Your local supply, on tap

Executive Remuneration Policy

Affinity Water Limited

November 2020

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APPENDICES

1 Aim of Policy

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

This approved policy replaces the previous policy that became effective from 1 September 2019. The key changes made relate to the exclusion of considerations of performance delivery against the final determination for the 2015-20 price control period (Asset Management Plan 6, 'AMP6'), thereby only including considerations of performance delivery against the final determination for the 2020-25 price control period (Asset Management Plan 7, 'AMP7').

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 Human Resources Director, may attend the meetings when requested by the Committee. Members of the Committee and attendees are excluded from discussions regarding their own remuneration and conditions of employment.

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

3 Reporting and Transparency

The company reports remuneration in the Annual Report and Financial Statements (including the Annual Performance Report) in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (the ‘Regulations’), which are applicable to companies whose equity shares are listed. The Regulations are not applicable to the company. The remuneration report also meets the relevant requirements of the Listing Rules of the Financial Conduct Authority and describes how the company has applied the principles relating to directors’ remuneration in the UK Corporate Governance Code (the ‘Code’).

The Regulations require the external Auditor to report to the members of a quoted company on certain parts of the directors’ remuneration report and to state whether in their opinion those parts of the remuneration report have been properly prepared in accordance with the Accounting Regulations of the Act. The company asks its auditors to report on this basis notwithstanding the Regulations do not apply to the company.

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

Annual bonuses and 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 2020-25.

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

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

3.1 Non-Executive Directors

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

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

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

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 senior managers' and selected managers', and company-wide bonus schemes, which continue to be aligned with that of the executive directors.

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

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

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

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

3.3 Executive Directors' Fixed Pay and Other Benefits

Purpose and Link to Strategy	Policy and Approach	Maximum Potential Value (as percentage of base pay)	Performance Metrics	Changes for AMP7
Base Salary				
To provide competitive fixed remuneration that will attract and retain key employees and reflect their experience and position in the company.	To target around market median, dependent on experience in the role.	N/A	N/A	No changes were made to the policy for AMP7 up to the date of this report.
Other Taxable Benefits				
To provide market competitive benefits.	Private health care insurance cover, life assurance and income protection are provided, together with a fully expensed company car (or car allowance).	N/A	N/A	No changes were made to the policy for AMP7 up to the date of this report.
Pension Related Benefits				
To provide competitive post-retirement benefits.	Executives joining the company after 2004 are invited to participate in the company's defined contribution pension plan. No current executives joined prior to this date. Under the defined contribution scheme, the executive contributes at a rate of 7% of salary and the company contributes at 20%.	N/A	N/A	No changes were made to the policy for AMP7 up to the date of this report.

3.4 Annual Bonus Plan

Purpose and Link to Strategy	Policy and Approach	Maximum Potential Value (as percentage of base pay)	Performance Metrics	Changes for AMP7
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 aligned to the company's commitments for AMP7.	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.	50% of the total bonus was determined on the achievement of the financial performance target, which was based on net cash outflow before taxation and financing. 25% of the total bonus was determined on the achievement of operational and customer and community performance targets, specifically 8% for leakage, 8% for water quality and 9% for SIM performance. 20% of the total bonus was determined on the achievement of personal objectives. 5% of the total bonus was determined on the achievement of the company's safety and health target.	In AMP7 there will be a rebalance of the bonus with 40% relating to financial performance, which is based on net cash outflow before taxation and financing, and 40% performance on customer service and stakeholder commitments including C-Mex (5.7%), leakage (5.7%), consumption (5.7%), water quality (5.7%), water pressure (5.7%), interruptions to supply (5.7%) and safety (5.7%). The personal element of the bonus, which will be based on performance in relation to personal objectives and company values, will continue to be 20%. No payment will be awarded if achievement is below the target/plan for that metric. There is also the introduction of a check that stops pay-out of the bonus if either the customer or the financial elements of the bonus fall below a set level.

Purpose and Link to Strategy	Policy and Approach	Maximum Potential Value (as percentage of base pay)	Performance Metrics	Changes for AMP7
				Reduction in the discretion of the Committee to award any bonus outside performance delivery targets.

3.5 Long Term Incentive Plan ('LTIP')

Purpose and Link to Strategy	Policy and Approach	Maximum Potential Value (as percentage of base pay)	Performance Metrics	Changes for AMP7
To incentivise executives to achieve long-term shareholder value whilst 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 a three-year performance period, with 33% of the amount earned paid at the end of year three, 33% paid at the end of year four and 33% paid at the end of year five subject to the achievement of performance conditions. The scheme is based on three-year targets that are aligned to the strategic delivery for AMP7. There is a payout scale with 37.5% of the award paid out for the achievement of threshold performance, 100% of the award paid out for the achievement of target performance and 150% of the award paid out for outperformance. Base awards include clawback and malus provisions, detailed as follows. Circumstances of malus include wilful or gross misconduct, acts of personal dishonesty	Up to 150% of base salary for the CEO and 125% of base salary for the CFO.	The award was determined on the performance of the company over the three years. 50% of the scheme pay-out was based on financial targets with 50% based on strategic outcomes, including service and performance commitments.	In AMP7 there will be a re-balance of performance commitments, with 40% of the scheme pay-out based on financial targets, including cash generated from operations and investment targets; 50% based on customer service and stakeholder commitments, including C-MeX (6.25%) and D-MeX (6.25%) position, water quality (6.25%), helping vulnerable customers (6.25%), leakage (6.25%), consumption (6.25%), mains bursts (6.25%) and environmental innovation (6.25%); and 10% based on employee commitments , including culture surveys (5%) and safety (5%). No award will be made for a metric if performance is below target/plan.

