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 4,500km² 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.

Cautionary statement: The Annual Report and Financial Statements contain certain statements that are forward-looking. Although the company believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to be correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements. The company undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

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.

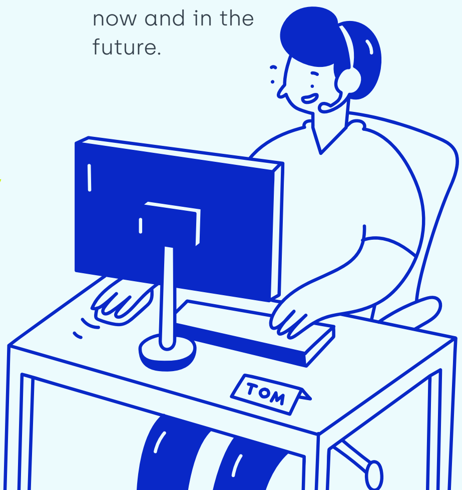
Show we care
We want to engage the hearts and minds of customers, and take care of the environment – for our communities now and in the future.

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

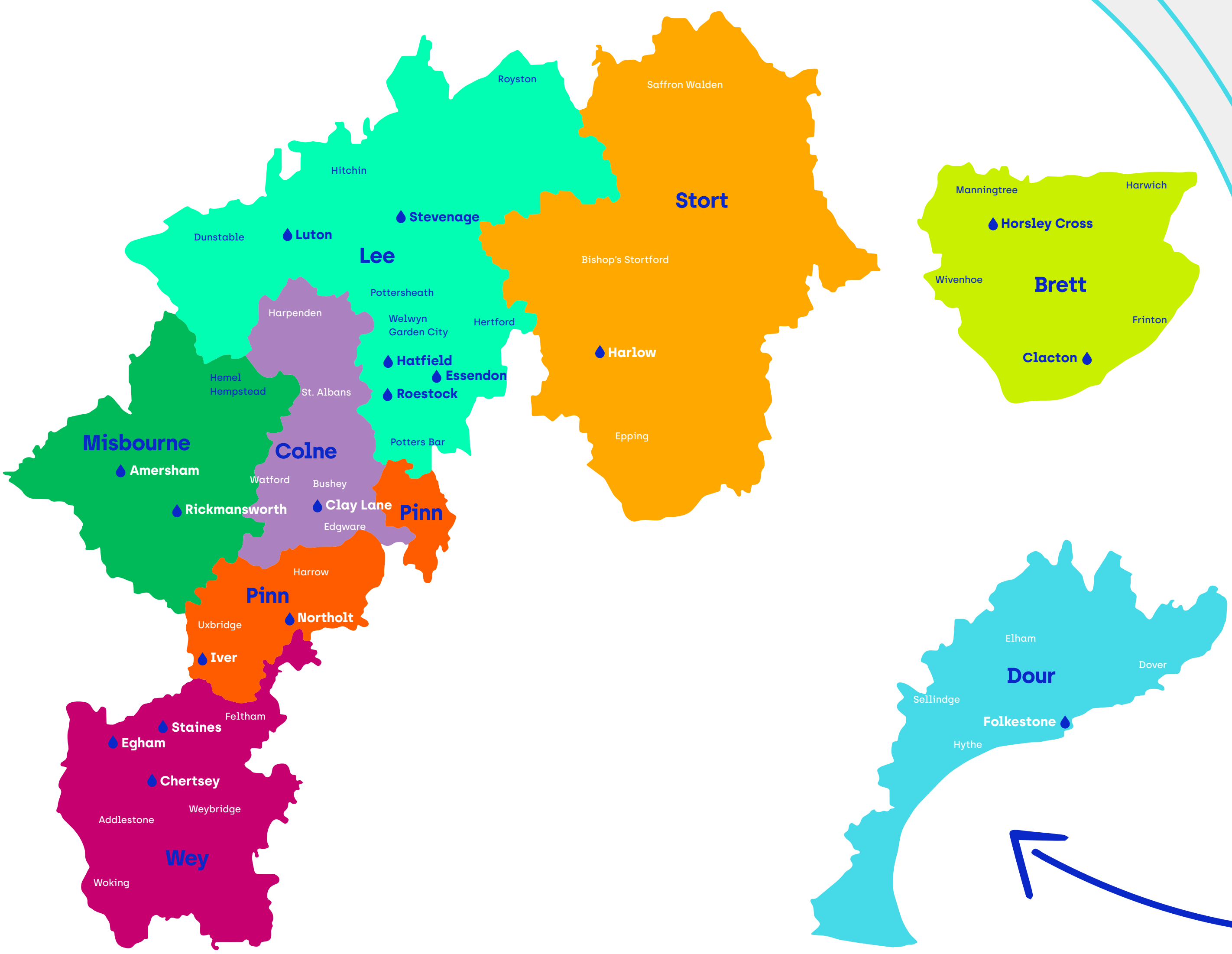
Affinity Water



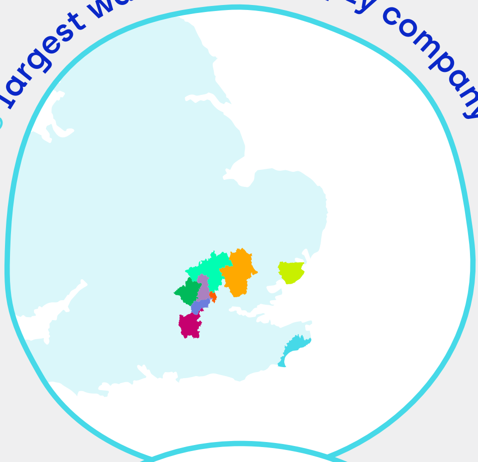
Where we operate

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

63

million litres of water a day.

Reduced groundwater abstraction since 1993.

36

million litres of water a day.

A further reduction of groundwater abstraction by 2025.

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** 14

Our business model

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

Read more on **page** 36

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

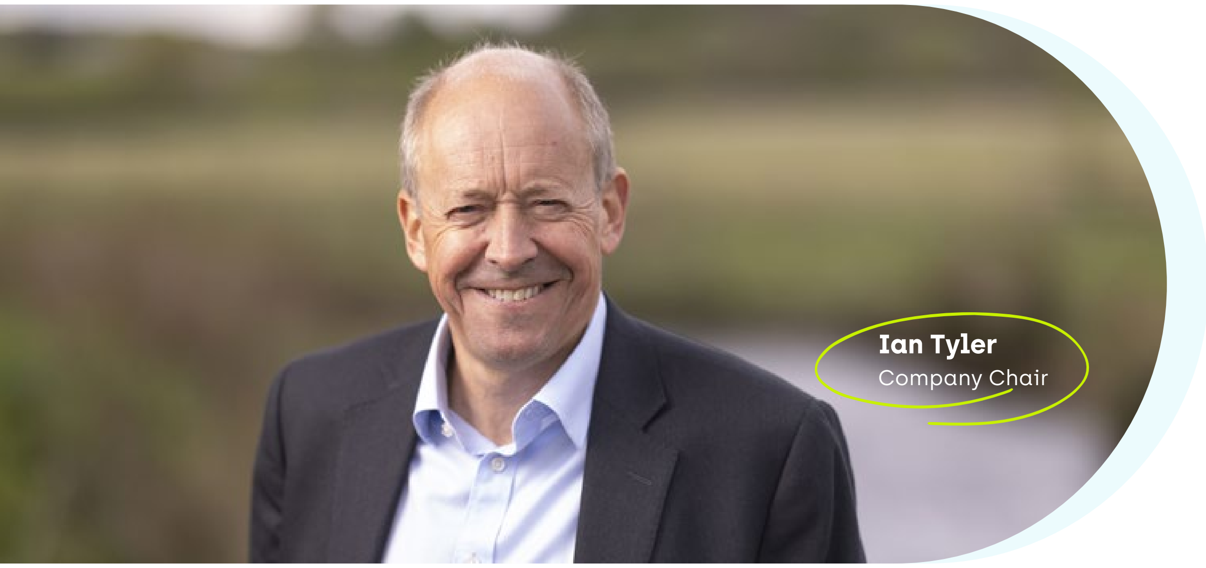
Read more on **page** 58

Principal risks and uncertainties

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

Read more on **page** 108

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.

Affinity Water

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.

The people that Affinity Water will work with:

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.

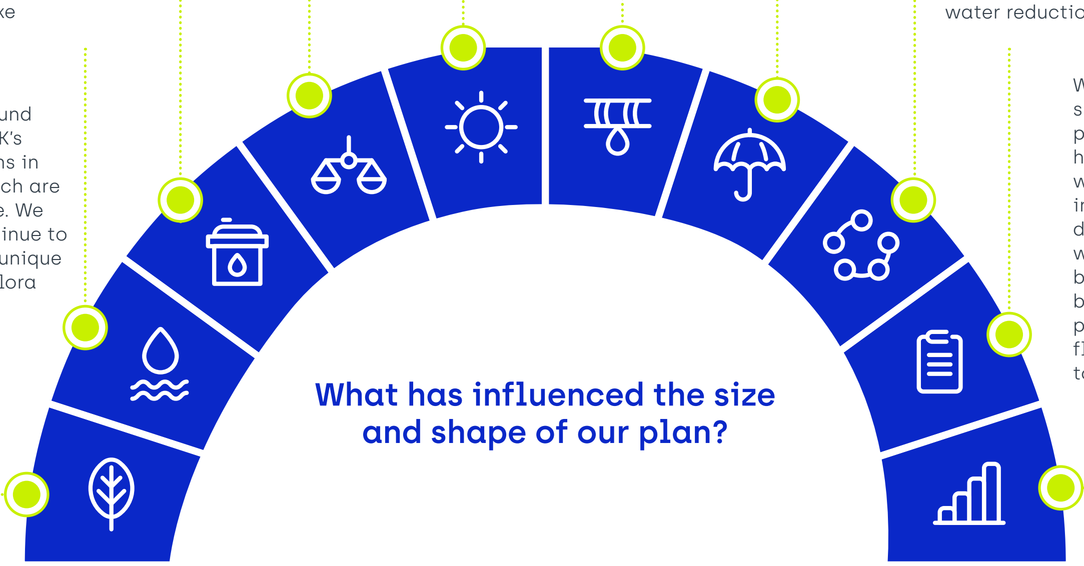
Our 50-year plan

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.



We have around 10% of the UK's chalk streams in our area which are globally rare. We need to continue to protect this unique habitat for flora and fauna

A groundwater-dominated supply and abstraction can have an impact on ecologically sensitive areas (such as chalk streams) so it's important to minimise how much water we take

We have limited water storage of surface water in reservoirs – this reduces how we are able to respond to demand when our customers need it

We need to pace the scale of abstraction reductions to balance affordability for our customers with our environmental destination

We need to stop relying on exceptional drought permits and orders to take water from the aquifer when it's at its most vulnerable

We need to tackle water leakage from our network so that we can make better use of the resources we have

We are reliant on the weather, with one of the lowest total annual average rainfall per person in the UK in our region and climate change has increased our chances of having prolonged periods of high summer demand for water

Our communities are not as connected by pipelines as we would like. We are improving it but there is more to do. Historically, there hasn't been a need for a connection between areas, because each one had been fed by its own water source

We need to plan for uncertainties in demand and account for the currently untested impacts of some government-led water reduction strategies

We forecast substantial population and housing growth which will increase the demand for water within our region by around 10% by 2050 – our plan needs to be flexible to adapt to these changes

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

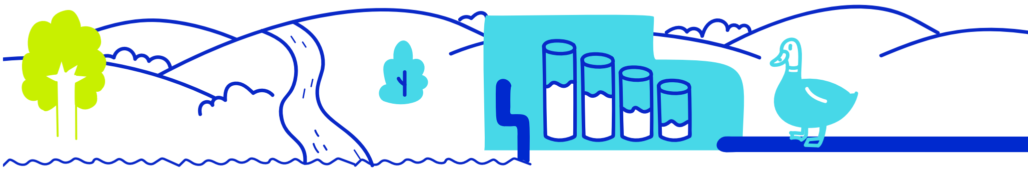
20
Connections and upgrades in the network (including three service reservoirs) to support strategic schemes' new water sources – Connect 2050

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.

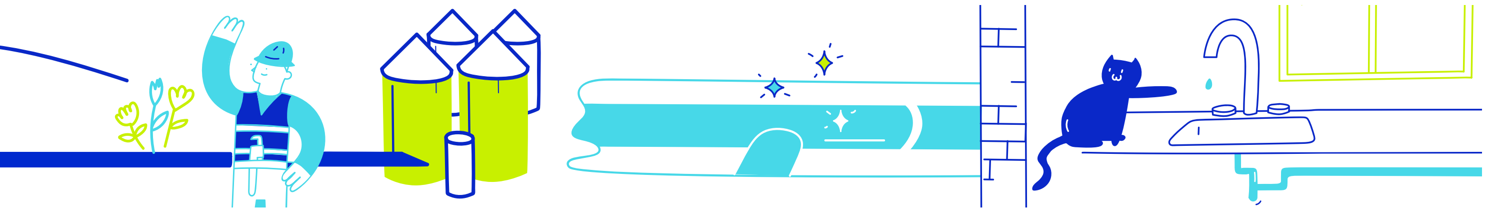
Our Impact

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	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	

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
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

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

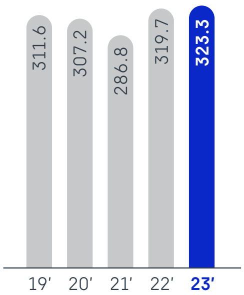
Read the **operational performance section** on **page** 68

Performance
highlights continued

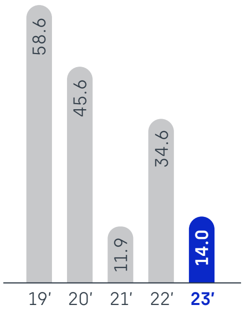
In 2022/23 a number of external factors, such as high inflation, the rising cost of energy, the hot weather over the summer of 2022 and the freeze/thaw event in December 2022, have had an impact on the business.

Financial

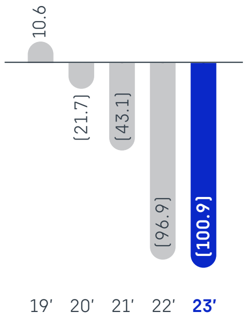
Revenue £m



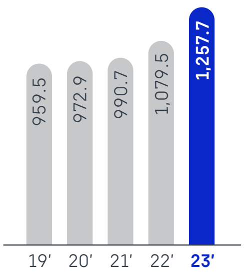
Operating profit £m



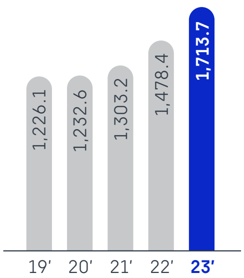
Profit/[loss] for the year £m



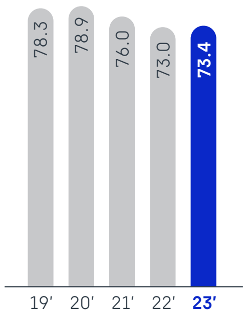
Net Debt £m



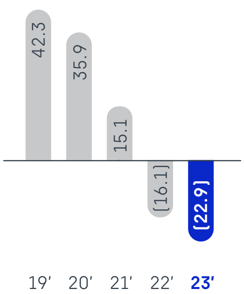
Regulatory Capital Value ['RCV'] £m



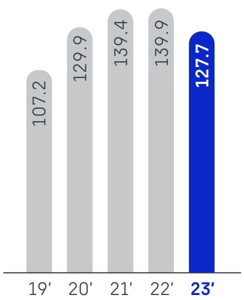
Gearing %



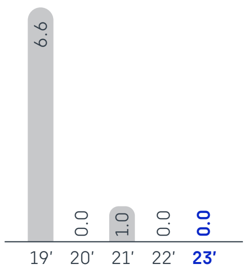
Cash flow £m



Capital investment £m



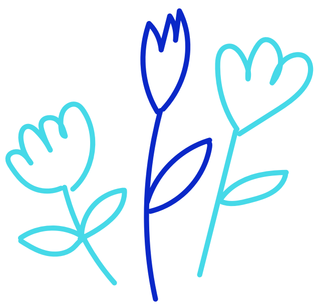
Dividends paid £m



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

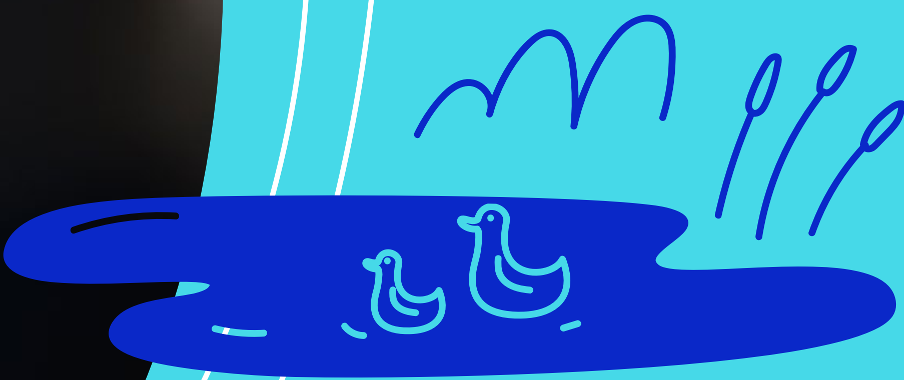
We have again received independent recognition for paying the correct amount of corporation tax. The Fair Tax Foundation congratulated Affinity Water for its high standards and, for a fifth year in a row, awarded us the Fair Tax Mark accreditation. The Fair Tax Foundation is an independent body, and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

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.

> "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."

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...

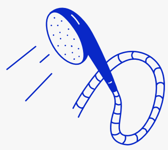
Our journey of taking care of water, now and in the future

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

+£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.

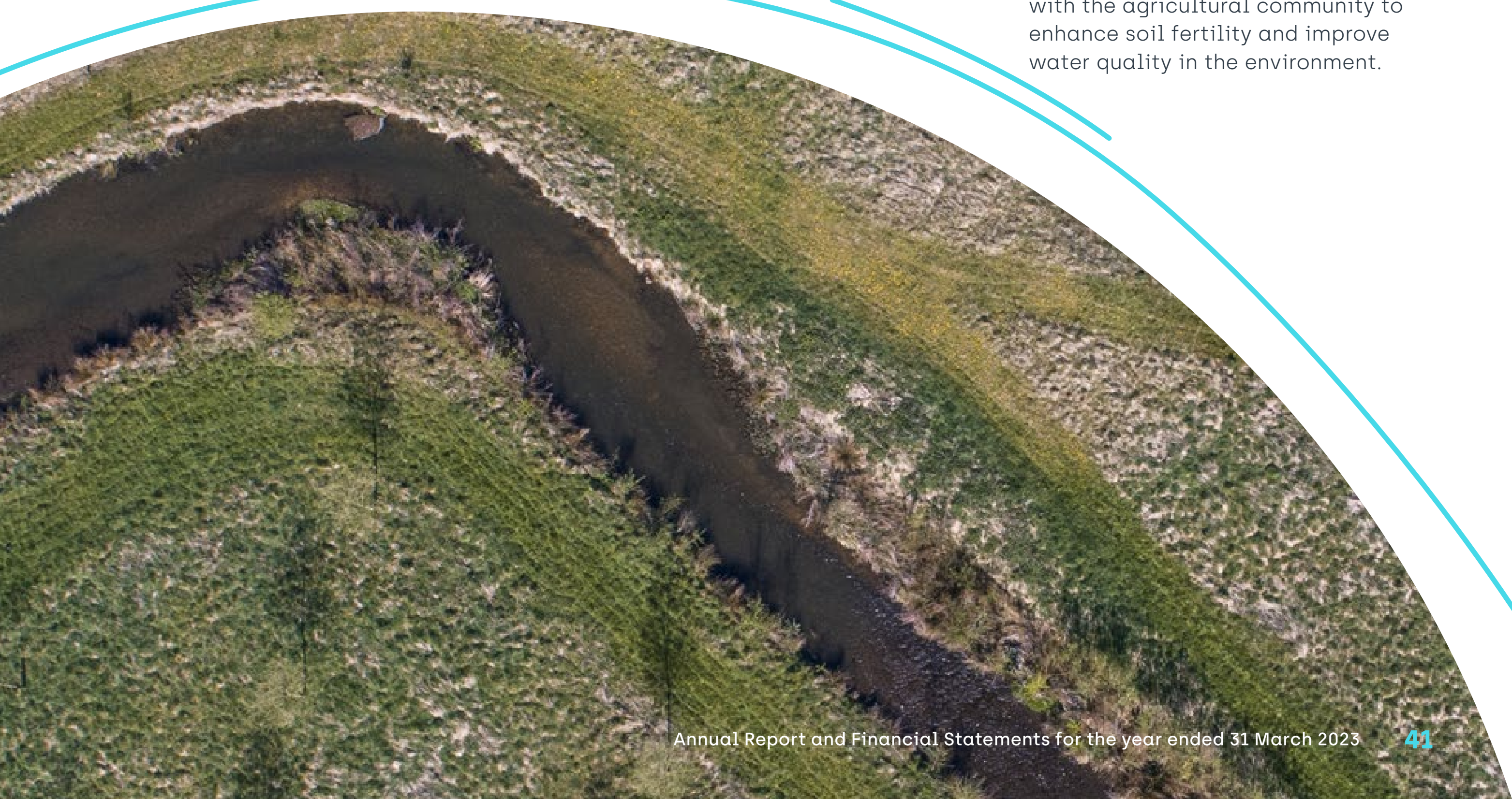
Better data, driven by AI machine learning, is also giving us valuable insights into how customers consume water and the impacts of our projects. Many factors affect the demand for water, such as seasonal weather patterns and the amount of time people spend at home, which has increased post Covid.

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

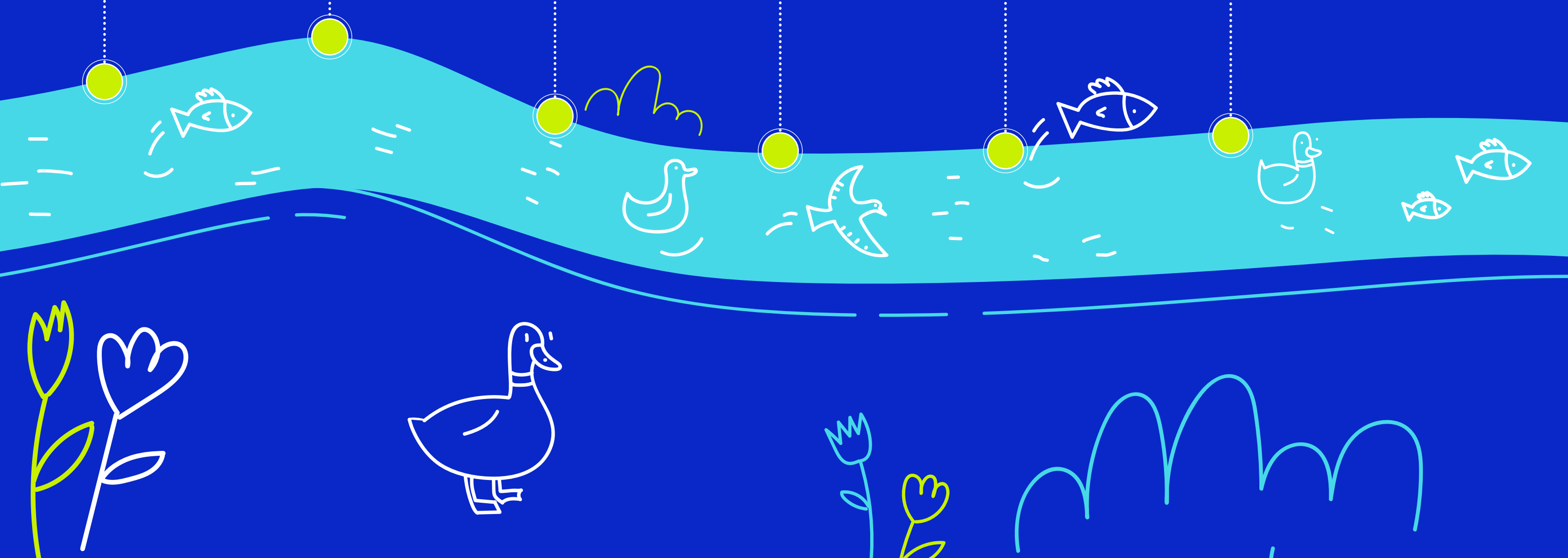
Jan 2022
We respond to a number of points/consultation

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

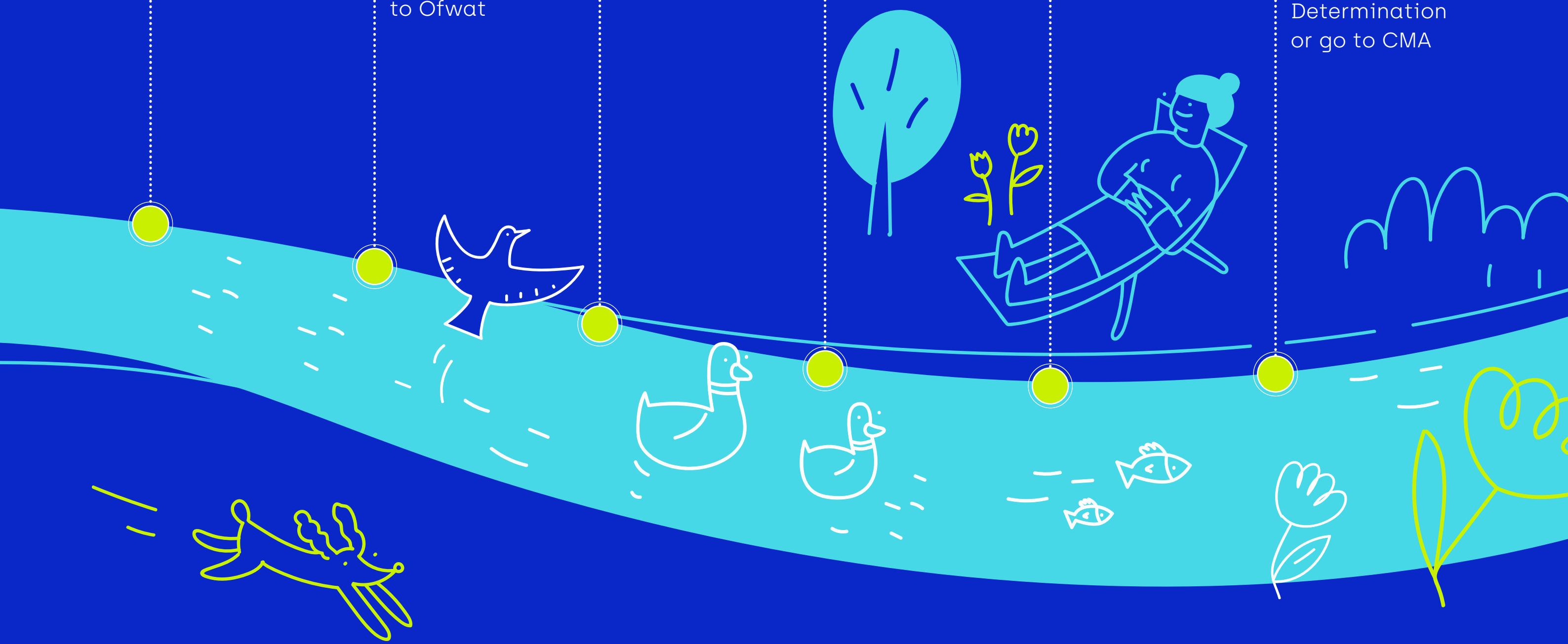
Oct 2023
We submit our final PR24 business plan to Ofwat

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

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

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

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.

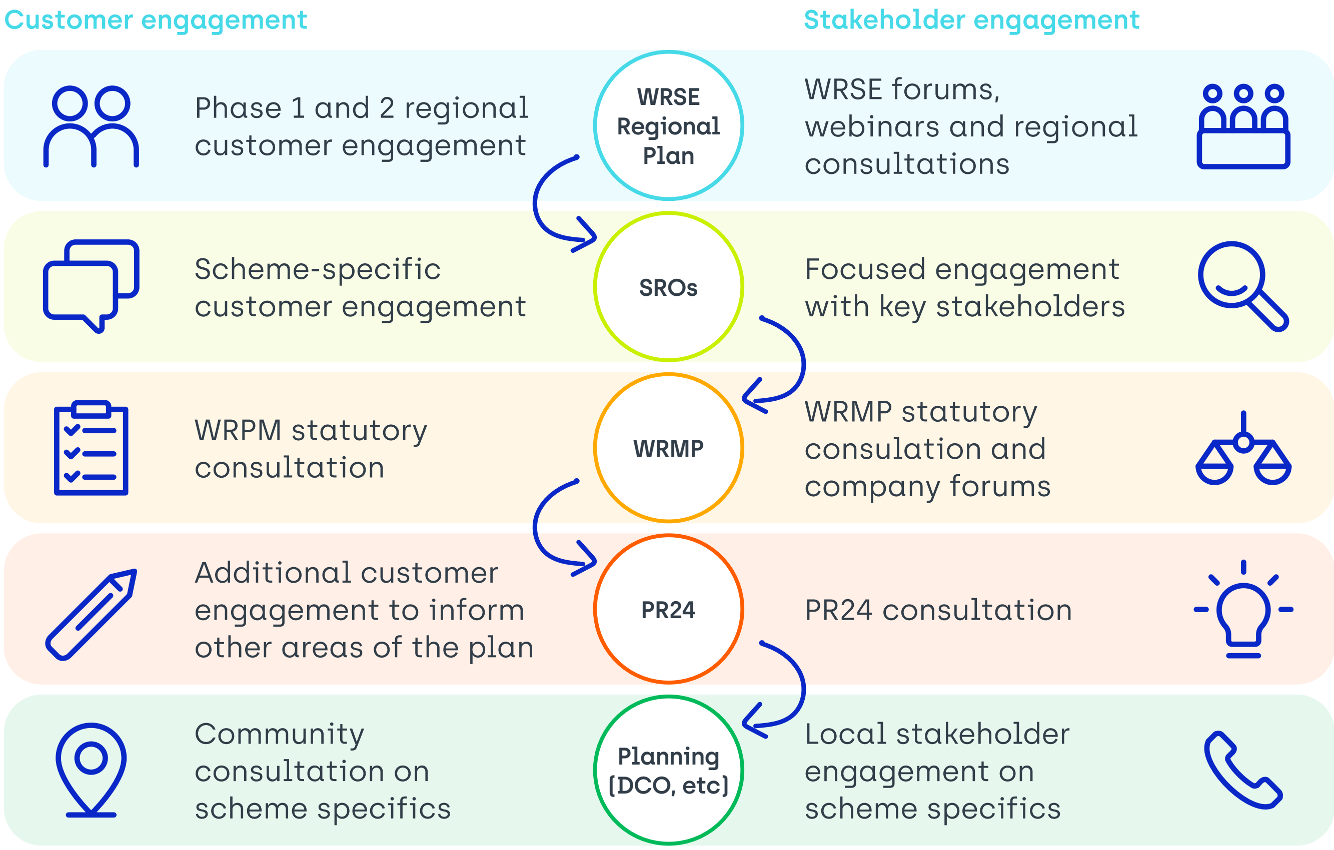
Review process

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

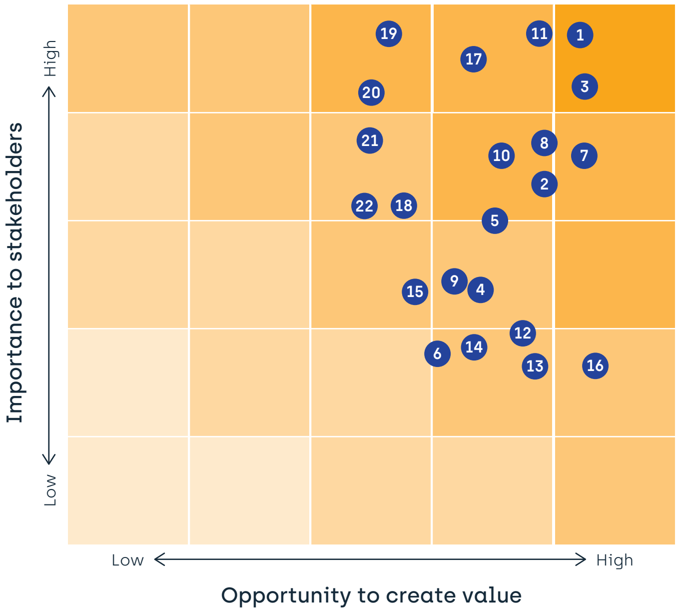
To do this, we used direct stakeholder feedback and customer insights and third-party research (Ofwat's Trust and Perceptions report, Water UK's Omnibus Research 2022 report and Savanta trust in water providers survey), media and political views (Randall's Monitoring, constituent complaints, party positions),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

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.

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

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

Martin Roughead
Chief Financial Officer

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.

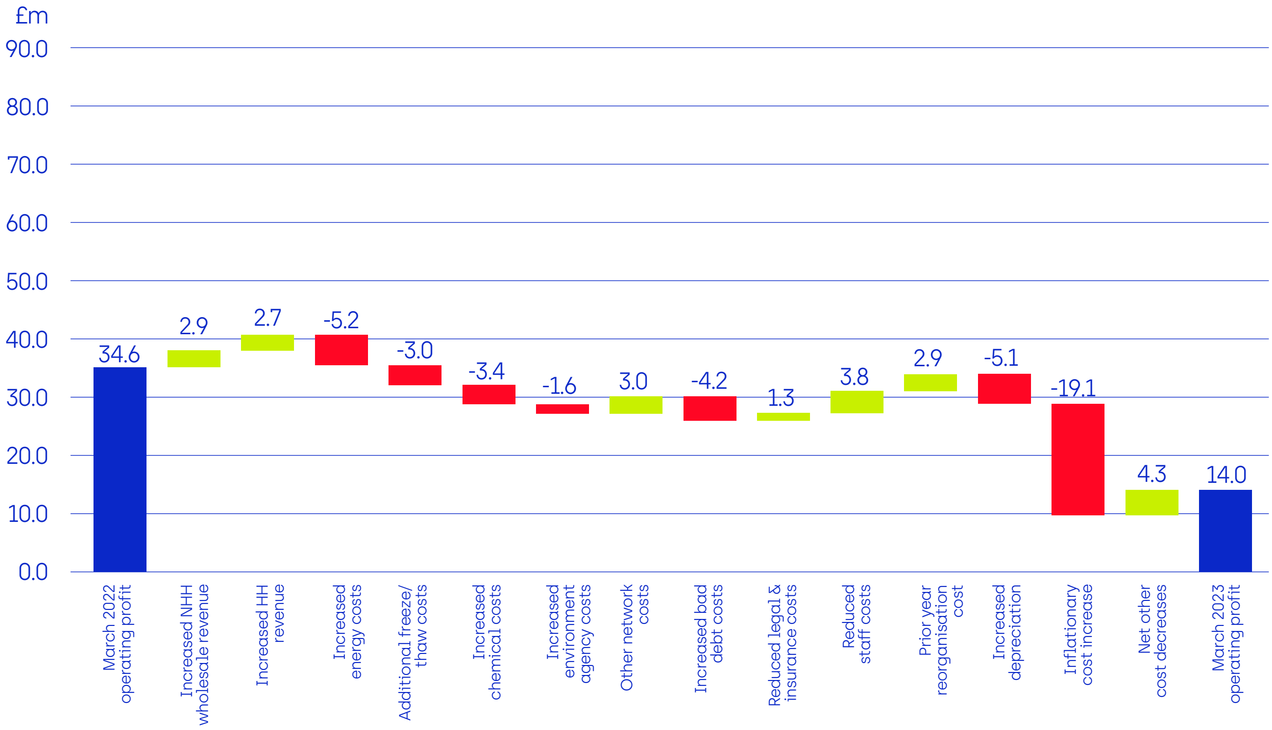
2022/23 financial performance

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.

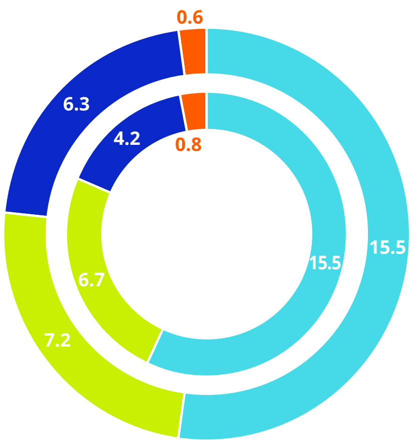
Net debt and gearing

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.

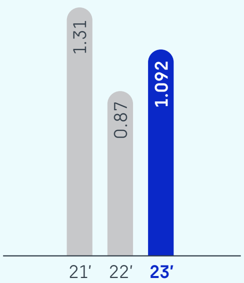
The first three years of the 2020–2025 period have now been completed. We are required to report our performance against targets as set by Ofwat in our final determination 2019. These targets include the performance commitments made in our Business Plan 2020–2025. Our performance in relation to these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

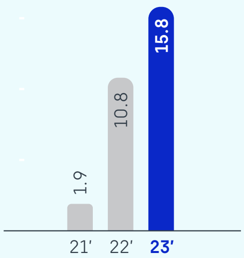
The Compliance Risk Index ('CRI') is a measure to inform the risk arising from treated water compliance failures.

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

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

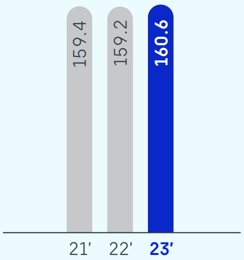
Performance met

Performance not met

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.

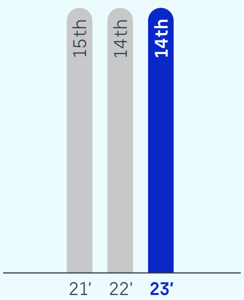
Water demand has not returned to pre-pandemic levels, but we remain committed to reducing PCC by the end of AMP. We have continued our water saving initiatives such as our flagship SOS 'Save Our Streams' campaign, home water efficiency checks and innovation projects targeted to water use reduction.

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.

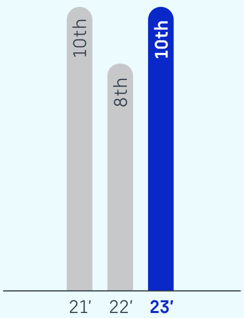
Key performance indicators continued

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.

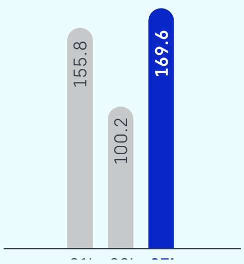
We are now working on streamlining and improving our processes, so we are about to efficiently meet the needs of our customers and help us achieve our D-MeX goals.

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

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

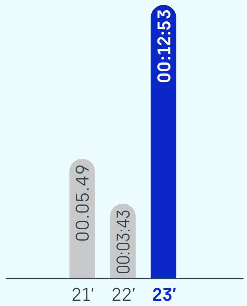
Performance met

Performance not met

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.

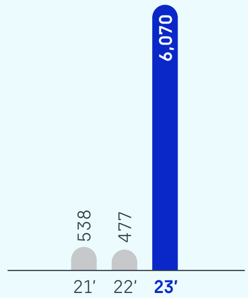
We added over ten minutes to the register for these two events (2mins in Jul-23 and 8min in Dec-23). Underlying performance was very strong for the other ten months.

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.

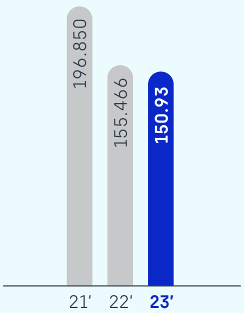
Key performance indicators continued

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

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

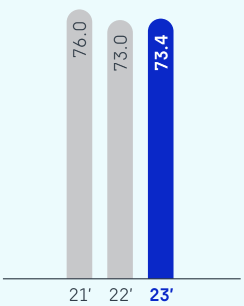
Performance not met

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.

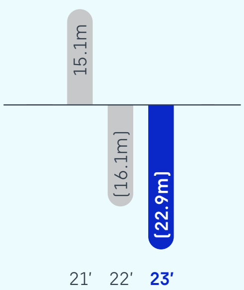
Read our **Financial Review** on **page** 70

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.

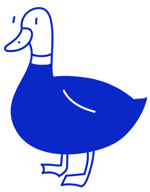
We established our ESG initiative with two clear objectives:

- 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

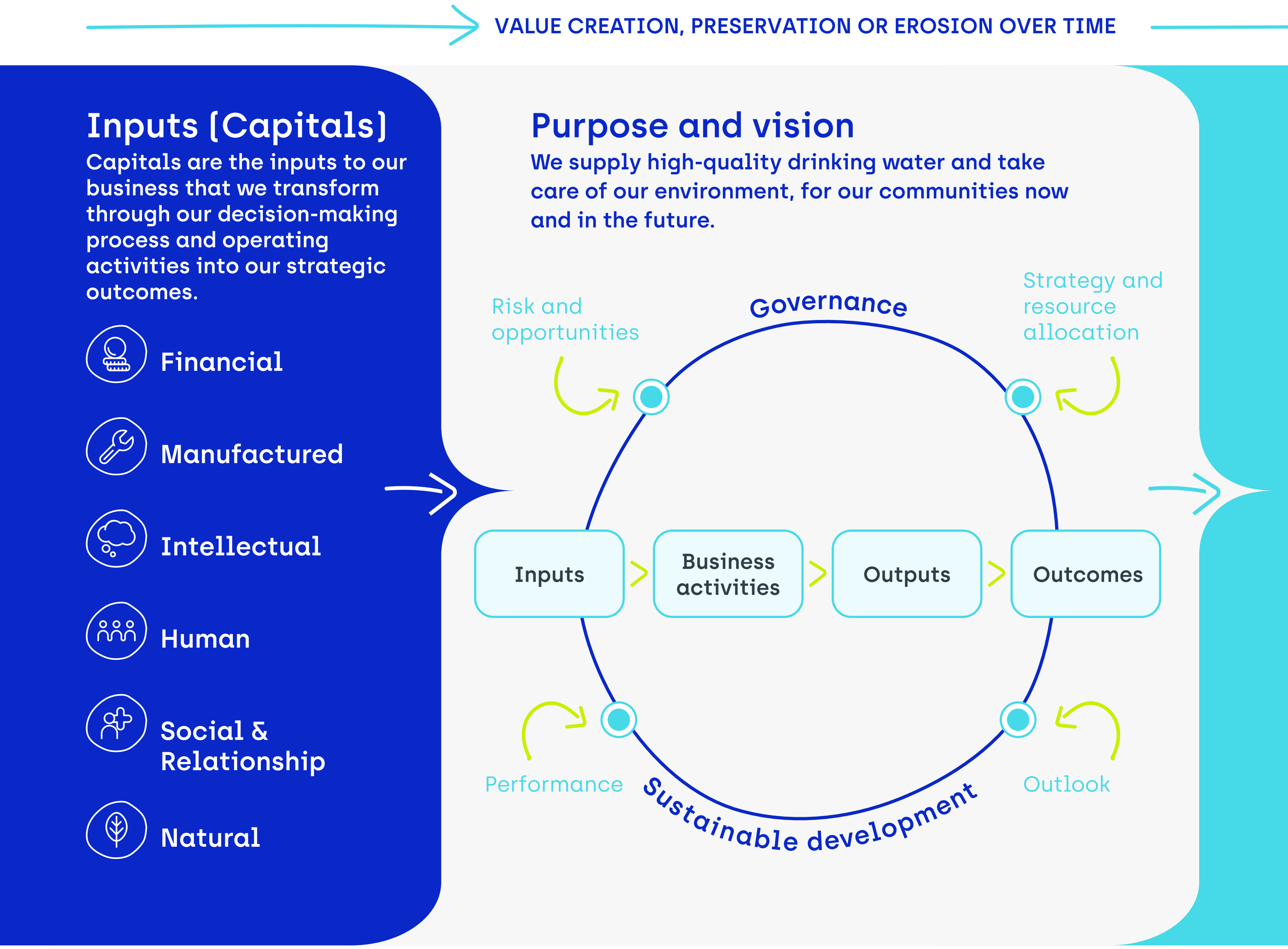
Sustainability continued

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.



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.

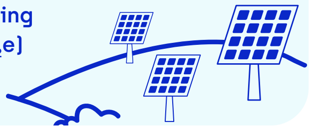
Net Zero plans in action

3,988

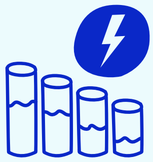
tons of carbon dioxide equivalent (tCO_2e) reduction in total gross operational emissions

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

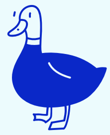
20%

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.

	Our compliance	Future plans	More information
Governance Disclose the organisation's governance around climate-related risks and opportunities	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	We will continue to monitor climate change and its impacts on our operations, governance and decision making	Read more about this **TCFD report** on **page** 90
Risk management Disclose how the organisation identifies, assesses and manages climate-related risks	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	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	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	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	We are committed to contributing positively to the climate change emergency and are committed to net zero operational emissions by 2030	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	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	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	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.

