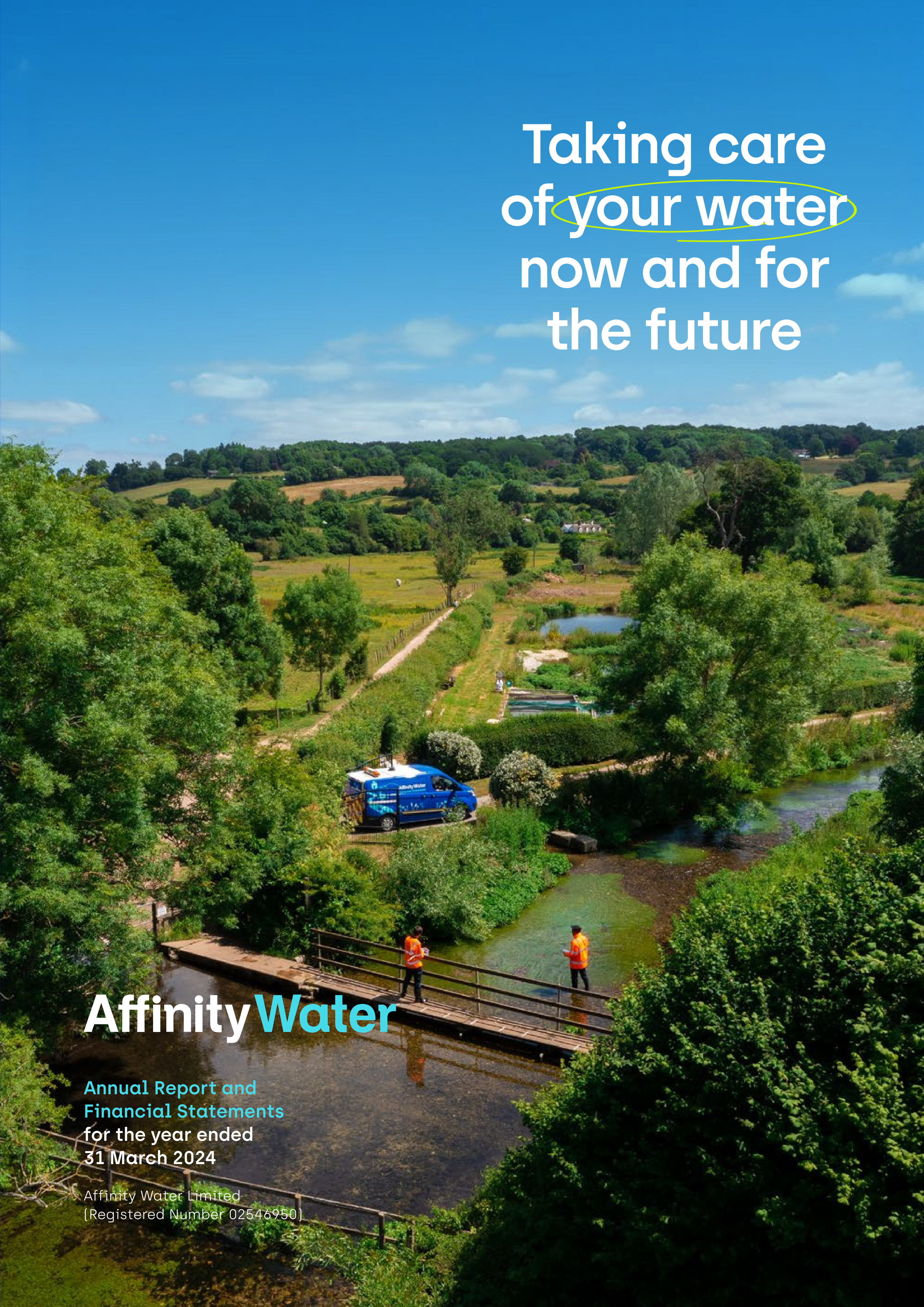
Taking care of your water now and for the future



Affinity Water

Annual Report and Financial Statements
for the year ended
31 March 2024

Affinity Water Limited
[Registered Number 02546950]

Welcome to the

Affinity Water Annual Report & Financial Statements 2023/24

Affinity Water
Taking care of your water

About us

We are the largest 'water only' company in England. That means we supply clean water to our customers, but we do not collect or treat wastewater or sewage. We own and manage the water assets and network in an area of approximately 4,500km² across three supply regions in South East England. We have been supplying water to our local communities for more than 170 years.

937Ml/d
Daily amount of drinking water supplied
[FY23: 948Mld]

3.90m
Customers served
[FY23: 3.89m]

1.51m
Household properties connected
[FY23: 1.49m]

£347.7m
Revenue
[FY23: £315.0m]

16,989km
Length of mains network
[FY23: 16,900km]

1,430
Number of employees
[FY23: 1,460]

90
Number of water treatment works
[FY23: 91]

£22.1m
Operating profit
[FY23: £14.6m]

£1.85bn
Our Regulatory Capital Value [RCV]
[FY23: £1.71bn]

74.6%
Gearing Ratio
[FY23: 73.4%]

£37.3m
Net loss [after tax]
[FY23: £100.4m]

[£36.0m]
Cash Flow[1]
[FY23: [£22.9m]]

Contents

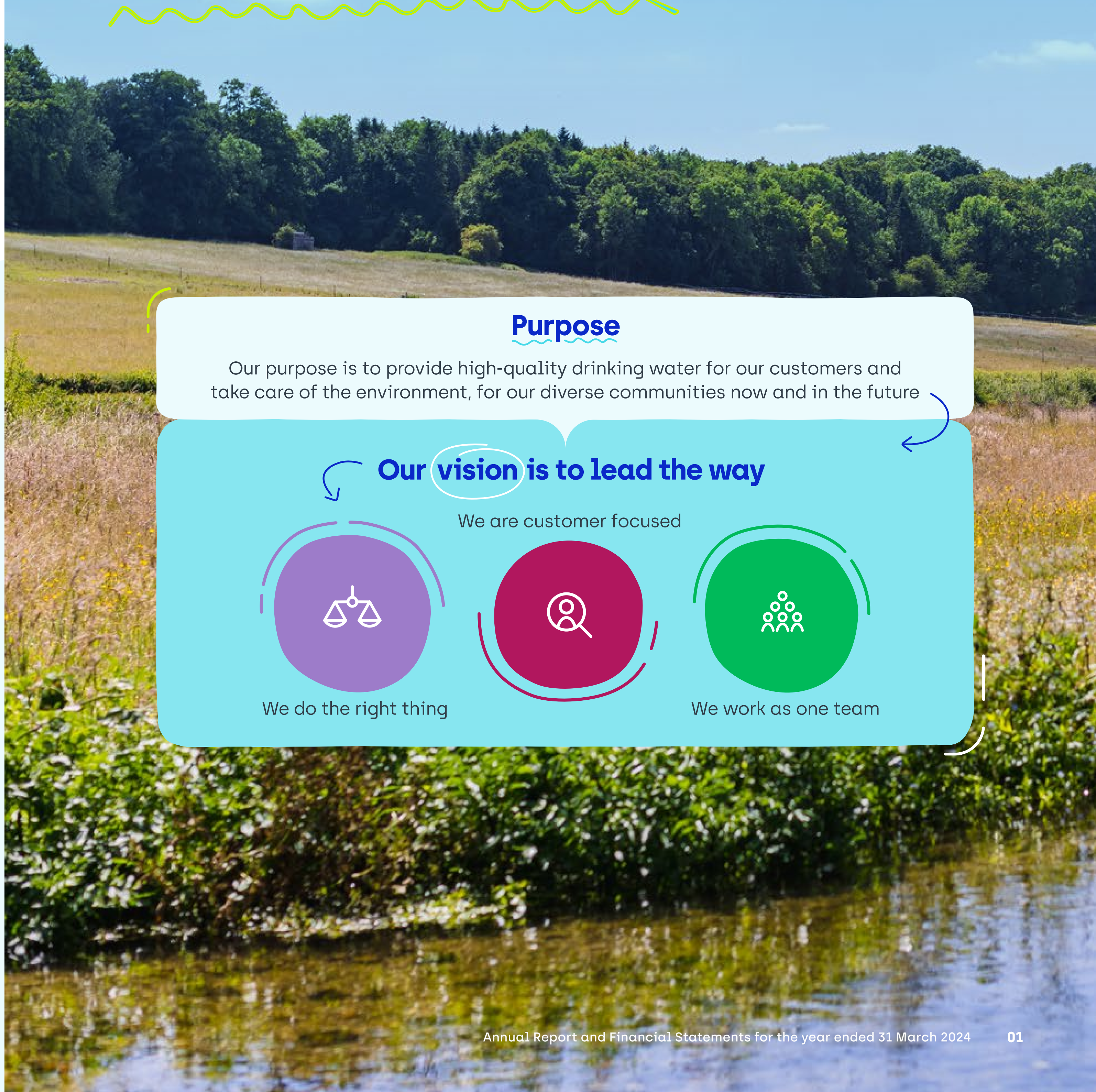
Important information

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 South East England.

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

1 This Alternative Performance Measure is calculated as the total of the following line items per the statement of cash flows [refer to page 182]: cash generated from operations; capital contributions; purchases of property, plant and equipment; proceeds from sale of property, plant and equipment; purchase of intangible assets; and principal elements of lease payments.

We're taking care of your water now and for the future



Purpose

Our purpose is to provide high-quality drinking water for our customers and take care of the environment, for our diverse communities now and in the future

Our vision is to lead the way

We are customer focused

We do the right thing

We work as one team

Chair's welcome

> The successful introduction of our innovative tariff trials and industry-leading campaigns on saving water, show our commitment, passion and focus on sustainability - it's at the heart of what we do as a business.

Ian Tyler
Company Chair

Highlights

- Achieved 24 of our 28 performance commitments targets.
- Outperformed our leakage target.
- Continued to grow our priority services register to ensure we are supporting customers who need help.
- Focused our approach to Environment, Social & Governance ('ESG'), making sure our values are embedded across the business.
- Set out ambitious plans to improve our services to customers, communities and the environment through submitting our Business Plan for 2025 to 2030.

Welcome to our Annual Report 2023/24. It has been my great pleasure to see the company transform over the last few years, delivering for its customers, community and the environment and strengthening the foundations for continued success into the long term.

Delivering for our customers

We have had a successful year, achieving 24 of our 28 performance commitment targets, and are delighted to have again outperformed our leakage target this year. Our customers tell us how important reducing leakage is to them, and the continued focus from the team has seen us introducing further innovation such as no-dig techniques to fix leaks on communication pipes that link to customers houses.

We have also seen significant improvements on last year's performance in key areas such as interruptions to supply. Ensuring our customers have a constant supply of water is a core service and we continue to keep working hard to minimise any disruption for customers.

We also need to ensure we can support customers who need bespoke services and additional help in times of need, so I am really proud we continue to make real strides forward in areas such as our priority services register. We have more than doubled our target for ensuring we know which customers need priority services, with over 10% of our customers now on the register.

Our underlying performance on water quality has remained strong, and although we had two isolated events that affected the measurement of the Compliance Risk Index, these are fully resolved, and short and long terms plans established to continue investment and maintenance of our treatment works.

Delivering for the future

A significant milestone for the company this year was the creation of our Business Plan for the 2025 to 2030 period, setting out how we will provide a sustainable supply of water, while taking care of the environment for the next five years.

We are proud of our ambitious plans for improving services for customers and the environment and are satisfied we will be financially resilient and sustainable over the period and beyond. While Ofwat will publish the Final Determination on our plan in December this year, we continue to focus on our delivery planning and enabling work with our supply chain, to ensure we are ready to deliver our largest ever investment programme.

Planning for the long term is critical for us to ensure we can continue to provide high quality drinking water, sustainably. To that end, we have worked hard with our stakeholders and other regional water companies this year to develop our 25-year long-term strategy and Water Resources Management Plan (WRMP), setting out how we will provide a sustainable supply of water, while taking care of the environment for our region.

These long-term plans are vital to our ambitions. While we, as a water only company, don't manage sewage, we play a significant part in ensuring our rivers have good ecological health through reducing abstraction and making wider environmental improvements. Our WRMP is a significant step in this journey and, as we progress in developing the first of the major schemes to deliver water for the future (the Grand Union Canal Transfer) by diverting abstraction away from the most sensitive sources, we need to attract significant capital from investors and banks to ensure the most cost-efficient way for our customers and communities.

Focus on sustainability

As a Board, we have continued to focus on sustainability, with the company developing its strategy and activities in areas such as Net Zero, natural capital and the circular economy. I am very pleased that this financial year, we have laid the groundwork to transition our Safety, Health, Environment and Drinking Water quality ('SHEDWQ') Committee to a new Environment, Social and Governance ('ESG') Committee. The ESG Committee met for the first time last month and is in place to continuously challenge and improve the company's performance, minimising risk and maximising value for the environment and society.

We have also continued to see some significant steps in helping our customers continue to reduce their water use. With the successful introduction of our innovative tariff trials and industry-leading campaigns on saving water, we are placing a clear focus on sustainability at the heart of what we do as a business.

A capable team

I would like to emphasise the importance of our company culture and values, which we have reviewed and updated this year, and we continue to support a positive, inclusive and productive work environment. I was particularly proud to see the development of our Equality, Diversity and Inclusion ('EDI') strategy by the EDI Committee; helping us maintain and support a strong, diverse and engaged workforce.

Over the past year, we have welcomed a new independent non-executive director, Shelley Malton, who joined us on 1 December 2023 and we see Trevor Didcock step down from the Board later this year, after nine valued years of service. I would like to thank Trevor for his commitment and insight over these years.

I made an announcement off my own back in January, that I will be stepping down as Chair of the Board, and the recruitment process for my replacement is well underway. This feels like an appropriate time to hand the role over with the strong leadership of Keith Haslett at the helm as Affinity Water's Chief Executive, and a highly capable and cohesive management team, and effective and engaged Board. I will guide the business up to the PR24 Final Determination, with the new Chair focusing the business for performing over the next five years, as well as providing the necessary support and challenge to Keith and his team as they continue to transform the business into one of the highest performing companies in the water industry.

I would like to thank everyone at Affinity Water for their continued efforts. From the great strides in improving performance to managing challenging events, and submitting strong and ambitious plans for the future, the hard work, passion and commitment of all our colleagues is evident and reflected in Affinity Water's commitment to its customers, ensuring we can continue to deliver a vital public service to all the communities we serve.

Ian Tyler
Company Chair

8 July 2024

Who We Serve

The communities we serve

Our supply area is unique. It contains 10% of all the world's rare chalk streams, which are under threat from climate change, water demand, pollution and centuries of adverse river modifications.

We're the largest water-only supply company in the UK

Our Customers

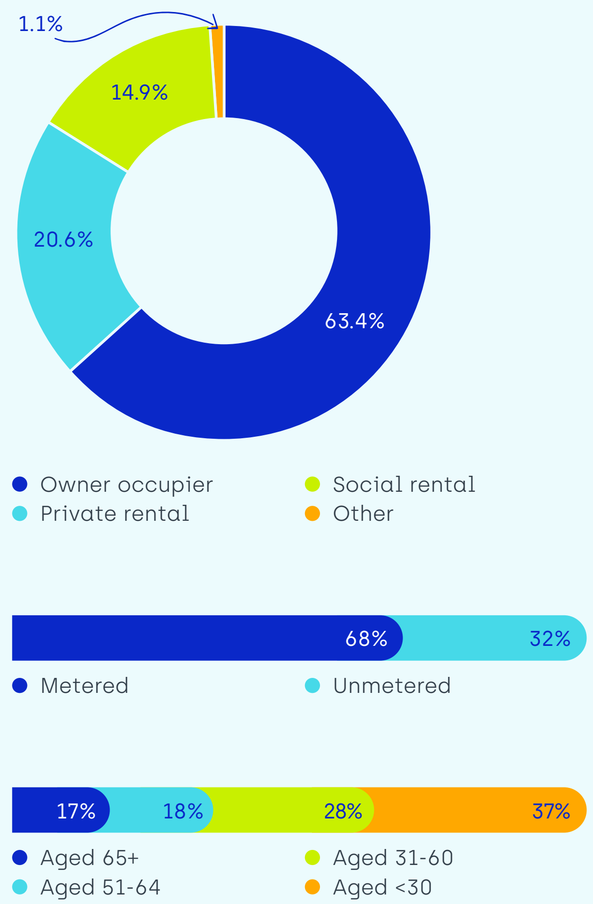
We currently fulfil the highest demand per person for water in England and Wales, at 157 litres per person per day, compared to the average of 145 litres.

Population growth, increased demand for water, climate change and the need to leave more water in the environment means we work increasingly closely with our customers to help them use water more efficiently. We also have a world UNESCO site in Folkestone.

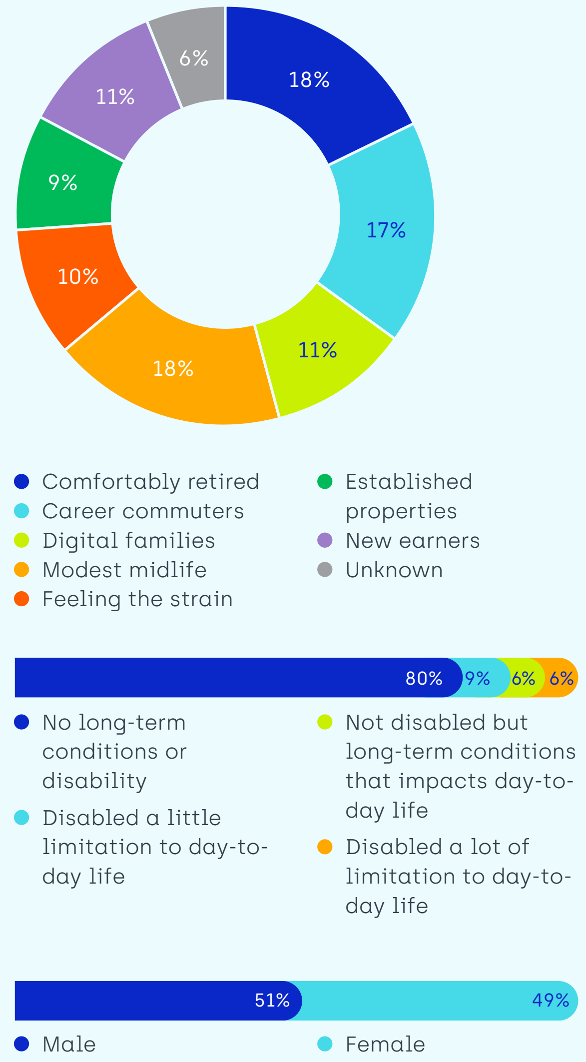
We have a diverse customer base with equally diverse needs. We supply dense urban communities and rural ones too.

Ours is one of the most densely populated and economically active regions in the UK, but in an area considered to be 'water stressed'.

Ownership Status



Demographic Segmentation



Read more about **our customers** at **www.affinitywater.uk.engagementhq.com/25655/widgets/78854/documents/47921**

Our approach to sustainability

Our purpose is to provide high-quality drinking water for our customers and take care of the environment, for our diverse communities, now and in the future. Sustainability is embedded in our strategic thinking as a business and integrated into our daily activities.

01 Ensuring Environmental Social Governance ('ESG') is an essential part of everything we do

ESG performance is essential to how we achieve our purpose and operate in a responsible and sustainable manner. It is part of the way we integrate sustainability within our business. We use the ESG themes to understand both risk and the opportunity to add value.

Read more on **page 32**

03 Planning for a sustainable supply of high-quality water, whilst taking care of the environment, now and in the future

We engage with thousands of customers and stakeholders to help shape both our long-term water resource plans and shorter-term five-year business plans. Our long-term plans act as a roadmap for our shorter-term plans, which outline the investments we need to make and the price we can charge for water.

Our plans address the challenges posed by climate change, population growth and the demand for water – enabling us to continue to provide a sustainable, reliable supply of high-quality water and taking care of the environment.

Read more about **Planning horizons** on **page 10**

05 Preparing for a net zero future

We have set ourselves the challenging target of achieving net zero for operational GHG emissions by 2030. In the long term, we have an ambition to become fully net zero by 2045, ahead of the UK target of 2050.

Read more on **page 34**

02 Using a multi-capital approach

Our capitals are the resources and relationships available to us. They are the inputs to our business that we transform, through our decision-making process and operating activities, into our strategic outcomes. We are starting to use the concept of capitals to guide our decision-making, for example, when considering land use and weighing the interests and benefits of recreation and biodiversity enhancements.

Read more on **page 22**

04 Climate change adaptation

Our customers and regulators expect us to act in the face of climate change. That means being a responsible steward of our local environment, reducing our own carbon emissions, and making sure we're prepared to operate within the context of a changing climate.

06 Our commitment to public value

We are driven by our purpose of providing high-quality water and taking care of our communities' environment – now and for the future.

We are privileged to provide an essential public service and the opportunities that brings to create value for the areas we supply, to help improve the environment, support the local economy, invest in our communities and adapt to the challenges that climate change is bringing to our region.

Read more on **page 37**

Key frameworks to look out for

TCFD

We follow the recommendations of the Task Force on Climate-related Financial Disclosures ('TCFD'), providing our stakeholders with transparent information on climate-related risks and opportunities that are relevant to our business. Sustainability is central to our strategy and we detail our current approach to implementing the recommendations of the TCFD, following the four thematic areas of governance, strategy, risk management, and metrics and targets on page 58.

SUSTAINABLE DEVELOPMENT GOALS

The United Nations SDGs ('UNSDGs') are a blueprint for achieving a better and more sustainable future for all.

The 17 related goals address the global challenges we face, including those related to poverty, inequality, climate, environmental degradation, innovation and responsible consumption. However, there are nine UNSDGs where we believe our contribution is particularly aligned, and these influence our thinking.

We have set these out throughout our Strategic Report to highlight where we feel we are contributing towards the goals.

External guidelines we follow

EU Taxonomy

EU Taxonomy is a classification system, establishing a list of environmentally sustainable economic activities.

It is a tool to help financial institutions and large companies in the EU navigate the transition of their assets to low carbon, scale up sustainable investment and implement the European Green Deal objectives, including the 2050 climate-neutrality target.

The system provides companies, investors and policymakers with appropriate definitions for which economic activities can be considered environmentally sustainable.

See page 67 for further details on eligibility and alignment with EU taxonomy.

Principles of responsible investment

Our owners, DIF, HICL Infrastructure Company Limited (advised by InfraRed Capital Partners Limited) and Allianz Capital Partners on behalf of the Allianz Group, all follow the Principles of Responsible Investment ('PRI') – the world's leading proponent of responsible investment. We align to these principles and report annually on our ESG performance.

The PRI works:

- to understand the investment implications of ESG factors; and
- to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions.

The six Principles for Responsible Investment offer a menu of possible actions for incorporating ESG issues into investment practice.

The six principles are:

Principle 1:
We will incorporate ESG issues into investment analysis and decision-making processes.

Principle 2:
We will be active owners and incorporate ESG issues into our ownership policies and practices.

Principle 3:
We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Principle 4:
We will promote acceptance and implementation of the Principles within the investment industry.

Principle 5:
We will work together to enhance our effectiveness in implementing the Principles.

Principle 6:
We will each report on our activities and progress towards implementing the Principles.

How we operate

Our biggest challenge is to deliver water to a growing population of customers while achieving the ambitious targets on reducing abstraction as part of our environmental objective.

We've been supplying water to the local community for

more than 170 years.

Our supply area is located in one of the driest parts of the UK. The Thames Valley and London normally receive less than 650 mm of rain a year, which is less than Rome, Sydney, or New York, and amongst the lowest in the UK for total annual average rainfall per person. These factors have the effect of reducing the available supply of water and increasing the demand.

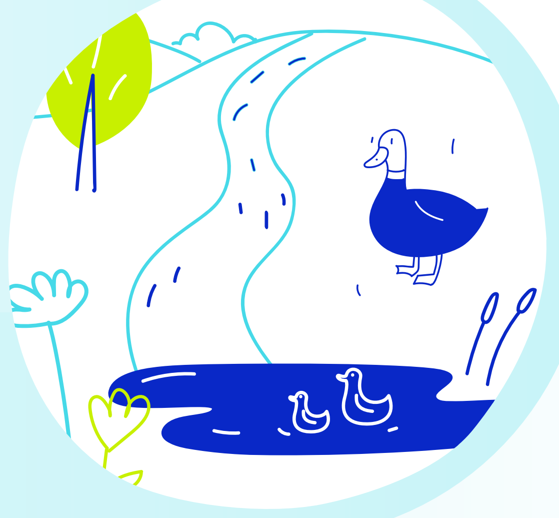
This combination of population growth, demand for water, climate change and the need to leave more water in the environment, particularly for our vulnerable chalk streams, means we need to identify and implement some significant changes to the way we manage both the supply and demand for water in our area.

Through long-term planning and working with our communities, we are focused on building a network that provides a sustainable supply of water to an increasing population, whilst leaving more water in the environment to our globally rare habitats.

Our Water Cycle

Bringing our water together source to tap

Delivering a seamless customer experience source to tap



1

Sustainably taking water from our rivers and aquifers

Most of our water comes from local sources in the chalk aquifer. However, we need to leave more water in the aquifer to help our globally rare chalk streams, which are under threat from the demand for water and the effects of climate change.

We are looking at new ways of bringing water in from neighbouring areas so we can reduce the amount we take from chalk groundwater.

Read more about our new conditioning facility in Sundon which will allow us to do this on **page 40**.

2

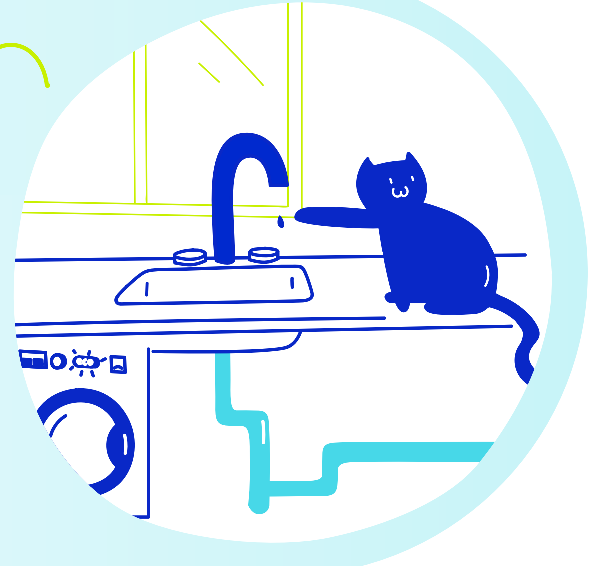
Producing, storing and moving our water through our network to our local areas

As we take water from various groundwater and surface sources, the quality of it can be variable, so we tailor our treatment process to ensure we continue to provide the highest-quality water possible. After we treat water, we pump it into large storage reservoirs or water towers before it makes the final journey across a network of pipes to our customers' taps.

3

Delivering an uninterrupted supply of high quality water to our customers

We encourage our customers to use water efficiently. After customers use water, it is flushed into the sewerage network, where it is treated before it goes back into the environment. Affinity Water is a water-only supply company, and we do not manage wastewater. Sewage providers in our supply area include Thames Water, Anglian Water and Southern Water.



Our planning horizons

We plan for the short, medium, and long term, to ensure we provide high-quality drinking water for our customers and take care of the environment, for our diverse communities now and in the future.

To help us create and prioritise our plans, we consider:

- what the material issues are, both in terms of the level of interest to stakeholders and the effect they may have on our ability to create value;
- our assessment of risks and opportunities; and
- our environmental, social and governance (ESG) commitments, including our net zero transition plan;

Short-term planning

We set annual targets for operational and financial performance, and report on these annually, ensuring we are meeting our five-year goals set out in our Business Plan for 2020 to 2025 in the most effective and efficient way possible.

Medium-term planning

In August 2023, we submitted our next five-year plan (for 2025-2030). It reflects new requirements from our regulators and the feedback we have had from both customers and stakeholders on the shape and pace of our ambitions. This plan delivers the first five years of our Long-Term Delivery Strategy (LTDS) which outlines the public value we provide through our services.

Long-term planning

We set out our long-term ambitions to 2050, the challenges we face, and the huge opportunities for society, our company and the wider water sector to create value in our Strategic Direction Statement published in 2021. Additionally, we plan for water resources for the next 50 years thorough our Water Resources Management Plan ('WRMP') and set out how we would respond to a drought through our Drought Management Plan.

Our Long Term Ambition

Environment

Leave the environment in a sustainable and measurably improved state.

- End unsustainable abstraction from chalk groundwater sources
- Achieve Net Zero for operational emissions by 2030 and all carbon by 2045
- Deliver a net gain in Natural Capital

Resilience

Be prepared for change, and resilient to shocks and stresses.

- Ensure a resilient supply of water for our customers
- Ensure our physical assets are resilient for the long-term
- Ensure our people, processes, suppliers and finances remain resilient

Customers

Deliver what our customers need, ensuring affordability for all.

- Exceed customers' expectations for drinking water
- Personalise our services to support different needs and wants
- Take care of our vulnerable customers and keep bills affordable

Communities

Work with our communities to create value for the local economy and society.

- Build trust and transparency
- Enhance environmental and social health to provide value to our communities
- Reduce our impact in the water environment for all

Case study

Grand Union Canal Transfer

Our water supply is under increasing pressure from population growth, climate change and the need to protect fragile ecosystems.

This project is key to delivering sustainable and reliable water supply for the future and reducing our reliance on water from other sources, including unique chalk stream habitats.

The Grand Union Canal Transfer is a strategic water resources option that we identified as part of our plans for water resources in the future. We are working alongside Severn Trent and the Canal & River Trust charity to complete this scheme by 2032, which will secure future water supplies, protect the environment, and invest in communities.

The canal network has transported people and goods for over a century, and we now want to use it to help transfer clean, recycled water from the Midlands to the South East.

Starting at a water recycling centre in Birmingham, additional water treatment infrastructure will treat water that will then flow through a new pipeline in to the Coventry Canal at Atherstone (Warwickshire), where it will begin a 131-kilometre journey along the Oxford and then the Grand Union Canals. Water will be helped on its way by reusing existing equipment along the canals, as well as installing some new pumps and pipes. The water will then be channelled into a new water treatment works near Milton Keynes, with associated open water storage, before being transferred as clean drinking water into our supply area. As well as creating this essential water resources infrastructure, the project will explore ways to unlock benefits for canal users and owners, the local community and the environment.

> Understanding the views of local people who use the existing canal network, or live and work nearby, will be key to how this scheme develops. We'll be consulting with communities, local authorities, canal users and businesses over the autumn of 2024 to help us better understand the local area and any potential impacts our proposals may have on it.

Steve Plumb
Director of Asset Strategy & Capital Delivery

Measuring how we are doing – Performance highlights

Fourth year of our 2020–2025 business plan

Every five years, water companies produce business plans that set out the performance commitments they will make over a five-year period. These plans are shaped by customers and other stakeholders, based on what they want their water company to achieve and are approved by our regulators.

KPI Key

- 01 Water quality
- 02 Leakage
- 03 PCC
- 04 C-MeX
- 05 D-MeX
- 06 Mains repairs (due to bursts)
- 07 Water supply interruptions >3 hours
- 08 Unplanned interruptions to supply over 12 hours
- 09 Properties at risk of low pressure

Operational

Supplying high-quality water you can trust

Our performance in 2023/24

Compliance Risk Index (CRI): We scored 8.05 for the 2023 calendar year, which was not within the dead band of 2 (lower is better, prior year score 1.09).

Customer contacts per 1,000 population for water quality: We achieved a contact rate of 0.47 on a target of 0.67 contacts, which is a positive outcome.

Link to KPI: 01

Read more about **water supply** on **page 40**

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

Our performance in 2023/24

Leakage: We have outperformed the target of 17% and finished at 18.3% for year 4.

Per Capita Consumption ('PCC'): The performance target was set to incentivise delivery on the interventions, with a challenging target of 33.67Ml/d for year 4. The interventions have been measured and confirmed in the water balance calculation as 36Ml/d, which has outperformed the target.

Environment innovation projects: 10 projects have been delivered to date for this AMP and we are on track to meet our 5 year target.

River restoration: Cumulatively, 30 project units have been delivered for river restoration schemes in this AMP.

Abstraction Incentive Mechanism ('AIM'): We reduced abstraction by 267ML in the year from environmentally sensitive sites when flows or levels were low (2022/23 was 1277Ml).

Link to KPI: 02 03

Read more about **leakage** on **page 41**

Minimising disruption to you and your community

Our performance in 2023/24

Mains repairs: Performance in the year was 98.3 repairs per 1,000km of mains, on a target of no more than 144.4 in the year (2022/23:169.6).

Interruptions to supply ('I2S'): The number of minutes per property where interruptions to supply were three hours or greater. We achieved performance of 2 minutes and 46 seconds, beating the target of 5 minutes and 23 seconds.

Unplanned interruptions >12 hours: We also achieved the 12-hour performance commitment for the first time in AMP7, with only 84 properties affected against a target of 320 properties.

Properties at risk of receiving low pressure: We believe the way this performance measure is reported across the industry differs considerably and we are an outlier compared to other companies.

We have not achieved the target relating to the number of properties at risk of low pressure, but instead believe measuring the average time properties experience low pressure is a more reliable and relevant measure.

Average time properties experienced low pressure: On average, properties were affected for 1 hour and 47 minutes in the year, with a target of<9 hours (2022/23: 2.33 hours).

Unplanned outage: We experienced 1.43% of unplanned outages across all our treatment works in the year, on a target of <2.34%.

Delivery of WINEP: We achieved the requirements for the Water Industry National Environment Programme ('WINEP') in the year. This requirement is laid out to improve the natural environment through timely environmental improvement schemes. We also met this requirement in 2022/23.

Link to KPI: 07 08

Read more about **Watersure Trial** on **page 42**

Providing a great service that you value

Our performance in 2023/24

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. Despite the industry going backwards in terms of service levels and experience scores, Affinity has made ground, improving our league table position from 14th to 12th in year 4 and closing the gap to mid-table position.

Developer Services Measure of Experience ('D-MeX'): D-MeX is a mechanism to incentivise water companies to provide an excellent customer experience for developer services (new connection) customers. These customers include small and large property developers, self-lay providers ('SLPs'), and those with new appointments and variations. Performance in the first two quarters of the year was below the required target due to a number of contractual issues with the incumbent supplier. We did not meet out target this year, achieving a score of 87.04, but continue to improve our service to developers.

Priority Services Register: We continue to exceed the target for both Priority Services Register (PSR) reach (10.73%) and actual contacts (55.6). Through our data sharing with UK Power Networks ('UKPN') we have created 1,445 new PSR records and updated 1,109 records.

Gap sites: We reduced the number of occupied properties not billed by 71 in 2023/24, with a target of 50.

Void properties: We achieved our target of reducing our void properties in the year to 2.03%, with a target of 2.16%.

Vulnerable customers who said they were happy with our service: Through surveys conducted, 92 of our customers in vulnerable circumstances who receive financial help said they were satisfied with our service, and 91 of those that receive non-financial help were satisfied. We achieved the target of 90% for both customer surveys.

Vulnerable customers who found us easy to deal with: Through surveys conducted, 92% of our customers in vulnerable circumstances who receive financial help said they found us easy to deal with, and 90% of those that receive non-financial help were satisfied.

BSI Accreditation: We retained certification for BS 18477 for Inclusive Service Provision.

IT resilience: We have delivered our best performance to date, achieving a resilience score of 813.8 on a target of no more than 1,300.

Link to KPI: 04 05

Read more about **How we are minimising disruption** on **page 43**

Strategic Report

Strategic report

Alignment of culture with purpose, values and strategy

We're driven by our purpose and guided by our principles

Read more on **page 38**

Our business model

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

Read more on **page 20**

Our external environment

We're tackling the challenges to create a sustainable future

Read more on **page 24**

Our stakeholders

We've listened to our key stakeholders to ensure we have shared outcomes and common purposes

Read more on **page 30**

Our strategy

We are planning to innovate and invest to ensure a resilient supply of water for now and in the future

Read more on **page 38**

Principal risks and uncertainties

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

Read more on **page 80**

Chief Executive Officer's introduction

> I am confident we have the right people and plans in place to deliver the service our customers and stakeholders expect of us.

Keith Haslett
Chief Executive Officer

Highlights

- Continued to build on our performance improvements, achieving our best ever reduction in supply interruptions for customers as well as outperforming our leakage and interruptions to supply targets.
- Supported our customers with innovative payment support, including launching a tariff trial with 1,500 customers to explore if different ways of charging make bills more affordable and encourage water saving.
- Refreshed our vision and values in alignment as a customer focused business through widespread engagement across all our teams and set ourselves up for success in the coming years.

I am pleased to present our Strategic Report this year and I continue to be extremely proud of the passion and dedication I see across the company.

Overview

Over this last year we have focused on galvanising our three areas of operation, uniting in our commitment to serving our region and taking care of our customers and environment every day.

We have seen positive improvements in performance this year as well as some challenges, and I have full confidence that we will continue to build on this strong performance in the coming year with a highly engaged workforce and delivering transformational activities for key operational areas of the business.

We have worked hard this year to set out our plan for the next five years to 2030 and how this will be delivered. A key element is building and supporting our team in terms of retaining and attracting the best talent to ensure we meet customer expectation for service levels now and in the future. We are making good progress through our focus on health & safety, and equality, diversity & inclusion and we have refreshed our vision, purpose, and values to reflect these priorities for our employees.

Performance highlights and challenges

We are recovering well from performance challenges seen in previous years and have made significant progress in key areas such as leakage and interruptions to supply. While there have been some challenges to overcome, we are improving on the delivery of our commitments for this current five-year plan to 2025 with improved levels of interaction with our customers in key areas.

Leakage

We have continued to make progress in driving down leakage and are proud to have outperformed our target by reducing leakage by 18.3% at the end of 2023-24. We have kept in place our elevated levels of Active Leakage Control and completed our increased pressure management programme, and, as we enter the final year of this five-year period, we are on target to deliver our overall commitment of a 20% reduction by 2025 and 50% by 2050.

Per Capita Consumption (PCC)

We continued to push hard to drive down per capita consumption. The reduction in our three-year rolling average has increased from -4.3% at the end of 2022-2023 to -1.5% at the end of 2023-24. Behaviour change campaigns such as our home leak campaign hosted by property developer and broadcaster, Sarah Beeny, to raise awareness of internal plumbing losses and how to repair them, have been really valuable, along with home visits (which install water-efficient devices) and the installation of flow regulators, have helped reduce overall property consumption. We know we have a lot more to do to help our customers and communities reduce water usage and we look forward to implementing a smart metering trial in the coming year.

Water quality

We did not meet our performance commitment (PC) for compliance risk index (CRI) in 2023, where 50 results did not meet the relevant standard; we had similar results of 46 in 2022. This shortfall was explained in the main part in 2023, by the two exceedances from Iver Water Treatment Works (WTW), our highest output treatment works. Consequently, the CRI score for these two exceedances was 7.06, making up around 88% of our total CRI score.

Our investigations identified the root cause of the issue and we have implemented mitigation measures to reduce this risk in the short term. In the short term, we carried out cleaning and maintenance throughout the treatment works, and in the long term, we are enhancing our treatment process with new rapid gravity filters to the treatment process. We believe this work will prevent further similar exceedances.

Our internal CRI Board has continued to focus on issues that have an impact on CRI, for example, reservoir inspections, sample lines, site hygiene, and staff awareness, and drive forward improvements in these areas. We believe this work has been central to maintaining our 'core' CRI score, and we will continue to identify areas that can have an impact on CRI, and seek to deliver improvements in performance in future years.

Sustainability at the heart

At the heart of our plans today and in the future is sustainability. Our region is home to 10% of the world's globally rare chalk streams. Chalk streams are under threat from the effects of climate change, demand for water, pollution, and centuries of river alterations.

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

We continue to play our part and are making good progress in terms of delivering the assets and changes to our network. The commissioning of Sundon Conditioning Plant is the priority scheme that must be delivered ahead of March 2025 in order to allow the Abstraction Reductions to be implemented on time, and commissioning will be complete in December 2024.

We have also continued to help our customers make sustainable choices, encouraging them through our ongoing advertising campaigns on water saving, water efficiency and working with developers to look at water neutrality, especially in new housing developments.

In a first for the industry, we launched a tariff trial on 1 October 2023, which involves a group of around 1,500 Affinity Water customers in the SG1, Stevenage postcode area, in Hertfordshire.

The aim of the trial is to discover if a different way of charging makes water bills more affordable for our customers and if it further encourages customers to save water. We estimate that at least two out of three households in the trial will pay less for drinking water if their usage stays the same.

This is a great example of collaborative work with Ofwat and the Consumer Council for Water (CCW) throughout the process of developing the trial, and as a result, Ofwat are now calling on more water companies to trial innovative ways of charging customers.

Chief Executive Officer's introduction continued

Financial resilience

Our shareholders continue to support our performance improvements and have not taken dividends from the regulated business this year. Looking ahead to the next five years, we will need to raise significant capital to fund our largest-ever investment programme, with our shareholders potentially pledging to include up to £150 million equity to enable that.

Ahead of that, we continue to maintain strong credit ratings this year, and are proud to have recently achieved Fair Tax Mark accreditation.

Our people

As well as having a strong plan in place for the future, we also need a strong team, and we have been working hard as an Executive Team to ensure we are a company that retains and attracts the best talent in the UK who can ensure we deliver on our ambitions.

We have refreshed our vision and values to recognise the diversity of the communities we serve, and introduced a new Equality, Diversity, and Inclusion strategy, as well as reviewing our paternity and wellbeing policies. We are seeing employee satisfaction increase, which is crucial in making sure we have the right people in place to deliver on the commitments we have set out.

I am keen to get started on our future objectives and, while we continue to see some challenges in performance, I am confident we have the right people and plans in place to finish this current AMP in a strong position and start delivering our proposed goals to 2030.

Keith Haslett
Chief Executive Officer

8 July 2024

Our business model

Our purpose is to provide high-quality drinking water for our customers, and take care of the environment for our diverse communities, now and in the future.

- Supplying high-quality water you can trust
- Making sure you have enough water, whilst leaving more water in the environment
- Providing a great service that you value
- Minimising disruption to you and your community

Forces acting upon us...

Our capitals

These are the resources and relationships that we have available to us.

They are the inputs to our business and are transformed through our decision-making process and operating activities into our strategic outcomes.

Read more about **approach to multi-capital thinking** on **page 22**

Our external environment

Protecting the natural environment

- Climate change
- Population growth

Economic environment

- Financing our business
- Customer expectations

Regulatory and political environment

- Legal, regulatory and government requirements
- UN Sustainable Development Goals

Read more about **our external environment** on **page 24**

Stakeholders

Effective engagement with our stakeholders is integral to how we operate. Stakeholders help shape our strategic plans for the service we provide, the commitments we make and how we make sure we provide a long-term sustainable supply of high-quality water.

Read more about **our stakeholders** on **page 30**

UNSDGs

Our alignment with the UN Sustainable Development Goals

Shape our purpose and ambitions...

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

We are focused on providing simple, effortless experiences to our customers, wherever they interact with us. To continue doing this, we need to protect local environments, ensure our network and resources are resilient, inspire our customers to use less water and provide them with an exceptional service, and work with our communities to create value for the economy and society.

Our Strategic Direction ambitions help guide us, and shape our long-term plan for water resources and our five-year Business Plans, which determine the investment we need to make and the amount we can charge customers.

Our Strategic Direction Statement ambitions

The systems that Affinity Water will work within:

1. Environment

Aim: Leave the environment in a sustainable and measurably improved state.

2. Resilience

Aim: Be prepared for change, and resilient to shocks and stresses.

The people that Affinity Water will work with:

3. Communities

Aim: Work with our communities to create value for the local economy and society.

4. Customers

Aim: Deliver what our customers need, ensuring affordability for all.

Read more about our **Strategic Direction Statement** at **www.affinitywater.co.uk/corporate/plans**

enabling better outcomes for our customers...

A sustainable water supply for this century and beyond

We plan and invest for the long term, using innovative technology, brining online new sustainable sources of water, learning and sharing best practice across sectors and working with our customers. We are building a water-supply network that is resilient to the effects of climate change, minimises disruption to communities, and provides a sustainable, high quality supply of water - now and for the future.

Our 50-year action plan for water resources (WRMP) and Strategic Direction ambitions helps shape our five-year business plans. Our business plans detail our performance commitments for the five-year period, the amount of investment required to meet those commitments and the price we can charge customers.

Our business plan for 2025–2030 was submitted to Ofwat in August 2023 and Ofwat will publish its final determination on the plan in December 2024.

Read the sections 'How we operate' on **page 8**

Our customer outcomes

We provide water to over 3.9 million customers and 78,000 businesses in our supply area and have committed to:

- Supplying high-quality water you can trust
- Making sure you have enough water, whilst leaving more water in the environment
- Providing a great service that you value
- Minimising disruption to you and your community... and creating value for all

...and creating value for all.

Customers

- Putting customers at the heart of everything we do.
- Being agile and responsive to changing needs. Focusing on simplicity and exceptional customer experience.
- Supporting customers in vulnerable circumstances through social tariffs and the Priority Services Register.
- Providing fair and affordable bills to help invest in a long-term sustainable supply of water, while helping to take care of the environment.

Communities

- Minimising disruption for our communities.
- Supporting the economy across the region through investing in infrastructure and generating employment.
- Creating value for local communities by taking care of our environment.
- Helping to improve biodiversity across Affinity Water-owned nature reserves and assets, and working in partnership with local communities.

Employees

- Increasing pride in working for Affinity Water.
- Looking after the health, safety and wellbeing of our employees.
- Ensuring employees have the tools they need to do the job and through learning and development.

Shareholders

- Increasing incentives and reducing fines, for our shareholders.
- Promote green finance for all investments

Suppliers

- Working with suppliers to innovate to increase resilience for the benefit of customers and the environment.
- Creating exceptional relationships to be the company suppliers want to work with.

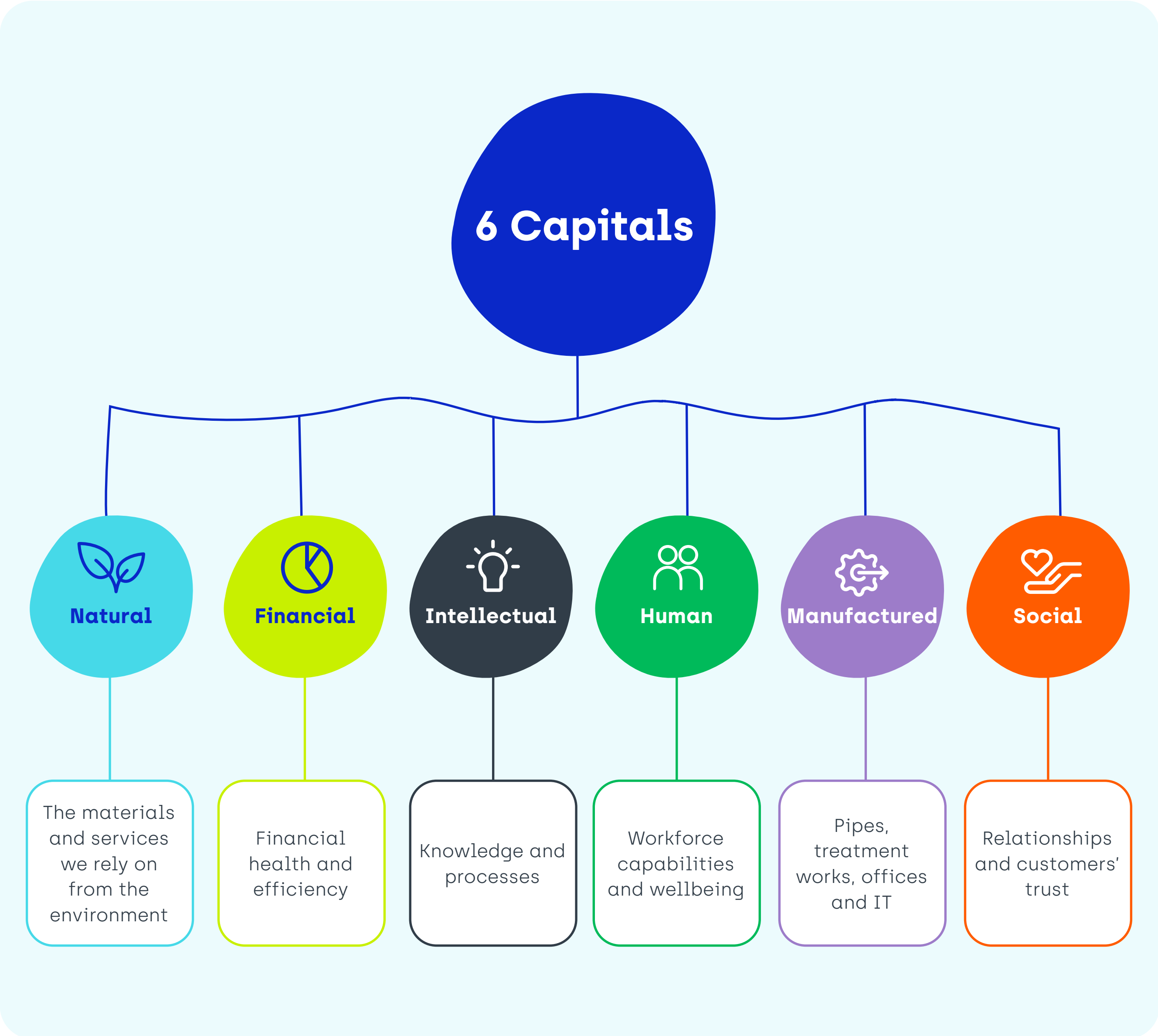
Regulators

- Working with our regulators to produce robust and ambitious plans to benefit customers and the environment.
- Working with our regulators to drive innovation in the sector.

Our approach to multi-capital thinking

Our capitals

Our capitals are the resources and relationships available to us. They are the inputs to our business that we transform through our decision-making process and operating activities into our strategic outcomes. We are using the concept of capitals to guide our decision-making, for example, when considering land use and weighing the interests and benefits of recreation and biodiversity enhancements.



How we use the six capitals approach in investment planning

We use a capitals approach as a framework for consistently assessing the benefits of potential investments throughout their lifecycle. It ensures that the evaluation, planning and optimisation of investments can be appropriately carried out to balance the risks, performance and costs, helping us make better investment decisions. We use a variety of value models to assess each of the six capitals.

Value model	Description	Capital
Financial Risk	Captures directly incurred financial value	
Safety Risk	Assesses health and safety risks and hazards	
C-MeX and D-MeX and BR-MeX	Models the household, business and developer experience of services	
Compliance Risk Index (CRI), Event Risk Index (ERI)	Models the water quality impacts in line with the Drinking Water Inspectorate ('DWI') requirements	
Employee Experience Benefit	Captures the impact on employee productivity and talent acquisition	
Embodied Carbon, Operational Carbon	Assesses the impact of carbon in both the building and operation of assets	
Per Capita Consumption (PCC), Business Demand, Leakage Reduction	Considers the reduction in water from households, businesses and leakage on our network	
Mains Repair	Captures the number of mains repairs required on the network	
Risk of Severe Restrictions During Drought	Evaluates the risk of reduced water availability during a drought event	
Interruption to Supply	Models the potential length of supply interruptions for customers	
Unplanned Outage	Assesses the impact of an unplanned loss of supply at a treatment works	
Abstraction Reduction	Assesses the impact on exceeding abstraction license	

Our multi-capital value framework also includes KPIs.

We are reporting our multi-capitals framework and metrics on our website, so we can update it with new information for each metric when it becomes available, while sharing our progress, and lessons learnt, with our stakeholders.

Our external environment

The water industry needs to comply with the laws, regulations, standards and policies published by our regulators.

We also work closely with our regulators and other industry bodies to ensure our future plans deliver benefits for our customers and the environment.

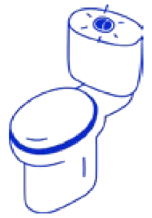
defra

It is the government's responsibility to establish the strategic framework and policy priorities within which regulators such as Ofwat, the Environment Agency and DWI must operate.

Defra sets out the policy priorities that the regulators have a particularly important role in delivering, and against which they will be held to account for their independent regulatory decisions.

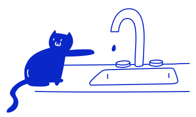
Ofwat

Ofwat is the economic regulator for the water and sewerage sectors in England and Wales. It is responsible for regulating the water industry and ensuring water companies provide consumers with a good-quality service and value for money.



dwi

The DWI is the independent regulator of drinking water in England and Wales, and is responsible for ensuring companies provide safe drinking water that is acceptable to consumers and meets the legal standards.

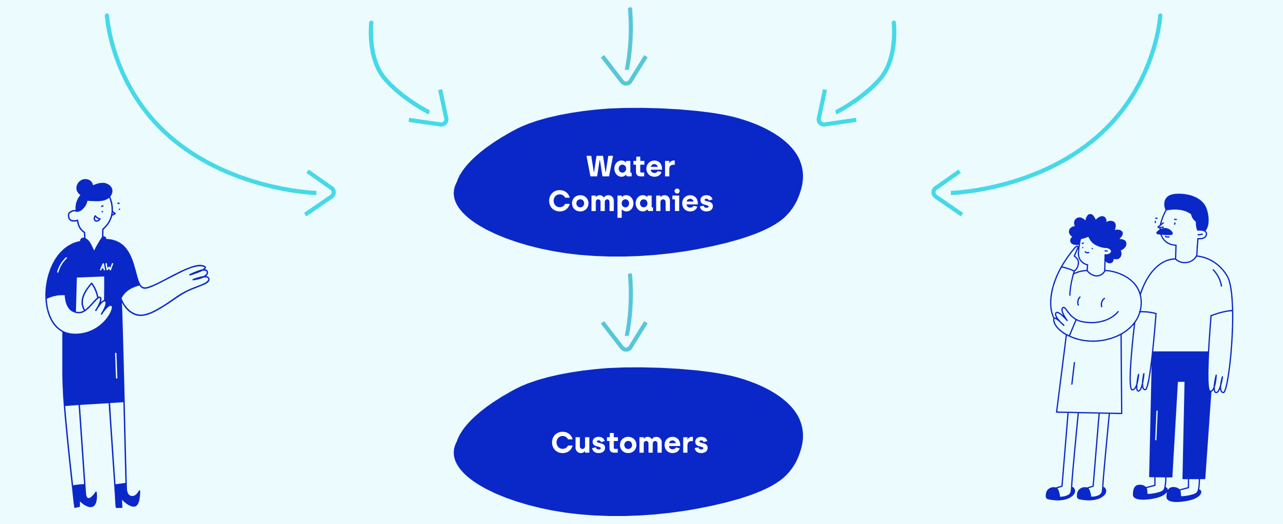


Environment Agency

In England, the Environment Agency is responsible for protecting and improving the environment and promoting sustainable development. In the water and sewerage sector, the EA regulates the abstraction of water from the environment as well as the treatment and discharge of wastewater, sewage and sludge back into the environment. Note: Affinity Water is a water-only supply company and does not manage wastewater.

CCW

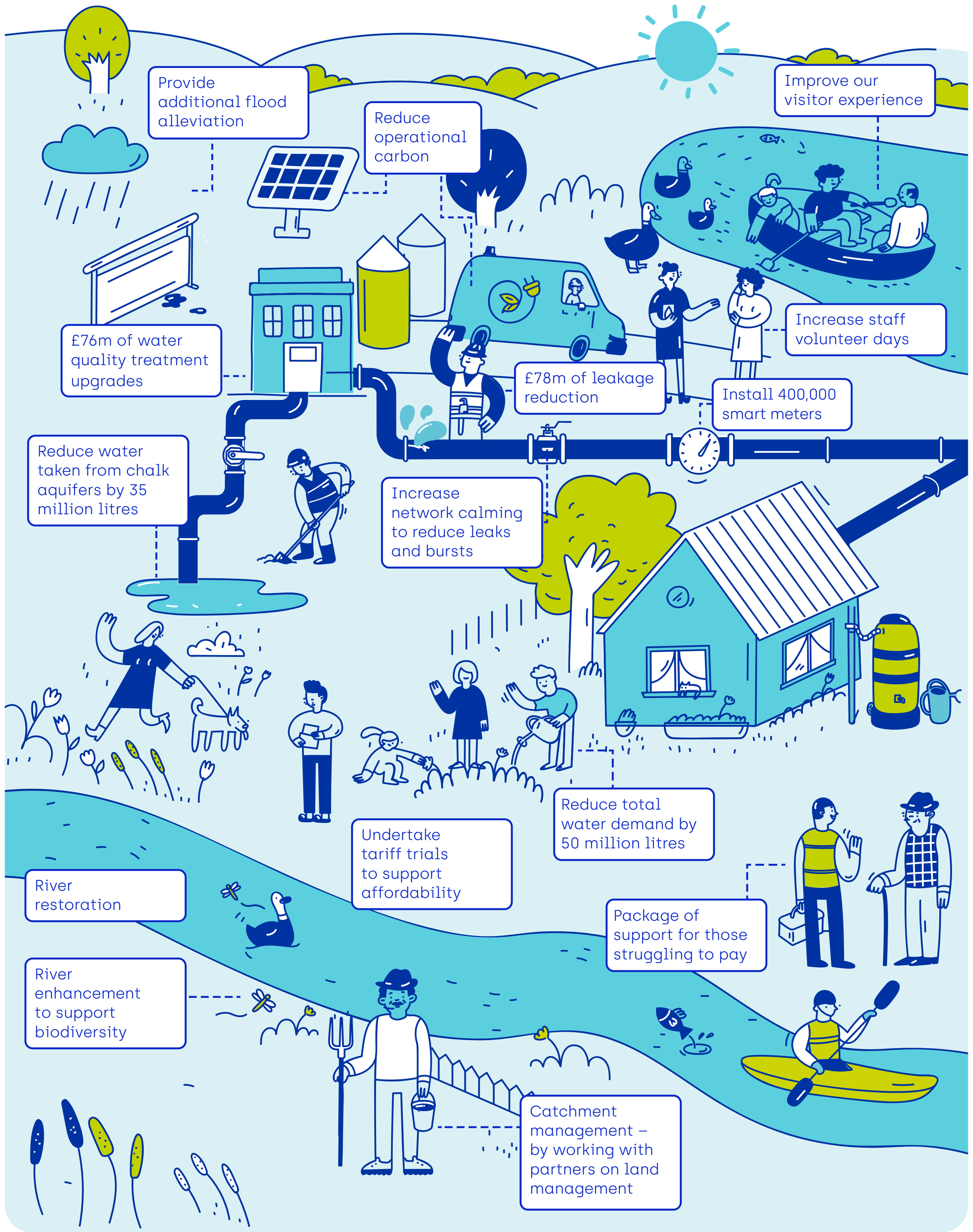
CCW is not a regulator, but plays an important role in the industry by representing water and wastewater consumers in England and Wales. It also handles some customer complaints about water companies, inset appointees and licensees.



Planning our future together

Every five years, water companies update their business plans using feedback from customers and other stakeholders, and to reflect the new requirements from our regulators.

This process is known as a price review. We submitted our plans in October 2023 and will receive our final determination from Ofwat later this year.



Our external environment continued

Looking to the future – the challenges and opportunities we face

1 Affordability and vulnerability

The consequences of a once-in-a-generation global pandemic, the complexities surrounding Brexit, and the Ukraine war have significantly pushed up the cost of living.

As a result, a growing number of customers are finding themselves in need of financial support.

We have of the highest take up of social tariffs across the industry, with over 97,000 customers benefiting from our additional support. We are continuing to promote the support we have available, and work with partners to communicate to hard-to-reach groups. We began a rising block tariff trial in summer 2023 to support the twin aims of affordability and water conservation.

Link to strategy:

Affected stakeholders:

Our response: Read about **Watersave trial** on **page 42**

2 Securing long-term resilience

We supply over 3.9 million customers across South East England, which includes 13% of London. The region we supply is one of the most economically active regions in the UK. Maintaining a resilient supply is critical for our customers and the regions' economy.

Our network and resources are under pressure from climate change and we are already starting to see an increase in extreme weather events. The plans we have in place through our regional water resource plans and five-year business plans will help to strengthen our network and resources and adapt to the challenges climate change is bringing.

Link to strategy:

Affected stakeholders:

Our response: Read more **WRMP** section at **www.affinitywater.uk.engagementhq.com/wrmp**

3 Climate change

Climate change is already causing more frequent extreme weather events. In summer 2022, our region experienced its highest recorded temperature on record, at 40°C, and much of the South East was in drought.

The National Infrastructure Commission estimates there is a 25% chance of the worst drought in history happening by 2050, which could cost our economy £40 billion.

Our water resources management plan, in alignment with the first ever regional plans for water resources, ensures we can meet the challenges posed by climate change and provide a long-term sustainable supply of water, whilst leaving more water in the environment.

Link to strategy:

Affected stakeholders:

Our response: Read more about **adaptation plans to climate change** at **https://www.affinitywater.co.uk/docs/reports/2022/Climate-Change-Adaptation-report-2021.pdf**

4 Protecting the use of natural capital

Chalk streams are rare, and we have 10% of all chalk streams within our supply area. Abstracting from these catchments has become increasingly unsustainable as population and demand has grown over time, and we need to find new sources of water to protect these special environments.

We will reduce abstraction from chalk groundwater sources where there is evidence that doing so will improve the chalk stream environment. We will work with our neighbours, through the Water Resources Management Planning process, to find new sources of water to ensure we can still meet customers' demand.

Link to strategy:

Affected stakeholders:

Our response: Read more about **sustainable supplies** on **page 40**

5 Acting in the public interest

The industry has received much public scrutiny over the past few years, largely driven by sewage spills in rivers and coastal areas. While we do not manage sewage, we still have a part to play in helping our environment and improving our local rivers.

Customers expect their water provider to go further and help society deliver on long-term challenges such as looking after our rivers, achieving net zero, increasing biodiversity and ensuring sustainability is embedded in everything we do.

Link to strategy:

Affected stakeholders:

Our response: Read more about **Our approach to sustainability** on **page 54**

6 Population and economic growth

We forecast substantial population and housing growth which will increase the demand for water within our region by around 10% by 2050.

More people and businesses will need more water, at an affordable price, which we must deliver while protecting the environment.

In future, we'll need to bring more water in from other areas of the region, which will bring challenges as we will need different treatment types as we move from supplying mostly groundwater, to mostly surface water.