Purpose and Link to Strategy	Policy and Approach	Maximum Potential Value (as percentage of base pay)	Performance Metrics	Changes for AMP7
	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 Additional Cash Awards

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

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

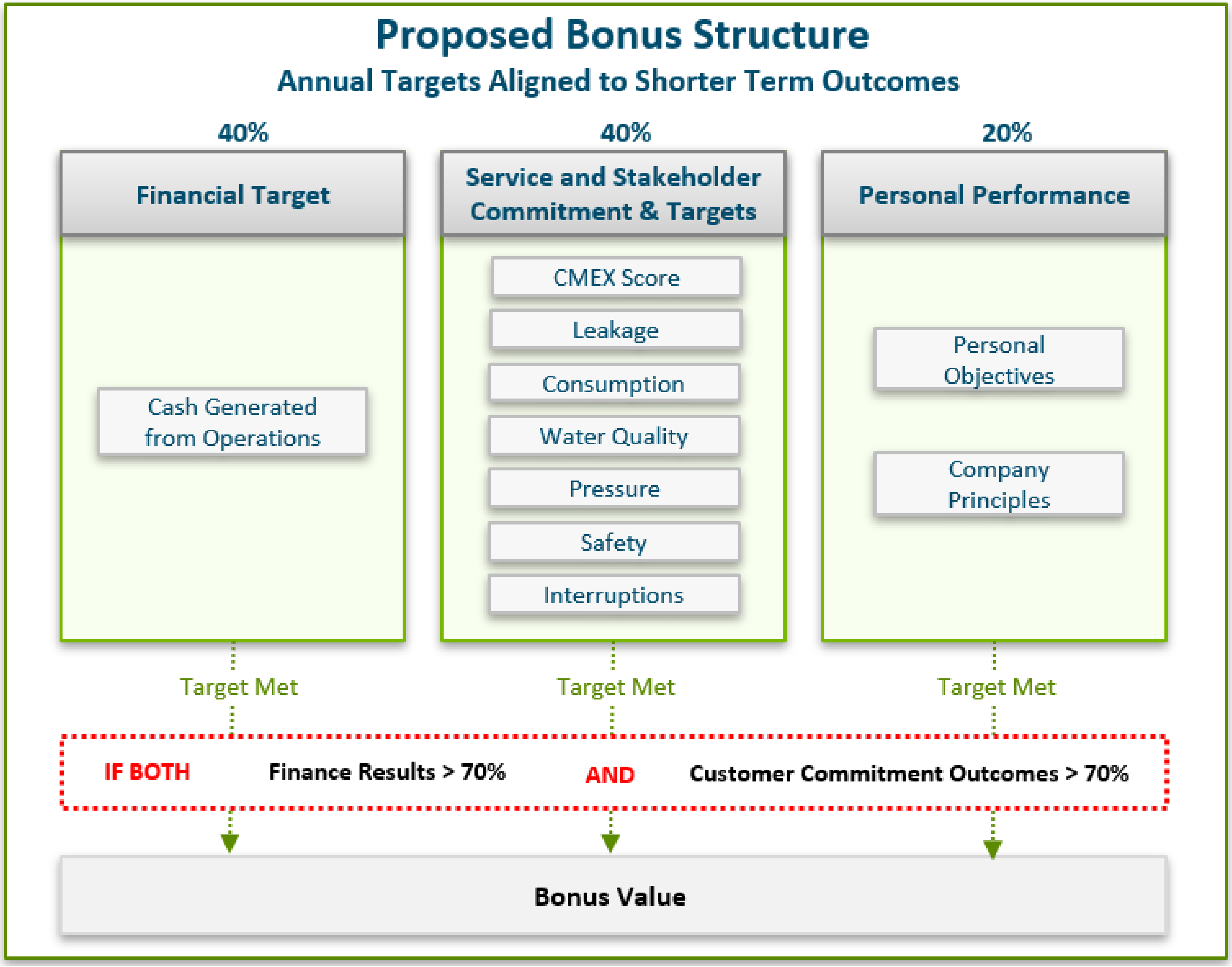
5 Review of Pay and Policy

The policy will be reviewed at least every three years.

Executive pay is to be reviewed annually.

