DAIWATER INVESTMENT LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

(Registered Number 10738347)

Daiwater Investment Limited

Contents

Daiwater Investment Limited

Directors and advisers

Directors

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

Gareth Craig	(resigned 25 July 2018)
Tom Goossens	
Jaroslava Korpanec	
Tobias Richardson	(resigned 25 July 2018)
Angela Roshier	
Anthony Roper	(appointed 25 July 2018)
Scott Springett	(appointed 25 July 2018)

Company secretary

Colin Caldwell	(appointed 27 November 2019)
Tim Monod	(resigned 6 November 2019)

Registered office

Tamblin Way
Hatfield
Hertfordshire
AL10 9EZ

Independent auditor

PricewaterhouseCoopers LLP
The Atrium
1 Harefield Road
Watford
Middlesex
UB8 1EX

Registered number

10738347

Daiwater Investment Limited

Board's welcome

We are delighted to present Daiwater Investment Limited's second annual report and financial statements for the year ended 31 March 2019.

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

Regulation, political environment and governance

The group operates in an increasingly fast paced and changing environment where global trends including climate change, environmental degradation, economic and social change, technological transformation, population growth and demographic shifts are shaping business and society worldwide. Many of these trends are fundamental in shaping the service that the water industry will need to deliver in the future.

Customers expect Affinity Water Limited to be able to supply water in the long-term, for their children and grandchildren, and are increasingly aware of some of the challenges we face, not least climate change and population growth. It is important that Affinity Water Limited's Business Plan for the 2020-25 price control period (Asset Management Plan 7, 'AMP7') reflects what its customers consider should be its priorities.

The government, the Environment Agency and Ofwat have set a clear commitment to protect and enhance the environment for the next generations, including how Affinity Water Limited uses water. In April 2018, the National Infrastructure Commission published its report on preparing for a drier future, which recommended that plans are put in place to deliver additional water supply and demand reduction. This was followed in May 2018 by the Environment Agency's report on 'The State of Water Resources', concluding that action must continue to reduce demand, increase supply and minimise the wasting of water.

With Affinity Water Limited's vision to be the leading community focused water company, it welcomes these challenges and recognises the need to focus on the physical resilience of its infrastructure, particularly in the context of population growth and climate change including weather shocks. Affinity Water Limited is in the frontline against mitigating the impacts of climate change and protecting and enhancing the environment.

We are proud of the ongoing morphological work Affinity Water Limited is undertaking to nurture and improve the precious water resources in the communities it serves. Affinity Water Limited is focused on ensuring that it can continue to deliver clean, safe water reliably and cost-effectively for future generations to come.

Affinity Water Limited recognises the importance of ensuring that its customers and communities can trust the service it provides, and it must ensure that they are confident that it is operating in a way which is responsible, accountable and transparent. We agree that water companies must be financially resilient in the round, given the vital importance of the industry to society and the need to plan and invest for the long-term.

The debate over water companies' regulation and governance, and their long-term requirements continued during the year, with nationalisation of the industry remaining a key topic. We are happy to contribute evidence and do so where it is useful to help the public policy debate on this and other matters.

The Board of Affinity Water Limited spends a significant amount of time aligning plans to the interests of customers, employees and wider stakeholders, discussing at length how the subsidiary and its infrastructure can be more resilient.

During the year Affinity Water Limited has strengthened its Board, carefully selecting individuals with relevant skills and experiences to challenge and support the business. In May 2018, Pauline Walsh was appointed as Chief Executive Officer. In July 2018, Tony Roper was welcomed to Affinity Water Limited's Board replacing Gareth Craig who resigned from his role as non-executive director and in January 2019 Chris Newsome was appointed as an independent non-executive director, bringing with him significant experience of the industry.

Board's welcome (continued)

Affinity Water Limited's Business Plan

Affinity Water Limited has just completed the fourth year of its latest five-year business plan (the 2015-2020 price control period, Asset Management Plan 'AMP6'), in which it had set itself a number of stretching objectives. Ofwat acknowledged the level of ambition in that plan, and we are pleased to say that the subsidiary is achieving most of its targets and is taking mitigating action in those few cases where it has fallen behind.

Since 2015 Affinity Water Limited has worked hard to improve the interaction it has with its key stakeholders, building partnerships in the process, specifically within the local communities its serve. It has insourced some of its key services and focused on the training and development of its people, in order to strengthen its delivery capability and ability to respond to unplanned incidents at short notice. Affinity Water Limited continues to enhance its community approach, as it strives to deliver on its ambition to be the UK's leading community-focused water company.

We were both surprised and disappointed by Ofwat's initial assessment of Affinity Water Limited's AMP7 Business Plan and their rating of its information quality in their 2018 Company Monitoring Framework assessment, and Affinity Water Limited has subsequently worked with Ofwat to address their concerns, submitting its revised plan on 31 March 2019.

Affinity Water Limited's AMP7 Business Plan addresses continuity of supply to all its customers, minimising the impact its activities have on the environment and maintaining and developing its assets and sites so that they are fit for purpose, as well as financial and corporate aspects. This ensures that Affinity Water Limited continues to provide customers with the service they expect, high quality water at an affordable price. We commissioned an independent assessment of Affinity Water Limited's 'Resilience in the Round' and used it to inform its AMP7 Business Plan, building on its strengths whilst identifying areas where it can continually improve. Affinity Water Limited is committed to ensuring it has a strong approach to risk management and handling physical and operational resilience issues, and also to sound financial viability resilient to stress tests.

Affinity Water Limited's business strategy has innovation at its core; putting new ideas into action and delivering enhanced business performance – put simply: doing things better to improve customer service, reduce costs, enhance its ability to respond to unforeseen circumstances and to improve efficiency. We consider innovation to be essential in an ever-changing world as Affinity Water Limited strives to deliver more for less, and makes progress against its stretching performance commitments. Affinity Water Limited is continuing to shift its working practices to be more agile and responsive, enabling it to be easier to do business with, thus transforming the customer experience and minimising the impact of its activities on the environment in the process.

Affinity Water Limited plans to invest £1.37bn in its wholesale business during AMP7, whilst reducing the average annual customer bill over the 15-year period to 31 March 2030 from £183.50 to £164.50 (before inflation). Its investment will be key to enabling it to continue to deliver and to improving the quality of the service it provides to its customers, whilst delivering sustainability reductions requiring its assets to work harder. New access to water, improved demand management and increased flexibility in the movement of water are all essential. Affinity Water Limited has led work with other water companies in the South East of England to encourage best use of existing resources through the introduction of new transfers of water.

Affinity Water Limited published its final Water Resources Management Plan ('WRMP') on 7 June 2019, which sets out how it will meet our long-term water supply challenges.

Affinity Water Limited's vision to be the UK's leading community-focused water company reflects the importance of the way it works with and for customers and the communities it serves, understanding and responding to their needs and acting as the steward of a very precious resource in the process.

Daiwater Investment Limited

Strategic report
for the year ended 31 March 2019

Introduction

The directors present their strategic report on Daiwater Investment Limited for the year ended 31 March 2019.

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

Affinity Water Limited and Affinity for Business (Retail) Limited are the trading subsidiaries of the group. Affinity Water Limited (the principal trading subsidiary) owns and manages the water assets and network in an area of approximately 4,515km^2 split over three regions, comprising eight water resource zones, in the southeast of England.

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

- supplies on average 900 million litres of water a day to around 3.6 million people, serving 1.5 million properties;
- operates 94 water treatment works to ensure that water is of the highest quality;
- distributes water through a network of over 16,600km of mains; and
- carried out 180,000 tests on water leaving water treatment works, at reservoirs and at customers' taps as part of its regulatory monitoring programme for the 2018 calendar year. In addition, it carried out over 600,000 tests on operational samples. Its overall compliance performance in 2018, as regulated by the Drinking Water Inspectorate ('DWI'), was 99.96%.

Information on Affinity Water Limited's vision and business model are detailed in the strategic report of its own annual report and financial statements for the year ended 31 March 2019.

Affinity for Business (Retail) Limited commenced trading on 1 April 2017 as part of the non-household water retail market. Affinity for Business (Retail) Limited (the non-household trading subsidiary) was granted a licence to provide water supply and wastewater services throughout England for non-household customers.

Information on Affinity for Business (Retail) Limited's vision and business model are detailed in the strategic report of its own company financial statements for the year ended 31 March 2019.

Performance

The group generated a loss for the year of £95,700,000 (2018: £16,989,000 loss) due to an £120,000,000 impairment of goodwill in the year (2018: £nil) refer to note 7 to the financial statements), which largely reflects adverse changes made to the regulatory framework in the year (refer to page 10 for further details). The statements of financial position detailed on pages 38 and 39 show shareholders' funds as at 31 March 2019 amounting to £627,152,000 (2018: £736,831,000) for the group and £757,185,000 (2018: £745,940,000) for the company.

As both the financial and operational results of the group are primarily determined by the results of its trading subsidiaries, Affinity Water Limited and Affinity for Business (Retail) Limited, the operational and financial performance indicators and targets for the group are those of these two entities. These performance indicators, and the performance against targets set, are provided in detail in the strategic report of their own annual reports and financial statements for the year ended 31 March 2019.

Principal risks and uncertainties

The group has an established framework for identifying, evaluating and managing its key risks. The main risks of the group are those of its trading subsidiaries, Affinity Water Limited and Affinity for Business (Retail) Limited, and hence this section focuses on the risks and uncertainties of those entities (referred to as the 'subsidiaries' throughout the remainder of this section).

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

Affinity Water Limited

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

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

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

1. Failure to prevent injuries and accidents to its people and the public ↔	
Risk: Failing to manage this risk may result in personal injury or occupational ill-health, disruption to operations, reputational damage, criminal fines, civil damages and regulatory penalties.	**Mitigation:** The subsidiary seeks to operate its business using its safety and health management system, which is certified to OHSAS18001, and provides employees with appropriate arrangements to enable them to take personal responsibility for their own safety, occupational health and well-being, and that of others. The safety and health strategy of the subsidiary focuses active leadership and engagement. The subsidiary has introduced a safety leadership model for its employees and an improvement plan sets out measurable objectives for individuals and teams across the organisation.

Principal risks and uncertainties (continued)

2. Failure to meet water supply obligations ↔	
Risk: The subsidiary is required to maintain a continuous supply of high quality water for its customers. Interruptions to supply (or supply restrictions) caused by drought, water resource restrictions, deliberate or accidental contamination of water supplies, extreme weather events (extremely cold or prolonged hot weather), flooding events, terrorist attacks, cyber events, civil unrest, or misinformation in the media with regards to the quality of our water could impact on the health, safety and security of its people or communities, or on its financial position and the subsidiary's reputation. The risk with respect to availability of water remains relatively high for the subsidiary, as it operates in an area of serious water stress. The construction of the High Speed Two ('HS2') railway, together with plans for a third runway at Heathrow Airport and the Western Rail Link to Heathrow may further increase this risk in the future. Furthermore, long-term weather trends, such as global warming, appear to be contributing to a more unpredictable climate in the UK. A lack of resilience to these extremes could result in disruptions to customer service and impinge on delivery of the subsidiary's business plan.	**Mitigation:** The subsidiary manages this risk through: • its WRMP which identifies, over a 60 year period, how it will balance available supplies and required demand with sufficient headroom for unplanned outage (it submitted its final WRMP covering the period 2020 to 2080 to the Secretary of State on 7 June 2019); • its Water Saving Programme, including new customer meters, water efficiency and leakage reduction, which allows it to maintain headroom as demand grows through new building developments and its supply base is eroded by committed sustainable abstraction reductions; • its drinking water safety plans which provide a comprehensive risk assessment and risk management approach to its water supply chain, supported by its distribution and operations management strategy. The subsidiary uses these plans to inform its investment and maintenance programmes. • its investment in trunk main assets to keep their condition stable through targeted renewal. The subsidiary is also implementing trunk main burst mitigation schemes to reduce the number of customers potentially affected by any one incident; • its implementation of improvements to increase resilience through measures such as moving and protecting pipework, protecting electrical and control infrastructure, and increasing connectivity to provide greater flexibility of operation; • its Drought Management Plan which is approved by the Secretary of State; and • its emergency and business continuity plans. Should water supplies be compromised, the subsidiary has plans in place to ensure the provision of essential water supplies at all times. Its contingency plans are audited annually by an independent certifier whose reports are shared with the Secretary of State. Following the freeze/thaw event in March 2018 the subsidiary reviewed its plans for dealing with unplanned interruptions and made further enhancements. The subsidiary also updated its Event and Incident Plans to ensure that they are suitable to manage issues that require careful coordination but do not necessarily meet Emergency Plan triggers. The subsidiary is now working more closely with Local Resilience Forums and specialist voluntary organisations, such as the Red Cross. The subsidiary has good working relationships with its neighbouring water companies from whom it imports and to whom it exports water. During the freeze/thaw event in March 2018 and throughout the prolonged period of hot weather in summer 2018, the subsidiary demonstrated collaborative methods of working to ensure that it collectively met its customers' needs. In advance of the winter of 2018/19, the subsidiary reviewed and updated its winter readiness plans to ensure that it had appropriate triggers and action plans in place for any severe weather event. These plans cover the following aspects: people; assets; sites; customer and stakeholder communications (including media); and alternative water supplies.

Principal risks and uncertainties (continued)

3. Failure to supply high-quality drinking water ↑	
Risk: The supply of high-quality water to its customers is critical to public health in general and the overall success of the subsidiary's business. Failure to achieve this would have potentially catastrophic effects: losing the confidence of customers in their drinking water and legal reputational risks for the business. The detection of cryptosporidium oocysts at two of the subsidiary's water treatment works in November 2018 caused a reassessment of this risk in the year, as the subsidiary has been issued with a notice from the DWI to review the site risk assessments. All necessary action was taken immediately upon detection, including engagement with Health Protection England and local Environmental Health Officers. The subsidiary continues to closely monitor water quality at relevant treatment works and all treated water samples taken since November 2018 have been satisfactory. It is understood that the root cause was a short-lived but significant increase in cryptosporidium oocysts in the River Thames.	**Mitigation:** The subsidiary's drinking water safety plans ('DWSP') provide a comprehensive risk assessment and risk management approach to supply from source to tap. DWSP are prepared for full submission to the DWI in October each year and changes are submitted monthly. The process will be improved through the delivery of a new DWSP database. The DWI is working with the water industry to develop a standard for DWSP risk assessments, which will externally assessed as part of a formal accreditation to provide independent assurance that risks are being captured accurately and consistently. The subsidiary's laboratory and sampling teams are UKAS accredited against ISO 17025. In addition National Quality Assurance ('NQA') assess water quality procedures as part of the ISO 9001 annual audit. Internally the water quality team audits production and storage sites against its own procedures and those used by the DWI. The subsidiary also audit network sites to ensure any interventions are in line with its procedures and do not adversely impact public health or quality standards. There are several sub-groups that review specific areas of risk including treatment chemicals and reservoir and storage facilities. The water quality senior management team review strategic risks on a monthly basis to ensure controls are working effectively and report this to the subsidiary's Executive Management Team each month. In 2018, the subsidiary carried out 180,000 tests on its water and overall compliance performance was 99.97% while MZC, the measure used by the DWI, was 99.96%.
4. Failure to recruit and retain good quality employees ↔	
Risk: The subsidiary relies on the availability of skilled employees and contractor resources to maintain service levels and implement investment plans. In the event of these resources being unavailable, it may experience significant disruption to its service, damage to its reputation and consequent regulatory action. The risk has remained medium during the year with ongoing significant construction activity around London, including construction of the Thames Tideway Tunnel, currently underway, reducing contractor availability.	**Mitigation:** The subsidiary seeks to mitigate this risk by maintaining a constructive relationship with employees regarding their remuneration through Joint Negotiating and Consultative Committee, succession planning and investing in its employees through training, graduate and apprenticeship schemes. During 2018/19, as required by the DWI, the subsidiary gained certification for its Competent Operator Scheme. Currently, the scope of this certification covers only those employees in roles which could impact on the quality of water supplied to customers. It is planned to expand the scope of certification to cover all roles in the subsidiary, and believe this will contribute to the recruitment and retention of good quality employees in the future.

