Affinity Water

Taking care of your water

Annual Report and Financial Statements
for the year ended 31 March 2023

Affinity Water Limited
(Registered Number 02546950)

Contents

Welcome to the Affinity Water

Annual Report & Financial Statements 2022/23

About us

We are a 'Water Only' company. That means we supply clean water to our customers, but we do not manage or process waste water or sewage. In fact, we are the largest Water Only company. We own and manage the water assets and network in an area area of approximately 4,500km^2 across three supply regions in the South East of England. We have been supplying water to the local community for more than 170 years.

948Ml/d
Daily amount of drinking water supplied
(FY22: 936Ml/d)

3.89m
Customers served
(FY22: 3.86m)

1.49m
Household properties connected
(FY22: 1.48m)

£323.3m
Revenue
(FY22: £319.7m)

16,900km
Length of mains network
(FY22: 16,800km)

1,460
Number of employees (excluding directors)
(FY22: 1,407)

91
Number of water treatment works
(FY22: 91)

£14.0m
Operating profit
(FY22: £34.6m)

£1.71bn
Our Regulatory Capital Value (RCV)
(FY22: £1.48bn)

£1.44bn
Planned AMP7 investment

£100.9m
Net loss (after tax)
(FY22: £96.9m)

-£22.9m
Cash flow
(FY22: -£16.1m)

Affinity Water
Taking care of your water

Important information

Terms used in this report: The 'company' or 'Affinity Water' means Affinity Water Limited; the 'regulated business' or 'regulated activities' means the licensed water activities undertaken by Affinity Water Limited in the South East of England.

We're taking care of your water now and for the future.

Our purpose

We supply high-quality drinking water and take care of our environment, for our communities now and in the future.

Our vision

Our vision is to be the UK's leading community-focused water company.

We are

Our principles are fundamental values that underpin everything we do

Each person at Affinity Water is guided by our principles – doing the right things for customers and delivering against our commitments and promises.

See how **our principles align with our purpose, values and strategy** on **page** 14

Be proactive

We want to exceed expectations. We continue to build relationships, learn from others and innovate to find solutions.

Make it easy

We want to keep it simple for customers, and be agile to their needs.

Show we understand

We aim to communicate with authenticity, clarity and passion.

Show we care

We want to engage the hearts and minds of customers, and take care of the environment – for our communities now and in the future.

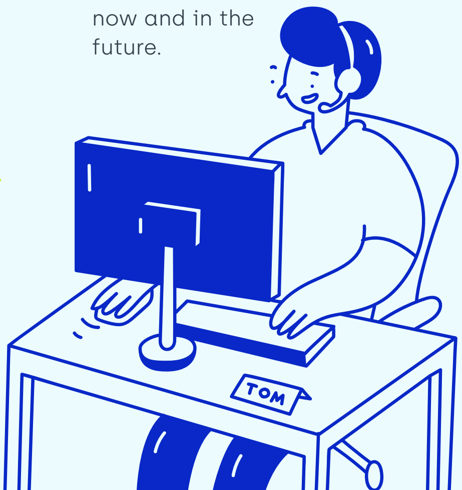
Do what we say we will

We aim to deliver on our commitments and promises to customers.

Keep in touch with us

Visit our corporate website on **www.affinitywater.co.uk/corporate**

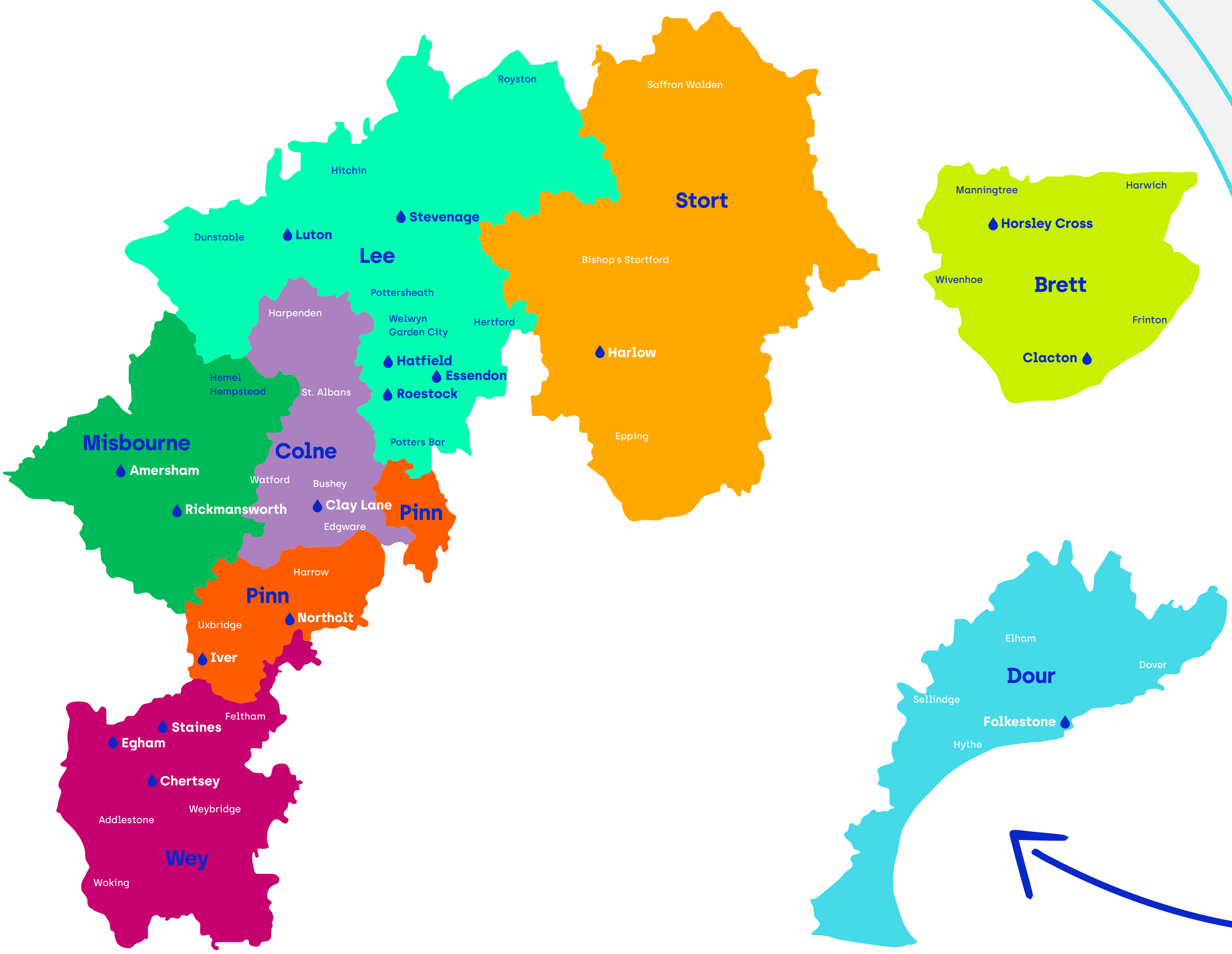
Affinity Water



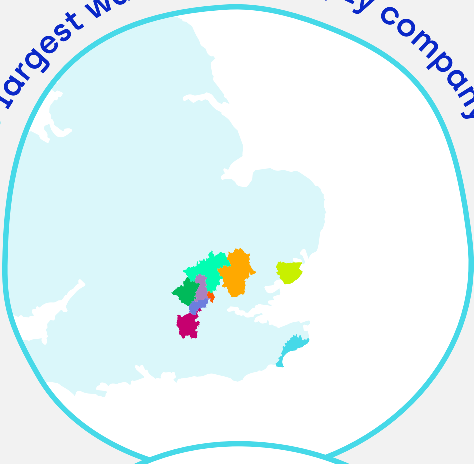
Where we operate

We focus on providing a high-quality supply of water and helping protect our environment for our communities – now and in the future.

The communities we serve:



We're the largest water-only supply company in the UK



Total area owned and managed water assets and network

4,500km²

We are the largest company in the UK providing water-supply services only, owning and managing the water assets and network in an area of approximately 4,500km² across three regions in South East England.

We divide our supply regions into eight different communities, each named after a local river. This allows us to tailor our services to customers on a local level.

Why our supply area is unique

We focus on providing a long-term sustainable supply of high-quality water, while protecting the environment.

- Our supply area contains 10% of all the world's rare chalk streams
- We source around 60% of our water from groundwater

- **We currently fulfil the highest demand per person for water in the country. This is 157 litres a day, on average, compared to the national average of 145 litres**
- **Population growth, demand for water, climate change, and the need to leave more water in the environment, means we work increasingly closely with our customers to help them use water more efficiently**

- We have a diverse customer base with equally diverse needs. We supply dense urban communities and rural ones too
- Ours is one of the most densely populated and economically active regions in the UK, but in an area considered to be 'water stressed'

Who We Are
– In Action

Whether they're customers, employees or stakeholders, our three brand genes highlight the three things we want everyone to know about Affinity Water

Stewards of the local environment

Our region is like nowhere else in the world. It's home to some of the world's most endangered chalk streams. They're rarer than the Bengal Tiger and we could soon lose them completely, simply because we rely on their chalk groundwater for the water we all use. Together, we are wasting too much. To save our streams from the brink, we need to change behaviour. Therefore, we have said we will end unsustainable abstraction from chalk groundwater and work to restore rivers. We're reducing leakage and working with customers to cut water waste – because our rivers and streams belong to all of us and it's our job to help look after them.

Our aspiration

- To provide a long-term sustainable supply of water by reducing leakage, reducing demand and finding new sources of water
- To take care of the environment by ending unsustainable abstraction from chalk groundwater sources, and working with our communities to restore rivers and improve biodiversity in our supply area
- To achieve net zero carbon from operations by 2030. Read more on page 86

Revitalising chalk rivers – improving flow and restoring habitats

Since 2015, Affinity Water, the Environment Agency and a range of other partners have been working together to protect and revitalise 14 chalk streams across our supply area.

Our extensive programme to restore these rare chalk streams is improving wildlife, recreational value and environmental resilience. The programme has reduced groundwater abstraction by 63 million litres of water a day since 1993, and worked to restore over 120km of chalk streams. Our aim is to further reduce groundwater abstraction by 36 million litres of water a day by 2025.

However, there's much more to be done to safeguard chalk streams from the effects of climate change, drought and the demand for water, and to rectify centuries of river alterations. We are on track to meet all of our environmental improvement works, completing 23 project units to date this AMP. Read more about our work on the River Beane on page 39.

UNSDGs

Our alignment with the UN Sustainable Development Goals

36

million litres of water a day.

A further reduction of groundwater abstraction by 2025.

63

million litres of water a day.

Reduced groundwater abstraction since 1993.

Who We Are
– In Action continued

Helping customers use water better

Water is everywhere in our lives, so it's easy to take for granted. But if we don't all pay attention to our water use, it means bills go up and streams dry out. To look after our streams for the future, we must protect them today. We have over a century's worth of expertise and a commitment to innovation, and we're using that to modernise our local infrastructure and give customers the tools and information they need, so every single one of us can use water better.

Our aspiration

- We aim to reduce people's daily water use by 12.5% by 2025 through metering, and by inspiring our customers to use less through our award-winning Save Our Streams campaign
- We'll continue to work with government, regulators and across sectors to campaign for the changes we need to make saving water simpler

Our industry-leading water-saving campaign – Save Our Streams

In 2022, we launched the next phase of our award-winning Save Our Streams ('SOS') initiative, which aims to help customers use water wisely, save money, and support the local environment.

Our new My Water Footprint tool helps customers understand their water usage easily, provides tips to reduce the amount they use as well as providing free water-saving devices for their homes. The new creative campaign, featuring Duck, succeeded in reaching customers, with an 88% awareness level. We also teamed up with high-profile campaigner Ben Fogle and local school children for a lesson on the River Chess. More than 240,000 people have now joined our Save Our Streams water saving campaign, and hundreds of thousands more households who have seen the campaign have started their water saving journey. Our calculations show that our customers water saving efforts reached more than 23 million litres a day last year.

The programme will continue this year and focus on water usage behaviours that are easiest for customers to change in day-to-day life. We'll also be running a campaign to empower customers to identify and fix home leaks, and a new educational programme across schools, to help children and their families understand their water use, and encourage them and schools to save water, save money, and help Save Our Streams.

Read more about **how we are leaving more water in the environment** on **page** 64

UNSDGs

Our alignment with the UN Sustainable Development Goals

12 RESPONSIBLE CONSUMPTION AND PRODUCTION
13 CLIMATE ACTION
14 LIFE BELOW WATER

240k

Joined our Save Our Streams water-saving campaign

88%

awareness among customers in reaching customers with our new creative campaign

Giving customers an exceptional experience

We're a local company, which means we don't just serve our customers, we live alongside them.

They're our friends, families and neighbours, which means good enough is never enough. We do our job, and do it well. But we're always asking how we can do more to give our customers an exceptional experience, and be a part of local life.

Our aspiration

- We'll continue to produce high-quality affordable water
- We'll improve our customer experience by investing in digitisation and customer service
- We'll continue to reduce disruption by using the latest methods and technology to keep water flowing
- We'll support more customers who are struggling to pay, and provide extra support to vulnerable customers through our Priority Services Register
- We'll continue to invest in building our brand, to increase awareness of who we are and what we do

New tariff trial aims to make water bills more affordable and help customers use water better

In 2023, we announced plans to trial a new structure of charges for a group of pre-selected customers in order to make water bills more affordable and encourage water saving.

Our 'WaterSave' trial will assess whether the new charging system is fairer and more affordable, including a provision for free water allocation. It will also investigate if households' water consumption changes due to the tariff structure, with lower consumption contributing to sustainability and protecting water supplies and the environment.

WaterSave will be based on a rising block charge with a different price applying to the first, middle and end blocks of consumption.

The trial will involve around 1,500 customers, selected across different income levels and water usage patterns, all of whom have water meters.

Read more on **how we are supporting our customers** on **pages** 66 and 67

UNSDGs

Our alignment with the UN Sustainable Development Goals

6 CLEAN WATER AND SANITATION | 10 REDUCED INEQUALITIES | 12 RESPONSIBLE CONSUMPTION AND PRODUCTION | 13 CLIMATE ACTION

Our Report

Alignment of culture with purpose, values and strategy

We're driven by our purpose and guided by our principles

Read more on **page**

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Our business model

We're on a journey of taking care of your water, now and for the future

Read more on **page**

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Our external environment

We're tackling the challenges to create a sustainable future

Read more on **page**

16

Our stakeholders

We've listened to our key stakeholders to ensure we have shared outcomes and common purposes

Read more on page

54

Our strategy

We are planning to innovate and invest to build for a different world

Read more on page

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Principal risks and uncertainties

We have an established framework for identifying, evaluating and managing the key risks we face

Read more on page

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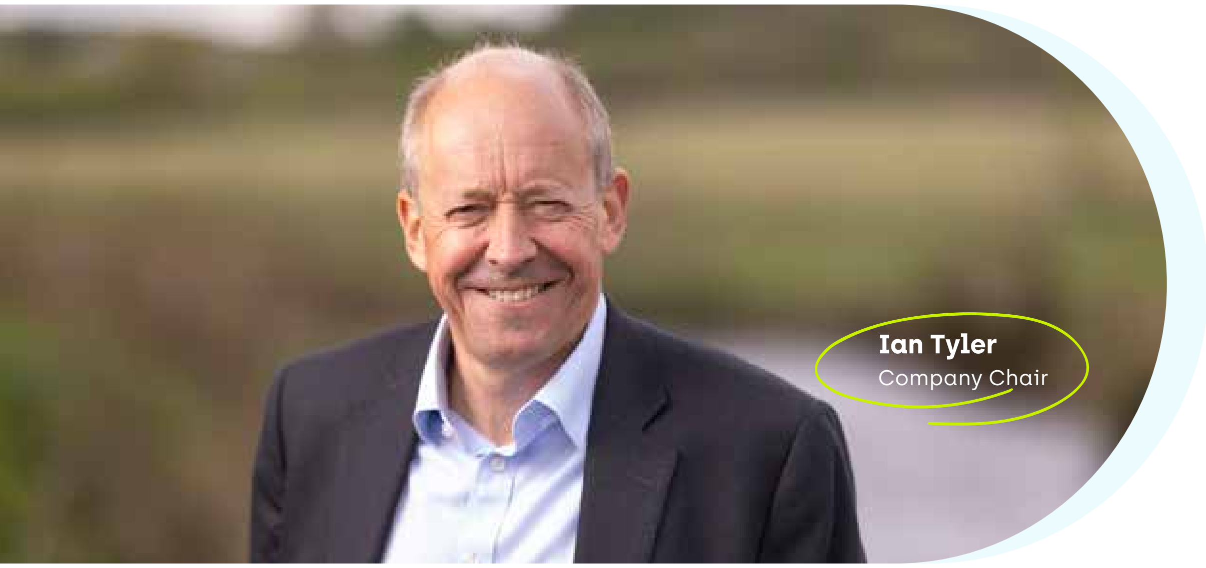
Chair's welcome



Highlights

- We met our leakage reduction target for the year and reduced leakage by 15.8%. We are on track to meet a 20% reduction in leakage by 2025.
- We published our draft water resources management plan – setting out how we will provide a sustainable supply of water, while taking care of the environment for the next 50 years.
- We met all obligations under the Water Industry National Environment Programme ('WINEP') through our various schemes to improve the natural environment, completing 23 project units to date for the AMP.
- We improved our approach to ESG reporting, producing a unified ESG policy and establishing an ESG sub-committee at Executive Management team level.

It is my great pleasure to welcome you to our Annual Report, and also to welcome to Affinity Water our new CEO, Keith Haslett, who started in January.

After a rigorous search and selection process, we are confident we have found a great leader who shares our goals and ambitions and is passionate about achieving them. I look forward to working with Keith towards these ends.

I would also like to thank Stuart Ledger for his work as interim CEO while we searched for a permanent appointment. Stuart helped us build strong foundations to meet our demanding commitments for the AMP, and focused the business on the PR24 price review.

As you will see in this report, the past year has been challenging for us. Extreme weather and inflationary pressures affected our operations in a number of key areas. However, underlying performance aside from the extreme weather events was strong, and I am therefore confident we have the right systems in place to be performing strongly by the end of the AMP.

Reducing leakage

Despite the extreme weather, I am very pleased to report that we beat our leakage target this year, a milestone we should celebrate.

We have set ourselves one of the toughest leakage reduction targets in the industry. In an area that contains a mix of dense urban populations and rural areas with many interconnections in the network, we face a greater risk of bursts occurring compared with less-populated areas. We are well on course to achieving our target to reduce leakage by 20% by 2025, and I would like to congratulate our hard-working colleagues throughout Affinity Water for this significant achievement.

As we know, alongside reducing demand and bringing online new sources of water, tackling leakage plays an incredibly important part in the long-term sustainable supply of water, and in helping take care of our environment. It is also important to our customers, and is, in fact, a defining issue on how the public perceive their water company and the wider industry.

Public perception

On public perception of the water industry, it could be argued that this is at an all-time low, given frequent reports of environmental concerns, would appear to be attributable

> We beat our leakage target this year, a milestone we should celebrate. Affinity Water has one of the toughest leakage-reduction targets in the water industry and I would like to thank everyone for their hard work."

in part to sewage discharges. We recognise the environmental impact this has on our rivers and globally rare chalk streams, and that this has affected public confidence in the entire industry. Although we don't manage waste water and sewage, we are passionate about the health of our rivers and we believe we have an important part to play in returning them to good ecological health. This is not just an issue for the water industry, but a societal one. Which is why we need to continue working with customers, government, the water industry, environmental groups, the agricultural industry and other sectors to increase public understanding on what affects our rivers and what we all need to do to improve them.

Enhancing the environment

We have a great story to tell on our environmental activities and ambitions. In 2022/23, we met all our obligations under the Water Industry National Environment Programme ('WINEP'), through our various schemes to improve the natural environment. These include our river-restoration projects and working with the agricultural community on schemes designed to improve soil fertility and improve the quality of water in the natural environment. We are very much on track to achieve all of WINEP's desired outcomes by the end of this AMP in 2025. However, we know there is much more we need to do, and so we have made some ambitious proposals for environmental improvements in our draft business plan for the next AMP, from 2025 to 2030.

Our future water resources

Over the past year, Affinity Water, along with other water companies, made significant progress in the planning for future water resources. Following the first-ever regional plan for water resources, we published our 50-year plan (known as the Water Resources Management Plan), which aims to address the immense challenges we face from climate change, population growth, demand for water and taking care of the environment.

This is a collaborative approach that represents a fundamental change in how we plan, invest and build a water sector fit for this century and beyond – not just within our company boundaries, but as regions working together across the country. It is an exciting project to be a part of, and one that demonstrates the substantial investment the industry will be making over the next 50 years, through sums unparalleled in the history of the industry. The investment will ensure a sustainable supply of water for a growing population, and make our essential public supply resilient to the shocks and stresses of the impacts of climate change.

In the near term, between 2025 and 2030, Affinity Water is proposing a much larger investment in our network, services and environmental commitments compared to our current AMP (2020–2025). Over the past few years, our teams have been busy preparing our draft business plan – our most ambitious to date – following extensive research on the issues that matter most to our customers and other stakeholders. We published the draft plan for consultation in May 2023. It represents a significant step in how we achieve our long-term ambitions, as laid out in our Strategic Direction Statement and 50-year action plan for water.

15.8%

Reduction in leakage. Meeting our 22/23 target and on track for 20% reduction by 2025

23

Project units completed to date for national environment programme

Chair's welcome continued

Sustainability

Sustainability is at the very heart of Affinity Water's activities and all of our plans. More importantly, it demonstrates how we add value to society. To enhance sustainability within our activities, we use environmental, social and governance ('ESG') themes aligned to the UN's Sustainable Development Goals, to help us understand both the risks for the business and our opportunities to add value. We have established a framework of themes, not just throughout our operations, but across the company's owners, with regular checks and assurances at Board level.

We continue to improve our approach to ESG reporting and, over the past year, produced a unified ESG policy to help guide and align our teams, while establishing an ESG sub-committee at Executive Management Team level. This committee will monitor the performance of our ESG programmes and balance these with our performance commitments, including overseeing climate-change risks and opportunities and progress towards net zero.

Our ESG initiative also aims to demonstrate the multi-capital value of Affinity Water. We recognise it is important to take a deeper view of value, as the services we provide offer broader value creation beyond the financial. We aim to understand how we create value through six capitals – natural, human, social, manufactured, intellectual and financial assets in our business. There is a strong focus on the value we create through natural capital at Affinity Water, and you can read more about this on page 38.

Our customer service

Our Customer Measure of Experience ('C-MeX') serves as a metric to incentivise water companies in delivering exceptional customer experiences to households.

Despite a slight improvement in our customer experience scores, which covers overall perception of Affinity Water, we are disappointed to report that our ranking in the water industry C-MeX tables has remained unchanged from the previous year, placing us 14th out of 17 water companies. This has been driven by a decline in the customer service element of our C-MeX score.

We are currently reassessing our strategies to reverse this situation and ensure that prioritising the customer is at the forefront of everything we do. We acknowledge specific areas where we can enhance our service and subsequently improve our C-MeX score. These concerns primarily centre around unresolved customer queries related to billing issues, our metering programme, and visible leaks within our network and on customer properties.

Taking care of our customers

The UK is currently witnessing the highest inflation surge in the past four decades, primarily driven by escalating energy costs and the rising prices of essential household items. We are fully aware of the significant strain this places on many of the households we serve, as some customers may encounter difficulties in paying their bills.

To support our customers, we offer one of the most comprehensive social tariff programmes in the industry, with over 97,000 customers already enrolled. We consistently communicate the availability of this support through our own channels and partnerships with esteemed organisations such as Citizen Advice Bureau, Step Change, and Turn 2 Us, ensuring that individuals are well informed about the assistance we provide.

However, we acknowledge that more needs to be done beyond our social tariffs. Over the past year, we made a commitment to offer a £50 payment towards the bills of over 30,000 customers who require it the most.

Additionally, we have actively explored innovative approaches to pricing water, aiming to enhance both affordability and water demand management. In the 2022/23 period, we developed the WaterSave tariff trial in collaboration with our regulator Ofwat, featuring a progressive block charge system with different prices allocated to the initial, middle, and final consumption blocks. This trial, which includes a free allocation of water, will take place in the summer of 2023, involving approximately 1,500 customers from diverse income distributions and both high and low usage metered customers.

A business with people at its heart

Finally, I would like to emphasise the importance of our company culture and values. We believe these have played a significant role in our achievements to date, and we remain committed to supporting a positive, inclusive and productive work environment. We are proud of our employee-engagement initiatives, our diversity and inclusion efforts, our support networks, and other programmes that help us maintain a strong and engaged workforce.

I would also like to thank everyone at Affinity Water for their continued efforts. We have had to manage some challenging events over the past year, and the hard work and commitment of all our colleagues during these times ensures we can continue to deliver a vital public service to the customers and communities we serve.

Ian Tyler
Company Chair

12 July 2023

Alignment of culture with purpose, values and strategy

We are driven by our purpose and guided by our principles

Our purpose

Why we exist

To provide high-quality drinking water for our customers and take care of the environment, for our communities now and in the future.

Our vision

Our aspiration

To be the UK's leading community-focused water company.

Our strategy

Our plans to deliver value

Our Strategic Direction Statement ambitions

The systems that Affinity Water will work within:

Environment

Aim: Leave the environment in a sustainable and measurably improved state.

Resilience

Aim: Be prepared for change, and resilient to shocks and stresses.

The people that Affinity Water will work with:

Communities

Aim: Work with our communities to create value for the local economy and society.

Customers

Aim: Deliver what our customers need, ensuring affordability for all.

Our culture

Ethical foundation enabling better decisions every day:

Customer-centric culture

We're proud to have outstanding employees that go the extra mile for our customers. For us to meet customers' and colleagues' expectations, it's essential that we understand what these expectations are. Our Principles have been developed to give every one of us direction and guidance, to help support the fantastic work we already undertake.

Our integrated approach

Our purpose and strategy are underpinned by sound Environmental Social Governance ('ESG') and our integrated reporting approach provides clarity on how we conduct our business and create value for customers and the environment.

Our customer outcomes

Our customer outcomes are the commitments we made to customers in our business plan 2020–2025. This plan was shaped by customers and stakeholders on the things they want their company to deliver on.

Supplying high-quality water you can trust

Making sure you have enough water, whilst leaving more water in the environment

Providing a great service that you value

Minimising disruption to you and your community

Read more on **page** 60

Our principles

Each person at Affinity Water is guided by our principles – doing the right things for customers and delivering against our commitments and promises.

Read more on **page** 01

Our brand genes

These are the three things we want everyone to think about Affinity Water.

Stewards of the local environment

Helping customers use water better

Giving customers an exceptional experience

Read more on **page** 04

Our approach to sustainability

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

1 Ensuring Environmental Social Governance ('ESG') is an essential part of everything we do

ESG performance is essential to how we deliver our purpose and operate in a responsible and sustainable manner. It is part of the way we embed sustainability within our business, we use the environmental, social and governance ('ESG') themes to understand both risk and the opportunity to add value.

Read more about **our approach to ESG in our sustainability section** on **page** 80

2 Using a multi-capital approach

Our capitals are the resources and relationships available to us. They are the inputs to our business that we transform through our decision-making process and operating activities into our strategic outcomes. We are starting to use the concept of capitals to guide our decision-making, for example, when considering land use and weighing the interests and benefits of recreation and biodiversity enhancements.

Read more on **page** 38

3 Planning for a sustainable supply of high-quality water, whilst taking care of the environment, now and in the future

We engage with thousands of customers and stakeholders to help shape both our long-term water resource plans and shorter-term five-year business plans. Our long-term plans act as a roadmap for our shorter-term plans, which outline the investments we need to make and the price we can charge for water.

Our plans address the challenges posed by climate change, population growth and the demand for water – enabling us to continue to provide a sustainable, reliable supply of high-quality water and taking care of the environment.

Read more about **our 50-year water resource plans** on **page** 18

Read **our Business Plan 2025–2030** on **page** 45

4 Climate change adaptation

Our customers and regulators expect us to act in the face of climate change. That means being a responsible steward of our local environment, reducing our own carbon emissions, and making sure we're prepared to operate within the context of a changing climate.

Read more on **page** 85

5 Preparing for a net zero future

We have set ourselves the challenging target of achieving net zero for operational GHG emissions by 2030.

In the long term, we have an ambition to become fully net zero by 2045, ahead of the UK target of 2050.

Read the more about **commitment to public value** on **page** 50

6 Our commitment to public value

At Affinity Water, we are driven by our purpose of providing high-quality water and taking care of our communities' environment – now and for the future.

We are privileged to provide an essential public service and the opportunities that brings, to create value for the areas we supply, to help improve the environment, support the local economy, invest in our communities and adapt to the challenges that climate change is bringing to our region.

Read more about **our net zero plans in the sustainability section** on **page** 86

Key frameworks to look out for

TCFD

We are committed to the recommendations of the Task Force on Climate-related Financial Disclosures ('TCFD'), providing our stakeholders with transparent information on climate-related risks and opportunities that are relevant to our business. Sustainability is central to our strategy and we detail our current approach to implementing the recommendations of the TCFD, following the four thematic areas of governance, strategy, risk management, and metrics and targets on page 88.

SUSTAINABLE DEVELOPMENT GOALS

The United Nations SDGs ('UNSDGs') are a blueprint for achieving a better and more sustainable future for all.

The 17 related goals address the global challenges we face, including those related to poverty, inequality, climate, environmental degradation, innovation and responsible consumption. However, there are nine UNSDGs where we believe our contribution is particularly aligned, and these influence our thinking.

We have set these out throughout our Strategic Report to highlight where we feel we are contributing towards the goals.

Read more the about **the UNSDGs** on **page** 84

External guidelines we follow

EU Taxonomy

EU Taxonomy is a classification system, establishing a list of environmentally sustainable economic activities.

It is a tool to help financial institutions and large companies in the EU navigate the transition of their assets to low carbon, scale up sustainable investment and implement the European Green Deal objectives, including the 2050 climate-neutrality target.

The system provides companies, investors and policymakers with appropriate definitions for which economic activities can be considered environmentally sustainable.

Our review by an independent third party established that 100% of Affinity Water activities are eligible under the EU Taxonomy guidelines, and 88% of those activities can be considered as environmentally sustainable[1].

1 Our review was completed in January 2023, based on 2021/22 performance and independently verified by Anthesis, a specialist ESG reporting consultancy who undertook an audit of Affinity Water activities. Our next review will be completed by end of calendar year 2023.

Principles of responsible investment

Our owners, DIF, HICL Infrastructure Company Limited (advised by InfraRed Capital Partners Limited) and Allianz Capital Partners on behalf of the Allianz Group, all follow the Principles of Responsible Investment ('PRI') – the world's leading proponent of responsible investment. We align to these principles and report annually on our ESG performance.

The PRI works:

- to understand the investment implications of environmental, social and governance ('ESG') factors;
- to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions.

The six Principles for Responsible Investment offer a menu of possible actions for incorporating ESG issues into investment practice.

The six principles are:

Principle 1:
We will incorporate ESG issues into investment analysis and decision-making processes.

Principle 2:
We will be active owners and incorporate ESG issues into our ownership policies and practices.

Principle 3:
We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Principle 4:
We will promote acceptance and implementation of the Principles within the investment industry.

Principle 5:
We will work together to enhance our effectiveness in implementing the Principles.

Principle 6:
We will each report on our activities and progress towards implementing the Principles.

How we operate

We've been supplying water to the local community for more than 170 years.

In autumn 2022, we published a draft plan for how we will provide a sustainable supply of water and take care of our environment for the next 50 years.

Our plan is known as our Water Resources Management Plan ('WRMP'). Population growth, climate change and the demand for water are putting significant pressure on the local environment and water resources in our supply area. If we do nothing, the area we supply faces a possible shortfall of 449 million litres a day by 2050. We produce a WRMP every five years and this one addresses the challenges we face in providing a reliable, resilient, sustainable, efficient and affordable water supply to customers between 2025 and 2075, while taking care of the environment.

The draft plan asked for feedback from customers and other stakeholders, to help shape our final plan, which we will publish in autumn 2023. Our plan has also been developed alongside the industry's first ever regional plan for water resources. It includes plans for lowering customer demand, reducing leakage more than ever before, smart metering and significant investment in new infrastructure for new sources of water – working across the water industry to plan and share resources regionally. The plan will also make the region's water supplies more resilient to droughts.

Our 50-year plan

Challenges

Our biggest challenge is to deliver water to a growing population while achieving the ambitious targets on reducing abstractions that could affect flows in chalk streams. We forecast a large imbalance between the demand for water and the supplies we know are currently available. This challenge is even greater because our supply area is quite different to that of many other water companies. We have very little storage for raw water because we don't have large, open reservoirs. Instead, we abstract about 65% of our water directly from groundwater sources, with the remainder from rivers or transfers from other water companies.