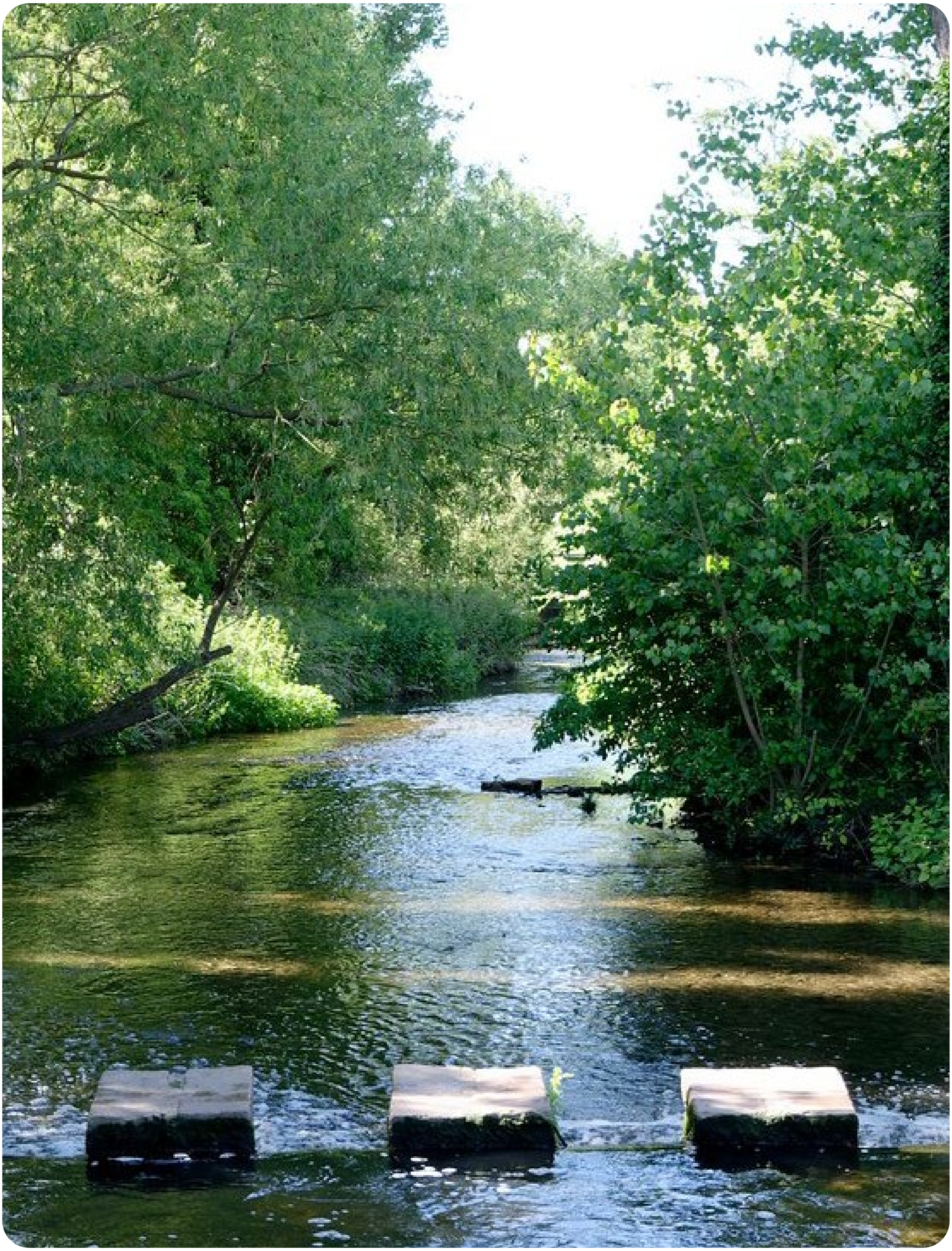
Climate change is a principal risk within the strategic risk register that is considered as part of the stress testing within the viability statement. The directors consider that this risk in isolation would not compromise the company's financial viability during the lookout period of ten years. Instead, 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 **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.

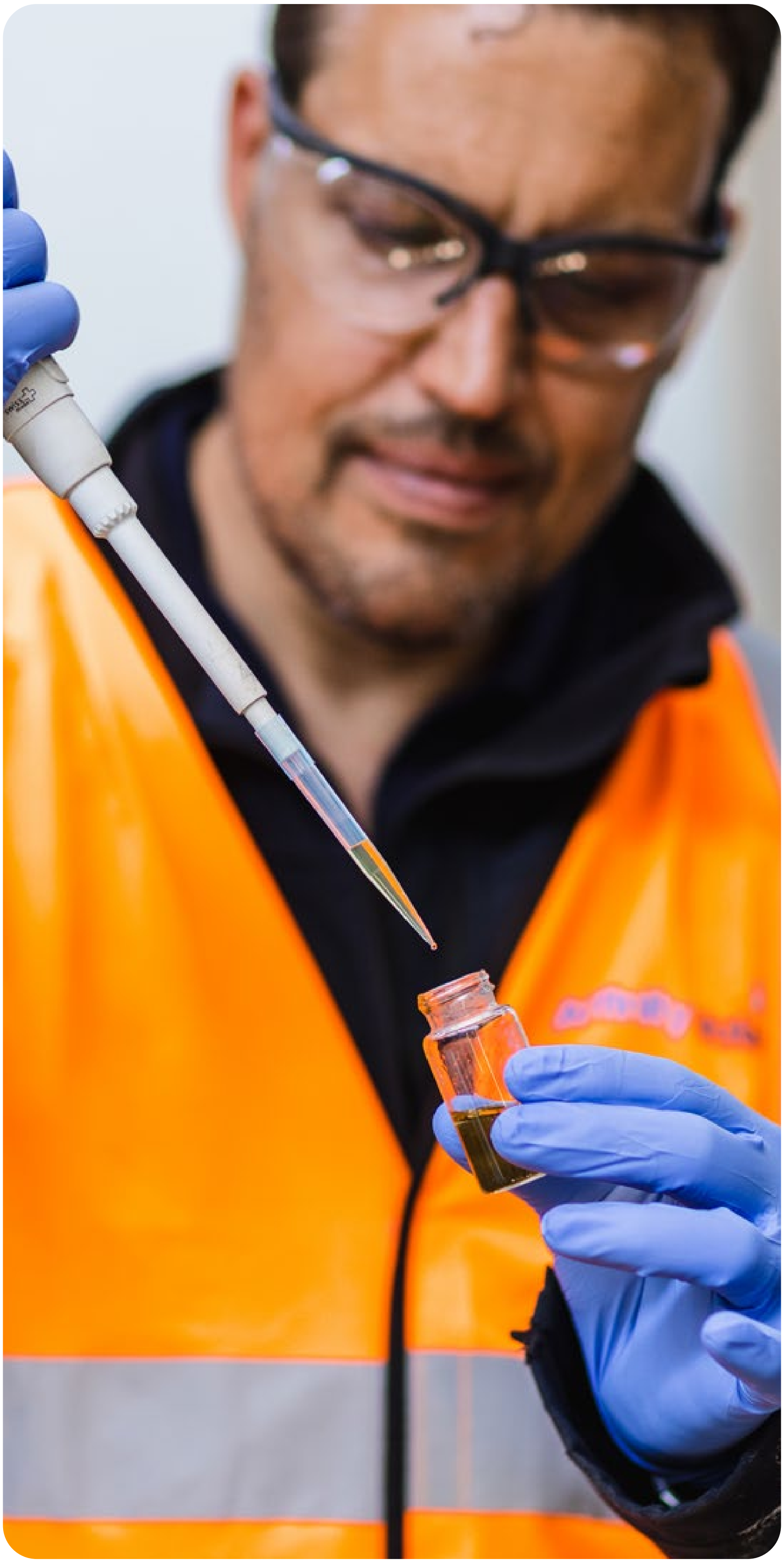
Using a market-based approach to reporting, our total gross operational emissions (as defined by Ofwat for 2022/23) are estimated to be 23,798 tCO_2e. As expected, this is greater than the operational emissions reported in 2021/22 as the scope of emissions considered to be 'operational' has expanded.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

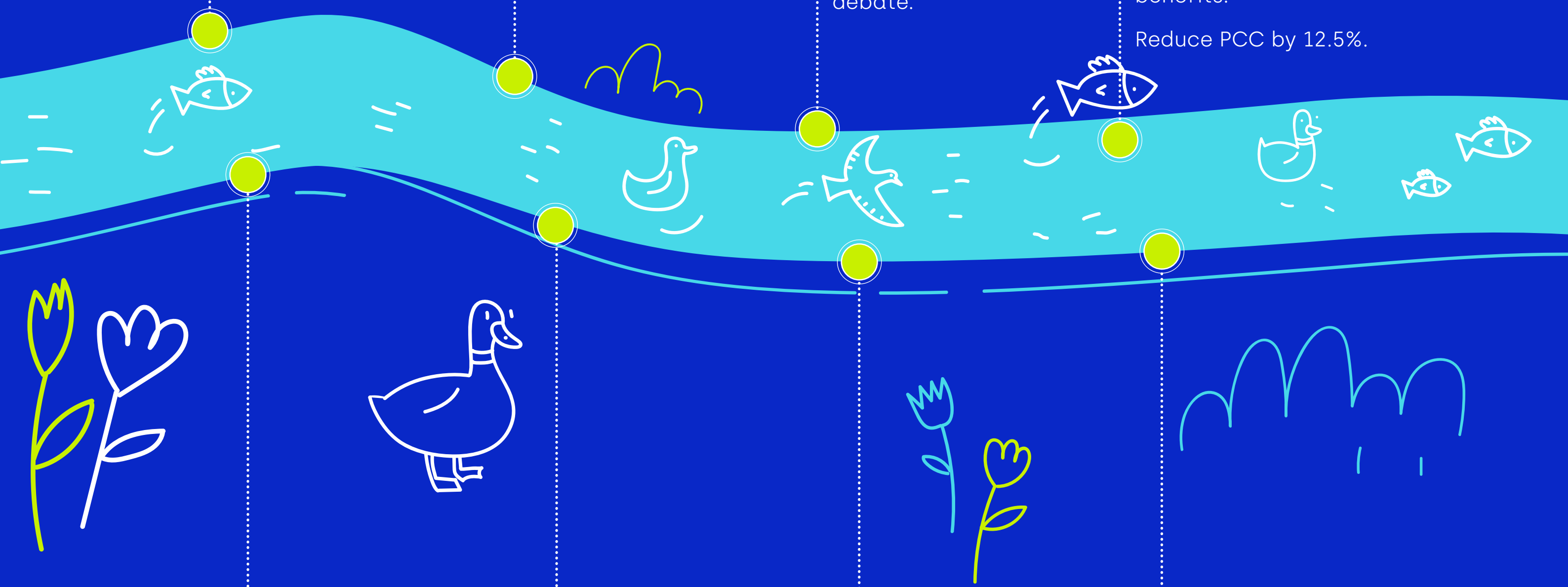
Feb 2018
Beast from the East.

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.

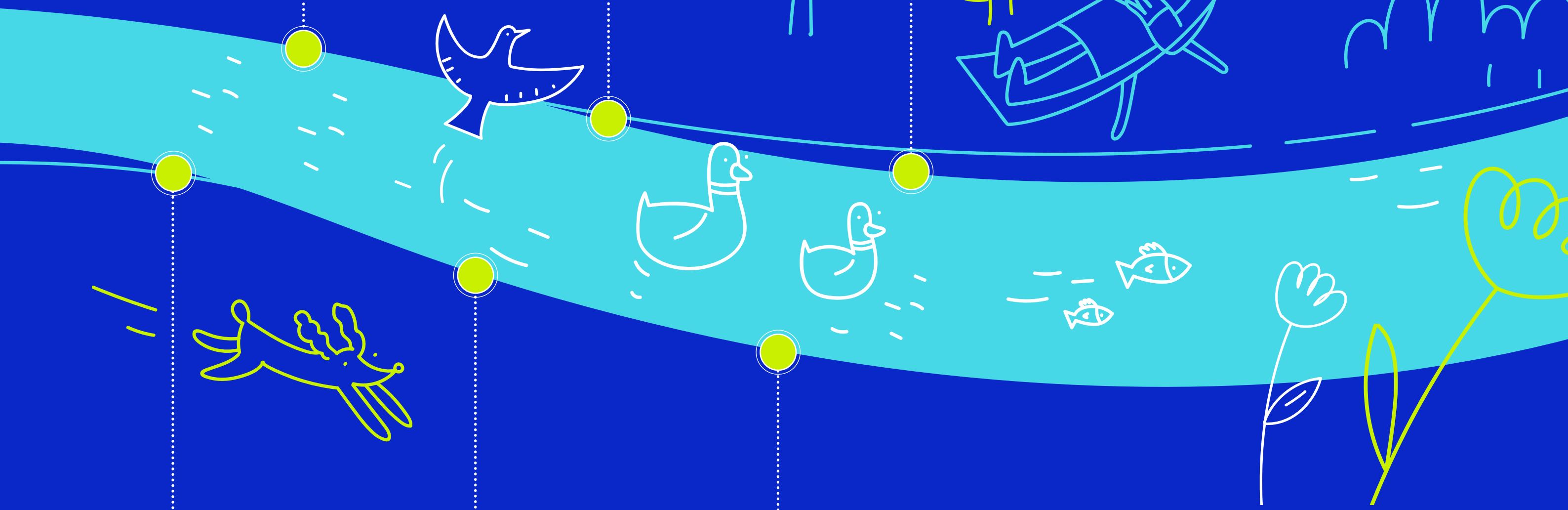
Additional investment in catchment management activities, which provide range of climate-related benefits.

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.



2023
New Drought Management Plan published.

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.

March 2024
Improve our planned levels of service for drought permits from 1 in >40 years to 1 in >200-year return period events.

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

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.

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

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	Mitigation
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:**	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	Mitigation
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:**	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

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:

Mitigation

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

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:

Mitigation

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	Mitigation
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:**	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	Mitigation
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:**	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.

15 Macroeconomic factors (interest rate, inflation and tax risks) could have a material adverse effect on our financial performance

Risk	Mitigation
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:**	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		Key covenants		Mitigation	Rating agency measures		Key covenants	
	Adjusted interest cover	Funds from operations to debt ratio	Interest cover ratio (conformed Class A adjusted)	Gearing (senior net indebtedness to RCV)		Adjusted interest cover	Funds from operations to debt ratio	Interest cover ratio (conformed Class A adjusted)	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

Governance Report

Our governance report

Our governance framework and division of responsibilities

We have ensured a clear division of responsibilities.

Read more on page
142

Board leadership and company purpose

We're promoting our purpose, culture, and long-term success.

Read more on page
144

Board balance and effectiveness

We're delivering effectiveness through a balanced Board.

Read more on page
145

Audit, Risk and Assurance Committee Report

We're enabling reporting integrity and an effective controls environment.

Read more on page
156

Nomination Committee Report

We're ensuring the processes for appointments and orderly succession to the Board and management are effective.

Read more on page 164

SHEDWQ Committee Report

We're championing safety, health, wellbeing, drinking water quality and environmental issues.

Read more on page 174

Remuneration Report

We're ensuring alignment with the successful delivery of our long-term strategy.

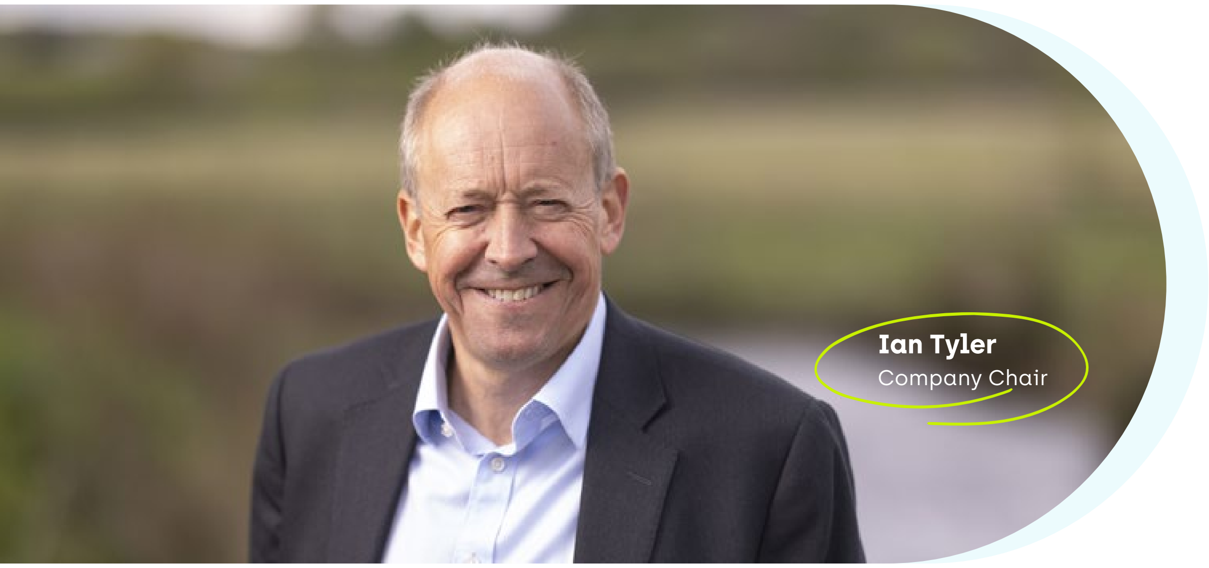
Read more on page 180

Ownership and financing

We're owned and financed by a consortium comprising DIF, HICL Infrastructure Company Limited (advised by InfraRed Capital Partners Limited) and Allianz Capital Partners on behalf of the Allianz Group.

Read more on page 202

Introduction from the Chair



Dear Stakeholder

On behalf of the Board, I am pleased to introduce our Corporate Governance Report for 2022/23.

There have been a number of significant changes at Affinity Water this year that have shaped our corporate governance arrangements. This report sets out how we have continued to satisfy the high standards of governance that are required of a regulated water company, and expected by our shareholders, regulators, and the public as well as a look forward to our plans and ambitions for the future.

At a Glance

The Board is responsible for the effective leadership of the company, and for promoting sustainable long-term success. This continued success creates value, not only for shareholders and other stakeholders, but also for our wider society.

The Board also provides leadership by defining the Company's purpose, strategy and principles, and oversees their implementation by management. Every director exercises independent judgement in all Board matters and brings considerable knowledge and expertise that are valued by the Board.

The publication 'Consulting With Our Shareholders' outlines how, and on what subjects, we've recently been engaging with our shareholders. You can find it on our website at affinitywater.co.uk/corporate/about/governance-assurance.

Board Composition and Succession planning

Our Board has seen a number of changes this past year. In addition to welcoming Keith Haslett as our new CEO and Martin Roughead as CFO, we announced other changes to the composition of our Board. Ann Bishop and Mark Horsley stepped down as directors on 18 July 2022. Roxana Tataru returned to the Board on 1 August 2022 after a period of maternity leave and Jara Korpanec resigned as Roxana's alternate on 31 July 2022. Angela Roshier stepped down as director on 15 February 2023 and Marissa Dardi was appointed as her replacement until 12 May 2023 when she resigned from DIF Capital and, subsequently, the Board and we welcomed Adam Waddington as her replacement.

The Board composition was thoroughly considered, and it was confirmed that our Board complied with Ofwat's Board Leadership Transparency and Governance Principles 2019 ('BLTG Principles'), the UK Corporate Governance Code 2018 and also with our own Affinity Water Corporate Governance Code ('AW Code').

Further details on recommending appointments to the Board and ensuring succession planning can be found in the Nomination Committee Report on pages 164 to 173.

Board Effectiveness Review

The Board undertakes an annual review of its own and its Committees' performance and effectiveness. We have dedicated time and attention to the outcome of the Board external effectiveness review that was conducted in Spring 2022 by Independent Board Evaluation, an independent consultancy specialising in Board effectiveness reviews. An internal effectiveness review was also conducted in March 2023 and further details of all of the Board evaluation findings, and our continued plan to improve, can be found on pages 147 and 148 of this Corporate Governance Report.

Culture and Values

The Board's main priorities continue to be to uphold the highest standard of governance and foster a positive culture. This underpins Affinity Water's ambition to both protect our stakeholders' long-term interests, and ensure that we fulfil our social and environmental obligations.

Our company's culture underpins the way we do business. This year has seen Affinity Water continue to provide guidance and mandatory training at all levels to make sure our employees act in accordance with our principles and follow our Code of Ethics.

Equality, Diversity, and Inclusion

The Board is committed to making sure Affinity Water is a workplace where all of our employees can feel valued and respected and are given the opportunity to fully realise their potential. Our Equality, Diversity and Inclusion Committee meets regularly, and is attended by Chris Newsome (the designated Board Director for Employee Engagement). This Committee works to discuss steps for change, and helps set the course for a more equal, diverse, and inclusive future for the company.

You can read more about Affinity Water's work to build an inclusive culture on page 172.

Listening to our Employees

In spite of challenges, such as the cost-of-living crisis and post-Covid-19 recovery, which have faced all of the water industry, our employees have been unwavering in their commitment to support our purpose and provide water excellence to our customers. With the establishment of the Wellbeing Committee last year, a new Head of Culture and EDI being appointed this year, the establishment of the Women's Network and ONE Network, to name a few, we have worked to ensure our employee voice is heard.

Looking forward

I want to thank the Board and all our employees for their continued commitment to creating value for all stakeholders and contributing to the good governance and stewardship of our business. Keith Haslett will continue to lead in the final push of the Company's PR24 business plan following his appointment as CEO in January 2023. Our PR24 strategy is explained in more detail on pages 45 to 47. After nine years Trevor Didcock, Board member and prior Director for Employee Engagement will step down from the Board in late 2024. Until that time, he will continue to chair the Remuneration Committee and provide a transition period until a suitable replacement is appointed.

Ian Tyler
Company Chair

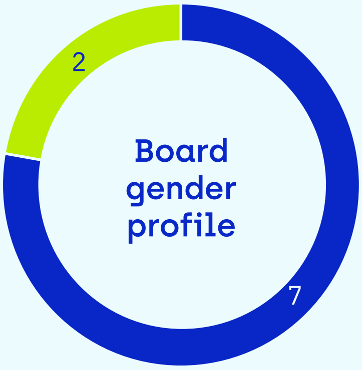
12 July 2023

Governance
at a glance

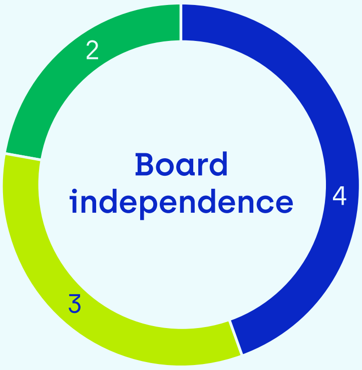
Board composition as at 31 March 2023

All appointments to the Board are subject to a formal, rigorous, and transparent procedure.

0–3 Years 3–6 Years 6–9 Years



Male Female



- **Independent non-executive directors** (including the Chair who was independent on appointment)
- **Shareholder nominated independent non-executive directors**
- **Executive directors**

Independent non-executive directors are the largest group on our Board.

Board meetings held during the year

Meetings held

11	5	6
	In person	**Via Teams**

Documents available on our website

- **Matters Reserved to the Board**
  affinitywater.co.uk/docs/governance/2023/Matters-Reserved-to-the-Board-May-2023.pdf
- **Non-Executive Director Letters of Appointment**
  affinitywater.co.uk/corporate/about/governance-assurance
- **Terms of Reference for Board Committees**
  affinitywater.co.uk/corporate/about/governance-assurance

Our Board of Directors

9 **Marissa Dardi**
Non-executive director
N S

1 **Ian Tyler**
Chair
N R S

2 **Keith Haslett**
Chief Executive Officer
S

4 **Roxana Tataru**
Non-executive director
N R

5 **Justin Read**
Independent non-executive director
A R N

6 **Mike Osborne**
Non-executive director
A N

7 **Chris Newsome OBE**
Independent non-executive director
A N S

8 **Trevor Didcock**
Independent non-executive director
N R S

3 Martin Roughead
Chief Financial Officer

10 Adam Waddington
Non-executive director
N S

Photo depicts Board as at 31 March 2023

Changes to the Board of directors:

Ann Bishop
– Resigned on 18 July 2022

Mark Horsley
– Resigned on 18 July 2022

Jara Korpanec
– Resigned on 31 July 2022

Stuart Ledger
– Resigned on 16 December 2022

Angela Roshier
– Resigned on 15 February 2023

Marissa Dardi
– Joined on 15 February 2023
– Resigned on 12 May 2023

Keith Haslett
– Appointed 3 January 2023

Martin Roughead
– Appointed 17 April 2023

Adam Waddington
– Appointed 12 May 2023

1 Ian Tyler
Chair

R N S

Date of Appointment
January 2021

Career
As an accomplished leader, Ian held a number of senior finance and operational positions within listed companies including Group Financial Controller at Storehouse plc, Financial Controller at Hanson plc Finance Director at ARC Limited and Finance Director and Chief Operating Officer at Balfour Beatty plc before being appointed its Chief Executive for the period from 2005 to 2013. During his time as Chief Executive, he took Balfour Beatty from being, primarily, a UK construction business to a global infrastructure services business, and trebled turnover to £10 billion.

Skills and Experience
Ian has a wealth of experience and knowledge having worked across a number of different industry sectors. Ian qualified as a chartered accountant with Arthur Andersen in 1985 and, over his career, has gained considerable experience in building and transforming businesses in the UK and the United States.

Current External Appointments
Ian was, amongst other appointments, the Chair of Vistry PLC (previously Bovis Homes Group PLC), Cairn Energy PLC and AWE Management Ltd. He is currently a non executive director of Anglo American PLC, Synthomer PLC and the Chair of BMT Ltd

2 Keith Haslett
Chief Executive Officer

S

Date of Appointment
January 2023

Career
Keith joined us at the start of this year from Northumbrian Water Group, where he was Executive Group Director of Water. He has spent a large part of his career in the water industry, with companies such as Northern Ireland Water, United Utilities and Northumbrian Water. He also held a non-executive director role at water utility Tallinna Vesi in Estonia. Keith has a BEng in Civil Engineering and an MBA from The Queen's University Belfast.

Skills and Experience
Keith is a qualified engineer with comparative business and operations experience in the regulated water and wastewater sectors in the UK, both with large private and listed companies. This wealth of water industry experience in senior roles within PLC and Government utility businesses means he has a track record of achieving industry leading performance.

3 Martin Roughead
Chief Financial Officer

Date of Appointment
April 2023

Career
Martin joined Affinity Water in April 2023. Prior to joining, Martin was Director of Strategy and Regulation at Southern Water, where he had been since 2014. Martin holds a BSc (Hons) in Pure Mathematics and Statistics from the University of Glasgow and a Graduate Diploma in Law from the University of Law. Martin is a CFA Charterholder and Associate Member of the Association of Corporate Treasurers.

Skills and Experience
Martin is an experienced finance professional and has extensive water sector experience and regulatory knowledge.

Current External Appointments
Martin is a non-executive director at Glenbervie Golf Club Limited.

KEY

- A Audit, Risk and Assurance Committee
- N Nomination Committee
- R Remuneration Committee
- S Safety, Health, Environment and Drinking Water Quality Committee ('SHEDWQ Committee')

Independent
non-executive directors

5 Justin Read
Independent non-executive director

A R N

Date of Appointment
July 2020

Career
Justin was CFO of SEGRO plc from 2011 to 2016, and Speedy Hire plc from 2008 to 2011. Previously he had worked at Hanson plc, Euro Disney SCA and Bankers Trust.

Skills and Experience
Justin has a wealth of financial and management experience working as an executive and non-executive across a number of different industry sectors in a wide variety of businesses, both within the UK and internationally. Justin has an MBA from INSEAD in France and an MA in Modern History from Oxford University.

Current External Appointments
Justin is the Senior Independent Director and Chair of the Audit Committee and member of the Remuneration and Nomination Committees of Grainger PLC. He is also a non-executive director and Chair of the Audit and Risk Committee and a member of the Remuneration and Nomination Committees of Marshall of Cambridge (Holdings) Ltd. He is also a non-executive director at Ibstock PLC and Chair of the Audit Committee and a member of the Remuneration and Nomination Committees.

7 Chris Newsome OBE
Independent non-executive director

A N S

Date of Appointment
January 2019

Career
Chris has extensive experience across large, regulated infrastructure businesses and over 40 years' experience within the water industry at Yorkshire Water, Kelda Water and Anglian Water.

Skills and Experience
Chris has a BSc in Civil Engineering from Loughborough University, an MBA from the Manchester Business School, and a post-graduate diploma in Structural Engineering from the University of Bradford.

Current External Appointments
Chris is a member of the Government's Green Construction Board. He is also a Past President and Board Member of the Institute of Asset Management and director of UK Water Partnership Limited.

8 Trevor Didcock
Senior independent non-executive director

N R S

Date of Appointment
November 2015

Career
Trevor was Chief Information Officer at easyJet plc from 2010 to 2015, HomeServe plc from 2008 to 2010, the Automobile Association Limited from 2003 to 2007 and Group IT director at RAC Motoring Services Limited from 1999 to 2003. He was an independent non-executive member of the Transformation Programme Board at the Civil Aviation Authority from 2012 to 2021.

Skills and Experience
Trevor has experience in a number of industry sectors as a CIO and Group IT director. Trevor has a BSc (Hons) in Mechanical Engineering from the University of Nottingham, and an MBA and Marketing Diploma from Cranfield Business School.

Current External Appointments
Trevor is a non-executive director at Futurice Oy (a digital innovation and engineering company) and chairs the UK subsidiary and is an independent non-executive member of the Steering Committee of ACOG, the Airspace Change Organising Group, coordinating the redesign of UK airspace.

Shareholder-nominated independent non-executive directors

4 **Roxana Tataru**
Non-executive director
N R

Date of Appointment
July 2021

Career
Roxana is currently Director at Allianz Capital Partners, where she focuses on portfolio management and the origination of investment opportunities across the infrastructure sector. Roxana was, previously, at RBC Capital Markets where she performed various infrastructure M&A and financing advisory roles, latterly as an associate for the organisation.

Skills and Experience
Roxana has a wealth of financial experience working in asset management, banking, finance, and capital markets across the sector. She holds a BSc in Management (Accounting and Finance) from Manchester Business School.

Current External Appointments
Roxana is a member of the Board of Floene, Portugal's largest gas distribution network and has been director of four Porterbrook Group companies since 2022.

6 **Mike Osborne**
Non-executive director
A N

Date of Appointment
April 2022

Career
Mike began his career in 2002 with Ernst & Young and then moved to Citi, where he advised on project financing, mergers & acquisitions and capital raising within the infrastructure sector, before joining Citi Infrastructure Investors in 2008. Mike then spent six years with Corsair Capital as a Principal, where he also served as a Board member of Corsair portfolio companies Kelda Holdings (from 2013), its regulated subsidiary Yorkshire Water Services (from 2017), and Itinere Infraestructuras, a toll road platform in Spain (from 2014).

Skills and Experience
Mike is an experienced investment professional, whose career includes ten years on water company boards, engaging with key regulatory, operational and financial issues facing the sector. He holds an MChem degree in chemistry from the University of Oxford.

Current External Appointments
Mike has been a Managing Director at InfraRed Capital Partners since October 2021 and oversees investments, including High Speed One.

10 **Adam Waddington**
Non-executive director
N S

Date of Appointment
May 2023

Career
Adam is a Managing Director at DIF Capital Partners and head of the Portfolio team. He joined DIF in 2013 and has served as Board member for a number of companies in the social, economic and renewables infrastructure spaces, including offshore and onshore wind, hospitals, roads, housing, and education projects. Adam established the Portfolio team at DIF to provide analytics, performance reporting and valuations across the range of DIF investments. From 2006 to 2013, Adam developed investments in the PPP and regulated sectors at Babcock & Brown and, subsequently, Amber Infrastructure. On the regulated side, this was within the OFTO (Offshore Transmission Operator) sector. Adam graduated with a degree in Physics from Imperial College, London and achieved award of the CFA designation in 2003.

Skills and Experience
Adam is an experienced infrastructure investment professional with a career spanning investment, asset management and valuation.

Current External Appointments
Adam has been a director of DIF Infra 4 Ireland Limited since 2015.

KEY
- A Audit, Risk and Assurance Committee
- R Remuneration Committee
- N Nomination Committee
- S Safety, Health, Environment and Drinking Water Quality Committee ('SHEDWQ Committee')

Corporate governance report

Our governance framework and division of responsibilities

Governance framework

We pride ourselves on conducting our business in an open and transparent manner.

The Board has a clear corporate governance framework comprising matters reserved for the Board and various Board Committees with clear terms of reference.

The Board

Our Board is, primarily, responsible for setting the Group's strategy for delivering long-term value to our shareholders and other stakeholders, providing effective challenge to management concerning the execution of the strategy and ensuring the Group maintains an effective risk management and internal control system.

The Schedule of Matters Reserved for the Board are available on the company's website at: affinitywater.co.uk/corporate and members of the Board appear in the directors' biographies on pages 139 to 141.

Board Committees

Audit, Risk and Assurance Committee
Oversees the Group's financial reporting, maintains an appropriate relationship with the external Auditor, and monitors internal controls.

Remuneration Committee
Establishes Affinity Water's Remuneration Policy and ensures a clear link between performance and remuneration.

Nomination Committee
Evaluates and makes recommendations regarding Board and Committee composition, succession, planning and directors' potential conflicts of interest.

SHEDWQ Committee
Reviews and monitors health and safety, environment, drinking water quality, wellbeing and personal security matters arising from our activities and operations.

The terms of reference of each Board Committee are available on the company's website at: affinitywater.co.uk/corporate and members of the Committee are listed in the various Committee Reports.

Chief Executive Officer

Executive Management Team

The Executive Management Team ('EMT') is established by the Chief Executive Officer to assist with the development and execution of the company's strategy. Individual Executive Management Team members are responsible for leading their directorates and ensuring their areas of the business are being run effectively and efficiently. The EMT meets on a monthly basis and is responsible for the day-to-day running of the business.

Roles and responsibilities of the Board

Board members have separate clearly defined roles and responsibilities, as illustrated in the table below. Their roles and responsibilities are well defined, set out in writing and approved by the Board.

Role	Name	Responsibility
Chair	Ian Tyler	The Chair leads the Board and is responsible for its overall effectiveness in directing the company. He promotes a culture of openness and debate, facilitating constructive Board relations and the effective contribution of all non-executive directors, and ensures that the Board receives accurate, timely and clear information.
Chief Executive Officer	Keith Haslett (with effect from 3 January 2023) Stuart Ledger (Interim CEO to 8 December 2022)	The CEO is responsible for the day-to-day running of the company's business and the development and implementation of strategy, decisions made by the Board, and the operational management of the company, supported by the Executive Management Team.
Chief Financial Officer	Martin Roughead (with effect from 17 April 2023)	The CFO is responsible for managing the financial actions of the company. Duties include tracking cash flow, analysing strengths and weaknesses to propose corrective action plans when necessary, and preparing accurate forecasts so that management can make informed decisions about future spending.
Senior Independent Non-Executive Director ('SID')	Trevor Didcock	The SID is an independent non-executive director, who provides a sounding board for the Chair and serves as an intermediary for the other directors and shareholders where necessary. The SID also leads the annual appraisal and review of the Chair's performance.
Non-Executive Director of Employee Engagement	Chris Newsome (with effect from 1 October 2022)	The non-executive director of employee engagement is responsible for ensuring that the interests of the company's employees are considered by the Board when making significant decisions through an active employee-engagement programme.
Non-Executive Director	Ann Bishop (to July 2022) Marissa Dardi (with effect from February 2023 to 12 May 2023) Trevor Didcock Mark Horsley (to July 2022) Jara Korpanec (Alternate to July 2022) Chris Newsome Justin Read Angela Roshier (to February 2023) Roxana Tataru Adam Waddington (with effect 12 May 2023)	The non-executive directors are responsible for bringing an external perspective, sound judgement and objectivity to the Board's deliberations and decision making, and to support and, constructively, challenge the executive directors using their broad range of experience and expertise.
Company Secretary	Patrick Makoni (appointed 3 April 2023) Sunita Kaushal (resigned 31 March 2023)	The Company Secretary acts as Secretary to the Board and all Board Committees and is responsible for supporting the Chair of the Board in the delivery of the corporate governance agenda.

Corporate governance report
Board leadership and company purpose

How the Board operates

The Board and its Committees have a scheduled forward programme of meetings, which allow sufficient time to consider routine and non-routine matters.

The Chair of the Board and the Chairs of the Committees set the agendas for upcoming meetings with the Company Secretary. Papers and reports prepared for both the Board and Committees are required to be clear and concise. They are circulated five working days before the meeting and are accessed through a secure online portal.

The authors of Board papers and reports are sometimes invited to join Board discussions. This allows directors to examine the information provided in detail, and question management directly. Minutes of Board and Board Committee meetings are circulated by our Company Secretary after each meeting.

All directors have access to our Company Secretary, as well as the right to request that any Board challenge or dissenting views are recorded in the minutes of a meeting.

How governance supports strategy

The Board is responsible for delivering value for shareholders by setting the Group's strategy and overseeing its implementation by the Executive Management Team.

Our strategic priorities and four customer outcomes are set out in the business model on page 36 onwards in the Strategic Report.

The Board held a 'strategy day' in November 2022, where it conducted a detailed review of our strategy (including our purpose and strategic objectives). The Board receives regular updates on the progress of delivering the strategy throughout the year.

Risk management

Our governance arrangements support the development and delivery of strategy, while ensuring the long-term success of our business by maintaining a sound system of risk oversight, management, and an effective suite of internal controls. These are outlined on page 159 in the Audit, Risk and Assurance Committee Report.

Purpose, values, and culture

A company's purpose describes, in clear and simple terms, why that company exists.

Our company's purpose is: "**to provide high-quality drinking water and take care of our environment for our communities now and in the future**".

To serve that purpose effectively, we have defined a company culture based on the principles of **being proactive**, **making it easy**, **showing we understand**, **showing we care**, **and doing what we say we will**. These principles outline the expectations placed on every Affinity Water employee when they do their work.

The Board has reaffirmed the company's purpose and principles, and supports Affinity Water's AMP7 Plan, which details the company's strategy. The Board has satisfied itself that the company's purpose, strategy, and principles are all aligned.

The Board also continues to make sure the company's principles are embedded in its operational practices through a range of corporate policies. These include our Code of Ethics, Health and Safety, Security, Environmental, Data Protection, Procurement, Whistleblowing and Modern Slavery and Human Trafficking.

Board meeting attendance

The Board and its Committees have, this year, continued to conduct meetings both in-person and remotely via Microsoft Teams. Where a director was unable to attend a meeting, they still received all papers for the meeting, and were given the opportunity to raise issues outside the meeting.

Independence of the Board

Our Board comprises four independent non-executive directors, including the Chair; three non-executive directors and two executive directors.

The balance of independent and non-independent directors ensures that shareholder views are represented on the Board with the Board as a whole acting independently in the interests of all stakeholders and the company in accordance with our Instrument of Appointment, with no one individual, or group of individuals, dominating the Board's decision making.

As per our Code, independent non-executive directors are also in a majority on all Board Committees.

Member	Board meetings
Company Chair	
Ian Tyler	11 11
Independent Non-Executive Directors	
Trevor Didcock	11 11
Mark Horsley	3 3
Chris Newsome	11 11
Ann Bishop	3 3
Justin Read	11 11
Non-Executive Directors	
Marissa Dardi	2 2
Jara Korpanec	3 4
Mike Osborne	11 11
Angela Roshier	6 9
Roxana Tataru	7 7
Adam Waddington (appointed after 31 March 2023)	0 0
Executive Directors	
Keith Haslett	4 4
Martin Roughead (appointed after 31 March 2023)	0 0
Stuart Ledger (Interim CEO)	7 7

Ann Bishop – Resigned on 18 July 2022
Mark Horsley – Resigned on 18 July 2022
Jara Korpanec – Resigned on 31 July 2022
Stuart Ledger – Resigned on 16 December 2022
Angela Roshier – Resigned on 15 February 2023
Marissa Dardi – Resigned on 12 May 2023

KEY
Meetings attended   Possible meetings

External directorships and time commitment

The company is mindful of the time commitment required from non-executive directors to effectively fulfil their responsibilities on the Board.

Prior to their appointment, prospective directors are asked to provide details of any other roles or significant obligations that may affect the time available for them to commit to the company.

The Chair and the Board are then kept informed by each director of any proposed external appointments or other significant commitments as they arise.

These are monitored to ensure that each director has sufficient time to fulfil their obligations and Board approval is required prior to a director taking on any additional external appointment.

Each director's biographical details, independence, and significant time commitments outside of the company are set out in the directors' biographies on pages 139 to 141.

Conflicts of interest

To further safeguard its independent judgement and to prevent the undue influence of third parties on the Board's decision making, the Board operates a conflict of interests' policy, which restricts a director from voting on any matter in which they might have a personal interest, unless the Board, unanimously, decides otherwise.

Prior to all major Board decisions, the Chair requires the directors to confirm that they do not have a potential personal conflict with the matter being discussed. If a conflict does arise, the director is excluded from discussions and voting on the matter.

Board balance

An effective Board requires the right mix of skills and experience. Our Board have diversity of thoughts and are an effective team focused on promoting the long-term success of the company for the benefit of all stakeholders. The majority of our Board is comprised of independent non-executive directors.

The composition of the Board as at 31 March 2023 is illustrated on page 138.

Board appointments

Appointments to our Board are made on the recommendation of the Nomination Committee with due consideration given to the benefits of diversity in its widest sense, including gender, social and ethnic backgrounds, and personal strengths. The Nomination Committee Report, on pages 164 to 173, provides further information on:

- Board composition;
- Board appointments, induction, and training;
- succession planning; and
- diversity.

Corporate governance report

Board leadership and company purpose **continued**

Board skills and attributes

Our directors' biographies on pages 139 to 141 highlight their experience and the chart below provides an overview of the current Board skills and attributes.

		Ian Tyler	Keith Haslett	Martin Roughead	Trevor Didcock	Chris Newsome	Justin Read	Mike Osborne	Roxana Tataru	Adam Waddington
Industry	Utility Industry/Network Experience	Secondary	Primary	Primary	Secondary	Primary	Background	Primary	Secondary	Secondary
	Relationships with Regulators	Secondary	Primary	Primary	Background	Secondary	Background	Secondary	Secondary	Background
Corporate Governance	UK Corporate Governance	Primary	Secondary	Secondary	Secondary	Primary	Primary	Secondary	Background	Secondary
Strategy	Strategy Development and implementation	Primary	Primary	Primary	Primary	Primary	Primary	Background	Background	Secondary
Finance	Financial planning and analysis	Primary	Secondary	Primary	Secondary	Secondary	Primary	Secondary	Background	Secondary
	Capital structuring/Treasury	Secondary	Background	Primary	Background	Background	Primary	Primary	Primary	Primary
	Financial Reporting and Controls	Primary	Primary	Primary	Secondary	Secondary	Primary	Background	Secondary	Secondary
Risk	Corporate Risk Management	Secondary	Primary	Primary	Secondary	Secondary	Primary	Secondary	Secondary	Secondary
	Health, Safety, Environment and Quality ('HSEQ')	Secondary	Primary	Background	Background	Primary	Background	Background	Background	Background
Customer	Customer insight and engagement	Background	Secondary	Background	Background	Background	Background	Background	Background	Background
IT	Information Systems	Background	Secondary	Background	Primary	Secondary	Secondary	Background	Background	Background
	Data analytics	Background	Secondary	Background	Primary	Secondary	Background	Background	Background	Secondary
Assets	Programme Management	Secondary	Primary	Background	Primary	Primary	Background	Background	Background	Background
	Engineering and Design	Background	Primary	Background	Background	Primary	Background	Background	Background	Background
	Systems and Resilience	Background	Primary	Background	Secondary	Secondary	Background	Background	Background	Background
ESG	Environmental/sustainability	Background	Primary	Background	Background	Primary	Background	Background	Background	Background
	Social Value	Background	Secondary	Background	Background	Background	Background	Secondary	Background	Secondary
People	People management	Secondary	Primary	Primary	Primary	Secondary	Secondary	Background	Background	Background
	Executive remuneration	Primary	Secondary	Secondary	Secondary	Background	Primary	Primary	Secondary	Secondary
Change	Culture change	Secondary	Primary	Secondary	Primary	Secondary	Secondary	Background	Background	Background
	Transformation and turnaround	Secondary	Primary	Secondary	Primary	Secondary	Secondary	Secondary	Secondary	Background

Primary Capability – direct experience through executive responsibility, professional training and qualification, or specific Board responsibility (e.g. Committee chairmanship)

Secondary Capability – indirect experience through executive responsibility or area of specific Board focus (e.g. through Committee membership)

Background experience only

Evaluating our Board

The Board undertakes a review of its effectiveness annually. Following an external evaluation that was undertaken in the year 2021/22 by Independent Board Evaluation ('IBE'), an internal questionnaire was designed for 2022/23 to assist in assessing the effectiveness of the Board as is good governance practice. The questions assessed the performance of the Board, focusing on themes around meetings management, Board and Committee membership, Board structure, directors' compensation, Board culture and ethics, Board roles and responsibilities, relationship with management and corporate governance arrangements. A discussion of the results of the internal effectiveness review was undertaken at the Board meeting held in May 2023.