Principal risks and uncertainties (continued)

5. Information security, protection of personal data and data quality failure ↑	
Risk: Customer information and data are at risk from unauthorised disclosure and improper use. The General Data Protection Regulation (‘GDPR’) places a legal obligation on organisations to handle personal data securely, in order to avoid that data being put at risk from unauthorised or unlawful processing, accidental loss, destruction or damage. Failure to protect such information may lead to increased costs of operation, reputational damage, criminal fines and civil damages, and a reduction in the confidence that stakeholders can place in information published. Non-compliance with GDPR could result in a fine of up to 4% of worldwide turnover compared to a previous maximum £500,000 fine under the Data Protection Act. As the use of online communications, cloud-based technology and the sophistication of hackers continue to increase, so too does the risk of cyber attack and other external threats. There is a further risk that data published is not accurate, consistent and transparent. In its initial assessment of the subsidiary’s AMP7 Business Plan submission and its 2018 Company Monitoring Framework assessment, Ofwat raised a number of concerns with regards to the integrity, consistency and quality of the subsidiary’s data, heightening this risk in the year.	**Mitigation:** The subsidiary continues to strengthen its capabilities to ensure that technical and organisational controls to prevent the unauthorised disclosure, loss or improper use of data are kept under review and improved where appropriate. Alignment with ISO 27001, the global information security standard, will demonstrate the subsidiary’s commitment to security best practices and ensure that it meets relevant regulatory requirements. It also continues to monitor and enhance its information security management system, designed to protecting itself against current and future threats. In March 2019, the subsidiary submitted to the DWI a completed Cyber Assessment Framework which describes how it manages cyber security risks in relation to the production and delivery of wholesome water. During 2018/19, the subsidiary successfully enhanced relevant business processes to take account of GDPR, which came into effect in May 2018. All employees were trained on the new requirements which are now embedded in our day-to-day operations. The subsidiary’s Board also appointed the subsidiary’s Company Secretary as the subsidiary’s Data Protection Officer during the year to oversee the subsidiary’s Privacy Policy and Guidelines and, as applicable, develop related policies and privacy guidelines. Privacy impact assessments are carried out for all projects and initiatives to analyse the potential effects on the privacy of individuals. The subsidiary’s enterprise-level security controls, aligned with ISO 27001, are designed to secure all information assets and therefore contribute to the protection of all personal data which its processes. As part of its AMP7 Business Plan submission, the subsidiary published its Data Strategy for AMP7. Following Ofwat’s initial assessment of the subsidiary’s AMP7 Business Plan and its 2018 Company Monitoring Framework assessment, the subsidiary has initiated a significant programme of work to implement this strategy and achieve a number of objectives, including improvements to increase stakeholders’ trust and confidence in the data and information that it publishes.

Principal risks and uncertainties (continued)

6. Failure to provide adequate levels of customer service ↔	
Risk: It is crucial that the subsidiary provides consistently high levels of service to all of its customers and that they are demonstrably satisfied that the subsidiary is doing so. Failure to maintain and continually improve its levels of service in the eyes of its customers will severely impact customer satisfaction levels, volumes of unwanted contact and complaints, and its reputation. From 2015/16 to 2018/19 Ofwat used their service incentive mechanism ('SIM') to measure the subsidiary's customer service performance against that of other water companies. The subsidiary's performance when compared to our industry peers has been sub-median performance and it is anticipated that this will attract significant financial penalties. From the start of AMP7, two new measures of customer service are being introduced: C-MeX is a mechanism to incentivise water companies to provide an excellent customer experience for residential customers, across both the retail and wholesale parts of the value chain; D-MeX is a mechanism to incentivise water companies to provide an excellent customer experience for developer services (new connections) customers. Ofwat's final decisions on all aspects of the design of C-MeX and D-MeX are awaiting. However, it is already clear that they will both have an increased focus on customer satisfaction, experience and perception.	**Mitigation:** The subsidiary adopts a continuous improvement strategy with regards to customer service. The Customer Experience Improvement Board meets regularly and is attended by the subsidiary's CEO. The subsidiary holds Customer excellence days twice-yearly at which it reviews performance, celebrates successes, and considers opportunities for further improvement. These events include presentations by external speakers so that the subsidiary can learn from other companies' experiences with regards to customer service. The subsidiary has an ongoing programme of improvements to on-line capabilities for customers and to the customer journey in general. The subsidiary actively engages with its customers on a day-to-day basis. As part of price review ('PR19') business planning the subsidiary is conducting an extensive, multi-phase customer engagement programme in order to fully understand customers' needs and expectations. The subsidiary employs a third-party customer feedback partner to measure customer service performance. In 2018/19, its partner surveyed 122,000 customers with whom it had experienced some interaction. Of those surveyed, 92% expressed themselves as "satisfied" or "very satisfied". The subsidiary analyses all complaints and ensures that any required remedial actions are promptly addressed. The subsidiary will continue to participate in pilots for both C-MeX and D-MeX throughout 2019/20. It is taking all necessary steps to ensure that it is able to deliver excellent performance against both these measures throughout AMP7.

7. Supply chain failure ↔	
Risk: Much of the subsidiary's capital delivery programme and field activity in its Central region is outsourced to third parties. Existing contractors have little or no capacity to take on additional work due to the volume of large-scale infrastructure projects in some of the subsidiary's operational areas.	**Mitigation:** The subsidiary seeks to ensure that its relationship with critical suppliers is secured under long-term agreements, where appropriate. For key activities, it may retain more than one supplier to mitigate the risk of supplier failure. The subsidiary also undertakes significant due diligence in the selection and on-going management of suppliers through audit, inspection and verification of performance.

Principal risks and uncertainties (continued)

8. Brexit	#
Risk: As a UK based utility company, the subsidiary does not expect Brexit to have a direct impact on its business model and strategy. However, there is likely to be disruption in three areas, especially if a disorderly ('no deal') Brexit is the outcome: • labour: certain roles in the subsidiary's business are filled by non-UK EU citizens. It is unclear what their reaction to Brexit, an uncertain future and potential change in culture will be and there is a risk of departures; • supply chain: the subsidiary's reliance on single-source suppliers, based in the EU, for key chemicals means any barriers to imports could have significant impact. Interruptions to the subsidiary's service may also lead to civil unrest and disobedience targeted at utilities, which may further exacerbate supply chain problems; and • financing: the subsidiary's ability to secure appropriate financing would be impacted by a credit rating downgrade, the risk of which may increase in the event of a disorderly Brexit. Also, increases in inflation will put pressure on gearing. Although the subsidiary's pension plan is currently in an accounting surplus, large market movements resulting from Brexit may reduce or eliminate this surplus.	**Mitigation:** Water UK has coordinated a response to the risk of disruption to chemical supply chains, including collaboration between water companies in the event of shortages. The subsidiary has increased its own monitoring of stock levels and risks with a Brexit report. The subsidiary's Human Resources team has delivered a number of drop-in sessions for its non-UK EU nationals to enable them to raise and discuss their concerns. The subsidiary's exposure to inflation rates is broadly hedged because (i) revenue is linked to inflation and (ii) the fact that some significant costs are already secured to the end of AMP6. The subsidiary has also secured financing for the remainder of AMP6 and into the next price control period, AMP7. Refer to risk 16 for details of its mitigation in relation to pension risks. The subsidiary is exposed to foreign exchange rate movements, as some foreign purchase contracts are unhedged; however this exposure is minimal.

9. Adverse changes to the regulatory framework	↑
Risk: Changes to the regulatory framework by Ofwat or the government may have an adverse effect on the subsidiary's operational or financial performance. Ofwat published its final PR19 price setting methodology sets out its approach to the design of the regulatory framework for the water industry for 2020-2025. The final price setting framework aims to make greater use of markets in relation to the areas of sludge and water resources with separate binding price controls for both. For PR19 Ofwat has also confirmed its intention to use Consumer Price Index ('CPI'), rather than Retail Price Index ('RPI'), for indexing revenues (and therefore prices) and regulatory capital value ('RCV') to be indexed using a combination of CPI and RPI. The final price setting methodology also continues to use econometric cost assessment to determine efficient levels of cost allowance for separate binding price controls. During the year this risk has heightened, as Ofwat confirmed its final position for PR19 price setting on financing cost sharing requirements that will reduce the earnings of companies with gearing levels of 70% and above.	**Mitigation:** The subsidiary continues to contribute fully to consultations with its regulators and seeks to ensure its voice is heard on emerging changes through strong relationships with all its stakeholders.

Principal risks and uncertainties (continued)

<table>
<tr><td colspan="2">10. Adverse change in the social and/or political climate ↑</td></tr>
<tr><td>Risk: The subsidiary is exposed to risks arising from the general social and political climate, for example, debate around the merits of the current ownership model, political pressure to restrict price increases and other issues, such as the adequacy of water resource management plans and some objections to compulsory water metering. These pressures may lead to a reduction in revenue or have a reputational impact.

Political uncertainty, particularly around Brexit, has significantly worsened in the past year such that overall this risk has again increased.

Nationalisation could be conducted in such a way that would result in assets and liabilities being transferred out of the subsidiary to leave a shell company that would no longer be viable.</td><td>Mitigation: The subsidiary continues to engage with its stakeholders, customers and their representatives to understand and respond to their issues and concerns.</td></tr>
<tr><td colspan="2">11. Failure to comply with laws, Instrument of Appointment and other standards ↔</td></tr>
<tr><td>Risk: The subsidiary needs to ensure that its activities and outputs comply with licence conditions or statutory requirements arising from its appointment, and applicable laws and standards.

Failure to do so may result in an enforcement order, a fine up to 10% of appointed turnover or termination of its appointment and special administration.</td><td>Mitigation: The subsidiary continues to operate its abstraction, treatment and supply activities to environmental standard ISO14001 and has adopted the principles of other relevant management systems and standards.

Its compliance programme is designed to ensure that:

• all employees are adequately educated on the legislation and regulations particularly relevant to their specific job roles; and
• appropriate assurance activities are in operation to provide positive evidence of compliance.</td></tr>
</table>

Principal risks and uncertainties (continued)

12. Failure to deliver Business Plan obligations	↑
Risk: The subsidiary has made a number of performance commitments in its Business Plan which, if not met, may result in it incurring financial penalties and suffering reputational damage in the eyes of its regulators and other stakeholders. The subsidiary must implement the investment programme set out in its Business Plan. Failure to do so may lead to the imposition of sanctions, including financial penalties or other enforcement action. This risk has heightened in the year as the subsidiary failed to meet our leakage reduction target for the year and identified that it had failed to meet its leakage reduction target for 2017/18 as a result of a burst at one of its largest treatment works. The subsidiary has the industry's largest leakage percentage reduction target for AMP6.	**Mitigation:** The subsidiary has an established programme management function with responsibility for delivering the investment programme. The Board and senior management team monitor performance and ensure that corrective action is taken when required. The subsidiary continually monitors its performance on a wide range of business plan metrics and commitments, and takes prompt corrective action to address any indicators of under-performance. The subsidiary has made changes to its organisation structure to provide clearer accountability and analytical capabilities in relation to leakage reduction. The subsidiary has insourced detection activity and upskilled its team members resulting in less reliance on its supply chain. It will make smarter use of technology and data to improve its planning and deliver its leakage reduction target. The subsidiary continues to actively manage engagement with all its regulators and other stakeholders. In particular, it works closely with its Customer Challenge Group, an independent body with an independent chair, which advises, challenges and supports it in the development of its plans, to ensure that they reflect customers' priorities.

Principal risks and uncertainties (continued)

<table>
<tr><th colspan="2">13. Failure to achieve a favourable PR19 outcome ↑</th></tr>
<tr><td>

Risk: The subsidiary is required to make its final business plan submission to Ofwat by 3 September 2018. The plan will cover the period 2020–2025, incorporating how much the subsidiary is going to charge customers and how it is going to use the money raised to ensure that it meets those customers' expectations as well as balance the competing priorities of multiple stakeholders.

Ofwat have stressed four key themes in their methodology:

• Great customer service
• Resilience
• Affordable bills
• Innovation

Ofwat have also stressed that water companies must deliver more of what matters for customers through effective engagement, lower costs and better performance.

In its initial assessment, published on 31 January 2019, Ofwat concluded that the subsidiary's AMP7 Business Plan was subject to 'significant scrutiny', heightening this risk in the year.

Companies that are placed into the 'significant scrutiny' category as a result of Ofwat's assessment of their revised business plans submitted in March 2019 will be subject to harsher cost sharing arrangements, which will mean that a larger proportion of companies' total expenditure underperformance (overspend) will be shared with customers through a reduction in customer bills in the following price control period.

</td><td>

Mitigation: The PR19 programme and governance arrangements were established early in 2017 and this has enabled the development of the plan to be monitored by the Board and managed day-to-day by a PR19 Steering Committee. The Steering Committee oversees a number of work streams each with dedicated leads and accountable Executive Management Team sponsors.

The subsidiary is well-advanced in the various programmes of work to develop the PR19 submission. Many enabling programmes of work have been completed and the subsidiary is carrying out the second phase (valuing and testing) of its multi-phase customer engagement programme to understand customer priorities.

The subsidiary has appointed a third party independent assurance partner, who has developed a three-phase programme of work to provide an overall strategic assurance framework, assurance of the programme delivery and governance, and detailed assurance of all financial data tables.

The subsidiary has been working closely with Ofwat since 31 January 2019 to address its concerns in their initial assessment and improve the overall quality of its plan and, therefore, the service it intends to provide to its customers. A revised business plan was submitted in March 2019.

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

Principal risks and uncertainties (continued)

14. Failure to achieve approval of the subsidiary's WRMP	#
Risk: Every five years, water companies are required to publish a WRMP to cover at least 25 years of planning. These plans show how companies intend to maintain the balance between supply and demand for water. Failure to achieve approval by the Secretary of State of the subsidiary's WRMP may result in legal costs being incurred in the current and next price control period if the subsidiary appeals against the decision. Longer term forecasts looking out beyond the current and next two price control periods would need to be updated to accommodate additional expenditure required in addressing concerns that prevented approval by the Secretary of State.	**Mitigation:** Between 19 March 2018 and 23 May 2018 the subsidiary undertook a statutory consultation on its draft WRMP 2019, which presented two different options: a 'Preferred Plan' and an 'Alternative Plan'. The Alternative Plan gained favour amongst many consultees and received endorsement. The subsidiary carefully considered comments received in respect of the Alternative Plan and made changes, where considered necessary, to develop its revised draft WRMP. The subsidiary adopted an intensive approach to assurance of its revised draft WRMP prior to its publication on 1 March 2019. The subsidiary invited customers, regulators and stakeholders to give it their feedback and views by 26 April 2019, and submitted its final WRMP to the Secretary of State on 7 June 2019. The subsidiary expects to publish its final plan in late 2019.

15. Failure to secure appropriate financing for business activities	↑
Risk: The subsidiary has an on-going liquidity requirement, driven by the operational cash flows of the business and its substantial capital investment programme. This results in liquidity risk in the event that it is unable to meet its cash flow requirements as and when they fall due. The subsidiary is subject to a number of covenants in relation to its borrowings. If a covenant is breached, this could lead to an event of default with any outstanding borrowings, becoming immediately repayable. This could also impact the subsidiary's ability to raise funds on sufficiently favourable terms in the future. During the year the subsidiary submitted its AMP7 Business Plan in which it increased its expected level of investment, such that further funding will be required in AMP7, which has heightened the risk. If credit rating agencies consider that the subsidiary has insufficient financial flexibility to accommodate lower returns as a result of an unfavourable PR19 outcome, there is a risk that the subsidiary may be downgraded, which may impact on its ability to raise funds on sufficiently favourable terms.	**Mitigation:** The subsidiary has revolving loan facilities, cash balances and standby loan facilities to meet its forecast cash flow needs. Its Treasury Policy requires us to maintain a minimum level of liquidity capable of covering at least 12 months' forecast cash flow requirements. Longer term financing needs are sourced from the private and public bond markets. The subsidiary has secured financing financing for the remainder of AMP6 and into the beginning of AMP7. The subsidiary has £14.2m of debt maturing in AMP7 and a spread of maturity beyond this. The subsidiary's policy is to maintain a diverse portfolio of counterparties through which it can access liquidity at all times. This ensures it is not reliant on any single treasury counterparty. The subsidiary has a regular monitoring and certification process of the financial covenants within its Whole Business Securitisation ('WBS') documentation. This covers information, financial and general covenants. The subsidiary's Treasury policy requires that financial covenants, which include gearing and interest cover ratios, are monitored and reported on a regular basis to its Board.

