Affinity Water

Regulatory Annual Performance Report

For the year ended 31 March 2023

(Registered Number 02546950)

Affinity Water Regulatory Annual Performance Report

Glossary of key abbreviations and definitions used within this report and the water industry

AMP – Asset Management Plan
The five-year price control period covered by a company's Business Plan. AMP6 ran from 2015 to 2020. AMP7 runs from 2020 to 2025. AMP8 will run from 2026 to 2030.

C-MeX – Customer Measure of Experience
A measure of customer service levels being used by Ofwat in AMP7.

CCG – Customer Challenge Group
An independent group of individuals who hold us to account on how we are performing against our performance commitments.

CRI – Compliance Risk Index
A measure of water quality compliance designed to illustrate the risk arising from treated water compliance failures.

D-MeX – Developer Measure of Experience
A measure of developer service levels being used by Ofwat in AMP7.

Ml/d – Megalitres per day
A measure of consumption. One megalitre is equal to one million litres.

MOSL – Market Operator Services Limited
The market operator of England's non-household water market.

MZC – Mean Zonal Compliance
A measure of water quality compliance derived from monitoring samples taken from customers' taps.

ODI – Outcome Delivery Incentive
Mechanism for financial rewards or penalties that underpins the Performance Commitments submitted in a company's Business Plan (the 'Plan').

PCC – Per Capita Consumption
The amount of water used by each person, usually measured in litres per person per day ('l/p/d').

PR – Periodic Review
The price determination process undertaken by Ofwat ahead of each new AMP. The PR19 process set the price controls for AMP7. The PR24 process sets the price controls for AMP8.

R-MeX – Retailer Measure of Experience
A measure of retailer service levels being used by Ofwat in AMP7.

RAGs – Regulatory Accounting Guidelines
The Regulatory Accounting Guidelines define in detail the treatment of particular items (for example, revenue and interest) where Ofwat disclosure and accounting requirements differ from those normally required under UK accounting standards and applicable legislation.

RCV – Regulatory Capital Value
The economic value of the regulated business, as determined by the price control regime.

RORE – Return on regulated equity
A financial metric used by Ofwat to determine the profitability of the regulated company.

Totex – Total expenditure
The sum of operational expenditure and capital expenditure.

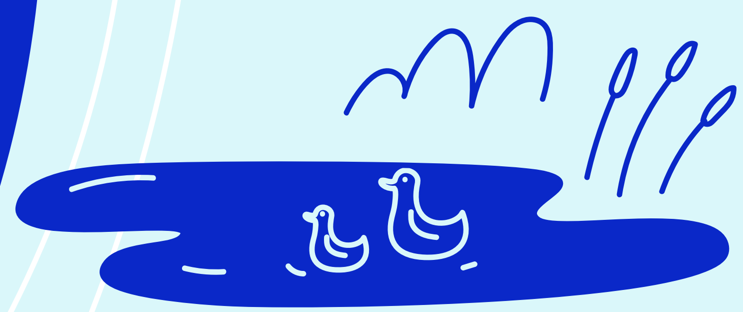
WINEP – Water Industry National Environment Programme
A set of actions that water companies must complete in order to meet their environmental obligations.

WRMP – Water Resources Management Plan
A long-term plan detailing how a water company will maintain a sustainable balance between future demand and supply of water.

Important information

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

Our registered office
Tamblin Way
Hatfield
Hertfordshire
AL10 9EZ



Regulatory Annual Performance Report

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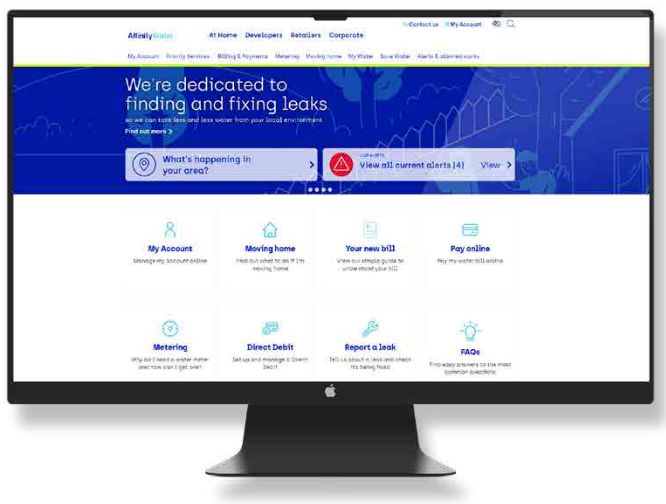
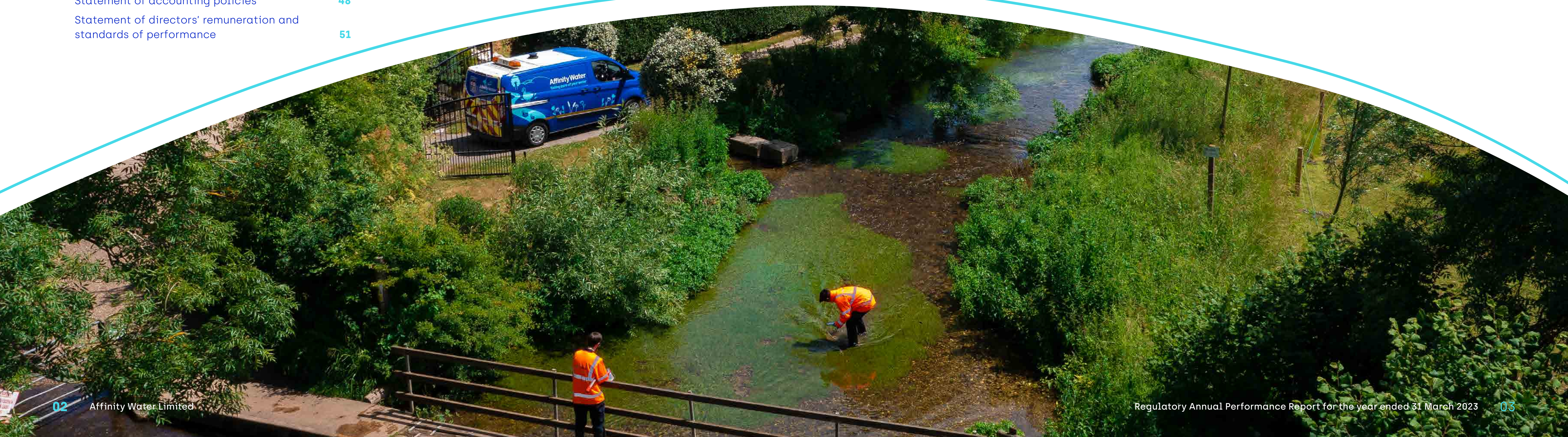
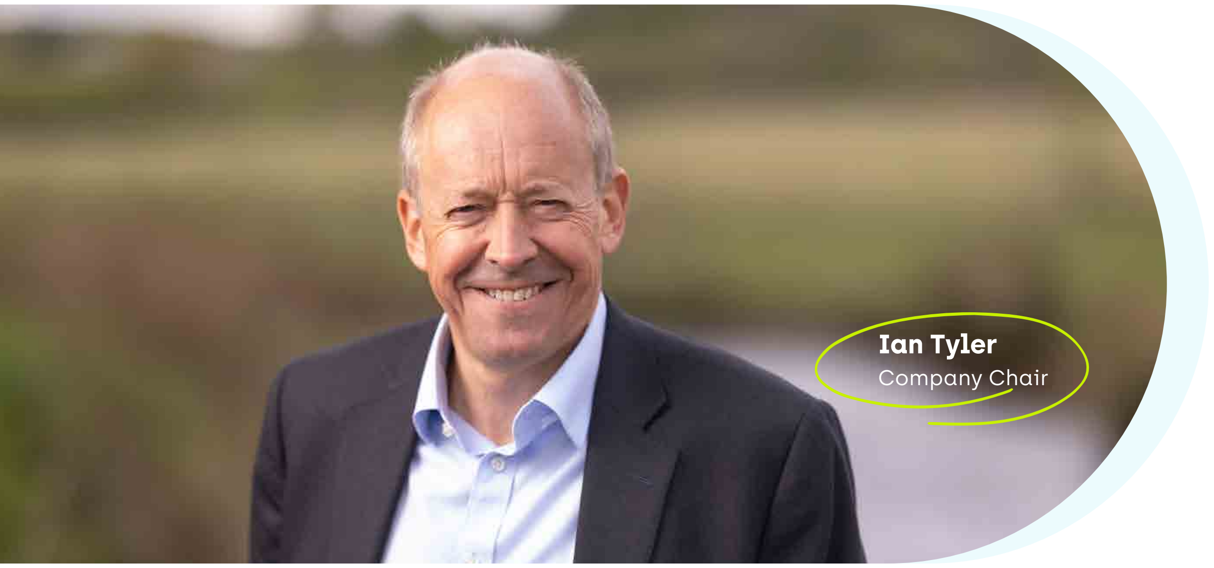
The following regulatory Annual Performance Report is prepared to enable the Water Services Regulation Authority ('Ofwat') to monitor the financial performance of the regulated water business of Affinity Water Limited. This regulatory Annual Performance Report should be read in conjunction with the Annual Report and Financial Statements of Affinity Water Limited for the year ended 31 March 2023, which can be found here:



affinitywater.co.uk/performance



Statement from the Chair



Highlights

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

Read the **executive summary of operational performance** on pages 8 to 11

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

After a rigorous search and selection process, we are confident we have found the right leader to set Affinity Water up for success in the remainder of this AMP, and into the next phase of our work as we prepare our 2026 to 2030 Business Plan. I look forward to working closely with Keith to help achieve our ambitious goals.

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

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

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

In the near term, between 2025 and 2030, Affinity will be investing up to three times as much in our network, services and environmental commitments as we will have done in the current AMP (2020 to 2025). Over the past few years, our teams have been busy preparing our Business Plan, our most ambitious to date – following extensive research on the issues that matter most to our customers and other stakeholders. We published the draft plan for consultation in May 2023.

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

It represents a significant step in how we achieve our long-term ambitions, as laid out in our Strategic Direction Statement and 50-year action plan for water.

Public perception of the water industry is at an all-time low, given frequent reports of environmental concerns, which are largely attributed to sewage discharges. We recognise the environmental impact this has on our rivers and globally rare chalk streams, and that this has affected public confidence in the entire industry. As a water-only company, we do not manage sewage in our area, however we very much have a role to play in helping return our rivers to good ecological health. This is not just an issue for the water industry, but a societal one. This is why we need to continue working with customers, government, the water industry, environmental groups, the agricultural industry and other sectors to increase public understanding on what affects our rivers and what we all need to do to improve them.

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

Finally, I would like to emphasise the importance of our company culture and values. We believe these have played a significant role in our success to date, and we remain committed to supporting a positive, inclusive and productive work environment. We are proud of our employee-engagement initiatives, our diversity and inclusion efforts, our support networks, and other programmes that help us maintain a strong and engaged workforce. I would also like to thank everyone at Affinity Water for their continued efforts. We have had to manage some challenging events over the past year, and the hard work and commitment of all our colleagues during these times ensures we can continue to deliver a vital public service to the customers and communities we serve.

15.8%

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

23

Project units completed to date for national environment programme

Statement from the Chief Executive Officer

Keith Haslet
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 260,000 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.

Read the **executive summary of operational performance** on pages 8 to 11

I am pleased to present our Annual Performance Report for the year ended 31 March 2023, my first since joining as CEO of Affinity Water. This report is designed to give customers and other stakeholders clear and transparent information on both our operational and financial performance during the year, including the progress we have made to deliver on our commitments. The report is also designed to give stakeholders details on our legal obligations as a water provider and how we are meeting our licence conditions.

An operational overview

We recognise it has been a challenging year with extreme weather events having an impact on several key performance areas. In July 2022, the UK experienced its hottest ever temperatures with the mercury reaching 40°C at its peak in our area. This resulted in increased demand, with the dry conditions also causing significant ground movement and damage to our network. Additionally, in December 2022, our teams also managed another extreme weather event. Following weeks of sub-zero temperatures, the weather suddenly turned, and temperatures increased by approximately 10°C overnight, resulting in an increase of bursts on our network, in homes and businesses. This put more pressure on our network while our teams worked to repair the damage to the network from the weather event.

Both of these events show it is more evident than ever that the effects of climate change are already with us and we need to adapt to this changing environment to improve the resilience of our network and our operations and meet our long-term commitments.

Despite the extreme weather events impacting a number of our key performance commitments, I am pleased to report we have made excellent progress in other areas, notably leakage and our Compliance Risk Index. We recognise there is more to do to improve in other areas including C-MeX and PCC. Details of our operational performance and achievement of our commitments over the AMP are included within this APR on pages 8 to 11.

> "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."

A financial overview

As with many other businesses across the UK, we are also weathering the storm of high inflation which was at its highest in 40 years. A part of this increase is the fact that energy prices 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 protected us to some extent, 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.

The first two years of the pandemic in 2020/21 and 2021/22 also affected our investment programme, as all construction was halted for a six-month period. We've also experienced delays in the planning timescales as we emerged from the lockdowns. However, we are absolutely determined to deliver on our investment programme by the end of this AMP. We are already on track to deliver all outcomes under the Water Industry National Environment Programme (WINEP) and will keep Ofwat and other stakeholders updated with a new action plan, which will be published on our website, that will detail how we will meet our obligations for the enhancement expenditure.

Details of our financial expenditure can be found in sections 1 – 11 of this APR and in our executive summary of financial performance on page 12 onwards.

Outlook

Our teams have been extremely busy preparing our business plan for the next AMP (2026 to 2030) and our 50-year action plan for water resources (Water Resources Management Plan). However, first, we have to make sure we finish this AMP successfully to put us in a strong position to deliver our next Business Plan.

Whilst 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.

Executive summary of operational performance – AMP to date and current year

Every five years, water companies produce business plans which set out the performance commitments ('PC's) they will deliver over a five-year period. These plans are shaped by customers and stakeholders on the things they want their company to deliver on. The five-year period is referred to as AMP7. Our current Business Plan for 2020–25, includes a total of 28 stretching performance commitments that will ensure we deliver our four customer outcomes.

The first three years of AMP7 have brought significant challenges to our business and our performance commitments themselves. AMP7 began with the onset of the global pandemic. Covid-19 affected all aspects of life and the workings of the industry. Offices closed, schools shut with many customers and staff suddenly working from home or furloughed. The impact to our business was felt immediately, and new ways of working had to be found. Significant sections of our commuter-belt customers were suddenly remaining within our supply area and using more water within their homes and at different times. The onset of the pandemic also coincided with a significant hot, dry summer further exacerbating changes in usage and the amounts of water used. The easing of restrictions in 2021 and an anticipated return to a 'new normal' was met with an energy crisis and a downturn in the economy. Further hot/dry weather was experienced in the summer of 2022, bringing the hottest weather in 30 years and a freeze/thaw event with temperatures down to -7ºC.

The pandemic, increasingly extreme weathers and an unsettled economy have all brought additional challenges to our stretching commitments. Despite this, we are working hard to achieve the commitments we set out at PR19. Performance against our commitments is detailed in the following sections.

Supplying high-quality water you can trust

Compliance Risk Index ('CRI')

Metric (calendar year)	2020	2021	2022
CRI	1.31	0.87	**1.09**
(Dead Band) target	2.00	2.00	**2.00**
Metric (Dead Band) target achieved?	Yes	Yes	**Yes**

CRI is a calendar year metric. Whilst we did not achieve the performance commitment level (PCL) of 0.00 in 2022, our score 1.09 was well within the deadband of 2.00 and consistent with our performance over the first two years of AMP7. We remain in the upper quartile of companies. We work hard to understand its drivers, and our ambition to be a leading company is essential to informing and developing our continuing improvement plans.

Our continuing improvement programme focuses on issues that can affect CRI, such as reservoir inspections, sample lines, site hygiene and staff awareness. We continue to improve in these areas.

Customer contacts per 1,000 population for water quality

Metric	2020/21	2021/22	2022/23
Water quality contacts	0.83	0.75	**0.56**
Target	0.67	0.67	**0.67**
Metric achieved?	No	No	**Yes**

We achieved a contact rate of 0.56 on a target of 0.67 in the current year. This is our best performance to date, improving on our 2021/22 score of 0.75. Our performance continues the improving trend that we saw prior to Covid-19 restrictions. We did not achieve the commitment in the first two years of the AMP period as the performance commitment was detrimentally impacted by Covid-19. During lockdown and the subsequent increase in demand, water contacts increased. We believe this was due to greater numbers of people being at home and an increase in the overall awareness and concern over all aspects of health and wellbeing.

Against industry comparisons we have reported above upper quartile performance since 2012/13.

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

Leakage

Metric	2020/21	2021/22	2022/23
Leakage reductions	1.9%	10.8%	**15.8%**
Target	2.7%	11.1%	**14.0%**
Metric achieved?	No	No	**Yes**

In AMP7 we committed to reducing leakage by 20% as set out in our WRMP. This commitment followed a 15% reduction in AMP6. We understood that a step change in our approach was needed to meet this target and at the outset this would be a challenge. We identified we would need a glide-path reduction to achieve 20% by the end of 2025 and that the initial two years would be particularly difficult.

Reductions have been achieved through a mix of leakage control activities and increasing resources to identify and improve our agility in responding to and reducing the run time of leaks on our network.

Our plans were not sufficient to achieve the first two years target, with a 1.9% and 10.8% reduction against the required 2.7% and 11.1%, however, they set us up to have the resources to meet the target in 2022/23. Despite the significant outbreaks in leaks and bursts through the winter in 2022/23, we have achieved our leakage target for 2022/23 and expect these reductions to continue to the end of the AMP.

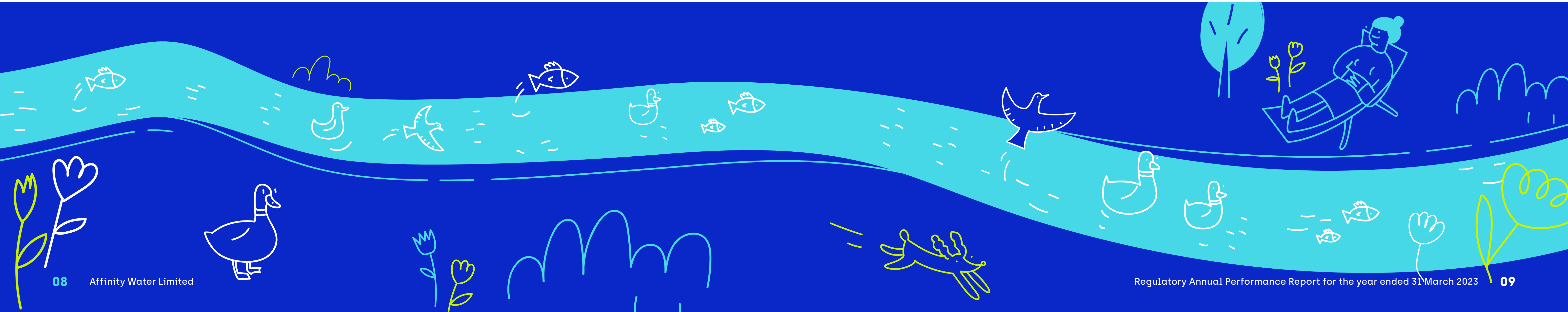
We continue to improve our compliance with the leakage and PCC convergence methodologies. This allows us to improve our accuracy of calculation and reporting of numbers and has resulted in us restating 2020/21 and 2021/22 metrics, as per the table above. For full details on the restatement, see our non-financial line commentary published on our website at affinitywater.co.uk/reports-publications.

Per capita consumption ('PCC')

Metric	2020/21	2021/22	2022/23
PCC reductions	-3.5%	-3.4%	**-4.3%**
Target	1.7%	4.9%	**7.3%**
Metric achieved?	No	No	**No**

As PCC is a measure of customers consumption in the home, performance across the industry against this metric has been adversely affected by Covid-19. Lockdown occurred during the hottest weather of 2020; this combined with a significant number of people either on furlough, working from home or at home because of school closures resulted in a significant increase in household demand.

The pandemic has changed the way of working for a significant proportion of our customer base and this looks set to continue into the future. While a portion of the Covid-19 effect has reduced, significant numbers of our customers continue to work from home and live a 'new



Executive summary of operational performance – AMP to date and current year continued

normal'. PCC has remained high throughout and working arrangements have not (and likely will not) return to pre-pandemic levels.

The prolonged hot summer of 2022 saw PCC rates increase significantly with demand increases up against prior year. Despite not meeting the first three years' performance commitment, we have made reductions each year from a Covid-19 equivalent baseline and aim to be the top company at reducing PCC across the industry. We understand that reducing customer consumption is important for both the environment and our future supplies and we have invested significant resources into education and campaigns to encourage reductions in water usage. We are working to achieve the overall commitment reduction by the end of year five, which, as it stands, includes the Covid-19 increases seen over the period and are doing all we can to make this a reality.

Providing a great service that you value

Customer measure of experience ('C-MeX')

C-Mex is a mechanism to incentivise water companies to provide an excellent customer experience for residential customers, across both the retail and wholesale parts of the value chain.

Metric	2020/21	2021/22	2022/23
C-MeX*	15th (77.88)	14th (76.57)	**14th (74.59)**
Target	Mid Table (8th)	Mid Table (8th)	**Mid Table (8th)**
Metric achieved?	No	No	**No**

*C-MeX score is out of 100, (50 CSS: 50 CES)

We aspire to become one of the leading water companies in the service we provide to our customers. We know we have a long way to go to achieve this and are doing all we can to improve our performance and give our customers greater confidence in our abilities and services. However, as C-MeX is a comparative measure, our 'league-table' position is also dependent upon the performance improvements that other companies make.

Through network events and engaging with customers we know that keeping customers informed and doing what we say we will do is of upmost concern. We have continued to work on training our staff to listen and resolve queries at the first point of contact.

Despite significant investment in training, improving processes and engagement, we are disappointed that these improvements have been slow to manifest into changes in survey scores. The overall score moved from 15th to 14th position between 2020/21 and 2021/22 and remained at 14th position in 2022/23. While we are seeing positive movement in our customer experience scores, we recognise that overall satisfaction is still lagging behind the industry.

Developer services measure of experience ('D-Mex')

D-MeX is a mechanism to incentivise water companies to provide an excellent customer experience for developer services (new connections) customers. These customers include small and large property developers, self-lay providers ('SLPs'), and those with new appointments and variations ('NAVs').

Metric	2020/21	2021/22	2022/23
D-Mex*	10th (84.71)	9th (86:00)	**10th (86.36)**
Target	Mid Table (8th)	Mid Table (8th)	**Mid Table (8th)**
Metric achieved?	No	No	**No**

*D-MeX score is out of 100, (50% qualitative, 50% quantitative)

Although we saw our D-MeX score increase from 2021/22, We are disappointed to achieve a 2022/23 full year industry league table position of tenth. We aspire to become one of the leading water companies when it comes to the service we provide our customers through Developer Services.

D-MeX is calculated from an equal split of scores from qualitative and quantitative surveys. By working collaboratively with our delivery partner, we have consistently improved our quantitative performance and in year three we achieved 99.97% in these scores. Our qualitative performance increased from 70.72 in 2020/21 to 72.75 in 2022/23, this increase is linked to improvements made to timescales and moving to more proactive communication.

Minimising disruption to you and your community

Mains repairs

Mains repairs are measured as the number of repairs per 1,000km of mains against a reducing target of less than those noted below.

Metric	2020/21	2021/22	2022/23
Mains repairs	158.9	100.2	**169.6**
Target	150.7	148.6	**146.5**
Metric achieved?	No	Yes	**No**

Mains repairs have been reported for a considerable number of years and it is clear performance is significantly affected by weather variations, both dry summers and freezing winters.

Our performance failure in 2020/21 was the result of two prolonged periods of sub-zero temperatures in the January and February causing a significant increase in the number of mains repairs.

2021/22 saw us achieve our best ever performance in this metric, aided by benign weather conditions in both summer and winter.

Our performance in 2022/23 was significantly impacted by a prolonged hot summer and extreme winter freeze/thaw event. Bursts numbers in the two weeks before Christmas exceeded those seen during the 'beast from the East' in 2018.

While significant work has been conducted in relation to network calming and reducing network volatility, the impacts felt by weather in an individual year may well exceed improvements made in underlying performance. Normalising for weather, reductions in the number of mains repairs has been achieved by reducing high night-time pressures and reducing the volatility and occurrences of surges within the network. We have continued to focus on these areas of improvement throughout the AMP7 period.

Interruptions to supply ('I2S')

This metric is based on the number of minutes per property where interruptions to supply was three hours or greater.

Metric	2020/21	2021/22	2022/23
I2S	00:05:49	00:03:43	**00:12:53**
Target	00:06:30	00:06:08	**00:05:45**
Metric achieved?	Yes	Yes	**No**

Interruptions to supply have improved significantly in line with the action plans set out in our PR19 Business Plan. Since 2017/18, where over 32 minutes were reported, our average interruptions have steadily reduced year on year. In 2021/22 we achieved our best ever performance of 3 minutes, 43 seconds placing us 5th in the industry.

We are aware that external factors such as weather and third-party interactions can have a significant effect on this metric with the ability of one large incident to 'blow the target'. This has been particularly highlighted with the extreme summer and winter weather this year. The freeze-thaw event in the two weeks before Christmas added over 8 minutes to our performance. This is over twice the interruption time seen for the rest of the year. Had the freeze/thaw not occurred, we would have maintained our performance trend in line with the prior years' performance and achieved the reducing target for the year. Despite this year's performance we are committed to achieving and maintaining upper quartile performance as we progress through this AMP and into the next.

Properties at risk of receiving low pressure

Metric	2020/21	2021/22	2022/23
Properties at risk of receiving low pressure	196.850	155.466	**150.934**
Target	1.645	1.513	**1.381**
Metric achieved?	No	No	**No**

This is intended as a measure of the number of properties that are at risk of experiencing low pressure in the mains water supply per 10,000 connections. Our reported performance against this metric is an outlier to the industry. We believe this is predominantly due to the way companies interpret and apply the reporting guidance, and figures across the industry are not comparable on a like-for-like basis.

Year on year, performance for 2020/21 was significantly affected by the prolonged summer temperatures and resultant demand. 2022/23 was similarly impacted significantly by the unprecedented hot weather/high demand in the summer.

Our metric for 2021/22 has been restated to align to current methodologies. For full details on the restatement, see our non-financial line commentary published on our website at affinitywater.co.uk/reports-publications.

Unplanned outage

Metric	2020/21	2021/22	2022/23
Unplanned outage	1.65	1.19	**2.09**
Target	2.34	2.34	**2.34**
Metric achieved?	Yes	Yes	**Yes**

We have achieved our unplanned outage target for the first three years of the AMP. Outage measures are a measurement of asset health and we have spent considerable effort in improving the reporting and capture of this data. While we use unplanned outage information to inform our capital investment and capital maintenance, it is equally important in understanding how our sites are maintained and operated on a day-to-day basis. Managing unplanned outages allows us to keep disruption to our customers to a minimum.

Industry-wide, our unplanned outage percentage performance was above average in 2021/22. With continued improvements planned we believe our performance will increase against other companies in the industry and we will benefit from a greater understanding of the cause and effect of these outages and the ability to plan to mitigate against their impacts in the future.

Executive summary of financial performance – AMP to date and current year

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

Segmental income statement

	Residential retail £m			Water resources £m			Water network + £m		
£m	20/21	21/22	**22/23**	20/21	21/22	**22/23**	20/21	21/22	**22/23**
Total revenue	27.9	29.0	**26.9**	35.9	43.2	**50.4**	216.4	237.4	**238.0**
Operating expenditure – including PU recharge impact	(29.2)	(28.4)	**(31.4)**	(18.0)	(18.6)	**(21.7)**	(163.1)	(179.4)	**(196.7)**
Depreciation and amortisation	(0.7)	(0.2)	**(0.3)**	(5.5)	(2.7)	**(8.4)**	(72.9)	(72.3)	**(71.6)**
Other operating income	1.6	2.3	**2.6**	0.0	0.1	**0.1**	0.7	0.8	**1.1**
Operating profit/(loss)	(0.3)	2.7	**(2.1)**	12.4	22.0	**20.4**	(18.9)	(13.4)	**(29.2)**

Over the AMP, total revenue has increased year on year. Revenue was lower in 2020/21 as a result of the reduced business consumption during Covid-19 lockdowns, followed by inflationary increases and increased consumption in both 2021/22 and 2022/23. The impact of ODI penalties, primarily C-MeX, is having an impact on the split of revenue between the residential retail, water resources and water network + price controls.

Operating expenditure including PU recharge impact has remained fairly constant in the residential retail price unit, with a slight increase in 2020/21 due to an additional bad debt provision relating to the Covid-19 pandemic, and a further larger increase in 2022/23 to account for a further bad debt provision arising from the current cost of living crisis. The increase in water resources operating expenditure in 2022/23 is due to an increase in abstraction licences costs in the year. The large increase in operating expenditure within the water network + price unit is largely due to the increasing cost of energy, higher bulk water imports as a result of increased demand during the year and a global increase in chemicals costs.

Totex vs our allowed expenditure

	Water resources			Water network +		
£m	20/21	21/22	**22/23**	20/21	21/22	**22/23**
Final determination allowed totex	46.4	59.3	**72.3**	237.8	244.4	**261.9**
Actual totex	31.1	25.7	**27.1**	222.1	276.9	**295.1**
Under/(over) spend	15.3	33.6	**45.2**	15.7	(32.5)	**(33.2)**

Any variance between the initial totex assumptions and actual expenditure over the full five-year AMP7 period will be assessed through the cost reconciliation mechanism at the end of the regulatory period. This mechanism ensures that if we have been able to make greater efficiencies than assumed in the final determination then, for the majority of spend, half of the saving would be retained by the company and half would be returned to customers. Similarly, if our expenditure is higher than the determined allowance, half of the increased expenditure would be recovered from customers and half would be paid for by the company. There are different cost sharing mechanisms for costs such as business rates and abstraction licences as shown in table 4C of this APR. The impact of any net variance will be assessed as part of the PR24 price review process which concludes in 2025 and will then be reflected in customer bills during subsequent periods.

For the first three years of the AMP, the underspend in water resources is primarily due to the mix of capital work completed between water resources and water network + and an underspend on enhancement capital works, which will be completed in later years of the AMP.

There was an underspend on our expenditure on strategic regional water resources, see the enhancement section below. This is being partially offset by an overspend within operating expenditure due to the increased energy costs.

Totex within water network + was underspent in 2020/21 due to a delayed start to a number of capital projects as a result of Covid-19, partially offset by increased energy and bulk water costs. Totex was overspent in 2021/22 due to the commencement of some delayed capital projects and the profile of work on water network + capital projects rather than water resources. There were additional energy costs and higher infrastructure renewals expenditure in 2021/22. The overspend in 2022/23 is driven by increased energy prices and higher renewals expensed in year (infrastructure) due to the mix of renewals work completed in the year, higher bulk import costs and increased chemicals costs. This was offset by an underspend on capital works.

Enhancement expenditure

The company has underspent its enhancement allowance in all three years of the AMP, with a cumulative spend in the AMP of £144.6m compared to an allowance of £234.6m. This is in part due to some efficiencies being met but is primarily due to a delay in expenditure for reasons including planning delays, the impact of Covid-19 in earlier years of the AMP, WINEP delivery delays and the profiling of jobs to be completed during AMP7.

The company has an action plan in place to ensure the spend is completed by the end of AMP7 and has ongoing correspondence with Ofwat regarding progress in this area. The action plan is published on our website at affinitywater.co.uk/docs/corporate/2023/AFW-AMP7-enhancement-spend-action-plan-March-2023 and shows how the company has completed a thorough review of each enhancement item, with progress to date, the factors affecting our original delivery plans, and our action plans to get our programmes back on track.

Where the company has acknowledged that where projects are no longer required due to changing business needs (i.e. the South Lincolnshire Reservoir and the Anglian to Affinity Water transfer both within Strategic regional water resources expenditure lines in table 4L), these funds will be returned to customers as part of the AMP8 revenue reconciliation.

For more details on the breakdown of the variance, see tables 4C and 4L in the 2020/21 and 2021/22 APR, and 4C and 4L within this document.

Key financial metrics

		20/21	21/22	**22/23**
Regulatory gearing	%	77.06%	73.99%	**74.06%**
RORE (return on regulatory equity)	%	1.85%	0.74%	**(1.61%)**
Funds from operations	£m	49.359	74.275	**64.282**
Adjusted interest cover (cash)	2dp	0.79	1.36	**0.47**
Return on RCV	%	0.44%	2.07%	**0.50%**
Credit rating (Moody's)	NA	Baa1 (negative)	Baa1 (stable)	**Baa1 (stable)**

Regulatory gearing is calculated as net debt divided by RCV determined at final determination. This metric has decreased over the AMP in line with the de-gearing scenario agreed with the company's shareholders and detailed in our AMP7 Business Plan, however, the current high levels of inflation has increased the value of our borrowings and has resulted in a slight increase in gearing from prior year.