Board evaluation process

1 Questionnaires

Questionnaires including questions to be scored and open text format were circulated to all board members via Diligent Boards, assessing various aspects of effectiveness, including Board, Chair and Committee performance.

2 Appraisal

The results were anonymous and collated and analysed by the Group Company Secretary.

3 Consultation

The results were then shared and reviewed with the Chair and each Committee's Chair. The results of the Board evaluation were presented to the Board for discussion. Feedback was provided to the Chair.

4 Evaluation and actions

The conclusions of the evaluation were reached and actions were identified as set out on this page.

Response to feedback

The Board discussed its feedback and next steps, and formulated an action plan.

2022/23 evaluation findings

Area	Plan to address issues
Board diversity, succession planning and leadership development	The Nomination Committee to lead on ensuring that there is a diverse balance of gender, ethnicity and thought on the Board at the next recruitment. The Board to also task management with uncovering challenges, talent, and gaps in diverse groups at all levels of AWL for effective, long-term succession planning
Contingency planning	Management to review existing contingency plans in place to reduce business risk, quicken disaster recovery, and to ensure the smooth execution of business processes
Over ambitious agendas	The Chair and Company Secretary to review time allocated to agenda items and the meeting overall to ensure there is sufficient time to discuss matters pertaining to performance/tactical review and strategy
Board training and education	The Chair and Company Secretary to arrange regular training sessions on key issues such as effective governance, accounting standards and other skills gaps identified from analysis of the Board's Skills Matrix
Board size	Undertaking active reviews of the size of the Board, ensuring that it complies with the guidance set out in Ofwat's BLTG principles and the UK Corporate Governance Code
Independent Non-Executive Director only meetings	The Chair and Company Secretary to consider adding private formal and/or informal sessions for independent non-executive directors as part of the Board's agenda
Culture	The Board to consider putting together its own set of values and behaviours that can dovetail with those to be driven by executive leadership, and have a sense of an aligned culture, and a tone from the top

Three-Year Board Evaluation Cycle

2021/22
External Review of Board and Committees

2022/23
Internal Review of Board and Committees

2023/24
Internal Review of Board and Committees

2024/25
Anticipated External Review of Board and Committees

Corporate governance report

Board leadership and company purpose continued

Update on 2021/22 outcomes

Area	Issues addressed
Boardroom Culture	• Appointed all non-executive directors to Nomination Committee and appointed a permanent CEO and CFO • Reviewed and reduced the Board composition and size and ensured that independent non-executive directors remained a majority on the Board • Invited shareholder observers to observe and all Board members invited to attend all Committees where practicable
Strategy	• Reviewed the Board agenda which now covers Risk, Strategy, PR24, ESG, culture, with Board sessions being tabled accordingly • Full use of the Company Secretary role remit now implemented to orchestrate all Board and Committee meetings and share forward planners to all internal stakeholders • Reviewed Board papers and revising a new template format to facilitate strategic debate
ESG	• Currently tracking good practice in the industry on ESG-related activity and reporting
Risk	• Top-level horizon scanning at the Board, granular approach to individual risks at Audit, Risk and Assurance Committee ('ARAC') implemented with a Risk Management Framework in place • Escalation mechanisms on strategic risks from ARAC implemented
Engagement	• Stakeholder engagement plans mapped out with regular reports fed back into the Boardroom • Senior Team talent and development, succession discussions and diversity initiatives throughout taking place at the Committee level
Shareholders	• Shareholder plans being explored with monthly shareholder sessions being held

During the year, the following key activities were undertaken by the Board:

Area	What was reviewed and considered?
Strategy	• Reviewed the energy efficiency and property strategies • Reviewed and monitored the company's business strategy • Approved the company's AMP7 Investment Plan and continuous transformation programme • Approved sustainability plans to protect chalk streams within our supply area
Finance	• Approved the Annual Report and Financial Statements for the financial year ended 31 March 2023 • Reviewed and approved an updated dividend policy • Approved the company's budget for the financial year and ten-year base case cash flow forecast • Provided oversight and approval of related financial policies, ensuring compliance with the company's Instrument of Appointment • Additional governance scrutiny provided by the Audit, Risk and Assurance Committee
PR24	• Reviewed the proposed approach to PR24, the decision framework and assurance statement • Reviewed financial assumptions for the business plan narrative • Reviewed and approved the Water Resources Management Plan
People	• Reviewed EMT pensions for alignment with all employees • Approved the appointment of a new CEO • Approved the appointment of a new CFO • Approved the company's policy on Modern Slavery and Human Trafficking • Reviewed Gender Pay Gap and Equal Pay as part of our strategy on Ethnicity, Diversity, and Inclusion ('EDI') • Approved the 2023/24 workforce pay settlement
Governance	• Undertook an internal Board Effectiveness Review led by the Chair • Considered the Board and Board Committee evaluation reviews • Undertook a review of stakeholder engagement and the strength of each relationship

At each Board meeting, there are standing items, which include:

- Review and approval of the previous minutes
- Status update on any matters outstanding from previous meetings
- Committee updates to the Board
- Report from the Chief Executive Officer
- Report from the Chief Financial Officer

Board's input into PR24 consultations

Affinity Water has been preparing the business plan to meet the performance and investment needs for the next 5 and 25 years as part of Ofwat's upcoming Price Review process (PR24). The Board has been fully engaged in the process over the last two years, providing strategic oversight and ownership of the company's plan to ensure that we can deliver the necessary environmental, performance and resilience improvements whilst meeting our customers' expectations for affordability and value for money.

Over the past 12 months, the Board has particularly engaged with the development of the Long Term Delivery Strategy, providing challenge to the management team on the ambition and direction of travel for the company for the next 25 years. The Board has also been engaged in ensuring that customer and stakeholder expectations are fully reflected in both the 5 year and 25 year plans and the company is fully prepared for the delivery of the increased investment requirements, both from an operational and financial perspective.

The Board will continue to engage with the price review process throughout 2023/24, providing assurance and ownership of the PR24 business plan submission in October 2023.

Corporate Governance Statement

The company is committed to high standards of corporate governance and transparency, believing these to be essential in delivering the long-term success of our business. The Board governs the company in accordance with the Affinity Water Corporate Governance Code ('AW Code'). This incorporates the Ofwat Board Leadership, Transparency and Governance Principles 2019 ('BLTG Principles') in their entirety, and those parts of the UK Corporate Governance Code 2018 that are deemed relevant to its business.

With the exception of Audit, Risk and Assurance Committee which comprises of two rather than three independent non-executive directors, the company is compliant with all areas of the UK Corporate Governance Code 2018.

This Report illustrates how the AW Code principles have been applied, and how Affinity Water has complied with the Code's provisions during the year-ended 31 March 2023. In doing so, we believe it fulfils the Ofwat Licence requirement to explain how we meet the objectives of the BLTG Principles in a manner that is effective, accessible, and clear. The AW Code is available on the company's website: affinitywater.co.uk/governance-assurance. Our Board confirms that the principles of good corporate governance contained in the AW Code, have been consistently applied throughout the financial year.

Engagement with our stakeholder groups

Our business has an impact on, and is affected by, a number of different groups.

These include our employees, our shareholders, and the bodies that regulate us. These are our stakeholders. This section details which stakeholders we've spoken to, and worked with, over the last financial year.

Regulator Engagement

Ofwat

As a water company, Ofwat is both our regulator and stakeholder, with which we have a regular dialogue led by our Director of Regulation and Strategy and our Director of Asset Strategy and Capital Delivery. Our dialogue includes consultations on all aspects of the water industry, our governance, pricing and PR24 preparations.

To ensure that we are better aligned with the 2019 BLTG Principles, we incorporated four BLTG objectives into the AW Code, as follows:

Purpose, values, and culture

Affinity Water Objective:

The Board must establish the company's purpose, strategy, and values, and satisfy itself that these, and its culture, reflect the needs of all those it serves.

- Embedding our purpose and principles
- Greater stakeholder engagement
- Development of workforce policies
- Implementing our culture change initiative

Board leadership and transparency

Affinity Water Objective:

The Board's leadership and approach to transparency and governance must engender trust in the company and ensures accountability for their actions.

- Monitoring directors' conflicts of interest
- Defining our governance ambitions in a new Affinity Water Corporate Governance Code
- Aligning Board and Executive remuneration with performance against our purpose and long-term success

Stand-alone regulated company

Affinity Water Objective:

The company must be led by an effective and entrepreneurial Board, which has full responsibility for all aspects of the company's business, and whose role it is to promote the long-term sustainable success of the company.

- Reviewing the independence of our non-executive directors
- Reviewing the division of responsibilities between our Chair and Chief Executive Officer
- Introducing a framework for consulting with our shareholders

Board structure and effectiveness

Affinity Water Objective:

The Board and its Committees must be competent, well-run, and have sufficient independent membership, ensuring they can make high-quality decisions that take account of diverse customer and stakeholder needs.

- Revising Matters Reserved for the Boards and Committee Terms of Reference
- Reviewing Board composition and balance
- Enhancing directors' induction and training programmes
- Evaluating the Board and reviewing its effectiveness and that of its Committees


saftronics
Affinity Water

Stakeholder engagement

The Board's direct engagement with stakeholders

Engagement with local groups

The company continues dialogue and collaborates with local chalk stream groups and other relevant stakeholders, including Chilterns Chalk Stream Project, River Chess Association, and Ver Valley Society. In September 2022, we joined the Chiltern Chalk Streams Project to celebrate their 25-year anniversary as proud supporters of their conservation work on rivers that flow through the company's supply area in Chilterns AONB. We encouraged them to comment on our draft WRMP statutory consultation to help us shape our long-term plans to deliver resilient service in the future and help protect sensitive habitats of local chalk streams.

Engagement with communities

Our ambition is to continue to work with our communities to create value for the local economy and society. The communities we serve are important to us, and many of our people live and work in our supply area and give their time and skills in lots of ways through Affinity Days volunteering. During the financial year 2022/23, we registered nearly 150 Affinity Days, which were used to support fundraising, packing winter gift bags to support customers in vulnerable circumstances, and hands-on habitat management. Thanks to this direct engagement, we are able to build a better understanding of the diverse communities we provide service to and support their needs. We have built positive relations with charities, such as Small Acts of Kindness, Chilterns Society and Wildlife Trusts, to name a few.

Engagement with councils

Political stakeholders are made aware of our large capital work schemes and their role in improving the environment. The company also uses digital communications and holds one-to-one online briefings to highlight works and gather feedback about potential issues and local attitudes.

Regular updates on our water resources are shared with councils, Cllrs, MPs across our area, river groups and other key stakeholders, along with public consultations on our strategic long-term and five-year business plans.

We engage councils, MPs and local groups on key issues within their area, for example sustainability reduction, which have the potential to impact communities; for example, in St Albans, in relation to the Cottonmill allotment at which we conducted data sharing and briefings with the Allotment Association and council members.

We also worked with Kent County Council to develop a scheme to help distribute household support funding, identifying customers who may be having difficulty paying their bills and ensuring funding is credited directly to their accounts. This scheme is about to be rolled out to assist all councils in our area.

Speaking with our shareholders

Affinity Water is owned by a consortium of private investors. Our group structure, ownership and financing are outlined from page 202 onwards.

Each of our private investors are represented on our Board. Roxana Tataru is the shareholder-nominated non-executive director representing Allianz Capital Partners; Mike Osborne represents InfraRed Capital Partners; and Adam Waddington represents DIF. To ensure that the Board, as a whole, remains fully focused on the activities of the company and the interests of all its stakeholders, the Board has an established process for consulting with its shareholders and for their views to be represented in Board discussions without compromising the independent judgement, leadership, and governance of the Board. While our Board considers the views of our shareholders in its deliberations, it acts independently and in the best interests of the company as a whole. Affinity Water values the particular expertise that can be brought into consideration through the experience and expertise shareholders bring to these decisions, which are, in a large part, similar to the matters Affinity Water's senior financiers have control rights over.

A limited number of matters require shareholder consultation before decisions can be made.

These are, largely, part similar to the matters Affinity Water's senior financiers have control rights over and are set out in the governance framework document 'Consulting with our Shareholders' at: affinitywater.co.uk/governance-assurance, available on the governance pages of our website.

During 2022/23, the Board consulted with its shareholders on the following issues, which are all detailed in this report:

- Engaged directly in setting and approving budgets for 2023/24
- Appointment of Keith Haslett as our CEO
- Appointment of Martin Roughead as our CFO
- Conducted an internal effectiveness review, including responses from shareholder-appointed non-executive directors

Following shareholder consultation, the Board's deliberations, decisions, and actions on these matters were considered and taken collectively as a Board, independently of its shareholders.

Listening to our employees

We have an experienced, diverse, and dedicated workforce, which is recognised as a key asset of our business. Our employees operate across a number of sites. In order to reach all our employees (including individuals engaged under contracts of service, agency workers and remote workers), the Board uses a combination of formal and informal engagement methods, which are detailed in the Section 172(1) statement on page 100 onwards of this Annual Report.

Our employee engagement programme was overseen by Trevor Didcock before Chris Newsome's appointment as our Non-Executive Director of Employee Engagement with effect from 1 October 2022. Effective two-way communication with our workforce is a key part of our corporate culture and encourages our employees to stay engaged and connected with the company.

34 mental health first aiders appointed to support the health and wellbeing of our employees

5 wellbeing webinars held

3 meetings/forums held over the year

Employee engagement process

The Board

Non-Executive Director of Employee Engagement
Chris Newsome

Employee engagement approach

Board listening channels	Virtual focus groups	All employee surveys	Blogs and written comms	Luminate – whistleblowing initiative
What this channel brings	• Gives qualitative feedback on important issues • Crowdsource solutions to problems raised in employee surveys	• Candidate new joiner and leaver surveys – for insight at key moments of the employee lifecycle • Regular pulse surveys for quick feedback on progress and hot topics	• Provides discussions and polls for quick responses • Provides a company network analysis to help identify connections and silos • Serves as an ideation platform to take ideas and suggestions into further detail	• An independent and confidential reporting service available 24 hours a day, 365 days a year • Supports employees to 'shine a light' on issues or concerns that might be incompatible with the standards and values we set ourselves

Corporate governance report
Board leadership and company purpose continued

Workforce policies and procedures

The Board and Executive Management Team review and approve all key workforce policies and practices. Our policies are published on the company's intranet and are easily accessible for our employees.

Our company induction process covers training on key policies for new employees, and we communicate any subsequent changes that take place.

To make sure that policies are embedded in our business practices, our workforce undertakes mandatory e-learning on a regular basis to keep informed of current company policies.

The Board respects the right of its employees to be members of trade unions. Our Chief Financial Officer meets with employee trade unions at quarterly meetings of the Joint Negotiation and Consultative Committee to consult on workforce policies and practices.

It is important for our workforce to be able to raise any concerns with management and the Board, confidentially, and anonymously, if desired. As part of our Whistleblowing Policy, an independent and confidential helpline 'Luminate' is available 24 hours a day, 365 days a year via the web or a dedicated phone line. This is an independent and confidential reporting service that has been publicised across the business and supports employees to do the right thing by 'shining a light' on issues or concerns that might be incompatible with the standards and values we set ourselves. During the reporting year, a number of incidents were reported, indicating a culture in which our stakeholders can raise their concerns with confidence.

All incidents were thoroughly investigated by appropriate members of the executive and senior management team, working with external advisors when required, with matters being brought to the attention of the Board as appropriate. While some reported incidents presented an opportunity for enhancing the company's internal controls, the Board remains confident that its Whistleblowing Policy is effective and continues to promote its awareness amongst stakeholders.

As a highly regulated business, the Board is cognisant of human rights issues and upholds a zero-tolerance approach to modern slavery and human trafficking across our business and supply chain.

The Board approves both the Policy and annual statement on Modern Slavery and Human Trafficking.

These documents are adhered to by our employees and suppliers who provide support for major capital programme delivery, operational support, as well as services and supplies. Both documents can be found on our website: affinitywater.co.uk/responsibility.

Our procurement team monitor compliance with the Policy in our supply chain and report any breaches to our Chief Financial Officer, who then brings these to the attention of the Board as a whole.

We are pleased to report that no incidents of modern slavery and human trafficking were reported during the financial year.

By order of the Board

Patrick Makoni
Group Company Secretary

12 July 2023

Legal panel – knowledge and experience

Our Legal Panel firms: Addleshaw Goddard, Burges Salmon, DLA Piper, Hogan Lovells and Pinsent continue to work closely with Affinity Water's in-house legal team, who are able to draw on technology solutions offered by the firms to help it, efficiently, and transparently, manage legal work and fees. They advise Affinity Water on a wide range of sector issues including regulation, the environment, energy, competition, property, employment, and corporate finance.

The Legal Panel give us the knowledge and expertise we need to allow us to improve our decision making as we prepare our business plans for the future. We are looking forward to ongoing collaborative working on a range of important issues in a heavily regulated sector facing a number of challenges including climate change and the increasing pressure on water resources.

Our genes

- Stewards of the local environment
- Helping customers use water better
- Giving customers an exceptional experience

Audit, Risk and Assurance Committee Report

Justin Read
Chair

Committee Members

Chris Newsome

Mike Osborne

Member	Member Since	Meeting Attendance
Justin Read Chair		4 4
Chris Newsome Committee Member		4 4
Mike Osborne Committee Member		4 4
Jara Korpanec Committee Member	04/01/2022 Resigned 31/07/2022	1 1
Roxana Tataru Committee Member	01/08/2022 to 31/03/2023	3 3
Mark Horsley Committee Member	Resigned 31/07/2022	1 1

The composition of the Committee met Ofwat's BLTG principles for there to be a majority of independent directors, as well as the requirements of the Code, for the financial year. See the directors' biographies on page 139 to 141 for more details of the experience and qualifications of the individual members.

KEY
Meetings attended
Possible meetings

Dear Stakeholder,

I am pleased to present the report of the Audit, Risk and Assurance Committee. This report details the role of the Committee and the work it has undertaken during the year.

The Audit, Risk and Assurance Committee understands and acknowledges its key role of protecting the interests of shareholders as regards the integrity of financial information published by the company. Additionally, some of the Committee's responsibilities are targeted at the regulated information in the Annual Report and Financial Statements published by the company for the benefit of other stakeholders.

The Audit, Risk and Assurance Committee is responsible for assisting the Board in discharging its oversight responsibilities for the integrity of the company's financial statements, and the assessment of the effectiveness of the system of internal control and risk management, and reports to the Board on how the Committee discharges its responsibilities in accordance with its terms of reference (which are available on the governance pages of our website: affinitywater.co.uk/governance-assurance).

The Committee also has responsibility for overseeing the relationship with our external Auditor PricewaterhouseCoopers LLP ('PwC'), including assessment of its ongoing objectivity, and overseeing the assurance of regulatory returns to Ofwat. In performing its duties, the Committee has access to the services of the Head of Internal Audit, the Company Secretary and, if required, external professional advisors.

Our work cannot provide absolute assurance that the company's risk management and internal control systems are operating effectively. Some areas of challenge and need for improvement were identified in the year. These have either been addressed by management or are in the process of being addressed, with oversight from the Committee. Nevertheless, in summary, we are satisfied that the control and compliance culture and processes of the company are proportionate, which helps to provide reasonable assurance that the financial statements are free from material error and/or misstatement.

The Committee is further satisfied that the 2022/23 Annual Report and Financial Statements, taken as a whole, provide:

i. a fair, balanced, and understandable assessment of the company's position; and

ii. the information necessary for shareholders to assess the company's performance, business model and strategy.

The Audit, Risk and Assurance Committee is key to ensuring that the organisation has robust and effective processes relating to financial reporting, internal controls, and risk management. The Committee is also the main oversight body for the internal and external Auditor. The Committee is central to the company's governance structure and ensures the interests of customers, shareholders and other stakeholders are protected, and that responsible business

Terms of reference at a glance

The Committee shall comprise at least three members and at least three should be independent non-executive directors.

Only Committee members attend committee meetings; however, other individuals such as the CEO and CFO, Heads of Internal Audit, Risk and Insurance and Ethics and Compliance, Financial Controller and the external Auditors may be invited to attend as appropriate.

The Company Secretary or their nominee attends every meeting.

Audit Committee meetings are scheduled to occur at least three times during the year.

The Committee Chair shall report to the Board on its proceedings and recommendations after each meeting on all matters within its duties and responsibilities.

practices are adhered to. The Committee's terms of reference (see affinitywater.co.uk/governance-assurance) are structured to ensure it achieves compliance with governance best practice, and are reviewed, annually, to ensure the effectiveness of the Committee.

Responsibilities of the Committee

The Committee considers matters identified by the external Auditor in its report to the Committee. It updates the Board on how it has discharged its responsibilities through a report from the Committee Chair at each Board meeting following any Audit, Risk and Assurance Committee meeting. When reporting to the Board, the Committee Chair identifies any matters it considers where action or improvement is needed and makes recommendations as to the steps to be taken. The Audit, Risk and Assurance Committee also has a role in ensuring that shareholder interests are properly protected in relation to financial reporting and internal control. In carrying out this role, the Audit, Risk and Assurance Committee considers the clarity of its reporting and prepares an additional report describing the work of the Audit, Risk and Assurance Committee in discharging its responsibilities. The Chair of the Committee attends the AGM to answer questions on the separate section of the Annual Report and Financial Statements describing the Committee's activities and matters within the scope of the Committee's responsibilities.

Overview of the actions taken by the Audit, Risk and Assurance Committee to discharge its duties

The significant matters considered by the Committee in relation to the 2022/23 financial statements were consistent with those identified by the external Auditor in its report on pages 218 to 225. The Committee has an extensive agenda of business, which it deals with in conjunction with senior management, the external Auditor, and the Internal Audit function. During the year, the Committee met four times. As part of these meetings, the Committee met with internal and external Auditors without management being present.

The table below presents a summary of business considered during 2022/23.

External Auditors	Recommended to the Board the reappointment of PwC as external Auditors Reviewed and agreed the scope of the audit work to be undertaken by PwC Agreed the fees to be paid to PwC for its review of the September 2022 half-year report and its audit of the March 2023 Financial Statements Assessed the qualification, expertise, resources and independence of PwC and the effectiveness of the external audit process. This included consideration of a report on PwC's quality control procedures and its annual independence letter Agreed that the non-audit services provided to the company did not impact PwC's independence
Internal audit	Agreed a programme of work for the Internal Audit function Reviewed reports from the Head of Internal Audit on the work undertaken by Internal Audit, as well as management responses to proposals made in audits issued by the function during the year Monitored and reviewed the effectiveness of the Internal Audit function Commissioned an External Quality Assessment ('EQA') on the Internal Audit function to evaluate conformance with The International Professional Practices Framework ('IPPF'), and The Internal Audit Code of Practice. Additionally evaluate the current maturity of the Internal Audit function

Audit, Risk and Assurance Committee Report continued

Financial and other reporting	Reviewed the September 2022 half-year financial results and the March 2023 Annual Report and Financial Statements Reviewed the March 2023 regulatory Annual Performance Report to ensure that the information met Ofwat's AMP7 reporting requirements Advised the Board on whether the Annual Report and Financial Statements, taken as a whole, were fair, balanced, and understandable, and provided the information necessary for shareholders to assess the company's position and performance, business model and strategy Reviewed the assessment of the company's long-term prospects, viability statement and stress test scenarios, including the impact of economic changes on the company's results and forecasts and the impact on going concern assumptions Challenged the company's internal capitalisation policy which was updated and approved
General	Reviewed its terms of reference Reviewed and provided advice to the Board on the effectiveness and adequacy of the company's risk management and internal control systems. It was noted that, while overall position is positive, areas of improvement remain which are in hand Reviewed compliance certificates and bond investor reports required under the company's debt facilities Received presentations across the year on: • Tax matters and risks; • The company's insurance programme, renewal and increasing premiums; • 2023/24 tariffs and charging scheme, including governance around this process, and charging arrangements for new connections services; • Non-financial regulatory reporting management plan and requirements for 2022/23; • The continuation of the company's contract with its Reporter, an external assurance provider who provides assurance on engineering and technical data; • A review of the Whole Business Securitisation Compliance Certificates; • An update on the progress of the Resilience Action Plan; • Gifts and hospitality activity; • Governance arrangements for compliance work carried out by the Markets Oversight Committee, an internal working group overseeing compliance with competition law; • The company's whistleblowing arrangements and any associated investigations that are required. Concerns were raised in the prior year regarding management's use of consultants in the business and the Committee received updates on the resultant action plan throughout the year. All significant whistleblowing matters are subsequently reported to the Board via updates from the Committee; • The company's New Code of Ethics; • The status of the company's information security by reference to the ISO27001 standard; • Compliance with Security and Emergency Measures Direction 1998; • Updates on the Department for Business, Energy, and Industrial Strategy proposals on 'Restoring trust in audit and corporate governance' and the impact on the company; • The requirements of Task Force on Climate-related Financial Disclosures ('TCFD') and EU taxonomy alignment assurance; • A review on the Environmental, Social and Governance ('ESG') reporting disclosure; • Prevention of Market Abuse Policy and proposal for new protocols for identifying and handling inside information; and • A review of security control environment and cyber security policy. Approved the company's non-audit fee policy

Fair, balanced, and understandable

The Committee reviewed the 2022/23 Annual Report and Financial Statements to ensure that they are fair, balanced and understandable and provide sufficient information to enable stakeholders to assess the company's position, performance, business model and strategy.

Performance evaluation of the Committee

The Company Secretariat designed a questionnaire with members of the Committee completing the form as part of self-evaluation. Each member of the committee was asked to select an appropriate rating that, most closely, reflected the Committee's performance related to each practice. The questionnaire was then consolidated into a summarised document for discussion and review by the committee.

Whistleblowing

The Committee received updates on whistleblowing incidents reported during the year. Following the introduction of the company's new whistleblowing service (Luminate) and revised whistleblowing policy in February 2022, we have seen a 600% increase in the annual number of whistleblowing reports made either directly, or indirectly, through our whistleblowing channels. This equates to 0.7 reports per 100 employees and moves the company above the latest UK reporting volume benchmark of 0.5 reports per 100 employees*.

In the context of the shortage of matters reported through the company's previous whistleblowing channel and the post-pandemic decrease in whistleblowing reporting globally, this represents a significant and positive step forward for the company and an indication that employees are prepared to raise concerns, confident that the company will support them for doing so.

All whistleblowing reports are treated in the strictest confidence and are handled in accordance with the company's Whistleblowing Policy. If, and where, it is appropriate to do so, specific matters are submitted to the Chair of the Audit, Risk and Assurance Committee to ensure senior, independent consideration and review, while a more general whistleblowing update is included within the Ethics and Compliance report, presented at all ARAC meetings.

* Navex Regional Whistleblowing Hotline Benchmark Report 2022

Risk management and internal control

The Audit, Risk and Assurance Committee advises the Board on the company's internal control systems. The Board is responsible for reviewing the effectiveness of these control systems, taking the advice of the Committee in areas including financial, operational and compliance controls and risk management.

The company's systems of internal control are designed to manage the risk of failure to achieve business objectives (although such risk cannot be completely eliminated), and provide reasonable, not absolute, assurance against material misstatement or loss.

The main features of the company's internal control and risk management systems, in relation to the financial reporting process, include:

- a structured review process for year-end financial reporting, including review by the Audit, Risk and Assurance Committee early in the drafting process;
- recruitment, training, and development of appropriately qualified and experienced financial reporting personnel;
- formalised monthly close control procedures, including journal approval, validation and balance sheet reconciliations; and
- preparation of monthly management accounts on the same basis of accounting as year-end financial reporting.

Particular features of the systems of risk management, planning and internal controls include:

- a comprehensive suite of internal control procedures across both operational and financial matters, supported by segregation of duty matrices and detailed delegated levels of authority;
- an Internal Audit function, the head of which reports to the Audit, Risk and Assurance Committee, together with other internal control and assurance resources, which monitor compliance with laws, regulations, policies, and procedures;
- the setting and monitoring of annual budgets at a detailed level supported by a five-year forecast;
- specialist planning teams retained within the organisation to work on major projects, such as business planning activities, supported by external specialists where appropriate; and
- the use of appropriate external assurance review, both financial and operational.

We have an established framework for identifying, evaluating, and managing the principal and emerging risks the company faces, including those that would threaten its business model, future performance, solvency or liquidity, and we regularly review these. This framework has been in place for the year under review and up to the date of approval of this Annual Report and Financial Statements. Refer to page 108 of the Strategic Report for further information.

We follow the principles of the 'three lines of defence' model, as promoted by the Institute of Internal Auditors and other professional and commercial organisations, as the basis of the company's assurance process.

Assurance is achieved as follows:

First line: Management control – Controls are exercised by operational managers who own and manage risks day to day. Controls are designed into systems and processes under the guidance of operational management.

Audit, Risk and Assurance Committee Report continued

Second line: Risk management and peer review – This comprises risk management and compliance functions established by management to help build and/or monitor the first line of defence controls, ensuring that they are properly designed, in place and operating as intended.

Third line: Internal Audit – This provides the Board and senior management with assurance based on a high level of independence and objectivity within the organisation. Internal Audit provides assurance, on a test basis, as to the effectiveness of governance, risk management, and internal controls operated as part of the first and second lines of defence.

Internal Audit prepares an annual plan of reviews, considering risks identified on risk registers, and carries out a number of audits each year. Not all areas are reviewed every year. The Internal Audit plan is approved by the Audit, Risk and Assurance Committee, which also monitors its delivery over the course of the financial and regulatory year.

External Assurance

We also make use of third-party organisations to provide the Board with external assurance that information prepared by management is accurate and compliant. This, particularly, applies to major items such as the Annual Report and Financial Statements, the Annual Performance Report and the tariff-setting process. The main parties used to provide this assurance are PwC, who provide assurance on financial data, and Atkins Limited (our 'Reporter'), who provide assurance on engineering and technical data and GHG emissions reporting. These contracts are, periodically, re-tendered, and providers may change.

Compliance

Following a review of our compliance programme during 2022/23, in April 2023, we launched the Legal Obligations Register and supporting platform, developed in partnership with Burges Salmon. The new register focuses on the company's key legal obligations as set by the Water Industry Act and our Licence Conditions. Additionally, we have included, within the 2023 register, a focus on Utilities Contracts Regulations 2016. The register requires responsible directors and other senior staff to consider and confirm compliance with each of the key legal obligations. If, and where, total compliance is not achieved, users are required to set out mitigation and, where applicable, a remediation plan to address any non-compliance.

This will provide greater assurance, transparency and visibility into our core operations.

The Legal Obligations Register process will be delivered annually, with reporting to the Audit, Risk and Assurance Committee delivered each year in November.

Corporate document library

In 2022/23, we implemented a new corporate document library, entitled Athena. Athena has reintroduced a level of standardisation, version and access controls to our corporate policies, processes and other corporate documents, which are housed in a central database that now offers a "single source of truth" for corporate documentation.

Significant issues considered by the Audit, Risk and Assurance Committee in relation to the financial statements

The Committee considered the appropriateness of the company's accounting policies, including the impact of climate change and the increased cost of living currently impacting our customers on the accounting disclosures.

We discussed the critical accounting judgements and key sources of estimation for the relevant aspects of the financial statements and concluded, based on the information available, that the estimates, judgements, and assumptions used were reasonable and that they had been used, appropriately, in applying the company's accounting policies. The company's viability statement, including information on the company's approach to preparing it, can be found on page 122.

In relation to the company's existing accounting policies, and the following principal areas of judgements and estimates, for all matters described below, the Committee concluded that the treatment adopted in the financial statements was appropriate.

Issue	How the issue was addressed by the Committee
Revenue recognition	The Committee reviewed the methodology for the recognition of revenue, specifically the accuracy of the measured income accrual, and concluded that the approach and conclusions reached were appropriate.
Policy for the loss allowance of trade receivables	The Committee reviewed the policy for providing for the impairment of trade receivables, including considering any significant economic changes that may impact its credit loss model and future credit losses, as well as looking ahead regarding the increased cost of living currently impacting our customers, and concluded that the approach taken was appropriate.
Capitalisation policy	The Committee reviewed the processes and policies to distinguish between maintenance and enhancement costs, and it was concluded that these would result in cost capitalisation in line with the company's updated policy and applicable accounting standards.
Defined benefit pension assumptions	The Committee reviewed the assumptions used in calculating the defined benefit pension surplus.

Issue	How the issue was addressed by the Committee
Adoption of the going concern basis in the financial statements	The Committee reviewed the assumptions underpinning the directors' decision to continue to adopt the going concern basis in the financial statements, including the expectation that loan covenants would continue to be met for a period of not less than 12 months from the date of signing the financial statements. The Committee reviewed actual and budgeted financial results, forward-looking forecasts including the severe but plausible downside scenarios, the company's ability to generate future positive operative cash flows, and the company's access to financing arrangements.
Viability statement	The Committee considered and provided input into the determination of which of the company's principal risks, and combinations thereof, might have an impact on the company's financial viability, and reviewed the results of management's stress testing of the company's base cash flow forecasts.
Grants and contributions	The Committee reviewed and identified the performance obligation for each type of contribution as it impacts how revenue is recognised.
Swap transactions and DVA valuation	The Committee received independent valuations of the derivatives held to support the fair value adjustment and associated financial statement disclosures.

We challenged management on the following areas:

Area of challenge	Outcome of this challenge
The company capitalisation policy and processes	An updated internal capitalisation policy was presented to the Committee and shared with employees across the business. No changes to accounting policies were made, but the policy was clarified and expanded upon, and procedures updated.
Arrangements for ensuring legal and regulatory compliance across the business, including compliance with Ofwat Regulatory Accounting Guidelines	A third-party review commenced with the objective of developing a new Legal Obligations Register to replace the existing Compliance Obligations Register. Progress on updating the Registers was reported to the Committee.
Scope of the internal audit plan for 2022/23 and proposed review areas in 2023/24, including an increased focus on environmental areas; business processes that are particularly important in delivering the company's strategic outcomes and priorities, and AMP7 performance commitments; and the resourcing available to deliver on the plan	New areas were proposed and discussed, with updates provided to the Committee throughout the year. The Committee endorsed the internal audit plan.
Key risks were reviewed in detail and challenged as part of deep dive exercises, including the company approach to emerging risk and the company Integrated Resilience Plan development update	Progress was made in developing the risk appetite statements and consultations were held with relevant stakeholders on their risk appetite.
The narrative reporting requirements for 2022/23 and the FRC's Annual review of corporate reporting	A reporting disclosure checklist was created and reviewed by the finance team and presented to the Committee with references to where disclosures are made in this set of financial statements.
Internal audit effectiveness review	In line with Institute of Internal Auditors guidelines, we commissioned an external quality review and benchmarking exercise in respect of our Internal Audit function. The overall conclusions from the review were generally satisfactory but there are some areas where improvements can be made. The Head of Internal Audit has compiled a list of actions to deliver the necessary improvements and these are all scheduled to be completed by December 2023.

Audit, Risk and Assurance Committee Report continued

We observed that PwC challenged management on the following areas described below:

Area of challenge	Outcome of this challenge
• Accuracy of the measured income accrual • Adequacy of the loss allowance of trade receivables • Going concern basis, including viability statement • Assessment of cost capitalisation • Assessment of pension assumptions	No material issues were noted during the interim review or year-end audit. See the audit opinion on page 218 onwards for more details.

PwC were not, specifically, asked by the Audit, Risk and Assurance Committee to look at any particular areas and undertook their work in line with required auditing standards.

External audit

PwC was appointed as external Auditor in 2013/14 following a competitive tendering exercise.

Having completed five years in the role of senior statutory audit partner, Owen Mackney rotated off the audit during the year to 31 March 2021 and was replaced by Simon Bailey, who has led the audit since that date.

To fulfil the Audit, Risk and Assurance Committee's responsibility, regarding the independence and objectivity of PwC, the Committee considered:

- PwC's plan for the current year, noting the role of the senior statutory audit partner signing the audit report, who, in accordance with professional rules, has not held office for more than five years, and any changes in key audit staff;
- the arrangements for day-to-day management of the audit relationship; and
- PwC's annual independence letter.

A key factor that may impair PwC's independence is the value of non-audit services provided by them. The company has a policy for the provision of non-audit services, under which all proposals for such work are subject to pre-approved limits. Any non-audit service that exceeds these thresholds requires approval from the Audit, Risk and Assurance Committee. Auditors remuneration was £549,700 in the year to 31 March 2023 (2022: £457,000) and included services relating to the audit of the financial statements and other non-statutory audit-related assurance services. The Committee has reviewed the scope of the non-statutory audit services work and is happy that PwC were best placed to provide the services. See note 2.3 on page 237 for a breakdown of fees in the current and prior year. We also incurred expenditure of £1,400 with PwC on other non-audit services in the current year relating to access to technical materials, on a consistent basis with the prior year.

The Committee reviews the provision of non-audit services by the external Auditor and has primary responsibility for making a recommendation on the appointment, reappointment, and removal of the external Auditor.

During the year, PwC:

- was engaged to provide agreed upon procedures as part of the company's regulatory compliance and annual reporting to Thames Water Utilities Limited and Anglian Water Services Limited. None of the procedures performed were advisory in nature.

Auditor objectivity and independence were safeguarded in these instances through the work being performed on a review-and-recommend basis with final decisions being taken by management.

On the recommendation of the Audit, Risk and Assurance Committee, the external Auditor role is considered, annually, by the Board for reappointment.

To assess the effectiveness of PwC, the Audit, Risk and Assurance Committee reviewed:

- its fulfilment of the agreed audit plan and any variations from the plan;
- feedback from the management and finance teams and outcomes from an annual debrief session;
- the robustness and perceptiveness of its handling of key accounting and audit judgements; and
- the content of its reporting on internal control.

Based on the above review, we are recommending to the Board that PwC be reappointed for the year-ending 31 March 2024. Note 2.3 to the financial statements includes disclosure of the Auditor's remuneration for the year, including an analysis of audit services, audit-related services and other non-audit services under those headings prescribed by law.

Internal Audit

The Head of Internal Audit has direct access to the Company Chair and the Audit, Risk and Assurance Committee Chair.

To fulfil our responsibilities relating to monitoring and reviewing the effectiveness of the Internal Audit function, we reviewed:

- Internal Audit's charter, reporting lines and access to the Audit, Risk and Assurance Committee and all members of the Board;
- Internal Audit's plans and its achievement thereof;
- The results of planned audits and other significant findings, including the adequacy of management's response and the timeliness of resolution;
- the function's resources, team members' qualifications and experience, and timeliness of reporting; and
- the level and nature of non-audit activity performed by Internal Audit.

During 2022/23, amongst others, planned audits were carried out in the following particularly important areas:

- Corporate and Operational Resilience
- Leakage
- Guaranteed Standards Scheme ('GSS')
- Per Capita Consumption ('PCC')
- Capital Delivery Programme

Plans and objectives for 2023/24

During 2023/24, the Committee plans to achieve the following:

- Focus on systemic risks that create vulnerabilities in many parts of the organisation simultaneously and ensure risk assessment and risk management efforts provide the board with clear oversight of such risks;
- Ensure that governance, risk management and control efforts are coupled to strategic risks;
- Review the action plans and timetable for the 2023/24 statutory and regulatory financial statements, including going concern, viability, narrative disclosures and evolving PR24 reporting requirements;
- Check that AWL's risk appetite is up to date in order to provide clarity in rapid strategic decision making;
- Monitor progress made against the 2023/24 internal audit plan;
- Ensure the internal audit function spends as much time as necessary on emerging strategic and systemic risk areas;
- Review hot topics such as:
  - i. macroeconomic and geopolitical risk, emerging and strategic risk
  - ii. climate change and environmental sustainability
  - iii. human capital, diversity, and talent management
  - iv. cybersecurity and data security
  - v. digital disruption and new technology
- Continue to consider the emerging impact of the Department for Business and Trade proposals on 'Restoring trust in audit and corporate governance' on the company.

FRC engagement

The Committee has not had any interaction with the FRC's Corporate Reporting Review team during the year; however, it has reviewed the FRC guidance on corporate reporting. The company's audit has not been reviewed by the FRC's Audit Quality Review team.

Overview

As a result of the Committee's work during the year, we concluded that we acted in accordance with our terms of reference and ensured the independence and objectivity of PwC. I will be available at the AGM to answer any questions about the activities of the Committee.

Approval

On behalf of the Audit, Risk and Assurance Committee.

Justin Read
Chair of the Audit, Risk and Assurance Committee

12 July 2023

Nomination
Committee Report

Ian Tyler
Chair

Committee Members

Roxana Tataru

Justin Read

Mike Osborne

Trevor Didcock

Chris Newsome

Adam Waddington

Member	Member Since	Meeting Attendance	
Ian Tyler Chair		9	9
Roxana Tataru Committee Member	01/08/2022	4	4
Justin Read Committee Member		8	9
Mike Osborne Committee Member		9	9
Trevor Didcock Committee Member		9	9
Chris Newsome Committee Member		0	0
Adam Waddington Committee Member	12/05/2023	0	0
Ann Bishop Committee Member	Resigned 18/07/2022	5	5
Jara Korpanec Committee Member	Resigned 31/07/2022	3	5
Marissa Dardi Committee Member	15/02/2023 Resigned 12/05/2023	0	0

The composition of the Nomination Committee met Ofwat's BLTG principles for there to be a majority of independent directors, as well as the requirements of the Code, for the financial year.

KEY

Meetings attended   Possible meetings

Dear Stakeholder,

I am pleased to introduce this year's Nomination Committee Report, which details the valuable work of the Committee, the positive new director appointments recruited, as well as our commitment and approach to diversity, training, and development of the Board during the year-ended 31 March 2023.

The Company announced on 7 September that Stuart Ledger had decided to step down as Interim CEO at the end of 2022 and that Keith Haslett, whom we welcomed on 3 January 2023, would be joining as our new permanent CEO. Much of the Committee's focus this year was to lead this CEO recruitment process with the support of Russell Reynolds Associates, and have fully supported Keith in his full and tailored induction into the role and wider business. Keith has brought with him a wealth of water industry experience, particularly from his previous senior roles within PLC and Government utility businesses. Having spent a large part of his career in the water industry, at Northern Ireland Water, United Utilities and Northumbrian, the Committee feel confident that he is the right candidate to lead the Company through to PR24 and beyond. Keith sits on the Affinity Water Board as an executive director and, while he is not a formal member of the Nomination Committee, he is invited to attend from time to time as appropriate.

The Committee, in tandem with the recruitment process for a new CEO, also led a successful search for a permanent CFO as was announced to the market on 17 January 2023. After conducting a thorough and rigorous external and internal search with the support of Odgers Berndtson, we welcomed Martin Roughead to the Company as CFO in April 2023. He joined us from Southern Water with a wealth of experience within strategy and finance in the regulated utility and infrastructure sector. We feel confident that his strengths, combined with those that Keith demonstrates, provides the Company with a strong CEO–CFO partnership to lead the business forward. Martin joined the Affinity Water Board as an executive director.

Independent Board Evaluation ('IBE') conducted an intense and rigorous evaluation of the Board in April 2022 and the Nomination Committee have made it a priority to action the recommendations contained in the IBE Report during this year. A key change has been that the Nomination Committee now comprises all non-executive directors of the Board. With the intention of being diverse, efficient, and productive, this change allows the Committee to keep communication focused and join up discussions between committees.

During the past year, the Board, and subsequently the Committee, has also seen further membership changes. Ann Bishop stepped down from the Committee, and the Board, on 18 July 2022. Mark Horsley resigned from the Board on the same date. The Board and Nomination Committee welcomed back Roxana Tataru on 1 August 2022 after a period of maternity leave and thank Jara Korpanec for her contribution to the Board as Roxana's alternate. Jara stepped down as director on 31 July 2022. Angela Roshier also stepped down as Board director on 15 February 2023 and Marissa Dardi was appointed as her replacement. Marissa left DIF Capital Partners and, subsequently, resigned from the Board and Committee with effect from 12 May 2023 and the Board welcomed Adam Waddington as her replacement. In the light of Mark Horseley's and Ann Bishop's decision to leave the Board, the Committee considered at length the appropriate size of the Board and, in particular, the appropriate number of independent non-executive directors ('INEDs'). In doing so, it took into account the results of the Board effectiveness review, the current board skills matrix and OfWat's license requirements. The Committee concluded, and recommended to the Board, that the number of INEDs should be reduced from 5 to 3 but that the Committee and the Board should continue to keep the matter under review. These responsibilities and the ways in which we have met them are set out in full in the Committee's activities in the year on page 167.

Succession planning sits as a fundamental item on any Nomination Committee's agenda and, as such, the Committee have commenced a search for a fourth independent non-executive director, who will also act as a suitable replacement for Trevor Didcock, who will be approaching his nine years' service on the Board in November 2024. The UK Governance Code/BLTG Principles/AWL Code identifies that serving longer than nine years has potential to call into question a director's independence; therefore, the Committee feel that early succession planning will allow us to appoint the right candidate and afford Trevor, after his valued time serving on the Board and a number of its committees, to choose his own point of departure. This search is ongoing, and we anticipate it to be concluded later this year.