Principal risks and uncertainties (continued)

16. Macro-economic risk (interest rate and inflation risks)	↔
Risk: Movements in interest rates can result in an increase in the cost of the subsidiary's debt. It has a financial covenant within its WBS documentation stipulating that at least 85% of its outstanding debt is hedged against movements in interest rates. Wholesale revenues in a given financial year are explicitly linked to the RPI published the previous November. An inability to control its cost inflation on the same basis would lead to a reduction in the subsidiary's profitability. Its RCV is also linked to RPI and nominal returns are therefore likely to be further reduced in a low inflation environment. The subsidiary operates a pension plan providing defined benefits based on final pensionable salary. The assets and liabilities within the plan depend on a number of external factors outside its control, including performance of equity markets, interest rates and future inflation, which may increase the cost of cash contributions. Customer debt and affordability remain key areas of focus for the subsidiary. A downturn in the economy may lead to an increase in unpaid water customer bills. The subsidiary is not permitted to disconnect water supplies to household and certain other types of premises in the event of non-payment, resulting in loss of revenue and increased cost of collection.	**Mitigation:** Interest rate risk is primarily managed by using a mixture of fixed rate and inflation-linked borrowings, and approved hedging instruments. Further disclosure on the management of interest rate and liquidity risks is included in note A4 to the financial statements. Each year the subsidiary undertakes a robust and challenging budgeting process to ensure costs are clearly understood and then subsequently controlled during the financial year. It also uses inflation-linked debt to ensure a proportion of its interest costs are linked to RPI and therefore offsets an element of the reduction in revenue and RCV that results from lower inflation. In August 2018, the subsidiary transacted a RPI linked inflation swap increasing the proportion of debt linked to inflation to 50%. The subsidiary's defined benefits pension plan has been closed to new members since September 2004 and the assets of the plan are held separately from those of the company. The subsidiary has invested in its defined benefit pension plan so that it is in a surplus on a technical provisions basis (refer to notes 9 and A5 to the financial statements) and the latest actuarial valuation of the defined benefit section of the AWPP, determined by an independent qualified actuary, completed in the year concluded that the pension plan was fully funded on a self sufficiency basis as at 31 December 2017. The subsidiary signed a new schedule of contributions effective from October 2018 and no further deficit payments are required. 90% of the interest rate and inflation risk associated with the plan's liabilities are hedged by the plan's assets through Liability Driven Investment. The subsidiary has processes and teams dedicated to the efficient collection of customer debt, and outsource the recovery of debt where initial recovery action has taken place to a number of debt collection agencies. For those customers who want to pay their bill but struggle to do so, the subsidiary has payment arrangements that are as flexible as possible and it encourages customers who find themselves in difficulty to contact them as early as possible. The subsidiary also has a social tariff 'LIFT' to help support customers who are least able to pay their bills.

Strategic report
for the year ended 31 March 2019 (continued)

Principal risks and uncertainties (continued)

Affinity for Business (Retail) Limited

<table>
<tr><td colspan="2">1. Health and safety</td></tr>
<tr><td>Risk: Injuries and accidents to the subsidiary's people and the public:

Failing to manage this risk may result in disruption to operations, reputational damage, criminal fines, civil damages and regulatory penalties. The subsidiary achieved accreditation under ISO 45001 safety standard and helps its employees to take personal responsibility for their own safety and the safety of others.</td><td>Mitigation: The subsidiary's health & safety strategy focuses on staff/team compliance and leadership example. This is backed up with accreditation to ISO 45001 with a series of policies and guidance to support day to day activities.

The subsidiary supports initiatives for mental health and encourages staff to become first aiders and fire marshals and encourages all staff to be responsible for themselves and all those around them, whether in the office or in the field.</td></tr>
<tr><td colspan="2">2. Unavailability of resources (people and materials)</td></tr>
<tr><td>Risk: The subsidiary relies on the availability of skilled employees and contractor resources to maintain service levels and implement our investment plans. In the event of these resources being unavailable, the subsidiary may experience significant disruption to its service, damage to its reputation and consequent regulatory action.</td><td>Mitigation: The subsidiary seeks to ensure that its relationship with critical suppliers is secured under long-term agreements, where appropriate. For key activities, it may retain more than one supplier to mitigate the risk of supplier failure.

The subsidiary also undertakes significant due diligence in the selection and on-going management of suppliers through audit, inspection and verification of performance.

The subsidiary also seeks to mitigate this risk by maintaining a constructive relationship with employees through succession planning and investing in its employees through training and other reward schemes.</td></tr>
<tr><td colspan="2">3. Failure to supply wholesome drinking water</td></tr>
<tr><td>Risk: The subsidiary has a duty under section 68 of the Water Industry Act 1991 when supplying water to any premises for domestic or food production purposes to ensure that water is wholesome at the time of supply.

Breach of this duty can result in imposition of an enforcement order and/or a financial penalty of up to 10% of its annual turnover and would also cause reputational damage.

The Water Supply (Water Quality) Regulations 2016 define "wholesome" and set out other requirements in relation to water quality. It is a criminal offence under section 70 of the Water Industry Act 1991 to supply water unfit for human consumption.</td><td>Mitigation: The subsidiary maintains a water quality record that details our water supply zones, particulars of any authorised departure from water quality standards in respect of that zone and details of any actions that it had been required to take pursuant to any enforcement order or notice.

The Wholesale Retail Code provides for drinking water quality incidents to be managed by the wholesaler under the subsidiary's Wholesale Contracts. It has in place twenty-four hour contact arrangements with its wholesalers to allow it to assist in the event of a drinking water quality incident. It understands its obligations to follow the reasonable instructions of the wholesaler in relation to any water quality incident.</td></tr>
</table>

Daiwater Investment Limited

Strategic report
for the year ended 31 March 2019 (continued)

Principal risks and uncertainties (continued)

4. Information security or privacy failure	
Risk: The subsidiary's customer information and data are at risk from unauthorised disclosure and improper use. Failure to protect such information may lead to increased costs of operation, reputational damage, criminal fines and civil damages. As the use of online communications, cloud-based technology and the sophistication of hackers continue to increase, so too does the risk of cyber attack.	**Mitigation:** During 2018/19, the subsidiary continued to strengthen its capabilities to ensure that its technical and organisational controls against the unauthorised disclosure, loss or improper use of data are kept under review and improved where appropriate. Alignment with ISO 27001, the global information security standard, will demonstrate the subsidiary's commitment to security best practices and ensure that it meets relevant regulatory requirements. The subsidiary also continues to monitor and enhance its information security management system, designed to protect itself against current and future threats.
5. Failure to adequately protect personal data	
Risk: GDPR places a legal obligation on organisations to handle personal data securely, in order to avoid that data being put at risk from unauthorised or unlawful processing, accidental loss, destruction or damage. Non-compliance with the new regulation could result in a fine of up to 4% of worldwide turnover compared to a previous maximum £500,000 fine under the Data Protection Act.	**Mitigation:** During 2018/19, the subsidiary successfully enhanced relevant business processes to take account of GDPR, which came into effect in May 2018. All employees of the subsidiary were trained on the new requirements which are now embedded in the subsidiary's day-to-day operations. Privacy impact assessments are carried out for all projects and initiatives to analyse the potential effects on the privacy of individuals. The subsidiary's enterprise-level security controls, aligned with ISO 27001, are designed to secure all its information assets and therefore contribute to the protection of all personal data which the subsidiary processes.
6. Loss of customers	
Risk: Following the introduction of competition into the Business Retail market, the subsidiary's customers are free to select an alternative supplier.	**Mitigation:** The subsidiary seeks to secure contractual commitment from its in-area customers, using a size and sector specific range of customer offers. It invests in good quality customer service, solving problems first time and a multi-channel approach to contact.
7. Debt risk	
Risk: Customer Debt is a key area of focus for the subsidiary, given the relatively low margins and difficulties in enforcing payment.	**Mitigation:** The subsidiary has processes and teams dedicated to the efficient collection of customer debt, and support from a panel of collection agencies.

Strategic report
for the year ended 31 March 2019 (continued)

Approval of the strategic report

Approved by the Board and signed by its order:

Colin Caldwell
Company Secretary
19 December 2019

Daiwater Investment Limited

Directors' report
for the year ended 31 March 2019

Introduction

The directors present their annual report and the audited consolidated financial statements of Daiwater Investment Limited ('the company') for the year ended 31 March 2019.

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

The company is a limited liability company registered in England and Wales and it was the ultimate holding and controlling company of the Affinity Water group in the United Kingdom throughout the year. Details of the ownership of the company and the group structure are set out on pages 20 to 23 and note 24 of these financial statements. The address of the principal place of business is Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ.

The strategic report from pages 4 to 18 provides information relating to the group, its strategy and its results and financial position for the year ended 31 March 2019. Details of the risks and principal uncertainties facing the group are set out on pages 5 to 18.

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 2019.

The directors have declared and paid the following ordinary dividends to the group's shareholders during the year ended 31 March 2019:

	£000
First interim paid of 0.672p per share	**5,000**
Second interim paid of 0.215p per share	**1,600**
	6,600

No final dividend is proposed (2018: £nil). All of the dividend declared and paid in the year ended 31 March 2019 related to the group's non-appointed business (2018: £8.0m of the £58.5m dividends declared and paid).

Daiwater Investment Limited

Directors' report
for the year ended 31 March 2019 (continued)

Significant events during the year

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.

Details of the significant events relating to Affinity Water Limited, that occurred during the year are set out in the highlights, Chairman's statement and Chief Executive Officer's introduction of its own annual report and financial statements for the year ended 31 March 2019.

Details of the significant events relating to Affinity for Business (Retail) Limited, that occurred during the year are set out in the Chairman's statement of its own annual report and financial statements for the year ended 31 March 2019.

Ownership

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

- Allianz Infrastructure Holding I Pte. Limited
- DIF Management Holding BV
- DIF Management UK Limited
- HICL Infrastructure plc
- InfraRed Capital Partners (Management) LLP

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

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

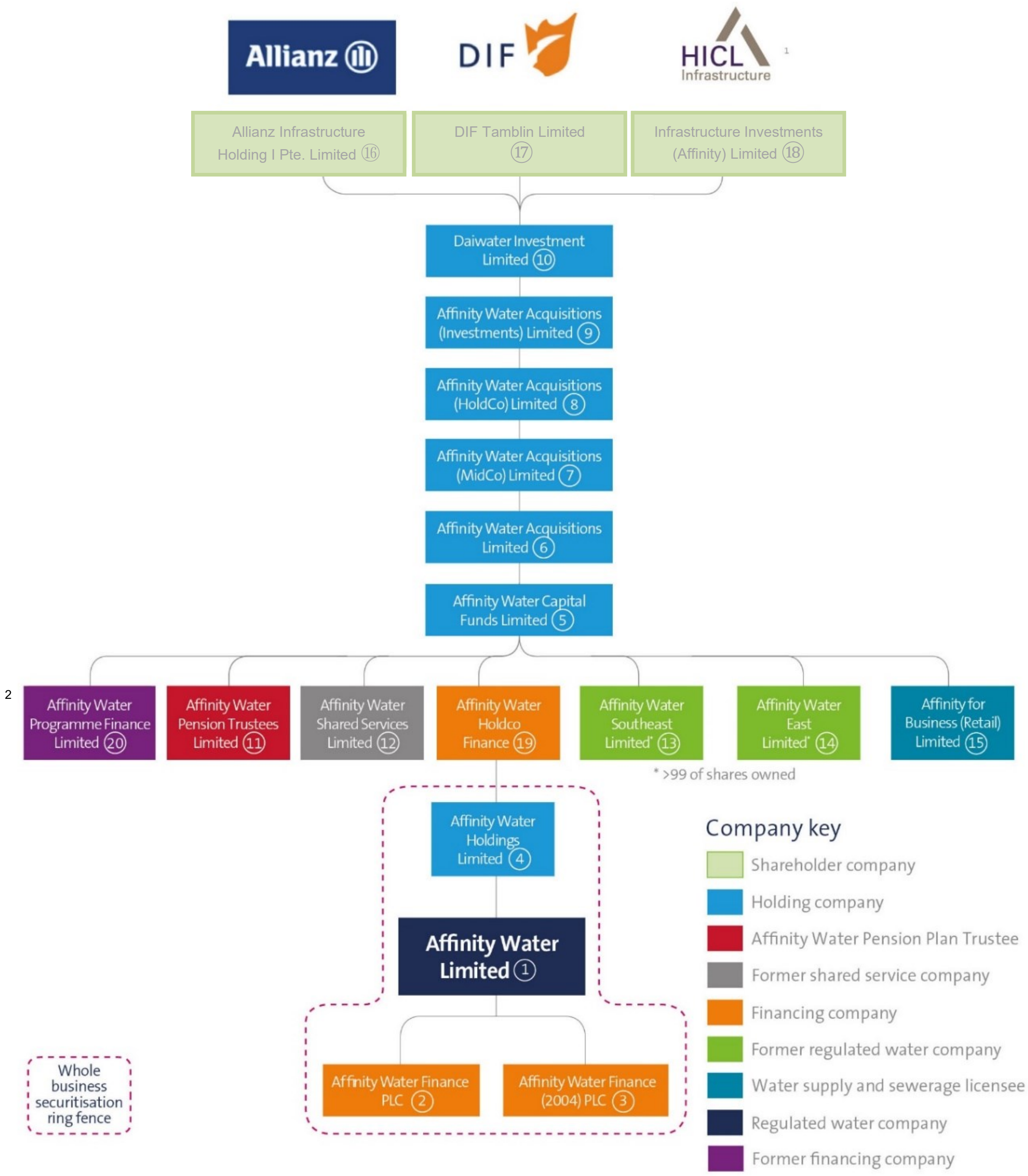
- refrain from any action which would cause the Affinity Water Limited to breach any of its obligations under the Water Industry Act 1991 or the conditions of its Instrument of Appointment; and

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

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

Ownership (continued)

The chart below shows the effective equity interests held by each owner as at 31 March 2019, and the group structure, excluding dormant subsidiaries. Unless otherwise indicated, all companies are wholly owned by the parent company shown. The numbers listed alongside the companies within the group structure may be cross referenced to the table on pages 22 and 21.



[1] HICL Infrastructure sold down 3.4% of their interest to a small group of co-investors, comprising UK local authority pension funds in June 2017.
[2] In January 2019, Affinity Water Limited transferred its investment in Affinity Water Programme Finance Limited to Affinity Water Capital Funds Limited and acquired Affinity Water Finance PLC from Affinity Water Capital Funds Limited.

Directors' report for the year ended 31 March 2019 (continued)

Group structure

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

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

Daiwater Investment Limited

Directors' report
for the year ended 31 March 2019 (continued)

Group structure (continued)

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

Directors' report for the year ended 31 March 2019 (continued)

Debt financing

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

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

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

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

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

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

Debt	Bond £000	Coupon	Maturity Date
Class A fixed rate bond 2026*	250,000	5.875%	July 2026
Class A fixed rate bond 2036*	250,000	4.500%	March 2036
Class A RPI linked bond 2045*	190,000	1.548% (real)	June 2045
Class A fixed rate bond 2042*	85,000	3.278%	August 2042
Class A fixed rate bond 2033*	60,000	2.699%	November 2033
Class A CPI linked bond 2042*	60,000	0.230% (real)	November 2042
Class A fixed rate bond 2022*	14,204	3.625%	September 2022
Total Class A	**909,204**		
Class B RPI linked bond 2033	95,000	3.249% (real)	June 2033
Class B RPI linked bond 2033	10,000	1.024% (real)	June 2033
Total Class B	**105,000**		
Total	**1,014,204**		

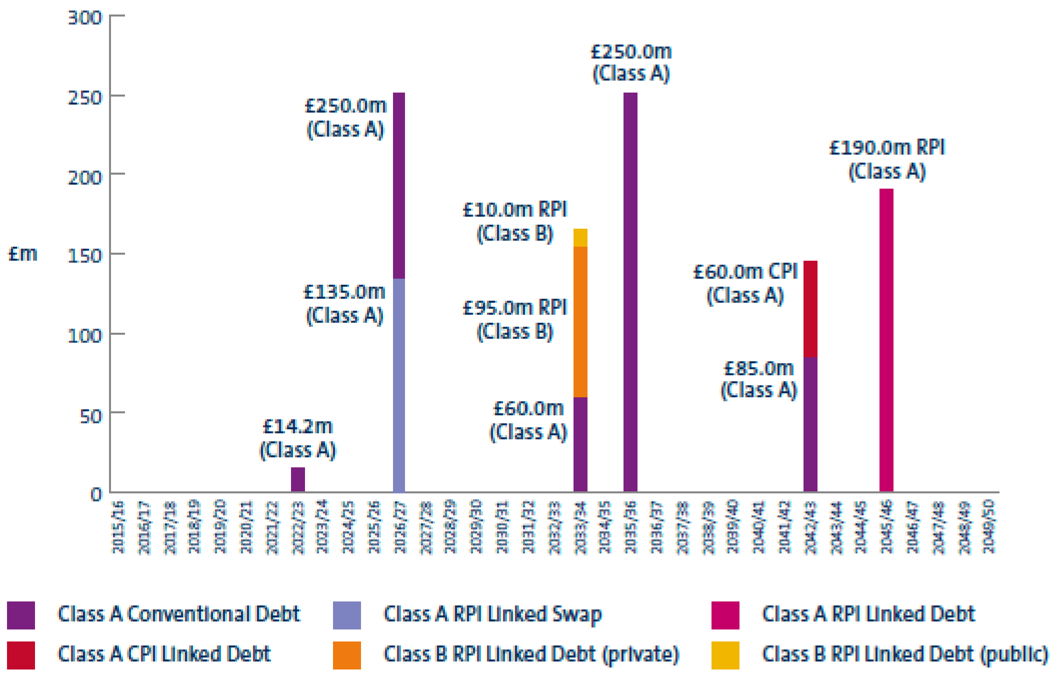
*Listed on the London Stock Exchange

Daiwater Investment Limited

Directors' report
for the year ended 31 March 2019 (continued)

Debt financing (continued)

The following chart shows the maturity profile of the bonds at 31 March 2019:



The credit ratings for the group's bonds assigned by the rating agencies, Moody's and Standard & Poor's, at 31 March 2019 were as follows:

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

Moody's credit ratings were last affirmed in January 2019. Standard & Poor's ratings were reaffirmed in March 2019.

