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.

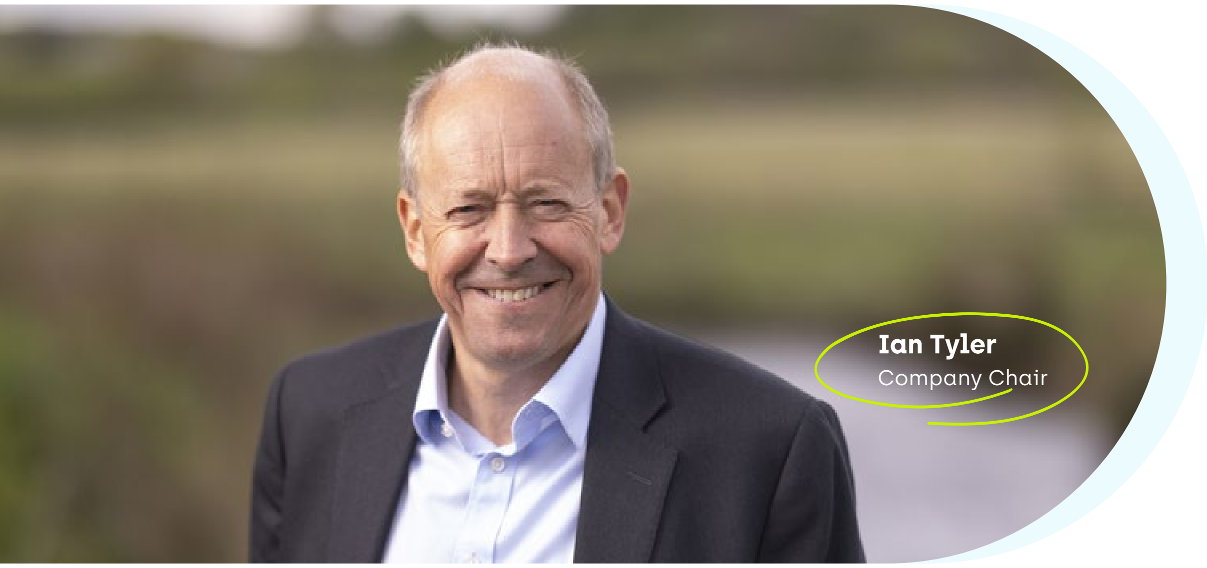
Read more on page 180

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

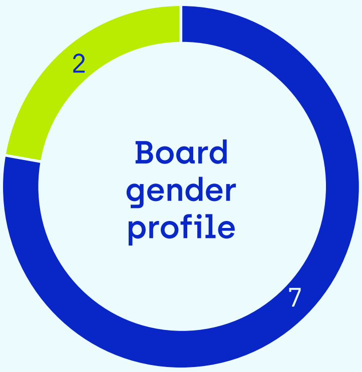
12 July 2023

Governance at a glance

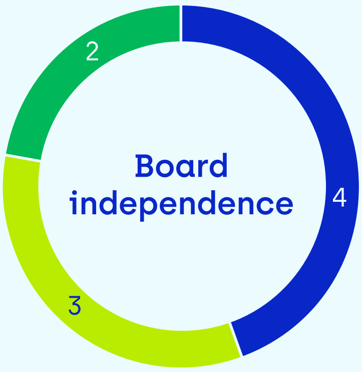
Board composition as at 31 March 2023

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

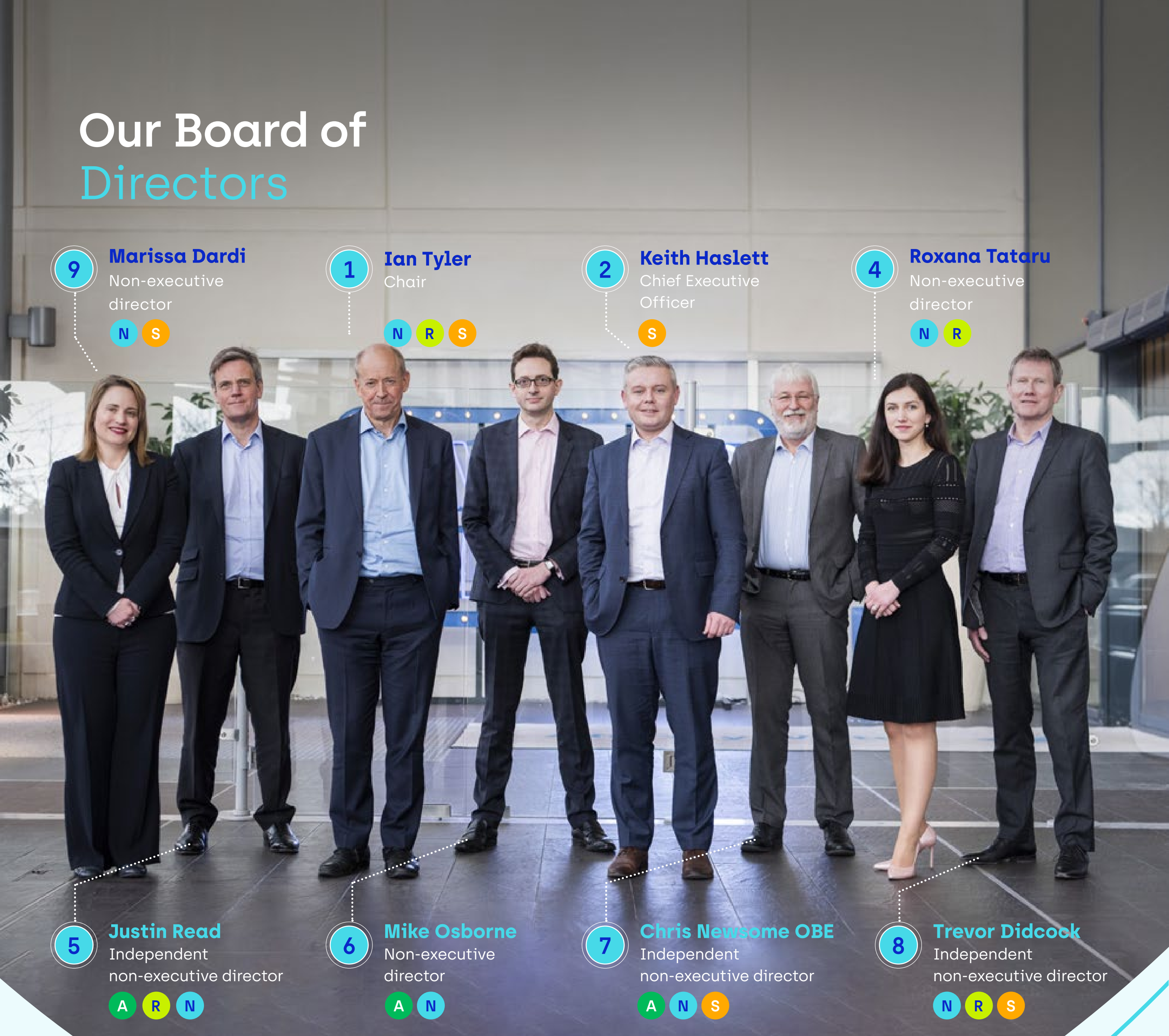
Meetings held

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
- N Nomination Committee
- R Remuneration 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 attended	Possible 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

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 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

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 (green) Possible meetings (orange)

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.

Code Requirements	The Committee's activities in the year
Assessing the performance of the Board	• 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
Recommending appointments to the Board	• 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
Overseeing Board and company diversity	• 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.
Ensuring succession planning	• 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

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.