South East England is also one of the most economically active regions in the UK. Future, sustainable water resources are a cornerstone to economic growth and to ensuring we can meet the water needs of a growing population and new businesses.

The way we address these challenges influences the size and shape of our draft plan.

What we're doing

Reducing leakage or demand alone will not address the shortfalls in future water supplies. Our 50-year plan for water resources ('WRMP') details how we will meet predicted shortfalls in water supply by:

- Reducing demand for water
- Reducing leakage
- Metering
- Building new infrastructure and new sources of water
- Working with government to implement policies that support saving water

To manage the demand for water

Fixing leaks is a key priority for us. Our customers tell us leaks are wasteful and ask why we can't fix more of them, quickly. In deciding on our leak-reduction programme, we consider the cost (which can affect bill increases), the potential disruption from street closures, and our confidence in being able to achieve what we promise. At the heart of our plan is a government requirement for us to halve leakage by 2050.

We then consider how we plan to manage the demand for water from our customers. Our demand-management accounts for interlinked initiatives, where, if we alter one element, it has an impact on the others. Our optimal mix includes:

- Adopting and installing different metering technologies
- Helping customers reduce their water consumption
- Working with businesses to reduce their water consumption
- Government interventions to reduce water consumption such as labelling white goods and regulations for new buildings
- Considering temporary options to reduce water use in times of significant drought

We look at how these different options could affect demand, costs to customers and environmental costs, to build the best overall strategy.

To manage the supply of water

We also consider a wide range of supply-side options to make up the predicted shortfall in supplies after we've implemented our demand-management measures. Our main aim is to ensure our customers receive good-quality water when they turn on their taps, as well as protect future water supplies and the environment. We assessed many options and shortlisted 210 we feel could work. These include moving trapped water to where it is needed within our network, new infrastructure (pipes and transfers) that crosses the boundaries of other water companies, local supply options and larger strategic resource options that could supply not only our customers, but could contribute more widely to the region.

7
Groundwater options such as creating new boreholes

2
New treatment works

8
Water recycling options

3
Desalination options

30
Bespoke options such as licence relocation

9
Third party options such as licence transfers and water trading

14
Surface water options such as reservoirs

117
Transfers within Affinity Water's supply area that would move water between the zones and other companies in the Southeast

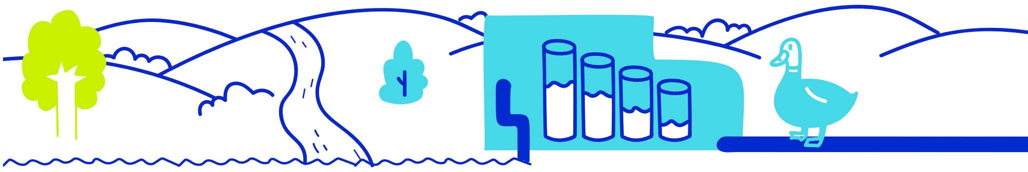
20
Connections and upgrades in the network (including three service reservoirs) to support strategic schemes' new water sources – Connect 2050

How we operate continued

Our Strategic Resource Options

The scale of the water resources we need for the future cannot just be met by options available in our own supply area, we need strategic schemes of more national significance. We have been working closely with other water companies and third parties to look more strategically for options to supply water. We call these schemes Strategic Resource Options ('SROs') and we have identified six that we consider in our draft plan, and have assessed for a wide range of cost, social and environmental criteria.

1. Grand Union Canal ('GUC') Strategic Transfer would use existing infrastructure to transfer water that would otherwise flow to the sea, from the Midlands to our supply area. It would take treated water from Severn Trent's Minworth site through a new closed 15.5km pipeline to the canal near Atherstone in Warwickshire. It would then use the existing canal network before being abstracted near Leighton Buzzard and treated at a new water-treatment works.
2. Minworth SRO would provide the source water for the GUC scheme and develop additional treatment capacity at the existing Minworth wastewater treatment works to enhance its quality.



We collect water

Most of our water comes from local sources in the chalk aquifer. Local groundwater takes less energy to treat and distribute compared to surface water. However, we need to leave more water in the chalk aquifer to help our globally rare chalk streams, which are under threat from the demand for water and the effects of climate change.

Our Impact

We are looking at new ways of bringing water in from neighbouring areas so we can reduce the amount we take from chalk groundwater. Read more about our new conditioning facility in Sundon which will allow us to do this on page 50.

We are moving water around our network more efficiently (see page 65).

We clean water

As we take water from various groundwater and surface sources, the quality of it can be variable, so we tailor our treatment process to ensure we continue to provide the highest-quality water possible.

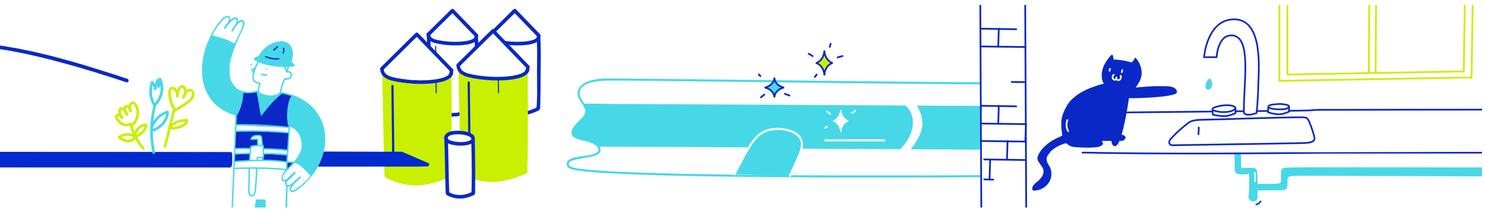
Our Impact

We provide some of the highest-quality water in the world. In fact, in 2022, Affinity Water achieved an industry-leading Compliance Risk Index* ('CRI') score of 1.092 within a dead band of 2.

High-quality water was assured through 186,000 tests at our sites and customers' taps.

* CRI is a measure designed by the Drinking Water Inspectorate to illustrate the risk arising from failures in treating water. Lower scores are better with 5.1 being the industry average CRI score. We have achieved upper quartile industry performance in this area.

3. South East Strategic Resource Option ('SESRO') would be a storage reservoir in Abingdon, Oxfordshire, to maintain and balance high and low flows in the river rather than provide water directly to customers. It is one of the sources that could support the T2AT scheme below.
4. Thames to Affinity Transfer ('T2AT') would be a new water transfer by pipeline from the River Thames. We are considering two routes. The western route would be facilitated by shared use of existing lower Thames reservoirs. The source water would come from the river Thames, using either a raw-water transfer from Thames Water's existing lower Thames reservoirs system (via an existing Affinity Water raw-water tunnel to Iver), or a direct river intake to a new water-treatment works near our existing works at Iver. The eastern route would be supported by future London Reuse SRO resources at Beckton or Teddington (via the Thames-Lea tunnel). A new raw-water transfer from the river upstream of King George V reservoir would transfer the required water to the Lee community.
5. South Lincolnshire Reservoir ('SLR'). The proposed reservoir would be supported by new abstractions from the River Witham and River Trent. It would provide an additional source to Anglian Water and potentially Affinity Water, through the A2AT below.
6. Anglian to Affinity Transfer (A2AT) would be a new treated-water transfer. Water would be transferred from SLR above to the vicinity of an existing facility at Etton, for onwards transfer to Affinity Water. Two routes have been considered, and both would deliver water to our Stort community.



We store water

After we treat water, we pump it into large storage reservoirs or water towers before it makes the final journey to customers' taps.

Our Impact

Water is heavy. A cubic metre weighs a tonne! This is the amount of water a family of four would use in about a day and a half, and we need to supply about 948 million litres of it to 3.89 million people, every single day. Due to its weight, the process of moving water and treating it requires a lot of energy, which carries a carbon impact. We have committed to net-zero carbon from operations by 2030 – see page 86.

We deliver water to customers

We look after over 16,900km of pipework. This would stretch from London to Sydney.

We use our network of pipes to deliver over 948 million litres of high-quality water to 3.89 million customers, every single day.

Our Impact

Each person in our supply area uses about 12 litres a day above the national average. Our area is also considered water-stressed, and we need to leave more water in the environment.

Over 240,000 customers joined our industry-leading campaign Save our Streams, helping to save over 23 million litres of water a day. Read more on page 06.

We have reduced leakage by 15.8% and are on track for a 20% reduction by 2025. Read more on page 64.

After water is used

After customers use water, it is flushed into the sewage network, where it is treated before it goes back into the environment. Affinity Water is a water-only supply company, and we do not manage wastewater. Sewage providers in our supply area include Thames Water, Anglian Water and Southern Water.

We focus on providing a long-term sustainable supply of water for our customers, and leaving more water in the environment to help our region's chalk streams.

Performance highlights

Third year of our 2020–2025 business plan

Every five years, water companies produce business plans that set out the performance commitments they will make over a five-year period. These plans are shaped by customers and other stakeholders based on what they want their water company to achieve.

Operational

Supplying high-quality water you can trust

Our performance in 2022/23

Compliance Risk Index (CRI): We scored 1.092 for the 2022 calendar year, within the dead band of 2 (lower is better, prior year score 0.87). We did not exceed compliance at our treatment works, the first time we have achieved this. We exceeded only three times at storage facilities, our best performance in over eight years. In 2022, we returned to a fully randomised network sampling programme, following two years of Covid-19 restrictions. CRI is the measure the industry uses for water quality, and is designed to illustrate the risk arising from failures in compliance for treated water.

Customer contacts per 1,000 population for water quality: We achieved a contact rate of 0.56 on a target of 0.67. This is our best performance to date, improving on our 2021/22 score of 0.75. Our performance continues the improving trend that we saw prior to Covid-19 restrictions.

Link to KPI:

01

Read the **operational performance section** on **page** 62

Making sure you have enough water, whilst leaving more water in the environment

Our performance in 2022/23

Leakage: We reduced our leakage by 15.8% (based on a three-year average from our 2019/20 position). This reduction compares to a year-end target of 14%. This the first year of the AMP we have been able to achieve our target, reducing leakage by a further 9.3Ml/d in 2022/23.

Per Capita Consumption ('PCC'): Our yearly PCC (domestic water use) increased by 3.6l/p/d from last year. This may in part be attributable to the exceptionably hot weather over the summer. On a three-year average basis, PCC has increased by 4.3% (since base year 2018/19) and did not achieve the yearly target of 7.3% reduction. Domestic water use increased during Covid restrictions and has remained high since the pandemic. It is unlikely we will achieve this target in the AMP. However, we are doing all we can to help customers reduce their consumption.

Environment Innovation Projects: We delivered two targeted campaign projects (worth two project units) and four project units out of seven for the Lee catchment project. We have completed nine units in the AMP, on a target of 14 by 2025.

River restoration: We completed four projects in the year, bringing our total to 23 in the AMP. This is towards a target of 21 projects by the end of 2022/23, and 36 in total by 2025.

Abstraction Incentive Mechanism ('AIM'): We reduced abstraction by 1,277ML in the year from environmentally sensitive sites when flows or levels were low. (2021/22 was 430ML).

Link to KPI:

02 03

Read the **operational performance section** on **page** 64

KPI Key

- 01 Water quality
- 02 Leakage
- 03 PCC
- 04 C-MeX
- 05 D-MeX
- 06 Mains repairs (due to bursts)
- 07 Water supply interruptions >3 hours
- 08 Unplanned interruptions to supply over 12 hours
- 09 Properties at risk of low pressure

Providing a great service that you value

Our performance in 2022/23

Customer Measure of Experience ('C-MeX'): C-MeX is a mechanism to incentivise water companies to provide an excellent customer experience for residential customers, across both the retail and wholesale parts of the value chain. We achieved 14th position out of 17 companies assessed for C-MeX. Our score for the year was 74.59, compared to the industry median of 79.08. We reported 14th position in 2021/22.

Developer Services Measure of Experience ('D-MeX'): D-MeX is a mechanism to incentivise water companies to provide an excellent customer experience for developer services (new connection) customers. These customers include small and large property developers, self-lay providers ('SLPs'), and those with new appointments and variations. Our D-MeX score for 2022/23 was 86.36, compared to an industry median of 87.26. We are placed 10th out of 17 companies in the industry league table, slipping two places compared to prior year.

Priority Services Register: We have exceeded the target of 4.5% of our customers on the Priority Services Register ('PSR'). In 2022/23, 8.3% were registered on a target of 4.5% (6.5% in 2021/22). During the year, we attempted to contact 98.2% with a target of 90% (90% in 2021/22) and, of these customers, we made actual contact with 55.5%, with a target of 35% (47% in 2021/22).

Gap sites: We reduced the number of occupied properties not billed by 65 in 2022/23, with a target of 50. In 2021/22, we reduced the number of occupied properties not billed by 74.

Void properties: We achieved our target of reducing our void properties in the year to 2.02%, with a target of 2.22% (2021/22 reduction of 2.23% with a target of 2.27%).

Vulnerable customers who said they were happy with our service: Through surveys conducted, 93% (97% in 2021/22) of our customers in vulnerable circumstances who receive financial help said they were satisfied with our service, and 92% (96% in 2021/22) of those that receive non-financial help were satisfied. We achieved the target of 90% for both customer surveys.

Vulnerable customers who found us easy to deal with: Through surveys conducted, 92% (97% in 2021/22) of our customers in vulnerable circumstances who receive financial help said they found us easy to deal with, and 90% (96% in 2021/22) of those that receive non-financial help were satisfied. We achieved the target of 90% for those that received non-financial help.

BSI Accreditation: We retained certification for BS 18477 for Inclusive Service Provision.

IT resilience: We have met the target of less than 1,500 Priority 1 and Priority 2 IT incidents in the year, with 731 incidents (2021/22 was 949 incidents).

Link to KPI:

04 05

Read the **operational performance section** on **page** 66

Performance highlights continued

KPI Key

01	Water quality	03	PCC	05	D-MeX	07	Water supply interruptions >3 hours	09	Properties at risk of low pressure
02	Leakage	04	C-MeX	06	Mains repairs (due to bursts)	08	Unplanned interruptions to supply over 12 hours		

Minimising disruption to you and your community

Our performance in 2022/23

Mains repairs: Performance in the year was 169.6 repairs per 1,000km of mains on a target of no more than 146.5 in the year (2021/22:100.2). Weather is a strong contributing factor in the number of mains repairs needed in a year. In 2022, we experienced an exceptionally hot summer with a significant freeze/thaw event in winter. Figures cannot be compared directly to the previous year's without taking this into account.

Interruptions to Supply ('I2S'): The number of minutes per property where interruptions to supply were three hours or greater was our worst performance in seven years, at 12 minutes 53 seconds, compared to our target of 5 minutes 45 seconds. Over 10 minutes of the score were attributed to the extreme weather experienced in summer and winter 2022. Underlying performance was strong in this area at just 2 minutes 11 seconds.

Unplanned interruptions >12 hours: 6,070 properties were interrupted for over 12 hours, on a target of no more than 320 properties. 5,752 of these properties were affected during the winter freeze/thaw event in December.

Properties at risk of receiving low pressure: We did not achieve the target of 1.51 properties affected per 10,000 connections at risk of receiving low pressure. Performance for the year was 150.93 (2022: 155.466). Performance deteriorated in comparison to 2021/22, predominantly due to the exceptionally hot summer and freeze/thaw event in winter. However, the number of pressure monitoring points we have across our network, combined with reporting guidance conceived more than 30 years ago, makes it unlikely we can ever meet the prescribed target.

Average time properties experienced low pressure: On average, properties were affected for 2.33 hours in the year, with a target of <10 hours (2021/22: just over 1.5 hours).

Unplanned outage: We experienced 2.09% of unplanned outages across all our treatment works in the year, on a target of <2.34%.

Severe restrictions in a drought: We have not achieved the target for severe restrictions in a 1-in-200-year drought scenario, with 67.7% of population being at risk, with a target of 51.9%.

Delivery of WINEP: We have achieved the requirements for the Water Industry National Environment Programme ('WINEP') in the year. This requirement is laid out to improve the natural environment through timely environmental improvements schemes. We also met this requirement in 2021/22.

Link to KPI:

05 06 07 08

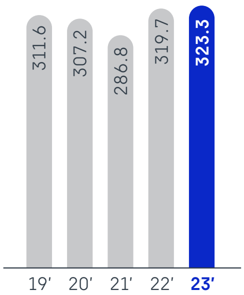
Read the **operational performance section** on **page** 68

Performance
highlights continued

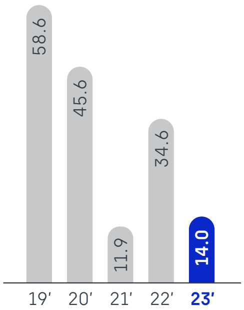
In 2022/23 a number of external factors, such as high inflation, the rising cost of energy, the hot weather over the summer of 2022 and the freeze/thaw event in December 2022, have had an impact on the business.

Financial

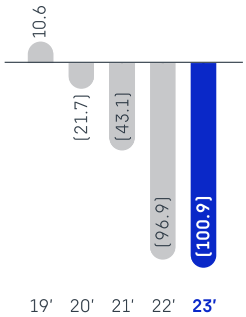
Revenue £m



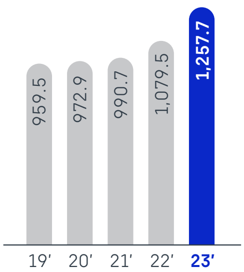
Operating profit £m



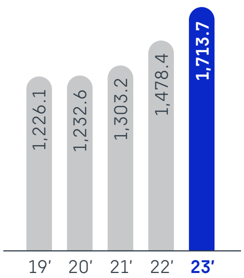
Profit/[loss] for the year £m



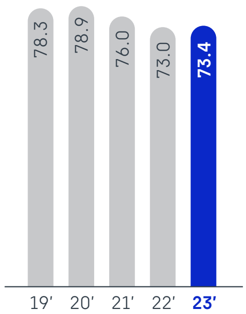
Net Debt £m



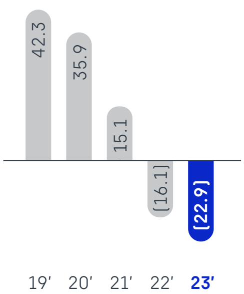
Regulatory Capital Value ['RCV'] £m



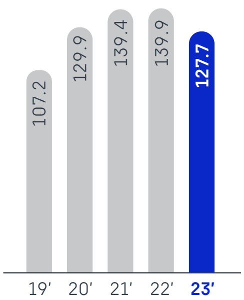
Gearing %



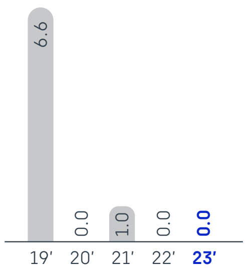
Cash flow £m



Capital investment £m



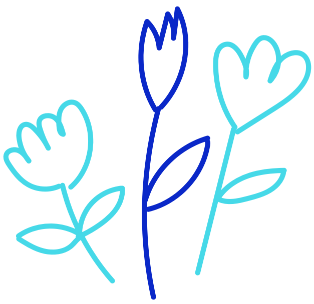
Dividends paid £m



Credit ratings

	Class A	Class B	Corporate Familly
Moody's	A3	Baa3	Baa1
Standard & Poor's	BBB+	BBB-	N/A
Fitch	BBB+	BBB-	N/A

Our credit ratings have not changed since March 2022, although our ratings from Standard & Poor's have moved to a negative outlook driven by inflationary pressures impacting industry ratings.



The £100.9m loss for 2022/23 is primarily made up of:

£14.0m

Operating profit

£(150.2)m

Net finance costs

Finance costs have been impacted by the high levels of inflation, as a number of our bonds are index-linked.

£23.5m

Fair value gain on derivatives

£11.8m

Taxation credit

Case study

The Fair Tax mark accreditation awarded to Affinity Water

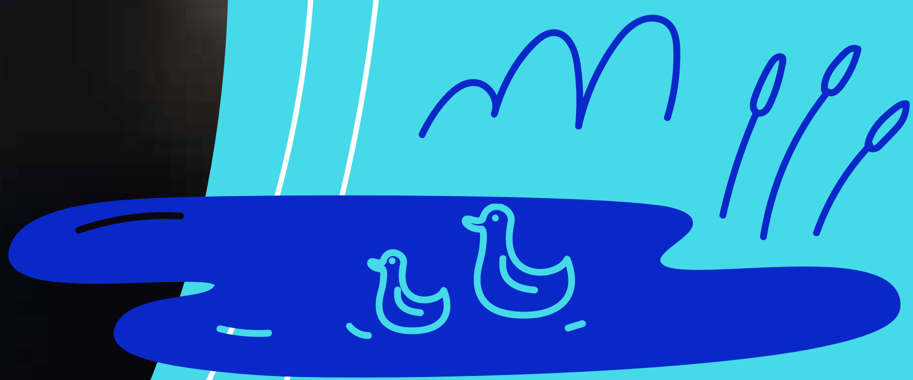
We have again received independent recognition for paying the correct amount of corporation tax. The Fair Tax Foundation congratulated Affinity Water for its high standards and, for a fifth year in a row, awarded us the Fair Tax Mark accreditation. The Fair Tax Foundation is an independent body, and launched the certification scheme in 2014 to encourage organisations to pay the right amount of tax.

Affinity Water has shown that it is willing to be totally transparent about how we are governed and how our tax affairs are arranged. All our activities are fully taxable in the UK.

"With newspaper headlines focusing on the cost-of-living crisis that many of our customers are facing, it is a very important time to be awarded the Fair Tax Mark certification. Affinity Water has shown that it is willing to be totally transparent in how we are governed and how our tax affairs are arranged. All our activities are fully taxable in the UK."

Michael Blake
Affinity Water Treasurer

Strategic Report



Chief Executive Officer's introduction

Highlights

- Engaged with thousands of customers and stakeholders to produce our Business Plan 2025–2030 and our 50-year water resources management plan.
- Producing high-quality water and maintaining our upper quartile CRI ranking in the industry.
- Taking care of our customers with over 97,000 signed up to our social tariffs – one of the highest in the industry.
- Our teams worked incredibly hard to respond to two extreme weather events. Record breaking summer temperatures and a freeze/thaw event in December 2022.
- Over 240,000 customers signed up to our industry-leading water saving campaign – Save Our Streams.
- Cemented our plans to ensure we reach net zero from operational emissions by 2030.

I am thrilled to present my inaugural introduction as CEO of Affinity Water. It is an immense honour to have been welcomed so warmly by the entire team since joining in January, and I have been delighted to meet the passionate and dedicated individuals who make up our organisation.

At Affinity Water, we are a water only company that operate in multiple areas throughout South East England – a region that boasts a rich and diverse economy and is home to some of the world's most unique and globally rare chalk streams. Despite our dispersed locations, I firmly believe that we function as one cohesive company, united in our commitment to serving this special region and taking care of our customers and environment, each and every day.

I would like to thank my predecessor and interim CEO, Stuart Ledger, for his contributions to the company, which have set a strong foundation for us to build upon as we focus on success for this AMP and get in a good place to prepare us for the next AMP and beyond.

Overview

Despite the challenges posed by extreme weather events and inflation, we have achieved significant progress in certain areas, such as beating our 2022/23 leakage target, cementing our upper quartile performance in water quality and achieving all of our Water Industry National Environment Programme targets.

We continued to build on our new company image with initiatives such as the Save Our Streams campaign and our first-ever TV advertisement, aimed at raising awareness about our efforts to address leakage issues, which are important to our customers.

As we enter the third year of the AMP, our teams are actively preparing the business plan for the next AMP (2025–2030) and a 50-year strategy for our water resources management plan ('WRMP'). We have engaged extensively with customers, stakeholders, and other regional water companies to gather input for the draft plans, which will be finalised by late 2023. Looking ahead, I am confident that we are well-positioned to deliver our most ambitious goals, providing a resilient and sustainable water supply, improving customer service levels, enhancing the environment, and

> I would like to thank all our teams at Affinity Water who have worked incredibly hard to deliver on our challenging performance commitments and work through record breaking summer temperatures, drought and a freeze/thaw event in the winter."

achieving net zero carbon emissions from our operations by 2030. Read more about these plans on pages 18 and 47.

However, before moving forward, it is crucial for us to fulfil our current commitments in AMP7 across all service levels and enter the next Business Plan (2025–2030) in a strong position. We have built solid foundations and our teams are fully dedicated to delivering high performance during this regulatory period, while also developing a credible and ambitious Business Plan for the next AMP.

External environment

Record-breaking temperatures in July 2022, reaching 40°C in the UK, highlighted the impact of climate change. Heatwaves and dry weather cause a surge in water demand by up to 40%, resulting in low pressure for some customers and increasing the number of leaks and bursts on our network.

In fact, our technicians fixed over 19,800 leaks over the last year, with a significant amount of those caused by extreme weather. Drought conditions throughout most of England last year led to hosepipe bans for some areas. We took a proactive approach through our Drought Management Group to monitor the situation closely, invested more resources in tackling leakage and increased communications to customers about the situation in our area and how they can help to save water. These proactive interventions ensured we did not need to introduce a hosepipe ban as our groundwater resources were in a relatively good position compared to other companies. We also believe that improvements to our network resilience over recent years played an important role in conserving supplies in the ground, which were replenished by the exceptionally wet autumn and winter of 2022/23.

In December 2022, a 'freeze/thaw' event caused pipe bursts on our network, and on customer and business properties due to sudden temperature increases after prolonged sub-zero temperatures. Water demand increased, requiring additional treatment and distribution efforts. Despite the challenges, our teams ensured the majority of customers received a reliable water supply and I would especially like to thank our colleagues who worked tirelessly over the Christmas period during this challenging incident.

As with many other businesses across the UK, we are also weathering the storm of high inflation, which is at its highest in 40 years. A part of this increase involves energy prices that have risen sharply over the last two years. The treatment and distribution of water is energy intensive, making energy one of our biggest costs. We are resilient to these inflationary shocks and our hedging strategy for energy has ensured some protection. However, higher prices for energy and across the supply chain to keep our network running, especially with the increase in bursts from extreme weather events, have been a challenge from a cost perspective.

We are also seeing the enduring effect of the pandemic across our business activities. Changed working patterns, with more people working from home and increased water use, has caused a challenge for us in reducing Per Capita Consumption to the targets we committed to, which were set before the events of Covid-19.

Despite the impact of the Covid-19 restrictions on our investment programme, we are committed to deliver the required outcomes by the end of this AMP. We are already on track to deliver all outcomes under the Water Industry National Environment Programme ('WINEP') and the gateways for delivery of the strategic resource options that will secure water resources in the future.

To find out more, read our financial review on page 70.

1.092

Compliance Risk Index Score for Water Quality. Cementing upper quartile industry performance

240k

Customers signed up to Save Our Streams water saving campaign

Chief Executive Officer's introduction continued

Performance highlights and challenges

Reducing leakage

Despite the many challenges resulting from the extreme weather, I am pleased to report that we have met our leakage target for 2022/23 with a reduction of 15.8% and we now have the lowest level of leakage ever achieved.

We have one of the toughest leakage reduction targets in the industry and we are now on track to meet our 20% reduction target by 2025. This will follow the success we had in the previous AMP where we reduced leakage by 15%, again the highest in the industry and beating our AMP7 target.

This achievement is underpinned by the diverse investment in creating our digital networks, satellite technology and artificial intelligence to respond quicker than ever before to leaks, which has created the step change in performance.

Compliance Risk Index (water quality measure)

I am extremely proud that we work in an industry that delivers some of the highest quality water in the world. In fact, the water we provide has to meet tougher quality standards than bottled water.

We have maintained our upper quartile performance in CRI rankings in the industry. We achieved this by investing in the latest technology and sophisticated monitoring systems at our treatment works, regularly inspecting the integrity of our storage reservoirs and operating our distribution systems in a way that ensures high-quality water arrives at our customers' homes in the same condition as it leaves our treatment works.

Providing a great service that you value

Our C-Mex measure remained largely unchanged this year. Although customer service scores declined, our overall ranking actually improved. We have seen steady increases in our customers' experience scores, surpassing the industry average and resulting in higher rankings compared to other water companies. However, we acknowledge that our C-Mex measure still requires improvement, and we are actively reviewing our plans and working to enhance our culture to put the customer first in all aspects of our work.

For our developer services (D-Mex), we achieved 100% compliance for the quantitative element during the first nine months, but experienced a performance drop in the fourth quarter and have slipped to 10th place in the industry league table. Nonetheless, we are focusing on streamlining processes and enhancing our Development Experience team, aiming to improve services to customers and regain our industry rankings.

For our retailer services (R-Mex), our Wholesale team has been ranked 1st in the water industry for three consecutive years. We extend our congratulations to them for their outstanding service to our retail customers.

> "I am extremely proud that we work in an industry which delivers some of the highest quality water in the world. We have maintained our CRI rankings in the industry and cementing our upper quartile performance."

Minimising disruption to you and your community

Our Interruptions to Supply measure for customers has made extraordinary improvements in this area since the start of the AMP. Last year, our score was just 3 minutes, 43 seconds, putting us in upper quartile for the industry. However, the consequence of two extreme weather events in the summer and winter has had a significant impact on this year's score coming in at 12 minutes and 53 seconds – compared to our target of 5 minutes, 45 seconds.

However, it is important to note that our underlying performance minus the extreme weather events was very strong and we continue to invest in our infrastructure to make it more resilient to climate change events.

Per capita consumption

Unfortunately, we did not achieve our Per Capita Consumption ('PCC') target as individual water use increased by 3.6 litres per person per day in 2022/23. The changes in water consumption patterns since the Covid-19 pandemic, with more people working from home and using more water, contributed to this increase. Additionally, frequent and extreme summer heatwaves led to spikes in water demand, impacting our overall PCC score.

Despite the increase in consumption, our Save Our Streams campaign continues to thrive, with over 240,000 people enrolled to receive free water-saving devices, customised advice, and complimentary home water efficiency checks. We have also installed more than 20,000 meters and conducted over 16,000 free home water efficiency checks.

In the near future, we will be implementing a smart metering programme to gather accurate data and real-time insights into water usage, enabling us to enhance communication with customers. Additionally, we are exploring the introduction of 'rising block tariffs', set to launch in October 2023. This tariff structure will charge higher rates for water usage above a certain threshold, encouraging high water users to become more efficient while reducing costs for water-efficient households. This initiative aims to promote water, energy and cost savings.

Chief Executive Officer's introduction continued

97k

Customers receiving support through our social tariffs

120k

Customers signed up to our Priority Services Register

Taking care of our customers

We are acutely aware of the cost-of-living pressures facing many of our customers, which is being driven by high global inflation and energy costs.

We are resolute to helping our customers where we can and continue to promote the various ways we can help those who are struggling to pay with payment breaks or through our social tariffs. We now have over 97,000 customers signed up to our social tariffs and have offered over 900 customers payment breaks in their water bill. We also continue to work with various charities to signpost the support we have available.

Taking care of our environment

Taking care of the environment is at the very core of our purpose. 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, land owners and our customers to do all that we can to protect them.

We are playing our part by working with partners and restoring sections of rivers to their more natural state, and are pleased to report that we completed all of our river restoration projects under the Water Industry National Environment Programme ('WINEP') in 2022/23. Over the last year, we delivered three river restoration project units bringing our total number to 23 for the AMP; we are well ahead of target in this area and in a good place to meet all of our river restoration commitments within the WINEP by 2025.

Work on our new water conditioning facility in Sundon has now started, which will allow us to further reduce the amount of water we take from chalk groundwater by 2024, which will total a 100 million litre per day reduction since the 1990s.

Innovation

Through the Ofwat innovation fund, we have successfully secured funding for several pioneering projects that aim to transform societal water usage.

One such project, 'Water Neutrality at NAV sites', is spearheaded by Affinity Water and funded by Ofwat and Nesta. The objective of this initiative is to ensure that the total water consumption in a community remains unchanged, even after new homes are constructed. We collaborate with developers and technology manufacturers to implement highly water-efficient practices in new builds and retrofit existing homes and businesses with systems like greywater recycling and rainwater harvesting. Additionally, we facilitate behaviour change campaigns to encourage residents to reduce their water usage.

Upon completion, this project will serve as a blueprint for other water companies, local authorities, and developers to achieve water neutrality on a larger scale. Smaller water providers (NAVs) will also benefit from enhanced market access and strengthened industry partnerships.

"We are playing a significant part to help our environment and working with partners to restore rivers, meeting all of our obligations for the Water Industry National Environment Programme in 2022/23."

Our people

The safety and wellbeing of our employees is of utmost importance to us. In the past year, we have adopted a risk-based approach to Health & Safety, assessing our key risks and implementing plans and initiatives to minimise, mitigate or control them. We have made these efforts visible across all levels of the organisation, prioritising awareness and accountability. We are also exploring the use of artificial intelligence to develop a point-of-work risk assessment tool that will aid our teams in identifying and managing hazards.