Directors' report
for the year ended 31 March 2019 (continued)

Debt financing (continued)

The total value of the issued bonds can be reconciled to the group's net debt position at 31 March 2019 as follows:

	2019 £000
Nominal value of Class A fixed interest bonds issued	659,204
Nominal value of Class A index linked bonds issued	250,000
Nominal value of Class B index linked bonds issued	105,000
Total nominal value of bonds issued	1,014,204
Accretion on Class A index linked bonds	30,140
Accretion on Class B index linked bonds	15,282
Accretion on financial derivative	1,679
Capitalised bond issue costs and net premium/discount related to Class A bonds	19,292
Capitalised bond issue costs relating to Class B bonds	(1,249)
Capitalised issue costs relating to financial derivative	(70)
Fair value adjustment on acquisition	349,623
Amortisation of fair value adjustment	(46,378)
Bank term loan	25,000
Debentures	34
Cash in hand	(113,315)
Net debt	**1,294,242**

Affinity Water Limited, the group's principal trading subsidiary has two revolving credit facilities, £60.0m (2018: £60.0m) provided by Barclays Bank PLC and £40.0m (2018: £40.0m) provided by Lloyds Bank PLC. The facilities are intended for the purpose of financing capital expenditure and working capital requirements to the extent that additional funding is required by the subsidiary.

Affinity Water Limited also has available two standby facilities with different counterparties in the event of a liquidity shortfall: a 364 day revolving Debt Service Reserve Facility of £38.0m (2018: £38.0m), which is intended for the purpose of funding any debt service payments, and a 364 day revolving Operations and Maintenance Reserve Facility of £23.0m (2018: £20.0m), which is intended for the purpose of funding operating and capital maintenance expenditure.

Affinity Water Holdco Finance Limited has £25.0m (2018: £25.0m) of external debt due for repayment 31 July 2020. These funds were on-lent to Affinity Water Capital Funds Limited and then onto the non-household retail trading subsidiary, Affinity for Business (Retail) Limited, to enable it to operate successfully in the non-household retail market.

Daiwater Investment Limited

Directors’ report
for the year ended 31 March 2019 (continued)

Board of directors

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

Certain Board members are also directors of other group companies. The numbers listed alongside their name in the table below may be cross referenced to the relevant company shown on the structure chart on page 21.

The table below sets out attendance at Board meetings for the year ended 31 March 2019.

	Number of meetings
Gareth Craig* ①②③④⑤⑥⑦⑧⑨⑱⑲	1/2
Tom Goossens ④⑤⑥⑦⑧⑨⑲	2/3
Jaroslava Korpanec ①②③④⑤⑥⑦⑧⑨⑯⑲	3/3
Tobias Richardson* ④⑤⑥⑦⑧⑨⑲	0/2
Anthony Roper* ①②③④⑤⑥⑦⑧⑨⑲	2/2
Angela Roshier ①②③④⑤⑥⑦⑧⑨⑰⑲	3/3
Scott Springett* ④⑤⑥⑦⑧⑨⑲	2/2

* denotes not a member of the Board for the whole year

Corporate governance

The group and company benefits from the corporate governance arrangements established by both Affinity Water Limited and Affinity for Business (Retail) Limited, full details of which can be found in each company's own annual report and financial statements for the year ended 31 March 2019, together with more detailed corporate reporting disclosures.

Affinity Water Limited, the group's principal trading subsidiary, remains committed to the highest standards of governance and supports the principles of good corporate governance set out in the 2016 UK Corporate Governance Code ('the Code') and the UK Stewardship Code. It is 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 the principles set out in Ofwat's 2014 paper: *Board leadership, transparency and governance – holding company principles*.

The principal trading subsidiary complied with the principles of the Code during 2018/19, except in terms of board composition, appointment of a senior independent director ('SID') and re-election of directors. This is explained in detail in its own annual report and financial statements. The reason for each departure is explained within the relevant section of Affinity Water Limited's corporate governance report for the year ended 31 March 2019. The Board of Affinity Water Limited considers its governance arrangements appropriate for a company owned by private investors. The Board appointed an additional independent non-executive director on 24 January 2019 and therefore became fully compliant with regard to the Code requirements set out for board composition from that date. The Board also appointed a Senior Independent Director during the year and therefore became fully compliant with the Code requirement from the appointment date.

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 stakeholder website:
stakeholder.affinitywater.co.uk.

Financial and business reporting

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

The Board believes that the disclosures set out on pages 4 to 18 of the annual report and financial statements provide the information necessary for shareholders to assess the group's performance, business model and strategy.

Market environment

The debate over water companies' regulation and governance, and their long-term requirements continued during the year, with nationalisation of the industry remaining a key topic. The Labour Party has stated that it intends water and sewerage companies to be run by local councils, workers and customers, although it has not yet commented on the risks involved with a local government-run water industry, or the detail of how it would meet future funding and investment requirements. Affinity Water Limited and its predecessor companies were private companies already before the general privatisation of much of the industry in 1989. A risk has been captured in the subsidiary's strategic risk register this year to reflect that nationalisation could be conducted in such a way that would result in it no longer being viable.

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

Future developments

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

Likely future developments in the business resulting from expected changes in the regulatory and competitive environments that both trading subsidiaries of the group operate in are discussed in the strategic report in their own annual reports and financial statements for the year ended 31 March 2019.

Research and development activities

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

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

Political contributions

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

Information required under the Listing Rules

During the year no interest was capitalised by the group.

The remuneration report in Affinity Water Limited's annual report and financial statements for the year ended 31 March 2019 provides disclosures in relation to relevant requirements of the Listing Rules.

The remuneration of Affinity for Business (Retail) Limited's directors is detailed in its own individual company financial statements for the year ended 31 March 2019.

Employee matters

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

Affinity Water Limited maintains a network of trained mental health first aiders within its business and continues to publicise offerings for its Employee Assistance Programme. The re-scoping of its occupational health surveillance will ensure it gives the correct level of health screening for each job role.

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

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

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

Greenhouse gas emissions

The greenhouse gases emitted by the group are those of its principal trading subsidiary, Affinity Water Limited, which are reported in the strategic report of its annual report and financial statements for the year ended 31 March 2019.

Due to the nature of the group's non-household trading subsidiary, Affinity for Business (Retail) Limited, no figures are disclosed for this entity. See the company's individual financial statements for details on their environmental considerations and policies.

Financial instruments disclosures

Details are included within risk number 16 on page 13 of the strategic report and in note A4 of the financial statements.

Events after the reporting period

There were no significant events after the reporting period.

Daiwater Investment Limited

Directors' report
for the year ended 31 March 2019 (continued)

Statement of directors' responsibilities

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

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

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

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

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

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

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

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

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

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

Directors' report
for the year ended 31 March 2019 (continued)

Independent auditor

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

By order of the Board

Colin Caldwell
Company Secretary
19 December 2019

Registered Office:

Tamblin Way
Hatfield
Hertfordshire
AL10 9EZ

Independent auditor's 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 2019 and of the group's loss and of the group's and the company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the consolidated and company statements of financial position as at 31 March 2019; the consolidated income statement and consolidated statement of comprehensive income, the consolidated and company statements of cash flows, and the consolidated and company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

ISAs (UK) require us to report to you when:

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

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 31, 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 auditor's report to the members of Daiwater Investment Limited (continued)

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.

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Owen Mackney (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Watford
19 December 2019

Daiwater Investment Limited

Consolidated income statement
for the year ended 31 March 2019
(Registered Number 10738347)

	Note	Year to 31 March 2019 £000	11 month period to 31 March 2018 £000
Revenue	1	**328,210**	274,163
Cost of sales		**(230,966)**	(181,451)
Gross profit		**97,244**	92,712
Administrative expenses	2.1	**(178,411)**	(53,410)
Net impairment losses on financial and contract assets	2.1	**(6,781)**	(8,187)
Other income	2.2	**17,452**	14,760
Operating (loss)/profit	2	**(70,496)**	45,875
Finance income	4	**32,895**	22,024
Finance costs	4	**(49,750)**	(41,805)
Fair value loss on financial derivative	4	**(2,389)**	-
Finance costs – net		**(19,244)**	(19,781)
(Loss)/profit before tax		**(89,740)**	26,094
Tax expense	5	**(5,960)**	(9,105)
(Loss)/profit for the year		**(95,700)**	16,989
(Loss)/profit is attributable to:			
Owners of the group		**(95,822)**	16,870
Non-controlling interests		**122**	119
		(95,700)	16,989

All losses of the group in the year are from continuing operations.

The notes on pages 44 to 103 are an integral part of these financial statements.

Daiwater Investment Limited

Consolidated statement of comprehensive income for the year ended 31 March 2019

(Registered Number 10738347)

	Note	**Year to 31 March 2019**	11 month period to 31 March 2018
		£000	£000
(Loss)/profit for the year		**(95,700)**	16,989
Other comprehensive (loss)/income for the year which will not be reclassified to profit or loss:			
Remeasurements of post-employment benefit assets	9	**(8,747)**	28,990
Deferred tax credit/(charge) on items that will not be reclassified	5	**1,487**	(4,928)
Other comprehensive (loss)/income for the year, net of tax		**(7,260)**	24,062
Total comprehensive (loss)/income for the year		**(102,960)**	41,051
Total comprehensive (loss)/income is attributable to:			
Owners of the group		**(103,082)**	40,932
Non-controlling interests		**122**	119
		(102,960)	41,051

The notes on pages 44 to 103 are an integral part of these financial statements.

Daiwater Investment Limited

Consolidated statement of financial position as at 31 March 2019

(Registered Number 10738347)

	Note	2019 £000	2018 £000
Assets			
Non-current assets			
Property, plant and equipment	6	**1,516,087**	1,473,431
Intangible assets	7	**681,915**	811,688
Investments	8	**51**	51
Retirement benefit surplus	9	**101,194**	105,558
Other receivables	11	**2,215**	-
		2,301,462	2,390,728
Current assets			
Inventories	10	**2,716**	1,631
Trade and other receivables	11	**101,524**	87,746
Current tax assets		**135**	3,718
Cash and cash equivalents	12	**113,315**	121,045
		217,690	214,140
Total assets		**2,519,152**	2,604,868
Equity and liabilities			
Equity			
Share capital	13	**744,133**	744,133
Accumulated losses		**(119,750)**	(10,068)
Non-controlling interests		**2,769**	2,766
Total equity		**627,152**	736,831
Liabilities			
Non-current liabilities			
Trade and other payables	14	**115,759**	99,291
Borrowings	15	**1,405,956**	1,398,534
Derivative financial instrument	16	**3,997**	-
Deferred tax liabilities	17	**199,159**	198,290
Provisions for other liabilities and charges	18	**4,907**	3,232
		1,729,778	1,699,347
Current liabilities			
Trade and other payables	14	**160,060**	143,690
Bank term loan	15	**-**	25,000
Provisions for other liabilities and charges	18	**2,162**	-
		162,222	168,690
Total liabilities		**1,892,000**	1,868,037
Total equity and liabilities		**2,519,152**	2,604,868

The notes on pages 44 to 103 are an integral part of these financial statements. The statutory financial statements on pages 36 to 103 were approved by the Board of Directors and were signed and authorised for issue on 19 December 2019 on its behalf by:

Anthony Roper
Director

Daiwater Investment Limited

Company statement of financial position as at 31 March 2019

(Registered Number 10738347)

	Note	2019 £000	2018 £000
Non-current assets			
Investments	8	**614,524**	614,524
		614,524	614,524
Current assets			
Amounts due from group undertakings	A7	**142,661**	131,416
		142,661	131,416
Total assets		**757,185**	745,940
Equity			
Share capital		**744,133**	744,133
Retained earnings[1]		**9,332**	224
		753,465	744,357
Current liabilities			
Current tax liabilities		**3,720**	1,583
Total equity and liabilities		**757,185**	745,940

The notes on pages 44 to 103 are an integral part of these financial statements. The statutory financial statements on pages 36 to 103 were approved by the Board of Directors and were signed and authorised for issue on 19 December 2019 on its behalf by:

Anthony Roper
Director

[1] Profit for the year of £15,708,000 (2018: £51,224,000) for the company, consisting of interest and dividend income from its subsidiary undertakings, is included within retained earnings. £6,600,000 (2018: £51,000,000) of dividends were paid to the company's shareholders.

Daiwater Investment Limited

Consolidated statement of changes in equity for the year ended 31 March 2019

(Registered Number 10738347)

	Note	Attributable to owners of the group				
		Share capital	**Accumulated losses**	**Total**	**Non-controlling interests**	**Total**
		£000	**£000**	**£000**	**£000**	**£000**
Balance as at 24 April 2017		-	-	-	-	-
Profit for the period		-	16,870	16,870	119	16,989
Other comprehensive income for the period		-	24,062	24,062	-	24,062
Total comprehensive income for the period		-	40,932	40,932	119	41,051
Issue of ordinary shares		744,133	-	744,133	-	744,133
Non controlling interests acquired		-	-	-	2,761	2,761
Dividends	19	-	(51,000)	(51,000)	(114)	(51,114)
Total transactions with owners recognised directly in equity		744,133	(51,000)	693,133	2,647	695,780
Balance as at 31 March 2018		744,133	(10,068)	734,065	2,766	736,831
Balance as at 1 April 2018		**744,133**	**(10,068)**	**734,065**	**2,766**	**736,831**
(Loss)/profit for the year		**-**	**(95,822)**	**(95,822)**	**122**	**(95,700)**
Other comprehensive loss for the year		**-**	**(7,260)**	**(7,260)**	**-**	**(7,260)**
Total comprehensive (loss)/profit for the year		**-**	**(103,082)**	**(103,082)**	**122**	**(102,960)**
Dividends	**19**	**-**	**(6,600)**	**(6,600)**	**(119)**	**(6,719)**
Total transactions with owners recognised directly in equity		**-**	**(6,600)**	**(6,600)**	**(119)**	**(6,719)**
Balance as at 31 March 2019		**744,133**	**(119,750)**	**624,383**	**2,769**	**627,152**

The notes on pages 44 to 103 are an integral part of these financial statements.

Daiwater Investment Limited

Company statement of changes in equity for the year ended 31 March 2019

(Registered Number 10738347)

	Note	**Share capital £000**	**Retained earnings £000**	**Total £000**
Balance as at 24 April 2017		-	-	-
Profit for the period		-	51,224	51,224
Total comprehensive income for the period		-	51,224	51,224
Issue of ordinary shares		744,133	-	744,133
Dividends	19	-	(51,000)	(51,000)
Total transactions with owners recognised directly in equity		744,133	(51,000)	693,133
Balance as at 31 March 2018		744,133	224	744,357
Balance as at 1 April 2018		**744,133**	**224**	**744,357**
Profit for the year		**-**	**15,708**	**15,708**
Total comprehensive income for the year		**-**	**15,708**	**15,708**
Dividends	19	**-**	**(6,600)**	**(6,600)**
Total transactions with owners recognised directly in equity		**-**	**(6,600)**	**(6,600)**
Balance as at 31 March 2019		**744,133**	**9,332**	**753,465**

The notes on pages 44 to 103 are an integral part of these financial statements.

Daiwater Investment Limited

Consolidated statement of cash flows
for the year ended 31 March 2019
(Registered Number 10738347)

	Note	Year to 31 March 2019 £000	11 month period to 31 March 2018 £000
Cash flows from operating activities			
Cash generated from operations	20	**114,254**	97,614
Interest paid		**(40,351)**	(36,727)
Tax paid		**-**	(8,652)
Net cash generated from operating activities		**73,903**	52,235
Cash flows from investing activities			
Purchases of property, plant and equipment		**(101,037)**	(95,895)
Capital contributions		**30,746**	13,187
Proceeds from sale of property, plant and equipment		**1,058**	543
Purchase of intangibles		**(6,490)**	(9,069)
Interest received		**809**	233
Net cash used in investing activities		**(74,914)**	(91,001)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**-**	744,133
Acquisition of interest in a subsidiary		**-**	(601,190)
Cash taken over from Affinity Water Acquisitions Limited		**-**	58,000
Repayments of borrowing		**-**	(131,591)
Other financing activities		**-**	(2,510)
Proceeds from loan from bank		**-**	25,000
Proceeds from bond issue		**-**	119,083
Dividends paid to group's shareholders		**(6,600)**	(51,000)
Dividends paid to non-controlling interests in subsidiary undertakings		**(119)**	(114)
Net cash (used in)/generated from financing activities		**(6,719)**	159,811
Net (decrease)/increase in cash and cash equivalents		**(7,730)**	121,045
Cash and cash equivalents at beginning of year		**121,045**	-
Cash and cash equivalents at end of year	12	**113,315**	121,045

The notes on pages 44 to 103 are an integral part of these financial statements.

