DAIWATER INVESTMENT LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2024

(Registered Number 10738347)

Daiwater Investment Limited

Contents

Daiwater Investment Limited

Directors and advisers

Directors

Jonathan Carter
Andrew Cox (appointed 15 November 2023 and resigned 10 June 2024)
Marissa Dardi (resigned 12 May 2023)
Michael Osborne
Roxana Tataru
Adam Waddington (appointed 12 May 2023)

Company secretary

Patrick Makoni (appointed 3 April 2023)
Sunita Kaushal (resigned 3 April 2023)

Registered office

Tamblin Way
Hatfield
Hertfordshire
AL10 9EZ

Independent auditors

PricewaterhouseCoopers LLP
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Watford
Hertfordshire
WD17 1JJ

Registered number

10738347

Daiwater Investment Limited

Board's welcome

Highlights

- Achieved 24 of our 28 Performance commitments targets.
- Outperformed our leakage target.
- Continued to grow our priority services register to ensure we are supporting customers who need help.
- Focused our approach to Environment, Social & Governance ('ESG'), making sure our values are embedded across the business.
- Set out ambitious plans to improve our services to customers, communities and the environment through submitting our Business Plan for 2025 to 2030.

Delivering for our customers

We have had a successful year, achieving 24 of our 28 performance commitment targets, and are delighted to have again outperformed our leakage target this year.

Our customers tell us how important reducing leakage is to them, and the continued focus from the team has seen us introducing further innovation such as no-dig techniques to fix leaks on communication pipes that link to customers houses.

We have also seen significant improvements on last year's performance in key areas such as interruptions to supply. Ensuring our customers have a constant supply of water is a core service and we continue to keep working hard to minimise any disruption for customers.

Our underlying performance on water quality has remained strong, and although we had two isolated events that affected the measurement of the Compliance Risk Index, these are fully resolved, and short and long terms plans established to continue investment and maintenance of our treatment works.

Delivering for the future

A significant milestone for the company this year was the creation of our Business Plan for the 2025 to 2030 period, setting out how we will provide a sustainable supply of water, while taking care of the environment for the next five years.

We are proud of our ambitious plans for improving services for customers and the environment and are satisfied we will be financially resilient and sustainable over the period and beyond. While Ofwat will publish the Final Determination on our plan in December this year, we continue to focus on our delivery planning and enabling work with our supply chain, to ensure we are ready to deliver our largest ever investment programme.

Planning for the long term is critical for us to ensure we can continue to provide high quality drinking water, sustainably. To that end, we have worked hard with our stakeholders and other regional water companies this year to develop our 25-year long-term strategy and Water Resources Management Plan (WRMP), setting out how we will provide a sustainable supply of water, while taking care of the environment for our region.

These long-term plans are vital to our ambitions. While we, as a water only company, don't manage sewage, we play a significant part in ensuring our rivers have good ecological health through reducing abstraction and making wider environmental improvements. Our WRMP is a significant step in this journey and, as we progress in developing the first of the major schemes to deliver water for the future (the Grand Union Canal Transfer) by diverting abstraction away from the most sensitive sources, we need to attract significant capital from investors and banks to ensure the most cost-efficient way for our customers and communities.

Focus on sustainability

As a Board, we have continued to focus on sustainability, with the company developing its strategy and activities in areas such as Net Zero, natural capital and the circular economy. I am very pleased that this financial year, we have laid the groundwork to transition our Safety, Health, Environment and Drinking Water quality ('SHEDWQ') Committee to a new Environment, Social and Governance ('ESG') Committee. The ESG Committee met for the first time last month and is in place to continuously challenge and improve the company's performance, minimising risk and maximising value for the environment and society. We have also continued to see some significant steps in helping our customers continue to reduce their water use. With the successful introduction of our innovative tariff trials and industry-leading campaigns on saving water, we are placing a clear focus on sustainability at the heart of what we do as a business.

Daiwater Investment Limited

Board's Welcome (continued)

At the heart of our plans today and in the future is sustainability. Our region is home to 10% of the world's globally rare chalk streams. Chalk streams are under threat from the effects of climate change, demand for water, pollution, and centuries of river alterations.

The state of our chalk streams is very much a societal issue, which is why we need to work closely with other water companies, regulators, government, businesses, landowners and our customers to do all that we can to protect them.
We continue to play our part and are making good progress in terms of delivering the assets and changes to our network. The commissioning of Sundon Conditioning Plant is the priority scheme that must be delivered ahead of March 2025 in order to allow the Abstraction Reductions to be implemented on time, and commissioning will be complete in December 2024.

We have also continued to help our customers make sustainable choices, encouraging them through our ongoing advertising campaigns on water saving, water efficiency and working with developers to look at water neutrality, especially in new housing developments.

In a first for the industry, we launched a tariff trial on 1 October 2023, which involves a group of around 1,500 Affinity Water customers in the SG1, Stevenage postcode area, in Hertfordshire. The aim of the trial is to discover if a different way of charging makes water bills more affordable for our customers and if it further encourages customers to save water. We estimate that at least two out of three households in the trial will pay less for drinking water if their usage stays the same.

This is a great example of collaborative work with Ofwat and the Consumer Council for Water (CCW) throughout the process of developing the trial, and as a result, Ofwat are now calling on more water companies to trial innovative ways of charging customers.

Performance highlights and challenges

We are recovering well from performance challenges seen in previous years and have made significant progress in key areas such as leakage and interruptions to supply.

While there have been some challenges to overcome, we are improving on the delivery of our commitments for this current five-year plan to 2025 with improved levels of interaction with our customers in key areas.

Leakage

We have continued to make progress in driving down leakage and are proud to have outperformed our target by reducing leakage by 18.3% at the end of 2023-24.

We have kept in place our elevated levels of Active Leakage Control and completed our increased pressure management programme, and, as we enter the final year of this five-year period, we are on target to deliver our overall commitment of a 20% reduction by 2025 and 50% by 2050.

Per Capita Consumption (PCC)

We continued to push hard to drive down per capita consumption. The reduction in our three-year rolling average has increased from -4.3% at the end of 2022- 2023 to -1.5% at the end of 2023-24. Behaviour change campaigns such as our home leak campaign hosted by property developer and broadcaster, Sarah Beeny, to raise awareness of internal plumbing losses and how to repair them, have been really valuable, along with home visits (which install water-efficient devices) and the installation of flow regulators, have helped reduce overall property consumption. We know we have a lot more to do to help our customers and communities reduce water usage and we look forward to implementing a smart metering trial in the coming year.

Water quality

We did not meet our performance commitment (PC) for compliance risk index (CRI) in 2023, where 50 results did not meet the relevant standard; we had similar results of 46 in 2022. This shortfall was explained in the main part in 2023, by the two exceedances from Iver Water Treatment Works (WTW), our highest output treatment works.

Consequently, the CRI score for these two exceedances was 7.06, making up around 88% of our total CRI score.

Board's Welcome (continued)

Our investigations identified the root cause of the issue and we have implemented mitigation measures to reduce this risk in the short term. In the short term, we carried out cleaning and maintenance throughout the treatment works, and in the long term, we are enhancing our treatment process with new rapid gravity filters to the treatment process. We believe this work will prevent further similar exceedances.

Our internal CRI Board has continued to focus on issues that have an impact on CRI, for example, reservoir inspections, sample lines, site hygiene, and staff awareness, and drive forward improvements in these areas. We believe this work has been central to maintaining our 'core' CRI score, and we will continue to identify areas that can have an impact on CRI, and seek to deliver improvements in performance in future years.

Financial resilience

Our shareholders continue to support our performance improvements and have not taken dividends from the regulated business this year. Looking ahead to the next five years, we will need to raise significant capital to fund our largest-ever investment programme, with our shareholders potentially pledging to include up to £150 million equity to enable that.

Ahead of that, we continue to maintain strong credit ratings this year, and are proud to have recently achieved Fair Tax Mark accreditation.

Our people

As well as having a strong plan in place for the future, we also need a strong team, and we have been working hard as an Executive Team to ensure we are a company that retains and attracts the best talent in the UK who can ensure we deliver on our ambitions.

We have refreshed our vision and values to recognise the diversity of the communities we serve, and introduced a new Equality, Diversity, and Inclusion strategy, as well as reviewing our paternity and wellbeing policies. We are seeing employee satisfaction increase, which is crucial in making sure we have the right people in place to deliver on the commitments we have set out.

We are keen to get started on our future objectives and, while we continue to see some challenges in performance, we are confident we have the right people and plans in place to finish this current AMP in a strong position and start delivering our proposed goals to 2030.

Affinity Water Limited's Business Plan

Affinity Water Limited has just completed the fourth year of its latest five-year business plan (the 2020-2025 price control period, Asset Management Plan 'AMP7'), 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.

In July 2024, Ofwat released the Draft Determination for Affinity Water Limited, relating to the five year period starting from 1 April 2025. Affinity Water has until 28 August 2024 to respond to the Draft Determination.

The Final Determination will be issued in December 2024, and it is at this point that Affinity Water will decide whether to accept the Final Determination or appeal to the Competition and Markets Authority for a Redetermination.

Daiwater Investment Limited

Strategic report
for the year ended 31 March 2024

Introduction

The directors present their strategic report on Daiwater Investment Limited for the year ended 31 March 2024.

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

Affinity Water Limited is the only trading subsidiary of the group for the current year and prior year.

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

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

- supplies on average 937 million litres of water a day to around 3.90 million people, serving 1.51 million properties;
- operates 90 water treatment works to ensure that water is of the highest quality; and
- distributes water through a network of over 16,989km of mains.

Information on Affinity Water Limited's purpose and business model are detailed in the strategic report of its own Annual Report and Financial Statements for the year ended 31 March 2024 on its website: *affinitywater.co.uk/library*.

Performance

The group generated a loss for the year of £25,017,000 (2023 restated: £88,452,000 loss). The statements of financial position detailed on pages 55 and 56 show shareholders' funds as at 31 March 2024 amounting to £270,710,000 (2023 restated: £316,413,000) for the group and £757,163,000 (2023: £757,163,000) for the company.

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

As both the financial and operational results of the group are primarily determined by the results of its trading subsidiary, Affinity Water Limited, the operational and financial performance indicators and targets for the group are those of Affinity Water Limited. These performance indicators, and the performance of Affinity Water Limited for 2023/24 against targets set, are provided in detail in the strategic report of its own Annual Report and Financial Statements for the year ended 31 March 2024 on its website: *affinitywater.co.uk/library*.

Risk Governance

The group has a documented and established risk management governance model, based on the three lines of defence[1], which involves its operational business, the dedicated risk function and the assurance and audit functions in the management of risks to our assets and objectives as an enterprise. The main risks of the group for the year ended 31 March 2024 are those of its trading subsidiary, Affinity Water Limited, and hence this section focuses on the risks and uncertainties of Affinity Water Limited (referred to as the 'subsidiary' throughout the remainder of this section). At senior management level, the subsidiary's Executive Leadership Team (ELT) regularly reviews high-priority risks and horizon scanning exercises. The risk function maintains the corporate risk register and provides internal consultancy to the operational business and decision support to management. Together, the operational business (first line of defence), the risk management function (second line of defence) and the assurance functions (third line of defence) manage risk according to the Corporate Risk Framework. The subsidiary's Internal Audit function provides assurance on risk control across the business. Our cyclical risk management process identifies and assesses risk, adds appropriate mitigation measures, checks the implementation of the control framework and assigns remedial actions where necessary.

Our Goal for Corporate Risk Management

The group aims to manage risk holistically across its business, using a transparent and timely process that focuses equally on the protection of tangible and intangible assets (including communities and the environment) and the achievement of both financial and non-financial objectives (including, for example, net zero). We strive to mobilise expertise and technology from sources inside and outside the business to support management in making decisions which optimise the management of risk, through maximising the level of risk reduction delivered by investing resources in risk control.

Summary of Main Changes During 23/24

- Four emerging risks from 2023 are now covered in the corporate risk register as current operational risks: skills gaps due to a tight labour market; changes to our supply chain; changes to the power industry; and bad debt from the cost-of-living crisis.
- One new risk has been added to the company's principal risk list: Capital Projects Delivery.
- Two existing principal risk definitions have been expanded to take account of issues identified in horizon scanning. The risk of crisis event disruption now covers energy infrastructure failure, terrorism and pandemic. The risk of adverse macro-economics, where macro-economic factors impacting negatively on financial performance, has been expanded to cover energy prices and the cost of living crisis.

Horizon Scanning for 'Emerging' Risks

We have defined emerging risks as potential future events or circumstances that could significantly and negatively impact achievement of our strategic objectives, and whose likelihood and impact cannot yet be accurately determined. As part of our Corporate Risk Framework, we carry out regular horizon scanning and analysis of various early-warning indicators to identify newly emerging risks and determine if any previously identified emerging risks have now become current operational risks.

The ELT holds regular sessions to identify and review current and emerging risks. Along with the strategic risks, these are reviewed at least quarterly by the ELT and at least biannually by the subsidiary's Board. The following table shows our 2024 emerging risks:

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

Horizon Scanning for 'Emerging' Risks (continued)

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

Our principal risks

The following have been identified from our risk management analysis as potentially having material adverse effects on our business assets and goals. They are managed as described in the tables below but are not always wholly within our control and may still result in material adverse impacts. Factors other than those listed could also have a material adverse effect on our business activities.

1. Health, Safety & Wellbeing Compromised
2. Failure to Supply
3. Fail to Retain Right Skills
4. Data Compromise
5. Supply Chain Failure
6. Environmental Damage
7. Adverse Climate Impact
8. Fail Business Transformation
9. Crisis Event Disruption
10. Asset Deterioration
11. Adverse Regulatory Change
12. Fail Legal Obligations
13. Unsatisfactory PR24
14. Funding Challenges
15. Adverse Macro-economics
16. Capital Projects Underdelivery

We have identified 16 principal risks to our business in 2024, described below with their Control Mitigation Strategies, Associated Metrics and Major Impacts on Our Corporate Objectives Scorecard.

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

Strategic report
for the year ended 31 March 2024 (continued)

Our principal risks (continued)

Corporate Objective Scorecard Against Which Risk Impacts Are Projected

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

Our principal risks (continued)

<table>
<tr><th colspan="2">1 – Health, Safety & Wellbeing Compromised</th></tr>
<tr><td>

Description

Failing to manage dangerous working practices may result in personal injury/fatality or occupational ill-health to the victim(s) AWL employees/contractors, the public, including our customers and, to us as the perpetrator, consequent disruption to operations reputational damage, criminal fines, civil damages or regulatory penalties.

Impact On

- Satisfied Customers
- Satisfied Workforce
- Reputable Company
- Compliant Organisation
- Financial Stability

</td><td>

Control Measures

The subsidiary has The Affinity Water health and safety management system, which is externally verified and certified to ISO 45001, encompasses policies, procedures, standards, guidance and risk assessment protocols.

This mandates appropriate health and safety training to enable personnel to undertake their tasks and take personal responsibility for their own safety, occupational health and wellbeing, and that of others. This training includes technical and certificated health and safety training, undertaking regular safety- related communications, safety briefings, toolbox talks, safety stand-down days, and promoting safety leadership evaluations and safety conversations across the organisation.

Through the subsidiary's procurement strategy and arrangements, its contractors and suppliers are required to have externally recognised health and safety accreditation, which is verified by bodies such as Achilles, BSI etc., and its health and safety common standards are included as contractual documents, are regularly audited, and performance reviews undertaken.

The subsidiary has an established governance framework where health and safety-related matters and performance are tracked and monitored, spanning operational, Executive Leadership Team and Board levels. The subsidiary's ELT (Executive Leadership Team), through our Zero Harm Steering Group, regularly reviews H&S risks. Focus on contractor injury incidents and enhanced chemical room containment increased during the year in response to changing risk levels, and action plans have been developed and are being tracked through to completion. Deep dive audits covered street works, occupational road risk, worker fatigue, service avoidance, chemical management, lone working, mental health, fire and CDM, and resulting recommendations actioned.

The subsidiary's Affinity Water audit and inspection regime includes root cause analysis, captured on our EcoOnline system, and incident review protocols are in place to ensure key learnings are captured and any necessary strengthening of controls is actioned appropriately. The subsidiary also has a programme of health- surveillance assessments, wellbeing initiatives and an employee assistance programme to help to ensure the welfare and wellbeing of its people is effectively managed.

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Our principal risks (continued)

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

The subsidiary may become unable to meet its obligations to provide a sufficient supply of high-quality drinking water.

Impact On

• Satisfactory Supply
• Satisfied Customers
• Reputable Company
• Compliant Organisation
• Financial Stability</td><td>Control Measures

The subsidiary focuses on the supply and demand planning over the short and medium term and has developed a long-term water resources management plan (WRMP), which identifies, over a 50-year period, how it will balance available supplies and required demand with sufficient headroom for unplanned outage.

To support demand management, the subsidiary undertakes extensive education and water saving programmes, including water metering, water saving devices, links to ways to save water, along with communications to help customers self-manage usage. It undertakes asset maintenance, investment and improving resilience through measures such as removing single points of failure and increasing connectivity of the network.

In the event of an emergency, the subsidiary has well-tested contingency and emergency response plans to ensure minimal disruption to our customers.

The subsidiary has agreements with neighbouring water companies to both import and export water. Some of these are statutory agreements in use every day while others are used only during unplanned incidents. Some of these agreements have been in place for many decades and we continually review them to ensure they remain suitable for our needs. Specific contingency plans exist for key non-household customers who are designated as being critical national infrastructure, e.g. Heathrow, Luton and Stansted Airports.

The subsidiary continually monitor our performance on a wide range of customer metrics and take prompt corrective action to address any indicators of dissatisfaction, working closely with regulators, customer groups and independent bodies who advise and challenge us in the development of our plans, to ensure they reflect customers' priorities.</td></tr>
</table>

Our principal risks (continued)

3 - Fail to Retain Right Skills	
Description The subsidiary fails to attract and retain competent and high-performing individuals in the organisation at all levels, who are motivated and engaged to deliver the business objectives **Impact On** • Satisfied Workforce	**Control Measures** The subsidiary's people strategy is designed to ensure that it can attract, retain, develop and motivate the people within its business to deliver its business objectives. Moving forward, achieving a sustainable workforce requires us to focus on addressing the challenges posed by demographic shifts, skills shortages and evolving work practices. Current projects which support achieving of this include: • Development of a strategic workforce plan to identify the skills that will be needed by the business in the medium to long term, so we can implement appropriate resourcing, talent pipelines and development plans; • Implementation of a grading structure, in conjunction with a robust job evaluation process, which promotes fairness, transparency and meritocracy across the business; • Continual improvement of the recruitment experience to provide consistency of role definitions, career pathways to support development and competency frameworks; and The continuation of our culture transformation programme, which is underpinned by employee engagement, equality, diversity, inclusion and wellbeing, and leadership development.
4 – Data Compromise	

Description
 	
Availability, confidentiality or integrity of information or data could become compromised
 	
Impact On
 	
• Financially Stable
• Reputable Company
• Compliant Organisation
	Control Measures
	
	Affinity Water continues to invest in an ongoing programme to build resilience within our IT infrastructure and strengthen its security capability. The subsidiary recognises the security function as a business enabler and driver of digital transformation. Investment is planned to continue in the coming financial year to support Affinity Water's holistic strategy and approach to cyber security.
	
	Based on the assumption that cyber breaches are inevitable, the strategy emphasises the need to:
	• build our capability to identify and manage cyber risks
	• develop and implement appropriate safeguards to ensure delivery of critical services
	• implement plans to detect and respond to a cyber security event
	• maintain plans for resilience to restore any lost services
	    o Continually patch systems
	    o Ensure IT infrastructure is spread across multiple cloud regions for DR and BCP
	    o Build recovery and resilience into IT infrastructure

Strategic report
for the year ended 31 March 2024 (continued)

Our principal risks (continued)

	The strategy details the objectives, intended outcomes, activities, and supporting plans to deliver a unified framework for IT Infrastructure resilience, cyber security and compliance with regulatory requirements and standards, including the Network and Information Systems Regulations (NIS-R) and ISO 27001. Affinity Water continues to embed the security management system and security controls within the business processes. In addition, the security management system's overall improvement and maturity are validated through an independent assessment to determine progress and continuous improvement opportunities. Since the start of AMP7, significant investment has been made in building the dedicated security function and capability, including the successful deployment of leading artificial intelligence and machine learning-based technologies for immediate detection, alert and automated response to improve both the resilience to new threats and the response times to incidents. A major internal cyber security review has taken place, and an external one is to follow. A Cyber Security framework is developed, which ensures compliance with the following standards: ISO27001/2:2022 – Information Management, ISO22301 – Business Continuity Management, ISO22393:2023 – Security and Resilience, ISO15504:2012 – Process Maturity Modelling, IEC/ISA62443 Series – Industrial Automation Control Systems Security, NCSC Cyber Assessment Framework (CAF), and NIST SP800 – Cyber Security Framework. Priorities in the subsidiary's cyber security strategy include: Enhancing monitoring capability with a key focus on ensuring monitoring of the OT network, rigorous compliance with the 2024 and subsequent Cyber Assessment Framework (CAF) assessments, advanced vulnerability management program that tests the subsidiary's critical systems and components, using commercial threat intelligence to design security controls, regular exercise of Disaster Recovery and Business Continuity plans, achieving ISO27001 alignment to maturity level 4 with a view to certifying in March 2025, implementing advanced "AI" and "Machine Learning" technologies for threat intelligence, security monitoring, and incident detection. The subsidiary's ultimate objective is to achieve security by design and an anti-fragile architecture mindset and approach. This means that the system (or software) has been designed to be secure and trusted from the ground up.

Our principal risks (continued)

<table>
<tr><td colspan="2">5 – Supply Chain Failure</td></tr>
<tr><td>Description

The subsidiary’s supply chain may fail to deliver the goods and services we need to operate its business

Impact On

• Financial Stability
• Satisfactory Quality
• Satisfied Customers
• Reputable Company</td><td>Control Measures

The subsidiary seeks to ensure that our relationship with critical suppliers is secured under long-term agreements, where appropriate. For key activities, the subsidiary may multi-source by retaining more than one supplier to mitigate the risk of supplier failure, and frequently qualify multiple suppliers to ensure supply continuity. The subsidiary also undertakes significant due diligence in the selection and ongoing management of suppliers through audit, inspection and verification of performance. The approach has been tested during the recent turbulence in the wider macroeconomic climate and other socio-economic upheaval. It has proved resilient, with no adverse impact on company objectives. The subsidiary continues to work with other companies in the industry to address the short-term and long-term challenges associated with supply of water treatment chemicals in the UK.</td></tr>
<tr><td colspan="2">6 – Environmental Damage</td></tr>
<tr><td>Description

The subsidiary could cause damage to the environment in the course of its business activities

Impact On

• Sustainable Environment
• Compliant Organisation
• Reputable Company
• Satisfied Workforce</td><td>Control Measures

The subsidiary’s environmental ambition is to leave the environment in a sustainable and measurably improved state. The subsidiary is committed to protection of the environment, prevention of pollution and compliance with environmental legislation, regulations and other requirements that are applicable to us. To deliver on its commitment, the subsidiary has set itself a range of objectives to protect and enhance the environment, which include being certified to ISO 9001 (Quality) and ISO 14001 (Environmental) management systems and always striving for continuous improvement in its processes, systems and activities, minimising the waste it produces and the energy it consumes. The subsidiary works with farmers and communities to control the risk of environmental pollution from third-party activities. The subsidiary is working to develop a new pollution prevention plan around key focus areas including; proactive and visible management of its environmental performance; providing the right tools, training and competency for its people; building trust and relationships with its Regulators, Customers and Board through its governance processes. The subsidiary will identify priority projects to remove or mitigate any immediate risk around Waste, Abstraction, Pollution and Discharge Permits and put in place structured AMP 8 readiness plans underpinned by strong BAU performance.