While it is clear that the Committee's key focus and energy this year has been on the successful outcome of finding a long-term CEO successor, and the smooth transition of leadership in response to a number of directorship changes, it has also dedicated time to review succession planning, oversee the Company's performance with regard to equality, diversity and inclusion, and manage a suitable training and development programme.

Ian Tyler
Chair

12 July 2023

Nomination
Committee Report continued

Terms of reference at a glance	
	The Committee comprises all non-executive directors and satisfies the code requirements that "a majority of members of the Nomination Committee should be independent non-executive directors". Only Committee members attend committee meetings; however, other individuals, such as the CEO and People Director, may be invited to attend from time to time, as appropriate. The Company Secretary or their nominee attends every meeting. Nomination Committee meetings are scheduled to occur at least three times during the year. The Committee Chair reports to the Board on its proceedings and recommendations after each meeting on all matters within its duties and responsibilities.

Main Responsibilities

Reviewing Board performance	The Committee assesses Board performance, paying specific attention to the structure, size and composition of the Board, including skills, independence, knowledge, ethnicity, and diversity. It continually assesses the skills, experience, and capabilities required on the Board, taking account of the Company's strategic priorities and the future challenges affecting the business. Recommendations to the Board regarding the reappointment of any non-executive director, are made annually, having considered the time required for the role and identifying their continued contribution to the Board, having particular regard to their key skills and expertise.
Recommending appointments to the Board and its Committees	The Committee makes recommendations concerning the membership of Board Committees and the appointment of the Senior Independent Director ('SID'), and the Director for Employee Engagement. It leads the process for appointments, considering, and recommending to the Board persons who are appropriate for appointment as executive and non-executive directors to maintain an appropriate mix of skills and experience within the company and on the Board, considering future challenges facing the company. In identifying suitable candidates, using open advertising or external advisors, the Committee considers candidates from a wide range of backgrounds, on merit and against objective criteria with due regard to the benefits of diversity on the Board, taking care that appointees have sufficient time available to devote to the position.
Overseeing Board and company diversity	The Committee works with the relevant areas of the business to take an active role in setting, monitoring, and meeting diversity objectives and strategies for the company and oversees the Equality, Diversity, and Inclusion Policy.
Ensuring succession planning	The Committee ensures plans are in place for orderly succession to both Board and senior management positions and overseeing the development of a diverse pipeline for succession. In addition, it oversees the induction, training, and the continuing professional development of Board members.

<table>
<tr><th>Code Requirements</th><th>The Committee's activities in the year</th></tr>
<tr><td>Assessing the performance of the Board</td><td>
Reviewed the Board's Skills Matrix to ensure that the Board is balanced and diverse in thought and skill set with pronounced focus on financial management and strategic management skills and identified customer service, information technology and ESG experience as potential gaps that will be addressed in future board appointments
Reviewed the Board's composition and size in the short, medium, and long term and considered its compliance to the UK Governance Code and AWL's own Governance Code as well as confirmed with Ofwat that the current Board composition complied with its Board Leadership, Transparency, and Governance Principles (BLTG Principles) requirements
Reviewed other Board member external appointments to ensure the Board had adequate time available for their roles
Considered the recommendations made in the external Board Effectiveness Review that was presented to the Board in May 2022 and took action where appropriate
Conducted an internal Board Effectiveness Review that was presented to the Board in May 2023 and looked to action where appropriate
</td></tr>
<tr><td>Recommending appointments to the Board</td><td>
Led the process for the appointment of a new CEO engaging Russel Reynolds Associates ('RRA') in the recruitment process. RRA is a signatory to the Voluntary Code of Conduct for Executive Search Firms and does not provide any services to Affinity Water other than Board-level recruitment
Led the process for the appointment of a new CFO engaging Odgers Berndtson in the recruitment process. Odgers is a signatory to the Voluntary Code of Conduct for Executive Search Firms and does not provide any services to Affinity Water other than Board-level recruitment
</td></tr>
<tr><td>Overseeing Board and company diversity</td><td>
Reviewed and approved for recommendation to the Board an updated Board Diversity, Inclusion and Equality of Opportunity Policy, a policy that underpins the Board's commitment to diversity considerations when appointing members to the Board
Reviewed the Affinity Water Equality, Diversity and Inclusion policy, a policy that strives to promote equal opportunity to everyone, creating an open and inclusive workforce where people feel valued
Reviewed metrics of the AW performance on Equality, Diversity, and Inclusion ('EDI') presented to the Committee by the Head of EDI and supported the Equality, Diversity, and Inclusion Committee in their strategy to:

i. take positive action to address to our gender pay gap;
ii. revise categorisation and wording to reflect comparable sources more accurately such as Office of National Statistics Census data and EU Skills Group Inclusion Measurement Framework for the utilities sector;
iii. integrate EDI data collection with the new recruitment system and learning and development data; and
iv. understand how to build on our inclusive and supportive culture using metrics to action plan and monitor performance.</td></tr>
<tr><td>Ensuring succession planning</td><td>
Reviewed succession plans for independent non-executive and executive directors in tandem with the review of the Board Skills Matrix to promote synergy
Commenced the process for the appointment of a further independent non-executive director to work alongside Trevor Didcock who approaches nine years' service on the Board in November 2024
Reviewed succession plans for General Counsel and Company Secretary and Executive Management Committee
</td></tr>
</table>

Nomination Committee Report continued

> “As we welcomed both a new CEO and CFO to Affinity Water during the year, our induction and training programme has played a central part in getting them up to speed quickly.”
>
> **Ian Tyler**
> Chairman

Appointments to the Board

All Board appointments are subject to a formal, rigorous, and transparent procedure and the Board and Nomination Committee maintain an effective succession plan for all Board and senior management roles. We act in accordance with Ofwat's guidelines regarding appointments and succession planning as well as the Code requirement that every appointment should be made on merit against objective criteria, which protects against discrimination for those with protected characteristics within the meaning of the Equalities Act 2010. The Board promotes diversity of gender, social and ethnic backgrounds, and of cognitive and personal strengths across the whole employee population and has an approved Equality, Diversity and Inclusion Commitment.

As part of the process, the Committee considers the capabilities and skills needed on the Board to enhance its ability to support and challenge the Executive Management.

Our Board Skills Matrix, which can be found on page 146, reflects that the Board, as a whole, has a strong mix of:

- asset knowledge and experience, operational and field experience;
- in-depth understanding of regulatory approaches from Ofwat;
- customer engagement and retail experience;
- innovation; and
- finance and risk and experience of audit.

The Skills Matrix is regularly reviewed and assessed to ensure the breadth of skills remain in light of any directorship changes.

Board Succession – non-executive

Ann Bishop and Mark Horsley stepped down as independent non-executive directors in July 2022. The Committee conducted a review of the Board Skills Matrix and its succession plan. Any skills gaps were considered in line with the key qualifications and experience essential for the AWL's business strategy and expected future business needs. It was confirmed with Ofwat that the Board was compliant with Ofwat's Board Leadership Transparency and Governance ('BLTG') principles, despite its smaller composition.

The Committee is informed of all directorship changes. Roxana Tataru returned on 1 August 2022 after a period of maternity leave and, as her alternate, Jara Korpanec stepped down as director on 31 July 2022. Angela Roshier also stepped down as director on 15 February 2023 and Marissa Dardi was appointed as her replacement. Marissa left DIF Capital Partners and, subsequently, resigned from the Board with effect from 12 May 2023 and Adam Waddington was appointed as the shareholder-nominated director replacement.

The Committee has also begun the search for an additional non-executive director to replace Trevor Didcock at the appropriate time.

Board Succession – executive

Appointment of a new CEO

A key focus for the 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.

Appointment of a new CFO

Upon the departure of the Interim CFO, Mike Thomas in August 2022, who was on a one-year fixed-term contract, Affinity Water Treasurer, Michael Blake, stepped up to fill the CFO position on an interim basis. Since then, the Committee has led a robust recruitment process aided by Odgers to appoint Martin Roughead to fill the role of CFO on a permanent basis..

Company Secretary Succession

Sunita Kaushal stepped down from her role as General Counsel and Company Secretary effective 31 March 2023. Patrick Makoni was appointed as Group Company Secretary from 3 April 2023.

Senior Management Succession

A talent review of our Senior Leadership population took place in March 2022 and July 2022 and, as part of this, a review of succession plans for Executive Management Team roles took place. A number of high-potential employees at a senior leadership level were identified and the Committee reviewed the plan to support the development of these individuals by building their individual development plans, utilising a range of tools, including 360-degree feedback, and the Insights high-performing leaders evaluation to identify their areas of development. After saying farewell to Director of Customer Experience and Technology, Joe Brownless, the Committee has overseen the decision to split the role into two roles at EMT level, a Director of Customer Experience and a Director of Transformation and Technology and oversaw the recruitment process in conjunction with Odgers, the CEO and Interim People Director. Rebecca Froud was appointed as permanent Director of Customer Experience on 30 March 2023.

Nomination
Committee Report continued

Board and Senior Management Induction

Non-executive directors (including the Chair) who have been nominated for appointment attend a pre-appointment meeting with Ofwat. This meeting allows nominated directors to get an understanding of Ofwat's expectations for the role of non-executive directors of a regulated company, and any other issues that Ofwat considers appropriate. It provides an opportunity to ask Ofwat any questions ahead of their appointment.

Upon appointment to the Board, directors are guided through a comprehensive induction process with a wide range of briefings to include areas of focus such as:

- the company's business model, key operations, processes, and sites;
- its risk profile and approaches to management and assurance;
- its strategy, business plans, and performance; and
- its governance and regulatory framework;

while also setting out, in full, their duties as directors, including details of the annual Board (and relevant Board Committees) planner, effectiveness reviews and action plans.

All directors are invited to attend a number of site visits to water treatment works and to spend time with our frontline employees.

Training and continuing professional development

Training remains paramount to ensuring the Board stays abreast of all key developments within the business and the industry as a whole; therefore, our Board members receive updates on relevant issues, including legislative, regulatory, and reporting matters, to help support their understanding and knowledge of the water industry and its regulatory environment.

Non-executive directors are invited to participate in industry events, including regular Ofwat events for non-executive directors, and are aware of their commitment to keep themselves properly briefed and informed to deepen their understanding of the business. In the coming months, Board members will join the Executive Management Team on a number of cultural change initiatives and training sessions. The Nomination Committee are responsible for overseeing the training programme and the continuing professional development of Board members.

Induction Process

On appointment each new director is provided with an induction programme to familiarise them with the business, the strategy, the priorities, the culture and the ambitions of Affinity Water. The programme seeks to include:

Business and Strategy	• Briefings from the Chairman of the Board, CEO and CFO on company background, operational performance and targets as well as strategic plans • Site visits to afford the new director a chance to see operations first hand • Presentations from executive management on key operational areas • One-to-one meetings with key figures across the business
Governance	• Meeting with the Group Company Secretary to discuss the governance of the company, the Board and Committee structure, and procedures as well as identify any bespoke training needs • One-to-one meetings with the Chairs of each Committee • Presentations on the regulatory framework and company policies
Company Culture	• Presentations from our Employee Engagement Director and Head of Culture and EDI to introduce the current and aspired culture
Stakeholder engagement	• Invitations to meet with regulators and other stakeholders such as Environment Agency, Defra and Water UK • Briefings from our Head of Customer Experience to appreciate the customer view

In conversation with:

Martin Roughead
our new CFO

In his first two months, Martin attended:

3
site visits

2
Board meetings

What attracted you to joining Affinity Water?

I love working in the water sector – with its clear sense of purpose and the value it can create across communities, the environment, and the economy. Therefore, the opportunity to join Affinity Water as Chief Financial Officer was one I couldn't miss! Affinity Water is undergoing an exciting period of growth and change, with Keith joining as CEO in January, I feel privileged to be a part of its journey to future success. Within a few weeks, I have already witnessed the commitment across the business to our customers and environment and know it was the right decision.

What has been the highlight of your first few months at Affinity Water?

My highlight of the induction so far has been getting out to sites, such as our new treatment works at Sundon Reservoir, to meet members of the customer delivery and operations teams, as I really value the chance to hear first hand about what we do from the ground up. Everyone I have met with has been really welcoming and there is a real sense of working together to deliver shared success. I am looking forward to visiting our sites regularly, continuing to meet my new colleagues and having the chance to be out in our wider community.

Can you describe your experience of the AWL director induction programme?

I have been really impressed with the induction process; it has been professionally organised, comprehensive and provides a great introduction to all aspects of the business. The programme has included one-to-one meetings with directors, the Group Company Secretary, and members of the EMT and bespoke briefings on the business and strategy of the Company, as well as the opportunity to visit key sites and capital projects. My induction has given me real insight into the Company's purpose, the environment we operate within, and our core business activities.

Nomination
Committee Report continued

Equality, Diversity & Inclusion training

During 2022/23, the Board were invited to complete a bespoke in-house online training course focusing on the subject of unconscious bias and remain committed to continuing to build their knowledge and understanding around equality, diversity and inclusion and help them take steps to reduce the likelihood that bias will impact their decisions.

Equality, diversity, and inclusion

Affinity Water is committed to equality, diversity, and inclusion. As a company with a strong public purpose, we know we must do the right thing and treat people fairly and with dignity and respect. We must be able to anticipate and respond to the diverse needs and expectations of our customers to give them an effortless experience. We need diversity of thought and talent and an inclusive culture to get the best out of our people, innovate, and achieve the best outcomes.

The Company's Equality, Diversity, and Inclusion Commitment pledges to build a more inclusive culture where every member of our workforce can bring their true self to work, confident that they will be valued. The ambition is to enable our employees to thrive and reach their full potential and, in doing so, enhance the culture of our business.

Commitment to diversity

The Committee's terms of reference mandate the Committee to take an active role, alongside human resources, in setting and meeting diversity objectives and strategies for the company as a whole, and in monitoring the impact of diversity initiatives. Examples of the type of actions the Nomination Committee shall consider encouraging include:

- a commitment to increasing the diversity of the board by setting targets;
- dedicated initiatives with clear objectives and targets with focus in areas of the business that could improve diversity;
- a focus on the senior leadership team and the Executive Management Team;
- mentoring and sponsorship schemes;
- a commitment to more diverse shortlists and interview panels; and
- positive action to encourage more movement of women into non-traditional roles.

The Committee works closely with the Head of Culture and EDI and the Equality, Diversity, and Inclusion Committee ('EDI Committee') to further these objectives.

Our EDI vision

We aim to achieve equality, diversity, and inclusion in all that we do as a Company. Our vision focuses on:

- Equality – for there to be a zero pay gap when we look across our company and the protected characteristics
- Diversity – to represent our communities in terms of the demographics of our employees
- Inclusion – for all employees to feel valued, supported and respected at work

Developing our EDI strategy

In August 2022, we appointed our first Head of Culture and EDI, who has been working with the business, People Directorate, networks, and the EDI Committee to understand where we are and where we need to be. An EDI strategy will be finalised, reviewed by the Committee, and published later in 2023, which will build on the positive progress that has been made since the EDI Committee and employee networks were established.

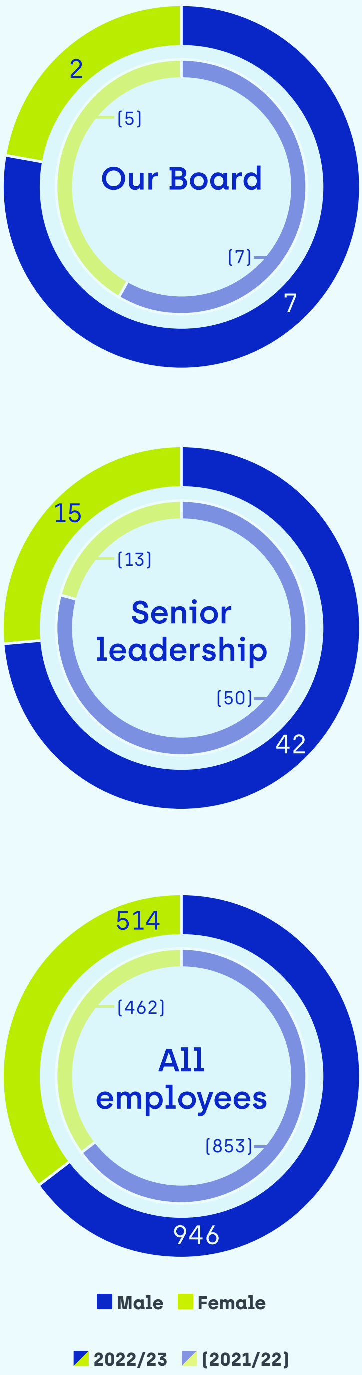
Valuing diversity and building inclusion

Over the year, the Company marked a number of events, including International Women's Day, Black History Month, and Disability History Month. For Black History Month, our ONE network, a support network for Black, Asian, and Minority Ethnic ('BAME') employees, worked collaboratively with other company networks and organisations to host a series of virtual events focused on different aspects of race equality and inclusion in the water industry. In February 2022, we participated for the first time in Race Equality Week, including promoting the five-day challenge encouraging staff to focus on a different aspect each day and consider what action they and the company can make to break down barriers to equality and inclusion.

During Disability History Month, a staff webinar was held on becoming disability confident. We have since joined the Business Disability Forum and the EDI Committee are reviewing all relevant policies and processes in line with good practice guidance.

The EDI Committee have worked with the AW Women's Network over the year to update our suite of people-centred policies to ensure we are being a supportive employer through different life events. This includes our new menopause policy and providing time off for fertility treatment.

The gender breakdown of our directors and employees as at 31 March is shown below:



Senior leadership includes the Executive Management Team and their direct reports

EDI training our employees and managers

In November 2022, the EDI Committee rolled out updated introductory or refresher training on the basics of EDI, including the legal framework, what equality, diversity and inclusion means, the impact of bias and simple tips for overcoming it. All employees are invited to complete the training and more in-depth EDI training is being integrated into our manager and leadership development programmes for delivery.

Removing bias in our hiring

More focused work was undertaken with the Talent Acquisition team to improve our hiring processes from an EDI perspective. For example, a new hiring manager pack was developed, new training was rolled out for all hiring managers, including activities on how to avoid bias when interviewing and making decisions. Blind shortlisting now takes place for roles. The diversity data of candidates is monitored to check for any patterns of bias from application to final selection. Improvements have also been made to the recruitment and onboarding process to ensure any reasonable adjustments are made.

Using data, insights, and benchmarking

In developing our new EDI strategy, a range of data and insights is being considered and metrics will be built into the strategy so the Committee and business can continually monitor, learn what works and adapt our approach if necessary to make progress. To prepare and inform the development, the EDI Committee have analysed our existing data, and is refreshing, and updating our diversity categories to ensure the company is following good practice and key external benchmark data. We will be calling on our new starters to share their data, and our existing employees to refresh theirs, to ensure we have a good data set.

Approval

On behalf of the Nomination Committee

Ian Tyler
Chair of the Nomination Committee

12 July 2023

SHEDWQ
Committee Report

Chris Newsome
Chair

Committee Members

Trevor Didcock

Keith Haslett

Adam Waddington

Ian Tyler

Member	Member Since	Meeting Attendance
Chris Newsome Chair		3 3
Trevor Didcock Committee Member		3 3
Keith Haslett Committee Member		1 1
Ian Tyler Committee Member		3 3
Adam Waddington Committee Member	12/05/2023	0 0
Mike Osborne Committee Member	Until 31/03/2022	3 3
Stuart Ledger Committee Member	Resigned 16/12/2022	2 2
Angela Roshier Committee Member	Resigned 15/02/2023	2 2
Marissa Dardi Committee Member	15/02/2023 Resigned 12/05/2023	1 1

The Committee is required to comprise of at least four members, at least three of whom shall be independent non-executive directors. The Committee was compliant with these terms throughout the year.

KEY
Meetings attended   Possible meetings

Dear Stakeholder,

As Chair of the SHEDWQ Committee, I am pleased to introduce this report, detailing the work of the Committee in the year.

The remit of the Committee has a wide reach across the business. The reporting functions that input include Health and Safety headed by Joe Hall, who joined Affinity Water as new Head of Health and Safety in August 2022, the Wellbeing Committee, which was established in 2022, and Water Quality Services headed by Fiona Waller. In addition, the Committee oversees the business continuity arrangements of the company as a whole.

With regards to the Environment, the Committee inputs into, and challenges, the company's Net Zero strategy and programme. In addition, the Committee has oversight of the natural capital approaches in delivering the company's WRMP and WINEP programmes.

A key focus for our Committee this year has been to review current practices and procedures within each of the safety, health, drinking water quality and environment management arenas and effect changes to improve, streamline, educate and guarantee best practice.

Zero Harm

Safety has been a significant area of consideration for the Committee reviewing the metrics, revising these and rebalancing these across lead and lagging measures. The Committee has also concentrated on safety and the areas of leadership, culture and learning from events. The Committee has conducted three deep dives across the year with foci for 2022/23 being the business continuity plan, water quality and the environment. These deep-dive sessions give all involved an opportunity to spotlight potential areas of improvement and plan for the year ahead.

During the year, the Committee has worked with the new Head of Health & Safety to progress the company's Zero Harm journey. Reviews of our general health and safety performance, condition of our sites, processes, procedures, how we identify and manage our health and safety risks. We conducted an external audit focused on safety leadership behaviours and safety culture, and developed health and safety maturity models, which have provided useful insight into the health and safety culture of the Affinity Water business.

As a result, through our Zero Harm Steering Group, we have developed high-level strategic health and safety milestones to build on the work already undertaken by Affinity Water. A new Health and Safety Policy was launched in April 2023, resetting expectations around the approach to health, safety and wellbeing. The policy supports building a culture in which we send our people home safe, healthy and well every day by creating a business where everyone understands their role as a safety leader and supports our Zero Harm aspirations as a business to be industry leading.

Terms of reference at a glance

The Committee comprises at least four members of whom at least three should be independent non-executive directors.

Only Committee members attend committee meetings; however, other individuals, such as the Head of Water Quality Services, Head of SHEQ and Head of Legal may be invited to attend from time to time, as appropriate.

The Company Secretary or their nominee attends every meeting.

SHEWDQ Committee meetings are scheduled to occur at least four times during the year. The Committee Chair reports to the Board on its proceedings and recommendations after each meeting on all matters within its duties and responsibilities.

Main Responsibilities

Safety

- Review and monitor safety matters arising from the company's activities and operations, including monitoring performance against targets
- Monitor the framework of safety and health policies and procedures within the company (including training and competency assessment), and compliance with relevant legislation
- Consider areas of corporate process and individual safety and health risk (including personal security related safety matters) and their management effectiveness and the methodology for measuring performance
- Consider the strategic business and reputational implications for the company of any health and safety issues and where appropriate recommend measures, responses and targets
- Oversee and support the development of the Zero Harm strategy

Health and Wellbeing

- Review and monitor health and wellbeing matters arising from the company's activities and operations, including monitoring performance against targets
- Monitor deliverance of the Wellbeing Programme in accordance with the SHE and Wellbeing Plan for 2022/23
- Consider areas of corporate process and wellbeing risks and how to manage them effectively
- Consider the strategic business and reputational implications for the company of any wellbeing issues and, where appropriate, recommend measures, responses and targets

Environment

- Review and monitor environmental matters arising from the company's activities and operations, including monitoring performance against targets
- Monitor the framework of environment policies and procedures within the company (including training and competency assessment), and compliance with relevant legislation
- Consider areas of corporate process and environmental risks and their management effectiveness and the methodology for measuring performance
- Consider the strategic business and reputational implications for the company of any environmental issues and where appropriate recommend measures, responses and targets
- Oversee the company's net zero strategy and natural capital approaches

Drinking Water Quality

- Review and monitor drinking water quality matters arising from the company's activities and operations, including monitoring performance against targets
- Monitor compliance with relevant drinking water quality legislation
- Consider areas of corporate process and drinking water quality risks and their management effectiveness and the methodology for measuring performance
- Consider the strategic business and reputational implications for the company of any drinking water quality issues and where appropriate recommend measures, responses and targets

SHEDWQ
Committee Report continued

60 Affinity Water volunteers gave out

145,000

bottles of water during the freeze/thaw event in March 2023

Our 'cost-of-living' payment was made to

30,000

customers in winter 2022/23

The Committee has overseen the development of a risk programme, to promote self-governance and assure against statutory health and safety compliance, industry, and best practice standards to protect customers, the environment, our assets, and Affinity Water employees.

Our performance over the past 12 months has improved significantly with regards to injury incidents and we have met our targets set out at the beginning of 2022, which has been supported by the delivery of many of our leading metrics and we have proposed additional leading measures to continue our journey to deliver Zero Harm. Benchmarking ourselves against peers within the water industry, we have achieved a Lost Time Injury Frequency Rate ('LTIFR') of 0.04 and an Accident Frequency Rate ('AFR') of 0.11, which places us in the upper quartile compared to other UK water companies.

Health and Wellbeing

During the year, the Committee continued to focus on the wellbeing of our people.

In response to post-Covid-19 anxieties, the Wellbeing Committee, with support from the People team, have sought to create a number of tools, resources, guidance and awareness training for AWL employees and managers to ensure that we manage and support those anxieties that have arisen to provide ongoing guidance and support, while now working in a hybrid working environment.

Our Wellbeing Action Plan is being developed with quarterly topics being identified, and the Wellbeing Committee are seeking to engage further with our teams by holding our meetings on site and in our call centres. We continue to focus on developing initiatives in line with key dates on our annual wellbeing calendar and will continue to run our personal MOT's 'Know your numbers'.

The company's wellbeing framework, which provides a range of occupational health services, is built around four pillars, which are:

- Physical wellbeing;
- Mental and emotional wellbeing; and
- Social wellbeing;
- Financial wellbeing.

All four pillars sit at the heart of the Committee's activities in this area.

The cost-of-living crisis has been a key concern for the Committee and as it started to impact many in our business, a number of initiatives and support schemes were quickly introduced with support from the People team and Wellbeing Committee to assist those who were struggling financially.

These initiatives include:

- our money advice tools on the employee intranet pages;
- salary review to ensure an appropriate level of salary is offered and people are paid consistently;
- increasing the offering available on Tap4Perks to include (i) partnering with Mandalay mortgage services who can assist employees with their mortgage applications and offer free financial advice and (ii) adding 'Smart Tech' which allows employees to purchase white goods with repayments through payroll;
- offered hardship loans via payroll, for serious cases of hardship via an application process, employees could apply for a loan (affordable and with the ability to repay in full if leaving the business) to be paid back within twelve months, and
- all employees being paid at the real Living Wage from April 2023.

The company's mental health first aider network has continued to grow, and we offer support for those who have had contact with others to support their mental health as well as those who have reached out to them.

We are also ensuring that the Wellbeing Committee is aware and aligned with our EDI goals and vision by using our Tap In engagement surveys, with the addition of specific questions around health and wellbeing. We are amongst the first of Peakon's customers to use these questions which will provide feedback about our own position to act on.

Wellbeing has recently transitioned from our People directorate into the Health and Safety directorate and has become part of our overall Zero Harm strategy, objectives and initiatives.

Business Continuity 2022/23

As one of our deep-dive topics for the Committee's annual programme this year, an effective business continuity programme that supports the strategic objectives of our company and pro-actively builds the capability to continue business operations in the event of disruption as required by the Civil Contingencies Act 2004, remains paramount. The company, with oversight from the Committee, has successfully updated the Business Continuity Plans for teams and critical functions based on learnings captured from previous internal and external events. The business continuity arrangements and processes were subject to an external audit in September 2022 by the Certification Body, NQA Limited, who examined our emergency preparedness, which were found to be compliant with expectations and good practice. The company continues to maintain suitable processes covering business continuity measures and for rapid responses to events that require a high level of emergency preparedness.

The Company's Business Continuity Plans status and the work planned continues to be subject to Committee reviews for continual improvement. A change in business operations and management responsibilities was made in 2022 to allow the company to focus on large-scale interruptions to supply caused by severe storms or extreme hot weather events. The additional resource required for compliance with the revised Security Emergency Measures Direction ('SEMD') 2022 has been incorporated into the PR24 process, which will provide the expected level of resilience during an interruption-to-supply event.

Affinity Water has continued to engage with Water UK and other water companies to share experience and learning from incidents and events. We continue to work on business continuity and critical national infrastructure, which is shared with our neighbours and water industry colleagues. This included a review of the well-established 'mutual aid' process that continues in place to support the water industry companies in times of need. To date, we have called on this once to support our operations during the extreme heat period experienced in the summer of 2022, and we have responded to requests from other water companies where we could.

The critical functions of the company that require business continuity planning are, continually, subject to a business impact analysis, to ensure company resource levels and capabilities are maintained. These critical functions include some customer experience activities, delivery operations, people management and technical support tasks to add assurance that we can provide wholesome drinking water to our customers under challenging conditions.

We have maintained the processes for horizon scanning and forward looking to identify risks that could affect the operation of the company. Risk elements that affect supply chain, resource, asset, or operational resilience have been identified and scanned and plans checked for resilience. It is planned to continue this process in 2023 and undertake a deep review of business continuity resilience for key operations.

The response to the national freeze/thaw event is under continued review to identify and address opportunities where supply resilience and incident response can be improved. Subsequently, a new Programme Board has been developed to oversee the implementation of key learnings taken from the freeze/thaw in 2022/23 and the extreme heat period of summer 2022. Managing the actions centrally will ensure appropriate governance and sponsorship to drive the necessary changes.

SHEDWQ
Committee Report continued

Water Quality

Last year, the Committee challenged the Water Quality and Asset Strategy and Capital Delivery teams to review how risks pertaining to drinking water quality were captured. The teams reviewed the processes, incorporated Drinking Water Safety Planning ('DWSP') and the quality scientists into existing asset risk processes and have, subsequently, delivered improvements. The Chief Inspector of Drinking Water met with the CEO and Director of Asset Strategy and Capital Delivery and confirmed that the Inspectorate had confidence in the management of the DWSP and the company's approach to risk.

The Committee oversees the regular reviews of the company's Compliance Risk Indicator ('CRI') score. The Committee is pleased to report that the 2022 CRI score achieved was 1.092 against an internal ambition of 1.5 and a performance commitment collar of 2.0. The 2022 CRI is the company's best performance to date and includes the return to a full year of normal sampling post Covid-19. 2022 was the first year with 100% compliance of all samples taken from water treatment works and the company reported significantly improved compliance monitoring from storage assets. These successes do not arise by happenstance, but are a result of improvements in behaviours, maintenance and asset condition by all teams.

The Committee received reports on all water-quality incidents in 2022, noting that there were two significant events: one arising from a short interruption to treatment at Egham treatment works and an interruption to supplies from the freeze/thaw conditions in December 2022. The Event Risk Index performance was the best year for Affinity Water, further evidencing that risks are being managed effectively. Media attention around per and polyfluorinated substances ('PFAS') within the wider industry continue. Affinity Water is part of an industry working group on how these persistent chemicals are controlled. Schemes have been submitted to the Drinking Water Inspectorate and Ofwat for enhancements to treatment at sites to reduce risk further.

Environment

This year, the Committee oversaw an update to the Affinity Water Net Zero strategy and programme. The new strategy includes four principles, to develop a Net Zero culture, implement a carbon management hierarchy, utilise nature-based solutions and work with others to reach Net Zero. Our first two solar installations at Chertsey and Walton have been successfully generating renewable energy for a year and plans are underway to deliver more sites in the future. The Company has also commenced the transition to an electric fleet with the installation of EV chargers at some of our sites and we look forward to our receiving the first electric vans in 2023/24.

Natural capital approaches have been delivered in our WRMP, WINEP programmes and are being embedded in the PR24 business planning process. A case study catchment level natural capital account has been completed for the River Beane and work is ongoing developing our organisation level natural capital account.

In November 2022, Affinity Water launched a fourteen week publication consultation on our draft Water Resources Management Plan ('dWRMP24'). The responses provided will be considered and a Statement of Response will be published on our website in August 2023. We also submitted our PR24 WINEP business case to the Environment Agency and Ofwat in November 2022. This sets out our plan to improve the environment and meet our legislative requirements during AMP 8.

The Committee reviewed the metrics associated with Environmental Compliance. The Company has continued to progress on its environmental commitments including habitat creation, river restorations and work with land owners and farmers to improve soil health. The Save Our Streams campaign as detailed on page 6 was launched in the year with a drive on reducing water consumption and leaving more water in the environment.

Looking ahead

Over the past 12 months, we have seen more of a risk-based approach to Health and Safety across our business, assessing our current position against some of our key health and safety risks and developing plans and initiatives to reduce, mitigate or control these and make these visible at all levels of the business using PowerBI and Qlik Sense. We are also looking to implement an innovative point-of-work risk assessment tool using artificial intelligence to help raise awareness, support and enhance our team's ability to identify and control hazards at the point of work.

We are also looking to trial innovative technologies to avoid services using mini vacuum extraction tools to prevent the need to hand-dig and therefore prevent damage to services as a result. Through our working groups, we are also going to introduce a summer campaign to tackle the customary 'summer spike' in service strikes.

The Committee will continue to oversee, input and challenge the company's strategies on safety, health and wellbeing, environment, drinking water quality and business continuity arrangements.

Approval

On behalf of the SHEDWQ Committee

Chris Newsome
Chair of the SHEDWQ Committee

12 July 2023

Remuneration
Report

Trevor Didcock
Chair

Committee Members

Justin Read

Ian Tyler

Roxana Tataru

Member	Member Since	Meeting Attendance
Trevor Didcock Chair		8 8
Justin Read Committee Member		8 8
Ian Tyler Committee Member		8 8
Roxana Tataru Committee Member	01/08/22	6 6
Ann Bishop	Resigned 18/07/2022	2 2
Mark Horsley	Resigned 18/07/2022	2 2
Jara Korpanec	Resigned 31/07/2022	1 2
Angela Roshier	Resigned 15/02/2023	6 6
Marissa Dardi	15/02/2023 to 31/03/2023	2 2

The composition of the Committee met Ofwat's BLTG principles for there to be a majority of independent directors, as well as the requirements of the Code, for the financial year.

KEY
Meetings attended Possible meetings

Dear Stakeholder,

I am pleased to present the report on directors' remuneration, which sets out the remuneration paid to the directors of the company for the year ended 31 March 2023.

Our remuneration policy enables achievement of our overall vision, purpose and strategy by aligning our executive pay to stretching performance across customer, environmental, operational, people and financial measures and to the development and delivery of our business and transformation plans. We continue to set stretching targets across all our incentive schemes, ensuring that we are incentivising our executives and employees to deliver truly stretching performance for customers, stakeholders and shareholders.

This year, we have reviewed and restated our position of aligning basic salary to the market median, having undertaken a benchmarking review of salary and total package with the support of Innecto Reward Consulting.

Over the course of the year, we built on this further, making changes to our Annual Bonus and Long Term Incentive Plan for 2022/23 to ensure that the metrics are in line with the expectations set by Ofwat of a minimum of 60% of incentives being aligned to stretching customer outcomes. We have ensured that our targets, particularly in the LTIP, are focused on the long term and support the transformation of our business and the planning process for the next AMP, hence ensuring that we will have a high-quality plan that delivers for customers and stakeholders.

The challenging nature of our incentive targets and our business plan has been evidenced again this year by the fact that payouts under the incentive schemes have been less than 50% in the last two years, with only 17.5% out of a maximum of 80% (11.4% out of a maximum of 80% in 2021/22) being achieved under the financial, customer and safety elements of the annual bonus for executive directors. As our performance continues to improve, as it has done over the course of the year, we would expect the level of payout to increase accordingly. This particularly demonstrates the strong link that we have between incentives and stretching performance for customers and the environment.

Terms of reference at a glance

The Committee comprises at least three members; at least two shall be independent non-executive directors.

Only Committee members attend committee meetings; however, other individuals such as the CEO and People Director may be invited to attend from time to time, as appropriate.

The Company Secretary or their nominee attends every meeting.

Remuneration Committee meetings are scheduled to occur at least twice a year, and otherwise, as required.

The Committee Chair reports to the Board on its proceedings and recommendations after each meeting on all matters within its duties and responsibilities.

Main Responsibilities

Determining policy and setting awards

The Committee shall have responsibility for determining the policy for executive director remuneration and setting remuneration for the Chair, executive directors, and the senior executive team, including pension rights and any compensation payments in accordance with the company's instrument of appointment, Ofwat's board leadership, transparency principles, the governance principles and provisions of the Code and any other applicable rules, as appropriate. No director or senior executive shall be involved in any decisions as to their own remuneration.

Determining Awards and Discretion

The Committee shall exercise judgement when determining remuneration awards. It should be mindful of the possible monetary outcomes and of external perceptions arising from its decisions.

Benchmarking and Remuneration Consultants

The Committee shall avoid designing pay structures based solely on benchmarking to the market, or the advice of remuneration consultants, as there is a risk this could encourage an upward ratcheting effect on executive pay.

Pensions

Pension commitments for executive directors, or payments in lieu of notice, should be aligned with those available to the workforce. While it may not be practical to alter existing contractual commitments in this regard, the Committee shall ensure that future contractual arrangements heed this.

Remuneration
Report continued

Our approach to remuneration in 2022/23

Customers, regulators, and stakeholders rightly expect that the levels of remuneration received by executive directors, the Executive Management Team and other managers are linked to the standards of performance experienced by customers. These expectations were reinforced again this year by a letter from Ofwat's CEO David Black addressed to all Chairs of Remuneration Committees, and additional disclosure requirements in Regulatory Accounting Guidelines 3.14.

The annual bonus targets for 2022/23 were focused on key financial and operational targets in line with the business plan, namely regulated totex and working capital, non-regulated cash, water quality, leakage, C-MeX, D-MeX, interruptions to supply, mains repairs, properties at risk of low pressure, per capita consumption, and safety. These targets applied to executive directors, the Executive Management Team, and other managers. A subset of them also applied to the company-wide bonus scheme ensuring everyone in the business is focused on delivering in the areas which are of key importance to customers and other stakeholders. Performance in the year was challenging in a number of areas as we worked to meet these stretching targets and, as a result, only the targets for water quality and leakage were achieved this year. The Remuneration Committee determined the level of bonus awarded in relation to personal performance for executive directors taking in to account performance objectives set at the start of the year, behaviours in line with the company principles, and the individual's overall performance.

The LTIP for 2022/23, in which the executive directors and members of the Executive Management Team participate, in addition to meeting Ofwat's direction that at least 60% of measures should be directly related to customer outcomes, also ensures that we are incentivising longer-term performance in line with our 'Journey to 25' ambitions: to deliver the top eight performance commitments this AMP; develop a high-quality PR24 plan; and have delivered our transformation to enter the next AMP ready to deliver performance in that five-year period. See pages 190 and 191 for details of the LTIP.

Implementation of the directors' remuneration policy during 2022/23

Our Remuneration Policy strives to ensure that the management team is rewarded appropriately for delivering against Affinity Water's strategic priorities and delivers significant benefits for all stakeholders. We continuously review our Remuneration Policy and make changes to the remuneration structure and its implementation where necessary in order to respond to regulatory and shareholder feedback; improve alignment of executive and stakeholder interests; focus on our pay for performance philosophy; and ensure compliance with market best practice.

A benchmark review of pay was completed by Innecto Reward Consulting (and presented to the Committee in February 2023) per the provisions of the remuneration policy for executive directors and members of the Executive Management Team. Innecto Reward Consulting was appointed by the Remuneration Committee following engagement with four service providers, and is unconnected to the company. The review considered base pay and incentives and the alignment of executive directors' pension contributions with the general workforce. The work performed provided an update to a review undertaken in 2021/22 and fees amounted to £34,088 billed in the prior year and based on time and expenses. No other services were provided by Innecto Reward Consulting to the company.

The executive directors and all new members of the Executive Management Team now have their pension contributions capped at 12% in line with the wider workforce. The Committee is satisfied that the total remuneration received by executive directors in 2022/23 appropriately reflects the company's performance over the year, is in line with policy, and is consistent with Ofwat's expectations for performance-related executive pay.

Executive director changes

Stuart Ledger, interim CEO, left the Affinity Water Limited Board on 16 December 2022, and his successor, Keith Haslett, joined the Board on 3 January 2023. Stuart Ledger had been appointed Interim CEO on 8 September 2021 on terms and conditions consistent with the remuneration policy. He retained his terms and conditions under his former role as Chief Financial Officer and received an acting up allowance and additional bonus opportunity to reflect the increased responsibilities of the CEO role during this interim period.

Agenda for 2023/24

For 2022/23, we made some adjustments to our LTIP and annual bonus structures to ensure that they have increased focus on customer and environment-related metrics in line with the guidance from Ofwat that there should be a minimum of 60% based on stretching customer and environment outcomes and that malus and clawback provisions are clearly articulated. We anticipate further changes to the structure of our LTIP as we move through the remainder of the AMP to ensure that we can continue to incentivise stretching performance for customers.

Trevor Didcock

Chair of the Remuneration Committee

12 July 2023

Remuneration Report continued

Our remuneration philosophy

1

Benchmark salaries against the market median

- Provide market-based competitive packages to attract and retain high-performing individuals
- Demonstrate to stakeholders that employees provide value for money

2

High proportion of variable pay with stretching targets

- Drive out performance and stakeholder value
- Ensure all performance targets are stretching

3

Provide valued benefits

- Provide good quality pensions aligned across the workforce
- Ensure flexible "ways of working" and wellbeing support

4

Ensure alignment with strategy across the business

- Align performance incentives throughout the business
- Align to long-term customer, environmental and stakeholder interests

"Our Remuneration Policy strives to ensure that the company's leadership is rewarded appropriately for delivering against Affinity Water's strategic priorities and that significant benefits are delivered for all stakeholders."

Trevor Didcock
Chair of the Remuneration Committee

Alignment with Code Principles

Clarity
Arrangements are transparent, reflect stakeholder alignment and Affinity Water's strategic priorities, thereby, effectively, engaging with the wider workforce and stakeholders.

Simplicity
The policy is simple and clear, comprised of fixed pay, such as salary and benefits, pension schemes that are common with those offered to most of the workforce, plus variable pay set against customer, environmental, financial and operational targets to incentivise short and long-term performance and alignment with stakeholders.

Predictability
The totals of fixed pay, variable pay (target and maximum) illustrated in the scenarios of total remuneration in our policy provide an estimate of the potential future remuneration of the executive directors.

Risk
The breadth of measures with the majority driven by customer and operational performance, plus malus and clawback provisions, which apply to annual bonus and LTIP awards, encourages the right behaviours, which lead to long-term stakeholder alignment and sustained value creation. The Committee has discretion to adjust the formulaic bonus outcomes both upwards and downwards.

Proportionality
There is a clear link between pay for performance and business strategy, with stretching customer, environmental, operational and financial targets applied to annual bonus pay-outs and LTIP vesting.

Alignment to culture
Targets apply to the annual bonus and LTIP awards across the wider workforce in order to drive successful business performance. These targets are reviewed on an annual basis. Malus and clawback provisions apply to annual bonus and LTIP and this, together with deferred annual bonus and holding periods for the executive directors (and any other relevant senior employees), drive the right behaviours expected within Affinity Water. The remuneration arrangements of the wider workforce reinforce employee engagement.

Remuneration
Report continued

Remuneration at a glance

Aligning our approach to Customer and Environmental Outcomes and Business Strategy

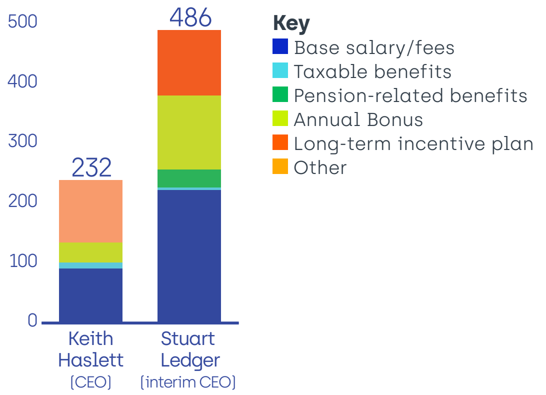
Element of Remuneration	Alignment to Strategy	Alignment to our stakeholders' interests
Annual Bonus Remuneration		
Totex and working capital within the regulated business	• Ensures we can invest in our assets and provide a great service that customers value	Customers, Communities, Shareholders
Cash generated from operations from the non-regulated business	• Ensures we can provide sufficient returns to investors to ensure we are financially resilient	Customers, Communities, Shareholders
Leakage (M/ld)	• Ensures customers have enough water, whilst leaving more water in the environment	Customers, Communities, Regulators
Water quality: CRI score	• Ensures customers have high-quality water they can trust	Customers, Communities, Regulators
Interruptions to Supply (Minutes interrupted above 3hrs)	• Ensures we can minimise disruption for customers and the community	Customers, Communities, Regulators
Customer Consumption (PCC litres per day)	• Ensures we can make sure customers have enough water, whilst leaving more water in the environment	Customers, Communities, Regulators
Properties at risk of low pressure: per 10,000 properties	• Ensures we can minimise disruption for customers and the community	Customers, Communities, Regulators
Mains repairs (per 1,000km)	• Ensures we can minimise disruption for customers and the community	Customers, Communities, Regulators
C-MeX: score	• Ensures we focus on providing a great service that customers value	Customers, Shareholders, Regulators
D-MeX: position in the league table	• Ensures we focus on providing a great service that developers value	Customers, Shareholders, Regulators
Safety (accident frequency rate)	• Ensures our people can work to deliver our customer outcomes effectively and safely	Employees, Regulators
Long-term Incentive Plan ('LTIP')		
Financial	• Ensures we achieve long-term stakeholder value based on company performance	Customers, Employees, Shareholders, Communities, Regulators
Customer and Responsible Business	• Ensures we provide a great service that customers value	Customers, Shareholders, Regulators
Long-term Plan	• Ensures we focus on delivering long-term plan outcomes and AMP8 readiness	Customers, Shareholders, Regulators
Employee and Safety	• Ensures our employees are engaged to support our culture and fulfilment of our purpose • Ensures our people can work to deliver our customer outcomes effectively and safely	Employees Regulators

Single total figure of remuneration for executive directors for year ended 31 March 2023

Amounts relating to Stuart Ledger reflect his position as interim CEO until 16 December 2022. Keith Haslett was appointed permanent CEO on 3 January 2023.