Daiwater Investment Limited

Company statement of cash flows for the year ended 31 March 2019

(Registered Number 10738347)

	Note	Year to 31 March 2019 £000	11 month period to 31 March 2018 £000
Cash flows from operating activities			
Cash generated from operations	20	**6,600**	43,285
Net cash generated from operating activities		**6,600**	43,285
Cash flows from investing activities			
Acquisition of subsidiary undertaking		**-**	(614,524)
Loans granted to subsidiary undertakings		**-**	(131,241)
Interest received		**-**	9,347
Net cash used in investing activities		**-**	(736,418)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**-**	744,133
Dividends paid to shareholders		**(6,600)**	(51,000)
Net cash (used in)/generated from financing activities		**(6,600)**	693,133
Net increase in cash and cash equivalents		**-**	-
Cash and cash equivalents at beginning of year		**-**	-
Cash and cash equivalents at end of year	12	**-**	-

The notes on pages 44 to 103 are an integral part of these financial statements.

Daiwater Investment Limited

Accounting policies

Basis of preparation

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities (including derivative instruments) at fair value through profit and loss, in accordance with IFRS and IFRS Interpretations Committee ('IFRS IC') interpretations issued, effective and ratified by the EU as at 31 March 2019, and in compliance with the Companies Act 2006.

Going concern

The directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements. This is based on assessment of the principal risks of the group and consideration of the group's budgeted cash flows, long term forecasts and related assumptions, as well as available debt facilities.

Basis of consolidation

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

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

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

As permitted by Section 408 of the Companies Act 2006, the parent company's profit and loss account has not been included in the financial statements. The parent company's profit for the period has been included within the company's statement of financial position on page 39 by reference to a footnote.

Principles of consolidation

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

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

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

Principal accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out in note A3.

Accounting policies (continued)

Adoption of new and revised standards

Two new standards became applicable for the current reporting period:

- IFRS 9: 'Financial instruments' ('IFRS 9'); and
- IFRS 15: 'Revenue from contracts with customers' ('IFRS 15').

The impact of the adoption of these standards and the new accounting policies are disclosed below.

IFRS 9: 'Financial instruments'

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39: 'Financial instruments' that relates to the classification and measurement of financial instruments. The standard became effective for reporting periods beginning on 1 April 2018.

Recognition and subsequent measurement of financial instruments

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 year and reduced by any payments made in the period. The finance cost recognised in the income statement is allocated to accounting periods over the term of the debt using the effective interest method.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

The accounting policies adopted by the group for initial recognition and subsequent measurement of financial instruments in the current and previous periods are in line with IFRS 9 requirements. There is therefore no impact on the valuation of financial instruments on initial recognition or subsequent measurement as a result of applying the new accounting standard.

The group did not hold any derivative financial instruments in previous reporting periods and therefore has not previously disclosed an accounting policy in relation to these. A derivative contract was entered into during the period, and the following accounting policy, which is in line with the requirements of IFRS 9, has been adopted. 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 in each reporting period. Gains or losses arising on revaluation are recorded in the income statement in the period in which they arise.

Expected credit loss model

With the exception of retailers operating in the non-household retail market, provision for impairment of receivables is 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. At each reporting date the group takes into consideration any significant economic changes that may impact its credit loss model and future credit losses.

Daiwater Investment Limited

Accounting policies (continued)

Adoption of new and revised standards (continued)

IFRS 9: 'Financial instruments' (continued)

Expected credit loss model (continued)

Since 1 April 2017, the group has supplied wholesale water to 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. Management use this assurance and monitor the recoverability of its receivables by assessing cash collection rates since market opening to ensure any uncertain receivables are provided for. At each reporting date the group takes into consideration any significant economic changes that may impact the recoverability of these receivables and future credit losses.

The group has concluded that, given the nature of the financing arrangements, the procedure currently in place to assess the impairment of financial instruments detailed above is deemed sufficient under the expected credit loss model; historical recoverability of trade receivables has shown to be a good indicator of future expected losses, both in the next 12 months and across the lifetime of the instrument. Therefore, no adjustment has been made to provisions for impairment as a result of adopting IFRS 9. The group will take into consideration any significant economic changes that may impact the model and future credit losses at each reporting date.

IFRS 15: 'Revenue from contracts with customers'

The standard became effective for reporting periods beginning on 1 April 2018. IFRS 15 introduces a new revenue recognition model, and replaces IAS 18: 'Revenue' ('IAS 18') and IAS 11: 'Construction contracts' and related interpretations. The standard 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.

The standard has not had an impact on the group's revenue and other income streams detailed in notes 1 and 2.2 of these financial statements or grants and contributions received in respect of property, plant and equipment, as set out on the following page. Therefore, no transitional adjustments are required.

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. The underlying performance obligation is the development and maintenance of the network and ensuring its continued availability to customers. Therefore revenue should be recognised as the customer receives the benefit of this through consuming the water. Under IFRS 15, revenue is measured at the transaction price and is recognised as the customer receives the benefit of the water supply through consuming the water:

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

Accounting policies (continued)

Adoption of new and revised standards (continued)

IFRS 15: ‘Revenue from contracts with customers’ (continued)

Revenue recognition (continued)

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

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

The group has contracts with third parties operating in the non-household retail market for the supply of clean water (wholesale supply). The underlying performance obligation is the development and maintenance of the network, and ensuring its continued availability to retailers on behalf of non-household consumers. Therefore revenue should be recognised as water is consumed. Under IFRS 15 revenue is required to be recognised as the amount which the group has a right to receive. For non-household retailers, the amount which the group has a right to receive is determined by non-household consumption volume data, hence there is no change to the IAS 18 revenue recognition pattern for non-household wholesale revenue.

IFRS 15 requires that 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. Under IFRS 15, such revenue is not recognised. As the group did not recognise such revenue under IAS 18, this does not impact on the group’s revenue recognition policy.

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. Revenue is recognised as the contracts are completed and the performance obligations satisfied. This is in line with the IAS 18 revenue recognition pattern for these income streams.

Grants and contributions

The group receives income (typically from property developers) under the Water Industry Act 1991 as a result of providing new connections to its existing network, and for diverting and extending its existing network. These types of grants and contributions are not government grants within the scope of IAS 20: ‘Accounting for government grants and disclosure of government assistance’ as the contributions are received from developers. Whilst there may not be a written contract with the customer, the legal duties of a company 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, so these grants and contributions fall within the scope of IFRS 15.

Accounting policies (continued)

Adoption of new and revised standards (continued)

IFRS 15: 'Revenue from contracts with customers' (continued)

Grants and contributions (continued)

Connection charges are billed to developers for the provision of a connection to an existing water main, laying a pipe to the boundary of a customers' properties and connecting to their supply pipe. Connection charges have previously been recognised in revenue in the income statement in the period that they became receivable. There has been no change in the treatment of these connection charges on application of IFRS 15, as the performance obligation has been identified as the connection of a service pipe to the main. Once the connection is made, the performance obligation is fulfilled and the income recognised immediately in the income statement.

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

There has been no change in the treatment of these on application of IFRS 15, however the release to the income statement (2019: £2,508,000; 2018: £1,667,000), previously netted off against cost of sales and administrative expenses has been represented in revenue.

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

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

Financing components

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. Consequently, under IFRS 15 the group is not required to adjust any of its transaction prices for the time value of money; this does not represent a change to the previous treatment of revenue.

Accounting policies (continued)

Standards and interpretations which are not yet effective

The following standard is not yet effective and has not been early adopted by the group:

IFRS 16: ‘Leases’

IFRS 16: ‘Leases’ (‘IFRS 16’) addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces IAS 17 ‘Leases’, and related interpretations. The standard is effective for reporting periods beginning 1 January 2019. Following a review of lease arrangements by the group’s finance and commercial functions management has concluded that IFRS 16 will have a material impact on the recognition, measurement, presentation and disclosure of the group’s lease arrangements in its financial statements with effect from 1 April 2019.

As at the reporting date, the group has non-cancellable operating lease commitments of £17,279,000, (refer to note 21). Of these commitments, approximately £67,000 relate to short-term or low-value leases, which will be recognised on a straight-line basis as an expense in the income statement.

For the remaining lease commitments, the group expects to recognise right-of-use assets of approximately £16,500,000, deferred tax liabilities of approximately £2,800,000, lease liabilities of approximately £16,500,000, and deferred tax assets of approximately £2,800,000 on 1 April 2019.

At 31 March 2020, overall net assets are expected to be approximately £100,000 lower, and net current assets will be £3,800,000 lower, due to the presentation of a portion of the liability as a current liability in the statement of financial position.

The group expects that profit after tax will decrease by approximately £100,000 for the year ending 31 March 2020 as a result of adopting IFRS 16.

Operating cash flows will increase and financing cash flows will decrease by approximately £3,800,000, because repayment of the principal portion of the lease liabilities will be classified as a cash flow from financing activities.

The group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets will be measured at the amount of the lease liability on adoption.

There are no other standards that are not yet effective and that would be expected to have a material impact on the group in the current or future reporting periods and on foreseeable future transactions.

Accounting policies (continued)

Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It 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, or areas where assumptions and estimates are significant to the financial information are disclosed below. Additionally, judgements in relation to identifying the services contained within a contract and the customer with whom a contract is entered into, which in turn impacts on how performance obligations are considered, and therefore the recognition of revenue, are disclosed in the IFRS 15: 'Revenue from contracts with customers' section of the Accounting policies (refer to pages 46 to 48) and in note 1.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below and on the following page.

Measured income accrual

The group records an accrual for measured consumption of water that has not yet been billed (refer to note 11). The accrual is estimated using a defined methodology based upon weighted average water consumption by tariff, which is calculated based upon historical information.

Provision for impairment of trade receivables and contract assets

The group makes an estimate of the recoverable value of trade receivables and contract assets and records a provision for impairment based on experience (refer to note 11). This provision is based on, amongst other things, a consideration of actual collection history. At each reporting date, the group takes into consideration any significant economic changes that may impact its credit loss model and future credit losses. The actual level of receivables collected may differ from the estimated levels of recovery, which could impact operating results positively or negatively.

Defined benefit pension plan

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

Accounting policies (continued)

Critical accounting estimates and judgements (continued)

Provision for impairment of goodwill and the water licence

Determining whether goodwill and water licence have been impaired requires an estimation of Affinity Water Limited's, the group's main cash generating unit ('CGU') constituting the smallest identifiable group of assets that generate cash flows for the group for which the carrying amount of the goodwill and water licence are allocated to, fair value less transaction costs. This has been determined using the RCV of Affinity Water Limited at 31 March 2019, 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. An impairment to goodwill of £120,000,000 (2018: £nil) has been recognised in the year ended 31 March 2019 (refer to note 7), which largely reflects Ofwat's responses to Affinity Water Limited's AMP7 business plan submissions (refer to risk 13 on page 13 of the strategic report for further details). No impairment to the water licence has been recognised in the year ended 31 March 2019 (2018: £nil) (refer to note 7).

Impairment of investment in subsidiary

Determining whether the company's investment in its subsidiary has been impaired also requires an estimation of Affinity Water Limited's fair value less transaction costs. As described in the previous paragraph, this has been determined using the RCV of Affinity Water Limited at 31 March 2019, an estimate of the market premium that a private entity would pay for Affinity Water Limited and an estimate of costs of disposal based on transaction costs paid on acquisition of the group in May 2017. The net present value of remaining debt payments associated with Affinity Water Limited's debt at the year-end has been considered in the impairment assessment. The carrying amount of the investment in subsidiary at the date of the statement of financial position was £614,524,000 (2018: £614,524,000) with no impairment loss recognised in either the year ended 31 March 2019 or 2018.

Useful economic lives of property, plant and equipment

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

Critical accounting judgements in applying the entity's accounting policies

Cost capitalisation

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

Daiwater Investment Limited

Notes to the financial statements

1. Revenue

1.1 Disaggregation of revenue from contracts with customers

	Year to 31 March 2019 £000	11 month period to 31 March 2018 £000
Timing of revenue recognition – at a point in time		
Unmeasured supplies	**116,829**	108,230
Measured supplies	**190,017**	153,808
Non-household wholesale revenue	**9,455**	3,883
Connection charges	**9,317**	6,688
Chargeable services	**84**	85
	325,702	272,694
Timing of revenue recognition – over time		
Requisitioned mains/extensions	**569**	503
Diversions	**827**	34
Infrastructure charges	**956**	800
Other	**156**	132
	2,508	1,469
	328,210	274,163

All revenue is derived in the United Kingdom.

1.2 Assets and liabilities related to contracts with customers

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

	31 March 2019 £000	31 March 2018 £000	24 April 2017 £000
Net trade receivables	**39,579**	36,954	-
Contract assets			
Unbilled accrual for metered customers – household customers	**32,392**	28,722	-
Unbilled accrual for metered customers – non-household customers	**14,004**	11,947	-
Contract liabilities			
Payments received in advance – water supplies	**37,263**	33,650	-
Deferred income – water supplies	**1,194**	486	-
Deferred income – other	**2,049**	2,133	-
Deferred grants and contributions	**117,894**	100,515	-
Payments received in advance – grants and contributions	**35,685**	22,655	-

Daiwater Investment Limited

Notes to the financial statements

1. Revenue (continued)

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

Significant changes in contract assets and liabilities

At 31 March 2019, the group had been reimbursed £30,494,000 (2018: £9,256,000) for costs its incurred in relation to the HS2 rail project, which will cross the Affinity Water supply area. During the year, in line with the group's accounting policy for grants and contributions received in respect of property, plant and equipment, which include contributions received for diversions, £10,510,000 relating to costs for assets that have been commissioned was reclassified from payments in advance – grants and contributions to deferred grants and contributions (as at 31 March 2018, no assets had been commissioned and therefore no amounts were included in deferred grants and contributions). At 31 March 2019, £19,984,000 (2018: £9,256,000) of payments received were included in payments in advance – grants and contributions.

Recognition of trade receivables, contract assets and contract liabilities

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

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

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

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

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

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

Daiwater Investment Limited

Notes to the financial statements

1. Revenue (continued)

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

Revenue recognised in relation to contract liabilities

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

	2019 **£000**	2018 £000
Revenue recognised that was included in the contract liability balance at the beginning of the year		
Payments received in advance – water supplies	**33,650**	-
Deferred income – water supplies	**486**	-
Deferred income – other	**2,217**	-
Deferred grants and contributions	**2,508**	-
Payments received in advance – grants and contributions	**7,669**	-
Revenue recognised from performance obligations satisfied in previous years		
Unbilled accrual for metered customers – household customers	**339**	-
Unbilled accrual for metered customers – non-household customers	**(69)**	-

Revenue expected to be derived from unsatisfied performance obligations

IFRS 15 requires the disclosure of the aggregate amount of revenue which is expected to be derived from performance obligations which are unsatisfied as at the end of the reporting period, i.e. the aggregate amount of future revenues from existing ongoing contracts. At 31 March 2019 £10,364,000 (2018: £14,606,000) of revenue is expected to be derived from performance obligations relating to non-household customers which were unsatisfied at the end of the reporting period. The group has applied the practical expedient, set out in paragraph 121(a) of IFRS 15, not to disclose the amount in relation to household water charges as the performance obligation is part of a contract that has an original expected duration of one year or less.

At 31 March 2019, £117,894,000 (2018: £100,515,000) of grants and contributions is expected to be derived from performance obligations which were unsatisfied at the end of the reporting period.

Variable consideration

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

2. Operating profit

2.1 Operating costs

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

	Year to 31 March 2019 £000	11 month period to 31 March 2018 £000
Staff costs (note 3.1)	**70,280**	56,991
Gain on disposal of property, plant and equipment	**(1,058)**	(537)
Loss on disposal of infrastructure assets	**1,714**	1,674
Abandonment of fixed assets	**-**	803
Purchase of bulk water and water supplied under statutory entitlement	**6,911**	6,588
Water abstraction charges	**4,122**	3,457
Business rates	**15,922**	14,029
Chargeable services direct expenditure	**372**	116
Depreciation of infrastructure assets (note 6)	**12,618**	10,074
Depreciation of other property, plant and equipment (note 6)	**47,176**	37,134
Amortisation of intangible assets (note 7)	**16,250**	13,758
Impairment of goodwill (note 7)	**120,000**	-
Impairment of trade receivables and contract assets (note 11)	**6,781**	8,187
Research and development	**192**	193
Operating lease rentals – land and buildings	**1,719**	1,343
Operating lease rentals – other	**2,659**	2,152
Auditor's remuneration (note 2.3)	**805**	400
Cost of inventories used	**351**	1,312

2.2 Other income

	Year to 31 March 2019 £000	11 month period to 31 March 2018 £000
Timing of revenue recognition – at a point in time		
Commission and rentals	**17,452**	14,760

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.

