced entity. The facility references SONIA.

Company

At 31 March 2025 and 31 March 2024, the company had no available liquidity and no available undrawn borrowing facilities.

Notes to the financial statements – appendices (continued)

A4. Financial instruments and risk management (continued)

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 2025 **Non-derivatives**	**1 year or less** **£000**	**1-2 years** **£000**	**2-3 years** **£000**	**3-4 years** **£000**	**4-5 years** **£000**	**More than 5 years** **£000**	**Total** **£000**
Bonds	**53,771**	**156,768**	**48,306**	**48,464**	**48,610**	**1,905,611**	**2,261,530**
Bank term loan	**3,000**	**2,870**	**43,414**	**-**	**-**	**-**	**49,284**
Financial liability relating to leasehold property	**1,618**	**1,519**	**1,565**	**1,612**	**1,660**	**33,794**	**41,768**
Lease liabilities	**2,487**	**2,077**	**1,561**	**934**	**124**	**-**	**7,183**
	60,876	**163,234**	**94,846**	**51,010**	**50,394**	**1,939,405**	**2,359,765**

At 31 March 2024 Non-derivatives	1 year or less £000	1-2 years £000	2-3 years £000	3-4 years £000	4-5 years £000	More than 5 years £000	Total £000
Bonds	40,274	40,479	290,616	26,177	26,447	1,335,428	1,759,421
Bank term loan	3,256	3,000	2,870	43,414	-	-	52,540
Lease liabilities	3,515	2,204	1,145	700	205	-	7,769
	47,045	45,683	294,631	70,291	26,652	1,335,428	1,819,730

On 2 September 2022, Affinity Water Holdco Finance Limited refinanced its £42,000,000 bank term loan, extending the repayment date from 30 June 2023 to 2 September 2027, with an option to extend for a further two years.

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.

Notes to the financial statements – appendices (continued)

A4. Financial instruments and risk management (continued)

Liquidity risk (continued)

Maturity analysis (continued)

Group

At 31 March 2025 **Derivatives**	**1 year or less** **£000**	**1-2 years** **£000**	**2-3 years** **£000**	**3-4 years** **£000**	**4-5 years** **£000**	**More than 5 years** **£000**	**Total** **£000**
RPI linked inflation swaps net (receivable)/ payment	**(6,001)**	**87,010**	**-**	**-**	**-**	**-**	**81,009**
CPI linked inflation swaps net (receivable)/ payment	**(5,950)**	**(5,864)**	**(2,890)**	**(5,728)**	**(5,659)**	**87,434**	**61,343**
SONIA to fixed interest rate swap net payment/ (receivable)	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Floating interest swap	**830**	**732**	**732**	**732**	**732**	**7,682**	**11,440**
Total derivatives	**(11,121)**	**(81,878)**	**(2,158)**	**(4,996)**	**(4,927)**	**(95,116)**	**(153,792)**

At 31 March 2024 Derivatives	1 year or less £000	1-2 years £000	2-3 years £000	3-4 years £000	4-5 years £000	More than 5 years £000	Total £000
RPI linked inflation swaps net (receivable)/ payment	(6,174)	(5,989)	87,863	-	-	-	75,700
CPI linked inflation swaps net (receivable)/ payment	(6,347)	(6,249)	(6,149)	(3,008)	(5,943)	95,591	67,895
SONIA to fixed interest rate swap net receivable	(36)	-	-	-	-	-	(36)
Total derivatives	(12,557)	(12,238)	81,714	(3,008)	(5,943)	95,591	143,559

A4. Financial instruments and risk management (continued)

Liquidity risk (continued)

Company

The company has no derivative instruments.

Covenant risk

The group's compliance with its lending covenants is a risk. Management are confident based on financial forecasts that we will maintain compliance with all covenants and no trigger or default event will occur. Management also have mitigating actions are within their control if required.

The group continues to monitor and manage the risks associated with the ICR covenant through the forecasting and reporting process and has identified mitigations, the most prominent of which is working capital management. The company was not in breach of its financial covenants as at 31 March 2025 or up to the date of signing these financial statements.

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.

A4. Financial instruments and risk management (continued)

Credit risk (continued)

Contract assets and trade and other receivables (continued)

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

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

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

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 12).

