Affinity Water

Executive Remuneration Policy AMP8

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1 Aim of Policy

The Executive Remuneration Policy of Affinity Water Limited ('the company') aligns executive pay, to attract and retain executives, with delivery of the company's stretching performance targets for customers and the environment. It is intended to incentivise stretching performance for customers through delivering high quality customer and operational performance whilst ensuring the cost of water remains affordable for customers by motivating executives to deliver financial efficiencies as well as the value created for stakeholders. These stretching targets will be calibrated with reference to our AMP8 business plan and updated for our Final Determination in December 2024.

This policy covers the period from April 2025 to March 2030. The long-term and short-term incentive plan structure and metrics are aligned to the expectations set by Ofwat of a minimum of 60% of incentives being aligned to stretching customer and environmental outcomes. This policy will transparently ensure that executive remuneration is aligned to the overall performance delivered for customers, communities, and the environment including any relevant factors which are wider than the individual metrics included within these arrangements. The Remuneration Committee recognises their important role in protecting customers, attracting and retaining executive directors, and incentivising delivery to achieve performance targets.

2 The Remuneration Committee

The Remuneration Committee (the 'Committee') is responsible for determining the remuneration policy and terms and conditions of employment of the directors and senior executives. The Committee is chaired by an Independent Non-Executive Director. The Chief Executive Officer, the Chief Financial Officer and the People Director may attend the meetings when requested by the Committee. Members of the Committee and attendees are excluded from discussions regarding their own remuneration and conditions of employment.

The Committee meets to review the performance of the business as well as the performance of executive directors and senior executives against planned targets. The Committee also meets to consider and apply an appropriate remuneration framework to retain high calibre employees. Its focus is on ensuring that the company can attract, motivate and reward executives who can lead the business to achieve short and long-term targets and on ensuring those targets are closely linked to standards of performance which are of benefit to customers.

3 Reporting and Transparency

The company elects to report remuneration in the Annual Report and Financial Statements (including the Annual Performance Report) in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (the 'Regulations'). The remuneration report also meets the relevant requirements of the Listing Rules of the Financial Conduct Authority and describes how the company has applied the principles relating to directors' remuneration in the UK Corporate Governance Code (the 'Code').

The Regulations require the external Auditor to report on certain parts of the directors' remuneration report and to state whether in their opinion those parts of the remuneration report have been properly prepared in accordance with the Accounting Regulations of the Act.

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

Annual bonuses and Long-Term Incentive Plan (LTIP) awards are to be made in line with the maximum limits outlined in the prior year remuneration policy report.

The Annual Performance Report will also provide further updates to the development of this policy that will apply in 2025-30.

The company produces a separate report published on its external website that provides a summary of the executive pay for the year. This report includes details of any changes made to the executive remuneration policy and the underlying reasons for the change. Please see the following link for 2022/23: 2022-23-Directors-Remuneration-Summary.pdf (affinitywater.co.uk)

A copy of this policy will also be published on the company's external website ahead of April 2025. The current version in place can be found here: Executive-Remuneration-Policy-2022.pdf (affinitywater.co.uk).

3.1 Company Chair and Non-Executive Directors

Each Independent Director has a written agreement relating to his or her services. They receive a fee for their services which is not related to company performance. They are not in receipt of share options or an LTIP. The fees for these directors are set taking into account the market rate for non-executive directors and company chairs, with particular reference to the water industry in the United Kingdom. There are no specific termination payments applicable to these appointments. The appointment of the directors may be terminated by either the director or the company giving to the other three months' written notice.

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

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

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

The Chair of the company is paid a fee of £195,000 per annum.

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

3.2 Executive Directors

The remuneration framework is structured and appropriately balanced between fixed elements and incentive pay, to ensure that executives deliver a high standard of performance, whilst minimising risk. The Committee ensures that the performance measures are objective, easy to understand and motivational to the participants. The Committee also reviews and approves the Executive Management Team, Senior Managers', and company-wide bonus schemes, which continue to be aligned with that of the executive directors.

The remuneration is designed to attract, retain and motivate executive directors of the calibre required to deliver the business strategy. Individual remuneration packages are structured to align rewards with the performance of the company for customers and stakeholders and the interests of shareholders.

The Committee takes into account, in arriving at a total remuneration package, the skills and experience of the candidate, the market rate for a candidate of that level of experience, as well as the importance of securing the best candidate.