The LTIP amount disclosed for Stuart Ledger relates to the 2020/21 and 2021/22 LTIPs in respect of payments already accrued for his period in office.

Other remuneration for Keith Haslett relates to compensation for the forfeit of a variable remuneration arrangement with his previous employer and a relocation allowance.



Aligning pay with performance

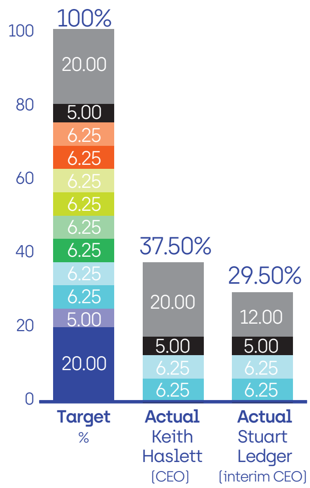
Key performance indicator (for the bonus and LTIP measures included below)

	Result
Totex and working capital within the regulated business	£368m
Cash generated from operations from the non-regulated business	£11.8m
Leakage	15.9%
Water Quality	1.092
Interruptions to supply	12 minutes 53 seconds
Customer Consumption	27.2 Ml/d
Properties at risk of low pressure	150.934
Mains repairs	169.6
C-MeX	74.59
D-MeX	10th
Accident frequency rate	0.11
Environmental innovation (river restorations)	23

Key
- Below threshold target
- At or above stretch target
- Between threshold and stretch target

Annual bonus

The charts below show the results of the performance against targets for the annual bonus Further information about the annual bonus is shown on page 194.



Key
- Regulated totex and working capital
- Cash generated from the non-regulated business
- Leakage
- Water Quality
- Interruptions to supply
- Customer Consumption
- Properties at risk of low pressure
- Mains repairs
- C-MeX
- D-MeX
- Accident frequency rate
- Personal Performance

2022/23 Annual bonus outcome

Actual amounts are calculated on a base salary of 100% for Keith Haslett and 75% for Stuart Ledger.

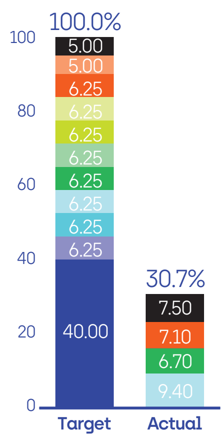
The bonus paid to Stuart Ledger was made on a pro-rata basis for his period in office.

Refer to page 201 for an additional discretionary bonus of £89,645 paid to the interim CEO relating to the achievement of specific personal objectives in his role as interim CEO.

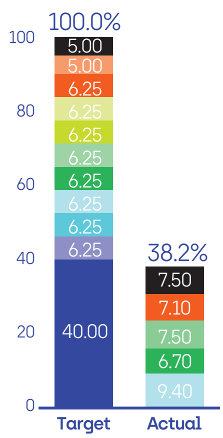
Long-term incentive plan ('LTIP') outcomes

The charts below show the results of the performance against targets for LTIP. Further information about the LTIP on page 193.

2022/23 outturn for the 2020/21 LTIP scheme (30.7%)



2022/23 outturn for the 2021/22 LTIP scheme (38.2%)



Key
- Cash generated from operations
- C-MeX
- D-MeX
- Water Quality
- Vulnerable Customers
- Leakage
- Customer Consumption
- Mains repairs
- Environmental Innovation
- Culture
- Safety

LTIP as its defined above outcome for 2022/23

Target and Actual amounts are calculated on an initial award of base salary of 100% for the CEO and 83.33% for the CFO.

The LTIP paid to the interim CEO (Stuart Ledger) was made on a pro-rata basis for his period in office regarding 2022/23 outcomes.

The LTIP award for Stuart Ledger has been calculated under the CFO LTIP criteria.

Remuneration
Report continued

Remuneration policy report

Introduction

We have prepared this report in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (the 'Regulations'), which are applicable to companies whose equity shares are listed. The Regulations are not directly applicable to the company but are reported under to provide transparency. The report also meets the relevant requirements of the Listing Rules of the FCA and describes how we have applied the principles relating to directors' remuneration in the Code. A resolution to approve the report will be proposed at the company AGM.

At our 2022 AGM, the single available vote was cast in favour of the resolution to approve the remuneration policy report, which is subject to a binding vote every year. At the same time, the remuneration implementation report, which is subject to an annual advisory vote, was also approved.

The Regulations require the external Auditor to report to the members of a quoted company on certain parts of the directors' remuneration report and to state whether, in their opinion, those parts of the report have been properly prepared in accordance with the Accounting Regulations of the Act. We have asked PwC to report on this basis notwithstanding the fact that the Regulations do not apply to our business. The auditable part of the directors' remuneration report has been identified as 'audited'. Other information given is not required to be audited.

Remuneration Committee

The Remuneration Committee is responsible for determining the remuneration policy and the terms and conditions of employment of the directors and senior executives. The Committee met on eight occasions during the year, and was chaired by Trevor Didcock, an INED, who took over the chairing of the Committee with effect from 1 April 2022.

Membership of the Committee, during the year, is shown in the table below:

Director	Independence
Trevor Didcock (Chair from 1 April 2022)	Independent
Ian Tyler	Independent
Mark Horsley	Independent (resigned 18 July 2022)
Ann Bishop	Independent (resigned 18 July 2022)
Justin Read	Independent (appointed 24 May 2022)
Roxana Tataru	Shareholder appointed (appointed 1 August 2022)
Jara Korpanec	Shareholder appointed (resigned 31 July 2022)
Angela Roshier	Shareholder appointed (resigned 15 February 2023)
Marissa Dardi	Shareholder (appointed 15 February 2023, resigned 12 May 2023)

Stuart Ledger, former Interim CEO and, subsequently, Keith Haslett, CEO, Mike Thomas, previous Interim CFO, and, subsequently, Michael Blake, Interim CFO and the People Director, attended the meetings when requested by the Committee. Members of the Committee and attendees are excluded from discussions regarding their own remuneration and conditions of employment.

The Committee meets to review the performance of the business as well as the performance of executive directors and members of the Executive Management Team against planned targets.

The Committee also meets to consider and apply an appropriate remuneration framework to attract and retain high calibre leaders. Its focus is on ensuring that the company can attract, motivate, and reward executives who can lead the business to achieve short and long-term targets, ensuring those targets are closely linked to standards of performance that are of benefit to customers, the environment and other stakeholders.

The remuneration framework is structured and appropriately balanced between fixed elements and incentive pay, to ensure that executives consistently deliver a high standard of performance, whilst minimising risk to the business in the longer term.

The Committee ensures that the performance measures are objective, easy to understand and motivational to the participants. The Committee also reviews and approves the Executive Management Team bonus scheme and reviews the bonus schemes relating to other managers and the wider company.

Remuneration policy for non-executive directors

Ian Tyler receives a fixed annual fee for his services as Chair of the company, reflecting the time commitment and responsibilities of the role. In 2022/23, an additional allowance of £39,230 was paid relating to compensation for taking on the Executive Chair role for a period of five weeks and providing CEO transitional activities over a further period of seven weeks. Due to the short length of time over which these services were undertaken, the independence of the Chair was not deemed to have been compromised.

The other non-executive directors in office at 31 March 2023 fell into two groups as shown in the table below.

Group A	Group B
Trevor Didcock	Marissa Dardi
Chris Newsome	Mike Osborne
Justin Read	Roxana Tataru

Our Board considers the directors in Group A to be independent. Each has a written agreement relating to their services. They receive a fee for their services, which is not related to company performance. They are not in receipt of share options or an LTIP. The fees for these directors are set considering the market rate for non-executive directors, with particular reference to the water industry in the United Kingdom.

The fees were reviewed during the course of the year and were increased from October 2022 to a base annual fee of £52,000, with an additional fee paid for chairing a committee (£8,000 for the Audit, Risk and Assurance Committee, £7,000 for the Remuneration Committee, and £7,000 for the Safety, Health, Environment and Drinking Water Quality Committee), as well as further fees of £5,000 and £4,000 paid to the Senior Independent Director and Employee Engagement Director respectively.

There are no specific termination payments applicable to these appointments. The appointment of the directors may be terminated by either the director or the company giving to the other three months' written notice.

The directors in Group B are appointed by our shareholders. They do not receive any fees or other form of remuneration from the company in respect of their services. At each AGM, all directors must seek re-election.

Remuneration policy for executive directors

The remuneration policy is designed to attract, retain, and motivate executive directors of the calibre required to deliver the business strategy. Individual remuneration packages are structured to align rewards with the performance of the company for customers, environmental outcomes and shareholders.

For 2023/24, the proposed changes to incentives ensure that we continue to meet Ofwat's requirement that at least 60% of measures are aligned to customer and environmental outcomes.

The remuneration packages for all new executive directors are set in line with the company's approved policy, to ensure we meet the objectives set in the Ofwat publication "Putting the sector back in balance" and are consistent with our AMP7 plan. The Committee considers, in arriving at a total package, the skills and experience of the candidate, the market rate for a candidate of that level of experience, as well as the importance of securing high calibre candidates.

Annual bonuses and long-term incentives are awarded in line with the maximum limits outlined in the remuneration policy report. Participation in the plans is normally pro-rated during the year of joining.

The Committee may make additional cash awards if deferred pay is forfeited by an executive director on leaving a previous employer. Such awards would consider the nature of awards forfeited (i.e. cash or shares), time horizons, attributed expected value and performance conditions. Other payments may be made in relation to relocation expenses and other incidental expenses as appropriate.

Shareholder views on executive directors' remuneration for 2022/23 were considered through the presence of two directors appointed by our shareholders on the Committee. As with other Committee members, shareholder directors must have regard to the views of other stakeholders, the risk appetite of the company and alignment to the company's long-term strategic goals when fulfilling their duties.

The Committee did not, formally, consult with employees when drawing up the directors' remuneration policy, but considered the average base salary of employees, which may be subject to inflationary increases, in setting base salaries for the executive directors.

Remuneration Report continued

This ensured that pay for both directors and employees is at the median of the market it operates in and that pay reflects the competence and experience of the individual at the time of appointment. The Committee reviewed the relevant sections of the Workforce Pay Policy relating to salary at appointment, annual pay reviews, company bonuses and variable pay when drawing up the directors' remuneration policy, to ensure it was being sensitive to pay and employment conditions elsewhere in the company when setting directors' remuneration. All of our workforce are entitled to be trade union members and our CFO is a member of the Joint Negotiation and Consultative Committee ('JNCC'), which, together with employee trade union representatives and other company-nominated representatives, meets quarterly to consult on workforce practices and policies and negotiate workforce pay.

Annual bonus plan and LTIP scheme

Structure and targets

The annual bonus plan is a scheme that measures performance against annual targets and makes payments in the first few months of the following financial year. The LTIP scheme is a longer-term scheme, with performance measured over a three-year period and payments made in each of the following three financial years.

The remuneration of executive directors reflects the performance of the business through the annual bonus plan and LTIP schemes. The Remuneration Committee established measures of financial and non-financial performance for the year, which are listed in the table on the following page. The achievement of performance against these targets provided the basis for determining the value of annual bonus and LTIP awards.

We continued to link the remuneration of executive directors to the standards of performance expected by customers by aligning the operational targets where possible to our stretching AMP7 commitments. C-MeX and D-MeX are not aligned to AMP7 targets as these do not have a target in the final determination; however, the internal target is to improve performance for customers over AMP7. The safety target is to maintain the stretching performance seen in prior years.

The LTIP and annual bonus metrics in the table on the following pages were selected as we consider them key to meeting our company objectives for the year.

Our company objectives are set to ensure we can meet our four customer outcomes below:

- 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

The Remuneration Committee also determined the level of bonus awarded in relation to personal performance, assessing personal objectives set at the start of the year, application of the company principles and overall performance of executive directors.

A new executive remuneration policy was approved in November 2022 and published on our website at affinitywater.co.uk/corporate/about/governance-assurance. The policy continues to align executive pay to the company's stretching performance for customers and the environment. It is intended to incentivise stretching performance for customers through delivering high-quality customer and operational performance while ensuring the cost of water remains affordable for customers by also incentivising financial efficiencies.

The key changes made in 2022/23 relate to amendments to the structure and metrics of both the long-term and short-term incentive plans to ensure that they are in line with the expectations set by Ofwat of a minimum of 60% of incentives being aligned to stretching customer outcomes. We have ensured that our targets, particularly in the Long Term Incentive Plan ('LTIP'), are focused on the long term, taking into account the priorities for the 2025–30 period and the broader performance agenda, particularly around Environmental, Social and Governance measures and support the transformation of our business and the planning process for the next Asset Management Plan period ('AMP') to ensure that we have a high-quality plan that delivers for customers and stakeholders.

Given the tough challenges the company faces in AMP7, the executive directors did not receive a salary increase for the years 2021/22 and 2022/23.

Purpose and link to strategy	Policy and approach	Maximum potential value (as % of base pay)	Performance metrics	Changes for 2023/24
LTIP				
To incentivise executives to achieve long-term shareholder value, whilst achieving high levels of customer and environmental performance. Both award and payment are discretionary	Base awards are granted as a percentage of salary and are paid out in cash at the end of a three-year performance period, with 33% of the amount earned paid following year three, 33% paid following year four and 33% paid following year five, subject to the achievement of performance conditions. The scheme is based on three-year targets that are aligned to the strategic delivery for AMP7 and preparation for AMP8. Base awards include clawback and malus provisions, detailed as follows: circumstances of malus include wilful or gross misconduct, acts of personal dishonesty or fraud, conviction of certain criminal offences, conduct which results in significant losses to the company, material failure of related management or business units, material misstatement in the audited financial statements, and reputational damage. The awards do not automatically vest on change of control of the business.	Up to 100% of base salary for the CEO and CFO.	For 2022/23 in order to meet the Ofwat guidance that 60% of incentives should be based on achievement of customer measures, the scheme metrics were set as follows: **Financial:** • Regulated totex (15%) • Non-regulated EBITDA (5%) **Customer and responsible business:** • Our Top 8 Performance Commitments (40%) • Net Zero, abstraction reduction, river restorations (10%) **People:** Employee engagement (10%) **Long-term plan:** • AMP8 plan quality (10%) • AMP8 readiness (10%) There is also an underpin based on safety performance. Targets have been set by reference to end of AMP performance rather than on an annual basis. These arrangements were formally agreed during the Remuneration Committee meeting in November 2022.	For 2023/24 the following changes will be made to the policy, maintaining the Ofwat guidance that 60% of incentives should be based on achievement of customer measures: **Financial:** • Cumulative (Years 4 and 5) Base Costs (10%) • Cumulative (Years 4 and 5) Enhancement Expenditure (10%) **Customer & Environment:** • Net ODI position (60%) **People:** • Employee engagement (5%) **Long-term plan:** • AMP8 plan quality (5%) • AMP8 readiness (5%) • AMP7 delivery (5%) The underpin based on safety performance has been removed, but performance in this area will form part of the Committee's discretion. Targets have been set by reference to end of AMP performance rather than on an annual basis. These arrangements were formally agreed during the Remuneration Committee meeting in May 2023.
Base salary				
To provide competitive fixed remuneration that will attract and retain key employees and reflect their experience and position in the company	To target around market median, dependent on experience in the role.	N/A	N/A	No changes have been made to the policy for 2023/24 up to the date of approval of this Annual Report and Financial Statements.

Remuneration Report continued

Purpose and link to strategy	Policy and approach	Maximum potential value (as % of base pay)	Performance metrics	Changes for 2023/24
Other taxable benefits				
To provide market competitive benefits	Private health care insurance cover and life assurance are provided, together with a fully expensed company car (or car allowance).	N/A	N/A	No changes have been made to the policy for 2023/24 up to the date of approval of this Annual Report and Financial Statements.
Annual bonus plan				
The annual bonus plan is designed to provide a direct link between executive and company performance and the level of bonus awarded, although award and payment remain discretionary	Maximum bonus potential is set at a market competitive level. The bonus is based on budgeted non-financial and financial targets that are aligned to the company's AMP7 commitments, plus individual targets.	Up to 100% of base salary for the CEO and up to 75% of base salary for the CFO. Where discretion is applied to executives relating to the performance of measures, the same level of discretion must be applied to all employees and managers.	For 2022/23, in order to meet the Ofwat guidance that 60% of incentives should be based on achievement of customer measures, the scheme metrics have been set as follows: • Regulated totex and working capital (20%) • Non-regulated cash (5%) • Our Top 8 Performance Commitments (6.25% each): 1. C-MeX 2. D-MeX 3. Low pressure 4. Mains repairs 5. Interruptions to supply 6. Water quality 7. Leakage 8. Per capita consumption • Safety (5%) Personal performance against objectives (20%). These arrangements were formally agreed during the Remuneration Committee meeting in November 2022.	For 2023/24 the following changes will be made to the policy, maintaining the Ofwat guidance that 60% of incentives should be based on achievement of customer measures: • Financial: Base Costs (6.67%), Enhancement Expenditure (6.67%), and Cash Generation (6.67%) • Customer & Environment: (5.00% each): 1. C-MeX 2. D-MeX 3. Leakage 4. Customer contacts for water quality 5. Compliance Risk Index 6. Per capita consumption 7. Interruptions to supply 8. Mains repairs 9. Unplanned outage 10. Low pressure 11. Net zero 12. Enhancement Action Plan • Safety (5%) Personal performance against objectives (15%). These arrangements were formally agreed during the Remuneration Committee meeting in May 2023.
Pension-related benefits				
To provide competitive post-retirement benefits	Executives, including the CEO and CFO, are aligned to contributions made by the general employee population, with the company doubling contributions made by the executive up to a maximum company contribution of 12%.	12% of executive salary. Where executive directors are not members of the defined contribution scheme, the directors received a taxable allowance in lieu. This only applied to the interim CEO who received an allowance of 12% of his combined salary and acting up allowance until December 2022.	N/A	No changes have been made to the policy for 2023/24 up to the date of approval of the Annual Report and Financial Statements. It has been agreed that the appointment into the CFO role will be at a maximum of 12% employer contribution or equivalent cash allowance.

Purpose and link to strategy	Policy and approach	Maximum potential value (as % of base pay)	Performance metrics	Changes for 2023/24
Compensation for the forfeit of variable remuneration from previous employer				
To provide compensation for forfeited remuneration from previous employers	The Committee may make additional cash awards if deferred pay is forfeited by an executive director on leaving a previous employer. Such awards would take into account the nature of awards forfeited (i.e. cash or shares), time horizons, attributed expected value and performance conditions.	N/A	N/A	No changes have been made to the policy for 2023/24 up to the date of approval of this Annual Report and Financial Statements.

Executive directors' service contracts

The executive directors, currently serving, each have service contracts, neither of which are fixed term, with notice periods as follows:

CEO Keith Haslett	CFO Martin Roughead
From the executive to the company – 12 months	From the executive to the company – 6 months
From the company to the executive – 12 months	From the company to the executive – 6 months

Generally, in the event of loss of office, the executive directors are subject to the terms and conditions as set out in their respective service contracts and employment letters with the company. These service contracts do not set out details of how the circumstances of the director's departure and performance during a period of office might be considered when exercising discretion in relation to loss of office payments. They also do not contain provisions implying an obligation on the company in the event of loss of office.

Base awards under the LTIP include provisions that enable the company to recover sums paid or withhold the payment of any sum in a circumstance, or circumstances, of malus before the vesting of the award or within a clawback period of three years commencing on the payment date of the award.

Circumstances of malus include wilful or gross misconduct, acts of personal dishonesty or fraud, conviction of certain criminal offences, conduct which results in significant losses to the company, material failure of related management or business units, material misstatement in the audited financial statements, and reputational damage. If an executive director ceases to hold office prior to the vesting date, other than in the event of death, ill-health, injury, or disability, as established to the satisfaction of the Board; the company ceasing to be part of the Group or transferred to another group company; or another reason at the Board's discretion, except where the director is summarily dismissed, their unvested award will lapse.

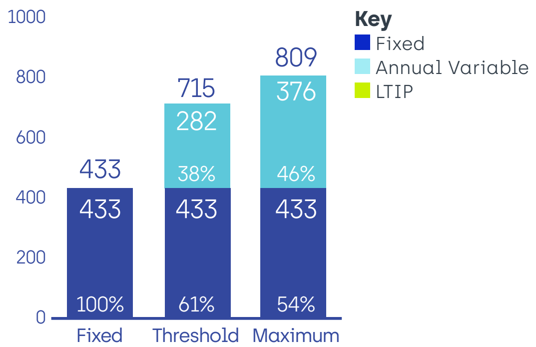
There are no arrangements in place for the remuneration of directors by any other company in the Group.

In developing the scenarios, the following assumptions have been made:

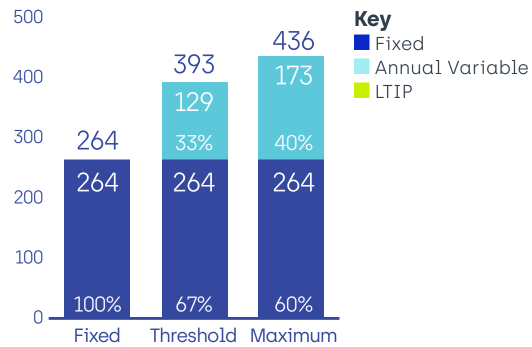
Pay-outs under different scenarios

The following charts show the potential remuneration for the 2023/24 financial year under the proposed contractual arrangements for both the CEO, Keith Haslett, and CFO, Martin Roughead, under different scenarios.

Chief Executive Officer £000s



Chief Financial Officer £000s



Remuneration
Report continued

Fixed	Consists of base salary, taxable benefits and pension-related benefits including cash allowances in lieu of being a member of the company's retirement benefit schemes
Threshold	Based on what an executive director would receive if the threshold level of performance relating to the company bonus was achieved: annual variable pay out at 75% of maximum (assuming the financial, customer and environment, safety and health, and personal targets are met), in addition to awards from LTIP schemes as they vest and become payable in the look-out period covered
Maximum	Based on what an executive director would receive if the stretch level of performance relating to the company bonus was achieved: annual variable pay out at 100% of maximum (assuming the financial, customer and environment, safety and health, and personal targets are met), in addition to awards from LTIP schemes as they vest and become payable in the look-out period covered

Management

We operate a discretionary performance bonus scheme for senior managers (the Executive Management Team) and other selected managers who meet the criteria for inclusion in the scheme. At the date of approval of this Annual Report and Financial Statements, senior managers continued to be entitled to participate in a performance-related discretionary bonus scheme of up to 40% of their salary. This is payable after the end of the financial year. Bonus awards are dependent on the success of the company.

For the Executive Management Team, they are determined by reference to three components:

- 25% of the total bonus is dependent on the achievement of financial performance targets, which are identical to the executive directors' annual bonus scheme
- 55% of the total bonus is dependent on the achievement of operational, customer performance and safety targets, which are identical to the executive directors' annual bonus scheme
- 20% of the total bonus is dependent on the achievement of personal objectives

For other selected managers who meet the criteria for inclusion in the scheme, bonus awards, the majority of which are up to a maximum of 10% of their salary, are also determined by reference to three components:

- 25% of the total bonus is dependent on the achievement of financial performance targets
- 55% of the total bonus is dependent on the achievement of customer service and stakeholder commitments
- 20% of the total bonus is dependent on the achievement of personal objectives

The scheme is designed to provide a direct link between senior management and company performance and both bonus award and payment remain discretionary.

Company culture

Over the past year, we have taken some important steps to progress and embed EDI in the Company. In August 2022, we appointed a Head of Culture and EDI to ensure we had the internal expertise to develop and drive an EDI strategy. The creation of this senior role was one of the recommendations made by Inclusive Employers in a gender pay gap audit, which they completed for us in early 2022.The Inclusive Employers' audit, together with a further review of other data and insights and consultation with our women's network, has helped us identify priorities for action on gender equality in the immediate and longer term.

We have increased the fully paid period for maternity and adoption leave from three to six months, up to three months' full pay for shared parental leave to improve flexibility and gender equality in our leave policies and introduced a new carers policy, which provides paid leave of a year to those with significant caring responsibilities. We have also launched a new menopause support policy and fertility leave policy for those going through fertility treatment. As part of the updating of our recruitment process, we have introduced name-blind shortlisting, screened the language of job ads for gender bias, and all hiring managers have completed compulsory EDI training.

We have continued to raise awareness of EDI by taking part in Race Equality Week for the first time, hosting a Disability History Month webinar to improve disability awareness and hosting a series of informal virtual EDI tea breaks with employees to listen to their experiences to feed into our EDI strategy that we will be developing and launching in the coming year.

Our people strategy aims to build employee engagement and develop the culture and our priorities for the coming year. This includes implementing our new job family and career framework to enable our people to understand how they can develop their careers within the business which will provide more structure and transparency to pay and progression. We are continuing to use our employee engagement tool, Peakon, to help us better understand and act on a range of areas that contribute to the levels of engagement within the business. A particular area of focus is to build a more diverse and inclusive workforce and support the wellbeing of all of our employees, building on the significant amount of work that has continued to take place.

We are looking to continue to invest in our leaders through development interventions, which build leadership capability in line with our principles and behaviours.

A measure of the company's engagement is included in the long-term incentive plan, with targets set to incentivise the development of employee engagement that is increasingly customer focused, inclusive and high performing. Making sure that we have a culture, which is motivating for employees, and which supports the achievement of business priorities is key to enabling the business to be successful and achieve its objectives for the benefit of customers, the environment and other stakeholders.

The key elements of focus for the business in developing the desired culture include having a clear ambition for the business, being clear on what success looks like, identifying the role that each individual plays in achieving that success and articulating and embedding the behaviours that enable us to be successful.

Employee engagement on remuneration

Employee Engagement

All employees, except the Executive Management Team, are covered by collective bargaining arrangements with our recognised trade unions. As a result, the company works closely with the trade unions on all pay-related items for the collective bargaining group and has, over the last year, completed a number of policy reviews and successful pay negotiations, which resulted in a 7.5% increase in basic salary for all employees except the Executive Management Team with effect from 1 April 2023.

Three employee engagement questions:

How are employees recognised for living the principles?

Employees told us that they didn't always feel recognised for going above and beyond so we introduced a recognition pot for each Directorate from which Heads of Department can recognise employees instantly with a voucher to be used via Tap4Perks (our Reward platform).

How do we make sure the views of our field teams are heard and acted on?

The employee forum within Customer Delivery has been replicated across Asset and Customer Experience which has resulted in a change in the induction experience for our field-based employees and our standby process being modified to take into account feedback from the teams.

Improving our recruitment experience.

The new website and talent acquisition frameworks have led to a reduction in recruitment costs to an average of £188 per hire from £1,400 last year. Our NPS score from candidates in the year is +56, a key measure of customer satisfaction with the recruitment experience. The scale ranges from –100 to +100, increasing more recently to +85, showing significant improvement in the candidate experience and we will be able to measure this and compare trends going forward.

Remuneration Implementation Report

Company-wide bonus scheme

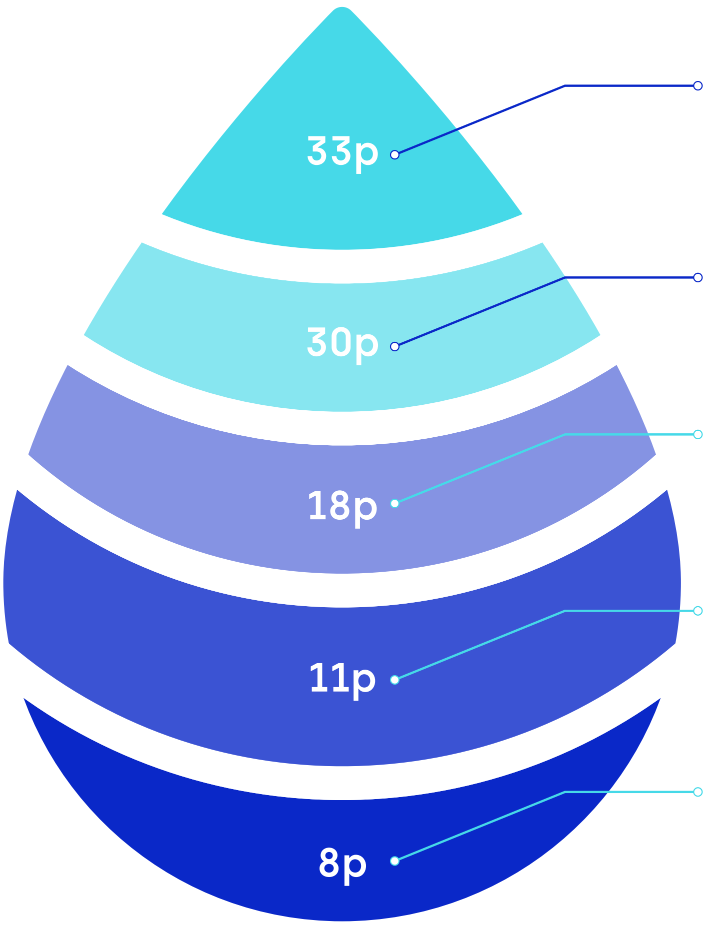
The Committee reviews and approves a discretionary company-wide performance bonus scheme for all employees, who are not, otherwise, entitled to the discretionary Executive Management Team or other selected manager performance bonus scheme. The discretionary company-wide bonus scheme comprises operational and customer performance measures and a financial performance measure.

At the date of approval of this Annual Report and Financial Statements, the bonus targets for operational, customer and financial performance continued to be aligned with those in the schemes for executive directors, the Executive Management Team and other selected managers. This ensures there is a common focus across the business, particularly with respect to service to customers.

Relative importance of spend on pay

The amount spent on our people in 2022/23 has increased compared to the prior year, reflecting the 4.6% increase in basic salary for all employees except the Executive Management Team which effect from 1 January 2022, with the number of employees as at 31 March 2023 being broadly in line with prior year headcount.

Our people costs are still our third-highest expenditure type, after our assets and our suppliers for operating services, remaining consistent at 18p per pound in each customer bill, as shown below[1].



Our assets: 33p (2022: 36p)
Investment in our assets

Our suppliers for operating services: 30p (2022: 28p)
Operational cost of suppliers' services

Our people: 18p (2022: 18p)
Wages, salaries and pensions

Our bondholders: 11p (2022: 11p)
Interest paid on debt financing

Local and central government: 8p (2022: 7p)
Corporation tax, business rates, abstraction charges, employer's national insurance, Climate Change Levy and streetworks permits

Our shareholders: 0p (2022: 0p)
Dividends from our regulated business and interest on shareholder debt

1 Figures are based on our regulatory financial statements for the year ended 31 March 2023 and have been rounded

Sections that are audited and unaudited are defined in the relevant headings in the implementation report.

Directors' remuneration 2022/23 (audited)

The following table shows the directors' remuneration in respect of 2022/23.

	Base salary/ fees[1]		Taxable benefits[2]		Annual bonus		LTIP[3]		Pension-related benefits[4]		Other[5]		Total fixed remuneration		Total variable remuneration		Total	
	£000 22/23	£000 21/22	**£000 22/23**	£000 21/22	**£000 22/23**	£000 21/22	**£000 22/23**	£000 21/22	**£000 22/23**	£000 21/22	**£000 22/23**	£000 21/22	**£000 22/23**	£000 21/22	**£000 22/23**	£000 21/22	**£000 22/23**	£000 21/22
Non-executive																		
Current																		
Trevor Didcock	**60**	51	**–**	–	**–**	–	**–**	–	**–**	–		–	**60**	51	**–**	–	**60**	51
Chris Newsome	**56**	49	**–**	–	**–**	–	**–**	–	**–**	–		–	**56**	49	**–**	–	**56**	49
Justin Read	**55**	50	**–**	–	**–**	–	**–**	–	**–**	–		–	**55**	50	**–**	–	**55**	50
Former																		
Ann Bishop	**26**	44	**–**	–	**–**	–	**–**	–	**–**	–		–	**26**	44	**–**	–	**26**	44
Susan Hooper	**–**	49	**–**	–	**–**	–	**–**	–	**–**	–		–	**–**	49	**–**	–	**–**	49
Mark Horsley	**26**	44	**–**	–	**–**	–	**–**	–	**–**	–		–	**26**	44	**–**	–	**26**	44
Company Chair																		
Current																		
Ian Tyler	**234**	195	**–**	–	**–**	–	**–**	–	**–**	–		–	**234**	195	**–**	–	**234**	195
Executive																		
Current																		
Keith Haslett	**91**	–	**3**	–	**34**	–	**–**	–	**–**	–	**104**	–	**94**	–	**138**	–	**232**	–
Martin Roughead	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**48**	–	**–**	–	**48**	–	**48**	–
Former																		
Stuart Ledger	**222**	263	**1**	4	**123**	114	**110**	120	**30**	42	**–**	–	**253**	309	**233**	234	**486**	543
Pauline Walsh	**–**	710	**–**	4	**–**	76	**–**	362	**–**	63	**–**	80	**–**	777	**–**	518	**–**	1,295
	770	1,455	**4**	8	**157**	190	**110**	482	**30**	105	**152**	80	**804**	1,568	**419**	752	**1,223**	2,320

1 Fees in 2022/23 for Ian Tyler include an amount of £39,230 for an additional allowance as compensation for taking on the Executive Chair role for a period of five weeks and providing CEO transitional activities over a further period of seven weeks. Base salary in 2021/22 for Pauline Walsh includes an amount of £466,250 for payment in lieu of notice

2 Taxable benefits comprise company car allowance, healthcare and travel insurance

3 The LTIP amount disclosed for Stuart Ledger in 2022/23 relates to the 2020/21 and 2021/22 LTIPs in respect of payments already accrued for his period in office. The LTIP amount disclosed for Stuart Ledger in 2021/22 relates to the 2019/20 LTIP, which fully vested in the year ended 31 March 2022. Only the first instalment (amounting to one-third of the total) from this LTIP scheme was paid, this being in July 2022. The LTIP amount disclosed for Pauline Walsh in 2021/22 relates to the 2019/20, 2020/21 and 2021/22 LTIPs, in respect of payments already accrued for her period in office

4 Pension-related benefits for Stuart Ledger and Pauline Walsh comprised amounts paid in lieu of being a member of the pension scheme; there were no amounts outstanding at the year-end

5 Other remuneration in 2022/23 for Keith Haslett related to compensation for the forfeit of a variable remuneration arrangement with his previous employer and a relocation allowance. Other remuneration in 2022/23 for Martin Roughead related to compensation for the forfeit of a variable remuneration arrangement with his previous employer. Other remuneration in 2021/22 for Pauline Walsh related to compensation for loss of office

Neither the company, nor its immediate parent entities, have any listed shares and so the directors have not been offered any share incentives. The directors appointed by Allianz Capital Partners on behalf of the Allianz Group, DIF and InfraRed Capital Partners Limited on behalf of HICL Infrastructure plc did not receive any emoluments from the company.

Payments to past directors (audited)

As disclosed in the above table, payments were made to past directors. At the discretion of the Committee, Stuart Ledger received payments accrued under the LTIP schemes which had not yet vested, and payments under the LTIP scheme which vested on 31 March 2023, totalling £110,009 as outlined on page 199. Bonus payments totalling £122,556 were also made as outlined on pages 198 and 199. All payments were prorated to reflect his period of service during the year.

Payments for loss of office (audited)

There were no payments for loss of office in the year.

Remuneration
Report continued

Annual bonuses for executive directors (unaudited)

The annual bonus scheme is designed to provide a direct link between executive and company operational, customer and financial performance, and the level of bonus awarded, although award and payment remain discretionary. The table below shows the percentage of maximum annual bonus potential awarded in relation to the 2022/23 year for Keith Haslett as CEO and Stuart Ledger as CFO for each of the performance measures (both paid on a pro-rata basis for periods in office). No amounts, in relation to these bonuses, have been deferred.

Performance measure	Link to alignment of culture, purpose, values and strategy	2022/23 target	2022/23 actual	Maximum weighting for 2022/23 (as a % of base salary)		2022/23 achievement (as a % of base salary)	
			Target met	Keith Haslett	Stuart Ledger	Keith Haslett	Stuart Ledger
Financial measures							
Totex and working capital within the regulated business	Targeting sufficient opex, capex and working capital ensures we can invest in our assets and provide a great service that customers value	(£360m)	(£368m) ✗	20.00% £18,250	15.00% £22,313	0.00% £nil	0.00% £nil
Cash generated from operations from the non-regulated business	Targeting sufficient cash generated by operations ensures we can provide sufficient returns to investors, finance group debt and to ensure we are financially resilient	£20m	£11.8m ✗	5.00% £4,563	3.75% £5,578	0.00% £nil	0.00% £nil
Customer measures							
Leakage: volume of water lost through leaks on the network (Ml/d)	Targeting a continued reduction in leakage will ensure customers have enough water, while leaving more water in the environment	14% reduction from base or more	15.9% ✓	6.25% £5,703	4.69% £6,973	6.25% £5,703	4.69% £6,973
Water quality: CRI score	Targeting a low CRI score ensures customers have high-quality water they can trust	1.5 or less	1.086 ✓	6.25% £5,703	4.68% £6,972	6.25% £5,703	4.68% £6,972
Interruptions to supply: minutes interrupted above 3 hours	Targeting few interruptions to supply ensures we can minimise disruption for customers and the community	5 mins and 45 seconds or less	12 mins and 53 seconds ✗	6.25% £5,703	4.69% £6,973	0.00% £nil	0.00% £nil
Customer consumption: PCC litres per day	Targeting customer consumption ensures we can make sure customers have enough water while leaving more water in the environment	29 Ml/d reduced through activity	27.2 Ml/d ✗	6.25% £5,703	4.69% £6,973	0.00% £nil	0.00% £nil
Properties at risk of low pressure: per 10,000 properties	Targeting reducing properties at risk of lower pressure ensures we can minimise disruption for customers and the community	1.381 or less	150.934 ✗	6.25% £5,703	4.69% £6,973	0.00% £nil	0.00% £nil
Mains repairs (per 1,000km)	Targeting mains repairs ensures we can minimise disruption for customers and the community	less than 146.5 repairs per 1,000km of mains	169.6 ✗	6.25% £5,703	4.69% £6,973	0.00% £nil	0.00% £nil
C-MeX[1]: score	Targeting an improvement in the C-MeX positions ensures we focus on providing a great service that customers value	80.65 or more	74.59 ✗	6.25% £5,703	4.69% £6,972	0.00% £nil	0.00% £nil
D-MeX[2]: position in the league table	Targeting an improvement in the D-MeX positions ensures we focus on providing a great service that developers value	No less than 8th	10th ✗	6.25% £5,703	4.68% £6,972	0.00% £nil	0.00% £nil
Safety and health measure							
Accident frequency rate (annual target): number of lost time injuries per 100,000 hours worked	Targeting a low accident frequency rate ensures our people can work to deliver our customer outcomes effectively	0.23 or below	0.11 ✓	5.00% £4,563	3.75% £5,578	5.00% £4,563	3.75% £5,578
Personal performance[3]:				20.00% £18,250	15.00% £22,313	20.00% £18,250	9.00% £13,388
Total % of base salary				100%	75%	37.50%	22.13%
Base salary						**£91,250**	**£111,563**
Bonus paid						**£34,219**	**£32,911**

1 C-MeX is the industry's measure of customer experience
2 D-MeX is the industry's measure of developer experience
3 The Remuneration Committee exercised judgement in determining the level of bonus awarded in relation to the personal performance element of the executive directors' annual bonus within the pre-agreed base salary percentage cap. The Committee considered achievement of personal objectives set at the start of the year in exercising its judgement together with events occurring during 2022/23

The remuneration policy operated as intended during the year. Executive director bonuses are only being paid where operational and financial targets were met, ensuring the policy was rigorously applied, the Remuneration Committee believes this was appropriate.

In his role as interim CEO, Stuart Ledger was entitled to an additional maximum monthly bonus potential of £15,800 relating to the achievement of specific personal objectives awarded at the discretion of the Remuneration Committee in lieu of an increased LTIP or bonus pro-rated for the period in which he acted as CEO. This amount reflected the additional responsibilities undertaken but is lower than the standard CEO bonus and LTIP entitlement. The Committee awarded him 66.75% of this additional bonus opportunity generating a payment of £89,645.

In reviewing the performance of Stuart Ledger, as interim CEO, against his personal performance objectives, the Committee considered the following areas and weightings, covering the period of time he was in the interim CEO role: performance commitments (15%), culture (10%), PR24 and WRMP (15%), visible leadership (15%), transition to Keith Haslett (20%), Journey to 25 (10%) and financial planning (15%).

Awards granted during the year (audited)

Stuart Ledger also received a payment of £110,009 relating to the 2020/21 and 2021/22 LTIPs in respect of payments already accrued for his period in office, the targets of which are summarised on page 187, as follows:

- 2020/21 LTIP (vested on 31 March 2023): £67,127 relating to actual performance achieved of 46.9%, 46.4% and 30.7% for 2020/21, 2021/22 and 2022/23 respectively; and
- 2021/22 LTIP (vesting on 31 March 2024): £42,882 relating to actual performance achieved of 46.4% and 38.2% for 2021/22 and 2022/23 respectively.

These LTIP awards for Stuart Ledger have been calculated under the CFO LTIP criteria, with target and actual amounts calculated on an initial award of base salary of 83.33%, and were prorated to reflect his period of service during the year.

Source data and Remuneration Committee assessment of targets (unaudited)

The Remuneration Committee places reliance on the internal controls in place and external assurance received regarding financial and operational data. The Remuneration Committee only approves the bonus awards across the company once the data has been externally reviewed.

The work of the Audit, Risk and Assurance Committee (detailed on pages 156 to 163 is key to ensuring that the organisation has robust and effective processes relating to financial reporting, internal controls, risk management and ethics. The Audit, Risk and Assurance Committee is the main oversight body for the internal and external Auditor and is central to the company's governance structure. The Remuneration Committee is satisfied the data is accurate given the strong controls in place that are overseen by the Audit, Risk and Assurance Committee.

Remuneration Report continued

Percentage change in remuneration of directors and employees (unaudited)

In 2022/23, a pay deal covering the period 1 April 2023 to 31 March 2024 was negotiated with trade unions, resulting in the following:

- 7.5% increase to the basic pay of all employees (4.6% for the period 1 January 2022 to 31 March 2023); and
- 7.5% increase in allowances that are taxable and pensionable, primarily flexible, and standby allowances (4.6% for the period 1 January 2022 to 31 March 2023)

This pay deal did not apply to the executive directors. The CEO will receive an increase of 3% with effect from 1 April 2023.