The RORE has decreased over the AMP due to financing underperformance as a result of the increased cost of debt with the current high levels of inflation, although this has been partially offset by our hedging arrangements. Our operational results have contributed to the adverse movement in RORE in 2022/23, with totex underperformance, ODI underperformance and retail overspend having an adverse impact on RORE.

Our funds from operations increased between 2020/21 and 2021/22 due to higher operating profits in 2021/22 and changes in our working capital position. This metric reduced in 2022/23 due to a decrease in net cash generated from operating activities, in addition to a worsening working capital position due to a decline in cash collection rates seen in the year.

Our adjusted interest cover (cash) increased from 2020/21 to 2021/22 due to favourable movements in our funds from operations detailed above and slightly lower interest payments in 2021/22 due to favourable hedging arrangements. This reduced in 2022/23 due to the worsening funds from operations, an increase in interest payable and higher RCV run off in the year included in the calculation.

The return on RCV has increased from 2020/21 to 2021/22 due to higher operating profits in 2021/22. This reduced in 2022/23 due to the rising energy costs and inflation impacting operating profit in the current year.

Where do we want to go – PR24 looking ahead

Our ambition is to produce a robust and credible PR24 plan that makes compelling arguments for what we aim to achieve in the period 2025–30, and the longer term. Our plan needs to balance our ambitions for service improvements for our customers and the environment with keeping water bills affordable and we need to make sure that we will be able to deliver the outcomes expected.

We started our business planning process much earlier than in previous price reviews to ensure we are engaging with customers, partners and communities in the co-creation of our plans. We are well underway with preparing our PR24 submission, have engaged our Board heavily in the work and we consider that we are on track to present a strong and thorough plan. This year we have already achieved a significant milestone in the overall PR24 process by developing and releasing our draft Water Resources Management Plan for stakeholder consultation.

We very much welcome the focus for this price review towards the long term. We are developing our plan for the 2025–30 period within the long-term framework of our 25-year strategic direction statement and as part of our planning we are developing long term delivery strategies and alternative pathways so that our plan is sufficiently flexible that it can adapt to changing conditions.

To deliver on our ambitions for 2025 and beyond, we know we need to begin the next price control from a position of strong performance. The next two years are crucial, so our 'Journey to 2025' plan focuses on our eight key performance indicators. Realising this plan will enable us to deliver exceptional service for our customers in the two years ahead and will place us in the best position to succeed in the following price control period.

The key areas we will be focusing on to ensure readiness for AMP8 are:

Firstly we are to accelerate our investment programme for the remaining years of this price control, ensuring we have delivered the investments paid for by our customers and which support our accomplishment of service and performance outcomes. Discussions with our supply chain partners are already well advanced so that we have the right resources and arrangements in place to make a flying start to AMP8 delivery. Over the next two years we will also keep our focus on managing our costs so that we meet the cost efficiency challenge set for us at the last price review. The current inflationary environment makes this significantly challenging and demonstrates the need for price controls in AMP8 to resolve the allocation of energy price risks.

We are prioritising plans to support customer bill affordability in AMP8 although we are not waiting until PR24 for this to begin. This year for instance, we extended social tariff participation and in early 2023 introduced cost of living bill credits for eligible customers. Later in the year to 2023/24, we are to commence trials of a progressive tariff that promotes bill affordability whilst encouraging careful water use.

Our experience this year in managing the customer impacts of extreme weather conditions reminds us that AMP8 performance incentives will need careful calibration to achieve the right balance. Particularly with low pressure there are improvements we are keen to see made in the way performance is measured and incentivised. Our experiences are also helping to shape our AMP8 investment plans as we aim to improve the resilience, operations and performance of our assets against changing climate.

Our stakeholders

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

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

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

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

Affinity Water's stakeholders

Stakeholders we generate value for

Stakeholders that influence what we do

Board's consideration of stakeholders in decision-making

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

Read the Section 172 statement on pages 100 to 107 of our Annual Report and Financial Statements 2022/23

Key interests of the stakeholders we generate value for

Customers

Why engagement is important

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

Key interests

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

Communities

Why engagement is important

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

Key interests

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

Employees

Why engagement is important

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

Key interests

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

Suppliers

Why engagement is important

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

Key interests

- Innovation
- Responsible supply chain
- Health, safety and wellbeing

Shareholders

Why engagement is important

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

Key interests

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

Regulators

Why engagement is important

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

Key interests

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

Financial resilience

As a water company providing an essential public service, we recognise we are in a privileged position and that we need to offer an efficient service that offers long-term resilience and delivers long-term value for money for our customers and the environment. In the difficult current economic environment, we need to ensure we are resilient and have robust processes in place that mean we can withstand further economic shocks both now and in the future.

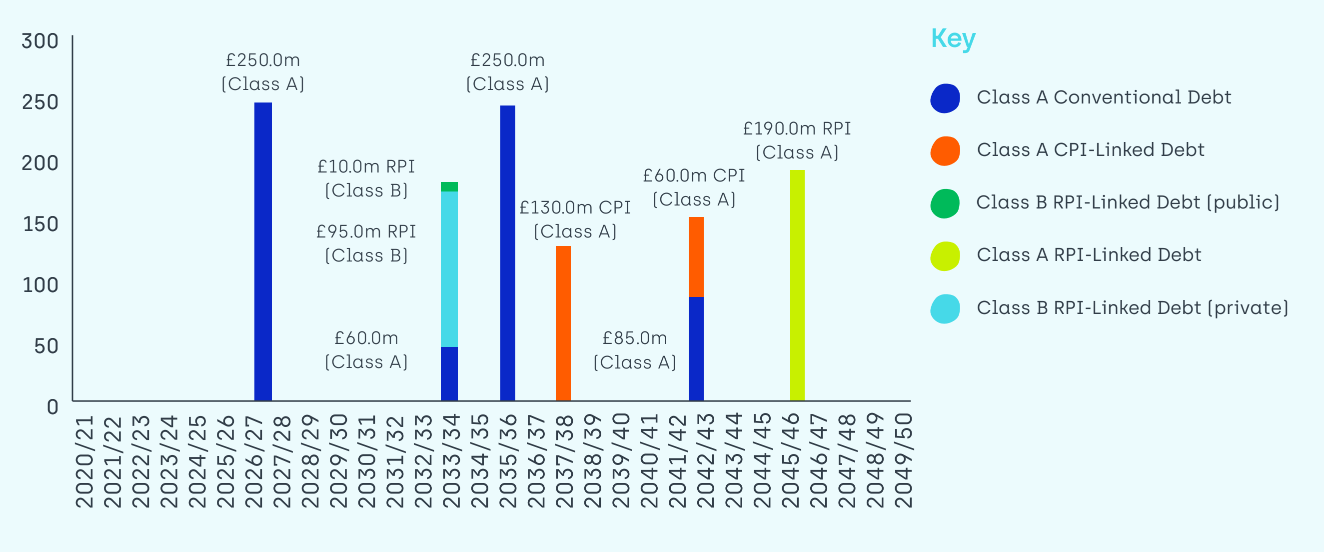
We recognise the importance of having robust and transparent financing arrangements that are aligned to the interests of our customers.

Long-term financing arrangements

We consider the most cost-effective way to raise long-term debt to be through the debt capital markets. The company has significant long-term capital with maturities ranging from July 2026 to June 2045, see the graph below.

The debt is a mixture of both fixed and index-linked bonds. The company seeks to manage its interest rate risk by maintaining its exposure within a Board-approved range, primarily through using a mixture of fixed, inflation-linked and floating rate borrowings. The current high levels of inflation are leading to an increase in accretion on the index-linked debt and are a large driver of the current losses before tax (2023: loss £86.9m, 2022: loss £55.6m). This is a non-cash item in the year and becomes payable on maturity of the bonds. As our RCV increases with inflation, it is anticipated that the accretion payable on maturity could be refinanced as part of the bond refinancing if required.

A series of RPI-linked inflation swaps with a total nominal value of £210.0m, linked to the maturity of the Class A fixed rate £250.0m bond (July 2026), were entered into between August 2018 and October 2020. A series of CPI-linked inflation swaps with a total nominal value of £250.0m, linked to the maturity of the Class A fixed rate £250.0m bond (March 2036), were entered into between March 2020 and June 2020.



These swaps lead to net interest receivable cash flow over the life of the swaps, which is expected to increase the headroom against our covenant limits, offset by an accretion payment on maturity. Movements in RPI/CPI forward rates create fair value profits or losses, which flow through the income statement and impact the company's retained earnings or accumulated losses.

Our next significant debt maturity is in July 2026 when a £250.0m fixed rate bond matures and the accretion on the RPI swaps becomes payable. The company is planning on refinancing this bond and the accretion and is currently looking at the options available. The term length of these bonds, combined with ratings given to these bonds by the credit rating agencies Moody's, Standard and Poor's ('S&P') and Fitch (see section below on credit ratings), supports the view that the Group can successfully raise additional funding from the market if required.

Complexity of our financial structure

The risk to financial resilience cannot be captured solely by looking at the levels of gearing within a company but needs to take into account a variety of factors including our shareholders, group structure, company credit ratings and the macroeconomic environment we are operating in. Market forces directly mitigate the risk of companies adopting a high level of gearing as ultimately, increased gearing results in an increase in the cost of debt. The company is working to reduce its gearing levels in line with the de-gearing scenario agreed with the company's shareholders detailed in our AMP7 Business Plan.

Ofwat's final methodology for PR24 published in December 2022 indicates an early view of allowed returns of

3.29%

Our three main shareholders are long-term international investors, bringing a wealth of knowledge to our Board gained from their portfolios of similar infrastructure investments across the world. They play a vital role in supporting the investment we need to make, but do also seek reasonable, stable returns on their investment. Ofwat's final methodology for PR24 published in December 2022 indicates an early view of allowed returns of 3.29%

Financial headroom and flexibility

The Board's consideration of the company's longer-term viability and prospects is an extension of our business planning process. This includes financial budgeting and forecasting and a robust risk management process. The budget for the forthcoming year adequately supports our commitments set in the Final Determination and provides sufficient resources to meet our operating and investment expenditure needs for at least the next 12 months.

The company has sufficient financing arrangements available to it to meet these commitments, taking into account the impact of any potential principal risks and uncertainties and the results of stress-testing performed on the base case forecasts and budgets.

The company is profitable at an operational level, with operational profits in the year of £14.0m (2022: £34.6m). The decrease in operational profits from the prior year is primarily as a result of the higher energy costs, high levels of inflation increasing our supplier costs and additional loss allowances to reflect the current cost of living crisis. In spite of this, the company has cash reserves and term deposits of £78.8m and £66.7m (2022: £135.6m and £70.1m) which provide sufficient liquidity to meet our cash flow forecast.

To the extent that additional funding is required, we have access to two revolving credit facilities totalling £100.0m which were undrawn at 31 March 2023, to finance capital expenditure and working capital requirements. In addition, we have access to a further £52.0m of liquidity facilities consisting of a 364-day revolving £27.0m facility to fund any debt service payments in the event of a liquidity shortfall that would otherwise prevent such payments being made and a 364-day revolving facility of £25.0m to fund operating and capital maintenance expenditure in the event of a liquidity shortfall.

Covenant compliance

Details of the company's compliance with our debt covenants is included in the viability statement within the Annual Report. The statement details how we have applied a number of scenarios to a base case forecast to test whether the scenario would cause a trigger or default of our covenant. If mitigating actions are in place, the company is able to withstand the financial impacts of a severe but plausible downside scenario without the occurrence of an event of default or trigger under its borrowing covenants. In the absence of mitigating actions, a trigger or default event could occur in a number of scenarios.

The compounding impacts of a challenging PR19 final determination, Covid-19, energy prices and inflation have significantly reduced our ability to absorb further cost shocks under the stress test scenarios, however, there are a number of actions management would implement in the event of a downside scenario, primarily working capital management, restriction of dividends, operating cost reduction plans and additional inflation-linked swaps.

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.

Financial resilience continued

Dividend payments

Our Board has agreed to restrict the payment of dividends throughout AMP7 to enable substantial investments to improve our resilience and protect the environment. The Board fully supports that any future dividend payment would need to take into consideration our ability to deliver for customers and the environment, our future investment needs and the company's own financial resilience, as detailed in our dividend policy summarised on page 108.

Credit rating

The current regulatory framework requires companies to maintain an investment grade credit rating. From 1 April 2025, Ofwat has modified the cash lock-up licence conditions to raise the cash lock-up trigger to BBB/Baa2 with negative outlook from BBB-/Baa3 with negative outlook. If a company's credit rating falls to this level, transactions and dividends outside of the regulatory ring-fence would be restricted at an earlier stage.

The company holds three issuer credit ratings from Moody's, S&P and Fitch with ratings below.

Bonds	Moody's	S&P	Fitch
Class A	A3	BBB+	BBB+
Class B	Baa3	BBB-	BBB-
Outlook	Stable	Negative	Stable
Corporate Family Rating for Affinity Water Limited	Baa1	Not applicable	Not applicable

The company takes action to maintain investment grade credit rating. There are strong economic incentives to manage our credit rating effectively including the efficiency of debt issuance, covenant compliance and securing competitive costs of debt and therefore the company proactively manages this.

S&P has placed the whole regulated water utilities market on a negative outlook based on the macroeconomic environment including current inflationary cost pressures, rising interest rates, pollution incidents in the year relating to wastewater companies and the upcoming PR24 price review. This is not a standalone issue for the company, but an issue for the sector as a whole and the company is currently working to secure a positive outcome at PR24 price review that will ensure adequate returns for our investors while balancing the need to keep customer bills reasonable. See page 14 for more details on our approach to PR24.

Scale of investment needed to address current performance relative to financial headroom

The company recognises the need for significant investment in PR24 to ensure we can meet our commitments to our customers, the environment and to achieve our net zero target by 2030. The company also recognises the need to ensure we spend our allowances for enhancement expenditure over the remainder of AMP7 to ensure we are in a strong position to commence AMP8 plans. See page 14 for more details on our approach to PR24 and our investment plans.

Affordability for customers

Our aim is to deliver what our customers need, ensuring affordability for all. This means that we must meet our customers' needs for safe, reliable supplies of high-quality drinking water and protect the environment while keeping bills affordable and supporting customers who find it difficult to pay their bills.

We know that some of our customers find it difficult to pay their water bills and that high inflation during this year has caused a fall in living standards for many. More than ever, this means that we need to do what we can to support customers that are most in need. We are proactive in identifying and offering help to customers and we continue to make significant efforts to engage with our customers, advertising and encouraging uptake of the services and help we can give.

We were able to limit increases to our 2022/23 water charges to below the rate of inflation and we supported about 100,000 customers through our Low Income Fixed Tariff ('LIFT'). We continue to identify and add customers to our Priority Services Register, for instance, by careful listening for trigger words during phone calls that could indicate vulnerability. We collaborate with power companies and other partners to identify vulnerable customers, widen the reach of our LIFT tariff and help customers apply for and access the assistance offered by other trusted, partner organisations.

When customers are not able to pay their bills we operate within the industry's Paying Fair guidelines. This means that we make it as easy as possible for customers to pay and we treat customers in difficulty fairly and sympathetically. We are proactive in contacting customers in debt and we help them directly, as well as helping them access support from others.

Q&As

In conversation with:

Anton Gazzard
Director of Customer Delivery

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

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

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

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

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

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

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

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

From an operational point of view, the industry is working to increase our resilience to these types of events through improving the interconnectivity of the network within our own areas and at company boundaries to allow us to share resources regionally and get water to where it is needed most. Our regional plan for water resources also includes many new strategic, resource options with the first of our schemes, the Grand Union Canal Transfer, taking water from Severn Trent's supply area down to our area, due to be operational in the early 2030s.

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

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

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

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

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

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

Better data, driven by AI machine learning, is also giving us valuable insights into how customers consume water and the impacts of our projects. Many factors affect the demand for water, such as seasonal weather patterns and the amount of time people spend at home, which has increased post-Covid-19.

Statement on direction and performance

In this regulatory period, we are committed to meeting challenging performance outcomes and we recognise the importance of meeting these. These commitments relate to the significant long-term environmental, social and governance challenges we face from rising population and increased demand for water, as well as reduction in the availability of water in the years ahead. We recognise how crucial our business activities are to the wider environment and understand the need to deliver more for the environment and our customers, for an affordable price. We know we can adjust rapidly and transform our ways of working and we have continued this transformation this year, for example through our 'Journey to 2025' plans.

As a Board, we spend a significant amount of time aligning our company's direction with customers, employees and wider stakeholders' interests. Our Section 172 statement on pages 100 to 107 of our Annual Report and Financial Statements 2022/23 shows how we have engaged with our key stakeholders to make key decisions in the year. We have re-invigorated the business considerably over the last few years, with a new executive team, a strengthened Board, committed long-term investors, an excellent team of colleagues, and a clear purpose to help us move forwards. Our Independent Challenge Group, consisting of representatives with experience representing household customers, holds us to account on how we are performing against our performance commitments, all of which can be read on pages 8 to 11.

How the company has set its aspirations and performed for all those it serves

We reflect our ambition in our purpose "to provide high-quality drinking water for our customers and take care of the environment, for our communities now and in the future". This year for instance, the company published its draft Water Resources Management Plan setting out four ambition statements that will help us deliver our purpose, focused on the environment, resilience, customers and communities. The statement was co-created with our communities, engagement with our local customers and listening to key stakeholders and colleagues to ensure we have shared outcomes and common purposes. The Board and senior leadership team were heavily involved throughout the year.

As a Board, we are responsible for fostering the right culture, and we work with senior leadership to reinforce the right behaviours to allow all members of our workforce to bring their true selves to work, to enable them to reach their full potential and deliver on our purpose. By committing to inclusivity, we ensure that our company and its values best reflect the communities we serve and allow us to strive to be world class in what we do. For more details on our purpose and culture, see page 14 of our Annual Report and Financial Statements 2022/23.

Our shareholders are highly regarded and have experience of long-term asset ownership. They support our plans to invest and enhance our infrastructure to ensure future resilience, as demonstrated by their agreement to forego dividends in recent years. Details of our finances can be read on page 70 of our Annual Report and Financial Statements 2022/23, including our investment plans and funding of these programmes. Our Board's dividend and executive remuneration policies ensure that dividends and executive remuneration are proportionate with the company's performance, and do not impair its financeability. Our dividend policy states that dividends paid by the appointed business must take into account our performance against the final determination for AMP7 for the following areas: financial performance, operational performance, customer and community performance, and safety and health performance.

Our salary and benefit pay policy for executives is based on market benchmarks. Executive annual bonuses are linked to delivery in the year of financial, operational, customer and community, and health and safety measures, which are linked to our AMP7 commitments where applicable and detailed in our Remuneration Report on pages 180 to 201 of our Annual Report and Financial Statements 2022/23. The Board is reassured that the pay structure incentives executives to deliver long-term sustainable performance for customers and communities, employees and shareholders.

This Regulatory Annual Performance Report includes full and transparent disclosure of our performance in the year and the Board is confident that the plans put in place ensure a stable future for our company.

On behalf of the Board:

Ian Tyler
Company Chair

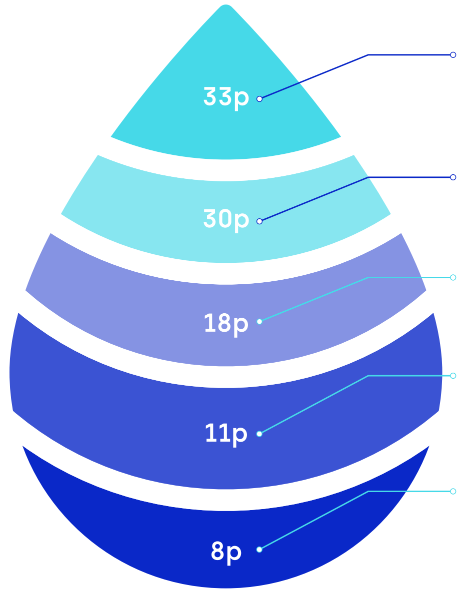
Funding our regulated business

Our average household bill for 2022/23 was approximately £179, the equivalent of just 49p per day, which we think represents great value for money. This is cheaper in real terms than bills were in 2017/18.

In 2022/23, we spent 81p of every £1 collected from customers' bills on our suppliers for operating services, our assets and our people, ensuring customers receive the highest quality water and service. Eleven pence of every £1 was spent on debt financing and the remaining 8p of every £1 was spent on taxes and charges relevant to local and central governments. None of our customers' money was spent on dividends or interest on shareholder debt.

Not all of the funds required by our business come from customers' water bills. For every £1 we collected from customers in 2022/23, we required an additional 60p in order to operate.

Our bills also include sewerage costs charged by other water companies. Some of the additional funds we require are received through commission earned on billing and collecting sewerage charges for these companies. We also receive funds from non-household retailers who pay us for the wholesale water we supply to their customers, or developers who contribute towards the cost of adding new connections to our network. The remainder is borrowed from external debt capital markets. By carefully managing our long-term finance, we can keep customers' bills low and fairer for all by avoiding significant fluctuations.



Cash collected from customers' bills in 2022/23
£253.7 million

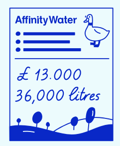
Additional funds required
£153.3 million

Total
£407.0 million

Regulated business

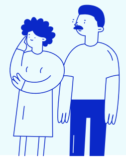
Operational costs
£198.3 million
Net investment in our assets
£135.6 million
Interest and tax
£73.1 million

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



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

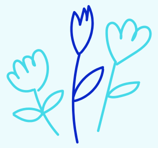
Our people:
18p
(2022: 18p) Wages, salaries and pension



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

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

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



Board statement on the completeness and accuracy of information

We are open with our customers and stakeholders and regularly publish information on our performance to demonstrate how we are delivering the services expected of us. It is important to us that stakeholders trust our service and have confidence in the information we publish.

During the year, on behalf of the Board, our Audit, Risk and Assurance Committee has:

- Received, reviewed and challenged reports from assurance providers, including our external Auditor, in respect of key reports and publications including our Annual Report and Financial Statements and our Annual Performance Report;
- Received, reviewed and challenged reports from the Head of Audit, Risk and Compliance on the effectiveness of the company's systems of internal control and risk management systems;
- Overseen management's delivery of improvements and risk mitigations that address weaknesses and strengthen the accuracy and completeness of information; and
- Received, reviewed and challenged individual internal audit reports, in particular regarding risks to the provision of accurate and complete data and information and how those risks are being mitigated.

Our Assurance Plan affinitywater.co.uk/corporate/about/governance-assurance sets out the main assurance activities that we either carry out ourselves or engage third-party providers to carry out independently. It describes the main categories of information which we report and the main assurance controls we have in place for each category. By delivering against our plan, we ensure that the information we report to customers, stakeholders and regulators is accurate, transparent, reliable, relevant, complete and up to date. We consider it essential to demonstrate that we report information on our performance that meets these criteria as part of our commitment to demonstrate that we take ownership of the information we report.

The Chair of the Audit, Risk and Assurance Committee reported to the Board in respect of the outcomes of the above.

The activities referred to above and detailed in full in our Assurance Plan lead the Board to conclude that all data and information which the company has provided to Ofwat during 2022/23 and which we have published in our Annual Report and Financial Statements and Annual Performance Report in our role as water undertaker was accurate and complete with no material exceptions to report.

On behalf of the Board

Ian Tyler
Company Chair

12 July 2023

Certificates of compliance

To: Water Services Regulation Authority
Centre City Tower
7 Hill Street
Birmingham B5 4UA

Ring-Fencing Certificate

This is to certify that on 12 July 2023 the Board of Affinity Water Limited ('the Appointee') resolved that in its opinion, in accordance with the company's Condition P licence requirements:

1) the Appointee will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated Activities (including the investment programme necessary to fulfil the Appointee's obligations under the Appointment); and
2) the Appointee will, for at least the next 12 months, have available to it
   a. sufficient management resources and systems of planning and internal control; and
   b. rights and resources other than financial resources

which are sufficient to enable it to carry out the Regulated Activities (including the investment programme necessary to fulfil the Appointee's obligations under the Appointment); and

3) all contracts entered into with any Associated Company include all necessary provisions and requirements in respect of the standard of service to be supplied to the Appointee, to ensure that it is able to carry out the Regulated Activities.

In giving this certificate the Board has considered many factors, which fully incorporate the 28 factors listed by Ofwat in Information Notice IN20/01. The Board, through its Audit, Risk and Assurance Committee, has reviewed and challenged management on the factors below. Each individual Executive Management Team ('EMT') member has provided evidence to the Board that they have considered each of the factors in the list below. The Board is satisfied that a robust process has been followed.

The list of factors includes, but is not limited to, the following:

Financial resources and facilities:

Financial details, e.g. cash position, financial headroom, refinancing undertaken/ planned

The company had cash at the year-end, in the form of bank accounts and bank deposits, of £145.5 million.

The company has a £250.0 million loan from its subsidiary, Affinity Water Finance (2004) PLC, which represents the proceeds of a bond. The bond has an interest rate of 5.875% and matures in July 2026. The company has loans totalling £880.0 million from its subsidiary, Affinity Water Finance PLC, which represent the proceeds from eight bonds, five of which are index linked. The earliest maturity of the bonds is July 2026.

The last time the company raised long-term debt in the public markets was October 2021 through a bond issuance of £130.0 million index-linked (CPI) bond, which is due to mature in 2038, the company's first issued green bond.

At the end of August 2018, the company transacted a £135.0 million RPI-linked inflation swap aligned with the terms of the Affinity Water Finance (2004) PLC £250m bond, which matures in July 2026. The transaction strengthened the company's cash flows, and a further RPI-linked inflation swap with a nominal value of £75.0 million, also linked to this bond, was entered into in October 2020.

A CPI-linked inflation swap with a nominal value of £25.0 million, linked to the maturity of the Class A fixed rate £250.0 million bond (March 2036), was entered into March 2020, with a further £225.0 million issued between April and June 2020 (nominal value).

The company continues to closely monitor the bond markets and credit rating and, in discussion with its banks and advisors, believes that significant demand remains and should the Board decide to raise further money in the bond markets this should be achievable.

Performance against final determinations (FDs) set at the last price review

The company's cash flow budget for 2023/24 indicates a net cash outflow position of £19.0 million pre tax and debt service (and before dividends); the budget is supported by long-term plans and performance against the final determination set at the most recent price review, for both operating and investment expenditure. Each EMT member is fully involved in the budget-setting process.

Credit-related factors e.g. credit facilities, ratings, compliance with covenants etc.

The company has committed revolving loan facilities available to draw totalling £100.0 million. These facilities are to meet day-to-day expenditure of the company and consist of a £60.0 million facility from Barclays Bank PLC and a £40.0 million facility from Lloyds Bank PLC. As at 31 March 2023 these facilities were completely undrawn. The facilities are intended for the purpose of financing capital expenditure and working capital requirements to the extent that additional funding is required and have maturity dates of July 2026 and July 2025, respectively. These facilities were renewed on 24 June 2020 and use SONIA as the reference rate and have sustainability performance measures included.

The Affinity Water bond programme has in place two reserve facilities, renewable on an annual basis. These are required when gearing of net debt to RCV exceeds 67.5%.

- The first facility is a committed £27.0 million debt service reserve liquidity facility from National Australia Bank Limited to meet the company's Debt Service Reserve requirements. This needs to cover the finance costs for all of its Class A and Class B debt for the next 12 months. This requirement is on a continuous rolling basis;

Certificates of compliance continued

- The second liquidity facility is a committed £25.0 million O&M Reserve Facility from National Australia Bank Limited to meet the company's Operating and Maintenance Expenditure Reserve requirements. This needs to cover 10% of its projected operating expenditure and capital maintenance expenditure, as set out for the next 12 months. This requirement is on a continuous rolling basis.

The company's internal policy is to target 80% debt to RCV (Senior RAR was 73.4% and Class A RAR 64.4% as at 31 March 2023) with a senior trigger level of 90.0% and a Class A trigger level of 75.0%. Therefore the capacity to raise debt to the trigger level is 10.6% of RCV, i.e. £181.7 million, before causing a trigger event under the covenant package (however, a restricted payment condition in respect of dividends would come into effect at 85.0% at a senior debt level and 75.0% at Class A). In the event that the company defaulted on its covenant conditions and moved into standstill period, the £52.0 million of liquidity facilities would be available for drawdown to fund debt service and operating expenditure.

Business plans, long-term viability statements, etc.

The results of the stress-testing performed in relation to the company's viability statement for the year ended 31 March 2023 (refer to page 122 of the company's Annual Report and Financial Statements 2022/23), which is subject to external assurance and includes the impacts of the current cost of living crisis and the high levels of inflation (refer to our Board statement on the completeness and accuracy of information on page 26 for details on controls and the levels of assurance obtained during 2022/23).

Financial resources and facilities – conclusion

The Board concludes that the budget for the forthcoming year adequately supports our commitments set in the final determination and provides sufficient resources to meet our operating and investment expenditure needs for at least the next 12 months. The company has sufficient financing arrangements available to it to meet these commitments, taking into account the impact of any potential principal risks and uncertainties and the results of stress-testing performed on the base case forecasts and budgets. Therefore, the Board concludes the Appointee will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated Activities.

Management resources:

Management skills, experience and relevant qualifications

The company is managed operationally day to day by the Executive Management Team ('EMT'). 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 Board is satisfied that the members of the EMT have the appropriate mix of skills, experience and relevant qualifications to continue to run the company effectively for the next 12 months.

2022/23 showed the ability of the Executive and Senior Management Teams to focus their teams on delivering on a number of complex and high profile projects without detriment to other services provided to its customers.

A Board effectiveness review was carried out during the year which reviewed the balance of skills and experience of the Board and concluded that the Board operated effectively.

Recruitment process, staff engagement

The company has a fair and robust recruitment policy, which was enhanced in the previous year to launch a new careers website celebrating our people and equality, diversion and inclusion ('EDI') commitments. The EDI Committee supported the talent acquisition team to develop and roll out new interview training with a firm focus on EDI awareness and unconscious bias. The company has a dedicated recruitment team that uses direct resourcing methods and works with recruitment suppliers to ensure good quality candidates are sourced.

The Board engages with employees in a number of different ways, detailed within our Section 172(1) statement on page 100, led through our Director of Employee Engagement. The Board considered the results of our Culture Survey and regular pulse surveys.

Succession planning for key management/staff

The Board confirmed that each EMT member is familiar with the key members of its Senior Management Team and wider team, acknowledging any recent changes and their management skills, experience and relevant qualifications. All significant roles are filled. Specific detailed 'deep dive' sessions are regularly held with the Board on strategic operational and regulatory items.

The Board noted the review of succession planning being performed by each EMT member along with the company's HR Team, as well as the recruitment process, staff engagement and diversity, the quality of training and development programmes, and the company's purpose and principles.

Quality of management/staff induction and other training and development

The Board reviewed the Talent Development Brief covering the period, focusing on a Career Path Framework model for talent, identification of critical roles and succession planning, leadership assessment and development and Strategic Workforce Planning collaborative work with EU skills.

Process for ensuring diversity of perspectives

The Board received presentations from members of the Equality, Diversity, and Inclusion Committee understanding the work the committee has undertaken in the year. The Board reviewed and approved the 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.

Board or management activities, reports or statements

Both the Board and the EMT meet regularly to consider and decide upon a range of operational, financial, regulatory and strategic matters impacting the company and receive a range of management information. Further information on the operation of the Board can be found in the Section 172(1) statement on pages 100 to 107 and in the Corporate Governance Report on pages 130 to 215 of our Annual Report and Financial Statements for the year ended 31 March 2023.

The company has sufficient management resources available to carry out regulated planning activities required beyond the next 12 months, in particular the Price Review and statutory long-term planning frameworks such as WRMP and Drought Plans.

Independence of Board

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.

The Board and its Committees have the resources available to them and have sufficient independent membership to ensure they can make high-quality decisions that address diverse customer and stakeholder needs.

Management resources – conclusion

The Board concludes that directors have sufficient time to engage with the company and to discharge their responsibilities effectively. The Board concludes that there is an appropriate mix of skills and experience on the Board and the individual Committees, including sufficient independent membership on Committees for the individual directors to constructively challenge and appropriate division of responsibilities, see the skills matrix in the Corporate Governance Statement on page 138 of our Annual Report and Financial Statements for the year ended 31 March 2023. The Board concludes that there are appropriate steps in place to ensure good succession planning that allows for orderly succession to both the Board and senior management positions, ensuring there is a diverse pipeline for succession that reflects the communities that we serve.

Systems of planning and internal control:

Governance procedures; risk management frameworks, oversight procedures

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.

For more details on the company's governance procedures, see the Corporate Governance Report on pages 130 to 215 of our Annual Report and Financial Statements for the year ended 31 March 2023.

The company has an established framework for identifying, evaluating and managing its key risks. The main aim is to foster a culture where teams throughout the business manage risks as part of their management of day-to-day operations. The EMT also carries out regular assessments of emerging risks, including horizon scanning and monitoring of early warning indicators. See details of the principal risks and the company approach to risk on pages 108 to 120 of our Strategic Report.