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

The Committee will ensure that the performance related element of this policy demonstrates a substantial link to performance delivery for customers and the environment through 2025-2030, underpinned by stretching targets to be set by reference to the Final Determination for AMP8. The Committee will continually assess performance targets to ensure they continue to be stretching throughout AMP8. Please note that this policy will be updated to include specific targets aligned with delivery against the AMP8 Final Determination when available. The specific performance targets outlined below relate to AMP7 delivery. Please note, exceptionally the AMP7 LTIP performance period has been reduced from three years to two years to coincide with the end of AMP7. This change targets our executive directors on the delivery of AMP7 and allows for a clean break at the start of AMP8 where we will adopt metrics aligned to our Final Determination.

3.3 Executive Directors' Fixed Pay and Other Benefits

Purpose and Link to Strategy	Policy and Approach	Maximum Potential Value (as percentage of base pay)	Performance Metrics
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 role.	N/A	N/A
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
Pension Related Benefits			
To provide competitive post-retirement benefits.	Executives are aligned to contributions made by the general employee population with company doubling contributions made by the executive up to a maximum company contribution of 12%.		

4 Annual Bonus Plan

Purpose and Link to the Strategy	Policy and Approach	Maximum Potential Value (as percentage of base pay)	Performance Metrics
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. Aligned to Ofwat guidance this element will have a substantial link to delivery for customers and the environment (>60%).	Maximum bonus potential is set at a market competitive level. The bonus is based on budgeted non-financial and financial targets 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 the base salary for the CFO. Where discretion is applied to executives relating to the company performance of measures, the same level of discretion must be applied to all employees and managers. This is not reciprocal; discretion may be applied to employees and not executives.	**Financial metrics** • Base Expenditure, Enhancement Investments, and Cash Generation (20%) • Safety (5%) • Customer & Environment (60%) - C-MeX - D-MeX - Low Pressure - Mains repairs - Interruptions to supply - Customer contacts for Water Quality - Compliance Risk Index (CRI) - Leakage - Per Capita Consumption - Unplanned outage - Net Zero - Enhancement Action Plan 15% of the total bonus is determined on the achievement of personal objectives. No payment will be awarded if achievement is below the target/plan for that metric. There is also a check that considers pay-out of the bonus if either the customer or the financial elements of the bonus fall below a set level to ensure equal focus across all metrics.

3.5 2023/24 Long Term Incentive Plan ('LTIP')

Purpose and Link to the Strategy	Policy and Approach	Maximum Potential Value (as percentage of base pay)	Performance Metrics
To incentivise executives to achieve long-term shareholder value whilst achieving high levels of customer experience performance, although both award and payment are discretionary. Aligned to Ofwat guidance this element will have a substantial link to delivery for customers and the environment (>60%).	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 vesting dates would be July 2025 (33%), July 2026 (33%), and July 2027 (33%). Base awards include clawback and malus provisions detailed as follows:	Up to 100% of base salary for the CEO and CFO.	The award is determined based on the performance of the company over the two years to 31st 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 environment, measured by the net Outcome Delivery Incentive position; 5% based on employee engagement; and 15% based on long term planning, including Quality of AMP8 readiness, and AMP7 target operating model.

	circumstances of malus include willful 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.		

4 Loss of awards from previous employer

The Committee may exceptionally determine awards if deferred pay is forfeited by an executive director on leaving a previous employer. Such awards would take into account the nature of awards forfeited (i.e. cash or shares), time horizons, attributed expected value and performance conditions.

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

5 Review of Pay and Policy

The policy will be reviewed at least every three years. Executive pay is to be reviewed annually and any changes are at the discretion of the Committee taking all relevant factors into consideration.

Appendix 1: Bonus Determination Process

Bonus Structure

Annual Targets Aligned to Shorter Term Outcomes

20%	60%	15%	5%
Financial Target	**Delivery for Customer & Environment**	**Personal Performance**	**Safety**
Base Expenditure Enhancement Investment Cash generation	CMEX DMEX Low Pressure Mains Repairs Interruptions Water Quality Leakage PCC CRI Unplanned Outage Net Zero Enhancement Action Plan	Employee Engagement	Loss Time Injury (LTI)
Target | Met	Target | Met	Target | Met	Target | Met

IF Finance Results < 70% **OR** Customer Commitment Outcomes < 70%
Consider if due to incorrect prioritisation and check that no reduction should be made.

Bonus Value

Appendix 2: LTIP Determination Process

2023/2024 Long Term Incentives Plan (LTIP) Structure

2 Year Targets – Aligned to longer term outcomes

20%	60%	5%	15%
Financial Target	**Customer & Environment**	**People**	**Long Term Plan**
Regulated Totex Non-Reg EBITDA	TOP8 PCs Net Zero, Abstraction reduction, river restorations	Employee Engagement	AMP8 Quality of Plan AMP8 Readiness AMP7 TOM

LTIP Value Paid in 3 equal annual payments STARTING July 2025

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