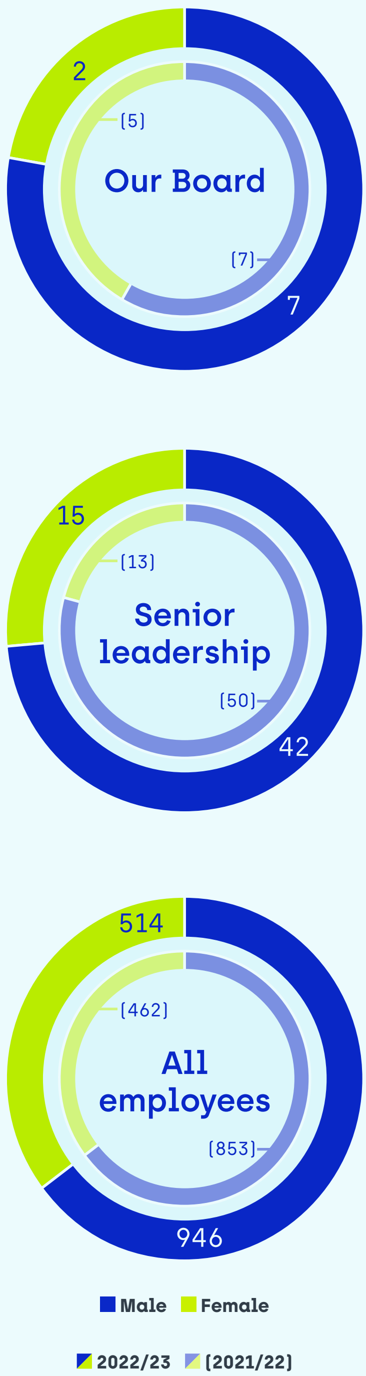
Valuing diversity and building inclusion

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

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

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

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 at a glance

Aligning our approach to Customer and Environmental Outcomes and Business Strategy

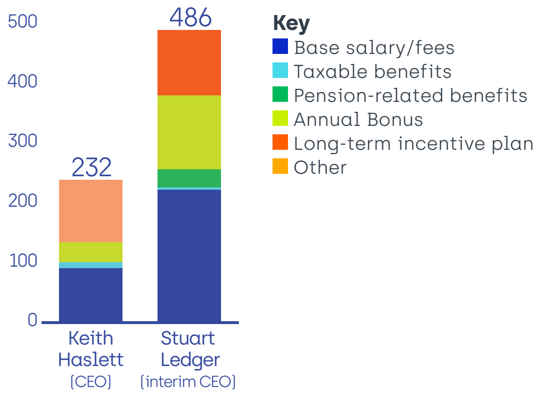
Element of Remuneration	Alignment to Strategy	Alignment to our stakeholders' interests
Annual Bonus Remuneration		
Totex and working capital within the regulated business	• Ensures we can invest in our assets and provide a great service that customers value	Customers, Communities, Shareholders
Cash generated 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

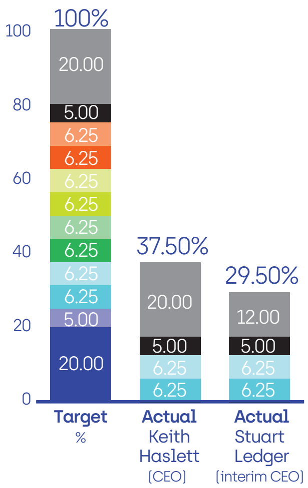
Key performance indicator (for the bonus and LTIP measures included below)

	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.

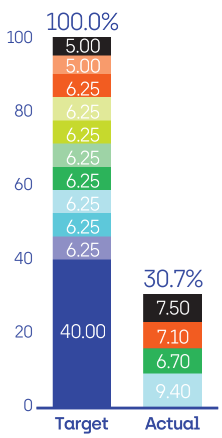
The bonus paid to Stuart Ledger was made on a pro-rata basis for his period in office.

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.