Link to strategy:

Affected stakeholders:

Our response: Read about the **Grand Union Canal Transfer** section on **page 11**

Key

Customers | Suppliers | Regulators
Shareholders | Communities | Employees

Supplying high-quality water you can trust

Providing a great service that you value

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

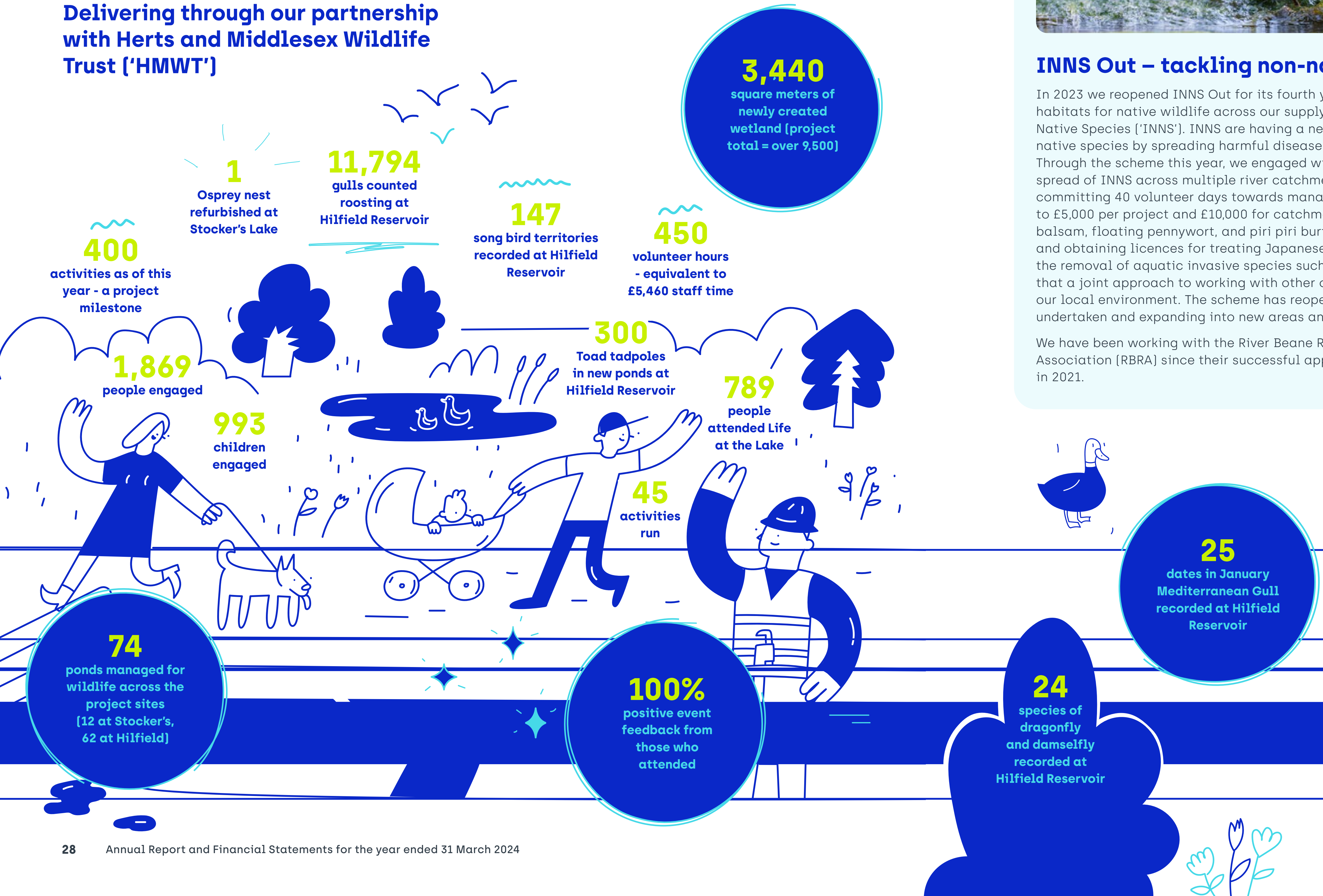
Minimising disruption to you and your community

Our commitment to public value

At Affinity Water, we are driven by our purpose of providing high-quality water and taking care of the environment, for our diverse communities, now and in the future.

We are privileged to provide an essential public service and the opportunities that brings, to create value for the areas we supply, to help improve the environment, support the local economy, invest in our communities and adapt to the challenges that climate change is bringing to our region.

Delivering through our partnership with Herts and Middlesex Wildlife Trust ('HMWT')



INNS Out – tackling non-native species

In 2023 we reopened INNS Out for its fourth year, as part of an ongoing commitment to protect and enhance the habitats for native wildlife across our supply area by reducing the spread and introduction of Invasive Non-Native Species ('INNS'). INNS are having a negative impact on the economy, wildlife and habitats and threaten native species by spreading harmful diseases, out-competing for resources, or damaging a natural ecosystem. Through the scheme this year, we engaged with 23 local community groups and organisations to help stop the spread of INNS across multiple river catchments in our supply area. The support was both 'in kind' with our staff committing 40 volunteer days towards managing the INNS, and financial with 23 projects receiving support of up to £5,000 per project and £10,000 for catchment wide schemes. Volunteer days included the removal of himalayan balsam, floating pennywort, and piri piri burt, whilst others involved purchasing equipment, undertaking training, and obtaining licences for treating Japanese knotweed and giant hogweed. The remaining projects focused on the removal of aquatic invasive species such as signal crayfish, zander and catfish. The scheme demonstrated that a joint approach to working with other organisations to combine resources and expertise is key to improving our local environment. The scheme has reopened again for 2024, building on the work that has already been undertaken and expanding into new areas and working with new customers.

We have been working with the River Beane Restoration Association (RBRA) since their successful application in 2021.

> We were joined by 20 willing volunteers from Affinity offices across two of our 'bashes'. Thanks to this support, the RBRA cleared over a kilometre and a half of the banks of the River Beane and Stevenage Brook last year. It will take a few more years to eradicate balsam from the Beane, but the INNS Out scheme has certainly given us a great start.

Chair of River Beane Restoration Association

Our stakeholders

We engage 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 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 more on **page 72**

Key interests of the stakeholders we generate value for

Customers

Why engagement is important

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

Key interests

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

Communities

Why engagement is important

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

Key interests

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

Employees

Why engagement is important

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

Key interests

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

Suppliers

Why engagement is important

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

Key interests

- Innovation
- Responsible supply chain – working together to create positive social and economic benefits for our communities and take care of our environment
- Health, safety and wellbeing

Shareholders

Why engagement is important

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

Key interests

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

Regulators

Why engagement is important

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

Key interests

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

Our focus areas

We are guided by what our stakeholders have told us matters to them.

Our approach to materiality

A fundamental part of developing our Environmental, Social and Governance ('ESG') strategy was undertaking and reviewing our materiality assessment to identify and prioritise the issues that matter to our business and our stakeholders (including customers and communities). The assessment looks at the impacts of our activities, products and services, as well as the expectations and interests of internal and external stakeholders. The output is a materiality map that shows and prioritises the issues, as well as the potential opportunities we have to create value.

The purpose of materiality assessments

The assessment examines all aspects of our business model and guides our strategic planning. By reviewing the results of the assessment, we are better able to reflect the needs of our customers and communities within our business plans. A materiality assessment can also inform what we report upon and help us to communicate and engage effectively on issues that are important for customers and other stakeholders.

Our review process

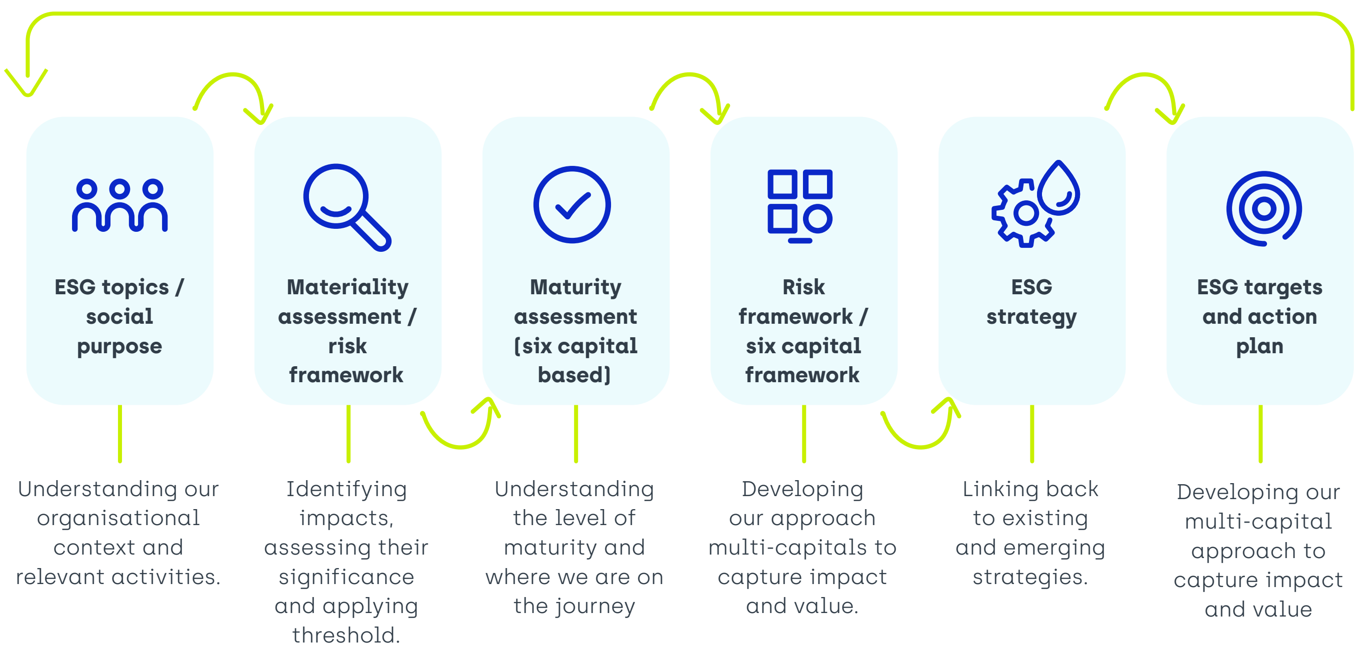
In 2023/24 we reviewed our materiality assessment to ensure it remains current and relevant. To do this, we took the lessons from last year's review, where we used direct stakeholder feedback, customer insights, third-party research, media and political views, consultation responses (to the WRMP) and internal insight sessions. We mapped the material issues against ESG risk categories, - operational, regulatory and financial, and prioritised accordingly. By monitoring and targeting these areas of impact, we will be mitigating the risk and adding value using the six capital approach.

From next year, our ESG Board Committee will regularly review the assessment to ensure it remains relevant.

ESG strategy

The purpose of our ESG strategy is to improve understanding of the ESG material themes, and define, measure and influence our performance to minimise risk and maximise value effectively for our environment and society. In setting our ESG strategy, we are not only looking to comply with our investors requirements but to integrate awareness and responsibility for incorporating ESG themes into our decision making, planning and delivery, so we can effectively manage ESG risks, and where opportunities exist, increase the value we create within our business and beyond.

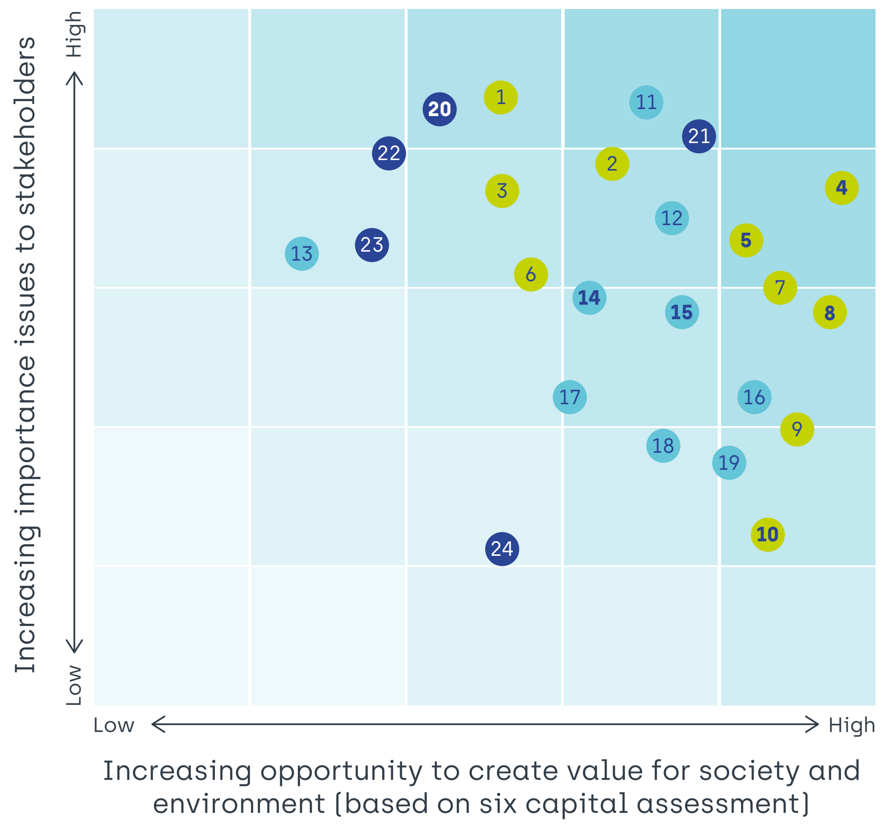
Our approach to integrating ESG can be demonstrated as a cyclical process for continuous improvement.



Focusing on what matters to our stakeholders

Material issues

We have mapped material issues to help prioritise our focus.



Environmental
1. Water resources
2. Water demand
3. Leakage
4. **Net zero**
5. **Climate change**
6. Chalk streams
7. Catchment management
8. **Natural capital**
9. Land management and recreation
10. **Circular economy**

Social
11. Affordability and vulnerability
12. Water quality
13. Customer experience
14. **Innovation**
15. **Partnerships and public value**
16. Supply chain
17. Health, safety and wellbeing
18. EDI and workforce
19. Engaged employees

Governance
20. Cyber and data security
21. **Trust, transparency and legitimacy**
22. Political and regulatory environment
23. Financial risk management
24. Procurement

Those in bold are the ones that matter most to our stakeholders and have the most opportunity to create value.

Responding to our most material issues

Understanding and responding to the most material issues affecting our business is key to delivering our purpose. Addressing these issues in our short, medium and long-term planning ensures we are responding to the things that matter most to our business and our stakeholders.

Our focus areas

- Net zero and climate change
- Natural capital and biodiversity
- Innovation and circular economy
- Partnerships and public value

Our focus areas continued

Climate Change and Net Zero

We are committed to reducing our greenhouse gas emissions and implementing action plans working towards our net zero target. In 2023/24, we continued to focus on improving our energy saving and efficiency, and made progress transitioning to an electric fleet.

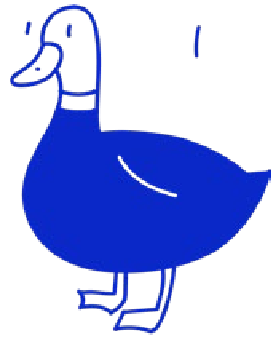
We have developed a programme of energy efficiencies through site and system optimisation, asset replacement and improvements to offices. Our current programme has over 80 named schemes due for delivery by 2025, totalling over £2m a year in energy savings. Since 2022, we have achieved a £700k reduction in energy expenditure compared to our baseline consumption. This has predominantly been delivered through the success of our pump replacement programme. With comprehensive analysis and surveying of pumping systems throughout our business, we identified and replaced pumps with a payback period of less than five years. Additionally, we established a System Optimisation Team that use data-driven methodologies to seek out opportunities for optimisation within our treatment sites and network infrastructure.

Our innovative **Zapp** app continues to drive a culture of collaboration and idea-sharing. This platform enables our workforce to contribute valuable insights which are then analysed and actioned upon. This feedback loop ensures that we capitalise on the knowledge of our organisation to drive continuous improvement.

Looking ahead, we are committed to further enhancing our operational efficiency by embracing new technologies. We are actively exploring the integration of AI tools and advanced flow modelling techniques to automate and optimise our day-to-day operations.

Our operational fleet currently contributes 36% to our annual Scope 1 emissions, and we have committed to transitioning our operational fleet to electric vehicles by 2030, where this is supported by technology. Our operational fleet is around 500 vehicles and we are aiming to transition around 20% of these to be electric by the end of AMP7. So far, we have:

- Installed chargers at two of our operational sites
- Purchased the first five electric vehicles
- Placed orders for an additional 19 electric vehicles
- Developed plans as part of our PR24 submission for the full transition of our fleet in AMP8



Natural Capital and Biodiversity

Hilfield Park Reservoir is just one example of several of our sites where we actively manage for biodiversity enhancement, as part of our commitment to protect and enhance our local environment for current and future generations.

Hilfield Park Reservoir Nature Reserve is the only site in the South of England where black-necked grebes breed, and is home to more than 1% of the national breeding population. It is a receptor site for dragonflies and damselflies, drawing in a great number of species, including some unique in Hertfordshire. Other species, which have been recorded at the site include osprey, mediterranean gull and kingfisher. The Trust hosts regular events at the site, enabling the local community to engage with wildlife in this special habitat and enjoy a variety of different wildlife activities, such as guided walks and pond dipping.

A transformative project in 2023 has created a rare and diverse habitat for wildlife at Hilfield Park Reservoir Nature Reserve in Hertfordshire.

We have supported extensive works, which started last November, and form part of the Trust's conservation management plan to improve wetland margins on the site. The creation of new wetland habitats is especially important in Hertfordshire - Hertfordshire's State of Nature report (2020) showed that wetlands cover less than 1% of the total county area - and this project is also contributing towards to the county-wide target of securing 30% of land for nature by 2030.

> "In partnership with Affinity Water, since 2018, we have delivered a suite of ambitious conservation projects on the site, including the creation and maintenance of scrapes, ditches, creeks and lagoons and the recent works have further enhanced its value to wildlife. This project really highlights the importance of partnerships in creating and conserving nature rich, resilient habitats, and with that, our knowledge and the support of our many volunteers, we can make headway in reversing the gloomy nature statistics."

Josh Kalms
People and Wildlife Officer (Affinity Water Sites) at Herts and Middlesex Wildlife Trust

Hilfield Park Reservoir Landscape Creation (Yoel Kamara)

Our focus areas continued

Innovation and circular economy

Innovation and collaboration are at the heart of how we are building a more resilient and sustainable future. It is one of the ways we are addressing challenges such as climate change, population growth and rising expectations of our customers. We need to make sure we can continue to deliver reliable, resilient and safe water that is affordable for all. We want companies to work more effectively together and with their supply chain, to better tackle the sector's challenges.

Project Zero - Bidwell Water Savers

Project Zero is a collaborative project between Affinity Water, Ofwat, third-party water and sewerage companies and experts from the fields of behavioural change and water efficiency. This multifaceted project involves reducing water demand, reusing water and offsetting the residual deficit to ensure a new housing development adds no additional demand.

A key goal of the project is to deliver the world's first at scale "water neutral" housing development in collaboration. As a result, it will create a blueprint for the industry, showcasing how we can adapt and become more resilient to the impact of climate change by building new homes that are water-efficient and encourage behavioural change. We began the first phase, the Bidwell Water Savers, by delivering a targeted behavioural change campaign, working with the local community to reduce their consumption. We have engaged with 29 local schools to help them reduce their water consumption and in turn their utility bills, as well as encouraging the residents to save water.

We were very excited to have received recognition for this project through the 'Creating Better Futures Award' where the project was awarded "Gold Standard" status for setting a benchmark across the categories of Climate, Environment, People and Communities.

"As a local business, we care about creating a sustainable environment for our local residents and neighbours and are pleased to have taken part in this world first innovation project. When we were approached by Affinity Water, we didn't realise that by making relatively small changes in our business we could achieve this significant water saving, and in the process save money for our business too. We would certainly encourage others to support and introduce their own adaptations. It has been an extremely positive result for us and one that we will continue to implement."

Spokesperson for Central Bedfordshire College

Partnerships and public value

We believe that forging partnerships enables the delivery of greater environmental and social value. When we work together on shared objectives, partnerships draw together resources, knowledge and understanding on what our local communities want and need. They help explore innovative solutions and improve access and amenities.

Education Programme in Chilterns - AONB

We have been working with the Chilterns Chalk Stream Project (CCSP) and the Chilterns Conservation Board for over 25 years with the shared aim of conserving and enhancing chalk streams in the Chilterns AONB, and to encourage enjoyment and understanding of them. During that time, we have reduced abstraction from chalk groundwater sources, restored river, run behavioural change campaigns on water saving and managed invasive non-native species in a more cohesive way.

Since 2021, we have funded education programmes through the CCSP.

The programmes are engaging students in their local geography and history and helping them to learn more about the living things we share the landscape with. They also provide a real example of how climate change and human development are having an impact on the environment in the UK right now. They use curriculum-linked resources in the classroom and outdoor learning.

In 2023/24, two Engagement Officers worked with school children to understand the chalk stream environment through initiatives such as 'the Trout in the Classroom programme', river visits and outreach sessions. Over the past years, they have established great working relationships with schools, and keep engaging with them and new pupils each year.

- The CSSP delivered 37 sessions, teaching over 1,000 children about chalk streams and their ecology and the importance of saving water at home
- A 'Chess Discovery Day' in May engaged with 200 local people from the community. This was a family day that celebrated the new and improved Chess Valley Walk and chalks streams.
- A number of community events took place for groups and families.

Our strategy

Our strategy sets out our short and long-term ambitions to tackle the challenges we face, to create value for our society and the environment.

Our purpose

To provide high-quality drinking water for our customers and take care of the environment for our diverse communities, now and in the future.

Long-term strategy+

Our Strategic Direction Statement ambitions (2050) The systems that Affinity Water will work within:

Aim: Leave the environment in a sustainable and measurably improved state.

We will work with our customers and communities to restore the environment to a sustainable state where it can regenerate itself, so it can continue to provide its assets and services to support current and future generations who will enjoy its natural wealth.

Objectives:

- End unsustainable abstraction from chalk groundwater sources
- Achieve net zero carbon by 2045 (and 2030 for our operational emissions)
- Deliver a net gain in natural capital

Aim: Be prepared for change, and resilient to shocks and stresses.

We will invest with our stakeholders to create a more resilient community able to cope with, and respond to, an increasingly uncertain future.

Objectives:

- Ensure a resilient supply of water for our customers
- Ensure our physical assets are resilient for the long term
- Ensure our people, processes, suppliers and finances remain resilient

Read more about **How we operate section** on **page 08 to 09**

Our long-term strategy sets the direction of our short-term plans

The people that Affinity Water will work with:

Aim: Work with our communities to create value for the local economy and society.

Create a collaborative relationship with all our communities, allowing us to act together with common purpose to deliver a society and environment that are mutually sustainable, based on:

Objectives:

- Building trust and transparency
- Enhancing environmental and social health to provide value to our communities
- Reducing our impact in the water environment

Aim: Deliver what our customers need, ensuring affordability for all.

We will develop a constructive, collaborative relationship with our customers that enables us to work together to deliver for the future.

Objectives:

- Exceed customers' expectations for drinking water
- Personalise our services to support different needs and wants
- Take care of our vulnerable customers and ensure affordability for all

Short term

Our customer outcomes (to 2025)

Supplying high-quality water you can trust

- Maintain high water quality
- Catchment management
- Water treatment

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

- Abstraction reduction
- PCC reduction
- Leakage reduction

Providing a great service that you value

- Keep bills low
- Support vulnerable customers
- Improve customer experience

Minimising disruption to you and your community

- Reduce supply interruptions
- Reduce risk of low pressure
- Invest in our assets

Read more about **Our customer outcomes** on **page 40**

Our customer outcomes

Our Business Plan for AMP7 includes a total of 28 stretching performance commitments that will ensure we deliver our customer outcomes.

Supplying high-quality water you can trust

Commitments

- Reduce the number of contacts about appearance, taste and odour to 0.67 per thousand population by 2024/25.
- Meet water quality standards on compliance failures by scoring less than two annually in DWI's water quality measure CRI.

Case study

Sustainable supplies

Investing in new infrastructure to ensure sustainability of water supplies

We are improving our capacity to store water through a series of projects, starting with constructing a new service reservoir near the village of Preston, Hertfordshire, helping to ensure the resilience of water supplies and ensuring that less water is taken from the region's rare chalk aquifers.

The new service reservoir will provide an additional 20 million litres of storage at an estimated construction cost of £8.5 million and will help build the long-term resilience of the storage systems and mitigate against possible loss of supplies to customers in these areas.

Population growth, climate change and the demand for water are putting significant pressure on the local environment and water resources in our supply area.

But we not only plan for now, our Water Resources Management Plan provides a roadmap for a reliable, resilient, sustainable, efficient and affordable water supply to customers between 2025 and 2075, whilst taking care of the local environment.

The actions include reducing customer demand, driving leakage down further than ever before, metering, significant investment in new infrastructure for new sources of water and working across the water industry to plan and share resources regionally.

"Achieving planned sustainability reductions will help reduce our footprint on our local chalk stream ecosystem and will result in more water being left in the environment. This scheme is needed to support our plans to mitigate the impact of sustainability reductions already in place and those planned for the next five years.

Our region is home to around 10% of the UK's chalk streams, a globally rare habitat. We know that 65% of the public drinking water we supply comes from the chalk aquifer, the same aquifer that chalk streams rely on for their flow. Schemes like Preston will help build the resilience of our systems and protect the environment."

Jaymin Chauhan
Senior Asset Planning Manager

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

Commitments

- 20% leakage reduction on a three-year average from the 2019/20 baseline.
- 12.5% reduction in per capita consumption on a three-year average from the 2019/20 baseline.
- Complete river restoration and habitat enhancement projects under the Water Framework Directive.
- Reduce water abstraction by 27.3 Ml/d by 2024/25.
- Complete eight environmental pilot projects working in partnership with our local communities.
- Delivery of schemes within the WINEP programme.
- Reduce abstraction from environmentally sensitive sites to nil when flows or levels are low.

Case study

Home Leaks with Sarah Beeny

In October 2023, we launched our new Home Leaks campaign with Sarah Beeny. This campaign will help our customers identify hidden leaks in their homes, so we can all work together to save water and save our streams. Reducing leakage is incredibly important to us; we've beaten our 14% target by reducing leakage by 15.8% in 2022/23, the largest percentage reduction in leakage of any UK water company. We're working round the clock to find and fix leaks across our network – last year, we fixed more than 19,000 leaks and, over the last three years, have saved 28 million litres of water a day.

In our region, in the last six months, leaks in the home could have wasted as much as 1 billion litres of clean drinking water - the equivalent to filling Wembley Stadium. Leaving leaky taps, toilets, pipes and tanks not only causes damage, but can also cost customers as much as £300 extra a year. So, we've partnered with property expert Sarah Beeny to encourage everyone to find and fix leaking taps, toilets and pipes in their homes launching a brand new webpage to see our tips for identifying leaks and how to fix them.

James Curtis, Head of Leakage, Affinity Water explained: "Reducing leakage across our network is extremely important and critical in helping us to leave more water in the environment. We are working tirelessly to find and fix leaks across our network, and working with the government and the industry on how we can make the wider water infrastructure better. While we continue to take care of this, everyone can play their part in saving water, save money on their bills, and together leave more water in the environment. We encourage everyone to find and fix their leaking taps, toilets and pipes in their homes."

Sarah Beeny, renowned property expert and TV-presenter, said: "Drips from a tap or the cistern on a loo don't feel like much, but they all add up. The nation is wasting 900 million litres of clean water due to home leaks every day. That's enough to supply water to one million people for a week. Every litre wasted matters. From leaky loos and faulty tanks to past-their prime-pipes, we can take small simple steps, which all add up to make a big difference to the volume of clean water currently being wasted. Let's all work together to save this precious resource by taking on the leaks that can also cause damage in a home. Protect your home, your bank account, and protect your environment – it's a win, win, win."

To understand your water footprint and find out how you can uncover leaks in your home visit **affinitywater.co.uk/homeleaks**

Our customer outcomes continued

Providing a great service that you value

Commitments

- Improve the overall customer experience provided to our household customers.
- Improve the overall experience provided to developer services customers, including property developers, self-lay providers and New Appointments and Variations ('NAVs').
- Proactively assist more of our customers in vulnerable circumstances by understanding and prioritising their needs.
- Ensure 90% of customers in vulnerable circumstances receiving financial help are satisfied with the service from us.
- 90% of customers in vulnerable circumstances receiving financial help found us easy to deal with.
- 90% of customers in vulnerable circumstances receiving non-financial help are satisfied with the service from us.
- 90% of customers in vulnerable circumstances receiving non-financial help found us easy to deal with.
- Ensure our services are accessible, easy and supportive for all by maintaining the BSI standard for inclusive service provision throughout 2020–2025.
- Achieve a score of at least 7.8 out of 10 for customer satisfaction in a value-for-money survey.
- Identify at least 50 household property gap sites per year.
- Proactively reducing the number of household properties falsely classed as empty on our billing system to 2.10% in 2024/25.

Case study

Watersave trial – a new way of charging

We are the first water company in England to trial a new-approach tariff for how customers are charged based on how much water they use.

The trial went live on 1 October 2023 and involved a group of around 1,500 Affinity Water customers in the SG1, Stevenage postcode area in Hertfordshire.

Not only are we exploring how changing the way we charge for water could be fairer, but by using a rising block tariff we want to see if water bills are more affordable and if customers are encouraged to use water more wisely. This will help protect precious water supplies and the local environment for the future.

We have been working with Ofwat and the Consumer Council for Water (CCW) throughout the process of developing the trial, and Ofwat are now calling on more water companies to trial innovative ways of charging customers.

A rising block tariff charges more per volumetric unit of water for each subsequent block of water used.

Supporting 30,000 more household customers

We are proud to have extended our Water Assistance Scheme to a number of additional partners in support of the cost-of-living crisis by supporting 30,000 household customers who are most in need with a one-off £50 payment towards their water bill this year.

With the rise of energy bills and inflation rate, the cost of living increased sharply across the UK during 2021 and 2022. We have partnered with local organisations, and eligible households in the South East area can be referred through their local partner to receive a discount of £50 off their water bills.

We initially partnered with Age Concern Luton and Citizens Advice Bureau Luton in connection with their Water Assistance Scheme, and are now expanding the scheme to a further nine partners.

Minimising disruption to you and your community

Commitments

- Reduce supply interruptions to customers to five minutes in 2024/25.
- No more than 320 properties per year affected by a supply interruption of more than 12 hours duration.
- Improve IT resilience by a 29% reduction in the impact of disruption to customers and employees by 2024/25.
- Reduce the average time each property experiences low water pressure to less than 8 hours 42 minutes in 2024/25.
- To have no customers at risk of experiencing severe restrictions in a 1-in-200-year drought on average over 25 years.
- Reduce the number of mains repairs to 142.3 per thousand kilometres of network.
- To keep outage of production capacity below 2.34% between 2020 and 2025.

Case study

Leakage – NO DIG – innovation

In 2023, we have been trialling the new NO DIG™ technology across our Central region and it's already proving to be a game changer. NO DIG™, made by Origin, allows leaks to be fixed without the need to excavate – saving time and money, but ultimately meaning our teams can stay safe.

We're really impressed so far, and we've already seen some great results. NO DIG™ can fix leaks on our communication pipes within seconds.

"In Watford, we discovered a good noise on the service pipe (which indicates a leak) near a customer property. We injected NO DIG into the service pipe through the boundary box and within three seconds it was silent, and the leak had been sealed!

At a second site in Watford, a non-visible leak had been detected under scaffolding. We couldn't do anything until the scaffolding had been removed, which would have cost time and money. So, we decided to use NO DIG. The leak was fixed within five seconds and pressure increased in the service pipe.

In both these examples there was no need for traffic management and no excavation – making it quicker, cleaner, safer, cheaper and less disruptive to our customers. Win, win."

Nic Bailey, Head of Supplier Performance

Key performance indicators

We have aligned our operational KPIs to our key performance commitments in response to customer expectations.

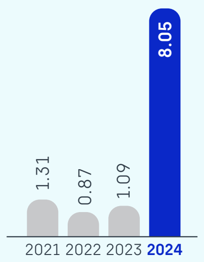
The first four years of the 2020–2025 period have now been completed. We are required to report our performance against targets as set by Ofwat in our final determination 2019. Our performance in relation to these targets for 2023/24 is explained in the tables below.

- Supplying high-quality water you can trust
- Making sure you have enough water, whilst leaving more water in the environment
- Providing a great service that you value
- Minimising disruption to you and your community

Operational

1 Water quality

Compliance Risk Index ('CRI') score



Performance

Actual: 8.05
Deadband target: 2.0

Link to our customer outcomes

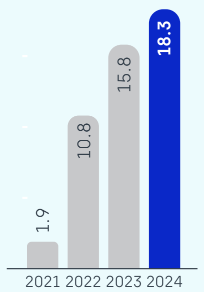
KPI linked to remuneration

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

Our performance on water quality has steadily improved across AMP7 and year three was a strong year of performance against the DWI measure. The underlying performance across the initial nine months for year four was very strong. However, two failed samples at Iver Water Treatment works in October and November incurred large scores and we have missed the target of 2 with a score of 8.05. A number of interventions are now in place at Iver to ensure that we do not have the same type of sample failure and we expect to deliver on this challenging metric in year five. We continue to work with the DWI to ensure that all future risks to water quality are mitigated

2 Leakage

Percentage reduction



Performance

Actual: 18.3%
Target: 17% or more

Link to our customer outcomes

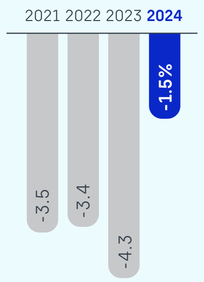
KPI linked to remuneration

This measure is reported as a percentage reduction in a three-year average of leakage against a baseline level of 2019/20. In AMP7 we committed to reducing leakage by 20% as set out in our Water Resources Management Plan. We understood that a 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.

The teams have worked hard to improve the response time to fix a leak and introduced new technology to fix leaks with a No Dig solution that has proved successful on customer communication pipes. This has resulted in leakage outperforming the target of 17% and finishing at 18.3% for year four.

3 PCC

Average water use percentage change from 2019/20 baseline



Performance (based on three year average)

Actual: -1.5% increase
Target: 10% reduction

Link to our customer outcomes

KPI linked to remuneration

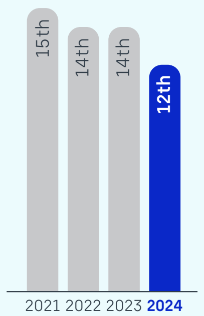
The performance commitment aims to incentivise us to help customers reduce their water consumption. We continue to focus our efforts on developing innovative behavioural campaigns and customer messaging, alongside installing meters to help customers understand their usage and carrying out home water efficiency checks.

We have seen a marked change in customers water use behaviours since the Covid pandemic, and the shift to 'working from home', and this looks to set to continue into the future. We continue to seek new ways to engage with our customers to communicate the importance of conserving water alongside exploring innovative approaches to charging and tariffs.

We are revising our baseline for PCC through the water resource management plan to account for the impacts of climate change.

4 C-MeX

(Score)



Performance

Actual: 12th position (out of 17)
Target: mid table

Link to our customer outcomes

KPI linked to remuneration

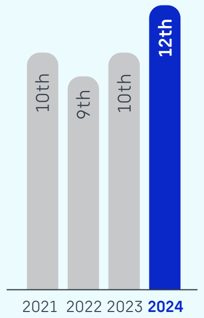
The customer experience performance commitment measures direct customer feedback on satisfaction with our services. We have worked hard to improve our scores this year by improving our systems, processes, and employee training. We have made ground, improving our league table position from 14th to 12th in year four and closing the gap to mid-table position. While we have not achieved our C-Mex target, which is measured relative to our peers, we have reduced the penalty compared to last year.

To find out more about the rewards and penalties of each of our performance commitments, please read our Regulatory Annual Performance Report for year end 31 March 2024 (page 73, table 3A) at **affinitywater.co.uk/reports-publications**.

Key performance indicators continued

Operational

5 D-MeX
[Score]



Performance
Actual: 12th position
Target: mid table

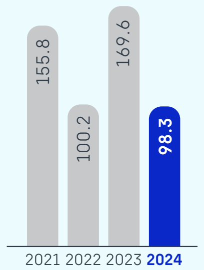
Link to our customer outcomes

KPI linked to remuneration

D-MeX is the measure of levels of service in the developer services area of activity. The index score is made up of both a qualitative and a quantitative element.

We have experienced challenges this year in the delivery of developer services from our third party suppliers. As a result of poor quality service, we have changed our contractual parties and have seen a marked improvement in performance in the second half of the year. Overall, we have achieved an average score of 86.93 across the year, missing our target and achieving 12th position compared to our industry peers.

6 Mains repairs (due to bursts)
[Number per 1,000km mains]



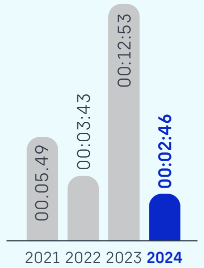
Performance
Actual: 98.3
Target: 144.4

Link to our customer outcomes

KPI linked to remuneration

We have outperformed our target this year on the number of repairs per 1000km of mains, achieving 98.3 repairs against a score of no more than 144.4. We continue to invest in the proactive replacement of mains pipes and adopt new ways of working to improve our performance.

7 Water supply interruptions >3 hours
[Average minutes per property, water supply interruption]



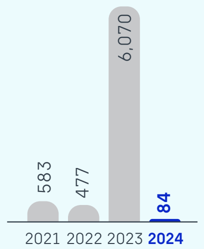
Performance
Actual: 2 minutes 46 seconds
Target: 5 minutes, 45 seconds

Link to our customer outcomes

KPI linked to remuneration

We have achieved our best ever performance this year in reducing the average amount of time customers experience a supply interruption. Against a challenging target of 5 minutes and 23 seconds, we achieved an industry leading performance of 2 minutes and 46 seconds. We have invested significantly in the monitoring of our network and training of our technicians to promote proactive behaviours that minimise the amount of time customer properties are without supply when bursts and incidents happen on our network.

8 Unplanned interruptions to supply over 12 hours
[Number of properties]



Performance
Actual: 84
Target: 320 or less

Link to our customer outcomes

KPI linked to remuneration

We also achieved the 12-hour performance commitment for the first time in AMP7 with only 84 properties affected against a target of 320 properties. This is a significant improvement compared to the extreme challenges faced in 2022/23 when we experienced a "freeze/thaw" cycle that affected the number of bursts on our network.

Supplying high-quality water you can trust

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

Providing a great service that you value

Minimising disruption to you and your community

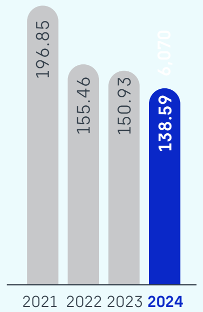
Key performance indicators continued

Operational

9

Properties at risk of low pressure

(Number per 10,000 properties)



Performance

Actual: 138.59
Target: 1.250

Link to our customer outcomes

KPI linked to remuneration

The low pressure performance commitment measures the number of properties at risk of receiving water pressure below the prescribed standard, per 10,000 properties.

We continue to consider that the measurement of the performance commitment is not reliable or comparable with peers across the industry.

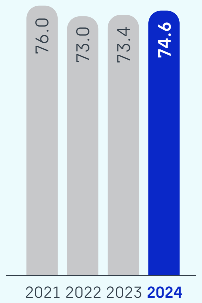
We have not achieved our target for this performance commitment since it was introduced, and due to the reporting issues with this measure, we will not be able to achieve it throughout the 5 year period.

Financial

10

Financial Gearing

(Ratio of net debt to RCV, %)



Performance

Actual: 74.6%
Internal threshold: 80.0%

Link to our customer outcomes

KPI linked to remuneration

Our net debt as at 31 March 2024 was £1,382.3 million, an increase of £124.6 million since last year (2023: £1,257.7 million). This increase reflects a net cash outflow of £19.0 million, primarily driven by capital expenditure on our network. In addition, our index linked bonds increase by prevailing RPI and CPI. This non-cash accretion is designed to match growth in nominal RCV and is included within net debt.

Our gearing is higher than some of our peers in the water industry, however this is only one aspect of our financial resilience. Our gearing of 74.6% is below our internal maximum of 80% of RCV and materially below our trigger level of 90.0%. Our financial policies and capital structure align with our target credit ratings of A3/BBB+/BBB+ for our Class A Bonds with Moody's, Standard & Poor's, and Fitch.

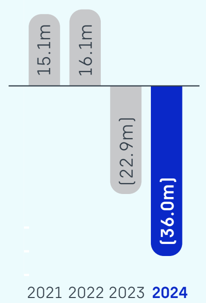
Read more about **Financial Review** on **page 50**

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

11

Cash flow

(Net cash flow before tax and financing)



Performance

Performance Actual: (£36.0m) Prior year: (£22.9m)

Link to our customer outcomes

KPI linked to remuneration

Net cash flow before tax and financing for the year was a £36.0 million outflow, being a £13.1 million increase on last year (2023: £22.9 million outflow). The increase in the outflow is primarily due to higher net investment in fixed assets in the current period in line with our 2020–2025 plan. Cash generated from operations was also lower than in the prior year, offset with improvement in operating profits.

Our KPI linked to remuneration in the current year relates to cash generated from operations, with this target not having been met, as disclosed in the Remuneration Report and financing for the year was a £36.0 million outflow, being a £13.1 million increase on last year (2023: £22.9 million outflow). The increase in the outflow is primarily due to higher net investment in fixed assets in the current period in line with our 2020–2025 plan. Cash generated from operations was also lower than in the prior year, offset with improvement in operating profits.

Read more about **Financial Review** on **page 50**

To find out more about the rewards and penalties of each of our performance commitments, please read our Regulatory Annual Performance Report for year end 31 March 2023 (page 67, table 3A) at **affinitywater.co.uk/reports-publications**.

Supplying high-quality water you can trust

Providing a great service that you value

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

Minimising disruption to you and your community

Financial review

> Although continuing to feel the impact of higher inflation, we have minimised the impact on our operating costs leading to a small increase in operating profit. We have also successfully delivered an increase in our capital programme delivering on our PR19 commitments

Martin Roughead
Chief Financial Officer

Highlights

- Our financial covenants were met as at March 2024 with sufficient headroom and liquidity.
- Awarded the Fair Tax Mark certification for the sixth successive year.
- We have maintained a robust capital structure, supportive of the company's investment grade credit ratings.
- We have continued to develop our financial strategy for the next 5 year AMP period which formed part of our Business Plan, submitted in October 2023.

Solid progress against AMP8 transition plan

Against a challenging Final Determination at PR19 and the wider macro environment, we have delivered robust performance in line with our internal budget.

Introduction

The last few years have presented several 'once in a generation' external challenges that have had an impact on businesses across the world, and we have not been immune to these.

The Covid pandemic has had a massive impact on the usual ways society consumes water and we have seen much higher water use over the last four years, affecting our costs and operational metrics.

However, the financial year ending March 2024 began to see a normalisation of the external environment, particularly in relation to inflation and energy costs. Throughout these years, Affinity Water has continued to adapt to ensure it remains on a strong financial footing and is well placed to thrive.

2023/24 financial performance

Our financial results are prepared in accordance with Financial Reporting Standard 101: 'Reduced Disclosure Framework' ('FRS 101') and are summarised in the table below. For more information, refer to the basis of preparation of our statutory financial statements on page 183.

Revenue for 2023/24 was £347.6 million, being a £32.6 million increase, 10.3%, on the prior year (2023: £315.0 million). The increase is primarily due to higher household revenue ('HH') driven by inflationary increases on tariffs and increases in customer numbers.

Operating costs for the year increased by £24.3 million to £346.6 million (a 7.5% increase) (2023: £322.3 million) with a significant driver being cost inflation and higher energy prices.

The treatment of water and distributing it to our 3.9 million customers makes energy one of our biggest costs. We manage the risk of energy price rises by purchasing in advance in accordance with our hedging strategy.

This strategy ensured we avoided the high market prices in 2022 and 2023 when prices rose significantly, but also means that we have not yet fully benefited from the recent price falls as the energy market has begun to normalise. This means that prices are higher than envisaged at PR19 and are still a challenge from a cost perspective.

	2024 (£m)	2023 restated (£m)
Revenue	**347.6**	315.0
Operating costs	**(346.6)**	(322.3)
Other income	**21.1**	21.9
Operating profit	**22.1**	14.6
Net finance costs	**(58.0)**	(100.0)
Fair value (loss) on energy swaps	**(13.1)**	(26.6)
Loss before tax	**(49.0)**	(112.7)
Taxation	**11.6**	11.8
Loss for the year	**(37.3)**	(100.4)

Bad debt costs decreased during the year as a result of more focus on cash collection and improved cash collection rates.

Staff costs increased in the year, primarily due to an inflationary pay increase of 7.5% awarded, and the full year impact of an increase in headcount. The depreciation charge was also higher than the prior year due to ongoing delivery of our AMP7 investment programme.

Overall operating profit increased by £7.5 million (51.4%) to £22.1 million (2023: £14.6 million) as shown in the graph below.

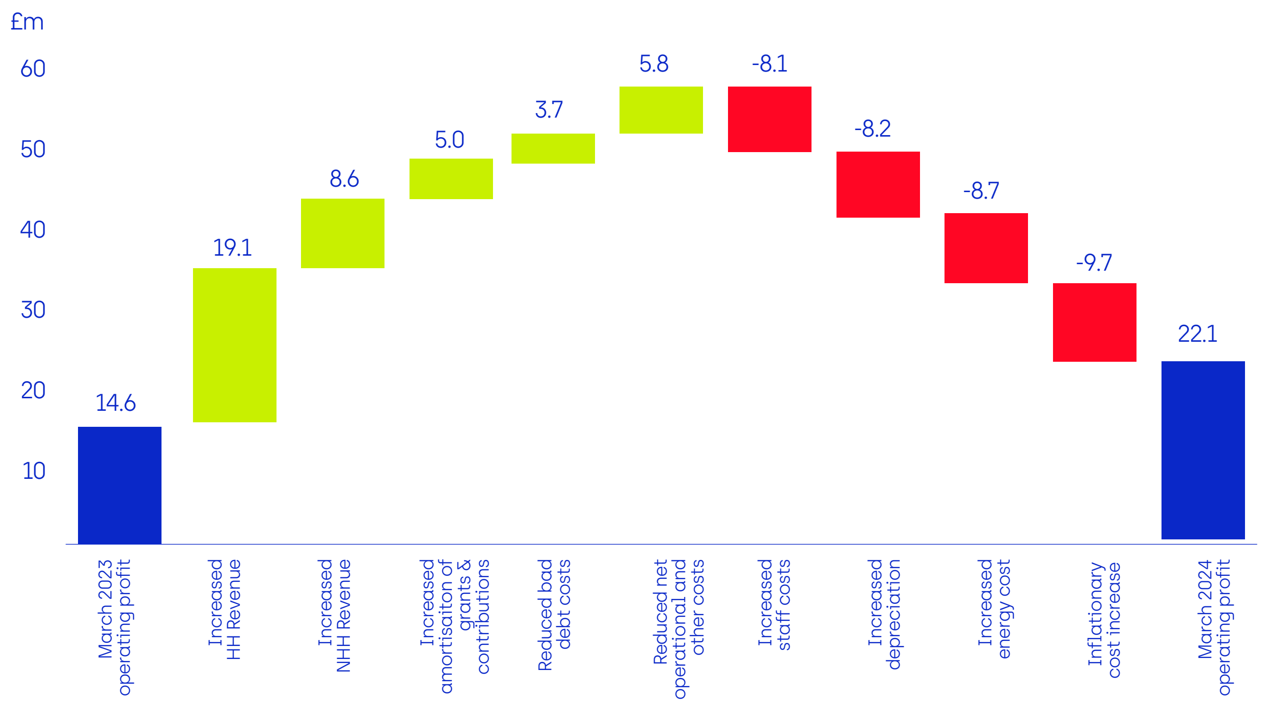
The net finance expense of £58.0 million was £42.0 million (42.0%) lower than last year (2023: £100.0 million), primarily due to lower inflation leading to lower non-cash accretion of indexed linked debt and swaps. There was a fair value loss[1] of £13.1 million on energy swaps, this includes the settlement of £10.5m the rest of the movement is due to a fall in the market forward price compared to last year.

Over the last number of years we have entered into physical and financial energy hedges as part of our risk management strategy, these trades being increasingly "off-market" as the year progressed and market prices fell. In order to better align our forecast energy costs with market prices we undertook a one-off transaction with each of our counterparties to re-strike these trades and pre-pay any difference between the trade price and the market price.

For the financial year ending March 2024, £10.5m one-off costs are included within finance costs. A further £10m was paid in May 2024 and represents a one-off cost in the financial year ending 31 March 2025. This one-off trade did not change our commercial or risk position, it split the trades into ongoing costs re-fixed at market rates and a premium reflecting the original trades.

Loss before tax for 2023/24 was £49.0 million, being a £63.7 million decrease on prior year (2023: loss of £112.7 million).

Financial review continued



Cash flow

Net cash flow before tax and financing[2] for the year was £36.0 million outflow, being a £13.1 million increase on last year (2023: £22.9 million outflow). The increase in the outflow is primarily due to higher net investment in fixed assets in the current period in line with our 2020–2025 plan.

Net debt and gearing

Our gearing as measured by net debt to RCV at 31 March 2024 was 74.6% (2023: 73.4%).

Our net debt[3] as at 31 March 2024 was £1,382.3 million, an increase of £124.6 million since last year (2023: £1,257.7 million). This increase reflects a net cash outflow of £19.0 million, primarily driven by capital expenditure on our network. In addition, our index linked bonds increased by prevailing RPI and CPI. This non-cash accretion is designed to match growth in nominal RCV and is included within net debt.

As we are a business with a long-term outlook and expenditure commitments, we need to match this with long-term sources of debt finance. We consider the most cost effective way to raise long-term debt to be through the debt capital markets. Our financing subsidiaries have outstanding external bonds totalling £1,130.0million, raised in the debt capital markets and on-lent to the company on the same terms.

Our gearing is higher than some of our peers in the water industry. However, this is only one aspect of our financial resilience. Our gearing of 74.6% is below our internal maximum of 80% of RCV and materially below our trigger level of 90.0%. Our financial policies and capital structure align with our target credit ratings of A3/BBB+/BBB+ for our Class A Bonds with Moody's, Standard & Poor's, and Fitch.

Dividends

No equity dividends were paid during the year (2023: £nil), reflecting the shareholders' commitment to re-invest all planned returns from the company's appointed business for the benefit of our customers during AMP7.

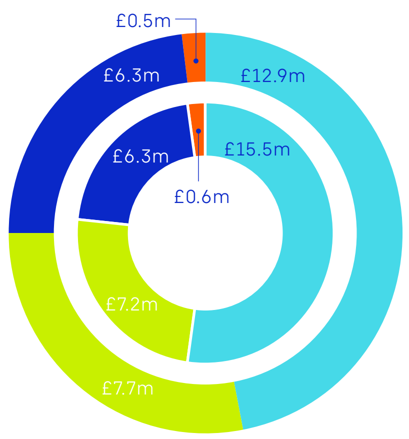
Capital expenditure

Capital expenditure in the year was £159.1 million (2023: £127.7 million), and was incurred principally in our leakage, mains renewals, trunk main replacement, water treatment and integrated water savings programmes.

Our total capital expenditure for 2023/24 includes an element of spending that had been scheduled for earlier years in AMP7 but was delayed due to Covid-19 restrictions in place at the time. The total capital expenditure also includes spend on HS2 schemes that have been fully compensated for.

The income tax credit for 2023/24 was £11.6 million (2023: £11.8 million credit) as a result of a tax credit on losses made in the year. The effective current tax rate of 24% (2023:11%) was lower than (2023: lower than) the UK corporation tax rate of 25% (2023: 19%). Further information and a full reconciliation of the current tax charge are set out in note 5.4 of our statutory financial statements. All our profits are taxed in the UK, and we do not use artificial tax avoidance schemes or tax havens to reduce our tax liabilities.

Our total tax contribution is set out below:



- Direct Tax paid 2023/24 £0m, 2022/23 £0m
- Business rates
- Employment taxes
- Environment Agency abstraction charges
- Streetworks permits

2023/24 (outer) £30.5m

2022/23 (inner) £29.7m

Pensions

Our retirement benefit asset has decreased by £24.9million in the year (46.5%) to £28.7million (2023: £53.6 million) due to the underlying performance of the net assets.

Total expenditure

We have spent £1.25 billion AMP to date of which £375.8 million was spent in 2023/24 (2023: spend of £233.2 million). This investment is key to maintain resilience and make sure our customers have enough water, while leaving more water in the environment by delivering sustainable abstraction reductions in line with our WRMP for the 50-year period from 2025 to 2075.

Martin Roughead
Chief Financial Officer

8 July 2024

1. Gains or losses arising from fair value changes reflect the market conditions at the time and are non-cash in nature. They are accounting entries only, impacting the income statement but not the statement of cash flows during the period.
2. This Alternative Performance Measure is calculated as the total of the following line items per the statement of cash flows (refer to page 182): cash generated from operations; capital contributions; purchases of property, plant and equipment; proceeds from sale of property, plant and equipment; purchase of intangible assets; and principal elements of lease payments.
3 This Alternative Performance Measure is calculated as borrowings and accrued interest less loans from intermediate parent company and all company cash and short-term deposits. It is reconciled to our regulatory net debt in table 1E of our regulatory Annual Performance Report.

Sustainability

Sustainability governance

The Environment, Social, Governance (ESG) sub-committee is established to ensure strategic focus and direction is given to sustainability matters at executive level, performance is regularly monitored to maximise opportunities to increase both public and shareholder value and enhance outcomes for customer, communities and natural environment. The ELT sub-committee is accountable to the Executive Leadership Team (ELT) and it facilitates cross-directorate working across the business.

Our approach

Our purpose is to provide high-quality drinking water and to take care of our environment, for our diverse communities now and in the future. This is at the heart of what sustainability means to us and how we can add value to society.

To address sustainability within our business, we use the Environment, Social and Governance ('ESG') framework to understand both risk and the opportunity to add value. In 2023/24 we took further steps to achieve that by:

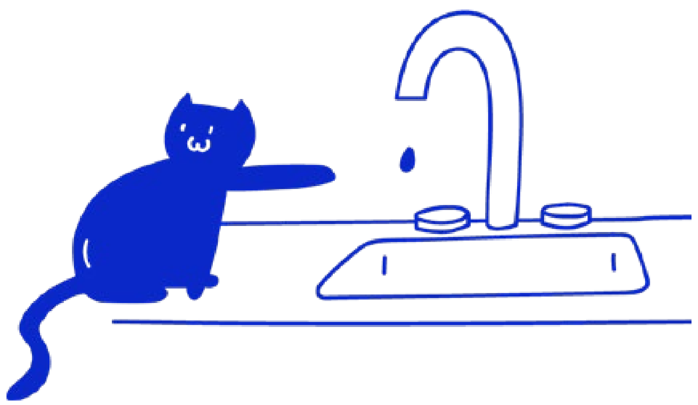
- starting to articulate the value created through the above three themes by applying a multi-capital approach to our reporting;
- incorporating ESG themes and indicators across our planning and operational activities and through our relationships with shareholders, customers, suppliers, and other stakeholders;
- increasing awareness and ownership of ESG issues throughout our business and our culture;
- actively managing and mitigating ESG risks and working to embed ESG into our company risk management processes.
- making the case to transition the SHEDWQ Committee to an ESG Committee at Board level with responsibility for providing leadership on ESG and driving awareness and ownership of ESG issues and measurement throughout the organisation.

Where we want to be

Our local communities and environment are critical to us, but we also have an important role to play regionally and as part of the global water community.

We need to take action and raise awareness on issues that affect us all, for example, the impacts of climate change, the need for a positive relationship with nature and treating everyone with fairness and respect. We've chosen to reference the UN's Sustainability Goals within our reporting to reflect this broader sustainability context and our responsibility for being part of the solution.

To understand our value, we take a multi-capitals approach to our business, understanding the natural, human, social, manufactured, intellectual and financial assets in our business. You can find out more about our multi-capital approach on page 22.



Our alignment to the UN SDGs

As a water company supplying a vital resource to our communities, we have identified which goals are particularly applicable to us and our long-term ambitions.

The United Nations' SDGs are a blueprint to achieve a better and more sustainable future for all. The 17 related goals address the global challenges we face including those related to poverty, inequality, climate, environmental degradation, prosperity, peace and justice. To focus our priorities on the most-material issues for our stakeholders and business, we use a materiality assessment to understand what our customers and stakeholders expect and the potential opportunities for us to create value in that area.

5 Gender Equality — Promoting a culture of diversity and inclusivity throughout the workplace

Our Equality, Diversity and Inclusion Committee is tasked with understanding the challenges our industry faces, including gender equality. We have set long-term goals to ensure our employee diversity is representative of the communities we serve. We have published our revised EDI strategy **https://www.affinitywater.co.uk/docs/reports/EDI-Strategy-2023-2030.pdf**

6 Clean Water and Sanitation — Supplying quality water, working alongside sewerage companies regarding sanitation

We use the latest treatment technology and monitoring system to ensure a consistent supply of high-quality water to our customers, benefiting the wider communities and positively impacting our environment

8 Decent Work and Economic Growth — Ensuring employees are engaged, making Affinity Water a great place to work

Our culture and ways of working are based on five key principles that are embedded in everything we do. We want to ensure we are a responsible employer and are contributing to both our shareholder returns and providing wealth and income to the communities we serve and where our employees live.

9 Industry, Innovation and Infrastructure — Securing sustainable quality water and investing in our assets to supply to domestic and commercial customers

We continuously invest in our physical assets, both above and below ground, to ensure we have stable long-term assets available to continue to provide water to future generations.

10 Reduced Inequalities — Supporting vulnerable customers that need help paying their bill or accessing their water

We treat all members of our communities fairly and inclusively. providing a flexible service that can be used by all consumers equally, regardless of their health, age or personal circumstances.

12 Responsible Consumption and Production — Securing the long-term provision of sustainable water for all

Our Water Resources Management Plan identifies, over a 50-year period, how we will balance available supplies with required demand, to ensure a reliable water supply for future generations. Our WRMP is available on our website: **affinitywater.co.uk/corporate/plans/water-resources-plan**

13 Climate Action — Supplying quality water for all and protecting the environment

We are continuously adapting to the challenges that climate change poses to our industry as well as considering our own impact on climate change, by looking at ways we manage our natural capital.

14 Life Below Water — Ensuring sustainable water sourcing and protecting the environment

We are working with stakeholders to address the environmental challenges of protecting our precious local rivers and habitats while encouraging behavioural change. We are reducing groundwater abstraction, to leave more water in the environment to ensure we can meet future demand.

15 Life on Land — Increasing biodiversity and sustaining the environment

Our catchment management programme aims to make a positive impact on the environment by improving soil and water quality, capturing carbon, and managing flood risk.

Sustainability continued

We are continuing to develop

This framework for sustainability enables alignment with Ofwat's Public Value Principles and underpins the culture of our business, how we plan, make decisions, treat our people, support and provide for our customers, and invest for a long-term sustainable supply of water.

ESG topics and how they relate to us

Environment

Stewarding and protecting natural environment resources and assets

- Biodiversity and land management plans
- Pollution prevention
- Environmental Policy
- Energy efficiency programmes
- Solar energy generation
- GHG reporting
- Net zero strategy
- Sustainable abstraction
- Water Resources Management Plan
- Waste reduction targets
- Water demand targets
- Climate change adaptation and resilience
- Supply-chain and carbon accounting
- INNS scheme

Social

Our culture and engagement with employees, customers, communities and other stakeholders

- Community partnerships
- Public value creation and voluntary initiatives
- Affordability and cost of living social tariffs
- Community disputes (trust and transparency)
- Customer satisfaction (C-MeX)
- Employee engagement surveys
- Equality, diversity and inclusion commitments
- Wellbeing webinars
- Labour standards and working conditions
- Stakeholder relations
- H&S and wellbeing (employees, customers and communities)
- Affinity Days (employee volunteering)
- Charitable contributions

Governance

How we operate and govern ourselves as a company

- Board composition and independence
- Committees' composition and independence
- Code of Conduct and anti-bribery and corruption
- Data protection and privacy
- Cyber security
- Risk Framework
- Modern slavery and human trafficking
- Executive compensation
- Ethics and Compliance Panel
- Legal Panel
- Lobbying activities
- Whistleblower protection
- Procurement

Task Force on Climate-related Financial Disclosures ('TCFD')

We are all facing a climate emergency and must take action to mitigate and adapt to the effects of climate change.

As the UK's largest water supply-only company we recognise the important role we play, not only in providing an essential service but also as stewards of the environment. We have therefore undertaken a risk-based review of the challenges posed to our business by climate change, both now and in the future.

Overview

We are committed to the recommendations of the Task Force on Climate-related Financial Disclosures ('TCFD') and the requirements of the UK Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022. This means providing our stakeholders with transparent information on climate-related risks and opportunities relevant to our business. Sustainability and climate resilience are central to our strategy and we summarise below our current approach to implementing the TCFD recommendations, following the four thematic areas of governance, strategy, risk management, and metrics and targets. The four thematic areas cover the 11 recommended disclosures and explain how we comply with the TCFD reporting requirements.

We are aligned with the reporting requirements in all areas, and we've recognised areas where we have further work to do to embed the TCFD recommendations across our business and enhance the adoption of good practice by year ending 31 March 2025.

Governance

Disclose the organisation's governance on climate-related risks and opportunities.

Our compliance

We support the principles of good corporate governance set out in the UK Corporate Governance Code and have adopted our own Governance Code, founded on the governance obligations in our licence and the principles set out in Ofwat's publication on Board leadership, transparency, and governance.

We recognise the role our Board and management play in managing climate risks.

Future plans

We will continue to enhance awareness across our Board, senior management, and all employees about the role they play in managing climate risks.

We will continue to monitor climate change and its impacts on our operations, governance and decision making.

More information

Read more about this disclosure on **page 60**

Risk management

Disclose how the organisation identifies, assesses, and manages climate-related risks.

Our compliance

We have robust systems of internal control and risk management, and we monitor their effectiveness regularly in compliance with the principles of our corporate governance code. All risks are assessed using consistent scoring criteria, including climate risks.

We have work to do to integrate climate risks into our enterprise risk registers and assess the impacts on our principal risks.

Future plans

We will continue to monitor our exposure to current and emerging risks from climate change. In 2024, we will be responding to the government's National Adaptation Programme fourth round of climate adaptation reporting, where we will update our physical risk assessment and assess our transition risks.

