

AffinityWater

Executive Remuneration Policy

November 2022



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1 Aim of Policy

The executive remuneration policy of Affinity Water Limited ('the company') aims to continue to align executive pay to the company's stretching performance for customers. It is intended to incentivise stretching performance for customers through delivering high quality customer and operational performance whilst ensuring the cost of water remains affordable for customers by incentivising financial efficiencies as well as the value created for stakeholders.

This approved policy replaces the previous policy that became effective from November 2020. The key changes made relate to amendments made to the structure and metrics of both the long-term and short-term incentive plans to ensure that they are aligned to 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 and also 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.

2 The Remuneration Committee

The Remuneration Committee (the 'Committee') is responsible for determining the remuneration policy and terms and conditions of employment of the directors and senior executives. The Committee is chaired by an Independent Non-Executive Director. The Chief Executive Officer, the Chief Financial Officer and the People Director may attend 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 senior executives against planned targets. The Committee also meets to consider and apply an appropriate remuneration framework to retain high calibre management. 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 and on ensuring those targets are closely linked to standards of performance which are of benefit to customers.

3 Reporting and Transparency

The company reports remuneration in the Annual Report and Financial Statements (including the Annual Performance 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 applicable to the company. The remuneration report also meets the relevant requirements of the Listing Rules of the Financial Conduct Authority and describes how the company has applied the principles relating to directors' remuneration in the UK Corporate Governance Code (the 'Code').

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 remuneration report have been properly prepared in accordance with the Accounting Regulations of the Act. The company asks its auditors to report on this basis notwithstanding the Regulations do not apply to the company.

A resolution to approve the remuneration report is proposed at the Annual General Meeting ('AGM') of the company. The shareholders have a single vote in the AGM to approve the remuneration policy report. An annual advisory vote to approve the remuneration implementation report, is also required at the AGM.

Annual bonuses and LTIP awards are to be made in line with the maximum limits outlined in the prior year remuneration policy report.

The Annual Performance Report will also provide further updates to the development of this policy that will apply in 2020-25.

The company produces a separate report published on its external website that provides a summary of the executive pay for the year. This report includes details of any changes made to the executive remuneration policy and the underlying reasons for the change.

A copy of this policy is also published on the company's external website.

3.1 Non-Executive Directors

Each Independent Director has a written agreement relating to his or her 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 taking into account the market rate for non-executive directors, with particular reference to the water industry in the United Kingdom. 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.

Directors appointed by the shareholders do not receive any fees or other forms of remuneration from the company in respect of their services.

At each AGM any director appointed since the previous AGM, or any director appointed since the previous two AGMs without retiring or being re-elected, must retire and seek re-election.

The schedule of fees paid for service as a Non-Executive Director along with additional fees paid for Committee Chairships is as follows:

| Fee Schedule | £ |
|--|----------|
| Base Fee | 52,000 |
| Committee Chairmanship: | |
| - Remuneration Committee | 7,000 |
| - Safety, Health, Environment and Drinking Water Quality Committee | 7,000 |
| - Audit, Risk and Assurance Committee | 8,000 |
| Senior Independent Director | 5,000 |
| Employee Engagement Director | 4,000 |

3.2 Executive Directors

The remuneration framework is structured and appropriately balanced between fixed elements and incentive pay, to ensure that executives deliver a high standard of performance, whilst minimising risk. 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, Senior Managers', and company-wide bonus schemes, which continue to be aligned with that of the executive directors.

The remuneration 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 and stakeholders and the interests of shareholders.

The Committee takes into account, in arriving at a total remuneration 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 the best candidate.

The remuneration package for executive directors includes base salary, other taxable benefits, pension related benefits, annual bonus, and an LTIP. These are explained further in the tables below and in appendices one and two.

The Committee will ensure that the performance related element of this policy demonstrates a substantial link to performance delivery for customers through 2020-25, underpinned by stretching targets to be set by reference to the final determination for AMP7. The Committee will continually assess performance targets to ensure they continue to be stretching throughout AMP7.