		Total base salary/fees, taxable benefits and annual bonus			Percentage change from		
		2022/23 £000	2021/22 £000	2020/21 £000	2021/22 %	2020/21 %	
NED	Ann Bishop: Fees	**26**	44	44	-40.9%	0.0%	Director resigned on 18 July 2022
NED	Trevor Didcock: Fees	**60**	51	51	15.0%	0.0%	Change in 2022/23 reflects an increase in fixed fee from 1 October 2022 as well as an additional element for the Chair of the Remuneration Committee role from 1 April 2022
NED	Susan Hooper: Fees	**–**	49	49	N/A	0.0%	Director resigned on 31 March 2022
NED	Mark Horsley: Fees	**26**	44	44	-40.9%	0.0%	Director resigned on 18 July 2022
NED	Chris Newsome: Fees	**56**	49	49	14.3%	0.0%	Change in 2022/23 reflects an increase in fixed fee from 1 October 2022
NED	Justin Read: Fees	**55**	50	35	10.0%	N/A	Director appointed on 14 July 2020; Change in 2022/23 reflects an increase in fixed fee from 1 October 2022
Company Chair	Ian Tyler: Fees	**234**	195	44	20.0%	N/A	Chair appointed on 11 January 2021; Includes an amount of £39,230 in 2022/23 for an additional allowance as compensation for taking on an executive Chair role for a period of 5 weeks and providing CEO transitional activities over a further period of 7 weeks
Executive Director	Keith Haslett:						
	Salary	**91**	–	–	N/A	N/A	Director appointed on 3 January 2023
	Taxable benefits	**3**	–	–	N/A	N/A	
	Bonus	**34**	–	–	N/A	N/A	
Executive Director	Stuart Ledger:						Increase in 2021/22 due to revised contractual terms as interim CEO from September 2021, including additional bonus based on personal objectives related to the interim CEO role; Director resigned on 16 December 2022
	Salary	**222**	263	210	-15.6%	25.2%	
	Taxable benefits	**1**	4	6	-75.0%	-33.3%	
	Bonus	**123**	114	57	7.9%	100.0%	
Executive Director	Pauline Walsh:						Increase in 2021/22 due to payment in lieu of notice in the year partially offset by a reduced pro-rata annual bonus in the year due to financial and operational targets not met in the year; Director resigned on 17 September 2021
	Salary	**–**	710	365	N/A	94.5%	
	Taxable benefits	**–**	4	8	N/A	-50.0%	
	Bonus	**–**	76	125	N/A	-39.2%	

Pay ratios table (unaudited)

The ratio of the CEO's single figure remuneration is compared to the 25th percentile, median and 75th percentile total employee remuneration in the table below.

Year	Methodology used	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2022/23	**Option B**	**21.6:1**	**12.9:1**	**11.5:1**
2021/22	Option B	24.3:1	19.6:1	15.9:1
2020/21	Option B	28.1:1	19.9:1	15.6:1
2019/20	Option B	32.7:1	21.0:1	18.3:1

The ratios above for 2022/23 are calculated using the 5 April 2022 gender pay gap data as permitted under Option B. Option B was used as the gender pay gap reporting date falls within the 2022/23 financial year and is a good representation of the data for the year. As we have a significant employee base, due to the size and complexity of the data, it was felt to be overly complicated to prepare single figure calculations for each individual. We have used the 5 April 2022 gender pay gap data to identify three employees at median, 25th and 75th percentiles. The Committee has considered the methodology and is confident the employees identified are reasonable representatives of the employee population as the structure of their remuneration arrangements is in line with that of the majority of the employee population. This methodology and approach are consistent with those of previous years.

Payroll data has then been used to calculate total 2022/23 remuneration for the employees identified, which includes wages and salary, taxable benefits, their accrued 2022/23 annual bonus and pension benefits, but excludes overtime payments to ensure consistency amongst the employees. This has been compared to the CEO's remuneration for 2022/23 for Stuart Ledger and Keith Haslett on a pro-rata basis for their respective terms of office during the year. There was a decrease in the CEO pay ratio for all three percentiles in the year, mainly due to employees receiving a 4.6% basic pay increase from 1 January 2022 with no equivalent increase for the CEO, as well as reduced LTIP payments made in 2022/23.

2022/23	Salary component of total pay and benefits	Total pay and benefits
25th percentile pay ratio	£25,750	£28,471
Median pay ratio	£42,357	£47,476
75th percentile pay ratio	£49,262	£53,352

We published our latest Gender Pay report of April 2022 data on our website: affinitywater.co.uk/responsibility, which showed a slight increase in our mean gender pay gap from 20.47% in April 2021 to 21.5% in 2022. The change from a male to a female CEO will have, negatively, impacted the pay gap, but there have also been more females leaving the business compared to those joining. Since April 2022, when this latest gender pay gap data was captured, action has been taken to improve gender equality, diversity and inclusion, including:

- Ensuring our recruitment processes are free from bias such as moving to gender-blind shortlisting, more closely monitoring data on the gender diversity of our applicants, shortlists and appointments, and requiring all hiring managers to undergo training on preventing bias impacting decisions
- Seeking, where possible, to advertise more jobs on a part-time or flexible basis
- Addressing concerns raised in our Tap In engagement survey and a gender pay gap audit by Inclusive Employers around the transparency and structure of career paths

Our new career path framework will enable employees to see, more clearly, what their next career options might be and will provide them with guidance and self-directed learning and development support to help them get there. In time, it will also give us a stronger foundation for ensuring pay equity across the business and benchmarking against similar roles externally.

The Remuneration Committee has considered the executive remuneration in light of the CEO and gender pay gap ratios and considers that the current and forward looking policies are appropriate, and that ratio is representative of the pay and progression policies for employees. The company looks to offer a total reward package, which is equitable and fair for all employees, regardless of gender, and that attracts and retains talent for both executives and all employees.

Statutory requirements

This Remuneration Report has been prepared on behalf of the Board by the Remuneration Committee. The Report was approved by the Board on 12 July 2023 and signed on its behalf by:

Trevor Didcock
Chair of the Remuneration Committee

12 July 2023

Ownership
and financing

Ownership

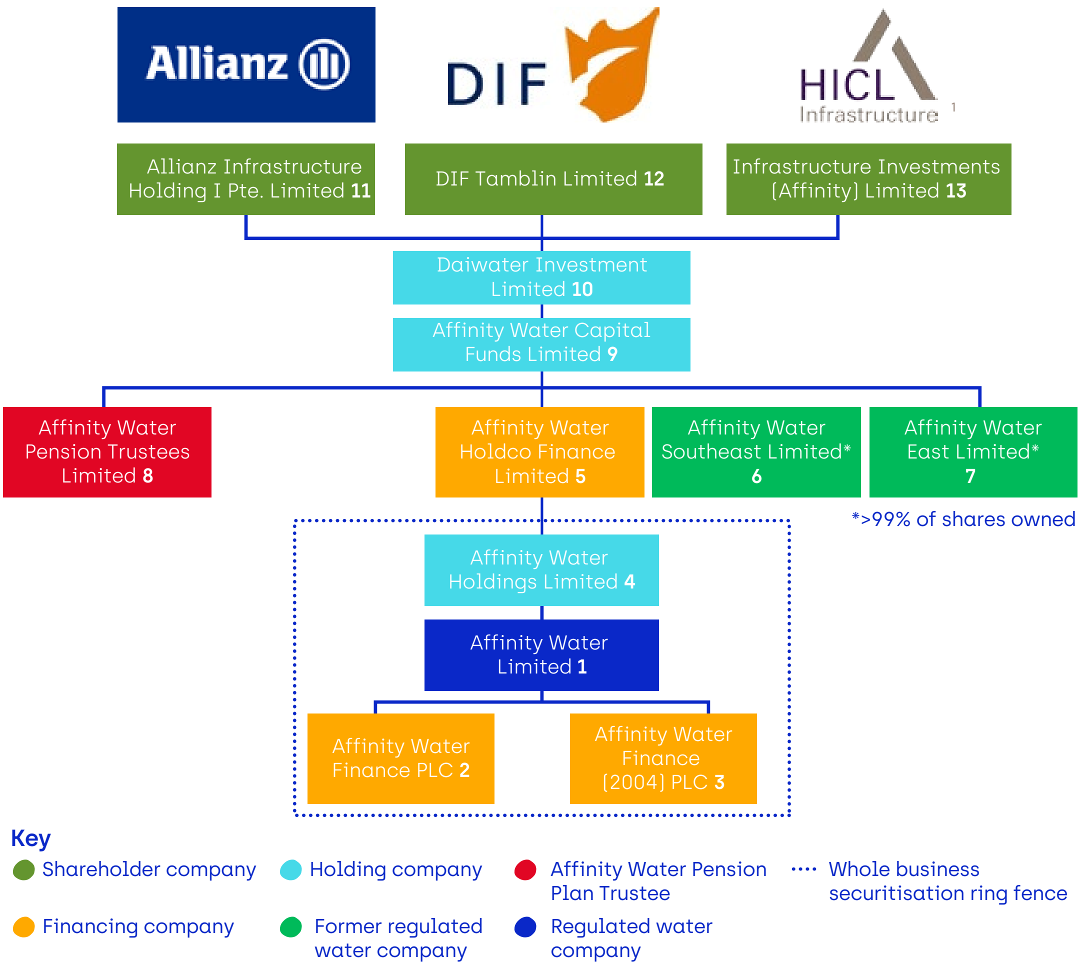
On 19 May 2017, Affinity Water Acquisitions (Investments) Limited was acquired by a consortium comprising DIF, HICL Infrastructure Company Limited (advised by InfraRed Capital Partners Limited) and Allianz Capital Partners on behalf of the Allianz Group. As part of the transaction, the consortium also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

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

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

- Allianz Infrastructure Holding I Pte. Limited
- DIF Management Holding BV
- DIF Management UK Limited
- HICL Infrastructure plc
- Sun Life Financial Inc

The Group Structure Chart on page 202 shows the structure of the Group, excluding dormant subsidiaries, as at 31 March 2023. Unless otherwise indicated, all companies are wholly owned by the parent company shown. The numbers listed alongside the companies within the Group structure may be cross referenced to the other Group directorships of the company's directors, indicated within their biographies on pages 139 to 141.



1 HICL Infrastructure sold down 3.4% of its interest to a small group of co-investors, comprising UK local authority pension funds in June 2017

These entities, together with Daiwater Investment Limited, have provided us with legally enforceable undertakings that they will:

- Give us such information as may be necessary to enable us to comply with our obligations under the Water Industry Act 1991 and Instrument of Appointment;
- Refrain from any action that would cause us to breach any of our obligations under the Water Industry Act 1991 or the conditions of our Instrument of Appointment; and
- Use their best endeavours to ensure that our Board maintains three INEDs, who shall be persons of standing with relevant experience and who shall collectively have connections with, and knowledge of, the areas for which we are a water undertaker and an understanding of the interests of customers and how these can be respected and protected.

We are satisfied that these undertakings are being properly discharged and that we are able to fully meet our regulatory obligation to operate our appointed business as if it were, substantially, our sole business and the company were a separate listed company.

The following table provides further explanation of the Group structure

Structure chart ref.	Company	Description	Place of registration
1	Affinity Water Limited	A water undertaker holding an appointment under the Water Industry Act 1991, supplying water to a population of around 3.8 million people in the South East of England. It is the principal trading company of the Group.	England and Wales
2	Affinity Water Finance PLC	A financing subsidiary of Affinity Water Limited established in 2018 to issue bonds under a Euro Medium Term Note ('EMTN') programme. It lends monies raised from its bonds to Affinity Water Limited.	England and Wales
3	Affinity Water Finance (2004) PLC	A financing subsidiary of Affinity Water Limited established in 2004 to issue a bond. It lends monies raised from its bond to Affinity Water Limited.	England and Wales
4	Affinity Water Holdings Limited	Affinity Water Limited's immediate holding company. Its equity is provided as security to bondholders in the event of default.	England and Wales
5	Affinity Water Holdco Finance Limited	A financing subsidiary of Affinity Water Capital Funds Limited established in 2017. It lends monies raised to Affinity Water Capital Funds Limited.	England and Wales
6	Affinity Water Southeast Limited	A company, which formerly held an Instrument of Appointment as water undertaker for the Dour community of Affinity Water Limited's water supply area. The appointment was transferred to Affinity Water Limited on 27 July 2012. The company is no longer trading, but continues to honour income assurances made to minority shareholders on transfer of its water undertaking to Affinity Water Limited.	England and Wales
7	Affinity Water East Limited	A company, which formerly held an Instrument of Appointment as water undertaker for the Brett community of Affinity Water Limited's water supply area. The appointment was transferred to Affinity Water Limited on 27 July 2012. The company is no longer trading, but continues to honour income assurances made to minority shareholders on transfer of its water undertaking to Affinity Water Limited.	England and Wales
8	Affinity Water Pension Trustees Limited	The trustee company of the Affinity Water Pension Plan.	England and Wales
9	Affinity Water Capital Funds Limited	The original holding company for Veolia's regulated water businesses, which was acquired by the Group in June 2012 through Affinity Water Acquisitions Limited (now liquidated), which previously provided management services to the company.	England and Wales
10	Daiwater Investment Limited	The ultimate holding company of the Group in the United Kingdom, paying dividends to the acquisition consortium subsidiaries.	England and Wales
11	Allianz Infrastructure Holding I Pte. Limited	A company which holds indirectly Allianz Capital Partners' investment in the Group.	Singapore
12	DIF Tamblin Limited	A company established in 2017 to hold indirectly DIF's investment in the Group.	England and Wales
13	Infrastructure Investments (Affinity) Limited	A company established in 2017 to hold indirectly HICL Infrastructure plc's investment in the Group, together with the co-investment by certain local authority pension funds.	England and Wales

Ownership
and financing continued

The following table provides explanation of the Group companies that were liquidated during the year.

Company	Description	Place of registration
Affinity Water Acquisitions Limited	The company, which bid for, and acquired, Affinity Water Capital Funds Limited and its subsidiaries from Veolia Water UK Limited in 2012.	England and Wales
Affinity Water Acquisitions (Midco) Limited	The holding company of Affinity Water Acquisitions Limited.	England and Wales
Affinity Water Acquisitions (Holdco) Limited	The holding company of Affinity Water Acquisitions (Midco) Limited.	England and Wales
Affinity Water Acquisitions (Investments) Limited	The holding company of Affinity Water Acquisitions (Holdco) Limited. It was the ultimate holding company of the Group in the United Kingdom up until 19 May 2017, when it was acquired by Daiwater Investment Limited.	England and Wales
Affinity Water Shared Services Limited	A company that provided administrative and technical services solely to Affinity Water Limited until 31 March 2015. Its employees were transferred over to Affinity Water Limited on that date. Since the transfer, the company has ceased trading.	England and Wales

Our financing

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

We have two financing subsidiaries, which have issued bonds that are listed by the UK Listing Authority ('UKLA') and the proceeds of which have been lent on to and are guaranteed by the company:

- Affinity Water Finance (2004) PLC has issued an external bond of £250.0 million
- Affinity Water Finance PLC has issued external bonds totalling £880.0 million

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

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

The bonds issued by the company's subsidiaries at 31 March 2023 can be summarised as follows:

Debt	Bond (£m)	Coupon	Maturity Date
Class A fixed rate bond 2026*	250.0	5.875%	July 2026
Class A fixed rate bond 2036*	250.0	4.500%	March 2036
Class A RPI linked bond 2045*	190.0	1.548% (real)	June 2045
Class A CPI linked bond 2038	130.0	0.010% (real)	September 2038
Class A fixed rate bond 2042*	85.0	3.278%	August 2042
Class A fixed rate bond 2033*	60.0	2.699%	November 2033
Class A CPI linked bond 2042*	60.0	0.230% (real)	November 2042
Total Class A	**1,025.0**		
Class B RPI linked bond 2033	95.0	3.249% (real)	June 2033
Class B RPI linked bond 2033*	10.0	1.024% (real)	June 2033
Total Class B	**105.0**		
Total	**1,130.0**		

* Listed on the London Stock Exchange

Our next significant debt maturity is in July 2026 when our £250.0m fixed rate bond matures. The maturity profile of all our borrowings is set out in note A4 to our statutory financial statements, and in the graph on the following page.

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), primarily, due to accretion on the index-linked bonds. Our gearing, as measured by net debt to RCV at 31 March 2023, was 73.4% (2022: 73.0%), and remains below our internal maximum gearing level of 80.0% of RCV.

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

The £14.204 million Class A guaranteed notes matured and were repaid in full in September 2022.

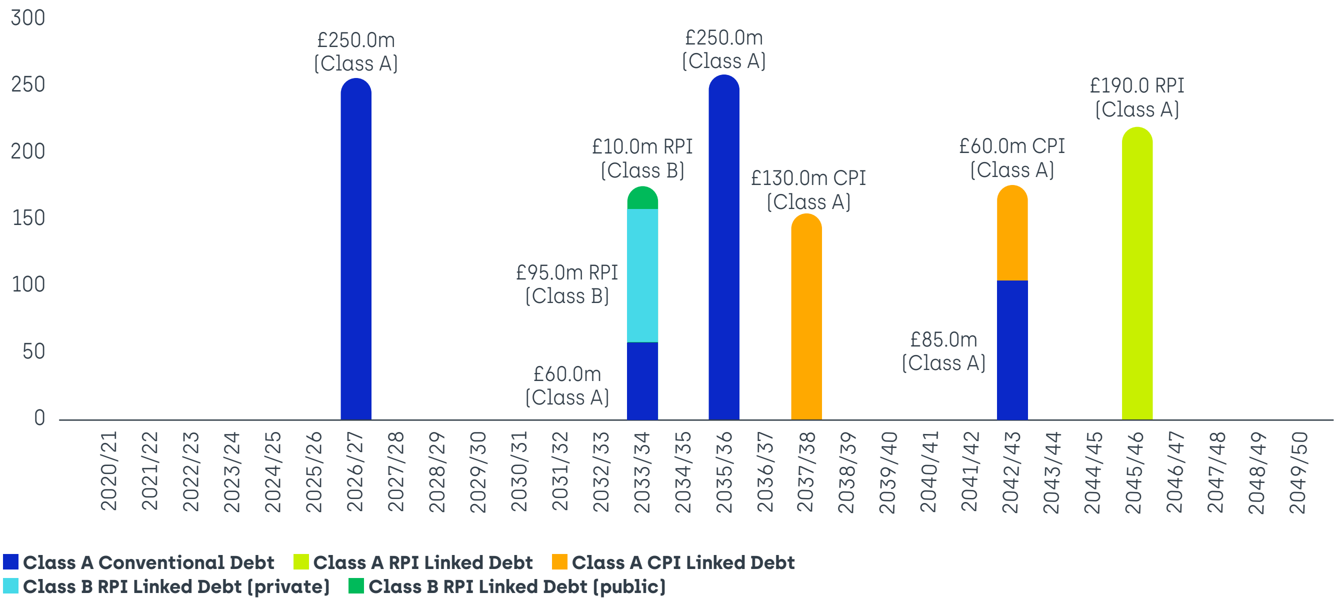
Interest rate exposure is, primarily, managed by using a mixture of fixed rate, floating rate, and index-linked borrowings (refer to note A4 to our statutory financial statements). At the year-end, 49.3% of our gross borrowings were at fixed rates (2022: 52.7%), 32.9% (2022: 30.4%) at rates indexed to RPI and 17.8% (2022: 16.9%) at rates indexed to CPI. Considering our index-linked inflation swaps, the proportion of borrowings at fixed rates decreased to 14.0% (2022: 16.6%), the proportion indexed to RPI increased to 49.5% (2022: 46.8%) and the proportion indexed to CPI remained the same at 36.6% (2022: 36.6%).The credit ratings for our subsidiaries' bonds assigned by the rating agencies, Moody's, Standard & Poor's, and Fitch were as follows. Our credit ratings have not changed since March 2022, although in October 2022 our ratings from Standard & Poor's have moved to a negative outlook driven by inflationary pressures impacting industry ratings.

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

Our liquidity is managed through banking arrangements and adequate (though not excessive) cash resources, borrowing arrangements and standby facilities. This enables us, at all times, to have the level of funds available that are necessary for the achievement of our business and service objectives. At 31 March 2023, we had cash balances of £78.8 million (2022: £135.6 million) and short-term deposits held as investments of £66.7 million (2022: £70.2 million). The decrease in cash from the prior year is, primarily, due to the proceeds from the issuance of a green bond in the prior year, followed by continued investment in our network in the year to 31 March 2023 and repayment of the £14.204 million bond in September 2022.

To the extent that additional funding is required, as well as our cash balances, we have access to two revolving credit facilities totalling £100.0 million (2022: £100.0 million), which were undrawn at 31 March 2023 (2022: undrawn), to finance capital expenditure and working capital requirements.

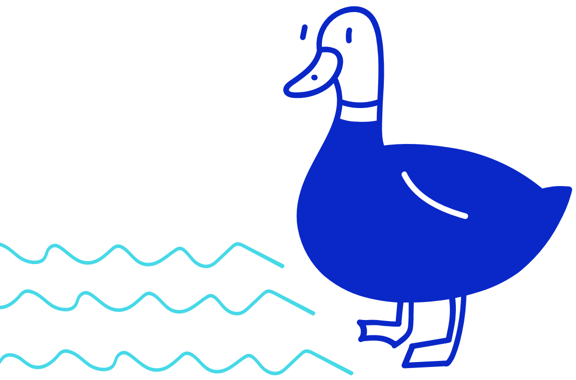
In addition, we have access to a further £52.0 million of liquidity facilities (2022: £55.0 million), consisting of a 364-day revolving £27.0 million facility to fund any debt service payments in the event of a liquidity shortfall, which would, otherwise, prevent such payments being made and a 364-day revolving facility of £25.0 million to fund operating and capital maintenance expenditure in the event of a liquidity shortfall.



Directors' Report

Introduction

The directors present their Annual Report and the Audited Statutory Financial Statements of Affinity Water Limited (the 'company') for the year ended 31 March 2023. The company is a limited liability company registered in England and Wales and its immediate parent undertaking is Affinity Water Holdings Limited, a company also registered in England and Wales. The directors consider that Daiwater Investment Limited was the ultimate holding and controlling company in the United Kingdom at 31 March 2023. Details of the ownership of the company and the Group structure are set out on page 202 of the governance section and note 26 of the financial statements. The address of the principal place of business is Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ. The Strategic Report provides detailed information relating to the company, its strategy, the operation of its business and its results and financial position for the year ended 31 March 2023. Details of the risks and principal uncertainties facing the company are set out on page 108.



Directors

The directors of the company, together with their periods of office and their biographical details, are shown on pages 139 to 141. The directors who were in office during the year, and up to the date of signing the financial statements, are summarised below:

Directors

Ann Bishop (resigned 18 July 2022)

Marissa Dardi (appointed 15 February 2023, resigned 12 May 2023)

Trevor Didcock (Senior Independent Director)

Keith Haslett (appointed 3 January 2023)

Mark Horsley (resigned 18 July 2022)

Jara Korpanec (resigned 31 July 2022 as an Alternate Director)

Stuart Ledger (resigned 16 December 2022)

Chris Newsome

Mike Osborne (appointed 1 April 2022)

Justin Read

Angela Roshier (resigned 15 February 2023)

Martin Roughead (appointed 17 April 2023)

Roxana Tataru

Ian Tyler (Chair)

Adam Waddington (appointed 12 May 2023)

General Counsel and Company Secretary

Sunita Kaushal (resigned 31 March 2023)

Group Company Secretary

Patrick Makoni (appointed 3 April 2023)

Significant events during the year

Details of the significant events that occurred during the year are set out in the Chief Executive Officer's introduction on page 30.

Results and financial performance

Loss for the year was £100.9 million (2022: loss of £96.9 million). The statement of financial position detailed on page 228 shows total negative equity amounting to £(95.7) million (2022: positive £44.3 million). Further analysis of our financial performance can be found in the Financial Review by the Chief Financial Officer on page 70 of the Strategic Report.

Information required under the listing rules

During the year, no interest was capitalised by the company (2022: £nil). For disclosures in relation to relevant requirements of the Listing Rules, refer to the Remuneration Report on pages 180 to 201.

Dividends

Our Board agreed to restrict the payment of dividends throughout AMP7 to enable substantial investments to improve our resilience and protect the environment. Equity dividends of £1.0 million were paid from our non-appointed business (the parts of our business not regulated by Ofwat) during the 2020/21 financial year, in order to service group debt. No equity dividends were paid in 2021/22 or 2022/23, further reflecting the shareholders' commitment to re-invest all planned returns from the company's appointed business for the benefit of our customers. The Board is not proposing to recommend the payment of a final dividend for the year (2022: £nil). Our dividend policy is available on our website: affinitywater.co.uk/governance-assurance.

Greenhouse Gas Emissions

This section provides information about our greenhouse gas ('GHG') emissions and our performance in managing them. For 2022/23, our operational emissions continue to reduce as they have been since 2014/15. We have been confidently reporting our scope 1 and 2 emissions for several years now and have now made significant steps forward in understanding our in-direct emissions (scope 3). For 2022/23, we have developed our first scope 3 inventory, which will enable us to identify key areas for emissions future reductions.

Greenhouse Gas Emission Scopes

The greenhouse gas protocol defines three groups or 'scopes' in which GHG emissions are reported on.

Scope 1 emissions

Scope 1 covers emissions from sources that an organisation owns or controls directly – for example from burning fuel (diesel or petrol) in our fleet of vehicles.

Scope 2 emissions

Scope 2 are emissions that a company causes indirectly from the energy it purchases. For Affinity Water, this relates to the purchase of electricity.

Scope 3 emissions

Scope 3 encompasses emissions that are not produced by the company itself, but by those that it's indirectly responsible for, up and down its value chain. For example, the emissions associated with the goods and services we purchase from suppliers.

Through the development of a scope 3 inventory, we can, for the first time, report our full carbon footprint. For 2022/23, using a market-based approach, we estimate our full carbon footprint to be 91,868 tCO_2e. Following a location-based approach, our footprint is 135,491 tCO_2e.

Market Based and Location Based Reporting

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

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

Directors' Report continued

How we report our emissions

Our carbon footprint is calculated by converting the main GHGs into a carbon dioxide equivalent (tCO_2e). Emissions are categorised into scopes (based on the GHG Protocol) as follows:

- scope 1 emissions (direct emissions) are those from activities we own or control, including those from our treatment processes, company vehicles, and burning of fossil fuels for heating.
- Scope 2 emissions (indirect emissions) result from purchased heat and electricity.
- Scope 3 emissions (indirect emissions) arise from activities we do not own or control, but which we can influence. These include from the products and services we buy. We also report on our emissions based on whether they are considered to be 'operational' resulting from our day-to-day activities or 'embedded' resulting from our wider activities such as the delivery of capital projects.

We use a combination of methods to estimate the emissions associated with our carbon footprint following the principles of the 2015 GHG Protocol Corporate Accounting and Reporting Standard. We also align to the 2019 UK Government Environmental Reporting Guidelines, including the requirements for Streamlined Energy and Carbon Reporting (SECR).

Operational Emissions

Our operational emissions include scope 1, scope 2 and a limited number of scope 3 emissions, all of which are assessed using the latest version of the UKWIR Carbon Accounting Workbook. In 2022/23, the scope of emissions described as 'operational' has increased in line with Ofwat's regulatory reporting requirements. Key changes include the following additions to operational emissions associated with:

- chemicals purchased (previously reported under embedded emissions);
- waste from operations managed by both Affinity Water and third parties; and
- extraction, production, and transportation of fuels in the generation of electricity and heat that is consumed by the reporting company (previously limited to transportation).

	2022/23		2021/22	
Description	**Location Based – Gross (tCO_2e)**	**Market Based – Gross (tCO_2e)**	Location Based – Gross (tCO_2e)	Market Based – Gross (tCO_2e)
Scope 1 emissions				
Direct emissions from burning of fossil fuels (including CHP generated onsite)	1,578	1,578	1,870	1,870
Process and fugitive emissions	2,189	2,189	2,417	2,417
Transport: company-owned or leased vehicles	2,147	2,147	1,996	1,996
Total scope 1 emissions	**5,914**	**5,914**	**6,283**	**6,283**
Scope 2 emissions				
Purchased electricity	43,623	0	46,735	0.000
Total scope 2 emissions	**43,623**	**0**	**46,735**	**0**
Scopes 1 and 2	**49,537**	**5,914**	**53,018**	**6,283**
Scope 3 emissions				
Business travel on public transport and private vehicles used for company business	204	204	109	109
Outsourced activities (if not included in Scope 1 or 2) Energy and other	156	156	147*	147*
Purchased electricity – transmission and distribution(location based)	3,991	3,991	4,136	4,136
Use of chemicals	10,858	10,858	11,300*	11,300*
Disposal and treatment of waste	2,409	2,409	2,433	2,433
Total scope 3 emissions	**17,618**	**17,618**	**18,125**	**18,125**
Total Gross Emissions	**67,155**	**23,532**	**71,143**	**24,408**

Annual operational GHG intensity ratio values	**($kgCO_2e/Ml$)**	**($kgCO_2e/Ml$)**	**($kgCO_2e/Ml$)**	**($kgCO_2e/Ml$)**
Operational GHG emissions per Ml of treated water	195	69	207	71

*This figure has been restated. See page 209 for further detail.

Using a market-based approach to reporting, our total gross operational emissions (as defined by Ofwat for 2022/23) are estimated to be 23,532 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%.

Scope 1

The annual quantity of emissions for 2022/23 in CO_2e resulting from activities for which the company is responsible (scope 1) is 5,914 tCO_2e (2021/22: 6,283 tCO_2e), as shown in Table 1. Sources of direct emissions for the company include fuel emissions from burning of fossil fuels. This is made up of natural gas used for the heating and cooling of our buildings and fuels used, primarily, by generators at our water treatment works. Fugitive and process emissions include ozone used in the disinfection process and waste sludge recycled to our land and refrigerant gases. Also included are fleet fuel emissions, which result from the combustion of purchased fuel for fleet liveried vehicles.

During 2022/23, we saw a small reduction in the use of diesel across our operations. We are also, provisionally, reporting a reduction in natural gas usage. For 2023/24, we expect to see further reductions as we reduce the use of on-site generators and begin to trial the use of biodiesels.

Fleet fuel use increased in 2022/23 compared to 2021/22 by 8%. This resulted from an increase in the number of vehicles we utilise to deliver our operations. The volume of petrol we purchased in 2022/23 has also slightly more than doubled compared to 2021/22 (although still only representing 1% of total fleet fuel purchased).

The majority of our process and fugitive emissions arise from ozone generation, which is used in the water treatment process. For 2022/23, our total ozone generation was similar to 2021/22; however, less ozone was generated using air (rather than liquid oxygen) resulting in fewer emissions being emitted from this process.

Scope 2

In 2022/23, emissions in CO_2e resulting from activities for which the company is responsible (scope 2) is zero, as was the case in 2021/22 when reporting via a market-based approach[1]. From October 2020, all our purchased electricity is from 100% REGO-backed renewable energy, which we, primarily, use for the pumping and treatment of water and a small amount for office and operational site use.

When reporting using a location-based approach, scope 2 emissions in 2022/23 are 43,623 tCO_2e (2022: 46,735 tCO_2e).

Although we are recording a reduction in scope 2 emissions when taking a location-based approach, our electricity usage increased compared to 2021/22. In 2022/23 we used 225.6GWh, while in 2021/22, we used 220.1GWh.

During the summer of 2022, we experienced prolonged dry weather and an unprecedented heat wave during mid-July. These conditions, significantly, increased demand across our supply area and, in response, we used, significantly, more electricity during June, July and August compared to the same months in 2021/22.

Despite the significant increased summer demand, we recorded an improvement in the energy performance of our operations from 631kWh/Ml to 630kWh/Ml. Several activities have contributed to this increased performance:

- During 2022/23 our solar installation at Chertsey and Walton performed well, in parts as a result of the prolonged dry weather for much of the summer. At Chertsey, the solar arrays produced 1,051,721kWh, which saved approximately 203 tCO_2e when compared to using average grid electricity. At Walton, the solar arrays produced 589,004 kWh, which saved approximately 114 tCO_2e
- Our energy efficiency and optimisation programme has delivered projects that led to in-year savings of 1,964,000 kWh, which is, approximately, 380 tCO_2e

The reduction in scope 2 emissions resulted from a change in emissions factors for UK average grid electricity. The changed emissions factor is expected to continue as we see a continued decarbonisation of the UK electricity grid (because of reductions in electricity generated from coal and increases in renewable sources).

[1] A location-based method reflects the average emissions intensity of grids on which energy consumption occurs (using mostly grid-average emission factor data). A market-based method reflects emissions from electricity that companies have, purposefully, chosen

Scope 3 (Operational Only)

Total scope 3 'operational' emissions in 2022/23 is 17,618 tCO_2e (2022: 18,125 tCO_2e). Scope 3 operational emissions arise from a range of activities, including outsourced IT services, business travel, purchase of chemicals for water treatment and fuel and energy-related emissions (not covered in scope 2). For 2022/23 the use of chemicals has been re-defined as operational rather than as embedded emission as we reported in 2021/22.

Chemicals (including Granular Activated Carbon ('GAC'))

For 2022/23 we have updated the method used to assess the emissions associated with our purchase of chemicals (not including GAC). The method has been updated to better reflect the differences in concentration of the chemicals we purchase compared to those used as a benchmark for understanding associated emissions.

For 2022/23, we estimate that there are 10,858 tCO_2e associated with chemicals we purchase. We have also applied this updated method to recalculate the emissions associated with chemical purchase in 2021/22 and have reassessed this to be 11,300 tCO_2e.

For 2022/23, the emissions associated with our purchase of GAC is assessed to be 4,142 tCO_2e. Our method for calculating GAC emissions remains unchanged from previous years, although we have improved the data used and have updated the emissions for 2021/22.

Directors' Report continued

Business travel in 2022/23 was estimated at 204 tCO_2e, an increase from 2021/22. Increases in business travel were most notable with vehicle mileage increasing by 44% on 2021/22, and increases also recorded in air travel.

In line with UK grid decarbonisation, we have seen a reduction in scope 3 purchased electricity emissions not covered by our green tariff of approximately 4% compared to 2021/22.

Method Used

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

WaterUK Net Zero 2030

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 (see Figure 1). 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.

For 2023/24, we plan to stay on course to reach our Net Zero by 2030 target through further reductions in the use of fossil fuels, a transition to EVs and by working with our supply chain.

Water UK Net Zero 2030 Emissions (Market Based)

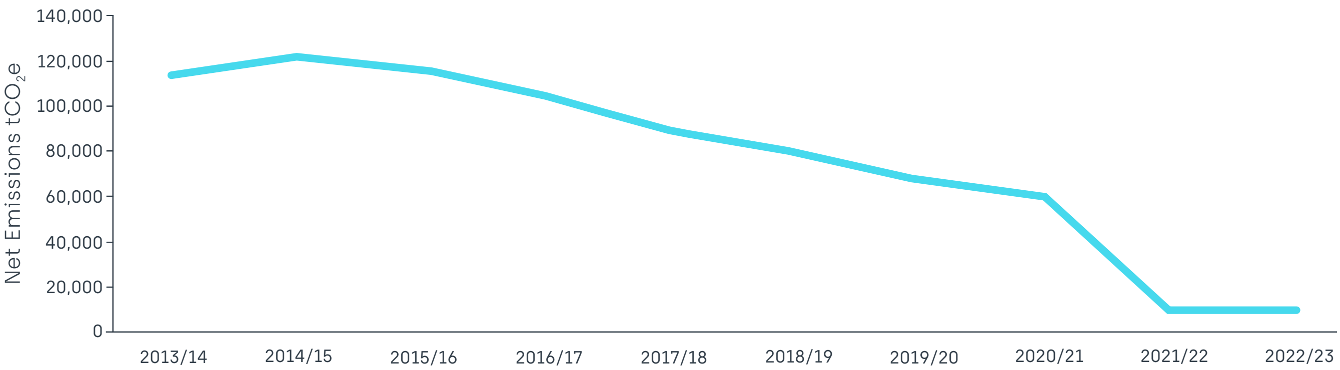


Figure 1 WaterUk Net Zero 2030 net operational emissions

Embedded Emissions

For 2022/23, we undertook two different assessments to understand our embedded emissions. To better understand our full carbon footprint, we worked with specialist provider EcoAct to develop a full scope 3 inventory. To understand in more detail the emissions associated with our capital projects, we used a bespoke asset-based carbon estimation tool to estimate the cradle-to-build emissions associated with our capital projects.

Our capital project emissions fall under the GHG protocol category of 'capital goods'; however, as different methods have been used, the value generated using the asset estimation tool should not be interpreted as a sub-total of the capital good category.

Capital Projects

In line with Ofwat's reporting requirements, we have calculated the cradle-to-build emissions for our capital programme. This builds on the voluntary reporting undertaken last year. For 2022/23, we estimated that the emissions associated with the delivery of our capital programme were 8,465tCO_2e. Although this is an increase on our 2021/22 estimate of 4,350 tCO_2e, the scope of projects included within this year's reporting is significantly greater than in 2021/22. In 2022/23, we estimated the emissions associated with 47 projects, an increase from 11 projects in 2021/22.

Within the 47 projects assessed, this included 17 below ground asset (infra) projects with the remainder a mix of above ground (non-infra) projects, storage projects, minor works and lead replacement. We have included both constructing new assets and refurbishment where it is practicable to estimate this value.

For 2022/23, emissions associated with our capital projects were all estimated using the first iteration of our asset carbon estimation tool. Although the tool includes over 400 different process, asset and unit rate models, some assets we construct or install are not included in the tool. We have not been able to estimate the emissions associated with our river restoration projects, some minor works, meter installations or traffic management activities.

Our scope 3 inventory for capital goods enables us to have a high-level overview of this portfolio of activity. This is estimated to be 22,172.6 tCO_2e for 2022/23.

Scope 3 inventory

The purpose of our scope 3 inventory is to provide a high-level estimate of all indirect emissions that Affinity Water is responsible for. Where possible, this estimate has used primary data, and where this is not possible, estimates have been derived from spend-based data or other benchmarks. In some cases, scope 3 covers both operational and embedded emissions. For 2022/23, we have not sought to integrate emissions estimates from our assessment of operational emissions; instead, we used the scope 3 inventory as a high-level standalone assessment.

The results of our scope 3 inventory are as expected for a water company. As a provider of infrastructure, we have significant emissions that arise in our supply chain, particularly associated with asset construction and maintenance activities.

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

Scope 3 Category	2022/23 Gross (tCO_2e)
Category 1: Purchased goods and services	**38,406.9**
Category 2: Capital goods	**22,172.6**
Category 3: Fuel- and energy-related activities (not included in scope 1 or scope 2)	**16,212.0**
Category 4: Upstream transportation and distribution	**238.2**
Category 5: Waste generated in operations	**7,424.5**
Category 6: Business travel	**227.9**
Category 7: Employee commuting	**1,063.7**
Category 13: Downstream leased Assets	**208.7**

Emission Reduction Activities in 2022/23

Our solar installation at Chertsey and Walton performed well during 2022/23, generating 1,051,721 kWh and 589,004 kWh of energy respectively. The electricity generated from solar equated to 0.72% of our total electricity usage during 22/23. This reduced our potential carbon emissions by 317 tCO_2e.

During 2022/23, we implemented sixteen energy efficiency schemes including the replacement of borehole and booster pumps. We have completed optimisation schemes improving the overall efficiency of source abstraction and high lift pumping. We have also upgraded control software to optimise booster operations, enabling pumps to maintain maximum efficiency for longer. Additionally, we have continued work on reducing pressure losses on sites through the improvement of our UV treatment processes.

This year we have started efficiency work on our buildings and offices, with new initiatives to reduce heating and lighting through process and behavioural change. We continue to put focus on changing our culture and have developed the Zapp app which empowers colleagues to raise efficiency ideas to investigation. Energy Management training has continued from last year.

We have developed a mature programme of energy savings opportunities with over 85 named schemes in various stages of implementation. Using this programme, we have set ourselves a £500k energy savings target for 2023/24.

We ordered our first four electric vans in 2022/23 and began installing charging infrastructure at our Stevenage and Staines sites. 2022/23 also saw us launch our salary sacrifice schemes for electric vehicle purchase by our employees.

We are currently piloting ways to reduce whole life emissions (both operational and embodied) of our capital projects. There is significant evidence that to evaluate a project through a carbon lens finds efficiencies in both carbon and costs, which we aim to achieve through the use of the PAS 2080 standard. We are also finding opportunities for wider benefits such as environmental net gain.

Directors' Report continued

Total Gross Emissions (tCO_2e)

The company supplies water to 3,830,000 consumers in our supply area (2021: 3,780,000). The Covid-19 pandemic developed rapidly in 2020, resulting in an increased demand for water we supply due to the impact of the virus and the hot summer of 2020. The way we operate also had to change with the majority of office-based staff working from home, and just a small number of employees at our office locations. Our front-line delivery teams have continued to work at our operational sites and in the community.

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

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

This year has seen a decrease of 79.64%, of our gross greenhouse gas emissions compared to last year. Scope 1 Direct Emissions have increased from 5,003 tCO_2e in the prior year to 6,282 tCO_2e in 2021/22.

There has been an increase of 22.58% in natural gas usage from last year. This is due to higher proportion of estimated reads and slight increase of actual consumption, as we see more people working from offices as Covid-19 recedes.

There has been an increase in gas oil consumption against the prior year of 66.57%, due to faulty generators being repaired and increased usage during winter peak load times.

As all our purchased electricity is from a REGO backed Green Tariff, using a market based approach we do record any scope 2 emissions associated with our operations, include pumping and treating water.

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

There have also been increases in the conversion factors across most lines due to changes in government factors; these are in the BEIS 21 methodology paper, which details the revisions due to new/improved data while using existing calculation methodologies, and in the UKWIR CAWv16. The water distributed input has decreased by 1.92%, which is used in the intensity measure ($kgCO_2e/Ml$). We used the WKWIR CAWv16 to calculate emissions.

There has been a 6.36% increase in petrol and diesel consumption relating to transport owned by the company, which contributes to our total emissions.

This compares to an increase in emissions from transport by public transport and private vehicles; this is 0.83% of our total net emissions.

We have also included in our scope 3 emissions:

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

During 2022/23, we have implemented energy efficiency schemes including the replacement of borehole and booster pumps. We have completed optimisation schemes improving the overall efficiency of source abstraction and high lift pumping. We have also upgraded control software to optimise booster operations, enabling pumps to maintain maximum efficiency for longer. Additionally, we have continued work on reducing pressure losses on sites through the improvement of our UV treatment processes.

This year we have started efficiency work on our buildings and offices, with new initiatives to reduce heating and lighting through process and behavioural change. We continue to put focus on changing our culture and have developed the Zapp app which empowers colleagues to raise efficiency ideas to investigation. Energy Management training has continued from last year.

We have developed a mature programme of energy savings opportunities with over 85 named schemes in various stages of implementation. Using this programme, we have set ourselves a £500k energy savings target for 2023/24.

Research and development activities

The development and application of new techniques and technology is an important part of the company's activities. The company is a member of UK Water Industry Research ('UKWIR') and participates widely in, and benefits from, its research programme. The UKWIR programme relating to Affinity Water is, currently, divided into the following topics: drinking water quality and health; toxicology; water resources; climate change; water mains and services; leakage and metering; and regulatory issues.

The company is also a member of other water industry research and innovation groups: Technology Approval Group, the Water Treatment Technical Working Group, the Sensor for Water Interest Group, the Instrument User Group, the Water Regulations Advisory Scheme and Cranfield Water Network. In addition, the company carried out more specific research during the year in the fields of process performance and energy optimisation, novel technologies for plumbosolvency control, monitoring of biological risks in the network and risks to water quality when changing sources of supply.

Innovation

During 2022/23, we paid £1.1 million into Ofwat's Innovation in Water Challenge, an industry-wide initiative to drive transformational change and better meet the evolving needs of customers, society, and the environment. In 2022/23, we successfully delivered the one Ofwat-funded project, we lead on a further two and act as a contributing partner on a number of others.

We completed a "Smarter Tanks" project, providing a 'business model canvas' to harness real-time monitoring and control solutions for existing water tanks and towers. We continued to lead the "Seagrass" project which involves planting and restoring Seagrass meadows to enhance biodiversity and sequester carbon. We also continue to lead the "Water Neutrality at NAV Sites", furthering industry understanding of how water saving devices can be most effective in reducing water demand and learning how best to influence customer behaviour.

We have also been active partners in completing two further Ofwat Innovation projects "Designer Liner 1", developing new technologies to renew water mains and "Whole-Life Carbon Costs in Design", refining approaches to reduce carbon through how we design new assets. We continue to support the "Safe, Smart Systems", which paves the way for developing true smart water networks across the industry.

We continue to seek opportunities to further innovation in the industry and have been successful partners in bids for three further projects for 2023/24. "Designer Liner 2", builds on the success of the first phase completed in 2022/23, "Mainstreaming Nature Based Solutions" assesses innovative approaches to working with nature to address key challenges faced by the water industry, and finally "Water Efficiency in Faith Groups", which works with various faith groups across our communities to reduce water demand.

Political contributions

No political contributions were made during the year (2022: £nil), in accordance with the company's policy of not making political contributions.

Financial instruments disclosures

Details are included within risk number 15 on page 120 of the Strategic Report and in note A4 of the Financial Statements.

Employee matters

We maintain a network of trained mental health first aiders within the business and continue to publicise our Employee Assistance Programme.

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

Engagement with employees

We consult and inform our employees on all aspects of business performance through formal and informal consultation bodies, regular team meetings, email, and the intranet. We discuss ways to enhance and improve our communications and consultation channels directly with employees as well as with the Trade Unions to which a number of employees belong.

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

See page 103 for details in our Section 172(1) statement on how directors have engaged with employees.

Engagement with other stakeholders

See page 104 for details in our Section 172(1) statement on how directors have engaged with suppliers, customers, and other stakeholders.

Future developments

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

Corporate governance

The company's statement on corporate governance, including information required by the Disclosure and Transparency Rules, can be found in the Corporate governance report on pages 142 to 155 of this Annual Report and Financial Statements. This section forms part of this Directors' Report and is incorporated into it by cross-reference. We have reported our compliance with the Affinity Water Corporate Governance Code, which is available on our website at: affinitywater.co.uk/governance-assurance.