The subsidiary has a number of other environmental control systems and processes that include landholdings management plans, catchment management programme, drinking water safety plans, its compliance risk index (‘CRI’) programme, and its carbon reduction.</td></tr>
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Our principal risks (continued)

<table>
<tr><th colspan="2">7 – Adverse Climate Impact</th></tr>
<tr><td>Description

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

Impact On

• Satisfactory Supply
• Satisfactory Quality
• Satisfied Customers
• Reputable Company</td><td>Control Measures

The subsidiary’s six key climate change risks are defined as those which, without intervention, pose an unacceptable risk to its business. A 2024 version of our Climate Change Adaptation Report, which sets out how it is managing and adapting to these risks, is being developed in line with the latest DEFRA reporting requirements. In its draft Water Resources Management Plan 2024 the subsidiary has included an assessment of the impact of climate change on its supply-demand balance. This was evaluated using a common approach adopted across the WRSE region to ensure the subsidiary can meet future needs. The subsidiary reviews and responds to planning applications where these could pose a potential risk to its assets and are working with landowners and farmers to improve soil health and water quality through its Catchment Management programme. The subsidiary’s INNS Out scheme is supporting its community in tackling invasive non-native species in our supply area, to help reduce the risk to its landholdings and the wider catchment.</td></tr>
<tr><th colspan="2">8 – Fail Business Transformation</th></tr>
<tr><td>Description

The subsidiary may fail to implement the cultural and operational transformation of its business necessary to deliver its business plan obligations.

Impact On

• Financial Stability
• Compliant Organisation</td><td>Control Measures

The subsidiary continues to develop its culture, and this includes the ways and plans it holds to adapt and transform.

Significant changes will be seen in AMP8 and the creation of the Transformation Area (within Technology and Transformation Directorate) supports creation of a centre of excellence, alignment to one unified model to enact change across the business and support consistency of delivery and execution.

The subsidiary’s Black, Yellow and Green Belt Lean and Six Sigma capability continues to be utilised within the Directorates to enable this change management methodology to be used with a strong focus on driving continuous improvement of all business processes.

The subsidiary has revised the project methodology in place to govern how it delivers its programmes and projects. In addition, the Investment Committee reviews all proposed large projects before initiation and monitors their delivery to ensure successful outcomes. New projects are approved by reference to available finances, people and other resources as appropriate.</td></tr>
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Our principal risks (continued)

<table>
<tr><th colspan="2">9 - Crisis Event Disruption</th></tr>
<tr><td>Description

A significant disruptive event, e.g. energy infrastructure failure, terrorism, pandemic could impact the subsidiary’s ability to deliver normal business activities

Impact On

• Satisfactory Supply
• Satisfactory Quality
• Satisfied Customers
• Reputable Company</td><td>Control Measures

Affinity Water maintains an emergency response team to deal with the various issues that put the company or its customers at risk. These high-level procedures are maintained and reviewed on a regular basis. Each event is subject to a learning review, and long-term resilience plans are updated through the outcome of these learning sessions. These improvements are proposed to the investment teams for improvement or corrective actions that add to the company resilience.

Business continuity planning is based on the guidance of ISO 22301:2019 and our emergency preparedness is assessed as part of our ISO 9001:2015 certification for assurance purposes. Affinity Water maintains a 24-hour rota to ensure emergency management is available should an event occur.

Affinity Water maintains a close working relationship with the relevant local resilience forums (‘LRFs’) organised through local government authorities to meet the requirements of the Civil Contingencies Act (‘CCA’) 2004 and Security and Emergency Measures Direction (‘SEMD’) 2022.

Affinity Water regularly engages with Water UK on risks and has representation on the National Incident Management team (‘NIM’) for dealing with tactical responses to national or regional issues, involving DEFRA and other government departments or agencies, and on the Platinum Incident Management team (‘PIM’) for implementing agreed industry strategies in our organisation.</td></tr>
<tr><th colspan="2">10 – Asset Deterioration</th></tr>
<tr><td>Description

The health of the subsidiary’s assets may deteriorate such that water supply or quality is compromised, in addition to employee safety.

Impact On

• Satisfactory Supply
• Satisfactory Quality
• Satisfied Customers
• Reputable Company
• Satisfied Workforce</td><td>Control Measures

The maintenance of the subsidiary’s existing assets to maintain service to customers is funded from the base capital maintenance element of its regulatory settlement. Unlike some other areas, the subsidiary has autonomy to decide how to allocate funds to best deliver its performance commitments. The subsidiary uses a ‘risk and value’ based approach to inform its decision making, which enables it to prioritise investment to those areas that most need it to maintain service and protect its employees.

The subsidiary is working on enhancing the accuracy and completeness of its data and the suite of asset health metrics it uses to measure risk, to continuously improve its ability to target investment to reduce the greatest amount of risk.</td></tr>
</table>

Our principal risks (continued)

11 – Adverse Regulatory Change	
Description Changes could occur in the regulatory framework, or social or political climate, which could have significant effects on the subsidiary's operational or financial performance **Impact On** • Compliant Organisation • Reputable Company	**Control Measures** The subsidiary continues to contribute fully to consultations with its regulators and seek to ensure its voice is heard on emerging changes through strong relationships with all its stakeholders. The subsidiary continues to engage with its stakeholders and their representatives to understand and respond to their issues and concerns. The subsidiary is increasing its engagement with political and policy stakeholders to ensure key issues for Affinity Water are recognised and understood within the regulatory context.
12 – Fail Legal Obligations	
Description The subsidiary may fail to comply with laws and obligations under its instrument of appointment, resulting in an enforcement order a fine of 10% appointed turnover or termination of appointment and special administration. **Impact On** • Satisfied Customers • Reputable Company • Compliant Organisation	**Control Measures** Priority legal requirements, as set out in our Licence Conditions and key legislation such as the Water Industry Act 1991, are captured in our Legal Obligations Register which has been introduced in 2023. This register provides a focus on key legal and regulatory obligations and will support future compliance returns, with legal and regulatory focus adapting as risk and circumstances require. The new register provides a reference point and sets clearer accountabilities for high level compliance. It requires directors to provide a statement of compliance that includes all relevant procedures and controls, or otherwise record any risk of non-compliance and provide mitigation or an action plan to address that potential non-compliance. All remaining legal or compliance risks will be managed through the application of regular internal reviews, standard operating procedures, training programmes and a risk reporting process where it is appropriate to do so. The subsidiary continues to operate our abstraction, treatment and supply activities to environmental standard ISO 14001 and have adopted the principles of other relevant management systems and standards. The subsidiary's 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. Where new obligations and licence conditions come into effect, the subsidiary undertakes extensive compliance and assurance activities to ensure the company is compliant.

Our principal risks (continued)

<table>
<tr><th colspan="2">13 – Unsatisfactory PR24</th></tr>
<tr><td>Description

Failure to achieve a satisfactory outcome from the price review PR24 for 2025-30 to fund obligations and achievement of performance requirements.

Impact On

• Financial Stability
• Compliant Organisation</td><td>Control Measures

The subsidiary undertook a significant programme of internal and external assurance on the PR24 business plan submitted to Ofwat in October 2023.

The subsidiary is confident that it has submitted a high quality and robust business plan. The subsidiary continues to engage with our regulators through the determination period, contributing to various working groups, consultations and industry projects.

The subsidiary continues to focus on delivering its performance commitments in AMP7 to ensure that it is in the best possible place to transition to AMP8.</td></tr>
<tr><th colspan="2">14 – Funding Challenges</th></tr>
<tr><td>Description

The subsidiary could fail to maintain or renew appropriate funding for its business activities

Impact On

• Financial Stability
• Compliant Organisation</td><td>Control Measures

The subsidiary has undrawn revolving loan facilities, cash balances and standby loan facilities to meet its forecast cash flow needs. The subsidiary’s treasury policy requires it to maintain a minimum level of liquidity capable of covering at least 12 months of forecast cash flow requirements. Longer-term financing needs are sourced from the private and public bond markets.

The subsidiary’s next major refinancing exercise is scheduled for July 2026, when our £250 million fixed-rate bond matures.

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 our 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 to the Board on a regular basis. The subsidiary continues to maintain investment-grade credit ratings with credit-rating agencies.</td></tr>
</table>

Our principal risks (continued)

15 – Adverse Macro-economic Change	
Description Macro-economic factors (interest rate, inflation, energy prices, cost of living crisis and tax risks) could have a material adverse effect on the subsidiary's financial performance **Impact On** • Financial Stability • Compliant Organisation • Satisfied Workforce	**Control Measures** Energy-price fluctuations are mitigated in two ways: firstly, by implementing efficiency programmes to reduce the amount of energy we use. Secondly, by developing self-generating assets (solar) to reduce our reliance on grid-imported energy. Interest-rate risk is primarily managed by using a mixture of fixed-rate and inflation-linked borrowings, and approved hedging instruments (refer to note A4 to the financial statements for further information). The subsidiary has a financial covenant within our WBS documentation stipulating that at least 85% of our outstanding debt is hedged against movements in interest rates. Interest rate risk is monitored and reported regularly to the Board. Inflation risk in the subsidiary's costs is managed through undertaking a robust and challenging budgeting process to ensure costs are clearly understood and subsequently controlled during the financial year. The subsidiary also uses inflation-linked debt to ensure a proportion of its interest costs are linked to inflation and, therefore, offsets an element of the movement in revenue and RCV that results from changes in inflation. The defined benefit pension plan has been closed to new members since September 2004, and the assets of the plan are held separately from those of the company. The plan is in surplus on an accounting basis (refer to notes 10 and A5 to the financial statements) and the latest actuarial valuation of the defined benefit section of the Affinity Water Pension Plan ('AWPP') as at 31 December 2020, determined by an independent qualified actuary, concluded that the pension plan was 96% funded on a self-sufficiency basis. To eliminate the funding shortfall identified, as well as funding the future cost of benefits being accrued within the plan, the subsidiary agreed to pay contributions of £1,250,000 prior to 31 July 2021, £1,600,000 prior to 31 December 2021, and £1,600,000 per annum commencing from 1 January 2022. This was formalised in a new schedule of contributions effective from July 2021. Another actuarial valuation, as at 31 December 2023, is currently being undertaken. 95% of the interest rate and inflation risk associated with the plan's liabilities are hedged by the plan's assets through liability and cash flow driven investment. The subsidiary has specific processes and teams dedicated to the efficient collection of customer debt and outsource to a number of debt-collection agencies when the recovery of debt has been unsuccessful. For those customers who struggle to pay their bill, the subsidiary has payment arrangements that are as flexible as possible, and it encourages customers who find themselves in difficulty to contact it as early as possible. The subsidiary also has a social tariff (LIFT) to help support customers who are least able to pay their bills.

Daiwater Investment Limited

Strategic report
for the year ended 31 March 2024 (continued)

Our principal risks (continued)

16 - Capital Projects Underdelivery	
Description Failure to deliver major Capex programmes and projects. This would have two types of impact on the Corporate Risk Profile. Firstly, there is the risk of losing the value of the investment through failure to deliver. Secondly, there is the impact of failing to realise the benefits of the capital investment programme, much of which is long term risk control. **Impact On** • Financial Stability • Reputable Company	**Control Measures** The subsidiary's Asset Strategy and Capital Delivery directorate operates a project risk management process where costs and delivery risk are actively managed and carefully controlled via an Investment Committee. Work is ongoing to integrate Programme and Corporate Risk via specific escalation criteria, and this project is managed by the PMO. The subsidiary also closely monitors the key milestones of its enhancement investments to ensure we meet regulatory expectations, with progress reported company wide as one of our key KPIs.

Operational performance

The group has aligned its operational KPIs to its key performance commitments in response to customer expectations. We want customers and stakeholders to be able to assess our track record and hold us to account. The group's principal trading subsidiary is required to report its performance against targets set by Ofwat, the DWI and Defra. These targets include the performance commitments made in its AMP7 Business Plan. The subsidiary's performance in relation to these targets for 2023/24 is analysed in the tables below. For more information on the subsidiary's performance for 2023/24 in relation to all the performance commitments made in its AMP7 Business Plan refer its own regulatory Annual Performance Report.

Performance key:

increased decreased - stable performance met performance not met

Water quality CRI (Score)	
Actual: **8.05** Target: 2.0	The Compliance Risk Index (CRI) is a measure to inform the risk arising from treated water compliance failures. Our performance on water quality has steadily improved across AMP7 and year three was a strong year of performance against the DWI measure. The underlying performance across the initial nine months for year four was very strong. However, two failed samples at Iver Water Treatment works in October and November incurred large scores and we have missed the target of 2 with a score of 8.05. A number of interventions are now in place at Iver to ensure that we do not have the same type of sample failure and we expect to deliver on this challenging metric in year five. We continue to work with the DWI to ensure that all future risks to water quality are mitigated.
Leakage Percentage reduction	
Actual: **18.3%** Target: 17.0% or more	This measure is reported as a percentage reduction in a three-year average of leakage against a baseline level of 2019/20. In AMP7 we committed to reducing leakage by 20% as set out in our Water Resources Management Plan. We understood that a change in our approach was needed to meet this target and at the outset this would be a challenge. We identified we would need a glide-path reduction to achieve 20% by the end of 2025. The teams have worked hard to improve the response time to fix a leak and introduced new technology to fix leaks with a No Dig solution that has proved successful on customer communication pipes. This has resulted in leakage outperforming the target of 17% and finishing at 18.3% for year four.
PCC Average water use percentage change from 2019/20 baseline	
Actual: **-1.5% increase** Target: 10% reduction	The performance commitment aims to incentivise us to help customers reduce their water consumption. We continue to focus our efforts on developing innovative behavioural campaigns and customer messaging, alongside installing meters to help customers understand their usage and carrying out home water efficiency checks. We have seen a marked change in customers water use behaviours since the Covid pandemic, and the shift to 'working from home', and this looks to set to continue into the future. We continue to seek new ways to engage with our customers to communicate the importance of conserving water alongside exploring innovative approaches to charging and tariffs. We are revising our baseline for PCC through the water resource management plan to account for the impacts of climate change.

Operational performance (continued)

C-Mex
(Score)

Actual: **12th**
Target: mid table

The customer experience performance commitment measures direct customer feedback on satisfaction with our services. We have worked hard to improve our scores this year by improving our systems, processes, and employee training.

We have made ground, improving our league table position from 14th to 12th in year four and closing the gap to mid-table position. While we have not achieved our C-Mex target, which is measured relative to our peers, we have reduced the penalty compared to last year.

D-Mex
(Score)

Actual: **12th**
Target: mid table

D-MeX is the measure of levels of service in the developer services area of activity. The index score is made up of both a qualitative and a quantitative element.

We have experienced challenges this year in the delivery of developer services from our third party suppliers. As a result of poor quality service, we have changed our contractual parties and have seen a marked improvement in performance in the second half of the year. Overall, we have achieved an average score of 86.93 across the year, missing our target and achieving 12th position compared to our industry peers.

Mains repairs (due to bursts)
(Number per 1,000km mains)

Actual: **98.3**
Target: 144.4

We have outperformed our target this year on the number of repairs per 1000km of mains, achieving 98.3 repairs against a score of no more than 144.4. We continue to invest in the proactive replacement of mains pipes and adopt new ways of working to improve our performance.

Water Supply Interruptions > 3 hours
(Average minutes per property, water supply interruption)

Actual: **00:02:46**
Target: 00:05:45

We have achieved our best ever performance this year in reducing the average amount of time customers experience a supply interruption.

Against a challenging target of 5 minutes and 23 seconds, we achieved an industry leading performance of 2 minutes and 46 seconds. We have invested significantly in the monitoring of our network and training of our technicians to promote proactive behaviours that minimise the amount of time customer properties are without supply when bursts and incidents happen on our network.

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

Actual: **84**
Target: 320 or less

We also achieved the 12-hour performance commitment for the first time in AMP7 with only 84 properties affected against a target of 320 properties. This is a significant improvement compared to the extreme challenges faced in 2022/23 when we experienced a “freeze/thaw” cycle that affected the number of bursts on our network.

Properties at risk of low pressure
(Number per 10,000 properties)

Actual: **138.59**
Target: 1.250
.

The low pressure performance commitment measures the number of properties at risk of receiving water pressure below the prescribed standard, per 10,000 properties.

We continue to consider that the measurement of the performance commitment is not reliable or comparable with peers across the industry.

We have not achieved our target for this performance commitment since it was introduced, and due to the reporting issues with this measure, we will not be able to achieve it throughout the 5 year period.

Financial performance

Gearing (Ratio of net debt to RCV, %)	
Actual: **74.6%** Internal threshold: 80.0%	Our net debt as at 31 March 2024 was £1,382.3 million, an increase of £124.6 million since last year (2023: £1,257.7 million). This increase reflects a net cash outflow of £19.0 million, primarily driven by capital expenditure on our network. In addition, our index linked bonds increase by prevailing RPI and CPI. This non-cash accretion is designed to match growth in nominal RCV and is included within net debt. Our gearing is higher than some of our peers in the water industry, however this is only one aspect of our financial resilience. Our gearing of 74.6% is below our internal maximum of 80% of RCV and materially below our trigger level of 90.0%. Our financial policies and capital structure align with our target credit ratings of A3/BBB+/BBB+ for our Class A Bonds with Moody's, Standard & Poor's, and Fitch.
Cash flow (Net cash flow before tax and financing)	
Actual: **-£36.0m outflow** Target: -£22.9m outflow	Net cash flow before tax and financing for the year was a £36.0 million outflow, being a £13.1 million increase on last year (2023: £22.9 million outflow). The increase in the outflow is primarily due to higher net investment in fixed assets in the current period in line with our 2020–2025 plan. Cash generated from operations was also lower than in the prior year, offset with improvement in operating profits. Our KPI linked to remuneration in the current year relates to cash generated from operations, with this target not having been met, as disclosed in the Remuneration Report and financing for the year was a £36.0 million outflow, being a £13.1 million increase on last year (2023: £22.9 million outflow). The increase in the outflow is primarily due to higher net investment in fixed assets in the current period in line with our 2020–2025 plan. Cash generated from operations was also lower than in the prior year, offset with improvement in operating profits.

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

The cashflow performance Measure is calculated as the total of the following line items per the statement of cash flows (refer to page 59): cash generated from operations; deferred grants and contributions; purchases of property, plant and equipment; proceeds from sale of property, plant and equipment; purchase of intangible assets; and principal elements of lease payments.

Section 172(1) statement

Daiwater Investment Limited

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

Our stakeholders

The group's responsible business approach is the way it does business. It is centred on issues which are of importance to our customers and stakeholders and to the responsible delivery of our business plans. The

Our stakeholders (continued)

group has had discussions with stakeholders across all areas of its business to better understand what matters most to them and how it can further involve them in its decision making. The group focused on the following four areas: the environment, supply and demand, water efficiency and vulnerability with the aim of gathering information to inform its current and future strategy.

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

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

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

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

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

It is the responsibility of the Chair to enable discussions at Board meetings that lead to decisions being made which are sufficiently informed by section 172 factors. Board minutes record decisions made, and actions agreed in the context of these factors.

The Board's role in stakeholder engagement is to:

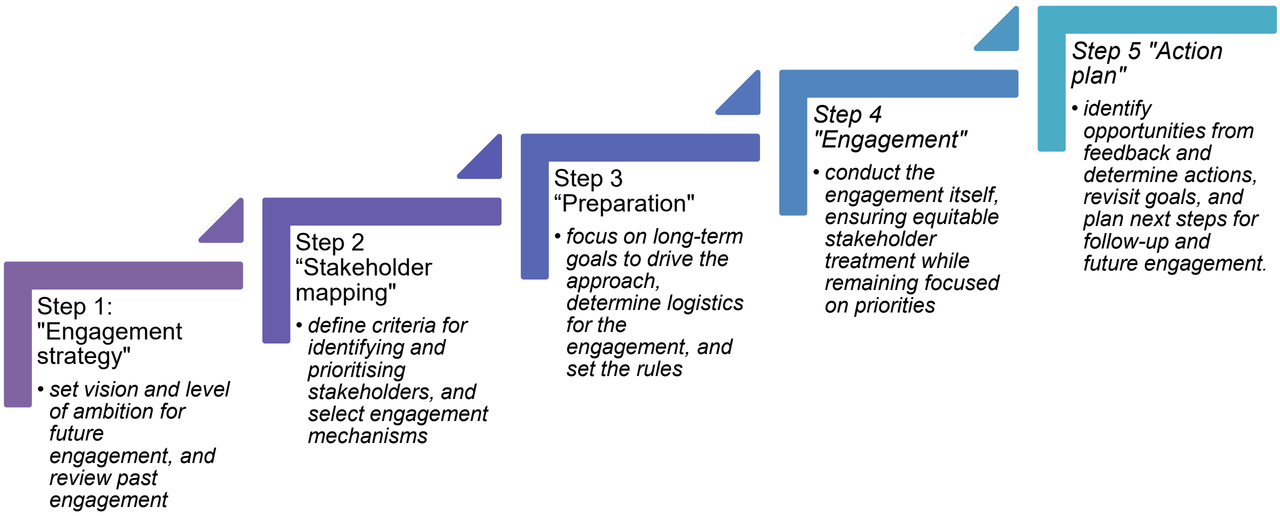
- ensure that our purpose, strategy and culture are set in the light of views actively sought from relevant stakeholders;
- set an expectation that all key decisions made take into consideration the views of relevant stakeholders;
- require executive directors and other senior managers to engage with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

In 2023/24, each Board Committee's terms of reference were reviewed by the Board and updated to ensure that consideration of section 172 factors and Ofwat's 2019 Board leadership, transparency and governance principles were appropriately addressed. Directors are reminded of the section 172 requirements at the start of every Board meeting. The Board reviews and approves the Schedule of Reserves Matters annually. These can be accessed on our website at *https://www.affinitywater.co.uk/corporate/about/governance-assurance*

Section 172(1) statement (continued)

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

The group's approach to stakeholder engagement is:



The Board undertook a review of its stakeholder engagement during the year and has taken steps to adopt a risk-based approach. Armed with the baseline perception position and policy priorities, a strategic stakeholder engagement plan will be developed based on a mapping exercise and identification of priority stakeholders to focus activity and maximise effective engagement to fulfil objectives within the plan.

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

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

Section 172(1) in action

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

Customers
Current and future customers, including household and non-household customers, and market participants such as retailers and self-lay providers, developers and NAVs

Why engagement is important

Customers rely on water as an essential service and are at the heart of our business model. We aim to be a positive contributor to, and able to earn fair returns from, a reliable service that is trusted by and represents value for money for customers. Transparent conversations and engagement with the Independent Challenge Group ('ICG') will support delivery of our purpose and environmental ambitions.