We will define the impacts of climate risks on our principal risks.

More information

Read more about this disclosure on **page 62**

Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.

Our compliance

As a water company with public and social responsibility, we have a responsibility to adapt to climate change, achieve net zero, and consider climate change in our business strategy and financial planning.

We have identified material physical and transition climate-related risks. Our PR24 business plan (2025-2030) submission considered long term physical climate risks and scenario analysis to determine how we will adapt to climate change.

We have work to do to assess transition risks, quantify impacts and integrate findings into our strategy and financial planning.

Future plans

We are committed to contributing positively to the climate change emergency and we are progressing towards net zero operations.

We will undertake scenario analysis considering transition risks, and enhance the assessment of impacts on our business, strategy, and finances.

More information

Read more about this disclosure on **page 64**

Metrics and targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities.

Our compliance

In 2019, we joined all UK water companies in pledging to reduce our operational emissions (as defined at the time) to net zero by 2030.

We've adopted the TCFD framework for metrics, and we've identified a selection of metrics and targets relevant to managing our climate risks and opportunities.

Future plans

We will continue to enhance and identify further metrics and targets to support us in managing our climate risks.

We will continue to enhance our accounting for Scope 3 GHG emissions.

More information

Read more about this disclosure on **page 66**

TCFD continued

Governance

Definition

Disclose the organisation's governance of climate-related risks and opportunities.

- Describe the Board's oversight of climate-related risks and opportunities
- Describe management's role in assessing and managing climate-related risks and opportunities

Progress this year

The groundwork has been laid this year for the Safety, Health, Environment and Drinking Water Quality (SHEDWQ) Committee to transition into an ESG Committee in June 2024, with specific focus on climate change, net zero, and wider sustainability objectives.

The role of all Board Committees relating to managing climate risks has been better identified. The Remuneration Committee is responsible for incentivising executive directors and linking net zero targets with bonus and awards, the Audit, Risk and Assurance Committee ('ARAC') is responsible for discharging governance responsibilities in respect of internal controls and risk management including climate related risk and the new ESG Committee will be setting the right strategy for achieving these targets.

Senior management have participated in a TCFD workshop to inform our progress and disclosure.

Future focus

We will continue to enhance awareness across our Board, ELT, and senior management about the role they play in managing climate risks.

We will consider updates to the Terms of Reference of our Committees to formally recognise the roles these committees are playing in managing climate risks.

We will continue to monitor climate change and its impacts on our operations and decision making.

Where else to look

See our governance report on **pages 98 to 167** including the work of the SHEDWQ Committee, ARAC Committee, Remuneration Committee and Nomination Committee

See principal risks and uncertainties section on **pages 80 to 89**

See section 172(1) statement on **pages 72 to 79**

The Board

The Board understands the climate emergency we are currently all facing, and reflects this in its decision-making. Our company purpose is to provide high-quality drinking water and to take care of the environment for our communities now and in the future, which drives the key decisions made by the Board. At each Board meeting, the Board receives updates on the progress in meeting our strategic objectives, and this includes updates on metrics and targets relating to climate change and our environment (e.g. net zero, leakage, PCC, river restoration).

The Board has effective oversight of climate-related risks and opportunities. A principal risk relating to the physical risks from climate change is included within our strategic risk register, which is regularly reviewed by the Executive Team and annually by the Board. We've also recognised that climate change and the transition to net zero affects several of our principal risks. The strategic risk register includes details of appropriate controls and mitigating actions. Any relevant targets related to climate change are approved by the Board, including our target to reduce carbon emissions.

This year, the Board also oversaw and received regular updates on the development of the draft WRMP24 and PR24 business plan, which embed climate adaptation and mitigation into future actions.

We recognise the importance of demonstrating to customers, regulators, and other stakeholders that we operate to the highest standards of governance and transparency. We support the principles of good corporate governance set out in the UK Corporate Governance Code and have adopted our own Governance Code, founded on the governance obligations in our licence and the principles set out in Ofwat's publication on Board leadership, transparency, and governance. Alongside our Governance Code, we have published a number of other documents which explain how our Board and its Committees operate, where decisions are taken and how our shareholders participate in certain key decisions relating to our business.

Board Committees

SHEDWQ Committee: This year the SHEDWQ Committee on behalf of the Board oversaw the implementation of our net zero strategy and programme. The strategy includes four principles: (1) to develop a net zero culture within the company, (2) implement a carbon-management hierarchy, (3) utilise nature-based solutions, and (4) work with others to reach net zero.

At the end of this reporting year the SHEDWQ Committee transitioned into the ESG Committee and its Terms of Reference were updated. The Committee's purpose is to ensure strategic focus and direction is given to ESG across the business, and monitor and minimise ESG risks and maximise opportunities to add social and environmental value. This includes consideration of net zero, climate change adaptation and resilience, natural capital, biodiversity, and changes to the environmental regulatory landscape.

Audit, Risk and Assurance Committee: The Committee oversees the Group's financial reporting, assurance, and risk management programme. The Committee is increasingly cognisant of the potential financial impacts of climate change, and we will continue to raise awareness of climate risks to be considered by the Committee.

Remuneration Committee: The Committee establishes the remuneration policy and incentive/reward scheme for executives to meet strategic objectives. The Committee considers objectives relating to climate change and the environment in the incentive scheme.

Nomination Committee: The Committee evaluates and makes recommendations regarding Board and Committee composition, and succession planning for executive management. The Committee considers competency of Board members relating to ESG and sustainability. Two Board members have primary competency in ESG and several have relevant background experience.

Management

The ELT (including CEO, CFO, Director of Customer Delivery, Director of Asset Strategy and Capital Delivery, Director of Customer Experience, Director of Regulation and Strategy, Director of Technology and Transformation, People Director) are primarily responsible for developing and executing the company's strategy. Individual ELT members are responsible for leading their directorates, including management of climate risks in their areas e.g. operations, engineering, finance, procurement, environment, communications, HR etc.

ELT oversees an ESG Sub-Committee which is Chaired by the Director of Regulation and Strategy, with a purpose of monitoring the performance of ESG Programmes, to achieve agreed outcomes within agreed time and budget. This includes having oversight of climate risks and opportunities and net zero progress. The ESG Sub-Committee members include Director of Asset Strategy and Capital Delivery, Head of EDI and Culture, Head of Water Resources and Environment, Senior Asset Manager, Compliance Manager and Sustainability Manager.

We operate a 'Gold, Silver and Bronze' command structure for incident and emergency response. The Silver role provides strategic oversight to all ongoing incidents and emerging risks across the region and ensures our resources are deployed as effectively as possible. When necessary, a Gold Controller will be deployed to provide executive oversight and governance.

The Gold Commander ensures the ELT and Board are kept fully informed. In the last two years, we experienced both a heatwave in summer and the winter freeze/thaw events that were disruptive to our operations. Since, we have updated our overarching plan that sets out our approach to preparing for, responding to and recovering from disruptive events when they arise. Following each incident we conduct a thorough post-incident review. We have established a Programme Board, with ELT sponsorship to ensure post-incident learnings are progressed and our plans adapt and evolve accordingly.

Our TCFD working group reports to the ESG Sub-Committee and is primarily focused on enhancing our progress with implementing the TCFD recommendations and preparing our TCFD disclosure. This year we engaged external consultants AtkinsRéalis to support us in enhancing our TCFD compliance and expanding our disclosures. Senior management participated in a TCFD workshop to review progress and agree the next steps to strengthen our performance over the coming years. The workshop's main outcomes were:

- Raised awareness and understanding of the TCFD recommendations and disclosures in the UK amongst senior Affinity Water leaders.
- Understanding the current level of compliance with the TCFD recommendations and sharing best practice.
- Obtaining inputs to feed into the TCFD disclosure.
- Identification of material transition climate-related risks.

Future focus

To further strengthen our governance around climate-related risk and opportunities, we will continue to monitor climate change and its impacts on our operations, as well as the effectiveness and efficiency of our mitigating controls, with the objective of ensuring our ongoing sustainability and resilience. We fully embrace the part we play in combatting the effects of, and adapting to, climate change.

We will continue to enhance awareness across the Board, ELT, and senior management about the role they play in managing climate risks.

We will consider updates to the Terms of Reference of our Committees to formally recognise the roles these Committees are playing in managing climate risks.

We will consider strengthening incentives/rewards for all employees to support the achievement of our climate and ESG objectives.

TCFD continued

Risk management

Definition

Disclose how the organisation identifies, assesses and manages climate-related risks

- Describe the organisation's processes for identifying and assessing climate-related risks
- Describe the organisation's processes for managing climate-related risks
- Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management

Progress this year

Material transition risks have been identified. See Transition Risk Assessment section on page 65.

Future focus

We will update our assessment of physical climate risks and assess the identified transition risks in 2024/25.

We will better define and assess the impacts of climate change and the transition to net zero on each principal risk.

We will enhance the integration of physical and transition climate risks into our enterprise risk management systems.

Where else to look

See principal risks and uncertainties section including our approach to risk on **pages 80 to 89**

See the viability statement on **pages 90 to 95**

Risk management

Our risk management framework

We have comprehensive systems of internal control and risk management, and we monitor their effectiveness regularly in compliance with the principles of our corporate governance code. Our risk management framework is closely linked to the way we monitor and measure our performance and compliance with our statutory obligations and commitments, which is subject to external assurance by third parties. Our risk management framework and guidance specifically include risks relating to climate change and ESG. We maintain a formal risk register and risk management system for identifying, evaluating, and mitigating risks.

All risks are assessed using consistent scoring criteria for likelihood (remote to almost certain) and impacts (insignificant to critical). Impacts are assessed considering several criteria: financial, health and safety, interruption of services, water quality, environmental, legal and regulatory, customer communications.

Our risk management identification and escalation process is outlined in the diagram below.

Audit, Risk & Assurance Committee (ARAC)
Regular review of audit, assurance, risk and compliance matters

Executive Leadership Team (ELT)
Quarterly review of strategic risks and significant directorate risks

Corporate Risk Management Team
Second line support advice, training, reporting

Directorate Leadership Teams
First line risk identification, assessment, evaluation, management of directorate risks

Identifying, assessing, and managing physical risks

Our 2021 Climate Change Adaptation Report identified priority physical risks from climate change and how these impact our functions and activities across the business. We have identified mitigations and monitoring plans to adapt to climate change impacts.

The physical risks related to climate change is a principal risk within our strategic risk register and is considered as part of the stress testing within the viability statement. Our directors consider that this risk in isolation would not compromise the company's financial viability during the lookout period of ten years. Instead, the risk could be considered as part of several different severe, plausible, and reasonable sensitivities to the company's base-case forecast, detailed in the viability statement.

This year we published our new draft WRMP24, outlining our plans to provide a reliable, resilient, efficient and affordable water supply to our customers between 2025 and 2075, and setting out how we intend to maintain the balance between water supply and demand. The impact of climate change on supply was evaluated using the common approach adopted across water companies in our region. This allowed us to understand how our supply capabilities could vary across a range of 20, carefully selected, future scenarios, to represent the range of uncertainty identified through the UK Climate Projections 2018 ('UKCP18') global climate models.

We also published our PR24 Business Plan and in it we considered the financial impacts of risks to our ODIs and return on regulatory equity ('RORE').

Identifying, assessing, and managing transition risks

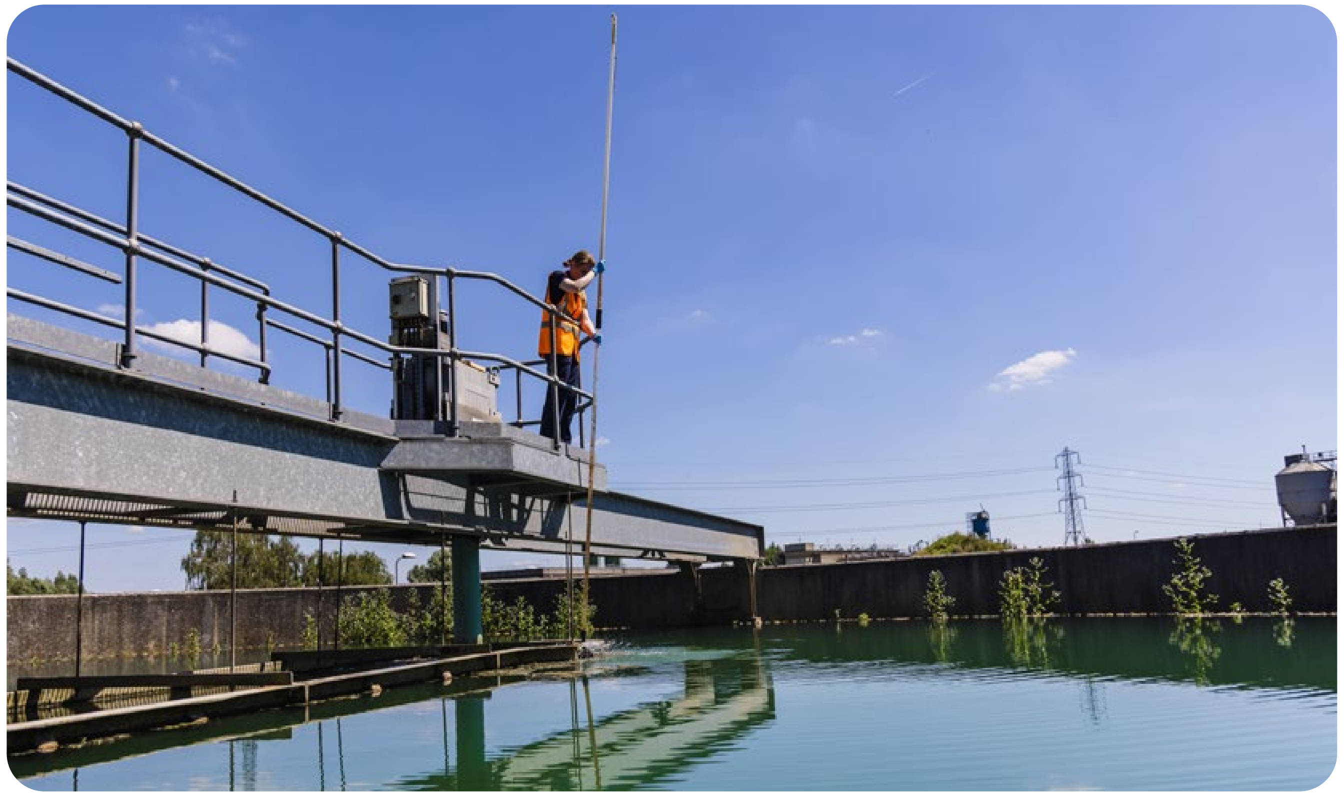
This year, we have identified material risks related to the transition to a net zero climate resilient economy, and we've recognised that many of our principal risks are impacted by transition risks.

Future focus

We have identified climate change as an underlying cause or impact on many of our principal risks, and we will define these impacts over the coming year. We have documented in our risk registers, where appropriate, controls in place to mitigate, as far as possible, the potential physical effects of climate change in elevating those risks. We will continue to monitor climate change and its impacts on our operations, as well as the effectiveness and efficiency of our mitigating controls, with the objective of ensuring our ongoing sustainability and resilience. In undertaking this assessment, we also sought to review our mitigation options with key WRMP24 and PR24 investment needs to plan for enhanced resilience.

In 2024, we will be taking part in the government's National Adaptation Programme's fourth round of climate adaptation reporting. Through this, we will update our physical climate risk assessment, and we will assess the impacts of the transition risks we've identified this year.

We will enhance the integration of physical and transition climate risks into our enterprise risk management systems and consider potential changes to our risk scoring guidance and risk management approaches, to ensure climate risks are captured and effectively managed.



TCFD continued

Strategy

Definition

Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.

- Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term
- Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning
- Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario

Progress this year

Major progress in embedding climate resilience into our future operations, with publication of our draft WRMP24 and PR24 Business Plan

Net zero strategy updated and published

Future focus

We are committed to net zero operational emissions by 2030, pending the outcome of PR24 final determinations.

We are updating our Climate Adaptation Report and climate risk assessment in 2024, including physical and transition risks.

We have committed to reporting to the Carbon Disclosure Project ('CDP') by 2025.

Where else to look

See our directors' report (GHG emission reporting) on **page 67**

See our journey to net zero on **page 34**

Strategy

Our core responsibilities include planning for future water resources and for events such as droughts, while investing efficiently and protecting the environment.

As a community-focused water company with public and social responsibility, we have a responsibility to adapt to climate change and reduce our own carbon emissions, and we have outlined these commitments in our Environment Policy. Our WRMP24 sets out how we will meet the challenges of supplying water to a growing population, taking into account the impacts of climate change. The impact of climate change is a central consideration in the development of these plans both to calibrate our scenarios and assumptions, and to select the most appropriate solutions and investments to develop water resources, improve the resilience of our supply system, and manage demand.

When considering risks and impacts on our business and strategy, we have defined the following time horizons:

Time horizon	Time period	Justification
Short Term	2024-2030	Aligns with AMP 8 planned actions
Medium Term	2030-2050	Aligns with actions identified in the LTDS and WRMP
Long Term	2050+	Aligns to forward-looking nature of WRMP24 and post-UK net zero 2050

Physical climate risk assessment

Our physical climate change risk assessment was developed in 2021 as part of our **Adaptation Report**, identifying six headline physical risks posed by climate change (shown below). The report considers how the physical risks from climate change might affect us in the case of two potential future global warming scenarios: where the world warms by 2°C by 2100, and a more extreme scenario where the world warms by 4°C by 2100, considering the impacts in 2050, including the implications of up-to-date flood-risk modelling on our asset base. The report details where we want Affinity Water to be in 2025, and highlights the planned interventions during AMP7 that will help us get there, as well as detailing the impacts these interventions have on our risk position.

During 2022/23, we published updates to our Adaptation Report. We published two additional reports, the first focusing on identifying the other physical climate risks not covered by our six headline risks mentioned above. The second report identifies the climate risks which we think could impact the third parties (such as power and telecoms providers) who enable us to provide our service. These additional risks were assessed in the same way as our six headline risks and together form a comprehensive climate risk assessment for our business.

We undertook scenario analysis considering physical climate risks in our Long Term Delivery Strategy ('LTDS') developed as part of our PR24 Business Plan. In this, we adopted the climate change scenarios mandated by Ofwat's PR24 methodology: the IPCC's Representative Concentration Pathway (RCP) 2.6 (low-emissions scenario) and RCP 8.5 (high-emissions scenario). The LTDS sets out the key challenges and impacts we face, and our actions to mitigate risks and remain resilient – such as actions to reduce water demand, increase our deployable output, reduce our reliance on groundwater abstraction, mobilise water tankers in case of emergency, and reduce bursts across our network.

The six headline risks we have identified

1. **Increase in demand due to higher temperatures throughout the year, exacerbated during summer peak-demand periods**
2. **Equipment and asset failure due to extreme weather**
3. **Increase in competition for and price of raw-water imports**
4. **Reduced availability of ground and surface water due to drought**
5. **Outage due to flooding of sites**
6. **Deterioration in raw water quality due to changes in rainfall and temperature, leading to loss of sources**

Transition risk assessment

This year we published our net zero strategy, and since then we have identified material transition risks with support from consultants AtkinsRéalis. Material risks were identified by considering challenges relating to the UK's transition to net zero and associated challenges across the UK water sector. The headline risks identified are shown below.

Transition risk category as defined by TCFD	Transition risk
Market Risk	Increased costs of energy and materials due to the transition to decarbonise
Policy/regulation risk	Regulatory system not enabling sufficient investment for net zero transition and climate adaptation
Policy/regulation risk	Changes in the policy and regulatory requirements for water companies related to climate change, net zero, and more stringent environmental regulations
Technology risk	Capacity and readiness of technology, Affinity's people, resources, and supply chain to deliver net zero and climate adaptation
Reputational risk	Negative public or stakeholder perception of Affinity Water due to underperformance in management of the environment or net zero
Reputational risk	Customer affordability and fairness concerns due to costs to decarbonise and adapt to climate change

During the year we took the decision to stop paying the high price for a green electricity tariff, as we felt this does not offer the best value for customers and comes at the expense of other opportunities to invest in delivering customer's priorities. As a result, our reported Scope 2 GHG emissions have increased this year due to us purchasing standard electricity. We will continue to explore options to reduce our Scope 2 GHG emissions through our own actions (such as onsite renewable energy generation, or power purchase agreements with renewable energy generators). We are continuing to enhance our own sustainability and reduce our Scope 1 GHG emissions, and the change away from the green electricity tariff does not affect our sustainability-linked financing. We remain committed to achieve operational net zero by 2030, pending the outcomes of Ofwat's final determination of our PR24 Business Plan.

Future focus

We will be updating our Climate Change Adaptation Report this year, considering progress made since 2021 to adapt to climate change. We will also undertake further analysis to quantify risks and financial implications on our ODI rewards and penalties, and assess our material transition risks.

Over the coming year we will undertake scenario analysis considering transition risks and their impacts on our business and assess our resilience under different climate futures. We will also identify material climate-related opportunities as a result of the transition to a net zero climate resilient economy.

We have committed to reporting to the Carbon Disclosure Project ('CDP') by 2025. CDP is the world's most widely used database of organisational environmental impact information. CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. The aim of the CDP is to improve environmental impact data transparency and support sustainable business by helping companies measure, track and reduce damage to the environment.

TCFD continued

Metrics and targets

Definition

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material

- Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process
- Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas ('GHG') emissions, and the related risks
- Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets

Progress this year

We've adopted the TCFD framework for metrics and have commenced defining key metrics to manage our climate risks and opportunities.

We commissioned a pilot programme with our largest suppliers to understand how we can support them in reducing their GHG emissions, reducing our Scope 3 emission impact.

Climate change continues to be incorporated into our LTIP bonus target.

Future focus

This year we will define metrics and targets for the material transition risks identified, and conduct analysis to better understand the financial implications on our ODI rewards and penalties of a 2°C and 4°C increase in global temperatures by 2100, considering impacts in 2050-2080.

This year we will finalise the development of our ESG scorecard to allow our owners, stakeholders, and customers to adequately assess our sustainability and ESG performance.

We will continue to enhance and identify relevant metrics and targets to support us to manage climate risks and opportunities and meet our climate change objectives.

Where else to look

See our directors' report (GHG emission reporting) on **page 67**

See our approach to sustainability on **page 06**

See climate change adaptation report on **page 77**

See the Remuneration Committee report on **pages 138 to 155**

Metrics and targets

For 2024/25, we will develop metrics and targets for the material transition risks and opportunities identified, to allow for the assessment and evaluation of our performance in mitigating climate-related risks and for us to realise the opportunities of transitioning to net zero. The development of these metrics and targets will support wider business resilience, with potential for such indicators to be linked to remuneration in future reporting periods. A selection of metrics of how we will monitor and mitigate our climate-related risks are referenced below on the following page.

GHG emissions

In 2019, we joined all UK water companies in pledging to reduce our operational emissions (as defined at the time) to net zero by 2030. The emissions included within this target are Scope 1, Scope 2 and Scope 3, where they relate to business travel, outsourced services relating to IT and admin, waste and electricity transmission and distribution.

In 2022/23 we estimated our full carbon footprint for the first time. We are repeating this for 2023/24 taking steps to improve data accuracy where possible. For 2023/24 we have seen an increase in reported Scope 2 (market-based) emissions. This increase is largely due to our decision to stop purchasing 100% green electricity as it does not provide best value to our customers. We have also recorded a reduction in Scope 1 emissions as a result of reduced use of stand-by generators.

A summary of our GHG emissions is below.

GHG emissions Scope	2022/23 tCO_2e	2023/24 tCO_2e	Comments
Scope 1	5,914	4,995	We continue to decrease our direct GHG emissions through sustainability improvements we are making to our sites and operations.
Scope 2	– (market based) 43,623 (location based)	38,441 (market based) 45,053 (location based)	Our GHG emissions have increased due to us purchasing standard electricity instead of the green tariff which did not provide the best value for our customers.
Scope 3 (categories included)	17,618	108,433	This year we have included additional categories of indirect emissions from value chain. We engaged external providers to help us improve our Scope 3 emissions disclosure.
Total	67,155 (market based) 23,532 (location based)	151,869 (market based) 158,481 (location based)	We are committed to net zero operational emissions by 2030, pending the outcome of PR24 final determinations

We used a combination of methods to estimate our GHG emissions, following the principles of the 2015 GHG Protocol Corporate Accounting and Reporting Standard. Operational emissions have been estimated using the water industry Carbon Accounting Workbook (CAW). This is a tool used by water companies in the UK, which is updated annually to reflect the latest published UK emission factors. This tool uses the most commonly applied method for calculating emissions by applying an emission factor to activity data, such as fuel consumption. See our Greenhouse gas emissions statement in the Director's report for more details.

For Scope 3 we have commissioned specialists EcoAct to compile a scope 3 inventory. They use activity data where available and apply emission factors from their database. Where activity data is not available, they used alternative data and methods to calculate emissions, this includes using spend based data or recognised benchmarks.

Over time we aim to improve our emissions reporting by capturing and utilising greater amounts of activity data. We are continuing work to better understand all GHG emissions that the company is responsible for across Scope 1, 2 and 3, and reduce our overall contribution to global warming and emissions in line with the UK targets to achieve net zero across all emissions by 2050.

Transition risks

The EU taxonomy aims to help the EU scale up sustainable investment and implement the European Green Deal objectives, including the 2050 climate-neutrality target. On a voluntary basis for the second time this year, we have assessed the portion of our revenues and expenditures aligned with the EU Taxonomy for Sustainable Activities, to quantify the activities which contribute to two environmental objectives: 'climate mitigation' and 'sustainable use and protection of water and marine resources'. The second objective was recently added in June 2023 by the European Commission as one of the remaining delegated acts of the taxonomy, which has broadened the framework for the analysis of eligible activities in the 2022/23 financial year.

While not formally required in the UK, the UK Government has indicated that it intends to introduce a new Sustainability Disclosures Regime ('SDR') and green taxonomy in future, based on the EU taxonomy. The EU taxonomy assessment was externally verified and concluded that for the 2022/23 financial year, 100% of Affinity Water activities were eligible under the EU taxonomy guidelines, and based on financial KPIs, 81.76% turnover, 81.06% capital expenditure and 81.76 % operating expenditure were classed as aligned with EU Taxonomy and can be considered environmentally sustainable. We do not currently use carbon offsetting as a means to reduce our GHG emissions.

Physical risks

Our Adaptation Report identifies several metrics and targets relevant to key physical climate risks.

TCFD continued

Relevant physical risk	Related target	2023/4 performance
Reduced availability of ground and surface water due to drought	Improve our planned levels of service for drought permits from 1 in >40 years to greater than 1 in >200-year return period events by March 2024	**The improvements progressing with Sundon conditioning plant on track for delivery and operational in summer 2024. In our WRMP, the delivery date we committed to is March 2025 in line with the end of AMP7 sustainability reductions.**
	Reduce abstraction in chalk stream catchments by almost 100Ml/d from 1990 abstraction volumes	**The improvements progressing with Sundon conditioning plant on track for delivery and operational in summer 2024. In our WRMP, the delivery date we committed to is March 2025 in line with the end of AMP7 sustainability reductions.**
	Reduction in leakage by 18.5% between 2020 to 2025, and by 50% by 2050	**18.3%**
Increase in demand due to higher temperatures, exacerbated during summer peak demand	12.5% reduction in PCC by March 2025	**-1.5%**

Climate-related opportunities

We are investing in nature-based approaches to capturing carbon and enhancing our environment, such as our investments in cover crops and seagrass. We've set a target of being able to deliver and account for a minimum of 1,000t CO_2e benefit by the end of 2024/25. For 2023/24 we funded and took part in several pilot projects to baseline and model the carbon benefit of different initiatives with farmers in our supply area. To achieve our 2024/25 target, we are reliant on the development of UK-recognised standards and best practices, such as for strictly quantifying carbon captured in soils. These are still developing, so we will stay engaged and will review our targets as necessary this year.

We previously set a target that we would meet 10% of our total energy requirement by our own solar power generation by 2024, and we included this target in the LTIP scheme to incentivise action. This year solar power generation contributed 0.7% of our total electricity consumption.

Investment delivery

Throughout the year, we have continued to invest in enhancing our resilience and sustainability. This includes most recently investing £3.6 million in two new solar installations, which are both due to start generating renewable energy from summer 2024.

Our PR24 Business Plan sets out our most ambitious plan yet, with a totex investment of £2.12 billion between 2025 – 2030 to ensure we can meet the challenges we face and take care of our environment for our communities now and in the future.

Remuneration

In 2023/2024 we set our first whole company bonus target related to GHG emission reduction. The target was to reduce Scope 1 emissions by 5% compared with a 2021/22 baseline. This equates to having annual Scope 1 emissions of 5,970 tCO_2e or less. This target is part of a suite of performance targets which are appliable to all employees. For 2024/25 we are planning a more ambitious target by including both Scope 1 and Scope 2 emissions. Having this type of bonus target incentivises our teams to play their part in reducing operational carbon emissions and be conscious of the carbon impacts of their decisions across our sites and operations.

During the year, the Remuneration Committee, on behalf of the Board, approved the 2023/24 LTIP scheme, which incorporates an element of climate change in its metrics. 10% of the LTIP bonus target is linked to net zero goals (self generation of 10% of our total energy use from solar power), river restoration (restore 36 over the AMP7 period) and abstraction reduction (27.33 Ml/d reduction). Performance on this metric is reported to the Remuneration Committee on behalf of the Board, with performance achieved in the year between the threshold and stretch targets for this metric. See the Remuneration Committee report for more details.

Internal carbon value

To account for the costs of GHG emissions, we incorporated carbon values in our appraisal of investment options as part of our PR24 Business Plan, as part of our multi-capitals decision-making framework. The carbon value (£) used ranged from £277-414 per tCO_2e.

Future focus

We are looking to implement the PAS2080 standard for carbon management in infrastructure. This will help us improve our accounting for embodied carbon, which is a major component of our impact on GHG emissions, and help us to better identify opportunities to reduce carbon in our capital investments.

Over the coming years, we will enhance the metrics and targets we use to monitor and assess progress on managing climate risks and opportunities, aiming to identify relevant metrics across all of our material climate risks.

Taskforce on Nature-related Financial Disclosures ('TNFD')

Nature[1] is no longer just a corporate social responsibility issue, but a strategic and financial risk management issue alongside climate change. Affinity Water impacts, and depends on, nature through our operations and business, and these impacts and dependencies affect our ability to serve our customers, our ability to adapt to climate change, and our ability to meet our regulatory and financial commitments. The Taskforce on Nature-related Financial Disclosures ('TNFD') is a strategic decision-making, risk management and disclosure framework to identify, assess, manage and where appropriate, disclose nature-related issues. The TNFD published its final framework for nature-related financial disclosures in September 2023. TNFD has been endorsed by the UK Government and while adopting the framework is not a mandatory requirement, it demonstrates our leadership in delivering a nature positive future. This is our first year of voluntarily reporting against the TNFD framework. This is the first year of voluntarily reporting against the TNFD framework and we are in the beginning of our journey towards alignment.

Governance

TNFD recommendation: Disclose the organisation's governance of nature-related dependencies, impacts, risks, and opportunities.

Our Board has ultimate oversight of nature-related risks and opportunities. Several of our Executive Committees play a role in managing our nature risks and opportunities, and we are continuing to raise awareness of these issues across Committees.

Progress this year: Through the year ESG ELT subcommittee continued to monitor nature-related performance. The recent establishment of the ESG Committee as a Board Committee is an example of how we have raised the profile of biodiversity and natural capital within our governance structure. Environmental obligations are at the core of our business and are also considered by other Board Committees. For example, the Remuneration Committee considers nature and abstraction targets in the LTIP scheme. Several Board members and Senior Management have the knowledge in environment and nature and this allows for this expertise to be fed into discussions and decisions by Board Committees and the ELT. (See page 98 for more information on our governance).

Future focus:

- Our aim is to expand awareness and capability of nature-related risks, impacts, dependencies, and opportunities across our Board, ELT, and all our team over the coming years.
- We will consider expanding our incentivisation schemes to drive forward our objectives for nature.

Strategy

TNFD recommendation: Disclose the effects of nature-related dependencies, impacts, risks and opportunities on the organisation's business model, strategy and financial planning where such information is material.

Our business planning and financial planning are underpinned by a series of environmental strategies that are crucial to our business, and mutually support each other.

We actively manage our land to enhance biodiversity and have many environmentally focused initiatives to meet and go beyond our statutory commitments. Examples of our environmental initiatives include: Save Our Streams (see page 41), My Water Footprint (see page 41), Revitalising Chalk Rivers Programme (see page 37), Catchment Management Programme (see page 55), Nitrate Groundwater Investigation and Trends (see page 135), Remote-Sensing of Land-Use/Cover Change and Pollution Sources (see page 85), INNS Out Scheme (see page 29), and Biodiversity Net Gain (BNG) (last year our in-house ecologists baselined all our land for BNG).

Our impacts on nature were looked at as part of the WINEP programme, which recognised many of our direct physical risks and catchment risks. Biodiversity assessments (relating to BNG costs and compliance) were compiled for our PR24 Business Plan.

Progress this year:

- We are developing a 'nature positive' statement to describe what nature means to Affinity Water, how we impact nature and how we derive benefit from it.
- We have recently achieved a 'My Green Lab' certification for our sustainability practices in our laboratories.
- We have developed a natural-capital account of our landholdings, which has been central to building our natural capital approach to managing our assets.

Future focus:

- We will build on our existing work to identify the most material interfaces with nature (impacts and dependencies) (e.g. building on previous natural capital assessments, and initial nature interfaces mapping) by undertaking a TNFD gap analysis to review existing programmes and reporting that go beyond selected projects, and our land holdings to our supply chain and a whole range of capital schemes. The gap analysis will allow us to view our existing alignment with the TNFD framework, and opportunities to improve.
- We will endeavour to describe and assess the material nature-related risks and opportunities that could affect our business model, value chain, strategy and financial position, and identify how these arise from our dependencies and impacts on nature. This will inform where we need to take action and monitor metrics.
- We will continue to review our policies and strategic decision-making across the business in order to enhance considerations of nature risks and opportunities.

Metrics and targets

TNFD recommendation: Describe the processes used by the organisation to identify, assess, prioritise and monitor nature-related dependencies, impacts, risks and opportunities.

Our risk management framework is explained in detail on pages 62 to 65 including the methodology for assessing risks. Our risk management framework and guidance specifically include risks relating to ESG. We maintain a formal risk register and risk management system for the identification, evaluation, and mitigation of risks. Our long-term planning processes consider a range of nature-related risks such as drought, flooding, biosecurity risk prevention, climate change and habitat restoration.

Progress this year:

- We developed a Supplier Code of Ethics in 2023 which is central to all new tenders. The Code stipulates our expectations for all our external contractors relating to environmental care and sustainability, amongst other things.
- We submitted WRMP to Defra, which provides a roadmap for a reliable, resilient, sustainable, efficient, and affordable water supply to customers between 2025 and 2075.
- We sponsored Groundswell, a national event that promotes practical applications of regenerative farming systems.

Future focus:

- Going forward, we will consider how we engage our supply chain on delivering our nature objectives.
- We will continue to review and update our management of nature risks and our decision-making frameworks to ensure that nature risks and opportunities are clearly identified and assessed throughout the investment processes and operational decision-making. We will consider the impact and interactions of nature on our principal risks.
- From undertaking a TNFD gap analysis and reviewing impacts and dependencies, we will draw out the key material risks for our business and operations for focusing future nature risk management and reporting.

Risk and impact management

TNFD recommendation: Disclose the metrics and targets used to assess and manage material nature-related dependencies, impacts, risks and opportunities.

We report on a huge number of nature-relevant metrics, but those that are most material to our business are: biodiversity, greenhouse gas emissions, water resources and water efficiency, and abstraction reductions. The metrics and targets for these can be found on page 66.

Progress this year:

- We have undertaken a preliminary baseline natural capital assessment of our land holdings using the metrics in the Environment Agency's NCRAT[1] tool, implemented through a remote sensing and artificial intelligence ('AI') platform. This included identification of risks and pressures to our natural capital assets.
- We are working with a number of local farmers to pilot the measurement of soil carbon, modelling the carbon benefit of different planned interventions, and will then re-measure soil carbon a few years on, to confirm the actual change in soil carbon.

Future focus:

- We will build on our baseline natural capital account to include new remote sensing data each year, and track changes over time.
- We will consider approaches to capture how many of our key suppliers have biodiversity commitments.
- In future, we aim to identify what proportion of our targets i) address short-term, medium-term, and long-term nature-related risks and opportunities; ii) what proportion of targets are time-bound and quantifiable and, iii) what proportion of our geographical sites or priority locations are covered by targets.

1 "Nature" refers to the natural world, with an emphasis on the diversity of living organisms (including people) and their interactions among themselves and with their environment (Glossary_of_key_terms_v1.pdf (tnfd.global)). "Nature" encompasses land, ocean, freshwater, and atmosphere – and so goes further than the concept of "biodiversity".

1 Natural capital register and account tool: Natural capital register and account tool - GOV.UK (www.gov.uk)

Section 172(1) statement

Our stakeholders

Our responsible business approach is the way we do business. It is centred on issues that are important to our customers and stakeholders and to the responsible delivery of our business plans. We have had discussions with stakeholders across all areas of our business to better understand what matters most to them and how we can further involve them in our decision making. We focused on the following four areas: the environment; supply and demand; water efficiency; and vulnerability, with the aim of gathering information to inform our current and future strategy.

In the table on the next page, we present a description of the company's and the Board's engagement activities with each key stakeholder group. The information obtained through these, enables the Board to weigh up all relevant factors when deciding on a course of action that best leads to the long-term success of the company. This can sometimes mean that certain stakeholders are adversely affected, as we seek to operate in an ethical and responsible manner in relation to all our stakeholders.

The Board considers, both individually and together, that it has acted in the way it considers, in good faith, would be most likely to promote the success of the company for the benefit of its members and as a whole, having regard to its stakeholders and the following matters set out in section 172(1) (a-f) of the Companies Act 2006:

a. The likely consequences of any decision in the long term;
b. The interests of the company's employees;
c. The need to foster the company's business relationships with suppliers, customers and others;
d. The impact of the company's operations on the community and the environment;
e. The desirability of the company maintaining a reputation for high standards of business conduct; and
f. The need to act fairly between members of the company.

This statement explains how the Board satisfies itself that relationships with each key stakeholder group are managed effectively and that there is sufficient visibility of relevant stakeholder engagement activities in the boardroom to inform decision-making and delivery of strategy.

The Board's approach to section 172(1) and decision-making

It is the responsibility of the Chair to enable discussions at Board meetings that lead to decisions being made which are sufficiently informed by section 172 factors. Board minutes record decisions made and actions agreed in the context of these factors.

The Board's role in stakeholder engagement is to:

- ensure that our purpose, strategy and culture are set in the light of views actively sought from relevant stakeholders;
- set an expectation that all key decisions made take into consideration the views of relevant stakeholders;
- require executive directors and other senior managers to engage with relevant stakeholders in a way that ensures views are understood and taken into consideration when making key decisions;
- encourage executive directors and other senior managers to evolve stakeholder engagement in a way that meets all statutory and regulatory requirements but also embraces the principles on which these are based; and
- undertake direct stakeholder engagement that complements day-to-day stakeholder engagement by management.

In 2023/24, each Board Committee's Terms of Reference were reviewed by the Board and updated to ensure that consideration of section 172 factors and Ofwat's 2019 Board leadership, transparency and governance (BLTG) principles were appropriately addressed. Directors are reminded of the section 172 requirements at the start of every Board meeting. The Board reviews and approves the Schedule of Reserved Matters annually. These can be accessed on our website at **affinitywater.co.uk/corporate/about/governance-assurance**

The company approach to stakeholder engagement is:

Step 1
Engagement strategy
Set vision and level of ambition for future engagement, and review past engagement

Step 2
Stakeholder mapping
Define criteria for identifying and prioritising stakeholders, and select engagement mechanisms

Step 3
Preparation
Focus on long-term goals to drive the approach, determine logistics for the engagement, and set the rules

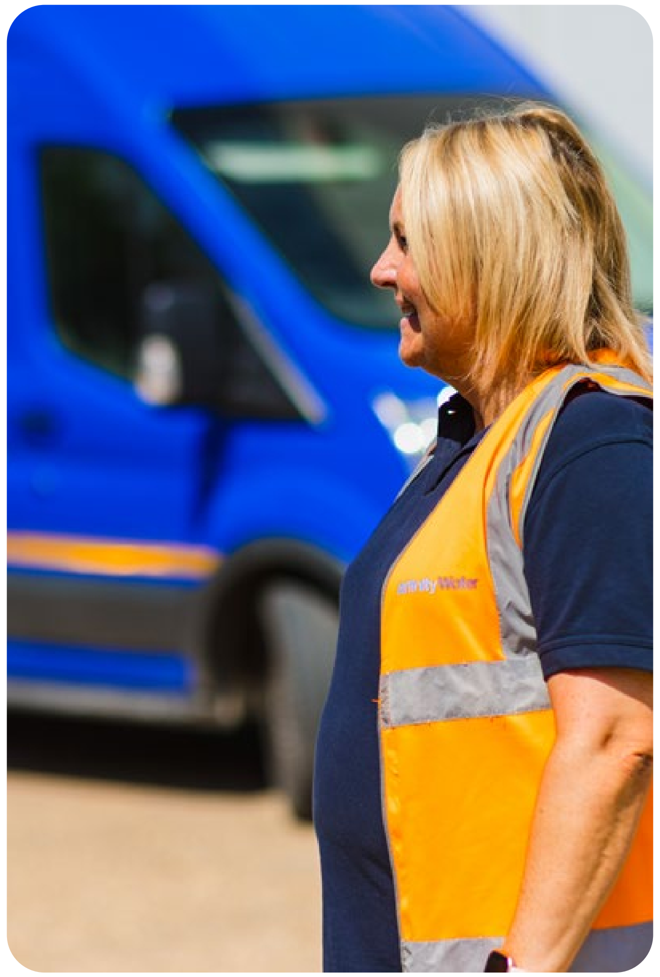
Step 4
Engagement
Conduct the engagement itself, ensuring equitable stakeholder treatment while remaining focused on priorities

Step 5
Action plan
Identify opportunities from feedback and determine actions, revisit goals, and plan next steps for follow-up and future engagement

The Board undertook a review of its stakeholder engagement during the year and has taken steps to adopt a risk-based approach. Armed with the baseline perception position and policy priorities, a strategic stakeholder engagement plan has been developed based on a mapping exercise and identification of priority stakeholders to focus activity and maximise effective engagement to fulfil objectives within the plan.

We have identified key stakeholders and, using a 'power and influence' model, mapped the stakeholders by our impact on them, and their influence on the company.

Horizon scanning is used to identify the key trends and emerging issues, and to assign a priority based on impact and influence. Full horizon scans are conducted at regular intervals throughout the year to ensure we can adapt our strategic approach to stakeholder engagement as issues, risks and priorities can change quickly. We continue to use media monitoring, political monitoring, and social listening, alongside internal workshops across the business, to identify emerging issues for horizon scanning activity and help to define objectives for engagement.



Section 172(1) statement continued

In the section below, we present a description of the company's and the Board's role in engagement activities with each key stakeholder group.

Customers

Current and future customers, including household and non-household customers, and market participants such as retailers and self-lay providers, developers and NAVs.

Why engagement is important

Customers rely on water as an essential service and are at the heart of our business model. We aim to be a positive contributor to, and able to earn fair returns from, a reliable service that is trusted by and represents value for money for customers. Transparent conversations and engagement with the Independent Challenge Group ('ICG') will support delivery of our purpose and environmental ambitions.

How the company engages

- Daily contact with customers
- Customer research programme
- Public meetings
- Our website
- Media and social media
- Through our ICG
- Providing fair and affordable bills
- Supporting customers in vulnerable circumstances through social tariffs and Priority Services Register.

How the Board engages

Information reported to the Board:

- The Board receives monthly performance summaries of our AMP7 performance commitments, including leakage, PCC, C-MeX and D-MeX and supply interruptions, and other key metrics, including customer satisfaction and written complaints.
- The Board receives updates on the impact of customers as a result of weather events and the impact on our key performance commitments.
- The Board received updates on the National Drought Group to reduce per capita consumption by focusing on preserving water to get ahead of future dry spells.
- The Board receives information around the Save Our Steams Campaign and behavioural campaigns around water conservation.
- The Board receives updates on the Independent Challenge Group, which was refreshed and reinvigorated as part of the PR24 process.

Direct engagement mechanisms

- There is a clear reporting line to the CEO and accountability for arrangements regarding handling customer complaints.
- Engagement with partnership groups to further support customers (National Debtline, Stepchange, CAB) and our website signpost Turn2us and Money Helper.
- Supporting customers in vulnerable circumstances, addressing local needs and promoting social well-being. The Red Shed Garden Project a charity aimed at supporting individuals living with dementia in Hertfordshire benefited from funding, facilitated in partnership with grant making charity Hertfordshire Community Foundation.

Customer protection

The Board considers the company's policies around the protection of customer data through its review of the strategic risk register and our GDPR policy. The PR24 plan includes a customer protection plan that ensures that customers are not paying more than they should for services, and those services are of high quality. Customers can access our Privacy Notice on our website, which was made more engaging and user friendly.

Communities

Communities, non-governmental organisations and civil society, especially environmental organisations and campaigners.

Why engagement is important

These groups bring distinctive perspectives and influence on key environmental and social issues on behalf of customers and the public. Engagement will result in us being a progressive, well-regarded company that delivers its purpose ,and that communities and civil society want to work with in pursuit of common goals.

How the company engages

- Joint forums
- Public meetings
- Consultation meetings for business plan development
- Catchment partnerships
- Water resources monthly email updates
- Volunteering days to help local communities and charities

How the Board engages

Information reported to the Board:

- The Board received updates on the Water Resources Management Plan 2024 and viewed the findings of the stakeholder consultation held during the year
- The Board received updates on rainfall and groundwater levels and the risk of having to introduce a Drought Management Plan such as a restrictions on hosepipe use
- The Board receives monthly updates on community projects

Direct engagement mechanisms

- Our Board-approved Community Engagement Strategy and activities are focused around three core areas:
  a. Protecting rivers and habitats
  b. Investing in science, technology, engineering and mathematics ('STEM') and future skills
  c. Developing community partnerships

Throughout 2023/24, we continued to build on our social purpose and defining the programme of work that will help us meet the growing expectations of our stakeholders and add value to our communities:

- Volunteering through Affinity Days created to support and encourage our connections within our local communities. We supported many causes - river cleans, fundraising, packing gift bags, community fun days to hands on habitat management.
- Fostering partnerships with nature conservation organisations, including Wildlife Trusts, Chilterns Chalk Stream Project working on shared objectives, to manage land for people and wildlife at our Local Nature Reserves, help conserve and enhance local chalk streams, and draw together resources, knowledge and understanding on what our local communities want and need.
- Launching Water Smart, a school programme across the Affinity Water region as part of our water-saving mission. Working with educational specialists, We Are Futures and the National Schools Partnership, to provide primary schools with water-saving education materials.

Employees

The workforce, including both employees and the wider workforce.

Why engagement is important

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

Successful engagement will mean we are an inclusive employer that retains and attracts people with the talent and skills to achieve our business objectives and who are aligned with the diversity of the communities we serve.

How the company engages

- Senior leadership forums.
- Engagement "Tap in" surveys and regular pulse survey.
- Monthly one-to-one meetings and personal best check-ins four times a year.
- Regular podcasts from the CEO .
- Diversity, Inclusion and Dignity at Work Steering Group to drive a stronger agenda of inclusiveness.
- Designated Director for Employee Engagement reporting issues and progress to the Board.
- Internal communications and monthly team leader briefings communicated to all line managers.
- Company wide live events, including roadshows and Connect Days with market stalls to provide insights and updates to employees from all areas of the business.
- Customer delivery roadshows to update front-line operational teams on our performance and future plans.
- New starter and training programme, with team leader and manager training.
- Mandatory e-learning sessions, including Inclusion and Diversity training.

How the Board engages

Information reported to the Board:

- We have continued to drive cultural change across the business. Culture Ambassadors represent their departments and report on progress made.
- We ensure employee have the tools and resources they need to do the job and upskill through learning participation and training and development plans.
- Information on productivity, attrition levels, health and safety, wellbeing and output from exit interviews is reported monthly to the Board .
- Whistleblowing incidents are reported to the Board. All incidents are taken extremely seriously and are thoroughly investigated, working with external reviewers if required.

Direct engagement mechanisms

- Chris Newsome, Director of Employee Engagement, was responsible for employee liaison in accordance with the Code. The overriding purpose of the role is to ensure that the voice of the workforce is heard and considered at Board level. A key secondary purpose is to improve the transparency of Board activities, discussion and decision-making and in so doing improve alignment between the Board and the workforce. Chris is a member of our Equality, Diversity and Inclusion Committee, established to bring to life our commitment to build a more inclusive culture, allowing all members of our workforce to bring their true selves to work.
- All of our workforce are entitled to be trade union members. The company's CFO was a member of the Joint Negotiation and Consultative Committee ('JNCC') during the year which, together with employee trade union representatives and other company nominated representatives, meets quarterly to consult on workforce practices and policies and negotiate workforce pay.
- Keith Haslett, as CEO, met employees across the business to thank them for their work and understand the issues on the ground and the new ways of working.
- We have continued to raise awareness on the company's Don't Walk By campaign, to help us achieve our zero-harm ambitions.

Workforce policies and practices

- Refer to the Governance Report for further detail on workforce policies and practice and workforce concerns, and details of what the Board is doing about gender equality and reducing our gender pay gap. During 2023/24, the Board reviewed our updated Code of Ethics and updated our EDI Commitment to bring it in line with the new Equality, Diversity and Inclusion strategy, which was launched in September 2023.
- During 2023/24 we have narrowed the Gender Pay Gap, we also entered into partnership with the Women's Utilities Network that supports women in building lasting and fulfilling careers in the utility sector.

Section 172(1) statement continued

Shareholders
Owners of shares in the company

Why engagement is important
Our shareholders have an important role to play and a direct interest in the strong and effective governance and stewardship of our business.

We aim to provide a reasonable long-term return on their investment.

How the company engages
- Board meetings attended by shareholders/nominated directors.
- Monthly financial and operational updates.
- Regular meetings and calls.
- Annual report and financial statements, which gives details of the performance, strategy, viability and company business model, approved by the Board.
- More sustainable activities to drive delivery of sustainable 'good profits and dividends'.

How the Board engages
Information reported to the Board:
- We explain how the Board engages with our shareholders and involves them in decision-making in our publication 'Consulting with our shareholders', approved by the Board in June 2020 to include the Ofwat 2019 principles, available on the governance pages of our website.
- In 2023/24 the Board engaged directly with shareholders in setting and approving budgets for 2024/25, discussing the viability statement and results of stress testing on our financial covenants.
- The Board continue to engage with shareholders following the findings of an Independent Board Evaluation in May 2022, including discussing recommendations, Board composition and actions taken.

Regulators
Regulators, including Ofwat, MOSL, EA, DWI, Defra, HSE, Natural England and CCW.

Government – central and local government and MPs, highways authorities, Highways England and TfL.

Why engagement is important
To ensure we maintain our licence to operate and that our actions are in accordance with the framework determined by the government and regulators.

Engagement will ensure that we are a responsible company which delivers on its purpose.

How the company engages
- Industry working groups, including committees, panels and forums.
- Responding to consultations and requests for information.
- Ongoing dialogue on strategic planning, investment in future water resources and land disposals.
- Regular meetings and calls, including meetings with key MPs in our supply area.
- Working with our regulators to produce robust and ambitious plans that benefit customers and the environment.

How the Board engages
Information reported to the Board:
- The Board receives monthly updates on regulatory and relevant political developments, and regulatory consultations and requests for additional information.
- The Board receives monthly updates on correspondence with regulators, including communications with Ofwat.
- Updates on the development of our 2025-2030 business plan and regulatory engagement throughout the price review process.

Direct engagement mechanisms
- The Board engaged with Ofwat during a visit to water treatment works at Iver to understand our plans for the future, WRMP, Water Industry National Environment Programme and PR24.
- The Board engaged with Ofwat consultations on PR24 draft methodology and Financial Resilience and provided Ofwat with updates on our leakage performance.
- Non-executive and shareholder directors attended regular events with Ofwat, including prior to their appointment and following changes to the Board structure during the year.
- The Board received updates on proposals to submit to Ofwat for Innovation Competition funding, including the successful innovation award for the Water Neutrality project.
- The CEO had meetings with the EA, Ofwat and the DWI on operational events, risk assessments and the impact on ODIs and abstraction licences.
- Delivery Steering Group and monthly performance reviews to drive the achievement of performance commitments in AMP7.
- Throughout 2023/24 the CEO had meetings with Ofwat representatives on the rising energy costs, financial resilience and hedging for PR24.
- The Board attended forums held by the CCW.

Environmental bodies
Why engagement is important
We need to manage the impact of taking water from sensitive habitats and to maintain flows in local rivers while also ensuring a continuous supply of high-quality water for customers in line with our purpose.

Successful engagement will mean we protect water sources and the quality of water supplied and minimise our impact on the environment.

How the company engages
- Water Resources Management Plan ('WRMP').
- Catchment management.
- River restoration programme that is comprehensive.
- Company environmental policy to ensure we meet our purpose to provide high-quality drinking water for our customers and take care of the environment.
- Supporting local community and environmental groups such as river cleans.

How the Board engages
Governance arrangements:
- The Board is composed of individuals who have appropriate knowledge, skills, experience and background to take decisions informed by an awareness and understanding of environment-related threats and opportunities. Our shareholder directors are focused on environmental issues, as part of our shareholders' wider environmental, social and governance ('ESG') programmes and alignment to the UN's Sustainable Development Goals ('SDGs').
- The Safety, Health, Environment and Drinking Water Quality ('SHEDWQ') Committee reviews and monitors, on behalf of the Board, environmental matters arising from our activities and operations, including monitoring performance against targets.
- Environmental and climate considerations are embedded into our principal risks and the management of these risks, in particular the principal risk 'We may become unable to meet our obligations to provide a sufficient supply of high-quality drinking water', which are monitored by the Board. A full review of risks was undertaken during the year.
- The Board receives monthly information on our performance in relation to key environmental metrics, including water quality, leakage, sustainable abstraction reductions, average water use and water available for use, to enable it to monitor the success of strategies implemented.

Climate change
The Board considers climate change in four principal ways:

1. The potential impacts of climate change are addressed through long-term planning as part of the statutory WRMP (available on our website: **affinitywater.co.uk/water-resources-plan**). A Board Subcommittee on the WRMP oversaw this work and was advised by external technical experts.
2. Affinity Water has worked closely with other water companies through the WRSE and WRE groups to draft and publish the first ever regional plan for water. Affinity Water's WRMP feeds into the regional plan. As such, a coordinated approach was taken to stakeholder and media engagement to align messaging and demonstrate the industry working together to plan for the future.
3. This year the SHEDWQ Subcommittee continued to oversee the delivery of our net zero programme. This included quarterly review of Net Zero metrics and milestones, with a route map to reduce carbon emissions to net zero by 2030 and all carbon by 2045. The SHEDWQ Subcommittee also continued supporting our review of REGO backed energy purchase.
4. We continued to roll out the solar build programme, with the Board receiving updates on planned delivery, costs and benefits in the current energy market and further investment required.

Providers of finance and credit rating agencies
Why engagement is important
It is imperative that we maintain effective relationships and ongoing dialogues with our banks and credit rating agencies to ensure access to financial services as well as capital markets. Successful engagement means we will be a responsible company that delivers reliable returns and is transparent in our reporting.

How the company engages
- Annual review meetings with credit rating agencies.
- Regular meetings and calls with banks.
- Financial reports.
- Engaged with banking groups and credit rating agencies .

How the Board engages
Information reported to the Board:
- A treasury report is provided to the Board on a quarterly basis, which includes details of the company's Treasury activities such as covenants and gearing headroom, and financial results.

Direct engagement mechanisms
- The CFO, on behalf of the Board, met with lenders and credit rating agencies during the year to discuss the company's financial performance and plans.
- The Board approved a 364-day extension of the revolving credit facilities

Refer to note A4 of the statutory financial statements for further information on our risk management processes and the Board's role in these.

Section 172(1) statement continued

Supply chain

Why engagement is important

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

Successful engagement will mean we are a good company to do business with, ensuring that we and our partners maximise the greatest mutual value in a zero-harm environment.

How the company engages

- Integration of contractors into our teams.
- Sharing of reporting and management systems for collaborative and shared learning.
- Quarterly forums with all our Maintenance and Repair and Traffic Management suppliers, to discuss 'lean' processes and improvements.
- Regular meetings and calls, including monthly performance meetings with our largest suppliers.
- Working with suppliers create exceptional relationships and to innovate and increase resilience for the benefit of customers and the environment.

How the Board engages

Board's involvement in the agreement of supplier terms:

- We have a standard set of purchase order terms and conditions and a Supply of Goods and Services Agreement published on our website: **affinitywater.co.uk/policies**, which is reviewed and amended (where necessary) by our Procurement and Legal teams who report to our executive members of the Board.
- We have a Contracts Committee, which approves the award of material contracts.
- A subset of the wider Board was involved in formulating a strategy for contracting our key Maintenance and Repair suppliers for AMP7, including determining key principles, contract scopes and tender evaluation criteria.
- The Board considers the company's policies around compliance with the Modern Slavery Act and GDPR as they relate to suppliers, through the approval of the company's Modern Slavery Statement and review of the appropriateness of mitigation detailed in the strategic risk register in relation to the principal risk: 'Availability, confidentiality or integrity of information or data could become compromised'.
- The Board receives information on operational ODI performance and biannually on payment practice, to enable it to consider our performance and how it compares to industry peers.
- The SHEDWQ Committee, on behalf of the Board, and from February 2024 onwards the Board itself, also reviews and monitors, health and safety matters arising from our activities and operations, including in relation to our supply chain.
- The Board considers the risk of supply-chain failure through its consideration of the strategic risk register.

Direct engagement mechanisms

- Executive directors attend meetings with key members of the supply chain based on a supplier strategy. The Board has engaged with supply partners across all levels of our supply chain and successfully confirmed the scale and scope of works for our PR24 plans are deliverable.

Priorities ahead

The Board identifies the following priorities for the final phase of AMP7 and entry into AMP8:

- Achieve our AMP7 plans and goals setting ourselves up for success for AMP8.
- Ensure our plan for AMP8 is robust, credible and stretching with confidence in deliverability.
- Ensure we are ready to step into AMP8 and transition seamlessly.
- Achieve our AMP8 plans and ambitions.

Key decisions made in 2023/24

We set out below key decisions made in 2023/24 and the Board's consideration of section 172 factors in making these. Refer to page 72 for further information on matters considered by the Board in 2023/24.

Launch of draft Water Resources Management Plan and regional plans

Our Water Resources Management Plan aims to address a significant future shortfall in water resources in our supply area. Population growth, climate change and the demand for water are putting significant pressure on the local environment and water resources in the company's supply area.

The company has worked closely with other water companies through the Water Resources South East and Water Resources East groups, to draft and publish the first ever regional plan for water, with the company's draft Water Resources Management Plan feeding into the wider regional plan with a revised draft of the plan submitted to DEFRA in August 2023. As such, a coordinated approach was taken to stakeholder and media engagement to align messaging and demonstrate the industry working together to plan for the future. The launch of the plan gained significant media reach, highlighting proposed strategic resource options, such as the company's Grand Union Canal Transfer. Two parliamentary events were also held, with company representatives, MPs and interested stakeholders in attendance.

The Board approved the submission of the draft Water Resources Management Plan to Defra prior to the consultation with stakeholders.

Approved the annual budget and ten-year base-case cash flow forecast

The 2023/24 annual budget and ten-year base-case cash flow forecast were approved by the Board following a comprehensive review of our strategic priorities and risks to our business in light of Ofwat's Final Determination for AMP7 and our plans to ensure business readiness for AMP8. The Board considered the company viability, stress testing and assumptions made in light of the ongoing energy and cost-of-living crisis. Our budget process took both a bottom-up approach, which engaged all cost centre managers in the business, and a top-down approach, which engaged our shareholders and considered Ofwat's Final Determination in light of shareholder objectives.

The Board considers our plans challenging, but that they will position the company well against our longer-term value creation vision, while honouring our commitments to stakeholders.

Approved the 2023/24 workforce pay settlement

In 2024/25, the Board reviewed progress of pay negotiations with trade unions. The Board considered the importance of creating value for shareholders, while balancing the need for investment in the workforce and the ongoing energy and cost-of-living crisis. Employees were consulted through their trade unions, of which all employees are entitled to be a member. The Board concluded that it was in the best interests of the company to support the Chief Executive Officer's decision to approve the proposed pay increase of 4.2% in order to increase employee engagement, retention rates and productivity, leading to increased value creation.

Audit retendering decision

As part of our ongoing commitment to upholding the highest standards of corporate governance and accountability, we recognise the importance of periodically re-tendering audit services in accordance Section 487 of the Companies Act 2006. This process is integral to ensuring the integrity, independence, and quality of our financial reporting, thereby safeguarding the interests of our stakeholders.

Throughout the re-tendering process, we actively engaged with stakeholders to solicit their input and feedback. This included consultation with shareholders, Audit, Risk and Assurance Committee members, senior management, and other relevant parties.

In evaluating potential audit firms, we considered a range of factors designed to prioritise audit approach and quality, independence, capability and expertise, and value for money. We are committed to selecting a firm that demonstrates the highest standards of professionalism, technical proficiency, and ethical conduct.

Following the reappointment of PwC we will undertake rigorous monitoring and evaluation to ensure the effectiveness of the audit engagement. This includes regular performance reviews, ongoing communication, and periodic assessments of audit quality and independence. We remain vigilant in safeguarding the integrity of our financial reporting processes and are committed to taking prompt corrective action where necessary.

Principal risks and uncertainties

Our goal for corporate risk management

Affinity Water aims to manage risk holistically across the business, using a transparent and timely process that focuses equally on the protection of tangible and intangible assets (including communities and the environment) and the achievement of both financial and non-financial objectives (including, for example, net zero). We strive to mobilise expertise and technology from sources inside and outside the business to support management in making decisions which optimise the management of risk, through maximising the level of risk reduction delivered by investing resources in risk control.