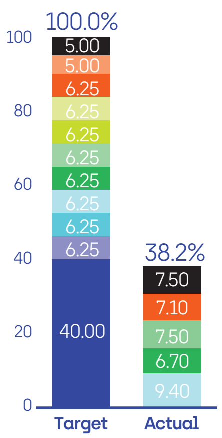
Long-term incentive plan ('LTIP') outcomes

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.

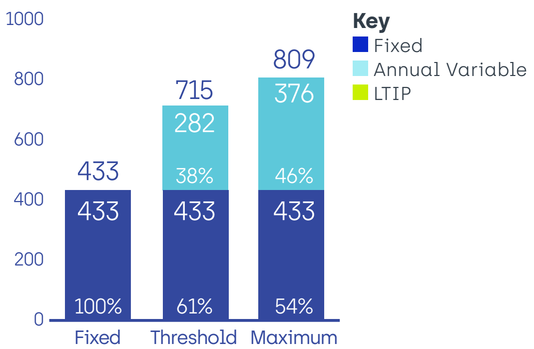
There are no arrangements in place for the remuneration of directors by any other company in the Group.

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

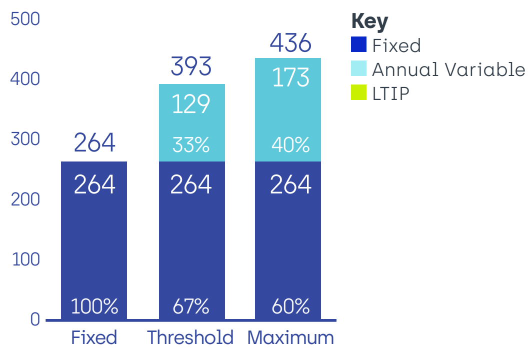
Pay-outs under different scenarios

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

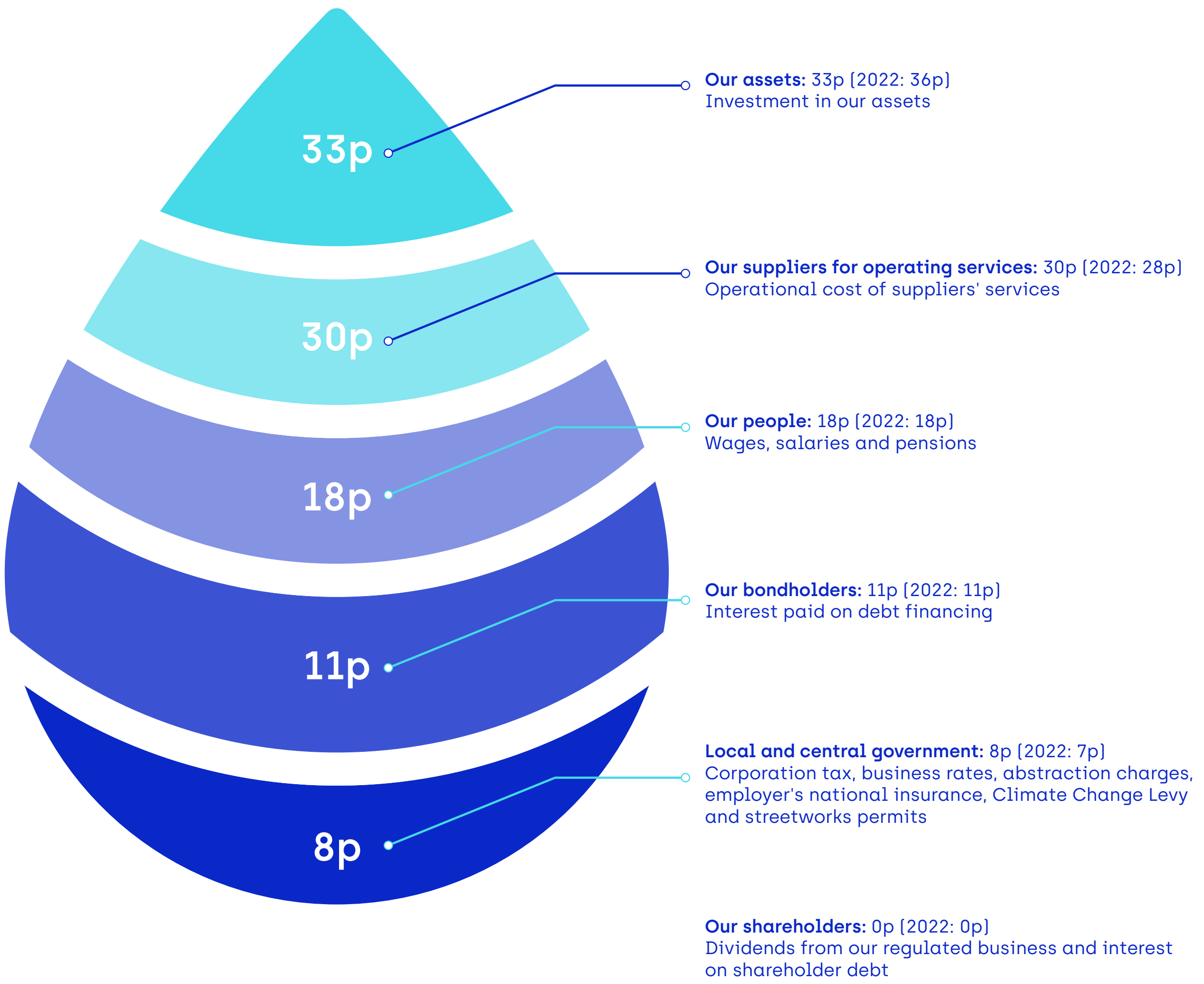
The Committee reviews and approves a discretionary company-wide performance bonus scheme for all employees, who are not, otherwise, entitled to the discretionary Executive Management Team or other selected manager performance bonus scheme. The discretionary company-wide bonus scheme comprises operational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