Events after the reporting period

There were no significant events that took place after the reporting period.

Going concern

The directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements as they believe that the company has adequate resources to meet its current operational and financial obligations, and the directors have a reasonable expectation that this will continue for the foreseeable future and for a period of at least 12 months from the date of approval of these financial statements. This is based on the assessment of the principal risks of the company and the other matters discussed in connection with the viability statement on pages 122 to 126, as well as consideration of the company's budgeted cash flows, short- and long-term forecasts and ability to generate future revenues, related assumptions and available debt facilities.

To assess the severe, but plausible, downside scenario, management have considered a base case scenario that reflects the current market conditions in the economy and have applied a series of severe downside assumptions. These include both increased costs from the financial impacts of operational events, including the impact of a severe cold weather event over the winter period, and an increase in bad debt representing, approximately, 20% of debt not currently subject to loss allowance provision. These severe, but plausible, downside scenarios are overlaid on our base case forecast, which has taken into consideration the impact of inflation, interest rates, supply chain cost pressures, the energy price crisis and the cost-of-living crisis.

Both an ICR Trigger and Default Event would occur in a number of these severe, but plausible, downside scenarios detailed in the viability statement. However, this is on the assumption that no mitigating actions would be taken. Management are confident that mitigation actions wthin their control could be implemented that would prevent a trigger or default event from occurring should one of these scenarios arise. Under an ICR Trigger Event, the company would be subject to certain constraints, such as restrictions on dividends and restriction on debt buybacks. However, the directors are satisfied that an ICR Trigger Event would not, fundamentally, constrain the company's ability to carry out its business, particularly after considering the company's strong cash position, meaning that the company has no further funding requirement in AMP7. Under an ICR Default Event, each finance party may declare all amounts outstanding under the applicable Finance Documents to be immediately due and payable.

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

The directors have also considered the ring fence structure in place and have obtained comfort that the existence of external borrowings outside of this structure, namely that within Affinity Water Holdco Finance Limited, does not impact the conclusions reached regarding the ability of the company to continue as a going concern. This is due to the fact that the company has no obligation to distribute funds through the holding company structure in order to meet such liabilities.

Details of the company's cash and short-term investment are included in the statement of financial position on page 228, and undrawn committed borrowing facilities are included in note 17. Due to the nature of the regulated water company's business, the directors consider it appropriate to place reliance on projected financials. There have been no events after the reporting period significantly affecting liquidity headroom.

Directors' qualifying third-party indemnity provisions

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

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

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

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

The directors consider that the Annual Report and Financial Statements, taken as a whole, are fair, balanced, and understandable, and provide the information necessary for shareholders to assess the company's position and performance, business model and strategy.

In the case of each director in office at the date the Directors' Report is approved:

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

Independent Auditors

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

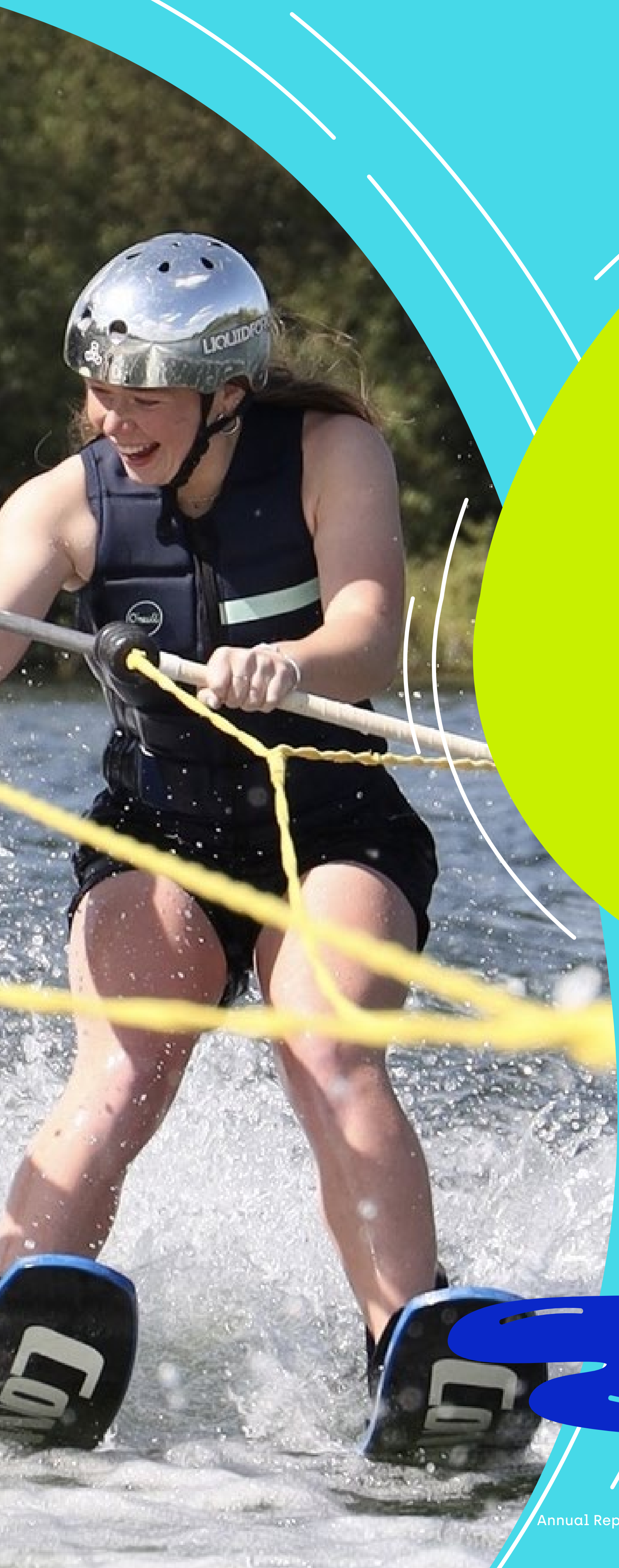
By order of the Board

Patrick Makoni
Group Company Secretary

12 July 2023

Registered Office:
Affinity Water Limited
Tamblin Way
Hatfield
Hertfordshire

Financials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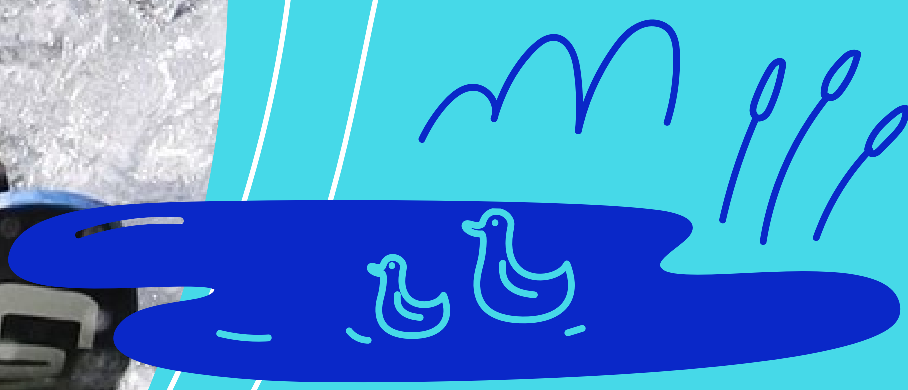

Independent Auditors' report to the members of Affinity Water Limited

Report on the audit of the financial statements

Opinion

In our opinion, Affinity Water Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2023 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of financial position as at 31 March 2023; the Income statement, the Statement of comprehensive income, the Statement of changes in equity and the Statement of cash flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Our audit approach

Context

The terms of the company's licence under the Water Industry Act 1991 require the company to report as if it had issued equity share capital listed on the London Stock Exchange and therefore the opinion below refers to the Listing Rules of the Financial Conduct Authority.

Our key audit matters for the year ended 31 March 2023 remain consistent with the year ended 31 March 2022, as set out in further detail below.

Overview

Audit scope

- The company has one finance function, with the audit being carried out by one team.
- In scoping our audit, with reference to our risk assessment, we identified and included all material financial statement line items within the scope of our audit procedures.

Key audit matters

- Accuracy of the measured income accrual
- Adequacy of loss allowance for trade receivables
- Assessment of cost capitalisation

Materiality

- Overall materiality: £3.0 million (2022: £3.8 million) based on approximately 3.5% of the earnings before interest, tax, depreciation and amortisation ('EBITDA') (2022: 3.5% of EBITDA).
- Performance materiality: £2.2 million (2022: £2.9 million).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

The key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Accuracy of the measured income accrual	
Refer to page 156 (Audit, Risk and Assurance Committee Report), page 231 (accounting policies) and page 245 (note 12).	
A measured income accrual of £39.8 million (31 March 2022: £40.9 million) has been recognised relating to revenue from the provision of water services to metered household customers that had not been billed at the year end date.	The measured income accrual is a manual calculation prepared using data from the Hi-Affinity billing system. We understood the methodology and ensured that it had been applied consistently with previous years. We also tested the mechanics of the spreadsheet used to calculate the measured income accrual.
The determination of the measured income accrual impacts directly on both reported revenue and operating profit. The measured income accrual accounts for the timing difference between the last meter reading and the estimated consumption of water from that point to the year end and is calculated based on the average consumption over the past two years by small geographical groupings of customers.	In respect of the integrity of the data within Hi-Affinity, we tested the design and operating effectiveness of key controls within the revenue and receivables cycle, including the reconciliation of reports produced from the Hi-Affinity billing system and the revenue journals posted to the general ledger, and the quarterly review of tariff changes made in the Hi-Affinity billing system.
Given the range of factors underlying this estimate, there is a risk that the measured income accrual and associated revenue could be materially misstated.	We also validated the accuracy of the data within Hi-Affinity by agreeing a sample of meter readings to the system and tracing actual consumption to the bills raised. To assess the overall reasonableness of the accrual, we performed an independent roll forward of the accrual recognised at 31 March 2022 to calculate an expected accrual at 31 March 2023, reflecting the underlying changes in the number of metered customers, pricing tariffs, levels of water consumption and the timing of meter readings. In order to assess the ability of management to prepare appropriate estimates in respect of the measured income accrual, we evaluated the historical accuracy of the estimation process by comparing the bills raised through the year to the amount accrued at 31 March 2022. We also compared the billing subsequent to 31 March 2023 and extrapolated the difference identified against the remainder of the accrual. Based on the procedures performed, we did not identify any material misstatements. We also assessed the disclosures in respect of the measured income accrual and consider these to be appropriate.

Independent Auditors' report to the members of Affinity Water Limited continued

Key audit matter	How our audit addressed the key audit matter
Adequacy of loss allowance for trade receivables Refer to page 156 (Audit, Risk and Assurance Committee Report), page 231 (accounting policies), page 245 (note 12) and page 260 (note A4).	
The loss allowance for trade receivables of £37.0m (31 March 2022: £33.0m) was calculated by applying a range of different percentages to trade receivables based on their respective ageing, with higher percentages applied to those categories of trade receivables which are considered to be of greater risk.	We reviewed the methodology for calculating the underlying loss allowance for trade receivables and ensured it had been consistently applied with the prior year, with the exception of an incremental provision in respect of the impact of the cost of living on customers no longer being recognised. This is on the basis that this impact is reflected within the underlying collection rates used to calculate the provision.
Some customers have difficulty paying their bills or, in certain instances, choose not to pay them. As a result, given there are limited steps that a water company can take to recover debt from household customers, there is an ongoing risk of aged trade receivables not being collected, with this risk being heightened by the economic impact of the increased cost of living being experienced by customers.	We also understood and tested the mechanics of the spreadsheet used to calculate the initial loss allowance, the measurement basis (measured and unmeasured) and the methodology applied to calculate provision rates and agreed that they are consistent with the prior year. To ensure the appropriate classification of customers into sub-categories to apply the historical expected credit loss methodology, we selected a sample of trade receivables and tested that they have been allocated the appropriate provision rate based on ageing, customer type and measurement basis.
Given the quantum of trade receivables, and the range of assumptions used in preparing the loss allowance for trade receivables, there is a risk that this estimate could be materially misstated.	In addition, we compared the actual rates used in the calculation of the loss allowance to prior year rates and reviewed the level of bad debt write offs which occurred during the year ended 31 March 2023 to assess the ability of management to prepare appropriate estimates. We also challenged management on the appropriateness of their methodology, through the use of sensitivity analysis to assess the impact of calculating the provision and performed sensitivity analysis using average collection rates over a number of periods showing the provision is materially appropriate. Based on the procedures performed, we did not identify any material differences within the loss allowance for trade receivables. We also assessed the disclosures in respect of the loss allowance for trade receivables and consider these to be appropriate.

Key audit matter	How our audit addressed the key audit matter
Assessment of cost capitalisation	
Refer to page 156 (Audit, Risk and Assurance Committee Report), page 231 (accounting policies), page 241 (note 6) and page 260 (note A4).	We reviewed the process for allocating costs to capital projects to check that this allocation was made on an appropriate basis and is in line with the company's capitalisation policy.
The additions to assets under construction during the year amounted to £114.3m (year ended 31 March 2022: £136.0m). These additions arose as a result of the fact that the company capitalises expenditure with respect to its infrastructure assets where such expenditure enhances or increases the capacity of the network, or relates to material replacements of network components.	We also reviewed journals impacting property, plant and equipment with a credit to an unexpected income statement account. This test was performed to address the risk of non-capital expenditure being inappropriately capitalised.
The allocation of costs between capital and non-capital expenditure has a direct impact on profitability in any given year.	We also performed a review of capital projects within assets under construction, to understand the nature of the work being performed and the estimated completion dates of the projects. We then used this information to challenge, where appropriate, the accounting treatment of these projects as at 31 March 2023.
There is also a risk of completed assets not being appropriately transferred from assets under construction to the relevant asset categories.	We examined the process of capitalising staff time through the inspection of time sheet data and tested a sample of staff costs capitalised to ensure that the time capitalised related to valid capital projects.
Given the magnitude of capital expenditure, there is a risk that incorrect classification could give rise to a material misstatement.	We also tested a sample of additions to assets under construction during the year to corroborate the amount and appropriateness of these assets being capitalised.
	Overall, we consider the costs capitalised as at 31 March 2023 to be materially appropriate. We also assessed the disclosures in respect of the capitalisation of costs and consider these to be appropriate.

Independent Auditors' report to the members of Affinity Water Limited continued

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

The company has one finance function, with the audit being carried out by one team.

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

The impact of climate risk on our audit

Planning for, reacting to and assessing the impact of current and future changes in environmental factors, for example the volume and intensity of rainfall and periods of drought, is an inherent part of the company's day to day activities.

The majority of the company's carbon emissions are incurred in the treatment of water during the normal course of its operations, and the company continues to develop its assessment of climate change in terms of capital expenditure, the useful economic lives of assets currently in use (and those currently under construction) and impacts on cash flows.

In planning our audit, we considered the impact that the company has on the environment through its operations and the impact the environment, including the current and potential future impact of climate change, has on the company's business and its financial statements. We did not identify any additional risks of material misstatement in this respect.

As part of our audit, we made enquiries of management to understand the extent of the potential impact of climate change risks on the company's financial statements, including their assessment of critical accounting estimates and judgements, and the effect on our audit.

Whilst it is acknowledged that the physical and transition risks posed by climate change have the potential to impact the company over the medium to long-term, in particular given the commitment to achieve net zero carbon from operations by 2030, management has assessed that there is no quantitatively material impact arising from climate change on the judgements and estimates made in the financial statements for the year ended 31 March 2023.

We read the company's climate related disclosures in the other information within the Annual Report and considered consistency with the financial statements and our audit knowledge. We also made additional considerations throughout the performance of our audit to address areas which are commonly seen to be impacted by the risks associated with climate change, including the assumptions made as part of the assessment of the company to continue as a going concern, the long term viability of the company and the appropriateness of the useful economic lives of material non-current assets. We have not identified any material exceptions through the procedures performed.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall company materiality	£3.0 million (2022: £3.8 million).
How we determined it	Based on approximately 3.5% of the earnings before interest, tax, depreciation and amortisation ('EBITDA') (2022: based on approximately 3.5% of EBITDA)
Rationale for benchmark applied	We have used EBITDA as this is the measure that management focus on internally within their reporting. The use of EBITDA is also consistent with the prior year.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2021: 75%) of overall materiality, amounting to £2.2 million (2022: £2.9 million) for the company financial statements.

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

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £0.15 million (2022: £0.2 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

- testing the mathematical accuracy of the base case going concern model prepared by management and agreeing this to Board approved budgets;
- assessing the inputs and underlying assumptions of the base case model;
- assessed the accuracy of the cash flow forecast prepared in the prior year so as to obtain assurance of the ability of management to prepare accurate forecasts;
- assessing the downside scenario which has been used to sensitise the base case model, including consideration of the underlying assumptions;
- reviewing management's analysis of both liquidity and covenant compliance to ensure there is sufficient liquidity and no forecast covenant breaches during the going concern period; and
- assessing the extent of mitigating actions that could be taken by management, if necessary, to prevent a trigger or default event arising against the covenants in place.

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

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

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

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information, which includes reporting based on the Task Force on Climate-related Financial Disclosures ('TCFD') recommendations. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

Independent Auditors' report to the members of Affinity Water Limited continued

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

Corporate governance statement

ISAs (UK) require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code, which the Listing Rules of the Financial Conduct Authority specify for review by auditors of premium listed companies. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the company was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the company and its environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the audit committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Other voluntary reporting

Directors' remuneration

The company voluntarily prepares a Remuneration Report in accordance with the provisions of the Companies Act 2006. The directors requested that we audit the part of the Remuneration Report specified by the Companies Act 2006 to be audited as if the company were a quoted company.

In our opinion, the part of the Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

12 July 2023

Income statement

for the year ended 31 March 2023

(Registered Number 02546950)

	Note	2023 £000	2022 £000
Revenue	1	**323,343**	319,747
Cost of sales		**(282,452)**	(258,553)
Gross profit		**40,891**	61,194
Administrative expenses		**(37,650)**	(38,159)
Impairment losses on financial and contract assets	2.1	**(11,199)**	(7,444)
Other operating income	2.2	**21,929**	18,972
Operating profit	2	**13,971**	34,563
Finance income	4	**19,529**	16,043
Finance costs	4	**(169,693)**	(102,873)
Fair value gain/(loss) on inflation swaps	4	**50,122**	(31,295)
Net finance costs	4	**(100,042)**	(118,125)
Fair value (loss)/gain on energy swaps		**(26,638)**	27,988
Loss before tax		**(112,709)**	(55,574)
Income tax credit/(expense)	5	**11,764**	(41,331)
Loss for the financial year		**(100,945)**	(96,905)

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

The notes on pages 231 to 270 are an integral part of these financial statements.

Statement of comprehensive income

for the year ended 31 March 2023

(Registered Number 02546950)

	Note	**2023 £000**	2022 £000
Loss for the financial year		**(100,945)**	(96,905)
Other comprehensive (expense)/income for the year which will not be reclassified to profit or loss:			
Re-measurements of post-employment benefit assets	10	**(52,114)**	28,749
Deferred tax credit/(charge) on items that will not be reclassified	5	**13,029**	(7,187)
Other comprehensive (expense)/income for the year, net of tax		**(39,085)**	21,562
Total comprehensive expense for the year		**(140,030)**	(75,343)

The notes on pages 231 to 270 are an integral part of these financial statements.

Statement of financial position

as at 31 March 2023

(Registered Number 02546950)

	Note	2023 £000	2022 £000
Assets			
Non-current assets			
Property, plant and equipment	6	**1,658,058**	1,615,571
Right-of-use assets	7	**7,649**	9,440
Intangible assets	8	**42,611**	43,266
Investments	9	**100**	100
Retirement benefit surplus	10	**53,615**	104,247
Derivative financial instruments	11	**3,283**	7,342
		1,765,316	1,779,966
Current assets			
Inventories	13	**4,833**	4,348
Derivative financial instruments	11	**6,068**	20,646
Trade and other receivables	12	**102,566**	103,821
Short-term investments	9	**66,709**	70,179
Cash and cash equivalents	14	**78,783**	135,604
		258,959	334,598
Total assets		**2,024,275**	2,114,564
Equity and liabilities			
Equity			
Called up share capital	15	**30,506**	30,506
Share premium account	15	**1,400**	1,400
Capital contribution reserve	15	**30,150**	30,150
Accumulated losses		**(157,783)**	(17,753)
Total equity		**(95,727)**	44,303
Liabilities			
Non-current liabilities			
Trade and other payables	16	**262,074**	247,074
Borrowings	17	**1,331,716**	1,275,788
Lease liabilities	18	**4,785**	6,329
Derivative financial instruments	11	**121,719**	106,818
Deferred tax liabilities	19	**206,738**	231,530
Provisions for other liabilities and charges	20	**3,319**	3,107
		1,930,351	1,870,646
Current liabilities			
Trade and other payables	16	**176,889**	192,817
Lease liabilities	18	**3,053**	3,317
Derivative financial instruments	11	**2,128**	–
Provisions for other liabilities and charges	20	**4,100**	–
Current tax liabilities		**3,481**	3,481
		189,651	199,615
Total liabilities		**2,120,002**	2,070,261
Total equity and liabilities		**2,024,275**	2,114,564

The notes on pages 231 to 270 are an integral part of these financial statements. The statutory financial statements on pages 226 to 270 were approved by the Board of directors and were signed and authorised for issue on 12 July 2023 on its behalf by:

Keith Haslett
Chief Executive Officer

Martin Roughead
Chief Financial Officer

Statement of changes in equity

for the year ended 31 March 2023

(Registered Number 02546950)

	Note	Called up share capital £000	Share premium account £000	Capital contribution reserve £000	Retained earnings/ (accumulated losses) £000	Total equity £000
Balance as at 1 April 2021		30,506	1,400	30,150	57,590	119,646
Loss for the year		–	–	–	(96,905)	(96,905)
Other comprehensive income		–	–	–	21,562	21,562
Total comprehensive expense		–	–	–	(75,343)	(75,343)
Total transactions with owners recognised directly in equity		–	–	–	–	–
Balance as at 31 March 2022		30,506	1,400	30,150	(17,753)	44,303
Balance as at 1 April 2022		**30,506**	**1,400**	**30,150**	**(17,753)**	**44,303**
Loss for the year		**–**	**–**	**–**	**(100,945)**	**(100,945)**
Other comprehensive expense		**–**	**–**	**–**	**(39,085)**	**(39,085)**
Total comprehensive expense		–	–	–	(140,030)	(140,030)
Total transactions with owners recognised directly in equity		–	–	–	–	–
Balance as at 31 March 2023		**30,506**	**1,400**	**30,150**	**(157,783)**	(95,727)

The notes on pages 231 to 270 are an integral part of these financial statements.

Statement of cash flows

for the year ended 31 March 2023

(Registered Number 02546950)

	Note	2023 £000	2022 £000
Cash flows from operating activities			
Cash generated from operations	21.1	**98,088**	101,280
Interest paid		**(42,868)**	(41,807)
Tax received/(paid)		**–**	(130)
Net cash inflow from operating activities excluding capital contributions		**55,220**	59,343
Capital contributions		**9,637**	25,771
Net cash inflow from operating activities		**64,857**	85,114
Cash flows from investing activities			
Investment in short-term deposits		**3,470**	(55,046)
Purchases of property, plant and equipment		**(122,385)**	(131,288)
Proceeds from sale of property, plant and equipment		**535**	435
Purchases of intangible assets		**(5,299)**	(8,608)
Interest received		**19,680**	16,886
Net cash outflow from investing activities		**(103,999)**	(177,621)
Cash flows from financing activities			
Proceeds from loan from subsidiary undertaking		**–**	146,994
Principal elements of lease payments	18	**(3,475)**	(3,649)
Repayment of borrowings		**(14,204)**	–
Net cash (outflow)/inflow from financing activities		**(17,679)**	143,345
Net (decrease)/increase in cash and cash equivalents		**(56,821)**	50,838
Cash and cash equivalents at the beginning of the year		**135,604**	84,766
Cash and cash equivalents at end of year	14	**78,783**	135,604

The notes on pages 231 to 270 are an integral part of these financial statements.

Notes to the financial statements – accounting policies

Basis of preparation

These financial statements have been prepared under the historical cost convention, modified by revaluation of financial assets and financial liabilities held at fair value through profit and loss, and in accordance with the Companies Act 2006 and Financial Reporting Standard 101: 'Reduced disclosure framework' ('FRS 101') as issued by the Financial Reporting Council.

In preparing these financial statements, the company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the UK (UK-adopted international accounting standards), but makes amendments where necessary in order to comply with the Companies Act 2006 and to take advantage of FRS 101 disclosure exemptions.

On 31 December 2020, EU-adopted IFRS was brought into UK law and became UK-adopted international accounting standards, with future changes to IFRS being subject to endorsement by the UK Endorsement Board. In preparing these financial statements in accordance with FRS 101, the company financial statements transitioned to UK-adopted international accounting standards (as described above) on 1 January 2021. There is no impact on recognition, measurement or disclosure in the period reported as a result of this change.

Going concern

The directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements as they believe that the company has adequate resources to meet its current operational and financial obligations, and the directors have a reasonable expectation that this will continue for the foreseeable future and for a period of at least 12 months from the date of approval of these financial statements. This is based on assessment of the principal risks of the company and the other matters discussed in connection with the viability statement on pages 122 to 126, as well as consideration of the company's budgeted cash flows, short and long term forecasts and ability to generate future revenues, related assumptions and available debt facilities.

To assess the severe but plausible downside scenario, management have considered a base case scenario that reflects the current market conditions in the economy and have applied a series of severe downside assumptions. These include both increased costs from the financial impacts of operational events, including the impact of a severe cold weather event over the winter period, and an increase in bad debt representing approximately 20% of debt not currently subject to loss allowance provision. These severe but plausible downside scenarios are overlaid on our base case forecast which has taken into consideration the impact of inflation, interest rates, supply chain cost pressures, the energy price crisis and the cost of living crisis.

Both an ICR Trigger and Default Event would occur in a number of these severe but plausible downside scenarios detailed in the viability statement. However this is on the assumption that no mitigating actions would be taken. Management are confident that mitigation actions within their control could be implemented that would prevent a trigger or default event from occurring should one of these scenarios arise. Under an ICR Trigger Event, the company would be subject to certain constraints such as restrictions on dividends and restriction on debt buybacks. However, the directors are satisfied that an ICR Trigger Event would not fundamentally constrain the company's ability to carry out its business, particularly after considering the company's strong cash position meaning that the company has no further funding requirement in AMP7. Under an ICR Default Event, each finance party may declare all amounts outstanding under the applicable Finance Documents to be immediately due and payable.

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

The directors have also considered the ring fence structure in place and have obtained comfort that the existence of external borrowings outside of this structure, namely that within Affinity Water Holdco Finance Limited, does not impact the conclusions reached regarding the ability of the company to continue as a going concern. This is due to the fact that the company has no obligation to distribute funds through the holding company structure in order to meet such liabilities.

Details of the company's cash and short-term investment are included in the statement of financial position on page 228, and undrawn committed borrowing facilities are included in note 17. Due to the nature of the regulated water company's business, the directors consider it appropriate to place reliance on projected financials. There have been no events after the reporting period significantly affecting liquidity headroom.

Principal accounting policies

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

Adoption of new and revised standards

There are no amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 March 2023 that have a material impact on the company's financial statements.

Notes to the financial statements – accounting policies continued

New standards, amendments and interpretations not yet adopted

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

Disclosure exemptions

As permitted by FRS 101, the company has taken advantage of the following disclosure exemptions available under that standard in the preparation of these financial statements:

- Paragraph 38 of IAS 1: 'Presentation of financial statements' comparative information requirements in respect of:
  - paragraph 79(a)(iv) of IAS 1: 'Presentation of financial statements';
  - paragraph 73(e) of IAS 16: 'Property, plant and equipment'; and
  - paragraph 118(e) of IAS 38: 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period)
- The following paragraphs of IAS 1: 'Presentation of financial statements':
  - 16 (statement of compliance with all IFRS); and
  - 38B-D (additional comparative information)
- Paragraphs 40A-D of IAS 1: 'Presentation of financial statements' in respect of prior year restatements
- Paragraph 17 of IAS 24: 'Related party disclosures' (key management compensation)
- The requirements in IAS 24: 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.
- Paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36, 'Impairment of assets' (disclosures when the recoverable amount is fair value less costs of disposal, assumptions involved in estimating recoverable amounts of cash-generating units containing goodwill or intangible assets with indefinite useful lives, and management's approach to determining these amounts)

Critical accounting estimates

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Measured income accrual

The company records an accrual for measured consumption of water that has not yet been billed (refer to note 13). The accrual is estimated using a defined methodology based upon weighted average water consumption by tariff, which is calculated based upon historical information. Revenue for the year ended 31 March 2022 included a measured income accrual of £40,757,000. The value of billing recognised in the year ended 31 March 2023 for consumption in the prior year was £41,313,000.

This resulted in an increase of £556,000 in the current year's revenue due to the under-estimation of the prior year's revenue. This represented 0.17% of 2022/23 revenue.

Non-household wholesale revenue

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

Loss allowance of trade receivables and contract assets

The company makes an estimate of the recoverable value of trade receivables and contract assets and records a loss allowance based on experience (refer to note A3). This provision is based on, amongst other things, a consideration of actual collection history. At each reporting date, the company takes into consideration any significant economic changes that may impact its credit loss model and future credit losses. The actual level of receivables collected may differ from the estimated levels of recovery, which could impact operating results positively or negatively. If the average of the 2021/22 and 2022/23 provision %'s were applied across each aged debt bracket, it would result in a reduction in the loss allowance for trade receivables and contract assets by £2,311,000 and corresponding increase in net assets. For comparison, if the average of the 2020/21 and 2021/22 provision %'s were applied across each aged debt bracket in the prior year, the equivalent sensitivity would have resulted in a £188,000 reduction in the loss allowance for trade receivables and contract assets and corresponding increase in net assets in the prior year.

Useful economic lives of property, plant and equipment

The annual depreciation charge for property, plant and equipment is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on management's judgement and experience, which include the knowledge and research of the company's dedicated asset management teams and the company's plans to achieve Net Zero carbon emissions by 2030. Refer to note 7 for the carrying amount of property, plant and equipment and note A3 for the useful economic lives for each class of assets.

Based on the current useful lives, the carrying amount of property, plant and equipment at 31 March 2023 is £1,658,058,000 (2022: £1,615,571,000). If the useful lives of the assets were 10% shorter, the carrying amount would instead be £1,215,568,000 (2022: £1,164,882,000) and if they were 10% longer, the carrying amount would be £1,823,352,000 (2022: £1,747,322,000).

Based on the current useful lives, the carrying amount of intangible assets, excluding goodwill, at 31 March 2023 is £27,650,000 (2022: £28,305,000). If the useful lives of the assets were 10% shorter, the carrying amount would instead be £25,004,000 (2022: £25,150,000) and if they were 10% longer, the carrying amount would be £30,297,000 (2022: £31,460,000).

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

Defined benefit pension plan

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

Notes to the financial statements – accounting policies continued

Critical accounting judgements in applying the entity's accounting policies

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

Revenue recognition

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

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

Grants and contributions

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

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

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

Cost capitalisation

The company capitalises expenditure on its infrastructure assets to property, plant and equipment where such expenditure enhances or increases the capacity of the network, or relates to material replacements of network components. Any expenditure classed as maintenance is expensed in the year it is incurred. Distinguishing between enhancement and maintenance expenditure is a subjective area, particularly when projects have both elements within them. The company is seeing increased enhancement and maintenance expenditure due to an increase in extreme weather events arising due to climate change. Refer to note 7 for the carrying amount of property, plant and equipment.

Climate change

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

The company is continually developing its assessment of the impact that climate change has on the assets and liabilities recognised and presented in its financial statements, such as the valuation of the property, plant and equipment, which could be impacted by either flooding or drought, or management's decision to replace assets as part of the company's Net Zero strategy. Management has considered the useful economic lives of assets impacted by climate change and environmental regulation and has considered whether any impairment has arose as a result of climate change. There has been no revaluation of assets or change in the assessment of assets' useful economic lives during 2022/23 as a result of this review.

The company established a Green Finance Framework during the year and issued its first green bond in October 2021 to finance projects which will adapt to and mitigate the effects of climate change. Updates on the proceeds and impact of the Green Funding can be found on our website at affinitywater.co.uk/corporate/investors/library.

Notes
to the financial statements

1. Revenue

1.1 Disaggregation of revenue from contracts with customers

	2023 £000	2022 £000
Timing of revenue recognition – at a point in time		
Unmeasured supplies	**95,859**	100,115
Measured supplies	**160,210**	155,232
Non-household wholesale revenue	**54,028**	51,111
Connection charges	**9,628**	7,989
	319,725	314,447
Timing of revenue recognition – over time		
Requisitioned mains/extensions	**556**	573
Diversions	**1,821**	3,382
Infrastructure charges	**1,178**	1,145
Other	**63**	200
	3,618	5,300
	323,343	319,747

All revenue is derived in the United Kingdom.

1.2 Assets and liabilities related to contracts with customers

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

	2023 £000	2022 £000
Net trade receivables	**36,839**	33,480
Contract assets		
Unbilled accrual for metered customers – household customers	**39,516**	40,847
Unbilled accrual for metered customers – non-household customers	**3,928**	3,506
Contract liabilities		
Payments received in advance – household water supplies	**48,500**	46,746
Payments received in advance – non-household water supplies	**591**	–
Deferred income – water supplies	**76**	207
Deferred income – other	**506**	622
Deferred grants and contributions	**269,039**	252,772
Payments received in advance – grants and contributions	**15,104**	27,023

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

Significant changes in contract assets and liabilities

Up to 31 March 2023, the company had been reimbursed £157,631,000 (2022: £154,187,000) for its costs incurred in relation to the HS2 rail project, which will cross the Affinity Water supply area. This project is near completion and the company does not expect to incur significant costs for this in future periods. During the year, in line with the company's accounting policy for grants and contributions received in respect of property, plant and equipment, which include contributions received for diversions, £16,364,000 (2022: £98,478,000) relating to costs for assets that have been commissioned was reclassified from payments in advance – grants and contributions to deferred grants and contributions. At 31 March 2023, £1,348,000 (2022: £14,268,000) of payments received were included in payments in advance – grants and contributions.

Notes
to the financial statements continued

1. Revenue continued

Recognition of trade receivables, contract assets and contract liabilities

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

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

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

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

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

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

Revenue recognised in relation to contract liabilities

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

	2023 £000	2022 £000
Revenue recognised that was included in the contract liability balance at the beginning of the year		
Payments received in advance – household water supplies	**46,746**	41,217
Payments received in advance – non-household water supplies	**–**	2,948
Deferred income – water supplies	**207**	138
Deferred income – other	**1,091**	775
Deferred grants and contributions	**3,619**	5,300
Payments received in advance – grants and contributions	**11,924**	7,585
Revenue recognised from performance obligations satisfied in previous years		
Unbilled accrual for metered customers – household customers	**–**	–

Revenue expected to be derived from unsatisfied performance obligations

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

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

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

At 31 March 2023, £269,039,000 (2022: £154,294,000) of grants and contributions is expected to be derived from performance obligations which were unsatisfied at the end of the reporting year.

2. Operating profit

2.1 Operating costs

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

	2023 £000	2022 £000
Staff costs (note 3.1)	**55,549**	55,367
Energy costs	**41,096**	35,937
Profit on disposal of property, plant and equipment	**(535)**	(244)
Loss on disposal of infrastructure assets	**888**	728
Purchase of bulk water and water supplied under statutory entitlement	**11,723**	8,440
Water abstraction charges	**6,349**	4,201
Business rates	**15,547**	15,551
Chargeable services direct (income)/expenditure	**(57)**	72
Depreciation of infrastructure assets (note 6)	**17,033**	11,964
Depreciation of other property, plant and equipment (note 6)	**53,906**	48,487
Depreciation of right-of-use assets (note 7)	**3,458**	3,681
Amortisation of intangible assets (note 8)	**5,954**	11,125
Impairment of trade receivables and contract assets (note 12)	**11,199**	7,444
Research and development	**196**	133
Short-term lease rentals	**24**	37
Low-value lease rentals	**76**	129
Auditors' remuneration (note 2.3)	**550**	457
Cost of inventories used	**1,203**	1,334

2.2 Other operating income

	2023 £000	2022 £000
Timing of revenue recognition – at a point in time		
Commission and rentals	**21,929**	18,972

The majority of other income relates to commission earned by the company from billing and collecting charges in respect of sewerage and infrastructure within its area on behalf of Thames Water Utilities Limited and Anglian Water Services Limited (refer to note 23).

2.3 Auditors' remuneration

During the year, the company obtained the following services from its Auditor and its associates:

	2023 £000	2022 £000
Fees payable to the company's Auditor and its associates for the audit of the financial statements	**314**	248
Fees payable to the company's Auditor and its associates and subsidiaries for other services:		
Audit of the company's associates and subsidiaries	**99**	90
Audit-related assurance services		
– regulatory reporting	**64**	61
– Thames Water and Anglian Water annual returns	**8**	10
– audit related assurance service – other	**64**	47
Other non-audit services	**1**	1
Total Auditors' remuneration	**550**	457

Notes
to the financial statements continued

3. Employees

3.1 Employee benefit expense (including Executive directors)

	2023 £000	2022 £000
Wages and salaries	**64,638**	62,408
Social security costs	**7,160**	6,667
Other pension costs	**9,476**	8,399
Staff costs	**81,274**	77,474
Staff costs capitalised	**(25,725)**	(22,107)
Staff costs recognised in the income statement	**55,549**	55,367

3.2 Average number of people employed

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

By activity	2023 Number	2022 Number
Operations	**875**	854
Customer service	**250**	257
Administration	**251**	262
	1,376	1,373

3.3 Directors' remuneration

Directors' emoluments were as follows:

	2023 £000	2022 £000
Aggregate emoluments	**1,113**	1,839

There was a change in the Chief Executive Officer ('CEO') of Affinity Water Limited during current and prior year. Pauline Walsh served as CEO until 17 September 2021. Stuart Ledger served as interim CEO from 18 September 2021 until 16 December 2022. Keith Haslett was appointed permanent CEO on 3 January 2023.

Aggregate amounts receivable under long-term incentive schemes were £110,000 (2022: £482,000), not included within aggregate emoluments above. In the current year, the total of £110,000 relates to Stuart Ledger. £67,000 of this total relates to the 2020/21 scheme for his period in office, which vested in the year ended 31 March 2023, with the balance of £43,000 relating to payments already accrued for the 2021/22 scheme for his period in office. An amount of £81,500 was paid in December 2022, with the balance due in July 2023

In the prior year, the total of £482,000 breaks down as follows. For Pauline Walsh, £230,000 related to the 2019/20 LTIP scheme vesting in the year ended 31 March 2022, with the remaining amount of £132,000 relating to accrued elements of the 2020/21 and 2021/22 LTIP schemes earned on a pro-rata basis for the period served in office. Both amounts were fully paid in July 2022. For Stuart Ledger, £120,000 related to the 2019/20 LTIP scheme vesting in the year ended 31 March 2022, a third of which was paid in July 2022 in accordance with the scheme rules, with the remainder to be honoured by his new employer.

Neither the company nor its immediate parent entities has any listed shares and so the directors have not been offered any share incentives. The Non-Executive directors who were appointed by Allianz Capital Partners on behalf of the Allianz group, DIF and InfraRed Capital Partners Limited on behalf of HICL Infrastructure plc did not receive any emoluments from the company, or any company within the Affinity Water group.

Highest paid director

The highest paid director's emoluments were as follows:

	2023 £000	2022 £000
Aggregate emoluments	**375**	933

Aggregate amounts receivable under long-term incentive schemes were £110,000 (2022: £362,000), not included within aggregate emoluments above. Of this, £67,000 relates to the 2020/21 scheme for the period in office, which vested in the year ended 31 March 2023, which vested in the year ended 31 March 2023, with the balance of £43,000 relating to payments already accrued for the 2021/22 scheme for the period in office. An amount of £81,500 was paid in December 2022, with the balance due in July 2023. The prior year total includes £230,000 related to the 2019/20 LTIP scheme, which vested in the year ended 31 March 2022, with the remaining amount of £132,000 relating to accrued elements of the 2020/21 and 2021/22 LTIP schemes earned on a pro-rata basis for the period served in office. The company made no contributions to a pension plan in respect of the highest paid director's qualifying services during the year (2022: £nil). The highest paid director did not hold any share options during the year.

Further information regarding directors' remuneration during the year can be found within the Remuneration Report on pages 180 to 201.

4. Finance income and costs

	2023 £000	2022 £000
Finance income:		
Bank interest income	3,462	192
Net interest receivable on RPI linked inflation swaps	6,745	7,434
Net interest receivable on CPI linked inflation swaps	6,483	6,929
Net income from post-employment benefits	2,839	1,488
	19,529	16,043
Finance costs:		
Interest payable on borrowings held at amortised cost from parent company	(160)	(160)
Interest payable on borrowings held at amortised cost from subsidiary undertakings	(37,522)	(37,411)
Accretion payable in respect of interest on loans from subsidiary undertakings	(72,096)	(35,047)
Accretion payable on financial instrument	(59,114)	(29,574)
Interest payable on lease liabilities	(266)	(313)
Other	(535)	(368)
	(169,693)	(102,873)
Fair value gain/(loss) on financial instruments:		
Fair value gain/(loss) on inflation swaps	50,122	(31,295)
	50,122	(31,295)
Net finance costs	(100,042)	(118,125)

5. Income tax credit/(expense)

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

	2023 £000	2022 £000
Current tax:		
– UK corporation tax on losses for the year	–	–
Total current tax	–	–
Deferred tax:		
– Origination and reversal of temporary differences	12,044	10,949
– Adjustment in respect of prior years	(4,083)	2,449
– Impact of change in tax rate	3,803	(54,729)
Total deferred tax	11,764	(41,331)
Income tax credit/(expense)	11,764	(41,331)

Tax credit assessed for the year is lower (2022: tax expense is higher) than the standard rate of corporation tax in the UK for the year ended 31 March 2023 of 19% (2022: 19%). The differences are explained below:

	2023 £000	2022 £000
Loss before tax	112,709	55,574
Tax calculated at the standard rate of tax in the UK of 19% (2022: 19%)	21,415	10,559
Tax effects of:		
– Adjustments in respect of prior years	(4,083)	2,449
– Expenses not deductible for tax purposes	(461)	390
– Unrelieved losses carried forward	(8,910)	–
– Impact of change in tax rate on deferred tax	3,803	(54,729)
Income tax credit/(expense)	11,764	(41,331)

Notes
to the financial statements continued

5. Income tax credit/(expense) continued

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

	2023 £000	2022 £000
Deferred tax:		
– Impact of change in tax rate on deferred tax	**–**	(1,725)
– Origination and reversal of temporary differences on retirement benefit surplus	**13,029**	(5,462)
	13,029	(7,187)

5.3 Factors that may affect future tax charges

In the Spring Budget 2021, the UK Government announced that from 1 April 2023 the corporation tax rate would increase to 25% (rather than remaining at 19%, as previously enacted). This new law was substantively enacted on 24 May 2021. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

5.4 Reconciliation of current and deferred tax charge

	2023 £000	2023 %	2022 £000	2022 %
Loss before tax	**112,709**		55,574	
Tax calculated at the standard rate of tax in the UK of 19% (2022: 19%)	**21,415**	**19%**	10,559	19%
Tax effect of:				
Depreciation in excess of capital allowances	**(16,701)**	**(15%)**	(10,752)	(19%)
Pension movements	**371**	**0%**	183	0%
Increase in provisions	**65**	**0%**	128	0%
Expenses not deductible for tax purposes	**(42)**	**0%**	(118)	0%
Unrelieved losses carried forward	**(8,910)**	**(8%)**	–	0%
Reported current tax charge and effective rate	**(3,803)**	**(3%)**	(–)	0%
Depreciation in excess of capital allowances	**16,282**	**14%**	11,260	20%
Increase in provisions	**(64)**	**0%**	(128)	0%
Pension movements	**(371)**	**0%**	(183)	0%
Impact of change in tax rate on deferred tax	**3,803**	**3%**	(54,729)	(99%)
Adjustments to tax charge in respect of prior years	**(4,083)**	**(4%)**	2,449	4%
Reported deferred tax charge and effective rate	**15,567**	**14%**	(41,331)	(74%)
Total tax charge and effective rate	**11,764**	**11%**	(41,331)	(74%)

Impact of change in tax rate

In the 2021 Spring Budget the Government announced that from 1 April 2023 the Corporation Tax rate will increase to 25%. The deferred tax liability at 31 March 2022 was recalculated at 25%, giving a deferred tax charge in the prior year of £54,729,000 shown in the table above. There was no subsequent charge in the year to 31 March 2023 as a result of this change in tax rate.

Depreciation in excess of capital allowances

The tax relief on our infrastructure assets is different from the depreciation of these assets in the accounts (although over the total life of the assets the two amounts will be equal). In 2022/23, the amount written off for tax purposes was lower than the depreciation in the accounts, resulting in a higher tax charge for the year.