Risk governance

Affinity Water has a documented and established risk management governance model, based on the three lines of defence[1], which involves the operational business, the dedicated risk function and the assurance and audit functions in the management of risks to our assets and objectives as an enterprise. The ARAC (Audit Risk and Assurance Committee) reviews senior management's work on risk management on a quarterly basis, and reports to the Board on the effectiveness of risk management processes. At senior management level, the ELT (Executive Leadership Team) regularly reviews high-priority risks and horizon scanning exercises. The risk function maintains the corporate risk register and provides internal consultancy to the operational business and decision support to management. Together, the operational business (first line of defence), the risk management function (second line of defence) and the assurance functions (third line of defence) manage risk according to the Corporate Risk Framework. The Internal Audit function provides assurance on risk control across the business. See pages 60 to 63 for further information on the responsibilities of the Board and the Audit Risk and Assurance Committee on risk management and internal control. Our cyclical risk management process identifies and assesses risk, adds appropriate mitigation measures, checks the implementation of the control framework and assigns remedial actions where necessary.

Summary of main changes during 2023/24

- Four emerging risks from 2023 are now covered in the corporate risk register as current operational risks: skills gaps due to a tight labour market; changes to our supply chain; changes to the power industry; and bad debt from the cost-of-living crisis.
- One new risk has been added to the company's principal risk list: Capital Projects Delivery.
- Two existing principal risk definitions have been expanded to take account of issues identified in horizon scanning. The risk of crisis event disruption now covers energy infrastructure failure, terrorism and pandemic. The risk of adverse macro-economics, where macro-economic factors impacting negatively on financial performance, has been expanded to cover energy prices and the cost of living crisis.

Horizon scanning for emerging risks

We have defined emerging risks as potential future events or circumstances that could significantly and negatively impact achievement of our strategic objectives, and whose likelihood and impact cannot yet be accurately determined. As part of our Corporate Risk Framework, we carry out regular horizon scanning and analysis of various early-warning indicators to identify newly emerging risks and determine if any previously identified emerging risks have now become current operational risks.

The ELT holds regular sessions to identify and review current and emerging risks. Along with the strategic risks, these are reviewed at least quarterly by the ELT and at least biannually by the Board. **Table 1** (below) shows our 2024 emerging risks:

Emerging risk	Year of identification
In the long term, the value and utility of assets and infrastructure may be reduced as a consequence of environmental change.	2023
Shifts in societal and political expectations and perceptions, and rising levels of activism disrupt our external governance and internal operations	2023
'Forever' Chemicals: PFAS and PFOS become the focus of litigation and regulatory change	2024
The organisation is disrupted through failure to manage the use of complex models and advanced technologies, e.g. "AI"/machine learning	2024

[1] The three lines of defence model was developed in 2008-10 by the Federation of European Risk Management Associations (FERMA) and the European Confederation of Institutes of Internal Auditing (ECIIA) and adopted by the former UK Financial Services Authority. In 2013 it was published by the UK Institute of Internal Auditors.

Our principal risks

The following have been identified from our risk management analysis as potentially having material adverse effects on our business assets and goals. They are managed as described in Table 4, but are not always wholly within our control and may still result in material adverse impacts. Factors other than those listed could also have a material adverse effect on our business activities.

Table 2: Principal Risk Summary with Rating Scores, the Score Trend, and the Selected Viability Test Type

Principal risk	Post-control rating*	Trend re: 2023	Viability test type**
1. Health, Safety & Wellbeing Compromised	High	Stable	Sensitivity
2. Failure to Supply	High	Stable	Scenario
3. Fail to Retain Right Skills	Low	Stable	Sensitivity
4. Data Compromise	Critical	Stable	Scenario
5. Supply Chain Failure	Critical	Stable	Sensitivity
6. Environmental Damage	Low	Stable	Sensitivity
7. Adverse Climate Impact	High	Stable	Sensitivity
8. Fail Business Transformation	Moderate	Down	Sensitivity
9. Crisis Event Disruption	Moderate	Stable	Sensitivity
10. Asset Deterioration	Moderate	Down	Scenario
11. Adverse Regulatory Change	Critical	Stable	Sensitivity
12. Fail Legal Obligations	Moderate	Stable	Sensitivity
13. Unsatisfactory PR24	Critical	Stable	Sensitivity
14. Funding Challenges	Moderate	Stable	Sensitivity
15. Adverse Macro-economics Change	High	Stable	Sensitivity
16. Capital Projects Underdelivery	Low	N/A	Sensitivity

*Risk rating scale

- **Critical**
- **High**
- **Moderate**
- **Low**

**Test types

Sensitivity

Risks which the directors consider would **not**, in isolation, compromise the company's financial viability during the lookout period are included in the sensitivity stress testing for the viability statement (refer to page 90). and considered as part of several different severe, plausible and reasonable sensitivities to the company's base case forecast.

Scenario

Those risks which directors consider **would**, in isolation, threaten financial viability, potentially leading to significant unforeseen additional cash requirements during the lookout period, are included in the scenario stress testing for the financial viability statement.

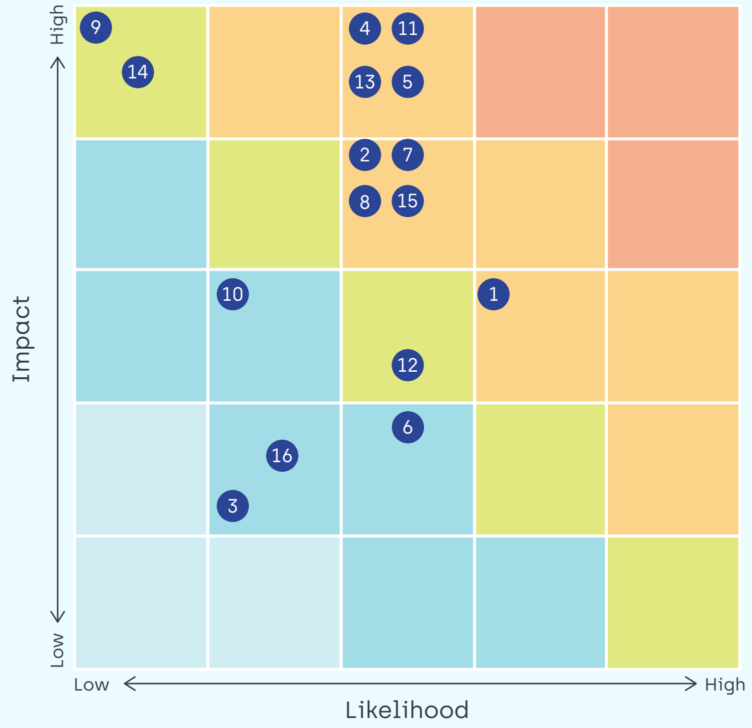
We have identified 16 principal risks to our business in 2024, described in Table 4 on page 83 with their Control Mitigation Strategies, Associated Metrics and Major Impacts on Our Corporate Objectives Scorecard.

We recognise that risk events have multi-dimensional impacts on our business and its environment. We monitor these carefully and specifically against our corporate objectives and the associated metrics.

Principal risks and uncertainties continued

Table 2: Heatmap showing principal risks and their relative post control scoring

1. Health, Safety & Wellbeing Compromised
2. Failure to Supply
3. Fail to Retain Right Skills
4. Data Compromise
5. Supply Chain Failure
6. Environmental Damage
7. Adverse Climate Impact
8. Fail Business Transformation
9. Crisis Event Disruption
10. Asset Deterioration
11. Adverse Regulatory Change
12. Fail Legal Obligations
13. Unsatisfactory PR24
14. Funding Challenges
15. Adverse Macro-economics
16. Capital Projects Underdelivery



Risk level: Critical, High, Moderate, Low, Minimal

Table 3: Corporate Objective Scorecard Against Which Risk Impacts Are Projected

Corporate value	Objective	Description	Metrics
Customer Focus	Satisfactory Supply	Affinity Water provides a water supply which is of satisfactory quantity and pressure to its customers	Unplanned Outage, Main repairs/1000km, Low Pressure
	Satisfactory Quality	Affinity Water supplies water of a quality which satisfies its customers	CRI (DWI Water Quality Risk Measure), Customer Contacts re Quality per 1,000 population
	Satisfied Customers	Affinity Water's customers are satisfied with the service they receive and the price they pay for it.	C-Mex, DMex I2S
One Team	Satisfied Employees	Affinity Water's employees are satisfied with their working environment, what they are asked to deliver and how they are developed and rewarded.	LTI
Do the right thing	Financial Stability	Affinity Water is financially stable in terms of its business model and funding.	Base Costs, Enhancement, Cash generation
	Sustainable Environment	Affinity Water's operations contribute positively to a sustainable environment, both locally and globally	PCC (Per Capital Consumption saving in Ml/day), Leakage (Percentage Reduction in Leakage for the AMP), Net Zero
	Reputable Company	Affinity Water is considered a reputable organisation, both within the industry and in the wider public arena.	Agency Ratings, Media Profile Analysis
	Compliant Organisation	Affinity Water demonstrates compliance with its regulatory obligations.	Litigation Record, Regulatory Breach Record

01 Health, Safety and Wellbeing Compromised

Description

Failing to manage dangerous working practices may result in personal injury/fatality or occupational ill-health to the victim(s) AWL employees/contractors, the public, including our customers and, to us as the perpetrator, consequent disruption to operations reputational damage, criminal fines, civil damages or regulatory penalties.

Impact on

- Satisfied Customers
- Satisfied Workforce
- Reputable Company
- Compliant Organisation
- Financial Stability

Control Measures

The Affinity Water health and safety management system, which is externally verified and certified to ISO 45001, encompasses policies, procedures, standards, guidance and risk assessment protocols.

This mandates appropriate health and safety training to enable personnel to undertake their tasks and take personal responsibility for their own safety, occupational health and wellbeing, and that of others. Our training includes technical and certificated health and safety training, undertaking regular safety-related communications, safety briefings, toolbox talks, safety stand-down days, and promoting safety leadership evaluations and safety conversations across the organisation.

Through our procurement strategy and arrangements, our contractors and suppliers are required to have externally recognised health and safety accreditation, which is verified by bodies such as Achilles, BSI etc., and our health and safety common standards are included as contractual documents, are regularly audited, and performance reviews undertaken.

We have an established governance framework where health and safety-related matters and performance are tracked and monitored, spanning operational, Executive Leadership Team and Board levels. Our ELT (Executive Leadership Team), through our Zero Harm Steering Group, regularly reviews H&S risks. Focus on contractor injury incidents and enhanced chemical room containment increased during the year in response to changing risk levels, and action plans have been developed and are being tracked through to completion. Deep dive audits covered street works, occupational road risk, worker fatigue, service avoidance, chemical management, lone working, mental health, fire and CDM, and resulting recommendations actioned.

The Affinity Water audit and inspection regime includes root cause analysis, captured on our EcoOnline system, and incident review protocols are in place to ensure key learnings are captured and any necessary strengthening of controls is actioned appropriately. We also have a programme of health-surveillance assessments, wellbeing initiatives and an employee assistance programme to help to ensure the welfare and wellbeing of our people is effectively managed.

02 Failure to Supply

Description

We may become unable to meet our obligations to provide a sufficient supply of high-quality drinking water.

Impact on

- Satisfactory Supply
- Satisfied Customers
- Reputable Company
- Compliant Organisation
- Financial Stability

Control Measures

Affinity Water focuses on the supply and demand planning over the short and medium term, and has developed a long-term water resources management plan (WRMP), which identifies, over a 50-year period, how we will balance available supplies and required demand with sufficient headroom for unplanned outage.

To support demand management, we undertake extensive education and water saving programmes, including water metering, water saving devices, links to ways to save water, along with communications to help customers self-manage usage. We undertake asset maintenance, investment and improving resilience through measures such as removing single points of failure and increasing connectivity of the network.

In the event of an emergency, we have well-tested contingency and emergency response plans to ensure minimal disruption to our customers.

We have agreements with neighbouring water companies to both import and export water. Some of these are statutory agreements in use every day while others are used only during unplanned incidents. Some of these agreements have been in place for many decades and we continually review them to ensure they remain suitable for our needs. Specific contingency plans exist for key non-household customers who are designated as being critical national infrastructure, e.g. Heathrow, Luton and Stansted Airports.

We continually monitor our performance on a wide range of customer metrics and take prompt corrective action to address any indicators of dissatisfaction, working closely with regulators, customer groups and independent bodies who advise and challenge us in the development of our plans, to ensure they reflect customers' priorities.

Principal risks and uncertainties continued

03 Fail to Retain Right Skills

Description

Affinity Water fails to attract and retain competent and high-performing individuals in the organisation at all levels, who are motivated and engaged to deliver the business objectives

Impact on

- Satisfied Workforce

Control Measures

Affinity Water's people strategy is designed to ensure that we can attract, retain, develop and motivate the people within our business to deliver our business objectives. Moving forward, achieving a sustainable workforce requires us to focus on addressing the challenges posed by demographic shifts, skills shortages and evolving work practices.

Current projects which support achieving of this include:

- Development of a strategic workforce plan to identify the skills that will be needed by the business in the medium to long term, so we can implement appropriate resourcing, talent pipelines and development plans;
- Implementation of a grading structure, in conjunction with a robust job evaluation process, which promotes fairness, transparency and meritocracy across the business;
- Continual improvement of the recruitment experience to provide consistency of role definitions, career pathways to support development and competency frameworks; and

The continuation of our culture transformation programme, which is underpinned by employee engagement, equality, diversity, inclusion and wellbeing, and leadership development.

04 Data Compromise

Description

Availability, confidentiality or integrity of information or data could become compromised

Impact on

- Financially Stable
- Reputable Company
- Compliant Organisation

Control Measures

Affinity Water continues to invest in an ongoing programme to build resilience within our IT infrastructure and strengthen its security capability. AWL recognises the security function as a business enabler and driver of digital transformation. Investment is planned to continue in the coming financial year to support Affinity Water's holistic strategy and approach to cyber security. Based on the assumption that cyber breaches are inevitable, the strategy emphasises the need to:

- build our capability to identify and manage cyber risks
- develop and implement appropriate safeguards to ensure delivery of critical services
- implement plans to detect and respond to a cyber security event
- maintain plans for resilience to restore any lost services
  - Continually patch systems
  - Ensure IT infrastructure is spread across multiple cloud regions for DR and BCP
  - Build recovery and resilience into IT infrastructure

The strategy details the objectives, intended outcomes, activities, and supporting plans to deliver a unified framework for IT Infrastructure resilience, cyber security and compliance with regulatory requirements and standards, including the Network and Information Systems Regulations (NIS-R) and ISO 27001.

Affinity Water continues to embed the security management system and security controls within the business processes. In addition, the security management system's overall improvement and maturity are validated through an independent assessment to determine progress and continuous improvement opportunities.

Since the start of AMP7, significant investment has been made in building the dedicated security function and capability, including the successful deployment of leading artificial intelligence and machine learning-based technologies for immediate detection, alert and automated response to improve both the resilience to new threats and the response times to incidents.

A major internal cyber security review has taken place, and an external one is to follow. A Cyber Security framework is developed, which ensures compliance with the following standards: ISO27001/2:2022 – Information Management, ISO22301 – Business Continuity Management, ISO22393:2023 – Security and Resilience, ISO15504:2012 – Process Maturity Modelling, IEC/ISA62443 Series – Industrial Automation Control Systems Security, NCSC Cyber Assessment Framework (CAF), and NIST SP800 – Cyber Security Framework.

Priorities in our cyber security strategy include: Enhancing monitoring capability with a key focus on ensuring monitoring of the OT network, rigorous compliance with the 2024 and subsequent Cyber Assessment Framework (CAF) assessments, advanced vulnerability management program that tests our critical systems and components, using commercial threat intelligence to design security controls, regular exercise of Disaster Recovery and Business Continuity plans, achieving ISO27001 alignment to maturity level 4 with a view to certifying in March 2025, implementing advanced "AI" and "Machine Learning" technologies for threat intelligence, security monitoring, and incident detection.

Our ultimate objective is to achieve security by design and an anti-fragile architecture mindset and approach. This means that the system (or software) has been designed to be secure and trusted from the ground up.

05 Supply Chain Failure

Description

Our supply chain may fail to deliver the goods and services we need to operate our business

Impact on

- Financial Stability
- Satisfactory Quality
- Satisfied Customers
- Reputable Company

Control Measures

Affinity Water seeks to ensure that our relationship with critical suppliers is secured under long-term agreements, where appropriate. For key activities, we may multi-source by retaining more than one supplier to mitigate the risk of supplier failure, and frequently qualify multiple suppliers to ensure supply continuity. We also undertake significant due diligence in the selection and ongoing management of suppliers through audit, inspection and verification of performance. The approach has been tested during the recent turbulence in the wider macroeconomic climate and other socio-economic upheaval. It has proved resilient, with no adverse impact on company objectives. We continue to work with other companies in the industry to address the short-term and long-term challenges associated with supply of water treatment chemicals in the UK.

06 Environmental Damage

Description

We could cause damage to the environment in the course of our business activities

Impact on

- Sustainable Environment
- Compliant Organisation
- Reputable Company
- Satisfied Workforce

Control Measures

Affinity Water's environmental ambition is to leave the environment in a sustainable and measurably improved state. We are committed to the protection of the environment, prevention of pollution and compliance with environmental legislation, regulations and other requirements that are applicable to us. To deliver on our commitment, we have set ourselves a range of objectives to protect and enhance the environment, which include being certified to ISO 9001 (Quality) and ISO 14001 (Environmental) management systems and always striving for continuous improvement in our processes, systems and activities, minimising the waste we produce and the energy we consume.

We work with farmers and communities to control the risk of environmental pollution from third-party activities. We are working to develop a new pollution prevention plan around key focus areas including; proactive and visible management of our environmental performance; providing the right tools, training and competency for our people; building trust and relationships with our Regulators, Customers and Board through our governance processes. We will identify priority projects to remove or mitigate any immediate risk around Waste, Abstraction, Pollution and Discharge Permits and put in place structured AMP 8 readiness plans underpinned by strong BAU performance.

We have a number of other environmental control systems and processes that include landholdings management plans, catchment management programme, drinking water safety plans, our compliance risk index ('CRI') programme, and our carbon reduction.

07 Adverse Climate Impact

Description

Climate change and other environmental factors could negatively impact our business operations through damage to our landholdings, assets and ability to supply wholesome water

Impact on

- Satisfactory Supply
- Satisfactory Quality
- Satisfied Customers
- Reputable Company

Control Measures

Affinity Water's six key climate change risks are defined as those which, without intervention, pose an unacceptable risk to our business. A 2024 version of our Climate Change Adaptation Report, which sets out how we are managing and adapting to these risks, is being developed in line with the latest DEFRA reporting requirements. In our draft Water Resources Management Plan 2024 we have included an assessment of the impact of climate change on our supply-demand balance. This was evaluated using a common approach adopted across the WRSE region to ensure we can meet future needs. We review and respond to planning applications where these could pose a potential risk to our assets and are working with landowners and farmers to improve soil health and water quality through our Catchment Management programme. Our INNS Out scheme is supporting our community in tackling invasive non-native species in our supply area, to help reduce the risk to our landholdings and the wider catchment.

Principal risks and uncertainties continued

08 Fail Business Transformation

Description	Control Measures
We may fail to implement the cultural and operational transformation of our business necessary to deliver our business plan obligations **Impact on** • Financial Stability • Compliant Organisation	We continue to develop our culture, and this includes the ways and plans we hold to adapt and transform. Significant changes will be seen in AMP8 and the creation of the Transformation Area (within Technology and Transformation Directorate) supports creation of a centre of excellence, alignment to one unified model to enact change across the business and support consistency of delivery and execution. Our Black, Yellow and Green Belt Lean and Six Sigma capability continues to be utilised within the Directorates to enable this change management methodology to be used with a strong focus on driving continuous improvement of all business processes. We have revised the project methodology in place to govern how we deliver our programmes and projects. In addition, the Investment Committee reviews all proposed large projects before initiation and monitors their delivery to ensure successful outcomes. New projects are approved by reference to available finances, people and other resources as appropriate.

09 Crisis Event Disruption

Description	Control Measures
A significant disruptive event, e.g. energy infrastructure failure, terrorism, pandemic, could impact our ability to deliver normal business activities **Impact on** • Satisfactory Supply • Satisfactory Quality • Satisfied Customers • Reputable Company	Affinity Water maintains an emergency response team to deal with the various issues that put the company or its customers at risk. These high-level procedures are maintained and reviewed on a regular basis. Each event is subject to a learning review, and long-term resilience plans are updated through the outcome of these learning sessions. These improvements are proposed to the investment teams for improvement or corrective actions that add to the company resilience. Business continuity planning is based on the guidance of ISO 22301:2019 and our emergency preparedness is assessed as part of our ISO 9001:2015 certification for assurance purposes. Affinity Water maintains a 24-hour rota to ensure emergency management is available should an event occur. Affinity Water maintains a close working relationship with the relevant local resilience forums ('LRFs') organised through local government authorities to meet the requirements of the Civil Contingencies Act ('CCA') 2004 and Security and Emergency Measures Direction ('SEMD') 2022. Affinity Water regularly engages with Water UK on risks and has representation on the National Incident Management team ('NIM') for dealing with tactical responses to national or regional issues, involving DEFRA and other government departments or agencies, and on the Platinum Incident Management team ('PIM') for implementing agreed industry strategies in our organisation.

10 Asset Deterioration

Description	Control Measures
The health of our assets may deteriorate such that water supply or quality is compromised, in addition to employee safety. **Impact on** • Satisfactory Supply • Satisfactory Quality • Satisfied Customers • Reputable Company • Satisfied Workforce	The maintenance of our existing assets to maintain service to customers is funded from the base capital maintenance element of our regulatory settlement. Unlike some other areas, we have autonomy to decide how to allocate funds to best deliver our performance commitments. We use a 'risk and value' based approach to inform our decision making, which enables us to prioritise investment to those areas that most need it to maintain service and protect our employees. We are working on enhancing the accuracy and completeness of our data and the suite of asset health metrics we use to measure risk, to continuously improve our ability to target investment to reduce the greatest amount of risk.

11 Adverse Regulatory Change

Description	Control Measures
Changes could occur in the regulatory framework, or social or political climate, which could have significant effects on our operational or financial performance **Impact on** • Compliant Organisation • Reputable Company	We continue to contribute fully to consultations with our regulators and seek to ensure our voice is heard on emerging changes through strong relationships with all our stakeholders. We continue to engage with our stakeholders and their representatives to understand and respond to their issues and concerns. We are increasing our engagement with political and policy stakeholders to ensure key issues for Affinity Water are recognised and understood within the regulatory context.

12 Fail Legal Obligations

Description	Control Measures
We may fail to comply with laws and obligations under our instrument of appointment, resulting in an enforcement order a fine of 10% appointed turnover or termination of appointment and special administration. **Impact on** • Satisfied Customers • Reputable Company • Compliant Organisation	Priority legal requirements, as set out in our Licence Conditions and key legislation such as the Water Industry Act 1991, are captured in our Legal Obligations Register which has been introduced in 2023. This register provides a focus on key legal and regulatory obligations and will support future compliance returns, with legal and regulatory focus adapting as risk and circumstances require. The new register provides a reference point and sets clearer accountabilities for high level compliance. It requires directors to provide a statement of compliance that includes all relevant procedures and controls, or otherwise record any risk of non-compliance and provide mitigation or an action plan to address that potential non-compliance. All remaining legal or compliance risks will be managed through the application of regular internal reviews, standard operating procedures, training programmes and a risk reporting process where it is appropriate to do so. We continue to operate our abstraction, treatment and supply activities to environmental standard ISO 14001 and have adopted the principles of other relevant management systems and standards. Our compliance programme is designed to ensure that: • All employees are adequately educated on the legislation and regulations particularly relevant to their specific job roles; and • Appropriate assurance activities are in operation to provide positive evidence of compliance. Where new obligations and licence conditions come into effect, we undertake extensive compliance and assurance activities to ensure the company is compliant.

13 Unsatisfactory PR24

Description	Control Measures
Failure to achieve a satisfactory outcome from the price review PR24 for 2025-30 to fund obligations and achievement of performance requirements. **Impact on** • Financial Stability • Compliant Organisation	We undertook a significant programme of internal and external assurance on the PR24 business plan submitted to Ofwat in October 2023. We are confident that we have submitted a high quality and robust business plan. We continue to engage with our regulators through the determination period, contributing to various working groups, consultations and industry projects. We continue to focus on delivering our performance commitments in AMP7 to ensure that we are in the best possible place to transition to AMP8.

Principal risks and uncertainties continued

14 Funding Challenges

Description	Control Measures
We could fail to maintain or renew appropriate funding for our business activities. **Impact on** • Financial Stability • Compliant Organisation	We have undrawn revolving loan facilities, cash balances and standby loan facilities to meet our forecast cash flow needs. Our treasury policy requires us to maintain a minimum level of liquidity capable of covering at least 12 months of forecast cash flow requirements. Longer-term financing needs are sourced from the private and public bond markets. Our next major refinancing exercise is scheduled for July 2026, when our £250 million fixed-rate bond matures. Our policy is to maintain a diverse portfolio of counterparties through which we can access liquidity at all times. This ensures we are not reliant on any single treasury counterparty. We have a regular monitoring and certification process of the financial covenants within our Whole Business Securitisation ('WBS') documentation. This covers information, financial and general covenants. Our treasury policy requires that financial covenants, which include gearing and interest cover ratios, are monitored and reported to the Board on a regular basis. We continue to maintain investment-grade credit ratings with credit-rating agencies.

15 Adverse Macro-economic Change

Description	Control Measures
Macroeconomic factors (interest rate, inflation, energy prices, cost of living crisis and tax risks) could have a material adverse effect on our financial performance. **Impact on** • Financial Stability • Compliant Organisation • Satisfied Workforce	Energy-price fluctuations are mitigated in two ways: firstly, by implementing efficiency programmes to reduce the amount of energy we use. Secondly, by developing self-generating assets (solar) to reduce our reliance on grid-imported energy. Interest-rate risk is primarily managed by using a mixture of fixed-rate and inflation-linked borrowings, and approved hedging instruments (refer to note A4 to the financial statements for further information). We have a financial covenant within our WBS documentation stipulating that at least 85% of our outstanding debt is hedged against movements in interest rates. Interest rate risk is monitored and reported regularly to the Board. Inflation risk in our costs is managed through undertaking a robust and challenging budgeting process to ensure costs are clearly understood and subsequently controlled during the financial year. We also use inflation-linked debt to ensure a proportion of our interest costs are linked to inflation and, therefore, offsets an element of the movement in revenue and RCV that results from changes in inflation. The defined benefit pension plan has been closed to new members since September 2004, and the assets of the plan are held separately from those of the company. The plan is in surplus on an accounting basis (refer to notes 10 and A5 to the financial statements) and the latest actuarial valuation of the defined benefit section of the Affinity Water Pension Plan ('AWPP') as at 31 December 2020, determined by an independent qualified actuary, concluded that the pension plan was 96% funded on a self-sufficiency basis. To eliminate the funding shortfall identified, as well as funding the future cost of benefits being accrued within the plan, the company agreed to pay contributions of £1,250,000 prior to 31 July 2021, £1,600,000 prior to 31 December 2021,and £1,600,000 per annum commencing from 1 January 2022. This was formalised in a new schedule of contributions effective from July 2021. Another actuarial valuation, as at 31 December 2023, is currently being undertaken. 95% of the interest rate and inflation risk associated with the plan's liabilities are hedged by the plan's assets through liability and cash flow driven investment. We have specific processes and teams dedicated to the efficient collection of customer debt, and outsource to a number of debt-collection agencies when the recovery of debt has been unsuccessful. For those customers who struggle to pay their bill, we have payment arrangements that are as flexible as possible, and we encourage customers who find themselves in difficulty to contact us as early as possible. We also have a social tariff (LIFT) to help support customers who are least able to pay their bills.

16 Capital Projects Underdelivery

Description	Control Measures
Failure to deliver major CAPEX programmes and projects. This would have two types of impact on the Corporate Risk Profile. Firstly, there is the risk of losing the value of the investment through failure to deliver. Secondly, there is the impact of failing to realise the benefits of the capital investment programme, much of which is long term risk control. **Impact on** • Financial Stability • Reputable Company	Affinity Water's Asset Strategy and Capital Delivery directorate operates a project risk management process where costs and delivery risk are actively managed and carefully controlled via an Investment Committee. Work is ongoing to integrate Programme and Corporate Risk via specific escalation criteria, and this project is managed by the PMO. We also closely monitor the key milestones of our enhancement investments to ensure we meet regulatory expectations, with progress reported company wide as one of our key KPIs.

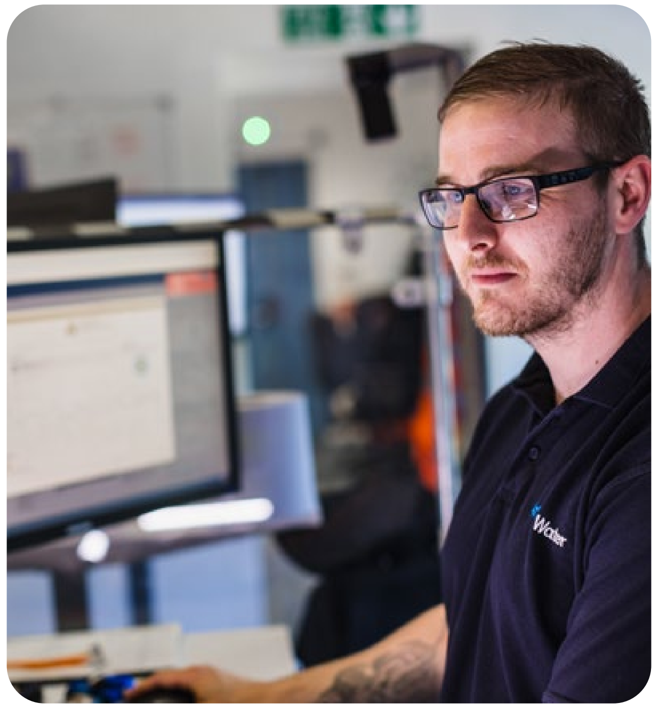
Viability statement

The Board's consideration of the company's longer-term viability and prospects is an extension of our business planning process. This includes financial budgeting and forecasting, and a robust risk management process.

Period of assessment

The directors have assessed the company's prospects and financial viability both in the short term and long term. The directors have considered the company's long-term prospects in the context of our PR24 plans, which is the process by which Ofwat will determine the revenues and outcomes we need to deliver in AMP8. The directors also assessed our 2024 WRMP (page 10) , which sets out our plan to secure the long-term provision of resilient and sustainable water supplies for customers from 2025 to 2075. We consulted on our WRMP draft plan during the year and the final plan will be published during 2024. See pages 10 for more details on our PR24 plans and our 2024 WRMP. The financial projections presented to the Board, to enable assessment of the company's long-term prospects, reflect the expected level of investment implied by this plan and recovery of this investment from customers.

The directors have also assessed the company's financial viability over a shorter ten-year period to 31 March 2034 (the 'lookout period'). The forecasts used in the assessment of financial viability, therefore, project beyond the current price control period, taking into account both our AMP7 Final Determination, our PR24 plans and additional projected financials for the final four years of the lookout period. The level of reliability of the assumptions used reduces in the second half of the lookout period. However, the directors continue to consider the ten-year period to be appropriate given the long-term nature of the business.



Assumptions made in the base-case scenario

To assess long-term viability, stress-testing was performed on a Board-approved base case cash flow forecast (the 'base case cash flow forecast'). The base-case cash flow reforecast reflects the difficult and uncertain economic environment we continue to operate in, and has taken into account the impact of inflation, interest rates, supply-chain cost pressures, the energy-price crisis and the cost-of-living crisis.

The base case reflects projected costs and revenues for the final year of AMP7, as allowed by Ofwat's final determination of price controls, and has projected financials for the remaining nine years of the lookout period based on the PR24 plans for AMP8 and current economic climate. AMP8 expenditure also includes anticipated expenditure to further develop strategic regional water resource solutions, as detailed in our 2024 WRMP. The base case has taken into consideration the impact of reprofiled capital expenditure from projects delayed during the first year of AMP7 into later years of AMP7 as a result of the Covid-19 pandemic, as well as expenditure brought forward from AMP8 as part of the DEFRA Accelerated Infrastructure Programme and via Ofwat transition rules.

The projections for the ten-year lookout period apply the AMP7 mechanism for sharing financial outperformance with customers. They also include the impact of any potential net ODI penalties resulting from AMP7 performance in AMP7 and AMP8. The base case has assumed any rewards or penalties relating to the PCC performance commitment will still be adjusted for, as part of the revenue adjustment mechanism, to ensure a prudent approach.

The base-case cash flow forecast also assumes a further £1,618 million of debt is raised via the capital markets throughout the lookout period, of which £880 million is to fund future AMP investments. A refinancing exercise is forecast to take place in July 2026 when our £250 million fixed rate bond matures (refer to page 159 for details of our bond maturities), in addition to £91 million refinancing of the swaps. This refinancing has assumed a 5.4% interest rate in the base case. For new debt to fund additional investment, the base case has assumed rates of 5.2% for Class A fixed, 2.2% for Class A index linked and 6% for Class B debt.

Resilience to principal risks facing the company

The directors also reviewed the principal risks and uncertainties facing the company set out in the previous section, and determined that it was reasonable to expect that none of the individual principal risks identified as a 'sensitivity' on page 81, if these were to occur, would in isolation compromise the company's financial viability during the lookout period. Instead, these risks could be considered as part of a number of different severe sensitivities to the company's base-case forecast.

Stress-test scenarios applied

Tests were applied to the base-case cash flow forecast to assess for resilience against financial shocks, compliance with financial covenants and availability of cash reserves. Financial ratio targets (including targets for cash interest cover, adjusted interest cover, funds from operations to debt, return on capital employed and return on regulatory equity) to evaluate the results of the stress testing were set to align with the levels required to meet our Baa1 credit rating under Moody's current methodology and to maintain an investment grade credit rating. A key assumption of this viability statement is that the company maintains an investment grade credit rating, in line with its Instrument of Appointment.

The targets maintain headroom against the trigger and default levels set out in the company's WBS documentation. Trigger levels, if reached, would require increased reporting to the WBS lenders and would lock up dividend payments. If default levels were reached, the company would be in breach of its WBS arrangements and subject to the provisions of the Security Trust and Intercreditor Deed ('STID'), in particular the standstill period mechanisms. Each lender may declare all amounts outstanding to be immediately due and payable and recoveries would be applied by the Security Trustee in accordance with the payment priorities.

The directors regularly review the base case cash flow forecast and formally review the output of the stress-testing on an annual basis.

The following sensitivities, approved by the Audit, Risk and Assurance Committee, were applied to stress-test the base-case cash flow forecast.

S1	10% increase in totex
S2	1% decrease in all three inflation metrics (RPI, CPI and CPIH)
S3	1% decrease in inflation, impacting revenue only
S4	replacing the base inflation forecast with a negative 1% forecast, while maintaining a 1% increase in expenditure
S5	one-off exceptional event
S6	5% increase in unpaid water customer bills represented by a 5% reduction in revenue
S7	1% decrease in inflation impacting revenue only, 5% increase in totex and 5% increase in unpaid water customer bills
S8	100% decrease in cash generated by the company's non-appointed business
S9	2% increase in cost of debt.

The sensitivities applied in relation to totex, revenue and unpaid water customer bills were in line with those used in testing performed during the PR19 process to assess the robustness and financeability of our AMP7 Business Plan.

The directors consider that the sensitivity applied in relation to totex (S1) is of a sufficient magnitude to capture the financial impact of exceptional items, such as regulatory fines and legal costs (refer to principal risks 1, 4 and 11); costs associated with weather events (refer to principal risk 2); costs associated with a water quality event (refer to principal risk 2); and costs not taken into account by Ofwat in setting our price controls (i.e. unfunded costs).

The inflation sensitivities (S2 and S3) reflect severe scenarios in the context of the company's inflation-linked debt and inflation-linked costs (for example staff costs), which act as natural hedges to lower revenue.

The scenario of negative inflation combined with an increase in expenditure (S4) is intended to reflect conditions during an economic recession (refer to principal risk 15), such as those experienced in 2008/09, and projected as a result of the ongoing energy-price crisis and cost-of-living crisis. This scenario captures a realistic expectation, when considering the structure of the company's cost base, that, in general, costs will not fall during a period of negative inflation.

The scenario of a one-off exceptional event (S5) reflects the prospect of an exceptional event with an initial capex requirement of £60 million and an opex requirement of £20 million in year 1 to deal with the immediate needs following the event, with some legacy impact to opex of £10 million in year 2 and £5 million in year 3.

Viability statement continued

The sensitivity applied in relation to unpaid water customer bills (S6) reflects a severe scenario considering that the risk is spread across our whole customer base. The stress test has been applied across all years, on top of the impact of high inflation, interest rates, supply chain cost pressures, the energy price crisis and the cost-of-living crisis included in the base case. The directors consider that this sensitivity is of a sufficient magnitude to capture also the financial impact in severe scenarios of ODI penalties incurred through worse than planned operational performance (refer to principal risk 5).

The scenario of a decrease in inflation impacting revenue only, together with a 5% increase in totex and 5% increase in unpaid water customer bills (S7) is intended to reflect severe conditions during a downturn in the economy.

The sensitivity of a 100% decrease in cash generated by the company's non-appointed business (S8) reflects a severe scenario that companies may decide to no longer procure non-appointed services from us.

A sensitivity has been applied in relation to cost of debt (S9), as £250 million of the company's existing bonds are due to mature in the lookout period, in addition to forecast accretion payable on the swaps, and the company has not yet secured financing for expected expenditure commitments beyond AMP7.

The directors consider that this sensitivity reflects a severe scenario of an increase to cost of debt in the context of how the ten-year gilt has performed over the last 20 years. To achieve an all-in coupon, a credit spread has been included that is consistent with the current and historic performance of the £250 million fixed-rate bond, forecast to be refinanced in the lookout period.

The directors consider that the sensitivity applied in relation to cost of debt is of a sufficient magnitude to capture the financial impact in a severe scenario of a credit rating downgrade. As stated in previous paragraphs, a key assumption is that, even if downgraded, the company's credit rating remains investment grade.

Impact of principal risks on financial viability

For the principal risks identified in the principal risk table as a 'scenario' on page 81, the directors considered that these risks, if they were to occur, might in isolation threaten financial viability, potentially leading to significant unforeseen additional cash requirements during the lookout period in the event of:

- A major asset failure resulting in large-scale interruptions to operations (refer to principal risk 10 and page 86 for further details of this risk and our mitigating activities);
- A major water quality issue (refer to principal risk 2 and page 83 for further details of this risk and our mitigating activities);
- A severe drought incident within our supply region as considered in our Drought Management Plan (refer to principal risk 2 and page 83 for further details of this risk and our mitigating activities); or
- A significant cyber-attack leading to a major loss of customer data or interruption to operations (refer to principal risk 4 on page 84 for further details of this risk and our mitigating activities).

The directors consider that the sensitivity applied in relation to S1 is of a sufficient magnitude to capture the financial impact of these exceptional items.

Results of each stress test on our financial covenants

All covenants are met under the base case scenario. Some stress testing scenarios result in a trigger level or default being reached without mitigating actions, as detailed in the following table. With the mitigating actions, the directors expect that the company will meet its existing covenants and maintain headroom above those covenants over the lookout period. An investment grade credit rating is expected to be maintained under all scenarios with the mitigation actions in place (based on Moody's current assessment process).

The directors consider that the impact on the company's cost of debt in the lookout period as a result of a lower investment grade rating of Baa2/Baa3 under a severe scenario is captured by the 2% increase in cost of debt stress test.

	Rating agency measures		Key covenants			Rating agency measures		Key covenants	
Scenario	Adjusted interest cover	Funds from operations to debt ratio	Interest cover ratio (Conformed Class A adjusted)	Gearing (Senior net indebtedness to RCV)	Mitigation	Adjusted interest cover	Funds from operations to debt ratio	Interest cover ratio (Conformed Class A adjusted)	Gearing (Senior net indebtedness to RCV)
	Without mitigation				With mitigation				
Base	Met	Met	Met	Met	Not Required	Met	Met	Met	Met
01	Not Met	Not Met	Trigger	Met	Required	Met	Met	Met	Met
02	Met	Met	Met	Met	Required	Met	Met	Met	Met
03	Met	Met	Met	Met	Required	Met	Met	Met	Met
04	Met	Met	Met	Met	Required	Met	Met	Met	Met
05	Met	Met	Trigger	Met	Required	Met	Met	Met	Met
06	Not Met	Not Met	Trigger	Met	Required	Met	Met	Met	Met
07	Not Met	Not Met	Default	Met	Required	Met	Met	Met	Met
08	Met	Met	Met	Met	Required	Met	Met	Met	Met
09	Met	Met	Met	Met	Not Required	Met	Met	Met	Met

As set out in the table, without mitigation, default or trigger levels would be reached for the interest cover ratio under the sensitivities S1, S5, S6 and S7 in one or more years over the lookout period. No trigger or default levels would be reached for the gearing ratio. In some scenarios, default or trigger levels would be reached in year five of AMP7. The base case scenario already represents a lower base than the directors would have initially anticipated at the beginning of the AMP, as the company contended with the impact of the Covid-19 pandemic, along with the emerging energy price and cost inflation crisis having a significant impact in AMP7.

The final year of AMP7 is the most challenging for the business due to increased operating costs already included in the base case scenario as a result of the ongoing current economic conditions and increased amounts of totex spending against regulatory allowances included as revenue in the final year of the AMP.

AMP8 indicators show an improved position as we assume benchmarks are re-set in PR24 to current economic conditions, as well as a regulatory return allowance increase due to movements in the underlying investment market data that feeds into the regulator's calculations. The PR24 'early view' WACC has been applied as published by Ofwat along with their PR24 Final Methodology in December 2022.

In the short term, we are not exposed to financing cost risk as we have liquidity to see out the final year of AMP7 that is under pressure.

Viability statement continued

Further details where key covenants default or trigger within the lookout period

S1	Without mitigation, a 10% increase in totex would result in a trigger level being reached in year 1 for the interest cover ratio, but the covenant would be met in all other years. A 10% increase in totex would result in a trigger level being reached for a credit rating debt coverage ratio in years 1, 4, 5 and 6 but the ratio requirement would be met in all other years. If this scenario were to arise, management intervention would be introduced to reduce operating costs and manage working capital. A portion of this additional spend is recovered through the AMP7 totex reconciliation mechanism increasing RCV.
S2	Without mitigation, a 1% decrease in all three inflation metrics (RPI, CPI and CPIH) would result in a trigger level being reached for a credit-rating debt coverage ratio in year 1, but the ratio requirement would be met in all other years. The majority of this impact would be a reduction in nominal RCV, resulting in a lower capacity to raise new financing due to the need to maintain a specified gearing position. This would be mitigated with lower dividend payments.
S3	Without mitigation, a 1% decrease in inflation, impacting revenue only, would result in a trigger level being reached for a credit-rating debt coverage ratio in year 1, but the ratio requirement would be met in all other years. This would be mitigated with lower dividend payments.
S4	Without mitigation, replacing the base inflation forecast with a negative 1% forecast, while maintaining a 1% increase in expenditure, would result in a trigger level being reached for a credit-rating debt coverage ratio in year 1 of the lookout period. The majority of this impact is felt in RCV indexation, limiting the capacity for new debt. However, a larger amount of inflation-linked debt and the use of derivatives mitigate some of this impact.
S5	Without mitigation, a one-off exceptional event would result in trigger being reached on the interest cover ratio in year 1 and a trigger level being reached on a credit–rating debt coverage ratio in the same year. The overall net cash requirement over the forecast period is mitigated by reducing dividends over this period. A portion of this additional spend is recovered through the AMP7 totex reconciliation mechanism increasing RCV.
S6	Without mitigation, a 5% increase in unpaid water customer bills represented by a 5% reduction in revenue would result in trigger being reached in year 1 for the interest cover ratio, but the covenant would be met in all other years. The increase would result in a trigger level being reached for a credit-rating debt coverage ratio in year 1 but the ratio requirement would be met in all other years. The cash requirement created would be utilised by a reduction in projected dividend.
S7	Without mitigation, a 1% decrease in inflation impacting revenue only, 5% increase in totex and 5% increase in unpaid water customer bills would result in default being reached in year 1 of the lookout period for the interest cover ratio. Trigger levels on a credit-rating debt coverage ratio would be reached in years 1, 3, 4, 5, 6 and 10 of the lookout period, but would be met in other years. The additional cash requirements would be met through reduced dividends and management intervention would be introduced to reduce operating costs and manage working capital.
S8	Removing the profit generated by the non-appointed business creates additional cash requirements that would be met through a reduction in dividends but would not create issues with the resulting levels of financial ratios.

If the scenarios were to arise, the company could implement the following mitigating actions:

- Issue a further short-term RPI-linked swap to reduce the interest charge. This would yield a higher impact to the interest charge than a longer-term swap;
- Reduce further operating costs by targeting efficiencies;
- Implement additional working capital management;
- Buy back a portion of the 5.875% class A fixed rate bond, the company's most expensive debt, reducing the overall interest charge; and
- Restrict dividend payments in AMP8.

In any further extraordinary situations in addition to the above mitigating actions, the company's investment programmes would be re-prioritised and management would intervene to reduce operating costs to reduce cash outflows in critical years.

Together with the results of the stress-testing (summarised in the table), the directors also considered the following:

- The company's available liquidity;
- The company's ability to renew its existing short-term borrowing facilities under most market conditions;
- The likely effectiveness of current and planned mitigating actions, as detailed in the principal risk section;
- The company is financially and operationally 'ring-fenced' from the rest of the Affinity Water group by way of the WBS (refer to page 158 for further details); and
- Under the regulatory model, a primary legal duty of Ofwat is to ensure that water companies can finance their functions.

To conclude, based on the above assumptions and analysis, the directors confirm that they have a reasonable expectation that, with the mitigating actions implemented if required, the company will continue to operate and meet its liabilities, as they fall due, over the lookout period.

Non-Financial Information Statement

We aim to comply with the non-financial reporting requirements contained in sections 414CA and 414CB of the Companies Act 2006. We integrate this information throughout our Annual Report and Financial Statements and so the table below is designed to help locate key elements on non-financial matters. Where we include more details on a policy on our website, the link has been included in the table below.

Reporting requirement	Information necessary to understand our business and its impact	Policies, guidance and standards which govern our approach
Social matters	• Chair's welcome (pages 02 and 03) • Why our supply area is unique (page 04) • Our customers (page 05) • How we operate (pages 08 and 09) • Performance highlights (pages 12 to 13) • CEO's introduction (pages 16 to 18) • Our business model (pages 20 and 21) • Our external environment (page 24) • Planning our future together (page 25) • Looking to the future – challenges and opportunities we face (pages 26 and 27) • Our commitment to public value (pages 28 to 29) • Our stakeholders (pages 30 and 31) • Our focus areas (pages 32 to 37) • Our strategy (pages 38 and 39) • Our customer outcomes (pages 40 and 43)	• Our values (page 01) • Our approach to sustainability (page 54) • External guidelines we follow (page 07) • Our business model (pages 20 and 21) • Our approach to multi-capital thinking (page 22) • Our strategy (pages 22 and 23) • Sustainability (pages 30 and 31) • Our alignment to UNSDGs (page 56) • Our Independent Customer Challenge Group (pages 74) • Purchase order terms and conditions and supply of goods and services agreement (page 78)
Environmental matters	• Chair's welcome (pages 02 and 03) • Why our supply area is unique (page 04) • Our approach to sustainability (page 06) • External guidelines we follow (page 07) • How we operate (pages 08 and 09) • Case study- Grand Union Canal Transfer (page 11) • Performance highlights (pages 12 to 13) • CEO's introduction (pages 16 to 18) • Our business model (pages 20 and 21) • Our commitment to public value (pages 28 and 29) • Our external environment (page 24) • Planning our future together (page 25) • Looking to the future – challenges and opportunities we face (pages 26 and 27) • Our stakeholders (pages 30 and 31) • Our focus areas (pages 32 to 37) • Our strategy (pages 38 and 39) • Our customer outcomes (pages 40 and 43) • Key Performance Indicators (pages 44 to 49) • Sustainability (pages 54 to 57)	• Our values (page 01) • Our approach to sustainability (page 54) • External guidelines we follow (page 07) • Our business model (pages 20 and 21) • Our approach to multi-capital thinking (page 22) • Our strategy (pages 22 and 23) • Sustainability (pages 30 and 31) • Our alignment to UN SDGs (page 56) • Task Force for Climate related Financial Disclosures (pages 58 to 69) • Task Force on Nature-related Financial Disclosures (pages 70 and 71) • Environmental Policy (**affinitywater.co.uk/environment**) linked through Task Force for Climate related Financial Disclosures (page 77)
Employees	• Chair's welcome (pages 02 and 03) • CEO's introduction (pages 16 to 19) • Promoting a culture of diversity and inclusivity throughout the workplace (page 56) • Safety, health and wellbeing (pages 132 to 136)	• Our values (page 01) • Equality, diversity and inclusion (pages 127 to 130) • Safety, health and wellbeing (pages 132 to 136) • Gender pay gap (page 155)
Respect for human rights	• Safety, health and wellbeing (pages 132 to 136) • Promoting a culture of diversity and inclusivity throughout the workplace (page 56)	• Equality, diversity and inclusion (pages 127 to 130) • Safety, health and wellbeing (pages 132 to 136) • Modern slavery and human trafficking (pages 108, 113, 117)
Anti-corruption and anti-bribery	• Our code of ethics (pages 101 and 108)	• Code of ethics (pages 100, 101 and 108) • Whistle-blowing policy (pages 108, 116 and 121) • Systems of risk management, planning and internal controls (pages 118 to 121)
Description of principal risks	• Principles risks and uncertainties (pages 80 to 89) • Viability statement (pages 90 to 95)	• Systems of risk management, planning and internal controls (pages 118 to 121) • 'Three lines of defence' assurance process (page 121) • Legal obligations register (page 122)
Description of business model	• Our business model (pages 20 and 21)	• Introduction from the Chair (page 100)
Non-financial KPIs	• Performance highlights (pages 12 and 13) • Key Performance Indicators (pages 44 to 49	• How we operate (pages 08 and 09) • Planning our future together (page 25) • Our customer outcomes (pages 40 and 43)

Approval of the Strategic Report

On behalf of the Board

Ian Tyler
Chair

8 July 2024

Governance

Governance

Our governance framework and division of responsibilities

We have ensured a clear division of responsibilities.

Read more on **page 106**

Board leadership and company purpose

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

Read more on **page 108**

Board balance and effectiveness

We're delivering effectiveness through a balanced Board.

Read more on **page 109**

Audit, Risk and Assurance Committee Report

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

Read more on **page 118**

Nomination Committee Report

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

Read more on **page 126**

SHEDWQ Committee Report

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

Read more on **page 132**

Remuneration Report

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

Read more on **page 138**

Ownership and financing

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

Read more on **page 156**

Introduction from the Chair

I want to thank the Board, the Committees and all of the Affinity Water employees for their unwavering commitment to creating value for all stakeholders.

Ian Tyler
Company Chair

Highlights

- We welcomed Shelley Malton to our Board as our new independent non-executive director in December 2023; her bio can be read on page 104
- Further changes to the Board composition over the past year are detailed in the Nomination Committee report on page 129
- We conducted an internal effectiveness review of the Board and its Committees at the start of this year and the results can be found on page 111
- Our revised Code of Ethics policy was successfully launched in Autumn 2023
- Equality, diversity and inclusion remains at the core of our business. A summary of our activities in this arena are set out on page 131. We also published our 'Diverse voices, One team' strategy for EDI which can be found on our website **affinitywater.co.uk/docs/reports/EDI-Strategy-2023-2030. pdf**

Dear stakeholder

On behalf of the Board, I am pleased to introduce our Corporate Governance report for 2023/24.

This report sets out how Affinity Water continues to satisfy the high standards of governance required to be met as a regulated water company, and expected by our shareholders, regulators, and the public as well as the changes we have made to the composition of our Board and Committees, and a look forward to our plans and ambitions for the future.

At a glance

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

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

The publication 'Engaging With Our Shareholders' outlines how, and on what subjects, we've recently been engaging with our shareholders. You can find it on our website at **affinitywater.co.uk/corporate/about/governance-assurance**. More information of our stakeholder engagement can also be found on page 114.

Board composition and succession planning

Over the past year, we have seen some changes to our Board membership. Marissa Dardi resigned from DIF Capital and, subsequently, the Board on 12 May 2023 and Adam Waddington was appointed as her replacement. Roxana Tataru nominated Andrew Cox as her alternate who was appointed to the Board on 15 November 2023 while she commenced maternity leave. Andrew stepped down on 10 June 2024 when Roxana returned. On 1 December 2023, the Board was pleased to welcome Shelley Malton as a new independent non-executive director. After nine years Trevor Didcock, Board member and prior Director for Employee Engagement, will step down from the Board later this year. Until that time, he will continue to Chair the Remuneration Committee. Justin Read will be appointed as Interim Chair when Trevor formally steps down. Shelley has joined the Committee with the intention for her to take an understudy role as Remuneration Chair designate. Martin Roughead will also be stepping down in the Autumn from his role as CFO and a recruitment search for a new CFO has commenced.

Further details on these changes as well as the process of recommending appointments to the Board and ensuring succession planning can be found in the Nomination Committee report on pages 126 to 131.

Board effectiveness review

The Board undertook an internal effectiveness review, including its Committees' performance during March 2024. Details of the evaluation and its findings as well as the progress and changes that have been made following last year's evaluation can be found on page 111 of this Corporate Governance report.

Culture and values

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

Our company's culture underpins the way we do business. This year has seen Affinity Water continue to provide guidance and mandatory training at all levels to make sure our employees act in accordance with our principles and follow our Code of Ethics, which was revised and launched in Autumn 2023.

Equality, Diversity, and Inclusion

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

You can read more about Affinity Water's activities within the equality, diversity and inclusion arena on page 131.

Looking forward

As I mentioned in my earlier introduction to the broader annual report, it was announced to the market earlier this year that after three years as Chair, I will be stepping down from the Board later this year and recruitment for my replacement is well underway. With a thorough handover planned, I feel confident that Affinity's new Chair will guide the business for AMP8 and provide the necessary support and challenge to Keith and his team as they continue to transform the business into one of the highest performing in the industry. I want to echo my earlier sentiments that it has been a pleasure to be a part of Affinity's journey and I want to thank the Board, the Committees and all our employees for their unwavering commitment to creating value for all stakeholders and contributing to the good governance and stewardship of our business. The hard work undertaken to date has set the stage for what I believe will be a successful transition for Affinity Water to AMP8.

Ian Tyler
Company Chair

8 July 2024

Documents available on our website affinitywater.co.uk/corporate/about/governance-assurance include:

Matters reserved to the Board

Non-executive director letters of appointment

Terms of Reference for Board Committees

Our Board of directors

Changes to the Board of directors:

Marissa Dardi
– Resigned on 12 May 2023

Martin Roughead
– Appointed 17 April 2023

Adam Waddington
– Appointed 12 May 2023

Andrew Cox
– Appointed 15 November 2023 until 10 June 2024 as an alternate to Roxana Tataru

Shelley Malton
– Appointed 1 December 2023

11 **Roxana Tataru**
Non-executive director

01 Ian Tyler
Chair

R N S

Date of appointment
January 2021

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

Ian was Chair of Vistry Group plc (formerly Bovis Homes Group plc, Cairn Energy plc) and AWE Management Ltd.

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

Current external appointments
He is currently a non-executive director of Anglo American plc, Synthomer plc and Chair of BMT Ltd

Ian was appointed as non-executive director at Grafton Group plc effective 1 March 2024 and Chair of the Board in May 2024.

06 Keith Haslett
Chief Executive Officer

S

Date of appointment
January 2023

Career
Keith Haslett is the CEO at Affinity Water, the largest water-only company in the UK. Since joining in January 2023, he has been leading a vast programme of work focused on sustainability, investment in infrastructure and reducing the demand for water. A chartered civil engineer, he has a career spanning 25 years in the water industry working in both public and privately owned water companies in England, Northern Ireland, and New Zealand. Prior to his role at Affinity Water, he was Water Director at Northumbrian and Wastewater Director at United Utilities and held other senior roles within Northern Ireland Water.

Skills and experience
Keith is a qualified engineer with comparative business and operations experience in the regulated water and wastewater sectors in the UK, both with large private and listed companies. This wealth of water industry experience in senior roles within PLC and government utility businesses, he has a track record of achieving industry-leading performance. Keith has a BEng in Civil Engineering and an MBA from The Queens University of Belfast.

04 Martin Roughead
Chief Financial Officer

Date of appointment
April 2023

Career
Martin is the CFO at Affinity Water and joined in April 2023. He has 16+ years' corporate finance experience working at KPMG Corporate Finance, Hastings Funds Management and UBS. His most recent appointment prior to joining Affinity Water was as Director of Finance, Regulation and Strategy at Southern Water, where he also gained extensive water sector experience and regulatory knowledge over his nine years there.

Skills and experience
Martin is an experienced finance professional and has extensive water sector experience and regulatory knowledge. Martin holds a BSc (Hons) in Pure Mathematics and Statistics from the University of Glasgow and a Graduate Diploma in Law from the University of Law. He is a CFA Charterholder and Associate Member of the Association of Corporate Treasurers.

Current external appointments
Martin is a non-executive director at Glenbervie Golf Club Limited.

Key

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

Independent non-executive directors

07 Justin Read
Independent non-executive director

A R N

Date of appointment
July 2020

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

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

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

10 Chris Newsome OBE
Independent non-executive director

A N S

Date of appointment
January 2019

Career
Chris has extensive experience across large, regulated infrastructure businesses and over 40 years' experience within the water industry at Yorkshire Water, Kelda Water and Anglian Water. He was latterly Director of Asset Management at Anglian Water, Chair of @oneAlliance and Chair of UK Water Industry Research.

Skills and experience
Chris has a BSc in Civil Engineering from Loughborough University, an MBA from the Manchester Business School, and a post-graduate diploma in Structural Engineering from the University of Bradford. He has a wealth of experience in planning, constructing, operating and maintaining large asset bases. He is a recognised leader in reducing carbon in infrastructure.

Current external appointments
Chris is a founding member of the government's Green Construction Board. He is also a Past President and Board Member of the Institute of Asset Management and director of UK Water Partnership Limited.

08 Trevor Didcock
Senior independent non-executive director

R N S

Date of appointment
November 2015

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

Skills and experience
Trevor has experience in a number of industry sectors as a CIO and Group IT Director. He has led a number of significant business transformation programmes across his career. Trevor has a BSc (Hons) in Mechanical Engineering from the University of Nottingham and an MBA and Marketing Diploma from Cranfield Business School.

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

09 Shelley Malton
Independent non-executive director

R N

Date of appointment
December 2023

Career
Shelley is a FTSE-30 operating Board-level Managing Director, with a strong commercial focus delivering customer centricity, people leadership, cultural and transformational change.

With over 25 years of experience in the financial services industry, she has led major transformations at Vodafone, Experian, Barclays, including customer experience, outsourcing, automation and operations transformations.

Skills and experience
Shelley brings a 25+-year track record in customer experience turnaround, operations, digital, cyber, and commercial roles in global, regulated businesses of high complexity across multiple sectors. Shelley holds an Associateship of the Chartered Institute of Bankers and is a Graduate of the Chartered Institute of Personnel and Development.

Current external appointments
Shelley is director of Operations at NatWest Group plc.

Shareholder-nominated independent non-executive directors

11 Roxana Tataru
Non-executive director

R N

Date of appointment
July 2021

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

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

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

03 Mike Osborne
Non-executive director

A N

Date of appointment
April 2022

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

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

Current external appointments
Mike is a Managing Director at InfraRed Capital Partners since October 2021 and oversees investments including High Speed One and Affinity Water. He is also director on three companies in the Queen Alexandra Hospital Group.

05 Adam Waddington
Non-executive director

N S

Date of appointment
May 2023

Career
Adam is a Managing Director at DIF Capital Partners and head of the Portfolio team. He joined DIF in 2013 and has served as Board member for a number of companies in the social, economic and renewables infrastructure spaces, including offshore and onshore wind, hospitals, roads, housing, and education projects. Adam established the Portfolio team at DIF to provide analytics, performance reporting and valuations across the range of DIF investments. From 2006 to 2013, Adam developed investments in the PPP and regulated sectors at Babcock & Brown and, subsequently, Amber Infrastructure.

Skills and experience
Adam is an experienced infrastructure investment professional with a career spanning investment, asset management and valuation. Adam graduated with a degree in Physics from Imperial College, London and achieved award of the CFA designation in 2003.

Current external appointments
Adam has been a director of DIF Infra 4 Ireland Limited since 2015.

02 Andrew Cox
Non-executive director

R N

Date of appointment
November 2023

Career
Andrew is currently co-head of infrastructure at Allianz Capital Partners and is responsible for all asset management activities for the direct infrastructure and renewables investment portfolios. Before joining Allianz in 2016, Andrew was a Senior Principal Investor and Asset Manager for 3i in its infrastructure team for nearly ten years. Previously, he has worked at Ambac and Schroders.

Skills and experience
Andrew has a wealth of infrastructure investment experience. Andrew has an MA in History from Gonville and Caius College, Cambridge.

Current external appointments
Andrew holds directorships with four Porterbrook Group companies, five Bazelgette group companies, Corn Investment Limited and three RMPA Group companies.

Key

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

Corporate governance report

Our governance framework and division of responsibilities

Governance framework

We pride ourselves on conducting our business in an open and transparent manner. The Board has a clear corporate governance framework comprising matters reserved for the Board and various Board Committees with clear Terms of Reference, all of which may be found on our website.

The Board

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

The Schedule of Matters Reserved for the Board is available on the company's website at: **affinitywater.co.uk/corporate** and members of the Board appear in the directors' biographies on pages 103 to 105.

Board Committees

The Terms of Reference of each Board Committee are available on the company's website at: **affinitywater.co.uk/corporate** and members of the Committee are listed in the various Committee reports.

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

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

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

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

* from June 2024, this Committee transitioned to ESG Committee – see page 136

Chief Executive Officer

Executive Leadership Team ('ELT')

The ELT is established by the CEO to assist with the development and execution of the company's strategy. Individual ELT members are responsible for leading their directorates and ensuring their areas of the business are being run effectively and efficiently. The ELT meets twice per month and is responsible for the day-to-day running of the business.