How the company engages

- *Daily contact with customers*
- *Customer research programme*
- *Public meetings*
- *Our website*
- *Media/social media*
- *Through our ICG*
- *Providing fair and affordable bills*
- *Supporting customers in vulnerable circumstances through social tariffs and Priority Services Register*

How the Board engages

Information reported to the Board:
- *The Board receives monthly performance summaries of our AMP7 performance commitments including leakage, PCC, C-MeX and D-MeX and supply interruptions, and other key metrics including customer satisfaction and written complaints*
- *The Board receives updates on the impact of customers as a result of weather events and the impact on our key performance commitments*
- *The Board received updates on the National Drought Group to reduce per capita consumption by focusing on preserving water to get ahead of future dry spells.*
- *The Board receives information around the Save Our Steams Campaign and behavioural campaigns around water conservation.*
- *The Board receives updates from the Independent Challenge Group which was refreshed and reinvigorated as part of the PR24 process.*

Direct engagement mechanisms:
- *There is a clear reporting line to the CEO and accountability for arrangements regarding handling customer complaints.*
- *Engagement with partnership groups to further support customers (National Debtline, Stepchange, CAB) and our website signpost Turn2us and Money Helper.*
- *Supporting customers in vulnerable circumstances, addressing local needs and promoting social well-being. The Red Shed Garden Project a charity aimed at supporting individuals living with dementia in Hertfordshire benefited from funding, facilitated in partnership with grant making charity Hertfordshire Community Foundation.*

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

Section 172(1) statement (continued)

Section 172(1) in action (continued)

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

Why engagement is important

These groups bring distinctive perspectives and influence on key environmental and social issues on behalf of customers and the public. Engagement will result in us being a progressive, well-regarded company that delivers its purpose and with which communities and civil society want to work in pursuit of common goals

How the company engages

- *Joint Forums*
- *Public meetings*
- *Consultation meetings for business plan development*
- *Catchment partnerships*
- *Water resources monthly email updates*
- *Volunteering days to help local communities and charities*

How the Board engages

Information reported to the Board:

- *The Board received updates on the Water Resources Management Plan 2024 and viewed the findings of the stakeholder consultation held during the year*
- *The Board received updates on rainfall and groundwater levels and the risk of having to introduce a Drought Management Plan such as a restrictions on hosepipe use*
- *The Board receives monthly updates on community projects*

Direct engagement mechanisms:

- *Our Board-approved Community Engagement Strategy and activities are focused around three core areas:*
    - *Protecting rivers and habitats*
    - *Investing in science, technology, engineering and mathematics (STEM) and future skills*
    - *Developing community partnerships*

Throughout 2023/24, we continued to build on our social purpose and defining the programme of work that will help us meet the growing expectations of our stakeholders and add value to our communities:

- *Volunteering through Affinity Days created to support and encourage our connections within our local communities. We supported many causes - river cleans, fundraising, packing gift bags, community fun days to hands on habitat management*
- *Fostering partnerships with nature conservation organisations, including Wildlife Trusts, Chilterns Chalk Stream Project working on shared objectives, to manage land for people and wildlife at our Local Nature Reserves, help conserve and enhance local chalk streams, draw together resources, knowledge and understanding on what our local communities want and need.*
- *Launching 'Water Smart', a school programme across the Affinity Water region as part of our water-saving mission. Working with educational specialists, We Are Futures and the National Schools Partnership to provide primary schools with water-saving education materials.*

Section 172(1) statement (continued)

Section 172(1) in action (continued)

Employees
The workforce, including both employees and the wider workforce

Why engagement is important

Our success depends on the shared talents, skills and values of the people who work for our company, and our ability to attract and retain a talented and diverse future workforce

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

How the company engages

- *Senior leadership forums*
- *Engagement "Tap in" surveys and regular pulse survey*
- *Monthly one-to-one meetings and personal best check-ins four times a year*
- *Regular podcasts from the CEO*
- *Diversity Inclusion and Dignity at Work Steering Group to drive a stronger agenda of inclusiveness*
- *Designated Director for Employee Engagement reporting issues and progress to the Board*
- *Internal communications and monthly team leader briefings communicated to all line managers*
- *Company wide live events, including Roadshows and Connect Days with market stalls to provide insights and updates to employees from all areas of the business*
- *Customer delivery roadshows to update front-line operational teams on our performance and future plans*
- *New starter and training programme, with team leader and manager training*
- *Mandatory e-learning sessions including Inclusion and Diversity training*

How the Board engages

Information reported to the Board:
- *We have continued to drive cultural change across the business. Culture Ambassadors represent their departments and report on progress made.*
- *We ensure employee have the tools and resources they need to do the job and upskill through learning participation and training and development plans*
- *Information on productivity, attrition levels, health and safety, wellbeing and output from exit interviews is reported monthly to the Board*
- *Whistleblowing incidents are reported to the Board. All incidents are taken extremely seriously and are thoroughly investigated, working with external reviewers if required*

Direct engagement mechanisms:
- *Chris Newsome, Director of Employee Engagement was responsible for employee liaison in accordance with the Code. The overriding purpose of the role is to ensure that the voice of the workforce is heard and considered at Board level. A key secondary purpose is to improve the transparency of Board activities, discussion and decision-making and in so doing improve alignment between the Board and the workforce. Chris is a member of our Equality, Diversity and Inclusion Committee, established to bring to life our commitment to build a more inclusive culture, allowing all members of our workforce to bring their true selves to work*
- *All of our workforce are entitled to be trade union members. The Company's CFO was a member of the Joint Negotiation and Consultative Committee ('JNCC') during the year which, together with employee trade union representatives and other company nominated representatives, meets quarterly to consult on workforce practices and policies and negotiate workforce pay*
- *Keith Haslett as CEO met employees across the business to thank them for their work and understand the issues on the ground and the new ways of working*
- *We have continued to raise awareness on the company's' company Don't Walk By campaign, to help us achieve our zero harm ambitions.*

Workforce policies and practices:
- *Refer to the Governance Report for further detail on workforce policies and practice and workforce concerns, and details of what the Board is doing about gender equality and reducing our gender pay gap. During 2023/24 the Board reviewed our updated Code of Ethics and updated our EDI Commitment to bring it in line with the new Equality, Diversity and Inclusion strategy which was launched in September 2023.*
- *During 2023/24 we have narrowed Gender Pay Gap, we also entered into partnership with the Women's Utilities Network that support women in building lasting and fulfilling careers in the utility sector.*

Daiwater Investment Limited

Strategic report
for the year ended 31 March 2024 (continued)

Section 172(1) statement (continued)

Section 172(1) in action (continued)

Shareholders *Owners of shares in the company*	**Regulators** *Regulators, including Ofwat, MOSL, EA, DWI, Defra, HSE, Natural England, CCW and CCG/ICG.* *Government – central and local government and MPs, highways authorities, Highways England and TfL*
Why engagement is important *Our shareholders have an important role to play and a direct interest in the strong and effective governance and stewardship of our business* *We aim to provide a reasonable long-term return on their investment*	Why engagement is important *To ensure we maintain our licence to operate and that our actions are in accordance with the framework determined by the Government and regulators* *Engagement will ensure that we are a responsible company which delivers on its purpose*
How the company engages • *Board meetings attended by shareholders / nominated directors* • *Monthly financial and operational updates* • *Regular meetings and calls* • *Annual report and financial statements, which gives details of the performance, strategy, viability and company business model, approved by the Board* • *More sustainable activities to drive delivery of sustainable 'good profits and dividends'*	How the company engages • *Industry working groups including committees, panels and forums* • *Responding to consultations and requests for information* • *Ongoing dialogue on strategic planning and land disposals* • *Regular meetings and calls, including meetings with key MPs in our supply area* • *Working with our regulators to produce robust and ambitious plans that benefit customers and the environment.*
How the Board engages • *We explain how the Board engages with our shareholders and involves them in decision-making in our publication: 'Consulting with our shareholders', approved by the Board in June 2020 to include the Ofwat 2019 principles, available on the governance pages of our website* • *In 2023/24 the Board engaged directly with shareholders in setting and approving budgets for 2024/25, discussing the viability statement and results of stress testing on our financial covenants* • *The Board continue to engage with shareholders following the findings of an Independent Board Evaluation in May 2022, including discussing recommendations, Board composition and actions taken*	How the Board engages *Information reported to the Board:* • *The Board receives monthly updates on regulatory and relevant political developments, and regulatory consultations and requests for additional information.* • *The Board receives monthly updates on correspondence with regulators, including communications with Ofwat.* • *Updates on the development of our 2025-2030 business plan and regulatory engagement throughout the price review process.* *Direct engagement mechanisms:* • *The Board engaged with Ofwat during a visit to water treatment works at Iver to understand our plans for the future, WRMP, Water Industry National Environment Programme and PR24* • *The Board engaged with Ofwat consultations on PR24 draft methodology and Financial Resilience and provided Ofwat with updates on our leakage performance.* • *Non-Executive and shareholder directors attended regular events with Ofwat, including prior to their appointment and following changes to the Board structure during the year* • *The Board received updates on proposals to submit to Ofwat for Innovation Competition funding, including the successful innovation award for the Water Neutrality project* • *The CEO had meetings with the EA, Ofwat and the DWI on operational events, risk assessments and the impact on ODIs and abstraction licences* • *Delivery Steering Group and monthly performance reviews to drive the achievement of performance commitments in AMP7* • *Throughout 2023/24 the CEO had meetings with Ofwat representatives on the rising energy costs, financial resilience and hedging for PR24* • *The Board attended forums held by the CCW*

Section 172(1) statement (continued)

Section 172(1) in action (continued)

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

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

Successful engagement will mean we protect water sources and the quality of water supplied and minimise our impact on the environment</td><td>Why engagement is important

It is imperative that we maintain effective relationships and ongoing dialogues with our banks and credit rating agencies to ensure access to financial services as well as capital markets. Successful engagement means we will be a responsible company that delivers reliable returns and is transparent in our reporting</td></tr>
<tr><td>How the company engages
• Water Resources Management Plan (‘WRMP’)
• Catchment management
• River restoration programme that is comprehensive
• Company environmental policy to ensure we meet our purpose to provide high quality drinking water for our customers and take care of the environment
• Supporting local community and environmental groups such as river cleans</td><td>How the company engages
• Annual review meetings with credit rating agencies
• Regular meetings and calls with banks
• Financial reports
• Engaged with banking groups and credit rating agencies</td></tr>
<tr><td>How the Board engages

Governance arrangements:
• The Board is composed of individuals who have appropriate knowledge, skills, experience and background to take decisions informed by an awareness and understanding of environment-related threats and opportunities. Our shareholder directors are focused on environmental issues, as part of our shareholders’ wider environmental, social and governance (‘ESG’) programmes and alignment to the UN’s Sustainable Development Goals (‘SDGs’)
• The Safety, Health, Environment and Drinking Water Quality (‘SHEDWQ’) Committee reviews and monitors, on behalf of the Board, environmental matters arising from our activities and operations, including monitoring performance against targets
• Environmental and climate considerations are embedded into our principal risks and the management of these risks, in particular the principal risk ‘We may become unable to meet our obligations to provide a sufficient supply of high-quality drinking water’, which are monitored by the Board. A full review of risks was undertaken during the year
• The Board receives monthly information on our performance in relation to key environmental metrics, including water quality, leakage, sustainable abstraction reductions, average water use and water available for use, to enable it to monitor the success of strategies implemented

Climate change:
• The Board considers climate change in two principal ways:
1) The potential impacts of climate change are addressed through long-term planning as part of the statutory WRMP (available on our website: affinitywater.co.uk/water-resources-plan). A Board sub-committee on the WRMP oversaw this work and was advised by external technical experts;
2) Affinity Water has worked closely with other water companies through the WRSE and WRE groups to draft and publish the first ever regional plan for water. Affinity Water’s WRMP feeds into the regional plan. As such, a coordinated approach was taken to stakeholder and media engagement to align messaging and demonstrate the industry working together to plan for the future.
3) This year the SHEDWQ subcommittee continued to oversee the delivery of our net zero programme. This included quarterly review of Net Zero metrics and milestones, with a route map to reduce carbon emissions to net zero by 2030 and all carbon by 2045. SHEDWQ subcommittee also continued supporting our review of REGO backed energy purchase.
4) We continued to roll out the solar build programme, with the Board receiving updates on planned delivery, costs and benefits in the current energy market and further investment required.</td><td>How the Board engages

Information reported to the Board:
• A treasury report is provided to the Board on a quarterly basis, which includes details of the company’s Treasury activities such as covenants and gearing headroom, and financial results.
Direct engagement mechanisms:
• The CFO, on behalf of the Board, met with lenders and credit rating agencies during the year to discuss the company’s financial performance and plans.
• The Board approved a 364 day extension of the revolving credit facilities

Refer to note A4 of the statutory financial statements for further information on our risk management processes and the Board’s role in these.</td></tr>
</table>

Section 172(1) statement (continued)

Section 172(1) in action (continued)

Supply chain
Why engagement is important *We rely on our supply chain for delivery of operations and capital projects, and partners provide investment and support delivery as well as acting as a source of innovation and new ways of working.* *Successful engagement will mean we are a good company to work with, to partner and do business with, ensuring that we and our partners maximise the greatest mutual value in a Zero Harm environment.*
How the company engages • *Integration of contractors into our teams* • *Sharing of reporting and management systems for collaborative and shared learning* • *Quarterly forums with all our Maintenance and Repair and Traffic Management suppliers, to discuss 'lean' processes and improvements* • *Regular meetings and calls, including monthly performance meetings with our largest suppliers* • *Working with suppliers create exceptional relationships and to innovate and increase resilience for the benefit of customers and the environment.*
How the Board engages *Board's involvement in the agreement of supplier terms:* • *We have a standard set of purchase order terms and conditions and a Supply of Goods and Services Agreement published on our website: affinitywater.co.uk/policies, which is reviewed and amended (where necessary) by our Procurement and Legal teams who report to our Executive members of the Board* • *We have a Contracts Committee, which approves the award of material contracts* • *A subset of the wider Board was involved in formulating a strategy for contracting our key Maintenance and Repair suppliers for AMP7, including determining key principles, contract scopes and tender evaluation criteria.* • *The Board considers the company's policies around compliance with the Modern Slavery Act and GDPR as they relate to suppliers through the approval of the company's Modern Slavery Statement and review of the appropriateness of mitigation detailed in the strategic risk register in relation to the principal risk: 'Availability, confidentiality or integrity of information or data could become compromised'* • *The Board receives information on operational ODI performance and bi-annually on payment practice information to enable it to consider our performance and how it compares to industry peers* • *The SHEDWQ Committee on behalf of the Board and from February 2024 onwards the Board itself, also reviews and monitors,, safety and health matters arising from our activities and operations, including in relation to our supply chain* • *The Board considers the risk of supply chain failure through its consideration of the strategic risk register* *Direct engagement mechanisms:* • *Executive directors attend meetings with key members of the supply chain based on a supplier strategy. The Board have engaged with supply partners across all levels of our supply chain and successfully confirmed the scale and scope of works for our PR24 plans are deliverable.*

Priorities ahead

The Board identifies the following priorities for the final phase of AMP7 and entry into AMP8:
- Achieve our AMP7 plans and goals setting ourselves up for success for AMP8.
- Ensure our plan for AMP8 is robust, credible and stretching with confidence in deliverability.
- Ensure we are ready to step into AMP8 and transition seamlessly.
- Achieve our AMP8 plans and ambitions.

Section 172(1) statement (continued)

Draft Determination

In July 2024, Ofwat released the Draft Determination for Affinity Water Limited, relating to the five year period starting from 1 April 2025. Affinity Water has until 28 August 2024 to respond to the Draft Determination. The Final Determination will be issued in December 2024, and it is at this point that Affinity Water will decide whether to accept the Final Determination or appeal to the Competition and Markets Authority for a Redetermination. The directors have fully considered the potential impact of the Draft Determination on the company and group in the context of their going concern assessment, alongside the factors set out above, and have concluded that it is appropriate to adopt the going concern basis of accounting in preparing the financial statements.

Key decisions made in 2023/24

We set out below key decisions made in 2023/24 and the Board's consideration of section 172 factors in making these. Refer to page 23 for further information on matters considered by the Board in 2023/24.

Launch of draft Water Resources Management Plan and regional plans	Our Water Resources Management Plan aims to address a significant future shortfall in water resources in our supply area. Population growth, climate change and the demand for water are putting significant pressure on the local environment and water resources in the company's supply area. The company has worked closely with other water companies through the Water Resources South East and Water Resources East groups, to draft and publish the first ever regional plan for water, with the company's draft Water Resources Management Plan feeding into the wider regional plan with a revised draft of the plan submitted to DEFRA in August 2023. As such, a coordinated approach was taken to stakeholder and media engagement to align messaging and demonstrate the industry working together to plan for the future. The launch of the plan gained significant media reach, highlighting proposed strategic resource options, such as the company's Grand Union Canal Transfer. Two parliamentary events were also held, with company representatives, MPs and interested stakeholders in attendance. The Board approved the submission of the draft Water Resources Management Plan to Defra prior to the consultation with stakeholders.
Approved the annual budget and ten-year base case cash flow forecast	The 2023/24 annual budget and ten-year base-case cash flow forecast were approved by the Board following a comprehensive review of our strategic priorities and risks to our business in light of Ofwat's Final Determination for AMP7 and our plans to ensure business readiness for AMP8. The Board considered the company viability, stress testing and assumptions made in light of the ongoing energy and cost-of-living crisis. Our budget process took both a bottom-up approach, which engaged all cost centre managers in the business, and a top-down approach, which engaged our shareholders and considered Ofwat's Final Determination in light of shareholder objectives. The Board considers our plans challenging, but that they will position the company well against our longer-term value creation vision, while honouring our commitments to stakeholders.
Approved the 2023/24 workforce pay settlement	In 2024/25, the Board reviewed progress of pay negotiations with trade unions. The Board considered the importance of creating value for shareholders, while balancing the need for investment in the workforce and the ongoing energy and cost-of-living crisis. Employees were consulted through their trade unions, of which all employees are entitled to be a member. The Board concluded that it was in the best interests of the company to support the Chief Executive Officer's decision to approve the proposed pay increase of 4.2% in order to increase employee engagement, retention rates and productivity, leading to increased value creation.

Section 172(1) statement (continued)

Key decisions made in 2023/24 (continued)

Audit retendering decision	As part of our ongoing commitment to upholding the highest standards of corporate governance and accountability, we recognise the importance of periodically re-tendering audit services in accordance Section 487 of the Companies Act 2006. This process is integral to ensuring the integrity, independence, and quality of our financial reporting, thereby safeguarding the interests of our stakeholders. Throughout the re-tendering process, we actively engaged with stakeholders to solicit their input and feedback. This included consultation with shareholders, Audit, Risk and Assurance Committee members, senior management, and other relevant parties. In evaluating potential audit firms, we considered a range of factors designed to prioritise audit approach and quality, independence, capability and expertise, and value for money. We are committed to selecting a firm that demonstrates the highest standards of professionalism, technical proficiency, and ethical conduct. Following the reappointment of PwC we will undertake rigorous monitoring and evaluation to ensure the effectiveness of the audit engagement. This includes regular performance reviews, ongoing communication, and periodic assessments of audit quality and independence. We remain vigilant in safeguarding the integrity of our financial reporting processes and are committed to taking prompt corrective action where necessary.

Approval of the strategic report

Approved by the Board and signed on its behalf:

Roxana Tataru
Director
14 August 2024

Daiwater Investment Limited

Directors' report
for the year ended 31 March 2024

Introduction

The directors present their Annual Report and Financial Statements of Daiwater Investment Limited ('the company') for the year ended 31 March 2024.

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

The company is a limited liability company registered in England and Wales and it was the ultimate holding and controlling company of the Affinity Water group in the United Kingdom throughout the year. Details of the ownership of the company and the group structure are set out on the following pages and in note 26 of these financial statements. The address of the principal place of business is Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ.

The strategic report from pages 5 to 32 provides information relating to the group, its strategy and its results and financial position for the year ended 31 March 2024. Details of the risks and principal uncertainties facing the group are set out on pages 6 to 19.

Directors

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

Jonathan Carter
Andrew Cox (appointed 15 November 2023 and resigned 10 June 2024)
Marissa Dardi (resigned 12 May 2023)
Michael Osborne
Roxana Tataru
Adam Waddington (appointed 12 May 2023)

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 2024 on its website: *affinitywater.co.uk/library*.

No dividends were paid in the year ended 31 March 2024 from the company. Interim dividends of £104,000 (2023: £95,000) were paid to non-controlling interests from group subsidiaries.

No final dividend is proposed (2023: £nil).

Significant events during the year

Details of the significant events relating to Affinity Water Limited, that occurred during the year are set out in the performance highlights, Chair's welcome, CEO's introduction and financial review section of its own Annual Report and Financial Statements for the year ended 31 March 2024 on its website: *affinitywater.co.uk/library*.

Significant events during the year (continued)

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

Events after the reporting period

On 2 May 2024, the group completed a transaction whereby it acquired the freehold interest in its head office building in Hatfield from Railpen Pension Nominees Limited for an amount of £16.1 million. At the same time, a sale and leaseback transaction of the property was entered into with Just Retirement Limited at an equivalent value. The transaction provides the company with an option to reacquire the property at the end of the lease term in December 2045.

Results and financial performance

The group generated a loss for the year of £25.0 million (2023 restated: £88.5 million loss). The statements of financial position detailed on pages 55 and 56 show shareholders' funds as at 31 March 2024 amounting to £270.7 million (2023 restated: £316.4 million) for the group and £757.2 million (2023: £757.2 million) for the company. Further analysis of our financial performance can be found in the Financial Review by the Chief Financial Officer on Affinity Water Annual Report and Financial Statements for the year ended 31 March 2024 on its website: *affinitywater.co.uk/library*.

Ownership

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

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

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

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

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

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

Directors' report
for the year ended 31 March 2024 (continued)

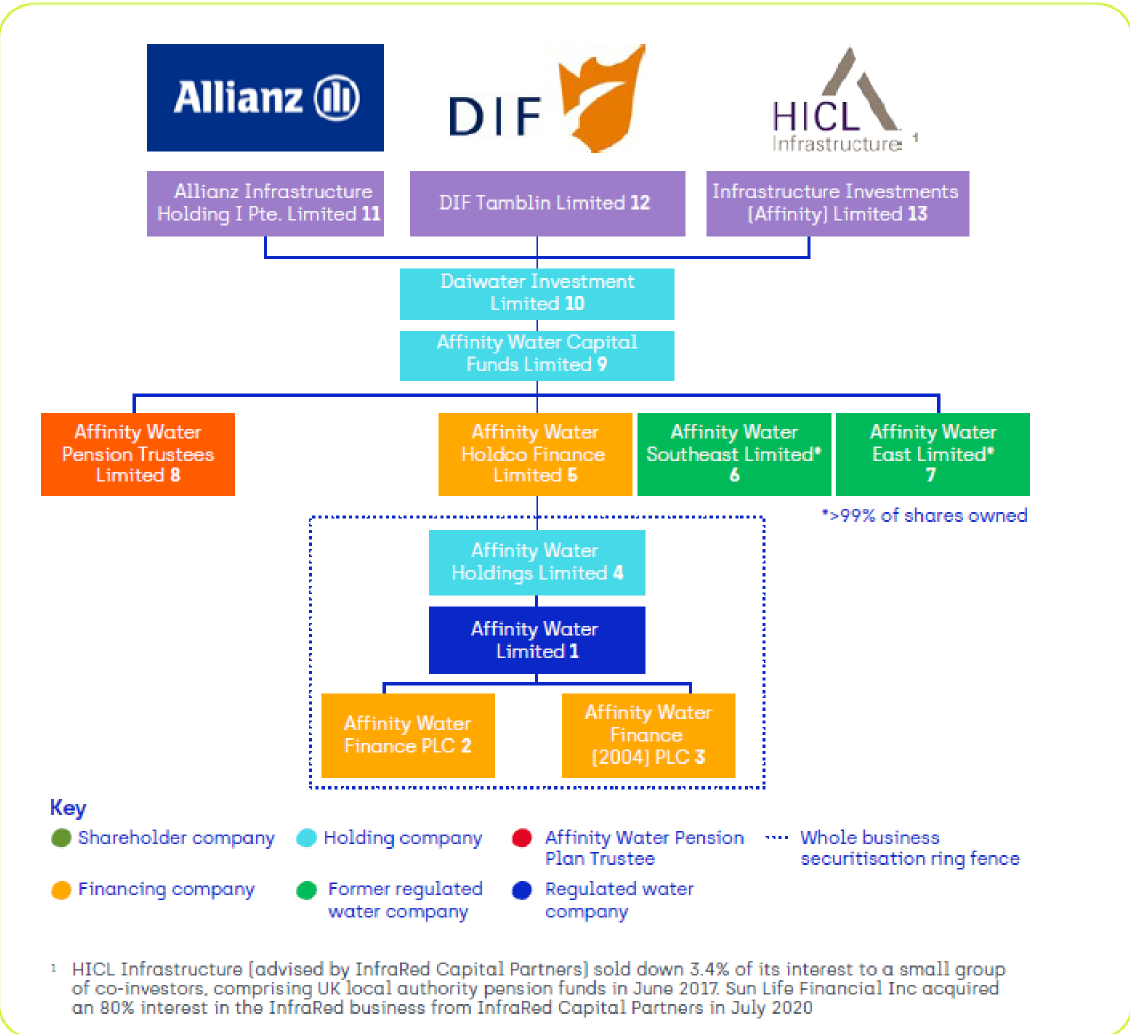
Ownership (continued)

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

- use their best endeavours to ensure that the Board of Affinity Water Limited maintains three independent non-executive directors, 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.

The chart below shows the group structure, excluding dormant subsidiaries, as at 31 March 2024. Unless otherwise indicated, all companies are wholly owned by the parent company shown. The numbers listed alongside the companies within the group structure may be cross referenced to the table on page 36.



Group structure

The following table provides further explanation of the group structure.