Recognising the impact of the pandemic on mental health, our Wellbeing Committee and People team have developed resources, guidance and training to support our employees in addressing anxieties associated with the post-pandemic period.

Our dedicated people have received numerous awards throughout the year. Our Save Our Streams initiative won 'Best Water Efficiency Project Award' at the Water Industry Awards, and we also received the 'Best Collaboration Award' at the Annual Street Works UK Awards with Cadent Gas. Our leakage team achieved 'Best Team' at the Institute of Asset Management Excellence, and we were recipients of the 'Best Internal Communications Strategy Award' at the Engage Awards.

Furthermore, we launched our Code of Ethics in March 2023, reinforcing the ethical standards for our employees and supply chains.

Looking Forward

While it has been a challenging year from an external environment perspective affecting some of our key performance commitments, I am certain we have built solid foundations within the company since the start of this AMP, taken the lessons learnt from extreme weather events and will deliver on our key commitments by 2025.

I am looking forward to working more closely with our teams, so we can build on these foundations, deliver a robust and credible PR24 business plan, and improve service levels to put us in a strong position to start the next AMP.

I started as CEO in January 2023 and it is already clear to me that our people have the dedication, passion and expertise to achieve our ambitious goals for this AMP and beyond.

Keith Haslett

CEO

12 July 2023

Our business
model

Our purpose is to provide high-quality drinking water for our customers and take care of the environment for our communities now and in the future.

Forces acting upon us...

Our capitals

These are the resources and relationships that we have available to us.

They are the inputs to our business and are transformed through our decision-making process and operating activities into our strategic outcomes.

Read more about **our approach to multi-capital thinking** on page 38

Our external environment

Protecting the natural environment

- **Climate change**
- **Population growth**

Economic environment

- **Financing our business**
- **Customer expectations**

Regulatory and political environment

- **Laws and government**
- **UN Sustainable Development Goals**

Read more about **our external environment** on page 40

Stakeholders

Effective engagement with our stakeholders is integral to how we operate. Stakeholders help to shape our strategic plans for the service we provide, the commitments we make and how we make sure we provide a long-term sustainable supply of high-quality water.

Read more **about our stakeholders** on page 54

UNSDGs

Our alignment with the UN Sustainable Development Goals

Shapes our purpose and ambitions...

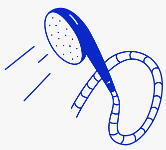
Our journey of taking care of water, now and in the future

We are laser focused on providing simple, effortless experiences to our customers wherever they interact with us. To continue doing this, we need to protect local environments, ensure our network and resources are resilient, inspire our customers to use less water and provide them with an exceptional service and work with our communities to create value for the economy and society.

Our Strategic Direction ambitions help to guide us and shape our long-term plan for water resources and our five-year Business Plans, which determine the investment we need to make and the amount we can charge customers.

Our Strategic Direction Statement ambitions

The systems that Affinity Water will work within:



1. Environment

Aim: Leave the environment in a sustainable and measurably improved state.

2. Resilience

Aim: Be prepared for change, and resilient to shocks and stresses.

The people that Affinity Water will work with:

3. Communities

Aim: Work with our communities to create value for the local economy and society.

4. Customers

Aim: Deliver what our customers need, ensuring affordability for all.

Read more about our **Strategic Direction Statement** at www.affinitywater.co.uk/corporate/plans

enabling better outcomes for our customers...

A sustainable water supply for this century and beyond

We plan and invest for the long term. Through the use of new, innovative technology, bringing online new sustainable sources of water, learning and sharing best practice across sectors, and working with our customers, we are building a water supply network that is resilient to the effects of climate change, minimises disruption to communities, provides a sustainable, high-quality supply of water, while taking care of our environment – now and for the future.

Our 50-year action plan for water resources (WRMP) and Strategic Direction ambitions helps to shape our five-year business plans. Our business plans detail our performance commitments for the five-year period, the amount of investment required to meet those commitments and the price we can charge customers.

Our final business plan 2025–2030 will be submitted to Ofwat in autumn 2023 and Ofwat will publish its final determination on the plan in December 2024.

Read the sections **'How we operate'** on **page** 18 and **'Planning our future, together'** on **page** 45

Our customer outcomes

We provide water to over 3.8 million customers and 78,000 businesses in our supply area and have committed to:

- Supplying high-quality water you can trust
- Making sure you have enough water, whilst leaving more water in the environment
- Providing a great service that you value
- Minimising disruption to you and your community... and creating value for all

...and creating value for all.

Customers

- Putting customers at the heart of everything we do.
- Being agile and responsive to changing needs. Focusing on simplicity and exceptional customer experience.
- Supporting customers in vulnerable circumstances through social tariffs and Priority Services Register.
- Providing fair and affordable bills to help invest in a long-term sustainable supply of water, while helping to take care of the environment.

Communities

- Minimising disruption for our communities.
- Supporting the economy across the region through investing in infrastructure and generating employment.
- Create value for local communities by taking care of our environment.
- Helping to improve biodiversity across Affinity Water-owned nature reserves, assets and working in partnership with local communities.

Employees

- Increase pride in working for Affinity Water.
- Looking after the health, safety and wellbeing of our employees.
- Ensure employees have the tools they need to do the job and upskill through learning and development.

Shareholders

- Increase incentives and reduction in fines for our shareholders.
- More sustainable activities to drive delivery of sustainable 'good profits and dividends'.

Suppliers

- Working with suppliers to innovate to increase resilience for the benefit of customers and the environment.
- Creating exceptional relationships to be the company suppliers want to work with.

Regulators

- Working with our regulators to produce robust and ambitious plans to benefit customers and the environment.
- Working with our regulators to drive innovation in the sector.

Our approach to multi-capital thinking

Our capitals

Our capitals are the resources and relationships available to us. They are the inputs to our business that we transform through our decision-making process and operating activities into our strategic outcomes. We are starting to use the concept of capitals to guide our decision-making, for example, when considering land use and weighing the interests and benefits of recreation and biodiversity enhancements.

To monitor our progress across short, medium and long-term objectives, we are developing a multi-capital value framework that includes metrics and will include KPIs. We are aware that a multi-capitals approach needs to reflect the values of our business. We have chosen to develop our multi-capitals framework and metrics on our website, so we can update it with new information for each metric when it becomes available.

Our multi-capitals framework includes the six capitals – natural, financial, intellectual, human, manufactured and social.

The multi-capitals approach will help demonstrate how our inputs and activities, i.e. capital investment, support for customers in vulnerable circumstances, biodiversity enhancement and land management, impact on the ground. And to illustrate the value of these activities – helping with business resilience and environmental enhancement, supporting customer affordability and employee diversity, knowledge sharing and building trust with our stakeholders and customers.

- Financial – our financial health and efficiency;
- Manufactured – our pipes, water works and offices;
- Natural – the materials and services we rely on from local environment;
- Human – our people and wellbeing;
- Intellectual – our knowledge, innovation and partnerships;
- Social – our relationships, trust and contribution to society.

We are at the beginning of our work on multi-capitals and expect our metrics to develop as our data and reporting functions become more mature. We are keen to describe our progress, and lessons learnt, for our stakeholders. We have therefore summarised some key metrics we anticipate we will include within our multi-capitals reporting framework.

Multi-capitals theme	Metric	Impact	Value
Natural capital	Biodiversity GHG (greenhouse gas emissions)	Invasive Non Native Species Out projects Net zero progress	Biodiversity enhancement Decarbonisation
Manufactured capital	Pump replacement	Energy efficiency	£ saved
Human capital	No Equality, Diversity and Inclusion initiatives Number of Wellbeing initiatives	Gender pay gap Long Term Incentive score	Business continuity Zero harm
Financial capital	Green investment	Type of investment funded	£ invested
Intellectual capital	Innovation projects	Spend on innovation	Innovation solutions developed
Social capital	Customers on Priorty Services Register Debt and social charities supported Home efficiency checks	No of customers supported Per Capita Consumption reduction	£ saved

Natural capital River Beane

Each year, we work on enhancement schemes within our catchments to improve the environment.

In the catchment area around the River Beane, we have undertaken river improvement works, removed invasive species, evaluated our ability to reduce abstraction and worked with farmers to change farming practices by using winter cover crops – that is crops planted for other benefits rather than harvesting.

To quantify the impact of these schemes on the health of the environment, we use a natural capital approach and develop a natural capital account. We developed our River Beane natural capital account through a desk study using the Environment Agency's Natural Capital Register Accounting Tool ('NCRAT'). We supplemented this with Farmscoper and Biodiversity Net Gain Metric 3.1, allowing us to quantify and value 11 different ecosystem services.

To assess the environmental value added, we developed a baseline for the Beane catchment and then evaluated the benefits of our various environmental enhancement schemes, and their value to people and society through measures such as their quantity, condition, and location of natural assets. Once the environmental impacts and improvements have been quantified, it is possible to assign a financial value. The natural capital account demonstrated we made improvements to the environment (or natural capital), which included, for example, biodiversity, water quality and carbon reduction.

The table to the right highlights the environmental benefits of each of our projects in the River Beane catchment.

Woodhall Phase 1

Carbon seq.
6.39 tCO_2e/yr

Water qual. emissions reduction
-18.85 kg N/yr
-0.39 kg P/yr
-251 kg SS/yr

Biodiversity
3.09 (Habitat units)
2.33 (River units)

Water qual bundled benefits
0.63km improved

Woodhall Phase 2

Carbon seq.
6.1 tCO_2e/yr

Water qual. emissions reduction
-17.42 kg N/yr
-0.37 kg P/yr
-238 kg SS/yr

Biodiversity
2.83 (Habitat units)
2.97 (River units)

Water qual bundled benefits
1.42km improved

Walkern Road

Water qual bundled benefits
2.58km improved

Frogmore Park

Water qual bundled benefits
0.71km improved

The Rookery

Water qual bundled benefits
1.49km improved

INNS

Biodiversity
0.84 (Habitat units/ha)

Cover cropping

Carbon seq.
67 tCO_2e/yr

Water qual. emissions reduction
-1,969kg N/yr
-7 kg P/yr

Biodiversity
267 (Habitat units)

Sustainability reduction

Biodiversity
2.15 (River units/km)

Total natural capital contribution to catchment baseline

Catchment baseline
£286m
30-year Present Value – 2020/21

Combined scheme benefits
£3m
30-year Present Value – 2020/21

Uplift in catchment natural capital value
1.05%

UNSDGs

Our alignment with the UN Sustainable Development Goals

13 CLIMATE ACTION | 14 LIFE BELOW WATER | 15 LIFE ON LAND

+£1,247 per ha of INNS removal
(30-year Present Value – 2020/21)
INNS Out

Our external environment

Leadership insights

In conversation with:

Anton Gazzard
Director of Customer Delivery

Our Director of Customer Delivery, Anton Gazzard, has been with the company for over 16 years, joining the company in 2007 on our Graduate programme. Anton is responsible for ensuring customers receive a reliable and high-quality supply of water from source to tap, managing our production and network operations.

What do you see as the biggest challenges facing water networks and delivering water to customers in the next five-ten years, and how do you think they can be addressed?

I believe the impacts of climate change are already with us and we've seen a steady increase in extreme weather events over the last ten years. Over the next five-ten years, we are expecting extreme weather events will become more frequent with the impact being felt across the industry.

With each passing summer, we seem to have record-breaking heatwaves. During these times, demand for water significantly increases. For our area, the extra increase at times is like suddenly supplying a city the size of Bristol in our area.

From an operational point of view, the industry is working to increase our resilience to these types of events through improving the interconnectivity of the network within our own areas and at company boundaries to allow us to share resources regionally and get water to where it's needed most.

Our regional plan for water resources also includes many new strategic resource options with the first of our schemes the Grand Union Canal Transfer, taking water from Severn Trent's supply area down to our area, due to be operational in the early 2030s.

We also need to work more closely with customers to get them to play their part in reducing demand, especially during hot periods. Our flagship water saving campaign 'Save Our Streams' has already helped to save over 1 billion litres of water; however, we know we must do more. The future roll-out of smart metering in the next AMP will allow us to understand household consumption in greater detail and help us to devise better ways to inspire behaviour change to reduce the waste of water.

How can new innovations in process or technology help the sector meet challenging performance commitments.

There has been a paradigm shift in the industry over the last several years to take advantage of the latest digital technology to enhance our network.

This shift will be the underlying force that helps us to meet the great challenges before us in terms of climate change, improving resilience of our assets and sources of water, driving operational efficiencies, taking care of the environment and providing an excellent service to customers.

Over the last few years at Affinity Water, we have built solid foundations in digitising our network and using the latest in AI machine learning in order to meet our challenging performance commitments for the AMP.

Our control room has evolved to become a single controlling mind for our network and teams are using a digital model of our entire asset base to allow real time insight into the network. This allows us to identify and fix problems before they become an issue for customers and respond faster than ever before when incidents do occur.

Better data, driven by AI machine learning, is also giving us valuable insights into how customers consume water and the impacts of our projects. Many factors affect the demand for water, such as seasonal weather patterns and the amount of time people spend at home, which has increased post Covid.

How can water companies improve trust and perception of the water industry

The water industry has a versatile role that extends beyond simply providing water to customers. Recent years have seen increased scrutiny of the industry, driven by concerns regarding sewage pollution from storm overflows and leakage. Customers rightfully expect us to act responsibly and contribute positively to society through our operations.

Despite not managing the sewage network as a water-only company, we have a significant responsibility to protect and nurture our environment.

We have an inspiring narrative to share about our environmental endeavours. These include achieving record-breaking reductions in leakage, which helps preserve more water in the environment. Moreover, we are actively reducing our reliance on the chalk aquifer as a water source, restoring our rivers to their more natural state and collaborating with the agricultural community to enhance soil fertility and improve water quality in the environment.

Our external environment continued

Leadership insights

In conversation with:

Rebecca Froud
Director of Customer Experience

Our Director of Customer Experience, Rebecca Froud, joined Affinity Water in January 2023. Rebecca is responsible for ensuring that we provide an excellent customer service in everything that we do and manages our call centres, communications and marketing, demand management and metering, customer financial support and developer and commercial services.

Rebecca brings over 20 years of experience in the banking sector in leading and transforming teams to deliver excellent customer services and supporting the delivery of improved experiences for customers.

How should the water industry adapt to meet evolving customer expectations?

The privilege of providing water means we must constantly listen to our customers and gain insights, so we adapt our services and processes to meet expectation. The industry needs to be agile to evolve in order to provide resilient services to customers and an exceptional service.

We recognise that we need to improve our own customer service. We are utilising new digital systems and analysing customer views and insights into our customer experience. Through this analysis, we have identified specific areas such as billing, reporting a leak, and water metering which require focused attention to enhance the customer outcomes achieved. To address these areas, we have developed comprehensive plans centred on a **customer-first** approach which prioritise customer needs and simplify the way we deliver in order that we can improve our customer satisfaction measures.

Our digital tools will also allow us to adapt and align our core communication flows for customers so we can deliver against our promises, keep them informed and make it easy for them to do business with us. In addition, we have understood the varied demographic groups we serve and tailored our support tools. Working in partnership with our local communities has also resulted in us being able to reach previously inaccessible groups, raising awareness about the support services we provide.

What more can the industry do to support customers during the cost-of-living crisis?

Undoubtedly, we find ourselves in a period of great uncertainty. The consequences of a once-in-a-generation global pandemic, the complexities surrounding Brexit, and rampant inflation have significantly pushed up the cost of living.

These circumstances are adversely affecting certain sectors of our customer base more than others and a growing number of customers are finding themselves in need of financial support.

We understand this challenge and have adapted so we can help those most in need with a range of solutions.

Affinity Water takes great pride in having achieved one of the industry's largest customer bases benefiting from our social tariffs; currently over 97,000. Our focus on assisting these customers who require the most help remains unwavering, and we are committed to continuing this and develop further ways of assistance.

Partnerships are key for us to enable our messages to reach and engage with customers – especially those hard to reach.

We have partnered with local government, charities and other organisations such as National Debtline, Citizens Advice Bureau, Money Advice Service, Surviving Economic Abuse, StepChange and Turn2Us.

Our partnership models have enabled us to have a consistent joined-up set of support tools across a range of demographics.

Our external environment continued

Our regulators

The water industry needs to comply with the laws, regulations, standards and policies published by a number of regulators.

We also work closely with our regulators and other industry bodies to ensure our future plans deliver benefits for our customers and the environment.

Ofwat – Water Services Regulation Authority

Ofwat is the economic regulator for the water and sewerage sectors in England and Wales. It is responsible for regulating the water industry and ensuring that water companies provide consumers with a good-quality service and value for money.

DWI – Drinking Water Inspectorate

The DWI is the independent regulator of drinking water in England and Wales, responsible for ensuring that companies provide safe drinking water that is acceptable to consumers and meets the standards set down in law.

Defra – Department for the Environment, Food and Rural Affairs

It is the government's responsibility to establish the strategic framework and policy priorities within which regulators such as Ofwat, the Environment Agency and DWI must operate.

Defra sets out the policy priorities that the regulators have a particularly important role in delivering, and against which they will be held to account in respect. of their independent regulatory decisions.

EA – Environment Agency

In England, the Environment Agency is responsible for protecting and improving the environment and promoting sustainable development. In the water and sewerage sector, the EA regulates the abstraction of water from the environment as well as the treatment and discharge of wastewater, sewerage and sewage sludge back into the environment. Note: Affinity Water is a water-only supply company and does not manage wastewater.

CCW – Consumer Council for Water

CCW is not a regulator, but plays an important role in the industry by representing water and sewerage consumers in England and Wales. It also handles some customer complaints about incumbent water companies, inset appointees and licensees.

Planning our future, together

What our customers want shapes what we do. Every five years, water companies update their business plans using feedback from customers and other stakeholders, and to reflect the new requirements from our regulators.

This process is known as a price review, and we are currently in our Price Review 24 ('PR24') period. We started this process much earlier than previous price reviews and over the last few years have already gathered views from thousands of customers and other stakeholders through surveys, events and our online community, to help shape the draft business plan 2025–2030.

We still have some key decisions to make about how quickly we can achieve the ambitions laid out in the draft plan and this could have an impact on customers' bills.

Our draft business plan was out for public consultation in spring 2023 and will help shape the final plan we submit to Ofwat in autumn 2023.

These are some of the things our customers have told us matter most to them:

Concern over carbon emissions is increasing, although customers balance it with other environmental drivers, it is an important area for them. They would like to have transparency over cost and effectiveness of our solutions.

Customers put a high value on the environment and the idea of restoring rivers is popular, with some appetite to pay for this wider benefit.

Providing water that looks, tastes and smells good is a high priority for our customers. However, some customer perceptions are variable, and few reach out to complain. Hardness is an issue that customers sometimes link to water quality.

Our external environment continued

Our draft Business Plan 2025–2030 at a glance

Environment

Our ambition is to leave the environment in a sustainable and measurably improved state.

We will:

- Deliver an investment programme that reduces the amount of water taken from **chalk aquifers** by 35 million litres per day between 2025–2030
- Deliver a programme of **river restoration and catchment management** to improve the wider river environment
- We have committed to **reducing operational carbon** emissions to net zero by 2030, helping to reduce the UK water sector's 2.4 million tonnes of carbon per year of emissions

Resilience

Our ambition is to be prepared for change, and resilient to shocks and stresses.

Investing £57 million to **reduce leakage** by 21.6 million litres per day by 2030 on our path to a 50% reduction by 2050.

Reduce water consumption by 130 million litres a day in 2030 from a 2025 baseline.

Install **400,000 smart meters to help customers understand and control their water usage.**

Protect key assets from single point failures.

Additional Flood Alleviation (protecting sites from climate change).

Increased **network calming** – an important piece of work that not only reduces leakage but reduces the cost of investing in replacement pipes.

PR24 timeline

Dec 2021
Ofwat issues policies and positions for PR24

Jan 2022
We respond to a number of points/ consultation

July 2022
Ofwat issues draft methodology for PR24

Sept 2022
We respond to the PR24 draft methodology

Nov 2022
Water Resources Management Plan submitted

Dec 2022
Ofwat issues PR24 final methodology

Customers

Our ambition is to deliver what our customers need, ensuring affordability for all.

£83 million package of **water quality treatment upgrades to improve water quality further.**

Provide a broad **package of support for customers** struggling to pay, including:

- Water assistance voucher scheme and **debt support** scheme
- Simple reduced bill tariff scheme
- Tariff and charges trial to support affordability
- **Payment breaks** and payment plans
- **Free repairs** of customer supply pipes for vulnerable customers
- Home water efficiency checks to help reduce water and energy usage

Communities

Our ambition is to work with our communities to create value for the local economy and society.

Enhance our programme of collaborative working with community and local government and charitable organisations to run local events.

Staff volunteer days to help local communities and charities.

Improved visitor experience by providing public access sites including catering and water sports by third parties and partners.

River enhancement opportunities to support biodiversity and flood management within the Colne Valley.

Note – these are the ambitions detailed in our draft plan which may change following our public consultation period in 2023.

Oct 2023
Water Resources Management Plan agreed

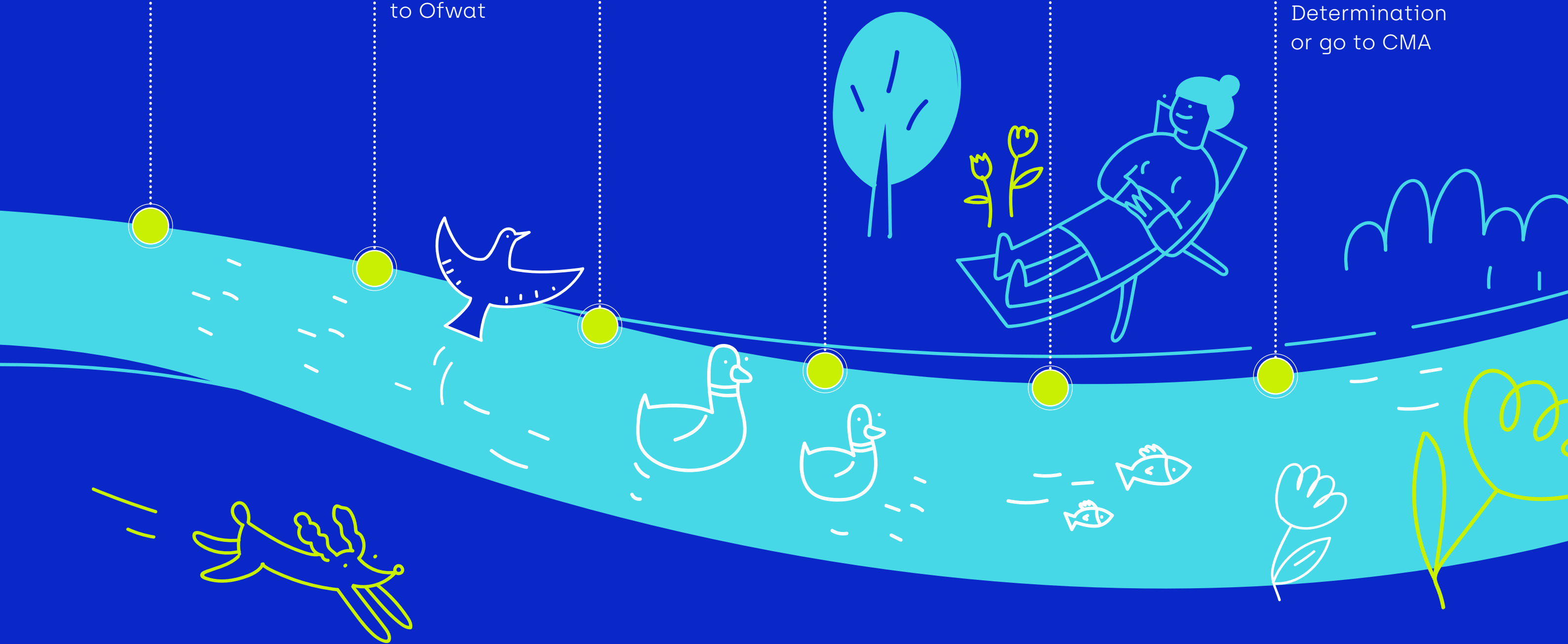
Oct 2023
We submit our final PR24 business plan to Ofwat

Spring 2024
Ofwat issues the draft determinations

July 2024
We issues our Representations

Dec 2024
Ofwat issues Final Determination

Decision by Feb 2025
Whether to accept the Final Determination or go to CMA



Our external environment continued

Looking to the future – the challenges and opportunities we face

Affordability and Vulnerability

The consequences of a once-in-a-generation global pandemic, the complexities surrounding Brexit, and rampant inflation have significantly pushed up the cost of living.

As a result, a growing number of customers are finding themselves in need of financial support.

We have one of the largest customer bases benefiting from our social tariffs, currently over 97,000. We are continuing to promote the support we have available and work with partners to communicate to hard-to-reach groups. We have also developed new forms of help such as grants for our most vulnerable customers and will begin a rising block tariff trial in summer 2023.

Link to strategy(s):

Affected stakeholders(s):

- Customers
- Regulators

Our response:

Read the **operational performance section** on **page** 66

Securing long-term resilience

We supply over 3.8 million customers across Southeast England, which includes 13% of London. The region we supply is one of the most economically active regions in the UK. Maintaining a resilient supply is critical for our customers and the region's economy.

Our network and resources are under pressure from climate change and we are already starting to see an increase in extreme weather events. The plans we have in place through our regional water resource plans and five-year business plans will help to strengthen our network and resources and adapt to the challenges that climate change in bringing.

Link to strategy(s):

Affected stakeholders(s):

- Customers
- Communities
- Suppliers
- Shareholders
- Regulators

Our response:

Read the **How we operate section** on **page** 18

Climate change

Climate change is already causing more frequent extreme weather events. In summer 2022, our region experienced its highest recorded temperature on record at 40°C and much of the Southeast was in drought.

The National Infrastructure Commission estimates there is a 25% chance of the worst drought in history happening by 2050, which could cost our economy £40 billion.

Our water resources management plan, in alignment with the first ever regional plans for water resources, ensures we can meet the challenges posed by climate change and provide a long-term sustainable supply of water, whilst leaving more in the environment.

Link to strategy(s):

Affected stakeholders(s):

- Customers
- Communities
- Suppliers
- Shareholders
- Regulators
- Employees

Our response:

Read the **Climate change adaptation report and Water resource management plan** on **page** 85

Key

- Supplying high-quality water you can trust
- Making sure you have enough water, whilst leaving more water in the environment
- Providing a great service that you value
- Minimising disruption to you and your community

Protecting the use of natural capital

Chalk streams are rare, and we have 10% of all chalk streams within our supply area. Abstracting from these catchments has become increasingly unsustainable as population and demand has grown over time, and we need to find new sources of water to protect these special environments.

We will reduce abstraction from chalk groundwater sources where there is evidence that doing so will improve the chalk stream environment. We will work with our neighbours, through the Water Resources Management Planning process, to find new sources of water to ensure we can still meet customers' demand.

Link to strategy(s):

Affected stakeholders(s):

- Customers
- Communities
- Shareholders
- Regulators

Our response:

Read the **Multi-capital approach – Beane catchment case study** on page 39

Acting in the public interest

The industry has received much public scrutiny over the past year, largely driven by sewage spills in rivers and coastal areas.

While we do not manage sewage, we still have a part to play in helping our environment and improving our local rivers.

Customers expect their water provider to go further than their explicit roles and help society deliver on long-term challenges such as looking after our rivers, achieving net zero, increasing biodiversity and ensuring sustainability is embedded in everything we do.

Find out more about **our approach to sustainability** on **page** 16

Link to strategy(s):

Affected stakeholders(s):

- Employees
- Customers
- Communities
- Shareholders
- Regulators
- Suppliers

Our response:

Read **Our approach to sustainability** on **page** 16

Population and economic growth

We forecast substantial population and housing growth which will increase the demand for water within our region by around 10% by 2050.

More people and businesses will need more water, at an affordable price, which we must deliver while protecting the environment.

In future, we'll need to bring more water in from other areas of the region, which will bring challenges as we will need different treatment types as we move from supplying mostly groundwater, to mostly surface water.

Link to strategy(s):

Affected stakeholders(s):

- Employees
- Customers
- Communities
- Shareholders
- Regulators
- Suppliers

Our response:

Read the **How we operate section** on **page** 18

Our commitment
to public value

At Affinity Water, we are driven by our purpose of providing high-quality water and taking care of our communities' environment – now and for the future.

We are privileged to provide an essential public service and the opportunities that brings, to create value for the areas we supply, to help improve the environment, support the local economy, invest in our communities and adapt to the challenges that climate change is bringing to our region.

Investing in new infrastructure to help conserve chalk-stream habitats

We're investing around £14 million as part of our programme to meet demand by increasing the supply of water from alternative sources so we can reduce the amount we abstract from chalk groundwater. This project will enable us to do this by bringing water down through existing pipes from Anglian Water's Grafham Water reservoir, near Huntingdon, adding to the supply we already import from there.

Each area's water is different chemically (even though both are safe and meet all relevant standards), so we'll condition the imported water at our new Sundon plant to make it compatible with our pipes. The existing Sundon site already has a great deal of the infrastructure we need, making good use of existing assets, and we will complete the new conditioning plant during 2023/24, allowing us to reduce local groundwater abstraction by December 2024.

Projects like this are critical to keeping more water in the environment to protect our chalk-stream habitats, which are home to an abundance of species such as water crowfoot, flag iris, mayfly, brown trout, kingfisher, otters and the nationally endangered water vole.

£14m

Investment in a new conditioning facility to allow us to reduce the amount we take from chalk groundwater

UNSDGs

Our alignment with the UN Sustainable Development Goals

Celebrating 25 years working with the Chiltern Chalk Streams Project

In September 2022, we celebrated the 25th 'birthday' of the Chiltern Chalk Streams Project, a scheme that aims to conserve and enhance all major chalk streams in the Chilterns Area of Outstanding Natural Beauty ('AONB'), and to encourage enjoyment and understanding of them. The partnership includes statutory agencies, local authorities and voluntary bodies, and Affinity Water is a regular contributor to its important work, by raising awareness of chalk streams, reducing abstraction, restoring rivers and managing invasive non-native species. Chalk streams are a globally threated habitat and the Chilterns has nine. At the celebrations, the organisation also launched its new report on the state of the Chilterns chalk streams, highlighting the pressures on these beautiful and fragile habitats.

In March 2023, we strengthened our partnership working with Chiltern Chalk Streams Project, providing the group with additional funding to help us to conserve and enhance chalk streams in the Chilterns AONB and to encourage enjoyment and understanding of the area. The focus will be on creating public value through river restoration and conservation work, education on water use and raising awareness, sharing expertise and advocacy among common stakeholders.

UNSDGs

Our alignment with the UN Sustainable Development Goals

"The severity of the 2019 drought brought the plight of the Chilterns chalk streams to a wider audience. We achieved a fresh mandate and received renewed investment from Affinity Water, Thames Water and the Chilterns Conservation Board, to enable the Project to grow and increase its impact both locally and strategically. With chalk streams facing unprecedented pressures, the Project is now well placed to play its part in their recovery."

Allen Beechey
Project Manager for the Chilterns Chalk Streams Project

Our commitment
to public value continued

Small acts of kindness

This year, Affinity Water colleagues helped a local charity by using their volunteering day to pack Warm in Winter gift bags. Many older people will find it even harder this year financially, and are facing the unimaginable and impossible choice between heating their homes or buying food. The charity, Small Acts of Kindness, aims each winter to distribute up to 10,000 gift bags that will help older people keep warm in their homes.

The Warm in Winter gift bags contain essential, practical items including a fleece blanket, thermal hat, gloves, socks, a mug and hot drinks. All the gift bags contain a comprehensive pack of literature that signposts relevant activities and services for older people. We also provided 13,500 leaflets to the charity containing information on our Priority Services Register and reduced bill tariffs.

UNSDGs

Our alignment with the UN Sustainable Development Goals

8 DECENT WORK AND ECONOMIC GROWTH, 10 REDUCED INEQUALITIES

Tackling non-native invasive species

Invasive non-native species ('INNS') are having a negative impact on our economy, wildlife and habitats, and threaten native species by spreading harmful diseases, competing for resources or damaging natural ecosystems. Through our INNS Out scheme this year, we worked with 20 local organisations to help reduce the spread and introduction of INNS across multiple river catchments. The support was both in-kind, with colleagues offering over 50 volunteer days, and financial, with Affinity Water donating a total of £65,000 to 16 projects. These removed Himalayan balsam, cotoneaster and floating pennywort, as well as invasive aquatic species such as signal crayfish, killer shrimp, and demon shrimp. The scheme will run again in 2023, building on the work that has already been done.