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.

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

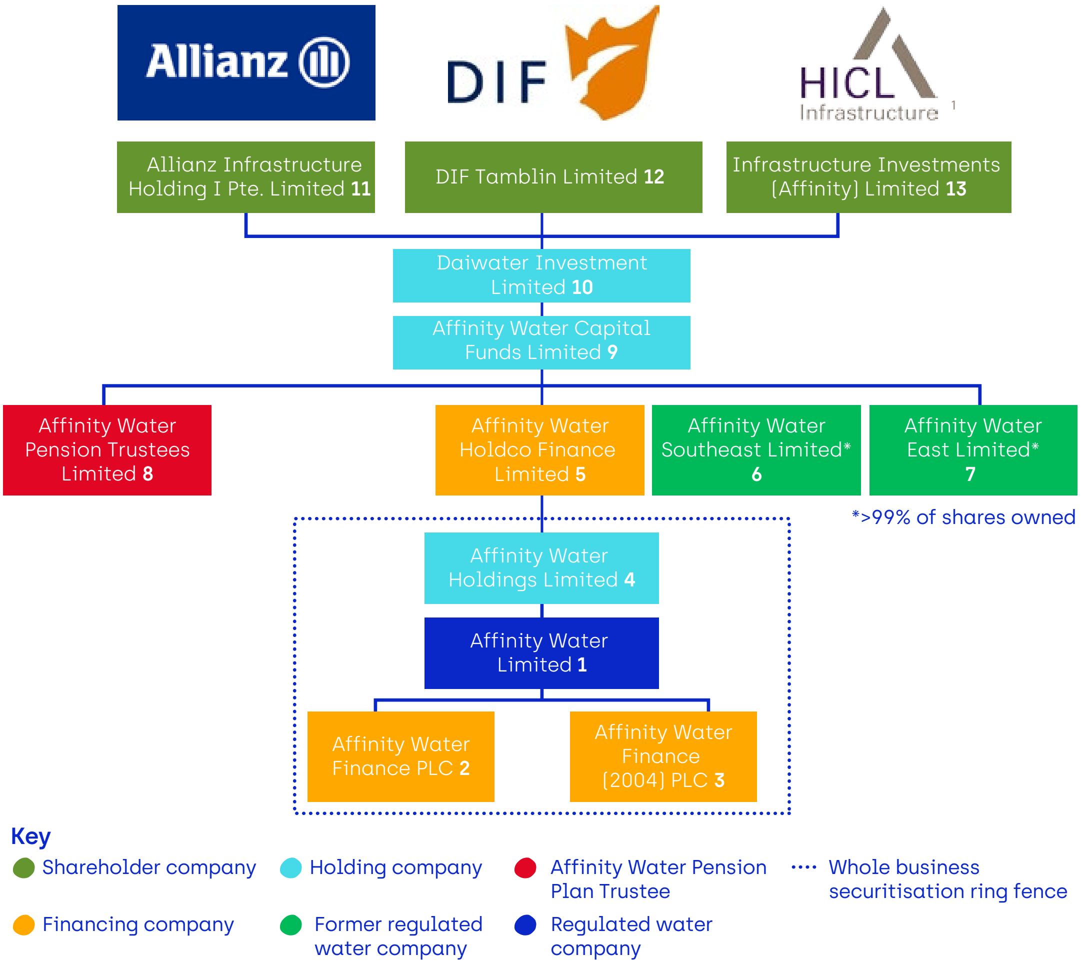
On 19 May 2017, Affinity Water Acquisitions (Investments) Limited was acquired by a consortium comprising DIF, HICL Infrastructure Company Limited (advised by InfraRed Capital Partners Limited) and Allianz Capital Partners on behalf of the Allianz Group. As part of the transaction, the consortium also 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.