Internal and/or external audit policies, processes, activities and/or reports

The company has a comprehensive suite of internal control procedures across both operational and financial matters to ensure maintenance of supply, supported by governance procedures, risk management frameworks, segregation of duties matrices and detailed delegated levels of authority, as well as policies to prevent fraud and other unethical behaviour (including but not limited to the company's whistleblowing policy).

The company has an Internal Audit team reporting to the Audit, Risk and Assurance Committee, and the availability of specialist planning teams who are deployed to major projects and utilise the resources of acknowledged external specialists in such matters.

The company's output is subject to considerable external assurance, both financial and operational (refer to our Board statement on the completeness and accuracy of information on page 26 for details on controls and the levels of assurance obtained during 2022/23).

Systems for maintaining supply/business continuity, stated action plans

An effective business continuity programme, overseen by the SHEDWQ Committee supports the strategic objectives of the company and pro-actively builds the capability to continue business operations in the event of disruption.

Certificates of compliance continued

Each EMT member's directorate has enhanced existing resilience in a number of operational areas and reports regularly to the EMT and Board, not least with regards to the company's control room and water treatment sites, as well as the strength of its emergency response teams. Specifically with regard to Covid-19, an Incidence Response Team was set up in March 2020, and has continued throughout 2022/23, with the primary focus of maintaining the quality and supply of water for the company's customers and implementing business continuity plans.

See pages 130 to 215 of the Corporate Governance Report in our Annual Report and Financial Statements for the year ended 31 March 2023.

Policies to prevent fraud and other unethical behaviour; whistleblowing policy

The company's policies to prevent fraud and unethical behaviour include the Affinity Water Code of Ethics, approved by the Board in March 2023. The Code includes the company policies on taking care of ourselves and each other (for example Health, Safety and Wellbeing, Human Rights, Modern Slavery policies), taking care of our integrity (for example Anti-Bribery and Corruption, Competition Law, Legal Requirements policies), taking care of our business (for example Data Protection, Corporate Governance, Accuracy of Financial Reporting and Fraud policies), and taking care of the environment and the communities we serve (for example Sustainability and Finding Support policies).

Risk, compliance and other assurance statements

See the Statement of Risk and Compliance in this report on pages 33 to 34 for details on the company approach to risk and compliance.

Systems of planning and internal control – conclusion

The Board concludes that the internal control procedures are working effectively and that the Internal Audit team has the appropriate skills and qualifications it requires to monitor and improve controls across the company. The Board concludes that the work of the Audit, Risk and Assurance Committee (detailed on pages 156 to 163 of our Annual Report and Financial Statements 2022/23) overseeing the systems of planning and internal control is sufficient.

Rights and resources other than financial resources:

Corporate missions and/or values

The Board has considered the company vision and principles, which are the values of the company that underpin how it delivers its underlying purpose and encourages an integrated approach to working.

Technology and other systems for ensuring checks and balances

The Board has considered the technology and other systems available to the company. We supply high-quality drinking water by using the latest technology and sophisticated monitoring systems at our treatment works. We have developed our 'digital twin' for the company, taking in real world data to help us to find and fix leaks faster than ever before. We have also rolled out new digital systems for our operational teams to deliver planned maintenance work efficiently and effectively, helping to improve the customer experience.

We hold international (ISO) certification for our business management system covering quality management (ISO 9001), environmental management (ISO 14001) and health and safety management.

Policies to encourage an integrated approach and 'systems thinking'

The new SkillStation platform was launched in April 2022, streamlining training and skills, and giving greater visibility and assurance in the allocation of workplace activities, ensuring the safety, health and wellbeing of our people.

Planning systems

The company has specialist planning teams who are deployed to major projects and constantly utilises the resources of acknowledged external specialists in such matters as required.

Assets maintenance/insurance factors

The Board has considered the assets available to the company, including ensuring that it has effective operational systems, and resourcing plans and schedules in the operational business, that enable a continued supply of water, the maintenance and insurance of these systems, and sufficient physical resources through our abstraction licences and water levels.

The company operates under a licence granted by Ofwat subject to a 25-year termination notice, which is currently not expected to be at risk of being lost or removed.

Rights and resources other than financial resources – conclusion

The Board concludes that the company principles and clearly defined purpose drive the company and concludes that this and the assets available are sufficient to enable it to carry out the Regulated Activities.

Contracting:

Position/status of key contracts in place

The work of the Contracts Committee, attended by the CFO, which operates to review and award significant contracts with suppliers. Adequate contractual arrangements are considered to be in place with regard to third-party suppliers and other water companies.

All contracts between the Appointee and all Associated Companies were checked for compliance with licence requirements on standards; and a Note on transactions between the Appointee and any Associated Company; Compliance with licence provision on cross-subsidies between the Appointee and any Associated Company (Condition I).

Any transactions with Associated Companies are disclosed in the Non-audited additional regulatory information section of the company's regulatory Annual Performance Report for the year ended 31 March 2023 (refer to page 107), which is subject to external assurance under Regulatory Accounting Guideline 5.07; Guideline for transfer pricing in the water and sewerage sectors (refer to our Board statement on the completeness and accuracy of information on page 26 for details on controls and the levels of assurance obtained during 2022/23). These contracts were checked for compliance with licence requirements and confirmed as so in the Certificate of Compliance on page 27 of this Regulatory Annual Performance Report.

In giving this certificate the main factors which the directors have taken into account in relation to contracts entered into with any Associated Company are:

- an examination of the contracts with Associated Companies;
- considerations made by the company's Market Oversight Committee; and
- the limited contractual arrangements with Associated Companies.

No Guarantees or Cross-Default Obligations given without Ofwat's written consent

The Board notes that each EMT member has confirmed that they are not aware of any guarantees or cross-default obligations given without Ofwat's written consent.

Contracting – conclusion

The Board concludes that the position and status of key contracts in place contain all necessary provisions and requirements in respect of the standard of service to be supplied to the Appointee, to ensure that it is able to carry out its Regulated Activities and it is compliant with cross-subsidy obligations.

Material issues or circumstances:

The Board are not aware of any other material issues or other circumstances that would impact the company's ability to carry out its regulatory activities for the next year.

In this certificate, the terms 'Appointment', 'Associated Company' and 'Regulated Activities' have the meanings given in the Appointee's Instrument of Appointment, also referred to as the company's licence.

The Board obtained third-party assurance from PwC, whose responsibility was to consider whether they were aware of any inconsistencies between this Ring-Fencing Certificate and the financial statements or any information obtained in the course of their work; see pages 35 to 37 for PwC's audit report on the Annual Performance Report. A full report of the external Auditor's work on the ring-fencing certificate has been provided to Ofwat with no issues noted.

The Board confirms that it will inform Ofwat in writing if it becomes aware of any circumstances which would change the opinion such that it would not give the opinion contained in this certificate.

This certificate was approved unanimously at the Board meeting on 12 July 2023 by

Ian Tyler
Chair

Keith Haslett
Executive Director, CEO

Martin Roughead
Executive Director, CFO

Trevor Didcock
Independent Non-Executive

Chris Newsome
Independent Non-Executive

Justin Read
Independent Non-Executive

Michael Osbourne
Non-Executive

Roxana Tataru
Non-Executive

Adam Waddington
Non-Executive

Signed on behalf of the Board members listed above,

Ian Tyler
Chair

Certificates of compliance continued

Compliance with Condition P, paragraph P14

Paragraph P14 of Condition P of the company's licence requires the company to ensure at all times, so far as reasonably practicable, that, if at any time, a special administration order were made in relation to it, it has available to it sufficient rights and resources (other than financial resources) so that a special administrator would be able to manage the affairs, business and property of the appointed business of the company in accordance with the purposes of the special administration order.

The company hereby certifies that at 31 March 2023 it was in compliance with paragraph P14 of Condition P.

Statement of disclosure of transactions with Associated Companies

With respect to the disclosure of transactions with Associated Companies, the directors declare that to the best of their knowledge:

- all appropriate transactions with Associated Companies have been disclosed;
- transactions with Associated Companies are at arm's length (except where agreed with Ofwat) with no cross-subsidy occurring; and
- no directors have acted as both purchaser and supplier in any transaction with an Associate Company.

Statement of directors' responsibilities

In addition to their responsibilities to prepare financial statements in accordance with the Companies Act 2006, Condition F of the Instrument of Appointment requires the company to prepare a set of regulatory accounting statements records which are in accordance with the Regulatory Accounting Guidelines ('RAGs') published by Ofwat under Condition F.

In the case of each of the persons who are directors of the company at the date when this report was approved, so far as each of the directors is aware there is no relevant audit information of which the company's Auditor is unaware; and each of the directors has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant information and to establish that the company's Auditor is aware of that information.

Relevant audit information means information needed by the company's Auditor in connection with preparing its report. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Statement of risk and compliance

Purpose of this statement

The purpose of this statement is:

- to confirm that we have a full understanding of, and are meeting, our relevant statutory, licence and regulatory obligations;
- to confirm that we have taken steps to understand and meet customer expectations;
- to confirm that the company is taking appropriate steps to manage or mitigate the material risks it faces; and
- to explain any significant matters relevant to the company's performance in 2022/23, as presented in section 3 of the regulatory Annual Performance Report.

The statement explains the company's approach to regulatory compliance and assurance and sets out its statement of compliance. It should be read alongside the company's Annual Report and Financial Statements for the year ended 31 March 2023, which includes a summary of the company's operational performance for 2022/23 from page 62 of our Annual Report and Financial Statements 2022/23 and sets out how the company manages risk and uncertainty from page 108 of our Annual Report and Financial Statements 2022/23.

Regulatory compliance and assurance

The company's approach to achieving and assuring compliance with its licence and regulatory obligations is based on a sound system of internal controls and governance. To inform themselves about the company's compliance, the company's Board and Audit, Risk and Assurance Committee members carried out a range of activities throughout 2022/23 to satisfy themselves as to the proper functioning of those systems. The company's Director of Regulation and Strategy is responsible for monitoring regulatory compliance and is supported in discharging this responsibility by employees in the Regulation, Assurance, Legal and Internal Audit teams.

The company continues to employ external assurance partners to scrutinise, challenge and give independent advice on the procedures the company uses to collect and report the information underpinning this compliance statement. The assurance partners have highlighted that the company has full understanding of and has sufficient processes and internal systems of controls to meet reporting obligations. The assurance partners also highlighted that the majority of reporting processes continue to demonstrate either consistent good practice or improvements from previous years, and in the few cases where areas of inadequacy in reporting procedures were noted in previous years, these have now been addressed, or have improvement plans in place and clear written procedures are in place for all the 2020–2025 Performance Commitments.

The Reporter's report is available on the company's website: **affinitywater.co.uk/reports-publications**.

Understanding and meeting customers' expectations

The company supplies a diverse customer base with a range of expectations for service. It undertakes appropriate activities to inform itself about customers' expectations including customer research, consultation with consumer representatives and proactive communication with customers to seek feedback. It aims to provide services that it judges will best fulfil those expectations, remaining mindful of the need to balance customers' expectations with those of its other stakeholders, its environmental protection objectives and considering customers' acceptability and ability to pay water bills.

Regulatory outputs

The Board has reviewed the performance of the company against its regulatory outputs set at the final determination 2019. This regulatory Annual Performance Report identifies differences between the outputs that the company has delivered in 2022/23 and those that were assumed in its final determination 2019.

Compliance statement

As a Board, we confirm that:

- we have a full understanding of, and are meeting, our relevant material statutory, licence and regulatory obligations;
- we have taken steps to understand and meet customers' expectations;
- we are satisfied that we have sufficient processes and internal systems of control to meet our obligations; and
- we have appropriate systems and processes in place to allow us to identify, manage, mitigate and review our material risks.

On behalf of the Board

Keith Haslett
CEO

Justin Read
Independent Non-Executive Director

Statement of risk and compliance continued

Exceptions

The following exceptions to achieving our obligations have been shared with Ofwat:

Duty/ Obligation	Disclosure	Actions being taken to improve
Performance Commitments	• For 2022/23, out of our 28 performance commitments, we have not met the following targets: • Water quality compliance (CRI) • Water supply interruptions • Per capita consumption • Mains repairs • Properties at risk of receiving low pressure • Unplanned interruptions to supply >12 hours • Risk of severe restrictions in drought • Value for Money Survey	Details of our performance and the actions we are taking are detailed in section 3 of our Annual Performance Report and the non-financial line commentary file accompanying the APR.
Leakage and Per Capita Consumption reporting	For 2022/23, we have not achieved full compliance with the Leakage and Per Capita Consumption component checklist. Details of our reporting can be found in the Non-financial line commentary file under 3A.3 & 4.	The component checklist under 3A.3 & 4 of the non-financial line commentary file provides a breakdown of improvements, representativeness and work in progress to comply with the individual components.

Independent Auditors' report

to the Water Services Regulation Authority (the WSRA) and the Directors of Affinity Water Limited

Opinion

We have audited the sections of/tables within Affinity Water Limited's Annual Performance Report for the year ended 31 March 2023 ("the Regulatory Accounting Statements") which comprise:

- the regulatory financial reporting tables comprising the income statement (table 1A), the statement of comprehensive income (table 1B), the statement of financial position (table 1C), the statement of cash flows (table 1D), the net debt analysis (appointed activities) (table 1E), the financial flows (table 1F) and the related notes; and
- the regulatory price review and other segmental reporting tables comprising the segmental income statement (table 2A), the totex analysis wholesale (table 2B), the operating cost analysis (table 2C), the historical cost analysis of tangible fixed assets (table 2D), the analysis of grants and contributions water resources, water network+ and wastewaster network+ (table 2E), residential retail (table 2F), the revenue analysis (table 2I), the infrastructure network reinforcement costs (table 2J), the infrastructure charges reconciliation (table 2K), the analysis of land sales (table 2L), revenue reconciliation (table 2M), residential retail social tariffs (table 2N) and historical cost analysis of intangible assets (table 2O) and the related notes.

We have not audited the Outcome performance tables (3A to 3I) and the additional regulatory information in tables 4A to 4W, 5A to 5B, 6A to 6F, 9A and 11A.

In our opinion, Affinity Water Limited's Regulatory Accounting Statements have been prepared, in all material respects, in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA (RAG 1.09, RAG 2.08, RAG 2.09, RAG 3.14, RAG 4.11 and RAG 5.07) and the accounting policies (including the Company's published accounting methodology statement(s), as defined in RAG 3.14, appendix 2), set out on pages 48 to 50.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800, and applicable law, except as stated in the section on Auditors' responsibilities for the audit of the Regulatory Accounting Statements below, and having regard to the guidance contained in ICAEW Technical Release Tech 02/16 AAF 'Reporting to Regulators on Regulatory Accounts' issued by the Institute of Chartered Accountants in England & Wales.

Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the Regulatory Accounting Statements within the Annual Performance Report section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit, including the Financial Reporting Council's (FRC's) Ethical Standard , and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – special purpose basis of preparation

We draw attention to the fact that the Regulatory Accounting Statements have been prepared in accordance with a special purpose framework, Condition F, the Regulatory Accounting Guidelines, the accounting policies (including the Company's published accounting methodology statement(s), as defined in RAG 3.14, appendix 2) set out in the statement of accounting policies and under the historical cost convention. The nature, form and content of the Regulatory Accounting Statements are determined by the WSRA. As a result, the Regulatory Accounting Statements may not be suitable for another purpose. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly, we make no such assessment. In addition, we are not required to assess whether the methods of cost allocation set out in the accounting methodology statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA.

The Regulatory Accounting Statements are separate from the statutory financial statements of the Company and have not been prepared under the basis of United Kingdom Generally Accepted Accounting Practice ("UK GAAP"). Financial information other than that prepared on the basis of UK GAAP does not necessarily represent a true and fair view of the financial performance or financial position of a Company as shown in statutory financial statements prepared in accordance with the Companies Act 2006.

The Regulatory Accounting Statements on pages 38 to 106 have been drawn up in accordance with Regulatory Accounting Guidelines with a number of departures from UK GAAP. A summary of the effect of these departures in the Company's statutory financial statements is included in the tables within section 1.

Our opinion is not modified in respect of this matter.

Independent Auditors' report continued

to the Water Services Regulation Authority (the WSRA) and the Directors of Affinity Water Limited

Conclusions relating to going concern

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

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

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

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

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

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

Other information

The other information comprises all of the information in the Annual Performance Report other than the Regulatory Accounting Statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the Regulatory Accounting Statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Regulatory Accounting Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Regulatory Accounting Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the Regulatory Accounting Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report based on these responsibilities.

Responsibilities of the Directors for the Annual Performance Report

As explained more fully in the Statement of Directors' Responsibilities set out on page 32, the directors are responsible for the preparation of the Annual Performance Report in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the Company's accounting policies (including the Company's published accounting methodology statement(s), as defined in RAG 3.14, appendix 2).

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of the Annual Performance Report that is free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the Audit of the Regulatory Accounting Statements within the Annual Performance Report

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

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

We considered the nature of the company's industry and its control environment and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the Regulatory Accounting Statements. These included Regulatory Accounting Guidelines as issued by The Water Services Regulation Authority ('Ofwat'), Listing Rules, UK tax legislation, pensions legislation and the Companies Act 2006; and
- do not have a direct effect on the Regulatory Accounting Statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included, the Water Industry Act 1991, health and safety regulation (including the requirements of The Health and Safety at Work etc Act 1974) and environmental regulation.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- discussions with management, internal audit and the company's legal team, including inquiring of known or suspected instances of non-compliance with laws and regulation and fraud, and review of board minutes and internal audit reports;
- discussions with the General Counsel and Head of Ethics & Compliance to discuss both the litigation report and summary of whistleblowing matters arising;
- challenging assumptions made by management when preparing accounting estimates, in particular those that involve the assessment of future events, which are inherently uncertain – the key estimates determined in this respect are those relating to the measured income accrual and loss allowance for trade receivables; and
- identifying and testing a sample of journal entries posted a further description of our responsibilities for the audit of the Regulatory Accounting Statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

A further description of our responsibilities for the audit of the Regulatory Accounting Statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of this report

This report is made, on terms that have been agreed, solely to the Company and the WSRA in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewage undertaker under the Water Industry Act 1991 ("Condition F"). Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under Condition F to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the WSRA, for our audit work, for this report or for the opinions we have formed.

Our opinion on the Regulatory Accounting Statements is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2023 on which we reported on 12 July 2023, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Watford

12 July 2023

Section 1 – Regulatory financial reporting

1A – Income statement for the 12 months ended 31 March 2023

	RAG4 reference	Statutory £m	Adjustments: Differences between statutory and RAG definitions £m	Adjustments: Less: non-appointed £m	Adjustments: Total adjustments £m	Total appointed activities £m
Revenue	**1A.1**	**323.343**	**(8.024)**	**–**	**(8.024)**	**315.319**
Operating costs	1A.2	(331.301)	(4.198)	(5.411)	1.213	(330.088)
Other operating income	1A.3	21.929	(5.522)	12.555	(18.077)	3.852
Operating profit	**1A.4**	**13.971**	**(17.744)**	**7.144**	**(24.888)**	**(10.917)**
Other income	1A.5	–	17.744	–	17.744	17.744
Interest income	1A.6	16.690	–	–	–	16.690
Interest expense	1A.7	(169.693)	–	–	–	(169.693)
Other interest expense	1A.8	2.839	–	–	–	2.839
Profit before tax and fair value movements	**1A.9**	**(136.193)**	**–**	**7.144**	**(7.144)**	**(143.337)**
Fair value gains/(losses) on financial instruments	1A.10	23.484	–	–	–	23.484
Profit before tax	**1A.11**	**(112.709)**	**–**	**7.144**	**(7.144)**	**(119.853)**
UK Corporation tax	1A.12	–	–	(1.357)	1.357	1.357
Deferred tax	1A.13	11.764	–	–	–	11.764
Profit for the year	**1A.14**	**(100.945)**	**–**	**5.787**	**(5.787)**	**(106.732)**
Dividends	**1A.15**	**–**	**–**	**–**	**–**	**–**
Tax analysis						
Current year	1A.16	–	–	1.357	(1.357)	(1.357)
Adjustments in respect of prior years	1A.17	–	–	–	–	–
UK Corporation tax	**1A.18**	**–**	**–**	**1.357**	**(1.357)**	**(1.357)**
Analysis of non-appointed revenue						
Imported sludge	1A.19					
Tankered waste	1A.20	–				
Other non-appointed revenue	1A.21	12.555				
Revenue	**1A.22**	**12.555**				

The table below summarises the differences between statutory and RAGs definitions:

	Revenue recognition £m	Connection charges income £m	Amortisation of deferred grants and contribution £m	Loss on disposal of fixed assets £m	Meter reading commission £m	Rental and sundry income £m	Total £m
Revenue	5.223	(9.628)	(3.619)	–	–	–	(8.024)
Operating costs	(5.223)	–	–	0.831	0.226	(0.032)	(4.198)
Other operating income	–	–	–	(0.831)	–	(4.691)	(5.522)
Other income	–	9.628	3.619	–	(0.226)	4.723	17.744
Total	**–**	**–**	**–**	**–**	**–**	**–**	**–**

£5,223,000 of the difference between statutory and RAG-defined revenue relates to the disapplication in the Regulatory Accounts of the provision of IFRS 15, which states that revenue should only be recognised when it is probable that the economic benefits associated with the transaction will flow to the entity (refer to the revenue recognition accounting policy note on page 37). This is offset by the reclassification of £9,628,000 of connection charges income and £3,619,000 of amortisation associated with deferred grants and contributions, which are presented within other income in the Regulatory Accounts.

The difference between statutory and RAG-defined operating costs consists of the revenue recognition adjustment described in the previous paragraph of £5,223,000, offset by the reclassification of a £831,000 net loss on disposal of fixed assets, which is presented within other operating income in the Regulatory Accounts, and £226,000 of meter reading commission included within other income is offset against operating costs in the Regulatory Accounts.

The difference between statutory and RAG-defined other operating income consists of the reclassification of the net loss on disposal of fixed assets from operating costs described in the previous paragraph of £831,000 and the reclassification of £4,723,000 of rental and sundry income, which is presented within other income in the Regulatory Accounts.

The difference between statutory and RAG-defined other income consists of the reclassification of £9,628,000 of connection charges income, £3,619,000 of amortisation associated with deferred grants and contributions, £4,723,000 of rental and sundry income offset by £226,000 of meter reading income.

The non-appointed business activities include services performed on behalf of the sewerage companies in our supply area, including meter reading, billing, cash collection and infrastructure commission. We also have support services and receive unregulated income for value added services.

Analysis of the interest charge

The appointed interest expense of (£169,693,000) and other interest expense of £2,839,000 shown in table 1A is broken down as follows:

	£m
Interest charged on external borrowings, excluding those relating to Direct Procurement for Customers arrangements	(59.848)
Interest payable on intra-group borrowings	(111.018)
Interest payable in relation to other leases under IFRS 16	(0.266)
Amortisation of debt issuance costs	(0.290)
Amortisation of any debt premiums/discounts	2.252
Any other financing costs/interest charges	(0.523)
Total	**(169.693)**
Interest paid in relation to pension scheme liabilities	(11.734)
Expected return on pension scheme assets	14.573
Total other interest (expense)/credit	**2.839**

1B – Statement of comprehensive income for the 12 months ended 31 March 2023

	RAG4 reference	Statutory £m	Adjustments: Differences between statutory and RAG definitions £m	Adjustments: Less: non-appointed £m	Adjustments: Total adjustments £m	Total appointed activities £m
Profit for the year	1B.1	(100.945)	–	5.787	(5.787)	(106.732)
Actuarial gains/(losses) on post-employment plans	1B.2	(52.114)	–	–	–	(52.114)
Other comprehensive income	1B.3	13.028	–	–	–	13.028
Total comprehensive income for the year	**1B.4**	**(140.031)**	**–**	**5.787**	**(5.787)**	**(145.818)**

Section 1 – Regulatory financial reporting continued

1C – Statement of financial position for the 12 months ended 31 March 2023

	RAG4 reference	Statutory £m	Adjustments: Differences between statutory and RAG definitions £m	Adjustments: Less: non-appointed £m	Adjustments: Total adjustments £m	Total appointed activities £m
Non-current assets						
Fixed assets	1C.1	1,665.706	–	–	–	1,665.706
Intangible assets	1C.2	42.611	–	–	–	42.611
Investments – loans to group companies	1C.3	–	–	–	–	–
Investments – other	1C.4	66.809	(66.709)	–	(66.709)	0.100
Financial instruments	1C.5	3.284	–	–	–	3.284
Retirement benefit assets	1C.6	53.615	–	–	–	53.615
Total non-current assets	1C.7	1,832.025	(66.709)	–	(66.709)	1,765.316
Current assets						
Inventories	1C.8	4.833	–	–	–	4.833
Trade and other receivables	1C.9	102.566	–	0.342	(0.342)	102.224
Financial instruments	1C.10	6.068	–	–	–	6.068
Cash and cash equivalents	1C.11	78.783	66.709	6.823	59.886	138,669
Total current assets	1C.12	192.250	66.709	7.165	59.544	251.794
Current liabilities						
Trade and other payables	1C.13	(156.403)	1.348	0.732	0.616	(155.787)
Capex creditor	1C.14	(13.519)	–	–	–	(13.519)
Borrowings	1C.15	(3.053)	–	–	–	(3.053)
Financial instruments	1C.16	(2.128)	–	–	–	(2.128)
Current tax liabilities	1C.17	(3.481)	–	(2.111)	2.111	(1.371)
Provisions	1C.18	(11.065)	6.965	–	6.965	(4.100)
Total current liabilities	1C.19	(189.650)	8.313	(1.378)	9.691	(179.958)
Net current assets/(liabilities)	**1C.20**	**(2.601)**	**75.022**	**5.787**	**69.235**	**71.836**
Non-current liabilities						
Trade and other payables	1C.21	–	–	–	–	–
Borrowings	1C.22	(1,336.502)	(98.015)	–	(98.015)	(1,434.517)
Financial instruments	1C.23	(121.719)	98.015	–	98.015	(23.704)
Retirement benefit obligations	1C.24	–	–	–	–	–
Provisions	1C.25	(3.319)	–	–	–	(3.319)
Deferred income – grants and contributions ('G&Cs')	1C.26	(262.074)	(8.313)	-	(8.313)	(270.387)
Deferred income – adopted assets	1C.27	–	–	–	–	–
Preference share capital	1C.28	–	–	–	–	–
Deferred tax	1C.29	(206.738)	–	–	–	(206.738)
Total non-current liabilities	1C.30	(1,930.352)	(8.313)	–	(8.313)	(1,938.665)
Net assets	**1C.31**	**(95.726)**	**–**	**5.787**	**(5.787)**	**(101.513)**
Equity						
Called up share capital	1C.32	30.506	–	–	–	30.506
Retained earnings and other reserves	1C.33	(126.232)	–	5.787	(5.787)	(132.019)
Total equity	**1C.34**	**(95.726)**	**–**	**5.787**	**(5.787)**	**(101.513)**

The £66,709,000 difference between statutory and RAG-defined investments – other and cash and cash equivalents consists of a reclassification of short-term deposits, treated as investments in the statutory accounts and cash and cash equivalents under RAG terminology.

The £1,348,000 difference between statutory and RAG-defined trade and other payables consists of the reclassification of payments received for costs incurred in relation to the High Speed 2 ('HS2') rail programme, which will cross the Affinity Water supply area, that have not yet been commissioned for use.

In line with our accounting policy for grants and contributions received in respect of property, plant and equipment, which include contributions received for diversions, in the company's statutory financial statements, income received is treated as deferred income and released to cost of sales and administrative expenses over the useful economic life of the property, plant and equipment to which it relates once these assets are commissioned (as at 31 March 2023, £146,314,000 of our property, plant and equipment had been commissioned and therefore £146,314,000 of associated payments received have been recognised initially in deferred income. We have an additional £1,348,000 of contributions received for property, plant and equipment that hasn't been commissioned and therefore these contributions are included within payments in advance in trade and other payables). Given assets constructed by the company under the HS2 programme may not be commissioned for several years, adopting this accounting policy in the Regulatory Accounts would lead to a mismatch of costs incurred and payments received in relation to these costs in the totex tables in sections 2 and 4 of these Regulatory Accounts (tables 2B, 4C and 4D). Therefore, the payments received in relation to HS2 within statutory payments in advance have been reclassified to deferred income – G&Cs in the Regulatory Accounts and £3,444,000 of payments received in 2022/23 are included in the totex tables to offset the expenditure incurred in 2022/23. The payments received in 2022/23 have also been included in the diversions lines within the analysis of capital contributions for both Water Resources and Water Network+ (table 2E).

The £6,965,000 difference between statutory and RAG-defined provisions within current liabilities relates to the reclassification of current deferred G&Cs to deferred income – G&Cs.

The £8,313,000 difference between statutory and RAG-defined deferred income – G&Cs relates to the reclassifications detailed in the previous paragraphs.

The £98,015,000 difference between statutory and RAG-defined borrowings and financial instruments relates to the reclassification of accretion on the inflation-linked swap from financial instruments to borrowings.

Section 1 – Regulatory financial reporting continued

1D – Statement of cashflows for the 12 months ended 31 March 2023

	RAG4 reference	Statutory £m	Adjustments: Differences between statutory and RAG definitions £m	Adjustments: Less: non-appointed £m	Adjustments: Total adjustments £m	Total appointed activities £m
Operating activities						
Operating profit	1D.1	13.971	(17.744)	7.144	(24.888)	(10.917)
Other income	1D.2	–	17.744	–	17.744	17.744
Depreciation	1D.3	80.349	–	–	–	80.349
Amortisation – G&Cs	1D.4	(3.619)	–	–	–	(3.619)
Changes in working capital	1D.5	1.359	–	(0.339)	0.339	1.698
Pension contributions	1D.6	(0.519)	–	–	–	(0.519)
Movement in provisions	1D.7	6.191	–	–	–	6.191
Profit on sale of fixed assets	1D.8	0.355	–	–	–	0.355
Cash generated from operations	1D.9	98.087	–	6.805	(6.805)	91.282
Net interest paid	1D.10	(42.868)	16.218	–	16.218	(26.650)
Tax paid	1D.11	–	–	(1.348)	1.348	1.348
Net cash generated from operating activities	**1D.12**	**55.219**	**16.218**	**5.457**	**10.761**	**65.980**
Investing activities						
Capital expenditure	1D.13	(127.685)	–	–	–	(127.685)
Grants and contributions	1D.14	9.637	–	–	–	9.637
Disposal of fixed assets	1D.15	0.535	–	–	–	0.535
Other	1D.16	23.152	(19.688)	–	(19.688)	3.464
Net cash used in investing activities	**1D.17**	**(94.361)**	**(19.688)**	**–**	**(19.688)**	**(114.049)**
Net cash generated before financing activities	**1D.18**	**(39.142)**	**(3.470)**	**5.457**	**(8.927)**	**(48.069)**
Cash flows from financing activities						
Equity dividends paid	1D.19	–	–	–	–	–
Net loans received	1D.20	(17.679)	–	–	–	(17.679)
Cash inflow from equity financing	1D.21	–	–	–	–	–
Net cash generated from financing activities	**1D.22**	**(17.679)**	**–**	**–**	**–**	**(17.679)**
Increase/(decrease) in net cash	**1D.23**	**(56.821)**	**(3.470)**	**5.457**	**(8.927)**	**(65.748)**

The cash flow has been prepared in accordance with the RAG templates and, resultantly, net cash generated from operating activities in the table above does not align to the statutory cash flow. £9,637,000 of capital contributions are treated as operating cash flows in the statutory cash flow and are shown within investing activities in table 1D.

The £17,744,000 difference between statutory and RAG-defined operating profit consists of the reclassification of £9,628,000 of connection charges income, £3,619,000 of amortisation associated with deferred grants and contributions and £4,723,000 of rental and sundry income, all of which are shown in other income, offset by the reclassification of £226,000 of meter read commission, which is presented within other income in the Statutory Accounts.

The £16,218,000 difference between statutory and RAG-defined net interest paid is due to offsetting the interest received on inflation-linked swaps against interest paid in the year. The £19,688,000 difference between statutory and RAG-defined other investing activities is the movement in short-term deposits treated as investments in the statutory accounts and cash and cash equivalents under RAG terminology in addition to offsetting interest received on inflation-linked swaps against interest paid in the regulatory numbers.

Reconciliation of net interest paid

	£m
Interest paid on borrowings	42.193
Interest paid on leases	0.266
Other interest paid	0.409
Gross interest paid	**42.868**
Less: interest received under swap arrangements	(16.218)
Net interest paid per 1D.10	**26.650**

Net interest paid does not include accretion of index-linked debt which is a non-cash item. Interest received on short-term investment is included within Investing activities – other in the statement of cash flows.

