

Chief Executive Officer's introduction



Keith Haslett
CEO

Highlights

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

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

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

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

Overview

Despite the challenges posed by extreme weather events and inflation, we have achieved significant progress in certain areas, such as beating our 2022/23 leakage target, cementing our upper quartile

performance in water quality and achieving all of our Water Industry National Environment Programme targets.

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

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

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

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

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

External environment

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

In fact, our technicians fixed over 19,800 leaks over the last year, with a significant amount of those caused by extreme weather. Drought conditions throughout most of England last year led to hosepipe bans for some areas. We took a proactive approach through our Drought Management Group to monitor the situation closely, invested more resources in tackling leakage and increased communications to customers about the situation in our area and how they can help to save water. These proactive interventions ensured we did not need to introduce a hosepipe

ban as our groundwater resources were in a relatively good position compared to other companies. We also believe that improvements to our network resilience over recent years played an important role in conserving supplies in the ground, which were replenished by the exceptionally wet autumn and winter of 2022/23.

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

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

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

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

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

1.092

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

240k

Customers signed up to Save Our Streams water saving campaign

Chief Executive Officer's introduction continued

Performance highlights and challenges

Reducing leakage

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

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

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

Compliance Risk Index (water quality measure)

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

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

Providing a great service that you value

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

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

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

Minimising disruption to you and your community

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

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



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Per capita consumption

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

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

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



Chief Executive Officer's introduction continued

Taking care of our customers

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

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

Taking care of our environment

Taking care of the environment is at the very core of our purpose. Our region is home to 10% of the world's globally rare chalk streams. Chalk streams are under threat from the effects of climate change, demand for water, pollution and centuries of river alterations.

The state of our chalk streams is very much a societal issue, which is why we need to work closely with other water companies, regulators, government, businesses, land owners and our customers to do all that we can to protect them.

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

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

Innovation

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

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

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

97k

Customers receiving support through our social tariffs

120k

Customers signed up to our Priority Services Register

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



Our people

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

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

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

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

Looking Forward

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

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

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

Keith Haslett

CEO

12 July 2023