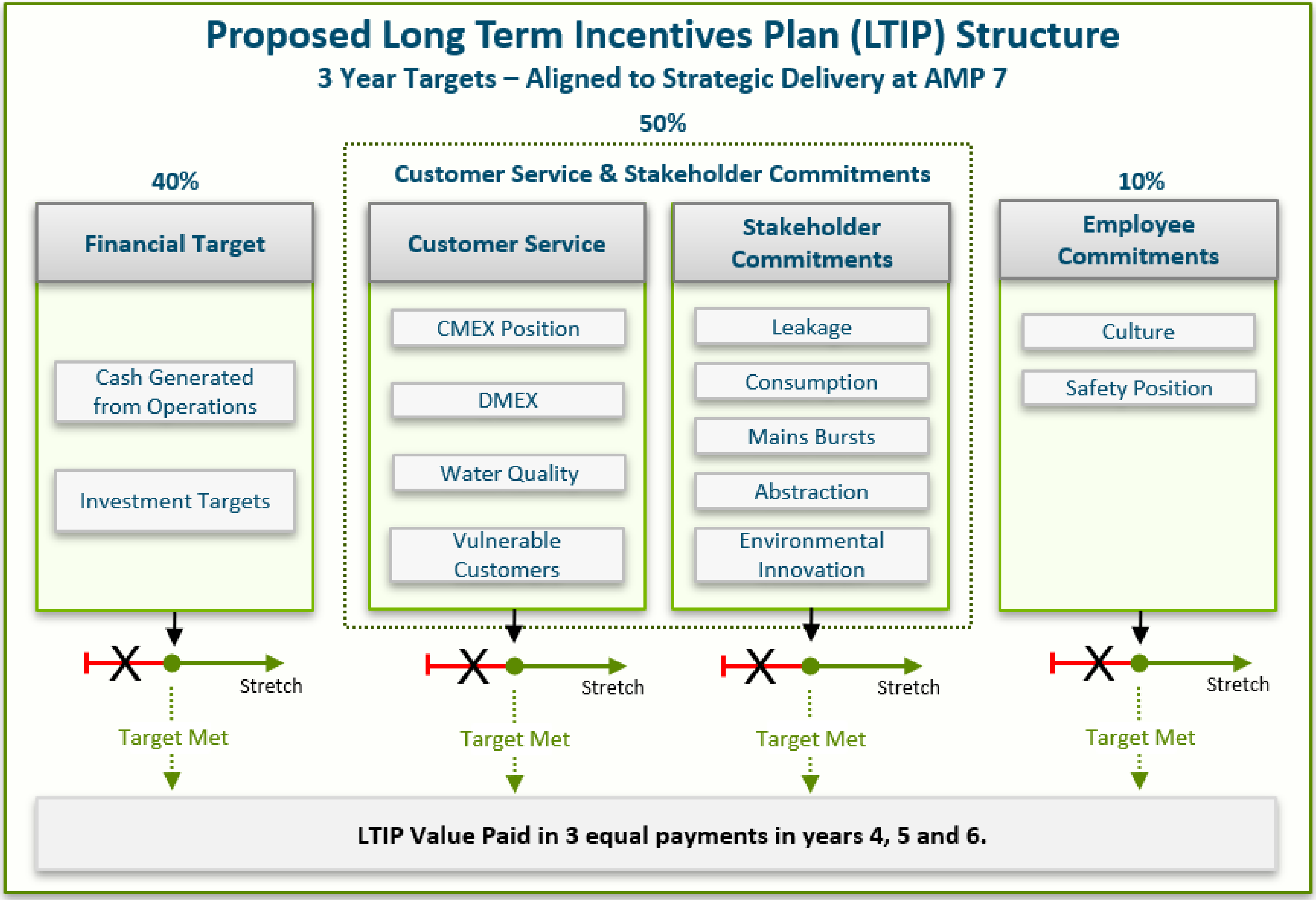
Appendix one

Bonus Determination Process


Proposed Bonus Structure
Annual Targets Aligned to Shorter Term Outcomes
40%
40%
20%
Financial Target
Service and Stakeholder Commitment & Targets
Personal Performance
Cash Generated from Operations
CMEX Score
Leakage
Consumption
Water Quality
Pressure
Safety
Interruptions
Personal Objectives
Company Principles
Target Met
Target Met
Target Met
IF BOTH
Finance Results > 70%
AND
Customer Commitment Outcomes > 70%
Bonus Value

Appendix two

LITP Determination Process


Proposed Long Term Incentives Plan (LTIP) Structure
3 Year Targets – Aligned to Strategic Delivery at AMP 7
50%
Customer Service & Stakeholder Commitments
40%
Financial Target
Cash Generated from Operations
Investment Targets
Customer Service
CMEX Position
DMEX
Water Quality
Vulnerable Customers
Stakeholder Commitments
Leakage
Consumption
Mains Bursts
Abstraction
Environmental Innovation
10%
Employee Commitments
Culture
Safety Position
Stretch
Target Met
Stretch
Target Met
Stretch
Target Met
Stretch
Target Met
LTIP Value Paid in 3 equal payments in years 4, 5 and 6.