1E – Net debt analysis (appointed activities) at 31 March 2023

	RAG4 reference	Fixed rate £m	Floating rate £m	Index-linked: RPI £m	Index-linked: CPI/CPIH £m	Total £m
Interest rate risk profile						
Borrowings (excluding preference shares)	1E.1	196.421	–	696.835	514.600	1,407.856
Preference share capital	1E.2					–
Total borrowings	1E.3					1,407.856
Cash	1E.4					(71.960)
Short-term deposits	1E.5					(66.709)
Net debt	1E.6					1,269.188
Gearing						
Gearing	1E.7					74.06
Adjusted gearing	1E.8					73.39
Interest						
Full year equivalent nominal interest cost	1E.9	7.183	–	105.972	50.530	163.685
Full year equivalent cash interest payment	1E.10	7.183	–	14.610	5.021	26.814
Indicative interest rates						
Indicative weighted average nominal interest rate (%)	1E.11	3.657%	–	15.208%	9.820%	11.626%
Indicative weighted average cash interest rate (%)	1E.12	3.657%	–	2.097%	0.976%	1.905%
Time to maturity						
Weighted average years to maturity	1E.13	15.729	–	12.372	13.308	13.183

Capitalised debt issue costs and bond premiums/discounts, and amortisation thereon, have been excluded from total borrowings presented in the above table. A reconciliation to total borrowings as presented in table 1C is provided below:

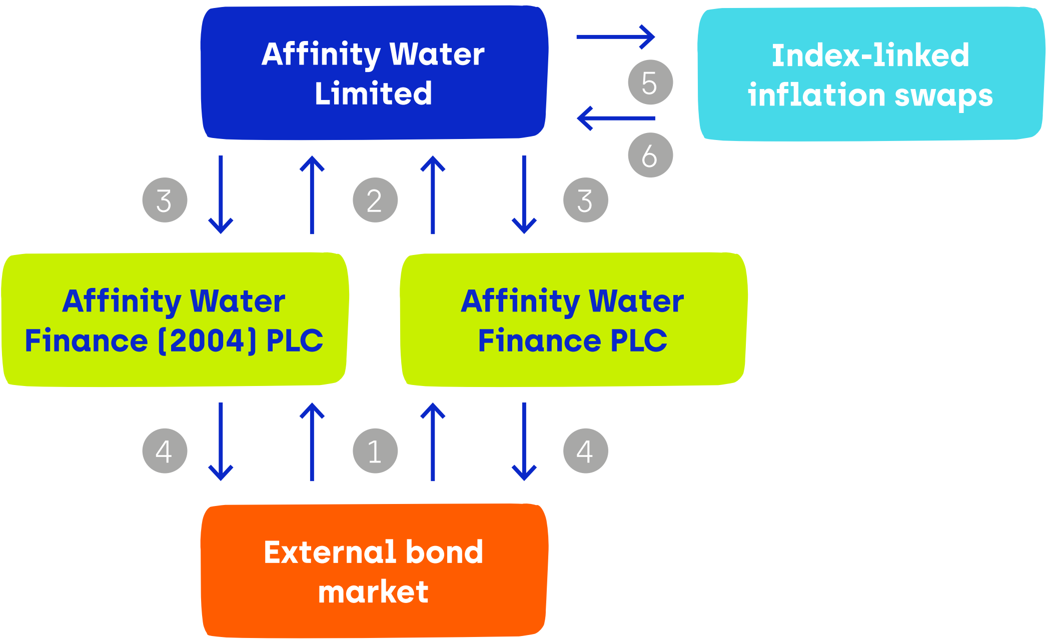
	£m
Total borrowings (excluding preference shares) presented in table 1C.15 and 1C.22 (total) and in 4B.805	(1,437.570)
Less: capitalised bond premium/issue costs – Fixed	8.260
Less: capitalised bond premium/issue costs – RPI	6.701
Less: capitalised bond premium/issue costs – CPI	14.753
Net debt presented above	(1,407.856)

Adjusted gearing is calculated using the definition of net debt set out in the company's WBS documentation, as presented in the following table:

	Fixed rate £m	Floating rate £m	Index-linked: RPI £m	Index-linked: CPI/CPIH £m	Total £m
Borrowings (excluding preference shares)	188.584	–	696.835	514.600	1,400.019
Preference share capital					–
Less: loan from intermediate parent company					(3.550)
Add: accrued interest on borrowings					6.768
Total borrowings					1,403.237
All cash and short-term deposits					(145.492)
Net debt					1,257.745

Section 1 – Regulatory financial reporting continued

Affinity Water Limited has two financing subsidiaries which have issued bonds listed by the UK Listing Authority. Affinity Water Finance (2004) PLC has issued an external bond of £250.0m and Affinity Water Finance PLC has issued external bonds totalling £880.0m, the proceeds of which have been lent on to and are guaranteed by Affinity Water Limited, as shown in the diagram below:



1. Affinity Water Finance (2004) PLC and Affinity Water Finance PLC have raised debt from the external sterling bond market in the form of several bond issuances.
2. The two financing subsidiaries have on-lent the debt to Affinity Water Limited on the same terms.
3. Affinity Water Limited pays interest payments annually to the financing subsidiaries and will repay the principal debt upon maturity of the bond.
4. Affinity Water Finance (2004) PLC and Affinity Water Finance PLC pay interest payments annually to the bondholders, and will repay the principal debt upon maturity of the bond.
5. Affinity Water Limited receives a fixed interest payment annually for the index-linked inflation swap.
6. Affinity Water Limited pays index-linked interest payments annually for the index-linked inflation swap and will make a final accretion payment based on the mark to market valuation at maturity.

1F – Financial flows for the 12 months ended 31 March 2023 and for the price review to date – (2017–18 financial year average CPIH)

		12 months ended 31 March 2023					
		%			£m		
	RAG4 reference	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity
Regulatory equity							
Regulatory equity	1F.1	550.309	550.309	352.113			
Return on regulatory equity							
Return on regulatory equity	1F.2	4.14%	2.65%	4.14%	22.800	14.588	14.588
Financing							
Impact of movement from notional gearing	1F.3		1.49%	1.07%		8.211	3.783
Gearing benefits sharing	1F.4		0.00%	0.00%		0.000	0.000
Variance in corporation tax	1F.5		2.32%	3.63%		12.772	12.772
Group relief	1F.6		0.00%	0.00%		0.000	0.000
Cost of debt	1F.7		(5.35%)	(9.44%)		(29.436)	(33.225)
Hedging instruments	1F.8		2.40%	3.76%		13.228	13.228
Return on regulatory equity including financing adjustments	1F.9	**4.14%**	**3.52%**	**3.17%**	**22.800**	**19.363**	**11.146**
Operational Performance							
Totex out / (under) performance	1F.10		(2.35%)	(3.67%)		(12.914)	(12.914)
ODI out / (under) performance	1F.11		(2.10%)	(3.28%)		(11.542)	(11.542)
C-MeX out / (under) performance	1F.12		(0.19%)	(0.30%)		(1.041)	(1.041)
D-MeX out / (under) performance	1F.13		(0.05%)	(0.08%)		(0.292)	(0.292)
Retail out / (under) performance	1F.14		(0.48%)	(0.75%)		(2.640)	(2.640)
Other exceptional items	1F.15		0.04%	0.06%		0.227	0.227
Operational performance total	1F.16		**(5.12%)**	**(8.01%)**		**(28.203)**	**(28.203)**
Return on Retained Earnings ('RoRE')	1F.17	4.14%	(1.61%)	(4.84%)	22.800	(8.840)	(17.057)
Regulatory Capital Value ('RCV') growth	1F.18	10.53%	10.53%	10.53%	57.948	57.948	37.078
Voluntary sharing arrangements	1F.19		(0.02%)	(0.03%)		(0.100)	(0.100)
Total shareholder return	1F.20	**14.67%**	**8.91%**	**5.66%**	**80.747**	**49.008**	**19.921**
Dividends							
Gross dividend	1F.21	0.82%	0.00%	0.00%	4.513	0.000	0.000
Interest received on intercompany loans	1F.22		0.00%	0.00%		0.000	0.000
Retained value	1F.23	**13.85%**	**8.91%**	**5.66%**	**76.235**	**49.008**	**19.921**
Cash impact of 2015–20 performance adjustments							
Totex out / (under) performance	1F.24		0.00%	0.00%		(0.014)	(0.014)
ODI out / (under) performance	1F.25		(0.52%)	(0.81%)		(2.838)	(2.838)
Total out / (under) performance	1F.26		(0.52%)	(0.81%)		(2.852)	(2.852)

Section 1 – Regulatory financial reporting continued

	RAG4 reference	Average 2020–2025 % Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	£m Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity
Regulatory equity							
Regulatory equity	1F.1	515.130	515.130	314.297			
Return on regulatory equity							
Return on regulatory equity	1F.2	4.09%	2.50%	4.09%	21.074	12.858	12.858
Financing							
Impact of movement from notional gearing	1F.3		1.59%	1.05%		8.216	3.681
Gearing benefits sharing	1F.4		(0.14%)	(0.22%)		(0.769)	(0.769)
Variance in corporation tax	1F.5		0.45%	0.70%		2.449	2.449
Group relief	1F.6		0.00%	0.00%		0.000	0.000
Cost of debt	1F.7		(4.77%)	(8.36%)		(26.240)	(29.420)
Hedging instruments	1F.8		2.46%	3.85%		13.560	13.560
Return on regulatory equity including financing adjustments	1F.9	**4.09%**	**2.09%**	**1.11%**	**21.074**	**10.075**	**2.359**
Operational Performance							
Totex out / (under) performance	1F.10		(0.35%)	(0.55%)		(1.930)	(1.930)
ODI out / (under) performance	1F.11		(1.19%)	(1.86%)		(6.541)	(6.541)
C-MeX out / (under) performance	1F.12		(0.16%)	(0.24%)		(0.862)	(0.862)
D-MeX out / (under) performance	1F.13		(0.02%)	(0.04%)		(0.129)	(0.129)
Retail out / (under) performance	1F.14		(0.38%)	(0.59%)		(2.068)	(2.068)
Other exceptional items	1F.15		0.05%	0.08%		0.284	0.284
Operational performance total	1F.16		**(2.04%)**	**(3.19%)**		**(11.246)**	**(11.246)**
RoRE	1F.17	4.09%	0.05%	(2.08%)	21.074	(1.171)	(8.886)
RCV growth	1F.18	6.25%	6.25%	6.25%	32.186	32.186	19.637
Voluntary sharing arrangements	1F.19		(0.02%)	(0.03%)		(0.100)	(0.100)
Total shareholder return	1F.20	**10.34%**	**6.28%**	**4.13%**	**53.259**	**30.915**	**10.651**
Dividends							
Gross dividend	1F.21	0.82%	0.00%	0.00%	4.224	0.000	0.000
Interest received on intercompany loans	1F.22		0.00%	0.00%		0.000	0.000
Retained value	1F.23	**9.52%**	**6.28%**	**4.13%**	**49.035**	**30.915**	**10.651**
Cash impact of 2015–20 performance adjustments							
Totex out / (under) performance	1F.24		0.00%	0.00%		(0.013)	(0.013)
ODI out / (under) performance	1F.25		(0.54%)	(0.88%)		(2.758)	(2.758)
Total out / (under) performance	1F.26		(0.54%)	(0.88%)		(2.772)	(2.772)

12 months ended 31 March 2023

The return on regulatory equity was 4.14% as determined at PR19. It increases to 5.22% after adjusting for the company's actual capital structure (1.07%, as reported in the gearing line of this table). The PR19 determination was carried out on a notional capital structure with 60% net debt to RCV gearing, the actual average level of gearing of 74.0% creates an adjustment of +1.07%. There was nil gearing benefits sharing adjustment. There was an adverse adjustment before hedging instruments of -9.44% resulting from the company's actual cost of debt underperforming against the 2.24% allowed in the PR19 determination after taking into account the movement in average CPIH during 2022/23 of 8.79%. Our hedging instruments have partially offset the adverse adjustment by +3.76%. The variance in corporation tax (calculated as the difference between the amount allowed for corporation tax in the PR19 determination and actual tax payable, before any fair value adjustments, after taking into account adjustments for capital allowances and prior year adjustments, refer to the reconciliation on page 81) increases the adjustment by 3.63%.

The adverse 3.17% regulatory return on equity including financing adjustments is worsened by -16.02% when considering the impact of operational performance, such that RoRE is -4.84%. Totex underperformance in the year results in a -3.67% decrease (refer to table 4C), ODI underperformance in the year (refer to table 3A, including the estimated PCC penalty for the year) results in a -3.28% reduction with C-MeX and D-MeX underperformance resulting in a further -0.38% reduction. The performance of the retail business unit (refer to table 2C) also creates a -0.75% adverse adjustment. There was a further adjustment of +0.06% for other exceptional items which included 50% of the share of protected land sales in the year as per table 2L.

After factoring in RCV growth due to indexation and voluntary sharing arrangements, the total shareholder return for the year is 5.66%. No dividend was paid out by the regulated business, which equates to a 0.00% adjustment.

Average 2020–2025

Average figures have been calculated using the average of 2020/21, 2021/22 and 2022/23 tables. Gross dividends – notional returns and notional regulatory equity for the year ended 31 March 2023 have been updated following the publication of financial flows data for the year ended 31 March 2023. Prior year ODI penalties for leakage and PCC have been updated following restatement of the base years, impacting the average 2020-2025 totals.

Section 1 – Regulatory financial reporting continued

Statement of accounting policies

Basis of preparation

These accounts have been prepared in accordance with the relevant RAGs.

Accounting policies used are the same as those adopted in the statutory accounts, except as set out below.

Regulatory accounts are prepared to enable Ofwat to monitor the financial performance of the regulated water business. Note that tables 2G, 2H, 4E, 4G, 4K, 4M, 4O, 4S and 4U have not been presented as they are not applicable for Affinity Water Limited.

Standards and interpretations which are not yet effective

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

Revenue recognition

Revenue represents the fair value of income receivable in the ordinary course of business from the regulated activities of the business in 2022/23 exclusive of value added tax. The company recognises revenue when the amount of revenue can be reliably measured, when it is probable that future economic benefit will flow to the entity and when specific criteria have been met.

The company's core revenue stream is derived from the supply of clean water. The UK Government has contracted with the company on behalf of customers by granting the company its water supply licence, where the underlying performance obligation is the development and maintenance of the network and ensuring its continued availability to customers. Revenue is recognised as the customer receives the benefit of this through consuming the water:

- for metered customers, the amount which the company has a right to receive is determined by the volume of water consumed; and
- for unmetered customers, the amount which the company has a right to receive is determined by the period of time during which a customer occupies a property to which water is supplied by the company.

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

For metered household customers, a receivable is recognised when the customer is billed for usage. At this point, the consideration is unconditional because only the passage of time is required before the payment is due. Where the company has provided the service before payment is due, an accrual for the consumption of water that has not yet been billed is recognised within trade and other receivables (refer to the measured income accrual section below).

Unmetered customers pay a fixed amount determined by the transaction prices set out in the company's charging scheme and tariff documents. If the payments received exceed the amount the company has the right to receive, the company recognises a payment received in advance within trade and other payables.

Where non-household retailers are billed in advance monthly for wholesale charges, as determined by billing/volume reports created by the market operator, the company recognises deferred income in relation to these accounts and discloses this within trade and other payables.

The company does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and the payment terms exceeds one year. The company therefore does not adjust any of its transaction prices for the time value of money.

Charges on income arising from court, solicitor and debt recovery agency fees are recognised in revenue.

Measured income accrual

The measured income accrual is an estimation of the amount of mains water unbilled at year ending 31 March 2023. The accrual is estimated using a defined methodology based upon weighted average water consumption by tariff, which is calculated based upon historical information. No changes have been made to the methodology in calculating the measured income accrual during 2022/23. The measured income accrual is recognised within revenue.

Revenue for the year ended 31 March 2022 included a measured income accrual of £40,757,000. The value of billing recognised in the year ended 31 March 2023 for consumption in the prior year was £41,313,000. This resulted in an increase of £556,000 in the current year's revenue due to the under-estimation of the prior year's revenue. This represented 0.17% of 2022/23 revenue and is within acceptable tolerance for accounting estimates.

Adjustments from statutory to regulatory accounts

The Regulatory Accounts disapply the provision of IFRS 15 which states that revenue should only be recognised if it is probable that it will be received, considering the customer's ability and intention to pay that amount of consideration when it is due. For regulatory reporting purposes, companies are required to assume that where an amount is billed it is probable that cash will be collected, thereby deviating from the IFRS 15 requirement in that there is no judgement applied to the probability of collection. Therefore, in the Regulatory Accounts the company does not derecognise revenue where historical evidence indicates that the company will probably never be able to collect the revenue billed.

No further differences exist between the revenue recognition policies in the statutory accounts and in the Regulatory Accounts.

Charging policy

Water charges are payable in full from the date of connection or change of customer on all properties at which it is recorded that water is being used or required. Exceptions to this, where the company waives water charges at its discretion on being informed by customers, include where the customer is in a care home; in long-term hospitalisation; in prison; overseas long-term; or in the event of the death of the customer.

Definition and treatment of properties

The company classifies unoccupied bulk owner properties as 'occupied' if they are empty for less than 26 weeks for short-term situations such as refurbishment or change of tenancy. These properties are billed in full and then a percentage is deducted from the amount owed to recognise that some properties will have been empty. Where properties are unoccupied for more than 26 weeks, the agreement with the bulk owner provides that the local authority will notify the company so that the property can be formally recorded as 'empty' on the company's billing system and, therefore, will not be billed.

The company no longer raises bills addressed to 'The Occupier' when there is no consumption detected at the property. The company's assumption is that these properties are not occupied. The company makes further enquiries and when it receives information that the property has become occupied the status of the account is amended, the customer's name applied to the account and billing commences.

In each of the above cases, if a bill is sent, the company would recognise it within revenue in the Regulatory Accounts.

All new properties are metered. Charges accrue from the date at which the meter is installed. The developer is billed between the date of connection and first occupancy, and this is recognised as revenue. If the developer is no longer responsible for the property and no new occupier has been identified, the property management process referred to above is followed to identify the new occupier. Until the new occupier has been identified the property is treated as unoccupied and is not billed.

Capitalisation policy

Expenditure on infrastructure assets relating to increases in capacity, enhancements or material replacements of network components is capitalised where it can be reliably measured, and it is probable that incremental future economic benefits will flow to the company. Expenditure generally will only meet the criteria for capitalisation when it relates to specific planned works. Where this work does not involve a mains pipe exceeding a diameter of 300mm (considered qualitatively material due to its strategic importance in the generation of future economic benefits), replacement is considered quantitatively material when the pipe involved is at least 2km long and uses a new material for that location, which enhances the section of network being re-laid.

Costs of day-to-day servicing of network components are recognised in the income statement as they arise.

The company does not capitalise any borrowing costs relating to the purchase of property, plant and equipment, right-of-use assets or intangible assets in its statutory accounts, as the costs do not meet the criteria for capitalisation set out in IAS 23: 'Borrowing Costs'.

In April 2021, the IFRS Interpretations Committee ('IFRIC') agenda decision on the treatment of configuration and customisation costs in a cloud computing arrangement was ratified by the International Accounting Standards Board. As such, the company has changed its accounting policy from capitalising all costs directly attributable to configuration and customisation in a cloud computing arrangement, to expensing such costs if the company does not have control of the developed software.

Bad debt

At each reporting date, the company evaluates the collectability of trade receivables and records a loss allowance based on experience. The loss allowance is charged to operating costs to reflect the company's assessment of the risk of non-recovery of trade receivables.

The loss allowance is calculated by applying a range of different percentages to trade receivables of different ages. These percentages also vary between categories of receivable. Higher percentages are applied to those categories of receivables which are considered to be of greater risk and also to trade receivables of greater age. The value of the loss allowance is sensitive to the specific percentages applied. The specific percentages applied

Section 1 – Regulatory financial reporting continued

are updated annually to reflect the latest collection performance data from the company's billing system. All trade receivables greater than five years old are fully provided for. Actual amounts recovered may differ from the estimated levels of recovery which could impact on operating results.

The company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled metered consumption and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The company has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

Our bad debt provision increased during 2022/23 as a result of additional amounts provided for in the current year as a result of the ongoing cost of living crisis, offset by the debt sale that took place, where fully provided for debt was sold outside of the company. There has been a increase in the provision from £33,037,000 at 31 March 2022 to £36,968,000 at 31 March 2023 as a result of the above reasons.

The company's policy is to write off closed and live accounts that fall under the following categories: bankruptcy, liquidation, debt relief orders, deceased accounts where there is no estate, failed legal action and receivable amounts from customers who have moved out of the property with no forwarding address or are no longer responsible for payment of a water bill.

Accounts are written off following all internal recovery activity and subsequent external debt collection agency activity, except as follows:

- Closed accounts under £15 are written off without any internal recovery activity.
- Closed accounts under the name of 'the Occupier' are written off without any internal recovery action.
- Closed accounts under £50 are written off following all internal recovery activity where there is a forwarding address for the customer.
- Closed accounts under £100 are written off following all internal recovery activity where there is no forwarding address for the customer.

Amounts are also written off on accounts where the company is still supplying the customer and where all reasonable internal and external debt collection activities have been undertaken. Under these circumstances, if the total debt contains amounts over six years old, the amount over six years old is written off.

The company's write-off policy has remained unchanged and has been consistently applied in 2022/23 compared with the previous year. The amount of debt written off decreased from £8,541,000 in 2021/22 to £7,362,000 in 2022/23.

There has been an increase in trade receivables during 2022/23 (£36,839,000 at 31 March 2023, £33,480,000 at 31 March 2022) due to increased billing in addition to a decline in cash collection rates seen in the year to March 2023 compared to in March 2022.

Grants and contributions

Grants and contributions received in respect of property, plant and equipment (including infrastructure charges, and contributions for diversions and requisitioned mains/ extensions), where the performance obligation is deemed to be satisfied over time, are treated as deferred income and released to revenue over the useful economic life of the property, plant and equipment to which they relate once these assets have been commissioned.

For contributions received in respect of diversions and requisitioned mains/extensions, the assets constructed are considered to have no economic value without the promise to provide ongoing supply of water services; therefore, the performance obligation is considered to be satisfied over the period that the property, plant and equipment constructed are in service.

Infrastructure charges are charges levied on developers for network reinforcement, which is not site specific, i.e. to fund expenditure which will contribute towards wider network reinforcement work away from the development site. There is an implied ongoing performance obligation to improve and maintain the wider network in order to provide an ongoing supply of water services.

Grants and contributions considered to be given in compensation for expenses incurred with no future related costs, including charges billed to developers for new connections ('connection charges'), are recognised in revenue in the income statement in the period that they became receivable; the performance obligation has been identified as the connection of a service pipe to the main. Once the connection is made, the performance obligation is fulfilled, and the income recognised immediately in the income statement.

These grants and contributions are not government grants within the scope of IAS 20: 'Accounting for Government Grants and Disclosure of Government Assistance' and fall within the scope of IFRS 15, as, while there may not be a written contract with the customer, the legal duties of a company under the Water Industry Act 1991 would seem to constitute a legally enforceable contract with the transaction prices set out in the company's charges scheme, tariff documents and invoices.

Statement of directors' remuneration and standards of performance

Executive directors' remuneration comprises a package of base salary together with an annual performance-related bonus and a long-term incentive plan. Executive directors' bonuses paid by the company are linked to the standards of performance of the company and are therefore in accordance with RAG 3.14. The elements of the 2022/23 remuneration arrangements for executive directors were established by the company's Remuneration Committee in 2022/23.

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 incentivising financial efficiencies as well as the value created for stakeholders. For 2023/24, the proposed changes to incentives ensure that we continue to meet Ofwat's requirements of at least 60% being aligned to customer and environmental outcomes.

The key changes made relate to amendments 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, taking into account the priorities for the 2025–30 period and the broader performance agenda, particularly around Environmental, Social and Governance measures 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.

More details on our remuneration policy can be found in the Governance Report within our Annual Report and Financial Statements for the year ended 31 March 2023.

Section 1 – Regulatory financial reporting continued

Purpose and link to strategy	Policy and approach	Maximum potential value (as percentage of base pay)	Performance metrics	Changes for 2023/24
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 the Annual Report and Financial Statements.
LTIP				
To incentivise executives to achieve long-term shareholder value while 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 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.

Purpose and link to strategy	Policy and approach	Maximum potential value (as percentage 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 the 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.

Section 1 – Regulatory financial reporting continued

Purpose and link to strategy	Policy and approach	Maximum potential value (as percentage of base pay)	Performance metrics	Changes for 2023/24
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%.	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.
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 the Annual Report and Financial Statements.

Remuneration implementation report

Directors' remuneration 2022/23 (audited)

The following table shows 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	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
	22/23	21/22	22/23	21/22	22/23	21/22	22/23	21/22	22/23	21/22	22/23	21/22	22/23	21/22	22/23	21/22	22/23	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

The remuneration policy operated as intended during 2022/23. Executive director bonuses are only being paid where operational targets were met and base salaries were set at a level that attracted and retained key employees, reflecting their experience and position in the company. 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.

The Remuneration Committee believes this was appropriate.

1 Fees in 2022/23 for Ian Tyler include an amount of £39,230 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. 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, and 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 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 2021/22 for Pauline Walsh related to compensation for loss of office

Section 1 – Regulatory financial reporting continued

Achievement against performance-related measures (annual bonus)

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.

			2022/23 target	2022/23 actual	Maximum weighting for 2022/23 (as a % of base salary)		2022/23 achievement (as a % of base salary)	
Performance measure		Link to Alignment of culture, purpose, values and strategy		Target met	Keith Haslett	Stuart Ledger	Keith Haslett	Stuart Ledger
Financial measure	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) No	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 to ensure we are financially resilient	£20m	£11.8m No	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% Yes	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 Yes	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 No	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 No	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 No	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 No	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 No	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 No	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 Yes	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					100.00%	75.00%	37.50%	22.13%
Base salary							**£91,250**	**£111,563**
Bonus paid							**£34,219**	**£32,911**

See the Remuneration Report published in our Annual Report and Financial Statements for the year ended 31 March 2023 for more details.

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

Section 2 – Price review and other segmental reporting

Accounting policy for price control segments

The tables in this section have been prepared in accordance with RAG 2.11, as detailed in the company's Accounting Separation Methodology Statement, which can be found on the company's website: **affinitywater.co.uk/reports-publications**. The methodology statement explains the basis for the allocations of costs and assets and has been updated for changes to the requirements in 2022/23. Changes to the methodology are also explained within the company's Accounting Separation Methodology Statement on the company's website. Wherever possible, direct costs and assets have been directly attributed to business units. Where this is not possible, appropriate cost allocations have been applied and assets have been allocated to business units based on an assessment of the principal user, as described in the methodology.

2A – Segmental income statement for the 12 months ended 31 March 2023

	RAG4 reference	Residential retail £m	Business retail £m	Water resources £m	Water network+ £m	Total £m
Revenue – price control	2A.1	26.948	–	50.414	235.557	312.919
Revenue – non-price control	2A.2	–	–	–	2.400	2.400
Operating expenditure – excluding PU recharge impact	2A.3	(31.561)	–	(21.714)	(196.462)	(249.737)
PU opex recharge	2A.4	0.199	–	–	(0.199)	–
Operating expenditure – including PU recharge impact	2A.5	(31.362)	–	(21.714)	(196.661)	(249.737)
Depreciation – tangible fixed assets	2A.6	–	–	(8.373)	(66.025)	(74.398)
Amortisation – intangible fixed assets	2A.7	(0.337)	–	–	(5.617)	(5.954)
Other operating income	2A.8	2.635	–	0.090	1.127	3.852
Operating profit	**2A.9**	**(2.116)**	**–**	**20.417**	**(29.219)**	**(10.918)**

Section 2 – Price review and other segmental reporting continued

2B – Totex analysis for the 12 months ended 31 March 2023 – wholesale

	RAG4 reference	Water resources £m	Water network+ £m	Total £m
Base operating expenditure				
Power	2B.1	5.592	34.639	40.231
Income treated as negative expenditure	2B.2	–	–	–
Service charges/discharge consents	2B.3	6.189	–	6.189
Bulk supply/bulk discharge	2B.4	1.771	9.899	11.670
Renewals expensed in year (Infrastructure)	2B.5	–	21.211	21.211
Renewals expensed in year (Non-Infrastructure)	2B.6	–	–	–
Other operating expenditure (including location specific costs & obligations)	2B.7	5.829	94.506	100.335
Local authority and Cumulo rates	2B.8	1.959	13.196	15.155
Total base operating expenditure	**2B.9**	**21.340**	**173.451**	**194.791**
Other operating expenditure				
Enhancement operating expenditure	2B.10	0.374	8.490	8.864
Developer services operating expenditure	2B.11	–	12.218	12.218
Total operating expenditure excluding third party services	2B.12	21.714	194.159	215.873
Third party services	2B.13	–	2.502	2.502
Total operating expenditure	**2B.14**	**21.714**	**196.661**	**218.375**
Grants and contributions				
Grants and contributions – operating expenditure	2B.15	–	8.822	8.822
Capital expenditure				
Base capital expenditure	2B.16	1.412	50.980	52.392
Enhancement capital expenditure	2B.17	4.143	46.417	50.561
Developer services capital expenditure	2B.18	1.837	12.777	14.614
Total gross capital expenditure (excluding third party)	2B.19	7.392	110.174	117.566
Third party services	2B.20	–	1.811	1.811
Total gross capital expenditure	**2B.21**	**7.392**	**111.985**	**119.378**
Grants and contributions				
Grants and contributions – capital expenditure	2B.22	1.985	4.972	6.957
Net totex	**2B.23**	**27.121**	**294.851**	**321.973**
Cash expenditure				
Pension deficit recovery payments	2B.24	0.129	1.302	1.431
Other cash items	2B.25	(0.110)	(1.103)	(1.213)
Totex including cash items	**2B.26**	**27.140**	**295.050**	**322.191**

Table 2B above shows our total wholesale expenditure in 2022/23 is split across Water resources and Water network+, after deducting for grants and contributions received. For analysis of the totex compared to our allowed expenditure, please see table 4C. For a breakdown of base capital expenditure, enhancement capital expenditure and developer services capital expenditure, see tables 4J, 4L and 4N respectively.

2C – Cost analysis for the 12 months ended 31 March 2023 – retail

	RAG4 reference	Residential £m
Operating expenditure		
Customer services	2C.1	7.085
Debt management	2C.2	2.147
Doubtful debts	2C.3	11.199
Meter reading	2C.4	1.685
Services to developers	2C.5	–
Other operating expenditure	2C.6	9.042
Local authority and Cumulo rates	2C.7	0.234
Total operating expenditure excluding third party services	**2C.8**	**31.392**
Depreciation		
Depreciation (tangible fixed assets) on assets existing at 31 March 2015	2C.9	–
Depreciation (tangible fixed assets) on assets acquired after 1 April 2015	2C.10	–
Amortisation (intangible fixed assets) on assets existing at 31 March 2015	2C.11	–
Amortisation (intangible fixed assets) on assets acquired after 1 April 2015	2C.12	0.337
Recharges		
Recharge from wholesale for legacy assets principally used by wholesale (assets existing at 31 March 2015)	2C.13	–
Income from wholesale for legacy assets principally used by retail (assets existing at 31 March 2015)	2C.14	–
Recharge from wholesale assets acquired after 1 April 2015 principally used by wholesale	2C.15	(0.199)
Income from wholesale assets acquired after 1 April 2015 principally used by retail	2C.16	–
Net recharges costs	2C.17	(0.199)
Total retail costs excluding third party and pension deficit repair costs	2C.18	31.529
Third party services operating expenditure	2C.19	–
Pension deficit repair costs	2C.20	0.169
Total retail costs including third party and pension deficit repair costs	2C.21	31.699
Debt written off		
Debt written off	2C.22	7.362
Capital expenditure		
Capital expenditure	2C.23	1.922
Other operating expenditure includes the net retail expenditure for the following household retail activities which are part funded by wholesale		
Demand-side water efficiency – gross expenditure	2C.24	6.739
Demand-side water efficiency – expenditure funded by wholesale	2C.25	6.739
Demand-side water efficiency – net retail expenditure	2C.26	–
Customer-side leak repairs – gross expenditure	2C.27	0.989
Customer-side leak repairs – expenditure funded by wholesale	2C.28	–
Customer-side leak repairs – net retail expenditure	2C.29	0.989
Comparison of actual and allowed expenditure		
Cumulative actual retail expenditure to reporting year end	2C.30	96.345
Cumulative allowed expenditure to reporting year end	2C.31	89.022
Total allowed expenditure 2020–25	**2C.32**	**176.547**

Total retail costs including third party and pension deficit repair costs were £31,699,000 in 2022/23 against allowed expenditure of £28,410,000 in current year prices, resulting in an overspend in 2022/23 of £3,289,000. This was primarily due to the additional bad debt costs as a result of the ongoing cost of living crisis offset by some cost efficiencies being made. Allowed revenue for the year was £26,319,000 as per table 2F, resulting in an overspend to revenue of £5,380,000.