Notes to the financial statements (continued)

2. Operating profit (continued)

2.3 Auditor's remuneration

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

	Year to 31 March 2019 £000	11 month period to 31 March 2018 £000
Fees payable to the company's auditor and its associates for the audit of the parent company and consolidated financial statements	**5**	5
Fees payable to the company's auditor and its associates for other services:		
Audit of the company's subsidiaries	**241**	233
Audit-related assurance services		
– regulatory reporting	**55**	55
– Thames Water and Anglian Water annual returns	**9**	9
– audit related assurance service - other	**34**	33
Other assurance services including services related to bond issue	**6**	61
Other non-audit services	**455**	4
Total auditor's remuneration	**805**	400

3. Employees

3.1 Employee benefit expense (including executive directors)

Group

	Year to 31 March 2019 £000	11 month period to 31 March 2018 £000
Wages and salaries	**65,128**	54,143
Social security costs	**6,366**	5,170
Defined benefit pension costs (note 9)	**5,880**	4,173
Defined contribution pension costs (note A5)	**3,599**	2,152
Other pension administration costs	**1,285**	1,053
Staff costs	**82,258**	66,691
Staff costs capitalised	**(11,881)**	(9,620)
Staff costs recognised in the income statement	**70,377**	57,071

Notes to the financial statements (continued)

3. Employees (continued)

3.2 Average number of people employed

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

By activity	Year to 31 March 2019	11 month period to 31 March 2018
Operations	**830**	814
Customer service	**328**	334
Administration	**284**	270
	1,442	1,418

The company had no employees during the current year (2018: nil).

3.3 Directors' remuneration

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

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

	Year to 31 March 2019 £000	11 month period to 31 March 2018 £000
Aggregate remuneration in respect of qualifying services	**-**	-

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

3.4 Key management personnel compensation

	Year to 31 March 2019 £000	11 month period to 31 March 2018 £000
Short-term employee benefits	**1,649**	3,338
Post-employment benefits	**104**	91
	1,753	3,429

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 2019, and statutory disclosures in Affinity for Business (Retail) Limited's financial statements for the year ended 31 March 2019.

Daiwater Investment Limited

Notes to the financial statements (continued)

4. Finance income and costs

Group

	Year to 31 March 2019 £000	11 month period to 31 March 2018 £000
Finance income:		
Bank interest income	**817**	228
Net interest receivable on RPI linked inflation swap	**2,955**	-
Fair value gains on bonds	**26,294**	20,084
Net income from post-employment benefits	**2,829**	1,712
	32,895	22,024
Finance costs:		
Accretion payable in respect of interest on bonds	**(9,483)**	(10,750)
Interest payable on bonds	**(37,293)**	(30,186)
Accretion payable on financial instrument	**(1,679)**	-
Other	**(1,295)**	(869)
	(49,750)	(41,805)
Fair value loss on financial instrument	**(2,389)**	-
Net finance cost	**(19,244)**	(19,781)

Company

Bank interest income	**-**	2
Interest receivable from subsidiary undertakings	**11,244**	9,345
Total finance income	**11,244**	9,347

5. Tax expense

5.1 Tax expense included in the consolidated income statement

	Year to 31 March 2019 £000	11 month period to 31 March 2018 £000
Current tax:		
– UK corporation tax on profits for the year	**4,024**	5,712
– Adjustment in respect of prior years	**(420)**	(2,355)
Total current tax	**3,604**	3,357
Deferred tax:		
– Origination and reversal of temporary differences	**2,226**	1,800
– Adjustment in respect of prior years	**130**	3,948
Total deferred tax	**2,356**	5,748
Tax expense	**5,960**	9,105

Tax expense assessed for the year is higher than the standard rate of corporation tax in the UK for the year ended 31 March 2019 of 19% (11 month period to 31 March 2018: 19%). The differences are explained below:

	Year to 31 March 2019 £000	11 month period to 31 March 2018 £000
(Loss)/proft before tax	**(89,740)**	26,094
Tax calculated at the standard rate of tax in the UK of 19%	**(17,051)**	4,958
Tax effects of:		
– Adjustments in respect of prior years	**(290)**	1,593
– Impairment of goodwill	**22,800**	-
– Other expenses not deductible for tax purposes	**501**	2,554
Tax expense	**5,960**	9,105

5.2 Tax expense included in the statement of comprehensive income

	Year to 31 March 2019 £000	11 month period to 31 March 2018 £000
Deferred tax:		
- Origination and reversal of temporary differences on retirement benefit surplus	**(1,487)**	4,928

Daiwater Investment Limited

Notes to the financial statements (continued)

5. Tax expense (continued)

5.3 Factors that may affect future tax charges

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

5.4 Reconciliation of current and deferred tax charge

	Year to 31 March 2019	Year to 31 March 2019	11 month period to 31 March 2018	11 month period to 31 March 2018
	£000	%	£000	%
Group (loss)/profit before tax	**(89,740)**		26,094	
Tax on (loss)/profit on ordinary activities at standard UK tax rate of 19%	**(17,051)**	**19.0%**	4,958	19.0%
Tax effect of:				
Depreciation in excess of capital allowances	**2,321**	**(2.6)%**	1,683	6.4%
Write down of fair value adjustment on acquisition of the Affinity Water Acquisitions (Investments) Limited group	**(3,464)**	**3.9%**	(2,487)	(9.4)%
Impairment of goodwill	**22,800**	**(25.4)%**	-	-
Pension movements	**(833)**	**0.9%**	(589)	(2.3)%
Increase in provisions	**56**	**(0.1)%**	186	0.7%
Expenses not deductible for tax purposes	**195**	**(0.2)%**	1,961	7.5%
Adjustment to tax charge in respect of prior years (see below)	**(420)**	**0.5%**	(2,355)	(9.0)%
Reported current tax charge and effective rate	**3,604**	**(4.0)%**	3,357	12.9%
Depreciation in excess of capital allowances	**(1,641)**	**1.8%**	(713)	(2.7)%
Write down of fair value adjustment on acquisition of the Affinity Water Acquisitions (Investments) Limited group	**3,172**	**(3.5)%**	2,152	8.2%
Pension movements	**745**	**(0.8)%**	527	2.0%
Increase in provisions	**(50)**	**0.1%**	(166)	(0.6)%
Adjustments to tax charge in respect of prior years	**130**	**(0.1)%**	3,948	15.1%
Reported deferred tax charge and effective rate	**2,356**	**(2.5)%**	5,748	22.0%
Group tax charge and effective rate	**5,960**	**(6.5)%**	9,105	34.9%

The write down of fair value adjustment on acquisition of the Affinity Water Acquisitions (Investments) Limited group relates to the gain on revaluation of the assets and liabilities of the companies acquired in the prior period. It is an accounting adjustment and is not subject to corporation tax.

An impairment to goodwill of £120,000,000 (2018: £nil) has been recognised in the year ended 31 March 2019 (refer to note 7). This is not tax deductible.

All other significant adjustments to taxable losses for the year ended 31 March 2019 are timing differences, such that tax payments are deferred to later years rather than being permanently reduced. The largest of these adjustments is in respect of tax allowances on capital expenditure, most of which is eligible for tax relief at a rate of either 8% or 18% per annum. These capital allowances provide tax relief in place of accounting depreciation, which is not tax deductible.

Notes to the financial statements (continued)

5. Tax expense (continued)

5.4 Reconciliation of current and deferred tax charge (continued)

Capital allowances at a rate of 100% are available for investment in research and development, and water and energy saving technology. These allowances are yet to be finalised, and the therefore not reflected in the current year's tax provision. The current tax credit and deferred tax charge in respect of prior years are mainly due to capital allowances on prior year investment.

The net prior year tax credit in the prior period reconciliation includes a £998,000 prior year tax charge in respect of Affinity Water Acquisitions (Midco) Limited. The additional tax charge arose as a result of reaching an agreement with HMRC on the disallowable amount of interest on loans from previous related parties. These loans were transferred to Daiwater Investment Limited and Affinity Water Acquisitions (Investments) Limited on 19 May 2017.

Compliance with the group's tax strategy

All group companies were compliant with the group's published tax strategy during the year ended 31 March 2019. The tax strategy is published on Affinity Water Limited's stakeholder website:
https://stakeholder.affinitywater.co.uk/investor-library.aspx

5.5 Taxation and country by country reporting

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

The country by country analysis for the periods ended 31 March 2019 and 2018 is as follows:

Country of incorporation	Tax residence	Net asset value £000	Loss before tax £000	Total tax charge £000	Effective tax rate %	Current tax £000	Number of employees Nr	Staff costs £000
United Kingdom	United Kingdom	**2,519,117**	**(89,745)**	**5,959**	**(6.64)**	**3,603**	**1,442**	**70,280**
Cayman Islands	United Kingdom	**35**	**5**	**1**	**19.0**	**1**	**0**	**0**
Group total as at 31 March 2019		**2,519,152**	**(89,740)**	**5,960**	**(6.64)**	**3,604**	**1,442**	**70,280**
United Kingdom	United Kingdom	2,604,837	26,087	9,104	34.9	3,356	1,418	56,991
Cayman Islands	United Kingdom	31	7	1	20.0	1	0	0
Group total as at 31 March 2018		2,604,868	26,094	9,105	34.9	3,357	1,418	56,991

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

Notes to the financial statements (continued)

6. Property, plant and equipment

Group

	Land, buildings and operational structures £000	Potable water distribution mains £000	Raw water pipes £000	Fixed plant £000	Vehicles and mobile plant £000	Assets in course of construction £000	Total £000
Cost or deemed cost							
At 1 April 2018	312,113	823,371	20,304	752,562	54,748	152,030	**2,115,128**
Additions	-	-	-	29	-	104,135	**104,164**
Transfers to complete	2,899	30,313	3,588	83,530	12,868	(133,198)	**-**
Disposals	(38)	(1,835)	(18)	-	(624)	-	**(2,515)**
At 31 March 2019	314,974	851,849	23,874	836,121	66,992	122,967	**2,216,777**
Accumulated depreciation							
At 1 April 2018	(87,985)	(43,238)	(1,075)	(484,599)	(24,800)	-	**(641,697)**
Charge for the year	(4,547)	(11,991)	(627)	(37,984)	(4,645)	-	**(59,794)**
Disposals	37	139	1	-	624	-	**801**
At 31 March 2019	(92,495)	(55,090)	(1,701)	(522,583)	(28,821)	-	**(700,690)**
Net book amount							
At 1 April 2018	224,128	780,133	19,229	267,963	29,948	152,030	**1,473,431**
Movement in the year	(1,649)	16,626	2,944	45,575	8,223	(29,063)	**42,656**
At 31 March 2019	222,479	796,759	22,173	313,538	38,171	122,967	**1,516,087**

All land and buildings are held as freehold.

Company

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

7. Intangible assets

Group	Goodwill	Billing relation-ships	Water licence	Computer software develop-ment costs	Other	Total
	£000	£000	£000	£000	£000	£000
Cost						
At 1 April 2018	447,036	32,800	300,800	69,375	16	**850,027**
Additions	-	-	-	6,445	32	**6,477**
Impairment	(120,000)	-	-	-	-	**(120,000)**
Disposals	-	-	-	(2,738)	-	**(2,738)**
At 31 March 2019	327,036	32,800	300,800	73,082	48	**733,766**
Accumulated amortisation						
At 1 April 2018	-	(5,697)	-	(32,641)	(1)	**(38,339)**
Charge for the year	-	(6,560)	-	(9,685)	(5)	**(16,250)**
Disposals	-	-	-	2,738	-	**2,738**
At 31 March 2019	-	(12,257)	-	(39,588)	(6)	**(51,851)**
Net book amount						
At 1 April 2018	447,036	27,103	300,800	36,734	15	**811,688**
Movement in year	(120,000)	(6,560)	-	(3,240)	27	**(129,773)**
At 31 March 2019	327,036	20,543	300,800	33,494	42	**681,915**

Goodwill includes £327,036,000 arising on the acquisition of Affinity Water Acquisitions (Investments) Limited on 19 May 2017. 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 an annual review, an impairment to goodwill of £120,000,000 (2018: £nil) has been recognised in the year ended 31 March 2019, which largely reflects Ofwat's responses to Affinity Water Limited's AMP7 business plan submissions in the year (refer to risk 13 on page 13 of the strategic report for further details).

Whilst changes were made to Ofwat's methodology for PR19 between the acquisition of the group in May 2017 and 31 March 2018, the directors consider that it was not clear how these changes would affect the CGU's recoverable amount until the publication of Ofwat's initial assessment of Affinity Water Limited's PR19 business plan in January 2019.

No impairment to the water licence has been recognised in the year ended 31 March 2019 (2018: £nil).

Notes to the financial statements (continued)

7. Intangible assets (continued)

Affinity Water Limited, the group's principal trading company, is the main cash generating unit ('CGU'). It constitutes the smallest identifiable group of assets that generate cash flows for the entity, by means of supplying drinking water to customers, for which the carrying amount of the goodwill and water licence are allocated to. The recoverable amount is based on the CGU's fair value less transaction costs, which has been determined using the RCV of Affinity Water Limited at 31 March 2019, 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. This approach has been used, as it is an industry-recognised valuation methodology.

An estimate of a reasonable market premium has been determined through an analysis of 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 and the relative size of its non-appointed business. This is a subjective area and changes in the conditions for judgements used in estimating a reasonable market premium could significantly affect the assessed value of goodwill in future periods. Each 1% decrease to this premium would lead to a £12,261,000 increase to the impairment at 31 March 2019 (2018: £12,071,000 increase).

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

There were no individually material computer software development costs in the year ended 31 March 2019 (2018: £4,933,000 of expenditure in relation to a new work management information system).

Company

The company does not have any intangible assets.

8. Investments

Group

	2019 £000	2018 £000
Investments	**51**	51

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

Company

	2019 £000	2018 £000
Investment in subsidiary	**614,524**	614,524

The investment balance in the company relates to Affinity Water Acquisitions (Investments) Limited. Determining whether the company's investment in its subsidiary has been impaired requires an estimation of the investment's fair value less transaction costs. This has been determined using the RCV of Affinity Water Limited at 31 March 2019, an estimate of the market premium that a private entity would pay for Affinity Water Limited and an estimate of costs of disposal based on transaction costs paid on acquisition of the group in May 2017. The net present value of remaining debt payments associated with Affinity Water Limited's debt at the year-end has been considered in the impairment assessment. The directors believe that the carrying value of the investment at 31 March 2019 and 31 March 2018 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.

Daiwater Investment Limited

Notes to the financial statements (continued)

9. Retirement benefit surplus

Group - Defined benefit section

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

	Year to 31 March 2019 £000	**11 month period to 31 March 2018 £000**
Current service cost	**(4,132)**	(4,173)
Past service cost	**(1,748)**	-
Pension expense charged to operating profit	**(5,880)**	(4,173)
Net pension interest income credited to finance income (note 4)	**2,829**	1,712
Net pension expense charged before taxation	**(3,051)**	(2,461)

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

	2019 £000	**2018 £000**
At 1 April 2018 / 24 April 2017	**105,558**	-
Fair value of surplus acquired	**-**	73,467
Employer contributions	**7,434**	5,562
Current service cost	**(4,132)**	(4,173)
Past service cost	**(1,748)**	-
Net interest income	**2,829**	1,712
Net re-measurement (loss)/gain	**(8,747)**	28,990
At 31 March	**101,194**	105,558

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

	Year to 31 March 2019 £000	**11 month period to 31 March 2018 £000**
Re-measurement gains on plan assets	**2,485**	316
Re-measurement (losses)/gains on plan liabilities	**(11,232)**	28,674
	(8,747)	28,990

The past service cost includes the impact of the court ruling in October 2018 to remove historical gender inequalities in relation to Guaranteed Minimum Pensions (‘GMPs’).

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

Company

The company does not have any retirement benefits.

10. Inventories

Group

	2019 £000	2018 £000
Raw materials and consumables	**2,716**	1,631

Inventories are stated after provisions for impairment of £538,000 (2018: £538,000).

Company

The company does not have any inventories.