Structure chart ref	Company	Description	Place of registration
①	Affinity Water Limited	A water undertaker holding an appointment under the Water Industry Act 1991, supplying water to a population of around 3.86 million people in the South East of England. It is the principal trading company of the group.	England and Wales
②	Affinity Water Finance PLC	A financing subsidiary of Affinity Water Limited established in 2018 to issue bonds under a Euro Medium Term Note (EMTN) programme. It lends monies raised from its bonds to Affinity Water Limited.	England and Wales
③	Affinity Water Finance (2004) PLC	A financing subsidiary of Affinity Water Limited established in 2004 to issue a bond. It lends monies raised from its bond to Affinity Water Limited.	England and Wales
④	Affinity Water Holdings Limited	Affinity Water Limited's immediate holding company. Its equity is provided as security to bondholders in the event of default.	England and Wales
⑤	Affinity Water Holdco Finance Limited	A financing subsidiary of Affinity Water Capital Funds Limited established in 2017. It lends monies raised to Affinity Water Capital Funds Limited.	England and Wales
⑥	Affinity Water Southeast Limited	A company which formerly held an Instrument of Appointment as water undertaker for the Dour community of Affinity Water Limited's water supply area. The appointment was transferred to Affinity Water Limited on 27 July 2012. The company is no longer trading but continues to honour income assurances made to minority shareholders on transfer of its water undertaking to Affinity Water Limited.	England and Wales
⑦	Affinity Water East Limited	A company which formerly held an Instrument of Appointment as water undertaker for the Brett community of Affinity Water Limited's water supply area. The appointment was transferred to Affinity Water Limited on 27 July 2012. The company is no longer trading but continues to honour income assurances made to minority shareholders on transfer of its water undertaking to Affinity Water Limited.	England and Wales
⑧	Affinity Water Pension Trustees Limited	The trustee company of the Affinity Water Pension Plan.	England and Wales
⑨	Affinity Water Capital Funds Limited	The original holding company for Veolia's regulated water businesses, which was acquired by the group in June 2012 through Affinity Water Acquisitions Limited (now liquidated), which provides management services to the company.	England and Wales
⑩	Daiwater Investment Limited	The ultimate holding company of the group in the United Kingdom, paying dividends to the acquisition consortium subsidiaries.	England and Wales
⑪	Allianz Infrastructure Holding I Pte. Limited	A company which holds indirectly Allianz Capital Partners' investment in the group.	Singapore
⑫	DIF Tamblin Limited	A company established in 2017 to hold indirectly DIF's investment in the group.	England and Wales
⑬	Infrastructure Investments (Affinity) Limited	A company established in 2017 to hold indirectly HICL Infrastructure plc's investment in the group, together with the co-investment by certain local authority pension funds.	England and Wales

Our financing

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

The group has two financing subsidiaries which have issued bonds 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 £880.0 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.

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

The bonds issued by the group at 31 March 2024 can be summarised as follows:

Debt	Bond £m	Coupon %	Maturity Date
Class A fixed rate bond 2026*	250.0	5.875%	July 2026
Class A fixed rate bond 2036*	250.0	4.500%	March 2036
Class A RPI linked bond 2045*	190.0	1.548% (real)	June 2045
Class A CPI linked bond 2038	130.0	0.010% (real)	September 2038
Class A fixed rate bond 2042*	85.0	3.278%	August 2042
Class A fixed rate bond 2033*	60.0	2.699%	November 2033
Class A CPI linked bond 2042*	60.0	0.230% (real)	November 2042
Total Class A	**1,025.00**		
Class B RPI linked bond 2033	95.0	3.249% (real)	June 2033
Class B RPI linked bond 2033*	10.0	1.024% (real)	June 2033
Total Class B	**105.0**		
Total	**1,130.00**		

**Listed on the London Stock Exchange*

Our next significant debt maturity is in July 2026 when our £250.0 million fixed rate bond matures. The maturity profile of all our borrowings is set out in note A4 to our statutory financial statements.

The subsidiary's, Affinity Water Limited, net debt[1] as at 31 March 2024 was £1,382.3 million, an increase of £124.6 million since last year (2023: £1,257.7 million), primarily, due to accretion on the index-linked bonds. Our gearing, as measured by net debt to RCV at 31 March 2024, was 74.6% (2023: 73.4%), and remains below our internal maximum gearing level of 80.0% of RCV.

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

Daiwater Investment Limited

Directors' report
for the year ended 31 March 2024 (continued)

Our financing (continued)

Interest rate exposure is, primarily, managed by using a mixture of fixed rate, floating rate, and index-linked borrowings (refer to note A4 to our statutory financial statements). At the year-end, 48.3% of our gross borrowings were at fixed rates (2023: 49.3%), 33.8% (2023: 32.9%) at rates indexed to RPI and 17.9% (2023: 17.8%) at rates indexed to CPI. Considering our index-linked inflation swaps, the proportion of borrowings at fixed rates decreased to 14.4% (2023: 14.8%), the proportion indexed to RPI increased to 49.2% (2023: 48.7%) and the proportion indexed to CPI remained consistent at 36.4% (2023: 36.5%).

The credit ratings for our subsidiaries' bonds assigned by the rating agencies, Moody's, Standard & Poor's, and Fitch were as follows. Our credit ratings have not changed since March 2023.

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

* Negative outlook applied by Standard & Poor's

The total value of the issued bonds can be reconciled to the group's net debt position as at 31 March 2024 as follows:

	2024 **£000**
Nominal value of Class A fixed interest bonds issued	645,000
Nominal value of Class A index linked bonds issued	380,000
Nominal value of Class B index linked bonds issued	105,000
Total nominal value of bonds issued	1,130,000
Accretion on Class A index linked bonds	142,270
Accretion on Class B index linked bonds	55,540
Accretion on financial derivative	122,630
Capitalised bond issue costs and net premium/discount related to Class A bonds	29,104
Capitalised bond issue costs relating to Class B bonds	(1,014)
Capitalised issue costs relating to financial derivative	1
Fair value adjustment on acquisition	349,630
Amortisation of fair value adjustment	(160,625)
Bank term loan	41,313
Debentures	34
Cash in hand	(89,323)
Net debt	**1,619,560**

Net debt as at 31 March 2024 was £1,619.6 million, an increase of £88.4 million since last year (2023: £1,521.2 million) primarily due to accretion on the index-linked bonds.

Our financing (continued)

Our liquidity is managed through banking arrangements and adequate (though not excessive) cash resources, borrowing arrangements and standby facilities. This enables us to have the level of funds available that are necessary for the achievement of our business and service objectives at all times. At 31 March 2024, we had cash balances of £67.8 million (2023: £89.9 million) and short-term deposits held as investments of £21.6 million (2023: £66.7 million). The decrease in cash from the prior year is primarily due to the significant investment in our capital programme during the course of the year to 31 March 2024.

To the extent that additional funding is required, as well as our cash balances, we have access to two revolving credit facilities totalling £100.0 million (2023: £100.0 million), which were undrawn at 31 March 2024 (2023: undrawn), to finance capital expenditure and working capital requirements.

In addition, we have access to a further £57.0 million of liquidity facilities (2023: £52.0 million), consisting of a 364-day revolving £29.0 million facility to fund any debt service payments in the event of a liquidity shortfall, which would, otherwise, prevent such payments being made and a 364-day revolving facility of £28.0 million to fund operating and capital maintenance expenditure in the event of a liquidity shortfall.

On 2 September 2022, Affinity Water Holdco Finance Limited refinanced its £42.0 million bank term loan, extending the repayment date from 30 June 2023 to 2 September 2027, with an option to extend for a further two years. The facility also contains an uncommitted accordion feature to increase the loan size to £75.0 million. The carrying amount of the loan at 31 March 2024 was £41.3 million (2023: £41.1 million).

Board of directors

The directors of Daiwater Investment Limited who were in office during the year and up to the date of signing the financial statements are disclosed on the directors report on page 33.

Certain Board members are also directors of other group companies.

The table below sets out attendance at Board meetings for the year ended 31 March 2024.

	Number of meetings
Jonathan Carter*	2/3
Andrew Cox	2/2
Marissa Dardi	0/0
Michael Osborne*	2/3
Roxana Tataru*	1/1
Adam Waddington*	2/3

* Current directors

The Board convened three times during the year noting that one of these sessions was via video call.

Directors' qualifying third party indemnity provisions

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

Directors' report
for the year ended 31 March 2024 (continued)

Corporate governance

The group and company benefits from the corporate governance arrangements established by Affinity Water Limited, full details of which can be found in its own Annual Report and Financial Statements for the year ended 31 March 2024, together with more detailed corporate reporting disclosures.

Affinity Water Limited remains committed to the highest standards of governance and supports the principles of good corporate governance set out in the 2018 UK Corporate Governance Code ('the Code'), the UK Stewardship Code and Ofwat's 2019 board leadership, transparency and governance principles ('BLTG principles'). It is ultimately owned by private investors and therefore Affinity Water Limited applies the principles of the Code in this context, having regard to: the Guidelines for Disclosure and Transparency in Private Equity (the Walker Guidelines) and the work of the Private Equity Reporting Group to monitor conformity with the Guidelines; the OECD Principles of Corporate Governance (2004); and Ofwat's revised BLTG principles.

The trading subsidiary complied with the principles of the Code during 2023/24, except for (1) Division of Responsibilities: Provision 11 of the Code states at least half the Board, excluding the Chair, should be non-executive directors whom the Board considers to be independent. Excluding the Chair, the Affinity Water Limited Board comprises four independent non-executive directors, four shareholder-nominated non-executive directors (noting that from 1 December 2023 until 10 June 2024 Andrew Cox was appointed alternate director for Roxana Tataru for the period of her maternity leave) and two executive directors. By virtue of Andrew joining the Board on a temporary basis, and that the two executive directors, our CEO and CFO, are ex-officio Board members and, therefore, excluded for the purposes of Provision 11, we have carried out our own annual independence assessment and consider the Board to be independent. (2) Composition of Audit, Risk and Assurance Committee and Remuneration Committee (Provisions 24 and 32 respectively): each Committee of which comprises a majority of independent non-executive directors in addition to a shareholder-nominated independent director.

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

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

Financial and business reporting

Having taken into account all matters considered by the Board and brought to its attention during the year, the directors are satisfied that the Annual Report and Financial Statements taken as a whole are fair, balanced and understandable.

The Board believes that the disclosures set out on pages 5 to 32 of the Annual Report and Financial Statements provide the information necessary for shareholders to assess the group's performance, business model, financial risk management and strategy.

Directors' report
for the year ended 31 March 2024 (continued)

Future developments

Likely future developments in the business resulting from expected changes in the regulatory and competitive environments that Affinity Water Limited operates in are discussed in the strategic report in its own Annual Reports and Financial Statements for the year ended 31 March 2024 on its website: *affinitywater.co.uk/library*.

Research and development activities

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

The group is also a member of other water industry research and innovation groups: Technology Approval Group, the Water Treatment Technical Working Group, the Sensor for Water Interest Group, the Instrument User Group, the Water Regulations Advisory Scheme and Cranfield Water Network. Throughout the year, Affinity Water has carried out a number of research and development projects in association with these groups and individually. Most notably, research into the effectiveness treatment technologies in treating for PFAS, a group of manmade chemicals widely used within industrial processes.

Political contributions

No political contributions were made during the year (2023: £nil), in accordance with the group's policy of not making political contributions.

Financial instruments disclosures

Details of financial instruments risk management are included within risk number 15 on page 18 of the strategic report and in note A4 of the financial statements.

Information required for Affinity Water Limited under the Listing Rules

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

The remuneration report in Affinity Water Limited's Annual Report and Financial Statements for the year ended 31 March 2024 provides disclosures in relation to relevant requirements of the Listing Rules.

Directors' report
for the year ended 31 March 2024 (continued)

Employee matters

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

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

Engagement with employees

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

Employees are kept informed of changes in the business and general, financial and economic factors influencing the company together with performance targets. This is achieved through regular briefings or presentations and electronic mailings.

See page 27 for details in our section 172(1) statement on how directors have engaged with employees.

Engagement with other stakeholders

See pages 22 to 32. for details in our section 172(1) statement on how directors have engaged with suppliers, customers and other stakeholders.

Financial instruments disclosures

Details of financial instruments risk management are included within risk number 15 on page 18 of the strategic report and in note A4 of the financial statements.

Greenhouse Gas Emissions

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

Market Based and Location Based Reporting

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

The Renewable Energy Guarantees of Origin (REGO) scheme provides transparency about the proportion of electricity that suppliers source from renewable electricity. The scheme provides certificates called REGOs, which demonstrate electricity has been generated from renewable sources.

How we report our emissions

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

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

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

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

We use a combination of methods to estimate the emissions associated with our carbon footprint following the principles of the 2015 GHG Protocol Corporate Accounting and Reporting Standard. For Scope 1 and

2 emissions we follow the most common approach to calculate GHG emissions, which is to take activity data (e.g. units of electricity consumed, or distance travelled) and convert the activity data into tCO2e. For Scope 3, where possible this is estimated using activity data and where this is not possible, estimates have been derived from spend-based data or other benchmarks.

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

Daiwater Investment Limited

Directors' report
for the year ended 31 March 2024 (continued)

How we report our emissions (continued)

Scope 1 and 2 greenhouse gas emissions		**2023/24 kWh**	**2022/23 kWh**
Energy consumption used to calculate emissions		229,143,027	243,026,864
		tCO_2e	**tCO_2e**
Scope 1			
Direct emissions from burning of fossil fuels		982	1,585
Process and fugitive emissions from water treatment works and refrigerants		1,943	2,005
Transport: company-owned or leased vehicles		2,070	2,147
Total Scope 1		4,995	5,737
Scope 2			
Grid electricity purchased	Location-based	45,053	43,623
	Market-based	38,441	—
Total scope 2	Location-based	45,053	43,623
	Market-based	38,441	—
Scope 3			
Category 1: Purchased goods and services		50,566	38,407
Category 2: Capital goods		31,245	22,173
Category 3: Fuel and energy-related activities		15,170	16,212
Category 4: Upstream transportation and distribution		317	238
Category 5: Waste generated in operations		9,874	7,425
Category 6: Business travel		227	228
Category 7: Employee commuting		836	1,068
Category 13: Downstream leased assets		198	205
Total Scope 3		108,433	85,955
Total annual net emissions (location-based)		158,481	135,315
Total annual net emissions (market-based)		151,869	91,692

		Kg CO_2e per Ml	**Kg CO_2e per Ml**
Intensity Ratio – Water Treated [1]		145	141

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

For 2023/24 we have recorded a reduction in Scope 1 emissions due to reduced use of diesel-powered standby generators. For our Scope 2 emissions, although we used less electricity in 2023/24 compared to 2022/23 we have recorded an increase in both location-based and market-based emissions. Location-based emissions increased as the UK average-grid emissions factor increased for 2023. In October 2023, following significant increases in the price of REGO-backed electricity we took a decision to pause the purchase of a specific green tariff as it does not offer customers good value for money. Alternative options for both purchasing and generating our own renewable energy remain under review as part of our net zero strategy.

Daiwater Investment Limited

Directors' report
for the year ended 31 March 2024 (continued)

How we report our emissions (continued)

For 2023/24, we have recorded an increase in Scope 3 emissions compared to 2022/23, which is primarily due to increases in Category 1 and 2 emissions. Better understanding of Category 1 emissions has led to clearer data to support the accounting process. This along with the use of primary data for chemicals reporting has led to an increased emissions figure for 2023/24. The equivalent data for 2022/23 is not available but if this were able to be included it would give a similar figure. Category 2 emissions increased due to spending more on emission-intensive goods such as civil buildings and pumps.

Our Scope 3 inventory offers insight into how we can better target emissions reduction initiatives and work with our supply chain to reduce emissions.

In 2023/24, we continued to take steps to improve our energy efficiency and reduce our GHG emissions. Our solar installations continued to provide renewable energy to our sites at Chertsey and Walton generating a combined 1.6GWh, similar to the previous year. We also undertook construction of two new sites, which will increase our generating capacity to around 4GWh per year. We also welcomed our first five electric vehicles to our livered fleet beginning our ambitious EV transition programme.

The energy intensity of our operations also improved this year, averaging 606kWh per Ml of water into supply compared to 629kWh per Ml of water into supply in 2022/23.

During 2023/24, we implemented 14 energy efficiency schemes largely through our pump replacement programme. These projects are expected to save around 1.2GWh per year. Replacing and refurbishing our borehole pumps at Stoke by Nayland is expected to contribute the greatest single saving (245 MWh/year). This year we have continued efficiency work on our buildings and offices, with new initiatives to reduce energy used for heating and lighting through process and behavioural change. We continue to put focus on changing our culture, promoting our Zapp app, which empowers colleagues to raise efficiency ideas to investigation. Energy Management training has continued from last year.

We have a mature programme of energy savings opportunities with seven potential schemes in various stages of implementation. Using this programme, we have set ourselves a 1.9MWh per year savings target for 2024/25.

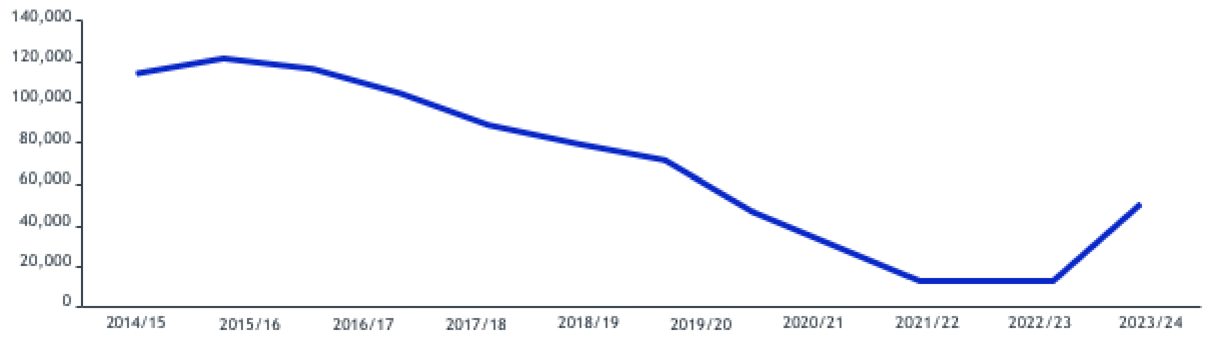
Progress towards Net Zero

In 2019, we joined other water companies in pledging to achieve Net Zero for our 'operational' emissions by 2030. The graph below shows that for 2023/24 we have seen increase in our reported emissions relevant to this 2030 target. The increase is as a result of moving away from a 'green tariff' for our electricity. In October 2023, following significant increases in the price of REGO-backed electricity we took a decision to pause the purchase of a specific 'green' tariff as it does not offer customers good value for money. We remain committed to reducing our emissions with a focus on our direct emissions and increasing energy efficiency. How the UK electricity decarbonises and the availability of affordable renewable electricity in the coming years will strongly influence our ability to reach 2030 Net Zero target.

Daiwater Investment Limited

Directors' report
for the year ended 31 March 2024 (continued)

Net Zero 2030 Emissions (Market Based)



Going concern

Group

The directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements as they believe that the group has adequate resources to meet its current operational and financial obligations, and the directors have a reasonable expectation that this will continue for the foreseeable future and for a period of at least 12 months from the date of approval of these financial statements. This is based on the assessment of the principal risks of the group and the consideration of the group's budgeted cash flows, short and long-term forecasts and ability to generate future revenues, related assumptions, and to meet the covenants associated with the group's available debt facilities, including in a severe but plausible downside scenario.

To assess a severe but plausible downside scenario, management have considered a base case forecast that reflects the current market conditions in the economy and have applied a series of severe downside assumptions. These include both increased costs from the financial impacts of operational events, including the impact of a severe cold weather event over the winter period, and an increase in bad debt representing, approximately 7% of debt not currently subject to loss allowance provision. The severe but plausible downside scenario is overlaid on the base case forecast, which has taken into consideration the impact of inflation, interest rates, supply chain cost pressures, the energy price crisis and the cost of living crisis.

Under an ICR trigger event, the group would be subject to certain constraints, such as restrictions on dividends and restriction on debt buybacks. However, the directors are satisfied that an ICR trigger event would not fundamentally constrain the group's ability to carry out its business, particularly after considering the group's strong cash position, meaning that the group has no further funding requirement in AMP7.

The group continues to monitor and manage the risks associated with the ICR covenant through the forecasting and reporting process and continues to monitor potential mitigations, the most prominent of which are working capital management and operating expenditure reviews.

Going concern (continued)

Details of the group's cash and short-term investments are included in the Consolidated statement of financial position on page 55, and undrawn committed borrowing facilities are included in note A4. Due to the nature of the principal trading subsidiary's regulated business, the directors consider it appropriate to place reliance on projected financials.

In July 2024, Ofwat released the Draft Determination for Affinity Water Limited, relating to the five year period starting from 1 April 2025. Affinity Water has until 28 August 2024 to respond to the Draft Determination. The Final Determination will be issued in December 2024, and it is at this point that Affinity Water will decide whether to accept the Final Determination or appeal to the Competition and Markets Authority for a Redetermination. The directors have fully considered the potential impact of the Draft Determination on the company and group in the context of their going concern assessment, alongside the factors set out above, and have concluded that it is appropriate to adopt the going concern basis of accounting in preparing the financial statements. There have been no further events after the reporting financial year significantly affecting liquidity headroom or forecast covenant compliance.

Company

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

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and the company financial statements in accordance with UK-adopted international accounting standards.

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

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

The directors are responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Statement of directors' responsibilities in respect of the financial statements (continued)

Directors' confirmations

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

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

Information required under listing rules

During the year, no interest was capitalised by the company (2023: £nil). For disclosures in relation to relevant requirements of the Listing Rules, refer to the Remuneration Report on Affinity Water Limited Annual Report and Financial Statements for the year ended 31 March 2024 on its website: *affinitywater.co.uk/library*.

Independent auditors

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

On behalf of the Board

Roxana Tataru
Director
14 August 2024

Registered Office:

Tamblin Way
Hatfield
Hertfordshire
AL10 9EZ

Independent auditors' report to the members of Daiwater Investment Limited

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2024 and of the group's loss and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Consolidated and Company statements of financial position as at 31 March 2024; the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and Company statements of changes in equity and the Consolidated and Company statements of cash flows for the year then ended; and the notes to the financial statements, comprising material accounting policy information and other explanatory information.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

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

Independent auditors' report to the members of Daiwater Investment Limited

Report on the audit of the financial statements (continued)

Reporting on other information

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

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

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

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 March 2024 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Independent auditors' report to the members of Daiwater Investment Limited

Report on the audit of the financial statements (continued)

Auditors' responsibilities for the audit of the financial statements

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

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

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to industry regulation, including the requirements of The Water Services Regulation Authority ('Ofwat'), the Water Industry Act 1991, health and safety regulation (including the requirements of The Health and Safety at Work etc Act 1974) and environmental regulation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as UK tax legislation, pensions legislation and the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue, in doing so increasing overall profitability, and management bias within accounting estimates, in particular the potential manipulation of the measured income accrual, loss allowance for trade receivables, the extent of costs capitalised or the impairment assessment of goodwill, the water licence and investments in subsidiary. Audit procedures performed by the engagement team included:

- discussions with management, internal audit and the group's legal team, including inquiring of known or suspected instances of non-compliance with laws and regulation and fraud, and review of board minutes and internal audit reports;
- discussions with the Head of Legal and Head of Ethics & Compliance to discuss both the litigation report and summary of whistleblowing matters arising;
- challenging assumptions made by management when preparing accounting estimates, in particular those that involve the assessment of future events, which are inherently uncertain – the key estimates determined in this respect are those relating to the measured income accrual, loss allowance for trade receivables and the impairment assessment of goodwill, the water licence and investments in subsidiary; and
- identifying and testing journal entries posted, such as those with unusual account combinations, and incorporating an element of unpredictability into the audit procedures performed.

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

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

Independent auditors' report to the members of Daiwater Investment Limited

Report on the audit of the financial statements (continued)

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Simon Bailey (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Watford
14 August 2024

Daiwater Investment Limited

Consolidated income statement for the year ended 31 March 2024
(Registered Number 10738347)

	Note	2024 £000	2023 (restated) £000
Revenue	1	**347,651**	314,956
Cost of sales		**(300,858)**	(274,976)
Gross profit		**46,793**	39,980
Administrative expenses	2.1	**(38,914)**	(38,747)
Impairment losses on financial and contract assets	2.1	**(8,297)**	(10,779)
Other operating income	2.2	**21,104**	21,929
Operating profit	2	**20,686**	12,383
Finance income	4	**42,094**	41,789
Finance costs	4	**(97,347)**	(172,535)
Fair value gain on inflation swaps	4	**16,048**	49,755
Net finance costs	4	**(39,205)**	(80,991)
Fair value loss on energy swaps		**(13,075)**	(26,638)
Loss before tax		**(31,594)**	(95,246)
Income tax credit	5	**6,577**	6,794
Loss for the financial year		**(25,017)**	(88,452)
Loss is attributable to:			
Owners of the group		**(25,092)**	(88,552)
Non-controlling interests		**75**	100
		(25,017)	(88,452)

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

The prior year has been restated to reflect the change in accounting policy relating to contributions for new connections related to developer services activity. Further details are included on pages 63 and 64.