Roles and responsibilities of the Board

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

Role	Name	Responsibility
Chair	**Ian Tyler**	The Chair leads the Board and is responsible for its overall effectiveness in directing the company. He promotes a culture of openness and debate, facilitating constructive Board relations and the effective contribution of all non-executive directors, and ensures that the Board receives accurate, timely and clear information.
Chief Executive Officer	**Keith Haslett**	The CEO is responsible for the day-to-day running of the company's business and the development and implementation of strategy, decisions made by the Board, and the operational management of the company, supported by the ELT.
Chief Financial Officer	**Martin Roughead**	The CFO is responsible for managing the financial actions of the company. Duties include tracking cash flow, analysing strengths and weaknesses to propose corrective action plans when necessary, and preparing accurate forecasts so that management can make informed decisions about future spending.
Senior independent non-executive director ('SID')	**Trevor Didcock**	The SID is an independent non-executive director, who provides a sounding board for the Chair and serves as an intermediary for the other directors and shareholders where necessary. The SID also leads the annual appraisal and review of the Chair's performance.
Non-executive Director of Employee Engagement	**Chris Newsome**	The non-executive Director of Employee Engagement is responsible for ensuring that the interests of the company's employees are considered by the Board when making significant decisions through an active employee engagement programme.
Non-executive director	**Marissa Dardi** (to 12 May 2023) **Chris Newsome** **Justin Read** **Roxana Tataru** **Adam Waddington** (with effect 12 May 2023) **Andrew Cox** (as alternate director with effect 15 November 2023 until 10 June 2024) **Shelley Malton** (with effect 1 December 2023)	The non-executive directors are responsible for bringing an external perspective, sound judgement and objectivity to the Board's deliberations and decision making, and to support and, constructively, challenge the executive directors using their broad range of experience and expertise.
Group Company Secretary	**Patrick Makoni** (appointed 3 April 2023)	The Group Company Secretary acts as Secretary to the Board and all Board Committees and is responsible for supporting the Chair of the Board in the delivery of the corporate governance agenda.

Board leadership and company purpose

How the Board operates

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

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

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

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

How governance supports strategy

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

The Board held a 'strategy day' in November 2023, where it conducted a detailed review of our strategy (including our purpose and strategic objectives). The Board receives regular updates on the progress of delivering the strategy throughout the year.

Risk management

Our governance arrangements support the development and delivery of strategy, while ensuring the long-term success of our business by maintaining a sound system of risk oversight, management, and an effective suite of internal controls. These are outlined on page 121 in the Audit, Risk and Assurance Committee report.

Purpose, values, and culture

Following the review and re-launch of its purpose and vision by the company earlier this year and set out on page 1, the Board has considered and reaffirmed these two pillars, and supports the company's strategy detailed in its business plan. The Board has satisfied itself that the company's purpose, values and culture are all aligned in preparation for AMP8.

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

Board meeting attendance

The Board and its Committees conduct meetings both in-person and remotely via Microsoft Teams. All directors receive papers for every meeting via Diligent Boards and, in the event a director was unable to attend a meeting, they were given the opportunity to raise any issues outside the meeting.

Independence of the Board

As at 31 March 2024, our Board comprises five independent non-executive directors, including the Chair, four non-executive directors and two executive directors.

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

Board tenure as at 31 March 2024

Corporate governance report continued

In line with Ofwat's BLTG principles, independent non-executive directors are also in a majority on all Board Committees.

External directorships and time commitment

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

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

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

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

Each director's biographical details, independence, and significant time commitments outside of the company are set out in the directors' biographies on pages 103 to 105.

Conflicts of interest

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

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

Board balance

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

The composition of the Board as at 31 March 2024 is illustrated on page 102.

Board appointments

Appointments to our Board are made on the recommendation of the Nomination Committee with due consideration given to the benefits of diversity in its widest sense, including gender, social and ethnic backgrounds, and personal strengths. The Nomination Committee report, on pages 126 to 131, provides further information on Board composition, appointments, induction, training, succession planning and diversity.

Member	Board meeting
Company Chair	
Ian Tyler	10 10
Independent non-executive directors	
Trevor Didcock	10 10
Chris Newsome	10 10
Shelley Malton	3 4
Justin Read	10 10
Non-executive directors	
Mike Osborne	10 10
Andrew Cox	5 5
Roxana Tataru	6 6
Adam Waddington	10 10
Marissa Dardi	0 0
Executive directors	
Keith Haslett	10 10
Martin Roughead	10 10

Marissa Dardi – Resigned on 12 May 2023

KEY
Meetings attended Meetings during tenure

Board leadership and company purpose continued

Board skills and attributes

Our directors' biographies on pages 103 to 105 highlight their experience and the chart below provides an overview of the current Board skills and attributes.

		Ian Tyler	Trevor Didcock	Chris Newsome	Shelley Malton	Justin Read	Mike Osborne	Roxana Tataru	Andrew Cox	Keith Haslett	Martin Roughead	Adam Waddington
Industry	Utility industry/Network experience	●	●	■	▲	▲	■	●	■	■	■	●
	Relationships with Regulators	●	▲	■	●	▲	●	●	●	■	■	●
Corporate Governance	UK Corporate Governance	■	●	■	●	■	●	▲	●	●	●	●
Strategy	Strategy development and implementation	■	■	■	●	■	▲	▲	●	■	■	●
Finance	Financial planning and analysis	■	●	●	▲	■	●	●	●	●	■	●
	Capital structuring/Treasury	●	▲	▲	▲	■	■	■	■	▲	■	■
	Financial reporting and controls	■	●	■	▲	■	▲	●	●	■	■	●
Risk	Corporate risk management	●	●	●	▲	■	●	●	●	■	■	●
	Health, Safety, Environment and Quality ('HSEQ')	●	●	■	▲	▲	▲	▲	●	■	▲	●
Customer	Customer insight and engagement	▲	●	▲	■	▲	▲	▲	▲	●	▲	▲
IT	Information systems	▲	■	●	●	●	▲	▲	▲	●	▲	▲
	Data analytics	▲	■	●	●	▲	▲	▲	▲	●	●	●
Assets	Programme management	●	■	■	●	▲	▲	▲	▲	■	▲	▲
	Engineering and design	▲	▲	■	▲	▲	▲	▲	▲	■	▲	▲
	Systems and resilience	▲	●	●	●	▲	▲	▲	▲	■	▲	▲
ESG	Environmental/sustainability	▲	▲	■	▲	▲	▲	▲	●	■	▲	●
	Social value	▲	▲	●	▲	▲	●	●	▲	▲	▲	▲
People	People management	●	■	■	■	●	▲	▲	●	■	■	●
	Executive remuneration	■	●	■	●	■	■	●	■	●	●	●
Change	Culture change	●	■	■	■	●	▲	▲	▲	■	●	▲
	Transformation and turnaround	●	■	■	■	●	●	●	●	■	●	▲

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

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

▲ **Background experience only**

Evaluating our Board

The Board undertakes a review of its effectiveness annually. An internal assessment questionnaire was designed for 2023/24 to assist in assessing the effectiveness of the Board as is good governance practice. The questions assessed the performance of the Board, focusing on themes around meetings management, Board and Committee membership, Board structure, directors' compensation, Board culture and ethics, Board roles and responsibilities, relationship with management and corporate governance arrangements. Individual one-to-one review meetings were held between the Chair and each independent non-executive director ('iNED') as well as conducting an online assessment of the Chair performance. A discussion of the results of the internal effectiveness reviews was undertaken at the Board meeting held in May 2024.

Three-year Board evaluation cycle

2021/22 External Review of Board and Committees > **2022/23** Internal Review of Board and Committees > **2023/24** Internal Review of Board and Committees > **2024/25** Anticipated External Review of Board and Committees

Response to feedback

The Board discussed its feedback and next steps, and, where there was a decision that more focus was required, formulated an action plan as listed below.

2022/23 evaluation findings

Area requiring focus	Action plan
PR24	The Chair and Group Company Secretary ensured that there was additional time added to the PR24 slot at each Board meeting to allow the Board to fully consider and discuss the company's AMP8 Business Plan
Monthly CEO and CFO reporting	The CEO and current CFO are reviewing and refining the data packs that are presented to Board each month.
Risk management	With the new FRC requirements coming into force, both the Audit, Risk and Assurance Committee and the Board have risk management deep dives built into the forward plans.
Paper focus	In response to the feedback that papers could be simpler and more focused on key issues for Board discussion, the Group Company Secretary has prepared and launched a new paper template, which seeks to unify formatting and ensure each paper is concise, relevant and focused on key issues.
Diversity	The Board is committed to being as diverse as possible and diversity is a core consideration of the ongoing Chair and CFO recruitment process. The engaged executive search firms are both signatories to the Voluntary Code of Conduct for Executive Search Firms.
New Chair onboarding	A bespoke onboarding programme is under development by the CEO, SID and Group Company Secretary to ensure that the new Chair is successfully embedded into the business and that the transition between chairmanships is as efficient and smooth as possible.

Board leadership and company purpose continued

Update on 2022/23 outcomes

Area	Issues addressed
Board diversity, succession planning and leadership development	Appointed Shelley Malton as a new independent non-executive taking steps to continue to improve the Board gender diversity.
Contingency planning	Reviewed existing contingency plans in place to reduce business risk, quicken disaster recovery, and to ensure the smooth execution of business processes.
Over ambitious agendas	The Chair and Group Company Secretary conducted a review of the time allocated to agenda items and each meeting overall, and extended existing meetings to ensure that there is sufficient time to discuss Board matters.
Board training and education	The Chair and Group Company Secretary conducted a review of the Board training programme and an analysis of the Board skills matrix to progress a revised programme of training sessions on key issues. This will be further reviewed with the new Chair when appointed.
Board size	Appointed a new independent non-executive director and comfortable that the size of our Board complies with the guidance set out in Ofwat's BLTG principles and the UK Corporate Governance Code.
Independent non-executive director only meetings	The Chair and Group Company Secretary agreed to add private formal/informal sessions for iNEDs as and when requested or required.
Culture	The Board approved a revised EDI Commitment that dovetails the values and behaviours of the Board with those expected of the company and its employees to produce an aligned culture, and a tone from the top.

Corporate governance report continued

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

Area	What was reviewed and considered?
Strategy	• Reviewed the energy efficiency and property strategies • Reviewed and monitored the company's business strategy • Approved the company's AMP7 Investment Plan and continuous transformation programme • Approved sustainability plans to protect chalk streams within our supply area
Finance	• Approved the Annual Report and Financial Statements for the financial year ended 31 March 2024 • Reviewed and approved an updated dividend policy • Approved the company's budget for the financial year and ten-year base case cash flow forecast • Provided oversight and approval of related financial policies, ensuring compliance with the company's Instrument of Appointment • Additional governance scrutiny provided by the Audit, Risk and Assurance Committee
People	• Reviewed ELT pensions for alignment with all employees • Approved the company's EDI Strategy, which launched in October 2023 • Approved the company's policy on Modern Slavery and Human Trafficking • Approved the 2024/25 workforce pay settlement
Governance	• Undertook an internal Board Effectiveness Review led by the Chair • Considered the Board and Board Committee evaluation reviews • Undertook a review of stakeholder engagement and the strength of each relationship
PR24	• Reviewed and approved the PR24 business plan for submission to Ofwat • Reviewed financial assumptions for the business plan narrative • Reviewed and approved the Water Resources Management Plan

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

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

Board's input into PR24 consultations

The Board has been fully engaged throughout PR24 over the last two years, providing strategic oversight and ownership of the company's plan to ensure that we can deliver the necessary environmental, performance and resilience improvements, while meeting our customers' expectations for affordability and value for money. The Board had a presence at the two AWL's 'Your Water, Your Say' consultations that were held over the past year in relation to PR24 preparations. Affinity Water submitted its PR24 Business Plan to Ofwat in September 2023.

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

Board leadership and company purpose continued

Corporate Governance Statement

The company is committed to high standards of corporate governance and transparency, believing these to be essential in delivering the long-term success of our business. The Board governs the company in accordance with the UK Corporate Governance Code 2018 (the 'Code') as well as the Ofwat Board Leadership, Transparency and Governance Principles 2019 ('BLTG Principles') and the Affinity Water Corporate Governance Code ('AW Code'). We confirm that we have complied with the provisions of the Code with the exception of:

- Division of Responsibilities: Provision 11 of the Code states at least half the board, excluding the chair, should be non-executive directors whom the board considers to be independent. Excluding the Chair, the Board comprises of four independent non-executive directors, four shareholder-nominated non-executive directors (noting that from 1 December 2023 until 10 June 2024 Andrew Cox was appointed alternate director for Roxana Tataru for the period of her maternity leave) and two executive directors. By virtue of Andrew joining the Board on a temporary basis, and the two executive directors, our CEO and CFO, are ex-officio Board members and, therefore, excluded for the purposes of Provision 11, we have carried out our own annual independence assessment and consider the Board to be independent.
- Composition of ARAC and Remuneration Committee, each of which comprise a majority of independent non-executive directors in addition to a shareholder-nominated independent director.

Engagement with our stakeholder groups

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

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

Regulator engagement

Ofwat

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

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

Purpose, values, and culture

Affinity Water objective:

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

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

Stand-alone regulated company

Affinity Water objective:

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

- Reviewing the independence of our non-executive directors
- Reviewing the division of responsibilities between our Chair and CEO
- Introducing a framework for engaging with our shareholders

Board leadership and transparency

Affinity Water objective:

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

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

Board structure and effectiveness

Affinity Water objective:

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

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

Stakeholder engagement

The Board's direct engagement with stakeholders.

Partnerships

We continue to work with local environment groups and charities including the Chiltern Chalk Stream project, River Chess Association and Ver Valley Society to help protect local chalk streams. In 2023, we also strengthened our partnerships with other environmental NGOs including Surrey Wildlife Trust. We are building on common objectives and sharing messages together to raise awareness with the local community about how they can protect nature by saving water at home. These connections provide valuable local knowledge and context, creating opportunities to combine funding and resources to deliver better value and outcomes in a more holistic way.

We are supporting the core activities of

3

Wildlife Trusts (Herts, Essex and Surrey) in our supply area

117

primary schools signed up with our new Water Smart programme

Engagement with our local communities

Serving and engaging meaningfully with our communities is key to improving our performance and creating greater understanding and value around water. Many of our people live and work in our supply areas and we're proud to provide four volunteering days each year known as 'Affinity Days' so that our staff can support causes closest to them. In 2023/2024, we registered approximately 139 Affinity Days. We continue to support charities in our local communities, for example, through our investment with the Hertfordshire Community Foundation we are able to provide annual grants to support local community projects and voluntary groups. In 2024, we have chosen to support The Red Shed project in Stevenage. The project provides horticultural therapy for people living with dementia and their carers.

To highlight the importance of water-saving and how it can help to protect the environment, we have developed our Save Our Streams Education program with educational specialists to target KS2 students. As part of this programme, we invited 500 schools in our local supply area to download these free educational materials and to use them in assemblies and lessons.

Recently, we engaged with a school in London as part of their STEM day, to highlight STEM subjects and possible career paths i.e. apprenticeships and graduate programmes. We recognise the importance of reducing the future skills gap and want to inspire a new generation to consider STEM education and learn about how this can be applied to the water industry.

Political engagement

We regularly engage with MPs, Councillors and Local Authorities within our supply area to share information on improvements or changes that may impact the communities they serve. Similarly, we engage with government departments and Parliamentarians to keep them updated on our operations and strategic priorities. Our monthly water resource update provides an overview of groundwater and rainfall levels, increasing awareness of water and the natural cycles upon which we are all reliant. We also provide advance notice of our large capital work projects.

Our supply area includes both rural and dense urban communities, which have diverse needs and sometimes conflicting priorities. We play a key role in providing high-quality drinking water, while taking care of the environment now and in the future. To do that effectively, we are committed to working with local authorities on managing the demand for water – responding to 292 planning applications in 2023.

Keeping stakeholders informed with the latest information, listening and acting on what matters most to them is fundamental to getting support for, and successfully delivering, our plans. As part of the development of our Business Plan 2025–2030, we invited approx. 2,000 stakeholders to join our online 'Your Water, Your Say' events.

Corporate governance report continued

Board leadership and company purpose continued

Speaking with our shareholders

Affinity Water is owned by a consortium of private investors. Our Group structure, ownership and financing are outlined from page 156 onwards.

Each of our private investors are represented on our Board. Roxana Tataru is the shareholder-nominated non-executive director representing Allianz Capital Partners with Andrew Cox acting as alternate director during Roxana's maternity leave; Mike Osborne represents InfraRed Capital Partners; and Adam Waddington represents DIF Capital Partners.

To ensure that the Board remains fully focused on the activities of the company, and the interests of all its stakeholders, the Board has an established process for engaging with its shareholders and for their views to be represented in Board discussions without compromising the independent judgement, leadership, and governance of the Board.

While our Board considers the views of our shareholders in its deliberations, it acts independently and in the best interests of the company. Affinity Water values the expertise that can be brought into consideration through the experience and expertise shareholders bring to these decisions.

A limited number of matters require shareholder consultation before decisions can be made. These are, largely, similar to the matters Affinity Water's senior financiers have control rights over and are set out in the governance framework document 'Engaging with our shareholders' at: **affinitywater.co.uk/governance-assurance**, available on the governance pages of our website.

During 2023/24, the Board consulted with its shareholders on the following issues, which are all detailed in this report:

- Engaged directly in setting and approving budgets for 2024/25
- Appointment of Shelley Malton as independent non-executive director
- Recruitment of a new Chair
- Recruitment of a new CFO
- Conducted an internal effectiveness review, including responses from shareholder-appointed non-executive directors

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

Listening to our employees

We have an experienced, diverse, and dedicated workforce, which is recognised as a key asset of our business. Our employees operate across a number of sites. In order to reach all our employees (including individuals engaged under contracts of service, agency workers and remote workers), the Board uses a combination of formal and informal engagement methods, which are detailed in the Section 172(1) statement on page 72 onwards of this Annual Report.

Our non-executive Director of Employee Engagement, Chris Newsome, has attended various events and activities during the year, such as the Technology and Transformation 'All Hands' event, the Hatfield call centre to experience customer interaction and the Connect with Asset Day, to maintain engagement with employees and ensure open communication channels.

Chris also oversees our employee engagement programme, which encourages our employees to stay engaged and connected with the company via a multitude of mediums.

- 30 mental health first aiders appointed to support the health and wellbeing of our employees
- 12 meetings/forums held over the year
- 20 wellbeing webinars held

Workforce policies and procedures

The Board and ELT review and approve all key workforce policies and practices. Our policies are published on the company's document management system, Athena, and are easily accessible to our employees.

Our company induction process covers training on key policies for new employees, and we communicate any subsequent changes that take place. An online employee handbook was developed and launched in 2023 on the company intranet to signpost all the policies and practices that underpin AWL employment as well as expected conduct and behaviours.

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

The Board respects the right of its employees to be members of trade unions. Our CFO and Director of People and Culture meet with employee trade unions at quarterly meetings of the Joint Negotiation and Consultative Committee to consult on workforce policies and practices.

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

Employee engagement process

The Board

Non-executive Director of Employee Engagement
Chris Newsome

Employee engagement approach

Board listening channels	What this channel brings
Virtual focus groups	• Gives qualitative feedback on important issues • Crowdsource solutions to problems raised in employee surveys to develop shared action plans
All employee surveys	• Candidate new joiner and leaver surveys – for insight at key moments of the employee lifecycle • We use an online employee listening platform (Peakon) that sends out surveys on a quarterly basis. Employees respond to a selection of questions on engagement, values, diversity and inclusion, health and wellbeing, and health and safety. As well as scoring the company against a range of statements. Employees can provide anonymous comments. Sensitive comments are flagged and can be responded to on the platform (including inviting the employee to a conversation if they wish). The platform enables us to target questions at new joiners about their recruitment and onboarding experience. It is also possible to analyse results and comments for those who were within six months or a year of leaving the business
Blogs and written comms	• Provides discussions and polls for quick responses • Provides a company network analysis to help identify connections and silos • Serves as an ideation platform to take ideas and suggestions into further detail
Luminate – whistleblowing initiative	• An independent and confidential reporting service available 24 hours a day, 365 days a year • Supports employees to 'shine a light' on issues or concerns that might be incompatible with the standards and values we set ourselves • Protects the whistleblowing employee. Under the provisions of our Whistleblowing Policy, we will not tolerate any form of retaliation or discrimination against those who raise concerns in good faith and will investigate such incidents, taking disciplinary action against those responsible where it is appropriate to do so.

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

As a highly regulated business, the Board is cognisant of human rights issues and upholds a zero-tolerance approach to modern slavery and human trafficking across our business and supply chain. The Board approves both the Policy and annual statement on Modern Slavery and Human Trafficking which can be found on our website **affinitywater.co.uk/corporate/suppliers/policies**.

These documents are adhered to by our employees and suppliers who provide support for major capital programme delivery, operational support, as well as services and supplies. Our procurement team monitor compliance with the Policy in our supply chain and report any breaches to our CFO, who then brings these to the attention of the Board as a whole.

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

By order of the Board

Patrick Makoni
Group Company Secretary

8 July 2024

Audit, Risk and Assurance Committee report

Justin Read
Audit, Risk and Assurance Committee Chair

Committee members

Chris Newsome

Mike Osborne

Member	Meeting attendance
Justin Read Chair	4 / 4
Chris Newsome Committee member	4 / 4
Mike Osborne Committee member	4 / 4

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

Key
Meetings attended
Possible meetings

Dear Stakeholder

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

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

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

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

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

The Committee is further satisfied that the 2023/24 Annual Report and Financial Statements, taken as a whole, provide:

i. a fair, balanced, and understandable assessment of the company's position; and
ii. the information necessary for shareholders to assess the company's performance, business model and strategy.

The Audit, Risk and Assurance Committee is key to ensuring that the organisation has robust and effective processes relating to financial reporting, internal controls, and risk management. The Committee is also the main oversight body for the internal and external Auditor. The Committee is central to the company's governance structure and ensures the interests of customers, shareholders and other stakeholders are protected, and that responsible business practices are adhered to. The Committee's Terms of Reference (see **affinitywater.co.uk/governance-assurance**) are structured to ensure it achieves compliance with governance best practice, and are reviewed, annually, to ensure the effectiveness of the Committee.

Terms of Reference at a glance

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

While Committee members attend Committee meetings, other individuals such as the CEO and CFO, Board Chair, Heads of Internal Audit, Risk, Insurance and Ethics and Compliance, the Group Financial Controller and the external Auditors may be invited to attend as appropriate.

The Group Company Secretary or their nominee attends every meeting.

Audit, Risk and Assurance Committee meetings are scheduled to occur at least three times during the year.

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

Responsibilities of the Committee

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

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

The significant matters considered by the Committee in relation to the 2023/24 financial statements were consistent with those identified by the external Auditor in its report on pages 170 to 177. The Committee has an extensive agenda of business, which it deals with in conjunction with senior management, the external Auditor, and the Internal Audit function. During the year, the Committee met four times. As part of these meetings, the Committee met with internal and external Auditors without management being present.

The table below presents a summary of business considered during 2023/24.

External Auditors	• Recommended to the Board the reappointment of PwC as external Auditors following a re-tendering process during 2023/24 • Reviewed and agreed the scope of the audit work to be undertaken by the external Auditor • Agreed the fees to be paid to PwC for its review of the September 2023 half-year report and its audit of the March 2024 Financial Statements • Assessed the qualification, expertise, resources and independence of PwC and the effectiveness of the external audit process. This included consideration of a report on PwC's quality control procedures and its annual independence letter • Agreed that the non-audit services provided to the company did not impact PwC's independence

Internal audit	• Agreed a programme of work for the Internal Audit function • Reviewed reports from the Head of Internal Audit on the work undertaken by Internal Audit, as well as management responses to proposals made in audits issued by the function during the year • Monitored and reviewed the effectiveness of the Internal Audit function • Received an External Quality Assessment ('EQA') report in respect of the Internal Audit function, setting out an evaluation of conformance with the International Professional Practices Framework ('IPPF'), and the Internal Audit Code of Practice. Additionally, an evaluation of the current maturity of the Internal Audit function was carried out • Agreed with the Head of Internal Audit a programme of improvement actions arising from the above and monitored implementation of these
Financial and other reporting	• Reviewed the September 2023 half-year financial results and the March 2024 Annual Report and Financial Statements • Reviewed the March 2024 regulatory Annual Performance Report to ensure that the information met Ofwat's AMP7 reporting requirements • Advised the Board on whether the Annual Report and Financial Statements, taken as a whole, were fair, balanced, and understandable, and provided the information necessary for shareholders to assess the company's position and performance, business model and strategy • Reviewed the assessment of the company's long-term prospects, viability statement and stress test scenarios, including the impact of economic changes on the company's results and forecasts and the impact on going concern assumptions • Challenged the company's internal capitalisation policy, which was updated and approved including a change in accounting policy relating to developer services activity
General	• Reviewed and updated its Terms of Reference • Reviewed and provided advice to the Board on the effectiveness and adequacy of the company's risk management and internal control systems. It was noted that, while overall position is positive, areas of improvement remain, which are in hand • Reviewed compliance certificates required under the company's debt facilities • Received presentations across the year on: – Tax matters and risks; – The company's insurance programme, renewal and increasing premiums; – 2023/24 tariffs and charging scheme, including governance around this process, and charging arrangements for new connections services; – Non-financial regulatory reporting management plan and requirements for 2023/24; – The continuation of the company's contract with its Reporter, an external assurance provider who provides assurance on engineering and technical data; – A review of the Whole Business Securitisation Compliance Certificates; – An update on the progress of the Resilience Action Plan; – Gifts and hospitality activity; – Governance arrangements for compliance work carried out by the Opportunity and Oversight Committee, an internal working group overseeing compliance with competition law; – The company's whistleblowing arrangements and any associated investigations that are required. All significant whistleblowing matters are subsequently reported to the Board via updates from the Committee; – The status of the company's information security by reference to the ISO27001 standard; – Compliance with Security and Emergency Measures Direction 1998; – Updates on the Department for Business and Trade Reform proposals on 'Restoring trust in audit and corporate governance' and the impact on the company; – The requirements of Task Force on Climate-related Financial Disclosures ('TCFD') and EU taxonomy alignment assurance; – A review on the Environmental, Social and Governance ('ESG') reporting disclosure; and – A review of security control environment and cyber security policy. • Approved the company's non-audit fee policy

Audit, Risk and Assurance Committee report continued

Fair, balanced, and understandable

The Committee reviewed the 2023/24 Annual Report and Financial Statements to ensure that they are fair, balanced and understandable and provide sufficient information to enable stakeholders to assess the company's position, performance, business model and strategy.

Whistleblowing

The Committee continues to receive updates on whistleblowing incidents reported during the year. The number of reports made across the year are maintained from the previous year. This equates to 0.8 reports per 100 employees and keeps the company above the latest UK reporting volume benchmark of 0.5 reports per 100 employees*.

It is a positive indication that our whistleblowing tools are continuing to be used at the levels we saw when Luminate was first introduced in 2022. It is encouraging to see both employees and members of the public are prepared to raise concerns, with the confidence that the company will support them for doing the right thing.

All whistleblowing reports were treated in the strictest confidence and were handled in accordance with the company's Whistleblowing Policy. If, and when, it was appropriate to do so, specific matters were submitted to the Chair of the Audit, Risk and Assurance Committee to ensure senior, independent consideration and review, while a more general whistleblowing update was included within the Ethics and Compliance report and presented at each Committee meeting. The Ethics and Compliance team have led investigations into the issues and concerns raised in the last year and continue to draw recommendations and help to implement operational and policy improvements in response to the investigation findings.

* Navex Regional Whistleblowing Hotline Benchmark Report 2023

Risk management and internal control

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

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

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

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

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

- a comprehensive suite of internal control procedures across both operational and financial matters, supported by segregation of duty matrices and detailed delegated levels of authority;
- an Internal Audit function, the head of which reports to the Audit, Risk and Assurance Committee, together with other internal control and assurance resources, which monitor compliance with laws, regulations, policies, and procedures;
- the setting and monitoring of annual budgets at a detailed level supported by a five-year forecast;
- major project planning activities, balancing limited resources and required timescales; and identifying, assessing and mitigating individual programme and project risks; and
- the use of appropriate external assurance review, both financial and operational.

We have an established framework for identifying, evaluating and managing the principal and emerging risks the company faces, including those that would threaten its business model, future performance, solvency or liquidity, and we regularly review these. This framework has been in place for the year under review and up to the date of approval of this Annual Report and Financial Statements. Refer to page 80 of the Strategic report for further information.

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

Assurance is achieved as follows:

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

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

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

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

External assurance

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

Compliance

Our Legal Obligations Register, which focuses on the company's key legal and regulatory obligations as set out by the Water Industry Act, Our Licence Conditions and the Utilities Contracts Regulations, continues to provide our Board with assurance the company is in compliance with its key obligations.

The register requires responsible directors and other senior staff to consider and confirm compliance with each of the key legal obligations. If, and where, total compliance is not achieved, users are required to set out mitigation and, where applicable, a remediation plan to address any non-compliance.

This will continue to provide greater assurance, transparency and visibility into our core operations and compliance with the key obligations.

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

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

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

We discussed the critical accounting judgements and key sources of estimation for the relevant aspects of the financial statements and concluded, based on the information available, that the estimates, judgements, and assumptions used were reasonable and that they had been used appropriately in applying the company's accounting policies. The company's viability statement, including information on the company's approach to preparing it, can be found on page 90.

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

Issue	How the issue was addressed by the Committee
Revenue recognition	The Committee reviewed the methodology for the recognition of revenue, specifically the accuracy of the measured income accrual, and concluded that the approach and conclusions reached were appropriate.
Policy for the loss allowance of trade receivables	The Committee reviewed the policy for providing for the impairment of trade receivables, including considering any significant economic changes that may impact its credit loss model and future credit losses, as well as looking ahead regarding the increased cost of living currently impacting our customers, and concluded that the approach taken was appropriate.
Capitalisation policy	The Committee reviewed the processes and policies to distinguish between maintenance and enhancement costs, and it was concluded that these would result in cost capitalisation in line with the company's updated policy and applicable accounting standards.
Defined benefit pension assumptions	The Committee reviewed the key assumptions used in calculating the defined benefit pension surplus.
Adoption of the going concern basis in the financial statements	The Committee reviewed the assumptions underpinning the directors' decision to continue to adopt the going concern basis in the financial statements, including the expectation that loan covenants would continue to be met for a period of not less than 12 months from the date of signing the financial statements. The Committee reviewed actual and budgeted financial results, forward-looking forecasts including the severe but plausible downside scenarios, the company's ability to generate future positive operative cash flows, and the company's access to financing arrangements.
Viability statement	The Committee considered and provided input into the determination of which of the company's principal risks, and combinations thereof, might have an impact on the company's financial viability, and reviewed the results of management's stress testing of the company's base cash flow forecasts.
Grants and contributions	The Committee reviewed and identified the performance obligation for each type of contribution as it impacts how revenue is recognised.
Swap transactions and DVA valuation	The Committee monitored the process surrounding independent valuations of the derivatives held to support the fair value adjustment and associated financial statement disclosures.

We challenged management on the following areas:

Area of challenge	Outcome of this challenge
Internal audit effectiveness review	In line with Institute of Internal Auditors guidelines, we commissioned an external quality review and benchmarking exercise in respect of our Internal Audit function. The overall conclusions from the review were generally satisfactory but there were some areas where improvements were deemed necessary. The Head of Internal Audit has compiled a list of actions to deliver the necessary improvements, and these were all completed by December 2023.
Key risks were reviewed in detail for customer delivery and asset strategy and capital delivery and challenged as part of deep dive exercises	The Committee satisfied itself that key risks had been adequately identified, assessed and mitigated in those areas.
Scope of the internal audit plan for 2023/24 and proposed review areas including an increased focus on environmental areas, business processes that are particularly important in delivering the company's strategic outcomes and priorities, and AMP7 performance commitments; and the resourcing available to deliver on the plan	New areas were proposed and discussed, with updates provided to the Committee throughout the year. The Committee endorsed the internal audit plan.
The company capitalisation policy and processes	An updated internal capitalisation policy was presented to the Committee and shared with employees across the business, resulting in the policy being clarified and expanded upon, with relevant procedures updated. The specific accounting policy relating to developer services activity, including contributions received and associated costs, was changed during the year following approval by the Committee.
The narrative reporting requirements for 2023/24 and the FRC's annual review of corporate reporting	A reporting disclosure checklist was created and reviewed by the finance team and presented to the Committee with references to where disclosures are made in this set of financial statements.
Prior year audit control findings	The status of prior year audit control findings was revisited during the course of the year, and although steps were introduced by management to address the findings, many have been included as control findings by PwC again this year. Further action is required by management to ensure that all control findings have been satisfactorily addressed during 2024/25.

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

Area of challenge	Outcome of this challenge
• **Accuracy of the measured income accrual** • **Adequacy of the loss allowance of trade receivables** • **Going concern basis, including viability statement** • **Assessment of cost capitalisation** • **Assessment of pension assumptions**	No material issues were noted during the interim review or year-end audit. See the audit opinion on page 170 onwards for more details.

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

External audit

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

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

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

A key factor that may impair PwC's independence is the value of non-audit services provided by them. The company has a policy for the provision of non-audit services, under which all proposals for such work are subject to pre-approved limits. Any non-audit service that exceeds these thresholds requires approval from the Audit, Risk and Assurance Committee. Auditors remuneration was £805,000 in the year to 31 March 2024 (2023: £550,000) and included services relating to the audit of the financial statements and other non-statutory audit-related assurance services. The Committee has reviewed the scope of the non-statutory audit services work and is satisfied that PwC were best placed to provide the services. See note 2.3 on page 191 for a breakdown of fees in the current and prior year. We also incurred expenditure of £136,400 with PwC (2023: £1,400) on other non-audit services in the current year relating to PR24 services and access to technical materials.

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

During the year, PwC was engaged to provide risk assurance procedures in respect of the company's PR24 submissions and agreed upon procedures as part of the company's regulatory compliance and annual reporting to Thames Water Utilities Limited and Anglian Water Services Limited. None of the procedures performed were advisory in nature.

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

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

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

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

Based on this review, the Committee recommended to the Board that PwC be reappointed for the year ending 31 March 2025. Note 2.3 to the financial statements includes disclosure of the Auditor's remuneration for the year, including an analysis of audit services, audit-related services and other non-audit services under those headings prescribed by law.

Audit tender

During the year, the Committee's work included leading an audit tender. PwC were originally appointed after a competitive tender process for the 31 March 2014 audit. At the time of appointment, the company stated that it would operate a ten-year audit tender process, and rotate auditors after 20 years at most, in alignment with the regulatory framework for statutory audit. A tender was, therefore, undertaken to appoint external Auditors for the final year of AMP7. Following a robust and competitive tender process, the Committee proposed to the Board that PwC be reappointed.

As a result of their reappointment, PwC can remain as Auditor until the completion of the 31 March 2033 audit. The audit engagement partner rotates at least every five years, with the 2023/24 audit being the third year for Simon Bailey in the role as senior statutory audit partner. On the next partner rotation, it is expected that the Committee will assess the need and timing of the next audit tender.

Audit tender process

The audit tender process complied with requirements of the Companies Act 2006, and was led by the Committee Chair, supported throughout by the Committee and Affinity Water management. Each firm participating in the tender process was invited to meet with Committee members, the Chair, and executive management in order to inform their overall offering. The candidate firms submitted written proposals and were invited to present to a panel consisting of members of the Committee and senior management from Affinity Water. After full evaluation of both written proposals and presentations, the Committee recommended that the Board reappoint PwC as its auditor for the year ending 31 March 2025.

The company adopts the same approach to audit tendering as a listed company in the UK, ensuring the company's compliance with the UK Corporate Governance Code and the reforms of the audit market by the UK Competition and Markets Authority. In alignment with the EU regulatory framework for statutory audit, the company operates a ten-year tender process for its auditor, however, the Committee reserves the right to recommend that the company puts the audit out to tender at any time, based on the results of the assessments of auditor independence and audit quality.

Internal Audit

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

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

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

During 2023/24, amongst others, planned audits were carried out in the following particularly important areas:

- Development Experience
- Seasonal Readiness Planning
- Payroll
- Abstraction Licences Compliance
- Competent Operator Scheme

As a result of the external quality assessment previously referred to, some of the main improvements implemented by the Internal Audit function were as follows:

- A formal quality assurance and improvement programme, including obtaining post-audit feedback from audit stakeholders
- Annual audit planning process now includes formal assessments of knowledge required of auditors to effectively carry out individual assignments
- Increased use of data analytics by the team where this approach assists in achieving audit objectives
- General improvement in the quality of audit working papers and formal management review of those working papers

The Head of Internal Audit presented the results of a gap analysis comparing current internal audit governance, management and delivery against new global internal audit standards published in January 2024 by the Institute of Internal Auditors. The Committee has approved a set of improvement actions designed to ensure compliance with the new standards by January 2025.

Plans and objectives for 2024/25

During 2024/25, the Committee plans to achieve the following:

- Focus on systemic risks that create vulnerabilities in many parts of the organisation simultaneously and ensure risk assessment and risk management efforts provide the Board with clear oversight of such risks;
- Ensure that governance, risk management and control efforts are appropriately coupled to strategic risks;
- Review the action plans and timetable for the 2024/25 statutory and regulatory financial statements, including going concern, viability, narrative disclosures and evolving regulatory reporting requirements following PR24 Business Plan submissions;
- Check that the company's risk appetite is up to date to provide clarity in rapid strategic decision making;
- Monitor progress made against the 2024/25 internal audit plan;
- Ensure the internal audit function spends as much time as necessary on emerging strategic and systemic risk areas; and
- Review the implementation of new corporate governance requirements following publication of the UK Corporate Governance Code in January 2024.

FRC engagement

The Committee has not had any interaction with the FRC's Corporate Reporting Review team during the year; however, it has reviewed the FRC guidance on corporate reporting. The company's audit has not been reviewed by the FRC's Audit Quality Review team during 2023/24.

Overview

As a result of the Committee's work during the year, we concluded that we acted in accordance with our Terms of Reference maintained an effective internal control environment and ensured the independence and objectivity of PwC. I will be available at the AGM to answer any questions about the activities of the Committee.

Approval

On behalf of the Audit, Risk and Assurance Committee.

Justin Read
Chair of the Audit, Risk and Assurance Committee

8 July 2024

Nomination Committee report

Ian Tyler
Nomination Committee Chair

Committee members


Roxana Tataru


Justin Read


Mike Osborne


Trevor Didcock


Chris Newsome


Adam Waddington


Shelley Malton


Andrew Cox

Member	Member since[1]	Meeting attendance
Ian Tyler Chair		4 / 5
Roxana Tataru Committee member		2 / 2
Justin Read Committee member		3 / 5
Mike Osborne Committee member		5 / 5
Trevor Didcock Committee member		5 / 5
Chris Newsome Committee member		5 / 5
Adam Waddington Committee member	12/05/2023	5 / 5
Andrew Cox Committee member	15/11/23–10/06/2024 as alternate	1 / 1
Shelley Malton Committee member	01/12/2023	1 / 1
Marissa Dardi Committee member	Resigned 12/05/2023	0 / 0

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

1 if after 1 April 2024

Key

Meetings attended Possible meetings

Dear Stakeholder,

I am pleased to introduce this year's Nomination Committee report, which details the valuable work of this Committee, recent recruitment activities, the training and development of the Board as well as our continued commitment to equality, diversity and inclusion during the year ended 31 March 2024.

The Nomination Committee includes all non-executive directors of the Board. Since 31 March 2023, the Board, and subsequently this Committee, saw some membership changes. As previously reported in last year's Annual Report and Accounts, Adam Waddington joined the Board in May 2023 as non-executive director representing our shareholder, DIF Capital Partners. Roxana Tataru appointed Andrew Cox as her alternate director to represent our shareholder Allianz Capital Partners from November 2023 when she commenced maternity leave. Roxana returned to the Board in June 2024 and Andrew stepped down as alternate director during the same month.

Succession planning remains at the forefront of our agenda and, as such, the Committee approved the search for an independent non-executive director, to replace Trevor Didcock, who will have served as a director on the Board for nine years in November 2024. The Committee concluded this search with the support of executive search consultants Longwater Partners Limited, and we welcomed Shelley Malton to the Board in December 2023. Most recently, the Committee appointed Korn Ferry to assist with the executive search for my replacement as Chair of the Board. This search is ongoing but will be concluded in the next couple of months well before the end of this year when I will step down. The Committee also appointed Odgers Berndtson to assist with the current executive search for a new CFO to replace Martin Roughead who will be stepping down this Autumn.

In light of the recent new members joining the Board, the Nomination Committee has overseen the preparation and delivery of a revised training and induction programme, which has been successfully rolled out to Shelley, Andrew and Adam during December 2023 and February 2024. Further details can be found on page 130. The Committee has also spent time during the year reviewing the existing training and development programme to ensure that directors have adequate training tools available to fulfil their role.

During the year, the Committee has overseen the recruitment process of senior management executives. Emma Davies was appointed as Director of People and Culture and Dean Garvey-North joined us in December 2023 as our new Director of Technology and Transformation.

One of the other key focus areas for the Committee this year remains the company's performance and progression within the equality, diversity and inclusion arena. We have set out our EDI activities and more information on our new EDI Strategy that was launched at the end of 2023 on page 131.

I feel confident that the Nomination Committee is well-placed to continue their valued work and wish to take the opportunity to thank my fellow Committee members for their continued support and co-operation during my time as Committee Chair.

Ian Tyler
Nomination Committee Chair

8 July 2024

Terms of Reference at a glance

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

Main responsibilities

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

Code requirements	The Committee's activities in the year
Assessing the performance of the Board	• Reviewed the Board's skills matrix to ensure that the Board is balanced and diverse in thought and skill set with pronounced focus on financial management and strategic management skills and identified customer service, information technology and ESG experience as potential gaps that will be addressed in future Board appointments • Reviewed the Board's composition and size in the short, medium, and long term and considered its compliance to the UK Governance Code and AWL's own Governance Code as well as confirmed with Ofwat that the current Board composition complied with its Board Leadership, Transparency, and Governance Principles (BLTG Principles) requirements • Reviewed other Board member external appointments to ensure the Board had adequate time available for their roles • Conducted an internal Board Effectiveness Review that was presented to the Board in May 2024 and looked to agree an action plan where appropriate
Recommending appointments to the Board	• Led the process for the appointment of a new independent non-executive director engaging Longwater Partner Limited (Longwater) in the recruitment process. Longwater is a signatory to the Voluntary Code of Conduct for Executive Search Firms and does not provide any services to Affinity Water other than Board-level recruitment • Led the process for the appointment of a new Chair of the Board engaging Korn Ferry in the recruitment process. Korn Ferry is a signatory to the Voluntary Code of Conduct for Executive Search Firms and does not provide any services to Affinity Water other than Board-level recruitment • Led the process for the appointment of a new CFO engaging Odgers Berndtson (Odgers) in the recruitment process. Odgers is a signatory to the Voluntary Code of Conduct for Executive Search Firms and does not provide any services to Affinity Water other than Board-level recruitment
Overseeing Board and company diversity	• Reviewed and approved for recommendation to the Board an updated Board Diversity, Inclusion and Equality of Opportunity Policy, a policy that underpins the Board's commitment to diversity considerations when appointing members to the Board • Reviewed and approved the creation of a unified Commitment to Equality, Diversity and Inclusion and Dignity at Work commitment, a company policy that strives to promote equal opportunity to everyone, creating an open and inclusive workforce where people feel valued • Reviewed metrics of the AW performance on Equality, Diversity, and Inclusion ('EDI') presented to the Committee by the Head of EDI and supported the EDI Committee in their strategy to: i. take positive action to address to our gender pay gap; ii. revise categorisation and wording to reflect comparable sources more accurately such as Office of National Statistics Census data and EU Skills Group Inclusion Measurement Framework for the utilities sector; iii. integrate EDI data collection with the new recruitment system and learning and development data; and iv. understand how to build on our inclusive and supportive culture using metrics to action plan and monitor performance.
Ensuring succession planning	• Reviewed succession plans for independent non-executive and executive directors in tandem with the review of the Board skills matrix to promote synergy • Reviewed succession plans for the Group Company Secretary and ELT

Appointments to the Board

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

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

Our Board skills matrix, which can be found on page 110, reflects that the Board has a strong and considered mix of:

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

The skills matrix is regularly reviewed by the Committee and assessed to ensure the breadth of skills remain,considering any directorship changes.

Board succession – non-executive

The Committee is informed of all directorship changes. Marissa Dardi left DIF Capital Partners and subsequently stepped down from the Board on 12 May 2023. Adam Waddington was appointed Marissa's shareholder-nominated director replacement effective the same date.

Roxana Tataru commenced a period of maternity leave in November 2023 and, Andrew Cox was appointed as her alternate from 15 November 2023 until 10 June 2024 when Roxana returned.

The Committee led the search for an independent non-executive director, to replace Trevor Didcock, who will have served as a director on the Board for nine years in November 2024. The Committee concluded this search with the support of executive search consultants Longwater, and appointed Shelley Malton to the Board in December 2023.

Board succession – executive

The Committee is leading the search for a new CFO, to replace Martin Roughead who informed the Board that he will be stepping down in Autumn 2024. This search is with the support of executive search consultants Odgers.

Senior Management succession

The Company welcomed Emma Davies as Director of People and Culture in December 2023. The recruitment process for the Director of Transformation and Technology concluded and Dean Garvey-North commenced in the role in December 2023.

Board and Senior Management induction

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

Upon formal appointment to the Board, directors are guided through a comprehensive induction process to familiarise them with the business, the strategy, the priorities, the culture and the ambitions of Affinity Water. The programme includes:

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

Training and continuing professional development

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

Non-executive directors are invited to participate in industry events, including regular Ofwat events for non-executive directors, and are aware of their commitment to keep themselves properly briefed and informed to deepen their understanding of the business. The Board's training programme this year included a tax presentation on Corporate Criminal Offences and in the coming months, Board members will join the ELT on cultural change initiatives and training sessions. The Nomination Committee are responsible for overseeing this training programme and the continuing professional development of Board members.

Equality, Diversity and Inclusion training

The Board remain committed to continuing to build their knowledge and understanding around equality, diversity and inclusion and have access to a number of online training courses to help them take steps to reduce the likelihood that bias will impact their decisions.

Equality, diversity, and inclusion

Affinity Water is committed to equality, diversity, and inclusion (EDI) and is supported by the company's Commitment to Equality, Diversity & Inclusion and Dignity at Work ('EDI Commitment'). As a company with a strong public purpose, we know we must do the right thing and treat people fairly and with dignity and respect. We need to be able to recruit talent from across our diverse communities, which will help us build trust with our customers too. Diversity of thought and talent and an inclusive culture will help us get the best out of our people, innovate, and achieve the best outcomes for our customers. Our EDI Commitment sets out our organisational commitment, the expectations of employees as well as the support available. It applies to, and is made accessible to, all employees, members of the Board and Committees alike and is reviewed on an annual basis by the Board.

Our vision

Our vision, as set out in our EDI Commitment, is for EDI to be fully integrated into our business and for it to be core to how we lead and treat each other.

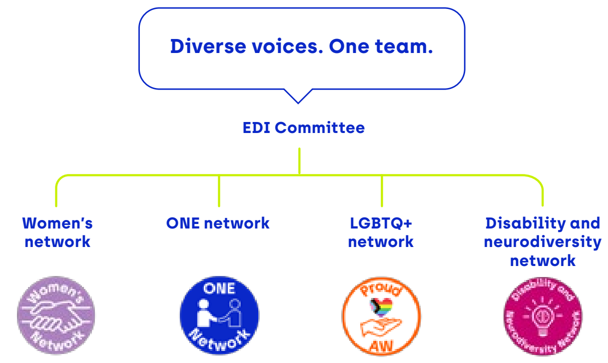
- There will be no persistent gaps or bias in opportunities or outcomes (**equality**).
- We will reflect the communities we serve in our workforce (**diversity**).
- Employees will feel valued, respected, and engaged at work (**inclusion and dignity at work**).

Nomination Committee report continued

EDI Committee and employee networks

Our EDI Committee is chaired by the Director of People and Culture and includes other Directors (who also act as sponsors for our employee networks), a Board representative, the Head of Culture and EDI, co-chairs of the employee networks, and a trade union representative. It has oversight of the EDI strategy and looks to ensure that the EDI Commitment is being upheld.

We have four employee networks that provide peer-to-peer support, raise awareness of different experiences, and support the company in building an inclusive working environment.



EDI Strategy

In the past year, Affinity Water has developed and published our 'Diverse voices, One team' strategy for EDI ('EDI Strategy'). Our EDI Strategy is publicly available and can be found on our website **affinitywater.co.uk/docs/reports/EDI-Strategy-2023-2030.pdf**). Building on our EDI Commitment, the EDI strategy sets out our strategic priorities and action plans up to 2025, including expectations for improvement.

The company have set five priority themes, which have been areas of focus over the past year:

- Narrow our gender pay gap
- Become Disability Confident and neuroinclusive
- Embed EDI in our talent acquisition and development
- Ensure dignity at work and develop an inclusive culture
- Improve our diversity data collection and analysis

Progress and Implementation

In 2023, our mean gender pay gap narrowed to 17.6% (from 21.5% in 2022) and the median gender pay gap narrowed to 27.6% (from 30.8% in 2022). This was due to improvements in the representation of women at senior levels. The percentage of female employees in each of the two upper pay quartiles rose by three points.

Since committing to become Disability Confident and introducing a transparent policy and process for making reasonable adjustments, an increasing number of employees have disclosed they have disabilities, long-term health, or neurodivergent conditions – 4.7% of employees in 2023/24 compared to 2% in 2022/23.

For the first time, we published ethnicity pay gap data for 2023, which showed that Asian/Asian British employees earned an average 2.6% less than White/White British employees (mean and median measures) and Black/Black British employees earned on average 6.7% (mean) and 8.7% (median) less than White/White British employees. The proportion of Black, Asian and minority ethnic employees rose in 2023/24 to make us more representative of our local communities.

Our overall score for diversity and inclusion in our quarterly engagement survey is above benchmark for the utilities sector. The inclusiveness score also improved over 2023/24 and is now at benchmark for the sector. Over half of our employees (54%) scored us a nine or ten for inclusiveness.

In 2023/24, we began gathering more detailed diversity data including on sexual orientation, disabilities and long-term conditions, and gender identity. The proportion of employees sharing their data for these newer categories is over 30% and increasing, giving us the potential for even better use of data and insights in future.

	Female	Male
All employees	35%	65%
Managers	30%	70%
ELT and SLT	26%	74%
Board	22%	78%

	Employees
Asian/Asian British	6.4%
Black/Black British	3.9%
Mixed/Multiple heritage	2.0%
White/White British	66.9%
Other ethnic group	1.0%
No response/prefer not to say	19.8%

Approval

On behalf of the Nomination Committee

Ian Tyler
Chair of the Nomination Committee

8 July 2024

SHEDWQ Committee report

Chris Newsome
SHEDWQ
Committee Chair

Committee members

Trevor Didcock

Keith Haslett

Adam Waddington

Ian Tyler

Member	Member since[1]	Meeting attendance
Chris Newsome Chair		4 4
Trevor Didcock Committee member		4 4
Keith Haslett Committee member		4 4
Ian Tyler Committee member		4 4
Adam Waddington Committee member	12/05/2023	4 4
Marissa Dardi Committee member	Resigned 12/05/2023	

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

1 if after 1 April 2024

Key

Meetings attended   Possible meetings

Dear Stakeholder,

I am pleased to introduce this report, detailing the work of the Committee in the year 2023/24. The reporting functions involved include Health and Safety, the Wellbeing Committee, and Water Quality Services.

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

With regards to the environment pillar of the Committee's remit, its responsibility is two-fold. First, to oversee environmental compliance and secondly, environmental enhancement. The latter calls for the Committee to input into, and challenge, the company's net zero strategy and programme. In addition, the Committee has oversight of the natural capital approaches in delivering the company's WRMP and WINEP programmes.

With regards to Health, Safety & Wellbeing ('HS&W') we have focused on building stronger foundations in place with regards to rebranding and defining our Zero Harm aspirations, the introduction of our HS&W management system by developing our 'Health & Safety Handbook', which is fundamentally our Safety Management System ('SMS') pulling our policies, organisation and arrangements, procedures etc. into one easy to find and navigate system, while retaining links to our corporate document system – Athena.

We have revitalised our Wellbeing Committee, following the launch of our Wellbeing Strategy - Promoting Better Health, in October with a diverse representation across our business and support the delivery of our approach of prevention, awareness and collaboration. Our Mental Health First Aider Network has met several times, and we are developing tools support for our MHFA's, managers, employees and customers over year 5 and into AMP8.

During 2023, we continued to deliver our HS&W objectives and actions aligned to our success factors to support and deliver our Zero Harm aspiration. We have rebranded our Zero Harm expectations, developed a new HS&W policy with the support of the CEO and launched our new safety card, which reminds us that safety is everyone's responsibility in AWL and supports our drive to send everyone home safe and well every day.

We saw good movement in most areas of our plan including the rollout to our first leaders of the National Examination Board in Occupational Safety and Health ('NEBOSH') General Certificate training course, which gives our leaders the competence and confidence to manage HS&W risks and gain a greater understanding of their responsibility of the health, safety and wellbeing of those in their employ.

We continued our focus on Affinity's capabilities to provide alternative water supplies to customers in the event of a prolonged and unplanned loss of water supply. In April 2023, Affinity led a Water UK industry event to exercise two scenarios that could compromise the industry's ability to meet demand for water and continue to take an active role in the working group alongside key alternative water suppliers and regulators.

Managing risk

We have redefined the purpose our Zero Harm Steering Group, which is our executive HS&W Committee meeting to move away from looking purely at reactive events and start to look strategically and understanding our business HS&W risks so that we can assure ourselves and the Board that we not only understand our key risks, but have the appropriate governance, assurance and appropriate levels of controls to keep our people, contractors, customers and others harm free.

The Zero Harm Steering Group is our strategic group responsible for reviewing and agreeing actions arising out of our risk reviews, audits, and deep dives.

Deep dives and audits have been undertaken in 2023/24 on the following risk areas:

- HS002 Street works standards and compliance
- HS005 Occupational Road Risk
- HS004 Fatigue and working time
- HS002 Service Avoidance
- HS007 Chemical, storage, use, handling, and transportation
- HS015 Personal safety (Lone Working)
- HS017 Mental Health
- HS009 Fire
- HS012 CDM

Each of these have resulted in actions that have been agreed by the Zero Harm Steering Group, chaired by our CEO with members of the ELT and the HS&W leadership team. We are intending to conduct a full review of our Process Safety Management and controls in 2024 to ensure we have a holistic and systems-based approach to asset and operational safety in Affinity Water.

There has been greater focus on how we engage with our key supply chain partners with regards to improving our health, safety and wellbeing performance with the development of our Zero Harm Partnership Forum ('ZHPF') and have working groups established to improve our standards around street works, service avoidance, working on live mains and supervision.

Affinity Water is in the infancy of our maturity with regards to HS&W compared to similar organisations. We have started our journey looking at our safety culture and safety leadership, by ensuring that our senior leaders and managers are more visible in the workplace and starting to have more frequent conversations around health, safety and wellbeing, however, we still have more work that is required to ensure we put safety and wellbeing at the forefront of our thinking, provide safe working environments, practices, processes and procedures and have the correct behaviours to ensure that we always do the right thing and never compromise on health, safety or wellbeing.

Throughout this year, we have seen a mixed performance with regards to HS&W. Our Lost time Injury Frequency Rate ('LTIFR') has remained unchanged at 0.11, our Accident Frequency Rate ('AFR') has reduced from 0.07–0.04. Adverse to that we have seen an increase in High Potential Events ('HPE's') early in the year predominantly driven by an increase in electrical services struck using hand tools and consequently an increase in service strikes generally.

This improved significantly following a renewed focus by the ZHPF partners following the highest number of service strikes recorded in August for two years; this included the use of artificial intelligence in risk assessments, introduction of air picks and vacuum excavators, and a greater focus on supervision and competence.

Driver fault incidents have also increased in the year by 30%, and as a result we have introduced a driver safety training course to support our employees by upskilling them with regards to safe driving techniques.

Terms of Reference at a glance

- The Committee comprises at least four members, of whom at least three should be independent non-executive directors.
- Only Committee members attend Committee meetings; however, other individuals, such as the Head of Water Quality Services, Head of Health, Safety and Wellbeing, and Head of Legal may be invited to attend from time to time, as appropriate.
- The Group Company Secretary or their nominee attends every meeting.
- SHEWDQ Committee meetings are scheduled to occur at least four times during the year. The Committee Chair reports to the Board on its proceedings and recommendations after each meeting on all matters within its duties and responsibilities.

Main responsibilities

Safety	• Review and monitor safety matters arising from the company's activities and operations, including monitoring performance against targets • Monitor the framework of safety and health policies and procedures within the company (including training and competency assessment), and compliance with relevant legislation • Consider areas of corporate process and individual safety and health risk (including personal security-related safety matters) and their management effectiveness and the methodology for measuring performance • Consider the strategic business and reputational implications for the company of any health and safety issues, and where appropriate, recommend measures, responses and targets • Oversee and support the development of the Zero Harm strategy
Health and wellbeing	• Review and monitor health and wellbeing matters arising from the company's activities and operations, including monitoring performance against targets • Monitor deliverance of the Wellbeing Programme in accordance with the SHE and Wellbeing Plan for 2023/24 • Consider areas of corporate process and wellbeing risks and how to manage them effectively • Consider the strategic business and reputational implications for the company of any wellbeing issues and, where appropriate, recommend measures, responses and targets
Environment	• Review and monitor environmental matters arising from the company's activities and operations, including monitoring performance against targets • Monitor the framework of environment policies and procedures within the company (including training and competency assessment), and compliance with relevant legislation • Consider areas of corporate process and environmental risks and their management effectiveness and the methodology for measuring performance • Consider the strategic business and reputational implications for the company of any environmental issues and where appropriate recommend measures, responses and targets • Oversee the company's Net Zero strategy and natural capital approaches
Drinking Water Quality	• Review and monitor drinking water quality matters arising from the company's activities and operations, including monitoring performance against targets • Monitor compliance with relevant drinking water quality legislation • Consider areas of corporate process and drinking water quality risks and their management effectiveness and the methodology for measuring performance • Consider the strategic business and reputational implications for the company of any drinking water quality issues and where appropriate recommend measures, responses and targets

SHEDWQ Committee report continued

Health and wellbeing

Our safety critical medical and health surveillance programme continues to demonstrate a high level of compliance with those teams requiring medicals to undertake their tasks associated with high-risk activities such as confined spaces, work at height etc. to ensure that they are fit to work.

Our Wellbeing Committee continues to be a very active group identifying trends from our sickness absence data, management reports provided by our Occupational Health partners – Healthcare RM and our employee culture survey – Tap-in.

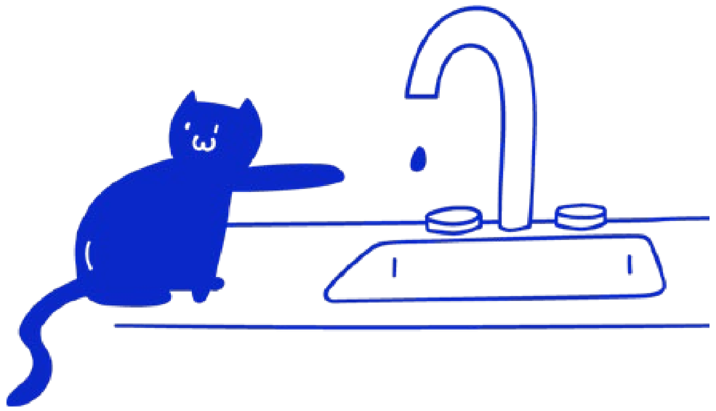
This has led to the development of our Wellbeing Strategy, which was launched at our company live event in October 2023. We also provided free access to the Body Coach App for 500 users to support our aim of supporting better health for all.

The Wellbeing Committee have continued to promote positive wellbeing through targeted initiatives such as step into summer, a focus on men's health using personal stories regarding sensitive topics such as cancer and bereavement; we also led a campaign twelve days of financial health and wellbeing over winter to continue to support those who are struggling with the cost-of-living crisis.

A wellbeing calendar has also been developed to support key dates in the occupational wellbeing calendar and specific initiatives and campaigns, many of which have been suggestions from within our organisation.

Our general sickness absence rates remain below industry benchmark standards, however, a review of our sickness absence data including EAP contacts, found that 53% of sickness absence was related to stress, anxiety, or depression. A further 25% of days lost were related to musculoskeletal disorders, and as such remain key focus areas. We will also develop further our management guidance and approach around workplace occupational health for noise, vibration, fatigue and working time etc. working with our people team, unions, and customer delivery colleagues.

Our five-year and AMP8 HS&W plan has been developed and drafted for CEO and ELT approval, which will continue to support our journey of achieving Zero Harm.



Water Quality 2023/24

In 2023, the Committee reviewed the company's performance data on Compliance Risk Index and the root causes, along with our customer-focused aesthetic contacts measure, which includes how we manage iron deposition in our network of pipes. The Committee held a deep dive session on mains flushing and the condition of the internal pipes to help understand how our pipe flushing work was helping to improve the quality of supplies to our consumers.

Affinity Water submitted four schemes to the Drinking Water Inspectorate under an Ofwat accelerated infrastructure programme. These four schemes were assessed and supported by the Committee, subsequently gaining support from both DWI and Ofwat for early start. There were three schemes to reduce nitrate concentrations and one scheme to research treatment options for Per and Polyfluoroalkyl substances ('PFAS'). The company's proposals for the next five-year business plan and a long-term delivery strategy were also assessed by the Committee who endorsed the outline proposals to ensure wholesome water supplies.

During the year, the company presented four further water quality improvement schemes to the Committee. These also pertain to PFAS where the body of research is growing rapidly with resultant predictions that concentrations (of PFAS) in food, drink and the environment should all be reduced.

Towards the end of 2023, the Committee was informed of two water quality failures at the largest treatment works. This had a significant deleterious impact on the Company CRI score increasing it by c.7.06 to an estimated 8.05. The Committee was briefed on how the company will mitigate these risks in the short and medium term and monitoring of the delivery plans is in place with the executive team.