Section 2 – Price review and other segmental reporting continued

2D – Historic cost analysis of tangible fixed assets at 31 March 2023

	RAG4 reference	Residential retail £m	Water resources £m	Water Network+ £m	Total £m
Cost					
At 1 April 2022	2D.1	5.740	156.136	2,357.130	2,519.006
Disposals	2D.2	–	(0.330)	(1.352)	(1.682)
Additions	2D.3	–	7.392	108.608	116.000
Adjustments	2D.4	–	–	–	–
Assets adopted at nil cost	2D.5	–	–	–	–
At 31 March 2023	**2D.6**	**5.740**	**163.198**	**2,464.386**	**2,633.324**
Depreciation					
At 1 April 2022	2D.7	(1.028)	(22.153)	(870.814)	(893.995)
Disposals	2D.8	–	0.034	0.741	0.774
Adjustments	2D.9	–	–	–	–
Charge for the year	2D.10	–	(8.373)	(66.025)	(74.398)
At 31 March 2023	2D.11	(1.028)	(30.492)	(936.098)	(967.619)
Net book amount at 31 March 2023	2D.12	4.712	132.706	1,528.288	1,665.706
Net book amount at 1 April 2022	2D.13	4.712	133.983	1,486.316	1,625.011
Depreciation charge for year					
Principal services	2D.14	–	(8.373)	(66.025)	(74.398)
Third party services	2D.15	–	–	–	–
Total	**2D.16**	**–**	**(8.373)**	**(66.025)**	**(74.398)**

The net book value includes £138,599,000 in respect of assets in the course of construction.

Capital expenditure in 2022/23 was incurred principally in addressing raw water deterioration, supply and demand balance improvements, water treatment, metering programmes, leakage infrastructure, storage and mains renewals. Water resources additions in 2022/23 largely relate to spend on our strategic regional water resources, ecological improvements at abstractions and investigations.

2E – Analysis of 'grants and contributions' for the 12 months ended 31 March 2023 – water resources, water network+ and wastewater network+

	RAG4 reference	Fully recognised in income statement £m	Capitalised and amortised (in income statement) £m	Fully netted off capex £m	Total £m
Grants and contributions – water resources					
Diversions – s185	2E.1	–	–	–	–
Other contributions (price control)	2E.2	–	–	–	–
Price control grants and contributions	2E.3	–	–	–	–
Diversions – New Roads and Street Works Act 'NRSWA'	2E.4	–	–	–	–
Diversions – other non-price control	2E.5	–	1.953	–	1.953
Other contributions (non-price control)	2E.6	–	0.032	–	0.032
Total	**2E.7**	**–**	**1.985**	**–**	**1.985**
Value of adopted assets	2E.8	–	–	–	–
Grants and contributions – water network+					
Connection charges	2E.9	8.822	–	–	8.822
Infrastructure charge receipts – new connections	2E.10	–	4.194	–	4.194
Requisitioned mains	2E.11	–	0.429	–	0.429
Diversions – s185	2E.12	–	1.553	–	1.553
Other contributions (price control)	2E.13	–	–	–	–
Price control grants and contributions before deduction of income offset	2E.14	8.822	6.176	–	14.999
Income offset	2E.15	–	2.871	–	2.871
Price control grants and contributions after deduction of income offset	2E.16	8.822	3.305	–	12.127
Diversions – NRSWA	2E.17	–	0.177	–	0.177
Diversions – other non-price control	2E.18	–	1.491	–	1.491
Other contributions (non-price control)	2E.19	–	–	–	–
Total	**2E.20**	**8.822**	**4.972**	**–**	**13.795**
Value of adopted assets	2E.21	–	–	–	–

£3,444,000 of payments received in 2022/23 for costs incurred in relation to the HS2 rail programme are included in the diversions – other non-price control lines in the above table, with £1,953,000 included within Water Resources and £1,491,000 included within Water Network+.

	RAG4 reference	Water resources	Water network+	Total £m
Movements in capitalised grants and contributions				
Brought forward	2E.34	87.076	179.968	267.044
Capitalised in year	2E.35	1.985	4.972	6.957
Amortisation (in income statement)	2E.36	(1.126)	(2.493)	(3.619)
Carried forward	**2E.37**	**87.935**	**182.447**	**270.382**

Section 2 – Price review and other segmental reporting continued

2F – Residential retail for the 12 months ended 31 March 2023

	RAG4 reference	Revenue £m	Number of customers 000s	Average residential revenues £
Residential revenue				
Wholesale charges	2F.1	231.943		
Retail revenue	2F.2	26.948		
Total residential revenue	**2F.3**	**258.891**		
Retail revenue				
Revenue Recovered	2F.4	26.948		
Revenue sacrifice	2F.5	–		
Actual revenue (net)	2F.6	26.948		
Customer information				
Actual customers	2F.7		1,435.747	
Reforecast customers	2F.8		1,446.789	
Adjustment				
Allowed revenue	2F.9	26.319		
Net adjustment	2F.10	(0.629)		
Other residential information				
Average residential retail revenue per customer	2F.11			18.769

Total average residential retail revenue per customer has decreased from £20.50 in the prior year to £18.769 in the current year. This is primarily due to the ODI penalties for C-MeX being included in the residential revenue this year as a part of the tariff.

A number of customers have moved onto measured tariffs from unmeasured as part of our Water Savings Programme.

2I – Revenue analysis for the 12 months ended 31 March 2023

	RAG4 reference	Household £m	Non-household £m	Total £m	Water resources £m	Water network+ £m	Total £m
Wholesale charge – water							
Unmeasured	2I.1	90.153	2.706	92.859	16.370	76.489	92.859
Measured	2I.2	141.790	51.322	193.112	34.044	159.068	193.112
Third party revenue	2I.3	–	–	–	–	–	–
Total wholesale water revenue	2I.4	231.943	54.028	285.971			
Wholesale total	**2I.16**	**231.943**	**54.028**	**285.971**	**50.414**	**235.557**	**285.971**
Retail revenue							
Unmeasured	2I.17	7.815	–	7.815			
Measured	2I.18	19.133	–	19.133			
Retail third party revenue	2I.19	–	–	–			
Total retail revenue	**2I.20**	**26.948**	**–**	**26.948**			
Third party revenue – non-price control							
Bulk supplies – water	2I.21			2.400			
Other third-party revenue – non-price control	2I.23			–			
Principal services – non-price control							
Other appointed revenue	2I.24			–			
Total appointed revenue	**2I.25**			**315.319**			

2J – Infrastructure network reinforcement costs for the 12 months ended 31 March 2023

	RAG4 reference	Network reinforcement capex £m	On site/ site specific capex (memo only) £m
Wholesale water network+ (treated water distribution)			
Distribution and trunk mains	2J.1	3.322	–
Pumping and storage facilities	2J.2	0.108	–
Other	2J.3	–	–
Total	**2J.4**	**3.430**	**–**

2K – Infrastructure charges reconciliation for the 12 months ended 31 March 2023

	RAG4 reference	Total £m
Impact of infrastructure charge discounts		
Infrastructure charges	2K.1	4.194
Discounts applied to infrastructure charges	2K.2	–
Gross infrastructure charges	2K.3	
Comparison of revenue and costs		4.194
Variance brought forward	2K.4	(5.334)
Revenue	2K.5	4.194
Costs	2K.6	(3.430)
Variance carried forward	**2K.7**	**(4.569)**

In the first two years of the AMP, costs were significantly higher than the revenue collected. In 2022/23 this trend started to reverse and revenue collected was higher than the costs due to the timing of expenditure and revenue receipts. We anticipate that we will see higher connections activity and infrastructure charges over the remainder of the AMP.

No discounts have been applied to infrastructure charges during 2022/23 that would require presentation in the above table. The company's policy is to apply a discount if the new connection was a reconnection and had been disconnected within the past five years.

2L – Analysis of land sales for the 12 months ended 31 March 2023

	RAG4 reference	Water resources £m	Water network+ £m	Total £m
Land sales – proceeds from disposals of protected land	**2L.1**	**–**	**0.535**	**0.535**

Proceeds from disposals of protected land are shared with customers on a 50% sharing basis. The land sales relate to the disposal of one property, with gross proceeds £545,000 and selling costs of £10,000. This sale was not reported to Ofwat under licence condition K as it was sold to an external party and was below the licence condition K materiality threshold of £1,000,000.

Section 2 – Price review and other segmental reporting continued

2M – Revenue reconciliation for the 12 months ended 31 March 2023 – wholesale

	RAG4 reference	Water resources £m	Water network+ £m	Total £m
Revenue recognised				
Wholesale revenue governed by price control	2M.1	50.414	235.557	285.971
Grants and contributions (price control)	2M.2	–	12.127	12.127
Total revenue governed by wholesale price control	**2M.3**	**50.414**	**247.684**	**298.098**
Calculation of the revenue cap				
Allowed wholesale revenue before adjustments (or modified by Competition and Markets Authority ('CMA'))	2M.4	48.117	224.821	272.938
Allowed grants and contributions before adjustments (or modified by CMA)	2M.5	–	17.855	17.855
Revenue adjustment	2M.6	0.439	6.844	7.283
Other adjustments	2M.7	–	–	–
Revenue cap	**2M.8**	**48.556**	**249.520**	**298.076**
Calculation of the revenue imbalance				
Revenue cap	2M.9	48.556	249.520	298.076
Revenue Recovered	2M.10	50.414	247.684	298.098
Revenue imbalance	**2M.11**	**(1.858)**	**1.836**	**(0.022)**

The variance between allowed and actual revenue under the wholesale price control relates to higher household revenue, higher non-household revenue and lower grants and contributions.

Higher-than-anticipated levels of measured household consumption, driven by enduring changes in post-lockdown behaviours and consumption trends, has driven household revenue up by £3.6m. Additionally, the company has been implementing a metering programme which is moving customers from an unmeasured to a measured tariff, encouraging a reduction in consumption in line with our drive for a reduction in PCC but allowing the company to bill for actual water used. Actual customer numbers are slightly above forecast at 1,435,747 compared to a reforecast of 1,427,474 used when setting the tariff for 2022/23 in the prior year.

Additionally, final settlement runs for non-household income relating to early in the Covid-19 pandemic have been higher than our estimations and have unwound in the year resulting in additional revenue recognised of £3.1m.

There has been £5.7m lower grants and contributions received than allowed in the determination due to a slow down in new connections activity as a result of Covid-19. The actual number of new connections completed in the year was 5,932 as per table 4Q.3 against a forecast of 16,986 set at PR19.

2N – Residential retail – social tariffs

	RAG4 reference	Revenue £m	Number of customers 000s	Average amount per customer £
Number of residential customers on social tariffs				
Residential water only social tariffs customers	2N.1		91.914	
Residential wastewater only social tariffs customers	2N.2		–	
Residential dual service social tariffs customers	2N.3		–	
Number of residential customers not on social tariffs				
Residential water only no social tariffs customers	2N.4		1,343.833	
Residential wastewater only no social tariffs customers	2N.5		–	
Residential dual service no social tariffs customers	2N.6		–	
Social tariff discount				
Average discount per water only social tariffs customer	2N.7			73.119
Social tariff cross-subsidy – residential customers				
Total customer-funded cross-subsidies for water only social tariffs customers	2N.10	6.721		
Average customer-funded cross-subsidy per water only social tariffs customer	2N.13			4.681
Social tariff cross-subsidy – company				
Total revenue forgone by company to fund cross-subsidies for water only social tariffs customers	2N.16	–		
Average revenue forgone by company to fund cross-subsidy per water only social tariffs customer	2N.19			–
Social tariff support – willingness to pay				
Level of support for social tariff customers reflected in business plan	2N.22			5.044
Maximum contribution to social tariffs supported by customer engagement	2N.23			5.044

During 2022/23, we have been proactive in providing more support for vulnerable customers. We consistently communicate the availability of this support through our own channels and partnerships with esteemed organisations such as Citizen Advice Bureau, Step Change, and Turn 2 Us, ensuring that individuals are well-informed about the assistance we provide.

As at 31 March 2023, we were supporting more than 91,000 households in our region with social tariffs.

Section 2 – Price review and other segmental reporting continued

2O – Historic cost analysis of intangible fixed assets

	RAG4 reference	Retail residential £m	Water resources £m	Water Network+ £m	Total £m
Cost					
At 1 April 2022	2O.1	12.676	4.632	93.213	110.521
Disposals	2O.2	–	–	–	–
Additions	2O.3	1.922	–	3.377	5.299
Adjustments	2O.4	–	–	–	–
Assets adopted at nil cost	2O.5	–	–	–	–
At 31 March 2023	2O.6	14.598	4.632	96.590	115.820
Amortisation					
At 1 April 2022	2O.7	(6.184)	–	(61.071)	(67.255)
Disposals	2O.8	–	–	–	–
Adjustments	2O.9	–	–	–	–
Charge for the year	2O.10	(0.337)	–	(5.617)	(5.954)
At 31 March 2023	**2O.11**	**(6.521)**	**–**	**(66.688)**	**(73.209)**
Net book amount at 31 March 2023	**2O.12**	**8.077**	**4.632**	**29.902**	**42.611**
Net book amount at 1 April 2022	2O.13	6.492	4.632	32.142	43.266
Amortisation for year					
Principal services	2O.14	(0.337)	–	(5.617)	(5.954)
Third party services	2O.15	–	–	–	–
Total	**2O.16**	**(0.337)**	**–**	**(5.617)**	**(5.954)**

Included in the additions above is £14,419,000 of capitalised intangible assets under construction, which is not amortised.

Expenditure in 2022/23 related primarily to computer software development costs.

Section 3 – Performance summary

3A – Outcome performance – Water common performance commitments

	Unique reference	RAG4 reference	Unit	Decimal places	Performance level – actual	PCL met?	Outperformance or under-performance payment £m	Forecast of total 2020–25 outperformance or under-performance payment £m
Financial								
Water quality compliance (CRI)	PR19AFW_W-A1	3A.1	number	2	1.09	No	0.000	(0.501)
Water supply interruptions	PR19AFW_W-D1	3A.2	hh:mm:ss	N/A	00:12:53	No	(3.741)	(2.041)
Leakage	PR19AFW_W-B1	3A.3	%	1	15.8	Yes	0.439	0.673
Per capita consumption	PR19AFW_R-B1	3A.4	%	1	-4.3	No	0.000	(19.185)
Mains repairs	PR19AFW_W-D4	3A.5	number	1	169.6	No	(2.610)	(3.537)
Unplanned outage	PR19AFW_W-D3	3A.6	%	2	2.09	Yes	0.000	0.000
Bespoke PCs – Water and Retail (Financial)								
Environmental innovation – delivery of community projects	PR19AFW_W-B2	3A.7	Nr	N/A	6	Yes	0.858	2.002
Reducing the total number of void properties by identifying false voids	PR19AFW_R-C4	3A.8	%	2	2.02	Yes	0.245	0.318
River restoration	PR19AFW_W-B3	3A.9	Nr	N/A	23	Yes	0.035	0.139
Abstraction reduction	PR19AFW_W-B4	3A.10	Nr	2	0	Yes	0.000	0.000
Number of sources operating under the Abstraction Incentive Mechanism	PR19AFW_W-B5	3A.11	Nr	N/A	-1,277.03	Yes	0.120	0.189
Properties at risk of receiving low pressure	PR19AFW_W-D5b	3A.12	Nr	3	150.934	No	(0.938)	(4.690)
Number of occupied properties not billed (Gap sites)	PR19AFW_W-C2	3A.13	Nr	N/A	65	Yes	0.000	0.000
Unplanned interruptions to supply over 12 hours	PR19AFW_W-N1	3A.14	Nr	N/A	6070	No	(0.794)	(2.724)
Customer contacts per 1,000 population for Water Quality (taste, odour and appearance)	PR19AFW_W-N2	3A.15	nr	2	0.56	Yes	0.000	(0.490)
Financial water performance commitments achieved		3A.27	%			60		
Overall performance commitments achieved (excluding C-MeX and D-MeX)		3A.28	%			71		

Section 3 – Performance summary continued

As part of our PR19 final determination for AMP7 we committed to 28 stretching performance commitments that would ensure we deliver our four customer outcomes. Each of these has financial rewards, penalties, or can impact us reputationally. Table 3A shows our financial performance commitments and table 3E shows our reputational commitments.

We have met 20 of our 28 performance commitments of which 9 are financial and 11 are reputational.

Table 3A shows we have received rewards totalling £1.696m during 2022/23 for leakage, environmental innovation, reducing the total number of void properties, river restoration and number of sources operating under the AIM. We have received penalties totalling £8.084m for our performance on water supply interruptions, mains repairs, properties at risk of receiving low pressure and unplanned interruptions to supply over 12 hours. This resulted in a net penalty of £ 6.387m which will form part of the revenue adjustment mechanism in two years' time.

More details of our performance of each of these metrics can be found in our non-financial line commentary published on our website at **affinitywater.co.uk/reports-publications**, with a high-level summary below.

Water quality compliance (CRI)

CRI is a calendar year metric. Whilst we did not achieve the performance commitment level (PCL) of 0.00 in 2022, our score 1.09 was well within the deadband of 2.00 and consistent with our performance over the first two years of AMP7. We remain in the upper quartile of companies. We work hard to understand its drivers, and our ambition to be a leading company is essential to informing and developing our continuing improvement plans.

Our continuing improvement programme focuses on issues that can affect CRI, such as reservoir inspections, sample lines, site hygiene and staff awareness. We continue to improve in these areas.

Water supply interruptions

Interruptions to supply have improved significantly in line with the action plans set out in our PR19 Business Plan. Since 2017/18, where over 32 minutes were reported, our average interruptions have steadily reduced year on year. In 2021/22 we achieved our best ever performance of 3 minutes, 43 seconds placing us 5th in the industry.

We are aware that external factors such as weather and third-party interactions can have a significant effect on this metric with the ability of one large incident to 'blow the target'. This has been particularly highlighted with the extreme summer and winter weather this year. The freeze/thaw event in the two weeks before Christmas added over 8 minutes to our performance. This is over twice the interruption time seen for the rest of the year. Had the freeze/thaw not occurred, we would have maintained our performance trend in line with the prior years' performance and achieved the reducing target for the year. Despite this year's performance we are committed to achieving and maintaining upper quartile performance as we progress through this AMP and into the next.

Leakage

In AMP7 we committed to reducing leakage by 20% as set out in our WRMP. This commitment followed a 15% reduction in AMP6. We understood that a step change in our approach was needed to meet this target and at the outset this would be a challenge. We identified we would need a glide-path reduction to achieve 20% by the end of 2025 and that the initial two years would be particularly difficult.

Reductions have been achieved through a mix of leakage control activities and increasing resources to identify and improve our agility in responding to and reducing the run time of leaks on our network.

Our plans were not sufficient to achieve the first two years' target, with a 1.9% and 10.8% reduction against the required 2.7% and 11.1%, however, they set us up to have the resources to meet the target in 2022/23. Despite the significant outbreaks in leaks and bursts through the winter in 2022/23, we have achieved our leakage target for 2022/23 and expect these reductions to continue to the end of the AMP.

Per capita consumption

As PCC is a measure of customers' consumption in the home, performance across the industry against this metric has been adversely affected by Covid-19. Lockdown occurred during the hottest weather of 2020, combined with a significant number of people either on furlough, working from home or at home because of school closures resulted in a significant increase in household demand.

The pandemic has changed the way of working for a significant proportion of our customer base and this looks set to continue into the future. While a portion of the Covid-19 effect has reduced, significant numbers of our customers continue to work from home and live a 'new normal'. PCC has remained high throughout and working arrangements have not (and likely will not) return to pre-pandemic levels.

The prolonged hot summer of 2022 saw PCC rates increase significantly with demand increases against prior year.

Despite not meeting the first three years' performance commitment, we have made reductions each year from a Covid-19 equivalent baseline and aim to be the top company at reducing PCC across the industry. We understand that reducing customer consumption is important for both the environment and our future supplies and we have invested significant resources into education and campaigns to encourage reductions in water usage. We are working to achieve the overall commitment reduction by the end of year five, which, as it stands, includes the Covid-19 increases seen over the period and are doing all we can to make this a reality.

Mains repairs

Mains repairs have been reported for a considerable number of years and it is clear performance is significantly affected by weather variations, both dry summers and freezing winters.

Our performance failure in 2020/21 was the result of two prolonged periods of sub-zero temperatures in the January and February causing a significant increase in the number of mains repairs. 2021/22 saw us achieve our best ever performance in this metric, aided by benign weather conditions in both summer and winter.

Our performance in 2022/23 was significantly impacted by a prolonged hot summer and an extreme winter freeze/thaw event. Bursts numbers in the two weeks before Christmas exceeded those seen during the 'beast from the East' in 2018.

While significant work has been conducted in relation to network calming and reducing network volatility, the impacts felt by weather in an individual year may well exceed improvements made in underlying performance. Normalising for weather, reductions in the number of mains repairs has been achieved by reducing high night-time pressures and reducing the volatility and occurrences of surges within the network. We have continued to focus on these areas of improvement throughout the AMP7 period.

Unplanned outage

We have achieved our unplanned outage target for the first three years of the AMP. Outage measures are a measurement of asset health and we have spent considerable effort in improving the reporting and capture of this data. While we use unplanned outage information to inform our capital investment and capital maintenance, it is equally important in understanding how our sites are maintained and operated on a day-to-day basis. Managing unplanned outages allows us to keep disruption to our customers to a minimum.

Industry-wide, our unplanned outage percentage performance was above average in 2021/22. With continued improvements planned we believe our performance will increase against other companies in the industry and we will benefit from a greater understanding of the cause and effect of these outages and the ability to plan to mitigate against their impacts in the future.

Section 3 – Performance summary continued

3C – Customer measure of experience (C-MeX) table

Item	Rag 4 reference	Unit	Value
Annual customer satisfaction score for the customer service survey	3C.1	Number	70.24
Annual customer satisfaction score for the customer experience survey	3C.2	Number	78.95
Annual C-MeX score	3C.3	Number	74.59
	3C.4		
Annual net promoter score	3C.5	Number	11.00
Total household complaints	3C.6	Number	4,565
Total connected household properties	3C.7	Number	1,497,146
Total household complaints per 10,000 connections	3C.8	Number	30.491
Confirmation of communication channels offered	3C.1	TRUE or FALSE	TRUE

We aspire to become one of the leading water companies in the service we provide to our customers. We know we have a long way to go to achieve this and are doing all we can to improve our performance and give our customers greater confidence in our abilities and services. However, as C-MeX is a comparative measure, our 'league-table' position is also dependent upon the performance improvements that other companies make. Through network events and engaging with customers, we know that keeping customers informed and doing what we say we will do is of upmost concern. We have continued to work on training our staff to listen and resolve queries at the first point of contact.

Despite significant investment in training, improving processes and engagement, we are disappointed that these improvements have been slow to manifest into changes in survey scores. The overall score moved from 15th to 14th position between 2020/21 and 2021/22 and remained at 14th position in 2022/23. While we are seeing positive movement in our customer experience scores, we recognise that overall satisfaction is still lagging behind the industry.

More details can be found in our non-financial line commentary published on our website at **affinitywater.co.uk/reports-publications**.

3D – Developer services measure of experience (D-MeX) table

Item	RAG 4 reference	Unit	Value
Qualitative component annual results	3D.1	Number	72.75
Quantitative component annual results	3D.2	Number	99.97
D-MeX score	3D.3	Number	86.36
Developer services revenue (water)	3D.4	£m	10.80

Water UK performance metric	RAG 4 reference	Unit	Reporting period (1 April to 31 March)	Quantitative score (annual)
W1.1 Pre-Development Enquiry	3D.W1	%	100.00%	
W3.1 S45 Quotations	3D.W2	%	99.98%	
W4.1 S45 Service Pipe Connections	3D.W3	%	99.47%	
W6.1 Mains Design <500 Plots	3D.W4	%	100.00%	
W7.1 Mains Design >500 Plots	3D.W5	%	100.00%	
W8.1 Mains Construction	3D.W6	%	100.00%	
W17.1 Mains Diversions Quotations	3D.W7	%	100.00%	
W18.1 Mains Diversions Construction	3D.W8	%	100.00%	
W27.1 Self Lay Permanent Water Supply	3D.W9	%	100.00%	
W30.1 Self Lay Plot Reference and Costing Details	3D.W10	%	100.00%	
WN1.1 Confirmations Issued to the Applicant	3D.W11	%	100.00%	
WN2.2 Bulk Supply Offer Letters Issued	3D.W12	%	100.00%	
WN4.1 Mains Laying Schemes Constructed & Commissioned	3D.W13	%	100.00%	
SLPM-S1/2 Review PoC Proposal	3D.W14	%	100.00%	
SLPM-S2/2a Provide Design	3D.W15	%	100.00%	
SLPM-S2/2b Water Company to provide Design Acceptance	3D.W16	%	100.00%	
SLPM-S3 Review/Revise Water Adoption Agreement	3D.W17	%	100.00%	
SLPM-S4/1 Source of Water Delivery Date	3D.W18	%	100.00%	
SLPM-S5/1a Review Request and Carry Out Final Connection	3D.W19	%	100.00%	
SLPM-S7/1 Validate Notification & Provide Consent	3D.W20	%	100.00%	
D-MeX quantitative score (for the relevant reporting period)	3D.6, 3D.7	%	99.97%	
D-MeX quantitative score (annual)	3D.8	Number		1.00

Although we saw our D-MeX score increase from 2021/22, we are disappointed to achieve a 2022/23 full year industry league table position of tenth. We aspire to become one of the leading water companies when it comes to the service we provide our customers through Developer Services.

More details can be found in our non-financial line commentary published on our website at **affinitywater.co.uk/reports-publications**.

Section 3 – Performance summary continued

3E – Outcome performance – Non-financial performance commitments

	Rag 4 reference	Unique reference	Unit	Decimal places	Performance level – actual	PCL met?
Common						
Risk of severe restrictions in a drought	3E.1	PR19AFW_W-D2	%	1	67.7	No
Priority services for customers in vulnerable circumstances – PSR reach	3E.2	PR19AFW_R-N3	%	1	8.3	Yes
Priority services for customers in vulnerable circumstances – Attempted contacts	3E.3	PR19AFW_R-N3	%	1	98.2	Yes
Priority services for customers in vulnerable circumstances – Actual contacts	3E.4	PR19AFW_R-N3	%	1	55.5	Yes
Bespoke PCs						
Average time properties experience low pressure	3E.6	PR19AFW_W-D5a	Nr	0	02:33:26	Yes
Customers in vulnerable circumstances satisfied with our service (receiving financial help)	3E.7	PR19AFW_R-C2	%	0	93	Yes
Customers in vulnerable circumstances who found us easy to deal with (receiving financial help)	3E.8	PR19AFW_R-C3	%	0	92	Yes
BSI accreditation	3E.9	PR19AFW_R-N4	text	0	Achieved	Yes
IT resilience	3E.10	PR19AFW_R-N6	Nr	0	731	Yes
Customers in vulnerable circumstances satisfied with our service (not receiving financial help)	3E.11	PR19AFW_R-N7	%	0	92	Yes
Customers in vulnerable circumstances who found us easy to deal with (not receiving financial help)	3E.12	PR19AFW_R-N8	%	0	90	Yes
Value for Money Survey	3E.13	PR19AFW_R-N9	Nr	2	7.34	No
WINEP Delivery	3E.14	PR19AFW_NEP01	text	0	Met	Yes
Non-financial performance commitments achieved	3E.29		%		85	

We have not met our targets for risk of severe restrictions in a drought or our Value for Money Survey, which have reputational implications.

As part of our PR19 final determination for AMP7 we committed to 28 stretching performance commitments that would ensure we deliver our four customer outcomes. Each of these have financial rewards, penalties, or impact us reputationally. Table 3E shows our reputational commitments.

More details of our performance of each of these metrics can be found in our non-financial line commentary published on our website at **affinitywater.co.uk/reports-publications**, including the methodology and basis of the calculation.

3F – Underlying calculations for common performance commitments – water and retail

Performance commitments set in standardised units – Water	Unit	Standardising data indicator	Standardising data numerical value	Performance level – Actual (current reporting year)	Performance level – calculated (i.e. standardised)
Mains repairs – Reactive	Mains repairs per 1000km	Mains length in km	16,969.15	2,296	135.30
Mains repairs – Proactive	Mains repairs per 1000km	Mains length in km	16,969.15	582.00	34.30
Mains repairs	Mains repairs per 1000km	Mains length in km	16,969.15	2,878.00	169.60
Per capita consumption (PCC)	lpd	Population	3896.30	612	157.00

Performance commitments measured against a calculated baseline	Unit	Performance level – actual (2017/18)	Performance level – actual (2018/19)	Performance level – actual (2019/20)	Baseline	Performance level – actual (2020/21)	Performance level – actual (2021/22)	Performance level – actual (2022/23)	Performance level 3-year average	Calculated performance level to compare against PCLs
Leakage	Ml/d	178.7	203.9	178.7	187.1	167.9	154.3	150.7	157.6	15.8
Per capita consumption (PCC)	lpd	151.0	158.3	152.8	154.0	167.0	157.9	157.0	160.6	-4.3

Water supply interruptions	Unit	Standardising data indicator	Standardising data numerical value	Performance level – actual number of minutes lost	Number of properties supply interrupted	Calculated performance level
Water supply interruptions	Average number of minutes lost per property per year	Number of properties	1,568.90	20,200,008	336,666.81	00:12:53

Unplanned or planned outage	Current company level peak week production capacity (PWPC) Ml/d	Reduction in company level PWPC Ml/d	Outage proportion of PWPC %
Unplanned outage	1,209.54	25.29	2.09%

Priority services for customers in vulnerable circumstances	Total residential properties	Total number of households on the PSR (as at 31 March)	PSR reach	Total number of households on the PSR over a 2-year period	Number of attempted contacts	Attempted contacts %	Number of actual contacts	Actual contacts %
Priority services for customers in vulnerable circumstances	1,443.07	120,261	8.3%	58,226	57,157	98.2%	32,326	55.5%

Section 3 – Performance summary continued

3H – Summary information on outcome delivery incentive payments

	RAG 4 reference	Initial calculation of performance payments (excluding C-MeX and D-MeX) £m (2017/18 prices)
Initial calculation of in-period revenue adjustment by price control		
Water resources	3H.1	1.01
Water network plus	3H.2	(7.64)
Residential retail	3H.5	0.24
Initial calculation of end of period revenue adjustment by price control		
Water resources	3H.8	(1.54)
Water network plus	3H.9	(3.60)
Residential retail	3H.12	–
Initial calculation of end of period RCV adjustment by price control		
Water resources	3H.15	–
Water network plus	3H.16	–
Residential retail	3H.9	–

3I – Supplementary outcomes information

Unplanned or planned outage	RAG 4 reference	Current company level peak week production capacity (PWPC) Ml/d	Reduction in company level PWPC Ml/d	Outage proportion of PWPC %
Planned outage	3I.1	1,209.54	60.20	4.98%

Risk of severe restrictions in drought		Deployable output	Outage allowance	Dry year demand	Target headroom	Total population supplied	Customers at risk
Risk of severe restrictions in drought	3I.2	978.70	38.57	959.01	63.00	3,913,124	2,859,832

Section 4 – Additional regulatory information – service level

Accounting separation policy

Tables 4B, 4C, 4D, 4F, 4J, 4L, 4N, 5B, 6D and 9A within sections 4, 5, 6 and 9 have been prepared in accordance with the company's Accounting Separation Methodology Statement, which can be found on the company's website: affinitywater.co.uk/reports-publications. The methodology statement explains the basis for the allocations of costs and assets and has been updated for changes to the requirements in 2022/23. Changes to the methodology are also explained within the company's Accounting Separation Methodology Statement on the company's website. Wherever possible, direct costs and assets have been directly attributed to business units. Where this is not possible, appropriate cost allocations have been applied and assets have been allocated to business units based on an assessment of the principal user, as described in the methodology.

Details on our non-financial reporting methodology in sections 4 to 9 include assumptions made in producing our non-financial numbers and further explanation where necessary.

Table 4B has not been included within the Annual Performance Report 2022/23 due to its size as permitted by RAG 3.14 but has still been submitted to Ofwat.

Tables and sections relating to wastewater and bioresources have been omitted from this publication as they are not relevant to the company.