UNSDGs

Our alignment with the UN Sustainable Development Goals

8 DECENT WORK AND ECONOMIC GROWTH, 13 CLIMATE ACTION, 14 LIFE BELOW WATER, 15 LIFE ON LAND

Water-saving solutions for new housing developments

In our supply area, new properties are forecast to use an extra 83.03 million litres of water a day by 2032, on top of what is already being used. We're leading an industry project called Water Neutrality at NAV sites to establish if the total amount of water used in the community can be the same as before the new homes were built, called water neutrality. (NAVs are companies who can be appointed to provide water services to customers in an area.)

We're working with different industry stakeholders, technology manufacturers and housebuilders on a water-neutrality blueprint, to help us future-proof the local water network against population growth. We will publish our findings for others to follow. Tests include:

- installing water-saving devices in homes as well as in commercial buildings like schools and leisure centres
- running a behaviour change campaign for residents to reduce water use.

Our first trial is at a site called Bidwell in Houghton Regis, Bedfordshire, where we are testing how a behavioural change campaign might work in the absence of water-efficient technology.

UNSDGs

Our alignment with the UN Sustainable Development Goals

6 CLEAN WATER AND SANITATION, 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE, 12 RESPONSIBLE CONSUMPTION AND PRODUCTION, 13 CLIMATE ACTION

Affinity Water is one of the first UK water companies to publish open-source environmental data for the public

In March 2023, we became one of the first water companies in the country to publish open-source environmental data for the public. The data is available through the newly launched Aquarius web portal, which provides near real-time access to quality assured environmental data collected by our Environmental Planning team.

The Aquarius web portal provides users with a wealth of information related to water resources, rainfall, river flows and catchment management monitoring. Users can explore over two decades of environmental data sourced from over 650 locations with an easy-to-use map where they can identify statistics and trends. Data can also be exported and then used for non-commercial purposes.

The initiative will help to build public understanding of the water environment and give users an inside view how we use data to help protect the local environment.

It will provide schools, citizen science, universities and researchers with a powerful and free educational tool to aid in lessons, projects and research papers.

The portal will also serve as a communication channel for regulators and other external stakeholders, providing updates on the status of the chalk aquifer, chalk stream flows and rainfall conditions. With this innovative initiative, we are demonstrating our commitment to transparency and sustainability – setting the standard for the water industry to follow.

The Aquarius web portal can be accessed at **https://environmentdata.affinitywater.co.uk/AQWebPortal #**

UNSDGs

Our alignment with the UN Sustainable Development Goals

Our stakeholders

We have had discussions with stakeholders across all areas of our business to better understand what matters most to them and how we can further involve them in our decision-making.

Together with our stakeholders, we tackle challenges head on and determine what we need to do to ensure we continue to produce a high-quality, reliable supply of water while taking care of the environment and providing an exceptional service for all.

The communities we serve are diverse, and we welcome the broad range of perspectives this brings to help improve our services and strategic plans.

Trust is critical to achieving our purpose. We must continue to build trust with our stakeholders by successfully meeting our commitments, and be open with them when we fall short of their expectations. Building a trusting relationship ensures we can continue to engage effectively with our stakeholders in a constructive manner and shape the future of our essential public service together.

Affinity Water's stakeholders

Stakeholders we generate value for

Stakeholders that influence what we do

Board's consideration of stakeholders in decision-making

Our Section 172 statement explains how the Board satisfies itself that it manages relationships with each key stakeholder group effectively, and that it knows enough about relevant stakeholder engagement activities to inform decision-making and strategy.

Read our **Section 172 statement** on **page** 100

Key interests of the stakeholders we generate value for

Customers

Why engagement is important

Customers rely on water as an essential service, while our business model is based on customers paying water bills.

Key interests

- Affordability and support for vulnerable customers
- Exceptional customer service
- High-quality water
- Leakage and water efficiency
- The environment

Communities

Why engagement is important

Our communities bring distinctive perspectives and influence on key environmental and social issues on behalf of customers and the public.

Key interests

- The environment and our rare chalk streams
- Affordability and support for vulnerable customers
- Sustainable and resilient water supplies
- Public value

Employees

Why engagement is important

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

Key interests

- Health, safety and wellbeing
- Equality, diversity and inclusion
- Skilled workforce – training and development
- Engagement
- Rewards and financial incentives

Suppliers

Why engagement is important

We rely on our supply chain to be able to manage operations and capital projects, and partners provide investment and support, as well as acting as a source of innovation and new ways of working.

Key interests

- Innovation
- Responsible supply chain – working together to create positive social and economic benefits for our communities and take care of our environment
- Health, safety and wellbeing

Shareholders

Why engagement is important

We need confidence and support from those who invest in us for the strategic direction of Affinity Water and the way it is governed.

Key interests

- The environment
- Exceptional customer service and performance
- Financial risk management
- Trust, transparency and legitimacy

Regulators

Why engagement is important

The company's licence to operate and the framework it operates in is determined by the government and regulators.

Key interests

- Sustainable, high-quality and resilient water supplies
- Trust, transparency and legitimacy
- Exceptional customer service
- The environment
- Innovation
- Leakage and water efficiency

To find out more how we are addressing the key interests of our stakeholders, please read the following sections:

Our approach to sustainability on **page** 16

How we operate on **page** 18

Planning for the future on **page** 45

Our focus areas

We are guided by what our customers and stakeholders have told us matters to them

Our approach to materiality

A fundamental part of developing our initial community strategy in early 2016 was undertaking and reviewing our materiality assessment to identify and prioritise the issues that matter to our business and our stakeholders (including customers and communities). This evolved into our Purpose, ESG strategy and reporting.

The assessment looks at the impacts of our activities, products and services, as well as the expectations and interests of internal and external stakeholders. The output is a materiality map that shows and prioritises the issues, as well as the potential opportunities we have to create value.

The purpose of materiality assessments

The assessment examines all aspects of our business model and should guide our strategic planning. By reviewing the results of the assessment, we are better able to reflect the needs of our customers and communities within our business plans. A materiality assessment can also inform what we report upon and help us to communicate and engage effectively on issues that are important for customers and other stakeholders.

Review process

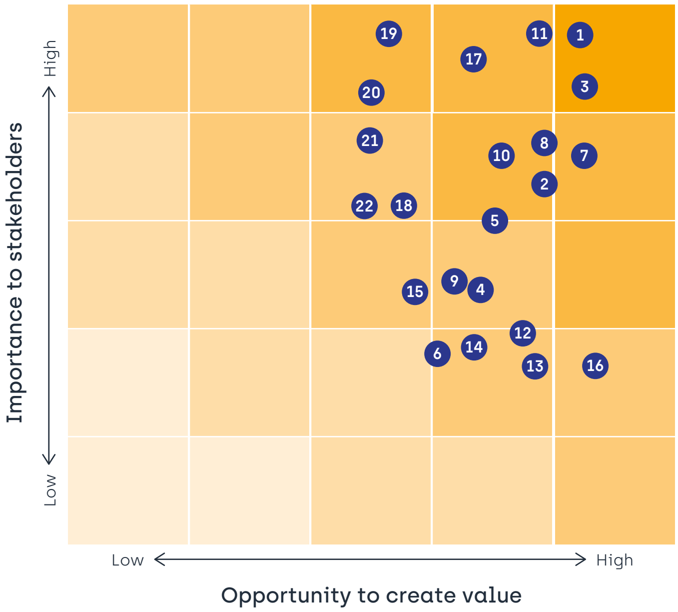
We've completed a desktop review of our materiality assessment to ensure it remains current and relevant.

To do this, we used direct stakeholder feedback and customer insights and third-party research (Ofwat's Trust and Perceptions report, Water UK's Omnibus Research 2022 report and Savanta trust in water providers survey), media and political views (Randall's Monitoring, constituent complaints, party positions), consultation responses (WRMP) and internal insight sessions across directorates.

Any assessment is to some extent an interpretation of the views and information we have collected, so to ensure it remains relevant and accurate we will evaluate feedback. This includes our consultation processes and the design of future insight surveys to assess how we have interpreted our stakeholders' views and priorities. This work will be part of the ESG subcommittee, which aims to continuously improve our understanding and performance in these areas.

Strands of engagement

Materiality mapping



Material issues

Environmental

1. Leakage
2. Energy, carbon and net zero
3. Resillience and extreme weather, includes equality and our culture
4. Waste management
5. Water quality and river health
6. Metering
7. Demand and PCC
8. Environment, habitats and biodiversity
9. Land management, access and recreation, including public value creating through our land
10. Chalk streams – abstraction and water resources

Social

11. Affordability and vulnerability
12. Health, safety and wellbeing
13. Diverse, inclusive and skilled workforce
14. Engaged employees
15. Supporting local communities
16. Innovation
17. Customer service and operational performance

Governance

18. Cyber and data security
19. Trust, transparency and legitimacy
20. Political and regulatory environment
21. Financial risk and management
22. Ethical supply chain, includes labour rights, modern slavery, bribery and corruption

Throughout our annual report, we'll use case studies to describe what we are doing on material issues and how we are adding value – across our six capitals.

What our customers have told us

- To ensure we address leakage and water efficiency as effectively as we can before taking other measures.
- To optimise our existing network to improve connectivity, both locally and further afield, to maximise the use of water.
- To prioritise future water-supply options they feel have less long-term impact on the overall environment and have more obvious wider benefits. Although they recognise the local disruption of such schemes as reservoirs, they see these solutions as more favourable overall.

What our stakeholders have told us

- They support the significant leakage and water-efficiency measures we propose, as well as the greater protection for the environment through reduced abstraction.
- To be more transparent – provide the detailed information that helps build our draft plan.
- To include a wider range of forecasts for population and environmental data in our draft plan, to account for different futures – and to look at the timings associated with our approach to planning.
- To continue to address the concerns held by some stakeholders on specific water-resource options identified for development.

Our strategy

Our strategy sets out our short and long-term ambitions to tackle the challenges we face, to create value for our society and the wider water sector.

Our purpose

Why we exist

To provide high-quality drinking water for our customers and take care of the environment, for our communities now and in the future

Water resources management plan

Every five years, we produce a Water Resources Management Plan to ensure water is available for our customers and communities.

Our plan sets out how we will provide a reliable, resilient, efficient and affordable water supply to customers for the next 50 years, while protecting the environment.

Our plan addresses the need to balance the availability of water supply with the demand for water from customers. We also continue to strive to help protect the environment and improve the resilience of our water supplies to droughts and other challenges.

Long-term strategy

Our Strategic Direction Statement ambitions (2050) The systems that Affinity Water will work within:

Environment

Aim: Leave the environment in a sustainable and measurably improved state.

We will work with our customers and communities to restore the environment into a sustainable state where it can regenerate itself so that it can continue to provide its assets and services to support current and future generations who will enjoy its natural wealth.

Objectives:

- End unsustainable abstraction from chalk groundwater sources
- Achieve net zero carbon by 2045 (and 2030 for our operational emissions)
- Deliver a net gain in natural capital

Resilience

Aim: Be prepared for change, and resilient to shocks and stresses.

We will invest with our stakeholders to create a more resilient community able to cope with and respond to an increasingly uncertain future.

Objectives:

- Ensure a resilient supply of water for our customers
- Ensure our physical assets are resilient for the long term
- Ensure our people, processes, suppliers and finances remain resilient

Read the **How we operate section** on **page** 18

Our long-term strategy sets the direction of our short-term plans

The people that Affinity Water will work with:

Communities

Aim: Work with our communities to create value for the local economy and society.

Aim: Work with our communities to create value for the local economy and society.

Create a collaborative relationship with all our communities, allowing us to act together with common purpose to deliver a society and environment that are mutually sustainable, based on:

Objectives:

- Building trust and transparency
- Enhancing environmental and social health to provide value to our communities
- Reducing our impact in the water environment

6 CLEAN WATER AND SANITATION | 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE | 10 REDUCED INEQUALITIES | 11 SUSTAINABLE CITIES AND COMMUNITIES | 12 RESPONSIBLE CONSUMPTION AND PRODUCTION | 13 CLIMATE ACTION

Customers

Aim: Deliver what our customers need, ensuring affordability for all.

Aim: Deliver what our customers need, ensuring affordability for all.

We will develop a constructive, collaborative relationship with our customers which enables us to work together to deliver for the future.

Objectives:

- Exceed customers' expectations for drinking water
- Personalise our services to support different needs and wants
- Take care of our vulnerable customers and ensure affordability for all

6 CLEAN WATER AND SANITATION | 10 REDUCED INEQUALITIES | 11 SUSTAINABLE CITIES AND COMMUNITIES | 12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Short term

Our customer outcomes [to 2025]

Supplying high-quality water you can trust

- Maintain high water quality
- Catchment management
- Water treatment

Making sure you have enough water, whilst leaving more water in the environment

- Abstraction reduction
- PCC reduction
- Leakage reduction

Providing a great service that you value

- Keep bills low
- Support vulnerable customers
- Improve customer experience

Minimising disruption to you and your community

- Reduce supply interruptions
- Reduce risk of low pressure
- Invest in our assets

Read about **our customer outcomes** on **page** 60

Our customer outcomes

Our Business Plan for AMP7 includes a total of 28 stretching performance commitments that will ensure we deliver our four customer outcomes.

Overview of our performance

It has been a challenging year with extreme weather events and inflationary pressures having an impact on several key performance areas. Although we did not meet our PCC target, our efforts have resulted in savings of 23 million litres per day through demand management initiatives. Underlying performance for supply interruptions was strong and we would have surpassed our target if not for the extreme weather events. We have met our leakage target for the year and are on track to achieve a 20% reduction by 2025. We maintain upper quartile performance in the industry's Compliance Risk Index, ensuring the water we provide is of the highest quality. Additionally, we have fulfilled all obligations under the Water Industry National Environment Programme ('WINEP'), completing 23 project units for this AMP.

Our customer outcomes:

Supplying high-quality water you can trust

Commitments

- Reduce the number of contacts about appearance, taste and odour to 0.67 per thousand population by 2024/25.
- Meet water quality standards on compliance failures by scoring less than 2 annually in DWI's new water quality measure CRI.

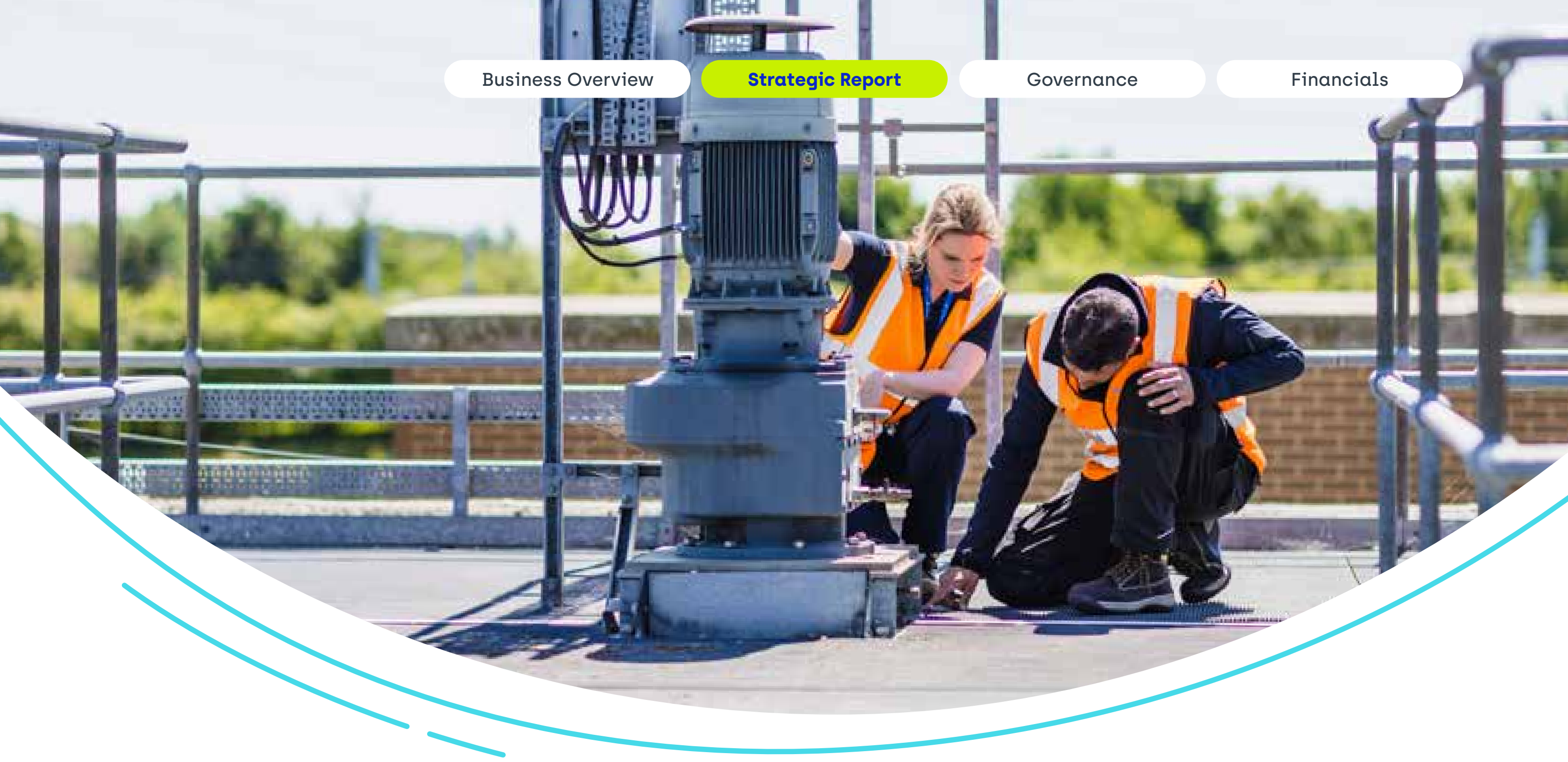
Read more about **supplying high-quality water you can trust** in the operational performance section on **page** 62

Making sure you have enough water, whilst leaving more water in the environment

Commitments

- 20% leakage reduction on a three-year average from the 2019/20 baseline.
- 12.5% reduction in PCC on a three-year average from the 2019/20 baseline.
- Complete river restoration and habitat enhancement projects under the Water Framework Directive.
- Reduce water abstraction by 27.3 Ml/d by 2024/25.
- Complete eight environmental pilot projects working in partnership with our local communities.
- Delivery of schemes within the WINEP programme.
- Reduce abstraction from environmentally sensitive sites to nil when flows or levels are low.

Read more about **making sure you have enough water, whilst leaving more water in the environment** in the operational performance section on **page** 64



Providing a great service that you value

Commitments

- Improve the overall customer experience provided to our household customers.
- Improve the overall experience provided to developer services customers, including property developers, self-lay providers and New Appointments and Variations ('NAVs').
- Proactively assist more of our customers in vulnerable circumstances by understanding and prioritising their needs.
- 90% of customers in vulnerable circumstances receiving financial help are satisfied with the service from us.
- 90% of customers in vulnerable circumstances receiving financial help found us easy to deal with.
- 90% of customers in vulnerable circumstances receiving non-financial help are satisfied with the service from us.
- 90% of customers in vulnerable circumstances receiving non-financial help found us easy to deal with.
- Ensuring our services are accessible, easy and supportive for all by maintaining the BSI standard for inclusive service provision throughout 2020–2025.
- Achieve a score of at least 7.8 out of 10 for customer satisfaction in a value for money survey.
- Identify at least 50 household property gap sites per year.
- Proactively reducing the number of household properties falsely classed as empty on our billing system to 2.10% in 2024/25.

Read more about **providing a great service that you value** in the operational performance section on **page** 66

Minimising disruption to you and your community

Commitments

- Reduce supply interruptions to customers to five minutes in 2024/25.
- No more than 320 properties affected by a supply interruption per year of more than 12 hours duration.
- Improve IT resilience by a 29% reduction in the impact of disruption to customers and employees by 2024/25.
- Reduce the properties at risk of receiving low pressure to 1.118 per thousand properties by 2024/25.
- Reduce the average time each property experiences low water pressure to less than 8 hours 42 minutes in 2024/25.
- To have no customers at risk of experiencing severe restrictions in a 1-in-200-year drought on average over 25 years.
- Reduce the number of mains repairs to 142.3 per thousand kilometres of network.
- To keep outage of production capacity below 2.34% between 2020 and 2025.

Read more about **minimising disruption to you and your community** in the operational performance section on **page** 68

Our operational performance

Supplying high-quality water you can trust

Our performance at a glance

In 2022/23, we maintained high-quality drinking water through advanced technology and monitoring systems. Our outstanding Compliance Risk Index (CRI) score of 1.092 (lower is better) demonstrated industry-leading performance. Despite challenges like extreme temperatures and a freeze/thaw event, we conducted reservoir inspections and responded effectively. We increased storage resilience with the acquisition of Sundon reservoir and enhanced treatment works with UV installations. Energy efficiency improved by 1.1%, and our two solar-farm sites reduced our carbon footprint. We invested in employee competence through training and apprenticeships in water treatment and operations, as well as electrical and mechanical skills.

Maintain high-quality water

During 2022/23, we continued to supply high-quality drinking water by using the latest technology and sophisticated monitoring systems at our treatment works, regularly inspecting the integrity of our storage reservoirs, and operating our distribution systems in a manner that ensures water arrives at our customers' properties in the same condition as it leaves our water treatment works.

Our Compliance Risk Index ('CRI') score, the measure used by the Drinking Water Inspectorate ('DWI') to assess water companies' performance with regard to water quality, was 1.092 for calendar year 2022 (lower is better). This was well within the dead band of 2 for our performance commitment, and was one of the leading scores across the industry in 2022 (with a score of 5 being the industry average).

Water treatment, distribution and supply

During 2022/23, our teams did an amazing job to keep to the high-quality standards that our customers expect, managing a challenging number of reservoir inspections (last year 52 and another 22 in the year to date), which help to achieve our industry-leading CRI score. We have also worked around the clock to respond effectively during the summer peak-demand period, when our region experienced the hottest temperatures ever recorded here, resulting in a significant increase in the demand for water – and in the freeze/thaw event in December 2022 that had a significant impact across the industry.

We have successfully completed the purchase of Sundon reservoir, increasing our storage resilience in our local areas, and we are in the process of undertaking UV installations at two of our largest water-treatment works to enhance them further. Once operational, the new Sundon reservoir will allow us to bring in more water from Grafham reservoir, and help reduce the amount we take from chalk groundwater – helping our globally rare chalk streams.

We improved our energy efficiency in the year to date by 1.1% across our production sites, and we are now running our second solar-farm site, to support our Walton Water Treatment Works, providing power combined from our two installations up to 1,200kW, to reduce our carbon footprint and our reliance on grid electricity. A second phase has been initiated to enhance our energy efficiency further.

We are continuing to invest in our people, and increasing our teams' competence, with the continuation of CABWI Level 3 and Level 4 Diplomas in Water Treatment and Operations, and have now successfully completed training our operatives through an Electrical and Mechanical Apprenticeship.

142

tonnes of nitrate prevented from reaching aquifers through Affinity Water funded cover crop schemes

Building a greener future with the farming community

For the fourth consecutive year, we ran an innovative scheme in Hertfordshire, incentivising farmers to grow cover crops over the 2022/23 autumn and winter period. Farmers can bid competitively for funding through the EnTrade environmental trading platform.

The aim is to work with farmers to improve groundwater quality and protect chalk streams by reducing the amount of bare agricultural soil during winter. Cover crops have a range of benefits, including nutrient and carbon capture, reduced run-off into rivers, increased water-holding capacity to support flood and drought resilience, soil health and improved biodiversity.

The auction was successful, with funding for over 500 hectares of farmland to grow cover crops this autumn and winter. Over the past four years, we have funded over 3,000 hectares of cover crops in vulnerable catchments, saving an estimated 142 tonnes of nitrate that could leach into groundwater aquifers or run off into precious chalk rivers.

A natural-capital evaluation of the scheme demonstrated that for every £1 invested in cover crops, over £6 of environmental benefit is realised, with particular benefits for soil health and climate regulation.

We also ran a programme of successful pesticide-reduction schemes across our supply area, providing funding for measures such as over-winter cover crops, taking land out of arable production with full-year cover crops, companion cropping in oilseed rape, and switching to water-friendly break crops that use fewer pesticides. Funding for these water-friendly measures has influenced crop rotations and been targeted on high-risk areas for water, covering over 1,000 hectares of eligible arable land. These schemes have significantly reduced pesticides lost to water and provided enhanced resilience to drinking-water quality and protection of aquatic ecology in our rivers.

Furthermore, we have funded pesticide-reduction field trials to investigate the multiple benefits of companion cropping oilseed rape and how farmers can reduce their doses of problematic herbicides while still maintaining grassweed control and protecting water.

> "For every £1 invested in cover crops, over £6 of environmental benefit is realised with benefits for soil health and climate regulation."

Alister Leggatt
Senior Asset Manager

UNSDGs

Our alignment with the UN Sustainable Development Goals

Our operational performance continued

Making sure you have enough water, whilst leaving more water in the environment

Our performance at a glance

Our commitment is to reduce water usage by 12.5% by 2025 through metering, customer education, and water-efficient devices. While we haven't reached our target yet, we're making progress with a savings of 27.2Ml/d through demand management initiatives. We conducted over 16,000 in-home and virtual water-efficiency checks and completed 1,300 internal repairs with the help of a new supplier. Our metering programme has installed 50,000 meters this year, covering approximately 72.3% of households in our central region and our industry-leading Save Our Streams campaign has now gained 240,000 customer sign-ups since launch.

Despite extreme weather challenges, we've reduced leakage by 15.8% and are on track to achieve a 20% reduction for AMP7. We're actively testing innovative detection methods and equipment to combat leakage, including satellite detection, AI solutions, and acoustic devices.

We're progressing well with network reinforcements, treatment installations, and abstraction reductions. We're closely monitoring the environmental impact of groundwater abstraction reductions to inform our long-term strategy.

Leakage

It is essential we continue to work hard to reduce leakage on our network; our customers expect us to lead the way, to show our commitment to meeting the expectation we have set ourselves with one of the highest reduction targets in England and Wales for AMP7.

This third year of AMP7 has been extremely demanding. From reducing our leakage last year, we entered the year in a very good position, but we have seen an unprecedented level of leakage breakout from two events in the year. Firstly, because of the very dry and hot weather through the summer, soil moisture deficit, which causes ground movement and pipes to leak, was at the highest we have seen in 20 years. This was combined with significant customer demand, leading to additional stress on the network. We then experienced a significant freeze/thaw event in December that was greater than the so-called 'beast from the east', which led to several months of recovering the leakage breakout.

Despite the challenges, we have achieved our year 3 performance commitment, and have reduced leakage by 15.8%. This has put us back on track for achieving the full AMP7 target of a 20% reduction.

We continue to work closely with our supply chain as we test innovative detection methods and equipment, to ensure we are doing all we can to reduce leakage. This year, we have tested innovative satellite leakage detection, implemented an AI solution using an array of sensors across our network, deployed new acoustic-detection devices, and increased the use of our intensive leakage surveying technique.

Our leakage performance is detailed on page 74.

Abstraction reductions

Work has been progressing well with our network reinforcements, installation of new treatment and booster pumps to facilitate our AMP7 abstraction reductions. We have also started work at Sundon which, once complete, will enable us to maximise our import from Anglian Water. We remain on target to complete our programme of works by December 2024.

We are continuing to monitor the environmental response to reducing groundwater abstraction in the Upper Chess and in the catchments where we reduced abstraction in AMP6. We are using this information to support our long-term strategy to ensure we target future groundwater abstraction reductions in catchments where there will be most benefit.

Per capita consumption

Our commitment is to reduce water use by 12.5% by 2025, through metering, inspiring our customers to use less, and through water-efficiency devices.

PCC is the metric used by the water industry to measure water use in the home.

While we have not hit our target, we continue to make progress towards our challenging ambition to achieve a significant reduction in demand for water. We have achieved 27.2Ml/d savings via all our demand management initiatives.

We took on a new supplier at the start of the year to run over 20,000 in-home and virtual home water-efficiency checks, and completed over 1,400 internal repairs.

Our metering programme continues, with over 50,000 meters installed so far this year. We now have approximately 72.3% of households in our central region on a metered supply.

Our innovative Save Our Streams campaign, the biggest water saving campaign in the UK, continues to help our customers start their water saving journey. In 2022, a further 91,000 customers signed up to the water saving campaign taking the total of 240,000 sign-ups.

Case study

Investing in our network for a sustainable future

A new trunk main from Black Fan Road to Digswell will enable changes to abstraction licences at two of our groundwater sources (Fulling Mill and Digswell.)

The project will see 3km of new 300mm and 400mm pipeline installed, including two pressure controlled and metered connections into our existing mains network. Detailed design for the scheme started in July 2022 with hydraulic completion of the pipeline scheduled for September 2023.

This £2.6 million investment will enable us to deliver reduced groundwater abstraction by December 2024 with our source at Fulling Mill having zero abstraction at all times (post December 2024) and licensed average abstraction at Digswell reducing from 7.2Ml/d to 1.5Ml/d. Our peak license of 8.1Ml/d will remain unchanged.

These reductions form part of our AMP7 Sustainability Reductions programme which was agreed with the Environment Agency and costs included within our PR19 Ofwat Business Plan.

The project is a critical element in delivering groundwater abstraction reduction which will contribute to improvement to river flows and local ecology along the River Mimram.

This investment also delivers improved network resilience through the two new connections and maintains the same level of security of supply and water quality to the 21,000 properties affected by the reduction in abstraction.

UNSDGs

Our alignment with the UN Sustainable Development Goals

6 CLEAN WATER AND SANITATION | 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE | 12 RESPONSIBLE CONSUMPTION AND PRODUCTION | 13 CLIMATE ACTION

Our operational performance continued

Providing a great service that you value

Our performance at a glance

Our customer-first approach aims to improve services and establish ourselves as the leading community-focused water company in the UK.

Although our C-MeX measure remained mostly unchanged this year due to service disruptions caused by extreme weather, our customers' experience scores steadily increased, surpassing industry averages and elevating our rankings compared to other companies. We successfully launched our new brand identity, conducted our first TV ad campaign, and ran initiatives to address leakage and water waste, positively impacting customer perceptions.

We strived to keep bills affordable, particularly for customers facing financial challenges. We provided a discounted tariff for eligible low-income customers and implemented measures outlined in Ofwat's Paying Fair guidelines. Customer engagement programmes were employed to raise awareness and uptake of bill payment assistance, with over 97,000 customers now on a social tariff – one of the highest in the industry.

Being the monopoly supplier and steward of a precious resource for future generations, we are acutely aware that we must continually invest in building trust and authenticity with our customers, and make ourselves accountable to our communities for our performance.

By continually increasing our focus on customers, we strive to make improvements in the service we provide, and fulfil our vision of being the UK's leading community-focused water company.

Improving the customer experience

Our C-MeX (customer service) measure has been largely flat this year, hampered by two periods of severe disruption to consumers – summer drought and winter freeze/thaw event Customers' experience scores, however, have steadily increased over the year, outstripping the industry average and yielding an increase in our rankings compared to other water companies.

We rolled out our new brand identity fully and undertook our very first TV ad campaign, focused on increasing customers' awareness of what we did about leakage. We also ran a an extensive campaign from October with the aim of motivating customers to waste less water. Despite launching after the summer period, the campaign changed customer perceptions and attitudes towards Affinity Water.

Despite the summer being a challenging period, we managed to avoid putting in a temporary usage (hosepipe) ban, and this also contributed positively towards an improved experience score, with customers happy about how we communicated it to them.

Keeping bills affordable

In the communities we serve, some of our customers struggle to afford household bills, including water. Most of our customers receive a combined bill for both water and sewerage charges, so affordability can also be affected by changes in the sewerage charges set by wastewater companies. In 2022/23, however, the average increase in the combined water and sewerage bill in our area was about 1%.

We help alleviate affordability difficulties by offering a discounted tariff to eligible, low-income customers, and during the year we worked to meet the requirements of Ofwat's May 2022 Paying Fair guidelines. We ran a targeted programme of customer engagement to improve awareness and take-up of the help we offer with bill payment. We also encouraged our customers to save water and money through our Save our Streams campaign, and by providing information about customers' water use on bills.

Case study

Affinity Water and Scottish and Southern Electricity Networks join forces to help customers

We joined forces with Scottish and Southern Electricity Networks ('SSEN') to help west London customers in vulnerable circumstances access free, additional services from both utilities.

We used data and mapping tools to identify certain areas with a higher proportion of elderly residents or cases of social isolation, and worked together so customers of both utilities could access the Priority Services Register ('PSR').

Around 3,600 households in the London Borough of Hillingdon received an explanatory letter to highlight the financial support available to help with water bills and SSEN services. It set out easy ways for customers to reach each organisation and encouraged them to sign up for the free services available.