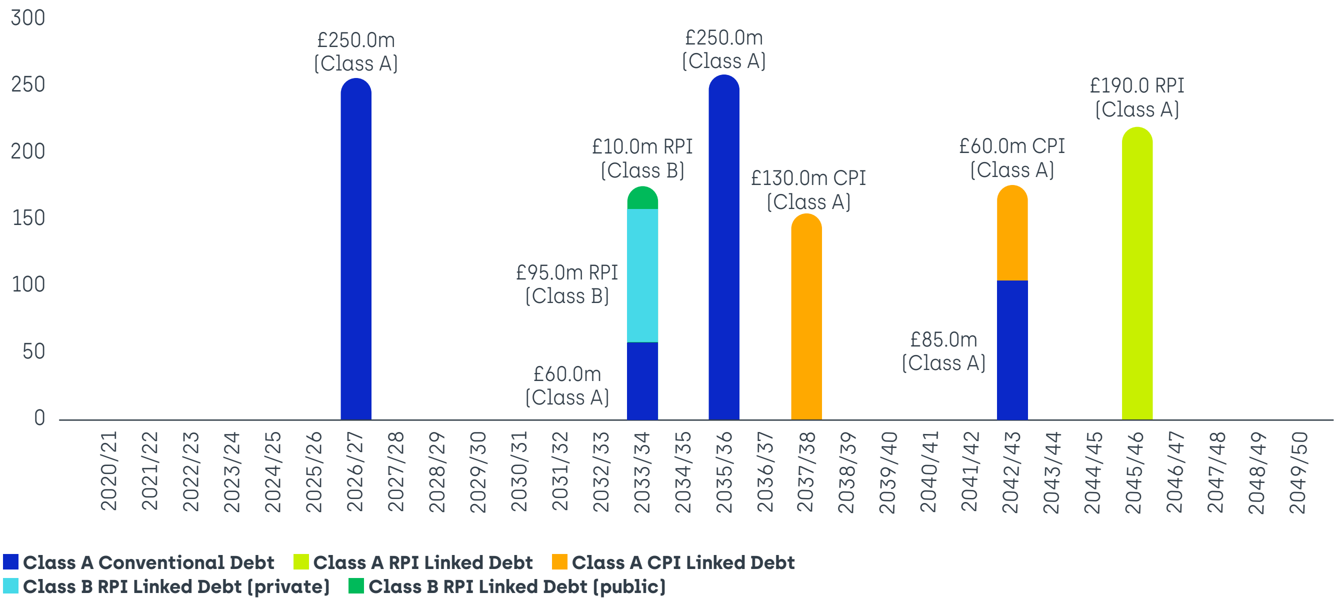
Interest rate exposure is, primarily, managed by using a mixture of fixed rate, floating rate, and index-linked borrowings (refer to note A4 to our statutory financial statements). At the year-end, 49.3% of our gross borrowings were at fixed rates (2022: 52.7%), 32.9% (2022: 30.4%) at rates indexed to 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.