Section 4 – Additional regulatory information – service level continued

4A – Water bulk supply information for the 12 months ended 31 March 2023

	RAG4 reference	Volume Ml	Operating costs £m	Revenue £m
Bulk supply exports				
Anglian Water – Chalton	4A.1	42.339	0.010	–
South East Water – Egham	4A.2	6,107.221	2.999	2.019
Cambridge Water – Odsey Village	4A.3	19.393	0.002	–
SW Napchester	4A.4	8.056	0.002	–
NAV-C – Kings Langley	4A.5	6.300	0.001	0.006
NAV-C – Wilton Park	4A.6	19.984	0.005	0.021
NAV-3 – Bidwell	4A.7	139.284	0.032	0.141
NAV-3 – Bidwell Parcel B	4A.8	8.923	0.002	–
NAV-3 – Bidwell Bedford Road	4A.9	0.026	–	–
NAV-3 – Barnfield Avenue	4A.10	3.714	0.001	0.003
NAV-4 – Nestles Avenue	4A.11	2.591	0.001	0.002
NAV-4 – Nestles Avenue 1	4A.12	0.526	–	–
NAV-5 – Silver Leys	4A.13	108.065	0.024	0.109
NAV-5 – West Road	4A.14	9.377	0.002	0.009
NAV-5 – Hadham Road	4A.15	5.919	0.001	0.006
NAV-5 – Henham Road	4A.16	0.870	–	–
NAV-6 – Canalside, Sheerwater	4A.17	0.559	–	–
NAV-6 – Manor Farm, Surrey	4A.18	0.000	–	–
NAV-7 – Martello Lakes	4A.19	24.788	0.006	0.045
NAV-7 – Archers Court	4A.20	1.590	–	0.003
NAV-7 – Archers Court 2	4A.21	6.356	0.001	–
NAV-7 – Folkstone Seafront	4A.22	0.297	–	–
NAV-8 – Long Road, Mistley	4A.23	0.00	–	–
NAV 8 – Turpins Ride, Walton On Naze	4A.24	0.00	–	–
NAV-8 – Oakwood Park	4A.25	22.056	0.005	0.036
Total bulk supply exports	**4A.26**	**6,538.234**	**3.094**	**2.400**
Bulk supply imports				
South East Water – Kingsdown	4A.27	2.684	0.003	
Thames Water – Snakey Lane	4A.28	100.609	0.063	
Anglian Water – Grafham	4A.29	20,493.860	8.246	
Thames Water – Stonebridge Park	4A.30	208.676	0.117	
Thames Water – Fortis Green	4A.31	650.835	0.623	
Thames Water – Hampstead Garden	4A.32	42.209	0.036	
Thames Water – Ladymead	4A.33	755.226	0.053	
Cambridge Water – Hadstock	4A.34	2.135	0.014	
Essex and Suffolk Water – Days Lane	4A.35	6.520	0.006	
Thames Water – Perivale	4A.36	329.418	0.586	
TWA RES RW	4A.37	2,957.043	1.500	
Total bulk supply imports	**4A.52**	**25,549.215**	**11.247**	

Bulk supply exports and imports detailed in the tables above are as per the bulk supplies register published by Ofwat for 2022/23. Bulk supply import costs of £11.247m do not include £0.423m costs of importing from Ardleigh as we are 50% owners of the site, however, these costs are included in the bulk supply/bulk discharge lines in tables 2B.4, 4J.3 and 5B.4. Where the company has not exported to, or imported from an appointee, this appointee has been excluded from the tables above.

4C – Impact of price control performance to date on RCV

	RAG4 reference	12 months ended 31 March 2023		Price control period to date	
		Water resources	Water network+	Water resources	Water network+
Totex (net of business rates, abstraction licence fees and grants and contributions)					
Final determination allowed totex (net of business rates, abstraction licence fees, grants and contributions and other items not subject to cost sharing)	4C.1	46.420	233.534	135.182	718.891
Actual totex (excluding business rates, abstraction licence fees, grants and contributions and other items not subject to cost sharing)	4C.2	17.592	269.535	66.289	792.304
Transition expenditure	4C.3	–	–	–	–
Disallowable costs	4C.4	–	5.823	(0.186)	6.398
Total actual totex (net of business rates, abstraction licence fees and grants and contributions)	4C.5	17.592	263.712	66.475	785.906
Variance	4C.6	(28.828)	30.178	(68.708)	67.015
Variance due to timing of expenditure	4C.7	(31.138)	(22.061)	(73.943)	(5.007)
Variance due to efficiency	4C.8	2.309	52.239	5.236	72.022
Customer cost sharing rate – outperformance	4C.9	53.49%	53.49%	53.49%	53.49%
Customer cost sharing rate – underperformance	4C.10	46.51%	46.51%	46.51%	46.51%
Customer share of totex overspend	4C.11	1.074	24.299	2.435	33.501
Customer share of totex underspend	4C.12	–	–	–	–
Company share of totex overspend	4C.13	1.235	27.940	2.800	38.521
Company share of totex underspend	4C.14	–	–	–	–
Totex – business rates and abstraction licence fees					
Final determination allowed totex – business rates and abstraction licence fees	4C.15	7.139	14.402	21.418	43.209
Actual totex – business rates and abstraction licence fees	4C.16	8.148	13.196	21.189	42.510
Variance – business rates and abstraction licence fees	4C.17	1.009	(1.206)	(0.229)	(0.699)
Customer cost sharing rate – business rates	4C.18	75.00%	75.00%	75.00%	75.00%
Customer cost sharing rate – abstraction licence fees	4C.19	75.00%	75.00%	75.00%	75.00%
Customer share of totex over/underspend – business rates and abstraction licence fees	4C.20	0.757	(0.905)	(0.172)	(0.524)
Company share of totex over/underspend – business rates and abstraction licence fees	4C.21	0.252	(0.302)	(0.057)	(0.175)
Totex not subject to cost sharing					
Final determination allowed totex – not subject to cost sharing	4C.22	18.745	13.998	32.454	33.872
Actual totex – not subject to cost sharing	4C.23	1.400	18.142	2.625	30.288
Variance – 100% company allocation	4C.24	(17.345)	4.144	(29.829)	(3.584)
Total customer share of totex over/underspend	**4C.25**	**1.831**	**23.394**	**2.264**	**32.976**
RCV					
Total customer share of totex over/underspend	4C.26	1.831	23.394	2.264	32.976
Pay As You Go rate	4C.27	36.148%	59.068%	36.148%	59.068%
RCV element of cumulative totex over/underspend	4C.28	1.169	9.576	1.445	13.498
Adjustment for ODI outperformance payment or underperformance payment	4C.29			–	–
Green recovery	4C.30				
RCV determined at FD at 31 March	4C.31			235.021	1,478.688
Projected 'shadow' RCV	4C.32			236.467	1,492.186

Section 4 – Additional regulatory information – service level continued

Water resources

Totex (net of business rates, abstraction licence fees and grants and contributions)

Actual totex of £17,592,000 against allowed totex of £46,420,000 resulted in an underspend in the year of £28,828,000 in water resources. This was primarily as a result of the mix of work done between water resources and water network plus assets in our capex programmes, with work on water resources assets to be completed in later years across the AMP. There was an overspend in operating expenditure of £2,309,000 driven by increased energy prices which in part was controlled by an energy hedging strategy.

Totex – business rates and abstraction licence fees

Actual totex of £8,148,000 against allowed totex of £7,139,000 resulted in an overspend in the year of £1,009,000 in water resources for business rates and abstraction licences, driven by higher abstraction charges following increased charges.

Totex not subject to cost sharing

Actual totex of £1,400,000 against allowed totex of £18,745,000 resulted in an underspend in the year of £17,345,000 in water resources. This was as a result of an underspend on our strategic regional water resources expenditure, as per table 4L.

RCV as at 31 March 2023

Our cumulative AMP7 customer share of totex overspend for water resources is £2,264,000, of which the RCV element is £1,445,000. Our projected shadow RCV as at 31 March 2023 is therefore £236,467,000 against the RCV determined as part of the final determination of £235,021,000 for water resources.

Water network plus

Totex (net of business rates, abstraction licence fees and grants and contributions)

Actual totex of £269,535,000 against allowed totex of £233,534,000 resulted in an overspend in the year of £36,001,000 in water network plus. There was an overspend in operating expenditure of £52,239,000 driven by increased energy prices and higher renewals expensed in year (infrastructure) due to the mix of renewals work completed in the year, higher bulk import costs and increased chemicals costs. This was offset by an underspend on capital works. Disallowable costs relate to bond issuance fees as well as fines and investigation costs, including streetworks fines and a tax provision, offset by other cash items as per table 4D. Higher energy costs in the year contributed to £11,978,000 of the overspend against our allowance.

Totex – business rates and abstraction licence fees

Actual totex of £13,196,000 against allowed totex of £14,402,000 resulted in a small underspend in the year of £1,206,000 in water network plus for business rates.

Totex not subject to cost sharing

Actual totex of £18,142,000 against allowed totex of £13,998,000 resulted in an overspend in the year of £4,144,000 in water network plus as a result of the tax provision disclosed as atypical in table 4D.

Disallowable costs also include GSS scheme payments and streetworks fines and are included in totex not subject to cost sharing – water network +.

RCV as at 31 March 2023

Our cumulative AMP7 customer share of totex overspend for water network plus is £32,976,000, of which the RCV element is £13,498,000. Our projected shadow RCV as at 31 March 2023 is therefore £1,492,186,000 against the RCV determined as part of the final determination of £1,723,037,000 for water network plus.

The tax provision included in base operating expenditure – atypical expenditure 4D.19 is included in table 4C in row 4C.23.

4D – Totex analysis for the 12 months ended 31 March 2023 – water resources and water network+

		Water resources	Water network+				Total
	RAG4 reference	£m	Raw water transport £m	Raw water storage £m	Water treatment £m	Treated water distribution £m	£m
Operating expenditure							
Base operating expenditure	4D.1	21.340	8.386	0.951	29.046	135.068	194.791
Enhancement operating expenditure	4D.2	0.374	0.005	0.009	0.254	8.222	8.864
Developer services operating expenditure	4D.3	–	–	–	–	12.218	12.218
Total operating expenditure excluding third party services	**4D.4**	**21.714**	**8.391**	**0.960**	**29.300**	**155.508**	**215.873**
Third party services	4D.5	–	–	–	–	2.502	2.502
Total operating expenditure	4D.6	21.714	8.391	0.960	29.300	158.010	218.375
Grants and contributions							
Grants and contributions – operating expenditure	4D.7	–	–	–	–	8.822	8.822
Capital expenditure							
Base capital expenditure	4D.8	1.412	–	–	16.661	34.318	52.392
Enhancement capital expenditure	4D.9	4.143	1.077	–	15.250	30.090	50.561
Developer services capital expenditure	4D.10	1.837	–	–	–	12.777	14.614
Total gross capital expenditure excluding third party services	**4D.11**	**7.392**	**1.077**	**–**	**31.912**	**77.186**	**117.566**
Third party services	4D.12	–	–	–	1.201	0.610	1.811
Total gross capital expenditure	4D.13	7.392	1.077	–	33.113	77.796	119.377
Grants and contributions							
Grants and contributions – capital expenditure	4D.14	1.985	–	–	–	4.972	6.957
Net totex	4D.15	27.121	9.468	0.960	62.413	222.011	321.973
Cash expenditure							
Pension deficit recovery payments	4D.16	0.129	0.020	0.011	0.215	1.056	1.431
Other cash items	4D.17	(0.110)	(0.017)	(0.009)	(0.182)	(0.895)	(1.213)
Totex including cash items	**4D.18**	**27.140**	**9.471**	**0.962**	**62.446**	**222.172**	**322.191**

		Water resources	Water network+				Total
Atypical expenditure	RAG4 reference	£m	Raw water transport £m	Raw water storage £m	Water treatment £m	Treated water distribution £m	£m
Tax provision included in base operating expenditure	4D.19	0.357	0.029	0.018	0.610	3.086	4.100
Total atypical expenditure	**4D.20**	**0.357**	**0.029**	**0.018**	**0.610**	**3.086**	**4.100**

Section 4 – Additional regulatory information – service level continued

4F – Major project expenditure for wholesale water by purpose for the 12 months ended 31 March 2023

Expenditure in report year

	RAG4 reference	Water resources £m	Water network+ Raw water transport £m	Raw water storage £m	Water treatment £m	Treated water distribution £m	Total £m
Major project capital expenditure by purpose							
Brett AMP7 investigations	4F.1	0.010	–	–	–	–	0.010
South Lincolnshire reservoir	4F.2	0.660	–	–	0.220	0.220	1.100
Anglian to Affinity transfer	4F.3	–	–	–	–	0.642	0.642
Southeast strategic reservoir	4F.4	0.188	–	–	–	–	0.188
Thames to Affinity transfer	4F.5	–	0.283	–	0.575	–	0.859
Grand Union canal transfer	4F.6	–	0.575	–	0.434	–	1.009
Minworth reuse Strategic Resource Option ('SRO')	4F.7	0.371	–	–	–	–	0.371
Capital overheads allocated to these major projects	4F.8	0.311	0.219	–	0.313	0.220	1.062
Total major project capital expenditure	**4F.11**	**1.539**	**1.077**	**–**	**1.542**	**1.082**	**5.239**

Cumulative expenditure on schemes in the report year

	RAG4 reference	Water resources £m	Water network+ Raw water transport £m	Raw water storage £m	Water treatment £m	Treated water distribution £m	Total £m
Major project capital expenditure by purpose							
Brett AMP7 investigations	4F.1	0.170	–	–	–	–	0.170
South Lincolnshire reservoir	4F.2	1.647	–	–	0.549	0.549	2.746
Anglian to Affinity transfer	4F.3	–	–	–	–	1.110	1.110
Southeast strategic reservoir	4F.4	0.948	–	–	–	–	0.948
Thames to Affinity transfer	4F.5	–	0.617	–	1.253	–	1.870
Grand Union canal transfer	4F.6	–	1.411	–	1.064	–	2.475
Minworth reuse SRO	4F.7	0.765	–	–	–	–	0.765
Capital overheads allocated to these major projects	4F.8	0.606	0.348	–	0.440	0.301	1.694
Total major project capital expenditure	**4F.11**	**4.137**	**2.376**	**–**	**3.306**	**1.960**	**11.779**

Our Strategic Regional Water Resource Programme includes six strategic resource options (SRO) and is governed by the Regulators' Alliance for Progressing Infrastructure Development (RAPID) gated process. The PR19 final determination profile does not match the expected profile for RAPID delivery, with most of the activity required in the final two years of the regulatory period. We have delivered all of our obligations on time to the required quality and have successfully passed through the gated process for all live projects. Any underspend of our SRO allowance will be returned to customers in accordance with Ofwat's PR19 FD Strategic Water Resource Solutions appendix.

Note that Brett AMP7 Investigations are included within Water Framework Directive measures in table 4L, row 4L.13.

4H – Financial metrics for the 12 months ended 31 March 2023

Financial indicators	RAG4 reference	Units	Current year	AMP to date
Net debt	4H.1	£m	1,269.188	
Regulatory equity	4H.2	£m	444.522	
Regulatory gearing	4H.3	%	74.06%	
Post tax return on regulatory equity	4H.4	%	(34.25%)	
RORE (return on regulatory equity)	4H.5	%	(1.61%)	0.05%
Dividend yield	4H.6	%	0	
Retail profit margin – Household	4H.7	%	(1.74%)	
Retail profit margin – Non-household	4H.8	%	N/A	
Credit rating – Fitch	4H.9	N/A	BBB+ (stable)	
Credit rating – Moody's	4H.10	N/A	Baa1 (stable)	
Credit rating – Standard and Poor's	4H.11	N/A	BBB+ (negative)	
Return on RCV	4H.12	%	0.50%	
Dividend cover	4H.13	dec	0	
Funds from operations ('FFO')	4H.14	£m	64.282	
Interest cover (cash)	4H.15	dec	3.41	
Adjusted interest cover (cash)	4H.16	dec	0.47	
FFO/Debt	4H.17	dec	0.05	
Effective tax rate	4H.18	%	0.95%	
Retained cash flow ('RCF')	4H.19	£m	64.282	
RCF/Net debt	4H.20	dec	0.05	
Borrowings				
Proportion of borrowings which are fixed rate	4H.21	dec	0.1395	
Proportion of borrowings which are floating rate	4H.22	dec	–	
Proportion of borrowings which are index linked	4H.23	dec	0.8605	
Proportion of borrowings due within 1 year or less	4H.24	dec	0.22%	
Proportion of borrowings due in more than 1 year but no more than 2 years	4H.25	dec	0.20%	
Proportion of borrowings due in more than 2 years but no more than 5 years	4H.26	dec	21.82%	
Proportion of borrowings due in more than 5 years but no more than 20 years	4H.27	dec	57.98%	
Proportion of borrowings due in more than 20 years	4H.28	dec	19.79%	

Movement in RORE	Current year	AMP to date
Base return	4.14%	4.09%
Variance in corporation tax	2.32%	0.45%
Totex out/(under) performance	(2.35%)	(0.35%)
Retail cost out/(under) performance	(0.48%)	(0.38%)
ODI out/(under) performance	(2.33%)	(1.37%)
Financing out/(under) performance	(2.95%)	(2.44%)
Other factors[1]	0.04%	0.05%
Regulatory return for the year	**(1.61%)**	**0.05%**

1 Other factors include exceptional items such as land sales

See commentary under table 1F for an explanation of the movement in RORE in 2022/23. The regulatory return for the year is shown in the column 'Actual returns and notional regulatory equity'.

In table 4D, we have included a "Tax provision included in base operating expenditure" for £4.1m as atypical expenditure. In table 1F, this has been included within totex out/(under) performance in the RORE calculation however as it is a disallowable cost, this has been allocated in 4C as 100% company allocation in line 4C.24.

Section 4 – Additional regulatory information – service level continued

Calculation of the interest cover ratio (4H.15) and adjusted interest cover ratio (4H.16)

Interest cover ratio (4H.15) – Funds from operations (4H.14) + Interest paid (1D.10)) / Interest paid (1D.10)

Interest cover ratio – (64.282 + 26.650) / 26.650 = 3.41

Adjusted interest cover ratio (4H.16) – (Funds from operations (4H.14) + Interest paid (1D.10) – RCV run off (per Ofwat RCV file)) / Interest paid (1D.10)

Interest cover ratio – (64.282 + 26.650 – 78.437) / 26.650 = 0.47

Reconciliation of net interest paid

	£m
Interest paid on borrowings	42.193
Interest paid on leases	0.266
Other interest paid	0.409
Gross interest paid	**42.868**
Less: interest received under swap arrangements	(16.218)
Net interest paid per 1D.10	**26.650**

Net interest paid does not include accretion of index-linked debt which is a non-cash item. Interest received on short-term investment is included within Investing activities – other (1D.16) in the statement of cash flows.

4I – Financial derivatives

		Nominal value by maturity (net) at 31 March			Total value at 31 March		Total accretion at 31 March	Interest rate	
	RAG4 reference	1 to 2 years £m	2 to 5 years £m	Over 5 years £m	Nominal value (net) £m	Mark to market £m	£m	Payable %	Receivable %
Interest rate swap (sterling)									
Fixed to index-linked	4I.5	–	210.000	250.000	460.000	17.830	98.015	1.872%	5.128%
Other financial derivatives									
Other financial derivatives	4I.27	–	–	–	–	(1.350)	–	–	–
Total financial derivatives	**4I.28**	**–**	**210.000**	**250.000**	**460.000**	**16.480**	**98.015**		

Financial derivatives – (A) Super-senior swaps with breaks or accretion paydowns

		Nominal value by maturity (net) at 31 March				Total value at 31 March		Total accretion at 31 March	Interest rate	
	RAG4 reference	0 to 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m	Nominal value (net) £m	Mark to market £m	£m	Payable %	Receivable %
Interest rate swap (sterling)										
Floating to fixed rate	4I.29	–	–	–	–	–	–	–	–	–
Floating from fixed rate	4I.30	–	–	–	–	–	–	–	–	–
Floating to index-linked	4I.31	–	–	–	–	–	–	–	–	–
Floating from index-linked	4I.32	–	–	–	–	–	–	–	–	–
Fixed to index-linked	4I.33	–	–	–	–	–	–	–	–	–
Fixed from index-linked	4I.34	–	–	–	–	–	–	–	–	–
Index-linked to index-linked	4I.35	–	–	–	–	–	–	–	–	–
Total financial derivatives	**4I.36**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**

Financial derivatives – (B) Pari-passu swaps with breaks or accretion paydowns

		Nominal value by maturity (net) at 31 March				Total value at 31 March		Total accretion at 31 March	Interest rate	
	RAG4 reference	0 to 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m	Nominal value (net) £m	Mark to market £m	£m	Payable %	Receivable %
Interest rate swap (sterling)										
Floating to fixed rate	4I.57	–	–	–	–	–	–	–	–	–
Floating from fixed rate	4I.58	–	–	–	–	–	–	–	–	–
Floating to index-linked	4I.59	–	–	–	–	–	–	–	–	–
Floating from index-linked	4I.60	–	–	–	–	–	–	–	–	–
Fixed to index-linked	4I.61	–	–	210.000	250.000	460.000	17.830	98.015	1.872%	5.128%
Fixed from index-linked	4I.62	–	–	–	–	–	–	–	–	–
Index-linked to index-linked	4I.63	–	–	–	–	–	–	–	–	–
Total financial derivatives	**4I.64**	**–**	**–**	**210.000**	**250.000**	**460.000**	**17.830**	**98.015**	**–**	**–**

Section 4 – Additional regulatory information – service level continued

Financial derivatives – (C) Super-senior swaps without breaks or accretion paydowns

	RAG4 reference	Nominal value by maturity (net) at 31 March				Total value at 31 March		Total accretion at 31 March	Interest rate	
		0 to 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m	Nominal value (net) £m	Mark to market £m	£m	Payable %	Receivable %
Interest rate swap (sterling)										
Floating to fixed rate	4I.85	–	–	–	–	–	–	–	–	–
Floating from fixed rate	4I.86	–	–	–	–	–	–	–	–	–
Floating to index-linked	4I.87	–	–	–	–	–	–	–	–	–
Floating from index-linked	4I.88	–	–	–	–	–	–	–	–	–
Fixed to index-linked	4I.89	–	–	–	–	–	–	–	–	–
Fixed from index-linked	4I.90	–	–	–	–	–	–	–	–	–
Index-linked to index-linked	4I.91	–	–	–	–	–	–	–	–	–
Total financial derivatives	**4I.92**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**

Financial derivatives – (D) Other swaps

	RAG4 reference	Nominal value by maturity (net) at 31 March				Total value at 31 March		Total accretion at 31 March	Interest rate	
		0 to 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m	Nominal value (net) £m	Mark to market £m	£m	Payable %	Receivable %
Interest rate swap (sterling)										
Floating to fixed rate	4I.113	–	–	–	–	–	–	–	–	–
Floating from fixed rate	4I.114	–	–	–	–	–	–	–	–	–
Floating to index-linked	4I.115	–	–	–	–	–	–	–	–	–
Floating from index-linked	4I.116	–	–	–	–	–	–	–	–	–
Fixed to index-linked	4I.117	–	–	–	–	–	–	–	–	–
Fixed from index-linked	4I.118	–	–	–	–	–	–	–	–	–
Index-linked to index-linked	4I.119	–	–	–	–	–	–	–	–	–
Total financial derivatives	**4I.120**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Other financial derivatives										
Other financial derivatives	4I.139	–	–	–	–	(1.350)	–	–	–	–
Total financial derivatives	**4I.140**	**–**	**–**	**–**	**–**	**(1.350)**	**–**	**–**	**–**	**–**

Out-of-the-money (liability) positions are presented in the table above as positive values. In-the-money positions are presented as negative. Overall the total financial derivatives are out of the money with value £16.480m.

An RPI-linked inflation swap with a nominal value of £135.0m, which is linked to the maturity of the Class A fixed rate £250.0m bond (maturity July 2026), was entered into in August 2018. A further RPI-linked inflation swap with a nominal value of £75.0m, which is also linked to the maturity of the Class A fixed rate £250.0m bond (maturity July 2026), was entered into in October 2020, backdated to 1 August 2020.

A CPI-linked inflation swap with a nominal value of £25.0m, which is linked to the maturity of the Class A fixed rate £250.0m bond (maturity March 2036), was entered into in March 2020. Further CPI-linked inflation swaps with a total nominal value of £225.0m, which are also linked to the maturity of the Class A fixed rate £250.0m bond (maturity March 2036), were entered into between April 2020 and June 2020.

The £16.480m mark to market valuation of the total derivatives is the total of rows 1C.5, 1C.10, 1C.16 and 1C.23 in table 1C of this APR, split based on the maturity of the derivative. In line with RAG guidance, we have reclassified accretion on the inflation-linked swap from financial instruments to borrowings. We do not have any foreign exchange, currency interest or forward currency contracts.

4J – Base expenditure analysis for the 12 months ended 31 March 2023 – water resources and water network+

	RAG4 reference	Water resources	Water network+				Total
		£m	Raw water distribution £m	Raw water storage £m	Water treatment £m	Treated water distribution £m	£m
Operating expenditure							
Power	4J.1	5.592	6.276	–	3.822	24.541	40.231
Income treated as negative expenditure	4J.2	–	–	–	–	–	–
Bulk supply/bulk discharge	4J.3	1.771	0.264	0.013	2.429	7.193	11.670
Renewals expensed in year (infrastructure)	4J.4	–	–	–	–	21.211	21.211
Renewals expensed in year (non-infrastructure)	4J.5	–	–	–	–	–	–
Other operating expenditure	4J.6	5.829	1.538	0.937	19.986	71.415	99.705
Local authority and Cumulo rates	4J.7	1.959	0.308	0.001	2.809	10.078	15.155
Service charges							
Canal & River Trust abstraction charges/ discharge consents	4J.8	–	–	–	–	–	–
Environment Agency/NRW abstraction charges/ discharge consents	4J.9	6.189	–	–	–	–	6.189
Other abstraction charges/discharge consents	4J.10	–	–	–	–	–	–
Location specific costs & obligations							
Costs associated with Traffic Management Act	4J.11	–	–	–	–	0.617	0.617
Costs associated with lane rental schemes	4J.12	–	–	–	–	0.013	0.013
Statutory water softening	4J.13	–	–	–	–	–	–
Total base operating expenditure	**4J.14**	**21.340**	**8.386**	**0.951**	**29.046**	**135.068**	**194.791**
Capital expenditure							
Maintaining the long-term capability of the assets – infra	4J.15	–	–	–	–	6.466	6.466
Maintaining the long-term capability of the assets – non-infra	4J.16	1.412	–	–	16.661	27.852	45.926
Total base capital expenditure	**4J.17**	**1.412**	**–**	**–**	**16.661**	**34.318**	**52.392**
Traffic Management Act							
Projects incurring costs associated with Traffic Management Act	4J.18	–	–	–	–	25,354	25,354

Section 4 – Additional regulatory information – service level continued

4L – Enhancement expenditure for the 12 months ended 31 March 2023 – water resources and water network+

			Expenditure in report year					
			Water resources	Water network+				Total
		RAG4 reference	£m	Raw water transport £m	Raw water storage £m	Water treatment £m	Treated water distribution £m	£m
EA/NRW environmental programme (WINEP/NEP)								
Ecological improvements at abstractions	Capex	4L.1	1.201	–	–	–	–	1.201
Ecological improvements at abstractions	Opex	4L.2	–	–	–	–	–	–
Ecological improvements at abstractions	Totex	4L.3	1.201	–	–	–	–	1.201
Eels Regulations (measures at intakes)	Capex	4L.4	–	–	–	–	–	–
Eels Regulations (measures at intakes)	Opex	4L.5	–	–	–	–	–	–
Eels Regulations (measures at intakes)	Totex	4L.6	–	–	–	–	–	–
Invasive Species	Capex	4L.7	0.239	–	–	–	–	0.239
Invasive Species	Opex	4L.8	–	–	–	–	–	–
Invasive Species	Totex	4L.9	0.239	–	–	–	–	0.239
Drinking Water Protected Areas (schemes)	Capex	4L.10	–	–	–	–	–	–
Drinking Water Protected Areas (schemes)	Opex	4L.11	–	–	–	–	–	–
Drinking Water Protected Areas (schemes)	Totex	4L.12	–	–	–	–	–	–
Water Framework Directive measure	Capex	4L.13	0.012	–	–	0.722	9.869	10.603
Water Framework Directive measure	Opex	4L.14	–	–	–	–	–	–
Water Framework Directive measure	Totex	4L.15	0.012	–	–	0.722	9.869	10.603
Investigations	Capex	4L.16	1.104	–	–	–	–	1.104
Investigations	Opex	4L.17	–	–	–	–	–	–
Investigations	Totex	4L.18	1.104	–	–	–	–	1.104
Total environmental programme expenditure	**Totex**	**4L.19**	**2.557**	**–**	**–**	**0.722**	**9.869**	**13.148**
Supply-demand balance								
Supply-side improvements delivering benefits in 2020–2025	Capex	4L.20	–	–	–	1.178	–	1.178
Supply-side improvements delivering benefits in 2020–2025	Opex	4L.21	–	–	–	–	–	–
Supply-side improvements delivering benefits in 2020–2025	Totex	4L.22	–	–	–	1.178	–	1.178
Demand-side improvements delivering benefits in 2020–2025 (excl. leakage and metering)	Capex	4L.23	–	–	–	–	0.152	0.152
Demand-side improvements delivering benefits in 2020–2025 (excl. leakage and metering)	Opex	4L.24	–	0.005	–	–	6.734	6.739
Demand-side improvements delivering benefits in 2020–2025 (excl. leakage and metering)	Totex	4L.25	–	0.005	–	–	6.886	6.891
Leakage improvements delivering benefits in 2020–2025	Capex	4L.26	–	–	–	–	–	–
Leakage improvements delivering benefits in 2020–2025	Opex	4L.27	–	–	–	–	–	–
Leakage improvements delivering benefits in 2020–2025	Totex	4L.28	–	–	–	–	–	–
Internal interconnectors delivering benefits in 2020–2025	Capex	4L.29	–	–	–	–	–	–
Internal interconnectors delivering benefits in 2020–2025	Opex	4L.30	–	–	–	–	–	–
Internal interconnectors delivering benefits in 2020–2025	Totex	4L.31	–	–	–	–	–	–
Supply-demand balance improvements delivering benefits starting from 2026	Capex	4L.32	–	–	–	3.650	0.495	4.145
Supply-demand balance improvements delivering benefits starting from 2026	Opex	4L.33	–	–	–	–	–	–
Supply-demand balance improvements delivering benefits starting from 2026	Totex	4L.34	–	–	–	3.650	0.495	4.145
Strategic regional water resources	Capex	4L.35	1.529	1.077	–	1.542	1.081	5.229
Strategic regional water resources	Opex	4L.36	–	–	–	–	–	–
Strategic regional water resources	Totex	4L.37	1.529	1.077	–	1.542	1.081	5.229
Total supply-demand expenditure	**Totex**	**4L.38**	**1.529**	**1.082**	**–**	**6.370**	**8.463**	**17.444**

			Expenditure in report year					
			Water resources	Water network+				Total
		RAG4 reference	£m	Raw water transport £m	Raw water storage £m	Water treatment £m	Treated water distribution £m	£m
Metering								
New meters requested by existing customers (optants)	Capex	4L.39	–	–	–	–	1.533	1.533
New meters requested by existing customers (optants)	Opex	4L.40	–	–	–	–	–	–
New meters requested by existing customers (optants)	Totex	4L.41	–	–	–	–	1.533	1.533
New meters introduced by companies for existing customers	Capex	4L.42	–	–	–	–	15.552	15.552
New meters introduced by companies for existing customers	Opex	4L.43	–	–	–	–	–	–
New meters introduced by companies for existing customers	Totex	4L.44	–	–	–	–	15.552	15.552
New meters for existing customers – business	Capex	4L.45	–	–	–	–	–	–
New meters for existing customers – business	Opex	4L.46	–	–	–	–	–	–
New meters for existing customers – business	Totex	4L.47	–	–	–	–	–	–
Replacement of existing basic meters with AMR or AMI meters for household customers	Capex	4L.48	–	–	–	–	–	–
Replacement of existing basic meters with AMR or AMI meters for household customers	Opex	4L.49	–	–	–	–	–	–
Replacement of existing basic meters with AMR or AMI meters for household customers	Totex	4L.50	–	–	–	–	–	–
Replacement of existing AMR meters with AMI meters for household customers	Capex	4L.51	–	–	–	–	–	–
Replacement of existing AMR meters with AMI meters for household customers	Opex	4L.52	–	–	–	–	–	–
Replacement of existing AMR meters with AMI meters for household customers	Totex	4L.53	–	–	–	–	–	–
Replacement of existing basic meters with AMR or AMI meters for business customers	Capex	4L.54	–	–	–	–	–	–
Replacement of existing basic meters with AMR or AMI meters for business customers	Opex	4L.55	–	–	–	–	–	–
Replacement of existing basic meters with AMR or AMI meters for business customers	Totex	4L.56	–	–	–	–	–	–
Replacement of existing AMR meters with AMI meters for business customers	Capex	4L.57	–	–	–	–	–	–
Replacement of existing AMR meters with AMI meters for business customers	Opex	4L.58	–	–	–	–	–	–
Replacement of existing AMR meters with AMI meters for business customers	Totex	4L.59	–	–	–	–	–	–
Smart meter infrastructure	Capex	4L.60	–	–	–	–	–	–
Smart meter infrastructure	Opex	4L.61	–	–	–	–	–	–
Smart meter infrastructure	Totex	4L.62	–	–	–	–	–	–
Total metering expenditure	**Totex**	**4L.63**	**–**	**–**	**–**	**–**	**17.085**	**17.085**