Customers are eligible for the Priority Services Register if they:

- have a disability
- have a chronic illness
- use medical equipment or aids reliant on electricity
- use oxygen in the home
- are over 60
- live with children under five
- have poor mental health
- are blind or partially sighted

Depending on circumstances, we may also be able to help reduce how much customers pay for water through our low-income tariff ('LIFT'), a fixed discounted charge. If eligible for the tariff, customers will receive a fixed-priced bill each year for clean water and to help keep payments simple and affordable. They can also make smaller, monthly payments throughout the year.

93%

of vulnerable customers said they were happy with our service

120k

Customers signed up to our Priority Services Register

UNSDGs

Our alignment with the UN Sustainable Development Goals

10 REDUCED INEQUALITIES

Our operational performance continued

Minimising disruption to you and your community

Our performance at a glance

We invested over £140 million this year in our physical assets and to prioritise customer and environmental commitments. We responded to extreme weather, maintained water availability through proactive maintenance, acquired Sundon reservoir to increase network resilience and enable further sustainability reductions by 2025, and enhanced treatment capabilities.

Underlying performance for supply interruptions was strong, but was again impacted by the extreme weather events. We've made changes, including new programme boards, improved control, modelling, training, and situational awareness tools.

Regarding low pressure, our performance was 150.93 compared to a target of 1.51, but our average property time was 2.33 hours against a target of under 10 hours. While one measure fell short, we believe average property time reflects the overall customer experience. We aim to improve resilience, network investments, and resource optimisation to reduce low-pressure instances.

Investing in our assets

We continually invest in our physical assets, both above and below ground, as well as meeting our environmental obligations such as biodiversity. We prioritise our investments by balancing costs, risks and performance. This year, we have spent over £140 million to meet our commitments to our customers and the environment.

We have prepared for, and managed, our response to extreme weather, including the hottest summer temperatures on record and periods of freeze/thaw over the winter months. We spent nearly £1m on proactive maintenance of our above-ground assets to maximise water availability in the summer.

We have completed our purchase of Sundon reservoir. This important project allows us to maintain customers' water supplies as we reduce our abstraction. Work continues over the next two years to build the treatment plant at Sundon, to condition our imports from Grafham water.

We are part-way through construction of enhanced treatment capabilities at our two largest water-treatment works. Installing ultraviolet technology adds resilience to our ability to remove cryptosporidium, should it be present, from the raw water we take from the River Thames. Work at both sites will complete before 2025.

Reducing supply interruptions

We have had a difficult year with supply interruptions. We unfortunately failed both our over-three-hour and over-12-hour performance commitments. We had a challenging summer due to the prolonged hot weather, which caused demand issues at our above and below-ground assets. We then had the freeze/thaw event, which was one of the toughest periods we have had for many years.

We had significant interruptions due to reservoirs emptying and not keeping up with demand. The increased demand was a direct result of the sudden change in temperature from below zero to above 10 degrees. We prepare for extreme weather ahead of these incidents occurring and the vast majority of customers are kept in supply, however some customers are unfortunately impacted during these times.

We have made some major changes in our Interruptions to Supply approach, including:

- New programme boards set up to make improvements in key projects.
- Top-five projects set up to improve performance going into year four.
- Controlling Mind – a single team controlling access to, and operation of, our assets.
- Modelling in Control Room – evolving our existing capability to be a round-the-clock team to reduce response times for complex modelling. Accurate post-event validation.
- Training – developing the right capabilities (technical and leadership) to achieve the right outcomes consistently.
- Additional pressure loggers will allow us to maximise the value from our situational awareness tool.

Underlying performance was very good this year. Had we not added 10 minutes as a result of the extreme summer temperatures and freeze/thaw incident in December, our year end figure would have been below 5 minutes and well within our performance commitment, which reflects hard work and contributions from all our teams.

Low pressure

Customers have a right to expect the pressure and flow at their property to meet minimum requirements as set out by our regulator, which apply to the whole industry. Persistent low pressures can affect our customer's daily lives, for example it taking them longer to fill sinks and baths and, in extreme cases, affecting the performance of water-using appliances in the home.

The low-pressure KPI definition is properties at risk of receiving low pressure, per 10,000 properties, and we receive a financial penalty if we fail to achieve the regulatory target. Our performance for 2022/23 is 150.93 compared to the target of 1.51. We also have a second performance commitment for low pressure, which reflects the average time a property in our supply area receives pressure or flow below the reference level. Our annual performance for 2022/23 is 2.33 hours compared to a target of under 10 hours.

While we failed to achieve one low pressure measure, we outperformed the other. We believe the 'average property time' measure best represents the overall customer experience for low pressure. There is no doubt that this year has been challenging due to extreme weather events, and unplanned strategic operational issues have all affected customers' pressures in ways that have been difficult to mitigate.

We recognise we need to improve on this measure. We are focused on improving our resilience (to extreme demand and other adverse operational events), investing in our network (implementing schemes to improve pressure in known problem areas), and investing in our people (increasing our resources to monitor and optimise our current assets). These workstreams are all focused on reducing the number of properties where pressure drops below the reference level, or reducing the length of time properties experience low pressure.

Financial review

Highlights

- Additional energy swaps transacted during the year to hedge against rising energy prices.
- Our ICR covenants were met as at March 2023 and we continue to monitor and adhere to them.
- Awarded the Fair Tax Mark certification for the fifth successive year.

Moving forward through a challenging year

2022/23 has been another challenging year with a number of external factors, including high inflation, rising energy prices, the unprecedented hot weather over the summer months and the freeze/thaw event in December 2022, all having an impact on our business. The ongoing cost-of-living crisis has impacted our customers and we are also seeing increased levels of bad debt and a reduction in cash collection rates.

Introduction

The last couple of years have presented several 'once in a generation' external challenges that have had an impact on businesses across the world, and we have not been immune to this.

The Covid pandemic has had a massive impact on the usual ways society consumes water and we have seen much higher water use over the last three years, impacting our costs and operational metrics.

Energy prices have risen sharply over the last year and the treatment of water and distributing it to our 3.8 million customers makes energy one of our biggest costs. Our hedging strategy for energy has protected us to some extent and will do so for the year ahead. Nevertheless, higher prices than we planned for have been a challenge from a cost perspective.

Inflation has also been rising at its highest rate in 40 years and this means there are additional costs we need to pay to keep our network running and continue to supply customers with a reliable, high-quality supply of water.

Our customers have also been impacted by the ongoing cost-of-living crisis and we are seeing a reduction in our cash collection rate, resulting in high bad debt charges in the year.

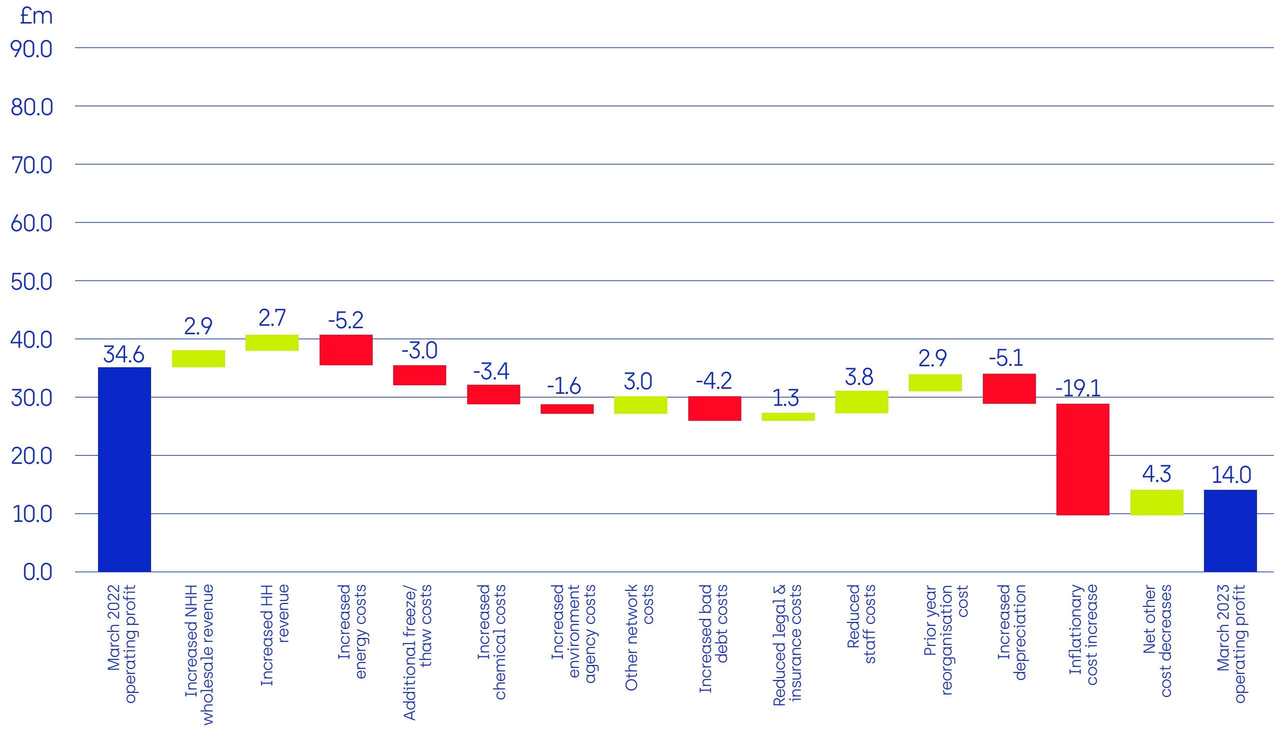
2022/23 financial performance

Our financial results are prepared in accordance with Financial Reporting Standard 101: 'Reduced Disclosure Framework' ('FRS 101') and are summarised in the table below. For more information, refer to the basis of preparation of our statutory financial statements on page 231.

	2023 (£m)	2022 (£m)
Revenue	**323.3**	319.7
Operating costs	**(331.3)**	(304.1)
Other income	**21.9**	19.0
Operating profit	**14.0**	34.6
Net finance costs	**(100.0)**	(118.1)
Fair value (loss)/gain on energy swaps	**(26.6)**	28.0
Loss before tax	**(112.7)**	(55.6)
Taxation	**11.8**	(41.3)
Loss for the year	**(100.9)**	(96.9)

Revenue for 2022/23 was £323.3 million, being a £3.6 million (1.1%) increase on the prior year (2022: £319.7 million). The increase is primarily due to higher non-household ('NHH') wholesale revenue as final settlement runs continue to be higher than expected, as well as a increase in household ('HH') tariffs due to billing of empty properties, additional transfers from unmeasured tariffs and the hot summer weather driving additional consumption. Additionally, developer experience activity increased during the year, resulting in additional contributions towards new connections in the current year.

Operating costs for the year increased by £27.2 million (8.9%) £331.3 million (2022: £304.1 million) with year-on-year inflation (RPI) being 13.5% higher and higher wholesale energy prices. Energy costs would have been considerably higher had the company not hedged its usage. Additional expenditure was also incurred as a result of the freeze/thaw event in December 2022 resulting in a large number or bursts, additional imports required and a large number of repair jobs. Network costs increased as a result of a global increase in chemicals costs. Bad debt costs also increased during the year as a result of a decline in our cash collection rates. The depreciation charge was also higher than the prior year due to ongoing investment in our network. Staff costs reduced in the year due to the mix of capex and opex works completed in addition to prior year reorganisation costs incurred. Other income increased by £2.9 million (15%) to £21.9 million (2022: £19.0 million)as a result of sundry income related to contaminated land. As a result, operating profit decreased by £20.6 million (59.5%) to £14.0 million (2022: £34.6 million) as shown in the graph below.



Financial review continued

£112.7m

Loss before tax, being a £57.1m increase on prior year

£22.9m

Net cash outflow in the year

The net finance expense of £100.0 million was £18.1 million (15.3%) lower than last year (2022: £118.1 million), primarily due to a fair value gain on inflation swaps[1]. There was a fair value loss[1] of £26.6 million on energy swaps due to a fall in the market forward price compared to last year.

Loss before tax for 2022/23 was £112.7 million, being a £57.1 million increase on prior year (2022: loss of £55.6 million).

The income tax credit for 2022/23 was £11.8 million (2022: £41.3 million charge) as a result of a tax credit on losses made in the year. In the prior year, a tax charge was incurred due to the tax rate increase from 19% to 25% announced in the prior year, partially offset by a tax credit on losses recognised in the prior year. The effective current tax rate (11%; 2022: 74%) was lower than (2022: higher than) the UK corporation tax rate of 19% (2022: 19%). Further information and a full reconciliation of the current tax charge are set out in note 5.4 of our statutory financial statements. All our profits are taxed in the UK, and we do not use artificial tax avoidance schemes or tax havens to reduce our tax liabilities.

Our total tax contribution is set out below:

Cash flow

Net cash flow before tax and financing[2] for the year was £22.9 million outflow, being a £6.8 million increase on last year (2022: £16.1 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, with lower operating profits being partially offset by favourable movements in working capital.

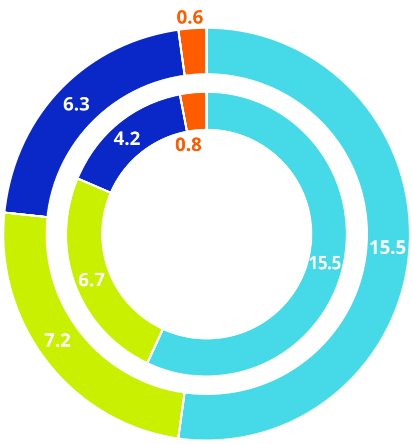
Net debt and gearing

As we are a business with a long-term outlook and expenditure commitments, we need to match this with long-term sources of debt finance. We consider the most cost effective way to raise long-term debt to be through the debt capital markets.

Our financing subsidiaries have outstanding external bonds totalling £1,130.0 million, raised in the debt capital markets and on-lent to the company on the same terms.

Our net debt[3] as at 31 March 2023 was £1,257.7 million, an increase of £177.9 million since last year (2022: £1,079.8 million). This increase reflects a net cash outflow of £56.8 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

2022/23



Tax contribution (£m)

- Direct tax paid **2022/23 £0m** 2021/22 £0m
- Business rates
- Employment taxes
- Environmental taxes
- Streetworks permits

2022/23 (outer) £29.7m

2021/22 (inner) £27.2m

to match growth in nominal RCV and is included within net debt.

Our gearing as measured by net debt to RCV at 31 March 2023 was 73.4% (2022: 73.0%), so remains below our internal maximum gearing level of 80.0% of RCV.

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 73.4% 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.

Dividends

No equity dividends were paid during the year (2022: £nil), reflecting the shareholders' commitment to re-invest all planned returns from the company's appointed business for the benefit of our customers during AMP7.

Capital expenditure

Capital expenditure in the year was £127.7 million (2022: £139.9 million), and was incurred principally in our leakage, mains renewals, trunk main replacement, water treatment and integrated water savings programmes. This excluded £21.1 million (2022: £22.2 million) of infrastructure renewal expenditure, which is treated as an operating cost under FRS 101.

Our total capital expenditure for 2022/23 includes an element of spend that had been scheduled for earlier years in AMP7 but was delayed due to Covid-19 restrictions in place at the time. The total capital expenditure also includes spend on HS2 schemes that have been fully compensated for.

We are planning to phase out diesel generators and replace pumps with more energy efficient ones, as part of our carbon reduction strategy, but do not anticipate this having a material impact on our financial statements going forward.

Pensions

Our retirement benefit asset has decreased by £50.6 million in the year (48.6%) to £53.6 million (2022: £104.2 million) due to the underlying performance of the net assets and liabilities.

Total expenditure

We have spent £328.0 million in 2022/23, which is an underspend of £6.2 million (1.9%) in outturn prices compared to our allowed expenditure of £334.2 million. We planned to invest £1.44 billion during AMP7 with this investment being key to maintaining resilience and making sure our customers have enough water, while leaving more water in the environment by delivering sustainable abstraction reductions in line with our WRMP for the 50-year period from 2025 to 2075.

Martin Roughead
Chief Financial Officer

12 July 2023

1 Gains or losses arising from fair value changes reflect the market conditions at the time and are non-cash in nature. They are accounting entries only, impacting the income statement but not the statement of cash flows during the period.

2 This Alternative Performance Measure is calculated as the total of the following line items per the statement of cash flows (refer to page 230): cash generated from operations; capital contributions; purchases of property, plant and equipment; proceeds from sale of property, plant and equipment; purchase of intangible assets; and principal elements of lease payments.

3 This Alternative Performance Measure is calculated as borrowings and accrued interest less loans from intermediate parent company and all company cash and short-term deposits. It is reconciled to our regulatory net debt in table 1E of our regulatory Annual Performance Report.

Key performance indicators

We have aligned our operational KPIs to our key performance commitments in response to customer expectations.

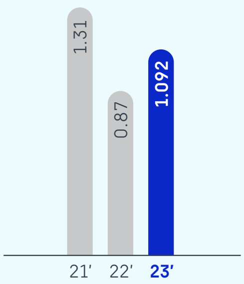
The first three years of the 2020–2025 period have now been completed. We are required to report our performance against targets as set by Ofwat in our final determination 2019. These targets include the performance commitments made in our Business Plan 2020–2025. Our performance in relation to these targets for 2022/23 is analysed in the tables below.

Operational

01

Water quality

Compliance Risk Index ('CRI') score



Performance

Actual: 1.092
Deadband target: 2.0

Link to our customer outcomes

KPI linked to remuneration

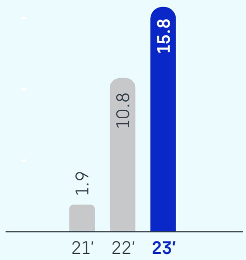
The Compliance Risk Index ('CRI') is a measure to inform the risk arising from treated water compliance failures.

Our CRI score, the measure used by the Drinking Water Inspectorate ('DWI') to assess a water company's performance with regards to water quality, was 1.092 for 2022. This was well within the deadband of 2 for our performance commitment and was one of the leading scores across the industry in 2022.

Read the **operational performance** section on **page** 62

02

Leakage



Performance

Actual: 15.8%
Target: 14%

Link to our customer outcomes

KPI linked to remuneration

This measure is reported as a percentage reduction in a three-year average of leakage against a baseline level of 2019/20. We reduced leakage by 15.8% in 2022/23, surpassing our 14% target.

Read the **operational performance** section on **page** 64

Key

- Supplying high-quality water you can trust
- Providing a great service that you value
- Making sure you have enough water, whilst leaving more water in the environment
- Minimising disruption to you and your community

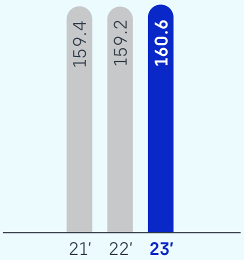
Trend

- Stable
- Increasing
- Decreasing
- Performance met
- Performance not met

03

PCC

Average water use (litres/person/day (l/p/d))



Performance (based on three year average)

Actual: 4.3% increase (160.6 l/p/d)
Target: 7.3% reduction

Link to our customer outcomes

KPI linked to remuneration

During 2022/23, we recorded PCC of 160.6 l/p/d which is an increase from 159.2 l/p/d recorded in 2021/22 (based on three-year average). However, we did not achieve the targeted reduction of 7.3% in the three-year average from the 2019/20 baseline.

PCC is a measure of water usage in the home. Our three-year average is heavily influenced by the unprecedented demand for water in the home seen in 2020/21. We saw a high-level demand over the summer, and were unfortunately still seeing the impact of Covid.

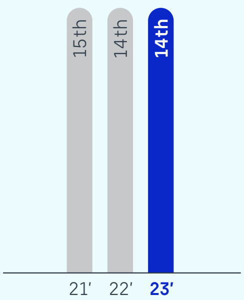
Water demand has not returned to pre-pandemic levels, but we remain committed to reducing PCC by the end of AMP. We have continued our water saving initiatives such as our flagship SOS 'Save Our Streams' campaign, home water efficiency checks and innovation projects targeted to water use reduction.

Read the **operational performance** section on **page** 65

04

C-MeX

(Score)



Performance

Actual: 14th position (out of 17)
Target: mid table

Link to our customer outcomes

KPI linked to remuneration

Customer Measure of Experience (C-MeX) is a mechanism to incentivise water companies to provide an excellent customer experience for residential customers, across both the retail and wholesale parts of the value chain. C-MeX is based on a league table comparison of performance by the other 17 water companies in England and Wales.

Read the **operational performance** section on **page** 66

To find out more about the rewards and penalties of each of our performance commitments, please read our Regulatory Annual Performance Report for year end 31 March 2023 (page 67, table 3A) at affinitywater.co.uk/reports-publications.

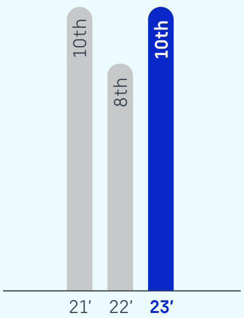
Key performance indicators continued

Operational

05

D-MeX

(Score)



Performance

Actual: 10th
Target: mid table

Link to our customer outcomes

KPI linked to remuneration

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.

At the halfway mark for D-MeX, we are currently 10th in the industry league table. For the first nine months of this year, we have achieved 100% compliance against the quantitative element of our D-MeX score. Qualitative scoring for quarter 1 was promising but we then saw a drop in quarter 2 performance.

Development Experience have completed a restructure to ensure we are set up to provide our customers with fantastic customer service, as well as working within agreed timescales. We are anticipating seeing the benefits of our restructure in quarter 3 qualitative survey results.

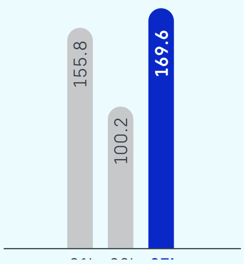
We are now working on streamlining and improving our processes, so we are about to efficiently meet the needs of our customers and help us achieve our D-MeX goals.

Our internal qualitative scoring is tracking very well, and we are building our strategic to get more real time insight into how we are performing against our customers needs.

06

Mains repairs (due to bursts)

(Number per 1,000km mains)



Performance

Actual: 169.6
Target: 146.5

Link to our customer outcomes

KPI linked to remuneration

Performance in the year was 169.6 repairs per 1,000km of mains on a target of no more than 146.5 in the year (2021/22: 100.2). Weather is a strong contributing factor in the number of mains repairs needed in a year. We experienced an exceptionally hot summer in 2022 with a significant freeze/thaw event in winter. Figures cannot be compared directly to the previous year's without taking this into account.

Read the **operational performance** section on **page** 68

Key

- Supplying high-quality water you can trust
- Providing a great service that you value
- Making sure you have enough water, whilst leaving more water in the environment
- Minimising disruption to you and your community

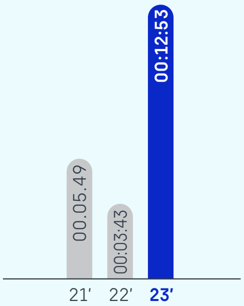
Trend

- Stable
- Increasing
- Decreasing
- Performance met
- Performance not met

07

Water supply interruptions >3 hours

(average minutes per property, water supply interruption)



Performance

Actual: 12 minutes, 53 seconds
Target: 5 minutes, 45 seconds

Link to our customer outcomes

KPI linked to remuneration

Our overall performance across the year was very strong. We outperformed our monthly target ten out of 12 months. Unfortunately, due to the significant weather events we experienced in the year (Jul-23 hot weather and Dec-23 freeze/thaw), we have failed our performance commitment.

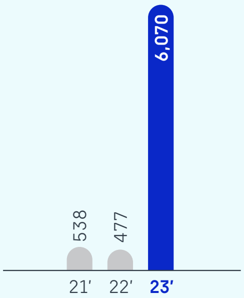
We added over ten minutes to the register for these two events (2mins in Jul-23 and 8min in Dec-23). Underlying performance was very strong for the other ten months.

Read the **operational performance** section on **page** 68

08

Unplanned interruptions to supply over 12 hours

(number of properties)



Performance

Actual: 6,070
Target: 320 or less

Link to our customer outcomes

Our overall performance across the year was very strong. We outperformed our monthly target ten out of 12 months. Unfortunately, due to the significant weather events we experienced in the year (Jul-23 hot weather and Dec-23 freeze/thaw), we have failed our performance commitment.

We added over 6,000 properties to the register for these two events. Underlying performance was very strong for the other ten months.

Read the **operational performance** section on **page** 68

To find out more about the rewards and penalties of each of our performance commitments, please read our Regulatory Annual Performance Report for year end 31 March 2023 (page 67, table 3A) at affinitywater.co.uk/reports-publications.

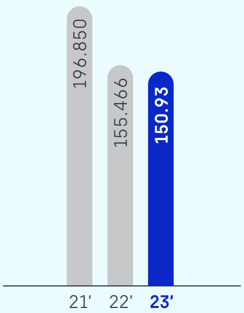
Key performance indicators continued

Operational

09

Properties at risk of low pressure

(number per 10,000 properties)



Performance

Actual: 150.93
Target: 1.381

Link to our customer outcomes

KPI linked to remuneration

The low-pressure KPI definition is properties at risk of receiving low pressure, per 10,000 properties, for which we receive a financial penalty if we fail to achieve the regulatory target. Our performance against the target for year 3 is 150.93 against the target of 1.381. We also have a second performance commitment for low pressure which reflects the average time that a property in our supply area receives pressure or flow below the reference level.

Our annual performance against this target is 2.33 hours against a target of 10 hours.

It is interesting to note that while we failed to achieve one low pressure measure, we simultaneously outperformed the other. We believe that the 'average property time' measure best represents the overall customer experience with regards to low pressure.

There is no doubt that this year has been challenging. Record-breaking hot weather in the summer, the freeze/thaw event in December, and unplanned strategic operational issues have all impacted on customer's pressures in ways that have been difficult to mitigate.

We have more than 1,100 telemetered pressure monitoring devices installed at critwical points across our network, so have a very good understanding and record of mains pressures. The basis of the common reporting guidance for properties at risk of receiving low pressure is now more than 30 years old, and dates to when data and understanding of mains pressures was very limited. Given this, and the number of pressure monitoring points that we now have, it is unlikely we will ever be able to meet the prescribed target for this measure.

Read the **operational performance** section on **page** 68

Key

Supplying high-quality water you can trust

Making sure you have enough water, whilst leaving more water in the environment

Providing a great service that you value

Minimising disruption to you and your community

Trend

Stable

Increasing

Decreasing

Performance met

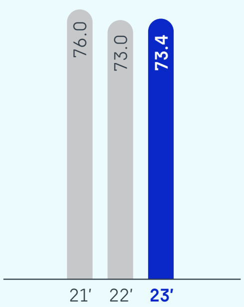
Performance not met

Financial

10

Gearing

(ratio of net debt to RCV, %)



Performance

Actual: 73.4%

Internal threshold: 80.0%

Link to our customer outcomes

Our net debt[1] as at 31 March 2023 was £1,257.7 million, an increase of £177.9 million since last year (2022: £1,079.8 million). This increase reflects a net cash outflow of £56.8 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 73.4% 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.

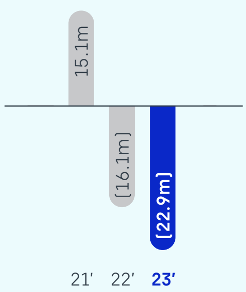
Read our **Financial Review** on **page** 70

1 This Alternative Performance Measure is calculated as borrowings and accrued interest less loans from intermediate parent company and all company cash and short-term deposits. It is reconciled to our regulatory net debt in table 1E of our regulatory Annual Performance Report.

11

Cash flow

(Net cash flow before tax and financing)



Performance

Actual: (£22.9m)
Prior year: (£16.1m)

Link to our customer outcomes

KPI linked to remuneration

Net cash flow before tax and financing for the year was a £22.9 million outflow, being a £6.8 million increase on last year (2022: £16.1 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, with lower operating profits being partially offset by favourable movements in working capital.

Our KPI linked to remuneration in the current year relates to totex and working capital within the regulated busines, and cash generated from operations from the non-regulated business. Neither of these targets were met, as disclosed in the Remuneration report.

Read our **Financial Review** on **page** 70

To find out more about the rewards and penalties of each of our performance commitments, please read our Regulatory Annual Performance Report for year end 31 March 2023 (page 67, table 3A) at affinitywater.co.uk/reports-publications.

Sustainability

What sustainability means to us

Minimum risk, maximise value

Our purpose is to provide high-quality drinking water and to take care of our environment, for our communities now and in the future. This is at the heart of what sustainability means to us and how we can add value to society.

To address sustainability within our business, we use the environmental, social and governance ('ESG') themes to understand both risk and the opportunity to add value.

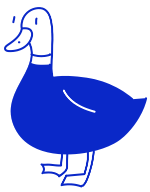
We established our ESG initiative with two clear objectives:

- To manage ESG risk
- To demonstrate the multi-capital value of our business

ESG topics are our business topics, relevant to us all

Environment

Stewarding and protecting natural environment resources/assets



- Biodiversity and land management plans
- Pollution prevention
- Environmental Policy
- Energy efficiency programmes
- Solar energy generation
- GHG reporting
- Net zero strategy
- Sustainable abstraction
- Water Resources Management Plan
- Waste reduction targets
- Water demand targets
- Climate change adaptation and resilience
- Supply chain and carbon accounting
- INNS scheme

Social

Our culture and engagement with employees, customers, communities and stakeholders

- Community partnerships
- Public value creation and volutary initiatives
- Affordability and cost of living social tariffs
- Community disputes (trust and transparency)
- Customer satisfaction (C-MeX)
- Employee engagement surveys
- Equality, diversity and inclusion commitments
- Wellbeing webinars
- Labour standards and working conditions
- Stakeholder relations
- H&S and wellbeing (employees, customers and communities)
- Affinity Days (employee volunteering)
- Charitable contributions

Governance

How the company operates and governs

- Board composition and independence
- Committees composition and independence
- Code of Conduct and anti-bribery and corruption
- Data protection and privacy
- Cyber security
- Risk Framework
- Modern slavery and human trafficking
- Executive compensation
- Ethics and Compliance Panel
- Legal Panel
- Lobbying activities
- Whistleblower protection
- Procurement

Sustainability continued

Our local communities and environment are critical to us, but we also have an important role to play regionally and as part of the global water community.

Which is to take action and raise awareness on issues that affect us all, for example, the impacts of climate change, the need for energy and the need for a positive relationship with nature. We've chosen to reference the UN's Sustainability Goals within our reporting to reflect this broader sustainability context and our responsibility for being part of the solution.

To understand our value, we take a multi-capitals approach to our business; understanding the natural, human, social, manufactured, intellectual and financial assets in our business. You can find out more about our multi-capital approach on page 38.

This framework for sustainability enables alignment with Ofwat's Public Value Principles and underpins the culture of our business, how we plan, make decisions, treat our people, support and provide for our customers, and invest for a long-term sustainable supply of water.

VALUE CREATION, PRESERVATION OR EROSION OVER TIME

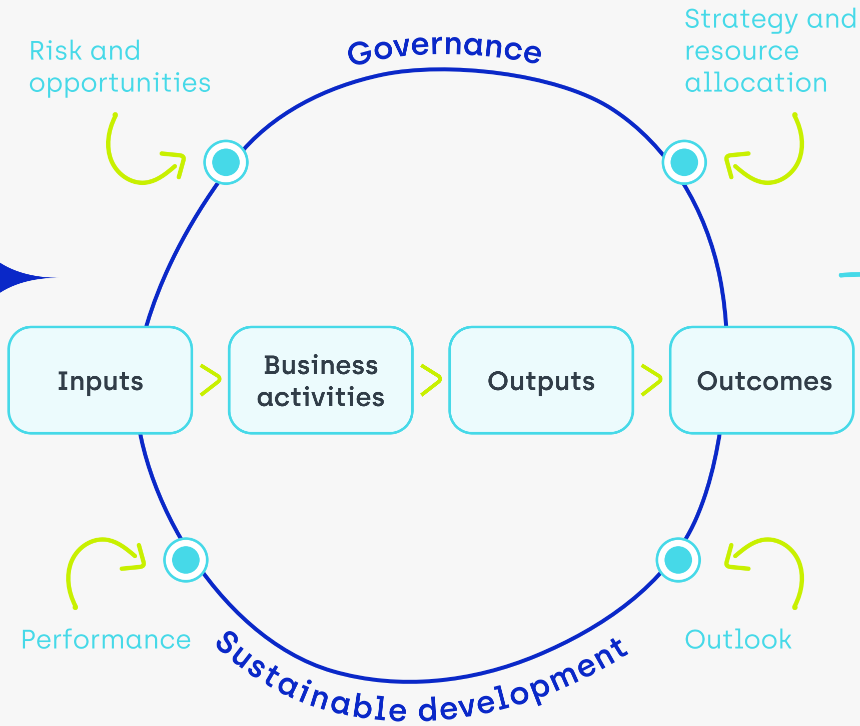
Inputs (Capitals)

Capitals are the inputs to our business that we transform through our decision-making process and operating activities into our strategic outcomes.