3.3 Executive Directors' Fixed Pay and Other Benefits

| Purpose and Link to Strategy | Policy and Approach | Maximum Potential Value (as percentage of base pay) | Performance Metrics | Changes for 2022/23 onwards |
|--|---|--|---------------------|--|
| 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 were made to the policy. |
| 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 were made to the policy. |
| Pension Related Benefits | | | | |
| To provide competitive post-retirement benefits. | Under the defined contribution scheme, executives who joined the company before 1 April 2020 contribute at a rate of 7% of salary and the company contributes at 20%. Executives who joined the company after this date are aligned to contributions made by the general employee | 20% of base pay if appointed prior to 1 April 2020. A maximum of 12% for appointments after this date. | N/A | It has been agreed that any permanent appointments into the CEO and CFO roles will be at a maximum of 12% employer contribution. |

| Purpose and Link to Strategy | Policy and Approach | Maximum Potential Value (as percentage of base pay) | Performance Metrics | Changes for 2022/23 onwards |
|------------------------------|--|---|---------------------|-----------------------------|
| | population, with the company doubling contributions made by the executive up to a maximum company contribution of 12%. | | | |

3.4 Annual Bonus Plan

| Purpose and Link to Strategy | Policy and Approach | Maximum Potential Value (as percentage of base pay) | Performance Metrics | Changes for 2022/23 onwards |
|--|--|--|---|--|
| <p>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.</p> | <p>Maximum bonus potential is set at a market competitive level.</p> <p>The bonus is based on budgeted non-financial and financial targets aligned to the company's commitments for AMP7, plus individual targets.</p> | <p>Up to 100% of base salary for the CEO and up to 75% of base salary for the CFO.</p> <p>Where discretion is applied to executives relating to the company performance of measures, the same level of discretion must be applied to all employees and managers.</p> | <ul style="list-style-type: none"> • Regulated Totex & Working Capital (20%) • Non-regulated cash (5%) • Our Top 8 Performance Commitments (6.25% each): <ol style="list-style-type: none"> 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%) <p>20% of the total bonus is determined on the achievement of personal objectives.</p> <p>No payment will be awarded if achievement is below the target/plan for that metric.</p> <p>There is also a check that considers pay-out of the bonus if either the customer or the financial elements of the</p> | <p>For 2022/23 in order to meet the Ofwat guidance that 60% of incentives should be based on achievement of customer measures, it has been agreed that this scheme metrics will be as follows:</p> <ul style="list-style-type: none"> • Regulated Totex & Working Capital (20%) • Non-regulated cash (5%) • Our Top 8 Performance Commitments (6.25% each) <ol style="list-style-type: none"> 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%). |

| Purpose and Link to Strategy | Policy and Approach | Maximum Potential Value (as percentage of base pay) | Performance Metrics | Changes for 2022/23 onwards |
|------------------------------|---------------------|---|--|-----------------------------|
| | | | bonus fall below a set level to ensure equal focus across all metrics. | |

3.5 Long Term Incentive Plan ('LTIP')

| Purpose and Link to Strategy | Policy and Approach | Maximum Potential Value (as percentage of base pay) | Performance Metrics | Changes for 2022/23 onwards |
|---|---|---|---|--|
| <p>To incentivise executives to achieve long-term shareholder value whilst achieving high levels of customer experience performance, although both award and payment are discretionary.</p> | <p>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 in year four, 33% paid in year five and 33% paid in year six subject to the achievement of performance conditions.</p> <p>The scheme is based on three-year targets that are aligned to the strategic delivery for AMP7 and preparation for AMP8.</p> <p>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</p> | <p>Up to 100% of base salary for the CEO and CFO.</p> | <p>The award is determined based on the performance of the company over the three years. For the 2021/22 LTIP, 40% of the scheme pay-out is based on financial targets, including cash generated from operations and investment targets; 50% based on customer service and stakeholder commitments, including C-MeX (6.25%) and D-MeX (6.25%) position, water quality (6.25%), helping vulnerable customers (6.25%), leakage (6.25%), consumption (6.25%), mains bursts (6.25%) and environmental innovation (6.25%); and 10% based on employee</p> | <p>For 2022/23 in order to meet the Ofwat guidance that 60% of incentives should be based on achievement of customer measures, it has been agreed that this scheme metrics will be as follows:</p> <p>Financial:</p> <ul style="list-style-type: none"> Regulated Totex (15%) Non-Regulated EBITDA (5%) <p>Customer & Responsible Business:</p> <ul style="list-style-type: none"> Our Top 8 Performance Commitments (40%) Net zero, abstraction reduction, river restorations (10%) <p>People:</p> <ul style="list-style-type: none"> Employee engagement (10%) <p>Long-term plan:</p> <ul style="list-style-type: none"> AMP8 plan quality (10%) AMP8 readiness (10%). <p>There will also be an underpin based on safety performance.</p> |

| Purpose and Link to Strategy | Policy and Approach | Maximum Potential Value (as percentage of base pay) | Performance Metrics | Changes for 2022/23 onwards |
|------------------------------|---|---|---|---|
| | <p>significant losses to the company, material failure of related management or business units, material misstatement in the audited financial statements, and reputational damage.</p> <p>The awards do not automatically vest on change of control of the business.</p> | | <p>commitments, including culture surveys (5%) and safety (5%).</p> | <p>It has also been agreed that targets will be set by reference to end of AMP performance rather than on an annual basis. The rest of the scheme remains unchanged. Further work will also take place during 2022/23 to further refine the scheme for the following year as performance targets for the next AMP will not be agreed thereby making a three year scheme challenging.</p> <p>No award will be made for a metric if performance is below target/plan.</p> |

4 Additional Cash Awards

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.