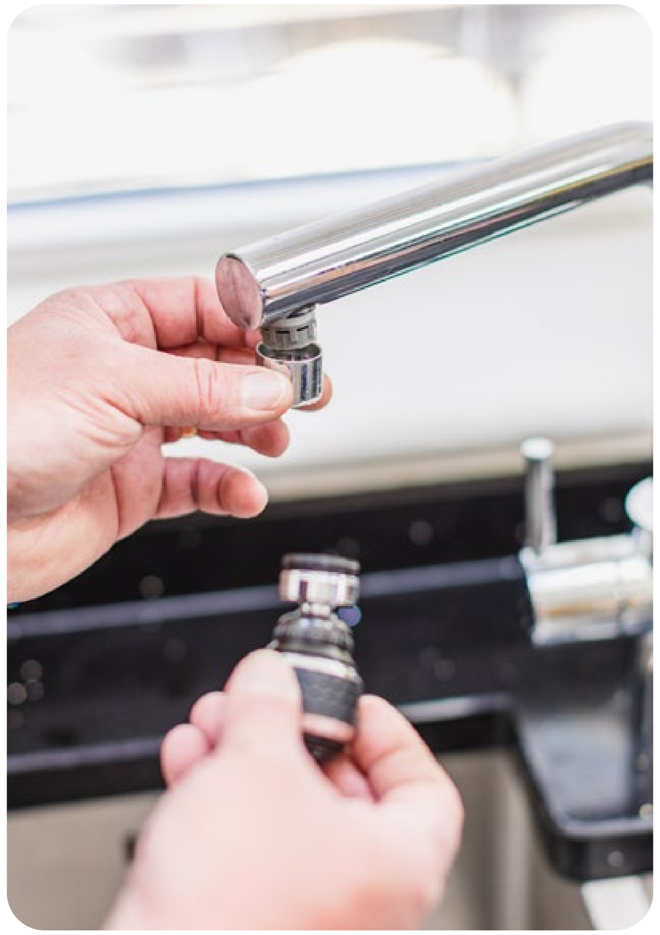
Positively, the Evert Risk Index score, used to indicate the duration and impact of water quality events (including loss of supplies) on consumers was less than 1.0. This is the lowest ever score that the company has achieved. This helps to assure the Committee that the company had effective processes in place and competent teams to prevent operational issues impacting customer supplies.

Environment

The Committee has continued to oversee progress towards Net Zero and the actions we are taking to help us achieve our targets. Our overall carbon accounting capability has been increased and we have undertaken and reviewed a full Scope 3 greenhouse gas assessment to complete our understanding of the company carbon footprint. The inclusion of these new metrics is allowing us to focus our future Net Zero actions at activities that will materially impact our emissions and support our journey to Net Zero. During the year we commenced construction on two new solar installations and began receiving electric vehicles into our fleet with five vehicles put into service by the end of March 2024.

Natural capital management principles have been incorporated as part of the development of our WRMP and WINEP work, with the overarching aim of achieving nature positivity. Our PR24 Business Plan sets out our plan to improve the environment, while meeting legislative requirements in AMP8. We are in the process of establishing a natural capital baseline for our landholdings with metrics using remote sensing technology and associated ground truthing. This will form part of our evidence base for leaving the environment in a measurably improved state, and ensuring we are a nature positive organisation.

In October 2023, Affinity Water published our revised draft Water Resources Management Plan ('rdWRMP24'), and the associated Statement of Response.



Free access to the BodyCoach App for

500

Affinity Water employees to support their health and wellbeing

5

Electric vehicles were introduced to our service fleet during the year

The 750+ page Statement of Response provided responses to all the consultation feedback that we received from stakeholders and included the changes we committed to include in our rdWRMP24. DEFRA have now fed back on our rdWRMP24 and Statement of Response with a limited request for further information, which will be provided to them by 2 April 2024.

Looking ahead

In February 2024, the SHEDWQ Committee held its last meeting. From June onwards, the Committee transitioned into a new Environmental, Social and Governance Board Committee (the 'ESG Committee') to provide a broader and more strategic focus to the business for all ESG matters. The prominence of ESG frameworks has increased in recent years as a means to understand, communicate and report on the broader impact, risks and opportunities of activities, therefore, the establishment of the ESG Committee supports not only regulatory and investor expectations but also help integrate and align ESG priorities with business purpose and decision making.

Our new ESG Committee will provide a strategic ESG framework and will consider specific ESG activities previously covered by the SHEDWQ Board Committee in a holistic way to help minimise risk and maximise opportunities to increase public, environmental and shareholder value. From June onwards, oversight, input and challenge to the company's strategies on safety, health, wellbeing, and drinking water quality will come directly from the Board.

A formal review of the SHEDWQ Terms of Reference was undertaken and translated into a new ESG Terms of Reference, which were approved in January 2024. From June 2024, the ESG Committee will initially meet bi-monthly and then at least four times a year. It will comprise a majority of independent non-executive directors and continue to be Chaired by Chris Newsome.

Approval

On behalf of the SHEDWQ Committee

Chris Newsome
Chair of the SHEDWQ Committee

8 July 2024

SHEDWQ Committee report continued

Remuneration report

Trevor Didcock
Remuneration Committee Chair

Committee members


Justin Read


Ian Tyler


Roxana Tataru


Andrew Cox


Shelley Malton

Member	Member since[1]	Meeting attendance
Trevor Didcock Chair		3 3
Justin Read Committee member		3 3
Ian Tyler Committee member		3 3
Roxana Tataru Committee member		2 3
Andrew Cox Committee member	15/11/23 until 10/06/2024 as alternate	1 1
Shelley Malton Committee member	01/12/23	1 1
Marissa Dardi Committee member	Resigned 12/05/2023	

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

1 if after 1 April 2024

Key

Meetings attended Possible meetings

Dear Stakeholder,

I am pleased to present the report on directors' remuneration, which sets out the remuneration paid to the directors of the company for the year ended 31 March 2024.

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

In the year ended 31 March 2024, we reviewed and restated our position of aligning basic salary to the market median, having undertaken a benchmarking review of salary and total package with the support of FIT Remuneration Consultants.

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

The challenging nature of our incentive targets and our business plan, together with steadily improving performance, is evidenced in the last two years by the level of achievement under the incentive bonus schemes. In 2022/23 achievement under the financial, customer, environmental and safety elements of the annual bonus was 11.4% out of a maximum of 80% for executive directors, with the remaining 20% relating to personal performance). With our performance improving, payouts for 2023/24 have increased to 58.3% out of a maximum of 85% with the remaining 15% relating to personal performance, and continue to demonstrate the strong link we have between incentives and stretching performance for customers and the environment.

Terms of Reference at a glance

- The Committee comprises at least four members; a majority of whom shall be independent non-executive directors and one of whom shall be a shareholder-nominated non-executive director.
- Only Committee members attend Committee meetings; however, other individuals such as the CEO, CFO, and Director of People and Culture may be invited to attend from time to time, as appropriate.
- The Company Secretary or their nominee attends every meeting.
- Remuneration Committee meetings are scheduled to occur at least twice a year, and otherwise, as required.
- The Committee Chair reports to the Board on its proceedings and recommendations after each meeting on all matters within its duties and responsibilities.

Main responsibilities

Determining policy and setting awards	The Committee shall have responsibility for determining the policy for executive director remuneration and setting remuneration for the Chair, executive directors, and the senior executive team, including pension rights and any compensation payments in accordance with the company's instrument of appointment, Ofwat's board leadership, transparency principles, the governance principles and provisions of the Code and any other applicable rules, as appropriate. No director or senior executive shall be involved in any decisions as to their own remuneration.
Determining awards and discretion	The Committee shall exercise judgement when determining remuneration awards. It should be mindful of the possible monetary outcomes and of external perceptions arising from its decisions.
Benchmarking and remuneration consultants	The Committee shall avoid designing pay structures based solely on benchmarking to the market, or the advice of remuneration consultants, as there is a risk this could encourage an upward ratcheting effect on executive pay.
Pensions	Pension commitments for executive directors, or payments in lieu of notice, should be aligned with those available to the workforce.

Our approach to remuneration in 2023/24

Customers, regulators, and stakeholders rightly expect that the levels of remuneration received by executive directors, the ELT and other managers are linked to the standards of performance experienced by customers. These expectations are consistently reinforced by Ofwat and its CEO, David Black, in their addresses to all Chairs of Remuneration Committees, and additional disclosure requirements in Regulatory Accounting Guidelines 3.14.

The annual bonus targets for 2023/24 were focused on key financial and operational targets, primarily in line with the business plan, namely base and enhancement costs, cash generation, water quality, leakage, C-MeX, D-MeX, interruptions to supply, unplanned outage, mains repairs, properties at risk of low pressure, per capita consumption, Net Zero, our enhancement action plan, and safety. These targets applied to executive directors, the ELT, other selected managers, and the company-wide bonus scheme, ensuring everyone in the business is focused on delivering in the areas that are of key importance to customers and other stakeholders. The Remuneration Committee determined the level of bonus awarded in relation to personal performance for executive directors taking into account performance objectives set at the start of the year, behaviours in line with the company values, and the individual's overall performance.

The LTIP for 2023/24, in which the executive directors and members of the ELT participate, in addition to meeting Ofwat's direction that at least 60% of measures should be directly related to customer and environmental outcomes, also ensures that we are incentivising longer-term performance in line with our 'Journey to 25' ambitions: to deliver the ten key performance commitments in this AMP; develop a high-quality PR24 plan; and have delivered our transformation to enter the next AMP ready to deliver performance in that five-year period. See page 146 onwards for details of the LTIP.

Implementation of the directors' remuneration policy during 2023/24

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

A benchmark review of pay was completed by FIT Remuneration Consultants (and presented to the Committee in February 2024) per the provisions of the Remuneration Policy for executive directors and members of the ELT. FIT Remuneration Consultants were appointed by the Remuneration Committee following their recent work with Anglian Water and a recommendation from Norman Broadbent (executive search firm), and are unconnected to the company. The review considered base pay and incentives and the alignment of executive directors' pension contributions with the general workforce. The work performed provided an update to a review undertaken in 2022/23 and fees amounted to £26,850 based on time and expenses. No other services were provided by FIT Remuneration Consultants to the company.

The Committee is satisfied that the total remuneration received by executive directors in 2023/24 appropriately reflects the company's performance over the year, is in line with policy, and is consistent with Ofwat's expectations for performance-related executive pay.

Executive director changes

Martin Roughead joined the Affinity Water Limited Board on 17 April 2023. Martin replaced Michael Blake who acted as Interim CFO prior to this and he returned to his role of Head of Corporate Finance. Martin Roughead was appointed on terms and conditions consistent with the Remuneration Policy.

Agenda for 2024/25

For 2023/24, we made some adjustments to our LTIP and annual bonus structures to ensure that they maintained focus on customer and environment-related metrics. We anticipate further changes to the structure of our LTIP as we move into the new 2025–30 AMP following receipt of our final determination from Ofwat, to ensure that we can continue to incentivise stretching performance for customers.

Trevor Didcock
Chair of the Remuneration Committee

8 July 2024

Our remuneration philosophy

1 Benchmark salaries against the market median
- Provide market-based competitive packages to attract and retain high-performing individuals
- Demonstrate to stakeholders that employees provide value for money

2 High proportion of variable pay with stretching targets
- Drive out performance and stakeholder value
- Ensure all performance targets are stretching

3 Provide valued benefits
- Provide good-quality pensions, aligned across the workforce
- Ensure flexible 'ways of working' and wellbeing support

4 Ensure alignment with strategy across the business
- Align performance incentives throughout the business
- Align to long-term customer, environmental and stakeholder interests

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

Trevor Didcock
Chair of the Remuneration Committee

Alignment with Code Principles

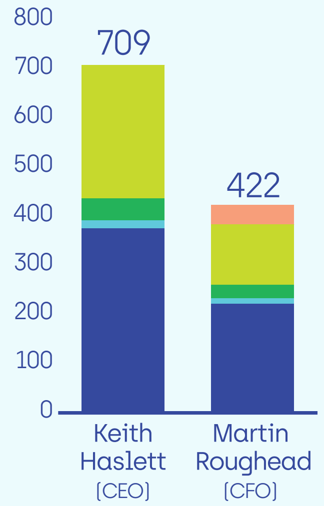
Clarity	Arrangements are transparent, reflect stakeholder alignment and Affinity Water's strategic priorities, thereby effectively engaging with the wider workforce and stakeholders.
Simplicity	The policy is simple and clear, comprised of fixed pay, such as salary and benefits, pension schemes that are common with those offered to most of the workforce, plus variable pay set against customer, environmental, financial and operational targets to incentivise short and long-term performance and alignment with stakeholders.
Predictability	The totals of fixed pay, variable pay (target and maximum) illustrated in the scenarios of total remuneration in our policy provide an estimate of the potential future remuneration of the executive directors.
Risk	The breadth of measures with the majority driven by customer and operational performance, plus malus and clawback provisions, which apply to annual bonus and LTIP awards, encourages the right behaviours, which lead to long-term stakeholder alignment and sustained value creation. The Committee has discretion to adjust the formulaic bonus outcomes both upwards and downwards.
Proportionality	There is a clear link between pay for performance and business strategy, with stretching customer, environmental, operational and financial targets applied to annual bonus pay-outs and LTIP vesting.
Alignment to culture	Targets apply to the annual bonus and LTIP awards across the wider workforce in order to consistently drive successful business performance. These targets are reviewed on an annual basis. Malus and clawback provisions apply to annual bonus and LTIP and this, together with deferred annual bonus and holding periods for the executive directors (and any other relevant senior employees), drive the right behaviours expected within Affinity Water. The remuneration arrangements of the wider workforce reinforce employee engagement.

Remuneration at a glance

Aligning our approach to customer and environmental outcomes and business strategy

Element of remuneration	Alignment to strategy	Alignment to our stakeholders' interests
Annual Bonus remuneration		
Base operating plus base capital costs	Ensures we can invest in our assets and provide a great service that customers value	Customers, Communities, Shareholders
Enhancement expenditure	Ensures we can invest in our assets and provide a great service that customers value	Customers, Communities, Shareholders
Cash generated from operations less capital expenditure	Ensures we can invest in our assets and provide a great service that customers value	Customers, Communities, Shareholders
C-MeX: score	Ensures we focus on providing a great service that customers value	Customers, Shareholders, Regulators
D-MeX: position in the league table	Ensures we focus on providing a great service that developers value	Customers, Shareholders, Regulators
Leakage (M/ld)	Ensures customers have enough water, while leaving more water in the environment	Customers, Communities, Regulators
Water quality: Customer contacts	Ensures customers have high-quality water they can trust	Customers, Communities, Regulators
Water quality: CRI score	Ensures customers have high-quality water they can trust	Customers, Communities, Regulators
Customer Consumption (PCC litres per day)	Ensures we can make sure customers have enough water, while leaving more water in the environment	Customers, Communities, Regulators
Interruptions to Supply (minutes interrupted above 3hrs)	Ensures we can minimise disruption for customers and the community	Customers, Communities, Regulators
Mains repairs (per 1,000km)	Ensures we can minimise disruption for customers and the community	Customers, Communities, Regulators
Unplanned outage (%)	Ensures we can minimise disruption for customers and the community	Customers, Communities, Regulators
Properties at risk of low pressure: per 10,000 properties	Ensures we can minimise disruption for customers and the community	Customers, Communities, Regulators
Net Zero: Scope 1 emissions reduction	Ensures we can make sure customers have enough water, whilst leaving more water in the environment	Customers, Communities, Regulators
Enhancement action plan	Ensures we can invest in our assets and provide a great service that customers value	Customers, Communities, Shareholders
Safety (accident frequency rate)	Ensures we can minimise disruption for our people, customers and the community	Employees, Regulators
Long-term Incentive Plan ('LTIP')		
Financial	Ensures we achieve long-term stakeholder value based on company performance	Customers, Employees, Shareholders, Communities, Regulators
Customer and environment	Ensures we provide a great service that customers value	Customers, Shareholders, Regulators
Long-term plan	Ensures we focus on delivering long-term plan outcomes and AMP8 readiness	Customers, Shareholders, Regulators
Employee and safety	• Ensures our employees are engaged to support our culture and fulfilment of our purpose • Ensures our people can work to deliver our customer outcomes effectively and safely	Employees, Regulators

Single total figure of remuneration for executive directors for year ended 31 March 2024



Key
- Base salary/fees
- Taxable benefits
- Pension-related benefits
- Annual Bonus
- Long-term incentive plan
- Other

Other remuneration for Martin Roughead relates to a relocation allowance.

Aligning pay with performance

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

KPI	Result
Base operating plus base capital costs	£323.8m
Enhancement expenditure	£86.1m
Cash generated from operations less capital expenditure	-£37.2m
C-MeX	73.16
D-MeX	87.04
Leakage	18.3%
Water Quality: Customer contacts	0.58
Water Quality: CRI score	8.05
Customer Consumption	37.85 Ml/d
Interruptions to supply	2 minutes and 46 seconds
Mains repairs	98.3
Unplanned outage	1.42%
Properties at risk of low pressure	138.594
Net Zero	5,212 tonnes
Enhancement action plan	40
Accident frequency rate	0.11
AMP7 financial performance	*
Employee engagement	7.8
Environmental innovation	*
AMP8 plan quality, readiness and AMP7 delivery	*

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

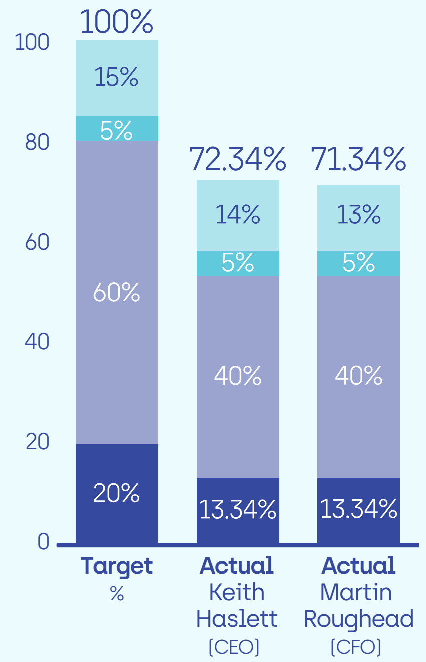
*This measure will be fully determined at the end of AMP7 (March 2025)

Annual bonus

The charts below show the results of the performance against targets for the annual bonus. Further information about the annual bonus is shown on page 146.

2023/24 Annual bonus outcome

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



Key
- Financial
- Customer and Environment
- Safety
- Personal performance

Remuneration report continued

Remuneration policy report

Introduction

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

At our 2023 AGM, the single available vote was cast in favour of the resolution to approve the remuneration policy report, which is subject to a binding vote every year. At the same time, the remuneration implementation report, which is subject to an annual advisory vote, was also approved.

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

Remuneration Committee

The Remuneration Committee is responsible for determining the remuneration policy and the terms and conditions of employment of the directors and senior executives. The Committee met on three occasions during the year, and was Chaired by Trevor Didcock.

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

Director	Independence
Trevor Didcock (Chair)	Independent
Ian Tyler	Independent
Shelley Malton	Independent (appointed 1 December 2023)
Justin Read	Independent
Roxana Tataru	Shareholder appointed
Andrew Cox	Shareholder appointed alternate (appointed 15 November 2023, stepped down 10 June 2024)
Marissa Dardi	Shareholder appointed (resigned 12 May 2023)

Keith Haslett, CEO, Martin Roughead, CFO, and the Director of People and Culture attended the meetings when requested by the Committee. Members of the Committee and attendees are excluded from discussions regarding their own remuneration and conditions of employment.

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

Remuneration policy for non-executive directors

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

The other non-executive directors in office at 31 March 2024 fell into two groups, as shown in the table below.

Group A	Group B
Trevor Didcock	Adam Waddington
Chris Newsome	Mike Osborne
Justin Read	Roxana Tataru
Shelley Malton	Andrew Cox

Our Board considers the directors in Group A to be independent. Each has a written agreement relating to their services. They receive a fee for their services, which is not related to company performance. They are not in receipt of share options or an LTIP. The fees for these directors are set considering the market rate for non-executive directors, with particular reference to the water industry in the United Kingdom. The fees were reviewed during the course of the year and no change was made.

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

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

Remuneration policy for executive directors

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

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

The remuneration packages for all new executive directors are set in line with the company's approved policy, to ensure we meet the objectives set in the Ofwat publication 'Putting the sector back in balance' and are consistent with our AMP7 and AMP8 plans. The Committee considers, in arriving at a total package, the skills and experience of the candidate, the market rate for a candidate of that level of experience, as well as the importance of securing high calibre candidates.

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

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

Shareholder views on executive directors' remuneration for 2023/24 were considered through the presence of at least one director appointed by our shareholders on the Committee. As with other Committee members, shareholder directors must have regard to the views of other stakeholders, the risk appetite of the company and alignment to the company's long-term strategic goals when fulfilling their duties.

The Committee did not, formally, consult with employees when drawing up the directors' remuneration policy, but considered the average base salary of employees, which may be subject to inflationary increases, in setting base salaries for the executive directors. This ensured that pay for both directors and employees is at the median of the market it operates in and that pay reflects the competence and experience of the individual at the time of appointment. All of our workforce are entitled to be trade union members and our CFO is a member of the Joint Negotiation and Consultative Committee ('JNCC'), which, together with employee trade union representatives and other company-nominated representatives, meets quarterly to consult on workforce practices and policies and negotiate workforce pay.

Annual bonus plan and LTIP scheme

Structure and targets

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

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

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

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

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

- Supplying high-quality water you can trust
- Making sure you have enough water, while leaving more water in the environment
- Providing a great service that you value
- Minimising disruption to you and your community

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

A new executive remuneration policy was approved in October 2023 and published on our website at **affinitywater.co.uk/corporate/about/governance-assurance**. The policy continues to align executive pay to the company's stretching performance for customers and the environment. It is intended to incentivise stretching performance for customers through delivering high-quality customer and operational performance, while ensuring the cost of water remains affordable for customers by also incentivising financial efficiencies.

The key changes made in 2023/24 were included in the 2022/23 Annual Report and Financial Statements, and are also summarised in the tables below. Fundamentally, they reinforce the structure and metrics of both the long-term and short-term incentive plans to ensure that they are in line with the expectations set by Ofwat of a minimum of 60% of incentives being aligned to stretching customer and environmental outcomes. We have ensured that our targets, particularly in the Long-Term Incentive Plan ('LTIP'), are focused on the long term, taking into account the priorities for the 2025–30 period and the broader performance agenda, particularly around Environmental, Social and Governance measures and support the transformation of our business and the planning process for the next Asset Management Plan period ('AMP') to ensure that we have a high-quality plan that delivers for customers and stakeholders.

Remuneration report continued

Purpose and link to strategy	Policy and approach	Maximum potential value (as % of base pay)	Performance metrics	Changes for 2024/25
LTIP				
To incentivise executives to achieve long-term shareholder value, while achieving high levels of customer experience performance, although 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 the multi-year performance period, with 33% of the amount earned paid at the end of the performance period, 33% paid at the end of the following year and 33% paid at the end of the second year following the performance period subject to the achievement of performance conditions. The 2023/24 scheme is based on end of AMP7 targets (with a two-year performance period) that are aligned to the delivery of AMP7 and preparation for AMP8. The payment dates would be July 2025 (33%), July 2026 (33%), and July 2027 (33%). 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 2023/24, the scheme was aligned to Ofwat guidance providing a substantial link to delivery for customers and the environment (>60%). The award is determined based on the performance of the company over the two years to 31 March 2025. 20% of the scheme pay-out is based on financial targets, including Base Expenditure and Enhancement Investment; 60% based on delivery for our customers and the environment, measured by the Outcome Delivery Incentive position across our ten key metrics; 5% based on employee engagement; and 15% based on long-term planning, including Quality of AMP8 readiness, and the AMP7 target operating model. A former metric involving an underpin based on safety performance has been removed, but performance in this area will form part of the Remuneration Committee's discretion. These arrangements were formally agreed during the Remuneration Committee meeting in May 2023.	For 2024/25 the scheme is combined with the 2023/24 scheme, adopting the same performance metrics and vesting and payout periods, with targets 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. The June 2024 Remuneration Committee meeting approved the disaggregation of the ten key metrics into component parts, with a higher weighting applied to the Compliance Risk Index and Per capita consumption measures, in lieu of the Low pressure measure, due to the financial sensitivity of these performance commitments and the importance of customer and environment requirements.
Base salary				
To provide competitive fixed remuneration that will attract and retain key employees and reflect their experience and position in the company.	To target around market median, dependent on experience in the role.	N/A	N/A	No changes have been made to the policy for 2023/24 up to the date of approval of this Annual Report and Financial Statements.
Other taxable benefits				
To provide market competitive benefits.	Private health care insurance cover and life assurance are provided, together with a fully expensed company car (or car allowance).	N/A	N/A	No changes have been made to the policy for 2023/24 up to the date of approval of this Annual Report and Financial Statements.

Purpose and link to strategy	Policy and approach	Maximum potential value (as % of base pay)	Performance metrics	Changes for 2024/25
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 commitments for AMP7, 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. This is not reciprocal; discretion may be applied to employees and not executives.	For 2023/24, in order to maintain the Ofwat guidance that 60% of incentives should be based on achievement of customer measures, the scheme metrics have been set as follows: • Financial: Base Costs (6.67%), Enhancement Expenditure (6.67%), and Cash Generation (6.67%) • Customer and 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.	For 2024/25 there have been no changes made to the policy, with the metrics set as follows: • Financial: Base Costs (6.67%), Enhancement Expenditure (6.67%), and Cash Generation (6.67%) • Customer and Environment: (5.00% each unless otherwise specified): 1. C-MeX 2. D-MeX 3. Leakage 4. Customer contacts for water quality 5. Compliance Risk Index (7.5%) 6. Per capita consumption (2.5%) 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 2024.
Pension-related benefits				
To provide competitive post-retirement benefits.	Executives, including the CEO and CFO, are aligned to contributions made by the general employee population, with the company doubling contributions made by the executive up to a maximum company contribution of 12%.	12% of executive salary. Where executive directors are not members of the defined contribution scheme, the directors received a taxable allowance in lieu.	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 report continued

Purpose and link to strategy	Policy and approach	Maximum potential value (as % of base pay)	Performance metrics	Changes for 2024/25
Compensation for the forfeit of variable remuneration from previous employer				
To provide compensation for forfeited remuneration from previous employers.	The Committee may make additional cash awards if deferred pay is forfeited by an executive director on leaving a previous employer. Such awards would take into account the nature of awards forfeited (i.e. cash or shares), time horizons, attributed expected value and performance conditions.	N/A	N/A	No changes have been made to the policy for 2023/24 up to the date of approval of this Annual Report and Financial Statements.

Executive directors' service contracts

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

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

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

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

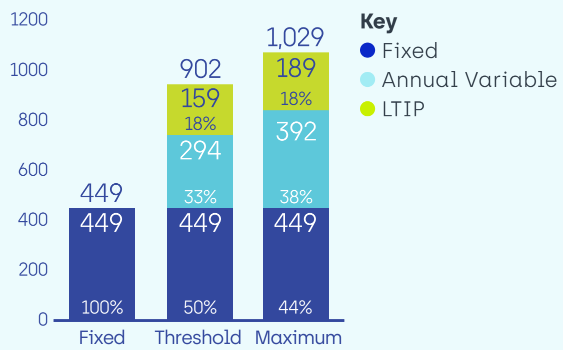
Circumstances of malus include wilful or gross misconduct, acts of personal dishonesty or fraud, conviction of certain criminal offences, conduct which results in significant losses to the company, material failure of related management or business units, material misstatement in the audited financial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

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

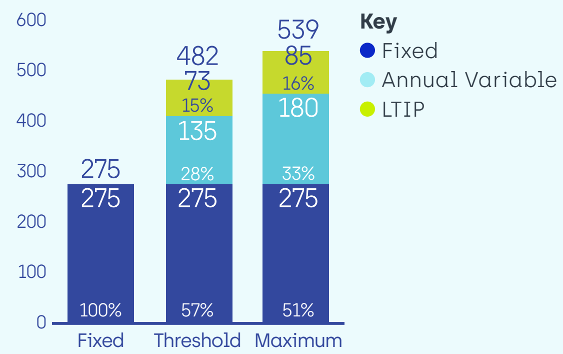
Pay-outs under different scenarios

The following charts show the potential remuneration for the 2024/25 financial year under the existing contractual arrangements for both the CEO and CFO under different scenarios.

Chief Executive Officer £000



Chief Financial Officer £000



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

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

Management

We operate a discretionary performance bonus scheme for executive directors, the ELT and other selected managers who meet the criteria for inclusion in the scheme. At the date of approval of this Annual Report and Financial Statements, the ELT were entitled to participate in a performance-related discretionary bonus scheme of up to 50% of their salary. This is payable after the end of the financial year. Bonus awards are dependent on the success of the company.

For the ELT, they are determined by reference to three components:

- 20% of the total bonus is dependent on the achievement of financial performance targets, which are identical to the executive directors' annual bonus scheme
- 65% of the total bonus is dependent on the achievement of operational, customer, environmental and safety performance targets, which are identical to the executive directors' annual bonus scheme
- 15% of the total bonus is dependent on the achievement of personal objectives

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

- 20% of the total bonus is dependent on the achievement of financial performance targets
- 65% of the total bonus is dependent on the achievement of customer service and stakeholder commitments
- 15% of the total bonus is dependent on the achievement of personal objectives

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

Company culture

In 2023/24, we continued work to develop our company culture, reviewing our existing culture and clarifying who we are, expected ways of working and how we need to evolve. This included:

- A thorough review of feedback submitted by employees to our online listening platform about how it feels to work here and their views on how we are doing as a company to deliver on our purpose.
- Engagement with our senior leadership team on the kind of culture and ways of working we need to embed to deliver our strategic objectives.
- Seeking employee feedback through a series of roadshows with the CEO and members of ELT and senior management.

In 2023/24, we continued to improve our employee engagement. Over 90% of employees have responded in the past year to the quarterly questionnaires. Our engagement is above the benchmark for the utilities sector at 7.7, and our scores for diversity and inclusion and mental health and wellbeing have also improved over the year and are above, or at benchmark, for the sector. Half of our employees scored us a nine or ten out of ten on engagement, contributing to a significantly above average employee net promoter score too.

Remuneration report continued

Remuneration Implementation Report

Company-wide bonus scheme

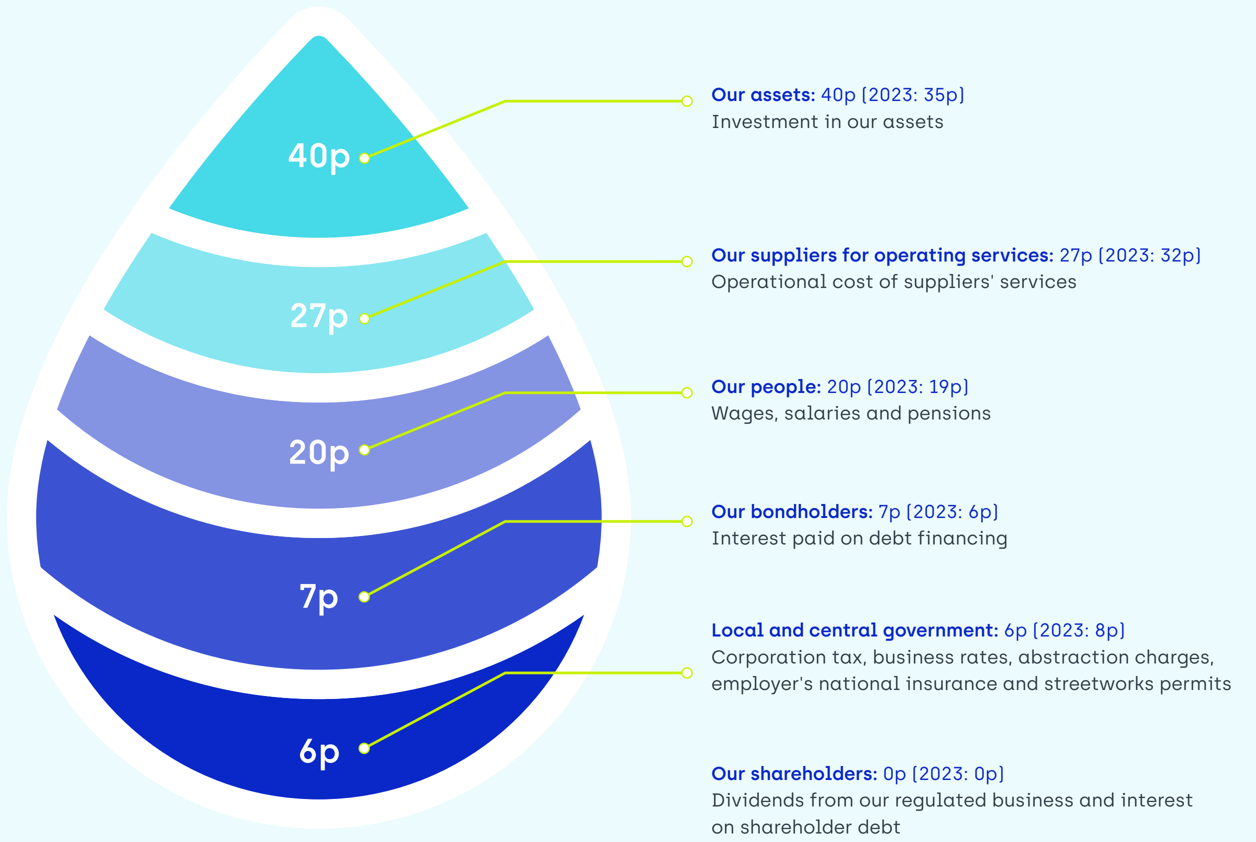
The Committee reviews and approves a discretionary company-wide performance bonus scheme for all employees, who are not, otherwise, entitled to the discretionary ELT or other selected manager performance bonus scheme. The discretionary company-wide bonus scheme comprises operational, customer, environmental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

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

Relative importance of spend on pay

The amount spent on our people in 2023/24 has increased compared to the prior year, reflecting the 7.5% increase in basic salary for employees with effect from 1 April 2023, with the number of employees as at 31 March 2024 being broadly in line with prior year headcount.

Our people costs are still our third-highest expenditure type, after our assets and our suppliers for operating services, remaining consistent at 20p (2023: 19p) per pound of total expenditure, as shown below[1].



1 Figures are based on our regulatory financial statements for the year ended 31 March 2024 and have been rounded

Remuneration report continued

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

Directors' remuneration 2023/24 (audited)

The following table shows the directors' remuneration in respect of 2023/24.

	Base salary/fees[1]		Taxable benefits[2]		Annual bonus		LTIP		Pension-related benefits[3]		Other[4]		Total fixed remuneration		Total variable remuneration		Total[5]	
	£000 23/24	£000 22/23	£000 23/24	£000 22/23	£000 23/24	£000 22/23	£000 23/24	£000 22/23	£000 23/24	£000 22/23	£000 23/24	£000 22/23	£000 23/24	£000 22/23	£000 23/24	£000 22/23	£000 23/24	£000 22/23
Non-executive																		
Current																		
Trevor Didcock	**64**	60	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**64**	60	**–**	–	**64**	60
Shelley Malton	**17**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**17**	–	**–**	–	**17**	–
Chris Newsome	**63**	56	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**63**	56	**–**	–	**63**	56
Justin Read	**60**	55	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**60**	55	**–**	–	**60**	55
Company Chair																		
Current																		
Ian Tyler	**195**	234	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**195**	234	**–**	–	**195**	234
Executive																		
Current																		
Keith Haslett	**376**	91	**16**	3	**272**	34	**–**	–	**45**	–	**–**	104	**437**	94	**272**	138	**709**	232
Martin Roughead	**220**	–	**12**	–	**123**	–	**–**	–	**27**	–	**40**	48	**259**	–	**163**	48	**422**	48
	995	496	**28**	3	**395**	34	**–**	–	**72**	–	**40**	152	**1,095**	499	**435**	186	**1,530**	685

1 Fees in 2022/23 for Ian Tyler include an amount of £39,230 for an additional allowance as compensation for taking on the Executive Chair role for a period of five weeks and providing CEO transitional activities over a further period of seven weeks

2 Taxable benefits comprise company car allowance and healthcare

3 Pension-related benefits for Keith Haslett comprised contributions paid to the company's money purchase scheme; there were no amounts outstanding at the year-end. Pension-related benefits for Martin Roughead comprised amounts paid in lieu of being a member of the pension scheme; there were no amounts outstanding at the year-end

4 Other remuneration in 2023/24 for Martin Roughead related to a relocation allowance. Other remuneration in 2022/23 for Keith Haslett related to compensation for the forfeit of a variable remuneration arrangement with his previous employer and a relocation allowance. Other remuneration in 2022/23 for Martin Roughead related to compensation for the forfeit of a variable remuneration arrangement with his previous employer

5 The total amounts for 2023/24 are higher than for 2022/23 due to Keith Haslett only being in post for three months of 2022/23 and Martin Roughead joining in April 2023. Martin's predecessor (as interim CFO) was not an executive director of the Board and therefore not included in this table.

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

Payments to past directors (audited)

There were no payments made to past directors in the year.

Payments for loss of office (audited)

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

Annual bonuses for executive directors (unaudited)

The annual bonus scheme is designed to provide a direct link between executive and company operational, customer, environmental 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 2023/24 for Keith Haslett as CEO and Martin Roughead as CFO for each of the performance measures. No amounts, in relation to these bonuses, have been deferred.

Remuneration report continued

Performance measure	Link to alignment of culture, purpose, values and strategy	2023/24 target	2023/24 actual / Target met	Maximum weighting for 2023/24 (as a % of base salary): Keith Haslett	Maximum weighting for 2023/24 (as a % of base salary): Martin Roughead	2023/24 achievement (as a % of base salary): Keith Haslett	2023/24 achievement (as a % of base salary): Martin Roughead
Financial measures							
Base operating plus base capital costs	Targeting base operating and capital expenditure ensures we can invest in our assets efficiently and provide a great service that customers value	£324.5m or less	£323.8m 🟢	6.67% £25,076	5.00% £11,506	6.67% £25,076	5.00% £11,506
Enhanced expenditure	Targeting sufficient enhancement expenditure ensures our commitment to invest in the resilience of our infrastructure	£75.5m or more	£86.1m 🟢	6.67% £25,076	5.00% £11,506	6.67% £25,076	5.00% £11,506
Cash generated from operations less capital expenditure	Targeting sufficient cash generated by operations ensures we can provide sufficient returns to investors, finance group debt and ensure we are financially resilient	(£19.0m) or more	(£37.2m) 🟠	6.66% £25,038	5.00% £11,,489	0.00% £nil	0.00% £nil
Customer and environment measures							
C-MeX[1]: score	Targeting an improvement in the C-MeX positions ensures we focus on providing a great service that customers value	75.75 or more	73.16 🟠	5.00% £18,798	3.75% £8,625	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	88.40 or more	87.04 🟠	5.00% £18,798	3.75% £8,625	0.00% £nil	0.00% £nil
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	17% reduction from base or more	18.3% 🟢	5.00% £18,798	3.75% £8,625	5.00% £18,798	3.75% £8,625
Water quality: Customer contacts reported per 1,000 population	Targeting low customer contact ensures customers have high-quality water they can trust	0.67 or less	0.58 🟢	5.00% £18,798	3.75% £8,625	5.00% £18,798	3.75% £8,625
Water quality: CRI score	Targeting a low CRI score ensures customers have high-quality water they can trust	2.0 or less	8.05 🟠	5.00% £18,798	3.75% £8,625	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	33.67 Ml/d reduced through activity	37.85Ml/d 🟢	5.00% £18,798	3.75% £8,625	5.00% £18,798	3.75% £8,625
Interruptions to supply: minutes interrupted above three hours	Targeting few interruptions to supply ensures we can minimise disruption for customers and the community	5 mins and 23 seconds or less	2 mins 46 seconds 🟢	5.00% £18,798	3.75% £8,625	5.00% £18,798	3.75% £8,625
Mains repairs (per 1,000km)	Targeting mains repairs ensures we can minimise disruption for customers and the community	less than 144.4 repairs per 1,000km of mains	98.3 🟢	5.00% £18,798	3.75% £8,625	5.00% £18,798	3.75% £8,625
Unplanned outage (%)	Targeting unplanned outage ensures we can minimise disruption for customers and the community	2.34% or less	1.42% 🟢	5.00% £18,798	3.75% £8,625	5.00% £18,798	3.75% £8,625
Properties at risk of low pressure: per 10,000 connections	Targeting reducing properties at risk of lower pressure ensures we can minimise disruption for customers and the community	1.250 or less	138.594 🟠	5.00% £18,798	3.75% £8,625	0.00% £nil	0.00% £nil
Net Zero: Scope 1 emissions reduced by 5% (tCO_2e)	Targeting reduced emissions ensures we are demonstrating our commitment to Net Zero	5,970 tonnes or less	5,212 tonnes 🟢	5.00% £18,798	3.75% £8,625	5.00% £18,798	3.75% £8,625
Enhancement action plan: 90% of enhancement action plan milestones delivered on a cumulative basis	Targeting the success of our enhancement action plan ensures our commitment to invest in the resilience of our infrastructure	34 or more	40 🟢	5.00% £18,798	3.75% £8,625	5.00% £18,798	3.75% £8,625
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	0.12 or below	0.11 🟢	5.00% £18,798	3.75% £8,625	5.00% £18,798	3.75% £8,625
Personal performance[3]:				15.00% £56,393	11.25% £25,875	14.00% £52,633	9.75% £22,425
Total percentage of base salary				100.00%	75.00%	72.34%	53.51%
Base salary						**£375,950**	**£230,000**
Bonus paid						**£271,962**	**£123,062**

Key: 🟢 Target met 🟠 Target not met

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 2023/24

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

Awards granted during the year (audited)

No additional awards were granted in the year.

Source data and Remuneration Committee assessment of targets (unaudited)

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

The work of the Audit, Risk and Assurance Committee (detailed on pages 118 to 125 is key to ensuring that the organisation has robust and effective processes relating to financial reporting, internal controls, risk management and ethics). The Audit, Risk and Assurance Committee is the main oversight body for the internal and external Auditor and is central to the company's governance structure. The Remuneration Committee is satisfied the data is accurate given the strong controls in place that are overseen by the Audit, Risk and Assurance Committee.

Percentage change in remuneration of directors and employees (unaudited)

A pay deal covering the period 1 April 2024 to 31 March 2025 has been negotiated with trade unions, resulting in the following:

- 4.2% increase to the basic pay of all employees (7.5% for the period 1 April 2023 to 31 March 2024); and
- 4.2% increase in allowances that are taxable and pensionable, primarily flexible, and standby allowances (7.5% for the period 1 April 2023 to 31 March 2024).

This pay deal also applied to the executive directors, and as such the CEO and CFO will receive an increase of 4.2% with effect from 1 April 2024 (3% for the CEO in the prior year with effect from 1 April 2023).

	Total base salary/fees, taxable benefits and annual bonus				Percentage change from			
	2023/24 £000	2022/23 £000	2021/22 £000	2020/21 £000	2022/23 %	2021/22 %	2020/21 %	
NED								
Trevor Didcock:								
Fees	**64**	60	51	51	6.67%	15.0%	0.0%	Change in 2023/24 and 2022/23 reflects an increase in fixed fee from 1 October 2022 as well as an additional element for the Chair of the Remuneration Committee role from 1 April 2022
Shelley Malton:								Director appointed on 1 December 2023
Fees	**17**	–	–	–	100%	N/A	N/A	
Chris Newsome:								
Fees	**63**	56	49	49	12.5%	14.3%	0.0%	Change in 2023/24 and 2022/23 reflects an increase in fixed fee from 1 October 2022 as well as an additional element for the Director of Employee Engagement role
Justin Read:								
Fees	**60**	55	50	35	9.1%	10.0%	N/A	Director appointed on 14 July 2020; Change in 2023/24 and 2022/23 reflects an increase in fixed fee from 1 October 2022
Company Chair								
Ian Tyler:								
Fees	**195**	234	195	44	(16.67%)	20.0%	N/A	Chair appointed on 11 January 2021; Includes an amount of £39,230 in 2022/23 for an additional allowance as compensation for taking on an executive Chair role for a period of five weeks and providing CEO transitional activities over a further period of seven weeks
Executive Director								
Keith Haslett:								
Salary	**376**	91	–	–	[1]	N/A	N/A	Director appointed on 3 January 2023; 3% inflationary increase applied from 1 April 2023
Taxable benefits	**16**	3	–	–	[1]	N/A	N/A	
Bonus	**272**	34	–	–	[1]	N/A	N/A	
Pension benefits	**45**	–	–	–	[1]	N/A	N/A	
Martin Roughead:			–					
Salary	**220**	–	–	–	[1]	N/A	N/A	Director appointed on 17 April 2023
Taxable benefits	**12**	–	–	–	[1]	N/A	N/A	
Bonus	**123**	–	–	–	[1]	N/A	N/A	
Pension benefits	**27**	–	–	–	[1]	N/A	N/A	

1 The total amounts for 2023/24 are higher than for 2022/23 due to Keith Haslett only being in post for three months of 2022/23 and Martin Roughead joining in April 2023

Remuneration report continued

Pay ratios table (unaudited)

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

Year	Methodology used	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2023/24	**Option B**	**21.4:1**	**14.9:1**	**11.4:1**
2022/23	Option B	21.6:1	12.9:1	11.5:1
2021/22	Option B	24.3:1	19.6:1	15.9:1
2020/21	Option B	28.1:1	19.9:1	15.6:1
2019/20	Option B	32.7:1	21.0:1	18.3:1

The ratios above for 2023/24 are calculated using the 5 April 2023 gender pay gap data as permitted under Option B. Option B was used as the gender pay gap reporting date falls within the 2023/24 financial year and is a good representation of the data for the year. As we have a significant employee base, due to the size and complexity of the data, it was felt to be overly complicated to prepare single figure calculations for each individual. We have used the 5 April 2023 gender pay gap data to identify three employees at median, 25th and 75th percentiles. The Committee has considered the methodology and is confident the employees identified are reasonable representatives of the employee population as the structure of their remuneration arrangements is in line with that of the majority of the employee population. This methodology and approach are consistent with those of previous years.

Payroll data has then been used to calculate total 2023/24 remuneration for the employees identified, which includes wages and salary, taxable benefits, their accrued 2023/24 annual bonus and pension benefits, but excludes overtime payments to ensure consistency amongst the employees. This has been compared to the CEO's remuneration for 2023/24 for Keith Haslett. There was a decrease in the CEO pay ratio for two of the three percentiles in the year, mainly due to employees receiving a 7.5% basic pay increase from 1 April 2023 with only a 3% increase awarded to the CEO, as well as combined bonus and LTIP payments being consistent in each of 2023/24 and 2022/23.

2023/24	Salary component of total pay and benefits	Total pay and benefits
25th percentile pay ratio	£31,485	£32,851
Median pay ratio	£43,213	£47,088
75th percentile pay ratio	£53,761	£61,513

In March 2024, we published our gender and ethnicity pay gap report on our website and submitted our gender pay gap data to the government gender pay gap reporting service. This fulfils our statutory obligation as a large private sector employer to publish gender pay information every year. For the first time, we also followed recognised good practice in publishing ethnicity pay information too.

The report shows that our gender pay gap on both median and mean measures decreased compared to the previous year, from 21.5% to 17.9% on the mean measure and from 30.8% to 27.6% on the median measure. This was because the proportion of female employees in the two upper pay quartiles increased by three percentage points.

Our ethnicity pay data shows that mean and median hourly pay for Asian/Asian British employees is 2.6% lower than for White/White British employees. For Black/Black British employees mean hourly pay is 6.7% lower and median hourly pay is 8.7% lower than for White/White British employees. One reason for this disparity is that the ethnic diversity of our younger employees (those aged 35 and under) is greater than for older employees who tend to be more senior in the workforce.

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

Statutory requirements

This Remuneration Report has been prepared on behalf of the Board by the Remuneration Committee. The Report was approved by the Board on 8 July 2024 and signed on its behalf by:

Trevor Didcock
Chair of the Remuneration Committee

8 July 2024

Ownership and financing

Ownership

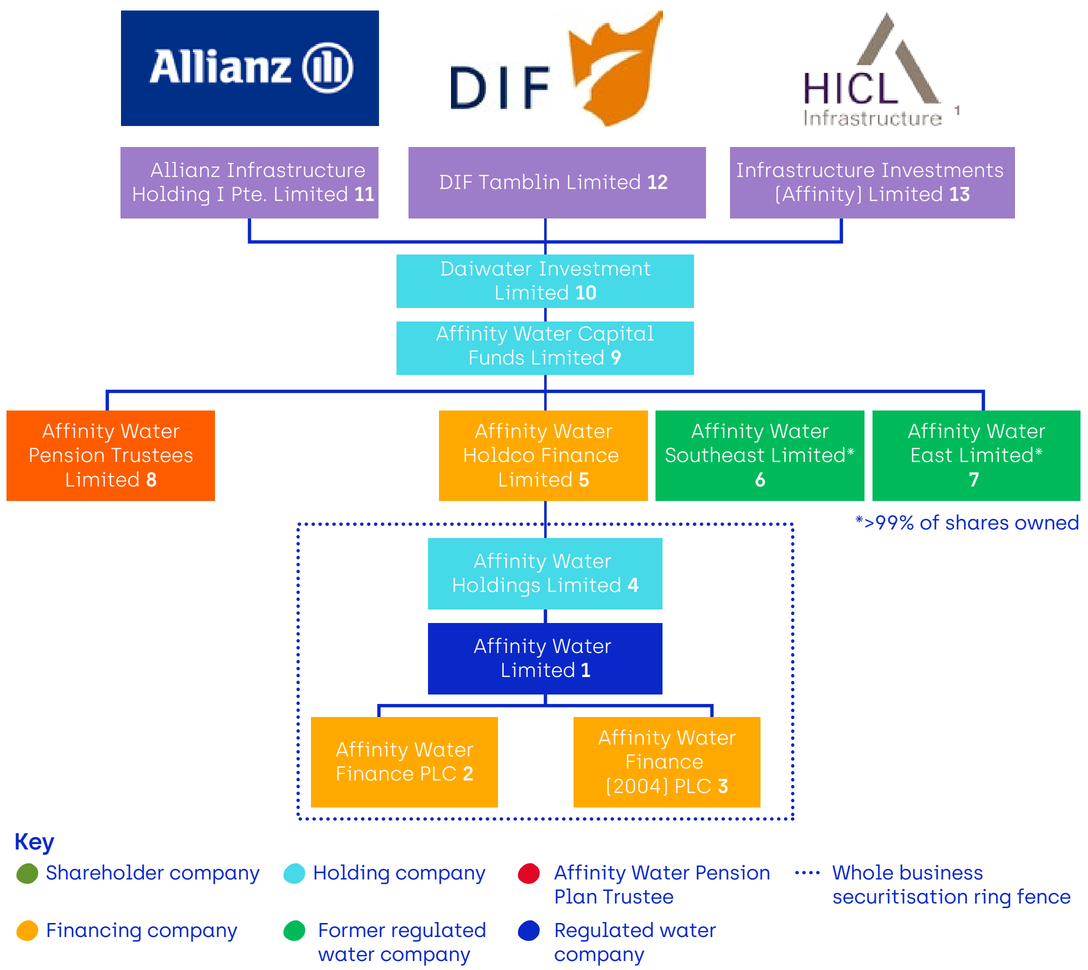
On 19 May 2017, Affinity Water Acquisitions (Investments) Limited (now liquidated) was acquired by a consortium comprising DIF, HICL Infrastructure Company Limited (advised by InfraRed Capital Partners Limited) and Allianz Capital Partners on behalf of the Allianz Group. As part of the transaction, the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

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

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

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

The Group Structure Chart below shows the structure of the Group, excluding dormant subsidiaries, as at 31 March 2024. Unless otherwise indicated, all companies are wholly owned by the parent company shown. The numbers listed alongside the companies within the Group structure may be cross referenced to the other Group directorships of the company's directors, indicated within their biographies on pages 103 to 105.



[1] HICL Infrastructure (advised by InfraRed Capital Partners) sold down 3.4% of its interest to a small group of co-investors, comprising UK local authority pension funds in June 2017. Sun Life Financial Inc acquired an 80% interest in the InfraRed business from InfraRed Capital Partners in July 2020

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

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

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

The following table provides further explanation of the Group structure.

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

Our financing

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

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

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

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

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

The bonds issued by the company's subsidiaries at 31 March 2024 can be summarised as follows:

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

* Listed on the London Stock Exchange

Ownership and financing continued

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

Our net debt[1] as at 31 March 2024 was £1,382.3 million, an increase of £124.6 million since last year (2023: £1,257.7 million), primarily due to accretion on the index-linked bonds. Our gearing, as measured by net debt to RCV at 31 March 2024, was 74.6% (2023: 73.4%), and remains below our internal maximum gearing level of 80.0% of RCV.

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

Interest rate exposure is, primarily, managed by using a mixture of fixed rate, floating rate, and index-linked borrowings (refer to note A4 to our statutory financial statements). At the year-end, 48.3% of our gross borrowings were at fixed rates (2023: 49.3%), 33.8% (2023: 32.9%) at rates indexed to RPI and 17.9% (2023: 17.8%) at rates indexed to CPI. Considering our index-linked inflation swaps, the proportion of borrowings at fixed rates decreased to 14.4% (2023: 14.8%), the proportion indexed to RPI increased to 49.2% (2023: 48.7%) and the proportion indexed to CPI remained consistent at 36.4% (2023: 36.5%). The credit ratings for our subsidiaries' bonds assigned by the rating agencies, Moody's, Standard & Poor's, and Fitch were as follows. Our credit ratings have not changed since March 2023.

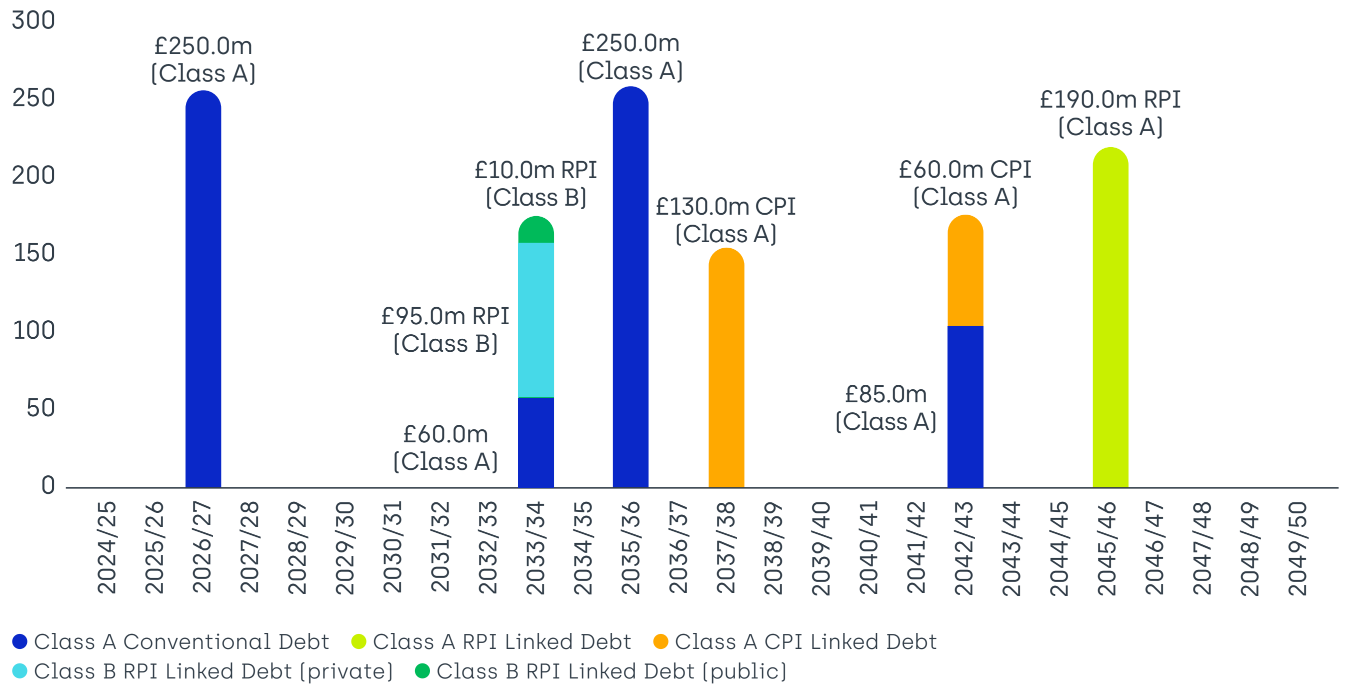
Bonds	Moody's	Standard & Poor's*	Fitch
Class A	A3	BBB+	BBB+
Class B	Baa3	BBB-	BBB-
Corporate family rating	Baa1	Not applicable	Not applicable

* Negative outlook applied by Standard & Poor's

Our liquidity is managed through banking arrangements and adequate (though not excessive) cash resources, borrowing arrangements and standby facilities. This enables us to have the level of funds available that are necessary for the achievement of our business and service objectives at all times. At 31 March 2024, we had cash balances of £59.8 million (2023: £78.8 million) and short-term deposits held as investments of £21.6 million (2023: £66.7 million). The decrease in cash from the prior year is primarily due to the significant investment in our capital programme during the course of the year to 31 March 2024.

To the extent that additional funding is required, as well as our cash balances, we have access to two revolving credit facilities totalling £100.0 million (2023: £100.0 million), which were undrawn at 31 March 2024 (2023: undrawn), to finance capital expenditure and working capital requirements.

In addition, we have access to a further £57.0 million of liquidity facilities (2023: £52.0 million), consisting of a 364-day revolving £29.0 million facility to fund any debt service payments in the event of a liquidity shortfall, which would, otherwise, prevent such payments being made and a 364-day revolving facility of £28.0 million to fund operating and capital maintenance expenditure in the event of a liquidity shortfall.



Directors' report

Directors' report

We recognise and value our shareholders' commitment to re-invest for the benefit of our customers noting that no equity dividends were paid in 2022/23 and 2023/24.

Patrick Makoni
Group Company Secretary

Introduction

The directors present their Annual Report and the Audited Statutory Financial Statements of Affinity Water Limited (the 'company') for the year ended 31 March 2024. The company is a limited liability company registered in England and Wales and its immediate parent undertaking is Affinity Water Holdings Limited, a company also registered in England and Wales. The directors consider that Daiwater Investment Limited was the ultimate holding and controlling company in the United Kingdom at 31 March 2024. Details of the ownership of the company and the Group structure are set out on page 156 of the governance section and note 25 of the financial statements. The address of the principal place of business is Tamblin Way, Hatfield, Hertfordshire AL10 9EZ. The Strategic Report provides detailed information relating to the company, its strategy, the operation of its business and its results and financial position for the year ended 31 March 2024. Details of the risks and principal uncertainties facing the company are set out on page 80.

Directors

The directors of the company, together with their periods of office and their biographical details, are shown on pages 103 to 105. The directors who were in office during the year, and up to the date of signing the financial statements, are summarised below:

Directors

Andrew Cox (appointed 15 November 2023 as an alternate director and stepped down 10 June 2024)

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

Trevor Didcock (Senior Independent Director)

Keith Haslett

Shelley Malton (appointed 1 December 2023)

Chris Newsome

Mike Osborne

Justin Read

Martin Roughead (appointed 17 April 2023)

Roxana Tataru

Ian Tyler (Chair – Stepping down in 2024)

Adam Waddington (appointed 12 May 2023)

Group Company Secretary

Patrick Makoni (appointed 3 April 2023)

Significant events during the year

Details of the significant events that occurred during the year are set out in the Chief Executive Officer's introduction on page 16.

Results and financial performance

Loss for the year £37.3m (prior year has changed to £100.4m due to a restatement) with net assets (negative) of £(155.6)m and prior year of £(97.7)m. Further analysis of our financial performance can be found in the Financial Review by the Chief Financial Officer on page 50 of the Strategic Report.

Information required under the listing rules

During the year, no interest was capitalised by the company (2023: £nil). For disclosures in relation to relevant requirements of the Listing Rules, refer to the Remuneration Report on pages 138 to 155.

Dividends

Our Board agreed to restrict the payment of dividends throughout AMP7 to enable substantial investments to improve our resilience and protect the environment. No equity dividends were paid in 2022/23 or 2023/24, further reflecting our shareholders' commitment to re-invest all planned returns from both the company's appointed business and non-appointed business (the part of our business not regulated by Ofwat) for the benefit of our customers. The Board is not proposing to recommend the payment of a final dividend for the year (2023: £nil). Our dividend policy is available on our website: **affinitywater.co.uk/governance-assurance**.

Greenhouse Gas emissions

This section provides information about our energy consumption, greenhouse gas ('GHG') emissions and our performance in managing them. We have been confidently reporting our Scope 1 and 2 emissions for several years now and are now in the second year of reporting our full carbon footprint (Scope 1, 2 and 3 emissions).

How we report our emissions

We account for all energy and operational emissions for which Affinity Water Ltd has 'operational control' as defined by the GHG Protocol.

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

- Scope 1 emissions (direct emissions) are those from activities we own or control, including those from our treatment processes, company vehicles, and burning of fossil fuels for heating.
- Scope 2 emissions (indirect emissions) result from purchased heat and electricity.
- Scope 3 emissions (indirect emissions) arise from activities we do not own or control, but which we can influence. These include from the products and services we buy.

We use a combination of methods to estimate the emissions associated with our carbon footprint following the principles of the 2015 GHG Protocol Corporate Accounting and Reporting Standard. For Scope 1 and 2 emissions we follow the most common approach to calculate GHG emissions, which is to take activity data (e.g. units of electricity consumed, or distance travelled) and convert the activity data into tCO_2e. For Scope 3, where possible this is estimated using activity data and where this is not possible, estimates have been derived from spend-based data or other benchmarks.

We also align to the 2019 UK Government Environmental Reporting Guidelines, including the requirements for Streamlined Energy and Carbon Reporting ('SECR'). We have reported the common intensity metric for the Water Industry, which is carbon (tCO_2e) per Ml of water, which is our tCO_2e divided by water into supply (Ml).

Market-based and location-based reporting

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

The Renewable Energy Guarantees of Origin ('REGO') scheme provides certificates called REGOs, which demonstrate electricity has been generated from renewable sources.