- Financial
- Manufactured
- Intellectual
- Human
- Social & Relationship
- Natural

Purpose and vision

We supply high-quality drinking water and take care of our environment, for our communities now and in the future.



Financial capital – our financial health and efficiency

Manufactured capital – our above-ground and underground infrastructure e.g. pipes and offices

Natural capital – our environmental resources, both renewable and non-renewable e.g. water and biodiversity

Human capital – our people and their capabilities and wellbeing

Intellectual capital – our knowledge, intellectual property, patents, rights, and organisational systems and protocols

Social capital – our relationships with our customers and communities

Outputs (Capitals)

Positive and negative over the short, medium and long term.

Financial

Manufactured

Intellectual

Human

Social & Relationship

Natural

UN Sustainable Development Goals

Our outputs are aligned with the UN Sustainable Development Goals.

Sustainability continued

Our alignment to the UN SDGs

The United Nations SDGs ('UNSDGs') are a blueprint for achieving a better and more sustainable future for all. The 17 related goals address the global challenges we face, including those related to poverty, inequality, climate, environmental degradation, innovation and responsible consumption. However, there are nine UNSDGs where we believe our contribution is particularly aligned, and these influence our thinking.

To focus our priorities on the most-material issues for our stakeholders and business, we use a materiality assessment to understand what our customers and stakeholders expect and the potential opportunities for us to create value in that area.

Our alignment

Promoting a culture of diversity and inclusivity throughout the workplace

Our Equality, Diversity and Inclusion Committee is tasked with understanding the challenges our industry faces, including gender equality. We have set long-term goals to ensure our employee diversity is representative of the communities we serve. Our gender pay report is published on our website: **affinitywater.co.uk/corporate/reports-publications**

Our alignment

Supplying quality water, working alongside sewerage companies regarding sanitation

We use the latest treatment technology and monitoring system to ensure a consistent supply of high-quality water to our customers, benefiting the wider communities and positively impacting our environment.

Our alignment

Ensuring employees are engaged, making Affinity Water a great place to work

Our culture and ways of working are based on five key principles which are embedded in everything we do. We want to ensure we are a responsible employer and are contributing to both our shareholder returns and providing wealth and income to the communities we serve and where our employees live.

Our alignment

Securing sustainable quality water and investing in our assets to supply to domestic and commercial customers

We continuously invest in our physical assets, both above and below ground, to ensure we have stable long-term assets available to continue to provide water to future generations.

Our alignment

Supporting vulnerable customers that need help paying their bill or accessing their water

We treat all memebers of our communities fairly and inclusively. providing a flexible service that can be used by all consumers equally, regardless of their health, age or personal circumstances.

Our alignment

Securing the long-term provision of sustainable water for all

Our Water Resources Management Plan identifies, over a 50-year period, how we will balance available supplies with required demand, to ensure a reliable water supply for future generations. Our WRMP is avaialble on our website: **affinitywater.co.uk/corporate/plans/water-resources-plan**

Our alignment

Supplying quality water for all and protecting the environment

We are continuously adapting to the challenges that climate change poses to our industry as well as considering our own impact on climate change, by looking at ways we manage our natural capital.

Our alignment

Ensuring sustainable water sourcing and protecting the environment

We are working with stakeholders to address the environmental challenges of protecting our precious local rivers and habitats while encouraging behavioural change. We are reducing groundwater abstraction in order to leave more water in the environment to ensure we can meet future demand.

Our alignment

Increasing biodiversity and sustaining the environment

Our catchment management programme aims to make a positive impact on the environment by improving soil and water quality, capturing carbon, and managing flood risk.

Adapting to a changing climate

Our customers and regulators expect us to act in the face of climate change. That means being a responsible steward of our local environment, reducing our own carbon emissions, and making sure we're prepared to operate within the context of a changing climate.

The impact of these commitments is outlined in our Environment Policy. In 2021, we published our latest Climate Change Adaptation Report. This risk assessment identified six headline risks posed by climate change.

The six headline risks we have identified:

1. Increase in demand due to higher temperatures throughout the year, exacerbated during summer peak-demand periods.
2. Equipment and asset failure due to extreme weather.
3. Increase in competition for, and price of, raw-water imports.
4. Reduced availability of ground and surface water due to drought.
5. Outage due to flooding of sites.
6. Deterioration in raw-water quality due to changes in rainfall and temperature, leading to loss of sources.

The report also considers how the risks from climate change might affect us in the case of two potential future global warming scenarios: where the world warms by 2°C, and a more extreme scenario where the world warms by 4°C. Finally, it details what we want Affinity Water to have achieved by 2025, and our aspiration for 2050. The report highlights the planned interventions during AMP7 that will help us reduce the risks.

This year, we completed several updates to the 2021 Climate Change Adaptation Report, publishing two additional reports. The first focuses on identifying the other climate risks not covered by the six headline risks. The second report identifies the climate risks we think could affect the third parties (such as power and telecoms providers) who enable us to provide our service. To make it easier to find information on our climate risk, we have also developed a non-technical summary of the 2021 Climate Adaptation Report.

Quick links

To find out more about how we are adapting to the climate change challenge, please visit: **affinitywater.co.uk/climate-change**

We continue to monitor our exposure to risks from climate change and will incorporate the latest climate change scenarios into our business plan 2025–2030.

Sustainability continued

Moving towards a net zero future

We aim to reduce our greenhouse gas emissions ('GHG'), including those we are directly responsible for and those we emit indirectly through our supply chain.

The water industry has set itself a challenging target of achieving net zero for operational GHG emissions by 2030. In the long term, we have an ambition to become fully net zero by 2045, ahead of the UK target of 2050.

This year, we reviewed our net zero plans, originally published in July 2021, developing a more comprehensive net zero strategy with a supporting action plan. The strategy is underpinned by four principles that guide how we will achieve our net zero targets.

Principle 1 – Adopting a net zero culture

We want all our employees to put GHG emissions at the heart of the choices we make, and feel empowered to reduce emissions across the business. To do this, we are using the Carbon Literacy Project to help us provide the right training and knowledge.

Principle 2 – Applying the GHG emissions-management hierarchy

Applying the GHG emissions-management hierarchy to our decision-making means we will prioritise activities that avoid or reduce emissions. This will help us minimise the need to offset emissions that we cannot otherwise eliminate.

Principle 3 – Investing in nature-based solutions

As stewards of our environment, we invest in nature-based projects that will enable more water to be left in the environment and create more resilient river systems by restoring the rivers and enhancing habitats. We also work with farmers on improving soil health through regenerative farming practices. We believe many of these projects also have a GHG-emissions benefit. This is something we would like to better understand and then maximise the potential of.

Principle 4 – Working with others

We cannot reach net zero on our own. To be successful, we need to work closely with our suppliers and wider stakeholders, with the support of our customers. We are working with our supply chain to understand their emissions and look at opportunities to reduce these.

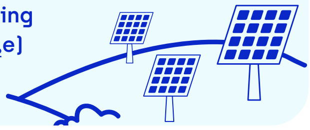
Net Zero plans in action

3,988

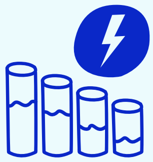
tons of carbon dioxide equivalent (tCO_2e) reduction in total gross operational emissions

1.6 million Kwh

Generated 1.6 million kWh of renewable energy at Chertsey and Walton Solar Farms – also saving 317 tCO_2e)



7.5%



Committed to generating 7.5% of our total electricity from renewables with 28 Affinity Water sites identified for renewables programme

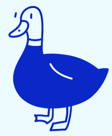
20%

Committed to 20% of our fleet vehicles to be electric by 2024/25 and all vehicles to be electric by 2030

Electric vehicle charging infrastructure at sites in Stevenage and Staines

1.9 million Kwh

Saved 1.9 million kWh and 380 tCO_2e through reducing GHG emissions by increasing operational efficiencies



Task Force on Climate-related Financial Disclosures ('TCFD')

We are all facing a climate emergency and must take action to mitigate the effects of climate change.

As the UK's largest water supply-only company we recognise the important role we play, not only in providing an essential service but also as stewards of the environment. We have therefore undertaken a risk-based review of the challenges posed by climate change to our business, both now and in the future.

Overview

We are committed to the recommendations of the Task Force on Climate-related Financial Disclosures ('TCFD'), providing our stakeholders with transparent information on climate-related risks and opportunities that are relevant to our business. Sustainability is central to our strategy and we summarise below our current approach to implementing the recommendations of the TCFD, following the four thematic areas of governance, strategy, risk management, and metrics and targets.

The following sections report our understanding and our response to climate change by evaluating the risks, opportunities and our responsibilities associated with this. Each of the four areas cover the 11 recommended disclosures and explain how we are compliant with the TCFD reporting requirements.

We are aligned with the reporting requirements in all areas excluding those listed below:

1. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario
2. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets

For point 1, we consider the risks associated with climate change scenarios however will look to develop ways to analyse the financial impact of each of these scenarios. For point 2. we will look to set targets for our GHG emissions and track our performance against targets.

We have worked during the year to ensure we are moving in the direction of being fully aligned to the requirements of TCFD for the year ended 31 March 2025.

Governance Disclose the organisation's governance around climate-related risks and opportunities	**Our compliance** We support the principles of good corporate governance set out in the UK Corporate Governance Code and have adopted our own Governance Code, founded on the governance obligations in our licence and the principles set out in Ofwat's publication on Board leadership, transparency and governance	**Future plans** We will continue to monitor climate change and its impacts on our operations, governance and decision making	**More information** Read more about this **TCFD report** on **page** 90

Risk management Disclose how the organisation identifies, assesses and manages climate-related risks	**Our compliance** We have comprehensive systems of internal control and risk management and we monitor their effectiveness regularly in compliance with the principles of our corporate governance code. We have identified six key climate-related risks detailed in our climate change adaptation report	**Future plans** We will continue to monitor our exposure to risks from climate change, and will incorporate the latest climate change scenarios into our price review submission for 2025–30	**More information** Read more about this **TCFD report** on **page** 92

Strategy Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material	**Our compliance** As a community-focused water company with public and social responsibility, we have a responsibility to adapt to climate change and consider climate change in our business strategy	**Future plans** We are committed to contributing positively to the climate change emergency and are committed to net zero operational emissions by 2030	**More information** Read more about this **TCFD report** on **page** 94

Metrics and targets Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material	**Our compliance** We use the UKWIR Carbon Accounting Workbook ('CAW') provided for all UK water companies to give a consistent and transparent approach for accounting greenhouse gas ('GHG') emissions from annual operational activities	**Future plans** We look forward to working with customers and regulators through the PR24 process to generate performance metrics that fully recognise the risks posed by climate change and how we need to continue adapting	**More information** Read more about this **TCFD report** on **page** 96

Governance

Definition

Disclose the organisation's governance around climate-related risks and opportunities.

- Describe the Board's oversight of climate-related risks and opportunities
- Describe management's role in assessing and managing climate-related risks and opportunities

Progress this year

Updates made to the net zero strategy and programme during the year.

TCFD working group and EMT subcommittee established.

Future focus

We will continue to monitor climate change and its impacts on our operations and decision making.

Where else to look

See our **governance report** on pages 132 to 215 including the work of the SHEDWQ Committee

See **Board and management committees** on pages 138 to 141

See **principal risks and uncertainties** section on pages 108 to 121

See **section 172(1) statement** on pages 100 to 107

Governance

The Board understands the climate emergency we are currently all facing and reflects this in its decision making. The company purpose is to provide high-quality drinking water and to take care of the environment for our communities now and in the future, which drives the key decisions made by the Board. At each Board meeting, the Board receives updates on metrics and targets relating our environment (leakage, PCC, river restoration).

Our Board has effective oversight of climate-related risks and opportunities. A principal risk relating to climate change (principal risk 7) is included within our strategic risk register which is regularly reviewed by the Executive Team and annually by the Board. The strategic risk register includes details of any appropriate controls and mitigating actions. Any relevant targets related to climate change are agreed by the Board, including our target to reduce carbon emissions.

We recognise the importance of demonstrating to customers, regulators and other stakeholders that we operate to the highest standards of governance and transparency. We support the principles of good corporate governance set out in the UK Corporate Governance Code and have adopted our own Governance Code, founded on the governance obligations in our licence and the principles set out in Ofwat's publication on Board leadership, transparency and governance. Alongside our Governance Code, we have published a number of other documents which explain how our Board and its committees operate, where decisions are taken and how our shareholders participate in certain key decisions relating to our business.

Progress this year

The SHEDWQ Committee on behalf of the Board oversaw an update to the net zero strategy and programme during 2022/23. The new strategy includes four principles: to develop a net zero culture within the company, implement a carbon management hierarchy, utilise nature-based solutions, and work with others to reach net zero.

During the year, we also established a TCFD working group which worked to review and expand on our disclosures and compliance. Additionally, an EMT subcommittee on Environmental, Social and Governance ('ESG') matters was established. The ESG Subcommittee's purpose is to monitor the performance of Environment, Social and Governance Programmes and balance these through time to achieve corporate outcomes and performance commitments within time, budget and standards. This includes having oversight of our climate change risks and opportunities and net zero progress.

To strengthen our commitment to address climate change physical and transitional impacts and become more climate-friendly, we completed an EU taxonomy assessment and in January 2023 had the assessment externally verified to establish alignment with the new requirement. The taxonomy aims to help the EU scale up sustainable investment and implement the European Green Deal objectives, including the 2050 climate-neutrality target. While not formally required in the UK, the UK Government has indicated that it intends to introduce a new Sustainability Disclosures Regime ('SDR') and green taxonomy in 2023, based on the EU taxonomy.

The external review concluded that 100% of Affinity Water activities are eligible under the EU taxonomy guidelines, and of those activities, 88.8% can be considered environmentally sustainable.

We operate a 'Gold, Silver and Bronze' command structure for incident and emergency response. The 'Silver' role provides strategic oversight to all ongoing incidents and emerging risks across the region and ensures our resources are deployed as effectively as possible. When necessary, a 'Gold' Controller will be deployed to provide executive oversight and governance. The Gold Commander ensures the Executive and Board are kept fully informed. During the 2022 heatwave in summer and also during the winter freeze/thaw events, our 'Gold' command was kept updated and ensured the EMT and Board had sufficient oversight.

Future focus

To further strengthen our governance around climate-related risk and opportunities, we will continue to monitor climate change and its impacts on our operations, as well as the effectiveness and efficiency of our mitigating controls, with the objective of ensuring our ongoing sustainability and resilience. We fully embrace the part we play in combating the effects of climate change.

The EU taxonomy assessment has helped us review our existing climate change adaptation and mitigation activities and further define appropriate and asset specific climate change mitigation and adaptation measures. We continue to implement a climate risk analysis within the TCFD framework and actions for greater energy efficient operations.

Following each incident like the 2022 heatwaves and freeze/thaw, we conduct a thorough post-incident review. We have recently established a Programme Board, with Executive Management sponsorship to ensure post-incidence learnings progressed and our plans adapt and evolve accordingly.

Risk Management

Definition

Disclose how the organisation identifies, assesses and manages climate-related risks.

- Describe the organisation's processes for identifying and assessing climate-related risks
- Describe the organisation's processes for managing climate-related risks
- Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management

Progress this year

Climate change is still considered a principal risk and monitored as part of stress testing in the viability statement.

Future focus

We will continue to monitor our exposure to risks from climate change, and will incorporate the latest climate change scenarios into our price review submission for 2025–30.

Where else to look

See **principal risks and uncertainties section** including our approach to risk on pages 108 to 121

See **climate change adaptation report** on page 85

See **the viability statement** on pages 122 to 126

Risk management

We have comprehensive systems of internal control and risk management and we monitor their effectiveness regularly in compliance with the principles of our corporate governance code. Our risk management framework is closely linked to the way we monitor and measure our performance and compliance with our statutory obligations and commitments which is subject to external assurance by third parties.

Our 2021 Climate Change Adaptation Report has identified priority risks from climate change and how these impact our functions and activities across the business. We have identified mitigations and monitoring plans to adapt to climate change impacts. We maintain a formal risk register and risk management system for the identification, evaluation and mitigation of risks.

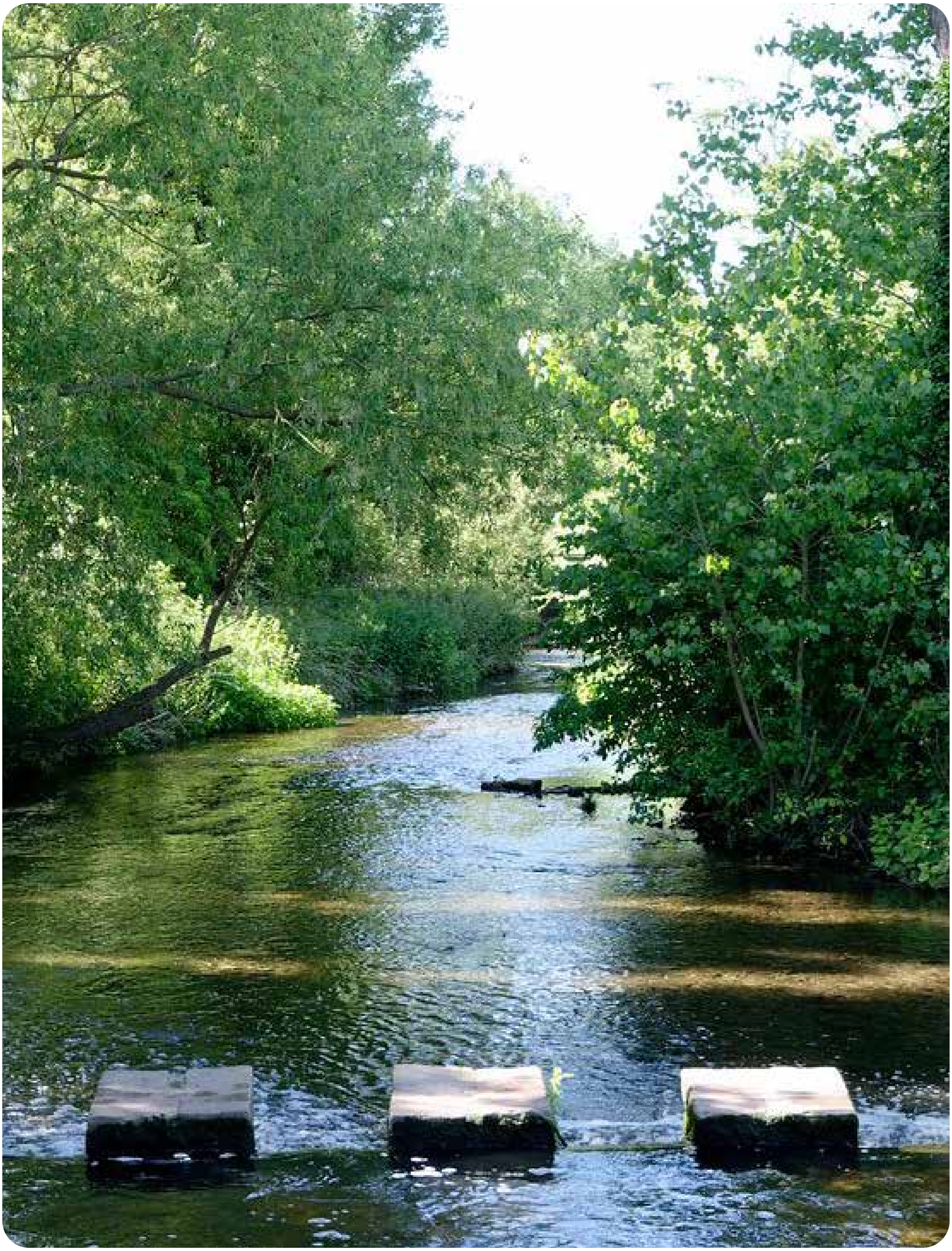
Climate change is a principal risk within the strategic risk register that is considered as part of the stress testing within the viability statement. The directors consider that this risk in isolation would not compromise the company's financial viability during the lookout period of ten years. Instead, the risk could be considered as part of several different severe, plausible and reasonable sensitivities to the company's base case forecast, detailed in the viability statement.

Future focus

We have identified climate change as an underlying cause of many of our principal risks. We have also documented in our risk registers, where appropriate, controls in place to mitigate as far as possible the potential effects of climate change in elevating those risks. We will continue to monitor climate change and its impacts on our operations, as well as the effectiveness and efficiency of our mitigating controls, with the objective of ensuring our ongoing sustainability and resilience.

In undertaking this risk assessment, we also sought to review our mitigation options with key WRMP24 and PR24 investment needs to plan for enhanced resilience.

We will continue to monitor our exposure to risks from climate change, and will incorporate the latest climate change scenarios into our price review submission for 2025–30.



Strategy

Definition

Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.

- Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term
- Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning
- Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario

Progress this year

Updates to our Climate Change Adaptation Report published on our website.

Reduction in our greenhouse gas emissions.

Future focus

We are committed to net zero operational emissions by 2030.

We have committed to reporting to the Carbon Disclosure Project ('CDP') by 2025.

Where else to look

See our **Directors' report (GHG emission reporting)** on page 208

See our **journey to net zero** on page 86

See our **climate change adaptation report** on page 85

Strategy

Our core responsibilities include planning for future water resources and for events such as droughts while investing efficiently and protecting the environment.

As a community-focused water company with public and social responsibility, we have a responsibility to adapt to climate change and reduce our own carbon emissions and have outlined these commitments in our Environment Policy. Our WRMP sets out how we will meet the challenges of supplying water to a growing population, taking into account the impacts of climate change. The impact of climate change is a central consideration in the development of these plans both to calibrate our scenarios and assumptions and to select the most appropriate solutions and investments to develop water resources, improve the resilience of our supply system and manage demand.

Climate change risk assessment

We updated our climate change risk assessment in 2021, which was published in our Climate Change Adaptation Report. This risk assessment identified six headline risks posed by climate change. This report considers how the risks from climate change might affect us in the case of two potential future global warming scenarios: where the world warms by 2°C, and a more extreme scenario where the world warms by 4°C, also considering the implications of more up-to-date flood risk modelling on our asset base.

During 2022/23, we published updates to our Climate Change Adaptation Report. We published two additional reports, the first focusing on identifying the other climate risks not covered by our six headline risks mentioned above. The second report identifies the climate risks which we think could impact the third parties (such as power and telecoms providers) who enable us to provide our service. These additional risks were assessed in the same way as our six headline risk and together form a comprehensive climate risk assessment for our business.

In 2022/23 the UK's Climate Change Committee ('CCC') published a report which reviewed the quality of climate adaptation reports produced by infrastructure providers such as Affinity Water. The climate adaption reports produced by Affinity Water as part of the water sector scored highly against the quality criteria.

We have been further exploring how we can better understand our climate change risks, testing the use of the Allianz Climate Risk Score tool ('ACCRIS'). We have tested this tool which assesses physical climate risks such as flood risk and wind storm to some of our assets and are working with Allianz to further explore its application to a wider set of assets in the future.

During 2021/22, the company established a Green Finance Framework and issued its first green bond in October 2021 to finance projects which will adapt to and mitigate the effects of climate change and we entered into a sustainable financing agreement. Updates on the proceeds and impact of the Green Funding can be found on our website at affinitywater.co.uk/corporate/investors/library.

Greenhouse gas emissions

We are committed to achieving our net zero emissions target on our operational greenhouse gas ('GHG') emissions by 2030. However, beyond 2030, we are working to fully understand all GHG emissions that the company is responsible for across Scope 1, 2 and 3, and reduce our overall contribution to global warming and emissions in line with the UK targets to achieve net zero across all emissions by 2050. During 2022/23 we have engaged external providers to help us improve our Scope 3 emissions reporting.

See our Greenhouse gas emissions statement in the Director's report for more details.

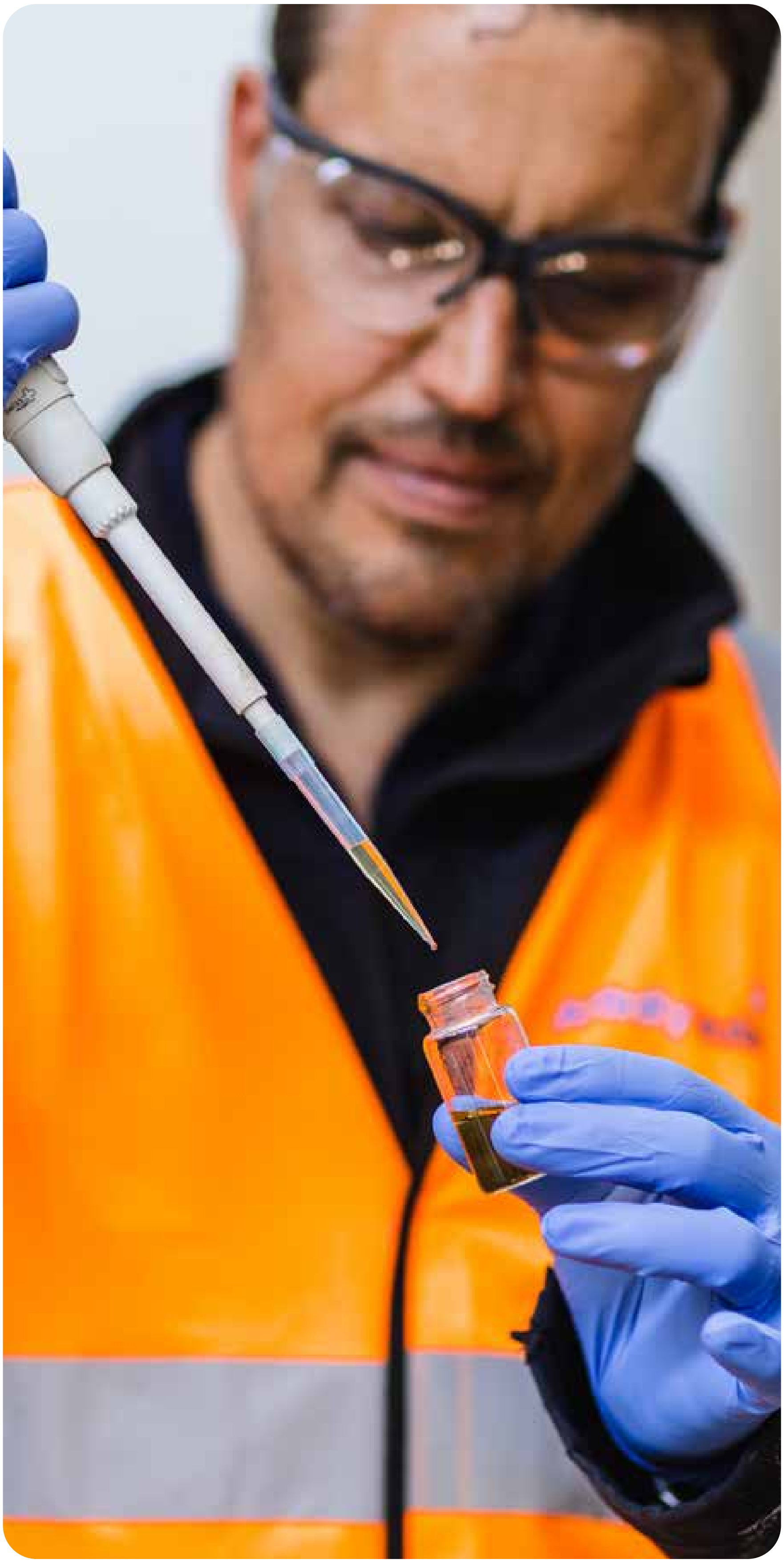
Using a market-based approach to reporting, our total gross operational emissions (as defined by Ofwat for 2022/23) are estimated to be 23,798 tCO_2e. As expected, this is greater than the operational emissions reported in 2021/22 as the scope of emissions considered to be 'operational' has expanded. Comparing against the same basket of emissions for 2021/22 (25,818 tCO_2e) we are reporting a reduction of 3%.

We have been operating in both 2021/22 and 2022/23 on a green energy (electricity) tariff with all electricity use zero emissions. This is all part of our commitment to net zero by 2030.

Future focus

Our 2021 Climate Change Adaptation Report details where we want Affinity Water to be in 2025, and highlights the planned interventions during AMP7 that will help us get there, as well as detailing the impacts these interventions have on our risk position.

We have committed to reporting to the Carbon Disclosure Project ('CDP') by 2025. CDP is the world's most widely used database of organisational environmental impact information. CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. The aim of the CDP is to improve environmental impact data transparency and support sustainable business by helping companies measure, track and reduce damage to the environment.



Metrics and Targets

Definition

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material

- Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process
- Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas ('GHG') emissions, and the related risks
- Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets

Progress this year

Assessed our wider business carbon footprint by estimating our Scope 3 emissions in addition to Scope 1 and 2.

Incorporated climate change into our LTIP bonus target.

Future focus

Understand the financial implications of a 2°C and 4°C increase in global temperatures.

Where else to look

See our **Directors' report (GHG emission reporting)** on page 208

See **sustainability at a glance** on page 16

See **climate change adaptation report** on page 85

See the **Remuneration Committee** on pages 180 to 201

Metrics and targets

We use the UKWIR Carbon Accounting Workbook ('CAW') provided for all UK water companies to give a consistent and transparent approach for accounting greenhouse gas ('GHG') emissions from annual operational activities.

The tool is used by UK water companies to report progress internally and prepare information for reporting performance to regulatory bodies, voluntary reporting schemes and customers. The tool is updated annually as required in line with UK publication of conversion factors used for estimating GHG emissions. The report is therefore a suitable tool to report SECR requirements. The data is compiled from various sources across the business and placed into a carbon accounting information pack before being transcribed into the appropriate areas of the CAW. This allows the CO_2e figures for the company to be compiled which are then externally audited.

Progress this year

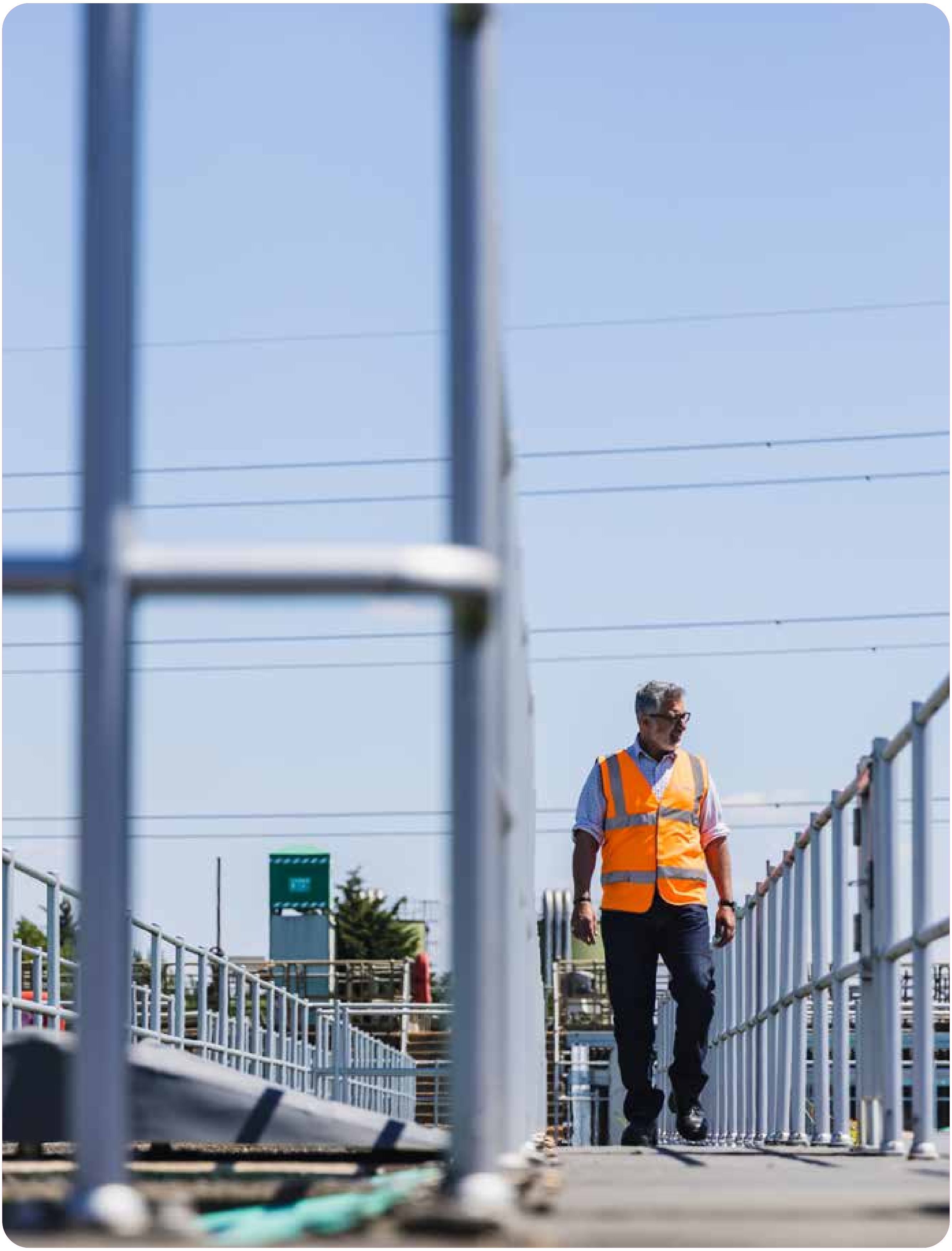
In 2019, we joined all UK water companies in pledging to reduce our operational emissions (as defined at the time) to Net Zero by 2030. The emissions included within this target are scope 1, scope 2 and scope 3, where they relate to business travel, outsourced services related to IT and admin, and electricity transmission and distribution. Our emissions relevant to our Net Zero target continue to reduce. In 2022/23, we saw a small reduction in emissions of 2% compared to 2021/22. Reductions were associated with reduced diesel and natural gas use and falling transmission and distribution emissions.