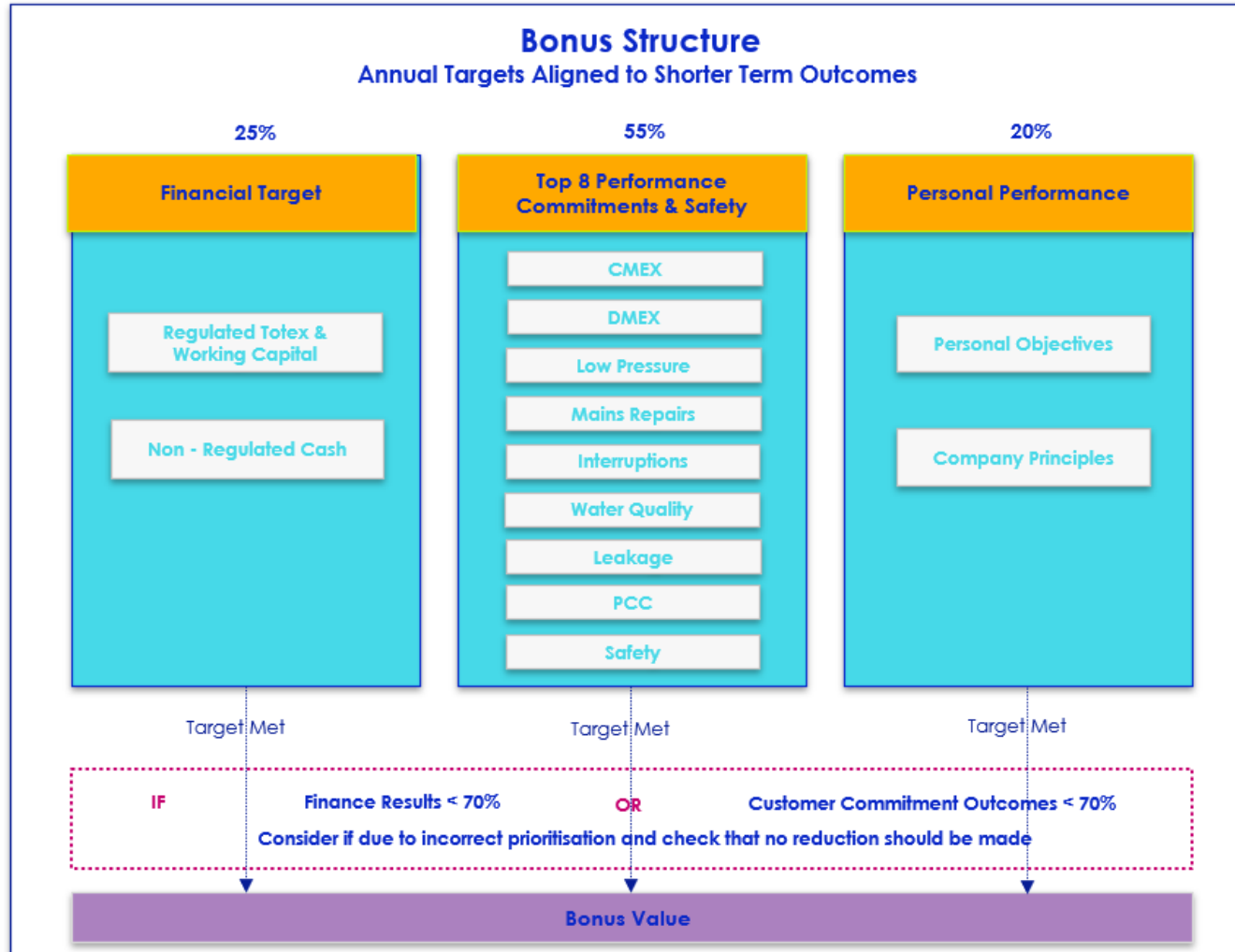
Other payments may be made in relation to relocation expenses and other incidental expenses as appropriate.

5 Review of Pay and Policy

The policy will be reviewed at least every three years.

Executive pay is to be reviewed annually.

Appendix 1: Bonus Determination Process



Appendix 2: LTIP Determination Process