Scope 1 and 2 greenhouse gas emissions		**2023/24 kWh**	**2022/23 kWh**
Energy consumption used to calculate emissions		229,143,027	243,026,864
		tCO_2e	**tCO_2e**
Scope 1			
Direct emissions from burning of fossil fuels		982	1,585
Process and fugitive emissions from water treatment works and refrigerants		1,943	2,005
Transport: company-owned or leased vehicles		2,070	2,147
Total Scope 1		4,995	5,737
Scope 2			
Grid electricity purchased	Location-based	45,053	43,623
	Market-based	38,441	–
Total scope 2	Location-based	45,053	43,623
	Market-based	38,441	–
Scope 3			
Category 1: Purchased goods and services		50,566	38,407
Category 2: Capital goods		31,245	22,173
Category 3: Fuel and energy-related activities		15,170	16,212
Category 4: Upstream transportation and distribution		317	238
Category 5: Waste generated in operations		9,874	7,425
Category 6: Business travel		227	228
Category 7: Employee commuting		836	1,068
Category 13: Downstream leased assets		197	209
Total Scope 3		108,433	85,955
Total annual net emissions (location-based)		158,481	135,315
Total annual net emissions (market-based)		151,869	91,692

	Kg CO_2e per M[1]	**Kg CO_2e per M[1]**
Intensity Ratio – Water Treated[1]	145	141

1 We state our emissions per mega litre of water treated. We include within this intensity metric Scope 1 and Scope 2 market-based emissions

For 2023/24 we have recorded a reduction in Scope 1 emissions due to reduced use of diesel-powered standby generators. For our Scope 2 emissions, although we used less electricity in 2023/24 compared to 2022/23 we have recorded an increase in both location-based and market-based emissions. Location-based emissions increased as the UK average-grid emissions factor increased for 2023. In October 2023, following significant increases in the price of REGO-backed electricity we took a decision to pause the purchase of a specific green tariff as it does not offer customers good value for money. Alternative options for both purchasing and generating our own renewable energy remain under review as part of our net zero strategy.

For 2023/24, we have recorded an increase in Scope 3 emissions compared to 2022/23, which is primarily due to increases in Category 1 and 2 emissions. Better understanding of Category 1 emissions has led to clearer data to support the accounting process. This along with the use of primary data for chemicals reporting has led to an increased emissions figure for 2023/24. The equivalent data for 2022/23 is not available but if this were able to be included it would give a similar figure. Category 2 emissions increased due to spending more on emission-intensive goods such as civil buildings and pumps.

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

Directors' report continued

In 2023/24, we continued to take steps to improve our energy efficiency and reduce our GHG emissions. Our solar installations continued to provide renewable energy to our sites at Chertsey and Walton generating a combined 1.6GWh, similar to the previous year. We also undertook construction of two new sites, which will increase our generating capacity to around 4GWh per year. We also welcomed our first five electric vehicles to our livered fleet beginning our ambitious EV transition programme.

The energy intensity of our operations also improved this year, averaging 606kWh per Ml of water into supply compared to 629kWh per Ml of water into supply in 2022/23.

During 2023/24, we implemented 14 energy efficiency schemes largely through our pump replacement programme. These projects are expected to save around 1.2GWh per year. Replacing and refurbishing our borehole pumps at Stoke by Nayland is expected to contribute the greatest single saving (245 MWh/year).

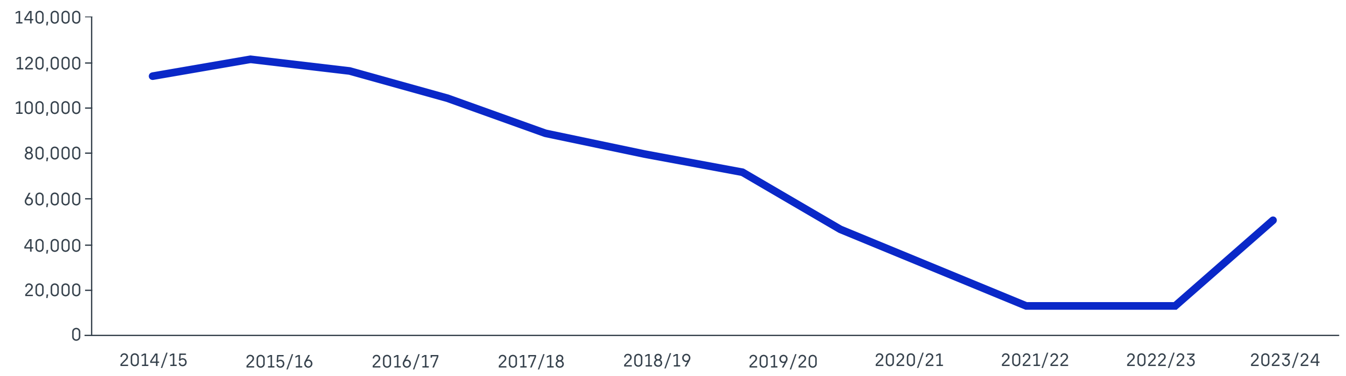
This year we have continued efficiency work on our buildings and offices, with new initiatives to reduce energy used for heating and lighting through process and behavioural change. We continue to put focus on changing our culture, promoting our **Zapp** app, which empowers colleagues to raise efficiency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

We have a mature programme of energy savings opportunities with seven potential schemes in various stages of implementation. Using this programme, we have set ourselves a 1.9MWh per year savings target for 2024/25.

Progress towards Net Zero

In 2019, we joined other water companies in pledging to achieve Net Zero for our 'operational' emissions by 2030. The graph below shows that for 2023/24 we have seen increase in our reported emissions relevant to this 2030 target. The increase is as a result of moving away from a 'green tariff' for our electricity. In October 2023, following significant increases in the price of REGO-backed electricity we took a decision to pause the purchase of a specific 'green' tariff as it does not offer customers good value for money. We remain committed to reducing our emissions with a focus on our direct emissions and increasing energy efficiency. How the UK electricity decarbonises and the availability of affordable renewable electricity in the coming years will strongly influence our ability to reach 2030 Net Zero target.

Net Zero by 2030 (Market Based) (tCO_2e)



Directors' report continued

Research and development activities

The development and application of new techniques and technology is an important part of the company's activities. The company is a contributing member of UK Water Industry Research ('UKWIR') and participates widely in, and benefits from, its research programme. The UKWIR programme focuses on the most significant challenges for the UK and Irish water industry, with the most significant for Affinity Water being drinking water quality; toxicology; water resources and catchment management; climate change; water mains and services; and leakage and smart metering.

The company is also a member of other water industry research and innovation groups: Technology Approval Group, the Water Treatment Technical Working Group, the Sensor for Water Interest Group, the Instrument User Group, the Water Regulations Advisory Scheme and Cranfield Water Network. Throughout the year, Affinity Water has carried out a number of research and development projects in association with these groups and individually. Most notably, research into the effectiveness treatment technologies in treating for PFAS, a group of manmade chemicals widely used within industrial processes.

Innovation

During 2023/24, we paid £1.083 million into Ofwat's Innovation in Water Challenge, an industry-wide initiative to drive transformational change and better meet the evolving needs of customers, society, and the environment. In 2023/24, we have progressed eight projects supported by the fund, either as the leading organisation or a partner.

We are leading the 'Seagrass' project, which is now nearing completion. The project involves planting and restoring Seagrass meadows to enhance the stability of the coastal zone, locking carbon into the seabed, improving water quality, and creating habitat local fauna. Following completion of all investigative work, the Project Team is now developing a blueprint for upscaling the restoration of Seagrass to enhance the resilience of the estuarine and coastal waters of the Affinity Water and Anglian Water supply regions in Essex and Suffolk.

We are also leading the 'Water Neutrality at NAV Sites' project, which continues to extend water industry understanding of ways to reduce net water demand. With the project near half completed, we are learning which water saving devices are most effective in the journey towards 'water usage neutrality', while simultaneously understanding which customer behaviours contribute to this target and how these can best be influenced.

We have also been active partners in two projects completed during 2023/24, 'Designer Liner 1' and 'Whole-Life Carbon Costs in Design' and continue to support the 'Safe, Smart Systems' project looking at providing the framework for an integrated, automated system from source to tap. Towards the end of 2023/24, activity started on our three new projects, which we are supporting as a partner organisation; 'Designer Liner 2', 'Mainstreaming Nature Based Solutions' and 'Water Efficiency in Faith Groups'.

More information can be found regarding all of these projects at **waterinnovation.challenges.org/**

Political contributions

No political contributions were made during the year (2023: £nil), in accordance with the company's policy of not making political contributions.

Financial instruments disclosures

Details are included within risk number 15 on page 88 of the Strategic Report and in note A4 of the Financial Statements.

Employee matters

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

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

Engagement with employees

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

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

See page 75 for details in our Section 172(1) statement on how directors have engaged with employees.

Engagement with other stakeholders

See page 72 onwards for details in our Section 172(1) statement on how directors have engaged with suppliers, customers, and other stakeholders.

Future developments

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

Corporate governance

The company's statement on corporate governance, including information required by the Disclosure and Transparency Rules, can be found in the Corporate Governance Report on pages 106 to 117 of this Annual Report and Financial Statements. This section forms part of this Directors' Report and is incorporated into it by cross-reference. We have reported our compliance with the Affinity Water Corporate Governance Code, which is available on our website at: **affinitywater.co.uk/governance-assurance**.

Events after the reporting period

On 2 May 2024, the company completed a transaction whereby it acquired the freehold interest in its head office building in Hatfield from Railpen Pension Nominees Limited for an amount of £16.1 million. At the same time, a sale and leaseback transaction of the property was entered into with Just Retirement Limited at an equivalent value. The transaction provides the company with an option to reacquire the property at the end of the lease term in December 2045.

Going concern

The directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements as they believe that the company has adequate resources to meet its current operational and financial obligations, and the directors have a reasonable expectation that this will continue for the foreseeable future and for a period of at least 12 months from the date of approval of these financial statements. This is based on assessment of the principal risks of the company and the other matters discussed in connection with the viability statement on pages 90 to 94, as well as consideration of the company's budgeted cash flows, short and long term forecasts and ability to generate future revenues, related assumptions and available debt facilities.

To assess a severe but plausible downside scenario, management have considered a base case scenario that reflects the current market conditions in the economy and have applied a series of severe downside assumptions.

These include both increased costs from the financial impacts of operational events, including the impact of a severe cold weather event over the winter period, and an increase in bad debt representing approximately 7% of debt not currently subject to loss allowance provision.

The severe but plausible downside scenarios is overlaid on the base case forecast, which has taken into consideration the impact of inflation, interest rates, supply chain cost pressures, the energy price crisis and the cost of living crisis.

It is possible both an Interest Cover Ratio (ICR) trigger and default event could occur in the severe but plausible downside scenario, although this is based on the assumption that no mitigating actions would be taken. Management are confident that mitigation actions within their control could be implemented that would prevent a trigger or default event from occurring. Under an ICR trigger event, the company would be subject to certain constraints such as restrictions on dividends and restriction on debt buybacks. However, the directors are satisfied that an ICR trigger event would not fundamentally constrain the company's ability to carry out its business, particularly after considering the company's strong cash position meaning that the company has no further funding requirement in AMP7. Under an ICR default event, each finance party may declare all amounts outstanding under the applicable Finance Documents to be immediately due and payable.

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

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

Details of the company's cash and short-term investment are included in the statement of financial position on page 180, and undrawn committed borrowing facilities are included in note A4. Due to the nature of the regulated water company's business, the directors consider it appropriate to place reliance on projected financials. There have been no events after the reporting period significantly affecting liquidity headroom or forecast covenant compliance.

Directors' report continued

Directors' qualifying third-party indemnity provisions

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

Statement of directors' responsibilities in respect of the financial statements

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

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

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

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

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

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

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

Directors' confirmations

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

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

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

Independent Auditors

Pursuant to Section 487 of the Companies Act 2006, the company and wider group undertook a formal tender process for its external audit. Following a competitive audit tender process, the Board recommended that PricewaterhouseCoopers LLP be reappointed as the company and wider Group's external Auditor. In accordance with Section 485 of the Companies Act 2006, a resolution to reappoint PricewaterhouseCoopers LLP will be proposed at the forthcoming AGM.

By order of the Board

Patrick Makoni
Group Company Secretary

8 July 2024

Registered Office:
Affinity Water Limited
Tamblin Way
Hatfield
Hertfordshire

Financials

Financials

Independent Auditors' report

to the members of Affinity Water Limited

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 March 2024 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of financial position as at 31 March 2024; the Income statement, the Statement of comprehensive income, the Statement of changes in equity and the Statement of cash flows for the year then ended; and the notes to the financial statements, comprising material accounting policy information and other explanatory information.

Basis for opinion

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

Independence

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

Our audit approach

Context

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

Our key audit matters for the year ended 31 March 2024 remain consistent with the year ended 31 March 2023, as set out in further detail below.

Overview

Audit scope

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

Key audit matters

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

Materiality

- Overall materiality: £3.6 million (2023: £3.0 million) based on approximately 3.5% of the earnings before interest, tax, depreciation and amortisation ('EBITDA') (2023: based on approximately 3.5% of EBITDA).
- Performance materiality: £2.7 million (2023: £2.2 million).

The scope of our audit

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

Key audit matters

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

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

The key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Accuracy of the measured income accrual Refer to page 122 (Audit, Risk and Assurance Committee Report), page 186 (accounting policies) and page 188 (note 1). A measured income accrual of £47.5 million (31 March 2023: £39.5 million) has been recognised relating to revenue from the provision of water services to metered household customers that had not been billed at the year end date. The determination of the measured income accrual impacts directly on both reported revenue and gross profit. The measured income accrual accounts for the timing difference between the last meter reading and the estimated consumption of water from that point to the year end and is calculated based on the average consumption over the past two years by geographical groupings of customers. Given the direct impact that this has to revenue and operating profit and materiality of the amount as well as the range of assumptions used in calculating it, there is a risk that the measured income accrual and associated revenue could be materially misstated.	The measured income accrual is a manual calculation prepared using data from the Hi-Affinity billing system. We understood the methodology and ensured that it had been applied consistently with previous years. We also tested the mechanics of the spreadsheet used to calculate the measured income accrual. In respect of the integrity of the data within Hi-Affinity, we tested the design and operating effectiveness of key controls within the revenue and receivables cycle, including the reconciliation of reports produced from the Hi-Affinity billing system and the revenue journals posted to the general ledger, and the quarterly review of tariff changes made in the Hi-Affinity billing system. We also validated the accuracy of the data within Hi-Affinity by agreeing a sample of meter readings to the system and tracing actual consumption to the bills raised. We have also validated the data used in the calculations by agreeing a sample of inputs used in the calculation back to Hi-Affinity. To assess the overall reasonableness of the accrual, we performed an independent roll forward of the accrual recognised at 31 March 2023 to calculate an expected accrual at 31 March 2024, reflecting the underlying changes in the number of metered customers, pricing tariffs, levels of water consumption and the timing of meter readings. In order to assess the ability of management to prepare appropriate estimates in respect of the measured income accrual, we evaluated the historical accuracy of the estimation process by comparing the bills raised through the year to the amount accrued at 31 March 2023. We also compared the billing subsequent to 31 March 2024 and extrapolated the difference identified against the remainder of the accrual. Based on the procedures performed, we did not identify any material misstatements. We also assessed the disclosures in respect of the measured income accrual and consider these to be appropriate.

Independent Auditors' report

to the members of Affinity Water Limited

Key audit matter	How our audit addressed the key audit matter
Adequacy of loss allowance for trade receivables Refer to page 122 (Audit, Risk and Assurance Committee Report), page 186 (accounting policies), page 198 (note 12) and page 215 (note A4). The loss allowance for trade receivables of £37.1 million (31 March 2023: £37.0 million) was calculated by applying a range of different percentages to trade receivables based on their respective ageing, with higher percentages applied to those categories of trade receivables which are considered to be of greater risk. Some customers have difficulty paying their bills or, in certain instances, choose not to pay them. As a result, given there are limited steps that a water company can take to recover debt from household customers, there is an ongoing risk of aged trade receivables not being collected, with this risk being heightened by the economic impact of the ongoing cost of living being experienced by customers. Given the quantum of trade receivables, and the range of assumptions used in preparing the loss allowance for trade receivables, there is a risk that this estimate could be materially misstated.	We reviewed the methodology for calculating the underlying loss allowance for trade receivables and ensured it had been consistently applied with the prior year. We also understood and tested the mechanics of the spreadsheet used to calculate the initial loss allowance, the measurement basis (measured and unmeasured) and the methodology applied to calculate provision rates and agreed that they are consistent with the prior year. To ensure the appropriate classification of customers into sub-categories to apply the historical expected credit loss methodology, we selected a sample of trade receivables and tested that they have been allocated the appropriate provision rate based on ageing, customer type and measurement basis. In addition, we compared the actual rates used in the calculation of the loss allowance to prior year rates and reviewed the level of bad debt write offs which occurred during the year ended 31 March 2024 to assess the ability of management to prepare appropriate estimates. We also challenged management on the appropriateness of their methodology, through the use of sensitivity analysis to assess the impact of calculating the provision using a change in collection rates. Based on the procedures performed, we did not identify any material differences within the loss allowance for trade receivables. We also assessed the disclosures in respect of the loss allowance for trade receivables and consider these to be appropriate.

Key audit matter	How our audit addressed the key audit matter
Assessment of cost capitalisation Refer to page 122 (Audit, Risk and Assurance Committee Report), page 187 (accounting policies), page 195 (note 6) and page 207 (note A3). The additions to assets in course of construction during the year amounted to £165.8 million (year ended 31 March 2023: £114.3 million). These additions arose as a result of the fact that the company capitalises expenditure with respect to its infrastructure assets where such expenditure enhances or increases the capacity of the network, or relates to material replacements of network components. The allocation of costs between capital and non-capital expenditure has a direct impact on profitability in any given year specifically with respect to staff costs where allocation of costs is more judgemental. There is also a risk of completed assets not being appropriately transferred from assets in course of construction to the relevant asset categories. Given the magnitude of capital expenditure, there is a risk that incorrect classification could give rise to a material misstatement.	We reviewed the process for allocating costs to capital projects to check that this allocation was made on an appropriate basis and is in line with the company's capitalisation policy. We also performed a review of capital projects within assets in course of construction, to understand the nature of the work being performed and the estimated completion dates of the projects. We then used this information to challenge, where appropriate, the accounting treatment of these projects as at 31 March 2024. We examined the process of capitalising staff time and tested a sample of staff costs capitalised to ensure that the amount capitalised related to valid capital projects. We also tested a sample of additions to assets in course of construction during the year to corroborate the amount and appropriateness of these assets being capitalised. Overall, we consider the costs capitalised as at 31 March 2024 to be materially appropriate. We also assessed the disclosures in respect of the capitalisation of costs and consider these to be appropriate.

Independent Auditors' report

to the members of Affinity Water Limited

How we tailored the audit scope

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

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

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

The impact of climate risk on our audit

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

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

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

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

Whilst it is acknowledged that the physical and transition risks posed by climate change have the potential to impact the company over the medium to long-term, in particular given the commitment to achieve net zero carbon from operations by 2030, management has assessed that there is no quantitatively material impact arising from climate change on the judgements and estimates made in the financial statements for the year ended 31 March 2024.

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

Materiality

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

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

Overall company materiality	£3.6 million (2023: £3.0 million).
How we determined it	Based on approximately 3.5% of the earnings before interest, tax, depreciation and amortisation ('EBITDA') (2023: based on approximately 3.5% of EBITDA)
Rationale for benchmark applied	We have used EBITDA as this is the measure that management focus on internally within their reporting and is a generally accepted auditing benchmark for trading entities. The use of EBITDA is also consistent with the prior year.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2023: 75%) of overall materiality, amounting to £2.7 million (2023: £2.2 million) for the company financial statements.

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

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £0.18 million (2023: £0.15 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

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

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

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

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

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

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2024 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Independent Auditors' report

to the members of Affinity Water Limited

Corporate governance statement

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

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

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

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

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

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Other voluntary reporting

Directors' remuneration

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

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

Simon Bailey (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Watford

9 July 2024

Income statement

for the year ended 31 March 2024
(Registered Number 02546950)

	Note	2024 £000	2023 (restated) £000
Revenue	1	**347,651**	314,956
Cost of sales		**(299,356)**	(273,470)
Gross profit		**48,295**	41,486
Administrative expenses		**(38,994)**	(37,650)
Impairment losses on financial and contract assets	2.1	**(8,297)**	(11,199)
Other operating income	2.2	**21,104**	21,929
Operating profit		**22,108**	14,566
Finance income	4	**20,379**	19,529
Finance costs	4	**(94,112)**	(169,693)
Fair value gain on inflation swaps	4	**15,761**	50,122
Net finance costs		**(57,972)**	(100,042)
Fair value loss on energy swaps		**(13,075)**	(26,638)
Loss before tax		**(48,939)**	(112,114)
Income tax credit	5	**11,617**	11,764
Loss for the financial year		**(37,322)**	(100,350)

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

The prior year has been restated to reflect the change in accounting policy relating to contributions for new connections related to developer services activity. Further details are included on pages 184 and 185.

The notes on pages 183 to 223 are an integral part of these financial statements.

Statement of comprehensive income

for the year ended 31 March 2024
(Registered Number 02546950)

	Note	2024 £000	2023 (restated) £000
Loss for the financial year		**(37,322)**	(100,350)
Other comprehensive (expense)/income for the year which will not be reclassified to profit or loss:			
Re-measurements of post-employment benefit assets	10	**(27,443)**	(52,114)
Deferred tax credit on items that will not be reclassified	5	**6,861**	13,029
Other comprehensive expense for the year, net of tax		**(20,582)**	(39,085)
Total comprehensive Loss for the year		**(57,904)**	(139,435)

The prior year has been restated to reflect the change in accounting policy relating to contributions for new connections related to developer services activity. Further details are included on pages 184 and 185.

The notes on pages 183 to 223 are an integral part of these financial statements.

Statement of financial position

as at 31 March 2024
(Registered Number 02546950)

	Note	2024 £000	2023 £000 (restated)
Assets			
Non-current assets			
Property, plant and equipment	6	**1,800,958**	1,713,921
Right-of-use assets	7	**7,153**	7,649
Intangible assets	8	**34,408**	37,943
Investments	9	**100**	100
Retirement benefit surplus	10	**28,700**	53,615
Derivative financial instruments	11	**1,127**	3,283
		1,872,446	1,816,511
Current assets			
Inventories	13	**4,451**	4,833
Derivative financial instruments	11	**493**	6,068
Trade and other receivables	12	**115,134**	102,566
Short-term investments	9	**21,552**	66,709
Cash and cash equivalents	14	**59,777**	78,783
		201,407	258,959
Total assets		**2,073,853**	2,075,470
Equity and liabilities			
Equity			
Called up share capital	15	**30,506**	30,506
Share premium account	15	**1,400**	1,400
Capital contribution reserve	15	**30,150**	30,150
Accumulated losses		**(217,660)**	(159,756)
Total equity		**(155,604)**	(97,700)
Liabilities			
Non-current liabilities			
Trade and other payables	16	**329,690**	315,242
Borrowings	17	**1,359,485**	1,331,716
Lease liabilities	18	**3,974**	4,785
Derivative financial instruments	11	**126,364**	121,719
Deferred tax liabilities	19	**188,260**	206,738
Provisions for other liabilities and charges	20	**3,473**	3,319
		2,011,246	1,983,519
Current liabilities			
Trade and other payables	16	**206,227**	176,889
Lease liabilities	18	**3,343**	3,053
Derivative financial instruments	11	**1,119**	2,128
Provisions for other liabilities and charges	20	**4,100**	4,100
Current tax liabilities		**3,422**	3,481
		218,211	189,651
Total liabilities		**2,229,457**	2,173,170
Total equity and liabilities		**2,073,853**	2,075,470

The prior year has been restated to reflect the change in accounting policy relating to contributions for new connections related to developer services activity, and to restate £4,668,000 from intangible assets to property, plant and equipment. Further details are included on pages 184 and 185.

The notes on pages 183 to 223 are an integral part of these financial statements. The statutory financial statements on pages 178 to 223 were approved by the Board of directors and were signed and authorised for issue on 8 July 2024 on its behalf by:

Keith Haslett
Chief Executive Officer

Martin Roughead
Chief Financial Officer

Statement of changes in equity

for the year ended 31 March 2024
(Registered Number 02546950)

	Note	Called up share capital £000	Share premium account £000	Capital contribution reserve £000	Retained earnings/ (accumulated losses) £000	Total equity £000
Balance as at 1 April 2022		30,506	1,400	30,150	(17,753)	44,303
Prior period restatement		–	–	–	(2,568)	(2,568)
Restated balance as at 1 April 2022		30,506	1,400	30,150	(20,321)	41,735
Loss for the year		–	–	–	(100,350)	(100,350)
Other comprehensive income		–	–	–	(39,085)	(39,085)
Total comprehensive expense		–	–	–	(139,435)	(139,435)
Total transactions with owners recognised directly in equity		–	–	–	–	–
Balance as at 31 March 2023		30,506	1,400	30,150	(159,756)	(97,700)
Balance as at 1 April 2023		**30,506**	**1,400**	**30,150**	**(159,756)**	**(97,700)**
Loss for the year		**–**	**–**	**–**	**(37,322)**	**(37,322)**
Other comprehensive expense		**–**	**–**	**–**	**(20,582)**	**(20,582)**
Total comprehensive expense		**–**	**–**	**–**	**(57,904)**	**(57,904)**
Total transactions with owners recognised directly in equity		**–**	**–**	**–**	**–**	**–**
Balance as at 31 March 2024		**30,506**	**1,400**	**30,150**	**(217,660)**	**(155,604)**

The prior year has been restated to reflect the change in accounting policy relating to contributions for new connections related to developer services activity. Further details are included on pages 184 and 185.

The notes on pages 183 to 223 are an integral part of these financial statements.

Statement of cash flows

for the year ended 31 March 2024
(Registered Number 02546950)

	Note	2024 £000	2023 (restated) £000
Cash flows from operating activities			
Cash generated from operations	21.1	**102,839**	107,490
Interest paid		**(49,274)**	(42,868)
Net cash inflow from operating activities excluding deferred grants and contributions		**53,565**	64,622
Deferred grants and contributions		**23,423**	9,637
Net cash inflow from operating activities		**76,988**	74,259
Cash flows from investing activities			
Disinvestment of short-term deposits		**45,157**	3,470
Purchases of property, plant and equipment		**(155,866)**	(131,787)
Proceeds from sale of property, plant and equipment		**944**	535
Purchases of intangible assets		**(4,056)**	(5,299)
Interest received		**21,156**	19,680
Net cash outflow from investing activities		**(92,665)**	(113,401)
Cash flows from financing activities			
Principal elements of lease payments	18	**(3,329)**	(3,475)
Repayment of borrowings		**–**	(14,204)
Net cash outflow from financing activities		**(3,329)**	(17,679)
Net decrease in cash and cash equivalents		**(19,006)**	(56,821)
Cash and cash equivalents at the beginning of the year		**78,783**	135,604
Cash and cash equivalents at end of year	14	**59,777**	78,783

The prior year has been restated to reflect the change in accounting policy relating to contributions for new connections related to developer services activity. Further details are included on pages 184 and 185.

The notes on pages 183 to 223 are an integral part of these financial statements.

Notes to the financial statements

accounting policies

Basis of preparation

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

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

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

Going concern

The directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements as they believe that the company has adequate resources to meet its current operational and financial obligations, and the directors have a reasonable expectation that this will continue for the foreseeable future and for a period of at least 12 months from the date of approval of these financial statements. This is based on assessment of the principal risks of the company and the other matters discussed in connection with the viability statement on pages 90 to 95, as well as consideration of the company's budgeted cash flows, short and long term forecasts and ability to generate future revenues, related assumptions and available debt facilities.

To assess a severe but plausible downside scenario, management have considered a base case scenario that reflects the current market conditions in the economy and have applied a series of severe downside assumptions. These include both increased costs from the financial impacts of operational events, including the impact of a severe cold weather event over the winter period, and an increase in bad debt representing approximately 7% of debt not currently subject to loss allowance provision. The severe but plausible downside scenarios is overlaid on the base case forecast, which has taken into consideration the impact of inflation, interest rates, supply chain cost pressures, the energy price crisis and the cost of living crisis.

It is possible both an Interest Cover Ratio (ICR) trigger and default event could occur in the severe but plausible downside scenario, although this is based on the assumption that no mitigating actions would be taken. Management are confident that mitigation actions within their control could be implemented that would prevent a trigger or default event from occurring. Under an ICR trigger event, the company would be subject to certain constraints such as restrictions on dividends and restriction on debt buybacks. However, the directors are satisfied that an ICR trigger event would not fundamentally constrain the company's ability to carry out its business, particularly after considering the company's strong cash position meaning that the company has no further funding requirement in AMP7. Under an ICR default event, each finance party may declare all amounts outstanding under the applicable Finance Documents to be immediately due and payable.

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

The directors have also considered the ring fence structure in place and note that the existence of external borrowings outside of this structure, namely that within Affinity Water Holdco Finance Limited, does not impact the conclusions reached regarding the ability of the company to continue as a going concern. This is due to the fact that the company has no obligation to distribute funds through the holding company structure in order to meet such liabilities. Details of the company's cash and short-term investment are included in the statement of financial position on page 180, and undrawn committed borrowing facilities are included in note A4. Due to the nature of the regulated water company's business, the directors consider it appropriate to place reliance on projected financials. There have been no events after the reporting period significantly affecting liquidity headroom or forecast covenant compliance.

Material accounting policy information

The material accounting policy information applied in the preparation of these financial statements are set out in note A3. These policies have been consistently applied to all the years presented, unless otherwise stated. Adoption of new and revised standards There are no amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 March 2024 that have a material impact on the company's financial statements.

Adoption of new and revised standards

There are no amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 March 2024 that have a material impact on the company's financial statements.

Notes to the financial statements

accounting policies continued

New standards, amendments and interpretations not yet adopted

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

Disclosure exemptions

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

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

Prior year restatements

Prior year restatements as a result of error

The prior year statement of financial position has been restated to reclassify £4,668,000 from intangible assets to property, plant and equipment. This restatement has not had any impact on the income statement, statement of comprehensive income, statement of changes in equity or statement of cash flows.

Change in accounting policy

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

In the year ended 31 March 2023, contributions received in respect of new connections were recognised immediately in the income statement. Following changes to the Ofwat charging scheme for new connections in recent years, and a further review of industry practice, the accounting treatment has been reviewed and as a result of the charges being on a per plot basis, it is felt more appropriate by the directors to treat developer services as a bundle of services with a consistent accounting treatment across all types of contribution on the basis that the new connection has no economic value without the promise to provide an ongoing supply of water. Therefore, contributions in respect of new connections, and associated costs, are now also recognised over a period of time, consistent with the period over which the performance obligation is satisfied (the period over which water is supplied, the expected asset life). Prior period comparatives have been restated on that basis and in accordance with IAS 8: 'IAS 8 — Accounting Policies, Changes in Accounting Estimates and Errors' (IAS 8).

A summary of the financial statement line items affected by the restatement is included in the following table. This includes the cumulative effect of the change in accounting policy being effective from 1 April 2016. Retrospective application of the changes prior to this date is deemed impracticable due to the accounting system not previously set up to collate the coding of developer services activity in sufficient detail. This means the impact of the changes summarised below cannot be collated in a consistent, meaningful or reliable manner prior to this date.

Income statement (extract)	31 March 2023 (as previously presented) £000	Change due to restatement £000	31 March 2023 (restated) £000	31 March 2024 (impact) £000
Revenue	323,343	(8,387)	314,956	**(7,830)**
Cost of sales	(282,452)	8,983	(273,470)	**8,205**
Gross profit	40,891	595	41,486	**375**
Operating profit	13,971	595	14,566	**375**
Profit/(loss) before tax	(112,709)	595	(112,114)	**375**
Profit/(loss) for the period	(100,945)	595	(100,350)	**375**

Statement of financial position (extract)	31 March 2023 (as previously presented) £000	Change due to restatement £000	31 March 2023 (restated) £000	31 March 2024 (impact) £000
Property, plant and equipment	1,658,058	51,195	1,709,253*	**59,384**
Total assets	2,024,275	51,195	2,075,470	**59,384**
Accumulated losses	(157,783)	(1,973)	(159,756)	**(1,614)**
Trade and other payables (non current)	(262,074)	(53,168)	(315,242)	**(60,998)**
Total liabilities	(2,120,002)	(53,168)	(2,173,170)	**(60,998)**
Total equity and liabilities	(2,024,275)	(51,195)	(2,075,470)	**(59,384)**

* The prior year restatement has resulted in a further adjustment to property plant and equipment of £4,668,000 as a result of error.

Statement of cash flows (extract)	31 March 2023 (as previously presented) £000	Change due to restatement £000	31 March 2023 (restated) £000	31 March 2024 (impact) £000
Net cash flows from operating activities	64,857	9,402	74,259	**8,682**
Net cash flows used in investing activities	(103,999)	(9,402)	(113,401)	**(8,682)**

Notes to the financial statements
accounting policies continued

Critical accounting estimates

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

Measured income accrual

The company records an accrual for measured consumption of water that has not yet been billed (refer to note 12). The accrual is estimated using a defined methodology based upon weighted average water consumption by tariff, which is calculated based upon historical information. Revenue for the year ended 31 March 2023 included a measured income accrual of £40,190,000. The value of billing recognised in the year ended 31 March 2024 for consumption in the prior year was £40,275,000.

This resulted in an increase of £85,000 in the current year's revenue due to the under-estimation of the prior year's revenue. A 1% change in consumption would lead to a change of 1% in the measured income accrual.

Loss allowance of trade receivables and contract assets

The company makes an estimate of the recoverable value of trade receivables and contract assets and records a loss allowance based on experience (refer to note A3). This provision is based on, amongst other things, a consideration of actual collection history. At each reporting date, the company takes into consideration any significant economic changes that may impact its credit loss model and future credit losses. The actual level of receivables collected may differ from the estimated levels of recovery, which could impact operating results positively or negatively. If collection rates improve or deteriorate by a value of 1%, the calculation for provision loss allowance will increase or decrease accordingly by £800,000.

Useful economic lives of property, plant and equipment

The annual depreciation charge for property, plant and equipment is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on management's judgement and experience, which include the knowledge and research of the company's dedicated asset management teams and the company's plans to achieve Net Zero carbon emissions by 2030. Refer to note 6 for the carrying amount of property, plant and equipment and note A3 for the useful economic lives for each class of assets.

Based on the current useful lives, the carrying amount of property, plant and equipment at 31 March 2024 is £1,800,958,000 (2023: £1,713,921,000). If the useful lives of the assets were 10% shorter, the carrying amount would instead be £1,243,792,000 (2023: £1,215,568,000) and if they were 10% longer, the carrying amount would be £1,865,688,000 (2023: £1,823,352,000).

Based on the current useful lives, the carrying amount of intangible assets, excluding goodwill, at 31 March 2024 is £19,446,000 (2023: £22,982,000). If the useful lives of the assets were 10% shorter, the carrying amount would instead be £21,741,000 (2023: £25,004,000) and if they were 10% longer, the carrying amount would be £26,487,000 (2023: £30,297,000).

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

Defined benefit pension plan

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

Critical accounting judgements in applying the entity's accounting policies

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

Revenue recognition

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

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

Grants and contributions

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

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

In the prior year, contributions received in respect of new connections were recognised immediately in the income statement. Following changes to the Ofwat charging scheme for new connections, the accounting treatment has been reviewed and as a result of the charges being on a per plot basis, it is felt more appropriate to treat developer services as a bundle of services with a consistent accounting treatment across all types of contribution on the basis that the new connection has no economic value without the promise to provide an ongoing supply of water. Therefore, contributions in respect of new connections are now also recognised over a period of time.

Included within grants and contributions are contributions received relating to the HS2 rail programme, which crosses our supply area. These are shown within capital contributions in the statement of cash flows.

Cost capitalisation

The company capitalises expenditure on its infrastructure assets to property, plant and equipment where such expenditure enhances or increases the capacity of the network, or relates to material replacements of network components. Any expenditure classed as maintenance is expensed in the year it is incurred. Distinguishing between enhancement and maintenance expenditure is a subjective area, particularly when projects have both elements within them. The company is seeing increased enhancement and maintenance expenditure due to an increase in extreme weather events arising due to climate change. Refer to note 6 for the carrying amount of property, plant and equipment.

Climate change

The natural environment within which the company operates is constantly evolving due to the effects of climate change. This will influence how water is delivered by the company in the future.

The company is continually developing its assessment of the impact that climate change has on the assets and liabilities recognised and presented in its financial statements, such as the valuation of the property, plant and equipment, which could be impacted by either flooding or drought, or management's decision to replace assets as part of the company's Net Zero strategy. Management has considered the useful economic lives of assets impacted by climate change and environmental regulation and has considered whether any impairment has arose as a result of climate change. There has been no revaluation of assets or change in the assessment of assets' useful economic lives during 2023/24 as a result of this review.

The company established a Green Finance Framework during the year and issued its first green bond in October 2022 to finance projects which will adapt to and mitigate the effects of climate change. Updates on the proceeds and impact of the Green Funding can be found on our website at **affinitywater.co.uk/about us/investorslibrary**.

Notes to the financial statements

continued

1. Revenue

1.1 Disaggregation of revenue from contracts with customers

	2024 £000	2023 (restated) £000
Timing of revenue recognition – at a point in time		
Unmeasured supplies	**92,741**	95,859
Measured supplies	**182,958**	160,210
Non-household wholesale revenue	**62,656**	54,028
Connection charges	**712**	806
	339,067	310,903
Timing of revenue recognition – over time		
Requisitioned mains/extensions	**380**	556
Diversions	**6,146**	1,821
Infrastructure charges	**855**	1,178
New connections	**505**	435
Other	**698**	63
	8,584	4,053
	347,651	314,956

All revenue is derived in the United Kingdom.

1.2 Assets and liabilities related to contracts with customers

The company has recognised the following assets and liabilities related to contracts with customers:

	2024 £000	2023 (Restated) £000
Net trade receivables	**43,753**	36,839
Contract assets		
Unbilled accrual for metered customers – household customers	**47,548**	39,516
Unbilled accrual for metered customers – non-household customers	**5,010**	3,928
Contract liabilities		
Payments received in advance – household water supplies	**54,306**	48,500
Payments received in advance – non-household water supplies	**-**	591
Deferred income – water supplies	**-**	76
Deferred income – other	**496**	506
Deferred grants and contributions	**336,613**	322,207
Payments received in advance – grants and contributions	**12,896**	15,104

'Payments received in advance – grants and contributions' in the table above relate to contributions received from developers where the asset is still work in progress and not yet being depreciated. Once the asset is complete, the contribution is moved from 'payments received in advance – grants and contributions' to 'deferred grants and contributions' and amortised, to ensure the accounting treatment is consistent.

Significant changes in contract assets and liabilities

Up to 31 March 2024, the company had been reimbursed £159,660,000 (2023: £157,631,000) for its costs incurred in relation to the HS2 rail project, which will cross the Affinity Water supply area. This project is near completion and the company does not expect to incur significant costs for this in future periods. During the year, in line with the company's accounting policy for grants and contributions received in respect of property, plant and equipment, which include contributions received for diversions, £8,493,000 (2023: £16,364,000) relating to costs for assets that have been commissioned was reclassified from payments in advance – grants and contributions to deferred grants and contributions. At 31 March 2024, £2,739,000 (2023: £1,348,000) of payments received were included in payments in advance – grants and contributions.

1. Revenue continued

Recognition of trade receivables, contract assets and contract liabilities

For metered customers, a receivable is recognised when the customer is billed for the usage. At this point, the consideration is unconditional because only the passage of time is required before the payment is due. Where the company has provided the service before payment is due, an accrual for the consumption of water that has not yet been billed is recognised in the income statement and the company discloses this as a contract asset in the statement of financial position (see table on the previous page). Where the company has not provided the service before payment is due, deferred income is recognised and the company discloses this as a contract liability in the statement of financial position (see table on the previous page).

For unmetered customers, the customer pays a fixed amount determined by the transaction prices set out in the company's charging scheme and tariff documents, irrespective of usage. If the payments received exceed the amount the company has the right to receive, the company recognises a payment received in advance and discloses this as a contract liability in the statement of financial position (see table on the previous page).

Where non-household retailers are billed monthly in advance for wholesale charges, as determined by billing/volume reports created by the market operator, the company recognises deferred income in relation to these accounts and presents this as a contract liability within trade and other payables. Where the company has not provided the service before payment is due, deferred income is recognised and the company discloses this as a contract liability in the statement of financial position (see table on the previous page).

Developers are billed for connection charges and contributions towards diversions and requisitioned mains/extensions in advance of work being performed by the company. The company recognises these payments as being received in advance and discloses them as contract liabilities in the statement of financial position (see table on the previous page).

Developers are billed for infrastructure charges once the connection has been completed; a trade receivable is immediately recognised at this point as the consideration is unconditional. These receivables are included in net trade receivables in the table on the previous page.

The company does not incur any costs to obtain or fulfil contracts that would be recognised as an asset under IFRS 15.

Revenue recognised in relation to contract liabilities

The following table sets out how much of the revenue recognised in the current reporting year relates to carried forward contract liabilities and how much relates to performance obligations that were satisfied in a prior year:

`	2024 £000	2023 £000
Revenue recognised that was included in the contract liability balance at the beginning of the year		
Payments received in advance – household water supplies	**48,500**	46,746
Payments received in advance – non-household water supplies	**591**	–
Deferred income – water supplies	**76**	207
Deferred income – other	**506**	1,091
Deferred grants and contributions	**10,433**	3,619
Payments received in advance – grants and contributions	**14,820**	11,924
Revenue recognised from performance obligations satisfied in previous years		
Unbilled accrual for metered customers – household customers	**–**	–

Notes to the financial statements

continued

1. Revenue continued

Revenue expected to be derived from unsatisfied performance obligations

IFRS 15 requires the disclosure of the aggregate amount of revenue, which is expected to be derived from performance obligations, which are unsatisfied as at the end of the reporting year, i.e. the aggregate amount of future revenues from existing ongoing contracts.

The company has applied the practical expedient, set out in paragraph 121(a) of IFRS 15, not to disclose this amount in relation to water charges as the performance obligation is part of a contract that has an original expected duration of one year or less.

The unbilled accrual for measured income is a contract asset under IFRS 15. Historical information has proved to be an accurate indicator of current consumption and, therefore, the company deems it reasonable to conclude that the measured income accrual is materially correct.

At 31 March 2024, £336,613,000 (2023: £322,207,000) of grants and contributions is expected to be derived from performance obligations which were unsatisfied at the end of the reporting year.

2. Operating profit

2.1 Operating costs

The following items have been charged/(credited) to either cost of sales or administrative expenses in the income statement:

	2024 £000	2023 (restated) £000
Staff costs (note 3.1)	**65,698**	55,549
Energy costs	**49,779**	41,096
Profit on disposal of property, plant and equipment	**(944)**	(535)
Loss on disposal of infrastructure assets	**1,154**	888
Purchase of bulk water and water supplied under statutory entitlement	**12,938**	11,723
Water abstraction charges	**6,345**	6,349
Business rates	**12,890**	15,547
Chargeable services direct expenditure	**(209)**	(57)
Depreciation of infrastructure assets (note 6)	**10,034**	17,033
Depreciation of other property, plant and equipment (note 6)	**67,610**	54,326
Depreciation of right-of-use assets (note 7)	**3,295**	3,458
Amortisation of intangible assets (note 8)	**7,592**	5,954
Impairment of trade receivables and contract assets (note 12)	**8,297**	11,199
Research and development	**205**	196
Short-term lease rentals	**5**	24
Low-value lease rentals	**80**	76
Auditors' remuneration (note 2.3)	**805**	550
Cost of inventories used	**1,913**	1,203

2.2 Other operating income

	2024 £000	2023 £000
Timing of revenue recognition – at a point in time		
Commission and rentals	**21,104**	21,929

The majority of other income relates to commission earned by the company from billing and collecting charges in respect of sewerage and infrastructure within its area on behalf of Thames Water Utilities Limited and Anglian Water Services Limited (refer to note 23).

2. Operating profit continued

2.3 Auditors' remuneration

During the year, the company obtained the following services from its Auditors and its associates:

	2024 £000	2023 £000
Fees payable to the company's Auditors and its associates for the audit of the financial statements	**431**	314
Fees payable to the company's Auditors and its associates for other services:		
Audit of the company's associates and subsidiaries	**84**	99
Audit-related assurance services		
– regulatory reporting	**76**	64
– Thames Water and Anglian Water annual returns	**9**	8
– audit related assurance service – other	**69**	64
Other non-audit services	**136**	1
Total Auditors' remuneration	**805**	550

3. Employees

3.1 Employee benefit expense (including Executive directors)

	2024 £000	2023 £000
Wages and salaries	**77,013**	64,638
Social security costs	**7,681**	7,160
Other pension costs	**7,734**	9,476
Staff costs	**92,428**	81,274
Staff costs capitalised	**(26,730)**	(25,725)
Staff costs recognised in the income statement	**65,698**	55,549

3.2 Average number of people employed

The average monthly number of full-time equivalent persons (including Executive directors) employed by the company during the year was:

By activity	2024 Number	2023 Number
Operations	**904**	875
Customer service	**258**	250
Administration	**268**	251
	1,430	1,376

3.3 Directors' remuneration

Directors' emoluments were as follows:

	2024 £000	2023 £000
Aggregate emoluments	**1,530**	1,113

Aggregate amounts receivable under long-term incentive schemes (not share incentives) were £nil (2023: £110,000), not included within aggregate emoluments above.

The prior year total of £110,000 related to Stuart Ledger. £67,000 of this total related to the 2020/21 scheme for his period in office, which vested in the year ended 31 March 2023, with the balance of £43,000 relating to payments already accrued for the 2021/22 scheme for his period in office. An amount of £81,500 was paid in December 2022, with the balance paid in July 2023.

Neither the company nor its immediate parent entities has any listed shares and so the directors have not been offered any share incentives. The Non-Executive directors who were appointed by Allianz Capital Partners on behalf of the Allianz group, DIF and InfraRed Capital Partners Limited on behalf of HICL Infrastructure plc did not receive any emoluments from the company, or any company within the Affinity Water group.

Notes to the financial statements

continued

3. Employees continued

Highest paid director

The highest paid director's emoluments were as follows:

	2024 £000	2023 £000
Aggregate emoluments	**709**	375

Aggregate amounts receivable under long-term incentive schemes (not share incentives) were £nil (2023: £110,000), not included within aggregate emoluments. The prior year amount of £110,000 related to Stuart Ledger as described above.

The company made contributions of £45,000 to a pension plan in respect of the highest paid director's qualifying services during the year (2023: £nil). The highest paid director did not hold any share options during the year.

Further information regarding directors' remuneration during the year can be found within the Remuneration Report on pages 138 to 155

4. Finance income and costs

	2024 £000	2023 £000
Finance income:		
Bank interest income	**5,392**	3,462
Net interest receivable on RPI linked inflation swaps	**6,381**	6,745
Net interest receivable on CPI linked inflation swaps	**6,210**	6,483
Net income from post-employment benefits	**2,396**	2,839
	20,379	19,529
Finance costs:		
Interest payable on borrowings held at amortised cost from parent company	**(160)**	(160)
Interest payable on borrowings held at amortised cost from subsidiary undertakings	**(38,311)**	(37,522)
Accretion payable in respect of interest on loans from subsidiary undertakings	**(30,023)**	(72,096)
Accretion payable on financial instrument	**(24,577)**	(59,114)
Interest payable on lease liabilities	**(249)**	(266)
Other	**(792)**	(535)
	(94,112)	(169,693)
Fair value gain/(loss) on financial instruments:		
Fair value gain on inflation swaps	**15,761**	50,122
	15,761	50,122
Net finance costs	**(57,972)**	(100,042)

5. Income tax credit

5.1 Income tax credit included in the income statement

	2024 £000	2023 £000
Current tax:		
– UK corporation tax on profits for the year	**–**	–
Total current tax	**–**	–
Deferred tax:		
– Origination and reversal of temporary differences	**10,434**	12,044
– Adjustment in respect of prior years	**1,183**	(4,083)
– Impact of change in tax rate	**–**	3,803
Total deferred tax	**11,617**	11,764
Income tax credit	**11,617**	11,764

Tax expensed assessed for the year is lower (2023: tax credit is lower) than the standard rate of corporation tax in the UK for the year ended 31 March 2024 of 25% (2023: 19%). The differences are explained below:

	2024 £000	2023 £000
Loss before tax	**48,939**	112,114
Tax calculated at the standard rate of tax in the UK of 25% (2023: 19%)	**12,235**	21,415
Tax effects of:		
– Adjustments in respect of prior years	**1,183**	(4,083)
– Expenses not deductible for tax purposes	**(1,801)**	(461)
– Unrelieved losses carried forward	**–**	(8,910)
– Impact of change in tax rate on deferred tax	**–**	3,803
Income tax credit	**11,617**	11,764

5.2 Income tax credit included in the statement of comprehensive income

	2024 £000	2023 £000
Deferred tax:		
– Impact of change in tax rate on deferred tax	**–**	–
– Origination and reversal of temporary differences on retirement benefit surplus	**6,861**	13,029
	6,861	13,029

5.3 Factors that may affect future tax charges

An increase in the UK corporation tax from 19% to 25% (effective 1 April 2023) was substantially enacted on 24 May 2021. The deferred tax has been calculated based on these rates, reflecting the expected timing of reversal of the related timing differences (2023: 25%).

Notes to the financial statements

continued

5. Income tax credit/(expense) continued

5.4 Reconciliation of current and deferred tax charge

	2024 £000	2024 %	2023 (restated) £000	2023 %
Loss before tax	**48,939**		112,114	
Tax calculated at the standard rate of tax in the UK of 25% (2023: 19%)	**12,235**	**25%**	21,301	19%
Tax effect of:				
Depreciation in excess of capital allowances	**(11,999)**	**(26%)**	(16,701)	(15%)
Pension movements	**632**	**1%**	371	0%
Provision movements	**82**	**0%**	65	0%
Expenses not deductible for tax purposes	**(950)**	**(1%)**	(42)	0%
Unrelieved losses carried forward	**–**	**0%**	(8,797)	(8%)
Reported current tax charge and effective rate	**–**	**0%**	(3,803)	(3%)
Depreciation in excess of capital allowances	**11,149**	**24%**	16,282	19%
Provision movements	**(83)**	**0%**	(64)	0%
Pension movements	**(632)**	**(1%)**	(371)	0%
Impact of change in tax rate	**-**	**0%**	3,803	4%
Adjustments to tax charge in respect of prior years	**1,183**	**3%**	(4,083)	-5%
Reported deferred tax charge and effective rate	**11,617**	**25%**	15,567	18%
Total tax charge and effective rate	**11,617**	**25%**	11,764	14%

Depreciation in excess of capital allowances

The tax relief on our infrastructure assets is different from the depreciation of these assets in the accounts (although over the total life of the assets the two amounts will be equal). In 2023/24 the amount written off for tax purposes was lower than the depreciation in the accounts, resulting in a higher tax charge for the year.

Pension movements

Tax relief is given for the amount actually paid into the company's pension funds in the year, not the amount charged in the accounts. In 2023/24 the amount paid into the pension funds was higher than the amount charged in the accounts, resulting in a lower tax charge for the year.

Provisions movements

Some provisions charged in the accounts are not deductible until the amounts provided are actually paid. Taxable profits in 2022/23 have been reduced by payments made in respect of provisions charged in previous years.

Expenses not deductible for tax purposes

These will not reverse in future years, therefore the increase in the tax charge is permanent. Permanent disallowable expenses include fines, business entertaining and certain legal fees.

Adjustment to tax charge in respect of prior years

The tax provision in the accounts is a best estimate at the time. The estimate is corrected when the tax returns are finalised and submitted to HMRC 12 months after the year end. The correction made to the tax return for the year ended 31 March 2023 resulted in a lower tax charge, mainly as a result of claiming capital allowances.

Unused losses

At the balance sheet date, the Company had unused losses of £42,862k (2023: £42,862k) available for offset against future profits and taxes. No deferred tax has been recognised in respect of these losses due to the uncertainty that there will be future taxable profits on which these losses could be utilised against.

6. Property, plant and equipment

	Land, buildings and operational structures £000	Potable water distribution mains £000	Raw water pipes £000	Fixed plant £000	Vehicles and mobile plant £000	Assets in course of construction (restated) £000	Total £000
Cost or deemed cost							
At 1 April 2023	311,250	965,326	22,430	1,056,326	119,225	138,599	**2,613,156**
Restatement of opening balances (refer to pages 184 and 185)	–	52,833	–	–	–	4,668	**57,501**
Restatement of opening balance for classification of assets	–	10,138	–	(23,364)	13,226	–	–
At 1 April 2023 (restated)	311,250	1,028,297	22,430	1,032,962	132,451	143,267	**2,670,657**
Additions	–	–	–	–	–	165,835	**165,835**
Transfers	4,749	2,386	6,923	69,020	37,021	(120,099)	**–**
Disposals	(4)	(1,335)	(5)	–	–	–	**(1,344)**
At 31 March 2024	315,995	1,029,348	29,348	1,101,982	169,472	189,003	**2,835,147**
Accumulated depreciation							
At 1 April 2023	(110,779)	(102,715)	(2,920)	(690,448)	(48,236)	–	**(955,098)**
Restatement of opening balance (refer to pages 184 and 185)	–	(1,638)	–	–	–	–	**(1,638)**
Restatement of opening balance for classification of assets	–	(1,335)	–	4,393	(3,058)	–	**–**
At 1 April 2023 (restated)	(110,779)	(105,688)	(2,920)	(686,055)	(51,294)	–	**(956,736)**
Charge for the year	(4,936)	(9,280)	(754)	(51,339)	(11,335)	–	**(77,644)**
Disposals	3	187	1	–	–	–	**191**
At 31 March 2024	(115,712)	(114,781)	(3,673)	(737,394)	(62,629)	–	**(1,034,189)**
Net book amount							
At 1 April 2023	200,471	922,609	19,510	346,907	81,157	143,267	**1,713,921**
Movement in year	(188)	(8,042)	6,165	17,681	25,686	45,736	**87,038**
At 31 March 2024	**200,283**	**914,567**	**25,675**	**364,588**	**106,842**	**189,003**	**1,800,958**

All land and buildings are held as freehold. Assets were reclassified between potable water distribution mains, fixed plant and vehicles and mobile plant in this statutory note, as shown in the line "Restatement of opening balance for classification of assets" within both cost and accumulated depreciation. This is a disclosure adjustment only with no impact on actual depreciation charged to date.

Notes to the financial statements

continued

7. Right-of-use assets

	Buildings £000	Vehicles £000	Total £000
Cost			
At 1 April 2023	9,079	11,089	**20,168**
Additions	–	2,859	**2,859**
Disposals	–	(751)	**(751)**
At 31 March 2024	9,079	13,197	**22,276**
Accumulated depreciation			
At 1 April 2023	(5,587)	(6,932)	**(12,519)**
Charge for the year	(1,397)	(1,898)	**(3,295)**
Disposals	–	692	**692**
At 31 March 2024	(6,984)	(8,138)	**(15,122)**
Net book amount			
At 1 April 2023	3,492	4,157	**7,649**
Movement in year	(1,397)	902	**(496)**
At 31 March 2024	**2,095**	**5,059**	**7,153**

Leasing arrangements

Lease income from operating leases where the company is a lessor is recognised in income on a straight-line basis over the lease term. Lease payments for some contracts include CPI increases, but there are no other variable lease payments that depend on an index or rate.

Although the company is exposed to changes in the residual value at the end of the current leases, the company typically enters into new operating leases and therefore will not immediately realise any reduction in residual value at the end of these leases. Expectations about the future residual values are reflected in the fair value of the assets.

Minimum lease payments receivable on leases are as follows:

	2024 £000	2023 £000
Within 1 year	**625**	650
Between 1 and 2 years	**463**	625
Between 2 and 3 years	**423**	463
Between 3 and 4 years	**412**	423
Between 4 and 5 years	**368**	412
Later than 5 years	**763**	1,080
	3,054	3,653

Properties are held at cost in line with the property, plant and equipment policy provided in note A3.

8. Intangible assets

	Goodwill £000	Software (restated) £000	Total £000
Cost			
At 1 April 2023	14,961	100,859	**115,820**
Restatement of opening balance for classification of assets (refer to pages 184 and 185)		(4,668)	**(4,668)**
At 1 April 2023 (restated)	14,961	96,191	**111,153**
Additions	–	4,056	**4,056**
At 31 March 2024	14,961	100,247	**115,209**
Accumulated amortisation			
At 1 April 2023	–	(73,209)	**(73,209)**
Charge for the year	–	(7,592)	**(7,592)**
At 31 March 2024	–	(80,801)	**(80,801)**
Net book amount			
At 1 April 2023	14,961	22,982	**37,943**
Movement in year	–	(3,536)	**(3,536)**
At 31 March 2024	**14,961**	**19,446**	**34,408**

Goodwill includes £8,283,000 relating to the unification of the Affinity Water group's regulated businesses on 27 July 2012. The remaining balance of £6,678,000 relates to goodwill arising from the acquisition of the trade and assets of North Surrey Water Limited on 1 October 2000.

8. Intangible assets continued

Affinity Water Limited is the only cash generating unit ('CGU') due to the fact it constitutes the smallest identifiable group of assets that generate cash inflows for the entity, by means of supplying drinking water to customers. The recoverable amount has been determined using the RCV of Affinity Water Limited at 31 March 2024. Management's assessment has determined that the headroom is such that no reasonable change in any key assumptions is expected to result in impairment of the goodwill recognised.

Included in the software asset category above is £7,580,000 (2023: £9,751,000) of capitalised intangible assets under construction, which is not amortised. £6,227,000 (2023: £3,408,000) of intangible projects under construction were completed in the year, and amortisation was charged as at the point in time that the software became fit for purpose and ready to use.

There were no individually material computer software development costs in the years ended 31 March 2024 or 31 March 2023.

9. Investments

	2024 £000	2023 £000
Non-current assets		
Investments in subsidiaries (refer to note A6)	**100**	100
Current assets		
Short-term deposits	**21,552**	66,709

The directors confirm that the carrying value of the investments is supported by their underlying net assets.

The short- term deposits are fixed term deposits which are irredeemable until the end of the deposit term which is no more than 12 months per our treasury policy.

10. Retirement benefit surplus

Defined benefit section

The net pension expense before taxation recognised in the income statement in respect of the defined benefit plan is:

	2024 £000	2023 £000
Total current service cost of the Affinity Water Pension Plan	**(1,695)**	(3,236)
Pension expense charged to operating profit	**(1,695)**	(3,236)
Net pension interest income credited to finance income (note 4)	**2,396**	2,839
Net pension expense charged before taxation	**701**	(397)

The opening and closing retirement benefit surpluses included in the statement of financial position are summarised as follows:

	2024 £000	2023 £000
At 1 April	**53,615**	104,247
Principal employer contributions	**1,827**	1,879
Net current service cost (per above)	**(1,695)**	(3,236)
Net interest income	**2,396**	2,839
Net re-measurement loss	**(27,443)**	(52,114)
At 31 March	**28,700**	53,615

Re-measurement gains and losses are recognised directly in the statement of comprehensive income and are summarised as follows:

	2024 £000	2023 £000
Re-measurement losses on plan assets	**(19,955)**	(159,088)
Re-measurement losses on plan liabilities	**(7,488)**	106,974
	(27,443)	(52,114)

Further analysis and underlying valuation assumptions of the defined benefit plan are provided in note A5.

Notes to the financial statements

continued

11. Derivative financial instruments

	2024 £000	2023 £000
Non-current assets:		
Fair value of energy swaps	18	3,283
Fair value of CPI linked inflation swap	1,109	–
Fair value of RPI linked inflation swaps	–	–
Current assets:		
Fair value of energy swaps	493	6,068
	1,620	9,351
Non-current liabilities:		
Fair value of RPI linked inflation swaps	3,640	6,937
Accretion on RPI linked inflation swaps	68,101	55,062
Fair value of CPI linked inflation swaps	–	10,893
Accretion on CPI linked inflation swaps	54,529	42,953
Fair value of energy swaps	94	5,874
Current liabilities:		
Fair value of energy swaps	1,119	2,128
	127,483	123,847

A series of power hedging swaps were entered into between May 2021 and February 2024 in order to hedge against wholesale energy prices. In December 2023, we settled out of several energy swap contracts for future period and simultaneously locked into lower rates.

The fair value of energy swaps have been derived from 'Level 2' fair value measurements: directly observable market inputs other than Level 1 inputs. The fair value of energy swaps is calculated by discounting expected future cashflows based on market expectations of energy prices in the future.

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

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

The fair value of RPI and CPI linked inflation swaps have been derived from 'Level 2' fair value measurements: directly observable market inputs other than Level 1 inputs. The fair value of RPI and CPI linked inflation swaps is calculated by discounting expected future cashflows based on market expectations of RPI and CPI. The discount rate used reflects the credit risk of the company, which is consistent with IFRS 13: 'Fair value measurement'.

12. Trade and other receivables

	2024 £000	2023 £000
Current:		
Trade receivables	80,853	73,807
Less: loss allowance for trade receivables	(37,100)	(36,968)
	43,753	36,839
Amounts owed by group undertakings	29	40
Interest receivable from external parties	7,567	7,642
Other receivables	3,348	7,574
Unbilled accrual for metered customers	52,556	43,444
Prepayments and accrued income	7,881	7,027
	115,134	102,566

Trade receivables that were fully provided for were sold in both the current year and prior year, resulting in a reduction to trade receivables of £5,100,000 (2023: £4,397,000) and a corresponding reduction in the loss allowance for trade receivables.

The carrying amounts of trade and other receivables approximate to their fair value

12. Trade and other receivables continued

12.1 Loss allowance for trade receivables and contract assets

Trade receivables and contract assets do not carry interest and are stated net of a loss allowance, as follows:

	Trade receivables		Unbilled accrual for metered customers		Total	
	2024 £000	2023 £000	2024 £000	2023 £000	2024 £000	2023 £000
At 1 April	36,968	33,037	303	101	37,271	33,138
Provision for receivables impairment charged to income statement	8,380	10,997	(83)	202	8,297	11,199
Sale of trade receivables that were fully provided for	(5,100)	(4,397)	–	–	(5,100)	(4,397)
Receivables written off during the year as uncollectable	(3,148)	(2,669)	–	–	(3,148)	(2,669)
At 31 March	37,100	36,968	220	303	37,320	37,271

See note A4 for details of the nature and the calculation of the loss allowance.

In the current year, a charge of £8,297,000 to the income statement arose as a result of continued cost of living costs.

This includes reversal of revenue of £5,571,000 for actively exhausted customers. We have seen improvements in customer cash collection compared to prior year due to additional internal and external resources focusing on recovering debt.

In the prior year, an additional charge of £11,199,000 to the income statement arose as a result of external economic factors which included the cost of living increases on our customers. No additional charge has been included in the current year as this was reflected in an increase in base rates used in the calculation which sufficiently covered the provision.

12.2 Ageing analysis of trade receivables

The aged analysis of receivables at the reporting date is as follows:

	2024 £000	2023 £000
Aged less than one year	36,993	27,155
Aged between one year and two years	15,287	23,682
Aged greater than two years	28,572	22,970
	80,853	73,807

13. Inventories

	2024 £000	2023 £000
Raw materials and consumables	4,451	4,833

Inventories are stated after provisions for impairment of £50,000 (2023: £364,000).