The notes on pages 61 to 130 are an integral part of these financial statements.

Daiwater Investment Limited

Consolidated statement of comprehensive income
for the year ended 31 March 2024
(Registered Number 10738347)

	Note	2024 £000	2023 (restated) £000
Loss for the year		**(25,017)**	(88,452)
Other comprehensive (expense)/income for the year which will not be reclassified to profit or loss:			
Re-measurements of post-employment benefit assets	10	**(27,443)**	(52,114)
Deferred tax credit on items that will not be reclassified	5,19	**6,861**	13,029
Other comprehensive loss for the year, net of tax		**(20,582)**	(39,085)
Total comprehensive loss for the year		**(45,599)**	(127,537)
Total comprehensive loss is attributable to:			
Owners of the group		**(45,674)**	(127,637)
Non-controlling interests		**75**	100
		(45,599)	(127,537)

The prior year has been restated to reflect the change in accounting policy relating to contributions for new connections related to developer services activity. Further details are included on pages 63 and 64.

The notes on pages 61 to 130 are an integral part of these financial statements.

Daiwater Investment Limited

Consolidated statement of financial position as at 31 March 2024

(Registered Number 10738347)

	Note	**2024 £000**	2023 (restated) £000
Assets			
Non-current assets			
Property, plant and equipment	6	**1,889,558**	1,804,023
Right-of-use assets	7	**7,153**	7,649
Intangible assets	8	**637,258**	640,795
Investments	9	**51**	51
Retirement benefit surplus	10	**28,700**	53,615
Derivative financial instruments	11	**1,127**	3,283
		2,563,847	2,509,416
Current assets			
Inventories	13	**4,451**	4,833
Current tax assets		**355**	296
Trade and other receivables	12	**114,639**	102,739
Derivative financial instruments	11	**517**	6,068
Short-term investments	9	**21,552**	66,709
Cash and cash equivalents	14	**67,770**	89,854
		209,284	270,499
Total assets		**2,773,131**	2,779,915
Equity and liabilities			
Equity			
Called up share capital	15	**7,441**	7,441
Retained earnings		**260,534**	306,208
Equity attributable to owners of the group		**267,975**	313,649
Non-controlling interests		**2,735**	2,764
Total equity		**270,710**	316,413
Liabilities			
Non-current liabilities			
Trade and other payables	16	**329,690**	315,242
Borrowings	17	**1,586,253**	1,579,932
Lease liabilities	18	**3,974**	4,785
Derivative financial instruments	11	**126,364**	121,983
Deferred tax liabilities	19	**238,235**	251,674
Provisions for other liabilities and charges	20	**3,473**	3,319
		2,287,989	2,276,935
Current liabilities			
Trade and other payables	16	**205,870**	177,286
Lease liabilities	18	**3,343**	3,053
Derivative financial instruments	11	**1,119**	2,128
Provisions for other liabilities and charges	20	**4,100**	4,100
		214,432	186,567
Total liabilities		**2,502,421**	2,463,502
Total equity and liabilities		**2,773,131**	2,779,915

The prior year has been restated to reflect the change in accounting policy relating to contributions for new connections related to developer services activity, to restate £4,668,000 from intangible assets to property, plant and equipment, and to write-off a debit balance of £5,979,000 through retained earnings. Further details are on pages 63 and 64.

The notes on pages 61 to 130 are an integral part of these financial statements. The statutory financial statements on pages 53 to 130 were approved by the Board of Directors and were signed and authorised for issue on 14 August 2024 on its behalf by:

Roxana Tataru
Director

Daiwater Investment Limited

Company statement of financial position as at 31 March 2024

(Registered Number 10738347)

	Note	2024 £000	2023 £000
Assets			
Non-current assets			
Investments	9	**754,027**	754,027
		754,027	754,027
Current assets			
Current tax asset		**3,126**	3,126
Cash and cash equivalents	14	**10**	10
		3,136	3,136
Total assets		**757,163**	757,163
Equity and liabilities			
Equity			
Called up share capital		**7,441**	7,441
Retained earnings[1]		**749,722**	749,722
Total equity		**757,163**	757,163
Current liabilities			
Current tax liabilities		**-**	-
Total equity and liabilities		**757,163**	757,163

The notes on pages 61 to 130 are an integral part of these financial statements. The statutory financial statements on pages 53 to 130 were approved by the Board of Directors and were signed and authorised for issue on 14 August 2024 on its behalf by:

Roxana Tataru
Director

[1] Result for the year of £nil (2023: £9,256,000) for the company is included within retained earnings. The income in the prior year, relating to dividend income from its subsidiary undertakings, was from discontinued operations following liquidation of the subsidiary undertaking during the year ended 31 March 2023. Dividends of £nil (2023: £nil) were paid to the company's shareholders.

Daiwater Investment Limited

Consolidated statement of changes in equity for the year ended 31 March 2024

(Registered Number 10738347)

	Note	Attributable to owners of the group				
		Called up share capital £000	**Retained earnings (restated) £000**	**Total £000**	**Non-controlling interests £000**	**Total £000**
Balance as at 1 April 2022		7,441	442,392	449,833	2,759	452,592
Prior year restatement due to change in accounting policy (refer to pages 63 and 64)		-	(2,568)	(2,568)	-	(2,568)
Prior year restatement due to error (refer to pages 63 and 64)		-	(5,979)	(5,979)	-	(5,979)
Restated balance as at 1 April 2022		7,441	433,845	441,286	2,759	444,045
(Loss)/profit for the year		-	(88,552)	(88,552)	100	(88,452)
Other comprehensive loss		-	(39,085)	(39,085)	-	(39,085)
Total comprehensive (loss)/income		-	(127,637)	(127,637)	100	(127,537)
Dividends	21	-	-	-	(95)	(95)
Total transactions with owners recognised directly in equity		-	-	-	(95)	(95)
Balance as at 31 March 2023 (restated)		7,441	306,208	313,649	2,764	316,413
Balance as at 1 April 2023 (restated)		**7,441**	**306,208**	**313,649**	**2,764**	**316,413**
(Loss)/profit for the year		**-**	**(25,092)**	**(25,092)**	**75**	**(25,017)**
Other comprehensive loss		**-**	**(20,582)**	**(20,582)**	**-**	**(20,582)**
Total comprehensive (loss)/income		**-**	**(45,674)**	**(45,674)**	**75**	**(45,599)**
Dividends	21	**-**	**-**	**-**	**(104)**	**(104)**
Total transactions with owners recognised directly in equity		**-**	**-**	**-**	**(104)**	**(104)**
Balance as at 31 March 2024		**7,441**	**260,534**	**267,975**	**2,735**	**270,710**

The prior year has been restated to reflect the change in accounting policy relating to contributions for new connections related to developer services activity, and to write-off a debit balance of £5,979,000 through retained earnings. Further details are included on pages 63 and 64.

The notes on pages 61 to 130 are an integral part of these financial statements.

Daiwater Investment Limited

Company statement of changes in equity for the year ended 31 March 2024

(Registered Number 10738347)

	Note	**Called up share capital £000**	**Retained earnings £000**	**Total £000**
Balance as at 1 April 2022		7,441	740,466	747,907
Profit for the year		-	9,256	9,256
Total comprehensive income for the year		7,441	9,256	9,256
Dividends	21	-	-	-
Total transactions with owners recognised directly in equity		-	-	-
Balance as at 31 March 2023		7,441	749,722	757,163
Balance as at 1 April 2023		**7,441**	**749,722**	**757,163**
Profit for the year		**-**	**-**	**-**
Total comprehensive income for the year		**-**	**-**	**-**
Dividends	21	**-**	**-**	**-**
Total transactions with owners recognised directly in equity		**-**	**-**	**-**
Balance as at 31 March 2024		**7,441**	**749,722**	**757,163**

The notes on pages 61 to 130 are an integral part of these financial statements.

Daiwater Investment Limited

Consolidated statement of cash flows for the year ended 31 March 2024

(Registered Number 10738347)

	Note	**2024** **£000**	2023 (restated) £000
Cash flows from operating activities			
Cash generated from operations	22.1	**103,173**	107,644
Interest paid		**(52,678)**	(44,058)
Net cash inflow from operating activities excluding deferred grants and contributions		**50,495**	63,586
Deferred grants and contributions		**23,423**	9,637
Net cash inflow from operating activities		**73,918**	73,223
Cash flows from investing activities			
Disinvestment of short-term deposits		**45,157**	3,470
Purchases of property, plant and equipment		**(155,866)**	(131,787)
Proceeds from sale of property, plant and equipment		**944**	535
Purchases of intangible assets		**(4,056)**	(5,299)
Interest received		**21,252**	18,390
Net cash outflow from investing activities		**(92,569)**	(114,691)
Cash flows from financing activities			
Principal elements of lease payments		**(3,329)**	(3,475)
Financing activities		**-**	(1,308)
Repayment of borrowings		**-**	(14,204)
Dividends paid to non-controlling interests in subsidiary undertakings	21	**(104)**	(95)
Net cash outflow from financing activities		**(3,433)**	(19,082)
Net decrease in cash and cash equivalents		**(22,084)**	(60,550)
Cash and cash equivalents at the beginning of the year		**89,854**	150,404
Cash and cash equivalents at end of year	14	**67,770**	89,854

The prior year has been restated to reflect the change in accounting policy relating to contributions for new connections related to developer services activity. Further details are included on pages 63 and 64.

The notes on pages 61 to 130 are an integral part of these financial statements.

Daiwater Investment Limited

Company statement of cash flows
for the year ended 31 March 2024
(Registered Number 10738347)

	Note	**2024 £000**	2023 £000
Cash flows from operating activities			
Cash generated from operations	22.1	**-**	10
Net cash inflow from operating activities		**-**	10
Net increase in cash and cash equivalents		**-**	10
Cash and cash equivalents at beginning of year		**10**	-
Cash and cash equivalents at end of year	14	**10**	10

The notes on pages 61 to 130 are an integral part of these financial statements.

Daiwater Investment Limited

Notes to the financial statements - accounting policies

Basis of preparation

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

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

Going concern

Group

The directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements as they believe that the group has adequate resources to meet its current operational and financial obligations, and the directors have a reasonable expectation that this will continue for the foreseeable future and for a period of at least 12 months from the date of approval of these financial statements. This is based on the assessment of the principal risks of the group and the consideration of the group's budgeted cash flows, short and long-term forecasts and ability to generate future revenues, related assumptions, and to meet the covenants associated with the group's available debt facilities, including in a severe but plausible downside scenario.

To assess a severe but plausible downside scenario, management have considered a base case forecast that reflects the current market conditions in the economy and have applied a series of severe downside assumptions. These include both increased costs from the financial impacts of operational events, including the impact of a severe cold weather event over the winter period, and an increase in bad debt representing, approximately 7% of debt not currently subject to loss allowance provision. The severe but plausible downside scenario is overlaid on the base case forecast, which has taken into consideration the impact of inflation, interest rates, supply chain cost pressures, the energy price crisis and the cost of living crisis.

Under an ICR trigger event, the group would be subject to certain constraints, such as restrictions on dividends and restriction on debt buybacks. However, the directors are satisfied that an ICR trigger event would not fundamentally constrain the group's ability to carry out its business, particularly after considering the group's strong cash position, meaning that the group has no further funding requirement in AMP7.

The group continues to monitor and manage the risks associated with the ICR covenant through the forecasting and reporting process and continues to monitor potential mitigations, the most prominent of which are working capital management and operating expenditure reviews.

Details of the group's cash and short-term investments are included in the statement of financial position on page 55, and undrawn committed borrowing facilities are included in note A4. Due to the nature of the principal trading subsidiary's regulated business, the directors consider it appropriate to place reliance on projected financials.

Going concern (continued)

Group (continued)

In July 2024, Ofwat released the Draft Determination for Affinity Water Limited, relating to the five year period starting from 1 April 2025. Affinity Water has until 28 August 2024 to respond to the Draft Determination. The Final Determination will be issued in December 2024, and it is at this point that Affinity Water will decide whether to accept the Final Determination or appeal to the Competition and Markets Authority for a Redetermination. The directors have fully considered the potential impact of the Draft Determination on the company and group in the context of their going concern assessment, alongside the factors set out above, and have concluded that it is appropriate to adopt the going concern basis of accounting in preparing the financial statements. There have been no further events after the reporting financial year significantly affecting liquidity headroom or forecast covenant compliance.

Company

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

Basis of consolidation

The group financial statements consolidate the financial statements of Daiwater Investment Limited and its subsidiaries from the date of the acquisition of Affinity Water Acquisitions (Investments) Limited (now liquidated), 19 May 2017. The subsidiary companies have been included in the group financial statements using the acquisition method of accounting. The purchase consideration has been allocated to the assets and liabilities on the basis of fair value at the date of acquisition.

The company was the parent undertaking of the largest group to prepare consolidated financial statements. As permitted by Section 408 of the Companies Act 2006, the company's income statement has not been included in the financial statements. The parent company's profit (2023: profit) for the year has been included within the company's statement of financial position on page 56 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.

Material accounting policy information

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

Adoption of new and revised standards

There are no amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 March 2024 that have a material impact on the group's financial statements.

Notes to the financial statements - accounting policies (continued)

New standards, amendments and interpretations not yet adopted

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

Prior year restatements

Prior year restatements as a result of error

The prior year consolidated statement of financial position and prior year consolidated statement of changes in equity have been restated following a write-off of a debit balance within trade and other payables of £5,979,000 through retained earnings, relating to historical business disposals. This restatement has not had any impact on the consolidated income statement, consolidated statement of comprehensive income, or consolidated statement of cash flows.

The prior year consolidated statement of financial position has been restated to reclassify £4,668,000 from intangible assets to property, plant and equipment. This restatement has not had any impact on the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity or consolidated statement of cash flows.

Change in accounting policy

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

In the year ended 31 March 2023, contributions received in respect of new connections were recognised immediately in the consolidated income statement.

Following changes to the Ofwat charging scheme for new connections in recent years, and a further review of industry practice, the accounting treatment has been reviewed and as a result of the charges being on a per plot basis, it is felt more appropriate by the directors to treat developer services as a bundle of services with a consistent accounting treatment across all types of contribution on the basis that the new connection has no economic value without the promise to provide an ongoing supply of water. Therefore, contributions in respect of new connections, and associated costs, are now also recognised over a period of time, consistent with the period over which the performance obligation is satisfied (the period over which water is supplied, the expected asset life). Prior year comparatives have been restated on that basis and in accordance with IAS 8: 'IAS 8 — Accounting Policies, Changes in Accounting Estimates and Errors' (IAS 8).

A summary of the financial statement line items affected by the restatement is included in the following table. This includes the cumulative effect of the change in accounting policy being effective from 1 April 2016. Retrospective application of the changes prior to this date is deemed impracticable due to the accounting system not previously set up to collate the coding of developer services activity in sufficient detail. This means the impact of the changes summarised below cannot be collated in a consistent, meaningful or reliable manner prior to this date.

Daiwater Investment Limited

Notes to the financial statements - accounting policies (continued)

Prior year restatements (continued)

Consolidated income statement (extract)	**31 March 2023 (as previously presented) £000**	**Prior year restatements as a result of change in accounting policy £000**	**Prior year restatements as a result of error £000**	**31 March 2023 (restated) £000**	**31 March 2024 (impact as a result of change in accounting policy) £000**
Revenue	323,343	(8,387)	-	314,956	**(7,830)**
Cost of sales	(283,958)	8,982	-	(274,976)	**8,205**
Gross profit	39,385	595	-	39,980	**375**
Operating profit	11,788	595	-	12,383	**375**
Profit/(loss) before tax	(95,841)	595	-	(95,246)	**375**
Profit/(loss) for the year	(89,047)	595	-	(88,452)	**375**

Consolidated statement of financial position (extract)	**31 March 2023 (as previously presented) £000**	**Prior year restatements as a result of change in accounting policy £000**	**Prior year restatements as a result of error £000**	**31 March 2023 (restated) £000**	**31 March 2024 (impact as a result of change in accounting policy) £000**
Property, plant and equipment	1,748,160	51,195	4,668	1,804,023	59,384
Intangible assets	645,463	-	(4,668)	640,795	-
Total assets	2,728,720	51,195	-	2,779,915	59,384
Retained earnings	(314,160)	1,973	5,979	(306,208)	1,614
Trade and other payables (non-current)	(262,074)	(53,168)	-	(315,242)	(60,998)
Trade and other payables (current)	(171,307)	-	(5,979)	(177,286)	-
Total liabilities	(2,404,355)	(53,168)	(5,979)	(2,463,502)	(60,998)
Total equity and liabilities	(2,728,720)	(51,195)	-	(2,779,915)	(59,384)

Consolidated statement of cash flows (extract)	**31 March 2023 (as previously presented) £000**	**Prior year restatements as a result of change in accounting policy £000**	**Prior year restatements as a result of error £000**	**31 March 2023 (restated) £000**	**31 March 2024 (impact as a result of change in accounting policy) £000**
Net cash flows from operating activities	63,821	9,402	-	73,223	8,682
Net cash flows used in investing activities	(105,289)	(9,402)	-	(114,691)	(8,682)

Consolidated statement of financial position (extract)	**31 March 2022 (as previously presented) £000**	**Prior year restatements as a result of change in accounting policy £000**	**Prior year restatements as a result of error £000**	**31 March 2024 (impact as a result of change in accounting policy) £000**
Property, plant and equipment	1,707,172	42,213	4,668	**1,754,053**
Intangible assets	646,964	-	(4,668)	**642,296**
Total assets	2,825,318	42,213	-	**2,867,531**
Retained earnings	(442,392)	2,568	5,979	**(433,845)**
Trade and other payables (non-current)	(247,074)	44,781	**-**	**(291,855)**
Trade and other payables (current)	(188,046)	-	(5,979)	**(194,025)**
Total liabilities	(2,372,726)	(44,781)	(5,979)	**(2,423,486)**
Total equity and liabilities	(2,825,318)	42,213	**-**	**2,867,531**

Daiwater Investment Limited

Notes to the financial statements - accounting policies (continued)

Critical accounting estimates

The preparation of financial statements in conformity with UK-adopted International Accounting Standards requires the use of certain critical accounting estimates.

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

Measured income accrual

The group records an accrual for measured consumption of water that has not yet been billed (refer to note 12). The accrual is estimated using a defined methodology based upon weighted average water consumption by tariff, which is calculated based upon historical information. Revenue for the year ended 31 March 2023 included a measured income accrual of £40,190,000. The value of billing recognised in the year ended 31 March 2024 for consumption in the prior year was £40,275,000. This resulted in an increase of £85,000 in the current year's revenue due to the under-estimation of the prior year's revenue. A 1% change in consumption would lead to a change of 1% in the measured income accrual.

Loss allowance of trade receivables and contract assets

The group makes an estimate of the recoverable value of trade receivables and contract assets and records a loss allowance based on experience (refer to note A4). This provision is based on, amongst other things, a consideration of actual collection history. At each reporting date, the company takes into consideration any significant economic changes that may impact its credit loss model and future credit losses. The actual level of receivables collected may differ from the estimated levels of recovery, which could impact operating results positively or negatively. If collection rates improve or deteriorate by a value of 1%, the calculation for provision loss allowance will increase or decrease accordingly by £800,000.

Defined benefit pension plan

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

Impairment of goodwill and the water licence

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

Notes to the financial statements – accounting policies (continued)

Critical accounting estimates (continued)

Impairment of goodwill and the water licence (continued)

The cash flows are discounted using a discount rate of 5.02% (2023: 5.02%) and applying a terminal value using an exit multiple of 1.26x (2023: 1.26x). Increasing the discount rate by 100 basis points will decrease the value in use by 51% and a 10% decrease in the exit multiple would lead to a 2% decrease in the value in use.

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

Impairment of investment in subsidiary

Determining whether the company's investment in its subsidiary has been impaired requires an estimation of the value in use. This involves using an estimate of the equity value of Affinity Water Limited, the principal trading direct subsidiary of the company, which is based on its regulatory capital value at the year-end and market premiums paid for UK water supply companies. The carrying amount of investments in subsidiaries at the date of the statement of financial position was £754,027,000 (2023: £754,027,000) with no impairment losses recognised in either 2024 or 2023. If the value of Affinity Water Limited were to drop by 5%, an impairment charge of £nil (2023: £nil) would be recognised.

Useful economic lives of property, plant and equipment

The annual depreciation charge for property, plant and equipment is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on management's judgement and experience, which include the knowledge and research of the company's dedicated asset management teams and the company's plans to achieve Net Zero carbon emissions by 2030. Refer to note 6 for the carrying amount of property, plant and equipment and note A3 for the useful economic lives for each class of assets.

Based on the current useful lives, the carrying amount of property, plant and equipment at 31 March 2024 is £1,889,558,000 (2023: £1,804,023,000). If the useful lives of the assets were 10% shorter, the carrying amount would instead be £1,549,447,000 (2023: £1,471,872,000) and if they were 10% longer, the carrying amount would be £2,229,669,000 (2023: £2,136,174,000).

Based on the current useful lives, the carrying amount of intangible assets, excluding goodwill and water license, at 31 March 2024 is £19,454,000 (2023: £22,989,000). If the useful lives of the assets were 10% shorter, the carrying amount would instead be £19,260,000 (2023: £20,344,000) and if they were 10% longer, the carrying amount would be £19,647,000 (2023: £25,634,000).

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

Critical accounting judgements in applying the entity's accounting policies

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

Notes to the financial statements – accounting policies (continued)

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

Revenue recognition

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

Refer to note 1 for the amount of revenue recognised in the consolidated income statement.

Grants and contributions

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

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

In the prior year, contributions received in respect of new connections were recognised immediately in the income statement. Following changes to the Ofwat charging scheme for new connections, the accounting treatment has been reviewed and as a result of the charges being on a per plot basis, it is felt more appropriate to treat developer services as a bundle of services with a consistent accounting treatment across all types of contribution on the basis that the new connection has no economic value without the promise to provide an ongoing supply of water. Therefore, contributions in respect of new connections are now also recognised over a period of time.

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

Cost capitalisation

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

Capital risk management policy

The group's capital structure comprises borrowings, derivatives, debentures, cash and liquid resources. Refer to notes 17 and 14 for more details. The main purpose of these financial instruments is to provide finance for the group's operations. The group finances its operations through a mixture of retained profits, borrowings from its subsidiary companies and debentures.

Notes to the financial statements - accounting policies (continued)

Capital risk management policy (continued)

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

The main risks arising from the group's financial instruments are liquidity risk, credit risk, and interest rate and inflation risk. Refer to note A4 for more details.

Climate change

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

The group is continually developing its assessment of the impact that climate change has on the assets and liabilities recognised and presented in its financial statements, such as the valuation of the property, plant and equipment, which could be impacted by either flooding or drought, or management's decision to replace assets as part of the company's Net Zero strategy. Management has considered the useful economic lives of assets impacted by climate change and environmental regulation and has considered whether any impairment has arose as a result of climate change. There has been no revaluation of assets or change in the assessment of assets' useful economic lives during 2023/24 as a result of this review.

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

Daiwater Investment Limited

Notes to the financial statements

1. Revenue

1.1 Disaggregation of revenue from contracts with customers

	2024 £000	2023 (restated) £000
Timing of revenue recognition – at a point in time		
Unmeasured supplies	**92,741**	95,859
Measured supplies	**182,958**	160,210
Non-household wholesale revenue	**62,656**	54,028
Connection charges	**712**	806
	339,067	310,903
Timing of revenue recognition – over time		
Requisitioned mains/extensions	**380**	556
Diversions	**6,146**	1,821
Infrastructure charges	**855**	1,178
New connections	**505**	435
Other	**698**	63
	8,584	4,053
	347,651	314,956

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:

	2024 £000	2023 (restated) £000
Net trade receivables	**43,753**	36,839
Contract assets		
Unbilled accrual for metered customers – household customers	**47,548**	39,516
Unbilled accrual for metered customers – non-household customers	**5,010**	3,928
Contract liabilities		
Payments received in advance – household water supplies	**54,306**	48,500
Payments received in advance – non-household water supplies	**-**	591
Deferred income – water supplies	**-**	76
Deferred income – other	**496**	506
Deferred grants and contributions	**336,613**	322,207
Payments received in advance – grants and contributions	**12,896**	15,104

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

1. Revenue (continued)

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

Significant changes in contract assets and liabilities

Up to 31 March 2024, the group had been reimbursed £159,660,000 (2023: £157,631,000) for its costs incurred in relation to the HS2 rail project, which will cross the Affinity Water supply area. This project is near completion and the group does not expect to incur significant costs for this in future periods. During the year, in line with the group's accounting policy for grants and contributions received in respect of property, plant and equipment, which include contributions received for diversions, £8,493,000 (2023: £16,364,000) relating to costs for assets that have been commissioned was reclassified from payments in advance – grants and contributions to deferred grants and contributions. At 31 March 2024, £2,739,000 (2023: £1,348,000) of payments received were included in payments in advance – grants and contributions.