In 2022/23 we also assessed our wider business carbon footprint by estimating our Scope 3 emissions in addition to the Scope 1, 2 and limited Scope 3 emissions estimated by the CAW.

During the year, the Remuneration Committee on behalf of the Board approved the 2022/23 LTIP scheme which incorporates an element of climate change in its metrics. Ten per cent of the LTIP bonus target relates to climate change; net zero (self generation of 10% of our total energy use using solar power), river restoration (restore 36 over the AMP7 period) and abstraction reduction (27.33 Ml/d reduction). Performance against this metric is reported to the Remuneration Committee on behalf of the Board, with performance achieved in the year between the threshold and stretch targets for this metric. See the Remuneration Committee report for more details.

Future focus

During 2023/24, we will enhance our processes and data to enable us to understand the financial implications of a 2°C and 4°C increase in global temperatures. We are also looking at the data available to us to consider whether we can set science-based GHG emissions targets.



Our approach to climate change mitigation

1990–To date
Ambitious abstraction reductions in chalk stream catchments of almost 100Ml/d.

Winter 2013/14
Floods.

2015
Programme of work to protect critical sites from risk of flooding plus climate change finished.

Last climate change adaptation report published.

2016
Purchase demountable flood barriers.

October 2017
Started Keep track of the Tap campaign to reduce water use of customers during groundwater drought.

2017–2019
Groundwater drought.

2019
#Whynotwater campaign that went beyond our usual water efficiency measuring, with the aim of influencing and changing legislation and highlighted water as critical element in the climate change debate.

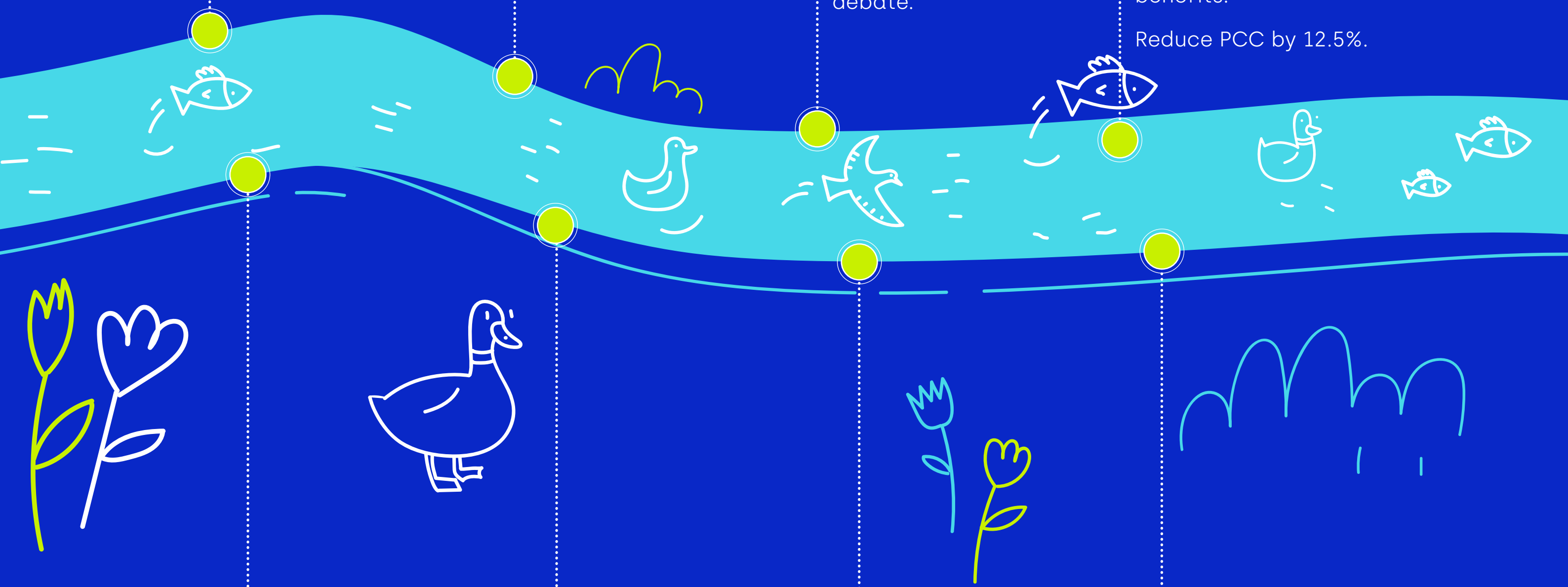
Feb 2018
Beast from the East.

June/July 2018 and April/May 2020
Hot summer/spring periods with record demand in terms of duration and magnitude.

2020–2025
Review of our company-wide Flood Risk Assessment, to account for UKCP18 scenarios and factor in all forms of flooding.

Additional investment in catchment management activities, which provide range of climate-related benefits.

Reduce PCC by 12.5%.



2021–2023
Development of Connect 2050 network reinforcement schemes for inclusion in PR24.

2021–2025
10% of our energy base to be self generated by solar power.

2020–2030

Progress in our commitment to end unsuitable abstraction with consideration to the National Water Resources framework and environmental destination strategy.

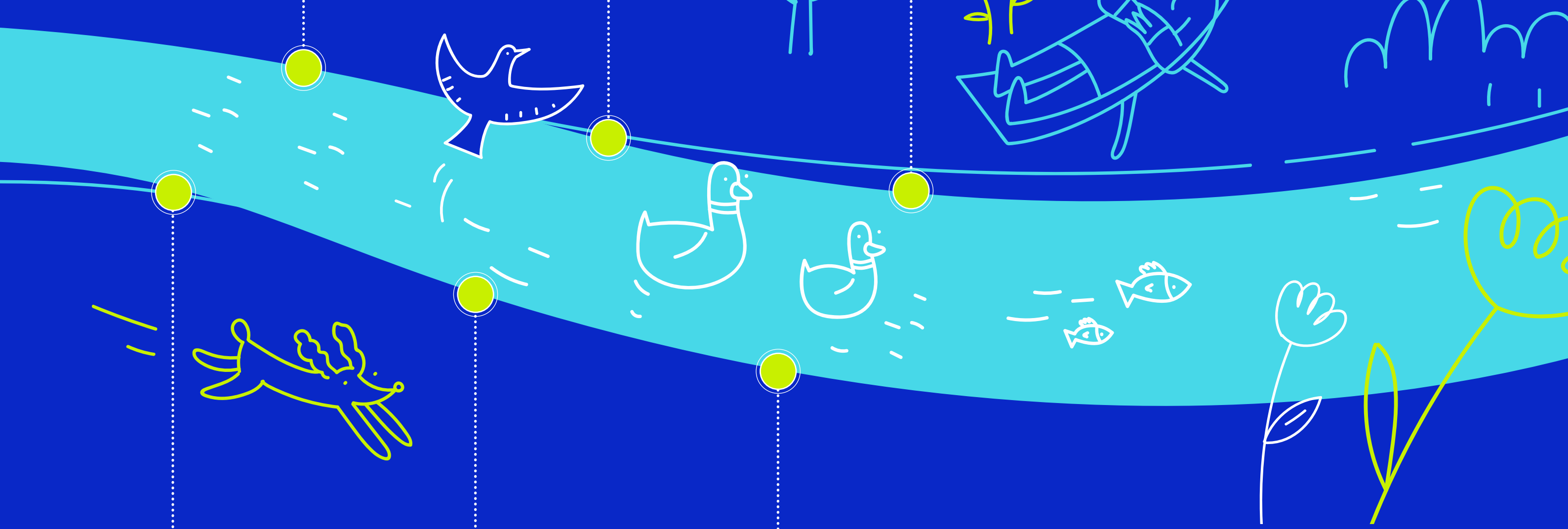
Continued development of Strategic Regional Option ('SRO') schemes to provide long-term resilience to water resources.

2030s

Development of SROs to be available from mid-late 2030s.

2050

Ambitious energy strategy to 2050, which includes significant expansion of self-generating solar portfolio.



2023

New Drought Management Plan published.

March 2024

Improve our planned levels of service for drought permits from 1 in >40 years to 1 in >200-year return period events.

2040

Ambition to further reduce reliance on drought permits post 2024, aiming for resilience to 1 in >500-year return period drought events by 2040.

50% leakage reduction between 2015 and 2045.

Section 172(1) Statement

Our stakeholders

Our responsible business approach is the way we do business. It is centred on issues which are of importance to our customers and stakeholders and to the responsible delivery of our business plans. We have had discussions with stakeholders across all areas of our business to better understand what matters most to them and how we can further involve them in our decision making. We focused on the following four areas: the environment, supply and demand, water efficiency and vulnerability, with the aim of gathering information to inform our current and future strategy.

In the table on the next page, we present a description of the company'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 company. This can sometimes mean that certain stakeholders are adversely affected, as we seek 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 company for the benefit of its members and as a whole, having regard to its stakeholders and the following matters set out in section 172(1) (a-f) of the Companies Act 2006:

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

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

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 2020/21, each Board Committee's terms of reference were reviewed by the Board and updated to ensure that consideration of section 172 factors and Ofwat's 2019 Board leadership, transparency and governance principles were appropriately addressed. Directors are reminded of the section 172 requirements at the start of every Board meeting and undertook a training session delivered by external advisors on their responsibilities. During 2022/23, the Board's Schedule of Reserved Matters was reviewed and approved. These can be accessed on our website at affinitywater.co.uk/corporate/about/governance-assurance

The company approach to stakeholder engagement is:

Step 1
Engagement strategy
Set vision and level of ambition for future engagement, and review past engagement

Step 2
Stakeholder mapping
Define criteria for identifying and prioritising stakeholders, and select engagement mechanisms

Step 3
Preparation
Focus on long-term goals to drive the approach, determine logistics for the engagement, and set the rules

Step 4
Engagement
Conduct the engagement itself, ensuring equitable stakeholder treatment while remaining focused on priorities

Step 5
Action plan
Identify opportunities from feedback and determine actions, revisit goals, and plan next steps for follow-up and future engagement

The Board 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 will be used to identify the key trends and emerging issues and assign a priority based on impact and influence. Full horizon scans will be 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 will 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. We will conduct an annual in-depth horizon scan with regular reviews throughout the year, which will be reported to the Board in the monthly CEO reports and will help the Board effectively manage stakeholder engagement.

Section 172(1) in action

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

Customers

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

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'), formerly the Customer Challenge Group ('CCG'), 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

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 received updates on the impact of customers as a result of the freeze/thaw event in December 2022 and the impact of the event on our key performance commitments
- The Board received updates on the Save Our Streams campaign and the drive to reduce per capita consumption following the hot weather period over the summer and our draft Drought Management Plan
- The Board received updates on the refresh of the Customer Challenge Group, now formally known as the Independent Challenge Group, and reviewed and approved the updated Terms of Reference in September 2022

Direct engagement mechanisms

- There is a clear reporting line to the CEO and accountability for arrangements regarding handling customer complaints
- Chair of the ICG was regularly invited to Board meetings and attended the Board strategy day
- Quarterly meeting with the ICG to discuss key performance metrics
- Continued engagement with partnership groups to further support customers (Turn2us, CAB, Money Advice) with the ongoing cost-of-living crisis and customer bill increase for 2023/24

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. Customers can access our Privacy Notice on our website, which was made more engaging and user friendly in 2022/23.

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

- Stakeholder assembly
- Joint forums
- Public meetings
- Consultation meetings for price review development
- Catchment partnerships
- Water resources monthly email updates
- Volunteering days

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 reviewed the operational working plans to support the national mourning period and ensure operational resources were identified with quick response times if required
- 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:
  a. Protecting rivers and habitats
  b. Investing in science, technology, engineering and mathematics ('STEM') and future skills
  c. Developing community partnerships

Throughout 2022/23, we continued to build on our social purpose and defining the programme of work that will help us meet the growing expectations of our stakeholders and add value to our communities:

- Board members attended key community events in 2022/23, including attending the Rickmansworth Canal festival with our Save our Streams exhibit to talk to invited stakeholders, including local councillors and MPs, river groups, Chiltern's Conservation Board, Chiltern's Society, Canal and Rivers Trust and other NGOs
- We have arranged several Affinity Water volunteering days with the Chiltern's Society to carry out river improvement works along the River Chess

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 and a welcome to our new CEO
- Diversity and Inclusion Steering Group to drive a stronger agenda of inclusiveness
- Designated Director for Employee Engagement reporting issues and progress to the Board
- Internal communications and monthly team leader briefings communicated to all line managers
- Company wide live events giving updates to employees from all areas of the business
- Customer delivery roadshows to update front-line operational teams on our performance and future plans
- Redesigned new starter and training programme developed, 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. The Board approved a new Policy Statement on Culture & Employee Engagement
- Information on productivity, attrition levels, learning participation, training and development plans, wellbeing and output from exit interviews is reported monthly to the Board
- Whistleblowing incidents are reported to the Board. All incidents are taken extremely seriously and are thoroughly investigated, working with external reviewers if required
- Details on the company's Hybrid Working Policy and the return to office approach was reviewed

Direct engagement mechanisms

- Chris Newsome, Director of Employee Engagement, was responsible for employee liaison in accordance with the Code, having taken over the role from Trevor Didcock in October 2022. 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. Our interim 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 joining 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
- A Safety Stand Down was held to launch the company Don't Walk By campaign, to help us achieve our zero harm ambitions. Presentations were delivered by the Board

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. The Board approved a new Code of Ethics, Culture and Employee Engagement Policy and our Equality, Diversity and Inclusion strategy during the year

Section 172(1) in action continued

Shareholders

Owners of shares in the company

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.

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

How the Board engages

Information reported to the Board:

- 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 2022/23 the Board engaged directly with shareholders in setting and approving budgets for 2023/24, discussing the viability statement and results of stress testing on our financial covenants
- The Board engaged with shareholders following the findings of an Independent Board Evaluation in May 2022, including discussing recommendations, Board composition and actions taken

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

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

- Industry working groups, including committees, panels and forums
- Responding to consultations and requests for information
- Ongoing dialogue on strategic planning, investment in future water resources and land disposals
- Regular meetings and calls, including meetings with key MPs in our supply area

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 regarding our base and enhancement expenditure and plans for expenditure
- Updates on the development of our PR24 plan following publication of the PR24 Final Methodology

Direct engagement mechanisms

- The Board engaged with Ofwat during the year prior to the recruitment of the new CEO and CFO
- 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 following the missed target in the prior year
- 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 2022/23 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

Environmental bodies

Why engagement is important

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

Successful engagement will mean we protect water sources and the quality of water supplied and minimise our impact on the environment.

How the company engages

- Water Resources Management Plan ('WRMP')
- Catchment management
- River restoration
- Company environmental policy to ensure we meet our purpose to provide high-quality drinking water for our customers and take care of the environment

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 four 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 subcommittee 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. In 2022/23, we continued to work alongside other water companies and Water UK to develop a route map to reduce carbon emissions to net zero by 2030, an industry-wide target. The SHEDWQ attended a deep-dive session on carbon reduction plans in February 2023.
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.

Providers of finance and credit rating agencies

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, particularly in the current economic climate. Successful engagement means we will be a responsible company that delivers reliable returns and is transparent in our reporting.

How the company engages

- Annual review meetings with credit rating agencies
- Regular meetings and calls with banks
- Financial reports
- Engaged with banking groups and credit rating agencies on the ongoing cost-of-living crisis

How the Board engages

Information reported to the Board:

- A treasury report is provided to the Board on a quarterly basis, which includes details of the company's covenants and gearing headroom, and financial results

Direct engagement mechanisms

- The interim CFO, on behalf of the Board, met with lenders and credit rating agencies during the year and discussed the negative outlook placed on the company by Standard & Poor's
- 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.

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 and we can continue to operate in a post-Brexit working environment.

How the company engages

- Integration of contractors into our teams
- Sharing of reporting and management systems for collaborative and shared learning
- Quarterly forums with all our Maintenance and Repair and Traffic Management suppliers, to discuss 'lean' processes and improvements
- Regular meetings and calls, including monthly performance meetings with our largest suppliers

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 monitors supplier spend on a monthly basis
- The Board considers the company's policies around compliance with the Modern Slavery Act and GDPR as they relate to suppliers through the approval of the company's Modern Slavery Statement and review of the appropriateness of mitigation detailed in the strategic risk register in relation to the principal risk: 'Availability, confidentiality or integrity of information or data could become compromised'
- The Board receives information on a monthly basis on operational ODI performance and bi-annually on payment practice information to enable it to consider our performance and how it compares to industry peers
- The SHEDWQ Committee also reviews and monitors, on behalf of the Board, safety and health matters arising from our activities and operations, including in relation to our supply chain
- The Board considers the risk of supply chain failure through its consideration of the strategic risk register

Direct engagement mechanisms

- Executive directors attend meetings with key members of the supply chain based on a supplier strategy

Priorities ahead

Following a review of direct engagement mechanisms, the Board identified the following priorities for the remainder of AMP7 and into AMP8. These form part of the Journey to 25, the plan approved by the Board to ensure delivery in AMP7 and setting the company up for success in AMP8.

- Deliver the best outcome for this year and setting ourselves up for success
- Achieve our AMP7 plans and ambitions
- 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

Key decisions made in 2022/23

We set out below key decisions made in 2022/23 and the Board's consideration of section 172 factors in making these. Refer to page 100 for further information on matters considered by the Board in 2022/23.

Approved the recruitment of Keith Haslett as CEO

A key focus for the Nomination Committee since the interim appointment of Stuart Ledger has been the search and appointment process for a permanent CEO. The Committee engaged the services of independent search consultants RRA to evaluate, screen and identify suitable candidates and it led the internal process of assessment and recruitment of Keith Haslett against objective criteria, which protect against discrimination for those with protected characteristics within the meaning of the Equalities Act 2010.

Approved the recruitment of Martin Roughead as CFO

Affinity Water Treasurer, Michael Blake stepped in to fill the CFO position on an interim basis following the departure of Interim CFO Mike Thomas in August 2022, who was on a one year contract. Since then, the Nomination Committee led a robust recruitment process aided by Odgers to appoint Martin Roughead to fill the role of CFO permanently.

For recruitment of both the CEO and CFO, the shareholders were actively engaged as part of the recruitment process as part of their role on the Nomination Committee and Board. RNSs to the LSE (available as a public record) were sent out to inform the markets and other interested stakeholders of the appointments. We also displayed news of the appointments on our Investor Relations (news) pages of our external website to inform our customers and interested stakeholders. All employees were made aware of the appointments through internal communications. Ofwat (the Regulator) was also made aware of the appointments in addition to the Traffic Commissioner.

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. 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 received presentations on executive and Board responsibilities, which included duties of directors under the Companies Act 2006 and the company's statutory duties under the Water Industry Act 1991. The Board also received presentations on the legal requirements of the Water Resources Management Plan Regulations 2007.

The Board approved the submission of the draft Water Resources Management Plan to Defra prior to the consultation with stakeholders in November 2022.

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 2022/23, 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 7.5% in order to increase employee engagement, retention rates and productivity, leading to increased value creation.

Principal risks and uncertainties

Risk management

We have an established framework for identifying, evaluating and managing our key risks. Our main aim is to foster a culture where teams throughout the business manage risks as part of their management of day-to-day operations. Our Executive Management Team ('EMT') also carries out regular assessments of emerging risks, including horizon scanning and monitoring of early warning indicators.

Operational risks are reviewed and prioritised on a quarterly basis in the context of existing controls. Where risks fall outside of risk appetite, action plans are prepared to implement further mitigations and these are carefully monitored to ensure they are completed and provide the desired mitigation. The most significant risks are raised for review by the EMT and may be added to the strategic risk register, which is reviewed by the Board and the Audit, Risk and Assurance Committee. The latter reviews senior management's work on risk management and reports to the Board on the effectiveness of risk management processes.

For more information on the responsibilities of the Board and the Audit, Risk and Assurance Committee regarding risk management and internal control, refer to pages 2, 6 and 7 onwards.

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 overall risk management 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 are increasingly likely to become real current operational risks. Where this is the case, such risks will be subject to the same rigorous process described above to evaluate and manage them.

The EMT holds regular sessions to identify and review current and emerging risks. Along with the strategic risks, these are reviewed at least quarterly by the EMT and at least biannually by the Board. Our current emerging risks are as follows:

Metric	
A	Shifts in societal and political expectations and perceptions, and rising levels of activism
B	Skills gaps or unavailability due to a tight labour market and increasingly nomadic workforce combined with economic uncertainty
C	Changes to our supply chain and to the water sector arising from Brexit, ongoing conflict in Europe, changed working patterns, and economic uncertainty
D	Changes to the power industry, including regional differences in pricing and reliability of service
E	As the cost-of-living crisis evolves, it is likely that we will see increasing levels of bad debt which will need to be carefully managed
F	There is a long-term risk that the value and utility of assets and infrastructure may be reduced as a consequence of environmental change.

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

Climate change

Climate change is one of the greatest challenges for the whole industry, and this challenge appears likely to increase in the future. Sustainability and resilience in the light of this challenge is important in maintaining the trust of our customers and regulators.

Climate change can have short and long-term impacts on our assets, operations and the services we provide. The most recent significant example was the extreme temperatures experienced in the UK in the summer of 2022. While we dealt with it effectively and efficiently, we took the opportunity to review and revise our business continuity and emergency response arrangements.

We have identified climate change as an underlying cause of many of the principal risks listed below, particularly 2, 5 and 7. We have also documented in our risk registers, where appropriate, controls in place to mitigate as far as possible the potential effects of climate change in elevating those risks.

We will continue to monitor climate change and its impacts on our operations, as well as the effectiveness and efficiency of our mitigating controls, with the objective of ensuring our ongoing sustainability and resilience. On a positive note, we fully embrace the part we play in combating the effects of climate change.

Our principal risks

The following have been identified from our risk management analysis as potentially having material adverse effects on our business, financial condition, results of operations and reputation. They are managed as described 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.

We have identified 15 principal risks to our business in three categories:

Operational risks

#	Rating	Risks
01		Some of our work activities could cause serious harm to our employees, contractors or members of the public
02		We may become unable to meet our obligations to provide a sufficient supply of high-quality drinking water
03		We may fail to attract, develop and retain employees with the competencies, values and behaviours required to engage with and promote our corporate culture, and deliver our strategic ambition and business outcomes
04		Availability, confidentiality or integrity of information or data could become compromised
05		Our supply chain may fail to deliver the goods and services we need to operate our business
06		We could cause damage to the environment during our business activities
07		Climate change and other environmental factors could negatively impact our business operations
08		We may fail to implement the cultural and operational transformation of our business necessary to deliver our business ambitions
09		A significant disruptive event could impact our ability to deliver normal business activities
10		The health of our assets may deteriorate such that water supply or quality is compromised

Regulatory risks

#	Rating	Risks
11		Changes could occur in the regulatory framework, or social or political climate, which could have significant effects on our operational or financial performance
12		We may fail to comply with laws and obligations under our instrument of appointment legal, compliance or business obligations
13		Failure to achieve a satisfactory outcome from the price review PR24

Financial risks

#	Rating	Risks
14		We could fail to maintain or renew appropriate financing for our business activities
15		Macroeconomic factors (interest rate, inflation and tax risks) could have a material adverse effect on our financial performance

Key

Risks included in the sensitivity stress testing for the viability statement (refer to page 122). The directors consider that none of these risks would – in isolation – compromise the company's financial viability during the lookout period. Instead, these risks could be considered as part of several different severe, plausible and reasonable sensitivities to the company's base case forecast.

Risks included in the scenario stress testing for the viability statement (refer to page 124). The directors considered that these risks, if they were to occur, might – in isolation – threaten financial viability, potentially leading to significant unforeseen additional cash requirements during the lookout period, in the event of the significant events detailed on page 125 of the viability statement.

Principal risks
and uncertainties continued

Risk summary
Operational Risks

#	Risks	Impact	Likelihood	Rating	Trend
01	Some of our work activities could cause serious harm to our employees, contractors or members of the public	3 – moderate	4 – likely		Stable
02	We may become unable to meet our obligations to provide a sufficient supply of high-quality drinking water	4 – major	3 – possible		Stable
03	We may fail to attract, develop and retain employees with the competencies, values and behaviours required to engage with and promote our corporate culture, and deliver our strategic ambition and business outcomes	2 – low	2 – unlikely		Stable
04	Availability, confidentiality or integrity of information or data could become compromised	5 – critical	3 – possible		Stable
05	Our supply chain may fail to deliver the goods and services we need to operate our business	5 – critical	3 – possible		Increasing
06	We could cause damage to the environment during our business activities	2 – low	3 – possible		Stable
07	Climate change and other environmental factors could negatively impact our business operations	4 – major	3 – possible		Increasing
08	We may fail to implement the cultural and operational transformation of our business necessary to deliver our business ambitions	4 – major	3 – possible		Stable
09	A significant disruptive event could impact our ability to deliver normal business activities	5 – critical	very unlikely		Stable
10	The health of our assets may deteriorate such that water supply or quality is compromised	5 – critical	2 – unlikely		Stable

Regulatory risks

#	Risks	Impact	Likelihood	Rating	Trend
11	Changes could occur in the regulatory framework, or social or political climate, which could have significant effects on our operational or financial performance	5 – critical	3 – possible		Stable
12	We may fail to comply with laws and obligations under our instrument of appointment legal, compliance or business obligations	3 – moderate	3 – possible		Stable
13	Failure to achieve a satisfactory outcome from the price review PR24	5 – critical	3 – possible		Stable

Financial risks

#	Risks	Impact	Likelihood	Rating	Trend
14	We could fail to maintain or renew appropriate financing for our business activities	5 – critical	1 – very unlikely		Stable
15	Macroeconomic factors (interest rate, inflation and tax risks) could have a material adverse effect on our financial performance	4 – major	3 – possible		Increasing

Main changes since 2022/23

A risk relating to a failure to deliver on business plan commitments has been removed this year following a review by the business that felt the risk was adequately captured under Risks 2 and 8.

Additionally, we have separated Environmental risk into two separate risks. One relates to the risk that AWL may cause damage to the local environment. The second relates to climate change and extreme weather events impacting upon AWL's ability to meet its objectives. Each is different in nature, with different risk profiles and mitigations.

Rating

- Very high
- High
- Moderate
- Low

Principal risks
and uncertainties continued

Operational risks

01 Injury to staff or third parties

Risk

Failing to manage dangerous working practices may result in a fatal or personal injury, occupational ill-health, disruption to operations, reputational damage, criminal fines, civil damages or regulatory penalties.

Link to our customer outcomes:

Mitigation

We operate our business using our health and safety management system, which is externally verified and certified to ISO 45001. This encompasses policies, procedures, standards, guidance and risk assessment protocols.

We provide our employees with appropriate health and safety training to enable them 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 & 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 our procurement strategy and arrangements our contractors and suppliers are required to have externally recognised health and safety accreditation, which is verified by bodies such as Achilles, BSI etc., and our health and safety common standards are included as contractual documents, are regularly audited and performance reviews undertaken.

We have an established governance framework where health and safety-related matters and performance are tracked and monitored, spanning operational, Executive Management Team and Board levels.

We have an audit and inspection regime and incident review protocols in place to ensure key learnings are captured and any necessary strengthening of controls is actioned appropriately. We also have a programme of health surveillance assessments, wellbeing initiatives and an employee assistance programme to help ensure the welfare and wellbeing of our people are effectively managed.

02 Service supply to our customers

Risk

Failure to maintain supply of water for all customers could result in consumers losing confidence in their drinking water, with consequent legal and reputational risks for our business. To measure our delivery, we have performance commitments which carry a penalty and reputational damage to our brand if not met. We will deliver these commitments by investment programme and alongside looking to improve our customer experience aiming for high levels of satisfaction.

Link to our customer outcomes:

Mitigation

We manage this risk through careful supply and demand planning over the short and medium term, and have developed a long-term water resources management plan (WRMP), which identifies, over a 50-year period, how we will balance available supplies and required demand with sufficient headroom for unplanned outage.

To support demand management, we undertake 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. We undertake 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, we have well-tested contingency and emergency response plans to ensure minimal disruption to our customers.

We have 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 are currently reviewing 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.

We 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 that they reflect customers' priorities.

Key

Minimising disruption to you and your community

Supplying high-quality water you can trust

Providing a great service that you value

Making sure you have enough water, whilst leaving more water in the environment

Trend

Stable

Increasing

Decreasing

See Risk key on page 109

See Risk key on page 109

03 Attraction and retention of staff

Risk	Mitigation
An inability 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. **Link to our customer outcomes:**	Our people strategy is designed to ensure that we can attract, retain, develop and motivate the people within our business to deliver our business objectives. We have a dedicated recruitment team that uses direct resourcing methods and works with recruitment suppliers to ensure good quality candidates are sourced. The use of the company's website and new careers site is crucial in providing a strong employee value proposition that will attract talent into the business. We also operate a range of apprenticeships to bring in and develop people through our business. Current projects to improve attraction and retention of staff 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 that appropriate resourcing, talent pipelines and development plans can be implemented; • Improvement of the recruitment experience to provide consistency of role definitions, career pathways to support development and competency frameworks; • Focus on corporate culture, employee engagement, equality, diversity, inclusion and wellbeing, and leadership development; and • Revised and simplified performance management processes to help drive performance levels and achieve business objectives.

04 Data security/integrity

Risk	Mitigation
In an ever-increasingly connected world, Affinity Water relies on its IT infrastructure and critical third-party suppliers and partners to deliver essential services to its customers. IT infrastructure or third-party cyber incidents could result in significant disruption to services, which may have a negative impact on customers, colleagues, and business processes. It is, therefore, essential to build Affinity Water's capability to identify and manage cyber risk, implement protective technology and processes to detect and respond to a security event and maintain plans for resilience. **Link to our customer outcomes:**	Affinity Water continues to invest in an ongoing programme to build and strengthen its security capability and 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 cybersecurity event • maintain plans for resilience to restore any lost services The strategy details the objectives, intended outcomes, activities, and supporting plans to deliver a unified framework for cybersecurity 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, alerting and automated response to improve both the resilience to new threats and the response times to incidents. Our ultimate objective is to achieve security by design mindset and approach. This means that the system (or software) has been designed to be secure and trusted from the ground up.

Principal risks and uncertainties continued

05 Our supply chain may fail to deliver the goods and services we need to operate our business

Risk	Mitigation
Global supply chains remain under stress, due to continued pressure on demand and logistics lanes, which are impacted by the sustained impact of high inflation and the Russia/Ukraine conflict. Some markets are also at risk of contraction as the economic landscape puts pressure on smaller suppliers, with acquisitions becoming increasingly common. We continue to face challenges regarding the supply of certain chemicals that are essential for our water treatment processes. Much of our capital delivery programme and field activity in our Central region is outsourced to third parties. Existing contractors could have limited capacity to take on additional work due to the volume of large-scale infrastructure projects in and around some of our operational areas. **Link to our customer outcomes:**	We seek to ensure that our relationship with critical suppliers is secured under long-term agreements, where appropriate. For key activities, we may retain more than one supplier to mitigate the risk of supplier failure and frequently qualify multiple suppliers to ensure supply continuity. We also undertake 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. We continue 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.

06 We could cause damage to the environment during our business activities

Risk	Mitigation
There is a risk that, while operating our business, an incident occurs that inadvertently causes damage to the environment. Such an incident could cause pollution or other environmental damage, impact our EPA scores and cause financial and reputational impacts. **Link to our customer outcomes:**	Our environmental ambition is to leave the environment in a sustainable and measurably improved state. We are 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 our commitment, we have set ourselves 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 our processes, systems and activities, minimising the waste we produce and the energy we consume. We work with farmers and communities to control the risk of environmental pollution from third-party activities. We have a number of other environmental control systems and processes that include landholdings management plans, catchment management programme, drinking water safety plans, our compliance risk index ('CRI') programme, our carbon reduction strategy and biodiversity programme.