11. Trade and other receivables

Group

	2019 £000	2018 £000
Non-current:		
Other receivables	**2,215**	-
Current:		
Trade receivables	**69,964**	66,654
Less: provision for impairment of trade receivables	**(30,385)**	(29,700)
Trade receivables - net	**39,579**	36,954
Interest received from external parties	**4,044**	-
Other receivables	**5,958**	4,574
Unbilled accrual for metered customers	**46,396**	40,669
Prepayments and accrued income	**5,547**	5,549
	101,524	87,746
	103,739	87,746

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

Notes to the financial statements (continued)

11. Trade and other receivables (continued)

11.1 Provision for impairment of trade receivables and contract assets

Trade receivables and contract assets do not carry interest and are stated net of a provision for impairment, as follows:

	Trade receivables		Unbilled accrual for metered customers		Total	
	2019 £000	2018 £000	**2019 £000**	2018 £000	**2019 £000**	2018 £000
At 1 April / 24 April	**29,700**	-	**306**	-	**30,006**	-
Provision acquired with the Affinity Water Acquisitions (Investments) Limited group	**-**	27,933	**-**	225	**-**	28,158
Provision for receivables impairment charged to income statement	**6,780**	8,106	**1**	81	**6,781**	8,187
Receivables written off during the year as uncollectable	**(6,095)**	(6,339)	**-**	-	**(6,095)**	(6,339)
At 31 March	**30,385**	29,700	**307**	306	**30,692**	30,006

See note A4 for details on the calculation of the impairment provision.

11.2 Aging analysis of trade receivables

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

	2019 £000	**2018 £000**
Aged less than one year	**25,628**	25,720
Aged between one year and two years	**12,528**	10,081
Aged greater than two years	**1,423**	1,153
	39,579	36,954

Company

The company does not have any trade or other receivables

Notes to the financial statements (continued)

12. Cash and cash equivalents

Group

	2019 £000	2018 £000
Cash at bank and in hand	**22,971**	28,954
Term deposits	**90,344**	92,091
	113,315	121,045

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

Company

The company does not have any cash or cash equivalents.

13. Share capital

Group and company

Allotted, called up and fully paid share capital	2019 £000	2018 £000
744,133,355 (2018: 744,133,355) ordinary shares of £1 (2018: £1) each	**744,133**	744,133

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

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

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

On acquisition, each of the parties was granted an option to convert the voting rights attaching to Class B, C and D shares to Class A1, A2, and A3 shares. The option was exercised by InfraRed Capital Partners Limited, the Investment Advisor to HICL, on 7 January 2019 and means that each of the shareholders will acquire joint control for EU merger control purposes. The Option will complete upon EU merger clearance.

Following receipt of EU merger clearance, InfraRed Capital Partners Limited will trigger its further conversion right, which converts the Class A1, A2 and A3 shares to Class A4 shares, under which voting rights become proportional to the shareholders' economic interest.

Notes to the financial statements (continued)

14. Trade and other payables

Group

	2019 £000	2018 £000
Non-current		
Amounts falling due after more than one year		
Deferred grants and contributions	**10,458**	6,456
Amounts falling due after more than five years		
Deferred grants and contributions	**105,301**	92,835
	115,759	99,291
Current		
Amounts falling due within one year		
Trade payables	**13,620**	15,398
Interest payable to external parties	**13,898**	13,756
Social security and other taxes	**1,680**	1,639
Other payables	**9,140**	8,194
Capital accruals	**13,149**	10,045
Deferred grants and contributions	**2,135**	1,224
Payments received in advance	**72,948**	56,305
Other accruals and deferred income	**33,490**	37,129
	160,060	143,690
	275,819	242,981

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

Company

The company does not have any trade and other payables.

15. Borrowings

Group

	2019 £000	2018 £000
Current		
Borrowings measured at amortised cost		
Bank term loan	**-**	25,000
Non-current		
Borrowings measured at amortised cost:		
Bonds	**1,380,922**	1,398,500
Bank term loan	**25,000**	-
3.5% irredeemable consolidated debenture stock	**-**	-
4% irredeemable consolidated debenture stock	**8**	8
4% irredeemable debenture stock	**1**	1
4.25% irredeemable debenture stock	**-**	-
5% irredeemable debenture stock	**24**	24
5.25% irredeemable debenture stock	**1**	1
	1,405,956	1,398,534
	1,405,956	1,423,534

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

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

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

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

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

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

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.

Notes to the financial statements (continued)

15. Borrowings (continued)

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

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. This guarantee constitutes direct, general and unconditional obligations of the company which will at all times rank at least pari passu with all other present and future unsecured obligations. The bonds issued are also guaranteed by Affinity Water Holdings Limited, the immediate parent undertaking of Affinity Water Limited.

The fair value of the bonds on-lent from the two financing subsidiaries at 31 March 2019 is £1,426,572,000 (2018: £1,391,218,000). The fair value of Class A bonds has been derived from 'level 1' fair value measurements: quoted prices (unadjusted) in active markets for identical liabilities. The fair value of Class B bonds has been derived from 'level 2' fair value measurements: directly observable market inputs other than level 1 inputs.

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

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

Company

The company does not have any borrowings.

Notes to the financial statements (continued)

16. Derivative financial instrument

Group

	2019 £000	2018 £000
Non-current		
Fair value of RPI linked inflation swap	**2,389**	-
Accretion on RPI linked inflation swap	**1,608**	-
	3,997	-

An RPI linked inflation swap with a nominal value of £135.0m, which is linked to the maturity of the Class A fixed rate £250.0m bond (July 2026), was entered into in August 2018. The fair value has been derived from 'level 1' fair value measurements: quoted prices (unadjusted) in active markets for identical instruments.

Company

The company does not have any derivative financial instruments.

17. Deferred tax liabilities

17.1 Analysis of deferred tax assets and deferred tax liabilities

Group

	2019 £000	2018 £000
Deferred tax assets:		
– Deferred tax asset to be recovered within 12 months	**(3,436)**	(3,447)
– Deferred tax asset to be recovered after more than 12 months	**(48,744)**	(53,291)
	(52,180)	(56,738)
Deferred tax liabilities:		
– Deferred tax liability to be recovered within 12 months	**1,370**	1,454
– Deferred tax liability to be recovered after more than 12 months	**249,969**	253,574
	251,339	255,028
Deferred tax liabilities - net	**199,159**	198,290

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

	2019 £000	2018 £000
At 1 April 2018 / 24 April 2017	**198,290**	-
Fair value of deferred liabilities acquired	**-**	187,614
Charged to the income statement	**2,356**	5,748
(Credited)/charged to other comprehensive income	**(1,487)**	4,928
At 31 March	**199,159**	198,290

17. Deferred tax liabilities (continued)

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

17.2 Deferred tax liabilities

	Fair value adjustment on acquisition £000	Accelerated capital allowances £000	Retirement benefit obligations £000	Total £000
At 24 April 2017	-	-	-	-
Transferred on acquisition	74,400	161,220	12,489	248,109
(Credited)/charged to the income statement	(1,264)	2,728	527	1,991
Charged to other comprehensive income	-	-	4,928	4,928
At 31 March 2018	73,136	163,948	17,944	255,028
(Credited)/charged to the income statement	**(1,297)**	**(1,650)**	**745**	**(2,202)**
Credited to other comprehensive income	**-**	**-**	**(1,487)**	**(1,487)**
At 31 March 2019	**71,839**	**162,298**	**17,202**	**251,339**

17.3 Deferred tax assets

	Fair value adjustment on acquisition £000	Provisions £000	Total £000
At 24 April 2017	-	-	-
Transferred on acquisition	59,565	930	60,495
Charged to the income statement	(3,415)	(342)	(3,757)
At 31 March 2018	56,150	588	56,738
Charged to the income statement	**(4,469)**	**(89)**	**(4,558)**
At 31 March 2019	**51,681**	**499**	**52,180**

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

Company

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

Notes to the financial statements (continued)

18. Provisions for other liabilities and charges

Group

	Insurance £000	Other £000	Total £000
At 24 April 2017	-	-	-
Transferred on acquisition	1,893	670	2,563
Charged to the income statement	1,610	-	1,610
Utilised in the period	(941)	-	(941)
At 31 March 2018	2,562	670	3,232
Charged to the income statement	**3,163**	**2,162**	**5,325**
Utilised in the year	**(1,488)**	**-**	**(1,488)**
At 31 March 2019	**4,237**	**2,832**	**7,069**

Insurance

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

Included within this provision is an amount of £2,215,000, which would be recoverable from the group's insurer and is, therefore, disclosed as a non-current other receivable on the group's consolidated statement of financial position.

Other provisions

Other provisions include £2,162,000 in relation to a corporate reorganisation, which is expected will be utilised by 31 March 2020 and therefore presented as a current liability in the statement of financial position, and £670,000 (2018: £670,000) in relation to unfunded pension liabilities for a former non-executive director, which it is expected will be utilised by January 2051.

Company

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

Notes to the financial statements (continued)

19. Dividends

	2019 £000	2018 £000
First interim paid of 0.672p per share (2018: 2.956p)	**5,000**	22,000
Second interim paid of 0.215p per share (2018: 2.285p)	**1,600**	17,000
No third interim paid (2018: 1.613p)	**-**	12,000
	6,600	51,000

20. Notes to the statement of cash flows

20.1 Cash generated from operations

Group

	2019 £000	2018 £000
(Loss)/profit before tax	**(89,740)**	26,094
Adjustments for:		
Depreciation of property, plant and equipment (note 6)	**59,794**	47,208
Amortisation of grants and contributions	**(2,508)**	(1,469)
Amortisation of intangible fixed assets (note 7)	**16,250**	13,758
Impairment of goodwill (note 7)	**120,000**	-
Profit on disposal of property, plant and equipment	**(1,058)**	(537)
Loss on disposal of infrastructure assets	**1,714**	1,674
Abandonment of fixed assets	**-**	803
Post-employment benefits	**(1,554)**	(1,390)
Finance costs – net (note 4)	**19,244**	19,781
Changes in working capital		
– Inventories	**(1,085)**	(208)
– Trade and other receivables	**(11,949)**	102,976
– Trade and other payables		
– provision element	**3,837**	700
– other	**1,309**	(111,776)
Cash generated from operations	**114,254**	97,614

Company

	2019 £000	2018 £000
Profit before tax	**17,844**	52,807
Adjustments for:		
Finance income (note 4)	**(11,244)**	(9,347)
Changes in working capital		
– Trade and other receivables	**-**	(175)
Cash generated from operations	**6,600**	43,285

Daiwater Investment Limited

Notes to the financial statements (continued)

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

20.2 Reconciliation of liabilities arising from financing activities

Group

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

Non-cash flows relate to loan indexation and amortisation of bond issuance costs.

Company

The company has no liabilities arising from financing activities.

21. Commitments

21.1 Capital commitments

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

Group

	2019 £000	2018 £000
Property, plant and equipment	**18,616**	17,678
Intangible assets	**1,191**	1,768
	19,807	19,446

Company

The company does not have any capital commitments.

21.2 Commitments under operating leases

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

Group

	2019		2018	
	Land and buildings	Other	Land and buildings	Other
	£000	£000	£000	£000
No later than one year	**1,719**	**2,302**	1,604	2,253
Later than 1 year and no later than 5 years	**6,877**	**3,558**	6,877	4,134
Later than 5 years	**2,823**	**-**	4,543	-
	11,419	**5,860**	13,024	6,387

Company

The company does not have any commitments under operating leases.

22. 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 2019 (2018: £nil).

Daiwater Investment Limited

Notes to the financial statements (continued)

23. Events after the reporting period

There were no significant events after the reporting period.

24. 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 2019.

Copies of the group financial statements of Daiwater Investment Limited for the year ended 31 March 2019 may be obtained from the Company Secretary, Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ.

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

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

- Allianz Infrastructure Holding I Pte. Limited (during the period and up to 20 November 2019, Allianz Infrastructure Luxembourg I Sarl)
- DIF Management Holding BV
- DIF Management UK Limited
- HICL Infrastructure plc
- InfraRed Capital Partners (Management) LLP

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

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

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

Daiwater Investment Limited

Notes to the financial statements – appendices

A1. General information

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

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

The company is a private company 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 24 for details of the company's controlling company.

A2. Segmental reporting

The group's reportable segments are as follows:

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

Both entities have separate management teams with each monitoring the operating results of the individual business segment separately. Each entity's individual management team are responsible for the decision making and resource allocation of that entity alone. Each operating segment reviews their own results, including revenue, expenditure and profit before tax. Therefore, these are the segmental results presented in the financial statements.

All transactions between operating segments are carried out at arms length. All operations are within the UK.

	Year ended 31 March 2019			
	Affinity Water Limited	**Affinity for Business (Retail) Limited**	**Less: Intersegmental**	**Total for reportable segments**
	£000	**£000**	**£000**	**£000**
Revenue	**311,569**	**61,768**	**(45,127)**	**328,210**
Cost of sales	**(216,643)**	**(58,037)**	**45,212**	**(229,468)**
Gross profit	**94,926**	**3,731**	**85**	**98,742**
Administrative expenses	**(168,117)**	**(5,202)**	**663**	**(172,656)**
Net impairment losses	**(6,128)**	**(653)**	**-**	**(6,781)**
Other income	**17,896**	**304**	**(748)**	**17,452**
Operating profit	**(61,423)**	**(1,820)**	**-**	**(63,243)**
Profit on disposal of subsidiary	**25**	**-**	**-**	**25**
Net finance costs	**(44,930)**	**(1,188)**	**-**	**(46,118)**
Loss before tax	**(106,328)**	**(3,008)**	**-**	**(109,336)**

A2. Segmental reporting (continued)

	Period ended 31 March 2018			
	Affinity Water Limited	Affinity for Business (Retail) Limited	Less: Intersegmental	Total for reportable segments
	£000	£000	£000	£000
Revenue	265,798	51,043	(44,147)	272,694
Cost of sales	(175,191)	(47,735)	44,147	(178,779)
Gross profit	90,607	3,308	-	93,915
Administrative expense	(43,864)	(3,593)	695	(46,762)
Other income	14,723	354	(695)	14,382
Operating profit	61,466	69	-	61,535
Net finance costs	(41,412)	(327)	-	(41,739)
Profit before tax	20,054	(258)	-	19,796

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

A3. Accounting policies

Property, plant and equipment

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

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

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

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

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

Notes to the financial statements – appendices (continued)

A3. Accounting policies (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 are:

Infrastructure assets

Potable water distribution mains	50-150 years
Raw water pipes	50-150 years

Other property, plant and equipment

Buildings	40-60 years
Operational structures	5-85 years
Fixed plant – short life	3-10 years
– other	10-30 years
Vehicles and mobile plant	3-10 years

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

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

Intangible assets

Goodwill

Goodwill represents the excess of the fair value of purchase consideration transferred 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 fixed 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.

Daiwater Investment Limited

Notes to the financial statements – appendices (continued)

A3. Accounting policies (continued)

Intangible assets (continued)

Computer software development costs

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

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

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

Water licence

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

Billing relationships

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

Impairment

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

Grants and contributions

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

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

Notes to the financial statements – appendices (continued)

A3. Accounting policies (continued)

Grants and contributions (continued)

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

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

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

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

Investment in subsidiaries

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

Trade and other receivables

Trade and other receivables are recognised initially at transaction price and 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 receivable. Higher percentages are applied to those categories of trade receivable which are considered to be of greater risk and also to trade receivables of greater age. 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 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.

A3. Accounting policies (continued)

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 three months or less. Term deposits with original maturities longer than three months that can be redeemed, 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.

Current and deferred tax

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

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

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

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

Payables

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

A3. Accounting policies (continued)

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 have been written off to the income statement in full.

Financial instruments

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

Provisions

A provision is recognised when the group has a legal or constructive obligation as a 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.

Revenue recognition

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

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

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

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

A3. Accounting policies (continued)

Revenue recognition (continued)

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

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

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

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

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

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

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

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

Daiwater Investment Limited

Notes to the financial statements – appendices (continued)

A3. Accounting policies (continued)

Other income

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

Interest income

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

Leases

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease rentals are charged to the income statement on a straight-line basis over the period of the lease.

The group does not hold any finance leases.

Grafham reservoir

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

Retirement benefits

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

The cost of providing benefits under the defined benefit plan is determined using the projected unit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligations) and is based on actuarial advice. Past service costs are recognised immediately in the income statement. When a settlement or a curtailment occurs, the changes in the present value of the plan liabilities and the fair value of the plan assets reflect the gain or loss which is recognised in the income statement. Losses are measured at the date that the employer becomes demonstrably committed to the transaction and gains when all parties whose consent is required are irrevocably committed to the transaction.

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

A3. Accounting policies (continued)

Retirement benefits (continued)

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

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

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

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

Dividend distributions

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

A4. Financial instruments and risk management

Risk management

The group's financial instruments comprise borrowings, derivatives, debentures, cash and liquid resources, 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 period under review, that no trading in financial instruments shall be undertaken.