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

The loss allowance as at 31 March 2025 and 31 March 2024 was determined as follows for both trade receivables and contract assets (unbilled accrual for metered customers):

At 31 March 2025	Curren t	Current	Less than 1 year	1 – 2 years	2 – 3 years	3 – 4 years	More than 4 years past due	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Expected loss rate – metered household receivables	0.57%	-	6%	21%	37%	60%	100%	
Gross carrying amount – metered household receivables	-	(3,700)	21,438	6,141	3,416	2,060	2,580	31,935
Gross carrying amount – unbilled accrual for metered customers (household)	53,211	-	-	-	-	-	-	53,211
Provision at expected loss rate	300	-	1,356	1,285	1,266	1,236	2,580	8,024
Expected loss rate – measured household receivables (activity exhausted debtors)	-	-	83%	86%	86%	86%	86%	
Gross carrying amount - measured household receivables (activity exhausted debtors)	-	-	3,641	3,634	2,953	2,478	3,555	16,261
Provision at expected loss rate	-	-	3,039	3,143	2,540	2,119	3,046	13,887
Loss allowance	300	-	4,395	4,428	3,806	3,355	5,626	21,910

	Current	Less than 1 year	1 – 2 years	2 – 3 years	3 – 4 years	More than 4 years past due	Total
	£000	£000	£000	£000	£000	£000	£000
Expected loss rate – unmetered household receivables	-	15%	27%	43%	62%	100%	
Gross carrying amount – unmetered household receivables	(872)	8,180	4,257	2,402	1,619	2,123	17,709
Provision at expected loss rate	-	1,267	1,169	1,022	1,006	2,123	6,587
Expected loss rate – unmeasured household receivables (activity exhausted debtors)	-	84%	86%	86%	85%	85%	
Gross carrying amount - unmeasured household receivables (activity exhausted debtors)	-	2,188	2,012	1,701	1,455	2,190	9,546
Provision at expected loss rate	-	1,837	1,728	1,457	1,242	1,872	8,136
Loss allowance	-	3,104	2,897	2,479	2,248	3,995	14,723

		Current	Less than 3 months	3 – 6 months	6 – 9 months	9 – 12 months	More than 12 months past due	Total
		£000	£000	£000	£000	£000	£000	£000
Expected loss rate – developer services		-	-	45%	46%	74%	100%	
Gross carrying amount – unbilled accrual for metered customers (non-household)	-	6,480	-	-	-	-	-	6,480
Gross carrying amount – developer services		3,533	455	112	45	140	1,262	5,547
Loss allowance		-	-	50	21	103	1,262	1,435
Total loss allowance								38,068

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)

At 31 March 2024	Current	Current	Less than 1 year	1 – 2 years	2 – 3 years	3 – 4 years	More than 4 years past due	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Expected loss rate – metered household receivables	0.46%	-	5%	16%	31%	52%	100%	
Gross carrying amount – metered household receivables	-	(606)	17,141	5,438	2,793	1,754	2,298	28,818
Gross carrying amount – unbilled accrual for metered customers (household)	47,768	-	-	-	-	-	-	47,768
Provision at expected loss rate	220	-	915	881	875	918	2,298	6,107
Expected loss rate – measured household receivables (activity exhausted debtors)	-	-	97%	97%	96%	96%	96%	
Gross carrying amount - measured household receivables (activity exhausted debtors)	-	-	2,841	4,165	3,561	2,593	3,715	16,875
Provision at expected loss rate	-	-	2,756	4,040	3,419	2,489	3,566	16,270
Loss allowance	220	-	3,671	4,921	4,294	3,407	5,864	22,377

	Current	Less than 1 year	1 – 2 years	2 – 3 years	3 – 4 years	More than 4 years past due	Total
	£000	£000	£000	£000	£000	£000	£000
Expected loss rate – unmetered household receivables	-	9%	14%	25%	51%	100%	
Gross carrying amount – unmetered household receivables	(400)	6,327	3,850	2,549	1,243	1,778	15,347
Provision at expected loss rate	-	545	552	625	635	1,778	4,135
Expected loss rate – unmeasured household receivables (activity exhausted)		96%	96%	96%	96%	96%	
Gross carrying amount - unmeasured household receivables (activity exhausted debtors)	-	1,715	2,041	1,749	1,533	2,952	9,990
Provision at expected loss rate	-	1,646	1,959	1,679	1,472	2,834	9,590
Loss allowance	-	2,191	2,511	2,304	2,107	4,612	13,725

			Less than 3 months	3 – 6 months	6 – 9 months	9 – 12 months	More than 12 months past due	Total
			£000	£000	£000	£000	£000	£000
Expected loss rate – developer services			-	43%	22%	75%	100%	
Gross carrying amount – unbilled accrual for metered customers (non-household)	-	5,009	-	-	-	-	-	5,009
Gross carrying amount – developer services			7,871	904	243	106	698	9,822
Loss allowance			-	386	55	80	698	1,219
Total loss allowance								37,320

There has been a change in the presentation of the prior year loss allowance maturity analysis to present the balance more accurately. A reconciliation between the opening and closing loss allowances for trade receivables and contract assets for the year ended 31 March 2025 is shown in note 12.