Section 4 – Additional regulatory information – service level continued

		RAG4 reference	Expenditure in report year: Water resources £m	Water network+: Raw water transport £m	Raw water storage £m	Water treatment £m	Treated water distribution £m	Total £m
Other enhancement								
Improvements to taste, odour and colour	Capex	4L.64	–	–	–	–	–	–
Improvements to taste, odour and colour	Opex	4L.65	–	–	–	–	–	–
Improvements to taste, odour and colour	Totex	4L.66	–	–	–	–	–	–
Addressing raw water deterioration (grey solutions)	Capex	4L.67	–	–	–	7.777	–	7.777
Addressing raw water deterioration (grey solutions)	Opex	4L.68	0.374	–	0.009	0.254	0.572	1.209
Addressing raw water deterioration (grey solutions)	Totex	4L.69	0.374	–	0.009	8.031	0.572	8.986
Addressing raw water deterioration (green solutions)	Capex	4L.70	–	–	–	–	–	–
Addressing raw water deterioration (green solutions)	Opex	4L.71	–	–	–	–	–	–
Addressing raw water deterioration (green solutions)	Totex	4L.72	–	–	–	–	–	–
Addressing raw water deterioration (total)	Capex	4L.73	–	–	–	7.777	–	7.777
Addressing raw water deterioration (total)	Opex	4L.74	0.374	–	0.009	0.254	0.572	1.209
Addressing raw water deterioration (total)	Totex	4L.75	0.374	–	0.009	8.031	0.572	8.986
Improvements to river flow	Capex	4L.76	0.057	–	–	–	–	0.057
Improvements to river flow	Opex	4L.77	–	–	–	–	–	–
Improvements to river flow	Totex	4L.78	0.057	–	–	–	–	0.057
Enhancing resilience to low-probability high-consequence events	Capex	4L.79	–	–	–	0.381	0.657	1.037
Enhancing resilience to low-probability high-consequence events	Opex	4L.80	–	–	–	–	–	–
Enhancing resilience to low-probability high-consequence events	Totex	4L.81	–	–	–	0.381	0.657	1.037
Conditioning water to reduce plumbosolvency	Capex	4L.82						–
Conditioning water to reduce plumbosolvency	Opex	4L.83						–
Conditioning water to reduce plumbosolvency	Totex	4L.84	–	–	–	–	–	–
Lead communication pipes replaced or relined for water quality	Capex	4L.85	–	–	–	–	0.751	0.751
Lead communication pipes replaced or relined for water quality	Opex	4L.86	–	–	–	–	0.916	0.916
Lead communication pipes replaced or relined for water quality	Totex	4L.87	–	–	–	–	1.667	1.667
Other lead reduction-related activity	Capex	4L.88						–
Other lead reduction-related activity	Opex	4L.89						–
Other lead reduction-related activity	Totex	4L.90	–	–	–	–	–	–
Meeting lead standards (total)	Capex	4L.91	–	–	–	–	0.751	0.751
Meeting lead standards (total)	Opex	4L.92	–	–	–	–	0.916	0.916
Meeting lead standards (total)	Totex	4L.93	–	–	–	–	1.667	1.667
Security – Security and Emergency Measures Direction ('SEMD')	Capex	4L.94	–	–	–	–	–	–
Security – SEMD	Opex	4L.95	–	–	–	–	–	–
Security – SEMD	Totex	4L.96	–	–	–	–	–	–
Security – Non-SEMD	Capex	4L.97	–	–	–	–	–	–
Security – Non-SEMD	Opex	4L.98	–	–	–	–	–	–
Security – Non-SEMD	Totex	4L.99	–	–	–	–	–	–
Total other enhancement expenditure	**Totex**	**4L.110**	**0.431**	**–**	**0.009**	**8.412**	**2.896**	**11.748**
Total enhancement								
Total enhancement expenditure	Capex	4L.111	4.143	1.077	–	15.250	30.090	50.561
Total enhancement expenditure	Opex	4L.112	0.374	0.005	0.009	0.254	8.222	8.864
Total enhancement expenditure	**Totex**	**4L.113**	**4.517**	**1.082**	**0.009**	**15.504**	**38.312**	**59.425**

		RAG4 reference	Cumulative expenditure on schemes completed in the report year: Water resources £m	Network+: Raw water transport £m	Raw water storage £m	Water treatment £m	Treated water distribution £m	Total £m
Supply-demand balance								
Leakage improvements delivering benefits in 2020–2025	Capex	4L.26	–	–	–	–	–	–
Leakage improvements delivering benefits in 2020–2025	Opex	4L.27	–	–	–	–	–	–
Leakage improvements delivering benefits in 2020–2025	Totex	4L.28	–	–	–	–	–	–
Total supply-demand expenditure	**Totex**	**4L.38**	**–**	**–**	**–**	**–**	**–**	**–**

		RAG4 reference	Cumulative expenditure on all schemes to reporting year-end £m	Cumulative allowed expenditure on all schemes to reporting year-end £m	Cumulative allowed expenditure on all schemes 2020–25 £m
EA/NRW environmental programme (WINEP/NEP)					
Ecological improvements at abstractions	Totex	4L.3	4.717	13.121	23.473
Eels Regulations (measures at intakes)	Totex	4L.6	–	–	–
Invasive Species	Totex	4L.9	0.239	0.244	0.436
Drinking Water Protected Areas (schemes)	Totex	4L.12	0.061	–	–
Water Framework Directive measure	Totex	4L.15	24.832	63.835	111.936
Investigations	Totex	4L.18	3.792	3.940	7.049
Total environmental programme expenditure	**Totex**	**4L.19**	**33.641**	**81.139**	**142.894**
Supply-demand balance					
Supply-side improvements delivering benefits in 2020–2025	Totex	4L.22	3.211	4.463	7.509
Demand-side improvements delivering benefits in 2020–2025 (excl. leakage and metering)	Totex	4L.25	16.248	26.784	41.019
Leakage improvements delivering benefits in 2020–2025	Totex	4L.28	–	–	–
Internal interconnectors delivering benefits in 2020–2025	Totex	4L.31	–	–	–
Supply-demand balance improvements delivering benefits starting from 2026	Totex	4L.34	13.478	15.169	25.520
Strategic regional water resources	Totex	4L.37	12.258	43.362	98.349
Total supply-demand expenditure	Totex	4L.38	45.195	89.779	172.397
Metering					
Total metering expenditure	**Totex**	**4L.63**	**42.223**	**44.183**	**67.666**
Other enhancement					
Improvements to taste, odour and colour	Totex	4L.66	0.255	–	–
Addressing raw water deterioration (grey solutions)	Totex	4L.69	–	–	–
Addressing raw water deterioration (green solutions)	Totex	4L.72	–	–	–
Addressing raw water deterioration (total)	Totex	4L.75	14.019	2.195	3.553
Improvements to river flow	Totex	4L.78	0.040	0.330	0.590
Enhancing resilience to low-probability high-consequence events	Totex	4L.81	2.533	10.458	16.016
Conditioning water to reduce plumbosolvency	Totex	4L.84	–	–	–
Lead communication pipes replaced or relined for water quality	Totex	4L.87	–	–	–
Other lead reduction-related activity	Totex	4L.90	–	–	–
Meeting lead standards (total)	Totex	4L.93	6.642	6.487	9.935
Security – SEMD	Totex	4L.96	–	–	–
Security – Non-SEMD	Totex	4L.99	–	–	–
Total other enhancement expenditure	Totex	4L.110	23.490	19.470	30.090
Total enhancement expenditure	**Totex**	**4L.113**	**144.550**	**234.570**	**413.050**

Table 4L details enhancement capital expenditure to deliver improvements to the supply/demand balance (both supply-side and demand-side), together with expenditure for strategic regional water resource options.

Section 4 – Additional regulatory information – service level continued

The table was populated by first identifying the relevant projects sitting in each category within the table and then including all associated costs of that project. Capital overheads were then allocated across the projects in line with our methodology statement published on our website at affinitywater.co.uk/reports-publications.

Cumulative significant variances to our allowances are detailed below (all values in £m)

	Cumulative expenditure on all schemes to reporting year-end	Cumulative allowed expenditure on all schemes to reporting year-end	Under/ overspend to date	Explanation for over/underspend
Ecological improvements at abstractions	4.72	13.12	(8.40)	Underspend due to the profiling of jobs planned over the AMP. More complex and costly jobs are scheduled for the final two years of the AMP, however, expenditure was not profiled in this way in the allowance.
Water Framework Directive measure	24.83	63.83	(39.00)	We are generally outperforming our allowance for sustainability reductions schemes, notably on trunk mains and value engineering has resulted in efficiencies.
Demand-side improvements delivering benefits in 2020–2025 (excl. leakage and metering)	16.25	26.87	(10.54)	This underspend has been caused by the expenditure split and allocation of metering costs and PCC programmes, both of which are designed to reduce consumption.
Strategic regional water resources	12.26	43.36	(31.10)	We have delivered all obligations and met all quality requirements in our submissions to RAPID. This is a 'ring-fenced' allowance and underspend is returned to customers through midnight adjustments at PR24.
Addressing raw water deterioration (total)	14.02	2.19	11.82	This overspend is due to a DWI notice to address Crypto at Iver and Egham treatment plants to address this raw water quality risk, not included in our final determination.
Enhancing resilience to low-probability high-consequence events	2.53	10.46	(7.93)	The underspend is due to delays in planning and purchasing land for two reservoirs. The process has commenced and construction contracts are now in place which will see this underspend reverse in future years.

Capital overheads totalling £20.844m have been apportioned across base and enhancement capital expenditure categories, with the split based on the proportion of direct capital costs allocated to each category. £10.266m of overheads were allocated to enhancement expenditure in 2022/23. Details of the overhead allocation can be found in our methodology statement on our website at affinitywater.co.uk/reports-publications.

4N – Developer services expenditure for the 12 months ended 31 March 2023 – water resources and water network+ (price control)

	RAG4 reference	Capex £m	Opex £m	Totex £m
New connections	4N.1	–	12.218	12.218
Requisition mains	4N.2	5.327	–	5.327
Infrastructure network reinforcement	4N.3	3.430	–	3.430
s185 diversions	4N.4	1.822	–	1.822
Other price controlled activities	4N.5	(0.026)	–	(0.026)
Total developer services expenditure	**4N.6**	**10.553**	**12.218**	**22.771**

4P – Expenditure on non-price control diversions for the 12 months ended 31 March 2023

	RAG4 reference	Water resources £m	Water network+ £m	Total £m
Capex				
Costs associated with New Road and Street Works Act ('NSWRA') diversions	4P.1	–	0.207	0.207
Costs associated with other non-price control diversions	4P.2	1.837	2.017	3.854
Other developer services non-price control capex	4P.3	–	–	–
Developer services non-price control capex	**4P.4**	**1.837**	**2.224**	**4.061**
Opex				
Costs associated with New Road and Street Works Act ('NSWRA') diversions	4P.5	–	–	–
Costs associated with other non-price control diversions	4P.6	–	–	–
Other developer services non-price control opex	4P.7	–	–	–
Developer services non-price control opex	**4P.8**	**–**	**–**	**–**
Totex				
Costs associated with New Road and Street Works Act ('NSWRA') diversions	4P.9	–	0.207	0.207
Costs associated with other non-price control diversions	4P.10	1.837	2.017	3.854
Other developer services non-price control totex	4P.11	–	–	–
Developer services non-price control totex	**4P.12**	**1.837**	**2.224**	**4.061**

4Q – Developer services – New connections, properties and mains

	RAG4 reference	Total number
Connections volume data		
New connections (residential – excluding NAVs)	4Q.1	6,982
New connections (business – excluding NAVs)	4Q.2	297
Total new connections served by incumbent	4Q.3	7,279
New connections – SLPs	4Q.4	2,049
Properties volume data		
New properties (residential – excluding NAVs)	4Q.5	10,632
New properties (business – excluding NAVs)	4Q.6	300
Total new properties served by incumbent	4Q.7	10,932
New residential properties served by NAVs	4Q.8	1,061
New business properties served by NAVs	4Q.9	–
Total new properties served by NAVs	4Q.10	1,061
Total new properties	4Q.11	11,993
New properties – SLP connections	4Q.12	3,103
New water mains data		
Length of new mains (km) – requisitions	4Q.13	15
Length of new mains (km) – SLPs	4Q.14	31

New water mains data

Overall this year we have seen a small increase in the overall length of mains laid to serve new properties to 45.5km, compared with 43.3km in 2021/22 and 31.9km in 2020/21, which is in line with the continued pick-up in activity after the Covid-related lows of 2020/21.

More details can be found in our non-financial line commentary published on our website at **affinitywater.co.uk/reports-publications**.

Section 4 – Additional regulatory information – service level continued

4R – Connected properties, customers and population

	RAG4 reference	Units	Unmeasured	Measured	Total	Voids
Customer numbers – average 2022/23						
Residential water only customers	4R.1	000s	485.118	950.629	1,435.747	30.085
Residential wastewater only customers	4R.2	000s			–	
Residential water and wastewater customers	4R.3	000s			–	
Total residential customers	4R.4	000s	485.118	950.629	1,435.747	30.085
Business water only customers	4R.5	000s	8.305	53.096	61.401	485.118
Business wastewater only customers	4R.6	000s			–	
Business water and wastewater customers	4R.7	000s			–	
Total business customers	4R.8	000s	8.305	53.096	61.401	485.118
Total customers	**4R.9**	**000s**	**493.423**	**1,003.725**	**1,497.148**	**515.203**

	RAG4 reference	Units	Unmeasured	Measured	Total
Property numbers – average 2022/23					
Residential properties billed	4R.10	000s	485.118	950.629	1,435.747
Residential void properties	4R.11	000s			30.085
Total connected residential properties	4R.12	000s			1,465.832
Business properties billed	4R.13	000s	8.305	53.096	61.401
Business void properties	4R.14	000s			10.504
Total connected business properties	4R.15	000s			71.905
Total connected properties	**4R.16**	**000s**			**1,537.737**

		Unmeasured					
Property and meter numbers – at end of year (31 March)	RAG4 reference	No meter	Basic meter	AMR meter	AMI meter (capable)	AMI meter (active)	Total
Total new residential properties connected in year	4R.17	0.488	–	–	–	–	0.488
Total number of new business properties connections	4R.18	–	–	–	–	–	–
Residential properties billed at year-end	4R.19	381.347	0.344	84.962	–	–	466.653
Residential properties unbilled at year-end	4R.20	–	–	–	–	–	–
Residential void properties at year-end	4R.21	–	–	–	–	–	16.351
Total connected residential properties at year-end	4R.22	–	–	–	–	–	483.004
Business properties billed at year-end	4R.23	8.291	–	–	–	–	8.291
Business properties unbilled at year-end	4R.24	–	–	–	–	–	–
Business void properties at year-end	4R.25	–	–	–	–	–	1.394
Total connected business properties at year-end	4R.26	–	–	–	–	–	9.685
Total connected properties at year-end	**4R.27**	**–**	**–**	**–**	**–**	**–**	**492.689**

		Measured					
Property and meter numbers – at end of year (31 March)	RAG4 reference	No meter	Basic meter	AMR meter	AMI meter (capable)	AMI meter (active)	Total
Total new residential properties connected in year	4R.17	–	0.853	15.268	–	–	16.121
Total number of new business properties connections	4R.18	–	0.003	0.201	–	–	0.204
Residential properties billed at year-end	4R.19	–	582.792	393.626	–	–	976.418
Residential properties unbilled at year-end	4R.20	–	–	–	–	–	–
Residential void properties at year-end	4R.21	–	–	–	–	–	12.731
Total connected residential properties at year-end	4R.22	–	–	–	–	–	989.149
Business properties billed at year-end	4R.23	0.001	42.155	10.407	–	–	52.563
Business properties unbilled at year-end	4R.24	–	–	–	–	–	–
Business void properties at year-end	4R.25	–	–	–	–	–	9.298
Total connected business properties at year-end	4R.26	–	–	–	–	–	61.861
Total connected properties at year-end	**4R.27**	**–**	**–**	**–**	**–**	**–**	**1,051.010**

		Unbilled		
Property and meter numbers – at end of year (31 March)	RAG4 reference	Uneconomic to bill	Other	Total
Total new residential properties connected in year	4R.17	–	–	**–**
Total number of new business properties connections	4R.18	–	–	**–**
Residential properties billed at year-end	4R.19	–	–	**–**
Residential properties unbilled at year-end	4R.20	24.993	–	**24.993**
Residential void properties at year-end	4R.21	–	–	**–**
Total connected residential properties at year-end	4R.22	–	–	**24.993**
Business properties billed at year-end	4R.23	–	–	**–**
Business properties unbilled at year-end	4R.24	–	0.206	**0.206**
Business void properties at year-end	4R.25	–	–	**–**
Total connected business properties at year-end	4R.26	–	–	**0.206**
Total connected properties at year-end	4R.27	24.993	0.206	**25.199**

		Totals			
Property and meter numbers – at end of year (31 March)	RAG4 reference	Unmeasured	Measured	Unbilled	Grand Total
Total new residential properties connected in year	4R.17	0.488	16.121	–	**16.609**
Total number of new business properties connections	4R.18	–	0.204	–	**0.204**
Residential properties billed at year-end	4R.19	466.653	976.418	–	**1,443.071**
Residential properties unbilled at year-end	4R.20	–	–	24.993	**24.993**
Residential void properties at year-end	4R.21	16.351	12.731	–	**29.082**
Total connected residential properties at year-end	4R.22	483.004	989.149	24.993	**1,497.146**
Business properties billed at year-end	4R.23	8.291	52.563	–	**60.854**
Business properties unbilled at year-end	4R.24	–	–	0.206	**0.206**
Business void properties at year-end	4R.25	1.394	9.298	–	**10.692**
Total connected business properties at year-end	4R.26	9.685	61.861	0.206	**71.752**
Total connected properties at year-end	4R.27	492.689	1,051.010	25.199	**1,568.898**

Population data	RAG4 reference	Units	Water
Resident population	4R.28	000s	3,950.010
Non-resident population (wastewater)	4R.29	000s	–

	RAG4 reference	Units	Resident population	Non-resident population	Total
Household population data					
Household population	4R.30	000s	3,896.300	–	**3,896.300**
Measured household population (water only)	4R.31	000s	2,369.713	–	**2,369.713**
Unmeasured household population (water only)	4R.32	000s	1,526.588	–	**1,526.588**

More details on these metrics can be found in our non-financial line commentary published on our website at **affinitywater.co.uk/reports-publications**, including the methodology and basis of the calculation.

Section 4 – Additional regulatory information – service level continued

4V – Mark to market of financial derivatives analysed based on payment dates

	RAG4 reference	Derivatives – Analysed by earliest payment date Net settled £m	Gross settled outflows £m	Gross settled inflows £m	Total £m
Due within one year	4V.1	(3.940)	–	–	(3.940)
Between one and two years	4V.2	2.590	–	–	2.590
Between two and three years	4V.3	–	–	–	–
Between three and four years	4V.4	6.937	–	–	6.937
Between four and five years	4V.5	–	–	–	–
After five years	4V.6	10.893	–	–	10.893
Total	**4V.7**	**16.480**	**–**	**–**	**16.480**

	RAG4 reference	Derivatives – Analysed by expected maturity date Net settled £m	Gross settled outflows £m	Gross settled inflows £m	Total £m
Due within one year	4V.1	(3.940)	–	–	(3.940)
Between one and two years	4V.2	2.590	–	–	2.590
Between two and three years	4V.3	–	–	–	–
Between three and four years	4V.4	6.937	–	–	6.937
Between four and five years	4V.5	–	–	–	–
After five years	4V.6	10.893	–	–	10.893
Total	**4V.7**	**16.480**	**–**	**–**	**16.480**

4W – Defined Benefit Pension Scheme – Additional Information

	RAG4 reference	Unit	Defined benefit pension schemes: Pension scheme 1
Scheme details			
Scheme name	4W.1	Text	Affinity Water Pension Plan
Scheme status	4W.2	Text	The scheme is closed to new members, but open to future accrual
Scheme valuation under IAS/IFRS/FRS			
Scheme assets	4W.3	£m	387.699
Scheme liabilities	4W.4	£m	334.084
Scheme surplus/(deficit) total	4W.5	£m	53.615
Scheme surplus/(deficit) appointed business	4W.6	£m	53.615
Pension deficit recovery payments	4W.7	£m	1.600
Scheme valuation under part 3 of Pensions Act 2004			
Scheme funding valuation date	4W.8	Date	31 December 2020
Assets	4W.9	£m	574.000
Technical provisions	4W.10	£m	595.000
Scheme surplus/(deficit)	4W.11	£m	-21.000
Discount rate assumptions	4W.12	Text	Gilts +0.25%
Recovery plan (where applicable)			
Recovery plan structure	4W.13	Text	The 31 December 2020 actuarial valuation showed that the Plan had a funding deficit relative to the Plan's statutory funding objective. Following discussions, it was therefore agreed the company would pay the following contributions: • £1.250 million prior to 31 July 2021; • £1.600 million prior to 31 December 2021; and • £1.600 million per annum, commencing from 1 January 2022 onwards. These contributions are also expected to be sufficient to cover the future cost of benefits being accrued within the Plan.
Recovery plan end date	4W.14	Date	31 December 2026
Asset-backed funding (ABF) arrangements	4W.15	Text	N/A
Responsibility for ABF arrangements	4W.16	Text	N/A

Section 5 – Additional regulatory information – water resources

5A – Water resources asset and volumes data for the 12 months ended 31 March 2023

Water resources	RAG4 reference	Units	Input
Water from impounding reservoirs	5A.1	Ml/d	2.11
Water from pumped storage reservoirs	5A.2	Ml/d	24.28
Water from river abstractions	5A.3	Ml/d	298.54
Water from groundwater works excluding managed aquifer recharge ('MAR') water supply schemes	5A.4	Ml/d	603.52
Water from artificial recharge ('AR') water supply schemes	5A.5	Ml/d	0.00
Water from aquifer storage and recovery ('ASR') water supply schemes	5A.6	Ml/d	0.00
Water from saline abstractions	5A.7	Ml/d	0.00
Water from water reuse schemes	5A.8	Ml/d	0.00
Number of impounding reservoirs	5A.9	Nr	2
Number of pumped storage reservoirs	5A.10	Nr	2
Number of river abstractions	5A.11	Nr	3
Number of groundwater works excluding managed aquifer recharge ('MAR') water supply schemes	5A.12	Nr	113
Number of artificial recharge ('AR') water supply schemes	5A.13	Nr	0
Number of aquifer storage and recovery ('ASR') water supply schemes	5A.14	Nr	0
Number of saline abstraction schemes	5A.15	Nr	0
Number of reuse schemes	5A.16	Nr	0
Total number of sources	5A.17	Nr	120
Total number of water reservoirs	5A.18	Nr	4
Total volumetric capacity of water reservoirs	5A.19	Ml	3,691
Total number of intake and source pumping stations	5A.20	Nr	119
Total installed power capacity of intake and source pumping stations	5A.21	kW	15,184
Total length of raw water abstraction mains and other conveyors	5A.22	Km	0.96
Average pumping head – raw water abstraction	5A.23	m.hd	17.23
Energy consumption – water resources (MWh)	5A.24	MWh	31,915.066
Total number of raw water abstraction imports	5A.25	Nr	0
Water imported from 3rd parties to raw water abstraction systems	5A.26	Ml/d	0.00
Total number of raw water abstraction exports	5A.27	Nr	0
Water exported to 3rd parties from raw water abstraction systems	5A.28	Ml/d	0.00
Water resources capacity (measured using water resources yield)	5A.29	Ml/d	973.21
Total number of completed investigations (WINEP/NEP), cumulative for AMP	5A.30	Nr	26.00

More details on these metrics can be found in our non-financial line commentary published on our website at **affinitywater.co.uk/reports-publications**, including the methodology and basis of the calculation.

Section 5 – Additional regulatory information – water resources continued

5B – Water resources operating cost analysis for the 12 months ended 31 March 2023

	RAG4 reference	Impounding Reservoir £m	Pumped Storage £m	River Abstractions £m	Ground-water, excluding MAR water supply schemes £m	Artificial Recharge ('AR') water supply schemes £m	Aquifer Storage and Recovery ('ASR') water supply schemes £m	Other £m	Total £m
Power	5B.1	0.013	0.146	1.798	3.635	–	–	–	5.592
Income treated as negative expenditure	5B.2	–	–	–	–	–	–	–	–
Abstraction charges/ discharge consents	5B.3	0.014	0.162	1.990	4.023	–	–	–	6.189
Bulk supply	5B.4	0.004	0.046	0.569	1.151	–	–	–	1.771
Other operating expenditure									
Renewals expensed in year (Infrastructure)	5B.5	–	–	–	–	–	–	–	–
Renewals expensed in year (Non-infrastructure)	5B.6	–	–	–	–	–	–	–	–
Other operating expenditure excluding renewals	5B.7	0.013	0.152	1.874	3.789	–	–	–	5.829
Local authority and Cumulo rates	5B.8	0.004	0.051	0.630	1.273	–	–	–	1.959
Total operating expenditure (excluding 3rd party)	**5B.9**	**0.048**	**0.558**	**6.862**	**13.872**	**–**	**–**	**–**	**21.340**

Section 6 – Additional regulatory information – water network plus

6A – Raw water transport, raw water storage and water treatment data for the 12 months ended 31 March 2023

Raw water transport and storage	RAG4 reference	Units	Input
Total number of balancing reservoirs	6A.1	Nr	4
Total volumetric capacity of balancing reservoirs	6A.2	Ml	133
Total number of raw water transport stations	6A.3	Nr	37
Total installed power capacity of raw water transport pumping stations	6A.4	kW	8,847
Total length of raw water transport mains and other conveyors	6A.5	Km	203.00
Average pumping head – raw water transport	6A.6	m.hd	20.28
Energy consumption – raw water transport (MWh)	6A.7	MWh	37,564.570
Total number of raw water transport imports	6A.8	Nr	1
Water imported from 3rd parties to raw water transport systems	6A.9	Ml/d	8.10
Total number of raw water transport exports	6A.10	Nr	0
Water exported to 3rd parties from raw water transport systems	6A.11	Ml/d	0.00
Total length of raw and pre-treated (non-potable) water transport mains for supplying customers	6A.12	km	36.93

		Surface water		Ground water	
Water treatment – treatment type analysis	RAG4 reference	Water treated Ml/d	Number of works	Water treated Ml/d	Number of works
All simple disinfection works	6A.13	0.00	0	16.00	4
W1 works	6A.14	0.00	0	0.00	0
W2 works	6A.15	0.00	0	15.29	7
W3 works	6A.16	0.00	0	8.65	3
W4 works	6A.17	0.00	0	305.35	56
W5 works	6A.18	394.74	5	208.77	15
W6 works	6A.19	0.00	0	0.00	0

Water treatment – works size	RAG4 reference	% of total DI	Number of works
WTWs in size band 1	6A.20	2.7%	23
WTWs in size band 2	6A.21	5.3%	20
WTWs in size band 3	6A.22	10.4%	24
WTWs in size band 4	6A.23	9.8%	11
WTWs in size band 5	6A.24	17.8%	10
WTWs in size band 6	6A.25	10.1%	3
WTWs in size band 7	6A.26	0.0%	0
WTWs in size band 8	6A.27	43.9%	3

Water treatment – other information	RAG4 reference	Units	Input
Peak week production capacity	6A.28	Ml/d	1,209.54
Peak week production capacity having enhancement expenditure for grey solution improvements to address raw water quality deterioration	6A.29	Ml/d	386.11
Peak week production capacity having enhancement expenditure for green solutions improvements to address raw water quality deterioration	6A.30	Ml/d	0.00
Total water treated at more than one type of works	6A.31	Ml/d	0.00
Number of treatment works requiring remedial action because of raw water deterioration	6A.32	nr	7
Zonal population receiving water treated with orthophosphate	6A.33	000's	2,979.255
Average pumping head – water treatment	6A.34	m.hd	11.16
Energy consumption – water treatment (MWh)	6A.35	mWh	20,671.627
Total number of water treatment imports	6A.36	nr	0
Water imported from 3rd parties to water treatment works	6A.37	Ml/d	0.00
Total number of water treatment exports	6A.38	nr	0
Water exported to 3rd parties from water treatment works	6A.39	Ml/d	0.00

More details on these metrics can be found in our non-financial line commentary published on our website at **affinitywater.co.uk/reports-publications**, including the methodology and basis of the calculation.

Section 6 – Additional regulatory information – water network plus continued

6B – Treated water distribution – assets and operations for the 12 months ended 31 March 2023

Assets and operations	RAG4 reference	Units	Input
Total installed power capacity of potable water pumping stations	6B.1	kW	51,596
Total volumetric capacity of service reservoirs	6B.2	Ml	1,525.9
Total volumetric capacity of water towers	6B.3	Ml	37.7
Water delivered (non-potable)	6B.4	Ml/d	1.06
Water delivered (potable)	6B.5	Ml/d	854.16
Water delivered (billed measured residential properties)	6B.6	Ml/d	349.32
Water delivered (billed measured business)	6B.7	Ml/d	158.24
Proportion of distribution input derived from impounding reservoirs	6B.8	Propn 0 to 1	0.002
Proportion of distribution input derived from pumped storage reservoirs	6B.9	Propn 0 to 1	0.086
Proportion of distribution input derived from river abstractions	6B.10	Propn 0 to 1	0.303
Proportion of distribution input derived from groundwater works, excluding managed aquifer recharge (MAR) water supply schemes	6B.11	Propn 0 to 1	0.609
Proportion of distribution input derived from artificial recharge (AR) water supply schemes	6B.12	Propn 0 to 1	0.000
Proportion of distribution input derived from aquifer storage and recovery (ASR) water supply schemes	6B.13	Propn 0 to 1	0.000
Proportion of distribution input derived from saline abstractions	6B.14	Propn 0 to 1	0.000
Proportion of distribution input derived from water reuse schemes	6B.15	Propn 0 to 1	0.000
Total number of potable water pumping stations that pump into and within the treated water distribution system	6B.16	Nr	277
Number of potable water pumping stations delivering treated groundwater into the treated water distribution system	6B.17	Nr	87
Number of potable water pumping stations delivering surface water into the treated water distribution system	6B.18	Nr	1
Number of potable water pumping stations that re-pump water already within the treated water distribution system	6B.19	Nr	184
Number of potable water pumping stations that pump water imported from a 3rd party supply into the treated water distribution system	6B.20	Nr	5
Total number of service reservoirs	6B.21	Nr	107
Number of water towers	6B.22	Nr	44
Energy consumption – treated water distribution (MWh)	6B.23	mWh	152,518.081
Average pumping head – treated water distribution	6B.24	m.hd	82.34
Total number of treated water distribution imports	6B.25	Nr	12
Water imported from 3rd parties to treated water distribution systems	6B.26	Ml/d	61.90
Total number of treated water distribution exports	6B.27	Nr	21.00
Water exported to 3rd parties from treated water distribution systems	6B.28	Ml/d	17.81
Peak 7-day rolling average distribution input	6B.29	Ml/d	1,170.88
Peak 7-day rolling average distribution input/annual average distribution input	6B.30	%	121.94%

More details on these metrics can be found in our non-financial line commentary published on our website at **affinitywater.co.uk/reports-publications**, including the methodology and basis of the calculation.