14. Cash and cash equivalents

	2024 £000	2023 £000
Cash at bank and in hand	40,366	17,099
Term deposits	19,411	61,684
	59,777	78,783

The carrying amounts of cash and cash equivalents approximate to their fair value.

Notes to the financial statements

continued

15. Share capital, share premium and capital contribution reserve

Allotted and fully paid up	Number of shares (thousands)	Ordinary shares of £0.10 each £000	Share premium £000	Capital contribution reserve £000	Total £000
At 31 March 2023 and 31 March 2024	**305,058**	**30,506**	**1,400**	**30,150**	**62,056**

All shares rank pari passu in all respects.

16. Trade and other payables

	2024 £000	2023 (restated) £000
Non-current		
Amounts falling due after more than one year		
Deferred grants and contributions	**28,118**	28,136
Amounts falling due after more than five years		
Deferred grants and contributions	**301,572**	287,105
	329,690	315,242
Current		
Amounts falling due within one year		
Trade payables	**21,355**	15,453
Amounts due to group undertakings	**701**	679
Interest payable to subsidiary companies	**20,468**	14,409
Commitment fees	**38**	60
Social security and other taxes	**1,996**	1,848
Other payables	**1,435**	5,681
Capital accruals	**21,941**	13,519
Deferred grants and contributions	**6,923**	6,965
Payments received in advance	**82,924**	73,216
Deferred income	**3,149**	3,263
Other accruals	**45,297**	41,796
	206,227	176,889
	535,917	492,131

The carrying amounts of trade and other payables approximate to their fair value. Interest payable to subsidiary companies relates to accrued interest on bonds.

17. Borrowings

	2024 £000	2023 £000
Borrowings measured at amortised cost:		
Loan from Affinity Water Finance (2004) PLC financed by bond issue	**251,395**	251,967
Loan from Affinity Water Finance PLC financed by bond issue	**1,104,506**	1,076,165
Loan from intermediate parent company	**3,550**	3,550
4% irredeemable consolidated debenture stock	**8**	8
4% irredeemable debenture stock	**1**	1
5% irredeemable debenture stock	**24**	24
5.25% irredeemable debenture stock	**1**	1
	1,359,485	1,331,716

Loan from Affinity Water Finance (2004) PLC financed by bond issue

On 13 July 2004, the company's subsidiary Affinity Water Finance (2004) PLC issued a £200,000,000 bond at an interest rate of 5.875% and repayable in July 2026. On 16 July 2014, Affinity Water Finance (2004) PLC completed a tap issue of £50,000,000 on the same terms as the existing £200,000,000 bond.

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

17. Borrowings continued

Loan from Affinity Water Finance PLC financed by bond issue

On 4 February 2013, the company's former subsidiary Affinity Water Programme Finance Limited issued £80,000,000 Class A Guaranteed Notes maturing in September 2022 with a coupon of 3.625%, £250,000,000 Class A Guaranteed Notes maturing in March 2036 with a coupon of 4.500%, £190,000,000 Class A Guaranteed RPI linked Notes maturing in June 2045 with a coupon of 1.548% and £95,000,000 Class B Guaranteed RPI linked Notes maturing in June 2033 with a coupon of 3.249%.

On 29 October 2015, Affinity Water Programme Finance Limited completed a tap issue of its 1.548% RPI linked Notes maturing in June 2045 of £40,000,000 on the same terms as the existing 2045 Notes.

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

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

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

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

On 20 October 2021, Affinity Water Finance PLC issued £130,000,000 Class A Guaranteed CPI linked Notes maturing in September 2038 with a coupon rate of 0.010%, a Green bond used to fund expenditure outlined in the company's Green Finance Framework.

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

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

Loan from intermediate parent company

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

Further details

The company has unconditionally and irrevocably guaranteed the due and punctual payment of all sums from time to time payable by Affinity Water Finance (2004) PLC and Affinity Water Finance PLC in respect of the bonds issued by these companies. These guarantees constitute direct, general and unconditional obligations of the company, which will at all times rank at least pari passu with all other present and future unsecured obligations. The bonds issued are also guaranteed by Affinity Water Holdings Limited, the company's immediate parent undertaking.

The fair value of the bonds on-lent from the financing subsidiaries at 31 March 2024 is £1,199,706,000 (2023: £1,249,769,000). The fair value of Class A bonds has been derived from 'level 1' fair value measurements: quoted prices (unadjusted) in active markets for identical liabilities. The fair value of Class B bonds has been derived from 'level 2' fair value measurements: directly observable market inputs other than Level 1 inputs. The fair value of Class B bonds is calculated by discounting expected future cashflows at a discount rate which is derived from the yield on comparable instruments which are observable in the market.

The company is subject to a number of covenants in relation to its borrowings, which, if breached, would result in its loans becoming immediately repayable. These covenants specify certain limits in terms of key ratios such as net cash flow to debt interest and net debt to RCV. At the year-end the company was not in breach of any financial covenants. See additional details on our financial covenants included within the going concern statement in accounting policies.

Notes to the financial statements

continued

18. Lease liabilities

	2024 £000	2023 £000
Non-current:		
Lease liabilities	**3,974**	4,785
Current:		
Lease liabilities	**3,343**	3,053

The following amounts in respect of leases are included within these financial statements:

	2024 £000	2023 £000
Depreciation charge of right-of-use assets (refer to note 7)	**3,295**	3,458
Interest expense on lease liabilities (refer to note 4)	**249**	266
Expense relating to short-term leases (refer to note 2.1)	**5**	24
Expense relating to leases of low-value assets (refer to note 2.1)	**80**	76
Principal elements of lease payments included within cash flows from financing activities	**3,329**	3,475
Interest payments included within cash flows from operating activities	**249**	266
Total cash outflow for leases in the statement of cash flows	**3,578**	3,741
Additions to right-of-use assets (refer to note 7)	**2,859**	1,685
Carrying amount of right-of-use assets (refer to note 7)	**7,153**	7,649

19. Deferred tax liabilities

19.1 Analysis of deferred tax assets and deferred tax liabilities

	2024 £000	2023 £000
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	**(1,795)**	(641)
– Deferred tax asset to be recovered within 12 months	**(20)**	(18)
	(1,815)	(659)
Deferred tax liabilities:		
– Deferred tax liability to be settled after more than 12 months	**190,075**	207,397
	190,075	207,397
Deferred tax liabilities – net	**188,260**	206,738

The gross movement on the deferred tax account is as follows:

	£000
At 1 April 2022	231,530
Adjustment to prior year	4,083
Impact of change in tax rate	(3,803)
Credited to the income statement	(12,043)
Credited to other comprehensive income	(13,029)
At 31 March 2023	206,738
Adjustment to prior year	**(1,182)**
Impact of change in tax rate	**–**
Credited to the income statement	**(10,435)**
Credited to other comprehensive income	**(6,861)**
At 31 March 2024	**188,260**

The adjustment to prior year lines above are due to the tax provision in the accounts being a best estimate at the time. The estimate is corrected when the tax returns are finalised and submitted to HMRC 12 months after the year-end.

At the balance sheet date, the company had unused losses of £42,862,000 (2022: £42,862,000) available for offset against future profits and taxes. No deferred tax has been recognised in respect of these losses due to the uncertainty that there will be future taxable profits on which these losses could be utilised against.

19. Deferred tax liabilities continued

The movement in deferred tax assets and liabilities during the year is as follows:

19.2 Deferred tax liabilities

	Accelerated capital allowances £000	Retirement benefit obligations £000	Total £000
At 1 April 2022	206,093	26,060	232,153
Adjustment to prior year	4,184	–	4,184
Credited to the income statement	(16,282)	371	(15,911)
Credited to other comprehensive income	–	(13,029)	(13,029)
At 31 March 2023	193,995	13,402	207,397
Adjustment to prior year	**56**	**–**	**56**
Credited to the income statement	**(11,149)**	**632**	**(10,517)**
Credited to other comprehensive income	**–**	**(6,861)**	**(6,861)**
At 31 March 2024	**182,902**	**7,173**	**190,075**

19.3 Deferred tax assets

	Provisions £000
At 1 April 2022	**(623)**
Prior year adjustment	**(98)**
Charged to the income statement	**62**
At 31 March 2023	**(659)**
Prior year adjustment	**(1,239)**
Charged to the income statement	**83**
At 31 March 2024	**(1,815)**

20. Provisions for other liabilities and charges

	Insurance £000	Other £000	Tax £000	Total £000
At 1 April 2022	2,437	670	–	3,107
Charged to the income statement	464	–	4,100	4,564
Utilised in the year	(252)	–	–	(252)
At 31 March 2023	2,649	670	4,100	7,419
Credited to the income statement	**(526)**	**–**	**–**	**(526)**
Utilised in the year	**680**	**–**	**–**	**680**
At 31 March 2024	**2,803**	**670**	**4,100**	**7,573**

Insurance

Provisions for insurance represent the amount of the company's liability in respect of individual claims. This is based upon data provided by loss adjusters to insurers and is calculated on settlement experience. The full balance of £2,803,000 is presented as a non-current liability in the statement of financial position.

Tax provision

A £nil tax provision (2023: £4,100,000) has been charged to the income statement. As at 31 March 2024, this remains the directors best estimate of an outstanding charge relating to an expected PAYE and NI claim.

Other provisions

Other provisions of £670,000 (2023: £670,000) relate to unfunded pension liabilities for a former Non-Executive director, which it is expected will be utilised by January 2051, and, therefore, presented as a non-current liability in the statement of financial position.

Notes to the financial statements

continued

21. Notes to the statement of cash flows

21.1 Cash generated from operations

	2024 £000	2023 (restated) £000
Loss before tax	**(48,939)**	(112,114)
Adjustments for:		
Depreciation of property, plant and equipment (note 6)	**77,644**	71,359
Depreciation of right-of-use assets (note 7)	**3,295**	3,458
Amortisation of grants and contributions	**(8,584)**	(3,619)
Amortisation of intangible assets (note 8)	**7,592**	5,954
Profit on disposal of property, plant and equipment	**(944)**	(535)
Loss on disposal of infrastructure assets	**1,154**	888
Post-employment benefits	**(132)**	1,360
Net finance costs (note 4)	**57,972**	100,042
Net loss / (gain) on energy swap	**13,075**	26,638
Changes in working capital		
– Inventories	**382**	(485)
– Trade and other receivables	**(12,568)**	1,255
– Trade and other payables		
– Provision element	**154**	4,312
– Other	**12,738**	8,977
Cash generated from operations	**102,839**	107,490

Changes in working capital – trade and other receivables of £(12,568,000) in the year (2023: £1,255,000) primarily relates to an increase in unbilled accrual for metered customers, as shown in note .

Changes in working capital – trade and payables – other of £12,738,000 in the year (2023: £8,977,000) primarily relates to a reduction in trade payables and capital accruals, offset by an increase in current deferred grants and contributions, as shown in note .

21.2 Reconciliation of liabilities arising from financing activities

	At 1 April 2023 £000	Cash flow £000	Non-cash flows £000	At 31 March 2024 £000
Loan from Affinity Water Finance (2004) PLC financed by bond issue	**251,967**	**–**	**(572)**	**251,395**
Loan from Affinity Water Finance PLC financed by bond issue	**1,076,165**	**–**	**28,341**	**1,104,506**
Loan from intermediate parent company	**3,550**	**–**	**–**	**3,550**
Lease liabilities	**7,839**	**(3,578)**	**3,056**	**7,317**
Debenture stock	**34**	**–**	**–**	**34**
Total liabilities arising from financing activities	**1,339,555**	**(3,578)**	**30,825**	**1,366,802**

	At 1 April 2022 £000	Cash flow £000	Non-cash flows £000	At 31 March 2023 £000
Loan from Affinity Water Finance (2004) PLC financed by bond issue	252,498	–	(530)	251,968
Loan from Affinity Water Finance PLC financed by bond issue	1,019,706	(14,204)	70,663	1,076,165
Loan from intermediate parent company	3,550	–	–	3,550
Lease liabilities	9,646	(3,741)	1,933	7,838
Debenture stock	34	–	–	34
Total liabilities arising from financing activities	1,285,434	(17,945)	72,066	1,339,555

Non-cash flows relate to loan indexation and amortisation of bond issuance costs and net additions of leases.

22. Commitments

22.1 Capital commitments

Capital expenditure contracted for at the end of the reporting year, but not yet incurred, is as follows:

	2024 £000	2023 £000
Property, plant and equipment	**34,148**	28,481
Intangible assets	**485**	885
	34,633	29,366

22.2 Commitments under leases

The company leases its vehicles and head office building under non-cancellable leases expiring within a maximum of five years. The leases have varying terms, clauses and renewal rights.

The company does not expect to extend any vehicles leases after their lease term has expired. The lease of the head office building will expire in September 2025. The company will assess closer to the expiry of the lease of the head office building whether another formal agreement will be entered in to.

From 1 April 2019, the company has applied IFRS 16 and recognised right-of-use assets for these leases, (except for short-term and low-value leases, which are not within the scope of IFRS 16), see note 18 for further information.

The future aggregate minimum lease payments for operating leases not within the scope of IFRS 16 are as follows:

	2024 £000	2023 £000
No later than one year	**45**	59
Later than one year and no later than five years	**1**	39
	46	98

23. Billing on behalf of Thames Water and Anglian Water

The company bills and collects charges in respect of sewerage and infrastructure within its area on behalf of Thames Water Utilities Limited and Anglian Water Services Limited. No amounts are included in these financial statements in respect of uncollected sewerage and sewerage infrastructure charges at 31 March 2024 (2023: £nil) and the company incurs no bad debt risk in relation to this service.

24. Events after the reporting period

On 2 May 2024, the company completed a transaction whereby it acquired the freehold interest in its head office building in Hatfield from Railpen Pension Nominees Limited for an amount of £16,103,000. At the same time, a sale and leaseback transaction of the property was entered into with Just Retirement Limited at an equivalent value. The transaction provides the company with an option to reacquire the property at the end of the lease term in December 2045.

Notes to the financial statements

continued

25. Ultimate parent company and controlling party

The immediate parent undertaking of the company is Affinity Water Holdings Limited, a company registered in England and Wales.

Affinity Water Holdings Limited is wholly owned by Daiwater Investment Limited, a company registered in England and Wales. Daiwater Investment Limited is the parent undertaking of the largest group to consolidate the statutory financial statements of the company. These financial statements are also consolidated in the financial statements of Affinity Water Holdco Finance Limited, the smallest group to consolidate the financial statements of the company.

Copies of the group financial statements of Daiwater Investment Limited and Affinity Water Holdco Finance Limited may be obtained from the Company Secretary, Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ.

The directors consider Daiwater Investment Limited as the ultimate holding and controlling company in the United Kingdom.

The directors consider the following entities to be the company's ultimate controllers, as they are in a position to exercise material influence over the company's policy and affairs:

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

Allianz Capital Partners is the Allianz Group's in-house investment manager for alternative equity investments. The investment focus is on infrastructure and renewables as well as private equity funds. Allianz Capital Partners' investment strategy is targeted to generate attractive, long-term and stable returns, while diversifying the overall investment portfolio for the Allianz Group insurance companies.

DIF is an independent and specialist fund management company, which invests in infrastructure assets that generate long-term stable cash flows, including public-private partnerships, regulated infrastructure assets and renewable energy projects in Europe, North America and Australia.

HICL Infrastructure plc is a long-term investor in infrastructure assets, which are predominantly operational and yielding steady returns. HICL Infrastructure plc has a portfolio of infrastructure investments, which are positioned at the lower end of the risk spectrum, in three target market segments: public-private partnerships, regulated assets and demand-based assets. The Investment Manager to HICL Infrastructure plc is InfraRed Capital Partners Limited, a leading international investment manager focused on infrastructure and renewable energy investments. On 1 July 2020, Sun Life Financial Inc acquired an 80% interest in the InfraRed business from InfraRed Capital Partners (Management) LLP and became an ultimate controller.

Notes to the financial statements – appendices

A1. General information

The company owns and manages the water assets and network in an area of approximately 4,500km^2 split over three supply regions, comprising eight separate water resource zones, in the South East of England. The company is the sole supplier of drinking water in these areas.

The company is a private company limited by shares and is incorporated and domiciled in the United Kingdom. The address of its registered office is Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ.

Refer to note 25 for details of the company's parent company and ultimate parent company.

A2. Segmental reporting

In the same way that financial information is reported on a quarterly basis to the Board, the company's chief operating decision maker, during the current and previous financial year on a combined basis, the company presents its results under a single segment for financial reporting purposes. Management do not consider climate change to have had an impact on reporting results under a single segment.

A3. Material accounting policy information

Consolidation

The company is a wholly owned subsidiary of its ultimate holding and controlling company, Daiwater Investment Limited, which is the parent undertaking of the largest group to consolidate the statutory financial statements. The company is also included in the consolidated financial statements of Affinity Water Holdco Finance Limited, the smallest group to consolidate the financial statements of the company, which are publicly available. Therefore the company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements.

Property, plant and equipment

Property, plant and equipment are held at historical cost less accumulated depreciation and impairment charges.

Infrastructure assets comprise a network of mains and associated underground pipe-work. Infrastructure assets are held at deemed cost established through an event-driven valuation on transition to FRS 101 in 2015/16 and subsequent additions are recorded at historical cost less accumulated depreciation and impairment charges.

For accounting purposes, the network is segmented into components based on the material used to construct the pipe concerned. The estimated useful economic lives of infrastructure pipes are based on management's judgement and experience, which includes the knowledge and research of the company's dedicated asset management teams. Where management identifies that the actual useful economic life of an asset significantly differs from the estimate used to calculate its depreciation, the depreciation charge is adjusted prospectively.

Expenditure on infrastructure assets relating to increases in capacity, enhancements or material replacements of network components is capitalised where it can be reliably measured, and it is probable that incremental future economic benefits will flow to the company. The carrying amount of the replaced part is derecognised. Costs of day-to-day servicing of network components are recognised in the income statement as they arise.

Cost of other property, plant and equipment includes own work capitalised comprising the direct costs of materials, labour and applicable overheads. Property, plant and equipment are depreciated to their estimated residual values over their estimated useful lives using the straight-line method, with the exception of freehold land, which is not depreciated. Assets in the course of construction are not depreciated until commissioned.

The estimated useful lives of property, plant and equipment are:

Infrastructure assets

Potable water distribution mains	50-150 years
Raw water pipes	50-150 years

Other property, plant and equipment

Buildings	40–60 years
Operational structures	5–85 years
Fixed plant – short life	3–10 years
– other	10–30 years
Vehicles and mobile plant	3–15 years

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in operating profit.

The company is required to evaluate the carrying value of its property, plant and equipment for impairment whenever circumstances indicate, in management's judgement, that the carrying value of such assets may not be recoverable. An impairment review in such circumstances requires management to make subjective judgements concerning the future cash flows, growth rates and discount rates of the asset under review.

Intangible assets

Goodwill

Goodwill represents the excess of the fair value of purchase consideration over the fair value of the net assets acquired. Fair value adjustments based on provisional estimates are amended within one year of the acquisition, if required, with a corresponding adjustment to goodwill.

Goodwill is not amortised but is reviewed for impairment at least annually. Impairment reviews are also carried out if there is an indication that impairment may have occurred, or, where otherwise required, to ensure that intangible assets are not carried above their estimated recoverable amounts. Goodwill is allocated to the CGU that derives benefit from the goodwill for impairment testing purposes. Impairments are recognised immediately in the income statement.

Notes to the financial statements – appendices

continued

A3. Material accounting policy information continued

Computer software development costs

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the company are recognised as intangible assets only if they meet the criteria of IAS 38: 'Intangible Assets', in that it is a separable, identifiable asset and it has a future economic benefit. Other development expenditures that do not meet these criteria are recognised as an expense as incurred, including costs associated with cloud computing arrangements.

Computer software development costs recognised as assets are amortised on a straight-line basis over their estimated useful lives, which does not exceed five years. Amortisation charged on assets with finite lives is recognised in the income statement in operating costs.

Computer software development costs are reviewed for impairment where indicators of impairment exist. Impairments are recognised immediately in the income statement.

Grants and contributions

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

The company may be contracted by developers in its statutory supply area to relocate a pipe, which is already in the ground; this is known as a diversion. The company may also be contracted by developers in its statutory supply area to provide a new water main or new sewer; this is known as a requisition/extension. The company may also be contacted by developers in its statutory supply area to lay a pipe to the boundary of customers' properties to connect to the company's existing supply pipes; this is known as a connection charge. Contributions received in respect of new connections, diversions and requisitioned mains/extensions are treated as deferred income and released to revenue over time as the company considers that the obligation to provide these services is highly interrelated with the ongoing obligation to provide water services; therefore, the performance obligation is considered to be satisfied over the period that the property, plant and equipment constructed are in service.

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

Each of these types of grants and contributions (contributions for new connections, diversions and requisitioned mains/extensions, and infrastructure charges) is not a government grant within the scope of IAS 20: 'Accounting for government grants and disclosure of government assistance' as the contributions are received from developers. While there may not be a written contract with the customer, the legal duties of the company under the Water Industry Act 1991 would seem to constitute a legally enforceable contract based on the transaction prices set out in the company's charges scheme, tariff documents and invoices; accordingly these grants and contributions fall within the scope of IFRS 15.

Investments

Investment in subsidiaries are held at cost, less accumulated impairment losses.

Short-term investments are deposits that cannot be withdrawn prior to maturity and are held at cost.

Trade and other receivables

Trade and other receivables are recognised initially at transaction price. The company holds the trade receivables with the objective of collecting the contractual cash flows, and, therefore, the trade and other receivables are subsequently measured at amortised cost using the effective interest method, less expected credit losses.

Expected credit losses are based on historical recoverability and calculated by applying a range of different percentages to trade receivables of different ages. These percentages also vary between categories of trade receivables. Higher percentages are applied to those categories of trade receivable that are considered to be of greater risk and also to trade receivables of greater age. The historical recoverability of trade receivables is deemed a good estimate of future expected credit losses. At each reporting date, the company takes into consideration any significant economic changes that may impact its credit loss model and future credit losses. To estimate the impairment to its trade receivables from either of these factors, the company has assessed its debtors based on postcode driven customer demographics. The company has assessed what it believes to be the sensitivity of each demographic to the current and emerging effects of these factors on household finances and ability to maintain payments.

A3. Material accounting policy information continued

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

Inventories

Inventories are valued at the lower of cost or net realisable value after allowance for obsolete and slow-moving items. In accordance with established practice in the water industry, no value has been placed upon the water in reservoirs, mains or in the course of treatment.

Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of 12 months or less. Term deposits with original maturities longer than three months can be redeemed early, subject to the interest income being forfeited or reduced to reimburse any cost incurred by the counterparty. These are classed as cash and cash equivalents if the deposit can be redeemed to meet short-term cash needs and there is no risk of a significant change in value as the result of an early withdrawal. Deposits that cannot be withdrawn prior to maturity are classed as short-term investments.

Current and deferred tax

The tax credit for the year (credit in the prior year) comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in shareholder's funds. In this case, the tax is also recognised in other comprehensive income or directly in shareholder's funds, respectively.

The current tax credit is based on taxable losses for the year. Taxable losses differs from net losses as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the date of the statement of financial position.

Deferred taxation is provided in full, using the liability method, on taxable temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. A deferred tax asset is only recognised to the extent that it is probable that sufficient taxable profits will be available in the future to utilise it. Deferred taxation is measured on a non-discounted basis using the tax rates and laws that have been enacted or substantively enacted by the date of the statement of financial position and are expected to apply when the related deferred tax asset is realised, or the deferred tax liability is settled.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

Trade and other payables

Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Payments received in advance and measured and unmeasured deferred income are contract liabilities under IFRS 15 and relate to advance contributions received in respect of connection charges, diversions and requisitioned mains/extensions and customer payments in advance for measured and unmeasured supplies.

Borrowings

All loans are recognised initially at fair value plus directly attributable transaction costs. The carrying amount of the debt is increased by the amortisation of the finance and transaction costs determined using the effective interest rate in respect of the accounting period and reduced by any payments made in the year. The finance cost recognised in the income statement is allocated to accounting periods over the term of the debt using the effective interest method.

An exchange of debt with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. At the point of refinancing, all costs relating to the previous debt are written off to the income statement in full.

Notes to the financial statements – appendices

continued

A3. Material accounting policy information continued

Financial instruments

Financial instruments, such as derivatives, are initially recognised at fair value on the date the derivative contract is entered into and are subsequently re-measured at their fair value at each reporting year. Gains or losses arising on revaluation are recorded in the income statement in the year in which they arise and are shown within either fair value gain/(loss) on inflation swaps or fair value gain/(loss) on energy swaps on the face of the income statement. Interest received or incurred on these derivative financial instruments is shown within finance income and finance costs on the face of the income statement.

The fair value of derivative financial instruments includes a Debit Value Adjustment ('DVA'), which is calculated by discounting the potential future cashflows at a rate that reflects the credit risk of the company, consistent with IFRS 13: 'Fair value measurement'.

Provisions

A provision is recognised when the company has a legal or constructive obligation as the result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount can be reliably estimated.

Ofwat assesses companies' operational performance against agreed performance commitments. Certain performance commitments contain an ODI, which can carry a financial reward or penalty, or both, which will be recognised as a revenue adjustment in the next charging period. The company adjusts future tariffs to reflect such amounts and, therefore, the benefit or cost is linked to the provision of future services as well as future performance. Resultantly, the company does not recognise a provision for penalties or rewards in the financial year in which they are incurred or achieved as these amounts are not an asset or liability at the balance sheet date.

Revenue recognition

The company's core revenue stream is derived from the supply of clean water. The IFRS 15 definition of a contract is met since the UK Government has contracted with the company on behalf of customers by granting the company its water supply licence, where the underlying performance obligation is the development and maintenance of the network and ensuring its continued availability to customers. Under IFRS 15, revenue is measured at the transaction price and is recognised as the customer receives the benefit of the water supply through consuming the water:

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

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

For metered household customers, a receivable is recognised when the customer is billed for the usage. At this point, the consideration is unconditional because only the passage of time is required before the payment is due. Where the company has provided the service before payment is due, an accrual for the consumption of water that has not yet been billed is recognised in the income statement offset by a contract receivable within assets. The accrual is estimated using a defined methodology based upon weighted average water consumption by tariff, which is calculated based upon historical information.

Unmetered customers pay a fixed amount determined by the transaction prices set out in the company's charging scheme and tariff documents. If the payments received exceed the amount the company has the right to receive (i.e. unearned income), the company recognises a payment received in advance and discloses this as a contract liability within trade and other payables.

Where non-household retailers are billed monthly in advance for wholesale charges, as determined by billing/volume reports created by the market operator, the company recognises deferred income in relation to these accounts and presents this as a contract liability within trade and other payables. Revenue is recognised at the time of invoicing.

The recognition of revenue from grants and contributions billed to developers is detailed in the grants and contributions accounting policy.

Revenue is recognised if it is probable that it will be received, considering the customer's ability and intention to pay that amount of consideration when it is due.

The company is under a statutory obligation to maintain water services to domestic properties within the areas defined in its water supply licence. As a result, the company may provide water services to customers who are unlikely to pay for these services. The company does not recognise revenue where historical evidence indicates that the company will probably never be able to collect the revenue billed. The company is currently seeing higher levels of consumption due to increases in temperature, a risk associated with the ongoing effects of climate change and has taken this into consideration regarding the recognition of revenue.

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

A3. Material accounting policy information continued

Other income

Other income includes all income derived from sources associated with the ordinary activities of the business, other than revenue derived from the regulatory activities of the business. Other income, including mast rentals and billing and collections services, involves readily identifiable contracts with customers with clearly defined performance obligations to which prices are allocated. Income is recognised as the contracts are completed and the performance obligations satisfied. It is stated net of value added taxes.

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Leases

The company leases its head office building and most of its vehicles. Rental contracts for vehicles are typically for fixed periods of two to five years. The company has an option to extend its leases; however, no contracts are reasonably certain to be extended after their lease term has expired. The lease contract of the head office building has a remaining period of 1.5 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The company's lease agreements do not impose any covenants, but leased assets cannot be used as security for borrowing purposes.

The company also leased some physical IT server space that was accounted for under IFRS 16 up to 31 December 2020. The lease was subsequently renewed to 31 December 2021 and treated as a short-term operating lease until that date. All remaining IT server space has been provided through a hosting service, therefore, it is out of scope of IFRS 16 as there is not a physically distinct identifiable asset. Costs are recognised on a straight-line basis as an expense in profit or loss.

The company applies recognition exemptions to short-term leases and leases of low-value assets. Short-term leases are leases with a term of 12 months or less. Low-value assets comprise small items of office equipment and IT equipment, typically costing no more than £5,000. Costs are recognised on a straight-line basis as an expense in profit or loss. Leases falling within the scope of IFRS 16 are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The company's accounting policy is for assets and liabilities arising from a lease to be initially measured on a present value basis. Lease liabilities include the net present value of one or more of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Right-of-use assets are measured at cost comprising one or more of the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Lease payments may be discounted using the lessee's incremental borrowing rate if the interest rate implicit in the lease cannot be determined. The incremental borrowing rate is the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. The company uses an independent third-party to determine the incremental borrowing rate for each class of lease. The weighted average lessee's incremental borrowing rate applied to the lease liabilities during the year was 2.37%, reflecting the current high interest rates in the market as a result of the ongoing high levels of inflation. The incremental borrowing rate is re-determined annually and applied to new leases for the subsequent year.

The company enters into agreements with employees to use vehicles that it leases from a third party as a company vehicle. These agreements are considered by the company to be part of the overall compensation package of an employee and, as such, the company has applied IAS 19 'Employee benefits' in accounting for these arrangements rather than considering the arrangements as subleases of vehicles to employees under IFRS 16.The company does not use sale and leaseback transactions.

The Company as a lessor

The investment properties are leased to tenants under operating leases with rentals payable monthly. Lease income from operating leases where the company is a lessor is recognised in income on a straight-line basis over the lease term.

Lease payments for some contracts include CPI increases, but there are no other variable lease payments that depend on an index or rate. Although the company is exposed to changes in the residual value at the end of the current leases, the company typically enters into new operating leases and therefore will not immediately realise any reduction in residual value at the end of these leases. Expectations about the future residual values are reflected in the fair value of the assets.

Notes to the financial statements – appendices

continued

Material accounting policy information continued

Grafham reservoir

Under the Great Ouse Water Act of 1961, the company has an entitlement to water from the Grafham reservoir owned and operated by Anglian Water Services Limited ('Anglian Water'). The company pays Anglian Water a charge for the supply of water, which covers its share of the overall costs of running Grafham reservoir. These costs are recognised as an expense within cost of sales in the income statement as incurred.

Dividend distributions

Dividend distributions to the company's shareholder are recognised as a liability in the company's financial statements in the year in which the dividends are approved.

Retirement benefits

The company operates a pension plan, the Affinity Water Pension Plan ('AWPP'), as the AWPP's Principal Employer, providing defined benefits based on final pensionable salary. The assets of the plan are held separately from those of the company.

Affinity Water Limited was the AWPP's Principal Employer up until 31 August 2020, with former group company Castle Water (Southern) Limited (formerly Affinity for Business (Retail) Limited) being a Participating Employer of the AWPP up until this date. Since this date, Affinity Water Limited has been the sole employer.

The cost of providing benefits under the defined benefit plan is determined using the projected unit method, which attributes entitlement to benefits to the current year (to determine current service cost) and to the current and prior years (to determine the present value of defined benefit obligations) and is based on actuarial advice. Past service costs are recognised immediately in the income statement. When a settlement or a curtailment occurs, the changes in the present value of the plan liabilities and the fair value of the plan assets reflect the gain or loss, which is recognised in the income statement. Losses are measured at the date that the employer becomes demonstrably committed to the transaction and gains when all parties whose consent is required are irrevocably committed to the transaction.

The retirement benefit surplus or deficit in the statement of financial position comprises the present value of the defined benefit obligation (using a discount rate based on high-quality corporate bonds), less any past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published bid price.

Re-measurement gains and losses arising from changes in actuarial assumptions are charged or credited to shareholder's funds in other comprehensive income in the year in which they arise.

The amount charged or credited to finance costs is a net interest amount calculated by applying the liability discount rate to the net defined benefit asset or liability.

Contributions to the defined contribution section of the plan are recognised within cost of sales and administrative expenses in the income statement in the year in which they become payable.

The company also has an obligation to pay pensions to former Non-Executive directors of predecessor companies. A provision in respect of the obligation is included within the net pension asset or liability.

A4. Financial instruments and risk management

Risk management

The company's financial instruments comprise borrowings, derivatives, debentures, cash and liquid resources, lease liabilities, and various items, such as trade receivables and trade payables that arise directly from operations. The main purpose of these financial instruments is to provide finance for the company's operations. The company finances its operations through a mixture of retained profits, borrowings from its subsidiary companies, borrowings from Affinity Water Capital Funds Limited, its intermediate parent, and debentures.

It is the company's policy, and has been throughout the year under review, that no trading in financial instruments shall be undertaken.

The main risks arising from the company's financial instruments are liquidity risk, credit risk, energy risk, interest rate risk and inflation risk. Treasury policies in relation to these risks are agreed in conjunction with the wider Affinity Water group.

The Board reviews and agrees policies for managing each of these risks (refer to our principal risks and uncertainties section beginning on page 80 for further information on management of these risks). These policies have remained unchanged during the year.

Day-to-day responsibility for operational compliance with the treasury policies rests with the treasurer. A treasury report is provided quarterly to the Board, which summarises treasury activities and includes details on the company's position in regard to debt and cash at the end of each quarter.

The company's treasury function does not act as a profit centre and does not undertake speculative transactions.

A4. Financial instruments and risk management continued

Liquidity risk

The objective of the company's liquidity risk management policy is to ensure that the company has banking arrangements and adequate, though not excessive, cash balances, revolving credit facilities and standby facilities to enable it at all times to have the level of funds available to it, which are necessary for the achievement of its business and service objectives.

Liquidity risk is primarily managed by maintaining a level of liquidity such that there are sufficient cash balances and committed loan facilities capable of immediate draw down to cover as a minimum the next 12 months' forecast cash requirement ensuring that over-reliance is not placed on any one counterparty, whether through cash holdings or available facilities.

Liquidity is actively monitored by the company's treasury function and reported to the Board on a quarterly basis through the treasury report.

At 31 March 2024, the company had £238,329,000 (2023: £297,492,000) of available liquidity, which comprised £81,329,000 (2023: £145,492,000) of cash and term deposits and £157,000,000 (2023: £152,000,000) of undrawn committed borrowing facilities.

The company has entered into RPI and CPI linked inflation swaps as detailed in the interest rate and inflation risk section of note A4. These transactions lead to a net interest receivable cashflow over the life of the swaps, offset by an accretion payment on maturity (2026 for the RPI swaps and either 2030 or 2036 for the CPI swaps). There is no liquidity risk prior to these dates as there is no requirement to pay collateral prior to maturity. On maturity, a final accretion payment will be made based on the mark to market valuation at that date, resulting in a total forecast cash payment of £235,338,000 (2023: £209,145,000), included in the maturity analysis table. The mark to market valuation is reviewed on a monthly basis and a forecast accretion payment is reviewed annually to ensure sufficient cash balances can be made available if required.

Undrawn borrowing facilities:

	2024 £000	2023 £000
Floating rate:		
– Expiring within one year	**57,000**	52,000
– Expiring in more than one year	**100,000**	100,000
	157,000	152,000

The facilities expiring within one year comprise two standby facilities with one counterparty (2023: one counterparty) in the event of a liquidity shortfall: a 364 day revolving Debt Service Reserve Facility of £29,000,000 (2023: £27,000,000), which is intended for the purpose of funding any debt service payments, and a 364 day revolving Operations and Maintenance Reserve Facility of £28,000,000 (2023: £25,000,000), which is intended for the purpose of funding operating and capital maintenance expenditure.

The facilities expiring in more than one year comprise two revolving credit facilities, £60,000,000 (2023: £60,000,000) provided by Barclays Bank PLC and £40,000,000 (2023: £40,000,000) provided by Lloyds Bank PLC. The facilities are intended for the purpose of financing capital expenditure and working capital requirements to the extent that additional funding is required and have a maturity date of July 2026 and July 2025 respectively. These facilities were renewed on 24 June 2020 and use SONIA as the reference rate and have sustainability performance measures included.

Notes to the financial statements – appendices

continued

A4. Financial instruments and risk management continued

Maturity analysis

Additional risk may arise if large cash flows are concentrated within particular time periods. The maturity profile in the following table represents the forecast future contractual principal and interest cash flows in relation to the company's non-derivative financial liabilities (borrowings and lease liabilities) with agreed repayment periods on an undiscounted basis.

At 31 March 2024 Non-derivatives	1 year or less £000	1-2 years £000	2-3 years £000	3-4 years £000	4-5 years £000	More than 5 years £000	Total £000
Loans from subsidiaries	**40,274**	**40,479**	**290,616**	**26,177**	**26,447**	**1,335,313**	**1,759,306**
Loan from intermediate parent	**160**	**160**	**160**	**160**	**160**	**4,667**	**5,467**
Lease liabilities	**3,515**	**2,204**	**1,145**	**700**	**205**	**–**	**7,769**
Total non-derivatives	**43,949**	**42,843**	**291,921**	**27,037**	**26,812**	**1,339,980**	**1,772,542**

At 31 March 2023 Non-derivatives	1 year or less £000	1-2 years £000	2-3 years £000	3-4 years £000	4-5 years £000	More than 5 years £000	Total £000
Loans from subsidiaries	39,751	39,980	40,225	290,468	26,030	1,325,377	1,761,831
Loan from intermediate parent	160	160	160	160	160	4,827	5,627
Lease liabilities	3,238	2,857	1,541	501	131	1	8,269
Total non-derivatives	43,149	42,997	41,926	291,129	26,321	1,330,205	1,775,727

The maturity profile in the following table represents the forecast future net cash flows in relation to the company's derivatives estimated using the forward rates applicable at the year-end.

At 31 March 2024 Derivatives	1 year or less £000	1-2 years £000	2-3 years £000	3-4 years £000	4-5 years £000	More than 5 years £000	Total £000
RPI linked inflation swaps net payment/(receivable)	**(6,174)**	**(5,989)**	**87,863**	**–**	**–**	**–**	**75,700**
CPI linked inflation swaps net payment/(receivable)	**(6,347)**	**(6,249)**	**(6,149)**	**(3,008)**	**(5,943)**	**95,591**	**67,895**
Total derivatives	**(12,521)**	**(12,238)**	**81,714**	**(3,008)**	**(5,943)**	**95,591**	**143,595**

At 31 March 2023 Derivatives	1 year or less £000	1-2 years £000	2-3 years £000	3-4 years £000	4-5 years £000	More than 5 years £000	Total £000
RPI linked inflation swap net payment/(receivable)	(6,427)	(6,249)	(6,067)	81,592	–	–	62,849
CPI linked inflation swap net payment/(receivable)	(6,486)	(6,390)	(6,293)	(6,194)	(3,037)	88,196	59,796
Total derivatives	(12,913)	(12,639)	(12,360)	75,398	(3,037)	88,196	122,645

A4. Financial instruments and risk management continued

Covenant risk

The company's compliance with its lending covenants is a risk. Both an ICR Trigger and Default Event would occur in a number of these severe but plausible downside scenarios detailed in the viability statement. However this is on the assumption that no mitigating actions would be taken. Management are confident that mitigation actions within their control could be implemented that would prevent a trigger or default event from occurring should one of these scenarios arise.

Under an ICR Trigger Event, the company would be subject to certain constraints such as restrictions on dividends and restriction on debt buybacks. However, the directors are satisfied that an ICR Trigger Event would not fundamentally constrain the company's ability to carry out its business, particularly after considering the company's strong cash position meaning that the company has no further funding requirement in AMP7 and until the end of 2025.

The company continues to monitor and manage the risks associated with the ICR covenant through the forecasting and reporting process and has identified mitigations, the most prominent of which is working capital management. The company was not in breach of its financial covenants as at 31 March 2024 or up to the date of signing these financial statements.

Credit risk

Credit risk arises principally from trading (the supply of services to customers) and treasury activities (the depositing of cash).

The financial assets that are subject to the expected credit loss model are trade and other receivables, contract assets relating to the unbilled accrual for metered customers and cash and cash equivalents. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss is nil.

Contract assets and trade and other receivables

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

The company manages its credit risk of trade and other receivables through effective management of customer relationships. Concentrations of credit risk with respect to trade receivables are limited due to the company's customer base consisting of a large number of unrelated households and non-household retailers. The Water Industry Act 1991 (as amended by the Water Industry Act 1999) prohibits the disconnection of a water supply and the limiting of supply with the intention of enforcing payment for certain premises, including domestic dwellings. However, allowance is made by Ofwat in revenue limits at each price review for a proportion of receivables deemed to be irrecoverable.

Expected credit losses for household receivables are based on historical recoverability and calculated by applying a range of different percentages to trade receivables of different ages. These percentages also vary between categories of trade receivables. Higher percentages are applied to those categories of trade receivables, which are considered to be of greater risk and also to trade receivables of greater age; these receivables have higher expected credit losses. The company's policy is to write-off closed and live accounts that fall under the following categories: bankruptcy, liquidation, debt relief orders, deceased accounts where there is no estate, failed legal action and receivable amounts from customers who have moved out of the property with no forwarding address or are no longer responsible for payment of a water bill; the company concludes that there is no reasonable expectation of recovery under these circumstances. The historical recoverability of trade receivables is deemed a good estimate of future expected credit losses. At each reporting date the company takes into consideration any significant economic changes that may impact its credit loss model and future credit losses.

Amounts are also written off on accounts where the company is still supplying the customer and where all reasonable internal and external debt collection activities have been undertaken. Under these circumstances, if the total receivable contains amounts over six years old, the amount over six years old or more is written off. The company's write-off policy on household receivables has remained unchanged and has been consistently applied in the current year compared with the previous year.

Since 1 April 2017, the company has supplied wholesale water to third party retailers operating in the non-household market. Retailers operating in the non-household market have been granted a licence by Ofwat, with the financial resources of the retailer assessed on licence application and monitored on a continual basis. The company uses this assurance and monitors the recoverability of these receivables by assessing cash collection rates since market opening to ensure any uncertain receivables are provided for. At each reporting date, the company takes into consideration any significant economic changes that may impact the recoverability of these debtors and future credit losses.

At each reporting date management takes into consideration any significant economic changes that may impact the model and future credit losses. Therefore, the directors of the company do not believe there is any further credit risk provision required in excess of the expected credit losses of trade receivables (see note 12).

Notes to the financial statements – appendices

continued

A4. Financial instruments and risk management continued

The loss allowance as at 31 March 2024 and 31 March 2023 was determined as follows for both trade receivables and contract assets (unbilled accrual for metered customers):

At 31 March 2024	Current £000	Current £000	Less than 1 year £000	1 – 2 years £000	2 – 3 years £000	3 – 4 years £000	More than 4 years past due £000	Total £000
Expected loss rate – measured household receivables	**0.46%**	**–**	**5%**	**16%**	**31%**	**52%**	**100%**	
Gross carrying amount – measured household receivables	**–**	**–**	**17,141**	**5,438**	**2,793**	**1,754**	**2,298**	**29,424**
Gross carrying amount – unbilled accrual for measured customers (household)	**47,768**	**–**	**–**	**–**	**–**	**–**	**–**	**47,768**
Gross carrying amount – unbilled accrual for measured customers (non-household)	**–**	**5,009**	**–**	**–**	**–**	**–**	**–**	**5,009**
Provision at expected loss rate	**220**	**–**	**915**	**881**	**875**	**918**	**2,298**	**6,107**
Amounts provided at 100%	**–**	**–**	**2,756**	**4,040**	**3,419**	**2,489**	**3,566**	**16,269**
Loss allowance	**220**	**–**	**3,671**	**4,921**	**4,294**	**3,407**	**5,864**	**22,376**

	Current £000	Less than 1 year £000	1 – 2 years £000	2 – 3 years £000	3 – 4 years £000	More than 4 years past due £000	Total £000
Expected loss rate – unmeasured household receivables	**–**	**9%**	**14%**	**25%**	**51%**	**100%**	
Gross carrying amount – unmeasured household receivables	**–**	**6,327**	**3,850**	**2,549**	**1,243**	**1,778**	**15,747**
Provision at expected loss rate	**–**	**545**	**552**	**625**	**635**	**1,778**	**4,135**
Amounts provided at 100%	**–**	**1,646**	**1,959**	**1,679**	**1,472**	**2,834**	**9,590**
Loss allowance	**–**	**2,191**	**2,511**	**2,304**	**2,107**	**4,612**	**13,725**

	Less than 3 months £000	3 – 6 months £000	6 – 9 months £000	9 – 12 months £000	More than 12 months past due £000	Total £000
Expected loss rate – developer services	**–**	**43%**	**22%**	**75%**	**100%**	
Gross carrying amount – developer services	**7,871**	**904**	**243**	**106**	**698**	**9,822**
Loss allowance	**–**	**386**	**55**	**80**	**698**	**1,218**
Total loss allowance						**37,320**

A4. Risk management continued

At 31 March 2023	Current £000	Current £000	Less than 1 year £000	1 – 2 years £000	2 – 3 years £000	3 – 4 years £000	More than 4 years past due £000	Total £000
Expected loss rate – metered household receivables	0.76%	0.00%	7%	27%	45%	64%	100%	
Gross carrying amount – metered household receivables	–	–	19,930	4,706	2,530	1,579	2,202	30,947
Gross carrying amount – unbilled accrual for metered customers (household)	39,819	–	–	–	–	–	–	39,819
Gross carrying amount – unbilled accrual for metered customers (non-household)	–	3,927	–	–	–	–	–	3,927
Provision at expected loss rate	303	–	1,339	1,262	1,149	1,002	2,202	7,257
Amounts provided at 100%	–	–	1,970	4,075	2,973	2,214	2,923	14,155
Loss allowance	303	–	3,309	5,337	4,122	3,216	5,125	21,412

	Current £000	Less than 1 year £000	1 – 2 years £000	2 – 3 years £000	3 – 4 years £000	More than 4 years past due £000	Total £000
Expected loss rate – unmetered household receivables	0.00%	17%	37%	56%	68%	100%	
Gross carrying amount – unmetered household receivables	–	7,588	3,202	1,901	1,385	1,792	15,868
Provision at expected loss rate	–	1,253	1,194	1,066	945	1,792	6,250
Amounts provided at 100%	–	1,100	845	2,043	1,787	2,464	8,239
Loss allowance	–	2,353	2,039	3,109	2,732	4,256	14,489

	Less than 3 months £000	3 – 6 months £000	6 – 9 months £000	9 – 12 months £000	More than 12 months past due £000	Total £000
Expected loss rate – developer services	0.00%	30%	41%	21%	46%	
Gross carrying amount – developer services	1,102	220	223	804	2,250	4,599
Loss allowance	–	67	91	170	1,042	1,370
Total loss allowance						37,271

A reconciliation between the opening and closing loss allowances for trade receivables and contract assets for the year ended 31 March 2024 is shown in note 12.

Notes to the financial statements – appendices

continued

A4. Risk management continued

At 31 March 2024 and 31 March 2023, the maximum exposure to credit risk was represented by the carrying amount of each financial asset in the statement of financial position:

	2024 £000	2023 £000
Cash and term deposits (note 14)	**59,777**	78,783
Short-term deposits (note 9)	**21,552**	66,709
Trade and other receivables (excluding prepayments and amounts recoverable from the company's insurer)	**109,747**	96,569
	191,076	242,061

The company manages its risk from treasury activities by ensuring counterparties meet the minimum credit requirements approved by the Board, which include a maximum peak exposure limit and minimum credit rating. Credit exposure is monitored regularly by the company's treasury function and is reported quarterly to the Board through the treasury report.

The breakdown of cleared cash and cash equivalents and short-term deposits treated as investments exposed to credit risk at each of the credit ratings per Standard & Poor's at 31 March is:

	2024 £000	2023 £000
AAA	**19,411**	61,683
A-1+	**21,551**	35,883
A-1	**37,062**	47,926
A	**–**	–
	78,024	145,492

These are all short-term ratings.

Interest rate and inflation risk

The company seeks to manage its interest rate risk by maintaining its exposure within a Board approved range, primarily through using a mixture of fixed, inflation linked and floating rate borrowings. A series of RPI linked inflation swaps with a total nominal value of £210.0m, 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 will lead to net interest receivable cashflow over the life of the swaps, which is expected to increase the headroom against our covenant limits, offset by an accretion payment on maturity. Movements in RPI/CPI forward rates create fair value profits or losses, which will flow through the income statement and impact the company's retained earnings or accumulated losses.

The company earns an economic return on its RCV, comprising a real return through revenues and an inflation return as an uplift to its RCV. To the extent that nominal debt liabilities finance a proportion of the RCV, there is an asset liability mismatch, which potentially exposes the company to the risk of economic loss where actual inflation is lower than that implicitly locked in through nominal debt. The company's index-linked borrowings, which are linked to inflation, form a partial economic hedge of the company's regulatory assets, which are also linked to inflation.

Interest rate and inflation risks are reported quarterly to the Board through the Treasury Report.

The interest rate profile of the company's debt is as follows:

As at	Fixed rate debt £000	RPI linked debt £000	CPI linked debt £000	Total £000
31 March 2024	**656,078**	**459,578**	**243,829**	**1,359,485**
31 March 2023	656,843	438,474	236,399	1,331,716

A4. Risk management continued

Sensitivity analysis

Sensitivity analysis has not been performed on movements in interest rates as the company's fixed rate debts had no exposure to interest rates as at 31 March 2024. Given the large movements in inflation and the current high levels, the following table details the sensitivity of profit before taxation to changes in RPI and CPI on the company's index-linked borrowings, RPI linked inflation swap and CPI linked inflation swap. The analysis relates to the position at the reporting date and is not indicative of the years then ended, as these factors would have varied throughout the year.

Impact on profit before taxation	2024 £000	2023 £000
1% increase in RPI	**(4,605)**	(4,389)
1% decrease in RPI	**4,605**	4,391
1% increase in CPI	**(5,334)**	(2,209)
1% decrease in CPI	**5,334**	2,209

Energy price risk

The company is allowed a fixed amount of revenue by the regulator, in real terms, to cover electricity costs for each five-year regulatory pricing period. To the extent that electricity prices remain floating over this period, this exposes the company to volatility in its operating cash flows. The company has mitigated this risk by fixing the price on all its anticipated electricity usage out to the end of AMP7 through entering into electricity swap contracts.

Currency risk

The company has no material net exposure to movements in currency rates.

Capital risk management

The gearing policy approved by the Board is a target measured as net debt (as defined in the company's WBS documentation, refer to table 1E of the company's regulatory Annual Performance Report) to RCV, of 80%. This allows sufficient headroom within the company's financial covenants, which are triggered at a level of more than 90%. The company's gearing on this basis was 74.6% at 31 March 2024 (73.4% at 31 March 2023).

Assuming no significant changes to existing credit rating agencies' methodologies or sector risk assessments, the company aims to maintain its existing credit ratings of A3 with Moody's, BBB+ with Standard & Poor's and BBB+ with Fitch for the Class A bonds issued by its financing subsidiaries. These ratings are used by the industry's economic regulator, Ofwat, to assess the company's ability to comply with its licence requirement to maintain an investment grade credit rating.

The company looks to manage its risk by monitoring and maintaining the relevant key financial ratios used by the credit rating agencies to determine the credit ratings given. Further detail on the precise measures and methodologies used to assess water companies' credit ratings can be found in the methodology papers published by the rating agencies. Gearing and credit ratings are reported quarterly to the Board through the treasury report.

Notes to the financial statements – appendices

continued

A5. Retirement benefits

Defined benefit section

The company's pension plan providing benefits based on final pensionable salary is closed to new members (the two precursor plans closing in April 1996 and September 2004). The assets of the AWPP are held separately from those of the company. The plan's corporate trustee (the 'Trustee') is a subsidiary of Affinity Water Capital Funds Limited, an intermediate parent of the company.

The risks of the plan are as follows:

Asset volatility

The plan liabilities are calculated using a discount rate set with reference to high-quality corporate bond yields. If plan assets underperform this yield, this will create a deficit.

The assets of the plan include a proportion of equities, which are expected to outperform corporate bonds in the long term, while providing volatility and risk in the short term. As the plan has matured, the Trustee has commenced reducing the level of investment risk and will be investing more in assets that better match the liabilities of the plan and expected cash outflows based on the plan's maturity profile.

The company believes that due to the strength of its business and the long-term nature of the plan liabilities, a level of continuing equity investment is an appropriate element of the Trustee's long-term strategy to manage the plan efficiently.

Changes in bond yield

A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plan's bond holdings.

Life expectancy

The majority of the plan's obligations are to provide benefits for the life of its members, so increases in life expectancy will result in an increase in the plan's liabilities.

Inflation risk

The pension obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect the plan against extreme inflation).

Investment strategy

The Trustee regularly reviews its investment strategy. A significant change to the investment strategy occurred after a review undertaken in 2018/19 which resulted in the following changes to the plan's portfolio, with the focus moving towards a 'cashflow driven investment' strategy:

- increased the level of interest rate and inflation hedging provided by the plan's assets from 90% to 92.5%, subsequently rebalanced to 90% in December 2021, 91.5% in November 2022, 93.5% in October 2023, and 95.0% in January 2024, with the Investment Guidelines allowing a range from 87.5% to 100%); and
- introduced a new segregated actively managed investment 'liability driven investment/cashflow driven investment' portfolio managed by Insight Investment Management Limited, which is expected to provide stable returns and regular income to meet the plan's outgoings.

The latest actuarial valuation of the AWPP, determined by an independent qualified actuary, was at 31 December 2020 , which concluded that the pension plan was 96% funded on a self-sufficiency basis. This actuarial valuation was made on the 'attained age' funding method, based on the following assumptions:

RPI inflation:	measured by reference to the Bank of England gilt inflation curve
CPI inflation:	measured by reference to the RPI inflation curve described above less 1.0% per annum pre-2030 and less 0% per annum post-2030
Pre-retirement discount rate:	measured by reference to the Bank of England gilt yield curves plus 0.25% per annum
Post retirement discount rate:	measured by reference to the Bank of England gilt yield curves plus 0.25% per annum
Salary increases:	measured by reference to the CPI inflation curve described above plus 0.5% per annum
Deferred pension increases:	measured by reference to the CPI or RPI inflation curves described above with an appropriate adjustment for any caps and collars
Pension increases:	measured by reference to the CPI or RPI inflation curves described above with an appropriate adjustment for any caps and collars

A5. Retirement benefits continued

Defined benefit section – employer contributions

Based on the latest actuarial valuation at 31 December 2020, and to eliminate the funding shortfall identified, as well as funding the future cost of benefits being accrued within the plan, the company agreed to pay contributions of £1,250,000 prior to 31 July 2021, £1,600,000 prior to 31 December 2021, and £1,600,000 per annum commencing from 1 January 2022 onwards.

The contributions expected to be paid by the company into the AWPP for the year ending 31 March 2025 are, therefore, £1,600,000 (£1,600,000 in the year ended 31 March 2024), although this is based on the current Schedule of Contributions and will be dependent on the outcome of the actuarial valuation as at 31 December 2023 currently being undertaken.

The weighted average duration of the defined benefit obligation is 13 years (2023: 13.4 years).

[1] Another actuarial valuation, as at 31 December 2023, is currently being undertaken.

Defined benefit section – financial and demographic assumptions

Adjustments to actuarial valuations have been made based on the following assumptions:

	2024	2023
Discount rate	**4.80% pa**	4.75% pa
Salary growth	**3.15% pa**	3.20% pa
RPI	**3.15% pa**	3.20% pa
CPI	**2.65% pa**	2.70% pa
Life expectancy for a male pensioner from age 65 (years)	**22**	22
Life expectancy for a female pensioner from age 65 (years)	**24**	24
Life expectancy from age 65 (years) for a male participant currently aged 45 (years)	**23**	24
Life expectancy from age 65 (years) for a female participant currently aged 45 (years)	**26**	26

Deferred pensions are revalued to retirement age in line with the CPI assumption of 2.65% per annum (2023: 2.70% per annum) unless otherwise prescribed by statutory requirements or the plan rules.

Defined benefit section – sensitivity analysis

The below sensitivity analyses are based on a change in an assumption, while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit asset to significant actuarial assumptions, the same method (present value of the defined benefit asset calculated using the projected unit credit method at the end of the reporting year) has been applied as when calculating the pension asset recognised within the statement of financial position.

	Change in assumption	Impact on defined benefit obligation	Change in assumption	Impact on defined benefit obligation
2024				
Discount rate	**0.5% decrease**	**6.5% increase**	**0.5% increase**	**5.9% decrease**
Salary growth	**0.5% increase**	**0.6% increase**	**0.5% decrease**	**0.5% decrease**
Pension growth rate	**0.5% increase**	**4.9% increase**	**0.5% decrease**	**4.7% decrease**
Life expectancy	**1 year increase**	**4.0% increase**	**1 year decrease**	**4.0% decrease**
2023				
Discount rate	0.5% decrease	6.8% increase	0.5% increase	6.1% decrease
Salary growth	0.5% increase	0.6% increase	0.5% decrease	0.6% decrease
Pension growth rate	0.5% increase	5.7% increase	0.5% decrease	4.9% decrease
Life expectancy	1 year increase	4.0% increase	1 year decrease	4.0% decrease

Notes to the financial statements – appendices

continued

A5. Retirement benefits continued

Defined benefit section – net retirement benefit surplus

At 31 March, the fair values of the plan's assets recognised in the statement of financial position were as follows:

	Plan assets %	2024 £000	Plan assets %	2023 £000
Equity securities	**6%**	**21,358**	1%	2,535
Debt securities	**60%**	**221,933**	68%	266,030
Property	**0%**	**–**	0%	42
Infrastructure	**1%**	**2,039**	1%	2,692
Liability driven investments	**29%**	**111,826**	28%	108,353
Cash and cash equivalents	**4%**	**13,183**	2%	8,047
Total fair value of the plan's assets	**100%**	**370,339**	100%	387,699
Present value of defined benefit obligations		**(341,639)**		(334,084)
Net retirement benefit surplus		**28,700**		53,615

The total of assets that are quoted is £326,049,000 (2023: £330,095,000) and the total of assets that are unquoted is £44,290,000 (2023: £57,604,000).

Defined benefit section - fair value of plan assets

Movements in the fair value of the plan's assets were as follows:

	£000	£000
At 1 April 2023/1 April 2022	**387,699**	547,502
Benefits paid	**(17,748)**	(17,337)
Principal employer contributions	**1,827**	1,879
Contributions by plan participants	**207**	170
Interest income	**18,309**	14,573
Re-measurement (losses)/gains	**(19,955)**	(159,088)
At 31 March 2024/31 March 2023	**370,339**	387,699

Defined benefit section – present value of plan liabilities

Movements in the present value of the defined benefit liabilities are as follows:

	£000	£000
At 1 April 2023/1 April 2022	**(334,084)**	(443,255)
Benefits paid	**17,748**	17,337
Contributions by plan participants	**(207)**	(170)
Net current service cost	**(1,695)**	(3,236)
Past service cost	**–**	–
Interest expense	**(15,913)**	(11,734)
Re-measurement gains	**(7,488)**	106,974
At 31 March 2024/31 March 2023	**(341,639)**	(334,084)

Defined contribution section

At the same time that the defined benefit section became closed to new entrants, the company established a defined contribution section to provide pension benefits to qualifying employees.

The total pension charge for the defined contribution section of the AWPP for the year ended 31 March 2024 was £4,662,000 (2023: £4,043,000). There are no amounts prepaid or outstanding in respect of the defined contribution section at 31 March 2024 (2023: £nil).

A6. Subsidiaries

Name of company	Country of registration/ incorporation	Registered address	Nature of business	Type of holding	Proportion of voting rights and shares held
Affinity Water Finance (2004) PLC	United Kingdom	Tamblin Way, Hatfield, Hertfordshire AL10 9EZ	Financing company	Ordinary shares	100%
Affinity Water Finance PLC	United Kingdom	Tamblin Way, Hatfield, Hertfordshire AL10 9EZ	Financing company	Ordinary shares	100%
Three Valleys Water Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire AL10 9EZ	Dormant company	Ordinary shares	100%
Tendring Hundred Water Services Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire AL10 9EZ	Dormant company	Ordinary shares	100%
Folkestone and Dover Water Services Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire AL10 9EZ	Dormant company	Ordinary shares	100%
White Cliffs Water Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire AL10 9EZ	Dormant company	Ordinary shares	100%

The company has an investment of £50,000 in 100% of the £1 ordinary shares of a subsidiary company, Affinity Water Finance (2004) PLC. The principal activity of Affinity Water Finance (2004) PLC, incorporated in the United Kingdom, is to raise finance for the company. It made a profit of £1,000 for the year ended 31 March 2024 (2023: £1,000), relating to bond management fees charged to Affinity Water Limited.

The company also has an investment of £50,000 in 100% of the £1 ordinary shares of another subsidiary company, Affinity Water Finance PLC. The principal activity of Affinity Water Finance PLC, incorporated in the United Kingdom, is to raise finance for the company. It made a profit of £6,000 for the year ended 31 March 2024 (2023: £7,000), relating to bond management fees charged to Affinity Water Limited.

The four dormant subsidiaries listed above file accounts at Companies House.

A7. Related party transactions

Purchases of goods and services

			2024		2023	
Related party	Nature of relationship	In respect of	Value £000	Balance £000	Value £000	Balance £000
Allianz Global Corporate & Speciality	Common ownership	Insurance	**–**	**–**	616	–
Allianz Insurance	Common ownership	Insurance	**58**	**(31)**	565	(26)

Sales of goods and services

			2024		2023	
Related party	Nature of relationship	In respect of	Value £000	Balance £000	Value £000	Balance £000
Vistry Group plc*	Shared director	Connection charges	**–**	**–**	88	–

See note 3.3 for disclosure of the directors' remuneration.

* no longer a related party due to resignation of directorship.

Planting trees to catch carbon • Planting trees to catch carbon •
22039900788
Printed on Carbon Captured paper

The production of this report supports the work of the Woodland Trust, the UK's leading woodland conservation charity. Each tree planted will grow into a vital carbon store, helping to reduce environmental impact as well as creating natural havens for wildlife and people.

Consultancy, design and production by:
jonesandpalmer.co.uk

Affinity Water

Affinity Water Limited

Tamblin Way
Hatfield
Hertfordshire AL10 9EZ

Tel: 0345 878 0900

affinitywater.co.uk