The main risks arising from the group's financial instruments are liquidity risk, credit risk, and interest rate and inflation risk. Treasury policies in relation to these risks are agreed in conjunction with the wider Affinity Water group. The Board reviews and agrees policies for managing each of these risks (refer to page 5 of the strategic report for further information on management of these risks). These policies have remained unchanged during the year.

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 regards 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.

Daiwater Investment Limited

Notes to the financial statements – appendices (continued)

A4. Financial instruments and risk management (continued)

Liquidity risk

The objective of the group's liquidity risk management policy is to ensure that the group has banking arrangements and adequate, though not excessive, cash resources, borrowing arrangements 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 twelve 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 Affinity Water Limited Board on a quarterly basis through the treasury report.

At 31 March 2019, the group had £274,315,000 (2018: £279,045,000) of available liquidity, which comprised £113,315,000 (2018: £121,045,000) of cash and term deposits and £161,000,000 (2018: £158,000,000) of undrawn committed borrowing facilities.

In August 2018, the group entered into an RPI linked inflation swap, detailed in the interest rate and inflation risk section of note A4. This leads to a net interest receivable cashflow over the life of the swap, offset by an accretion payment on maturity in 2026. There is no liquidity risk prior to 2026 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 forecast cash payment of £38,027,000, shown 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 and have a maturity date of 30 July 2020.

The group had available the following undrawn borrowing facilities:

	2019	2018
	£000	£000
Floating rate:		
– Expiring within one year	**61,000**	58,000
– Expiring in more than one year	**100,000**	100,000
	161,000	158,000

The facilities expiring within one year comprise two standby facilities with different counterparties in the event of a liquidity shortfall: a 364 day revolving Debt Service Reserve Facility of £38,000,000 (2018: £38,000,000), which is intended for the purpose of funding any debt service payments, and a 364 day revolving Operations and Maintenance Reserve Facility of £23,000,000 (2018: £20,000,000), 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 (2018: £60,000,000) provided by Barclays Bank PLC and £40,000,000 (2018: £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 30 July 2020.

Daiwater Investment Limited

Notes to the financial statements – appendices (continued)

A4. Financial instruments and risk management (continued)

Liquidity risk (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 with agreed repayment periods on an undiscounted basis.

At 31 March 2019	**Total**	**1 year or less**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**More than 5 years**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Non-derivatives							
Bonds	**1,649,212**	**38,231**	**38,421**	**38,577**	**52,684**	**38,389**	**1,442,910**

At 31 March 2018	Total	1 year or less	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years
	£000	£000	£000	£000	£000	£000	£000
Non-derivatives							
Bonds	1,692,625	37,998	38,226	38,467	38,718	52,922	1,486,294

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

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

Credit risk

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

Contract assets and trade and other receivables

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

A4. Financial instruments and risk management (continued)

Credit risk (continued)

Contract assets and trade and other receivables (continued)

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

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

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

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

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

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

Daiwater Investment Limited

Notes to the financial statements – appendices (continued)

A4. Financial instruments and risk management (continued)

Credit risk (continued)

The loss allowance as at 31 March 2019 and 1 April 2018 (on adoption of IFRS 9) was determined as follows for both trade receivables and contract assets (unbilled accrual for metered customers):

At 31 March 2019	Current	Less than 1 year	1 – 2 years	2 – 3 years	3 – 4 years	More than 4 years past due	Total
	£000	£000	£000	£000	£000	£000	£000
Expected loss rate – metered household receivables	0.9%	8%	26%	42%	62%	100%	
Gross carrying amount – metered household receivables	-	16,759	5,156	3,000	1,893	2,453	29,261
Gross carrying amount – unbilled accrual for metered customers	32,699	-	-	-	-	-	32,699
Provision at expected loss rate	307	1,424	1,325	1,263	1,177	2,453	7,949
Amounts provided at 100%	-	1,484	1,233	1,086	868	1,742	6,413
Loss allowance	307	2,908	2,558	2,349	2,045	4,195	14,362
Expected loss rate – unmetered household receivables	-	19%	28%	42%	61%	100%	
Gross carrying amount – unmetered household receivables	-	8,157	4,959	3,086	2,240	3,271	21,713
Provision at expected loss rate	-	1,518	1,395	1,309	1,360	3,271	8,853
Amounts provided at 100%	-	1,122	908	728	667	404	3,829
Loss allowance	-	2,640	2,303	2,037	2,027	3,675	12,682
Expected loss rate – non-household receivables	1.0%	5%	20%	100%	100%	100%	
Gross carrying amount – non-household receivables	-	9,339	1,671	839	502	307	12,658
Gross carrying amount – unbilled accrual for measured customers	14,004	-	-	-	-	-	14,004
Loss allowance	140	467	334	839	502	307	2,589

	Less than 3 months	3 – 6 months	6 – 9 months	9 – 12 months	More than 12 months past due	Total
	£000	£000	£000	£000	£000	£000
Expected loss rate – developer services	0%	48%	49%	65%	99%	
Gross carrying amount – developer services	1,939	384	254	39	734	3,350
Loss allowance	-	184	125	25	725	1,059
Total loss allowance						30,692

Daiwater Investment Limited

Notes to the financial statements – appendices (continued)

A4. Financial instruments and risk management (continued)

Credit risk (continued)

At 1 April 2018	Current £000	Less than 1 year £000	1 – 2 years £000	2 – 3 years £000	3 – 4 years £000	More than 4 years past due £000	Total £000
Expected loss rate – metered household receivables	1.1%	10%	28%	45%	65%	100%	
Gross carrying amount – metered household receivables	-	16,175	5,027	2,941	2,045	3,114	29,302
Gross carrying amount – unbilled accrual for metered customers	29,028	-	-	-	-	-	29,028
Provision at expected loss rate	306	1,617	1,408	1,323	1,329	3,114	9,097
Amounts provided at 100%	-	1,105	1,064	1,004	957	1,100	5,230
Loss allowance	306	2,722	2,472	2,327	2,286	4,214	14,327
Expected loss rate – unmetered household receivables	-	20%	31%	45%	62%	100%	
Gross carrying amount – unmetered household receivables	-	7,447	4,921	3,451	2,708	2,193	20,720
Provision at expected loss rate	-	1,490	1,525	1,553	1,679	2,193	8,440
Amounts provided at 100%	-	781	788	797	820	894	4,080
Loss allowance	-	2,271	2,313	2,350	2,499	3,087	12,520
Expected loss rate – non-household receivables	1.3%	5%	25%	100%	100%	100%	
Gross carrying amount – non-household receivables	-	9,676	1,068	653	262	116	11,775
Gross carrying amount – unbilled accrual for measured customers	12,319	-	-	-	-	-	12,319
Loss allowance	154	484	267	653	262	116	1,936

	Less than 3 months £000	3 – 6 months £000	6 – 9 months £000	9 – 12 months £000	More than 12 months past due £000	Total £000
Expected loss rate – developer services	0%	43%	58%	71%	98%	
Gross carrying amount – developer services	7,120	133	27	105	1,097	8,482
Loss allowance	-	57	16	75	1,075	1,223
Total loss allowance						30,006

The closing loss allowances for trade receivables and contract assets as at 31 March 2019 reconcile to the opening loss allowances as shown in note 11.

Daiwater Investment Limited

Notes to the financial statements – appendices (continued)

A4. Financial instruments and risk management (continued)

Credit risk (continued)

At 31 March 2019 and 31 March 2018, the maximum exposure to credit risk was represented by the carrying amount of each financial asset in the statement of financial position:

	2019	2018
	£000	£000
Cash and term deposits (note 12)	**113,315**	121,045
Trade and other receivables (excluding prepayments)	**97,496**	87,052
	210,811	208,097

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 exposed to credit risk at each of the external credit ratings* at 31 March 2019 is:

	2019	2018
	£000	£000
AAA*	**30,060**	42,009
A-1+*	**5,017**	10,012
A-1*	**62,737**	30,064
A-2*	**809**	24,020
P-1**	**10,005**	10,006
	108,628	116,111

*ratings per Standards & Poor's at 31 March 2019
**rating per Moody's at 31 March 2019

These are all short term ratings.

Interest rate and inflation risk

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

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

Daiwater Investment Limited

Notes to the financial statements – appendices (continued)

A4. Financial instruments and risk management (continued)

Interest rate and inflation risk (continued)

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 2019	**839,376**	**505,693**	**60,887**	**1,405,956**
31 March 2018	856,106	507,655	59,773	1,423,534

Sensitivity analysis

Sensitivity analysis has not been performed on movements in interest rates as the group's fixed rate debts had no exposure to interest rates as at 31 March 2019. The following table details the sensitivity of profit before taxation to changes in RPI and CPI on the group's index-linked borrowings and RPI linked inflation swap. The analysis relates to the position at the reporting date and is not indicative of the period then ended, as these factors would have varied throughout the period. Comparative figures exclude the impact of the RPI linked inflation swap as this was entered into during the year to 31 March 2019.

	2019 £000	2018 £000
1% increase in RPI	**(3,450)**	(3,364)
1% decrease in RPI	**3,450**	3,363
1% increase in CPI	**(614)**	(603)
1% decrease in CPI	**614**	603

Currency risk

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

Capital risk management

The policy approved by the Board of Affinity Water Limited is a target gearing, measured as net debt (as defined in Affinity Water Limited's WBS documentation) to RCV, of 80%. This allows sufficient headroom within the group's financial covenants, which are triggered at a level of more than 90%. Affinity Water Limited's gearing on this basis was 78.3% at 31 March 2019 (78.6% at 31 March 2018).

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

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

Daiwater Investment Limited

Notes to the financial statements – appendices (continued)

A5. Retirement benefits

Defined benefit section

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

The risks of the plan are as follows:

Asset volatility

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

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

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

Changes in bond yield

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

Life expectancy

The majority of the plan's obligations are to provide benefits for the life of the 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). However, the Trustee has increased the level of interest rate and inflation hedging provided by the plan's assets through Liability Driven Investment.

Notes to the financial statements – appendices (continued)

A5. Retirement benefits (continued)

Defined benefit section (continued)

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

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

Defined benefit section – employer contributions

Based on the latest valuation at 31 December 2017, no further deficit payments are required. The contributions expected to be paid in the year ending 31 March 2020 are £5,000,000 (£7,434,000 in the year ended 31 March 2019).

The weighted average duration of the defined benefit obligation is 17.1 years (2018: 16.9 years).

Defined benefit section - financial and demographic assumptions

Adjustments to the actuarial valuation at 31 December 2017 have been made based on the following assumptions:

	2019	**2018**
Discount rate	**2.40% pa**	2.60% pa
Salary growth	**3.15% pa**	3.05% pa
RPI	**3.15% pa**	3.05% pa
CPI	**2.15% pa**	2.05% pa
Life expectancy for a male pensioner from age 65 (years)	**22**	22
Life expectancy for a female pensioner from age 65 (years)	**24**	24
Life expectancy from age 65 (years) for a male participant currently aged 45 (years)	**23**	23
Life expectancy from age 65 (years) for a female participant currently aged 45 (years)	**25**	25

Deferred pensions are revalued to retirement age in line with the CPI assumption of 2.15% per annum (2018: 2.05% per annum) unless otherwise prescribed by statutory requirements or the plan rules.

A5. Retirement benefits (continued)

Defined benefit section - sensitivity analysis

	Change in assumption	Impact on defined benefit obligation	Change in assumption	Impact on defined benefit obligation
2019				
Discount rate	**0.5% decrease**	**9.0% increase**	**0.5% increase**	**9.0% decrease**
Salary growth	**0.5% increase**	**1.0% increase**	**0.5% decrease**	**1.0% decrease**
Pension growth rate	**0.5% increase**	**7.0% increase**	**0.5% decrease**	**7.0% decrease**
Life expectancy	**1 year increase**	**4.0% increase**	**1 year decrease**	**4.0% decrease**
2018				
Discount rate	0.5% decrease	8.8% increase	0.5% increase	8.8% decrease
Salary growth	0.5% increase	1.0% increase	0.5% decrease	1.0% decrease
Pension growth rate	0.5% increase	7.5% increase	0.5% decrease	7.5% decrease
Life expectancy	1 year increase	3.0% increase	1 year decrease	3.0% decrease

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

Defined benefit section - net retirement benefit surplus

At 31 March, the fair values of the plan's assets were as follows:

	Plan assets %	2019 £000	Plan assets %	2018 £000
Equity securities	**5%**	**27,129**	10	50,819
Debt securities	**25%**	**127,658**	21	108,319
Diversified growth funds	**10%**	**51,770**	13	65,540
Property	**0%**	**654**	1	2,070
Infrastructure	**2%**	**11,726**	2	11,972
Liability driven investments	**57%**	**296,596**	53	271,515
Cash and cash equivalents	**1%**	**3,337**	0	1,795
Total fair value of the plan's assets	**100%**	**518,870**	100	512,030
Present value of defined benefit obligations		**(417,676)**		(406,472)
Net retirement benefit surplus		**101,194**		**105,558**

Daiwater Investment Limited

Notes to the financial statements – appendices (continued)

A5. Retirement benefits (continued)

Defined benefit section - fair value of plan assets

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

	£000	£000
At 1 April 2018 / 24 April 2017	**512,030**	-
Transferred on acquisition	**-**	507,616
Benefits paid	**(16,899)**	(13,194)
Employer contributions	**7,434**	5,562
Contributions by plan participants	**615**	575
Interest income	**13,205**	11,155
Re-measurement gains	**2,485**	316
At 31 March 2019 / 31 March 2018	**518,870**	512,030

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 2018 / 24 April 2017	**(406,472)**	-
Transferred on acquisition	**-**	(434,149)
Benefits paid	**16,899**	13,194
Contributions by plan participants	**(615)**	(575)
Current service cost	**(4,132)**	(4,173)
Past service cost	**(1,748)**	-
Interest expense	**(10,376)**	(9,443)
Re-measurement gains/(losses)	**(11,232)**	28,674
At 31 March 2019 / 31 March 2018	**(417,676)**	(406,472)

Defined contribution section

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

The total pension charge for the defined contribution section of the AWPP for the year ended 31 March 2019 was £3,599,000 (2018: £2,152,000). There are no amounts prepaid or outstanding in respect of the defined contribution section at 31 March 2019 (2018: £nil).

Daiwater Investment Limited

Notes to the financial statements – appendices (continued)

A6. Subsidiaries

Name of company	Country of registration/ incorporation	Registered address	Nature of business	Type of holding	Proportion of voting rights and shares held
Affinity Water Acquisitions (Investments) Limited*	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Holding company	Ordinary shares	100%
Affinity Water Acquisitions (Holdco) Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Holding company	Ordinary shares	100%
Affinity Water Acquisitions (Midco) Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Holding company	Ordinary shares	100%
Affinity Water Acquisitions Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Holding company	Ordinary shares	100%
Affinity Water Capital Funds Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Holding company	Ordinary shares	100%
Affinity Water Holdco Finance Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Finance company	Ordinary shares	100%
Affinity Water Holdings Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Holding company	Ordinary shares	100%
Affinity Water Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Water supply	Ordinary shares	100%
Affinity Water Finance (2004) PLC	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Finance company	Ordinary shares	100%
Affinity Water Programme Finance Limited	Cayman Islands	PO Box 309, Ugland House, Grand Cayman, KY1-1104	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%
Affinity Water Shared Services Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Service company	Ordinary shares	100%
Affinity Water Pension Trustees Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Pension trustee	Ordinary shares	100%
Affinity for Business (Retail) Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Water supply	Ordinary shares	100%

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
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

Notes to the financial statements – appendices (continued)

A7. Related party transactions

Group

Purchases of goods and services

Related party	Nature of Relationship	In respect of	2019 Value £000	2019 Balance £000	2018 Value £000	2018 Balance £000
DIF, HICL Infrastructure plc and Allianz Capital Partners	Shareholders	Dividends	**6,600**	**-**	51,000	-
Allianz Global Corporate & Speciality	Common ownership	Insurance	**1,569**	**(930)**	1,392	(791)
Allianz Engineering	Common ownership	Insurance	**2**	**(1)**	2	(1)

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

Company

Sales of goods and services

Related party	Nature of Relationship	In respect of	2019 Value £000	2019 Balance £000	2018 Value £000	2018 Balance £000
Affinity Water Acquisitions (Investments) Limited	Subsidiary undertaking	Dividend	**6,600**	**-**	51,749	-
Affinity Water Acquisitions (Midco) Limited	Subsidiary undertaking	Loans receivable and interest	**10,768**	**127,786**	9,118	117,018
Affinity Water Capital Funds Limited	Subsidiary undertaking	Loans receivable and interest	**476**	**14,875**	227	14,398

Purchases of goods and services

Related party	Nature of Relationship	In respect of	2019 Value £000	2019 Balance £000	2018 Value £000	2018 Balance £000
DIF, HICL Infrastructure plc and Allianz Capital Partners	Shareholders	Dividend	**6,600**	**-**	51,000	-