Section 6 – Additional regulatory information – water network plus

6B – Treated water distribution – assets and operations for the 12 months ended 31 March 2023

Water balance – company level	RAG4 reference	Units	Input
Measured household consumption (excluding supply pipe leakage)	6B.31	Ml/d	326
Unmeasured household consumption (excluding supply pipe leakage)	6B.32	Ml/d	285.8
Measured non-household consumption (excluding supply pipe leakage)	6B.33	Ml/d	156.9
Unmeasured non-household consumption (excluding supply pipe leakage)	6B.34	Ml/d	9.74
Total annual leakage	6B.35	Ml/d	150.66
Distribution system operational use	6B.36	Ml/d	0.81
Water taken unbilled	6B.37	Ml/d	19.14
Distribution input	6B.38	Ml/d	948.811
Distribution input (pre-MLE)	6B.39	Ml/d	960.198
Components of total leakage (post MLE) – company level			
Leakage upstream of DMA	6B.58	Ml/day	27.20
Distribution main losses	6B.59	Ml/day	66.65
Customer supply pipe losses – measured households excluding void properties	6B.60	Ml/day	23.50
Customer supply pipe losses – unmeasured households excluding void properties	6B.61	Ml/day	27.73
Customer supply pipe losses – measured non-households excluding void properties	6B.62	Ml/day	1.37
Customer supply pipe losses – unmeasured non-households excluding void properties	6B.63	Ml/day	0.47
Customer supply pipe losses – void measured households	6B.64	Ml/day	2.18
Customer supply pipe losses – void unmeasured households	6B.65	Ml/day	0.96
Customer supply pipe losses – void measured non-households	6B.66	Ml/day	0.523
Customer supply pipe losses – void unmeasured non-households	6B.67	Ml/day	0.08

Section 6 – Additional regulatory information – water network plus continued

6C – Water network+ – Mains, communication pipes and other data for the 12 months ended 31 March 2023

	RAG4 reference	Units	Input
Treated water distribution – mains analysis			
Total length of potable mains as at 31 March	6C.1	Km	16,969.2
Total length of potable mains relined	6C.2	Km	0.0
Total length of potable mains renewed	6C.3	Km	11.2
Total length of new potable mains	6C.4	Km	62.3
Total length of potable water mains (≤320mm)	6C.5	Km	15,663.0
Total length of potable water mains (>320mm and ≤ 450mm)	6C.6	Km	625.0
Total length of potable water mains (>450mm and ≤610mm)	6C.7	Km	498.8
Total length of potable water mains (> 610mm)	6C.8	Km	182.3
Treated water distribution – mains age profile			
Total length of potable mains laid or structurally refurbished pre-1880	6C.9	Km	76.5
Total length of potable mains laid or structurally refurbished between 1881 and 1900	6C.10	Km	203.7
Total length of potable mains laid or structurally refurbished between 1901 and 1920	6C.11	Km	610.2
Total length of potable mains laid or structurally refurbished between 1921 and 1940	6C.12	Km	2,520.5
Total length of potable mains laid or structurally refurbished between 1941 and 1960	6C.13	Km	3,858.4
Total length of potable mains laid or structurally refurbished between 1961 and 1980	6C.14	Km	3,719.6
Total length of potable mains laid or structurally refurbished between 1981 and 2000	6C.15	Km	2,751.9
Total length of potable mains laid or structurally refurbished between 2001 and 2020	6C.16	Km	3,094.8
Total length of potable mains laid or structurally refurbished post 2021	6C.17	Km	133.5
Communication pipes			
Number of lead communication pipes	6C.18	Nr	312,153
Number of galvanised iron communication pipes	6C.19	Nr	246,165
Number of other communication pipes	6C.20	Nr	522,631
Number of lead communication pipes replaced or relined for water quality	6C.21	Nr	486
Other			
Company area	6C.22	km²	4,515
Compliance Risk Index	6C.23	Nr	1.09
Event Risk Index	6C.24	Nr	25
Properties below reference level at end of year	6C.25	Nr	23,680.00

More details on these metrics can be found in our non-financial line commentary published on our website at **affinitywater.co.uk/reports-publications**, including the methodology and basis of the calculation.

6D – Demand management – Metering and leakage activities for the 12 months ended 31 March 2023

	RAG4 reference	Units	Basic meter	AMR meter	AMI meter
Metering activities – Totex expenditure					
New optant meter installation for existing customers	6D.1	£m	–	1.533	–
New selective meter installation for existing customers	6D.2	£m	–	15.552	–
New business meter installation for existing customers	6D.3	£m	–	–	–
Residential meters renewed	6D.4	£m	–	1.561	–
Business meters renewed	6D.5	£m	–	0.410	–
Metering activities – Explanatory variables					
New optant meters installed for existing customers	6D.6	000s	–	4.341	–
New selective meters installed for existing customers	6D.7	000s	–	46.065	–
New business meters installed for existing customers	6D.8	000s	0.001	0.066	–
Residential meters renewed	6D.9	000s	–	12.254	–
Business meters renewed	6D.10	000s	0.017	1.089	–
Replacement of basic meters with smart meters for household customers	6D.11	000s	–	9.720	–
Replacement of AMR meter with AMI meters for household customers	6D.12	000s	–	0.000	–
Replacement of basic meters with smart meters for business customers	6D.13	000s	–	0.944	–
Replacement of AMR meter with AMI meters for business customers	6D.14	000s	–	0.000	–
New residential meters installed for existing customers – supply-demand balance benefit	6D.15	Ml/d	–	1.50	–
New business meters installed for existing customers – supply-demand balance benefit	6D.16	Ml/d	–	–0.01	–
Replacement of basic meter with smart meters for household customers – supply-demand balance benefit	6D.17	Ml/d	–	–0.319	–
Replacement of AMR meter with AMI meter for household customers– supply-demand balance benefit	6D.18	Ml/d	–	0.000	–
Replacement of basic meter with smart meters for business customers – supply-demand balance benefit	6D.19	Ml/d	–	–0.742	–
Replacement of AMR meter with AMI meter for business customers– supply-demand balance benefit	6D.20	Ml/d	–	0.000	–
Residential properties – meter penetration	6D.21	%	40.4	27.3	–

	RAG4 reference	Units	Maintaining leakage	Reducing leakage	Total
Leakage activities – Totex expenditure					
Total leakage activity	6D.16	£m	5.595	10.243	15.838
Leakage improvements delivering benefits in 2020–25	6D.17	Ml/d			3.59

	RAG4 reference	Units	Total
Per capita consumption (excluding supply pipe leakage)			
Per capita consumption (measured)	6D.18	l/h/d	137.50
Per capita consumption (unmeasured)	6D.19	l/h/d	187.19

Metering activities

We have not installed any Automated Metering Infrastructure ('AMI') meters, i.e., meters capable of using 'smart' metering technologies. Wherever possible we install Automated Meter Reading ('AMR') meters. With AMR meters, we can obtain a reading from the meter by walking or driving past the property, without the need to lift a cover or enter the property. This makes meter reading more efficient. These meters do not have any 'smart metering' capability. More details on these metrics can be found in our non-financial line commentary published on our website at affinitywater.co.uk/reports-publications, including the methodology and basis of the calculation.

Leakage activities

See commentary under table 3A for our leakage performance in 2022/23. Activities included within the £5,595,000 maintaining leakage total are for surveys undertaken in 2022/23, stop-tap fitting, major fitting sounding, acoustic sound logging and enforced and free customer repairs. Leakage expenditure is included in base operating expenditure, no leakage spend has been classified as enhancement in line with our business plan and enhancement allowances.

Section 6 – Additional regulatory information – water network plus continued

6F – WRMP annual reporting on delivery – non-leakage activities

Activity – Classification	Delivery year (in use)	2020/21	2021/22	2022/23	2023/24	2024/25	After 2024/25
Capital expenditure							
AFF-CTR-WRZ4-4001: Egham to Iver – Internal interconnectors delivering benefits in 2020–2025	2023/24	–	0.121	0.095	0.839	1.751	–
AFF-RTR-WRZ7-0639: Deal Continuation After 2020 – Supply-side improvements delivering benefits in 2020–2025	2020/21	–	–	–	–	–	–
Sundon conditioning plant – Supply-side improvements delivering benefits from 2026	2023/24	0.426	4.514	3.650	6.132	0.367	–
Customer side demand – Demand-side improvements delivering benefits in 2020–2025 (excl. leakage and metering)	2020–25	1.641	5.191	5.471	5.885	4.066	n/a
Total		**2.067**	**9.826**	**9.216**	**12.856**	**6.184**	**–**
Opex costs							
AFF-CTR-WRZ4-4001: Egham to Iver – Internal interconnectors delivering benefits in 2020–2025	2023/24	–	–	–	0.136	0.272	0.272
AFF-RTR-WRZ7-0639: Deal Continuation After 2020 – Supply-side improvements delivering benefits in 2020–2025	2020/21	–	–	–	–	–	–
Sundon – Supply-side improvements delivering benefits from 2026	2023/24	–	–	–	–	4.014	2.810
Customer side demand – Demand-side improvements delivering benefits in 2020–2025 (excl. leakage and metering)	2020–25	0.024	1.045	1.420	1.407	1.407	–
Total		**0.024**	**1.045**	**1.420**	**1.543**	**5.693**	**3.082**
Benefits							
AFF-CTR-WRZ4-4001: Egham to Iver – Internal interconnectors delivering benefits in 2020–2025	2023/24	–	–	–	17.000	17.000	17.000
AFF-RTR-WRZ7-0639: Deal Continuation After 2020 – Supply-side improvements delivering benefits in 2020–2025	2020/21	0.070	0.070	0.070	0.070	0.070	0.070
Sundon – Supply-side improvements delivering benefits in 2020–2025	2023/24	–	–	–	–	41.000	41.000
Customer side demand – Demand-side improvements delivering benefits in 2020–2025 (excl. leakage and metering)	2020–25	0.560	21.720	47.350	80.020	97.920	–
Total		**0.630**	**21.790**	**47.420**	**97.090**	**155.990**	**58.070**

Activity – Classification	Delivery use (in year)	Length (km)	Diameter (mm)	Pipe material	Pumping capacity installed (kW)	Storage capacity installed (m^3)
AFF-CTR-WRZ4-4001: Egham to Iver – Internal interconnectors delivering benefits in 2020–2025	2023/24	N/A	N/A	N/A	747	N/A

More details can be found in our non-financial line commentary published on our website at **affinitywater.co.uk/reports-publications**, with a high level summary included below.

Internal interconnectors delivering benefits in 2020–2025

We have one scheme, AFF-CTR-WRZ4-4001: Egham to Iver, which is captured under this category. This is for the installation of a new booster pump to enable an additional 17Ml/d to be transferred from our Wey community to Pinn community.

Supply-side improvements delivering benefits in 2020–2025

We have one scheme that falls within this category. AFF-RTR-WRZ7-0639: Deal Continuation After 2020: This is the continuation of an existing bulk transfer agreement. The transfer agreement only entitles us to utilise it under emergency conditions and therefore is not forecasted within our opex budget to be utilised so no opex has been included. There is no new infrastructure required so there are no capex costs associated with the scheme. The benefits have been included for all years at 0.07Ml/d as per the terms of the agreement.

Supply-side improvements delivering benefits starting from 2026

Sundon conditioning plant (Sundon Reservoir) is the work required to upgrade the existing conditioning plant at Sundon, with the upgraded plant scheduled to become operational in 2024/25. The delivery of this project will remove water quality constraints that currently prevent the full utilisation of our bulk import from Anglian Water into WRZ3 (Lee) enabling us to increase our utilisation of the Anglian Water Grafham bulk supply up to its full 91Ml/d capacity (pre climate change impact), which is currently capped at 50Ml/d.

Demand-side improvements delivering benefits in 2020–25 (excluding leakage and metering)

We have worked continuously to reduce overall demand throughout the year via water efficiency device installation and innovative behavioural change campaigns. We have developed water sector, national and community partnerships to support the delivery of our challenging demand reduction target. These partnerships have allowed us to target our demand reduction campaigns, intervention and support to specific communities and geographies.

Within 6F Demand management spend is included under capex as this is how it is funded, however for statutory purposes a proportion of the spend has to be treated as opex in 4L. For consistency we have continued to report this as capex in 6F.

Schemes not included in Table 6F

We had three schemes in our WRMP19 which have not been captured within this table. Two of which sit within our WRZ7/Dour community. These schemes are not required for security of supply as we have a surplus in Dour (Affinity Water's Southeast region), so we have not progressed them. The two schemes are:

1. AFF-EGW-WRZ7-0629: Lye Oak Licence Variation – Scheme not required due to the surplus in WRZ7.
2. AFF-RNC-WRZ7-0900: Dover Constraint Removal – Scheme not required due to the surplus in WRZ7.

The other scheme not included is AFF-NGW-WRZ4-0624: Canal and River Trust and GSK Slough Boreholes. This was selected in WRMP19 for delivery in 2025/26. Through the preparation of our draft WRMP24 we have continued to investigate this option and the need for it. Our current modelling is not suggesting the option will be required in 2025/26 so it is not being progressed outside of the WRMP optioneering process.

Section 9 – Additional regulatory information – innovation competition

9A – Innovation competition

	RAG4 reference	Current year £m
Allowed		
Allocated innovation competition fund price control revenue	9A.1	1.061
Revenue collected for the purposes of the innovation competition		
Innovation fund income from customers	9A.2	1.061
Income from customers to fund innovation projects the company is leading on	9A.3	–
Income from customers as part of the inflation top-up mechanism	9A.4	–
Income from other water companies to fund innovation projects the company is leading on	9A.5	–
Income from customers that is transferred to other companies as part of the innovation fund	9A.6	–
Non-price control revenue (e.g. Royalties)	9A.7	–
Administration		
Administration charge for innovation partner	9A.8	0.000

	RAG4 reference	Total amount of funding awarded to the lead company through the innovation fund	Total amount of inflation top-up funding received	Forecast expenditure on innovation fund projects in year (excl. 10% partnership contribution)	Actual expenditure on innovation fund projects in year (excl. 10% partnership contribution)	Difference between actual and forecast expenditure
Water neutrality at NAV sites	9A.9	2.898	0	0.322	0.387	0.065
Smarter tanks	9A.10	0.095	0	0.095	0.095	0
Project Seagrass	9A.11	0.253	0	0.197	0.197	0
Total	**9A.24**	**3.246**	**0**	**0.614**	**0.679**	**0.065**

	RAG4 reference	Forecast project lifecycle expenditure on innovation fund projects (excl. 10% partnership contribution)	Cumulative actual expenditure on innovation fund projects (excl. 10% partnership contribution	Difference between actual and forecast expenditure	Allowed future expenditure on innovation fund projects	In year expenditure on innovation projects funded by shareholders of the lead water company	In-year expenditure on innovation projects funded by project partner contributions	Cumulative expenditure on innovation projects funded by shareholders of the lead water company	Cumulative expenditure on innovation projects funded by project partner contributions
Water neutrality at NAV sites	9A.9	2.898	0.387	-2.511	0	0.039	0	0.039	0
Smarter tanks	9A.10	0.095	0.095	0	0	0	0	0.010	0
Project Seagrass	9A.11	0.253	0.253	0	0	0.005	0	0.025	0
Total	**9A.24**	**3.246**	**0.735**	**-2.511**	**0**	**0.044**	**0**	**0.074**	**0**

As at 31 March 2023, three awards had been granted under the innovation competition scheme with £3,246,000 awarded to fund the projects. Actual expenditure of £735,000 had been incurred on projects funded through the scheme to date. Funds received under the scheme are allocated to separate general ledger codes and held as payments received in advance until funds are spent. Funds are only spent on innovation projects as allocated and are not used to fund business-as-usual activities.

The cash received related to the innovation fund and not spent to date (£2,511,000) is included within the appointed cash and cash equivalents total of £140,100,000 in table 1C row 1C.11.

Section 11 – Additional regulatory information – greenhouse gas emissions

11A – Operational greenhouse gas emissions reporting for the 12 months ended 31 March 2023

	RAG4 reference	Water (tCO_2e)
Scope one emissions		
Burning of fossil fuels (location-based)	11A.1	1,577.940
Burning of fossil fuels (market-based)	11A.2	1,577.940
Process and fugitive emissions	11A.3	2,189.118
Vehicle transport	11A.4	2,146.674
Emissions from land	11A.5	–
Total scope one emissions (location-based)	**11A.6**	**5,913.732**
Total scope one emissions (market-based)	**11A.7**	**5,913.732**
Scope one emissions; Greenhouse Gas ('GHG') type CO_2	11A.8	3,677.787
Scope one emissions; GHG type CH_4	11A.9	1.093
Scope one emissions; GHG type N_2O	11A.10	2,232.028
Scope one emissions: GHG other types	11A.11	2.830
Scope two emissions		
Purchased electricity – location-based	11A.12	43,623.309
Purchased electricity – market-based	11A.13	–
Purchased heat	11A.14	–
Electric vehicles	11A.15	–
Removal of electricity to charge electric vehicles at site	11A.16	–
Total scope two emissions (location-based)	**11A.17**	**43,623.309**
Total scope two emissions (market-based)	**11A.18**	**–**
Scope two emissions; GHG type CO_2	11A.19	43,133.793
Scope two emissions; GHG type CH4	11A.20	180.467
Scope two emissions; GHG type N2O	11A.21	309.049
Scope two emissions: GHG other types	11A.22	–
Scope three emissions		
Business travel	11A.23	204.425
Outsourced activities	11A.24	155.900
Purchased electricity; transmission and distribution – location-based	11A.25	3,990.570
Purchased electricity; transmission and distribution – market-based	11A.26	3,990.570
Purchased heat; extraction, production, transmission and distribution	11A.27	–
Purchased fuels; extraction, production, transmission and distribution	11A.28	–
Use of chemicals	11A.29	10,857.850
Disposal and treatment of waste	11A.30	2,409.230
Total scope three emissions (location-based)	**11A.31**	**17,617.974**
Total scope three emissions (market-based)	**11A.32**	**17,617.974**
Scope three emissions; GHG type CO_2	11A.33	8,292.998
Scope three emissions; GHG type CH_4	11A.34	1,313.819
Scope three emissions; GHG type N_2O	11A.35	1,140.095
Scope three emissions: GHG other types	11A.36	5,847.363
Gross operational emissions (Scope 1,2 and 3)		
Gross operational emissions – location-based	11A.37	67,155.020
Gross operational emissions – market-based	11A.38	23,531.706
Emissions reductions		
Exported renewables	11A.39	–
Exported biomethane	11A.40	–
Insets	11A.41	–
Other emissions reductions	11A.42	–
Total emissions reductions	**11A.43**	**–**
Net annual emissions		
Net annual emissions – location-based	**11A.44**	**67,155.015**
Net annual emissions – market-based	**11A.45**	**23,531.706**

Section 11 – Additional regulatory information – greenhouse gas emissions continued

		Water (kgCO_2e/Ml)
GHG intensity ratios (location based)		
Emissions per Ml of treated water	11A.46	194.9674
Emissions per Ml of sewage treated	11A.47	

Other		Water (tCO_2e)
Green tariff electricity	11A.48	–

Embedded emissions		
Capital projects (cradle-to-gate)	11A.49	–
Total capital projects (cradle-to-gate)	11A.50	8,465.123
Purchased goods and services	11A.51	38,880.373

More details on our greenhouse gas emissions can be found in our non-financial line commentary published on our website at affinitywater.co.uk/reports-publications, including the methodology and a strengths, weaknesses, opportunities and threats (SWOT) based explanatory statement of our approach to reducing greenhouse gas (GHG) emissions.

Non-audited additional regulatory information

Transactions with Associated Companies

Service received	Company	Turnover of associate £m	Terms of supply	Value £m
Interest paid on loan	Affinity Water Capital Funds Limited*	–	Market rate at time of loan inception	0.160
Interest paid on loan	Affinity Water Finance (2004) PLC*	–	At market rate, on-lent by associate on the same terms	14.157
Interest paid on loan	Affinity Water Finance PLC*	–	At market rate, on-lent by associate on the same terms	95.461

Service provided	Company	Turnover of associate £m	Terms of supply	Value £m
Support services	Affinity Water Capital Funds Limited*	–	No market – services charged at a fixed annual fee based on actual cost or recharged by time allocation	0.220

* these companies do not have turnover

The company has applied a materiality threshold of £100,000 for disclosing transactions with individual related parties. No contracts individually exceeded this threshold.

In 2004, Affinity Water Limited borrowed £200,000,000 from its wholly owned subsidiary, Affinity Water Finance (2004) PLC, the loan being the proceeds of the latter's £200,000,000 Class A bonds issued in that year and maturing in July 2026 with an annual coupon of 5.875% and lent on the same terms. On 16 July 2014 Affinity Water Finance (2004) PLC completed a tap issue of £50,000,000 on the same terms as the existing £200,000,000 bond.

The net proceeds of both the bond and the tap issue have been lent to the company on the same terms. The amount outstanding at year-end, net of amortised debt issuance costs, was £251,967,000 (2022: £252,498,000).

As part of the Whole Business Securitisation ('WBS') in February 2013, all existing loans and revolving credit facilities, except for the above £250,000,000 bond, were replaced by the following four new bonds issued on 4 February 2013 by the company's former subsidiary, Affinity Water Programme Finance Limited: £80,000,000 Class A Guaranteed Notes maturing in September 2022 with a coupon of 3.625%, £250,000,000 Class A Guaranteed Notes maturing in March 2036 with a coupon of 4.500%, £150,000,000 Class A Guaranteed RPI-linked Notes maturing in June 2045 with a coupon of 1.548% and £95,000,000 Class B Guaranteed RPI-linked Notes maturing in June 2033 with a coupon of 3.249%.

On 29 October 2015, Affinity Water Programme Finance Limited completed a tap issue of £40,000,000 on the same terms as its existing £150,000,000 Class A Guaranteed RPI-linked Notes.

On 19 February 2016, Affinity Water Programme Finance Limited issued £10,000,000 Class B guaranteed RPI-linked Notes maturing in June 2033 with a coupon rate of 1.024%.

On 22 August 2016, Affinity Water Programme Finance Limited exchanged £65,800,000 of its 3.625% Guaranteed Notes due 2022 for a new issue of 3.278% Guaranteed Notes due 2042. An additional £19,200,000 of 3.278% Guaranteed Notes due 2042 were issued at the same time.

On 22 November 2017, Affinity Water Programme Finance Limited issued £60,000,000 Class A Guaranteed Notes maturing in November 2033 with a coupon of 2.699% and £60,000,000 Class A Guaranteed CPI-linked Notes maturing in November 2042 with a coupon of 0.230%.

On 22 January 2019, the assets and liabilities of Affinity Water Programme Finance Limited were transferred to the company's subsidiary Affinity Water Finance PLC.

On 20 October 2021, Affinity Water Finance PLC issued £130,000,000 Class A Guaranteed CPI-linked Notes maturing in September 2038 with a coupon rate of 0.010%.

The £14,204,000 Class A Guaranteed Notes with a coupon of 3.625% matured in September 2022. The company repaid this amount in full to Affinity Water Finance PLC in September 2022.

The net proceeds of the bond issues and the tap issue have been lent to the company on the same terms.

The amount outstanding at year-end, net of amortised debt issuance costs, was £1,076,165,000 (2022: £1,019,706,000).

On 4 February 2013, the company borrowed an amount of £3,550,000 from Affinity Water Capital Funds Limited, the company's intermediate parent company. The final repayment date of this loan is 31 March 2036, with interest terms having been set at 4.500%.

There are no loans to group companies.

Non-audited additional regulatory information continued

Dividend policy

Our dividend policy was approved in January 2022, with changes from our previously published dividend policy relating to dividends from the non-appointed business being permissible subject to the company's economic gearing being below that of its internal Business Plan and a reduction in the base dividend for the appointed business from 5% to 4%.

The dividend policy of Affinity Water Limited is to pay a dividend commensurate with the long-term returns and performance of the business and allowing shareholders to earn an appropriate return from an investment in the company, while not impairing the company's longer-term financeability and taking into account commitments to its stakeholders and customers. In determining the level of dividend, the financial performance of the appointed and non-appointed businesses are considered separately.

The base dividend for the appointed business will be set in reference to the company's internal Business Plan and will not exceed a nominal 4% yield on equity as an annual average over the AMP, based on the company's actual financial structure. Dividends can be increased or lowered from the base depending on the actual performance of the company. An assessment will be completed by the Board to determine if the payment or part payment of the dividend reflects and/or would compromise the long-term social, financial and operational commitments made to stakeholders; such assessment includes the following areas: customer service; operational commitments; community commitment; and employees and the health of the pension plans. This assessment also demonstrates that the dividend policy for AMP7 takes account of obligations and commitments to customers and other stakeholders, including performance of delivery against the final determination for AMP7. This includes, in particular, assessment of performance commitments with associated ODIs as set in the final determination and any ODI penalties or rewards earned. It will also require an assessment of the long-term financial resilience of the company in relation to liquidity, distributable profits of the company, cash facilities available and financial ratios.

Finally, the Board tests any proposed dividend payments against legal and regulatory requirements and restrictions, including the management of economic risk and compliance with financial covenants.

We are restricting dividends to our shareholders throughout AMP7 to enable the substantial investments to improve resilience and protect the environment. Equity dividends of £nil were paid from our non-appointed business (the parts of our business not regulated by Ofwat) during 2022/23 (2022: £nil), in order to service group debt, reflecting the shareholders' commitment to re-invest all planned returns from the company's appointed business for the benefit of our customers.

Viability statement

The Board's consideration of the company's longer-term viability and prospects is an extension of our business planning process. This includes financial budgeting and forecasting, and a robust risk management process. Our strategy aims to enhance our long-term prospects by making sure that our operations and finances are sustainable. The directors have assessed the company's long-term prospects in the context of our WRMP, which sets out our plan to secure the long-term provision of resilient and sustainable water supplies for customers from 2020 to 2080. The results of financial modelling presented to the Board over this period to enable the assessment of the company's long-term prospects reflect the expected level of investment implied by this plan and recovery of this investment from customers.

The directors have assessed the company's financial viability over a shorter ten-year period to 31 March 2032 (the 'lookout period'). The company's viability statement, including information on the company's approach to producing this statement, can be found within the Strategic Report on pages 122 to 127 of our Annual Report and Financial Statements 2022/23. The sensitivities used in stress-testing the base case cash flow forecast were in some instances more severe than the sensitivities specified by Ofwat to be used in stress-testing AMP7 Business Plans.

Stress-testing was performed on a Board-approved base case cash flow forecast prepared by management. The base case has taken into consideration the impact of Covid-19, supply chain cost pressures and the energy price crisis on the company, and reprofiled capital expenditure from projects delayed during the first year of AMP7 into later years of AMP7.

The Audit, Risk and Assurance 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. The results of management's stress-testing and the viability statement were reviewed by the Board in approving the Strategic Report.

To address Ofwat's previous feedback relating to our 2018/19 viability statement, cross references have been added to the viability statement linking key risks to further details provided in our Strategic Report on operational activities. The viability statement also includes mitigating actions the company might put in place for the scenarios in the stress-testing. Following a further query from Ofwat in 2020/21, we conclude that our higher levels of gearing do not impact our viability. Our stress test scenarios show sufficient headroom in all years when the appropriate mitigating actions are taken. In the absence of mitigating actions, a trigger or default event could occur in a number of scenarios. The compounding impacts of a challenging PR19 final determination, Covid-19, energy prices and inflation have significantly reduced our ability to absorb further cost shocks under the stress test scenarios, however, there are a number of actions management would implement in the event of a downside scenario, primarily working capital management, restriction of dividends, operating cost reduction plans and additional inflation-linked swaps. 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. The base case has taken into consideration our forecast gearing against notional gearing, using a gearing sharing mechanism consistent with methodology prescribed by Ofwat in our final determination with a one-AMP delay.

Details of the third-party assurance obtained over the viability statement, which included assurance over the accuracy of the underlying calculations for the stress-testing underpinning the viability statement, can be found within our Assurance Plan for AMP7, which is published on our website: affinitywater.co.uk. Pricewaterhouse Coopers ('PwC') did not include any matters in its independent Auditors' report on pages 218 to 225 of our Annual Report and Financial Statements 2022/23 in relation to going concern. The Board has signed the Board statement on the completeness and accuracy of information confirming it is satisfied the data and assumptions made are accurate and complete.

Non-audited additional regulatory information continued

Current tax reconciliations

The appointed current tax charge assessed for the period is lower than the standard rate of corporation tax in the UK of 19% for the year ended 31 March 2023. The differences are explained below:

	£m
Loss on appointed activities before tax and fair value movements	(143.337)
Tax calculated at the standard rate of tax in the UK of 19%	(27.234)
Tax effects of:	
– Adjustments in respect of prior years	–
– Expenses not deductible for tax purposes	0.246
– Accelerated capital allowances	12.878
– Other timing differences – pension	(0.282)
– Other timing differences – grants and contributions	(0.338)
– Fair value movements	9.362
– Unrelieved losses carried forwards	4.010
Appointed current tax charge	(1.357)

There were no amounts paid or transferred for the use of group relief assets.

Significant variations between the appointed current tax charge and the total current tax charge for the year ended 31 March 2023 allowed in the company's price limits are explained below:

	£m
Appointed current tax charge	(1.357)
Variance in profit before tax excluding fair value movements	26.848
Variance in fair value movements	(9.362)
Adjustments in respect of prior years	–
Variance in assumptions – capital allowances	(12.226)
Other timing differences – pensions	0.188
Other timing differences – grants and contributions	0.749
Variance due to increase in tax rate	(0.066)
Variance due to losses carried forwards	(4.010)
Other	(0.208)
Total current tax charge allowed in price limits	**0.557**

Factors affecting future tax charges

In the Spring Budget 2021, the UK Government announced that from 1 April 2023 the corporation tax rate would increase to 25% (rather than remaining at 19%, as previously enacted). This new law was substantively enacted on 24 May 2021. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these Financial Statements.

Tax strategy related to the appointed business

Our approach to tax is based on the values incorporated in the updated Affinity Water Limited Code of Ethics:

At Affinity Water, we pay our way. We are committed to being a responsible and transparent taxpayer. We do not engage in tax evasion. We follow all relevant laws and regulations.

We apply high ethical standards and business practices to our tax affairs in line with our policies and procedures. We do not use artificial tax avoidance schemes or tax havens to reduce our tax liabilities. Any available tax reliefs and incentives are only used in accordance with permissible rules and law.

Trust is hard won but easily lost. That's why we must always act with fairness and integrity. That simply means behaving in a way you're proud of – whether you think people will find out or not.

We must never accept or offer anything that could be considered a bribe or turn a blind eye to the actions of others. We are committed to implementing and enforcing effective systems – and to ensuring that we all take clear steps – to prevent bribery and any other form of corruption in our business.

We ensure any gifts and hospitality offered or received are reasonable and appropriate. They must never improperly influence our decisions or impartiality. Any gifts and hospitality we offer or receive must be appropriate and reasonable in terms of value, frequency, nature, and timing.

We are open, honest, and collaborative with our regulators and share transparently all information which should be in the public domain.

Any concerns at work can be reported confidentially on our whistleblowing service, Luminate. It's a secure, independent service. Everyone is empowered to report misconduct or behaviour which breaches company standards.

Approach to risk management and governance

Tax strategy is part of our overall risk management and governance framework, which is overseen by the Audit, Risk and Assurance Committee and the Board.

Martin Roughead, the Chief Financial Officer ('CFO'), is ultimately responsible for tax strategy. Responsibility for day-to-day tax matters, and for reporting to the Audit, Risk and Assurance Committee and the Board on the Group's tax position, is delegated to the Group Tax Manager.

The CFO meets with the Group Tax Manager, Group Treasurer and Group Financial Controller regularly, to discuss current business issues and forthcoming significant transactions. These meetings ensure that the Group Tax Manager is involved in one-off transactions at an early stage and has time to identify tax risks and assess their potential impact on the business.

The CFO, Group Tax Manager and Head of Risk and Insurance review the Group's tax risks every other month. We maintain a risk register, which documents potential impact on the business and controls in place to minimise risk. The Head of Risk and Insurance reports key risks to the Executive Management Team, this includes tax risks where necessary.

We consider our main tax risk to be the introduction of new legislation or changes in tax practice, which could result in increased tax payments that have not been included in the current regulatory settlement for Affinity Water Limited's appointed business.

Attitude to tax planning

We apply high ethical standards and business practices to our tax affairs in line with our policies and procedures. We do not use artificial tax avoidance schemes or tax havens to reduce our tax liabilities, and we always comply with what we understand to be both the letter and the spirit of the law. All profits are reported and taxed in the country in which there is economic substance. We operate solely in the UK, and all of our customers are based here. No funds are held off-shore, and all finance is raised and held within the UK.

All of our profits are reported and taxed in the UK.

Whilst we do not interpret tax legislation aggressively, we have an obligation to minimise our tax liability so that our customers are not funding excessive and unnecessary charges through increased bills. We are able to reduce our Corporation Tax charge by making beneficial claims and elections, such as those available for investment in Research & Development activities, reflecting the scale of our investment in assets vital to securing the ongoing delivery of an essential service to our customers and communities.

Non-audited additional regulatory information continued

The tax implications of significant transactions are initially assessed by the Group Tax Manager, with assistance from external advisors when necessary. We seek external advice in order to reduce uncertainty and to ensure that our interpretation of current tax law and practice is correct.

Level of acceptable risk in relation to UK tax

Our approach to tax risk is part of our wider risk management framework, in the context of our regulatory settlement.

The level of acceptable UK tax risk is not rigidly defined, however, the Group generally seeks to reduce tax risk. Uncertainties over the interpretation of tax law are resolved as far as possible by seeking advice from external experts, our industry group or HMRC.

Dealing with HMRC

We have an open relationship with HMRC, and we advise them of any complex issues so that we can work with them to determine the correct amount of tax due. Whenever possible, we agree the tax treatment with HMRC before the tax returns are submitted. If this is not possible, we draw HMRC's attention to complex issues at the time of submitting the tax returns.

We actively engage with HMRC and other relevant authorities on proposed changes to tax legislation by responding to public consultations and attending engagement meetings for businesses. This is done either directly or as part of our industry group.

It is rare for us to disagree with HMRC over the interpretation of tax law, however, when disagreements occur, they are resolved through discussion rather than litigation.

Assurance

The data presented in this regulatory Annual Performance Report has been subject to the company's governance, risk management and internal control framework as set out in the governance section of the Annual Report and Financial Statements on page 130 onwards of our Annual Report and Financial Statements 2022/23.

For further information on our assurance procedures and results, please refer to our Assurance Plan for AMP7, which is published on our website: **affinitywater.co.uk**.

Affinity Water

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