Recognition of trade receivables, contract assets and contract liabilities

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

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

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

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

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

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

Daiwater Investment Limited

Notes to the financial statements (continued)

1. Revenue (continued)

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

Revenue recognised in relation to contract liabilities

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

	2024 £000	2023 £000
Revenue recognised that was included in the contract liability balance at the beginning of the year		
Payments received in advance – household water supplies	**48,500**	46,746
Payments received in advance – non-household water supplies	**591**	-
Deferred income – water supplies	**76**	207
Deferred income – other	**506**	1,091
Deferred grants and contributions	**10,433**	3,619
Payments received in advance – grants and contributions	**14,820**	11,924
Revenue recognised from performance obligations satisfied in previous years		
Unbilled accrual for metered customers – household customers	**-**	-

Revenue expected to be derived from unsatisfied performance obligations

IFRS 15 requires the disclosure of the aggregate amount of revenue, which is expected to be derived from performance obligations which are unsatisfied as at the end of the reporting year, i.e., the aggregate amount of future revenues from existing ongoing contracts.

The group has applied the practical expedient, set out in paragraph 121(a) of IFRS 15, not to disclose the amount in relation to water charges as the performance obligation is part of a contract that has an original expected duration of one year or less.

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

At 31 March 2024, £336,613,000 (2023: £322,207,000) of grants and contributions is expected to be derived from performance obligations which were unsatisfied at the end of the financial year.

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2. Operating profit

2.1 Operating costs

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

	2024 **£000**	2023 (restated) £000
Staff costs (note 3.1)	**65,698**	55,549
Energy costs	**49,779**	41,096
Profit on disposal of property, plant and equipment	**(944)**	(535)
Loss on disposal of infrastructure assets	**1,154**	890
Purchase of bulk water and water supplied under statutory entitlement	**12,938**	11,723
Water abstraction charges	**6,345**	6,349
Business rates	**12,890**	15,547
Chargeable services direct expenditure	**(209)**	(57)
Depreciation of infrastructure assets (note 6)	**10,262**	17,430
Depreciation of other property, plant and equipment (note 6)	**68,885**	55,428
Depreciation of right-of-use assets (note 7)	**3,295**	3,458
Amortisation of intangible assets (note 8)	**7,592**	6,800
Impairment of trade receivables and contract assets (note 12)	**8,297**	10,779
Research and development	**205**	196
Short-term lease rentals	**5**	24
Low-value lease rentals	**80**	76
Auditors' remuneration (note 2.3)	**805**	550
Cost of inventories used	**1,913**	1,203

2.2 Other operating income

	2024 **£000**	2023 £000
Timing of revenue recognition – at a point in time		
Commission and rentals	**21,104**	21,929

The majority of other income relates to commission earned by Affinity Water Limited billing and collecting charges in respect of sewerage and infrastructure within its area on behalf of Thames Water Utilities Limited and Anglian Water Services Limited (refer to note 24).

Daiwater Investment Limited

Notes to the financial statements (continued)

2. Operating profit (continued)

2.3 Auditors' remuneration

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

	2024 £000	2023 £000
Fees payable to the company's auditors and their associates for the audit of the parent company and consolidated financial statements	**27**	22
Fees payable to the company's auditors and their associates for other services:		
Audit of the company's subsidiaries	**488**	391
Audit-related assurance services		
– regulatory reporting	**76**	64
– Thames Water and Anglian Water annual returns	**9**	8
– audit related assurance service - other	**69**	64
Other non-audit services	**136**	1
Total Auditors' remuneration	**805**	550

3. Employees

3.1 Employee benefit expense (including Executive directors)

Group

	2024 £000	2023 £000
Wages and salaries	**77,013**	64,638
Social security costs	**7,681**	7,160
Other pension costs	**7,734**	9,476
Staff costs	**92,428**	81,274
Staff costs capitalised	**(26,730)**	(25,725)
Staff costs recognised in the consolidated income statement	**65,698**	55,549

Daiwater Investment Limited

Notes to the financial statements (continued)

3. Employees (continued)

3.2 Average number of people employed

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

By activity	2024 Number	2023 Number
Operations	**904**	875
Customer service	**258**	250
Administration	**268**	251
	1,430	1,376

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

3.3 Directors' remuneration

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

All the directors who sat on the Board of Daiwater Investment Limited were appointed by Allianz Capital Partners on behalf of the Allianz Group, DIF and InfraRed Capital Partners Limited on behalf of HICL Infrastructure plc did not receive any remuneration from the company, or any company within the group of companies headed by Daiwater Investment Limited.

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

3.4 Key management personnel compensation

	2024 £000	2023 £000
Short-term employee benefits	**1,059**	736
Post-employment benefits	**72**	30
	1,131	766

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 2024 on its website: *affinitywater.co.uk/library*.

Notes to the financial statements (continued)

4. Finance income and costs

Group

	2024 £000	2023 £000
Finance income:		
Bank interest income	**5,459**	3,507
Net interest receivable on RPI linked inflation swap	**6,381**	6,745
Net interest receivable on CPI linked inflation swap	**6,210**	6,483
Fair value gains on bonds	**21,648**	22,215
Net income from post-employment benefits	**2,396**	2,839
	42,094	41,789
Finance costs:		
Accretion payable in respect of interest on bonds	**(29,904)**	(72,096)
Interest payable on bonds	**(38,430)**	(37,511)
Accretion payable on financial instrument	**(24,577)**	(59,114)
Interest payable on lease liabilities	**(249)**	(266)
Other	**(4,187)**	(3,548)
	(97,347)	(172,535)
Fair value gain on financial instruments:		
Fair value gain on swaps	**16,048**	49,755
	16,048	49,755
Net finance costs	**(39,205)**	(80,991)

Company

	2024 £000	2023 £000
Interest receivable from subsidiary undertakings	**-**	-
Total finance income	**-**	-

Notes to the financial statements (continued)

5. Income tax credit

5.1 Income tax credit included in the consolidated income statement

	2024 £000	2023 (restated) £000
Current tax:		
– UK corporation tax on losses for the year	**(2)**	(3)
– Adjustment in respect of prior years	**-**	-
Total current tax	**(2)**	(3)
Deferred tax:		
– Origination and reversal of temporary differences	**5,396**	8,269
– Impact of change in tax rate	**-**	2,613
– Adjustment in respect of prior years	**1,183**	(4,085)
Total deferred tax	**6,579**	6,797
Income tax credit	**6,577**	6,794

Tax credit assessed for the year is lower (2023: tax expense is lower) than the standard rate of corporation tax in the UK for the year ended 31 March 2024 of 25% (2023: 19%). The differences are explained below:

	2024 £000	2023 (restated) £000
Loss before tax	**31,594**	95,246
Tax calculated at the standard rate of tax in the UK of 25% (2023: 19%)	**7,899**	18,097
Tax effects of:		
– Adjustment in respect of prior years	**1,183**	(4,085)
– Other expenses not deductible for tax purposes	**(1,718)**	(380)
– Impact of change in tax rate on deferred tax	**-**	2,610
– Unrelieved tax losses carried forward	**(787)**	(9,446)
Income tax credit	**6,577**	6,794

5.2 Income tax credit included in the statement of comprehensive income

	2024 £000	2023 £000
Deferred tax:		
- Origination and reversal of temporary differences on retirement benefit surplus	**6,861**	13,029
	6,861	13,029

5. Income tax credit (continued)

5.3 Factors that may affect future tax charges

An increase in the UK corporation tax from 19% to 25% (effective 1 April 2023) was substantially enacted on 24 May 2021.

The deferred tax has been calculated based on these rates, reflecting the expected timing of reversal of the related timing differences (2023: 25%).

5.4 Reconciliation of current and deferred tax charge

	2024 £000	2024 %	2023 (restated) £000	2023 (restated) %
Group loss before tax	**31,594**		95,246	
Tax on loss on ordinary activities at standard UK tax rate of 25% (2023: 19%)	**7,899**	**25%**	18,097	(19%)
Tax effect of:				
Depreciation in excess of capital allowances	**(11,999)**	**38%**	(12,693)	13%
Write down of fair value adjustment on acquisition of the Affinity Water Acquisitions (Investments) Limited (now liquidated) group	**5,036**	**(16%)**	3,775	(4%)
Pension movements	**632**	**(2%)**	282	0%
Provisions movements	**82**	**0%**	49	0%
Expenses not deductible for tax purposes	**(865)**	**3%**	(64)	0%
Profit on sale of subsidiary	**-**	**0%**	-	0%
Unutilised tax losses carried forward	**(787)**	**3%**	(9,449)	10%
Reported current tax (charge) and effective rate	**(2)**	**0%**	(3)	0%
Depreciation in excess of capital allowances	**11,149**	**(35%)**	16,282	(17%)
Write down of fair value adjustment on acquisition of the Affinity Water Acquisitions (Investments) Limited (now liquidated) group	**(5,038)**	**16%**	(3,775)	4%
Pension movements	**(632)**	**2%**	(375)	0%
Impact of change in tax rate on deferred tax	**-**	**0%**	(1,192)	1%
Provisions movements	**(83)**	**0%**	(64)	(0%)
Adjustment in respect of prior years	**1,183**	**(4%)**	(4,085)	4%
Reported deferred tax credit and effective rate	**6,579**	**(21%)**	6,797	(8%)
Group tax credit and effective rate	**6,577**	**(21%)**	6,794	(8%)

5. Income tax credit (continued)

5.4 Reconciliation of current and deferred tax charge (continued)

Depreciation in excess of capital allowances

The tax relief on our infrastructure assets is different from the depreciation of these assets in the accounts (although over the total life of the assets the two amounts will be equal). In 2023/24 the amount written off for tax purposes was lower than the depreciation in the accounts, resulting in a higher tax charge for the year. Some tax allowances were not claimed in order to reduce the amount of unutilised tax losses carried forward.

Write down of fair value adjustment

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

Pension movements

Tax relief is given for the amount actually paid into the company's pension funds in the year, not the amount charged in the accounts. In 2023/24 the amount paid into the pension funds was higher than the amount charged in the accounts, resulting in a lower tax charge for the year.

Provision movements

Some provisions charged in the accounts are not deductible until the amounts provided are actually paid. Taxable profits in 2023/24 have been reduced by payments made in respect of provisions charged in previous years.

Expenses not deductible for tax purposes

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

Unutilised tax losses carried forward

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

Adjustment to tax charge in respect of prior years

The tax provision in the accounts is a best estimate at the time. The estimate is corrected when the tax returns are finalised and submitted to HMRC 12 months after the year end. The correction made to the tax returns for the years ended 31 March 2023 resulted in a lower tax charge, mainly as a result of claiming capital allowances.

Compliance with the group’s tax strategy

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

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 (restated) £000	Total £000
At 1 April 2023 (restated)	327,937	1,070,593	23,511	1,071,797	132,451	143,268	**2,769,556**
Additions	-	-	-	-	-	165,835	**165,835**
Transfers	4,749	2,386	6,923	69,020	37,021	(120,099)	**-**
Disposals	(4)	(1,335)	(5)	-	-	-	**(1,344)**
At 31 March 2024	332,682	1,071,644	30,429	1,140,817	169,472	189,004	**2,934,048**
Accumulated depreciation							
At 1 April 2023 (restated)	(111,494)	(107,665)	(2,978)	(692,103)	(51,294)	-	**(965,533)**
Charge for the year	(5,048)	(9,491)	(771)	(52,502)	(11,335)	-	**(79,147)**
Disposals	3	187	1	-	-	-	**191**
At 31 March 2024	(116,539)	(116,969)	(3,748)	(744,605)	(62,629)	-	**(1,044,490)**
Net book amount							
At 1 April 2023	216,443	962,928	20,533	379,694	81,157	143,268	**1,804,023**
Movement in year	(300)	(8,253)	6,148	16,518	25,686	45,736	**85,535**
At 31 March 2024	**216,143**	**954,675**	**26,681**	**396,212**	**106,843**	**189,004**	**1,889,558**

	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 2022	325,240	960,444	23,842	1,039,756	89,991	159,470	2,598,743
Restatement of opening balance (refer to pages 63 and 64)	-	43,430	-	-	-	4,668	48,098
At 1 April 2022 (restated)	325,240	1,003,874	23,842	1,039,756	89,991	164,138	2,646,841
Changes in accounting policy (refer to pages 63 and 64)	-	9,402	-	-	-	-	9,402
Additions	-	-	-	-	-	114,315	114,315
Transfers (restated)	2,697	57,987	-	32,041	42,460	(135,185)	-
Disposals	-	(671)	(331)	-	-	-	(1,002)
At 31 March 2023 (restated)	327,937	1,070,592	23,511	1,071,797	132,451	143,268	2,769,556
Accumulated depreciation							
At 1 April 2022	(106,454)	(87,663)	(2,690)	(653,197)	(41,567)	-	(891,571)
Restatement of opening balances (refer to pages 63 and 64)	-	(1,217)	-	-	-	-	(1,217)
At 1 April 2022 (restated)	(106,454)	(88,880)	(2,690)	(653,197)	(41,567)	-	(892,788)
Changes in accounting policy (refer to pages 63 and 64)	-	(420)	-	-	-	-	(420)
Charge for the year	(5,040)	(17,108)	(322)	(43,299)	(6,669)	-	(72,438)
Transfers (restated)	-	(1,335)	-	4,393	(3,058)	-	-
Disposals	-	79	34	-	-	-	113
At 31 March 2023 (restated)	(111,494)	(107,664)	(2,978)	(692,103)	(51,294)	-	(965,533)
Net book amount							
At 1 April 2022 (restated)	218,786	914,994	21,152	386,559	48,424	164,138	1,754,053
Movement in year	(2,343)	47,934	(619)	(6,865)	32,733	(20,870)	49,970
At 31 March 2023 (restated)	216,443	962,928	20,533	379,694	81,157	143,268	1,804,023

Daiwater Investment Limited

Notes to the financial statements (continued)

6. Property, plant and equipment (continued)

Assets were reclassified between categories during 1 April 2022 and 31 March 2023 as shown within the ‘Transfers (restated)’ line within both cost and accumulated depreciation in the statutory note. This is a disclosure adjustment only with no impact on depreciation charged to date.

Restatement in transfers during 1 April 2022 to 31 March 2023

	Land, buildings and operational structures	Potable water distribution mains	Raw water pipes	Fixed plant	Vehicles and mobile plant	Assets in course of construction (restated)	Total
Cost or deemed cost							
Transfers (as originally reported)	2,697	47,849	-	55,405	29,234	(135,185)	-
Restatement	-	10,138	-	(23,364)	13,226	-	-
Transfers (restated)	2,697	57,987	-	32,041	42,460	(135,185)	-
Accumulated depreciation							
Transfers (restated)	-	(1,335)	-	4,393	(3,058)	-	-

The opening balance has also been restated for potable water distribution mains, 2022 restated by £42,213,000 and 2023 restated by £8,982,000 for the change in accounting policy for developer services, see pages 63 and 64 for details. Furthermore, assets in course of construction has been restated by £4,668,000 for the reclass from intangibles to tangibles. Assets in course of construction are not amortised.

All land and buildings are held as freehold.

Company

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

Daiwater Investment Limited

Notes to the financial statements (continued)

7. Right-of-use assets

Group

	Buildings £000	Vehicles £000	Total £000
Cost			
At 1 April 2023	9,079	11,089	**20,168**
Additions	-	2,859	**2,859**
Disposals	-	(752)	**(752)**
At 31 March 2024	9,079	13,196	**22,275**
Accumulated depreciation			
At 1 April 2023	(5,587)	(6,932)	**(12,519)**
Charge for the year	(1,397)	(1,898)	**(3,295)**
Disposals	-	692	**692**
At 31 March 2024	(6,984)	(8,138)	**(15,122)**
Net book amount			
At 1 April 2023	3,492	4,157	**7,649**
Movement in year	(1,397)	902	**(495)**
At 31 March 2024	**2,095**	**5,059**	**7,153**

	Buildings £000	Vehicles £000	Total £000
Cost			
At 1 April 2022	9,079	10,084	19,163
Additions	-	1,685	1,685
Disposals	-	(680)	(680)
At 31 March 2023	9,079	11,089	20,168
Accumulated depreciation			
At 1 April 2022	(4,191)	(5,532)	(9,723)
Charge for the year	(1,396)	(2,062)	(3,458)
Disposals	-	662	662
At 31 March 2023	(5,587)	(6,932)	(12,519)
Net book amount			
At 1 April 2022	4,888	4,552	9,440
Movement in year	(1,396)	(395)	(1,791)
At 31 March 2023	3,492	4,157	7,649

Company

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

8. Intangible assets

Group

	Goodwill	**Billing relationships**	**Water licence**	**Computer software development costs (restated)**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
Cost					
At 1 April 2023 (restated)	317,006	32,789	300,800	96,202	**746,797**
Additions	-	-	-	4,055	**4,055**
At 31 March 2024	317,006	32,789	300,800	100,257	**750,852**
Accumulated amortisation					
At 1 April 2023	-	(32,789)	-	(73,213)	**(106,002)**
Charge for the year	-	-	-	(7,592)	**(7,592)**
At 31 March 2024	-	(32,789)	-	(80,805)	**(113,594)**
Net book amount					
At 1 April 2023	317,006	-	300,800	22,989	**640,795**
Movement in year	-	-	-	(3,537)	**(3,537)**
At 31 March 2024	**317,006**	**-**	**300,800**	**19,452**	**637,258**

	Goodwill	**Billing relationships**	**Water licence**	**Computer software development costs**	**Total**
	£000	£000	£000	£000	**£000**
Cost					
At 1 April 2022	317,006	32,789	300,800	95,571	746,166
Restatement of opening balance for classification of assets (refer to pages 63 and 64)	-	-	-	(4,668)	(4,668)
At 1 April 2022 (restated)	317,006	32,789	300,800	90,903	741,498
Additions	-	-	-	5,299	5,299
Transfers	-	-	-	-	-
At 31 March 2023	317,006	32,789	300,800	96,202	746,797
Accumulated amortisation					
At 1 April 2022	-	(31,947)	-	(67,255)	(99,202)
Charge for the year	-	(842)	-	(5,958)	(6,800)
At 31 March 2023	-	(32,789)	-	(73,213)	(106,002)
Net book amount					
At 1 April 2022	317,006	842	300,800	23,648	642,296
Movement in year	-	(842)	-	(659)	(1,501)
At 31 March 2023	317,006	-	300,800	22,989	640,795

8. Intangible assets (continued)

Group (continued)

Goodwill includes £447,036,000 arising on the acquisition of Affinity Water Acquisitions (Investments) Limited (now liquidated) on 19 May 2017, with an impairment of £120,000,000 being recognised in 2018/19, and a £10,030,000 disposal of goodwill relating to Castle Water (Southern) Limited (formerly Affinity for Business (Retail) Limited) in 2020/21. Goodwill is reviewed at least annually for impairment and upon any indication of impairment.

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

Following the release of Affinity Water Limited's Draft Determination for AMP8 by Ofwat, management has reviewed the value of the goodwill and this has not given rise to an impairment to the water licence recognised in the year ended 31 March 2024 (2023: £nil).

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

An estimate of the terminal value has been determined through an analysis of the current market conditions, using recent transactions in the UK water industry, publicly available share price information for listed water supply companies, and consideration of Affinity Water Limited's risk profile compared to other companies in the sector. This is a subjective area and changes in the conditions for judgements used in estimating a reasonable market premium could significantly affect the assessed value of goodwill in future periods.

Included in the software asset category above is £7,580,000 (2023: £9,751,000) of capitalised intangible assets under construction, which is not amortised. £6,227,000 (2023: £3,408,000) 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 years ended 31 March 2024 or 31 March 2023.

Company

The company does not have any intangible assets.

9. Investments

Group

	2024	2023
	£000	£000
Non-current assets		
Investments	51	51
Current assets		
Short-term deposits	**21,552**	66,709

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

Company

	2024	2023
	£000	£000
Investment in subsidiary	**754,027**	754,027

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

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

Determining whether the company's investment in its subsidiary has been impaired requires an estimation of the investment's fair value less transaction costs. This has been determined using the RCV of Affinity Water Limited at 31 March 2024 (being the group's principal trading subsidiary), an estimate of the market premium that a private entity would pay for Affinity Water Limited and an estimate of costs of disposal based on transaction costs paid on acquisition of the group in May 2017. The fair value of remaining debt payments associated with Affinity Water Limited's debt at the year-end has been considered in the impairment assessment. The directors confirm that the carrying value of the investment as at 31 March 2024 and 31 March 2023 is supported by its underlying net assets and that the headroom is such that no reasonable change in any key assumptions is expected to result in impairment of the investment in subsidiary.

The short- term deposits are fixed term deposits which are irredeemable until the end of the deposit term which is no more than 12 months per our treasury policy.

Daiwater Investment Limited

Notes to the financial statements (continued)

10. Retirement benefit surplus

Group

Defined benefit section

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

	2024 £000	2023 £000
Current service cost	**(1,695)**	(3,236)
Pension expense charged to operating loss	**(1,695)**	(3,236)
Net pension interest income credited to finance income (note 4)	**2,396**	2,839
Net pension income/(expense) expense charged before taxation	**701**	(397)

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

	2024 £000	2023 £000
At 1 April	**53,615**	104,247
Employer contributions	**1,827**	1,879
Current service cost	**(1,695)**	(3,236)
Net interest income	**2,396**	2,839
Net re-measurement loss	**(27,443)**	(52,114)
At 31 March	**28,700**	53,615

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

	2024 £000	2023 £000
Re-measurement losses on plan assets	**(19,955)**	(159,088)
Re-measurement gains on plan liabilities	**(7,488)**	106,974
	(27,443)	(52,114)

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

Company

The company does not have any retirement benefits.

11. Derivative financial instruments

Group

	2024 £000	2023 £000
Non-current assets		
Fair value of energy swaps	18	3,283
Fair value of CPI linked inflation swap	1,109	-
Current assets		
Fair value of energy swaps	493	6,068
Fair value of interest swaps	24	-
	1,644	9,351
Non-current liabilities		
Fair value of RPI linked inflation swaps	3,640	6,937
Accretion on RPI linked inflation swaps	68,101	55,062
Fair value of CPI linked inflation swaps	-	10,893
Accretion on CPI linked inflation swaps	54,529	42,953
Fair value of energy swaps	94	5,874
Fair value of interest swaps	-	264
	126,364	121,983
Current liabilities		
Fair value of energy swaps	1,119	2,128
	127,483	124,111

A series of power hedging swaps were entered into between May 2021 and February 2024 in order to hedge against wholesale energy prices. In December 2023, we settled out of several energy swap contracts for future period and simultaneously locked into lower rates.

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

An RPI linked inflation swap with a nominal value of £135.0m, which is linked to the maturity of the Class A fixed rate £250.0m bond (maturity July 2026), was entered into in August 2018. A further RPI linked inflation swap with a nominal value of £75.0m, which is also linked to the maturity of the Class A fixed rate £250.0m bond (maturity July 2026), was entered into in October 2020, with an effective date of 1 August 2020.

A CPI linked inflation swap with a nominal value of £25.0m, which is linked to the maturity of the Class A fixed rate £250.0m bond (maturity March 2036), was entered into in March 2020. Further CPI linked inflation swaps with a total nominal value of £225.0m, which are also linked to the maturity of the Class A fixed rate £250.0m bond (maturity March 2036), were entered into between April 2020 and June 2020.

The fair value of RPI and CPI linked inflation swaps have been derived from ‘Level 2’ fair value measurements: directly observable market inputs other than Level 1 inputs. The fair value of RPI and CPI linked inflation swaps is calculated by discounting expected future cashflows based on market expectations of RPI and CPI. The discount rate used reflects the credit risk of the company, which is consistent with IFRS 13: ‘Fair value measurement’.