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)

Company

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

At 31 March 2025 and 31 March 2024, the maximum exposure to credit risk was represented by the carrying amount of each financial asset in the statement of financial position:

Group

	2025 £000	2024 £000
Cash and term deposits (note 14)	**142,153**	67,770
Short-term deposits (note 9)	**80,795**	21,552
Trade and other receivables (excluding prepayments and amounts recoverable from the group's insurer)	**118,996**	109,252
	341,944	198,574

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

	2025 £000	2024 £000
AAA	**80,000**	19,410
A-1+	**40,709**	21,552
A-1	**102,239**	48,360
	222,948	89,322

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. A series of RPI linked inflation swaps with a total nominal value of £210.0m, linked to the maturity of the Class A fixed rate £250.0m bond (July 2026), were entered into between August 2018 and October 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. A series of floating rate interest swaps with a total nominal value of £350.0m, linked to the maturity of the Class A fixed rate £350.0m bond, were entered into in March 2025.

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 and impact the group's retained earnings or accumulated losses.

In October 2022 the company also entered into a swap agreement with nominal value £31,500,000, with effective date 30 September 2022. This transaction swapped interest payable at a SONIA linked floating rate for interest payable at a fixed rate for £31,500,000 of the £42,000,000 bank term loan with maturity 30 September 2024.

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 2025	**962,474**	**584,302**	**248,955**	**1,795,731**
31 March 2024	766,082	576,107	244,064	1,586,253

Sensitivity analysis

Sensitivity analysis has been performed on movements in interest rates as the company's fixed rate debts has exposure to interest rates as at 31 March 2025. Given the large movements in inflation and the current high levels, the following table details the sensitivity of profit before taxation to changes in RPI and CPI on the company'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.

A4. Financial instruments and risk management (continued)

Sensitivity analysis (continued)

Impact on loss before taxation	2025 £000
1% increase in RPI	**(4,836)**
1% decrease in RPI	**4,836**
1% increase in CPI	**(5,483)**
1% decrease in CPI	**5,483**
1% increase in SONIA	**(2,960)**
1% decrease in SONIA	**2,960**

Impact on loss before taxation	2024 £000
1% increase in RPI	(4,605)
1% decrease in RPI	4,605
1% increase in CPI	(5,334)
1% decrease in CPI	5,334

Energy price risk

The company is allowed a fixed amount of revenue by the regulator, in real terms, to cover electricity costs for each five-year regulatory pricing period. To the extent that electricity prices remain floating over this period, this exposes the company to volatility in its operating cash flows. The company has mitigated this risk by fixing the price on a proportion of its anticipated electricity usage out to the end of AMP7 through entering into electricity swap contracts.

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, refer to table 1E of the company's regulatory Annual Performance Report) 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 77.5% at 31 March 2025 (74.6% at 31 March 2024).

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 reduced the level of investment risk and has invested 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

The Trustee regularly reviews its investment strategy. The existing strategy has a focus on 'cashflow driven investment' with a segregated actively managed investment 'liability driven investment/cashflow driven investment' portfolio managed by Insight Investment Management Limited. This portfolio is expected to provide stable returns and regular income to meet the plan's outgoings.

The Investment Guidelines in place with Insight Investment Management Limited allow a level of interest rate and inflation hedging ranging from 87.5% to 100%. The current hedging level is 96%, increasing from 95% in November 2024 (with the previous change in hedging level having taken place in January 2024, which was an increase from 93.5%).

Notes to the financial statements – appendices (continued)

A5. Retirement benefits (continued)

Defined benefit section (continued)

The latest actuarial valuation of the AWPP, determined by an independent qualified actuary, was at 31 December 2023, which concluded that the pension plan was 101% 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-2030 and less 0% per annum post-2030
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 0.5% per annum
Deferred pension increases:	measured by reference to the CPI or RPI inflation curves described above with an appropriate adjustment for any caps and collars; and
Pension increases:	measured by reference to the CPI or RPI inflation curves described above with an appropriate adjustment for any caps and collars

Defined benefit section – employer contributions

Based on the latest actuarial valuation at 31 December 2023, the company agreed to pay contributions of £700,000 per annum from 1 January 2025 to fund the future cost of benefits being accrued within the plan. Prior to this date, contributions amounted to £1,600,000 per annum from 1 January 2022.

Based on the current Schedule of Contributions, the contributions expected to be paid by the company into the AWPP for the year ending 31 March 2026 are £700,000 (£1,600,000 in the year ended 31 March 2025, although this expectation was dependent on the outcome of the actuarial valuation as at 31 December 2023 being undertaken at that time).

The weighted average duration of the defined benefit obligation is 11.8 years (2024: 13.0 years).