Key

- Minimising disruption to you and your community
- Supplying high-quality water you can trust
- Providing a great service that you value
- Making sure you have enough water, whilst leaving more water in the environment

Trend

- Stable
- Increasing
- Decreasing
- See Risk key on page 109
- See Risk key on page 109

07 Climate change and other environmental factors could negatively impact our business operations

Risk	Mitigation
We are exposed to the possibility of damage to our landholdings, assets and ability to supply wholesome water caused by emerging global issues such as climate change, ecosystem decline, nearby land-use change (e.g. development or agricultural practices), carbon climate and third-party pollution events. Any of these could lead to increased operational costs, damage to our reputation, prosecution, loss of customer trust and/or operational disruption. **Link to our customer outcomes:**	We have identified six key climate change risks that without intervention pose an unacceptable risk to our business. Our Climate Change Adaptation Report sets out how we are mitigating and adapting to these risks. In our draft Water Resources Management Plan 2024 we have included an assessment of the impact of climate change on our supply-demand balance. This was evaluated using a common approach adopted across the WRSE region to ensure we can meet future needs. We review and respond to planning applications where these could pose a potential risk to our assets and are working with landowners and farmers to improve soil health and water quality through our Catchment Management programme. Our INNS Out scheme is supporting our community to tackle invasive non-native species in our supply area, to help reduce the risk to our landholdings and the wider catchment.

08 We may fail to implement the cultural and operational transformation of our business necessary to deliver our business ambitions

Risk	Mitigation
There is a risk that the changes to our organisational structure and business processes are insufficient to deliver our business ambitions. We have made several performance commitments, which, if not met, may result in us incurring financial penalties and suffering reputational damage in the eyes of our regulators and other stakeholders. In addition, we must implement the investment programme set out in our business plan. Failure to do so may lead to the imposition of financial penalties or other enforcement action. **Link to our customer outcomes:**	We are in the midst of a cultural transformation programme to ensure, amongst other things, that we have a culture where our people are comfortable and embrace the significant changes necessary to make the required changes to deliver our Journey to 2025. We have implemented a company-wide business excellence programme, utilising Lean/Six Sigma to drive a culture of continuous improvement of all business processes. We have a well-established and rigorous project methodology in place to govern how we deliver our programmes and projects. Our Investment Committee reviews all proposed 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.

Principal risks
and uncertainties continued

09 A significant disruptive event could impact our ability to deliver normal business activities

Risk	Mitigation
Our ability to effectively and efficiently deliver the services that our customers expect could be significantly impacted by an extreme disruptive event, such as catastrophic loss of assets, extreme weather events beyond our current capacity to manage, terrorist attack or extended periods of pandemic or war. **Link to our customer outcomes:**	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.

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

Risk	Mitigation
The health of our assets is critical in facilitating the ongoing supply of sufficient quantities of high-quality water to our customers and ensuring the operational resilience of the business. The health of our assets is also important in ensuring that they can be operated safely by our employees. **Link to our customer outcomes:**	The maintenance of our existing assets to maintain service to customers is funded from the base capital maintenance element of our regulatory settlement; for 2022/23 this was just over £100 million. Unlike some other areas, we have autonomy to decide how to allocate funds to best deliver our performance commitments. We use a 'risk and value' based approach to inform our decision making, which enables us to prioritise investment to those areas that most need it. This year, we are very proud to have delivered one of the best Compliance Risk Index ('CRI') scores in the industry – a testament to how we have prioritised and delivered water quality-related investments. In support of this, we are working on enhancing the accuracy and completeness of our data and the suite of asset health metrics we use to measure risk. We have recently moved our below ground (infrastructure) assets onto the same risk management process as our above ground (non-infrastructure) assets, so we now have a single view of our emerging asset risks in one place.

Key

Minimising disruption to you and your community

Supplying high-quality water you can trust

Providing a great service that you value

Making sure you have enough water, whilst leaving more water in the environment

Trend

Stable

Increasing

Decreasing

See Risk key on page 109

See Risk key on page 109

Reputational risks

11 Changes could occur in the regulatory framework, or social or political climate, which could have significant effects on our operational or financial performance

Risk	Mitigation
Changes to the regulatory framework by Ofwat or the government may have an adverse effect on our operational or financial performance. We are also exposed to risks arising from the general social and political climate, for example, debate around the merits of the current water ownership model, political pressure to restrict price increases, the investment needed by wastewater companies in combined sewer outfalls, and other issues, such as the adequacy of our WRMP and some objections to compulsory water metering. These pressures may lead to a reduction in revenue or have a reputational impact. Nationalisation has fallen down the political agenda, but political risk remains high due to continued scrutiny of the industry. **Link to our customer outcomes:**	We continue to contribute fully to consultations with our regulators and seek to ensure our voice is heard on emerging changes through strong relationships with all our stakeholders. We continue to engage with our stakeholders and their representatives to understand and respond to their issues and concerns. We regularly engage with stakeholders across the political spectrum to understand and mitigate political risk.

Principal risks and uncertainties continued

12 We may fail to comply with laws and obligations under our instrument of appointment legal, compliance or business obligations

Risk

We need to ensure that our activities and outputs comply with licence conditions or statutory requirements arising from our appointment, as well as all other applicable laws and standards. Failure to do so may result in an enforcement order, a fine of up to 10% of appointed turnover or termination of our appointment and special administration.

Link to our customer outcomes:

Mitigation

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 and/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.

We continue 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. Our 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.

13 Failure to achieve a satisfactory outcome from the price review PR24

Risk

The price review process sets the revenue, allowed investment and required performance for the next five-year period – in this case 2025–30. The review includes all aspects of the regulated business, and a failure to adequately plan and resource the process could lead to a poor outcome for Affinity Water. The impacts would include insufficient investment allowed in order to meet customer expectations, our obligations and required performance levels.

Link to our customer outcomes:

Mitigation

We have resourced our PR24 team; planning for the business plan submission in October 2023 is well under way. We are fully engaged with Ofwat through the various working groups, consultations and discussion papers that they have issued, and responded to the draft methodology in autumn 2022. We have developed our plans based on our customers' priorities and consulted with customers on our draft plans in spring 2023. We continue to focus on performance within the current period to ensure we are in the best possible position both to develop and submit our business plan, and also to transition into the next AMP in April 2025.

Key

Minimising disruption to you and your community

Supplying high-quality water you can trust

Providing a great service that you value

Making sure you have enough water, whilst leaving more water in the environment

Trend

Stable

Increasing

Decreasing

See Risk key on page 109

See Risk key on page 109

Financial risks

14 We could fail to maintain or renew appropriate financing for our business activities

Risk	Mitigation
Our business has an ongoing liquidity requirement, driven by the operational costs of the business and our substantial capital investment programme. This results in liquidity risk if we are unable to meet our cash flow requirements as and when they fall due. We are subject to several covenants in relation to our borrowings. If a covenant is breached, this could lead to a default with any outstanding borrowings becoming immediately repayable. This could also impact our ability to raise funds on sufficiently favourable terms in the future. **Link to our customer outcomes:**	We have undrawn revolving loan facilities, cash balances and standby loan facilities to meet our forecast cash flow needs. Our treasury policy requires us 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. As at 31 March 2023, we have cash balances of £135.6 million. We had £14.2 million of debt maturing in AMP7 and a spread of maturity beyond this. Our next major refinancing exercise is scheduled for July 2026 when our £250 million fixed rate bond matures. Our policy is to maintain a diverse portfolio of counterparties through which we can access liquidity at all times. This ensures we are not reliant on any single treasury counterparty. We have a regular monitoring and certification process of the financial covenants within our Whole Business Securitisation ('WBS') documentation. This covers information, financial and general covenants. Our treasury policy requires that financial covenants, which include gearing and interest cover ratios, are monitored and reported to the Board on a regular basis. We continue to maintain investment grade credit ratings with credit rating agencies.

Principal risks and uncertainties continued

15 Macroeconomic factors (interest rate, inflation and tax risks) could have a material adverse effect on our financial performance

Risk

Energy costs are a significant part of our cost base and are subject to market price movements. Since mid-2021, the price of energy in the spot and forward market has increased significantly, which has significantly increased our costs.

Movements in interest rates can result in an increase in the cost of our debt both now and in the future.

Our wholesale revenues in a given financial year are explicitly linked to the CPIH published the previous November.

An inability to control our cost inflation on the same basis would lead to a reduction in the company's profitability. Our RCV is also linked to inflation and nominal returns are therefore likely to be further reduced in a low inflation environment.

We operate a pension plan providing defined benefits based on final pensionable salary. The assets and liabilities within the plan depend on several external factors outside our control, including performance of equity markets, interest rates and future inflation, which may increase the cost of our cash contributions.

Customer debt and affordability remain key areas of focus for our business. A downturn in the economy or a reduction in consumer income (real terms) may lead to an increase in unpaid water customer bills. We are not permitted to disconnect water supplies to household and certain other types of premises in the event of non-payment, resulting in loss of revenue and increased cost of collection.

Link to our customer outcomes:

Mitigation

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. We have already energised our first solar arrays and aim to have c.10% of our annual energy requirement from solar by 2025.

We purchase energy in the forward market to achieve cost certainty and reduce the likelihood of needing to purchase during highly volatile periods. We have now purchased 100% of our energy requirement until 31 March 2025. Interest rate risk is primarily managed by using a mixture of fixed-rate and inflation linked borrowings, and approved hedging instruments (refer to note A4 to the financial statements for further information). We have a financial covenant within our WBS documentation stipulating that at least 85% of our outstanding debt is hedged against movements in interest rates. Interest rate risk is monitored and reported on a regular basis to the Board.

Inflation risk in our costs is managed through undertaking a robust and challenging budgeting process to ensure costs are clearly understood and subsequently controlled during the financial year. We also use inflation-linked debt to ensure a proportion of our interest costs are linked to inflation and, therefore, offsets an element of the movement in revenue and RCV that results from changes in inflation. We have inflation-linked swaps with a notional value of £250 million (CPI) and £210 million (RPI). The proportion of debt linked to inflation is now 86% (2022: 80.8%).

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 11 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 company 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. Ninety per cent 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.

We have 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, we have payment arrangements that are as flexible as possible, and we encourage customers who find themselves in difficulty to contact us as early as possible. We also have a social tariff (LIFT) to help support customers who are least able to pay their bills.

Key

- Minimising disruption to you and your community
- Providing a great service that you value
- Supplying high-quality water you can trust
- Making sure you have enough water, whilst leaving more water in the environment

Trend

- Stable
- Increasing
- Decreasing
- See Risk key on page 109
- See Risk key on page 109

Viability statement

The Board's consideration of the company's longer-term viability and prospects is an extension of our business planning process. This includes financial budgeting and forecasting, and a robust risk management process.

Period of assessment

The directors have assessed the company's prospects and financial viability both in the short term and long term. The directors have considered the company's long-term prospects in the context of our draft PR24 plans, which is the process by which Ofwat will determine the revenues we need and outcomes we need to deliver in AMP8. The directors also assessed our 2024 WRMP, which sets out our plan to secure the long-term provision of resilient and sustainable water supplies for customers from 2025 to 2075. Our WRMP plan was consulted on during the year and will be published in full in September 2023. See pages 18 and 47 for more details on our PR24 plans and our 2024 WRMP. The financial projections presented to the Board, to enable assessment of the company's long-term prospects, reflect the expected level of investment implied by this plan and recovery of this investment from customers.

The directors have also assessed the company's financial viability over a shorter ten-year period to 31 March 2033 (the 'lookout period'). The forecasts used in the assessment of financial viability, therefore, project beyond the current price control period, taking into account both our AMP7 Final Determination, our draft PR24 plans and additional projected financials for the final three years of the lookout period. The level of reliability of the assumptions used reduces in the second half of the lookout period; however, the directors continue to consider the ten-year period to be appropriate given the long-term nature of the business.

Assumptions made in the base case scenario

To assess long-term viability, stress-testing was performed on a Board-approved base case cash flow forecast (the 'base case cash flow forecast'). The base case cash flow reforecast reflects the difficult and uncertain economic environment we are currently operating in and has taken into account the impact of inflation, interest rates, supply chain cost pressures, the energy price crisis and the cost-of-living crisis.

The base case reflects projected costs and revenues for the two-year period to 31 March 2025 as allowed by Ofwat's final determination of price controls and has projected financials for the remaining eight years of the lookout period based on the draft PR24 Final Determination for AMP8 and current economic climate. AMP8 expenditure also includes anticipated expenditure to further develop strategic regional water resource solutions, as detailed in our 2024 WRMP. The base case has taken into consideration the impact of reprofiled capital expenditure from projects delayed during the first year of AMP7 into later years of AMP7 as a result of the Covid-19 pandemic.

The base case has also taken into consideration our forecast gearing against notional gearing, using a gearing sharing mechanism consistent with methodology prescribed by Ofwat in our final determination with a one AMP delay and reflects a capital structure consistent with the de-gearing scenario agreed with the company's shareholders detailed in our AMP7 Business Plan with projected gearing reducing to 74.5% by the end of AMP7.

The base case forecast includes capital expenditure over AMP7 on a net basis, offsetting capital spend on HS2 projects with contributions received. Gross capital expenditure in the year ended 31 March 2023, including HS2 spend, was £131.8 million (2022: £139.9 million). HS2 contributions of £3.4 million (2022: £18.6 million) were received against this spend. Capital spend on HS2 projects is expected to be minimal in AMP8.

The projections for the ten-year lookout period apply the AMP7 mechanism for sharing financial outperformance with customers. They also include the impact of any potential net ODI penalties resulting from AMP7 performance in AMP7 and AMP8. The base case has assumed any rewards or penalties relating to the PCC performance commitment will still be adjusted for as part of the revenue adjustment mechanism to ensure a prudent approach.

The base case cash flow forecast also assumes a further £520 million of debt is raised via the capital markets throughout the lookout period, of which £171 million to fund future AMP investments. A refinancing exercise is forecast to take place in July 2026 when our £250 million fixed rate bond matures (refer to page 188 for details of our bond maturities), in addition to £99 million refinancing of the swaps. This refinancing has assumed a 5.4% interest rate in the base case. For new debt to fund additional investment, the base case has assumed rates of 5.2% for Class A fixed, 2.2% for Class A index linked and 6% for Class B debt.

Resilience to principal risks facing the company

The directors also reviewed the principal risks and uncertainties facing the company set out in the previous section, and determined that it was reasonable to expect that none of the individual principal risks identified on page 109 with the icon , if these were to occur, would in isolation compromise the company's financial viability during the lookout period. Instead, these risks could be considered as part of a number of different severe sensitivities to the company's base case forecast.

Stress test scenarios applied

Tests were applied to the base case cash flow forecast to assess for resilience against financial shocks, compliance with financial covenants and availability of cash reserves. Financial ratio targets (including targets for cash interest cover, adjusted interest cover, funds from operations to debt, return on capital employed and return on regulatory equity) to evaluate the results of the stress testing were set to align with the levels required to meet our Baa1 credit rating under Moody's current methodology and to maintain an investment grade credit rating. A key assumption of this viability statement is that the company maintains an investment grade credit rating, in line with its Instrument of Appointment.

The targets maintain headroom against the trigger and default levels set out in the company's WBS documentation. Trigger levels, if reached, would require increased reporting to the WBS lenders and would lock up dividend payments. If default levels were reached, the company would be in breach of its WBS arrangements and subject to the provisions of the Security Trust and Intercreditor Deed ('STID'), in particular the standstill period mechanisms, each lender may declare all amounts outstanding to be immediately due and payable and recoveries would be applied by the Security Trustee in accordance with the payment priorities.

The directors regularly review the base case cash flow forecast and formally review the output of the stress-testing on an annual basis.

The following sensitivities, approved by the Audit, Risk and Assurance Committee, were applied to stress-test the base case cash flow forecast.

S1	10% increase in totex;
S2	1% decrease in all three inflation metrics (RPI, CPI and CPIH);
S3	1% decrease in inflation, impacting revenue only;
S4	replacing the base inflation forecast with a negative 1% forecast, while maintaining a 1% increase in expenditure;
S5	one-off exceptional event;
S6	5% increase in unpaid water customer bills represented by a 5% reduction in revenue;
S7	1% decrease in inflation impacting revenue only, 5% increase in totex and 5% increase in unpaid water customer bills;
S8	100% decrease in cash generated by the company's non-appointed business; and
S9	2% increase in cost of debt.

The sensitivities applied in relation to totex, revenue and unpaid water customer bills were in line with those used in testing performed during the PR19 process to assess the robustness and financeability of our AMP7 Business Plan.

The directors consider that the sensitivity applied in relation to totex (S1) is of a sufficient magnitude to capture the financial impact of exceptional items, such as regulatory fines and legal costs (refer to principal risks 1, 4 and 11); costs associated with extreme weather events (refer to principal risk 2); costs associated with a water quality event (refer to principal risk 2); and costs not taken into account by Ofwat in setting our price controls (i.e. unfunded costs).

The inflation sensitivities (S2 and S3) reflect severe scenarios in the context of the company's inflation-linked debt and inflation-linked costs (for example staff costs), which act as natural hedges to lower revenue.

The scenario of negative inflation combined with an increase in expenditure (S4) is intended to reflect conditions during an economic recession (refer to principal risk 15), such as those experienced in 2008/09, and projected as a result of the ongoing energy price crisis and cost-of-living crisis. This scenario captures a realistic expectation, when considering the structure of the company's cost base, that, in general, costs will not fall during a period of negative inflation.

The scenario of a one-off exceptional event (S5) reflects the prospect of an exceptional event with an initial capex requirement of £60 million and an opex requirement of £20 million in year 1 to deal with the immediate needs following the event, with some legacy impact to opex of £10 million in year 2 and £5 million in year 3.

The sensitivity applied in relation to unpaid water customer bills (S6) reflects a severe scenario considering that the risk is spread across our whole customer base. The stress test has been applied across all years, on top of the impact of high inflation, interest rates, supply chain cost pressures, the energy price crisis and the cost-of-living crisis included in the base case. The directors consider that this sensitivity is of a sufficient magnitude to capture also the financial impact in severe scenarios of ODI penalties incurred through worse than planned operational performance (refer to principal risk 5).

Viability statement continued

The scenario of a decrease in inflation impacting revenue only, together with a 5% increase in totex and 5% increase in unpaid water customer bills (S7) is intended to reflect severe conditions during a downturn in the economy.

The sensitivity of a 100% decrease in cash generated by the company's non-appointed business (S8) reflects a severe scenario that companies may decide to no longer procure non-appointed services from us.

A sensitivity has been applied in relation to cost of debt (S9), as £250 million of the company's existing bonds are due to mature in the lookout period, in addition to forecast accretion payable on the swaps, and the company has not yet secured financing for expected expenditure commitments beyond AMP7.

The directors consider that this sensitivity reflects a severe scenario of an increase to cost of debt in the context of how the ten-year gilt has performed over the last 20 years. To achieve an all-in coupon, a credit spread has been included that is consistent with the current and historic performance of the £250 million fixed rate bond, forecast to be refinanced in the lookout period.

The directors consider that the sensitivity applied in relation to cost of debt is of a sufficient magnitude to capture the financial impact in a severe scenario of a credit rating downgrade. As stated in previous paragraphs, a key assumption is that, even if downgraded, the company's credit rating remains investment grade.

Impact of principal risks on financial viability

For the principal risks identified in the principal risk table on page 109 with the icon ●, the directors considered that these risks, if they were to occur, might in isolation threaten financial viability, potentially leading to significant unforeseen additional cash requirements during the lookout period in the event of:

- A major asset failure resulting in large-scale interruptions to operations (refer to principal risk 10 and page 116 for further details of this risk and our mitigating activities);
- A major water quality issue (refer to principal risk 2 and page 112 for further details of this risk and our mitigating activities);
- A severe drought incident within our supply region as considered in our Drought Management Plan (refer to principal risk 2 and page 112 for further details of this risk and our mitigating activities); or
- A significant cyber-attack leading to a major loss of customer data or interruption to operations (refer to principal risk 4 for further details of this risk and our mitigating activities).

The directors consider that the sensitivity applied in relation to scenario 1 is of a sufficient magnitude to capture the financial impact of these exceptional items.

Results of each stress test on our financial covenants

All covenants are met under the base case scenario. Some stress testing scenarios result in a trigger level or default being reached without mitigating actions, as detailed in the following table. With the mitigating actions, the directors expect that the company will meet its covenants and maintain headroom against those covenants over the lookout period. An investment grade credit rating is expected to be maintained under all scenarios with the mitigation actions in place (based on Moody's current assessment process).

The directors consider that the impact on the company's cost of debt in the lookout period as a result of a lower investment grade rating of Baa2/Baa3 under a severe scenario is captured by the 2% increase in cost of debt stress test.

Scenario	Rating agency measures: Adjusted interest cover	Rating agency measures: Funds from operations to debt ratio	Key covenants: Interest cover ratio (conformed Class A adjusted)	Key covenants: Gearing (senior net indebtedness to RCV)	Mitigation	Rating agency measures: Adjusted interest cover	Rating agency measures: Funds from operations to debt ratio	Key covenants: Interest cover ratio (conformed Class A adjusted)	Key covenants: Gearing (senior net indebtedness to RCV)
	Without mitigation				With mitigation				
Base	Not met	Not met	Met	Met	Required	Met	Met	Met	Met
01	Not met	Not met	Default	Trigger	Required	Met	Met	Met	Met
02	Not met	Not met	Met	Trigger	Required	Met	Met	Met	Met
03	Not met	Not met	Met	Trigger	Required	Met	Met	Met	Met
04	Not met	Not met	Met	Trigger	Required	Met	Met	Met	Met
05	Not met	Not met	Default	Trigger	Required	Met	Met	Met	Met
06	Not met	Not met	Default	Trigger	Required	Met	Met	Met	Met
07	Not met	Not met	Default	Trigger	Required	Met	Met	Met	Met
08	Not met	Not met	Default	Trigger	Required	Met	Met	Met	Met
09	Not met	Not met	Met	Met	Required	Met	Met	Met	Met

As set out in the table, without mitigation, default or trigger levels would be reached for the interest cover ratio under the sensitivities S1, S5, S6, S7 and S8 and trigger levels would be reached for the gearing ratio under S1, S2, S3, S4, S5, S6, S7 and S8 in one or more years over the lookout period and in some scenarios, default or trigger levels would be reached within 18 months. The base case scenario already represents a downside scenario as the company contends with the fallout from the Covid-19 economic and systemic impact along with the emerging energy price and cost inflation crisis compounding through the deteriorating global political situation, having a significant impact in AMP7.

The final two years of AMP7 are the most challenging for the business due to increased operating costs already included in the base case scenario as a result of the ongoing current economic conditions and increased amounts of totex spending against regulatory allowances included as revenue in the last two years of the AMP.

AMP8 indicators show an improved position as we assume benchmarks are re-set in PR24 to current economic conditions, as well as a regulatory return allowances increase due to movements in the underlying investment market data that feeds into the regulator's calculations.

In the short term, we are not exposed to financing cost risk as we have liquidity to see out the AMP7 years that are under pressure.

Further details where key covenants default or trigger within the lookout period	
S1	Without mitigation, a 10% increase in totex would result in trigger being reached in year 1 and a default position being reached in year 2 for the interest cover ratio, but the covenant would be met in all other years. A 10% increase in totex would result in a trigger level being reached for a credit rating debt coverage ratio in years 1 and 2 but the ratio requirement would be met in all other years. If this scenario were to arise, management intervention would be introduced to reduce operating costs and manage working capital. A portion of this additional spend is recovered through the AMP7 totex reconciliation mechanism increasing RCV.
S2	Without mitigation, a 1% decrease in all three inflation metrics (RPI, CPI and CPIH) would result in a trigger level being reached for a credit rating debt coverage ratio in years 1 and 2 but the ratio requirement would be met in all other years. The majority of this impact would be a reduction in nominal RCV, resulting in a lower capacity to raise new financing due to the need to maintain a specified gearing position. This would be mitigated with lower dividend payments.

Viability statement continued

Further details where key covenants default or trigger within the lookout period	
S3	Without mitigation, a 1% decrease in inflation, impacting revenue only, would result in a trigger level being reached for a credit rating debt coverage ratio in years 1 and 2 but the ratio requirement would be met in all other years. This would be mitigated with lower dividend payments.
S4	Without mitigation, replacing the base inflation forecast with a negative 1% forecast, while maintaining a 1% increase in expenditure, would result in a trigger level being reached for a credit rating debt coverage ratio in years 1 and 2 of the lookout period. The majority of this impact is felt in RCV indexation, limiting the capacity for new debt; however, a larger amount of inflation-linked debt and the use of derivatives mitigate some of this impact.
S5	Without mitigation, a one-off exceptional event would result in default being reached on the interest cover ratio in years 1 and 2 and a trigger level being reached on a credit rating debt coverage ratio in the same years. The overall net cash requirement over the forecast period is mitigated by reducing dividends over this period. A portion of this additional spend is recovered through the AMP7 totex reconciliation mechanism increasing RCV.
S6	Without mitigation, a 5% increase in unpaid water customer bills represented by a 5% reduction in revenue would result in trigger being reached in year 1 and a default position being reached in year 2 for the interest cover ratio, but the covenant would be met in all other years. The increase would result in a trigger level being reached for a credit rating debt coverage ratio in years 1 and 2 but the ratio requirement would be met in all other years. The cash requirement created would be utilised by a reduction in projected dividend.
S7	Without mitigation, a 1% decrease in inflation impacting revenue only, 5% increase in totex and 5% increase in unpaid water customer bills would result in default being reached in years 1 and 2 and a trigger level being reached in year 7 of the lookout period for the interest cover ratio. Trigger levels on a credit rating debt coverage ratio would be reached in years 1, 2, 5, 6 and 7 of the lookout period but would be met in other years. The additional cash requirements would be met through reduced dividends and management intervention would be introduced to reduce operating costs and manage working capital.
S8	Without mitigation, a 100% decrease in cash generated by the company's non-appointed business would result in trigger being reached in year 1 and a default position being reached in year 2 for the interest cover ratio, but the covenant would be met in all other years. The increase would result in a trigger level being reached for a credit rating debt coverage ratio in years 1 and 2 but the ratio requirement would be met in all other years. Removing the profit generated by the non-appointed business creates additional cash requirements that would be met through a reduction in dividends.

If the scenarios were to arise, the company could implement the following mitigating actions:

- Issue a further short-term RPI-linked swap to reduce the interest charge. This would yield a higher impact to the interest charge than a longer-term swap;
- Reduce further operating costs by targeting efficiencies;
- Implement additional working capital management;
- Buy back a portion of the 5.875% class A fixed rate bond, the company's most expensive debt, reducing the overall interest charge; and
- Restrict dividend payments in AMP8.

In any further extraordinary situations in addition to the above mitigating actions, the company's investment programmes would be re-prioritised and management would intervene to reduce operating costs to reduce cash outflows in critical years.

Together with the results of the stress-testing (summarised in the table), the directors also considered the following:

- The company's available liquidity;
- The company's ability to renew its existing short-term borrowing facilities under most market conditions;
- The likely effectiveness of current and planned mitigating actions, as detailed in the principal risk section;
- The company is financially and operationally 'ring-fenced' from the rest of the Affinity Water group by way of the WBS (refer to page 204 for further details); and
- Under the regulatory model, a primary legal duty of Ofwat is to ensure that water companies can finance their functions.

To conclude, based on the above assumptions and analysis, the directors confirm that they have a reasonable expectation that, with the mitigating actions implemented if required, the company will continue to operate and meet its liabilities, as they fall due, over the lookout period.

Non-financial information statement

We aim to comply with the non-financial reporting requirements contained in sections 414CA and 414CB of the Companies Act 2006. We integrate this information throughout our Annual Report and Financial Statements and so the table below is designed to help locate key elements on non-financial matters. Where we include more details on a policy on our website, the link has been included in the table below.

Reporting requirement	Information necessary to understand our business and its impact	Policies, guidance and standards which govern our approach
Social matters	• Why our supply area is unique (page 3) • Who we are in action (page 4) • Chair's welcome (page 10) • Alignment of culture with purpose, value and strategy (pages 14 and 15) • How we operate (pages 18 to 21) • Performance highlights (pages 22 to 25) • CEO's introduction (pages 30 to 35) • Our business model (page 36 and 37) • Our external environment leadership insights (page 40 to 43) • Planning our future together (pages 45 to 47) • Looking to the future – challenges and opportunities we face (pages 48 and 49) • Our commitment to public value (pages 50 to 53) • Our Stakeholders (page 54 and 55) • Our focus areas (page 56 and 57) • Our strategy (pages 58 and 59) • Our customer outcomes (pages 60 and 61) • Our operational performance – providing a great service that you value (pages 66 and 67)	• Our principles (page 1) • Alignment of culture with purpose, value and strategy (pages 14 and 15) • Our approach to sustainability (page 16) • External guidelines we follow (page 17) • Our business model (page 36 and 37) • Our approach to multi-capital thinking (page 38) • Our strategy (pages 58 and 59) • Maintain BSI standard for inclusive services (page 61) • Sustainability (page 80 to 83) • Our alignment to UNSDGs (page 84) • Our Independent Customer Challenge Group (pages 102 to 104) • Purchase order terms and conditions and supply of goods and services agreement (page 106)

Non-financial information statement continued

Reporting requirement	Information necessary to understand our business and its impact	Policies, guidance and standards which govern our approach
Environmental matters	• Why our supply area is unique (page 3) • Who we are in action (page 4) • Chair's welcome (page 10) • Alignment of culture with purpose, value and strategy (pages 14 and 15) • Our approach to sustainability (page 16) • How we operate (pages 18 to 21) • Performance highlights (pages 22 to 25) • CEO's introduction (pages 30 to 35) • Natural Capital case study – River Beane (page 39) • Our business model (page 36 and 37) • Our commitment to public value (pages 50 to 53) • Our external environment leadership insights (page 40 to 43) • Planning our future together (pages 45 to 47) • Looking to the future – challenges and opportunities we face (pages 48 and 49) • Our Stakeholders (page 54 and 55) • Our focus areas (page 56 and 57) • Our strategy (pages 58 and 59) • Our customer outcomes (pages 60 and 61) • Our operational performance – making sure you have enough water, whilst leaving more water in the environment (pages 66 and 67) • Key Performance Indicators (pages 75 to 79) • Sustainability (page 80 to 83)	• Our principles (page 1) • Alignment of culture with purpose, value and strategy (pages 14 and 15) • Our approach to sustainability (page 16) • External guidelines we follow (page 17) • Our business model (page 36 and 37) • Our approach to multi-capital thinking (page 38) • Our strategy (pages 58 and 59) • Sustainability (page 80 to 83) • Our alignment to UNSDGs (page 84) • Task Force for Climate related Financial Disclosures (pages 88 to 99) • Environmental Policy (affinitywater.co.uk/environment) linked through Task Force for Climate related Financial Disclosures (page 94)
Employees	• Chair's welcome (page 10 and page 133) • Alignment of culture with purpose, value and strategy (pages 14 and 15) • CEO's introduction (pages 30 to 35) • Promoting a culture of diversity and inclusivity throughout the workplace (page 84) • Safety, health and wellbeing (pages 174 to 178)	• Our principles (page 1) • Equality, Diversity and inclusion (pages 167, 170 to 176) • Safety, health and wellbeing (pages 174 to 178) • Gender pay gap (page 194)
Respect for human rights	• Safety, health and wellbeing (pages 174 to 178) • Promoting a culture of diversity and inclusivity throughout the workplace (page 84)	• Equality, Diversity and inclusion (pages 167, 170 to 176) • Safety, health and wellbeing (pages 174 to 178) • Modern Slavery and human trafficking (pages 106, 144, 149, 154)

Reporting requirement	Information necessary to understand our business and its impact	Policies, guidance and standards which govern our approach
Anti-corruption and anti-bribery	• Our new code of ethics (pages 35, 135)	• Code of ethics (pages 103, 144, 158) • Whistle blowing policy (pages 144, 153, 154, 159, 224) • Systems of risk management, planning and internal controls (page 159)
Description of principal risks	• Principles risks and uncertainties (page 108 to 120) • Viability statement (pages 122 to 126)	• Systems of risk management, planning and internal controls (page 157) • 'Three lines of defence' assurance process (page 159) • Compliance Obligations register (page 161)
Description of business model	• Our business model (page 36 and 37)	• Introduction from the Chair (page 132)
Non-financial KPIs	• Performance highlights (pages 22 to 25) • Our Operational Performance (pages 62 to 69) • Key Performance Indicators (pages 74 to 79)	• How we operate (pages 18 to 21) • Planning our future together (pages 45 to 47) • Our customer outcomes (pages 60 and 61)

Approval of the Strategic Report

On behalf of the Board

Ian Tyler
Chair

12 July 2023