11. Derivative financial instruments (continued)

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

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

Company

The company does not have any derivative financial instruments.

12. Trade and other receivables

Group

	2024 £000	2023 £000
Current:		
Trade receivables	**80,853**	73,807
Less: loss allowance for trade receivables	**(37,100)**	(36,968)
	43,753	36,839
Receivables transferred on sale of subsidiary	**9,844**	9,844
Less: loss allowance for receivables transferred on sale	**(9,844)**	(9,844)
	-	-
Interest receivable from external parties	**7,318**	7,404
Other receivables	**3,129**	8,025
Unbilled accrual for metered customers	**52,558**	43,444
Prepayments and accrued income	**7,881**	7,027
	70,886	65,900
	114,639	102,739

Trade receivables in Affinity Water Limited that were fully provided for were sold in both the current and prior year, resulting in a reduction to trade receivables of £5,100,000 (2023: £4,397,000) and a corresponding reduction in the loss allowance for trade receivables.

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

12. Trade and other receivables (continued)

12.1 Loss allowance for trade receivables and contract assets

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

	Trade receivables		**Receivables transferred on sale of subsidiary**		**Unbilled accrual for metered customers**		**Total**	
	2024 £000	2023 £000	**2024 £000**	2023 £000	**2024 £000**	2023 £000	**2024 £000**	2023 £000
At 1 April	**36,968**	33,037	**9,844**	10,264	**303**	101	**47,115**	43,402
Provision for receivables impairment charged/(credited) to the income statement	**8,380**	10,997	**-**	(420)	**(83)**	202	**8,297**	10,779
Sale of trade receivables that were fully provided for	**(5,100)**	(4,397)	**-**	-	**-**	-	**(5,100)**	(4,397)
Receivables written off during the year as uncollectable	**(3,148)**	(2,669)	**-**	-	**-**	-	**(3,148)**	(2,669)
At 31 March	**37,100**	36,968	**9,844**	9,844	**220**	303	**47,164**	47,115

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

In the current year, a charge of £8,297,000 to the income statement arose as a result of continued cost of living costs. This includes reversal of revenue of £5,571,000 for actively exhausted customers. We have seen improvements in customer cash collection compared to prior year due to additional internal and external resources focusing on recovering debt.

In the prior year, an additional charge of £11,199,000 to the income statement arose as a result of external economic factors which included the cost of living increases on our customers. No additional charge has been included in the current year as this was reflected in an increase in base rates used in the calculation which sufficiently covered the provision.

12.2 Ageing analysis of trade receivables and receivables transferred on sale of subsidiary

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

	2024 £000	2023 £000
Aged less than one year	**36,993**	27,155
Aged between one year and two years	**15,287**	23,682
Aged greater than two years	**28,573**	22,970
	80,853	73,807

Company

The company does not have any trade or other receivables.

13. Inventories

Group

	2024	2023
	£000	£000
Raw materials and consumables	**4,451**	4,833

Inventories are stated after provisions for impairment of £50,000 (2023: £364,000).

Company

The company does not have any inventories.

14. Cash and cash equivalents

Group

	2024	2023
	£000	£000
Cash at bank and in hand	**48,360**	28,170
Term deposits	**19,410**	61,684
	67,770	89,854

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

Company

	2024	2023
	£000	£000
Cash at bank and in hand	**10**	10

15. Share capital

Group and company

Allotted, called up and fully paid share capital	**2024 £000**	2023 £000
744,133,355 (2023: 744,133,355) ordinary shares of £0.01 each	**7,441**	**7,441**

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

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

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

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

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

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

Daiwater Investment Limited

Notes to the financial statements (continued)

16. Trade and other payables

Group

	2024 **£000**	2023 (restated) £000
Non-current		
Amounts falling due after more than one year		
Deferred grants and contributions	**28,118**	28,137
Amounts falling due after more than five years		
Deferred grants and contributions	**301,572**	287,105
	329,690	315,242
Current		
Amounts falling due within one year		
Trade payables	**21,355**	15,453
Interest payable to external parties	**20,335**	14,411
Social security and other taxes	**1,995**	1,912
Other payables	**1,951**	6,721
Capital accruals	**21,941**	13,519
Deferred grants and contributions	**6,923**	6,995
Payments received in advance	**82,924**	73,216
Deferred income	**3,149**	3,263
Other accruals	**45,297**	41,796
	205,870	177,286
	535,560	492,528

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

Company

The company does not have any trade and other payables.

Notes to the financial statements (continued)

17. Borrowings

Group

	2024 £000	2023 £000
Borrowings measured at amortised cost:		
Bonds	**1,544,906**	1,538,786
Bank term loan	**41,313**	41,112
4% irredeemable consolidated debenture stock	8	8
4% irredeemable debenture stock	1	1
5% irredeemable debenture stock	24	24
5.25% irredeemable debenture stock	1	1
	1,586,253	1,579,932

Affinity Water Finance (2004) PLC

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

Affinity Water Finance PLC

On 4 February 2013, the group's former subsidiary Affinity Water Programme Finance Limited issued £80,000,000 Class A Guaranteed Notes maturing in September 2022 with a coupon of 3.625%, £250,000,000 Class A Guaranteed Notes maturing in March 2036 with a coupon of 4.500%, £190,000,000 Class A Guaranteed RPI linked Notes maturing in June 2045 with a coupon of 1.548% and £95,000,000 Class B Guaranteed RPI linked Notes maturing in June 2033 with a coupon of 3.249%.

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

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

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

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

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

17. Borrowings (continued)

Group (continued)

Affinity Water Finance PLC (continued)

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

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

The £14,204,000 Class A Guaranteed Notes with coupon of 3.625% matured in September 2022. The group repaid this amount in full in September 2022.

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

The fair value of the bonds on-lent from the two financing subsidiaries at 31 March 2024 is £1,199,706,000 (2023: £1,249,769,000). The fair value of Class A bonds has been derived from 'Level 1' fair value measurements: quoted prices (unadjusted) in active markets for identical liabilities. The fair value of Class B bonds has been derived from 'Level 2' fair value measurements: directly observable market inputs other than Level 1 inputs. The fair value of Class B bonds is calculated by discounting expected future cashflows at a discount rate which is derived from the yield on comparable instruments which are observable in the market.

Affinity Water Limited and Affinity Water Holdco Finance Limited are subject to a number of covenants in relation to their borrowings, which, if breached, would result in the loans becoming immediately repayable. These covenants specify certain limits in terms of key ratios such as net cash flow to debt interest and net debt to RCV. At the year-end, neither Affinity Water Limited nor Affinity Water Holdco Finance Limited were in breach of any financial covenants. See additional details on our financial covenants included within the going concern statement in accounting policies.

On 28 September 2017, Affinity Water Holdco Finance Limited borrowed £25,000,000 under a term loan facility with a commercial bank. The initial term of the loan was twelve months, which was subsequently extended. On 2 July 2020, the group and it refinanced its £25,000,000 bank term loan. The loan was increased to £39,500,000, and due for repayment 30 June 2023. On 30 July 2020, the group and Affinity Water Holdco Finance drew down a further £2,500,000, taking the total loan to £42,000,000.

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

Company

The company does not have any borrowings.

18. Lease liabilities

Group

	2024 £000	2023 £000
Non-current:		
Lease liabilities	**3,974**	4,785
Current:		
Lease liabilities	**3,343**	3,053

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

	2024 £000	2023 £000
Depreciation charge of right-of-use assets (refer to note 7)	**3,295**	3,458
Interest expense on lease liabilities (refer to note 4)	**249**	266
Expense relating to short-term leases (refer to note 2.1)	**5**	24
Expense relating to leases of low-value assets (refer to note 2.1)	**80**	76
Principal elements of lease payments included within cash flows from financing activities	**3,329**	3,475
Interest payments included within cash flows from operating activities	**249**	266
Total cash outflow for leases in the statement of cash flows	**3,578**	3,741
Additions to right-of-use assets (refer to note 7)	**2,859**	1,685
Disposals of right-of-use-assets (refer to note 7)	**(59)**	(18)
Carrying amount of right-of-use assets (refer to note 7)	**7,153**	7,649

Company

The company does not have any lease liabilities.

Leasing arrangements

The investment properties are leased to tenants under operating leases with rentals payable monthly. Lease income from operating leases where the group is a lessor is recognised in income on a straight-line basis over the lease term. Lease payments for some contracts include CPI increases, but there are no other variable lease payments that depend on an index or rate.

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

Minimum lease payments receivable on leases are as follows:

	2024 £000	2023 £000
Within 1 year	**625**	650
Between 1 and 2 years	**463**	625
Between 2 and 3 years	**423**	463
Between 3 and 4 years	**412**	423
Between 4 and 5 years	**368**	412
Later than 5 years	**763**	1,080
	3,054	3,653

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

Daiwater Investment Limited

Notes to the financial statements (continued)

19. Deferred tax liabilities

19.1 Analysis of deferred tax assets and deferred tax liabilities

Group

	2024 £000	2023 £000
Deferred tax assets:		
– Deferred tax asset to be recovered within 12 months	**(5,431)**	(5,569)
– Deferred tax asset to be recovered after more than 12 months	**(43,759)**	(47,876)
	(49,190)	(53,445)
Deferred tax liabilities:		
– Deferred tax liability to be settled within 12 months	**375**	375
– Deferred tax liability to be settled after more than 12 months	**287,050**	304,744
	287,425	305,119
Deferred tax liabilities - net	**238,235**	251,674

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

	£000
At 1 April 2022	271,500
Prior year adjustment	4,085
Impact of change in tax rate	1,192
Credited to the income statement	(12,074)
Credited to other comprehensive income	(13,029)
At 31 March 2023	251,674
Prior year adjustment	(1,183)
Credited to the income statement	(5,396)
Credited to other comprehensive income	(6,861)
At 31 March 2024	**238,235**

The adjustment to prior year lines above are due to the tax provision in the accounts being a best estimate at the time. The estimate is corrected when the tax returns are finalised and submitted to HMRC 12 months after the year-end.

Daiwater Investment Limited

Notes to the financial statements (continued)

19. Deferred tax liabilities (continued)

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

19.2 Deferred tax liabilities

	Fair value adjustment on acquisition £000	Accelerated capital allowances £000	Retirement benefit obligations £000	Total £000
At 1 April 2022	98,311	206,090	26,062	330,463
Impact of change in tax rate	(141)	-	-	(141)
(Credited)/charged to the income statement	(446)	(12,099)	371	(12,174)
Credited to other comprehensive income	-	-	(13,029)	(13,029)
At 31 March 2023	97,724	193,991	13,404	305,119
(Credited)/charged to the income statement	(375)	(11,090)	632	(10,833)
Credited to other comprehensive income	-	-	(6,861)	(6,861)
At 31 March 2024	**97,349**	**182,900**	**7,176**	**287,425**

19.3 Deferred tax assets

	Fair value adjustment on acquisition £000	Provisions £000	Unrelieved tax losses £000	Total £000
At 1 April 2022	58,341	622	-	58,963
Impact of change in tax rate	(1,333)	-	-	(1,333)
Credited/(charged) to the income statement	(4,220)	35	-	(4,185)
At 31 March 2023	52,788	657	-	53,445
Credited/(charged) to the income statement	(5,412)	1,157	-	(4,254)
`At 31 March 2024	**47,376**	**1,814**	**-**	**49,190**

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

At 31 March 2024, the group had unused tax losses of £57,239,000 (2023: £54,093,000) available for offset against future profits. No deferred tax asset has been recognised in respect of these losses due to restrictions over accessing these losses in the future.

Company

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

Notes to the financial statements (continued)

20. Provisions for other liabilities and charges

Group

	Insurance £000	Tax £000	Other £000	Total £000
At 1 April 2022	2,437	-	670	3,107
Charged to the income statement	464	4,100	-	4,564
Utilised in the year	(252)	-	-	(252)
At 31 March 2023	2,649	4,100	670	7,419
Charged to the income statement	(526)	-	-	(526)
Utilised in the year	680	-	-	680
At 31 March 2024	**2,803**	**4,100**	**670**	**7,573**

Insurance

Provisions for insurance represent the amount of the group's liability in respect of individual claims. This is based upon data provided by loss adjusters to insurers and is calculated on settlement experience. The full balance of £2,803,000 is presented as a non-current liability in the statement of financial position.

Tax provision

A tax provision of £nil (2023: £4,100,000) has been charged to the income statement. As at 31 March 2024, this is an estimate of an outstanding charge relating to a potential PAYE and NI claim.

Other provisions

Other provisions of £670,000 (2023: £670,000) relate to unfunded pension liabilities for a former Non-Executive director, which it is expected will be utilised by January 2051, and therefore presented as a non-current liability in the group's consolidated statement of financial position.

Company

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

Daiwater Investment Limited

Notes to the financial statements (continued)

21. Dividends

	2024	2023
	£000	£000
First interim dividend paid of nil per share (2023: nil per share)	**104**	95

Dividends of £104,000 (2023: £95,000) were paid to non-controlling interest from group subsidiaries.

22. Notes to the statement of cash flows

22.1 Cash generated from operations

Group

	2024	2023 (restated)
	£000	£000
Loss before tax from:		
Continuing operations	**(31,594)**	(95,246)
Loss before tax including discontinued operations	**(31,594)**	(95,246)
Adjustments for:		
Depreciation of property, plant and equipment (note 6)	**79,147**	72,858
Amortisation of grants and contributions	**(8,584)**	(3,619)
Depreciation of right-to-use assets (note 7)	**3,295**	3,458
Amortisation of intangible fixed assets (note 8)	**7,592**	6,800
Profit on disposal of property, plant and equipment	**(944)**	(535)
Loss on disposal of infrastructure assets	**1,154**	888
Post-employment benefits	**(132)**	1,360
Net finance costs (note 4)	**39,203**	80,991
Net gain on energy swaps	**13,075**	26,638
Changes in working capital		
– Inventories	**382**	(485)
– Trade and other receivables	**(11,900)**	1,435
– Trade and other payables		
– provision element	**154**	4,312
– other	**12,325**	8,789
Cash generated from operations	**103,173**	107,644

Changes in working capital – trade and other receivables of £(11,900,000) in the year (2023: £1,435,000) primarily relates to an increase in unbilled accrual for metered customers, as shown in note 12.

Changes in working capital – trade and payables – other of £12,325,000 in the year (2023: £8,789,000) primarily relates to an increase in trade payables and capital accruals, offset by an increase in current deferred grants and contributions, as shown in note 17.

Daiwater Investment Limited

Notes to the financial statements (continued)

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

Company

	2024 **£000**	2023 £000
Profit before tax	**-**	-
Adjustments for:		
Changes in working capital		
– Trade and other receivables	**-**	10
Cash used in operations	**-**	10

22.2 Reconciliation of liabilities arising from financing activities

Group

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

	At 1 April 2022 £000	Cash flow £000	Non-cash flows £000	At 31 March 2023 £000
Bonds	1,505,072	(14,204)	47,918	1,538,786
Bank term loan	41,429	-	(317)	41,112
Lease liabilities	9,646	(3,741)	1,933	7,838
Debenture stock	34	-	-	34
Total liabilities arising from financing activities	1,556,181	(17,945)	49,534	1,587,770

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

Company

The company has no liabilities arising from financing activities.

23. Commitments

23.1 Capital commitments

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

Group

	2024 £000	2023 £000
Property, plant and equipment	**34,148**	28,481
Intangible assets	**485**	885
	34,633	29,366

Company

The company does not have any capital commitments.

23.2 Commitments under leases

The group leases its vehicles and head office building under non-cancellable leases expiring within a maximum of five years. The leases have varying terms, clauses and renewal rights.

The group does not expect to extend any vehicles leases after their lease term has expired. The lease of the head office building will expire in September 2025.

From 1 April 2019, the group has applied IFRS 16 and recognised right-of-use assets for these leases, (except for short-term and low-value leases which are not within the scope of IFRS 16), see note 18 for further information.

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

Group

	2024 £000	2023 £000
No later than one year	**45**	59
Later than one year and no later than five years	**1**	39
	46	98

Company

The company does not have any commitments under operating leases.

24. Billing on behalf of Thames Water and Anglian Water

The group's principal trading subsidiary, Affinity Water Limited, bills and collects charges in respect of sewerage and infrastructure within its area on behalf of Thames Water Utilities Limited and Anglian Water Services Limited. No amounts are included in these financial statements in respect of uncollected sewerage and sewerage infrastructure charges at 31 March 2024 (2023: £nil), and the group incurs no bad debt risk in relation to this service.

25. Events after the reporting period

On 2 May 2024, the group completed a transaction whereby it acquired the freehold interest in its head office building in Hatfield from Railpen Pension Nominees Limited for an amount of £16,103,000. At the same time, a sale and leaseback transaction of the property was entered into with Just Retirement Limited at an equivalent value. The transaction provides the company with an option to reacquire the property at the end of the lease term in December 2045.

26. Ultimate parent company and controlling party

Daiwater Investment Limited, a company registered in England and Wales, is the parent undertaking of the largest group to consolidate the statutory financial statements of this group for the year ended 31 March 2024, and only group to consolidate the company.

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

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

- Allianz Infrastructure Holding I Pte. Limited
- DIF Management Holding BV
- DIF Management UK Limited
- HICL Infrastructure plc
- Sun Life Financial Inc (up until 1 July 2020, InfraRed Capital Partners (Management) LLP).

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

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

HICL Infrastructure plc is a long-term investor in infrastructure assets which are predominantly operational and yielding steady returns. HICL Infrastructure plc has a portfolio of infrastructure investments, which are positioned at the lower end of the risk spectrum, in three target market segments: public-private partnerships, regulated assets and demand-based assets. The Investment Manager to HICL Infrastructure plc is InfraRed Capital Partners Limited, a leading international investment manager focused on infrastructure and renewable energy investments. On 1 July 2020, Sun Life Financial Inc acquired an 80% interest in the InfraRed business from InfraRed Capital Partners (Management) LLP and became an ultimate controller.

Daiwater Investment Limited

Notes to the financial statements – appendices

A1. General information

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

The company manages an investment in Affinity Water Capital Funds Limited.

The company is a private company limited by shares and is incorporated and domiciled in the United Kingdom. The address of its registered office is Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ.

Refer to note 260 for details of the company's controlling company.

A2. Segmental reporting

In the same way that financial information is reported on a quarterly basis to the Board, the group's chief operating decision maker, during the current and previous financial year on a combined basis, the group and company present their results under a single segment for financial reporting purposes. Management do not consider climate change to have had an impact on reporting results under a single segment.

A3. Material accounting policy information

Property, plant and equipment

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

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

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

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

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

A3. Material accounting policy information (continued)

Property, plant and equipment (continued)

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

Infrastructure assets	
Potable water distribution mains	50-150 years
Raw water pipes	50-150 years
Other property, plant and equipment	
Buildings	40-60 years
Operational structures	5-85 years
Fixed plant – short life	3-10 years
– other	10-30 years
Vehicles and mobile plant	3-15 years

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

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

Goodwill

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

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

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

Notes to the financial statements – appendices (continued)

A3. Material accounting policy information (continued)

Intangible assets

Computer software development costs

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

Other development expenditures that do not meet these criteria are recognised as an expense as incurred, including costs associated with cloud computing arrangements.

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

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

Water licence

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

Billing relationships

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

Impairment

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

A3. Material accounting policy information (continued)

Grants and contributions

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

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

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

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

Investments

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

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

A3. Material accounting policy information (continued)

Trade and other receivables

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

Expected credit losses are based on historical recoverability and calculated by applying a range of different percentages to trade receivables of different ages. These percentages also vary between categories of trade receivables. Higher percentages are applied to those categories of trade receivable that are considered to be of greater risk and also to trade receivables of greater age. The historical recoverability of trade receivables is deemed a good estimate of future expected credit losses. At each reporting date, the group takes into consideration any significant economic changes that may impact its credit loss model and future credit losses. To estimate the impairment to its trade receivables from either of these factors, the group has assessed its receivables based on postcode driven customer demographics. The group has assessed what it believes to be the sensitivity of each demographic to the current and emerging effects of these factors on household finances and ability to maintain payments.

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

Inventories

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

Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of 12 months or less. Term deposits with original maturities longer than three months can be redeemed early, subject to the interest income being forfeited or reduced to reimburse any cost incurred by the counterparty. These are classed as cash and cash equivalents if the deposit can be redeemed to meet short term cash needs and there is no risk of a significant change in value as the result of an early withdrawal. Deposits that cannot be withdrawn prior to maturity are classed as short-term investments.

Daiwater Investment Limited

Notes to the financial statements – appendices (continued)

A3. Material accounting policy information (continued)

Current and deferred tax

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

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

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

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

Trade and other payables

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

Borrowings

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

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

Notes to the financial statements – appendices (continued)

A3. Material accounting policy information (continued)

Financial instruments

Financial instruments such as derivatives are initially recognised at fair value on the date the derivative contract is entered into and are subsequently re-measured at their fair value at each reporting date. Gains or losses arising on revaluation are recorded in the income statement in the year in which they arise and are shown within either fair value gain/(loss) on inflation swaps or fair value gain/(loss) on energy swaps on the face of the consolidated income statement. Interest received or incurred on these derivative financial instruments is shown within finance income and finance costs on the face of the consolidated income statement.

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

Provisions

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

Ofwat assesses the principal trading subsidiary’s operational performance against agreed performance commitments. Certain performance commitments contain an Outcome Delivery Incentive, which can carry a financial reward or penalty, or both, which will be recognised as a revenue adjustment in the next charging period. The principal trading subsidiary adjusts future tariffs to reflect such amounts and therefore the benefit or cost is linked to the provision of future services as well as future performance. Resultantly the group does not recognise a provision for penalties or rewards in the financial year in which they are incurred or achieved as these amounts are not an asset or liability at the balance sheet date.

A3. Material accounting policy information (continued)

Revenue recognition

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

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

The group has contracts with third parties operating in the non-household retail market for the supply of clean water (wholesale supply). The underlying performance obligation is the development and maintenance of the network and ensuring its continued availability to such third-party retailers on behalf of non-household consumers. Revenue is recognised at the point in which the 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 provided by the market operator.

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

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 trade and other payables.

Where non-household retailers are billed monthly in advance for wholesale charges, as determined by billing/volume reports created by the market operator, the company recognises deferred income in relation to these accounts and presents this as a contract liability within trade and other payables. Revenue is recognised at the time of invoicing.

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

Revenue is recognised if it is probable that it will be received considering the customer's ability and intention to pay that amount of consideration when it is due. The group is under a statutory obligation to maintain water services to domestic properties within the areas defined in its water supply licence. As a result, the group may provide water services to customers who are unlikely to pay for these services. The group does not recognise revenue where historical evidence indicates that the group will probably never be able to collect the revenue billed. The group is currently seeing higher levels of consumption due to increases in temperature, a risk associated with the ongoing effects of climate change and has taken this into consideration regarding the recognition of revenue.

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

A3. Material accounting policy information (continued)

Other income

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

Interest income

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

Leases

The group leases its head office building and most of its vehicles. Rental contracts for vehicles are typically for fixed periods of two to five years. The group has an option to extend its leases; however, no contracts are reasonably certain to be extended after their lease term has expired. The lease contract of the head office building has a remaining period of 1.5 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The group's lease agreements do not impose any covenants, but leased assets cannot be used as security for borrowing purposes.

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

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

Leases falling within the scope of IFRS 16 are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

A3. Material accounting policy information (continued)

Leases (continued)

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

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

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

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

Lease payments may be discounted using the lessee's incremental borrowing rate if the interest rate implicit in the lease cannot be determined. The incremental borrowing rate is the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. The company uses an independent third-party to determine the incremental borrowing rate for each class of lease. The weighted average lessee's incremental borrowing rate applied to the lease liabilities during the year was 2.37%. The incremental borrowing rate is re-determined annually and applied to new leases for the subsequent year.

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

The group does not use sale and leaseback transactions.

The group as a lessor

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

Lease payments for some contracts include CPI increases, but there are no other variable lease payments that depend on an index or rate.

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

Grafham reservoir

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

A3. Material accounting policy information (continued)

Retirement benefits

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

Affinity Water Limited was the AWPP's Principal Employer up until 31 August 2020, with former group company Castle Water (Southern) Limited (formerly Affinity for Business (Retail) Limited) being a Participating Employer of the AWPP up until this date. Since this date, Affinity Water Limited has been the sole employer.