Defined benefit section - financial and demographic assumptions

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

	2025	2024
Discount rate	**5.75% pa**	4.80% pa
Salary growth	**3.10% pa**	3.15% pa
RPI	**3.05% pa**	3.15% pa
CPI	**2.60% pa**	2.65% pa
Life expectancy for a male pensioner from age 65 (years)	**21.5**	21.8
Life expectancy for a female pensioner from age 65 (years)	**23.6**	23.9
Life expectancy from age 65 (years) for a male participant currently aged 45 (years)	**23.0**	23.1
Life expectancy from age 65 (years) for a female participant currently aged 45 (years)	**25.2**	25.8

Deferred pensions are revalued to retirement age in line with the CPI assumption of 2.60% per annum (2024: 2.65% per annum) unless otherwise prescribed by statutory requirements or the plan rules.

Daiwater Investment Limited

Notes to the financial statements – appendices (continued)

A5. Retirement benefits (continued)

Defined benefit section - sensitivity analysis

The below 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 year) has been applied as when calculating the pension asset recognised within the statement of financial position.

	Change in assumption	Impact on defined benefit obligation	Change in assumption	Impact on defined benefit obligation
2025				
Discount rate	**0.5% decrease**	**5.8% increase**	**0.5% increase**	**5.3% decrease**
Salary growth	**0.5% increase**	**0.5% increase**	**0.5% decrease**	**0.4% decrease**
Pension growth rate	**0.5% increase**	**4.5% increase**	**0.5% decrease**	**4.2% decrease**
Life expectancy	**1 year increase**	**4.0% increase**	**1 year decrease**	**4.0% decrease**
2024 (restated)				
Discount rate	0.5% decrease	6.5% increase	0.5% increase	5.8% decrease
Salary growth	0.5% increase	0.5% increase	0.5% decrease	0.5% decrease
Pension growth rate	0.5% increase	4.8% increase	0.5% decrease	4.7% decrease
Life expectancy	1 year increase	4.0% increase	1 year decrease	4.0% decrease

Further details of the restatement are disclosed on pages 62 to 64.

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 %	**2025 £000**	Plan assets %	2024 (restated) £000
Equity securities	**7%**	23,098	6%	21,358
Debt securities	**67%**	226,580	60%	221,933
Infrastructure	**1%**	1,417	1%	2,039
Liability driven investments	**19%**	64,200	29%	111,826
Cash and cash equivalents	**6%**	20,572	4%	13,183
Total fair value of the plan's assets	**100%**	335,867	100%	370,339
Present value of defined benefit obligations		(286,121)		(322,834)
Net retirement benefit surplus		49,746		47,505

The total of assets which are quoted is £195,823,000 (2024: £326,049,000) and the total of assets which are unquoted is £140,044,000 (2024: £44,290,000).

Further details of the restatement are disclosed on pages 62 to 64.

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 2024 / 1 April 2023	**370,339**	387,699
Benefits paid	**(18,450)**	(17,748)
Principal employer contributions	**1,667**	1,827
Contributions by plan participants	**123**	207
Interest income	**17,381**	18,309
Re-measurement losses	**(35,193)**	(19,955)
At 31 March 2025 / 31 March 2024	**335,867**	370,339

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 2024 / 1 April 2023 (restated)	**(322,834)**	**(334,084)**
Benefits paid	**18,450**	**17,748**
Contributions by plan participants	**(123)**	**(207)**
Net current service cost	**(1,583)**	**(1,695)**
Interest expense	**(15,063)**	**(15,913)**
Re-measurement gains	**35,032**	**11,317**
At 31 March 2025 / 31 March 2024	**(286,121)**	**(322,834)**

Defined contribution section

At the same time that the defined benefit section became closed to new entrants, the company 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 2025 was £5,116,000 (2024: £4,662,000). There are no amounts prepaid or outstanding in respect of the defined contribution section at 31 March 2025 (2024: £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 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%

Notes to the financial statements – appendices (continued)

A6. Subsidiaries (continued)

Name of company	Country of registration/ incorporation	Registered address	Nature of business	Type of holding	Proportion of voting rights and shares held
Affinity Water 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
** The individual financial statements of these undertakings for the year ended 31 March 2025 were entitled to exemption from audit under Section 479A of the Companies Act 2006 as their outstanding liabilities as at 31 March 2025 have been provided with a parent company guarantee under Section 479C of the Companies Act 2006. The company has assessed the probability of loss under the guarantee as remote.

A7. Related party transactions

Group

Purchases of goods and services and dividends paid

			2025		2024	
Related party	**Nature of Relationship**	**In respect of**	**Value £000**	**Balance £000**	Value £000	Balance £000
Allianz Insurance	Common ownership	Insurance	**62**	**(62)**	58	(31)

See note 3 for directors' remuneration and key management personnel compensation disclosures respectively.

Notes to the financial statements – appendices (continued)

A7. Related party transactions (continued)

Company

There were no related party transactions for the company requiring disclosure during the years ended 31 March 2025 and 31 March 2024.