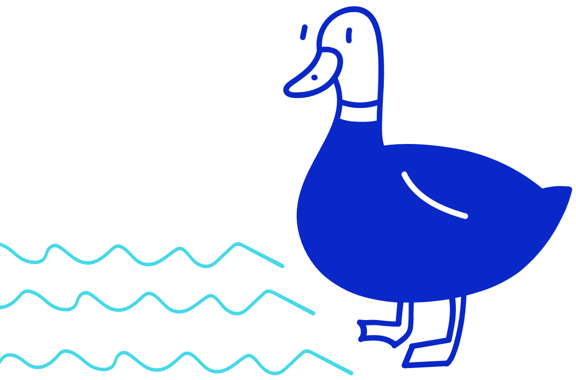
In addition, we have access to a further £52.0 million of liquidity facilities (2022: £55.0 million), consisting of a 364-day revolving £27.0 million facility to fund any debt service payments in the event of a liquidity shortfall, which would, otherwise, prevent such payments being made and a 364-day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

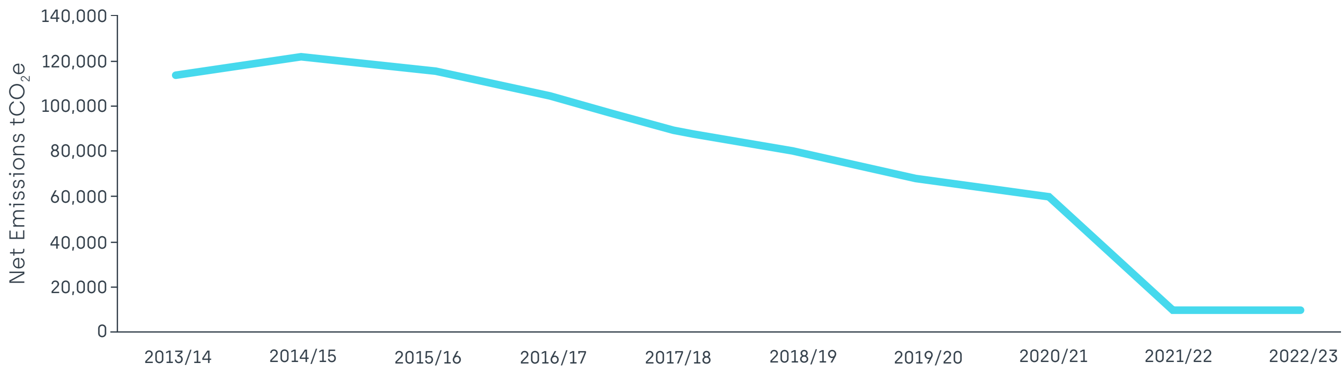


Figure 1 WaterUk Net Zero 2030 net operational emissions

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

Directors' Report continued

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