The group bears all the risks and rewards associated with the scheme and therefore recognises all the remeasurement gains and losses on the plan assets and liabilities.

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

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

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

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

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

Contributions to the defined contribution section of the plan are recognised within cost of sales and administrative expenses in the income statement in the year in which they become payable.

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

Dividend distributions

Dividend distributions to the group's shareholders are recognised as a liability in the group's financial statements in the year in which the dividends are approved, until they are paid.

A4. Financial instruments and risk management

Risk management

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

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

The main risks arising from the group's financial instruments are liquidity risk, credit risk, energy risk, interest rate risk and inflation risk. Treasury policies in relation to these risks are agreed in conjunction with the wider group of companies headed by Daiwater Investment Limited.

The Board reviews and agrees policies for managing each of these risks (refer to 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 regard to debt and cash at the end of each quarter.

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

Daiwater Investment Limited

Notes to the financial statements – appendices (continued)

A4. Financial instruments and risk management (continued)

Liquidity risk

Group

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

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

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

At 31 March 2024, the group had £246,320,000 (2023: £308,563,000) of available liquidity, which comprised £89,322,0000 (2023: £156,563,000) of cash and term deposits and £157,000,000 (2023: £152,000,000) of undrawn committed borrowing facilities.

The group has entered into RPI and CPI linked inflation swaps as detailed in the interest rate and inflation risk section of note A4. These transactions lead to a net interest receivable cashflow over the life of the swaps, offset by an accretion payment on maturity (2026 for the RPI swaps and either 2030 or 2036 for the CPI swaps). There is no liquidity risk prior to these dates as there is no requirement to pay collateral prior to maturity. On maturity, a final accretion payment will be made based on the mark to market valuation at that date, resulting in a total forecast cash payment of £235,338,000 (2023: £209,145,000), included in the maturity analysis table. The mark to market valuation is reviewed on a monthly basis and a forecast accretion payment is reviewed annually to ensure sufficient cash balances can be made available if required.

Undrawn borrowing facilities:

	2024 **£000**	2023 £000
Floating rate:		
– Expiring within one year	**57,000**	52,000
– Expiring in more than one year	**100,000**	100,000
	157,000	152,000

The facilities expiring within one year comprise two standby facilities with one counterparty (2023: one counterparty) in the event of a liquidity shortfall: a 364 day revolving Debt Service Reserve Facility of £29,000,000 (2023: £27,000,000), which is intended for the purpose of funding any debt service payments, and a 364 day revolving Operations and Maintenance Reserve Facility of £28,000,000 (2023: £25,000,000), which is intended for the purpose of funding operating and capital maintenance expenditure.

Notes to the financial statements – appendices (continued)

A4. Financial instruments and risk management (continued)

Liquidity risk (continued)

Group (continued)

The facilities expiring in more than one year comprise two revolving credit facilities, £60,000,000 (2023: £60,000,000) provided by Barclays Bank PLC and £40,000,000 (2023: £40,000,000) provided by Lloyds Bank PLC. The facilities are intended for the purpose of financing capital expenditure and working capital requirements to the extent that additional funding is required and have a maturity date of July 2026 and July 2025 respectively. These facilities were renewed on 24 June 2020 and use SONIA as the reference rate and have sustainability performance measures included. Subsequent to year end the £40,000,000 credit facility provided by Lloyds Bank due to mature July 2025 was extended to July 2027.

The facility, expiring in 2027 with the option to extend to 2029, comprises of a committed lending of £42,000,000, which is fully drawn, and a further £33,000,000 uncommitted accordion facility. The facility is provided by ING Bank N.V. with HSBC Bank Plc acting as agent. The purpose of this facility is to fund operations outside of the ringfenced entity. The facility references SONIA.

Company

At 31 March 2024 and 31 March 2023, the company had no available liquidity and no available undrawn borrowing facilities.

Maturity analysis

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

Group

At 31 March 2024	**1 year or less**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**More than 5 years**	**Total**
Non-derivatives	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Bonds	**40,274**	**40,479**	**290,616**	**26,177**	**26,447**	**1,335,428**	**1,759,421**
Bank term loan	**3,256**	**3000**	**2,870**	**43,414**	**-**	**-**	**52,540**
Lease liabilities	**3,515**	**2,204**	**1,145**	**700**	**205**	**-**	**7,769**
	47,045	**45,683**	**294,631**	**70,291**	**26,652**	**1,335,428**	**1,819,730**

At 31 March 2023	1 year or less	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total
Non-derivatives	£000	£000	£000	£000	£000	£000	£000
Bonds	39,751	39,980	40,225	290,468	26,030	1,331,002	1,767,456
Bank term loan	3,804	3,737	3,601	3,484	43,693	-	58,319
Lease liabilities	3,238	2,857	1,541	501	131	1	8,269
	46,793	46,574	45,367	294,453	69,854	1,331,003	1,834,044

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

Daiwater Investment Limited

Notes to the financial statements – appendices (continued)

A4. Financial instruments and risk management (continued)

Liquidity risk (continued)

Maturity analysis (continued)

Company

The company has no non-derivative financial liabilities.

The maturity profile in the following table represents the forecast future net cash flows in relation to the group's derivatives estimated using the forward rates applicable at the year end.

Group

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

At 31 March 2023 Derivatives	1 year or less £000	1-2 years £000	2-3 years £000	3-4 years £000	4-5 years £000	More than 5 years £000	Total £000
RPI linked inflation swaps net payment/ (receivable)	(6,427)	(6,249)	(6,067)	81,592	-	-	62,849
CPI linked inflation swaps net payment/ (receivable)	(6,486)	(6,390)	(6,293)	(6,194)	(3,037)	88,196	59,796
SONIA to fixed interest rate swap net payment/ (receivable)	(338)	(144)	-	-	-	-	(482)
Total derivatives	(13,251)	(12,783)	(12,360)	75,398	(3,037)	88,196	122,163

A4. Financial instruments and risk management (continued)

Liquidity risk (continued)

Company

The company has no derivative instruments.

Covenant risk

The group's compliance with its lending covenants is a risk. Both an ICR Trigger and Default Event would occur in a number of severe but plausible downside scenarios detailed in the principal trading subsidiary's viability statement for the year ended 31 March 2024. However this is on the assumption that no mitigating actions would be taken. Management are confident that mitigation actions within their control could be implemented that would prevent a trigger or default event from occurring should one of these scenarios arise.

Under an ICR Trigger Event, the group would be subject to certain constraints such as restrictions on dividends and restriction on debt buybacks. However, the directors are satisfied that an ICR Trigger Event would not fundamentally constrain the group's ability to carry out its business, particularly after considering the company's strong cash position meaning that the company has no further funding requirement in AMP7 and until the end of 2025.

The group continues to monitor and manage the risks associated with the ICR covenant through the forecasting and reporting process and has identified mitigations, the most prominent of which is working capital management. The company was not in breach of its financial covenants as at 31 March 2024 or up to the date of signing these financial statements.

Credit risk

Credit risk arises principally from trading (the supply of services to customers) and treasury activities (the depositing of cash).

The financial assets that are subject to the expected credit loss model are trade and other receivables, contract assets relating to the unbilled accrual for metered customers and cash and cash equivalents. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss is nil.

Contract assets and trade and other receivables

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

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

A4. Financial instruments and risk management (continued)

Credit risk (continued)

Contract assets and trade and other receivables (continued)

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

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

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

At each reporting date management takes into consideration any significant economic changes that may impact the model and future credit losses. Therefore, the directors of the group do not believe there is any further credit risk provision required in excess of the expected credit losses of trade receivables (see note 12).

The loss allowance as at 31 March 2024 and 31 March 2023 was determined as follows for trade receivables, receivables transferred upon sale of subsidiary and contract assets (unbilled accrual for metered customers):

Daiwater Investment Limited

Notes to the financial statements – appendices (continued)

A4. Financial instruments and risk management (continued)

Credit risk (continued)

Contract assets and trade and other receivables (continued)

Group

At 31 March 2024 (£000)	Current	Current	Less than 1 year	1 – 2 years	2 – 3 years	3 – 4 years	More than 4 years past due	Total
Expected loss rate – metered household receivables	**0.46%**	**-**	**5%**	**16%**	**31%**	**52%**	**100%**	
Gross carrying amount – metered household receivables	**-**	**-**	**17,141**	**5,438**	**2,793**	**1,754**	**2,298**	**29,424**
Gross carrying amount – unbilled accrual for metered customers (household)	**47,768**	**-**	**-**	**-**	**-**	**-**	**-**	**47,768**
Gross carrying amount – unbilled accrual for metered customers (non-household)	**-**	**5,009**	**-**	**-**	**-**	**-**	**-**	**5,009**
Provision at expected loss rate	**220**	**-**	**915**	**881**	**875**	**918**	**2,298**	**6,107**
Amounts provided at 100%	**-**	**-**	**2,756**	**4,040**	**3,419**	**2,489**	**3,566**	**16,269**
Loss allowance	**220**	**-**	**3,671**	**4,921**	**4,294**	**3,407**	**5,864**	**22,376**
Expected loss rate – unmetered household receivables	**-**	**-**	**9%**	**14%**	**25%**	**51%**	**100%**	
Gross carrying amount – unmetered household receivables	**-**	**-**	**6,327**	**3,850**	**2,549**	**1,243**	**1,778**	**15,747**
Provision at expected loss rate	**-**	**-**	**545**	**552**	**625**	**635**	**1,778**	**4,135**
Amounts provided at 100%	**-**	**-**	**1,646**	**1,959**	**1,679**	**1,472**	**2,834**	**9,590**
Loss allowance	**-**	**-**	**2,191**	**2,511**	**2,304**	**2,107**	**4,612**	**13,725**
				Less than 1 year	**1-2 years**	**2-3 years**	**More than 3 years past due**	**Total**
Expected loss rate – non-household receivables				0%	0%	0%	100%	
Gross carrying amount – non-household receivables				-	-	-	9,844	9,844
Loss allowance							**9,844**	**9,844**
			Less than 3 months	**3 – 6 months**	**6 – 9 months**	**9 – 12 months**	**More than 12 months past due**	**Total**
Expected loss rate – developer services			**-**	**43%**	**22%**	**75%**	**100%**	
Gross carrying amount – developer services			**7,871**	**904**	**243**	**106**	**698**	**9,822**
Loss allowance			**-**	**386**	**55**	**80**	**698**	**1,218**
								47,163

Daiwater Investment Limited

Notes to the financial statements – appendices (continued)

A4. Financial instruments and risk management (continued)

Credit risk (continued)

Contract assets and trade and other receivables (continued)

At 31 March 2023 (£000)	**Current**	**Current**	**Less than 1 year**	**1 – 2 years**	**2 – 3 years**	**3 – 4 years**	**More than 4 years past due**	**Total**
Expected loss rate – metered household receivables	0.76%	0.00%	7%	27%	45%	64%	100%	
Gross carrying amount – metered household receivables	-	-	19,930	4,706	2,530	1,579	2,202	30,947
Gross carrying amount – unbilled accrual for metered customers (household)	39,819	-	-	-	-	-	-	39,819
Gross carrying amount – unbilled accrual for metered customers (non-household)	-	3,927	-	-	-	-	-	3,927
Provision at expected loss rate	303	-	1,339	1,262	1,149	1,002	2,202	7,257
Amounts provided at 100%	-	-	1,970	4,075	2,973	2,214	2,923	14,155
Loss allowance	**303**	**-**	**3,309**	**5,337**	**4,122**	**3,216**	**5,125**	**21,412**
Expected loss rate – unmetered household receivables		0.00%	17%	37%	56%	68%	100%	
Gross carrying amount – unmetered household receivables		-	7,588	3,202	1,901	1,385	1,792	15,868
Provision at expected loss rate		-	1,253	1,194	1,066	945	1,792	6,250
Amounts provided at 100%		-	1,100	845	2,043	1,787	2,464	8,239
Loss allowance		**-**	**2,353**	**2,039**	**3,109**	**2,732**	**4,256**	**14,489**

	Less than 1 year	**1-2 years**	**2-3 years**	**More than 3 years past due**	**Total**
Expected loss rate – non-household receivables	0%	0%	0%	100%	
Gross carrying amount – non-household receivables	-	-	-	9,844	9,844
Loss allowance	**-**	**-**	**-**	**9,844**	**9,844**

	Less than 3 months	**3 – 6 months**	**6 – 9 months**	**9 – 12 months**	**More than 12 months past due**	**Total**
Expected loss rate – developer services	0.00%	30%	41%	21%	46%	0.00%
Gross carrying amount – developer services	1,102	220	223	804	2,250	4,599
Loss allowance	**-**	**67**	**91**	**170**	**1,042**	**1,370**
						47,115

A reconciliation between the opening and closing loss allowances for trade receivables and contract assets for the year ended 31 March 2024 is shown in note 12.

Notes to the financial statements – appendices (continued)

A4. Financial instruments and risk management (continued)

Credit risk (continued)

Contract assets and trade and other receivables (continued)

Company

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

At 31 March 2024 and 31 March 2023, the maximum exposure to credit risk was represented by the carrying amount of each financial asset in the statement of financial position:

Group

	2024 £000	2023 £000
Cash and term deposits (note 14)	**67,770**	89,854
Short-term deposits (note 9)	**21,552**	66,709
Trade and other receivables (excluding prepayments and amounts recoverable from the group's insurer)	**109,252**	96,742
	198,574	253,305

Company

The company has no such financial assets.

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

The breakdown of cleared cash and cash equivalents and short-term deposits treated as investments exposed to credit risk at each of the credit ratings per Standard & Poor's at 31 March is:

Group

	2024 £000	2023 £000
AAA	**19,410**	61,683
A-1+	**21,552**	66,709
A-1	**48,360**	28,170
	89,322	156,562

These are all short-term ratings.

Company

The company has no cash and cash equivalents.

Notes to the financial statements – appendices (continued)

A4. Financial instruments and risk management (continued)

Interest rate and inflation risk

The group seeks to manage its interest rate risk by maintaining its exposure within a Board approved range, primarily through using a mixture of fixed, inflation linked and floating rate borrowings. A series of RPI linked inflation swaps with a total nominal value of £210.0m, linked to the maturity of the Class A fixed rate £250.0m bond (July 2026), were entered into between August 2018 and October 2020. A series of CPI linked inflation swaps with a total nominal value of £250.0m, linked to the maturity of the Class A fixed rate £250.0m bond (March 2036), were entered into between March 2020 and June 2020.

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

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

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

Interest rate and inflation risks are reported quarterly to the Affinity Water Limited Board through the Treasury Report.

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

As at	Fixed rate debt £000	RPI-linked debt £000	CPI-linked debt £000	Total £000
31 March 2024	**766,082**	**576,107**	**244,064**	**1,586,253**
31 March 2023	780,246	563,287	236,399	1,579,932

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 2024. Given the large movements in inflation and the current high levels, the following table details the sensitivity of (loss)/profit before taxation to changes in RPI and CPI on the group's index-linked borrowings, RPI linked inflation swap and CPI linked inflation swap. The analysis relates to the position at the reporting date and is not indicative of the years then ended, as these factors would have varied throughout the year.

Notes to the financial statements – appendices (continued)

A4. Financial instruments and risk management (continued)

Sensitivity analysis (continued)

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

Impact on loss before taxation	2023 £000
1% increase in RPI	(4,389)
1% decrease in RPI	4,391
1% increase in CPI	(2,209)
1% decrease in CPI	2,209

Energy price risk

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

Currency risk

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

Capital risk management

The gearing policy approved by the Board of Affinity Water Limited is a target, measured as net debt (as defined in Affinity Water Limited's WBS documentation) 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 74.6% at 31 March 2024 (73.4% at 31 March 2023).

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

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

A5. Retirement benefits

Defined benefit section

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

The risks of the plan are as follows:

Asset volatility

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

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

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

Changes in bond yield

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

Life expectancy

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

Inflation risk

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

Investment strategy

The Trustee regularly reviews its investment strategy. A significant change to the investment strategy occurred after a review undertaken in 2018/19 which resulted in the following changes to the plan's portfolio, with the focus moving towards a 'cashflow driven investment' strategy:

- increased the level of interest rate and inflation hedging provided by the plan's assets from 90% to 92.5%, subsequently rebalanced to 90% in December 2021, 91.5% in November 2022, 93.5% in October 2023, and 95.0% in January 2024, with the Investment Guidelines allowing a range from 87.5% to 100%); and
- introduced a new segregated actively managed investment 'liability driven investment/cashflow driven investment' portfolio managed by Insight Investment Management Limited, which is expected to provide stable returns and regular income to meet the plan's outgoings.

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 2020, which concluded that the pension plan was 96% funded on a self-sufficiency basis. This actuarial valuation was made on the 'attained age' funding method, based on the following assumptions:

RPI inflation:	measured by reference to the Bank of England gilt inflation curve
CPI inflation:	measured by reference to the RPI inflation curve described above less 1.0% per annum pre-2030 and less 0% per annum post-2030
Pre-retirement discount rate:	measured by reference to the Bank of England gilt yield curves plus 0.25% per annum
Post retirement discount rate:	measured by reference to the Bank of England gilt yield curves plus 0.25% per annum
Salary increases:	measured by reference to the CPI inflation curve described above plus 0.5% per annum
Deferred pension increases:	measured by reference to the CPI or RPI inflation curves described above with an appropriate adjustment for any caps and collars
Pension increases:	measured by reference to the CPI or RPI inflation curves described above with an appropriate adjustment for any caps and collars

Defined benefit section – employer contributions

Based on the latest actuarial valuation at 31 December 2020, and to eliminate the funding shortfall identified, as well as funding the future cost of benefits being accrued within the plan, the group agreed to pay contributions of £1,250,000 prior to 31 July 2021, £1,600,000 prior to 31 December 2021, and £1,600,000 per annum commencing from 1 January 2022 onwards.

The contributions expected to be paid by the group into the AWPP for the year ending 31 March 2025 are therefore £1,600,000 (£1,600,000 in the year ended 31 March 2024), although this is based on the current Schedule of Contributions and will be dependent on the outcome of the actuarial valuation as at 31 December 2023 currently being undertaken.

The weighted average duration of the defined benefit obligation is 13 years (2023: 13.4 years).

Defined benefit section - financial and demographic assumptions

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

	2024	2023
Discount rate	**4.80% pa**	4.75% pa
Salary growth	**3.15% pa**	3.20% pa
RPI	**3.15% pa**	3.20% pa
CPI	**2.65% pa**	2.70% pa
Life expectancy for a male pensioner from age 65 (years)	**22**	22
Life expectancy for a female pensioner from age 65 (years)	**24**	24
Life expectancy from age 65 (years) for a male participant currently aged 45 (years)	**23**	24
Life expectancy from age 65 (years) for a female participant currently aged 45 (years)	**26**	26

Deferred pensions are revalued to retirement age in line with the CPI assumption of 2.65% per annum (2023: 2.70% per annum) unless otherwise prescribed by statutory requirements or the plan rules.

Daiwater Investment Limited

Notes to the financial statements – appendices (continued)

A5. Retirement benefits (continued)

Defined benefit section - sensitivity analysis

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

	Change in assumption	Impact on defined benefit obligation	Change in assumption	Impact on defined benefit obligation
2024				
Discount rate	**0.5% decrease**	**6.5% increase**	**0.5% increase**	**5.9 % decrease**
Salary growth	**0.5% increase**	**0.6% increase**	**0.5% decrease**	**0.5% decrease**
Pension growth rate	**0.5% increase**	**4.9% increase**	**0.5% decrease**	**4.7% decrease**
Life expectancy	**1 year increase**	**4.0% increase**	**1 year decrease**	**4.0% decrease**
2023				
Discount rate	0.5% decrease	6.8% increase	0.5% increase	6.1% decrease
Salary growth	0.5% increase	0.6% increase	0.5% decrease	0.6% decrease
Pension growth rate	0.5% increase	5.7% increase	0.5% decrease	4.9% decrease
Life expectancy	1 year increase	4.0% increase	1 year decrease	4.0% decrease

Defined benefit section - net retirement benefit surplus

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

	Plan assets %	**2024 £000**	Plan assets %	2023 £000
Equity securities	**6%**	**21,358**	1%	2,535
Debt securities	**59%**	**221,933**	69%	266,081
Property	**0%**	**-**	0%	42
Infrastructure	**1%**	**2,039**	1%	2,692
Liability driven investments	**30%**	**111,826**	2%	108,353
Cash and cash equivalents	**4%**	**13,183**	2%	8,047
Total fair value of the plan's assets	**100%**	**370,339**	100%	387,750
Present value of defined benefit obligations		**(341,639)**		(334,135)
Net retirement benefit surplus		**28,700**		53,615

The total of assets that are quoted is £326,049,000 (2023: £330,095,000) and the total of assets that are unquoted is £44,290,000 (2023: £57,604,000).

Notes to the financial statements – appendices (continued)

A5. Retirement benefits (continued)

Defined benefit section - fair value of plan assets

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

	£000	£000
At 1 April 2023 / 1 April 2022	**387,699**	547,502
Benefits paid	**(17,748)**	(17,337)
Employer contributions	**1,827**	1,879
Contributions by plan participants	**207**	170
Interest income	**18,309**	14,573
Re-measurement losses	**(19,955)**	(159,088)
At 31 March 2024 / 31 March 2023	**370,339**	387,699

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 2023 / 1 April 2022	**(334,084)**	(443,255)
Benefits paid	**17,748**	17,337
Contributions by plan participants	**(207)**	(170)
Current service cost	**(1,695)**	(3,236)
Past service cost	**-**	-
Interest expense	**(15,913)**	(11,734)
Re-measurement (losses)/gains	**(7,488)**	106,974
At 31 March 2024 / 31 March 2023	**(341,639)**	(334,084)

Defined contribution section

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

The total pension charge for the defined contribution section of the AWPP for the year ended 31 March 2024 was £4,662,000 (2023: £4,043,000). There are no amounts prepaid or outstanding in respect of the defined contribution section at 31 March 2024 (2023: £nil).

Daiwater Investment Limited

Notes to the financial statements – appendices (continued)

A6. Subsidiaries

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

Daiwater Investment Limited

Notes to the financial statements – appendices (continued)

A6. Subsidiaries (continued)

Name of company	Country of registration/ incorporation	Registered address	Nature of business	Type of holding	Proportion of voting rights and shares held
Affinity Water Pension Trustees Limited **	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Pension trustee	Ordinary shares	100%
Three Valleys Water Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Dormant company	Ordinary shares	100%
Tendring Hundred Water Services Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Dormant company	Ordinary shares	100%
Folkestone and Dover Water Services Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Dormant company	Ordinary shares	100%
White Cliffs Water Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ	Dormant company	Ordinary shares	100%

* Held directly by Daiwater Investment Limited
** The individual financial statements of these undertakings for the year ended 31 March 2024 were entitled to exemption from audit under Section 479A of the Companies Act 2006 as their outstanding liabilities as at 31 March 2024 have been provided with a parent company guarantee under Section 479C of the Companies Act 2006. The company has assessed the probability of loss under the guarantee as remote.

A7. Related party transactions

Group

Purchases of goods and services and dividends paid

Related party	Nature of Relationship	In respect of	2024 Value £000	2024 Balance £000	2023 Value £000	2023 Balance £000
Allianz Global Corporate & Speciality	Common ownership	Insurance	**-**	**-**	616	-
Allianz Insurance	Common ownership	Insurance	**58**	**(31)**	565	(26)

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

Daiwater Investment Limited

Notes to the financial statements – appendices (continued)

A7. Related party transactions (continued)

Group (continued)

Sales of goods and services

Related party	Nature of relationship	In respect of	2024 Value £000	2024 Balance £000	2023 Value £000	2023 Balance £000
Vistry Group plc*	Shared director	Connection charges	-	-	88	-

* no longer a related party due to the resignation of directorship.

Company

Purchases of goods and services and dividends paid

Related party	Nature of Relationship	In respect of	2024 Value £000	2024 Balance £000	2023 Value £000	2023 Balance £000
Allianz Capital Partners, DIF and HICL Infrastructure plc	Shareholders	Dividend	-	-	-	-

Sales of goods and services and dividends received

Related party	Nature of Relationship	In respect of	2024 Value £000	2024 Balance £000	2023 Value £000	2023 Balance £000
Affinity Water Capital Funds Limited	Subsidiary undertaking	Loans receivable and interest	-	-	-	-