Pension movements

Tax relief is given for the amount actually paid into the company's pension plan in the year, not the amount charged in the accounts. In 2022/23, the amount paid into the pension plan was higher than the amount charged in the accounts, resulting in a lower tax charge for the year.

Provisions movements

Some provisions charged in the accounts are not deductible until the amounts provided are actually paid. Taxable profits in 2022/23 have been reduced by payments made in respect of provisions charged in previous years.

Expenses not deductible for tax purposes

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

Adjustment to tax charge in respect of prior years

The tax provision in the accounts is a best estimate at the time. The estimate is corrected when the tax returns are finalised and submitted to HMRC 12 months after the year-end. The correction made to the tax return for the year ended 31 March 2022 resulted in a lower tax charge, mainly as a result of claiming capital allowances.

6. Property, plant and equipment

	Land, buildings and operational structures £000	Potable water distribution mains £000	Raw water pipes £000	Fixed plant £000	Vehicles and mobile plant £000	Assets in course of construction £000	Total £000
Cost or deemed cost							
At 1 April 2022	310,251	1,018,342	22,761	897,391	91,629	159,469	**2,499,843**
Restatement of opening balance	(1,698)	(100,194)	–	103,530	(1,638)	–	**–**
Additions	–	–	–	–	–	114,315	**114,315**
Transfers	2,697	47,849	–	55,405	29,234	(135,185)	**–**
Disposals	–	(671)	(331)	–	–	–	**(1,002)**
At 31 March 2023	311,250	965,326	22,430	1,056,326	119,225	138,599	**2,613,156**
Accumulated depreciation							
At 1 April 2022	(105,864)	(91,769)	(2,639)	(641,672)	(42,328)	–	**(884,272)**
Restatement of opening balance	10	5,693	–	(6,464)	761	–	**–**
Charge for the year	(4,925)	(16,718)	(315)	(42,312)	(6,669)	–	**(70,939)**
Disposals	–	79	34	–	–	–	**113**
At 31 March 2023	(110,779)	(102,715)	(2,920)	(690,448)	(48,236)	–	**(955,098)**
Net book amount							
At 1 April 2022	204,387	926,573	20,122	255,719	49,301	159,469	**1,615,571**
Movement in year	(3,916)	(63,962)	(612)	110,159	21,688	(20,870)	**42,487**
At 31 March 2023	**200,471**	**862,611**	**19,510**	**365,878**	**70,989**	**138,599**	**1,658,058**

All land and buildings are held as freehold.

Assets were reclassified between land, buildings and operational structures, potable water distribution mains, fixed plant and vehicles and mobile plant in this statutory note, as shown in the line "Adjutsment to opening balance" within both cost and accumulated depreciation. This is a disclosure adjustment only with no impact on actual depreciation charged to date.

7. Right-of-use assets

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

Leasing arrangements

Lease income from operating leases where the group is a lessor is recognised in income on a straight-line basis over the lease term.

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

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

Minimum lease payments receivable on leases are as follows:

	2023 £000	2022 £000
Within 1 year	**650**	654
Between 1 and 2 years	**625**	643
Between 2 and 3 years	**463**	624
Between 3 and 4 years	**423**	463
Between 4 and 5 years	**412**	423
Later than 5 years	**1,080**	1,542
	3,653	4,349

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

8. Intangible assets

	Goodwill £000	Software £000	Total £000
Cost			
At 1 April 2022	14,961	95,560	**110,521**
Additions	–	5,299	**5,299**
At 31 March 2023	14,961	100,859	**115,820**
Accumulated amortisation			
At 1 April 2022	–	(67,255)	**(67,255)**
Charge for the year	–	(5,954)	**(5,954)**
At 31 March 2023	–	(73,209)	**(73,209)**
Net book amount			
At 1 April 2022	14,961	28,305	**43,266**
Movement in year	–	(655)	**(655)**
At 31 March 2023	**14,961**	**27,650**	**42,611**

Goodwill includes £8,283,000 relating to the unification of the Affinity Water group's regulated businesses on 27 July 2012. The remaining balance of £6,678,000 relates to goodwill arising from the acquisition of the trade and assets of North Surrey Water Limited on 1 October 2000.

Affinity Water Limited is the only cash generating unit ('CGU') due to the fact it constitutes the smallest identifiable group of assets that generate cash inflows for the entity, by means of supplying drinking water to customers. The recoverable amount has been determined using the RCV of Affinity Water Limited at 31 March 2023. Management's assessment has determined that the headroom is such that no reasonable change in any key assumptions is expected to result in impairment of the goodwill recognised.

Included in the software category above is £14,419,000 (2022: £12,532,000) of capitalised intangible assets under construction, which is not amortised. £3,408,000 (2022: £7,366,000) of intangible projects under construction were completed in the year, and amortisation was charged as at the point in time that the software became fit for purpose and ready to use.

There were no individually material computer software development costs in the years ended 31 March 2023 or 31 March 2022.

9. Investments

	2023 £000	2022 £000
Non-current assets		
Investments in subsidiaries (refer to note A6)	**100**	100
Current assets		
Short-term deposits	**66,709**	70,179

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

10. Retirement benefit surplus

Defined benefit section

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

	2023 £000	2022 £000
Total current service cost of the Affinity Water Pension Plan	**(3,236)**	(4,061)
Pension expense charged to operating profit	**(3,236)**	(4,061)
Net pension interest income credited to finance income (note 4)	**2,839**	1,488
Net pension expense charged before taxation	**(397)**	(2,573)

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

	2023 £000	2022 £000
At 1 April	**104,247**	74,532
Principal employer contributions	**1,879**	3,539
Net current service cost (per above)	**(3,236)**	(4,061)
Net interest income	**2,839**	1,488
Net re-measurement (loss)/gain	**(52,114)**	28,749
At 31 March	**53,615**	104,247

10. Retirement benefit surplus continued

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

	2023 £000	2022 £000
Re-measurement (losses)/gains on plan assets	(159,088)	8,249
Re-measurement gains on plan liabilities	106,974	20,500
	(52,114)	28,749

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

11. Derivative financial instruments

	2023 £000	2022 £000
Non-current assets:		
Fair value of energy swaps	3,283	7,342
Fair value of CPI linked inflation swap	–	–
Fair value of RPI linked inflation swaps	–	–
Current assets:		
Fair value of energy swaps	6,068	20,646
	9,351	27,988
Non-current liabilities:		
Fair value of RPI linked inflation swaps	6,937	24,224
Accretion on RPI linked inflation swaps	55,062	23,702
Fair value of CPI linked inflation swaps	10,893	43,729
Accretion on CPI linked inflation swaps	42,953	15,163
Fair value of energy swaps	5,874	–
Current liabilities:		
Fair value of energy swaps	2,128	–
	123,847	106,818

A series of power hedging swaps were entered into between May 2021 and January 2023 in order to hedge against wholesale energy prices.

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

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

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

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

12. Trade and other receivables

	2023 £000	2022 £000
Current:		
Trade receivables	**73,807**	66,517
Less: loss allowance for trade receivables	**(36,968)**	(33,037)
	36,839	33,480
Amounts owed by group undertakings	**40**	25
Interest receivable from external parties	**7,642**	7,786
Other receivables	**7,574**	7,964
Unbilled accrual for metered customers	**43,444**	44,353
Prepayments and accrued income	**7,027**	10,213
	102,566	103,821

Trade receivables that were fully provided for were sold in both the current year and prior year, resulting in a reduction to trade receivables of £4,397,000 (2022: £6,813,000) and a corresponding reduction in the loss allowance for trade receivables. The carrying amounts of trade and other receivables approximate to their fair value.

12.1 Loss allowance for trade receivables and contract assets

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

	Trade receivables		Unbilled accrual for metered customers		Total	
	2023 £000	2022 £000	2023 £000	2022 £000	2023 £000	2022 £000
At 1 April	**33,037**	34,027	**101**	51	**33,138**	34,078
Provision for receivables impairment charged to income statement	**10,997**	7,394	**202**	50	**11,199**	7,444
Sale of trade receivables that were fully provided for	**(4,397)**	(6,813)	**–**	–	**(4,397)**	(6,813)
Receivables written off during the year as uncollectable	**(2,669)**	(1,571)	**–**	–	**(2,669)**	(1,571)
At 31 March	**36,968**	33,037	**303**	101	**37,271**	33,138

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

In the current year, a charge of £11,199,000 to the income statement arose as a result of the ongoing cost of living crisis and a decline in cash collection rates seen in the year.

In the prior year, an additional charge of £1,413,000 to the income statement arose as a result of external economic factors which included the cost of living increases on our customers. This is included within the £7,444,000 total provision for receivables impairment debited to the income statement in the prior year. No additional charge has been included in the current year as this was reflected in an increase in base rates used in the calculation which sufficiently covered the provision.

12.2 Ageing analysis of trade receivables

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

	2023 £000	2022 £000
Aged less than one year	**27,155**	24,157
Aged between one year and two years	**23,682**	21,884
Aged greater than two years	**22,970**	20,476
	73,807	66,517

13. Inventories

	2023 £000	2022 £000
Raw materials and consumables	**4,833**	4,348

Inventories are stated after provisions for impairment of £364,000 (2022: £364,000).

Notes
to the financial statements continued

14. Cash and cash equivalents

	2023 £000	2022 £000
Cash at bank and in hand	**17,099**	34,479
Term deposits	**61,684**	101,125
	78,783	135,604

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

15. Share capital, share premium and capital contribution reserve

Allotted and fully paid up	Number of shares (thousands)	Ordinary shares of £0.10 each £000	Share premium £000	Capital contribution reserve £000	Total £000
At 31 March 2022 and 31 March 2023	**305,058**	**30,506**	**1,400**	**30,150**	**62,056**

All shares rank pari passu in all respects.

16. Trade and other payables

	2023 £000	2022 £000
Non-current		
Amounts falling due after more than one year but less than five years		
Deferred grants and contributions	**28,137**	25,509
Amounts falling due after more than five years		
Deferred grants and contributions	**233,937**	221,565
	262,074	247,074
Current		
Amounts falling due within one year		
Trade payables	**15,453**	22,166
Amounts due to group undertakings	**679**	615
Interest payable to subsidiary companies	**14,409**	14,052
Commitment fees	**60**	63
Social security and other taxes	**1,848**	1,796
Other payables	**5,681**	5,391
Capital accruals	**13,519**	21,587
Deferred grants and contributions	**6,965**	5,698
Payments received in advance	**73,216**	81,980
Deferred income	**3,263**	843
Other accruals	**41,796**	38,626
	176,889	192,817
	438,963	439,891

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

Interest payable to subsidiary companies relates to accrued interest on bonds.

17. Borrowings

	2023 £000	2022 £000
Borrowings measured at amortised cost:		
Loan from Affinity Water Finance (2004) PLC financed by bond issue	**251,967**	252,498
Loan from Affinity Water Finance PLC financed by bond issue	**1,076,165**	1,019,706
Loan from intermediate parent company	**3,550**	3,550
3.5% irredeemable consolidated debenture stock	**–**	–
4% irredeemable consolidated debenture stock	**8**	8
4% irredeemable debenture stock	**1**	1
4.25% irredeemable debenture stock	**–**	–
5% irredeemable debenture stock	**24**	24
5.25% irredeemable debenture stock	**1**	1
	1,331,716	1,275,788

Loan from Affinity Water Finance (2004) PLC financed by bond issue

On 13 July 2004, the company's subsidiary Affinity Water Finance (2004) PLC issued a £200,000,000 bond at an interest rate of 5.875% and repayable in July 2026. On 16 July 2014, Affinity Water Finance (2004) PLC completed a tap issue of £50,000,000 on the same terms as the existing £200,000,000 bond.

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

Loan from Affinity Water Finance PLC financed by bond issue

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

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

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

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

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

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

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

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

The £14,204,000 Class A Guaranteed Notes with coupon of 3.625% matured in September 2022. The company repaid this amount in full to Affinity Water Finance PLC in September 2022.

Notes
to the financial statements continued

17. Borrowings continued

Loan from intermediate parent company

On 4 February 2013, the company borrowed an amount of £3,550,000 from Affinity Water Capital Funds Limited, the company's intermediate parent company. The final repayment date of this loan is 31 March 2036, with interest terms having been set at 4.500%.

Further details

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

The fair value of the bonds on-lent from the financing subsidiaries at 31 March 2023 is £1,208,420,000 (2022: £1,560,813,000). The fair value of Class A bonds has been derived from 'level 1' fair value measurements: quoted prices (unadjusted) in active markets for identical liabilities. The fair value of Class B bonds has been derived from 'level 2' fair value measurements: directly observable market inputs other than Level 1 inputs. The fair value of Class B bonds is calculated by discounting expected future cashflows at a discount rate which is derived from the yield on comparable instruments which are observable in the market.

The company is subject to a number of covenants in relation to its borrowings, which, if breached, would result in its loans becoming immediately repayable. These covenants specify certain limits in terms of key ratios such as net cash flow to debt interest and net debt to RCV. At the year-end the company was not in breach of any financial covenants. See additional details on our financial covenants included within the going concern statement in accounting policies.

18. Lease liabilities

	2023 £000	2022 £000
Non-current:		
Lease liabilities	**4,785**	6,329
Current:		
Lease liabilities	**3,053**	3,317

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

	2023 £000	2022 £000
Depreciation charge of right-of-use assets (refer to note 7)	**3,458**	3,681
Interest expense on lease liabilities (refer to note 4)	**266**	313
Expense relating to short-term leases (refer to note 2.1)	**24**	37
Expense relating to leases of low-value assets (refer to note 2.1)	**76**	129
Principal elements of lease payments included within cash flows from financing activities	**3,475**	3,649
Interest payments included within cash flows from operating activities	**266**	313
Total cash outflow for leases in the statement of cash flows	**3,741**	3,962
Additions to right-of-use assets (refer to note 7)	**1,685**	3,660
Carrying amount of right-of-use assets (refer to note 7)	**7,649**	9,440

19. Deferred tax liabilities

19.1 Analysis of deferred tax assets and deferred tax liabilities

	2023 £000	2022 £000
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	**(641)**	(585)
– Deferred tax asset to be recovered within 12 months	**(18)**	(38)
	(659)	(623)
Deferred tax liabilities:		
– Deferred tax liability to be settled after more than 12 months	**207,397**	232,153
	207,397	232,153
Deferred tax liabilities – net	**206,738**	231,530

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

	£000
At 1 April 2021	183,011
Adjustment to prior year	(2,449)
Impact of change in tax rate	54,729
Credited to the income statement	(10,948)
Charged to other comprehensive income	7,187
At 31 March 2022	231,530
Adjustment to prior year	**4,083**
Impact of change in tax rate	**(3,803)**
Credited to the income statement	**(12,043)**
Credited to other comprehensive income	**(13,029)**
At 31 March 2023	**206,738**

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

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

19.2 Deferred tax liabilities

	Accelerated capital allowances £000	Retirement benefit obligations £000	Total £000
At 1 April 2021	169,451	14,160	183,611
Adjustment to prior year	(2,449)	–	(2,449)
Impact of change in tax rate	50,351	6,255	56,606
Credited to the income statement	(11,260)	183	(11,077)
Charged to other comprehensive income	–	5,462	5,462
At 31 March 2022	206,093	26,060	232,153
Adjustment to prior year	**4,184**	**–**	**4,184**
Credited to the income statement	**(16,282)**	**371**	**(15,911)**
Credited to other comprehensive income	**–**	**(13,029)**	**(13,029)**
At 31 March 2023	**193,995**	**13,402**	**207,397**

Notes
to the financial statements continued

19. Deferred tax liabilities continued

19.3 Deferred tax assets

	Provisions £000
At 1 April 2021	(600)
Impact of change in tax rate	(151)
Charged to the income statement	128
At 31 March 2022	(623)
Prior year adjustment	**(98)**
Charged to the income statement	**62**
At 31 March 2023	**(659)**

20. Provisions for other liabilities and charges

	Insurance £000	Reorganisation £000	Other £000	Tax £000	Total £000
At 1 April 2021	2,726	178	670	–	3,574
(Credited)/charged to the income statement	(105)	2,947	–	–	2,842
Utilised in the year	(184)	(3,125)	–	–	(3,309)
At 31 March 2022	2,437	–	670	–	3,107
Charged to the income statement	**464**	**–**	**–**	**4,100**	**4,564**
Utilised in the year	**(252)**	**–**	**–**	**–**	**(252)**
At 31 March 2023	**2,649**	**–**	**670**	**4,100**	**7,419**

Insurance

Provisions for insurance represent the amount of the company's liability in respect of individual claims. This is based upon data provided by loss adjusters to insurers and is calculated on settlement experience. The full balance of £2,649,000 is presented as a non-current liability in the statement of financial position.

Reorganisation

In the prior year, a provision in relation to a corporate reorganisation was charged and utilised in the income statement. A provision of £178,000 remaining from a previous reorganisation was also utilised in the prior year.

Tax provision

A tax provision of £4,100,000 (2022: £nil) has been charged to the income statement and included within administrative expenses. As at 31 March 2023, this is an estimate of an outstanding charge relating to a potential PAYE and NI claim.

Other provisions

Other provisions of £670,000 (2022: £670,000) relate to unfunded pension liabilities for a former Non-executive director, which it is expected will be utilised by January 2051, and, therefore, presented as a non-current liability in the statement of financial position.

21. Notes to the statement of cash flows

21.1 Cash generated from operations

	2023 £000	2022 £000
Loss before tax	**(112,709)**	(55,574)
Adjustments for:		
Depreciation of property, plant and equipment (note 6)	**70,939**	60,451
Depreciation of right-of-use assets (note 7)	**3,458**	3,681
Amortisation of grants and contributions	**(3,619)**	(5,300)
Amortisation of intangible assets (note 8)	**5,954**	11,125
Profit on disposal of property, plant and equipment	**(535)**	(244)
Loss on disposal of infrastructure assets	**888**	728
Post-employment benefits	**1,360**	522
Net finance costs (note 4)	**100,042**	118,125
Net loss / (gain) on energy swap	**26,638**	(27,988)
Changes in working capital		
– Inventories	**(485)**	(268)
– Trade and other receivables	**1,255**	(11,844)
– Trade and other payables		
– provision element	**4,312**	(467)
– other	**590**	8,333
Cash generated from operations	**98,088**	101,280

Changes in working capital – trade and other receivables of £1,255,000 in the year (2022: £(11,224,000)) primarily relates to a decrease in prepayments and accrued income partially offset by an increase in trade receivables, as shown in note 12.

Changes in working capital – trade and payables – other of £590,000 in the year (2022: £7,714,000) primarily relates to a reduction in trade payables and capital accruals, offset by an increase in current deferred grants and contributions, as shown in note 17.

21.2 Reconciliation of liabilities arising from financing activities

	At 1 April 2022 £000	**Cash flow £000**	**Non-cash flows £000**	**At 31 March 2023 £000**
Loan from Affinity Water Finance (2004) PLC financed by bond issue	**252,498**	**–**	**(531)**	**251,967**
Loan from Affinity Water Finance PLC financed by bond issue	**1,019,706**	**(14,204)**	**70,663**	**1,076,165**
Loan from intermediate parent company	**3,550**	**–**	**–**	**3,550**
Lease liabilities	**9,646**	**(3,741)**	**1,934**	**7,839**
Debenture stock	**34**	**–**	**–**	**34**
Total liabilities arising from financing activities	**1,285,434**	**(17,945)**	**72,066**	**1,339,555**

	At 1 April 2021 £000	Cash flow £000	Non-cash flows £000	At 31 March 2022 £000
Loan from Affinity Water Finance (2004) PLC financed by bond issue	252,999	–	(501)	252,498
Loan from Affinity Water Finance PLC financed by bond issue	838,496	146,994	34,216	1,019,706
Loan from intermediate parent company	3,550	–	–	3,550
Lease liabilities	9,683	(3,962)	3,925	9,646
Debenture stock	34	–	–	34
Total liabilities arising from financing activities	1,104,762	143,032	37,640	1,285,434

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

Notes
to the financial statements continued

22. Commitments

22.1 Capital commitments

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

	2023 £000	2022 £000
Property, plant and equipment	**28,481**	31,985
Intangible assets	**885**	2,069
	29,366	34,054

22.2 Commitments under leases

The company leases its vehicles and head office building under non-cancellable leases expiring within a maximum of five years. The leases have varying terms, clauses and renewal rights. The company also leased IT server space until 31 December 2021.

The company does not expect to extend any vehicles leases after their lease term has expired. The lease of the head office building will expire in September 2025. The company will assess closer to the expiry of the lease of the head office building whether another formal agreement will be entered in to.

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

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

	2023 £000	2022 £000
No later than one year	**59**	76
Later than one year and no later than five years	**39**	98
	98	174

23. Billing on behalf of Thames Water and Anglian Water

The company bills and collects charges in respect of sewerage and infrastructure within its area on behalf of Thames Water Utilities Limited and Anglian Water Services Limited. No amounts are included in these financial statements in respect of uncollected sewerage and sewerage infrastructure charges at 31 March 2023 (2022: £nil) and the company incurs no bad debt risk in relation to this service.

24. Events after the reporting period

Martin Roughead was appointed to the board as Chief Financial Officer on 17 April 2023.

25. Ultimate parent company and controlling party

The immediate parent undertaking of the company is Affinity Water Holdings Limited, a company registered in England and Wales.

Affinity Water Holdings Limited is wholly owned by Daiwater Investment Limited, a company registered in England and Wales. Daiwater Investment Limited is the parent undertaking of the largest group to consolidate the statutory financial statements of the company. These financial statements are also consolidated in the financial statements of Affinity Water Holdco Finance Limited, the smallest group to consolidate the financial statements of the company.

Copies of the group financial statements of Daiwater Investment Limited and Affinity Water Holdco Finance Limited for the year ended 31 March 2023 may be obtained from the Company Secretary, Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ.

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

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

- Allianz Infrastructure Holding I Pte. Limited
- DIF Management Holding BV
- DIF Management UK Limited
- HICL Infrastructure plc
- Sun Life Financial Inc.

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

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

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

Notes to the financial statements – appendices

A1. General information

The company owns and manages the water assets and network in an area of approximately 4,500km2 split over three supply regions, comprising eight separate water resource zones, in the South East of England. The company is the sole supplier of drinking water in these areas.

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

Refer to note 26 for details of the company's parent company and ultimate parent company.

A2. Segmental reporting

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

A3. Accounting policies

Consolidation

The company is a wholly owned subsidiary of its ultimate holding and controlling company, Daiwater Investment Limited, which is the parent undertaking of the largest group to consolidate the statutory financial statements. It is included in the consolidated financial statements of Daiwater Investment Limited, which will be made publicly available. Therefore the company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements.

Property, plant and equipment

Property, plant and equipment are held at historical cost less accumulated depreciation and impairment charges.

Infrastructure assets comprise a network of mains and associated underground pipe-work. Infrastructure assets are held at deemed cost established through an event-driven valuation on transition to FRS 101 in 2015/16 and subsequent additions are recorded at historical cost less accumulated depreciation and impairment charges.

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

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

Cost of other property, plant and equipment includes own work capitalised comprising the direct costs of materials, labour and applicable overheads. Property, plant and equipment are depreciated to their estimated residual values over their estimated useful lives using the straight-line method, with the exception of freehold land, which is not depreciated. Assets in the course of construction are not depreciated until commissioned.

The estimated useful lives of property, plant and equipment are:

Infrastructure assets

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

Other property, plant and equipment

Buildings	40–60 years
Operational structures	5–85 years
Fixed plant – short life	3–10 years
– other	10–30 years
Vehicles and mobile plant	3–15 years

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

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

Intangible assets

Goodwill

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

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

Computer software development costs

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the company are recognised as intangible assets only if they meet the criteria of IAS 38: 'Intangible Assets', in that it is a separable, identifiable asset and it has a future economic benefit. Other development expenditures that do not meet these criteria are recognised as an expense as incurred, including costs associated with cloud computing arrangements.

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

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

Grants and contributions

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

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

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

Grants and contributions received in respect of property, plant and equipment where the performance obligation is deemed to be satisfied at a point in time (comprising payments for connection charges) are recognised immediately in the income statement, once the performance obligation is fulfilled. Connection charges are billed to developers for the provision of a connection to an existing water main, laying a pipe to the boundary of customers' properties and connecting to their supply pipes. Connection charges are recognised in revenue in the income statement in the year that they became receivable; the performance obligation has been identified as the connection of a service pipe to the main. Once the connection is made, the performance obligation is fulfilled and the income recognised immediately in the income statement.

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

Investments

Investment in subsidiaries are held at cost, less accumulated impairment losses.

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

Trade and other receivables

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

Notes to the financial statements – appendices continued

A3. Accounting policies continued

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

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

Inventories

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

Cash and cash equivalents

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

Current and deferred tax

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

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

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

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

Trade and other payables

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

Borrowings

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

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

Financial instruments

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

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

Provisions

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

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

Revenue recognition

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

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

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

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

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

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

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

Revenue is recognised if it is probable that it will be received, considering the customer's ability and intention to pay that amount of consideration when it is due.

A3. Accounting policies continued

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

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

Other income

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

Interest income

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

Leases

The company leases its head office building and most of its vehicles. Rental contracts for vehicles are typically for fixed periods of two to five years. The company has an option to extend its leases; however, no contracts are reasonably certain to be extended after their lease term has expired. The lease contract of the head office building has a remaining period of 2.5 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The company's lease agreements do not impose any covenants, but leased assets cannot be used as security for borrowing purposes.

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

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

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

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

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

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

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

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

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

The company does not use sale and leaseback transactions.

The Company as a lessor

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

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

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

Grafham reservoir

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

Dividend distributions

Dividend distributions to the company's shareholder are recognised as a liability in the company's financial statements in the year in which the dividends are approved.

Retirement benefits

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

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

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

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

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

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

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

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

Notes to the financial statements – appendices continued

A4. Financial instruments and risk management

Risk management

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

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

The main risks arising from the company's financial instruments are liquidity risk, credit risk, energy risk, interest rate risk and inflation risk. Treasury policies in relation to these risks are agreed in conjunction with the wider Affinity Water group.

The Board reviews and agrees policies for managing each of these risks (refer to our principal risks and uncertainties section beginning on page 108 for further information on management of these risks). These policies have remained unchanged during the year.

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

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

Liquidity risk

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

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

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

At 31 March 2023, the company had £300,492,000 (2022: £360,783,000) of available liquidity, which comprised £145,492,000 (2022: £205,783,000) of cash and term deposits and £152,000,000 (2022: £155,000,000) of undrawn committed borrowing facilities.

The company has entered into RPI and CPI linked inflation swaps as detailed in the interest rate and inflation risk section of note A4. These transactions lead to a net interest receivable cashflow over the life of the swaps, offset by an accretion payment on maturity (2026 for the RPI swaps and either 2030 or 2036 for the CPI swaps). There is no liquidity risk prior to these dates as there is no requirement to pay collateral prior to maturity. On maturity, a final accretion payment will be made based on the mark to market valuation at that date, resulting in a total forecast cash payment of £209,145,000 (2022: £110,163,000), included in the maturity analysis table. The mark to market valuation is reviewed on a monthly basis and a forecast accretion payment is reviewed annually to ensure sufficient cash balances can be made available if required.

Undrawn borrowing facilities:

	2023 £000	2022 £000
Floating rate:		
– Expiring within one year	**52,000**	55,000
– Expiring in more than one year	**100,000**	100,000
	152,000	155,000

The facilities expiring within one year comprise two standby facilities with one counterparty (2022: one counterparty) in the event of a liquidity shortfall: a 364 day revolving Debt Service Reserve Facility of £27,000,000 (2022: £32,000,000), which is intended for the purpose of funding any debt service payments, and a 364 day revolving Operations and Maintenance Reserve Facility of £25,000,000 (2022: £23,000,000), which is intended for the purpose of funding operating and capital maintenance expenditure.

The facilities expiring in more than one year comprise two revolving credit facilities, £60,000,000 (2022: £60,000,000) provided by Barclays Bank PLC and £40,000,000 (2022: £40,000,000) provided by Lloyds Bank PLC. The facilities are intended for the purpose of financing capital expenditure and working capital requirements to the extent that additional funding is required and have a maturity date of July 2026 and July 2025 respectively. These facilities were renewed on 24 June 2020 and use SONIA as the reference rate and have sustainability performance measures included.

Maturity analysis

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

At 31 March 2023 Non-derivatives	**1 year or less £000**	**1–2 years £000**	**2–3 years £000**	**3–4 years £000**	**4–5 years £000**	**More than 5 years £000**	**Total £000**
Loans from subsidiaries	**39,751**	**39,980**	**40,225**	**290,468**	**26,030**	**1,325,377**	**1,761,831**
Loan from intermediate parent	**160**	**160**	**160**	**160**	**160**	**4,827**	**5,627**
Lease liabilities	**3,238**	**2,857**	**1,541**	**501**	**131**	**1**	**8,269**
Total non-derivatives	**43,149**	**42,997**	**41,926**	**291,129**	**26,321**	**1,330,205**	**1,775,727**

At 31 March 2022 Non-derivatives	1 year or less £000	1–2 years £000	2–3 years £000	3–4 years £000	4–5 years £000	More than 5 years £000	Total £000
Loans from subsidiaries	53,017	38,836	39,004	39,176	289,348	1,262,651	1,722,032
Loan from intermediate parent	160	160	160	160	160	4,987	5,787
Lease liabilities	3,545	2,849	2,469	1,161	170	1	10,195
Total non-derivatives	56,722	41,845	41,633	40,497	289,678	1,267,639	1,738,014

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

At 31 March 2023 Derivatives	**1 year or less £000**	**1–2 years £000**	**2–3 years £000**	**3–4 years £000**	**4–5 years £000**	**More than 5 years £000**	**Total £000**
RPI linked inflation swaps net payment/(receivable)	**(6,427)**	**(6,249)**	**(6,067)**	**81,592**	**–**	**–**	**62,849**
CPI linked inflation swaps net payment/(receivable)	**(6,486)**	**(6,390)**	**(6,293)**	**(6,194)**	**(3,037)**	**88,196**	**59,796**
Total derivatives	**(12,913)**	**(12,639)**	**(12,360)**	**75,398**	**(3,037)**	**88,196**	**122,645**

At 31 March 2022 Derivatives	1 year or less £000	1–2 years £000	2–3 years £000	3–4 years £000	4–5 years £000	More than 5 years £000	Total £000
RPI linked inflation swap net payment/(receivable)	(7,233)	(7,131)	(7,026)	(6,920)	38,297	–	9,987
CPI linked inflation swap net payment/(receivable)	(6,773)	(6,717)	(6,660)	(6,603)	(6,545)	24,484	(8,814)
Total derivatives	(14,006)	(13,848)	(13,686)	(13,523)	31,752	24,484	1,173

Covenant risk

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

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

Notes to the financial statements – appendices continued

A4. Financial instruments and risk management continued

The company continues to monitor and manage the risks associated with the ICR covenant through the forecasting and reporting process and has identified mitigations, the most prominent of which is working capital management. The company was not in breach of its financial covenants as at 31 March 2023 or up to the date of signing these financial statements.

Credit risk

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

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

Contract assets and trade and other receivables

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

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

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

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

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

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

The loss allowance as at 31 March 2023 and 31 March 2022 was determined as follows for both trade receivables and contract assets (unbilled accrual for metered customers):

At 31 March 2023	Current £000	Current £000	Less than 1 year £000	1–2 years £000	2–3 years £000	3–4 years £000	More than 4 years past due £000	Total £000
Expected loss rate – metered household receivables	0.76%	0.00%	7%	27%	45%	64%	100%	
Gross carrying amount – metered household receivables	–	–	19,930	4,706	2,530	1,579	2,202	30,947
Gross carrying amount – unbilled accrual for metered customers (household)	39,819	–	–	–	–	–	–	39,819
Gross carrying amount – unbilled accrual for metered customers (non-household)	–	3,927	–	–	–	–	–	3,927
Provision at expected loss rate	303	–	1,339	1,262	1,149	1,002	2,202	7,257
Amounts provided at 100%	–	–	1,970	4,075	2,973	2,214	2,923	14,155
Loss allowance	303	–	3,309	5,337	4,122	3,216	5,125	21,412

	Current £000	Less than 1 year £000	1–2 years £000	2–3 years £000	3–4 years £000	More than 4 years past due £000	Total £000
Expected loss rate – unmetered household receivables	0.00%	17%	37%	56%	68%	100%	
Gross carrying amount – unmetered household receivables	–	7,588	3,202	1,901	1,385	1,792	15,868
Provision at expected loss rate	–	1,253	1,194	1,066	945	1,792	6,250
Amounts provided at 100%	–	1,100	845	2,043	1,787	2,464	8,239
Loss allowance	–	2,353	2,039	3,109	2,732	4,256	14,489

	Less than 3 months £000	3–6 months £000	6–9 months £000	9–12 months £000	More than 12 months past due £000	Total £000
Expected loss rate – developer services	0.00%	30%	41%	21%	46%	
Gross carrying amount – developer services	1,102	220	223	804	2,250	4,599
Loss allowance	–	67	91	170	1,042	1,370
Total loss allowance						37,271

A4. Financial instruments and risk management continued

At 31 March 2022	Current £000	Current £000	Less than 1 year £000	1–2 years £000	2–3 years £000	3–4 years £000	More than 4 years past due £000	Total £000
Expected loss rate – metered household receivables	0.28%	0.00%	3%	10%	25%	49%	100%	
Gross carrying amount – metered household receivables	–	–	17,394	4,283	2,207	1,590	1,878	27,352
Gross carrying amount – unbilled accrual for metered customers (household)	40,948	–	–	–	–	–	–	40,948
Gross carrying amount – unbilled accrual for metered customers (non-household)	–	3,505	–	–	–	–	–	3,505
Provision at expected loss rate	101	–	448	448	545	781	1,878	4,201
Additional provision	–	–	2,177	–	–	–	–	2,177
Amounts provided at 100%	–	–	1,714	3,406	2,767	2,120	2,448	12,455
Loss allowance	101	–	4,339	3,854	3,312	2,901	4,326	18,833

	Current £000	Less than 1 year £000	1–2 years £000	2–3 years £000	3–4 years £000	More than 4 years past due £000	Total £000
Expected loss rate – unmetered household receivables	0.00%	3%	7%	17%	42%	100%	
Gross carrying amount – unmetered household receivables	–	6,452	2,859	1,686	1,070	1,554	13,622
Provision at expected loss rate	–	175	191	290	451	1,554	2,661
Additional provision	–	857	–	–	–	–	857
Amounts provided at 100%	–	333	2,559	2,377	1,854	2,405	9,527
Loss allowance	–	1,365	2,750	2,667	2,305	3,959	13,045

	Less than 3 months £000	3–6 months £000	6–9 months £000	9–12 months £000	More than 12 months past due £000	Total £000
Expected loss rate – developer services	0%	34%	38%	14%	86%	
Gross carrying amount – developer services	917	389	230	978	1,047	3,561
Loss allowance	–	131	88	140	901	1,260
Total loss allowance						33,138

A reconciliation between the opening and closing loss allowances for trade receivables and contract assets for the year ended 31 March 2023 is shown in note 13.

At 31 March 2023 and 31 March 2022, the maximum exposure to credit risk was represented by the carrying amount of each financial asset in the statement of financial position:

	2023 £000	2022 £000
Cash and term deposits (note 15)	78,783	135,604
Short-term deposits (note 10)	66,709	70,179
Trade and other receivables (excluding prepayments and amounts recoverable from the company's insurer)	96,569	97,967
	242,061	303,750

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

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

	2023 £000	2022 £000
AAA	61,683	101,125
A-1+	35,883	35,048
A-1	47,926	67,212
A	–	–
	145,492	203,385

These are all short-term ratings.

Interest rate and inflation risk

The company seeks to manage its interest rate risk by maintaining its exposure within a Board approved range, primarily through using a mixture of fixed, inflation linked and floating rate borrowings. A series of RPI linked inflation swaps with a total nominal value of £210 million, linked to the maturity of the Class A fixed rate £250 million bond (July 2026), were entered into between August 2018 and October 2020. A series of CPI linked inflation swaps with a total nominal value of £250 million, linked to the maturity of the Class A fixed rate £250 million bond (March 2036), were entered into between March 2020 and June 2020.

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

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

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

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

As at	Fixed rate debt £000	RPI linked debt £000	CPI linked debt £000	Total £000
31 March 2023	656,843	438,474	236,399	1,331,716
31 March 2022	671,752	387,649	216,387	1,275,788

Notes to the financial statements – appendices continued

A4. Financial instruments and risk management continued

Sensitivity analysis

Sensitivity analysis has not been performed on movements in interest rates as the company's fixed rate debts had no exposure to interest rates as at 31 March 2023. Given the large movements in inflation and the current high levels, the following table details the sensitivity of profit before taxation to changes in RPI and CPI on the company's index-linked borrowings, RPI linked inflation swap and CPI linked inflation swap. The analysis relates to the position at the reporting date and is not indicative of the years then ended, as these factors would have varied throughout the year.

Impact on profit before taxation	2023 £000	2022 £000
2%/1% increase in RPI	**(4,389)**	(3,872)
2%/1% decrease in RPI	**4,391**	3,872
2%/1% increase in CPI	**(2,209)**	(2,406)
2%/1% decrease in CPI	**2,209**	1,600

Impact on profit before taxation	2023 £000	2022 £000
1% increase in RPI	**(4,389)**	(3,872)
1% decrease in RPI	**4,391**	3,872
1% increase in CPI	**(2,209)**	(2,406)
1% decrease in CPI	**2,209**	1,600

Energy price risk

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

Currency risk

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

Capital risk management

The gearing policy approved by the Board is a target measured as net debt (as defined in the company's WBS documentation, refer to table 1E of the company's regulatory Annual Performance Report) to RCV, of 80%. This allows sufficient headroom within the company's financial covenants, which are triggered at a level of more than 90%. The company's gearing on this basis was 73.4% at 31 March 2023 (73.0% at 31 March 2022).

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

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

A5. Retirement benefits

Defined benefit section

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

The risks of the plan are as follows:

Asset volatility

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

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

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

Changes in bond yield

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

Life expectancy

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

Inflation risk

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

Investment strategy

Following a Trustee investment strategy review in 2018/19, and the focus towards a 'cashflow driven investment' strategy, the Trustee implemented the following changes to the plan's portfolio at that time:

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

The latest actuarial valuation of the AWPP, determined by an independent qualified actuary, was at 31 December 2020, which concluded that the pension plan was 96% funded on a self-sufficiency basis. This actuarial valuation was made on the 'attained age' funding method, based on the following assumptions:

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

A5. Retirement benefits continued

Defined benefit section – employer contributions

Based on the latest actuarial valuation at 31 December 2020, and to eliminate the funding shortfall identified, as well as funding the future cost of benefits being accrued within the plan, the 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 onwards.

The contributions expected to be paid by the company into the AWPP for the year ending 31 March 2024 are, therefore, £1,600,000 (£1,600,000 in the year ended 31 March 2023, based on the former Schedule of Contributions and dependent on the outcome of the actuarial valuation as at 31 December 2020 being undertaken at the time).

The weighted average duration of the defined benefit obligation is 13.4 years (2022: 16.5 years).

Defined benefit section – financial and demographic assumptions

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

	2023	2022
Discount rate	**4.75% pa**	2.70% pa
Salary growth	**3.20% pa**	3.60% pa
RPI	**3.20% pa**	3.65% pa
CPI	**2.70% pa**	3.10% pa
Life expectancy for a male pensioner from age 65 (years)	**22**	22
Life expectancy for a female pensioner from age 65 (years)	**24**	24
Life expectancy from age 65 (years) for a male participant currently aged 45 (years)	**24**	24
Life expectancy from age 65 (years) for a female participant currently aged 45 (years)	**26**	26

Deferred pensions are revalued to retirement age in line with the CPI assumption of 2.70% per annum (2022: 3.10% per annum) unless otherwise prescribed by statutory requirements or the plan rules.

Defined benefit section – sensitivity analysis

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

	Change in assumption	**Impact on defined benefit obligation**	**Defined benefit sensitivity analysis**	**Impact on defined benefit obligation**
2023				
Discount rate	**0.5% decrease**	**6.8% increase**	**0.5% increase**	**6.1% decrease**
Salary growth	**0.5% increase**	**0.6% increase**	**0.5% decrease**	**0.6% decrease**
Pension growth rate	**0.5% increase**	**5.7% increase**	**0.5% decrease**	**4.9% decrease**
Life expectancy	**1 year increase**	**4.0% increase**	**1 year decrease**	**4.0% decrease**
2022				
Discount rate	0.5% decrease	8.6% increase	0.5% increase	7.6% decrease
Salary growth	0.5% increase	0.8% increase	0.5% decrease	0.7% decrease
Pension growth rate	0.5% increase	6.8% increase	0.5% decrease	6.1% decrease
Life expectancy	1 year increase	4.0% increase	1 year decrease	4.0% decrease

Defined benefit section – net retirement benefit surplus

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

	Plan assets %	2023 £000	Plan assets %	2022 £000
Equity securities	**1%**	**2,535**	7%	37,244
Debt securities	**68%**	**266,030**	71%	391,678
Property	**0%**	**42**	0%	156
Infrastructure	**1%**	**2,692**	1%	3,388
Liability driven investments	**28%**	**108,353**	15%	80,555
Cash and cash equivalents	**2%**	**8,047**	6%	34,481
Total fair value of the plan's assets	**100%**	**387,699**	100%	547,502
Present value of defined benefit obligations		**(334,084)**		(443,255)
Net retirement benefit surplus		**53,615**		104,247

The total of assets that are quoted is £330,095,000 (2022: £441,737,000) and the total of assets that are unquoted is £57,604,000 (2022: £105,765,000).

Defined benefit section – fair value of plan assets

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

	£000	£000
At 1 April 2022/1 April 2021	**547,502**	540,370
Benefits paid	**(17,337)**	(15,301)
Principal employer contributions	**1,879**	3,539
Contributions by plan participants	**170**	215
Interest income	**14,573**	10,430
Re-measurement (losses)/gains	**(159,088)**	8,249
At 31 March 2023/31 March 2022	**387,699**	547,502

Defined benefit section – present value of plan liabilities

Movements in the present value of the defined benefit liabilities are as follows:

	£000	£000
At 1 April 2022/1 April 2021	**(443,255)**	(465,838)
Benefits paid	**17,337**	15,301
Contributions by plan participants	**(170)**	(215)
Net current service cost	**(3,236)**	(4,061)
Past service cost	**–**	–
Interest expense	**(11,734)**	(8,942)
Re-measurement gains	**106,974**	20,500
At 31 March 2023/31 March 2022	**(334,084)**	(443,255)

Defined contribution section

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

The total pension charge for the defined contribution section of the AWPP for the year ended 31 March 2023 was £4,043,000 (2022: £3,677,000). There are no amounts prepaid or outstanding in respect of the defined contribution section at 31 March 2023 (2022: £nil).

A6. Subsidiaries

Name of company	Country of registration/ incorporation	Registered address	Nature of business	Type of holding	Proportion of voting rights and shares held
Affinity Water Finance (2004) PLC	United Kingdom	Tamblin Way, Hatfield, Hertfordshire AL10 9EZ	Financing company	Ordinary shares	100%
Affinity Water Finance PLC	United Kingdom	Tamblin Way, Hatfield, Hertfordshire AL10 9EZ	Financing company	Ordinary shares	100%
Three Valleys Water Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire AL10 9EZ	Dormant company	Ordinary shares	100%
Tendring Hundred Water Services Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire AL10 9EZ	Dormant company	Ordinary shares	100%
Folkestone and Dover Water Services Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire AL10 9EZ	Dormant company	Ordinary shares	100%
White Cliffs Water Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire AL10 9EZ	Dormant company	Ordinary shares	100%

The company has an investment of £50,000 in 100% of the £1 ordinary shares of a subsidiary company, Affinity Water Finance (2004) PLC. The principal activity of Affinity Water Finance (2004) PLC, incorporated in the United Kingdom, is to raise finance for the company. It made a profit of £1,000 for the year ended 31 March 2023 (2022: £1,000), relating to bond management fees charged to Affinity Water Limited.

The company also has an investment of £50,000 in 100% of the £1 ordinary shares of another subsidiary company, Affinity Water Finance PLC. The principal activity of Affinity Water Finance PLC, incorporated in the United Kingdom, is to raise finance for the company. It made a profit of £7,000 for the year ended 31 March 2023 (2022: £7,000), relating to bond management fees charged to Affinity Water Limited.

The four dormant subsidiaries listed above file accounts at Companies House.

A7. Related party transactions

Purchases of goods and services

			2023		2022	
Related party	Nature of relationship	In respect of	Value £000	Balance £000	Value £000	Balance £000
Allianz Global Corporate & Speciality	Common ownership	Insurance	616	–	1,701	(616)
Allianz Insurance	Common ownership	Insurance	565	(26)	539	(539)

Sales of goods and services

			2023		2022	
Related party	Nature of relationship	In respect of	Value £000	Balance £000	Value £000	Balance £000
Vistry Group plc	Shared director	Connection charges	88	–	4	–

See note 3.3 for disclosure of the directors' remuneration.

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